

The Next Housing Crisis: A Historic Shortage of New Homes

Fewer new houses are being built in America than at almost any time before; 'It's a good time to be here in Grand Rapids, if you can get a house'



Bob Snowden in front of the \$850,000 lake house he built in Byron Center, Mich. PHOTO:MARK FELIX FOR THE WALL STREET JOURNAL

By

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GRAND RAPIDS, Mich.—America is facing a new housing crisis. A decade after an epic construction binge, fewer homes are being built per household than at almost any time in U.S. history.

Home construction per household a decade after the bust remains near the lowest level in 60 years of record-keeping, according to the Federal Reserve Bank of Kansas City.

What makes the slump puzzling is that by most other measures, the American economy is booming. Jobs are plentiful, wages are on the rise and the stock market is near record highs. Millennials, the largest generation since the baby boomers, are aging into home ownership.

Still Broken

Housing starts per household, 3-month moving average



Source: Federal Reserve Bank of Kansas City

Bob Snowden, a home builder in the Grand Rapids, Mich., area thinks he understands what's happening. He says he gets calls practically every day from families in the thriving western Michigan city asking him to build them a new home. He ends up turning most of them down.

Demand for housing is stronger than he has ever seen, he says, but land and construction costs have roughly doubled since the end of the last boom a decade ago.

So Mr. Snowden has shifted his focus from starter and midprice houses to high-end properties, where the profit margins are fatter. His production has dropped from roughly 25 homes a year in the mid-2000s to about a dozen, he says.

Hardly any entry-level homes are going up in town, he says. “If I was a young couple today, unless you’re making really good money, what are your options,” he says, “short of moving into a \$1,000 a month apartment”—an expensive proposition in this part of the country.



Alison Black opens the door to her new home in Grand Rapids, Mich. PHOTO: MARK FELIX FOR THE WALL STREET JOURNAL

A combination of tightened housing regulations, a lack of construction labor and a land shortage in highly prized areas is driving the crisis, according to industry experts.

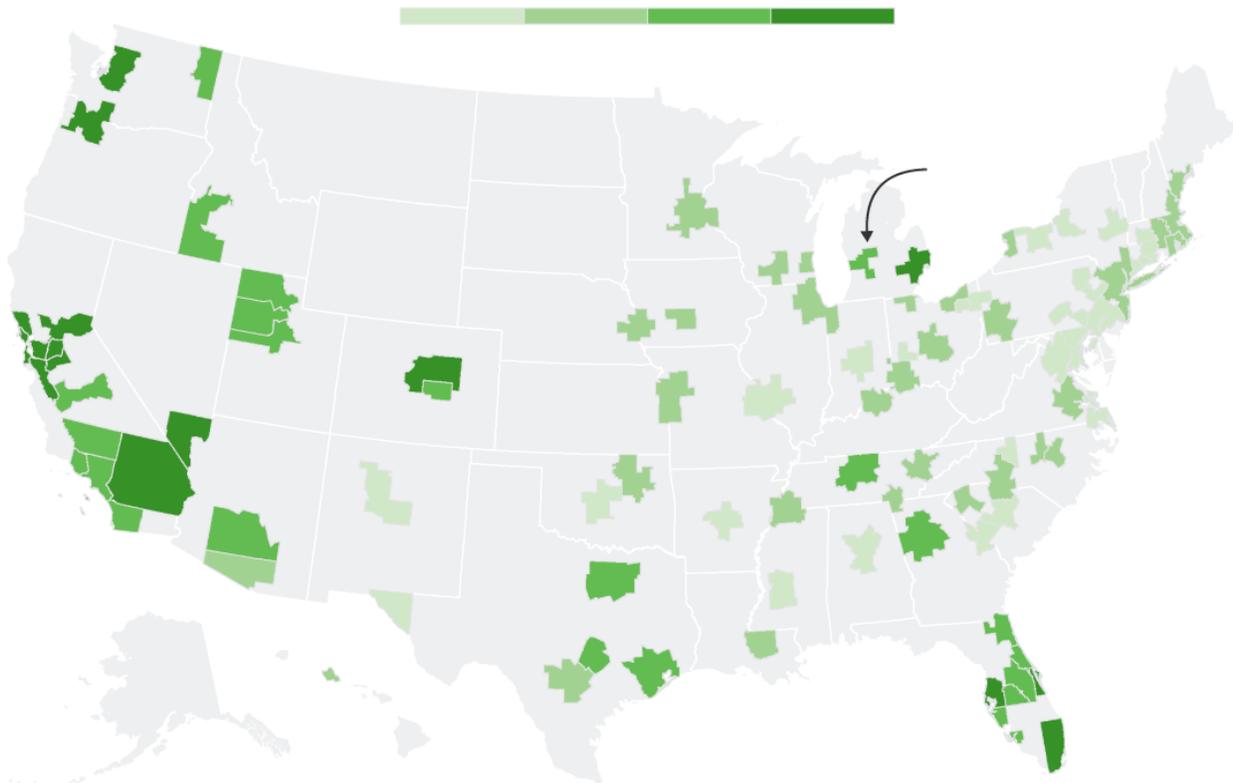
Even during the deep recession of the mid-1970s and the downturn in the early 2000s, builders put up significantly more homes per U.S. household than they are constructing now, in the ninth year of an economic expansion. Only at the bottom of the 1981 and 1991 economic downturns were per-household construction levels near what they are now, according to Jordan Rappaport, an economist at the Kansas City Fed. He says the only period when the U.S. might have built fewer homes by population was during World War II.

