

Signs Encouraging for Housing in 2012 Despite Political Gridlock in Washington

On the long road back to normal from the most devastating recession since the Great Depression, the nation's beleaguered housing industry should see modest improvement in 2012 and stronger conditions in 2013, although housing has yet to be adequately recognized by the political leadership in Washington for its potential to accelerate the disappointing pace of job creation and economic growth.

A new poll by the National Association of Home Builders (NAHB) shows that politicians may be out of step with the voting public on policies supporting homeownership. Majorities of the Democratic, Republican and Independent voters responding to the survey agreed that dealing with the mortgage and foreclosure crisis is key to stabilizing the economy. In the meantime, a majority felt that the condition of the housing market has been staying about the same — neither improving nor getting worse.

Making it tougher to address the housing concerns of the electorate, the standoff between Democrats and Republicans is likely to continue when Congress reconvenes this month, and as the year progresses attention will increasingly turn to the November elections.

A Polarized Environment

"We are operating obviously in a very polarized environment on Capitol Hill," said NAHB's chief lobbyist, Jim Tobin.

"One issue where there does seem to be bipartisanship is over homeownership," he said, referring to the latest NAHB poll of voters. However, Congress has largely been ignoring the situation — with many arguing that now is the time for the federal government to disengage from long-standing policies in support of homeownership — but "they will do it at their own political peril if they continue down this road," Tobin said.

Tax reform

"There is an impetus to do this," he said, and broad support for making the tax system simpler and reducing the tax burden, "but when you layer in that this might mean the elimination or reduction of the mortgage interest deduction, that support shifts significantly."

In the NAHB polling, two-thirds of voters started out favoring the idea of lowering federal income tax rates for individuals, by a difference of 38 percentage points over those who opposed it. But if lowering tax rates meant that deductions — including for the home mortgage interest deduction — would be reduced or eliminated, 52% were in opposition to the idea, 12 percentage points higher than those who still favored it.

The Super Committee that was charged by Congress to find ways to cut the deficit over the next 10 years indicated that housing was on the table, Tobin said, putting housing for the first time "squarely in the crosshairs of deficit cutters."

Regulatory oversight

Tobin said that NAHB would continue to work with regulatory oversight agencies to reduce the costly and burdensome regulations that are stifling a housing recovery.

"Housing is one of the most heavily regulated industries," he said. Even today, when it is not building as many homes as in the past — it must contend with regulations

from the Environmental Protection Agency, the U.S. Army Corps of Engineers, the Occupational Safety and Health Administration and other agencies.

Other critical issues

These include reforming the home appraisal system, removing the 20% downpayment requirement from the Qualified Residential Mortgage, finding innovative ways to get foreclosed homes off the market and improving housing to stimulate job growth and the economy. "We need to see good, strong job creation numbers and get people feeling good about the economy again," Tobin said.

Favorable Economic Signs

Looking at just where housing is headed this year, NAHB Chief Economist David Crowe said that, "We are starting 2012 with the same amount of optimism we started in 2011."

Perhaps most reassuring is that the economy has begun to emerge from its demographic doldrums, with more growth in the number of households. In the third quarter of 2011, household formations rose above the traditional historical rate of increase, suggesting a return to a normal pace of household formations, particularly among young people.

There is a backlog of as many as 2 million households that have yet to be formed because of the downturn. Those households are now beginning to materialize as young adults who resided with parents or friends when the economy was bad now find themselves on the threshold of moving out and renting or buying a home.

Housing fundamentals also remain favorable. Mortgage interest rates are low, and even as they creep up a bit as the economic recovery gains strength and there is more demand for credit, rates should be relatively low through the end of 2012. House prices have returned to their normal ratio of about 3.2 times income, down from 4.7 at the peak of the housing boom in 2005.

As the recovery continues to unfold, and employment and consumer confidence show further improvement, home purchases will start picking up again, which will lead to more construction. Single-family home starts are projected to climb to 501,000 in 2012, up 17% from 2011.