



## US Housing Starts Rise to Old Lows

US housing starts were just over 1 million units in 2014. The seasonally adjusted annual rate topped the million-unit mark in each of the last four months. That brings them up to levels that used to be considered dismal.

Figure 1 shows the seasonally adjusted annual rate (SAAR) of housing starts for all months since January 1959. Of those 672 months, 93 (or 14%) had starts below one million (Table 1). One quarter of those occurred before 2008, while three quarters have been since then. And 85 percent of the months in the last seven years have seen SAARs of less than 1 million starts.

As noted in previous *Forest Research Notes*, US housing starts are important for timberland owners

because they are major consumers of both hardwood and softwood lumber. High levels of starts encourage higher sawtimber prices.

**Table 1. Monthly US Housing Starts (SAAR)**

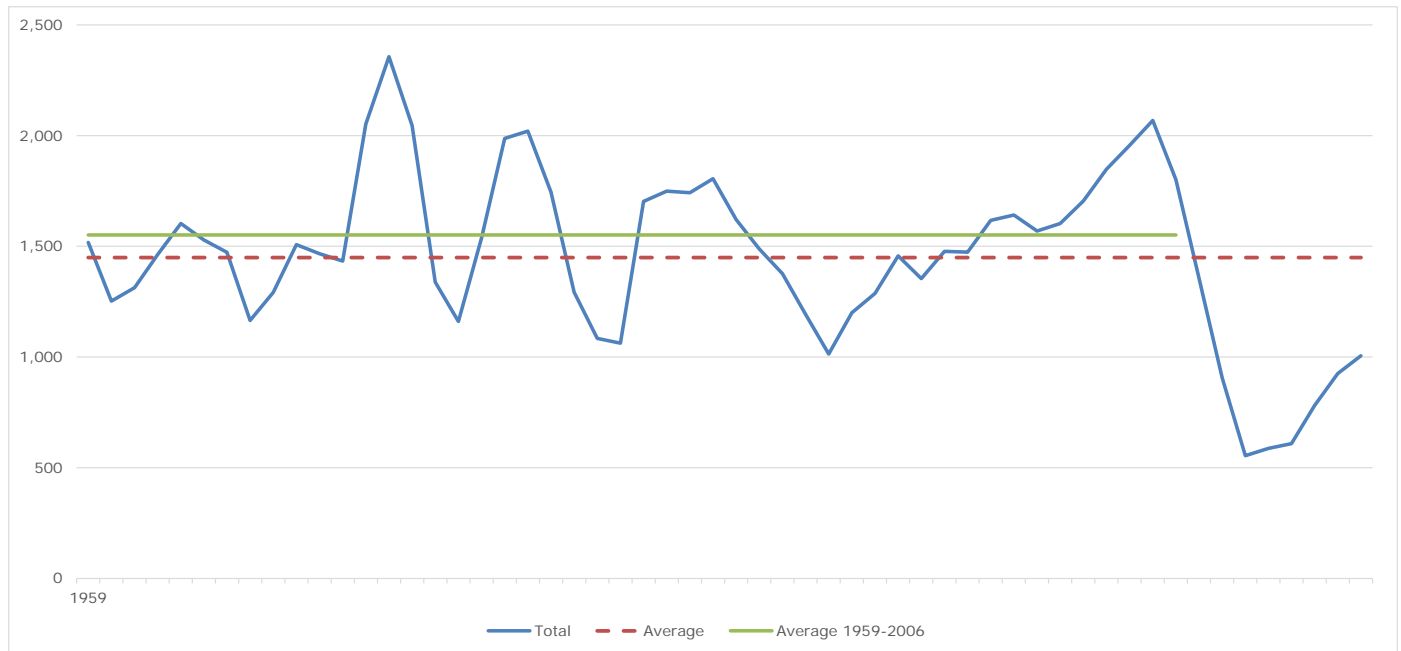
	n	% of total reports	% of reports < 1 mm
Total reports since 1959	672		
Total < 1 mm	93	14%	
Total < 1 mm before 2008	22	3%	24%
Total < 1 mm 2008-2014	71	11%	76%
Total reports 2008-2014	84		
Total < 1 mm	71	85%	