Building slowed to a halt after the real-estate crash a decade ago as millions of homes across the U.S. were seized in foreclosure and sold, many of them converted to rentals.

Now, construction isn't matching rising demand, not only in glamour cities such as San Francisco and New York, but also in metropolitan areas such as Grand Rapids.

The National Association of Home Builders estimates builders will start fewer than 900,000 new homes in 2018, less than the roughly 1.3 million homes needed to keep up with population growth. The overall inventory of new and existing homes for sale hit its lowest level on record in the fourth quarter of 2017, at 1.48 million, according to the National Association of Realtors.

That, in turn, is pushing up prices at what economists say is an unsustainable pace. The S&P CoreLogic Case-Shiller National Home Price Index rose 6.3% in 2017. That was roughly twice the rate of income growth and three times the rate of inflation.



Source: Trulia

The lack of homes for sale has fueled bidding wars around the country, making things harder for first-time buyers.

Alison Black, a 43-year-old office manager at New Urban Home Builders, a Grand Rapids residential builder, has spent nearly a year looking for a home but was outbid on a half-dozen properties before snagging one in February.

Ms. Black has been renting a loft downtown, which she says feels like “bundling a \$1,500 wad of money and throwing it out the window every month.” She has about \$25,000 in savings, but every month the balance dwindles.

At one point, she contemplated moving in with her mother to try to save more. Instead, she got a second job, as a saleswoman at a spirits, wine and beer store.

One of the houses she looked at received 16 offers in 48 hours, and the winner paid more than asking price—in cash, she says.



Alison Black at her rental apartment in Grand Rapids. PHOTO: MARK FELIX FOR THE WALL STREET JOURNAL



Alison Black outside the Grand Rapids home she purchased for \$7,000 over the asking price. PHOTO: MARK FELIX FOR THE WALL STREET JOURNAL

When the buyers who outbid Ms. Black on one home rescinded their offer because of concerns about an inspection report, she pounced. She closed on the property, a 1,500-square-foot home for which she agreed to pay about \$7,000 over the asking price of \$163,000.

“This market is just insane. Those are the lengths that you go to,” she says. “It’s a good time to be here in Grand Rapids—if you can get a house.”

