





Long-Term Forecast

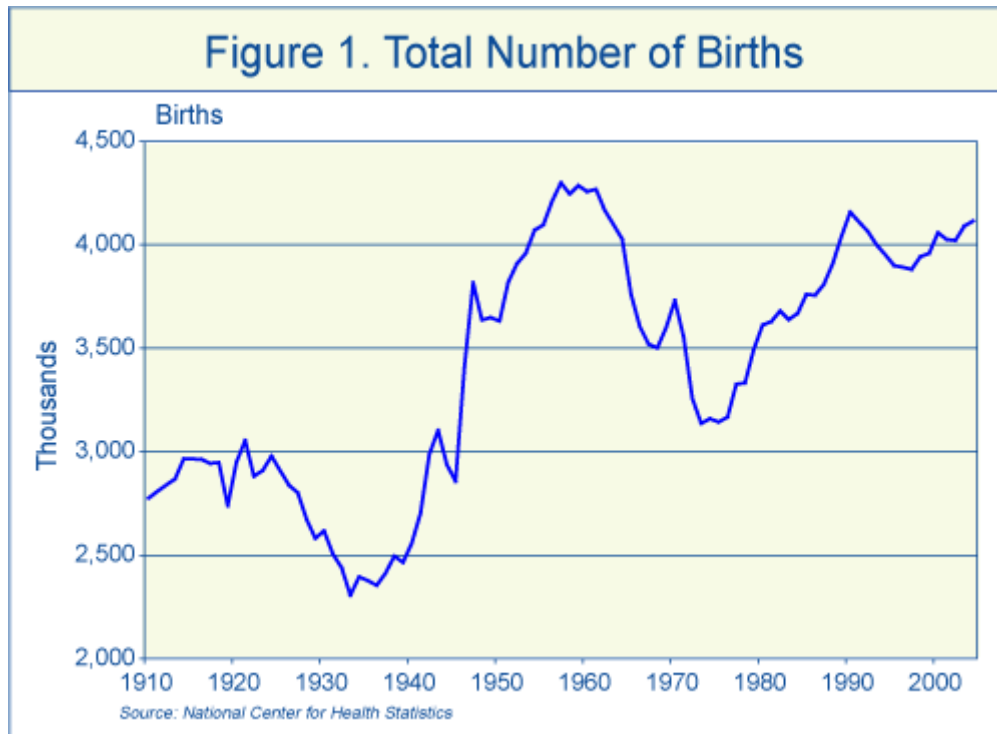
Introduction

Residential construction in 2005 exceeded expectations by a substantial margin. This might suggest that the supply of new housing is outpacing underlying demand and setting the stage for a severe downward correction. Indeed, several aspects of recent housing market activity, including an increased share of new home purchases attributed to speculators or other non-owner-occupants, riskier mortgage lending, and relatively high vacancy rates, raise legitimate concerns. But the large increases in home prices in recent years, widely characterized as a “bubble,” are hardly evidence of excess supply. Moreover, builders’ inventories of unsold homes are relatively low, especially if homes that are merely authorized by permits, with construction not even begun, are excluded.

A slowdown in production and sales will occur over the next few years, largely in response to higher mortgage rates, but the number of homes constructed over the long-term – the focus of this report – will depend less on interest rates than on demographic trends and on the utilization of the existing housing stock. Those factors are likely to lead to production levels over the next decade exceeding the average during the last decade. Indeed, the number of new conventional houses built during the decade from 2005 to 2014 will exceed the number produced in any previous decade. Considering the larger average size and more extensive equipment that will characterize the typical home built during the coming decade, the real value of residential construction during the next ten years will exceed previous decades by an even wider margin.

Although the average number of housing starts will be high relative to multi-year averages in the past, the forecast does not include any year with single-family housing starts exceeding the record 1.71 million anticipated for 2005. This reflects the cycle-free economic growth and steady interest rates assumed for the long-term forecast, and an anticipated rebound in the market shares for multifamily and manufactured housing, partly caused by higher mortgage rates. The absence of a year with single-family starts exceeding the 2005 record also underlines how truly extraordinary single-family production and sales have

	
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If past U.S. births were the only factor affecting the current U.S. adult population, the age distribution would be extremely uneven, but the effects of the 1965-1978 Generation X baby bust (there is no general agreement on when that era ended) have been mitigated by immigration. Immigrants typically arrive in their late 20s, so the surge in immigration over the past 15 years supplemented the ranks of Generation X.

