REPORT ON THE RESIDENTIAL CONSTRUCTION INDUSTRY IN VIRGINIA

Barrett Hardiman, Vice President
Home Builders Association of Virginia

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In general, the residential construction industry is flat on its back, and unfortunately, the prospect for improvement for the remainder of this year looks bleak. We did experience a slight pick up of contract sales in March of this year, but the market fizzled in April and has not improved since that time.

This bleak news comes despite the fact that Virginia is still experiencing modest job growth, the fact that wages are still rising in the Commonwealth and the fact that mortgage interest rates remain comparatively low.

According to the National Association of Home Builders, who tracks new home production, it is forecast that statewide home production will fall from a record high of 49,500 new single family homes in 2005 to just 20,700 units in 2008, a reduction of almost 60%.

Statewide new single family home production in 2005 was 49,500 units.
Statewide new single family home production in 2006 was 39,900 units.
Statewide new single family home production in 2007 was 30,400 units.
Statewide new single family home production in 2008 is forecast to be 20,700 units.

That is a reduction of approximately 10,000 new single family homes per year, and a 58% decline in new home production in the last 4 years.

In the Washington DC metro area, which includes DC and Southern Maryland, new home production has fallen from 25,900 units in 2008 to a forecast 9,800 units in 2008.

In the Richmond metro area new home production has fallen from 8,769 units in 2005 to a forecast 4,900 units in 2008.

In the Virginia Beach, Norfolk, Newport News area new home production has fallen from 7,667 units in 2005 to a forecast 4,300 units in 2008.

And in the Roanoke metro area new home production has fallen from 1,577 in 2004, their peak, to a forecast 867 units in 2008.

Every other major market in the Commonwealth has experienced similar declines in new home production.

That lower production is a major contributor to the reduction in sales tax revenue collection by the state, according to Secretary of Finance Jody Wagner. Quoting from the Secretary's presentation to the House Appropriations Committee on June 18th and Senate Finance Committee on June 19th, "The weakness in sales tax receipts is directly attributable to higher gas prices and the depressed housing market and their effect on other sectors of the economy." In FY 2008, YTD Housing Sector sales tax receipts have fallen 6.3% compared to FY 2007.

As you may know, home builders pay sales tax on all building materials, and on average, according to NAHB, new home buyers spend an additional 15% of the value of their new home on such items as new furniture, new window coverings, new hardwood floor coverings and other new home features. Approximately 50% of cost of every new home, after you subtract the lot cost, is the cost of building materials. This amounts to a tremendous loss in sales tax revenues.

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I would like to conclude my comments with just a little good news. Existing new home inventory is beginning to move, but at a slow pace, and at builder cost in many cases. That is good for consumers. The sale of the existing inventory, even at cost, is still good news to our business. We have come to understand that before contracts will be signed for the construction of new homes, the existing inventory must be cleared out. We would urge all qualified Virginians to go buy a new home. For many of us, this is the first time in our lives that new homes are not For Sale, but On Sale! As the ads say, there has never been a better time to buy a new home!

The keys to a recovery for our industry are continued job growth in Virginia, a continuation of salary and wage increases, a low interest rate environment in months to come, and maintaining a favorable regulatory environment in Virginia. Spring of 2009 appears to be the time frame for our next hope of recovery.