

AS SUPPLY EXCEEDS DEMAND, HOMES CHEAPER TO BUY THAN BUILD



These are tough times for builders in America. A report released by the Commerce Department says that US home building fell for the second consecutive month. It is down to its lowest level since October, last year. Sales for new homes in February were around 10,000 less than what analysts expected. Builders say that the prime cause for this is that home appraisals, often value properties very modestly, sometimes even lower than what it cost to build the house. One out of three builders say they lost signed sale contracts, because buyers found that the appraisals on their houses, was lower than what the buyers had agreed to pay for the house. The Government Accountability Office (GAO) had earlier this year suggested that the Appraisal Subcommittee, which oversees the appraiser regulatory programs, needs to improve its monitoring procedures. NAHB Chairman Bob Nielsen, a home builder from Reno, had then said, "These findings underscore the need to establish an effective oversight system to ensure that appraisals accurately reflect true market values and don't harm aspiring home buyers or builders." Apparently nothing much has changed and home builders continue to suffer the consequence of low appraisals. Following a sale, it is necessary to have home appraisals, without which the buyer would not be able to raise the mortgage. However, when the appraisal values the home below the negotiated selling price, buyers have difficulty in getting loans, owing to which the deal falls through. Steve Melman, director of economic services at NAHB says, "We're at the point where if anything goes wrong builders will think twice about building new homes - the appraisals are the last kicker." This seems to be the final straw on the housing sale's back, which is already reeling from unceasingly low prices and an overall atmosphere of economic uncertainty. A report from SmartMoney notes that there are many cheap foreclosed properties that home buyers give priority to them, because they are assured of a better bargain. It is estimated that around 9.9 million homes have been foreclosed since 2008. That's a major share of the 10 million vacant homes in the United States. Paradoxically, the lack of momentum has not prevented builders from keeping on replenishing the supply of new houses. According to the Associated Press, builders requested the most permits for construction projects, in the last three and half-years. New building projects will surely create more jobs, but in a market, where supply far exceeds demand, what the influx of new houses will bring, is a worrying thought - even more so, since the failure of the housing market, is seen by economists as a major contributing factor for the drooping economy.

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