Economic & Housing Market Outlook

By Lawrence Yun, Ph.D.
Chief Economist, National Association of REALTORS®

Presentations to NAR Annual Conference
Boston, MA

November 2, 2018
New-home sales plunge to a near two-year low as housing picture deteriorates

By Andrea Riquier
Published: Oct 25, 2018 8:26 am ET

ECONOMIC REPORT

Stock market plunge: Wall Street volatility is back with a vengeance

OCT 25, 2018 9:07 AM EDT  MARKETS
CBS/AP

Bank of America downgrades homebuilder stocks as Wall Street grows increasingly bearish on housing

Fred Imbert | @foimbert
Published 8:53 AM ET Thu, 18 Oct 2018
Existing Home Sales
Since 2009
New Home Sales
Since 2016
New Home Sales
Since 2009

In thousands
Wobbly Stock Market?

Dow Jones Industrial Average Since 2016
Wobbly Stock Market?
Dow Jones Industrial Average since 2009
Total Home Sales in 2018: Plunging?

<table>
<thead>
<tr>
<th></th>
<th>2017 The Best in Decade</th>
<th>2018 Year-to-Date (over comparable period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Home Sales</td>
<td>613,000</td>
<td>+3.6%</td>
</tr>
<tr>
<td>Existing Home Sales</td>
<td>5,510,000</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Total</td>
<td>6,123,000</td>
<td>-1.5%</td>
</tr>
</tbody>
</table>
150 Metro Prices

• 90% with Price Gains
• 10% with Price Declines

• Lower-end ... Stronger Price Gains
• Upper-end ... Weaker Price Gains or Price Cuts

• Near Downtown ... Stronger Price Gains
• Distant Suburbs and Rural Areas ... Softer Gains
Prices Rising and Rising
Rising Home Prices
(Constant Quality Index)
San Francisco, Seattle, Boston, Dallas
Housing Wealth Gain on a Typical Home Purchase

<table>
<thead>
<tr>
<th>Year Bought</th>
<th>Median Price at the Time of Purchase (September)</th>
<th>Wealth Gain to 2018 (September)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$165,300</td>
<td>$92,800</td>
</tr>
<tr>
<td>2012</td>
<td>$178,300</td>
<td>$79,800</td>
</tr>
<tr>
<td>2013</td>
<td>$198,500</td>
<td>$59,600</td>
</tr>
<tr>
<td>2014</td>
<td>$209,100</td>
<td>$49,000</td>
</tr>
<tr>
<td>2015</td>
<td>$221,700</td>
<td>$36,400</td>
</tr>
<tr>
<td>2016</td>
<td>$233,300</td>
<td>$24,800</td>
</tr>
</tbody>
</table>
Wealth: From 2000 to 2016 to 2018

Renters

Homeowners
Real Estate Wealth = Asset - Mortgage

In $billion
New Bubble? Small One?
A New Bubble? Since Home Prices Outpaced Rent Growth From 2012

Red outpaced Blue since 2012
(year over year % growth)
Diminished Optimism about Buying
NAR Survey of Consumers

% Strongly indicating Good Time to Buy


30 35 40 45 50
National Pending Sales Index
(seasonally adjusted)

Source: NAR
Increased Consideration to Sell
NAR Survey of Consumers

% Strongly indicating Good Time to Sell

Inventory of Homes Finally Turning Higher

Source: NAR
REALTORS® Report on Buyer and Seller Traffic

REALTOR® Buyer Traffic Index

REALTOR® Seller Traffic Index

2009: 40
2010: 31
2011: 34
2012: 39
2013: 39
2014: 42
2015: 41
2016: 43
2017: 44
2018: 45
2019: 44
2020: 44
2021: 57

Jan-Mar
Apr-Jun
Jul-Sep
Oct-Dec

2009: 46
2010: 41
2011: 39
2012: 63
2013: 63
2014: 60
2015: 63
2016: 67
2017: 70
2018: 72
2019: 57

REALTORS® Buyer Traffic Index
HOTTEST MARKETS

Midland, Texas still number one; Midwest dominates list; California hot but cooling

October 2018

Source: Realtor.com®
CROSS-MARKET DEMAND

Sacramento, CA shoppers come from Alameda and Santa Clara (Bay Area/Silicon Valley)

