

Topic of the Week

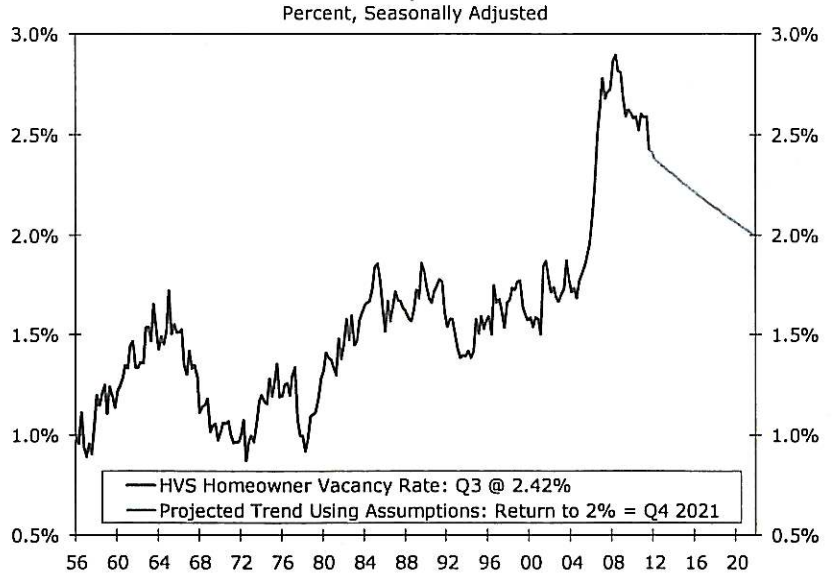
Vacancies and the Housing Recovery

The recent string of positive reports on the housing market has raised hopes that 2012 might finally be the year in which the housing recovery truly begins. Unfortunately, we believe these hopes are a bit premature. The past decade's epic housing boom produced an enormous amount of excess vacant homes. A true national recovery in home sales and new home construction will not likely begin until a significant portion of the excess supply of housing is cleared from the market. We estimate that housing vacancies will likely remain historically elevated until at least the latter part of the decade, restraining home price appreciation over the same period.

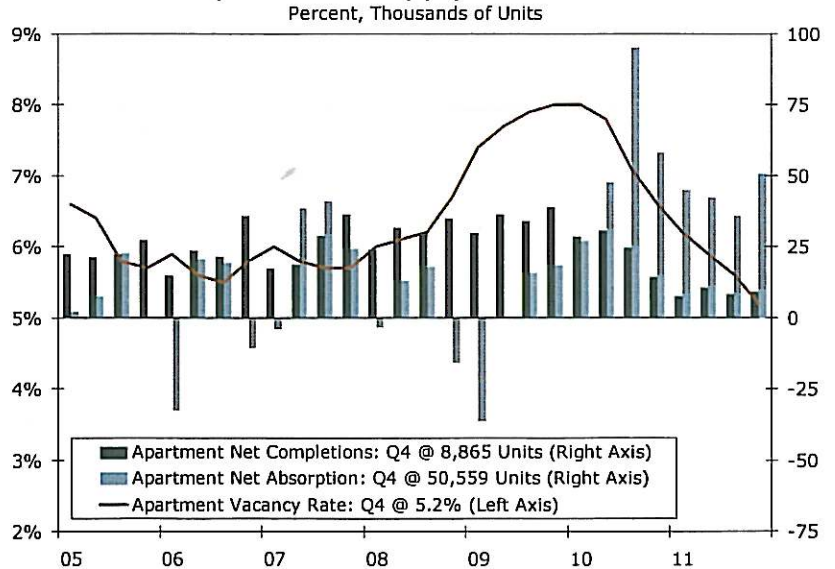
All housing markets, however, are not alike. Much of the overbuilding, overleveraging of home mortgages and credit issues are concentrated in only a handful of markets, including coastal markets such as Florida and Southern California, as well as overbuilt Sunbelt markets such as Atlanta, Phoenix and Las Vegas. Gains in construction activity and in home prices will still likely take place in areas where household formation occurs and where economic growth is the strongest. Such areas could include many of the tech and energy hotspots that have seen gains in recent quarters, including San Jose, Boston and Houston.

The surprisingly long time period required to bring the national housing market back into balance carries significant implications for the economy. Resources are likely to continue to flow out of the homebuilding sector, and more households will remain renters for longer periods of time. The apartment market is already benefitting from this trend. Homebuilders and firms that produce and sell household items, such as building products, household furnishings and furniture, will likely continue to suffer. Many of these businesses will need to reposition their business models for a smaller pool of homeowners in the years ahead. For more about our long-term housing outlook, see *Vacancies and The Housing Recovery: We Still Have Quite a Way to Go*.

Homeowner Vacancy Rate Normalization



Apartment Supply & Demand



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