



2007 Housing Forecast

CBIA Expects Housing to Remain at "Normal" Levels in 2007

Housing construction is likely to level off this year; builder incentives expected to taper off, making first quarter a great time to buy.

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Note to editors: A copy of the 2007 Housing Forecast can be downloaded from our website.

SACRAMENTO — California's housing production in 2007 is expected to continue taking a breather as the market slowly returns to historically normal levels after the frenetic pace of the early part of the decade, the California Building Industry Association announced today.

CBIA Chief Economist Alan Nevin forecasts that housing starts for single-family homes, condominiums, and apartments should total between 155,000 and 170,000 this year, about the same or slightly lower than in 2006. But Nevin noted that 2007 will still be a solid year for production.

"Keep this year's forecast in perspective — we are returning to a normal market," Nevin said. "Producing 155,000 to 170,000 units will be more than any year from 1991 to 2001 and could exceed production levels from 1990 and 2002 as well."

Nevin expects production will be especially low in the first quarter as builders finish the process of selling excess inventory, but believes that construction should pick up later in the year, but said builders will only be building enough to keep pace with demand.

The lower production level is not good news for prospective homebuyers struggling to buy their first home as Nevin emphasized that the demand for the homes on the market today is not the same as the state's chronic need for new housing to accommodate its growing population.

"We need to be building about 240,000 new homes, condos and apartments a year to meet the need for housing. The problem is that we need new homes in all price ranges, and given the ever-rising fees and constraints on housing, it's all but impossible to meet the need in the entry-level market, where the need's the greatest," he said.

In his forecast, Nevin projects that single-family production statewide should be between 110,000-120,000 units, compared to about 110,000 single-family housing starts in 2006, and 155,000 in 2005. Multifamily construction, particularly condominiums, is expected to be on par with 2006, with starts projected between 45,000 and 55,000, compared to 58,000 in 2006.

Nevin said that many of the high-rise condo complexes announced in recent years for the state's urban centers will be put on hold until lenders and developers regain confidence in the market.

He also forecasts that housing prices will remain soft to stable in most markets.

"We are already seeing signs of price stabilization as builders in some markets have sold most of their standing inventory. We expect that trend to accelerate after the first quarter. Because there's still excess inventory, there are still significant concessions, which we expect will drop considerably later in the year. In other words, now is a great time to buy," Nevin said.

The forecast also notes that the softness of the housing market will cause California's economy to be categorized by steady growth, not ebullience. In 2007 it is likely the state will gain 180,000-210,000 total jobs, but like 2006, virtually none of the jobs will be in construction or manufacturing. Construction costs are also expected to

ease as subcontractors adjust prices downward and competition becomes the norm once more.

Despite the lowering of building costs and a normalizing market, CBIA officials say that it will do little to close the state's large housing gap. They attribute the gap to a variety of factors, including the abuse of environmental laws to delay construction and block new homes from being built, constraints on available land, and unnecessary government regulations that make it impossible to develop a long-term housing plan for the state.

"For too long, bureaucratic red tape and unnecessary regulations have hampered the state's ability to plan for the future and develop a framework to address the state's long-term housing needs," said CBIA Chairman Wes Keusder, a Southern California homebuilder. "As a result, hard-working families are struggling to enter the market with little opportunity to achieve the American dream of owning a home." In particular, Keusder said it was especially important for policy-makers to address the acute shortage of land that's zoned and ready to build new homes, condos, and apartments on.

"The entitlement process takes five and even 10 years to complete. That makes it impossible for homebuilding companies to meet the market demand, and drives up the cost of a new home dramatically," he said. CBIA will once again propose legislation this year that would reform the way local governments plan for and zone land for development in order to streamline the process and ensure that the state's housing needs are met while still ensuring local control and environmental reviews are preserved.

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The California Building Industry Association is a statewide trade association representing some 6,700 businesses - homebuilders, remodelers, subcontractors, architects, engineers, designers, and other industry professionals. A recent study determined that homebuilding generates approximately \$68 billion a year to the California economy and creates an estimated 487,000 jobs statewide. More information is available on the Association's Web site, www.cbia.org.