

[Twin Cities New Home Growth Showing Signs of Slowing as Affordability Weakens](#)

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(Minneapolis, MN – January 29, 2014) Strong fundamentals across the Twin Cities area have pushed new home construction up 31% over 2012. 2013 finished up the year strong with builders pushing out new homes at a very healthy clip. This is according, to a recent report by Metrostudy, a national housing data and consulting firm that maintains the most extensive primary database on residential construction in the US housing market.

According to Metrostudy's quarterly survey, 1,387 new homes were started in the 4th quarter, down -25.6% from last quarter, but up +7.4% from 4Q12 when 1,292 homes were started. "The drop-off in activity is normal for the 4th quarter as the school year begins and temperatures plummet. While typical, the pullback is slightly lower than we were expecting raising concerns regarding the impact the economy, price increases and rate increases are having on the market," said Ryan Jones, director of Metrostudy's Twin Cities Market.

"The majority of new activity remains strong throughout those top tier market areas, with the top 20 submarkets experiencing a 24% jump in starts compared with 2012. However, as lots prove scarce and increasingly costly throughout the "A" & "B" markets activity is picking up throughout Otsego, Rogers, Savage, Chaska, Farmington, Waconia, Ramsey and Hudson as builders expand their footprint across the metro," said Jones.

At the end of December 2013 there were 2,596 new housing units in inventory, down 154 from last quarter. Of that total, 1,969 units (76%) are under construction, 419 (16%) are finished vacant inventory and 208 (8%) are model homes. Housing supply fell compared to last year remaining very healthy at 5.5 months. Increased closings over the past twelve months helped push down our year end supplies to slightly below equilibrium. Equilibrium for housing inventory months of supply is between 6-7 months. Low housing inventory or more specifically low finished vacant inventory is one of the best indicators of the health of a housing market. These units which have been completed but remain vacant at the time of our survey currently sit at just 419 finished vacant units on the ground. Finished inventory months of supply sits at slightly below one month, which is actually below equilibrium, considered to be between 1.5-2.0 months. These numbers should come up a little over the next couple months as more housing units near completion and sales slow.

There are currently 22,274 vacant developed lots throughout the Twin Cities, representing a decline of 9.6% compared to last year. (10,900 vacant developed lots throughout the metro seven counties, a decline of 9.9% compared to last year). 4Q13 represents the lowest supply number since early 2007. The recent increase in new home demand has created a run on desirable vacant developed lots located throughout the metro. Lot supplies across the seven county metro area are down to just 26.9 months, down below pre-housing boom figures. As activity continues to increase we will need to see substantial lot deliveries across the metro in order to meet demand.

“Lot pricing and availability is a concern throughout the top tier markets as land prices are quickly rising. Demand will continue to push outward in 2014 into our second and third tier market areas. Builders are increasing their land supply and should be able to capitalize on the growth that will occur in the coming years,” said Jones.

“The Twin Cities economy looks to remain strong and the new home market is positioned to grow right along with it. While our pace could slow a little in 2014 we expect continued growth in new home activity throughout the year. Price increases may need to be adjusted if the economy weakens or rates change dramatically. Proceed with caution this year as sales might not come as easy as 2013. Stay tuned,” said Jones.

About Metrostudy

Metrostudy is the leading provider of primary and secondary market information to the housing and related industries nationwide. Metrostudy provides research, data, analytics and consulting services to help builders, developers, lenders, suppliers, retailers, utilities and others make investment and business decisions every day. For more information, visit www.metrostudy.com

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