**Figure 1. US Housing Starts, 000 units (SAAR)**



Source: USDC Census Bureau

Figure 2. Annual US Housing Starts, 000 units



Source: USDC Census Bureau

We usually find it useful to look at the data in different ways. In this case, we took a look at annual housing starts (Figure 2). We think this makes recent history look even worse than the monthly SAAR data do.

Annual housing starts never dipped below 1 million units from 1959 through 2007. They spent the next six years at the lowest levels seen in the past 56 years. And they were well below the prior worst-ever level of 1.014 million units in 1991. 2014 would have been the worst-ever level if not for the six years preceding it.

So the past seven years have been the worst since the data series begins in 1959. Are there any data that indicate we can expect continued improvements in housing starts?

**Housing Inventories**

There are lots of housing data available. The US Census Bureau, The National Association of Realtors (NAR), the National Association of Home Builders (NAHB) and other sources publish data on home sales and sale prices, household formation,

vacancy rates, and various measures of house values and affordability.

We thought it might be useful to look at home inventories. A high inventory of new homes would discourage builders from starting more. If inventories are low and demand is improving, builders are likely to start more.

The Census Bureau tracks the number of new homes offered for sale at the end of each month (inventory) and the number that actually sold during that month. It then calculates the number of months it would take to sell the current inventory at the current rate of sales (current inventory/current sales). The NAB tracks similar numbers for existing homes.

(These “inventories” are of houses for sale, not the total housing stock in the country. The Census Bureau reports that there are about 116 million households in the US, so there are at least 116 million housing units. The for-sale inventory represents less than two percent of that total housing stock.)

