

# Economic & Housing Market Outlook

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Presentations to NAR Annual Conference  
Boston, MA

November 2, 2018



**MarketWatch**

ECONOMIC REPORT

## 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



**Bloomberg**

Economics

## U.S. Existing-Home Sales Fall to Lowest Since 2015

By Katia Dmitrieva

October 19, 2018, 10:00 AM EDT

*Corrected October 22, 2018, 9:39 AM EDT*



**CBS NEWS**

LIVE

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

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



**CNBC**



MENU

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

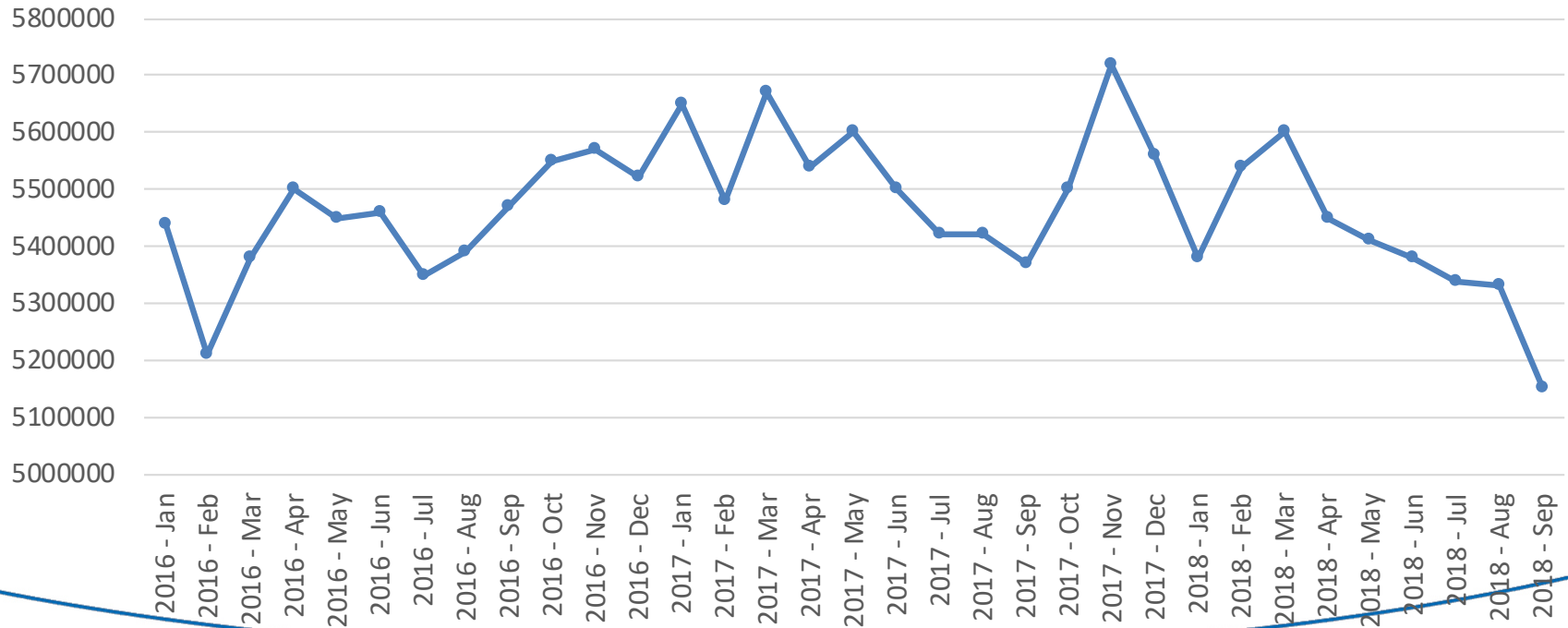
Fred Imbert | @foimbert

Published 8:53 AM ET Thu, 18 Oct 2018



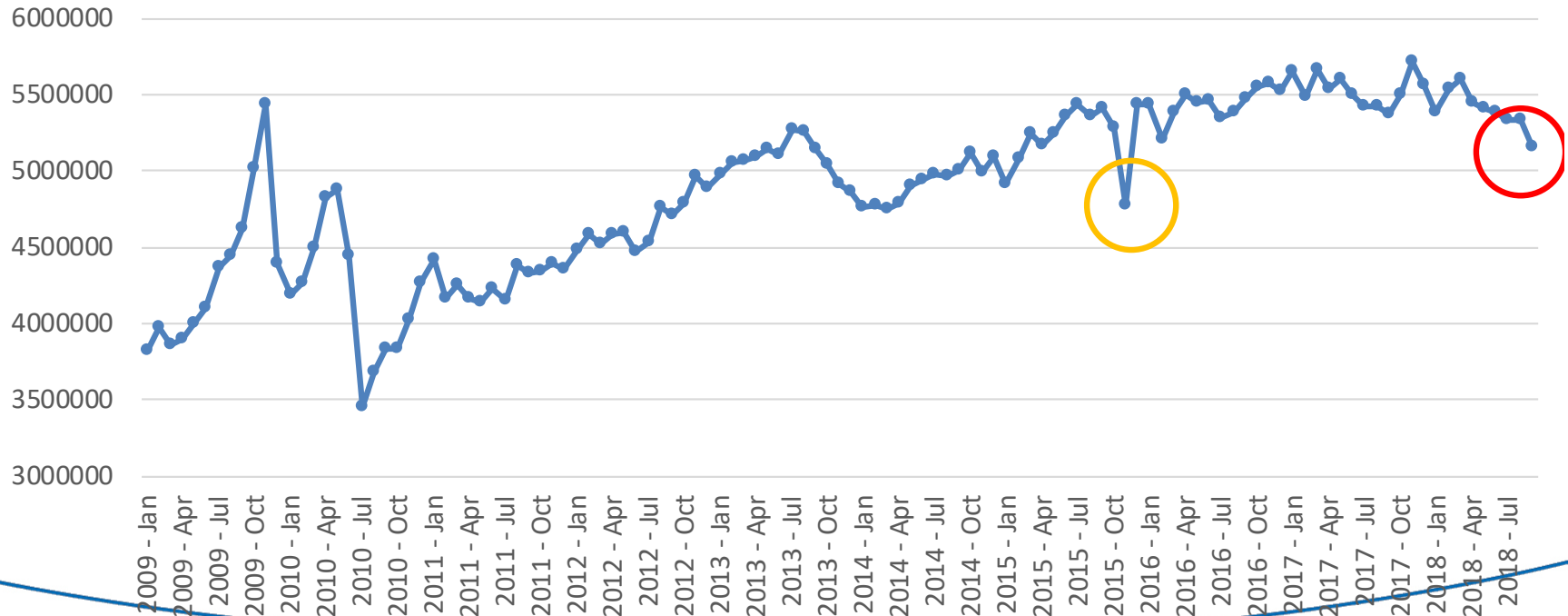
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# Existing Home Sales Since 2016

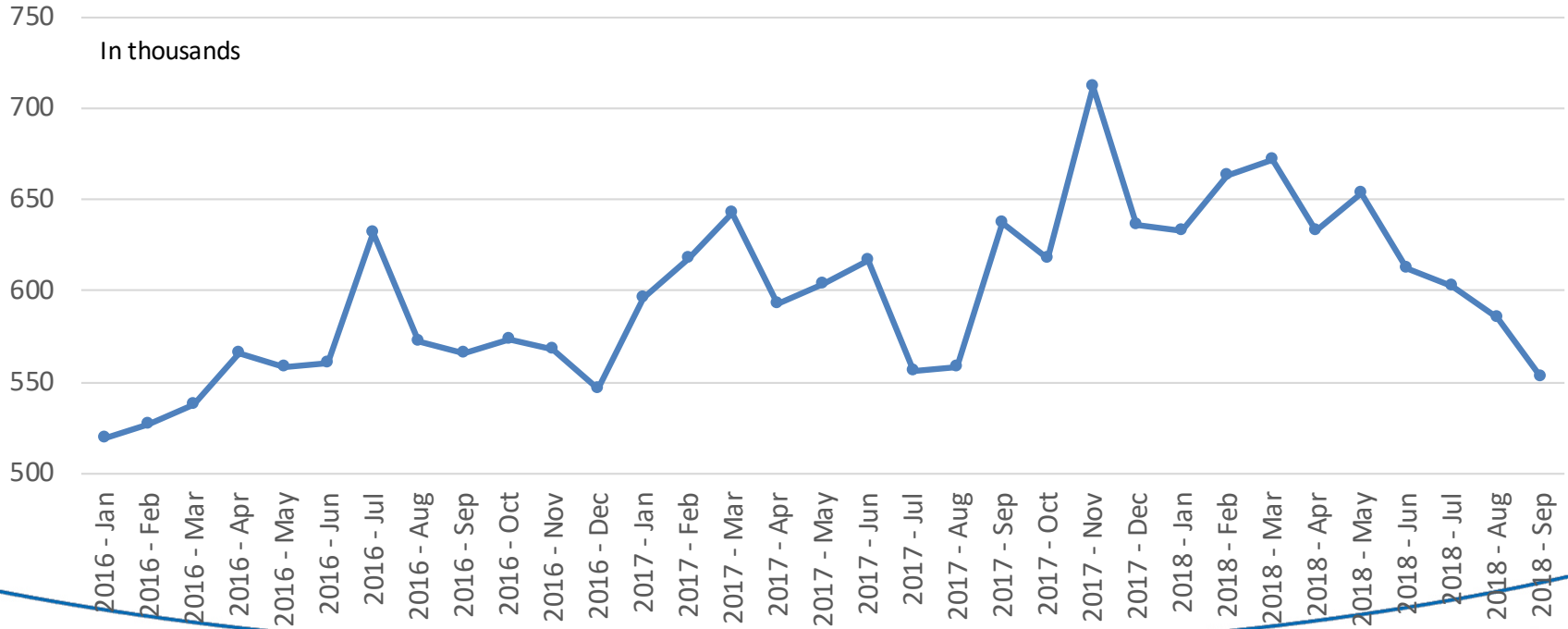


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# Existing Home Sales Since 2009

