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New-Home Slowdown Is Good News

Housing starts fell in 3.7% in November. That's a good thing, because reduced inventories is the only way to stir demand

By Prashant Gopal

You'd think the chief economist for the National Association of Home Builders would be alarmed that the pace of new-home construction in November dropped to the lowest level in more than 14 years, according to a Dec. 18 Commerce Dept. report.

But David Seiders, the NAHB's chief economist, says he's somewhat pleased. Builders cannot reduce their inventories of unsold homes unless they cut production, particularly in light of weak demand and rising competition from existing-home sellers, he said.

"The builders are behaving appropriately at this point," Seiders said. "I would have liked to see the production decline start earlier than it did. But since the beginning of 2007, production has been falling rapidly."

Builders Suspend Projects

The pace of housing starts fell 3.7% in November from a month earlier, to a seasonally adjusted annual rate of 1.187 million, and it dropped 24% from November, 2006. Building permits, an indicator of future home construction, fell 24.6% from November, 2006, to an annual rate of 1.152 million.

Single-family home starts fell 5.4% from October to an annual pace of 829,000, the lowest pace since 1991. Building stocks have been particularly hard hit. Once-robust companies like Toll Brothers ([TOL](#)) have dropped sharply in 2007. Its shares have lost 30% of their value. Many of its competitors, including Lennar ([LEN](#)), Hovnanian ([HOV](#)), KB Homes ([KBH](#)) and D.R. Horton ([DHI](#)) are faring worse.

Steve Cameron, president and founder of Foremost Communities, a land development company in Irvine, Calif., said many builders are "mothballing" projects, putting fences around residential complexes that could remain unfinished until inventories drop and buyer demand returns.

"They're freezing activity," Cameron said. "What they're trying to do is generate positive cash flow. There's no use in building a project that nobody is going to buy."