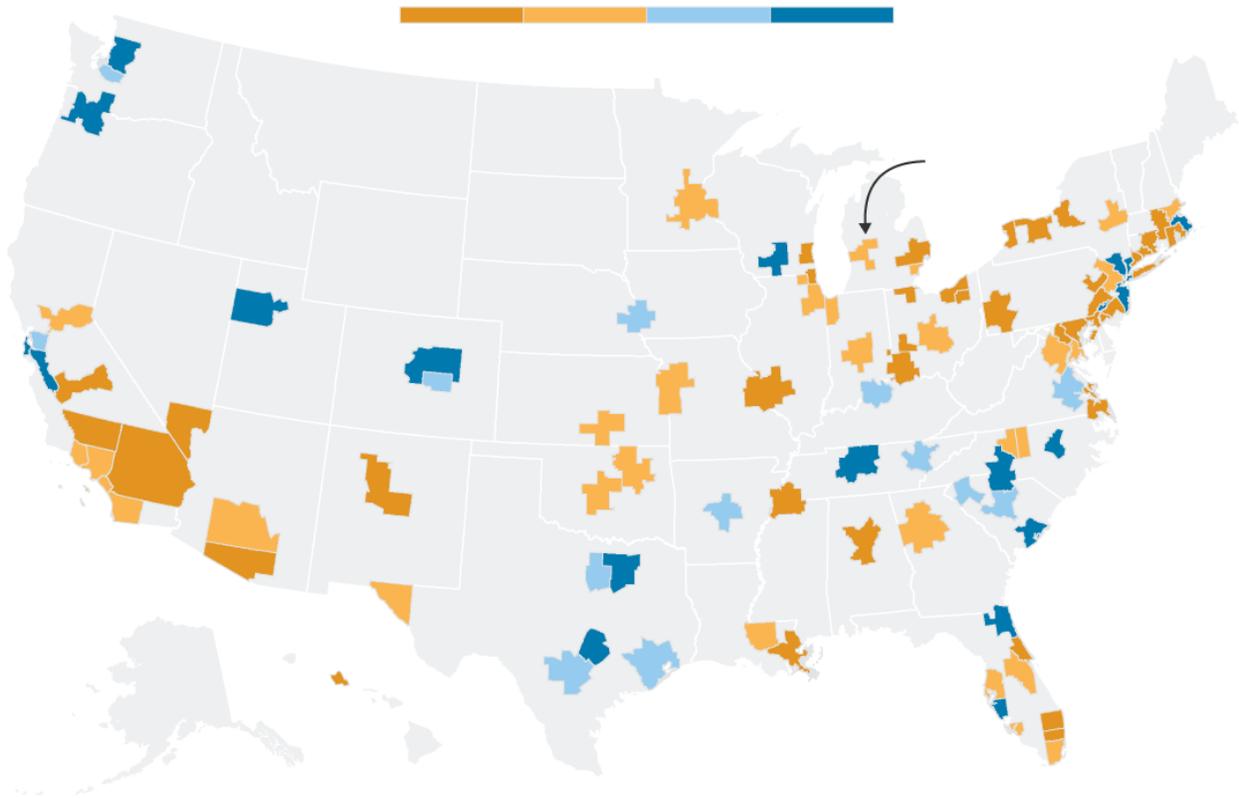
Builders cite numerous factors contributing to the construction slump. A decadeslong push for young people to go to college has driven down trade-school enrollment, depriving builders of skilled labor. Declining numbers of immigrant construction workers have sapped builders of unskilled labor.

Builders in far-flung exurbs are encountering stiffer resistance from young buyers even as prices ratchet higher for land closer to cities. Economists say that in many large metropolitan areas, suburbanization might simply have reached its limits, as potential buyers increasingly reject long commutes. During the 1950s, buying a home in a new suburb, where land was plentiful and cheap, often meant driving half an hour to a job in the city. Today, commutes from new developments can be several times that long.

“There’s a tremendous mismatch between the places where people want to live and the places where it’s easiest to build,” says Edward Glaeser, a professor of economics at Harvard University who studies constraints on housing supply.

After years of moribund building activity, there have been signs of improvement in recent months. The homeownership rate increased last year for the first time since 2004, driven by younger buyers who overcame rising prices and a lack of inventory to purchase their first homes. Single-family home starts increased 2.9% for the 12 months ending in February, according to U.S. Census data.

But building remains below historical averages, and economists say it is unlikely to return to those levels before the next recession.



Source: Zillow

“It’s hard for me to see on single-family how you can build your way out of this,” Mr. Rappaport says. “Even with these heroic efforts” to overcome barriers to building new housing, he says, there is little chance “that you’re going to get a new stream of single-family homes that can relieve demand.”

Coastal cities such as San Francisco, Los Angeles, New York and Boston have taken criticism for their restrictive building codes, which make it more difficult to create enough housing to keep up with population growth.

Even metropolitan areas with more permissive approaches to building are lagging behind their historical construction levels. Housing permits in Memphis, Tenn., were 44% below their historical average in 2017, according to the latest Census figures analyzed by real-estate data firm Trulia, while permits in the Minneapolis metropolitan area were 16% below average.

