



New Housing Starts and Expectation in 2023-2024: USA

2023-2024新屋開工和預測: 美國

The U.S. housing market in 2023 presented a story of resilience amidst challenges. After a period of rapid growth fuelled by historically low mortgage rates, new housing starts experienced a period of fluctuation. This article analyzes the key trends of 2023 and explores the expectations for the housing market in 2024.

2023: A Year of Mixed Signals

The year began with a sense of cautious optimism. While builder confidence, as measured by the National Association of Home Builders (NAHB) Housing Market Index (HMI), had dipped to 44 in December 2022, it rose steadily in the first half of 2023. **By June 2023, the HMI reached 55, exceeding pre-pandemic levels observed in September 2020 (at 51).** This significant improvement suggests a cautiously optimistic outlook among builders, despite ongoing market challenges.

Note that: Builder confidence reflects how optimistic home builders are about the housing market. They consider factors like buyer demand, affordability, and construction costs. The NAHB Housing Market Index (HMI) is a survey that gauges this confidence, with a score above 50 indicating a positive outlook. High builder confidence leads to more new construction projects and a stable market. It's important because it influences housing inventory and overall market health.

However, a key indicator, building permits, painted a more complex picture. Though May 2023 saw a 4.8% increase from the previous month, it still represented a 13.2% decline compared to May 2022. This suggested a potential slowdown in new construction activity. **The second half of 2023 witnessed a more pronounced slowdown in new housing starts. Data from the U.S. Census Bureau revealed a**

significant drop in January 2024, marking the lowest level since August 2020. This 14.8% month-over-month decline surprised analysts and signalled a potential correction in the market.

Factors Influencing the Slowdown

Several factors contributed to the slowdown in new housing starts in 2023:

- **Rising Mortgage Rates:** A significant factor was the rise in mortgage rates. After years of historically low rates, the 30-year fixed mortgage rate climbed above 7.79% in 2023, significantly impacting affordability for potential buyers. This squeezed buyer budgets and led to a decrease in demand for new homes.
- **Supply Chain Issues:** The ongoing global supply chain disruptions continued to affect the housing industry. Shortages of building materials and labour hampered construction activity, causing delays and pushing up construction costs.
- **Inflation:** Broader inflationary pressures also played a role. The rising costs of materials and labor further squeezed builder margins and contributed to a more cautious approach to new construction projects.

Signs of a Potential Rebound in 2024

Despite the challenges of 2023, there are reasons for cautious optimism in 2024. Here are some key trends to watch:

- **Mortgage Rate Fluctuations:** Mortgage rates have shown some signs of stabilization and even a slight decline in recent months. If this trend continues, it could improve affordability and stimulate buyer demand. The Federal Reserve's monetary policy decisions will significantly influence mortgage rates in the coming months.
- **Stable Builder Confidence:** Though not at pre-pandemic levels, builder confidence has remained relatively stable compared to the lows of 2022. This indicates that builders are not overly pessimistic about the market's long-term prospects.
- **Underlying Housing Demand:** Demographics continue to point towards a sustained demand for housing. Population growth and millennial generation entering prime homeownership age suggest a long-term need for new housing units.

Industry Forecasts for 2024

Industry experts hold a mixed view on the housing market in 2024. **The National Association of Realtors (NAR) forecasts a slight increase in total housing starts, with single-family starts reaching 1,020,000 by Q2 2024.** However, they also acknowledge the continued impact of affordability challenges. (Single-family starts: This refers to the initiation of construction on new homes designed for single families, meaning they are not attached to other units like condominiums or townhouses.)

Potential Challenges for 2024

While there are reasons for optimism, there are also potential headwinds for the housing market in 2024:

- **Economic Uncertainty:** The broader economic climate remains uncertain. Geopolitical tensions and potential recessionary fears could dampen consumer confidence and impact housing demand.
- **Inventory Levels:** Existing home inventory levels are slowly rising, which could put downward pressure on new home sales, especially if mortgage rates remain elevated.

Looking Ahead: A Market in Transition

The U.S. housing market in 2024 is likely to be one in transition. The era of supercharged demand and rapid price growth may be over, replaced by a more balanced market with a focus on affordability. Builders will need to adapt to changing consumer preferences and prioritize value for money. Technology and innovation in construction methods could play a role in improving efficiency and reducing costs. Additionally, a focus on sustainable building practices and energy-efficient homes could attract a new generation of buyers.

Conclusion

The U.S. housing market in 2024 is likely to be a story of cautious optimism. While challenges remain, such as rising interest rates and economic uncertainty, there are also underlying factors that suggest a potential rebound. Demographics and a long-term need for housing will continue to drive demand.

Here are some key takeaways for different stakeholders in the market:

- **Builders:**
 - o **Affordability:** In a market with rising interest rates and potentially fewer buyers, builders will need to prioritize affordability. This could involve offering smaller floor plans, utilizing more cost-effective building materials, or streamlining construction processes to reduce costs.
 - o **Value Engineering:** The concept of value engineering involves optimizing designs to deliver the most value for the price. Builders can focus on features that are most important to buyers, such as functional layouts and energy efficiency, while minimizing unnecessary frills.
 - o **Niche Markets:** Catering to specific buyer groups can be a successful strategy. First-time homebuyers, for example, might be attracted to smaller, starter homes with lower price points. Another growing niche is the market for energy-efficient homes. Builders can offer features like improved insulation, high-performance windows, and energy-efficient appliances, which can attract environmentally conscious buyers and potentially lead to lower utility bills for homeowners.
- **Buyers:**
 - o **Competitive Market:** The market in 2024 might be more competitive than recent years due to a potential rise in inventory and fewer buyers competing with historically low mortgage rates. Buyers should be prepared to potentially submit multiple offers and be flexible on some aspects of their search.
 - o **Careful Budgeting:** Careful budgeting is crucial in any housing market, but especially in a scenario with rising interest rates. Buyers should factor in not just the purchase price, but also closing costs, property taxes, and ongoing maintenance expenses. Having a realistic understanding of these costs will help them determine a comfortable price range.
 - o **Long-Term Perspective:** Buying a home is a long-term investment. While affordability is important in the short term, buyers should also consider the long-term value of their purchase. Factors like location, school district, and potential for appreciation can also be important considerations.
- **Policymakers:**
 - o **Affordability Programs:** Down payment assistance programs can help make homeownership more accessible to first-time buyers or those with limited savings. Policymakers can explore implementing or expanding such programs to stimulate demand in the market.
 - o **Economic Stability:** A stable economic environment is vital for a healthy housing market. Policies that promote job growth and economic stability can indirectly benefit the housing market by increasing consumer confidence and purchasing power. The coming months will be crucial in determining the trajectory of the U.S. housing market in 2024. With careful planning and adaptation, all stakeholders can navigate the changing landscape and contribute to a more sustainable and balanced housing market. □

