Housing keeps pace with demand

Builders apparently are learning that speculation doesn't always pay.

America's housing industry has marched in lock-step with demand ever since the residential construction excesses of the 1980s and the economic recession that followed.

During the past five years, homebuilders have operated at a pace neither far ahead nor far behind the rate of construction necessary to maintain balance in supply, reports U.S. Housing Markets, a tracking service based in Livonia.

During the 1980s, homebuilders pulled permits for an average of 1.4 million units per year, the service reported.

That ranged from a low of 986,000 in the 1981 recession year to a high of 1.8 million at the peak of multi-family fever in 1986, the last year of generous rental property tax shelters.

With an estimated 1.3 million residential units permitted in 1995, the last five years have seen an annual average of 1.2 million units authorized nationally.

Household growth, meanwhile, has averaged 1.1 million for the same five year period, U.S. Housing Markets indicated. That is very much in balance with the supply of new units, especially when taking into account average demolitions of 70,000 units per year.

A gradual, balanced growth is better than boom-and-bust cycles for the financial health of the industry.

Builders in the Midwest probably have been better than those in other parts of the country at building on household formation rather than speculation on a more consistent basis, said Brian Bragg, editor of U.S. Housing Markets.

"It's the conservative nature of business here," Bragg said. "It tends to be more blue collar, traditional. Don't get too wild."

Builders in Southeastern Michigan, however, are still dependent on the auto industry — but getting better.

"They tend to learn over time," Bragg said. "They tend to depend less when there's good times rolling that it will go on forever."

If the country avoids recession, the rate of household formations will increase to an average of about 1.25 million households annually during the next five years, U.S. Housing Markets projects.

And there will be a growing demand from maturing Baby Boomers for second homes.

The greatest household growth in the past five years has been in the 45-to-55 age group as the first wave of baby Boomers arrived.

This group includes nearly 3.3 million more households than it did in 1990, the service reported. About 75 percent was in the homeowners category, just 25 percent renters, as might be expected from a middle-aged group.

Now, persons born from the early 1960s to the early 1970s have moved into the prime years of their household-forming activity, U.S. Housing Markets indicated.

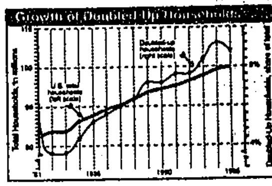
These 25-to-34 year olds have in the last five years left rentals to purchase houses at a greater rate than the preceding generation, which was stymied by rampant housing inflation and high interest rates in the 1980s.

Doubled-up living arrangements, including the formation of extended-family households of unrelated adults, has increased over the years and isn't particularly good news to the homebuilding industry.

Historically, those living arrangements were widespread only in hard economic times.

In the last dozen years, doubled-up households have grown from 3.3 million to 5.2 million, from a 3.9 share of all households in 1983 to 5.2 last year, U.S. Housing Markets reported.

"It certainly takes away from present demand," Bragg said.



Social trend: *The tendency of unrelated and unmarried persons to double up and form a single household has been increasing. That doesn't do much for residential builders now, but represents potential for growth.*

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