

New-Home Construction On the Increase

By Derek Kravitz
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WASHINGTON (AP) — Builders broke ground on more new homes last month, giving the weak housing market a slight boost at the start of the spring buying season.

Home construction rose 7.2 percent in March from February to a seasonally adjusted 549,000 units, the Commerce Department said Tuesday. Building permits, an indicator of future construction, rose 11.2 percent after hitting a five-decade low in February.

Still, the building pace is far below the 1.2 million units a year that economists consider healthy. And March's improvement came after construction fell in February to its second-lowest level on records dating back more than a half-century.

Millions of foreclosures have forced home prices down. In some cities, prices are half of what they were before the housing market collapsed in 2006 and 2007. And more foreclosures are expected this year. Tight credit has made mortgage loans tough to get. Many would-be buyers who could qualify for loans are reluctant to shop, fearing that prices will fall even further.

The lack of any meaningful rebound in housing is stunting the broader economic recovery

A sign of the battered industry is the number of new homes finished and ready to sell dropped in March to a seasonally adjusted 509,000 units, the lowest level on records dating back to 1968. And the number of homes now under construction has fallen to a four-decade low.

"Housing starts remain at an extraordinarily depressed level," said Dan Greenhaus, chief economic strategist at Miller Tabak + Co. "To put this in further perspective, a doubling of (new homes) from here would still put starts at the lowest level of any other recession." During previous housing recessions, in the early 1980s and 90s, new home construction fell to more than 1 million homes per year. This year's pace is slightly more than half those levels.

And the lack of any meaningful rebound in housing is stunting the broader economic recovery. In past modern-day recessions, housing accounted for 15 to 20 percent of overall economic growth. In the first post-recession year, between 2009 and 2010, housing only contributed 4 percent to economic growth.

Since the mid-part of last year, home construction and sales have instead detracted from the economy. Joshua Shapiro, chief U.S. economist at MFR Inc., said that's a "large reason for the sub-par nature" of the rebound. New-home construction is down 6 percent since the recession ended nearly two years ago.

Single-family homes, which make up roughly 80 percent of home construction, rose 7.7 percent in March. Apartment and

condominium construction rose 14.7 percent. Building permits increased to its highest level since December, spurred by a more than 28 percent jump in permits granted for apartment and condo buildings.

rose 32.3 percent in the Midwest, 27.6 percent in the West and 5.4 percent in the Northeast. Construction fell 3.3 percent in the South.

New homes can spur job growth. Each new home built creates the equivalent of three jobs for a year and generates about \$90,000 in taxes, according to the National Association of Home Builders.

The trade group said Monday that its index of industry sentiment for April fell one notch, to 16. That followed a one-point increase in March and four straight months of 16 readings. Any reading below 50 indicates negative sentiment about the housing market's future and the index hasn't been above that level since April 2006.

Most economists expect home prices and home sales and construction to slip even further in 2011 before a modest recovery.

Each new home built creates the equivalent of three jobs for a year

That increase in permits could signal a turnaround in the coming months, said Steven A. Wood, chief economist with Insight Economics. New homes typically take six months to build and the number of new permits is higher than the number of homes starting construction.

The increase in home construction activity was felt in most regions of the country. It



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the "make room for more" home



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