

China Exchanges

Delays Decision on Aircraft Carrier Visit While it Seeks Rules on Airborne Encounters

The Pentagon put off a decision on whether to allow a U.S. aircraft carrier to visit China in 2012, while it seeks to establish rules for the two nations' military encounters in the air.

The decision, which covers a range of military encounters, is being delayed until the Pentagon has completed a series of talks with Beijing and other Chinese officials.

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The decision covers a range of military encounters, including the use of aircraft carriers and other naval vessels.

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Co-Pilot Was Likely at Helm Before Crash

29 Aves Passes

The co-pilot of the Air Force jet that crashed in the woods near the town of 29 Aves was likely at the controls of the aircraft when it crashed.

The Air Force said it is investigating the crash of the jet, which was carrying 29 Aves.

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Obama's Peter

Wendell By Daniel Henninger

The writer of the book "Obama's Peter" is a former aide to the president and a close friend of the president's.

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Two-Tier Economy Reshapes Contours Of U.S. Markets

Continued From Page One

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FROM PAGE ONE



Nick and Adriana Stoll in the kitchen of their new home in Woodinville, Wash. The couple picked out a host of custom features and finishes.

For the first time, U.S. homes last year sold slightly more homes priced above \$400,000 than those below \$200,000.

As a result, the median price of new homes exceeded \$280,000, a record in nominal terms and 2% shy of the 2006 inflation-adjusted peak.

Total sales last year, however, were up just 1% compared with 2013, and more than 50% below their average from 2000 to 2002, before the housing bubble.

New homes are also getting bigger. The median U.S. home was more than 2,400 square feet in the third quarter of 2014, a 20% increase from early 2004, a 10% increase from the peak of the housing market in 2006.

In Seattle, the median new-home size topped 2,500 square feet last year, a record, according to research firm Metrostudy Inc. Since the market hit bottom in 2011, sales of new homes priced above \$600,000 have tripled, while sales below \$400,000 are down 16%, according to CoreLogic DataPro.

Builders boost profits selling more expensive homes. But less construction overall means fewer new jobs and reduced total spending.

"Over the long haul, I worry that you can't run our housing market, which depends on volume, on affluent buyers alone,"

said Diane Swank, chief economist at Metrosiv Financial in Chicago.

Young households have been slow to buy homes because of the tight job market. Many would-be buyers can't save enough for a down payment or don't earn enough to qualify for a mortgage. Student debt holds others back.

A typical household, for example, would need around \$60,000 in cash to make a 20% down payment on the median-priced new home in the U.S. To qualify for a mortgage, a buyer would need good credit and to show an annual income of about \$45,000, assuming a 3.5% government-insured loan in this example could call for an \$11,000 down payment but would require an annual income of \$60,000.

Lisa and Nathan Trione are looking for a house in Denver big enough for their five children. But there is little in their price range: \$250,000 and under.

"You're already intimidated by the process," said Ms. Trione, a 28-year-old paralegal and office manager. "And then you see this huge price, and you say, 'I'm not ready to do that right now.'"

Ms. Trione is paying off debt she incurred while earning her associate degree. She also is trying to raise her credit score, which, she said, fell during a series of early financial missteps.

Well-heeled customers, meanwhile, have their pick of mortgages. At the same time, some banks have pulled back from federally insured loans that allow for smaller down payments.

"We would like to build a smaller, higher-quality and less-volatile business," Marianne Lake, chief financial officer at J.P. Morgan Chase & Co., told investors last year.

With fewer potential customers, builders have largely abandoned the entry-level market. "If a builder can make money on something, he'll build it. The problem is that they can't make money at the entry level," said John Burns, of Irvine, Calif., a consultant to builders.

But rentals, the low-end of the housing market, are booming. Apartment construction has nearly its fastest pace since 1989. Two of the nation's largest home builders, Toll Brothers Inc. and Lennar Corp., have both launched multifamily construction divisions, each with around 5,000 units in the pipeline.

"We all wished we had a big apartment portfolio through this downturn," said Douglas Yearley, Toll's chief executive, starting an earnings call last year.

With sales plunging in 2009, Quadrant called in a research

Spending patterns underscore why many U.S. businesses are reorienting to serve higher-income buyers.

firm that concluded more buyers might materialize if the company built more expensive homes. "When it's data driven, the courage to make a remarkable change is easier than when you're using your gut," said Mr. Krivanec, the company's chief executive.

Quadrant, a unit of TRI Pointe Homes Inc., was finishing seven homes per workday in 2004. They now finish less than two of the more expensive houses a day. But out of a deal, typically is down 10% since 2010.

To serve more higher-end buyers, Quadrant opened a design studio two years ago that lets buyers choose from dozens of cabinets, countertops, tiles and flooring. Some new buyers spend nearly twice as much on such upgrades, the company said, which adds to the profitability of home sales.

Common design features now include a walk-in closet and bathroom nearly as big as the master bedroom. Kitchens have a walk-in pantry.

On a recent Tuesday afternoon on Little Bear Creek Place, a cul-de-sac in this Seattle sub-

urb, electricians, landscapers and framers worked on some 23 Quadrant home sites.

Nearby, Nick and Adriana Stoll unpacked boxes in their new four-bedroom home. The home is twice the size of the 1,200-square-foot, one-bedroom apartment they rented in nearby Bellevue.

The Stolls customized almost every feature and finish, including hinges on kitchen cabinets that prevent the doors from slamming shut. "I'm typically the kind of consumer where I make a quick decision," Mr. Stoll said. "But when it comes to my home, well, we stared at 100 counterparts for an hour."

The Stolls survived the recession and have prospered. Mr. Stoll purchased a Seattle condominium in 2008, the day before learning he was losing his job at Washington Mutual, the thrift sold to J.P. Morgan after it was seized by the Federal Deposit Insurance Corp.

Mr. Stoll changed jobs twice before he was recruited in 2011 to work at a technology company. He broke even on the sale of his condo last year. "Other people encountered problems where maybe it's student loans or credit cards or car payments," he said. "And we have none of that."

The couple put 20% down on their new home, which cost \$579,000. Mr. Stoll works as a client associate for a large financial services company.

Growth in new home sales this year will depend, in part, on whether builders revive their interest in first-time buyers.

Two years ago, D.R. Horton Inc., the nation's largest home builder, launched Emerald Homes, a luxury division. Last year, the company rolled out Express Homes, a division that pioneered no-frills housing for the entry-level market.

Mr. Krivanec, Quadrant's CEO, said he doesn't see a return to his company's former model. There are enough people with good-paying jobs in the area—at Boeing, Amazon and Microsoft—to keep sales going, even if it means building fewer homes. "We like where we're at," he said.

What to V

By Karl Rove

For most of this year, no one could have predicted the political landscape. Republican candidates will be interestingly diverse.

The number of smaller in polls that give names, but the survey indicates many are waiting to see who connotes the chops of White House.

Second, watch for specific candidates CBS poll asked who they wanted to see in the White House.

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