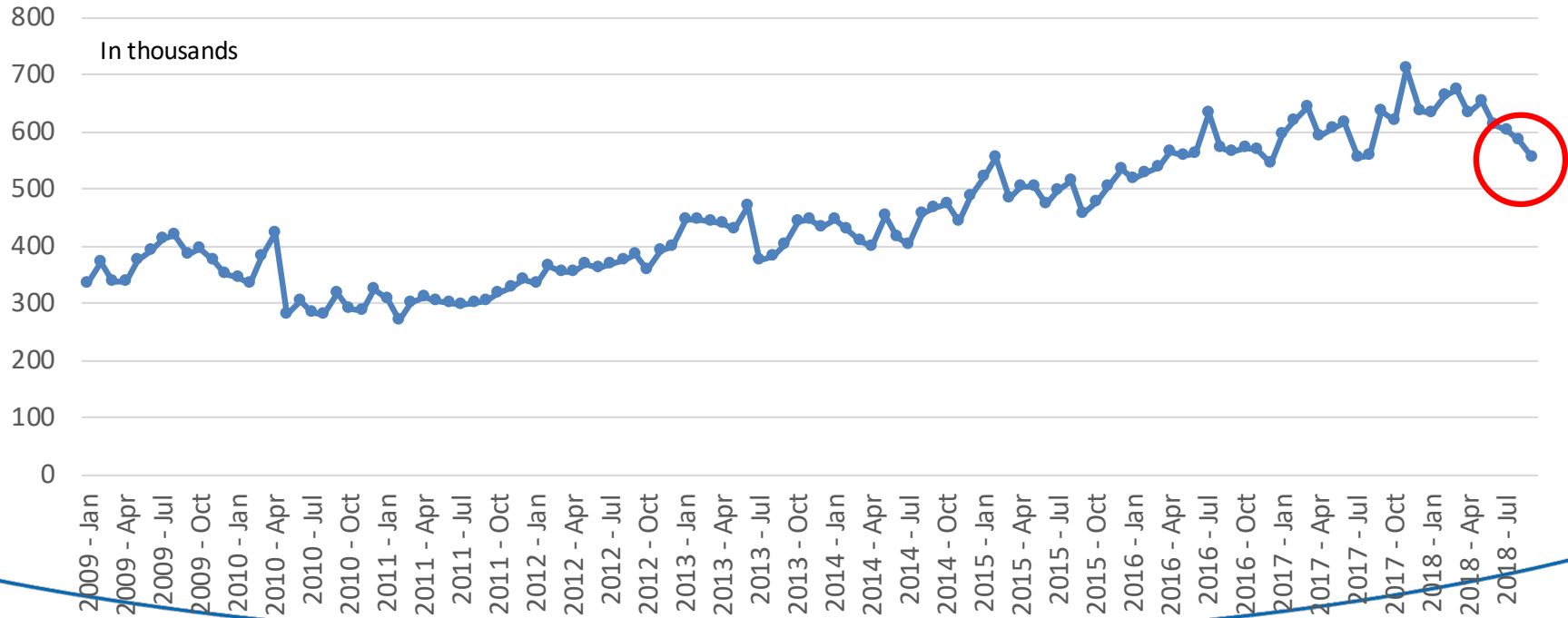


# New Home Sales Since 2016



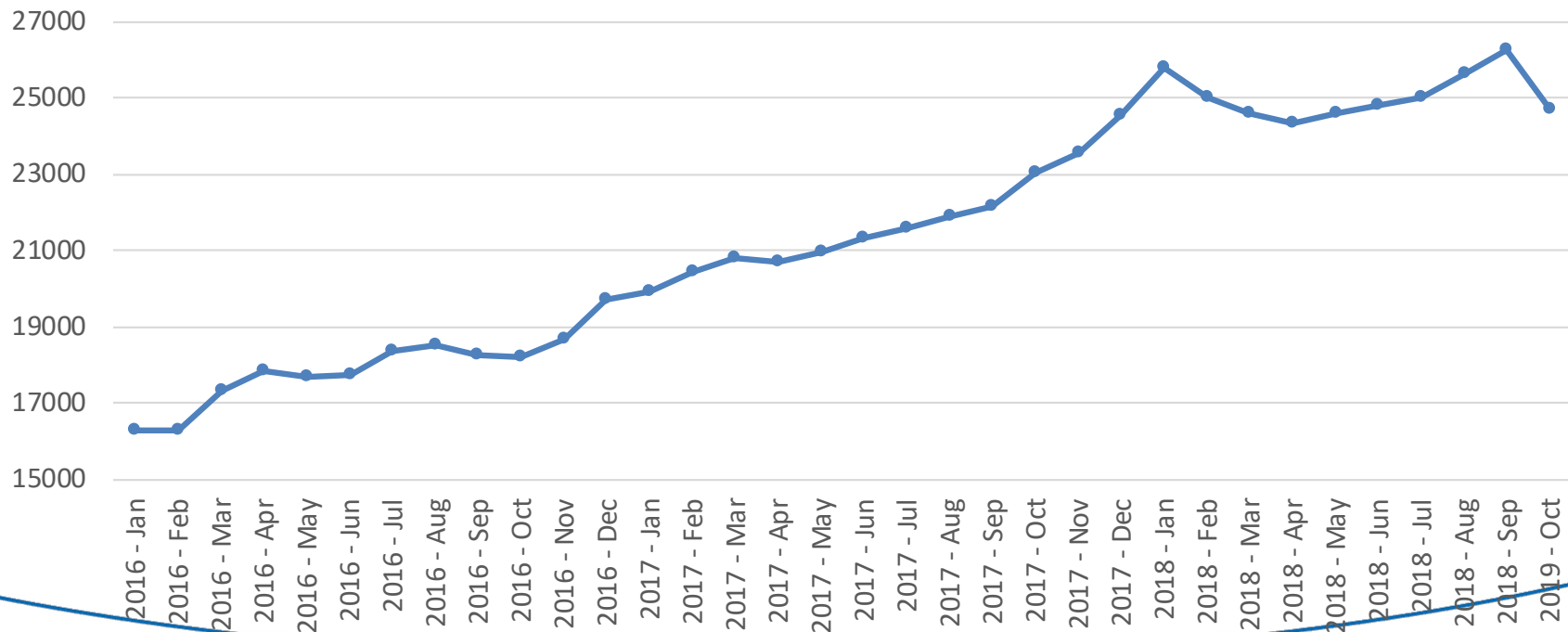
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# New Home Sales Since 2009



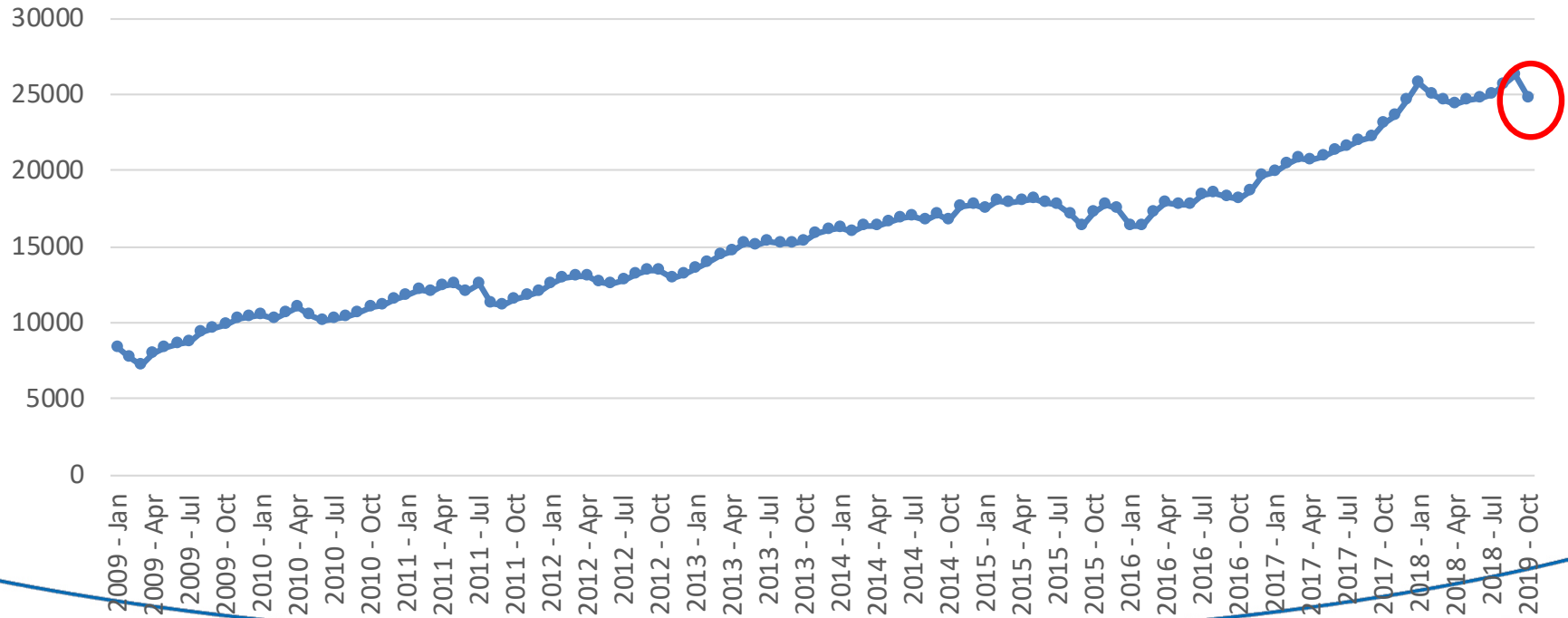
# Wobbly Stock Market?