Source: Q2 2018 Realtor.com search data
Note: The view share is calculated as a total of views after the geographic filter is applied and excludes international views and within-metro views from the total.
Months Supply and Price Change

Inverse Relationship

If Months Supply > 7 then Price Decline

![Graph showing the inverse relationship between Months Supply and Price Change. The graph indicates that as Months Supply increases above 7, there is a corresponding decline in Price Change.](image-url)
## Housing Conditions in 2004 and 2018

### Comparison of Housing Market Conditions in 2004 and 2018

<table>
<thead>
<tr>
<th>Housing market indicators:</th>
<th>2004</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing starts, SAAR (millions)</td>
<td>1.9 (Jan 2004)</td>
<td>1.2 (Aug 2018)</td>
</tr>
<tr>
<td>Existing homes available for sale, EOP (millions)</td>
<td>2.15 (Jan 2004)</td>
<td>1.88 (Sep 2018)</td>
</tr>
<tr>
<td>Months' supply</td>
<td>4.3 (Jan 2004)</td>
<td>4.4 (Sep 2018)</td>
</tr>
<tr>
<td>30-year fixed mortgage rate (%)</td>
<td>5.74 (Jan 2004)</td>
<td>4.63 (Sep 2018)</td>
</tr>
<tr>
<td>Median price of existing home sales, y/y change (%)</td>
<td>7.6 (Jan 2004)</td>
<td>4.2 (Sep 2018)</td>
</tr>
<tr>
<td>Rental vacancy rate (%)</td>
<td>10.4 (2004 Q1)</td>
<td>6.8 (2018 Q2)</td>
</tr>
<tr>
<td>Homeowner vacancy rate (%)</td>
<td>1.7 (2004 Q1)</td>
<td>1.5 (2018 Q2)</td>
</tr>
<tr>
<td>Homeownership rate (%)</td>
<td>68 (2004 Q1)</td>
<td>64.3 (2018 Q2)</td>
</tr>
</tbody>
</table>

### Labor market indicators:

<table>
<thead>
<tr>
<th>Labor market indicators:</th>
<th>2004</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate (%)</td>
<td>5.6 (Jan 2004)</td>
<td>3.7 (Aug 2018)</td>
</tr>
<tr>
<td>Total non-farm employment, SA (millions)</td>
<td>130.7 (Jan 2004)</td>
<td>149.5 (Aug 2018)</td>
</tr>
</tbody>
</table>
## Comparison of Housing Market Conditions in 2004 and 2018

<table>
<thead>
<tr>
<th>Household debt and bank credit indicators:</th>
<th>2004</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARMs, as a percent of loan applications (%)</td>
<td>28.8 (Jan 2004)</td>
<td>6.5 (Sep 2018)</td>
</tr>
<tr>
<td>Home equity revolving accounts (millions)</td>
<td>16.7 (Jan 2004)</td>
<td>15.6 (Aug 2018)</td>
</tr>
<tr>
<td>Mortgage originations with credit score &lt; 620 (billion $)</td>
<td>79.3 (2004 Q1)</td>
<td>16.1 (2018 Q2)</td>
</tr>
<tr>
<td>Households and non-profit organizations mortgage (Tril $)</td>
<td>7.09 (2004 Q1)</td>
<td>10.2 (2018 Q2)</td>
</tr>
<tr>
<td>Households and non-profit organizations mortgage to GDP (%)</td>
<td>59 (2004 Q1)</td>
<td>50 (2018 Q2)</td>
</tr>
<tr>
<td>Household debt service ratio (%)</td>
<td>12.2 (2004 Q1)</td>
<td>9.8 (2018 Q2)</td>
</tr>
<tr>
<td>Mortgage, credit card, and bank loan to disposable income (%)</td>
<td>105.0 (2004 Q1)</td>
<td>93.0 (2018 Q2)</td>
</tr>
<tr>
<td>Mortgage debt to disposable income (%)</td>
<td>81.0 (2004 Q1)</td>
<td>66.0 (2018 Q2)</td>
</tr>
<tr>
<td>Mortgages in foreclosure inventory</td>
<td>490,708 (2004 Q1)</td>
<td>402,540 (2018 Q2)</td>
</tr>
<tr>
<td>Foreclosure inventory as a percent of loans (%)</td>
<td>1.3 (2004 Q1)</td>
<td>1.1 (2018 Q2)</td>
</tr>
<tr>
<td>Commercial bank loan to deposit ratio (%)</td>
<td>90.4 (Jan 2004)</td>
<td>76.9 (Sep 2018)</td>
</tr>
</tbody>
</table>

