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HOMEBUILDER CONFIDENCE REACHES 12-MONTH HIGH

LOS ANGELES—Single-family developers are becoming more optimistic about the home market as a result of loosened regulations from the new administration, GlobeSt.com reports in this EXCLUSIVE interview.

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LOS ANGELES—Homebuilder confidence has reached a 12-month high, largely as a reaction to loosened regulations from the new administration. This year, the home buying market is expected to perform well this year, and relatively in step with the strong performance from 2016. To find out more about the home buying market, why developer sentiment is up and what to expect this year, we sat down with Jeremy Gruber, Dan Villalpando and Scott Grossfeld of Cox, Castle and Nicholson for an exclusive interview.

GlobeSt.com: Why is homebuilder confidence improving?

Jeremy Gruber: Homebuilder confidence, as measured by the National Association of Home Builders/Wells Fargo Housing Market Index, has increased since the 2016 election, despite a small decline at the beginning of the year, reaching a 12-year high this month. The high level of optimism among homebuilders about market conditions appears to result in large part from regulatory reform actions already taken by the current administration, and by the expectation that the administration will continue to pursue the rollback of regulations seen by the homebuilding industry as a drag on development. Homebuilders believe that a substantial percentage of the cost of homes is a result of regulation, and that cutting back on regulation will lower the cost of homes and boost development and sales activity. Additionally, while interest rates have risen since the election, and are likely to continue rising, for now, they remain historically low, and most do not expect 2017 increases to significantly affect the accessibility of a home purchase for the average family. While the market won't be without challenges in 2017 such as continued labor shortages and a shortage of affordable inventory, homebuilders clearly feel that, overall, there is good reason for optimism.

GlobeSt.com: In which geographic markets will investors focus? Only core, or will there be investment in secondary and tertiary markets?

Dan Villalpando: It appears as if investors will continue to look to core markets; however investment in secondary and tertiary markets will likely also take place. Increasing housing pricing in downtown metro markets may force first-time buyers away from the center of town. As this occurs, homebuyers' interest in secondary and tertiary markets should continue to rise. And, where the housing goes, retail development usually follows, as homebuyers will need the services provided by shopping centers. In addition, opportunities to develop in core markets in Los Angeles and San Francisco, for example, may be waning because there is simply less and less land to develop. This may also push investors out to secondary and tertiary markets where more development opportunities may be available.

GlobeSt.com: How is the housing market expected to perform this year?

Jeremy Gruber: 2017 is expected to be another good overall year for the housing market. Home prices and home sales are expected to grow in 2017, albeit at a slightly lower rate than last year. Inventory is expected to increase this year, following a relatively significant decrease in 2016. Homes that are listed for sale are expected to fly off the market at an all-time record pace. While single-family construction starts are projected to rise at a healthy rate, multi-family starts are projected to decrease slightly, but not as significantly as in 2016, which is a small step in the right direction. Millennial and first-time buyer purchase activity is expected to build on 2016 gains, which is a positive sign for market vitality in the coming years, and the homeownership rate is anticipated to continue its post-Great Recession recovery. Rent increases are expected to moderate in 2017, allowing potential first-time buyers to save more money towards a future purchase.

That's not to say there won't be some challenges for the housing market in 2017. While moderating price growth may provide some relief to buyers, a shortage of affordable inventory, especially for first-time buyers, is expected to continue, and worsen slightly, through 2017, though recently introduced mortgages requiring only small down payments are expected to alleviate affordability concerns for some. Labor shortages, which increase homebuilding costs, are also expected to continue through 2017, and may be exacerbated by stricter immigration policies implemented by the new administration. Interest rates are also expected to rise throughout this year, though opinions vary as to how significant the increase will be, and "rate lock" due to rising interest rates is likely to contribute to the aforementioned shortage of affordable inventory in the starter home category, as homeowners with low interest rates may be incentivized to remain in their homes instead of selling and taking on higher interest rate mortgages on more expensive homes. Notwithstanding these challenges, many economists are optimistic that the economic fundamentals remain strong for housing, and that the market will continue to improve across most metrics in 2017.

GlobeSt.com: How will this growth compare to 2016, and why is it changing?

Scott Grossfeld: Others have commented that, in 2017, housing is expected to continue on the growth path that we saw in 2016, albeit at potentially a more moderate rate. This is good news. Of course, it does not compare to the boom years prior to the Great Recession. Nonetheless, so long as unemployment remains relatively low, interest rates remain low, and note that they continue to remain at historically low rates notwithstanding the Fed's recent increases, and consumer confidence remains high, the demand for housing should remain constant. As housing grows, so too should retail development and other factors that prime further economic growth.