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Anybody Home?

A Perspective on Recent Housing and Construction Trends in Georgia

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The last two decades brought both residents and real estate developers the joy of tremendous growth and the pain of historical housing market collapse. Once hailed as one of the leading growth industries in the state, construction and real estate development's grinding halt is perceived as a major contributor to the state's current economic woes. Moreover, the drop in personal wealth associated with the plunge in appraised home values shook consumers' confidence and made them less willing to take risk. Combined with ballooning unemployment, the national and state economies are still measuring the full impact of the most recent recession. Arguably, the housing industry itself has seen more change in the last ten years than at any point since the Great Depression.

So it is no surprise that many feel the downturn in the housing industry is the epicenter of the current economic recession. Georgia's exposure in housing and construction had a major impact on the state's economy, and the last two decades were an intriguing roller coaster ride for Georgia's real estate market. Beginning with the announcement of the 1996 Olympics, Georgia's steady economic and population growth contributed to housing highs both in terms of new building and appreciating home values. The trend continued despite the brief recession after 2000 and led to an amazing run as housing growth exploded in the mid 2000s. Efficient building and fierce competition kept prices reasonable in Georgia as the supply and demand for houses continued to rise. But the

peak in 2007 led to a painful freefall in new construction and almost a full collapse of one of the state's leading industries. Now, as markets continue to correct, and structural changes within the industry occur, the official end of the recession is giving reason for residents and developers to regain some cautious optimism.

Employment

During the period between 1992 and 2007 Georgia's employment in the construction industry ballooned from approximately 120,000 to more than 220,000 direct employees. At its peak in 2007, the industry encompassed over 210,000 people and contributed over \$9.2 billion in direct wages. As the 2007 recession set in, employment plummeted almost 30 percent; and at the end of 2010, only 145,000 construction workers were left. With the housing market still depressed, many economists expect the construction field to continue to shed employment even as the private sector absorbs the current glut.

The effects of these fluctuations extend much further than simply the building of new homes and commercial properties, however. Many allied industries also suffer and benefit greatly from the swings in the housing market. Housing related finance, engineering, home furnishing, building supplies and manufacturing are among the complementary industries that have seen a sharp downturn from the drop in construction.

Georgia invested heavily not only in construction but also in parts of the economy that support these allied industries. The agglomeration that makes booms so successful also leads to overexposure when an industry begins to falter.

Georgia's housing and construction industry has undergone a significant restructuring in the last four years, and the latest recession has done more in terms of long-term employment and employment prospects than the previous recessions. Simply, many of the jobs lost in the last few years will not return. The industry has made the painful adjustment to what will be the new normal in the years to come. Hopefully, this restructuring will lessen the impact of future housing downturns.

Figure 1 illustrates the relative exposure of the housing market compared with total statewide employment, and it is easy to see that the gains and losses in construction industry employment are far more dramatic.

The slow growth in all industries throughout the state will continue to be a drag on housing demand and therefore

on new construction employment. But the corrections in the housing market appear to be almost complete, and residential construction is beginning to show signs of life.

Home Building, Sales, and Prices

Housing permits often are used as an indicator of both current production and builder sentiment. Permits are issued at the county level and give accurate current information about the housing sector. In Georgia, one of the most striking statistics in the construction industry is the drop off in permits to build new buildings. Measured monthly, the number of permits plummeted from a peak of 9,190 in August 2005 down to 821 by November 2008. That sharp decrease represents a 90 percent drop in building activity.