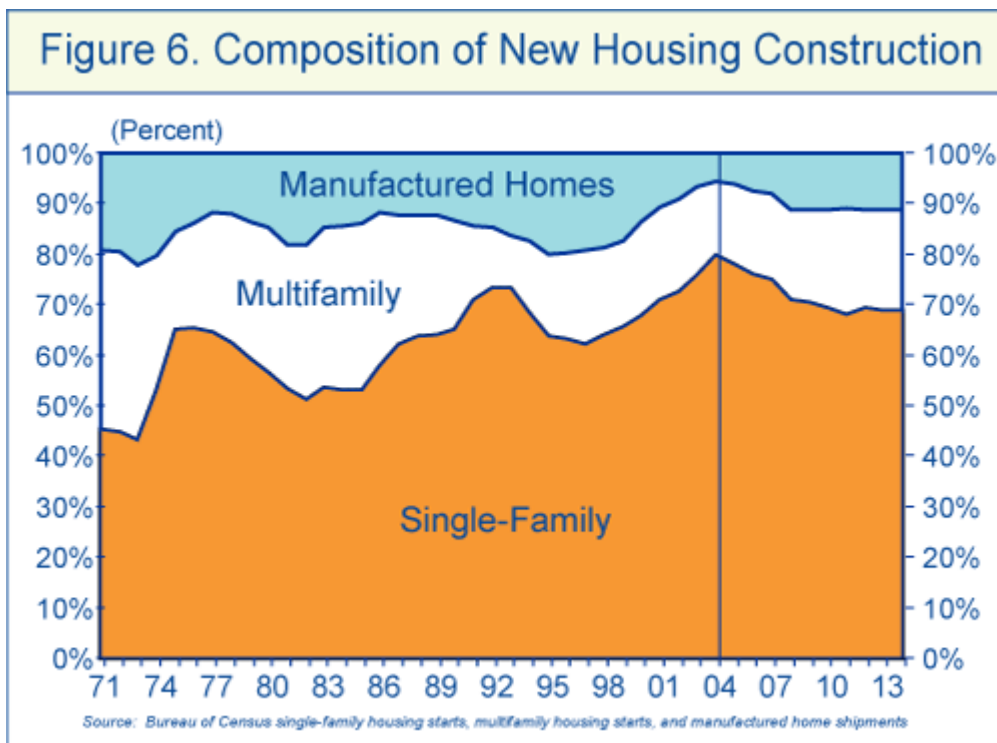
Table 2 shows the effects of immigration and of differential birth rates on the demographic mix of the population in different age brackets. Clearly the customer base for new homes is becoming much more diverse.

Table 2. Minority Shares of Population in 2005							
Age Group	Population (000s)	Non-Hispanic					Latino/Hispanic
		White	African-American	Asian	Am. Indian/Pacific Isl.	Mixed & Other	
0-14	60,752	57.6%	14.6%	3.9%	1.0%	1.7%	21.2%
15-24	42,120	61.6%	14.4%	4.0%	1.1%	1.2%	17.7%
25-34	40,205	59.6%	12.9%	5.7%	1.0%	0.8%	20.0%
35-44	43,892	66.4%	12.3%	4.9%	0.9%	0.6%	14.9%
45-54	42,492	72.8%	11.4%	4.1%	0.8%	0.6%	10.3%
55-64	30,353	77.3%	9.7%	3.7%	0.7%	0.6%	8.0%
65+	36,682	81.4%	8.3%	3.0%	0.5%	0.5%	6.3%
Total	296,497	66.9%	12.3%	4.2%	0.9%	0.9%	14.9%

Source: Census Bureau population estimates for July 1, 2005.

