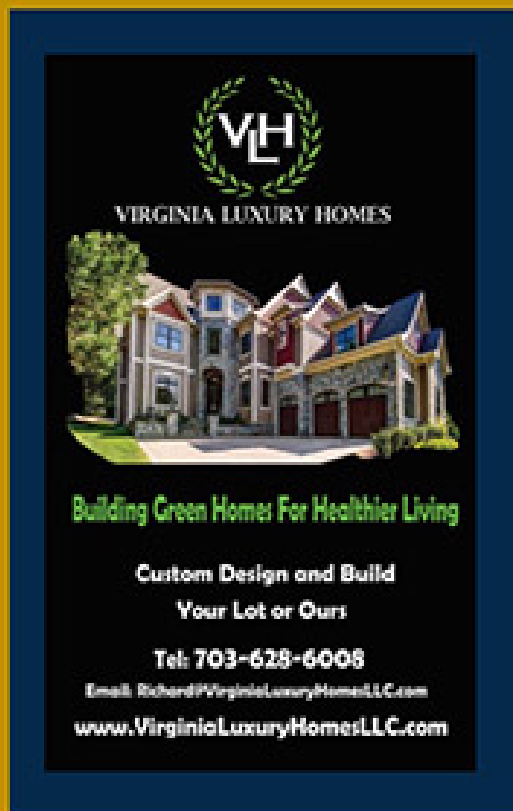


MONTHLY NEWSLETTER



We are pleased to introduce our first Virginia Luxury Homes Newsletter!

The Newsletter will be distributed each month to our many friends, including our past, present, and future homeowners, real estate partners, trade contractors, suppliers, and anyone interested and engaged in the home building process. The Newsletter is designed to take the mystery out of the home building process and to showcase the exciting adventure of creating a new home. We will provide you with an insider's look at home building best practices, as well as keep you informed of upcoming events in our area. Each Newsletter will feature one lead article accompanied by customer questions.

“ IS THIS A GOOD TIME TO SERIOUSLY CONSIDER BUILDING A CUSTOM HOME “

We know that it takes time to consider building your own custom home, including the fact that it will likely be the most expensive purchase that you will ever make in your life. We are value engineers. Our role as value engineer builders is to constantly strive to create value for our customers. Accordingly, to effectively answer this question, we find that there are several important criteria that must be examined: (1) the health of the economy; (2) the number of single family starts; (3) analysis of interest rates; and (4) housing material cost increases.

As we study these factors, we find that the economy increased by 2.3 percent during 2017, better than the 1.5 percent real GDP growth posted in 2016. According to the Bureau of Economic Analysis, the economy continued to grow at an annual rate of 2.0 percent during the first three months of 2018. Further, “The GDP Now” forecast, produced by the Federal Reserve Bank of Atlanta, projected on July 11 that the second-quarter growth rate will come in at 3.9 percent. This information indicates that we are in a robust economic period of growth which shows no signs of slowing.

Privately-owned housing starts were at a seasonally adjusted annual rate of 1,350,000 in May, 2018. That is 5.0 percent above the revised April estimate of 1,286,000 and is 20.3 percent above the May 2017 rate of 1,122,000. In other words, this data confirms that the number of people making a decision to build a new single-family home is increasing as the economy is growing.

Judging that the economy no longer needed as much help as it had previously been given in terms of low interest rates, the Fed began to raise rates at the end of 2015, and by December of 2017, had raised them for the fifth time. They again raised rates in June and signaled that two additional increases were on the way this year. Jerome Powell, the Fed chairman, said the economy had strengthened significantly and that the Fed could soon step back and play less of a hands-on role in encouraging economic activity. While interest rate increases have not dramatically increased mortgage rates to date, it is anticipated that those rates will continue to climb as future interest rates are consistently stepped up.

Finally, the cost of material for a new single-family home build is in the process of rising. Illustratively, concrete companies have informed us that we should expect as much as a 30 percent increase in the future.

We have been informed that lumber is definitively going to increase, likely in the range of 10 percent; however, if the trade war between the U.S. and Canada is not satisfactorily resolved, it has been projected that lumber prices could increase by as much as 25 percent. Other suppliers have been warning us that they also expect to see increases, minimally, in the 5 to 10 percent range.

RECOMMENDATION:

Based on this information, we firmly believe this is an excellent time for customers who are considering building a new custom home, “to do it **NOW** instead of continuing to wait!”

The reason: The longer you put off your decision, the more (a) construction loan interest rates will increase (b) the more mortgage rates will increase, and (c) the more building supply materials will increase. From a studied stand-point, we do not see any advantage to continue to wait to build your custom dream home.

In other words, from a value engineering perspective, as we look at the future, we believe that costs are only going to increase – and you will pay more for the same house you want to build today - the longer that you wait.

QUESTIONS AND ANSWERS

QUESTION: Which of these four factors do you find to be the most important?

ANSWER: Interest rates, because of their direct impact on construction loans and mortgages. Also, increased material cost because of their direct negative impact on build cost budgeting

QUESTION: Can you “lock in” current material cost by ordering now instead of waiting?

ANSWER: In some cases, the answer is yes, while in others, prices have already increased and it is a matter of ordering those materials before the price climbs even higher. In other words, the answer depends on the specific vendor.

QUESTION: Have you found that your subcontractors are increasing their prices as the economy is turning around?

ANSWER: Our experience to date is that this is happening in general, but not as rapidly as materials are increasing. However, as low as the unemployment rate is, and if jobs continue to outnumber available labor, we project that subcontractors will also be interested in raising their prices. We at Virginia Luxury Homes are fortunate in that our subcontractors have been with us for many years and we work closely together, practically in a partnership manner. This means they do not want to hurt us or vice versa, so there are seldom surprises between us.

OPEN HOUSE

Visit us at our Model Open House at 6600 Chesterfield Ave in McLean, Virginia. Contact Cathy Kane, 703-868-1976, for details.