Figure 2 shows the consistent yearly rise in building permits, followed by the historic drop that began in 2007. This cliff represents a drop from \$14.6 billion to \$2.4 billion in

Figure 1

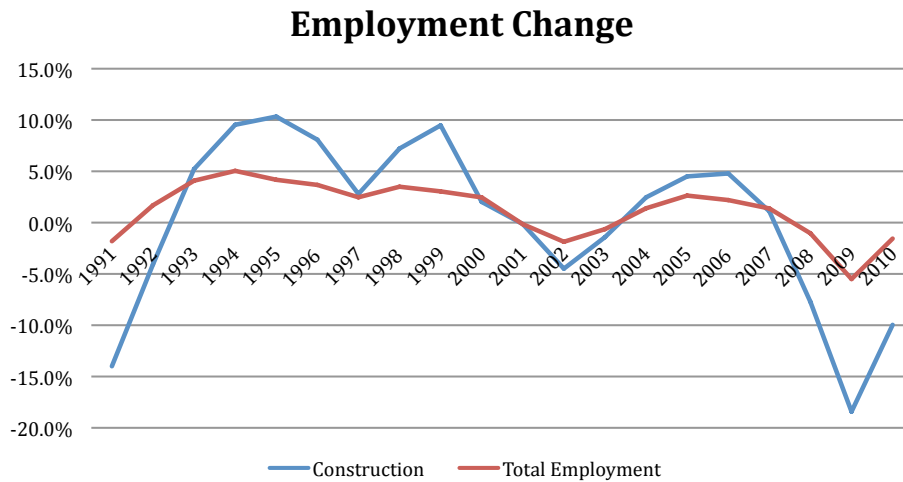
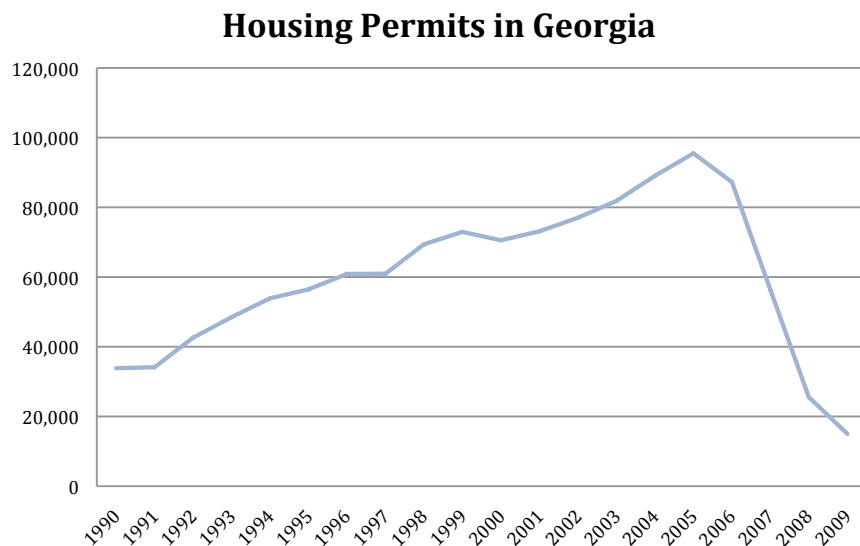


Figure 2



the value of the issued permits. The combination of abundant existing home supply and near zero rates of speculative development lending will continue to press upon development of new housing. Moreover, tight credit in both consumer and producer markets combined with the depressed prices of distressed properties will make it difficult for new construction to be competitive in the short term. Although home building is showing signs of life (building permits are expected to increase slightly over the next year), the short-term increases will be negligible compared with the catastrophic drop from peak to trough.

Real estate prices in the United States made remarkable strides during the last two decades. The South followed suit. According to the Census Bureau, which tracks home prices by region, the South showed a growth in median asking sale price for properties from \$50,400 in 1990 to an average annual price of \$82,500 in 2000. Then came the price explosion: by the second quarter of 2007, homes in the South boasted a median asking price of \$197,000. Unlike other southern states, Georgia did not see quite the same gains in price appreciation partially due to the tremendous volume of new housing being built and developed throughout the boom. But the good times ended, and by the fourth quarter of 2010, the median asking price of homes in the South fell to \$129,000.

Home prices have seen a major correction; however, it remains unclear as to when the market will begin to see a rise in home prices. The Case-Schiller Index, which measures the value of residential real estate, is also a good barometer of the changes in metro Atlanta's housing markets. On a 1991 basis of 69.1, the index tracked the Atlanta markets value move upward of 136.4 in August 2007 only to reset back at 100.1 at the end of 2010. According to the National Association of Realtors, property values in metro Atlanta dropped another 10 percent in 2010 and may not have hit bottom yet.