## Dow Jones Industrial Average Since 2016



# Wobbly Stock Market?

## Dow Jones Industrial Average since 2009



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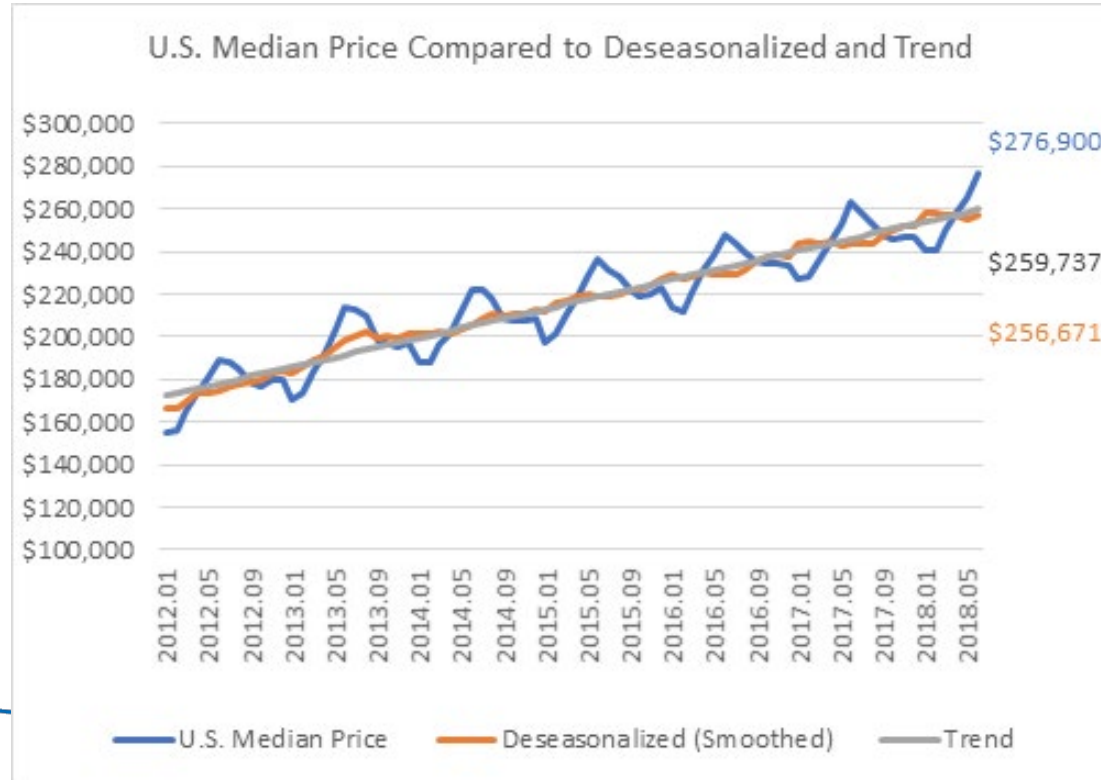
# Total Home Sales in 2018: Plunging?

	2017 The Best in Decade	2018 Year-to-Date (over comparable period)
New Home Sales	613,000	+3.6%
Existing Home Sales	5,510,000	-2.1%
Total	6,123,000	-1.5%