Structure Types

From 1999 to 2005, the total number of housing units produced (starts plus manufactured housing shipments) increased by 200,000, from 2.0 million to 2.2 million. Single family starts increased by 400,000, from 1.3 million to 1.7 million. Thus, half of the increase in single family production can be attributed to an increase in market share, at the expense of multifamily and (especially) manufactured housing (see Figure 6).



The demographic trends are favorable for single-family demand, with population growth concentrated in the age ranges most inclined toward single family homes, but the shift in demand went beyond the share attributable to demographics, and was powered by changes in actual or anticipated relative costs.

The overall cost of owning a single-family home includes the cost of financing, maintenance, property tax, and foregone income on alternative investments, offset by capital gains from appreciation and reduced income tax burdens. In recent years, financing costs fell to their lowest point in half a century, while returns from alternative investments fell and the actual and expected gains from home appreciation rose. The cost of owning a single family home became much more attractive to owner-occupants and investors alike. To the extent that recent experience created expectations about future appreciation, the expected cost of owning a home was less than zero. The rate of appreciation was greater than the rate of interest.

In the years ahead, mortgage rates will be higher, while the unsustainable rate of appreciation in home prices will move lower. Home ownership will still attract most households, but it will no longer appear to be a free lunch. Moreover, the surge in

Table 4. Housing Stock by Structure Type										
	THOUSANDS					TENURE/VACANT SHARE				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Single-Family	76,017	77,290	79,032	80,259	81,949	100.00%	100.00%	100.00%	100.00%	100.00%
Owner	59,110	60,410	61,797	62,904	64,176	77.76%	78.16%	78.19%	78.38%	78.31%
Renter	11,039	10,879	10,911	10,836	11,112	14.52%	14.08%	13.81%	13.50%	13.56%
Vacant	5,868	6,001	6,324	6,518	6,661	7.72%	7.76%	8.00%	8.12%	8.13%
2 to 4 Units	11,002	11,241	11,012	10,845	10,782	100.00%	100.00%	100.00%	100.00%	100.00%
Owner	1,741	1,808	1,765	1,786	1,810	15.82%	16.09%	16.02%	16.47%	16.78%
Renter	7,930	8,065	7,861	7,588	7,447	72.08%	71.75%	71.38%	69.97%	69.07%
Vacant	1,331	1,368	1,387	1,470	1,525	12.10%	12.17%	12.60%	13.56%	14.14%
5 or more Units	20,097	20,496	20,418	20,991	21,137	100.00%	100.00%	100.00%	100.00%	100.00%
Owner	1,969	2,067	2,097	2,193	2,280	9.80%	10.09%	10.27%	10.45%	10.79%
Renter	15,702	15,902	15,628	15,896	15,859	78.13%	77.59%	76.54%	75.73%	75.03%
Vacant	2,426	2,526	2,693	2,902	2,998	12.07%	12.32%	13.19%	13.83%	14.18%
Mobile Homes*	8,695	8,702	8,751	8,698	8,718	100.00%	100.00%	100.00%	100.00%	100.00%
Owner	5,608	5,628	5,581	5,477	5,420	64.50%	64.68%	63.78%	62.97%	62.17%
Renter	1,626	1,574	1,639	1,651	1,712	18.70%	18.08%	18.72%	18.99%	19.64%
Vacant	1,461	1,500	1,531	1,569	1,586	16.80%	17.24%	17.50%	18.04%	18.19%
Total	115,905	117,824	119,302	120,879	122,672	100.00%	100.00%	100.00%	100.00%	100.00%
Owner	68,496	69,975	71,302	72,419	73,754	59.10%	59.39%	59.77%	59.91%	60.12%
Renter	36,323	36,454	36,065	36,001	36,148	31.34%	30.94%	30.23%	29.78%	29.47%
Vacant	11,086	11,395	11,935	12,460	12,770	9.56%	9.67%	10.00%	10.31%	10.41%

Source: American Community Survey

In ACS, units with temporary residents are counted as occupied if they stay for 2 months or more.

Total units include boats, RVs, etc. used as primary residences.

*The term "mobile home" is used interchangeably with "manufactured homes" and "manufactured housing" in this report.

Prepared by Economics Department, NAHB. Available at www.HousingEconomics.com.