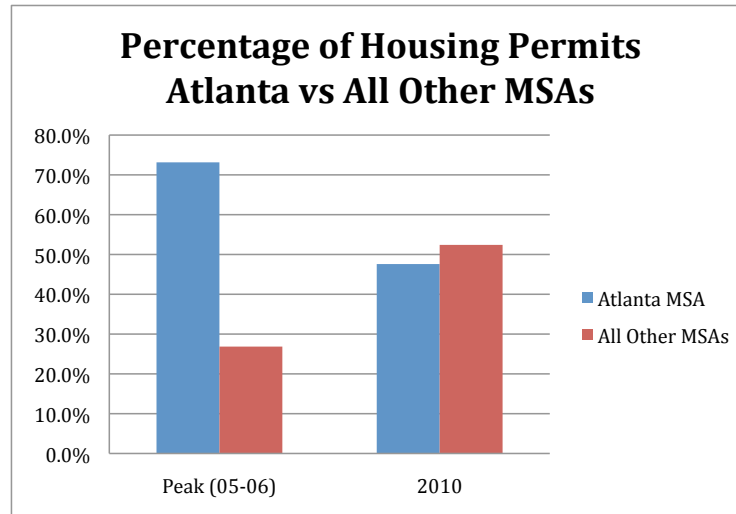
The Local Numbers

Construction in the last decade has shown remarkable disparities throughout many localities in Georgia. As a whole, Georgia saw a much larger drop in building and employment than the national average. However, despite an overall plummet in building activity, many of the state's metro areas actually outperformed the national averages in terms of employment and building. Because Atlanta represents over half of Georgia's population, the extreme drops observed in the Atlanta MSA weighed heavily on the total numbers and pulled down the state averages, as the following table shows.

Changes in Housing Permits, Employment and Compensation

Area	Change in Housing Permits 2005-06 to 2010	Change in Construction Employment 2007-2009	Employee Compensation 2007-2009
United States	-72.0	-17.1	-14.4
Georgia	-84.4	-19.6	-19.3
Albany	-75.0	-13.8	-5.9
Athens	-88.5	-18.0	-15.8
Atlanta	-89.6	-21.8	-21.5
Augusta	-36.5	-17.1	-11.8
Brunswick	-66.7	-21.8	-17.1
Columbus	-52.3	-11.6	-4.6
Dalton	-89.4	-21.6	-32.1
Gainesville	-92.1	-19.3	-21.5
Hinesville-Ft. Stewart	-66.9	-17.2	-5.9
Macon	-84.7	-16.7	-11.1
Rome	-87.0	-9.0	1.4
Savannah	-75.7	-21.0	-17.7
Valdosta	-60.4	-12.6	-1.2
Warner Robins	-61.7	-22.4	-25.9

Source: Building permits data from the U.S. Census Bureau; employment and compensation data from the U.S. Bureau of Economic Analysis.



Many areas in Georgia—especially Columbus, Augusta, Hinesville and Valdosta—are significantly outperforming the U.S. and state averages. But Atlanta, Dalton and Gainesville are doing the opposite, which reflects the fact that the strength of local economies has a tremendous effect on home building and construction employment.

In addition, there is an obvious (and dramatic) shift in where the housing permits are being issued. During the mid-2000 peak, almost 75 percent of the state's housing permits were being issued in the Atlanta metro area. But now there are more permits (52.4 percent) issued in other metro areas

throughout the state. This change reflects both the drop off in construction in Atlanta as well as the stronger demand in local economies spread throughout Georgia.

In summary, the construction and housing industry has experienced fundamental restructuring and change in the past five years and shed jobs that will not return anytime soon. While Georgia's construction industry continues to lag the national average, activity in many local areas has been well above average, thus signifying that the housing and construction industry will continue to be a large part of Georgia's improving economy.