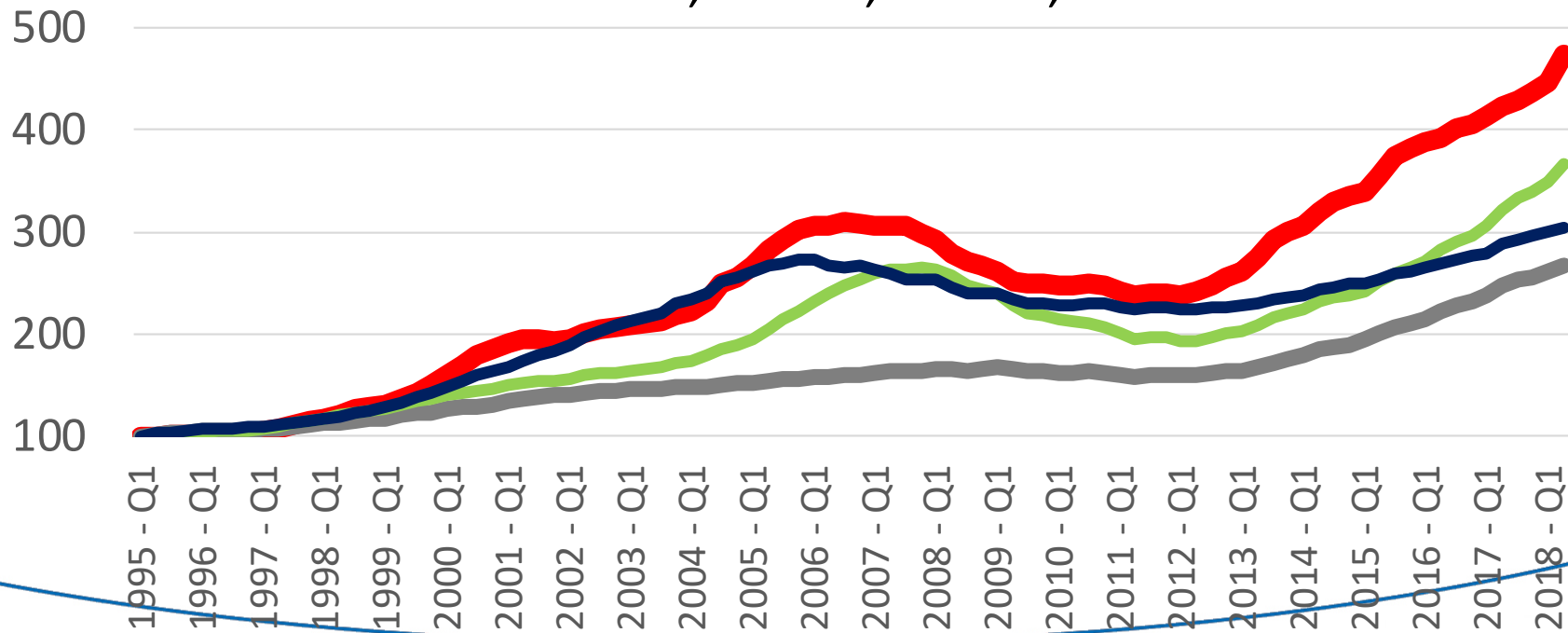
# 150 Metro Prices

- 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



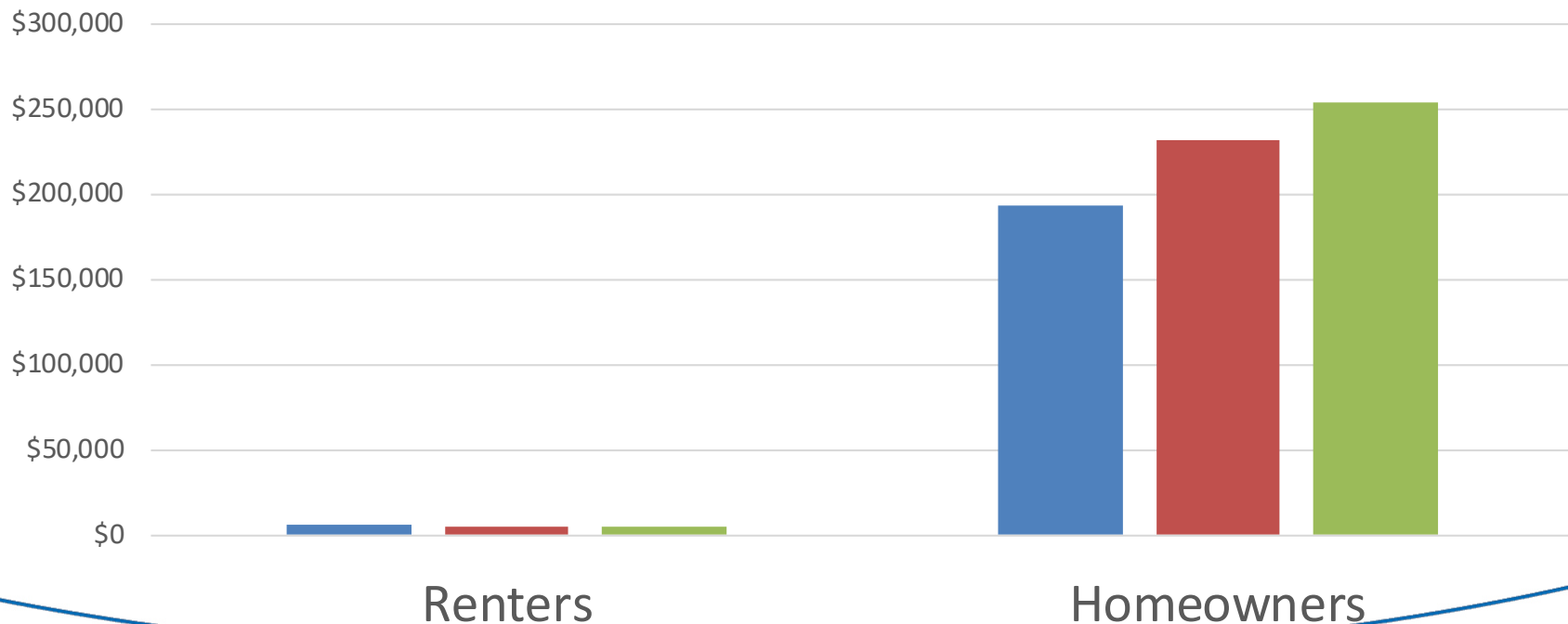
# Rising Home Prices (Constant Quality Index) San Francisco, Seattle, Boston, Dallas



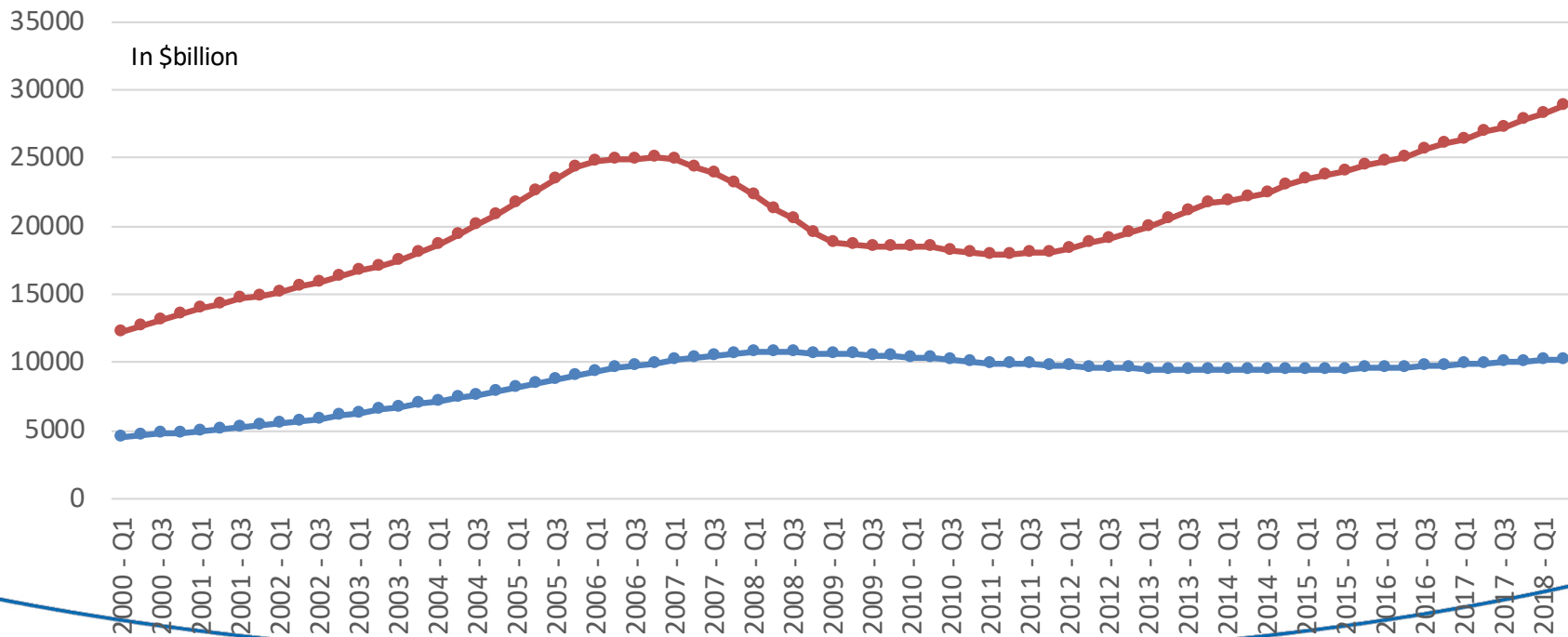
# Housing Wealth Gain on a Typical Home Purchase

Year Bought	Median Price at the Time of Purchase (September)	Wealth Gain to 2018 (September)
2011	\$165,300	\$92,800
2012	\$178,300	\$79,800
2013	\$198,500	\$59,600
2014	\$209,100	\$49,000
2015	\$221,700	\$36,400
2016	\$233,300	\$24,800

