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REAL ESTATE RESEARCH CASE STUDIES December 2003

Why all the New Homes?

Who would guess that despite minimal job and wage growth, home construction this decade would increase from the late 1990s when job and wage growth were very strong? But that is precisely what is happening in our Upper Midwest region this decade.

Building permit data from the U.S. Census Bureau shows that housing construction starts have been increasing each year since the late 1990s. Just over 100,000 housing units were constructed in the five state region in 2002, up from an average of 82,660 units between 1997 and 1999.

Housing construction in 2003 will likely top the 2002 figures. Through October, housing starts in the five state region were 8% higher than in 2002 through October.

Construction of single-family homes has increased this decade largely because very low interest rates on home mortgages have made purchasing new homes more affordable. Also contributing to the increase in home construction is the surge in demand for townhomes by the growing empty-nester population who are seeking to downsize.

The low interest rates have also enabled developers to obtain cheaper financing for rental apartments - fueling

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Housing Starts				
	2002	2001	2000	Avg. 1997-99
Minnesota	38,977	34,151	32,814	29,561
Wisconsin	38,208	37,773	34,154	34,310
Iowa	14,789	13,085	12,500	12,430
South Dakota	4,816	4,455	4,196	3,434
North Dakota	3,265	2,687	2,128	2,924

Source: U.S. Census Bureau

their development. While rental vacancies have increased the past few years, rental apartments are often seen as a safer investment than office or industrial property, or the financial markets.

When will housing construction slow? As long as interest rates remain low, we do not see housing construction slowing from its current pace for the next several years.

Since 1983, Maxfield has been helping cities and municipalities throughout the upper midwest plan to meet their housing needs. If you would like information on how Maxfield can help you make your planning decisions, or if you would like to be included in future editions of Maxfax, contact Jay Thompson at 612.904.7973.

