

Why Buy NEW Construction?



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Reasons to consider buying a New Construction home?

It's only January 20 , 2017 and the real estate market in San Diego is already buzzing!

New listings are hitting the market daily, and many are going under contract in just 2-3 days! But why is this so, when January (and even February) are usually slow as we come out of the holiday season.

I'm sure some of this unusual buying activity is being spurred by the low interest rates, that are still around 4%, and predictions of interest rate increases are finally becoming more real every day.

However, the biggest issue is the lack of inventory in our market, which in conjunction with the fear of interest rate hikes has caused a sudden rush of buyers, and new home buyers as more renters think about buying.

It seems like many buyers who were in 'wait and watch' mode in 2016 have switched to 'buy now' mode this January.

Also, sellers who have thought about cashing out in 2017 seems to be advancing their plans to get their home on the market while demand is high and multiple offers are plentiful.

Meanwhile, new construction homes are in the forefront, more than ever before, and new home communities are busier than they were last summer.

As a side note, I have 2 families who recently decided to shift from buying resale to buying new homes, however their top choices of lots in new communities were gone within days!

One development we visited reported that 20 lots were booked within the last month, which included the holidays when one would think nobody is making house buying decisions.

With the shortage of housing in San Diego, a shortage even of rental properties, and the higher rents we are now up encountering, people are looking to buy and lock in a low interest rate before rates take a bigger hike.

In making a comparison between resale and new properties my current observation has been that the gap between prices of resale and new homes has narrowed.

People desire homes that have a "wow" Factor when you come through the door, and new construction gives them that and much more. Energy efficient homes, community amenities and solar just to name a few...

I am including some articles I've run across since the start of the year that support the thoughts and state of the market, as I've expressed in this report.

5 Stats That Prove the Real Estate Market Is Getting Stronger



Whenever there is talk about an improving housing market, some begin to show concern that we may be headed toward another housing bubble that will be followed by a crash similar to the one we saw last decade.

Here are five data points that show the housing market will continue to recover, and that a new housing crisis is not about to take shape.

1) Mortgage availability is increasing, but is nowhere near the levels we saw in 2004-2006.

As Jonathan Smoke, the *Chief Economist of realtor.com*, recently explained:

“The havoc during the last cycle was the result...of speculation fueled by loose credit. That’s the exact opposite of what we have today.”

2) The Housing Affordability Index, which measures whether or not a typical family earns enough income to qualify for a mortgage loan on a typical home, based on the most recent price and income data. The current index shows that it is more affordable to buy a home today than at any other time between 1990 and 2008. With median incomes finally beginning to rise, houses should continue to remain affordable and housing demand should remain strong.

3) Home prices are well within historic norms. Prices have increased substantially over the last several years; However, those increases followed the housing crash of 2008 and national prices are still not back to 2006 levels. If there were no bubble (and subsequent bust), today’s prices would actually be lower than if they were measured by historic appreciation levels from 1987-1999.

4) Demand for housing, as measured by new household formations, is growing. The Urban Land Institute projects that 5.95 million new households will be formed over the next three years. Even if the homeownership rate drops to 60%, that would be over 3.5 million new homeowners entering the market.

5) New home starts are finally beginning to increase. This helps eliminate the number one challenge in the industry – lack of inventory. And it does so in two ways:

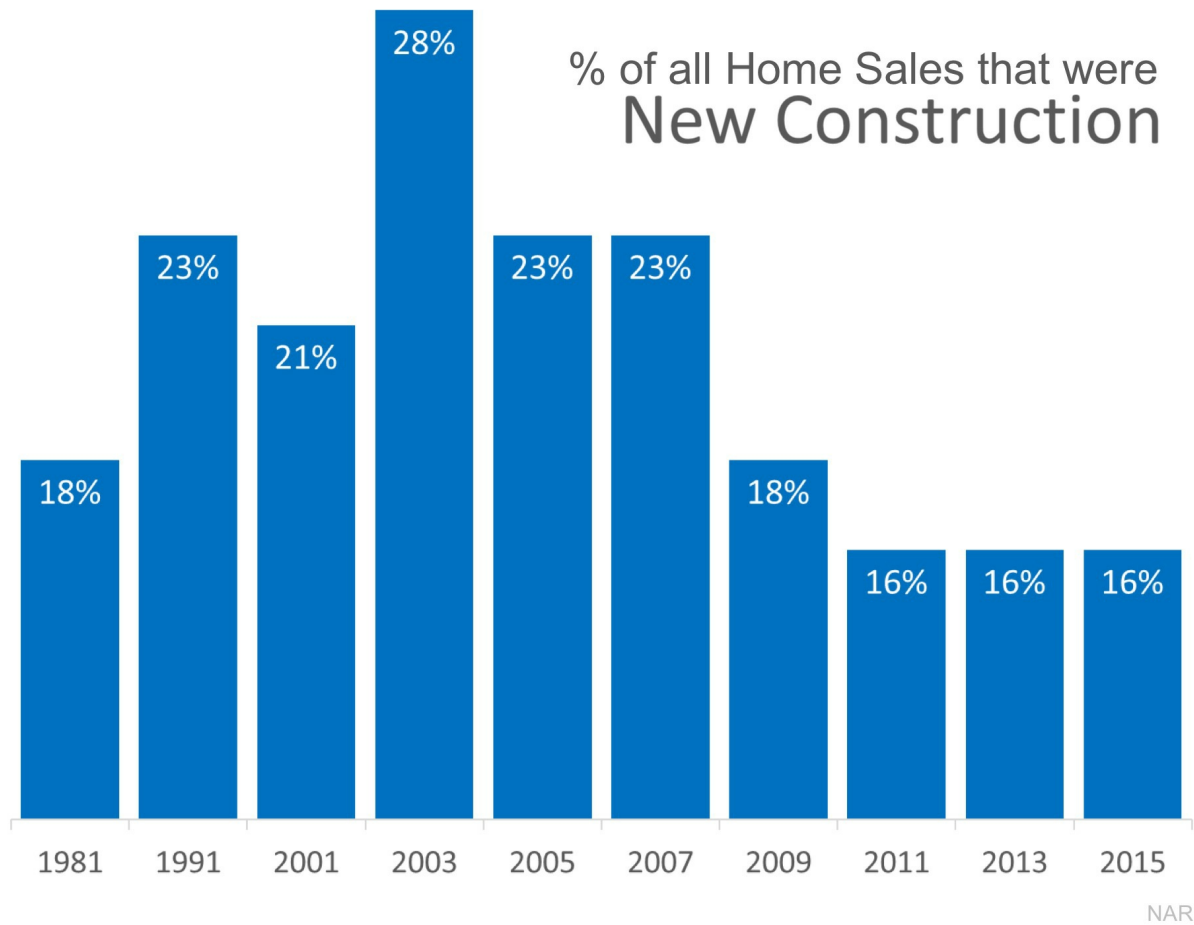
- Some first time buyers will, in fact, purchase a newly constructed home.
- Many current homeowners will move-up (or move-down) to a new construction and then put their current home on the market.

This means that there will be an increase in both new construction and existing home inventories.

The number of new home sales is far off historic norms. *The National Association of Realtors* (NAR) just reported that the percentage of all house sales that were newly constructed homes has fallen to the lowest numbers in forty years. Here is a graph showing the percentages:

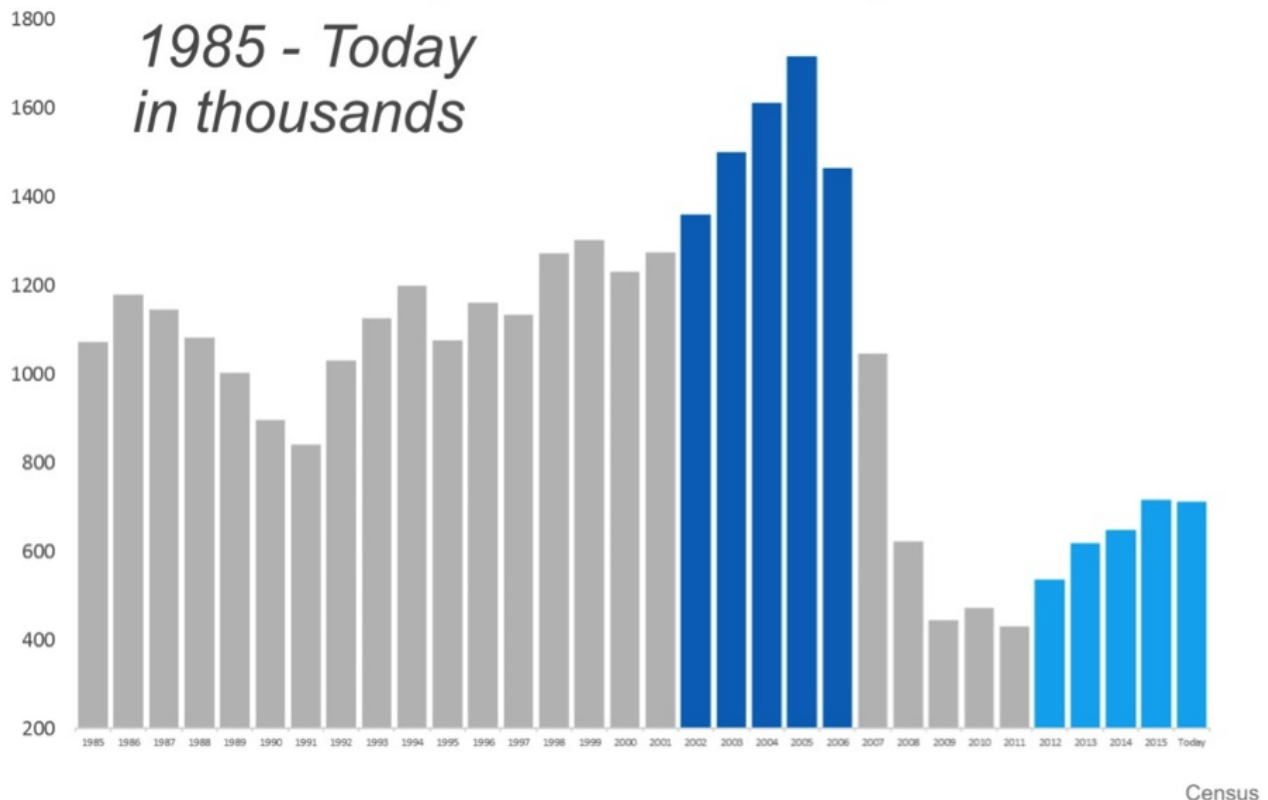
Why we need more Newly Constructed Homes?