# Wealth: From 2000 to 2016 to 2018



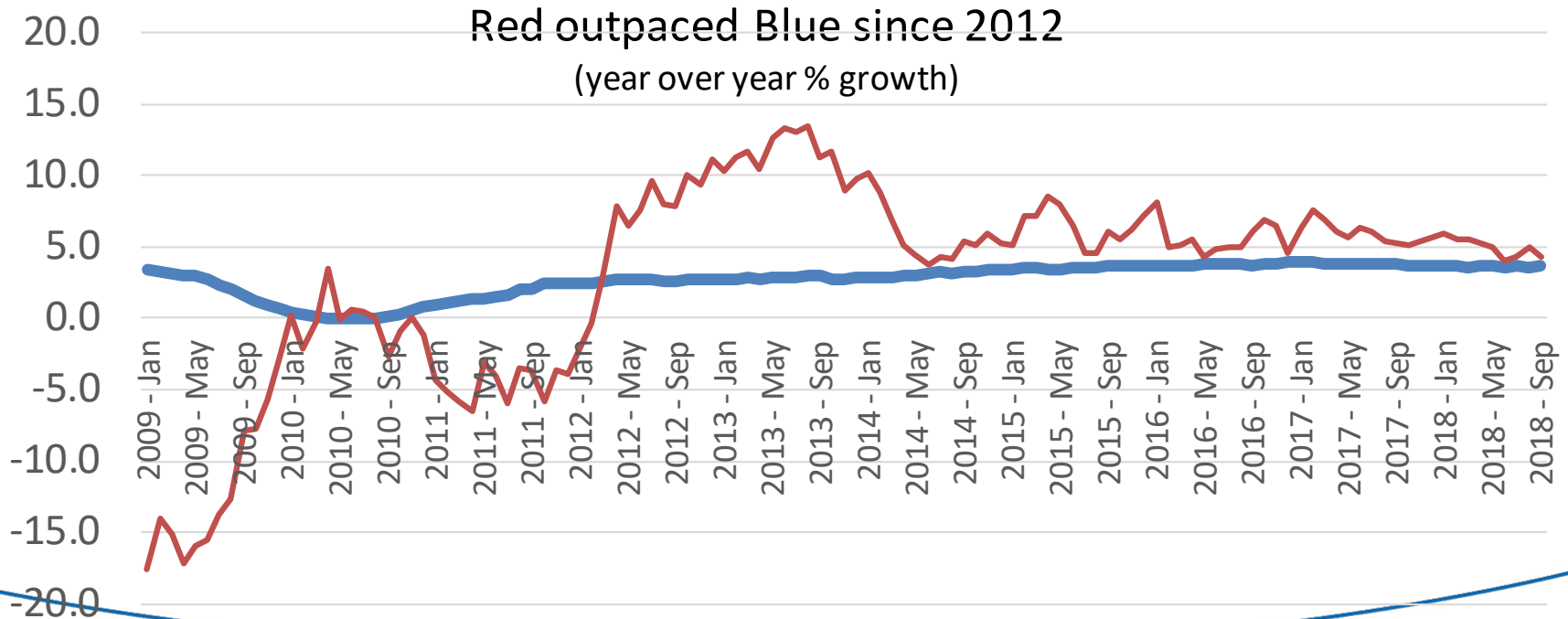
# Real Estate Wealth = Asset - Mortgage



# New Bubble? Small One?



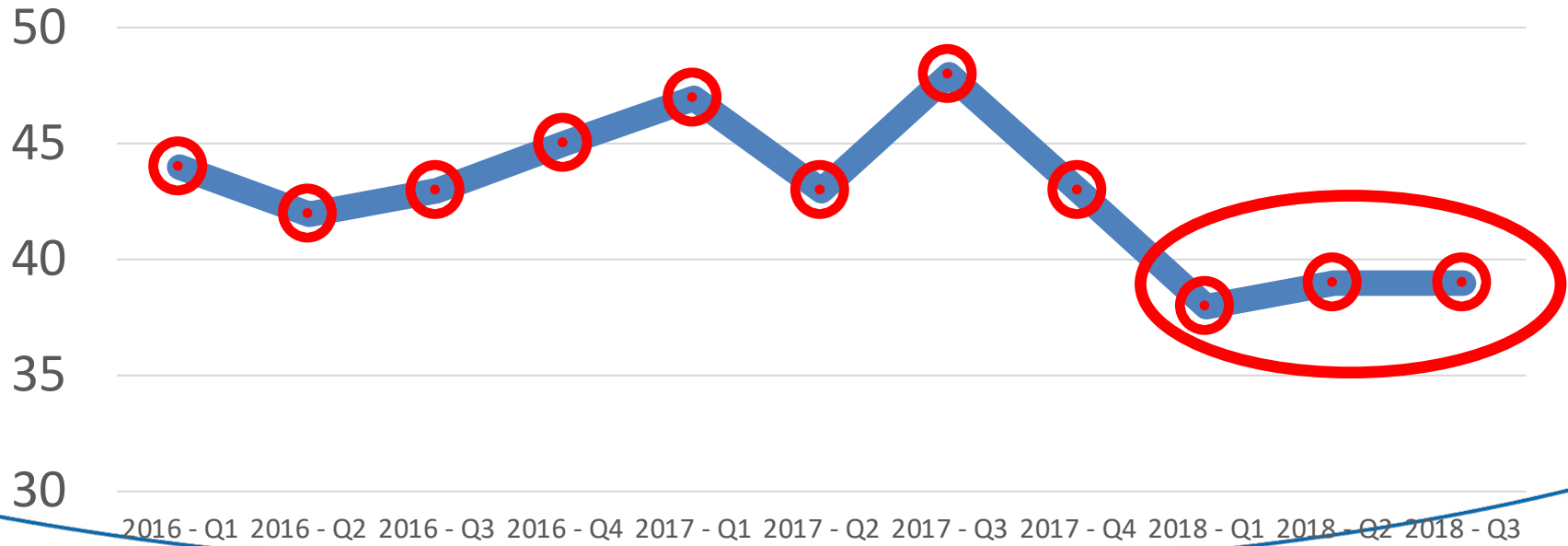
# A New Bubble? Since Home Prices Outpaced Rent Growth From 2012