Affordability Index

Weakest in 10 years, but well above 2004

Source: NAR
Inflation-Adjusted Home Price Index
(Within two arrows with 1% and 2% above CPI)
Median Days on Market

2011 - May
2011 - Aug
2011 - Nov
2012 - Feb
2012 - May
2012 - Aug
2012 - Nov
2013 - Feb
2013 - May
2013 - Aug
2013 - Nov
2014 - Feb
2014 - May
2014 - Aug
2014 - Nov
2015 - Feb
2015 - May
2015 - Aug
2015 - Nov
2016 - Feb
2016 - May
2016 - Aug
2016 - Nov
2017 - Feb
2017 - May
2017 - Aug
2017 - Nov
2018 - Feb
2018 - May
2018 - Aug
% of Offers At or Above Asking Price
Mortgage Applications for Home Purchase is Positive, Though Refinancings Collapsing

% change from one year ago

Purchase  Refinance
Early Stage of Delinquency:
Late Mortgage Payment (30 to 59 days)
Last Stage of Delinquency: In Foreclosure
Rent Growth Solid but now Slowing?

(year over year % growth)
Global Comparison: Canada and New Zealand at Risk?

House Price-to-Rent ratio Around the World
House prices have grown faster than rents in over half the countries.
(2018:Q1 or latest available index, 2010 = 100)

Source: Organisation for Economic Co-operation and Development

www.imf.org/housing  |  #HousingWatch
Mortgage Rates to Rise Permanently
(around 170 basis points spread above 10 year Treasury)
The Fed ... “Gone Crazy”
Fed Funds Rate ... from zero to ...
Consumer Inflation Stabilizing
(year over year % growth)
Realtors® Gross Income Distribution

- Under $25,000: 40%
- $50,000: 20%
- $75,000: 10%
- $100,000: 5%
- $150,000: 5%
- $250,000: 5%
- Over $250,000: 5%
Buyers of Multi-Generational Housing

**Buyer Facts**
- Median Age: 51
- Median Income: $89,500
- 31% are first-time buyers
- 83% are buyers of previously owned homes
- 84% bought through an agent/broker
- Median square feet of home purchased: 2,070
- Median home price: $264,100

**Reasons for purchasing multi-generational home:**
- Aging family members: 44%
- Young adults over age 18: 37%

**Type of Home Purchased**
- Detached single-family, 83%
- Townhouse/row house, 5%
- Duplex/apartment/condo, 4%
- Other, 8%

**Reasons to Purchase Home**
- Change in family situation (e.g. marriage, birth of child, divorce, etc.): 10%
- Desire to be closer to friends/family/relatives: 10%
- Desire for larger home: 10%
- Desire to own a home of own: 29%

**Unique to these buyers:**
- 39% had children under the age of 18 in the home
- 58% found the quality of the neighborhood to be important
- 63% were married couples, 19% single females, 7% single males, 5% unmarried couples
- 49% were located in a suburb/subdivision
Buyer, Self, or Spouse are Active in the Armed Forces or Veteran

### Active in the Armed Forces Buyer Facts
- Median Age: 31
- Median Income: $80,000
- 52% are first-time buyers
- 84% are buyers of previously owned homes
- 91% bought through an agent/broker
- Median square feet of home purchased: 1,960
- Median home price: $251,000

### Veteran Buyer Facts
- Median Age: 59
- Median Income: $89,000
- 19% are first-time buyers
- 82% are buyers of previously owned homes
- 86% bought through an agent/broker
- Median square feet of home purchased: 1,950
- Median home price: $250,000

**Unique to these buyers:**
- Convenience to job influencing neighborhood factor for 60%
- 24% purchased because of a job-related relocation or move
- 14% purchased a multi-generational home
- 3% of all respondents
- 18% of all respondents
- 58% lived in owned home prior to their recent home purchase
- 1.5% purchased a multi-generational home
- 83% purchased a detached single-family home
- 83% purchased because of a job-related relocation or move