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This should come as no surprise as the number of new housing starts has fallen dramatically over the last several years:

New Single Family Starts



Bottom Line

We need more new construction for two reasons:

- It will relieve some of the pent-up buying demand that is causing price appreciation to continue to increase well above historic norms.
- It will give better opportunities to many current homeowners who want to sell but can't find an adequate home to move in to.

WHY BUY NEW CONSTRUCTION?

New Home Sales Race to Keep Up with Demand [INFOGRAPHIC]

New Home Sales Race to Keep Up with Demand



Newly released data from HUD and the U.S. Census Bureau shows that many Americans are turning to the new home market to fulfill their dream of homeownership.

+17.8% YEAR-OVER-YEAR



-1.9% MONTH-OVER-MONTH

SALES AT AN ANNUAL RATE OF **563 THOUSAND**

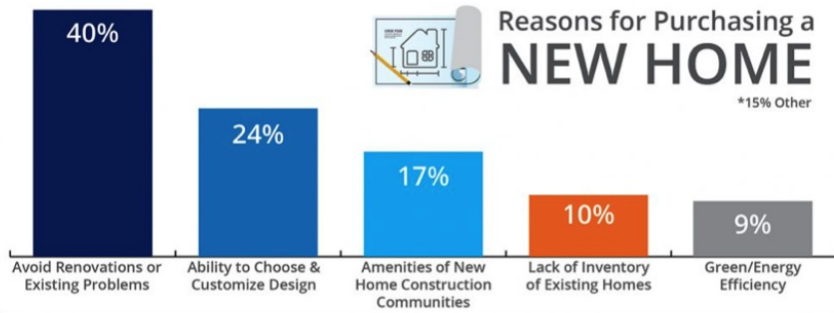
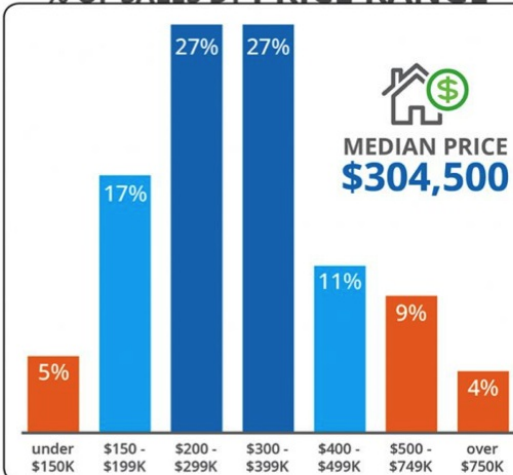
SALES BY REGION



WEST	+28.7%
SOUTH	+17.9%
MIDWEST	+8.6%
NORTHEAST	-6.3%

INVENTORY LEVELS
BELOW HISTORIC NORMS
5.2 MONTH SUPPLY
DOWN 7.1% FROM OCT '15

% OF SALES BY PRICE RANGE



Source: HUD, US Census & NAR

- **Some Highlights**

1. **Many buyers who are searching for their dream homes are turning to new home construction after 10% of all new home buyers sighted a lack of inventory of existing homes as their reason for purchase.**

2. **The West saw the largest month over month jump in sales at 28.7%.**

It is my belief that 2017 is going to be a year when new construction will become more and more desirable, and with buyers now experiencing a sense of urgency to buy and lock in a low interest rate, we should see more new construction starts in 2017.

Articles Source: Keeping Current Matters