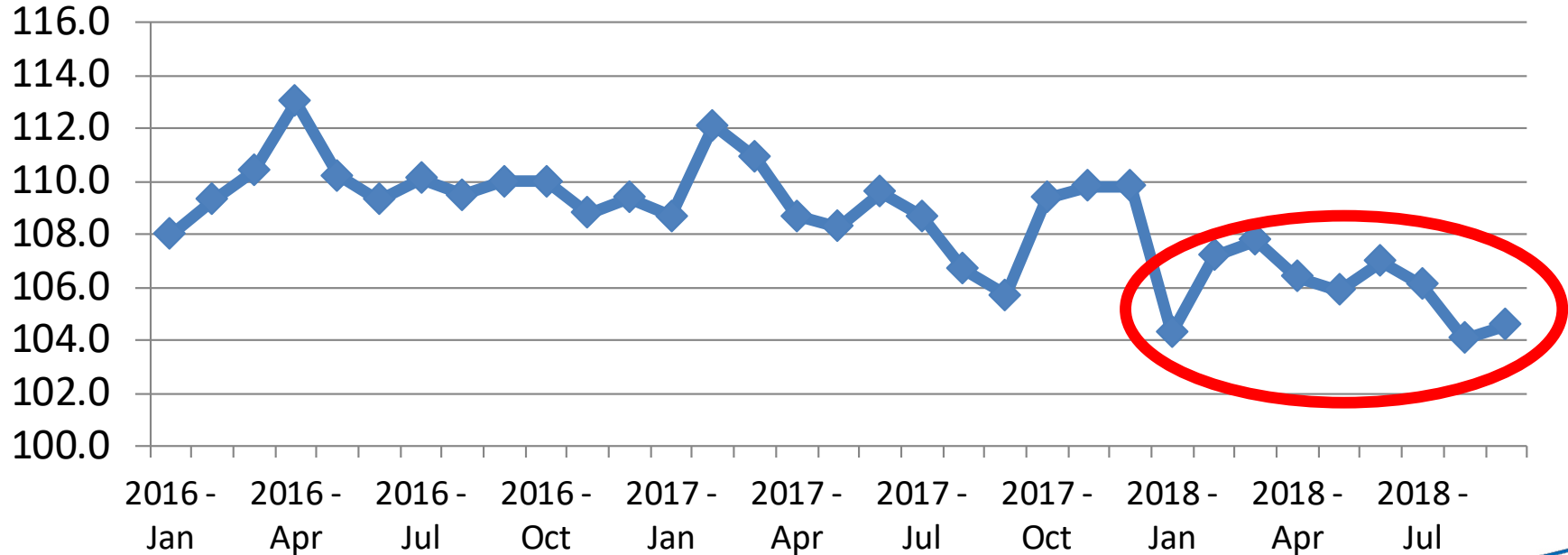
# Diminished Optimism about Buying

## NAR Survey of Consumers

% Strongly indicating Good Time to Buy



# National Pending Sales Index (seasonally adjusted)

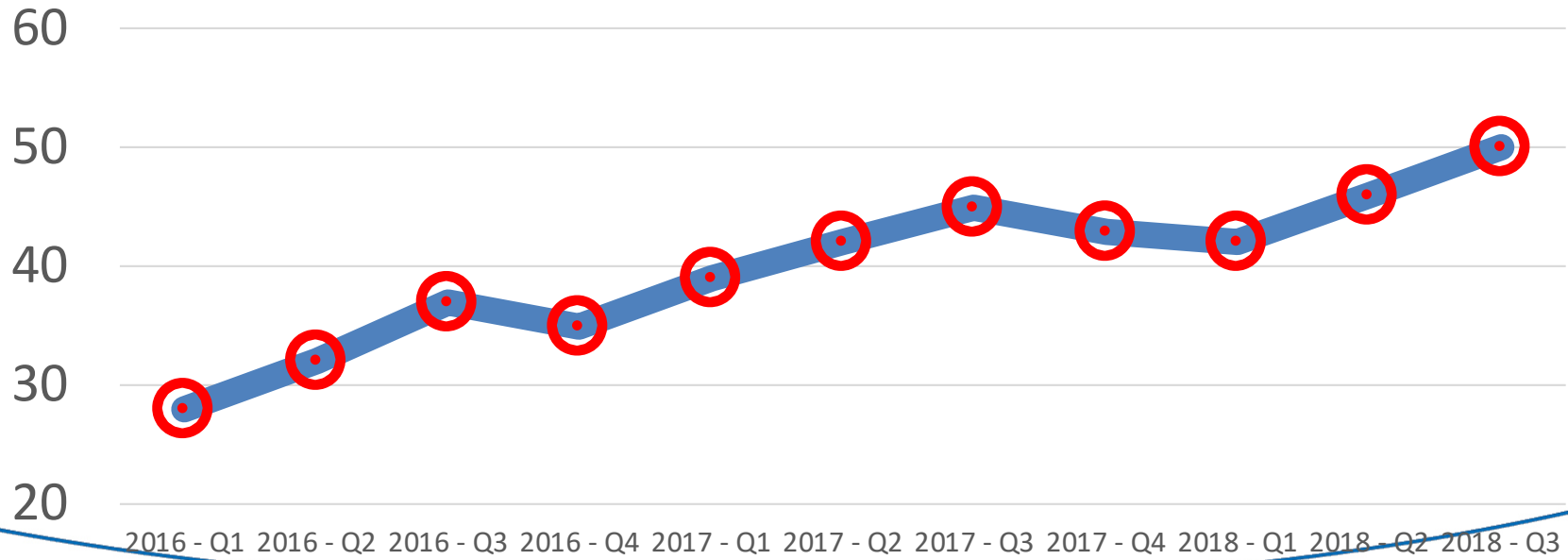


Source: NAR

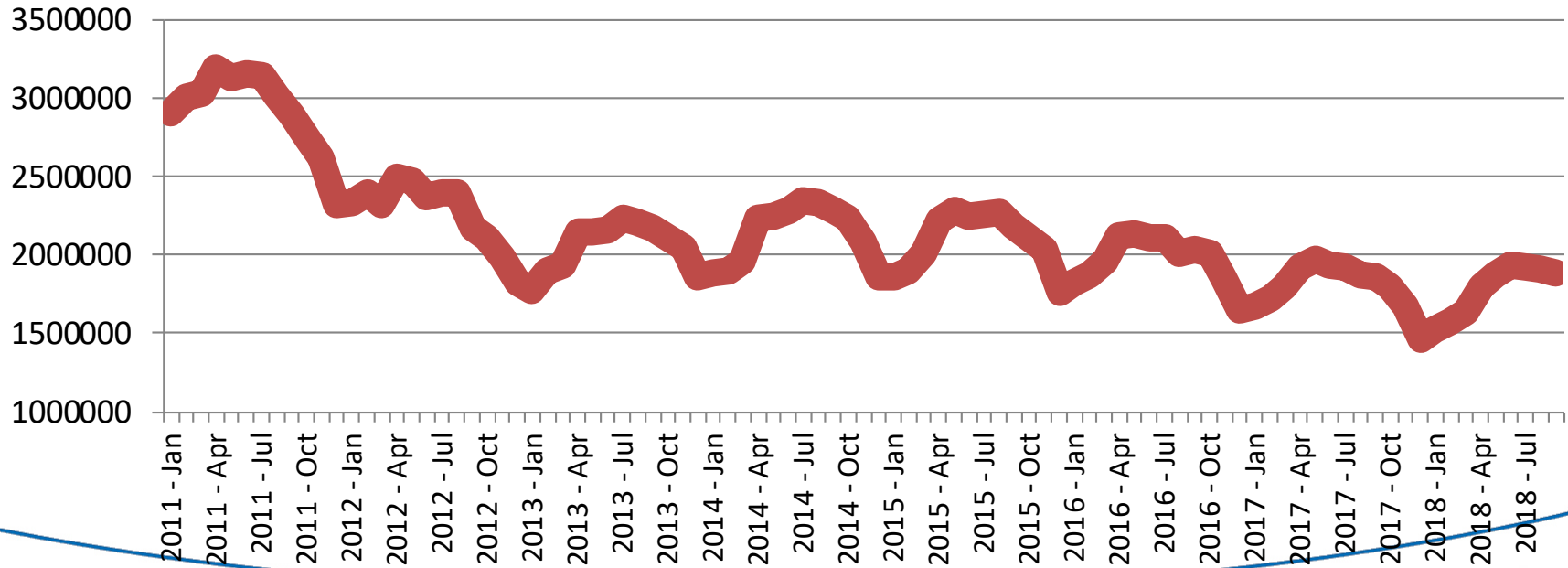
# Increased Consideration to Sell

## NAR Survey of Consumers

% Strongly indicating Good Time to Sell

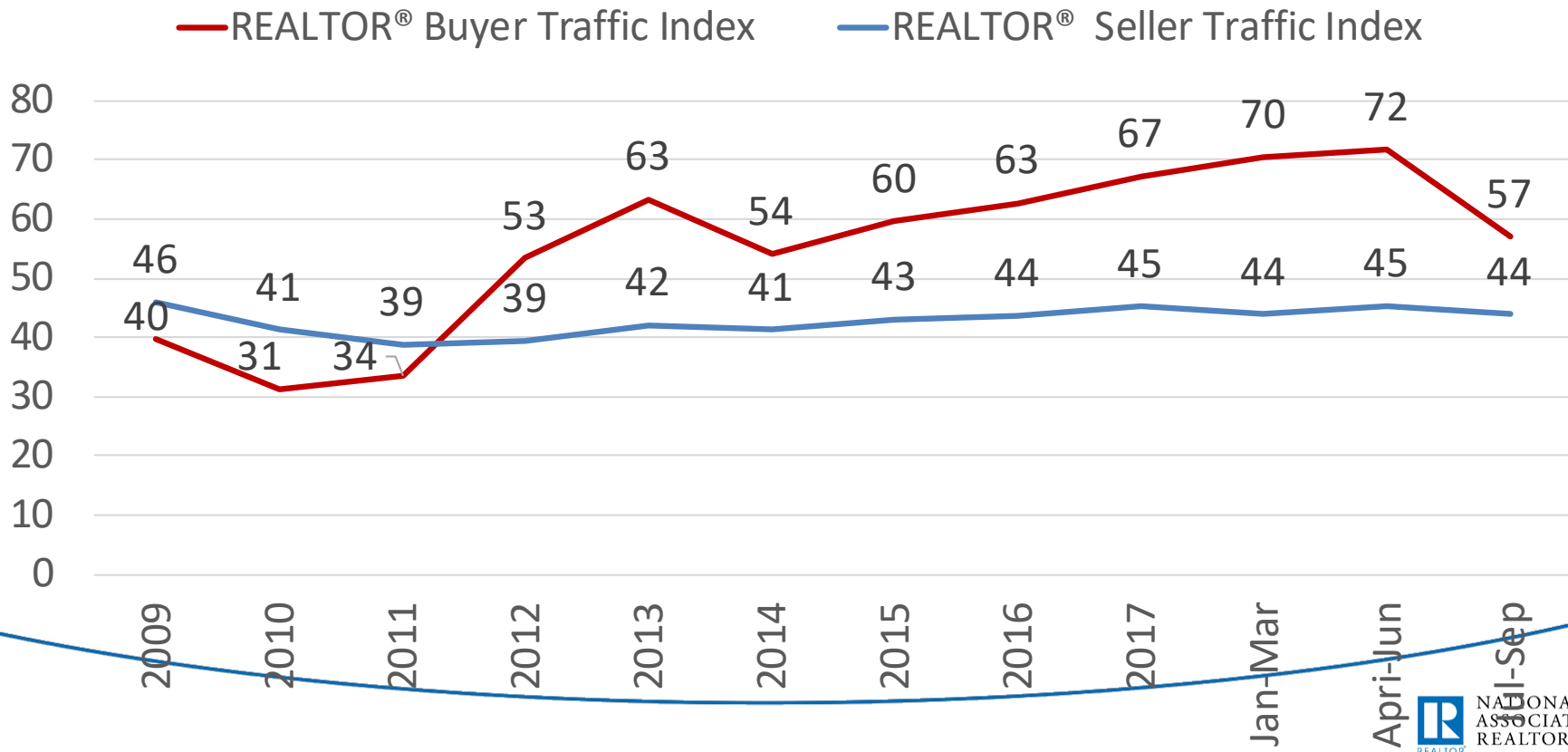


# Inventory of Homes Finally Turning Higher



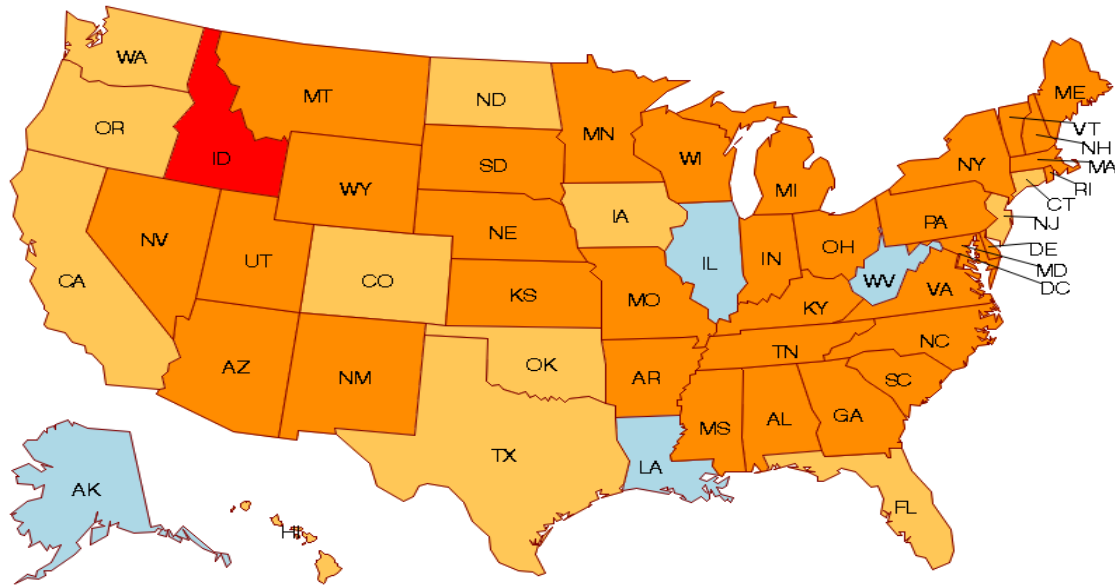
Source: NAR

# REALTORS® Report on Buyer and Seller Traffic



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# REALTORS® Buyer Traffic Index

