

Opportunity Knocks for Consumers Ready to Build Now

Case for building a new home gains strength as market shows signs of improvement.



Local experts are optimistic about the housing market, indicating to consumers that the time is right to build a new home.

“A combination of opportunities in place right now can put consumers in an exceptional position to build,” says Metropolitan Builders Association (MBA) President Ed Miller. “Low mortgage rates, a changing employment environment, competitive prices on materials, affordable land and builder availability all come into play in this marketplace.”

Housing is a cyclical market. Even during boom years, there will be a cycle of peaks and valleys that help maintain a balance. However, the consistently dramatic growth in home building experienced from the late 1980s to the mid-2000s led to an economy too dependent on the housing market. Prices for land and materials escalated, mortgage rates rose and it was difficult to get on a builder or contractor’s schedule because they were so busy. When growth was no longer sustainable and inventories were overly inflated, the bubble burst.

With existing properties finally beginning to be absorbed and stability in sight, now is the time for savvy consumers to consider building. Advantages not seen in recent years have put new home building back in the picture.

WHY BUILD NOW

Available Credit

Rates for a 30-year fixed rate mortgage, which fell to 4.55% for the week ending June 2, 2011, according to Freddie

Mac, are near 50-year lows. They were in the mid-teens in the 1980s. As the low rate situation continues, analysts expect banks to ease borrowing standards over time. While credit is tighter than it was five years ago, there are funds still to be had.

“Mortgage financing remains plentiful for borrowers with good credit scores, solid employment histories and a down payment as little as 5%,” says Ginny Myszewski a construction mortgage lender with Johnson Bank.

Talk to a lender who knows construction loans, Myszewski recommends. Not every bank has a range of products to meet different needs and is willing to use this experience to seek out what’s best for you. Look for options like a convertible loan that starts as an ARM construction loan and evolves into a long-term loan when construction is complete. This eliminates closing costs on a refinance when construction is complete. Today, builders can complete a home in five to six months, getting you into a fixed loan much sooner.

Rising Employment

The strength of the housing market depends largely on the economy. Rising incomes and increased employment tend to give consumers more confidence and buying power. Builders in the Milwaukee area have sold several models this year, some of which have been to transferees, indicating that local employers are engaging new staff.

In fact, more than 17,000 jobs were added in Wisconsin in the first three

months of 2011, according to the Bureau of Labor Statistics. As employment grows, more and more existing inventory will be absorbed, causing prices of materials and land for new development to increase. For the first five months of 2011, new home starts in the greater Milwaukee area were up 17% over the same period in 2009.

Value and Affordability

Experts are encouraging people to build now, while prices on materials remain competitive and they can get the greatest value for their investment. This won’t last forever, as higher fuel costs are being applied to building materials. The building materials industry tends to be very energy-intensive and might be more impacted than most consumer goods. The largest cost in producing drywall, for example, is the energy to fire the kilns to dry it.

In addition, today’s new homes are 30% – 50% more energy efficient than older homes, even those built as little as five years ago. As energy costs go up, a new home will become even more valuable in energy savings.

Today’s labor availability reflects favorably on the value of houses being built. Contractors and tradesmen are available now without long waits; when housing is strong – and it will be again – there is a waiting list for skilled building professionals and they command a much higher price.

“It’s great to build now,” notes Myszewski, “because you’ll get more attention from your builder and homes are being completed much faster, requiring less interest on construction loans.”



Local experts are optimistic about the housing market, as opportunities to build favor consumers.

Land Availability

When times are good, bigger builders and developers monopolize the best land and lots, driving up costs and leaving homebuyers to fight over what's left. That is not the case today, which is why it's a good time to find a perfect lot to build on.

Most subdivisions in the metropolitan Milwaukee market have been around for five or more years," notes Matt Neumann, owner of Neumann Companies, Inc., a Milwaukee area developer. "There is nothing brand new on the market today. In some instances, developers are buying lots and subdivisions in bulk from banks that have taken over from the original developers. Pricing for lots has fallen so much over the past five years that it does not make economic sense right now to develop new subdivisions."

New government regulations mean additional costs to improve sites planned for new homes, which will, ultimately, be passed along to the consumer. Prices on lots in existing developments are as low as they will be, and the selection and availability are at their best.

New Home Innovations

One of the best things about building a new home is that you can choose the floor plan, materials and fixtures to create a living environment that is truly your own. In addition to the energy efficiency trends already mentioned, homes are becoming smarter and more comfortable than ever.

"Today, we are rethinking traditional layouts like the formal dining room and incorporating more functional, family-oriented spaces," says Belman Homes President, David Belman.

Wireless technology has also changed the way we live, and current homes that incorporate charging stations, media centers and home offices, as well as integrated lighting and security controls.

"During the downturn," Belman comments, "manufacturers have really come out with some innovative new products. Consumers building today can take advantage of appliances, materials and technologies that are superior to what we've used before."

In the building boom when the market supported higher prices, many builders offered a more limited number of floor plans with more expected amenities and designs. Now that prices have dropped, production builders have reinvented themselves to compete with custom builders. "At Halen Homes, we encourage our customers to think outside the box," says Halen's Director of Sales and Marketing, Casey Masterson. "We can build a custom or semi-custom home for our clients and deliver everything they're looking for in a new house at a very competitive price."

David Belman of Belman Homes, Ed Miller of E. Miller & Associates, Casey Masterson of Halen Homes, Ginny Myszewski of Johnson Bank, and Matt Neumann of Neumann Companies, Inc. shared their expertise for this article.

Steps Potential New Home Builders Should Take Now

- Obtain pre-approval on a construction loan and see if you qualify for private mortgage insurance. While having your down payment in hand is also recommended, down payment options should be available through your lender.
- Find a lot now while some still remain on the market. Once new developments are available again, prices will be higher and locations may be further from the metro area.
- Put your current home on the market and price it aggressively to move it quickly. Sellers will more than likely make up the difference when building a new home in today's more affordable market, especially if they are trading up.
- Work with a lender, developer and builder that are MBA members.

"In today's media-reliant society many people are waiting for a thumbs-up from television and online news sources to build," notes Miller. "Opportunity is knocking for home buyers to build now and take advantage of great prices and long-term value."