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Why We Can't Deliver Needed Homes

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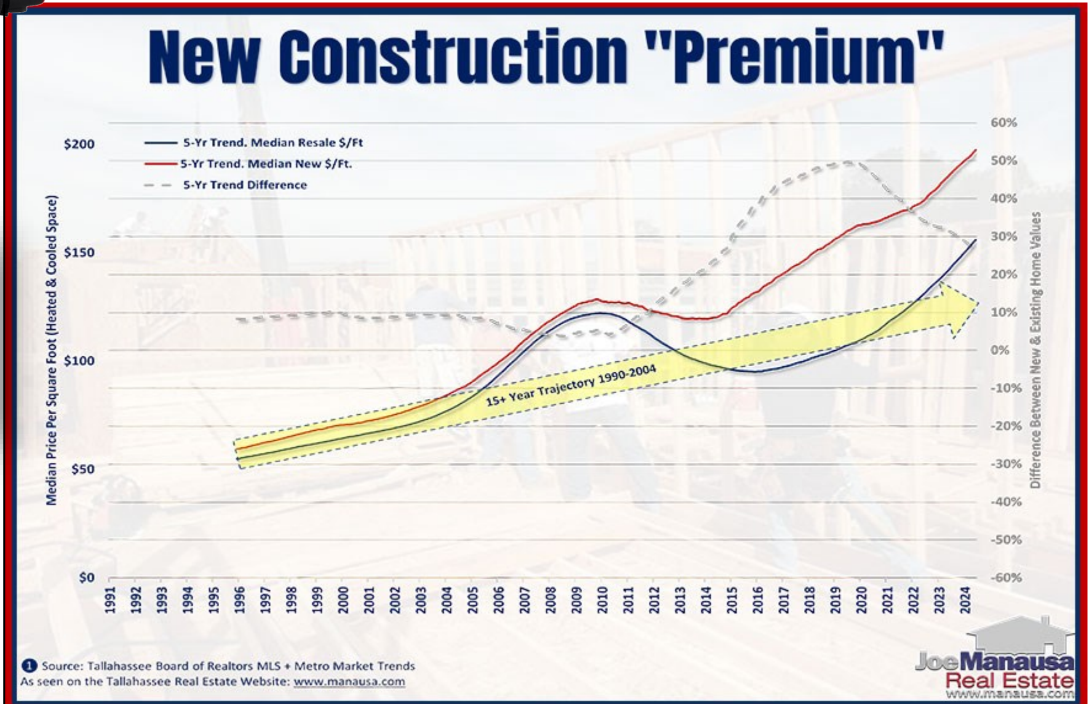

Today's graph measures the "premium" buyers pay for brand new homes by comparing the five-year trend of new home values (red line) with the five-year trend of existing home values (blue line).

The difference between the two, shown as a dashed gray line, represents the new construction premium. Currently, this premium is at 27.1%, indicating that new construction homes have sold for 27.1% higher price per square foot than existing homes over the past five years.

The gap between new and existing home values is at its lowest point in ten years, making new homes more affordable relative to used homes since 2014. Historically, during the 1980s, 1990s, and up until about 2012, the difference between new and existing home values was less than 10%. However, recently it has surged as high as 50%.

Builders used to produce homes at a premium of 7% to 10% over the existing market, but today it is three to four times that amount.

The cost of new construction has risen significantly due to labor shortages, minimum wage hikes, and limited developable land. This inflation, along with federal government intervention, has slowed home building rates, causing housing scarcity and rapid appreciation of existing homes.

Unlike the 2006 housing bubble, when the government removed traditional loan programs for first-time homebuyers, today's market sees builders unable to produce homes at prices most buyers can afford.

People expecting home prices to fall are not considering the supply and demand imbalance rationally, especially as wages and inflation (excluding housing) continue to rise.

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