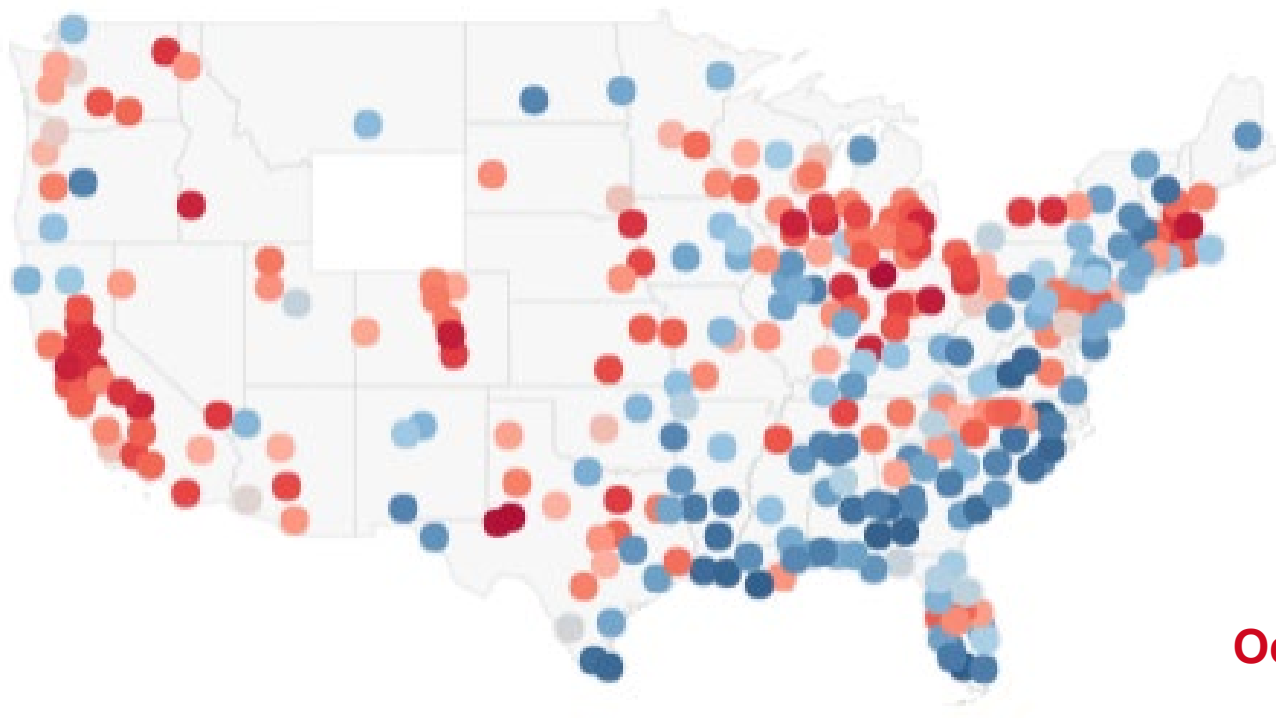


REALTORS® Buyer Traffic Index

Weak (25+ to 45)   Stable (45+ to 55)   Strong (55+ to 75)   Very Strong (75+)

# HOTTEST MARKETS

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



**October 2018**

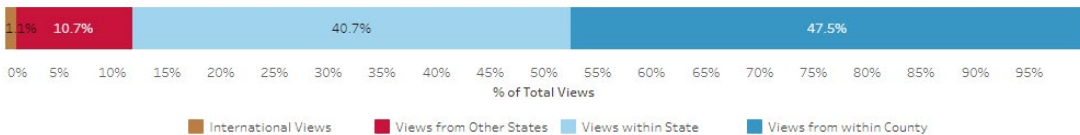
Source: Realtor.com®



# CROSS-MARKET DEMAND

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

Sacramento County, CA

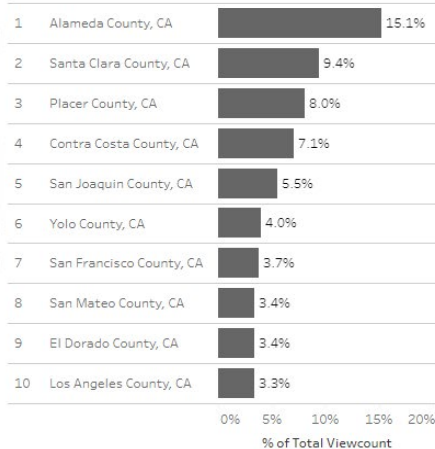


© OpenStreetMap contributors

## Top Viewing Counties

Select Geographic Filter:

(All)



Source: Q1 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.

realtor.com

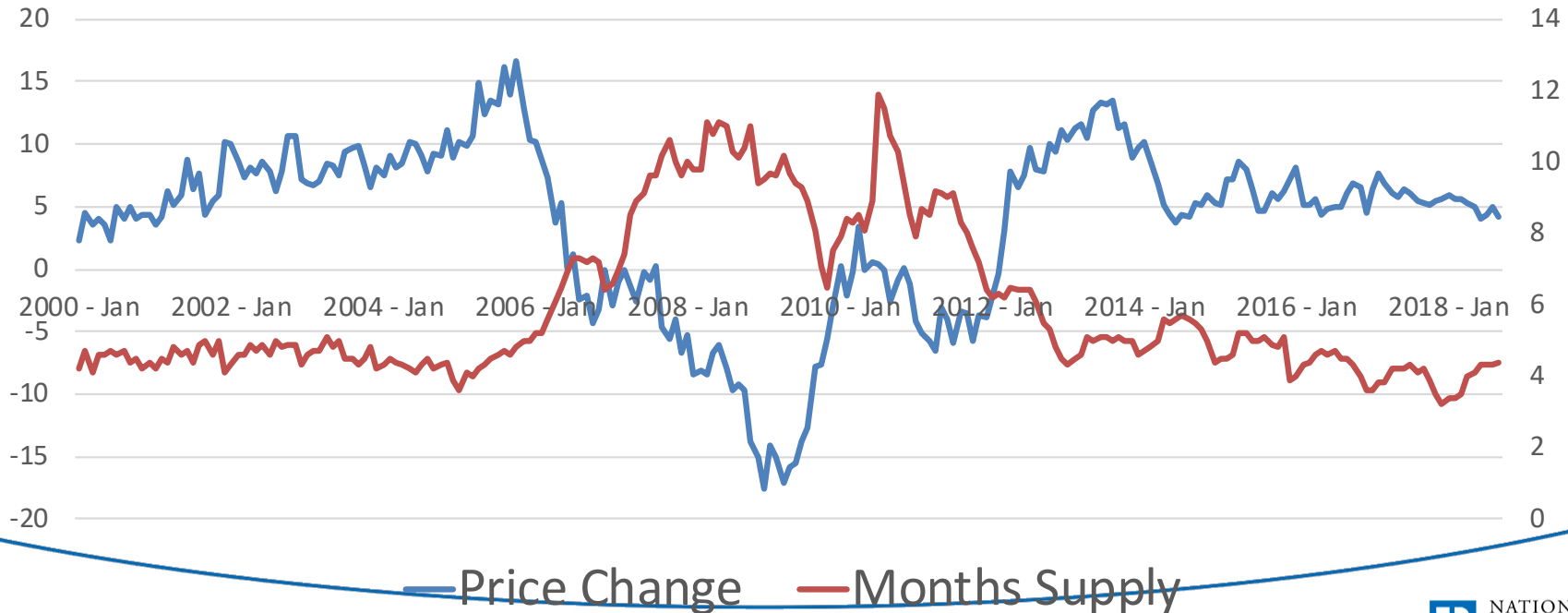
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# Months Supply and Price Change

## Inverse Relationship

If Months Supply > 7 then Price Decline



# Housing Conditions in 2004 and 2018

Comparison of Housing Market Conditions in 2004 and 2018		
	<u>2004</u>	<u>2018</u>
<i>Housing market indicators:</i>		
Housing starts, SAAR (millions)	1.9 (Jan 2004)	1.2 (Aug 2018)
Existing homes available for sale, EOP (millions)	2.15 (Jan 2004)	1.88 (Sep 2018)
Months' supply	4.3 (Jan 2004)	4.4 (Sep 2018)
30-year fixed mortgage rate (%)	5.74 (Jan 2004)	4.63 (Sep 2018)
Median price of existing home sales, y/y change (%)	7.6 (Jan 2004)	4.2 (Sep 2018)
Rental vacancy rate (%)	10.4 (2004 Q1)	6.8 (2018 Q2)
Homeowner vacancy rate (%)	1.7 (2004 Q1)	1.5 (2018 Q2)
Homeownership rate (%)	68 (2004 Q1)	64.3 (2018 Q2)
<i>Labor market indicators:</i>		
Unemployment rate (%)	5.6 (Jan 2004)	3.7 (Aug 2018)
Total non-farm employment, SA (millions)	130.7 (Jan 2004)	149.5 (Aug 2018)



