

## [Twin Cities 2Q14 Housing Survey: Despite Pullback, Market Showing Consistent Growth](#)

Posted in [Twin Cities Market](#) | Posted on 09-02-2014 | Written by Metrostudy News

- The recent increase in new home demand has created a run on desirable vacant developed lots located throughout the metro; 2Q14 saw the lowest lot supply number since early 2007.
- Almost 50% of all new homes started over the last 12 months were priced between \$250k and \$400k, the largest percentage of starts in that segment since Metrostudy began tracking the market;
- While over 80% of the new starts are for single family homes, we expect that price and location pressures will drive consumers into townhomes and attached product lines.

**September 2014:** Metrostudy's 2Q14 survey of the Minneapolis/St. Paul housing market showed slowing growth, as the market has been hit with multiple forces that have impacted new home construction. Our survey showed 1,494 starts in 2Q14, up 35.6% from 1Q14 but down 10.4% from 2Q13. The increase in activity is normal through the first two quarters as new home builds are generally either pulled forward into 4th quarter or pushed ahead to 2nd quarter. This winter's brutal conditions impacted our starts numbers by approximately 10% in the 1st quarter so while there was an increase we expected to see a slightly larger jump in new home starts given the harsh winter.

The rate of annual new home starts for single-family and townhome units across the Twin Cities area was 5,765, up 5.3% over 2013 but a sizable drop off from the last couple quarters. The new home market is still continuing to show fairly consistent growth even with the recent pull back. Lingering impacts of the weak economy, flat wages and affordability concerns will constrain buyers.

"The increased demand for new homes has been facilitated by continued strength in the local resale market," said Chris Huecksteadt, Regional Director of Metrostudy's Minneapolis/St. Paul region. "However, the significantly low level of existing homes on the market is causing some unanticipated inventory problems. Increasing home prices, low inventory and decreasing affordability has quelled momentum throughout the existing housing market causing some buyers to remain on the sidelines. The resale market will play a critical role throughout this year and could significantly impact new home sales."

The majority of new activity remains strong throughout our top tier market areas, with the top 20 submarkets representing almost 60% of new home starts over the past 12 months. However, as lots prove scarce and increasingly costly throughout the "A" & "B" market activity is picking up

throughout Otsego, Rogers, Savage, Chaska, Farmington, Waconia, Ramsey and Hudson as builders expand their footprint across the metro.

At the end of March 2014 there were 2,769 new housing units in inventory, up 136 from last quarter. Of that total, 2,035 units (73%) are under construction, 486 (17%) are finished vacant inventory and 248 (10%) are model homes. Housing supply fell compared to last year remaining very healthy at 5.9 months. Increased closings over the past twelve months helped push down our year end supplies to slightly below equilibrium levels of 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. Finished inventory months of supply sits at slightly above one month, which is actually below equilibrium, considered to be between 1.5-2.0 months. There are currently 20,690 vacant developed lots throughout the Twin Cities, a decline of 7.9% compared to last year.

“2Q14 represents the lowest lot supply we have seen since early 2007,” said Huecksteadt. “The recent increase in new home demand has created a run on desirable vacant developed lots throughout the metro region. Lot supplies across the seven county metro area are down to just 25.6 months, 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 current demand.”

Lot pricing and availability is a concern throughout the top tier markets as land prices are quickly rising to pre-housing boom levels. New activity will continue to push outward in 2014 into our second and third tier market areas as land prices continue to rise. Lot supplies still remain tightest in the \$350,000 to \$399,999 price segment as move-up buyers take advantage of low prices, strong inventory and low rates.

“Almost 50% of all new homes started over the last 12 months were priced between \$250,000 and \$400,000, representing the largest percentage of starts in that segment since Metrostudy began tracking the market,” said Huecksteadt. “Shifts in product size, style and needs have re-defined the new home market across the Twin Cities marking a return to a more balanced marketplace. Single-family homes continue to account for the majority of new home activity throughout the metro area, representing over 80% of all starts. However, townhomes and attached product should start grabbing market share, as location and prices remain challenging for single family development.”

The Twin Cities economy will likely continue to outperform the national economy, with unemployment remaining well below national levels, and net new job growth continuing to be positive. Even as the market has slowed through the first six months of this year, healthy levels of price increases have occurred. The median sales price of an existing home is up 8.1% compared to last year, while the average sales price of a new home increased by 9.2%. The market has slowed, but it is in a much healthier condition today than during previous slowdowns in the market; new and existing home inventories are low and demand, relative to the levels of inventory in the market, is still high. Even with the slight decline in demand experienced over the first six months, there is still money to be made in the new home market in the Twin Cities.

For information contact **Chris Huecksteadt** @ 847-651-9080  
email [chueck@metrostudy.com](mailto:chueck@metrostudy.com)

## **About Metrostudy**

Metrostudy, a Hanley Wood company, is the leading provider of primary and secondary market information to the housing and related industries nationwide. Established in 1975 in Houston, Metrostudy provides research, data, analytics and consulting services that help builders, developers, lenders, suppliers, retailers, utilities and others make investment and business decisions every day. [www.metrostudy.com](http://www.metrostudy.com)

## **About Hanley Wood**

Hanley Wood is the premier information, media, event, and strategic marketing services company serving the residential, commercial design and construction industries. Utilizing the largest editorial- and analytics-driven construction market database, the company produces powerful market data and insights; award-winning publications, newsletters and websites; marquee trade shows and executive events; and strategic marketing solutions. To learn more, visit [hanleywood.com](http://hanleywood.com).