Grand Rapids, Michigan's second-largest city, has many hallmarks of a boomtown. Once dubbed "Furniture City" for its concentration of high-end manufacturers, it averted the hard times that befell many industrial towns partly because of the philanthropic efforts of wealthy local dynasties such as the DeVos and Van Andel families. Civic leaders and investors poured hundreds of millions of dollars into a new convention center, hotels, a performance hall, an arena and a "medical mile" of hospitals, educational institutions and research facilities that have become major employers.

The number of jobs in Grand Rapids grew by 23% between 2010 and 2017, while median family income, adjusted for inflation, increased 16% in roughly the same period, making it one of the fastest-growing economies in the U.S., according to a Trulia analysis.

The city's downtown brims with coffee shops, yoga studios and purveyors of artisanal food, helping to entice young college graduates to stick around rather than seek out bigger cities.

But the boom is missing one critical component. New housing construction is 22% below the historical average, making Grand Rapids one of 69 major metropolitan areas where construction is still below normal levels, according to the Trulia analysis.

Builders say this is partly because the wounds from the housing crash, when hundreds of local builders went out of business, haven't healed. The number of members of the Home Builders Association of Greater Grand Rapids dropped from a peak of more than 1,300 in 2005 to fewer than 400 in 2012. Today, the association has just over 500 members.

Nationwide, membership in the National Association of Home Builders peaked at 240,000 in 2007, then dropped to 140,000 in 2012, where it has remained throughout the recovery.

Mr. Snowden, the Grand Rapids builder, says that before 2008, banks would lend him money as quickly as he could put up homes. When the market crashed, he was \$2 million in debt with a dozen empty homes on his hands.



Builder Bob Snowden has shifted his business to high-end properties. PHOTO: MARK FELIX FOR THE WALL STREET JOURNAL

Most of his contemporaries left the business altogether. Mr. Snowden survived by fixing up bank-owned foreclosures—some of them homes he had built himself—and reselling them. “I swore I’d never build [new] houses again,” he says.

When he returned to new construction a few years ago, it was on different terms. He avoids debt and won’t build a home unless buyers finance the cost themselves or pay in cash.

In the late days of last decade’s housing boom, as empty new homes began accumulating, municipalities started tightening building regulations to try to rein in development. Unsold homes and empty lots dragged down property values.

Today, those regulations remain. The Michigan Residential Code, which helps regulate home construction standards in the state, has swelled to 862 pages, from 556 pages two

decades ago, according to Brian Wilson, director of inspections for Cascade Township, in the Grand Rapids area. However cumbersome the rules might seem, he says, they promote better standards for everything from safety to energy efficiency and longevity of the homes being built.

Falling Short

A 6-month supply of housing is normal in most areas. But many metropolitan areas are shy of that.

Source: CoreLogic

Some of the rules adopted by planning boards to improve quality of life end up increasing costs. Zoning in the most desirable parts of Grand Rapids, for example, often requires lots to be 2 acres or larger, discouraging construction of starter homes.

“Those that already live in communities many times look down on an entry-level home,” says John Bitely, president of Rockford, Mich.-based Sable Homes. “They forget that they at one time had to have one themselves.”

In 2016, the National Association of Home Builders estimated regulatory costs added nearly \$85,000 to the cost of a home, up more than 30% since 2011.

Andy Lofgren, executive officer of the Home Builders Association of Greater Grand Rapids, says it now takes about seven months to build a home in the area, up from four months during past booms.

A worsening labor shortage is adding to the problem. The construction workforce in the U.S. declined to 10.5 million in 2016, from 10.6 million in 2010, when the real-estate market was near bottom, according to an analysis of U.S. Census data by Issi Romem, an economist at BuildZoom, a startup that tracks construction data for building contractors.

Todd Peuler was hired 3½ years ago as a recruiter for Michigan building supplier Fox Brothers Co., a subsidiary of [Beacon Roofing Supply](#) Inc. Mr. Peuler says it takes about

twice as long to build a house as it did in the past because of lag time waiting to find workers to complete tasks.

Sometimes, he says, clients are expecting to move in, but a house is still wrapped in plastic because workers are needed to put on siding.

“The workforce is in their 50s and 60s. They’re retiring and there’s no new bloodline coming in,” he says. “We didn’t get in this situation overnight, and it could take years to get out.”

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