### Additional Details
- 15% purchased a multi-generational home
- 2018 Profile of Home Buyers and Sellers
Realtors® Property Ownership

- Non-Owner
- Homeowner
- 2nd Home
- Commercial
Real Estate and Marijuana

- Property management and lingering smell
- Commercial real estate and development
- Medical use and Fair Housing Laws
- Non-bank cold cash and money laundering
Good Economy

• Job Additions for 8 straight years
• Unemployment Rate 3.7%
• Record High Job Openings
• Historically Low Jobless Claims
• High Net Worth
• Wages picking up
Risk Factors

• International Trade Wars

• Inverted Yield Curve

• Shift to Snowballing Pessimism
International Trade
(Growing 5% per year, twice as fast as GDP)

In $billion

Imports
Exports
Yield Curve Inversion?
Forecast
National Existing Home Sales
Little Drop in ‘18; Little Gain in ’19 and ‘20
Forecast of Home Sales: Boring!

<table>
<thead>
<tr>
<th></th>
<th>Existing Home Sales</th>
<th>Newly Constructed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>5,450,000</td>
<td>561,000</td>
<td>6.0 million</td>
</tr>
<tr>
<td>2017</td>
<td>5,510,000</td>
<td>613,000</td>
<td>6.1 million</td>
</tr>
<tr>
<td>2018 forecast</td>
<td>5,345,000</td>
<td>623,000</td>
<td>6.0 million</td>
</tr>
<tr>
<td>2019 forecast</td>
<td>5,400,000</td>
<td>690,000</td>
<td>6.1 million</td>
</tr>
<tr>
<td>2020 forecast</td>
<td>5,550,000</td>
<td>740,000</td>
<td>6.3 million</td>
</tr>
<tr>
<td>2000 Reference</td>
<td>5,173,000</td>
<td>877,000</td>
<td>6.1 million</td>
</tr>
</tbody>
</table>
## Forecast of Home Price

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Home Price</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$233,800</td>
<td>5.1%</td>
</tr>
<tr>
<td>2017</td>
<td>$247,200</td>
<td>5.7%</td>
</tr>
<tr>
<td>2018 forecast</td>
<td>$258,900</td>
<td>4.7%</td>
</tr>
<tr>
<td>2019 forecast</td>
<td>$266,800</td>
<td>3.1%</td>
</tr>
<tr>
<td>2020 forecast</td>
<td>$274,000</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
Forecast of Median Home Price: $15,000 wealth gain in two years
REALTORS® Median Expected Price Change in the Next 12 Months
Forecast Dependent Upon Rising Single-Family Housing Starts
Raise Awareness About Housing Underproduction

**Housing Shortage Tracker**
The Housing Shortage Tracker compares how many permits are issued relative to the number of new jobs.

**Realtors® Affordability Distribution Curve & Score**
Compare the housing affordability of selected metro area level to the affordability statewide.

**Is Your Area Building Enough Housing?**
Comparing single-family construction with the 20-year construction level and the employment growth for 175 metro areas.
Housing Shortage Tracker

June 2018

San Francisco, CA
New Jobs: 178,500
1-unit permits: 14,164
Ratio: 12.6

Houston, TX
New Jobs: 130,000
1-unit permits: 117,300
Ratio: 1.1

Washington, DC
New Jobs: 170,500
1-unit permits: 42,319
Ratio: 4.0

Local Solutions to Consider

**Short-term approaches**

- Promote Accessory Dwelling Units
- Use Publicly-Owned Land for Affordable Housing Production
- Reduce impact fees and streamline approval processes
- Support Trade School and Apprentice Programs
- Update and reduce parking requirements in location-efficient areas
- Work with Community Banks to increase lending for housing development

**Long-term approaches**

- Amend Housing Rehabilitation Codes
- Reform Land Use and Zoning Regulations
- Updating Condominium Construction Defect Laws
On Common Ground
Any Common Ground?

Photos from respective Twitter accounts
Any Common Ground?

HUD Funding to localities be tied to YIMBY (not NIMBY)

Housing Trust Funding to localities be tied to YIMBY (not NIMBY)

Photos from respective Twitter accounts
Thank You!