

6 Reasons Why Now Might be the Best Time Ever to Build a New Home

By Scott Stroud

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I should have bought stock in Google when it was first released. I knew it then, but I didn't act. I was scared off by the nay-sayers in the media. I hesitated, and the ground floor opportunity didn't wait. Today, Google's stock is up 800% from its initial price.

Today, the opportunity to build a new home is similar to Google's initial stock offering – an excellent investment and a short window of opportunity.

What... housing? A good investment? Is this a joke?

It's no secret that the housing industry has been in a downward spiral for the past three years. Housing prices have fallen in most markets – some up to 40% or more from their 2005 values. Banks and mortgage companies that extended themselves with bad loans and unrealistic lending programs have restricted their credit standards, gotten out of the mortgage arena, or gone out of business. And, builders and contractors who were too busy to return phone calls are now looking for work, and grateful if they get it.

It's scary, we know. But, these very same factors make *now* an excellent time for those that can do so to act on building their dream home. Here are six solid reasons why those who take action now will save thousands on the construction of their new home, and what to do to take advantage of these favorable – that's right, *favorable* – market conditions.

1. Housing is cyclical.

The period from 1987 – 2005 was one of the strongest housing booms since WWII. By 2004, it became obvious to many that housing starts were growing at unsustainable levels. Land, materials, and home prices were escalating and the term 'housing bubble' was coined to describe the frightening pace at which new homes were being built. Like all bubbles, everyone knew it couldn't last forever, but the economy had become so dependent upon the housing sector that it was hard to ease it back gradually. The 'pop' came in late 2005, and by 2006 huge inventories began to erode builder profits and housing values began to fall. Just like 20 years before.

Historically, housing 'booms' last 8 – 12 years. This one lasted 18 years. But, these cycles typically run 'hot' for about 10 years, then 'cool' for 3 – 4 years. Then, the cycle starts again.

Today, two full years into the 'cooling off' period, new home inventories are beginning to be absorbed and markets are starting to stabilize. Projections are that by the middle of 2009, the market will start heating up again as a new up-cycle begins. That growth, just like that of past upturns, will mean a reinvigoration of the market ... and rising costs to go with it.

2. Interest rates are at historic lows.

As this is being written, 30-year fixed rates are near 6% and 15-year rates are well below that number. Other than a brief few months in 2004, those are the lowest rates in the past 40 years. True, credit is tighter than it was two years ago, but that only affects those with marginal credit. The vast majority of home buyers will not be impacted by more stringent lending standards. Low mortgage rates, combined with the lowest material and land costs we're ever likely to see, mean that right now you can build more house for the money than you will when the housing market recovers. *Substantially* more!

3. Materials costs are rising, and will continue to do so.

Higher fuel costs are being applied to building materials, as they are to just about everything. However, many building materials are very energy-intensive to produce, and so might be more impacted than most consumer goods. The largest cost in producing drywall, for example, is the energy to fire the kilns to dry it. Do you see energy costs going down in the near future? Neither do I.

4. Builders, Contractors and Tradesmen are available...for now.

When housing is strong (and it will be again, soon) there is a waiting list for contractors. At the height of the housing boom, one of the most discussed topics at builder meetings was the fact that fewer people were entering the trades and builders were having difficulties hiring enough experienced people to form full crews. Today, there is a 'window of opportunity.' When crews are available without long waits, homes are built and finished in less time, requiring less interest on construction loans. This favorable situation is temporary – cyclical, remember?

5. Land is available...while it lasts.

In boom times, bigger builders and developers monopolize the best lots, driving up costs and leaving scattered-site builders and home buyers to fight over their leftovers. Now, the large-volume builders are bogged down with excess inventories (homes they built and have all their cash tied up in,) and many aren't liquid enough to make land investments. That means that land prices are about as low as they will be, and the choice and availability are at their best.

6. Housing demand will soon outstrip existing inventory, and is on the rise.

This might be the biggest incentive to act now to build. New families are being formed in the U.S. at a record pace – far faster than new homes are being built to accommodate them. It seems nobody is looking ahead. By the end of this decade it is projected that there will be a need for nearly *2 million* new homes per year to handle the population growth in this country. The housing industry has never produced homes at that rate, and with the labor issues that were felt during the past housing boom, it is questionable whether those quotas can be filled.

Today, we're on the brink of the next big housing boom. When it happens (and no one is sure exactly when it will happen, just that it will) the door will close on individuals who

are waiting for the media to give them the 'all clear.' Housing costs will continue to rise, labor shortages will create long delays, interest rates will rise to try to control inflation, and homes will become less and less affordable.

What all this means is that buyers who sell their homes today might get 8% - 10% less than they would have gotten back in 2005, but the cost of new construction is currently down by nearly 20% from those same levels (but already climbing.) Sure, when the market recovers existing homes will regain their previous value, but they won't keep up with the rising costs of new construction.

This brings me to a seventh (bonus) reason why now is undoubtedly a great time to act to build your new home: The sooner you build it, the longer you'll enjoy it.

The points discussed here are common knowledge and common sense. No, there are no guarantees that the market will recover on schedule, or that some unforeseen event won't cause a recession next year, or that there won't be an other energy crisis, terrorist attack, floods in the Midwest or more hurricanes. We don't know what the future holds, other than that housing is historically cyclical, that families are forming faster than houses are being built, that energy costs will never go back down, and that the term 'affordable housing' may be something our children only read about.

And that, if you want to realize your dream of owning a beautiful new home, there will never be a better time to act on that dream than right now.

About the Author:

Scott Stroud has been involved in new home construction and sales since 1974, when he started framing houses in his home town of Louisville, KY. He grew a profitable new home sales company during the housing-bust of the early 1980's, and has since held executive sales and marketing positions with national home producers. Today, Scott works as a business consultant for J. Rouleau & Associates, LLC, and can be heard weekly as co-host of the Internet radio program *Selling New Homes: The Monday Morning Sales Meeting*. He and his wife, Melanie, currently live in Somerset, KY.