**Figure 3. New and Existing Home Inventories, 000 units**

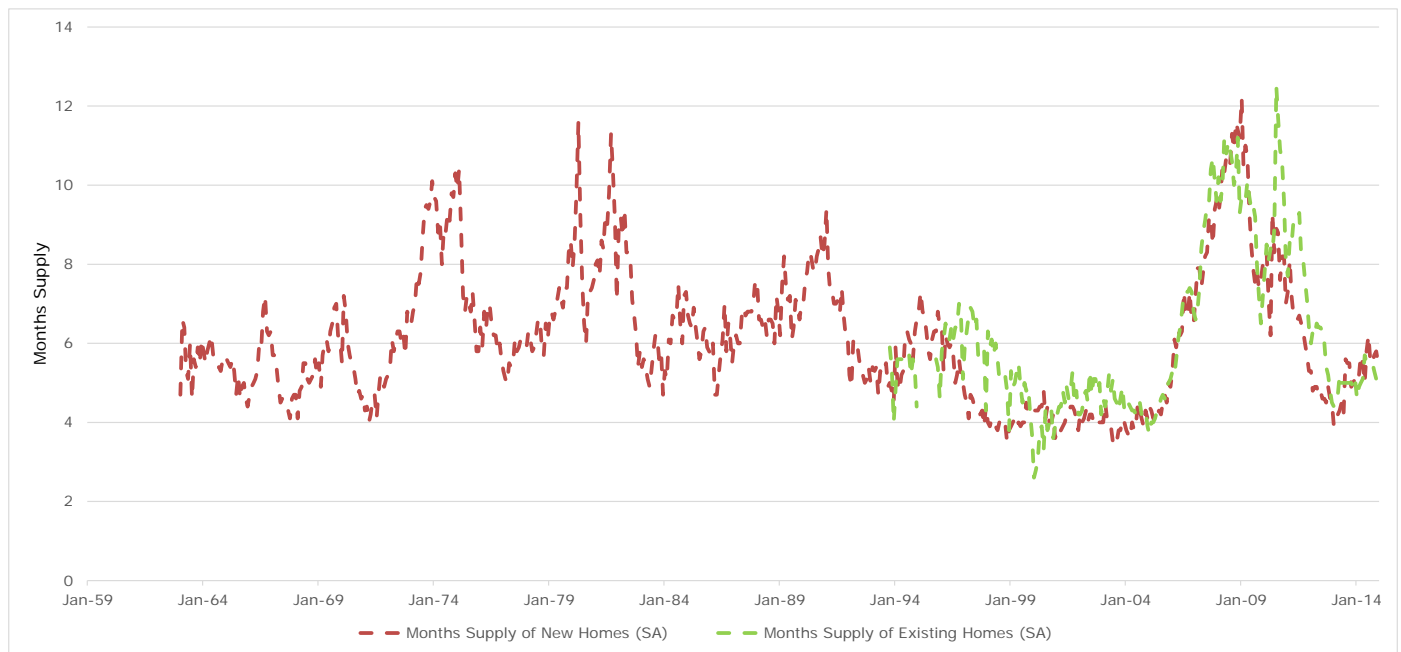


Source: USDC Census Bureau, National Association of Realtors

Figure 3 shows month-end inventories of new and existing homes. The existing home inventory is, on average, about 8 times larger than the new home inventory. It turns out that the volume of existing homes sold is also roughly 8 times greater than the volume of new homes sold because they both show

very similar numbers for the months of supply available at the current sales rate (Figure 4). Both of these charts show that inventories of homes for sale have fallen from their peaks in the recession—though both are rising again.

**Figure 4. Months of Supply of New and Existing Homes**



Source: US Department of Energy, Timber Mart-South

Housing starts hit a low back in 1991 (Figure 1) and then increased steadily through to the end of 2005. Figure 4 shows that, while starts increased, inventories first declined (through 1998), then stayed level for a while (1999-2004), and finally increased sharply (2005-2008). The steady increase of inventories of new homes in 2005 finally caught builders' attentions and they cut production of new homes (starts) from 2.2 mm units (SAAR) in January 2006 to less than 0.5 mm units in January 2009.

Notice that the existing home inventory showed a second (and higher) peak in July 2010. This would have been from the wave of foreclosures that hit homeowners after the recession began. (Some of those "existing" homes had likely been "new" homes only a very short time before.)

### Summary

Housing starts have climbed back up to levels that used to be considered very low. But that puts them at twice what they were for a few years during the recession.

Inventories of new and existing homes for sale have fallen to pre-recession levels. The oversupply of new houses has been worked through. This should allow for continued improvements in housing start levels in the near future.

Increased housing starts mean increased demand for lumber, which means increased demand for sawtimber—a good thing for timberland owners.

This (relative) improvement in housing starts comes a good time because China's economy is slowing and exports of logs and lumber from the West Coast of North America to China slowed down in 2014. Western producers may now be able to move some of that wood to US markets.

### Up-Coming Events

#### UGA Timberland Conference

Amelia Island (Fernandina Beach), FL USA  
February 18-20, 2015

The next UGA Timberland Investment Conference will be held at the Ritz Carlton Amelia Island. I will be speaking on a panel discussing *How Different are Timberland and Timberland Markets?* moderated by Professor Tom Harris of the Warnell School of Forestry. Other panelists include Dr. Jon Caulfield of BTG Pactual and Dr. Jacek Siry of the Warnell School. For more information, see: <http://www.ugacfb.com/timberlandasset/>

#### Forestry and the Global Environment: Challenges of Managing and Conserving Forests in the 21st Century

New Haven, CT USA  
March 22-27, 2015

Yale University's Global Institute of Sustainable Forestry will again be offering a one-week session and I will be helping Lloyd Irland lead a discussion on the economics of and markets for timber, wood-based energy, carbon and ecosystem services as one segment of the session. For more information, visit the web site at: <http://environment.yale.edu/gisf/mid-career-courses/executive-education-in-forestry-program>

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