



Rodney's Take

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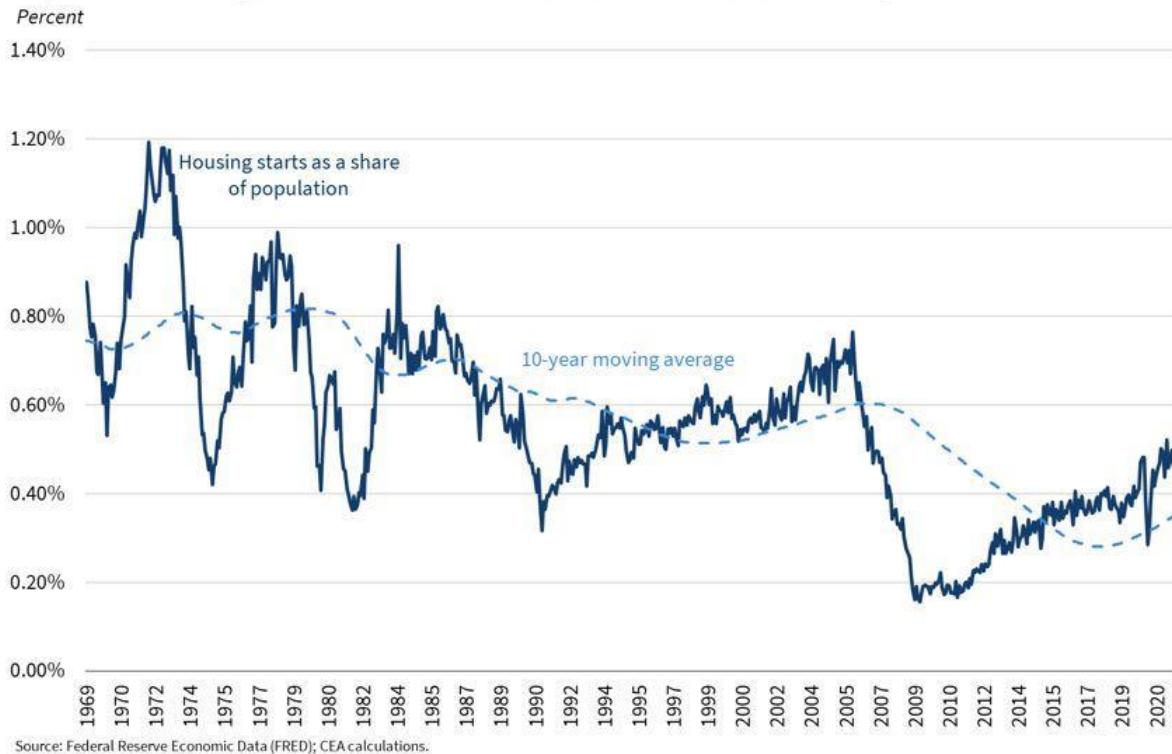
Millennials Need Carpenters

The latest Job Openings and Labor Turnover Survey (JOLTS) showed that 4.2 million people quit their jobs in October, down from a record 4.4 million in September. While this may sound bad, it's great news that so many people are confident enough about finding other work or have already found other jobs that they are willing to give their current employer the heave-ho. The report also showed that job openings rose to 11 million in October, the second-highest level on record. With only 6.7 million people unemployed, the nation's yawning worker shortage is driving up labor prices.

The shortage is showing up in many industries, including construction, and that's compounding a different problem: we don't have enough houses. Millennials and now Gen Z could end up living through a step up in real estate prices like we saw with the Boomers in the late 1970s and early 1980s. Unfortunately, it might require the same commitment, i.e., both parents having to work just to make it into the home ownership class. But don't worry; the government is here to help, sort of.

Researchers at the Federal Home Loan Mortgage Corp (Freddie Mac) use housing starts as a percentage of the population to examine housing stock. On this measure, housing production eased during the 1970s, and then gained ground from about 1980 to 2006. Production dropped off a cliff during the Great Financial Crisis and has yet to make it back up to the long-run average from before 2006. By their estimate, we're short about 3.8 million homes, compared with a deficit of 2.5 million in 2018.

Figure 2: Housing production has not kept pace with population growth



Making matters worse, builders aren't turning out many starter homes. They are constructing 80% fewer homes with 1,400 square feet or less than they did in the 1970s, which means potential young home buyers won't have access to affordable units.

In addition to the aforementioned labor shortages, zoning, land shortages, and a host of other issues are driving up the costs of construction and pushing builders to focus on more expensive homes, so prices may not ease even if more people choose to swing hammers in the future.

But on at least one front, young families might get a break... which could be a monkey's paw of a deal, depending on how you look at it.

The Build Back Better Act includes childcare subsidies for infants and universal pre-K for 3- and 4-year-olds. This would give parents affordable childcare options, allowing them to work whether they want to or not. As

this happens, more young families will choose for both parents to work so that they can afford a home, which will keep upward pressure on real estate prices.

This same thing happened to the Boomers in the late 1970s and 1980s. We definitely suffered widespread inflation as the dollar sank and commodities soared, but we also underwent a seismic shift in the workplace. As women entered the workforce in record numbers (a great thing), young families had more money to spend, which in part was what drove up prices for homes. Families in which one parent stayed home with the kids were at a monetary disadvantage vs. families in which both parents worked. Unfortunately, the trend also worked against workers in general, as the rising number of available workers weighed on wage gains.

As interest rates perk up a bit on taper talk and high inflation numbers, we're likely to see real estate prices at least take a breather. But with rising demand in the face of constrained supply, it's hard to see how prices can fall too much unless there's an outright economic crash in other areas first. The younger generation will have to work hard to buy homes. Let's hope more of them become carpenters and real estate developers so they can help their own cause.

Of course, we could also address the housing shortage through rezoning and allowing quality modular home building, but those fights in local communities and with the real estate lobby are topics for another day.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.