

[New Home Activity Slowing as 2014 Comes to a Close](#)

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Written by **Metrostudy News**

- New Home Starts through 3Q14 are down 7.4% YoY
- Builders and Developers are feeling a squeeze from a lack of quality lots in desirable locations
- Homebuyers are sitting on the sidelines; Metrostudy revising its forecast downward for 2014.

November 2014: Metrostudy's 3Q14 survey of the Twin Cities housing market showed the combination of rapidly rising home prices/land costs, a cautious consumer, and modest economic growth causing slowdown in new home activity. Through the first nine months of 2014, there have been a total of 4,258 new housing units started (including single-family detached, townhome, and duplex units), a decline of 7.4% compared to the first nine months of 2013. The 1,675 units started in the third quarter of this year represents a decline of 7.8% over the 3Q13 starts total. The annual rate of starts currently stands at 5,593 units, while the annual rate of closings is at 5,425 units. Both numbers represent a decline when compared to the annual rate of a year ago. Many builders have reported a slowdown in traffic through their communities this year and especially during the late summer and early fall months.

“The second and third quarters of 2013 were very good to homebuilders, with a significant uptick in starts and closings activity when compared to 2012; an increase of 35.0% during that six month span,” said Christ Huecksteadt, Regional Director of Metrostudy's Twin Cities Region. “The middle quarters of 2014 were down 9.2% when compared to the same six-month stretch in 2013. That being said, the numbers for second and third quarter of 2014 were better than those of any year since 2007, with the exception of last year. While the slowdown this year is not likely indicative of a major decline in the coming months, it does show that the recent uptick in activity was not sustainable.”

Through the first nine months of 2014, the majority of counties surveyed by Metrostudy saw a decline compared to construction activity in the first nine months of last year. Hennepin County still leads the way with approximately 19.6% of all new home construction in the Twin Cities market occurring there. Dakota County is number two, representing 16.0% of Twin Cities new home construction over the past year. A few outliers saw a significant increase in starts activity this year: Chisago and Isanti counties, increasing from a combined 97 starts through the first nine months of 2013 to 254 starts in the first nine months of this year.

At the bottom of the market, standing new home inventory was a major concern, with more than a 4.0 month supply in the overall market. As the rate of new home closings increased and builders focused on eliminating the excess inventory, the months of supply indicator declined.

Currently there is just a 1.3 month supply of standing new home inventory in the Twin Cities market, well below the estimated normal level of 2.5 months. This has led some builders to be more aggressive about adding to the levels of inventory, with a 21.6% increase in finished and vacant new home inventory in the third quarter compared to the prior quarter.

With a relatively consistent pace of new home construction (the rate of lot absorption), and a declining level of vacant developed lot inventory, the months of supply for lots in the Twin Cities has fallen from a high of nearly 120 months in the second quarter of 2011, to a current level of 43.7 months. The 3q14 supply indicator rose for the first time since 2011 due to the slowdown in construction activity. If Metrostudy excludes those lots in less desirable locations from the survey, the months of supply indicator drops even more sharply. Builders and developers are both feeling the squeeze from a lack of quality lots in desirable locations, leading to more acquisition and development activity. Through the first nine months of 2014, 2,224 new lots have been delivered with more entitlement activity also occurring.

Many of the most active market areas in the Twin Cities region are currently exhibiting a months of supply nearing equilibrium levels (24 to 30 months). Hennepin County accounts for nearly 20% of all construction activity in the Twin Cities market and currently has a 21-month supply of lot inventory available. Dakota County, the second most active market in the Twin Cities region, currently has a 25-month supply of lot inventory. While the overall market shows an oversupply of lots, lots in many of the most desirable locations are becoming more and more scarce, leading to builders to seek land and lot opportunities in those markets (driving up the price of land) as well as some secondary markets.

Much of the news that impacts the new home market continues to sound positive; job growth continues, the unemployment rate has fallen, foreclosures have moderated, and the resale market continues to improve. However, the positive news is just not positive enough to sustain the growth in construction activity that was seen over the past two years. In addition, consumer confidence has waned in recent months, causing many to sit on the sidelines and wait things out. There just does not seem to be much urgency among prospective home buyers in the marketplace.

Metrostudy expects that the remainder of 2014 will see little to no improvement in the pace of new home construction and sales, with 2015 not promising much better. The market is not too far off from having supply issues impact the market's potential for growth in addition to an economy whose temperature can be described as lukewarm at best, though improving.

“Given these factors, Metrostudy has revised it’s forecast downward to a range of 5,250 to 5,750 new home starts in 2014,” said Huecksteadt. “Next year’s outlook will be heavily dependent upon growth in the local economy and builders’ and developers’ ability to deliver lots in desirable locations to meet potential new home demand. In addition, the housing industry desperately needs the consumer to jump back into the game. Modest growth from 5% to 10% is

forecast for 2015. Economic growth and, maybe more importantly, consumer attitudes toward home buying, will be crucial for this forecast to materialize.”

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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

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