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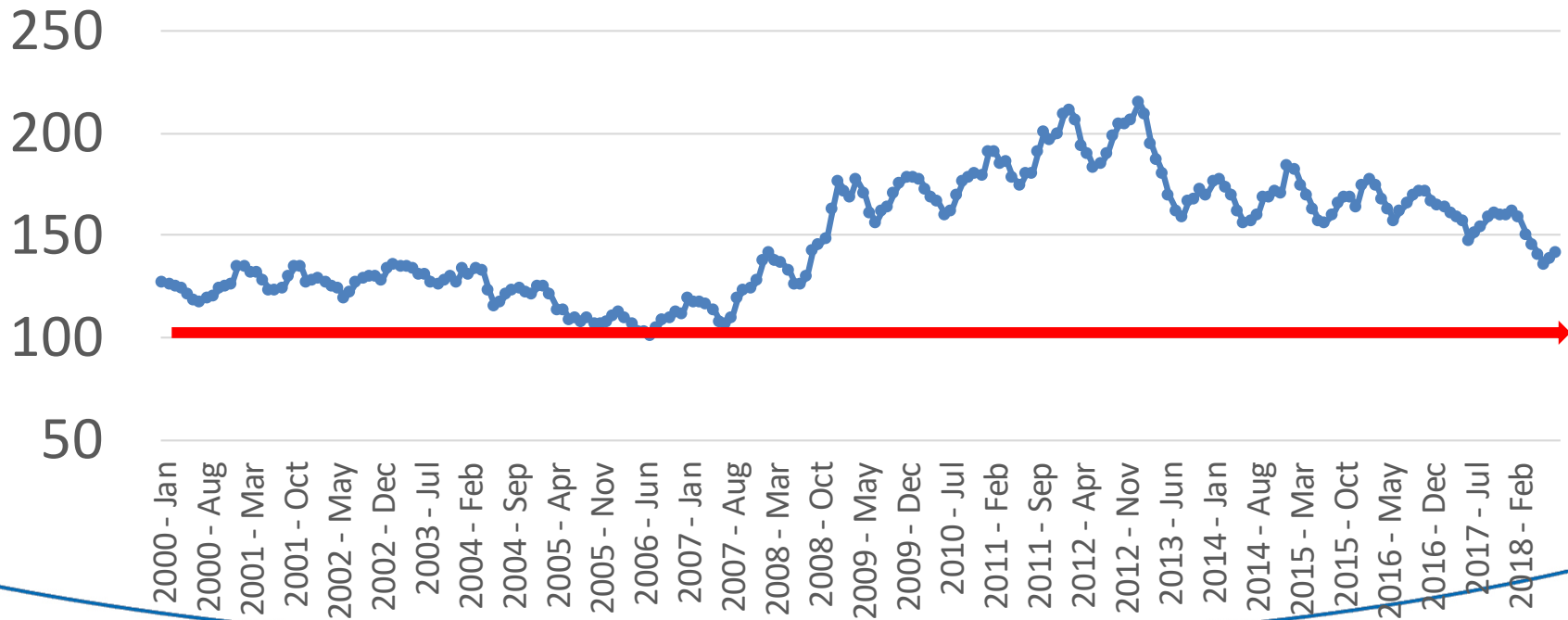
# Housing Conditions in 2004 and 2018 - Continued

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

Data sources: National Association of Realtors®, Federal Reserve Board, Federal Reserve Bank of New York, Freddie Mac, U.S. Census Bureau, U.S. Bureau of Labor Statistics, Mortgage Bankers Association, with data downloaded from Haver Analytics.

# Affordability Index

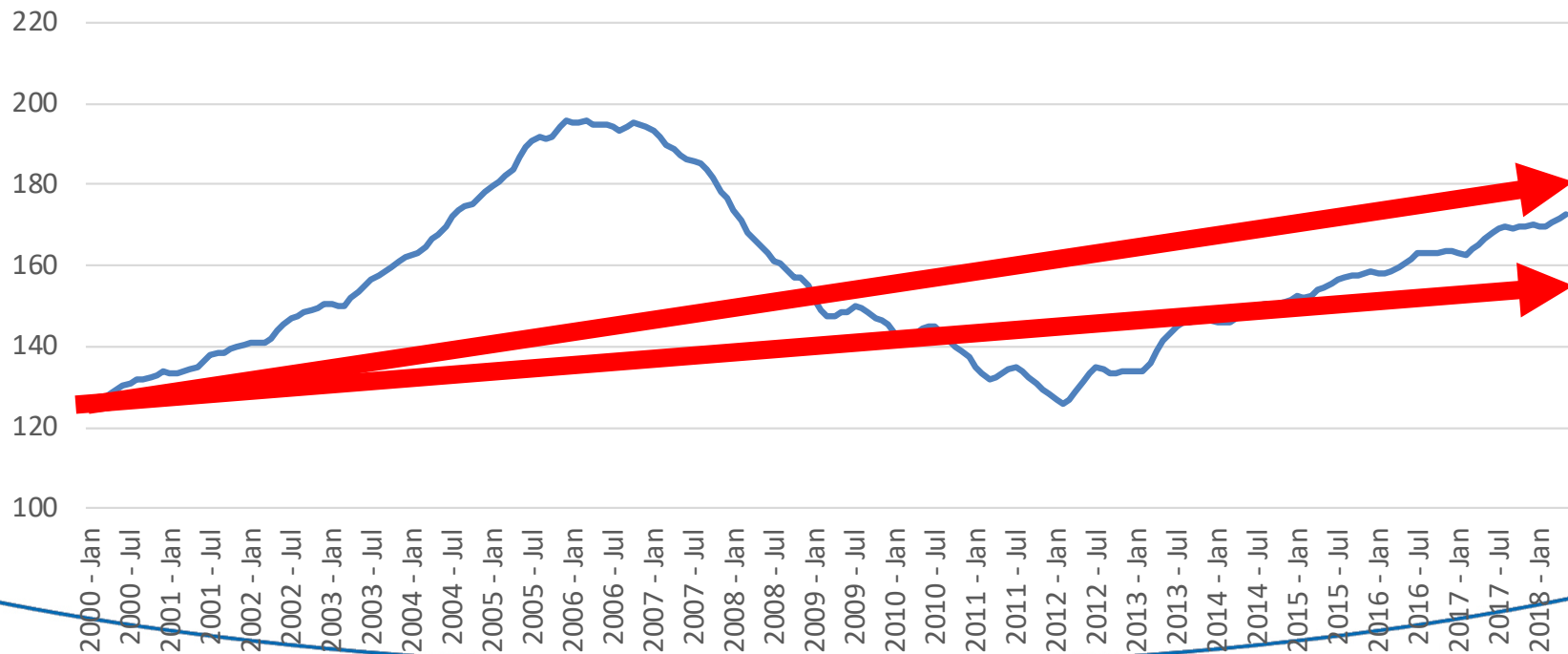
Weakest in 10 years, but well above 2004



Source: NAR

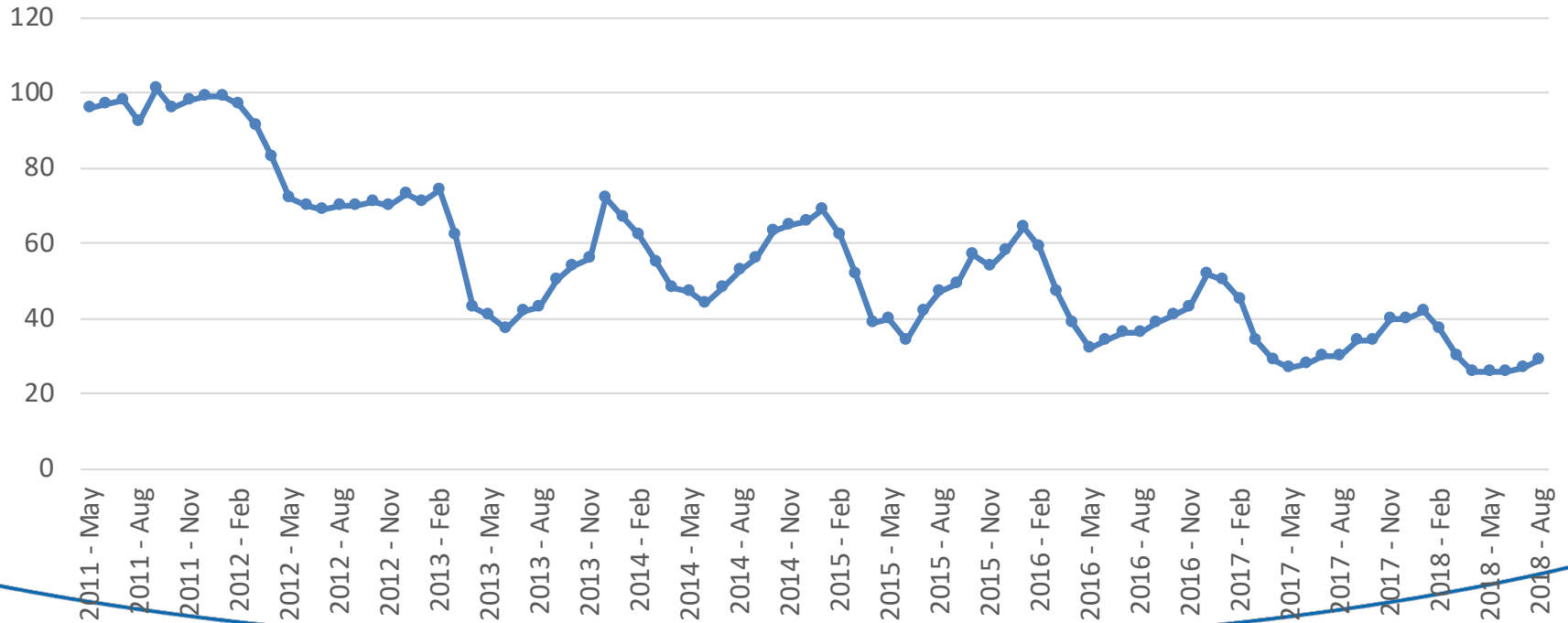
# Inflation-Adjusted Home Price Index

(Within two arrows with 1% and 2% above CPI)

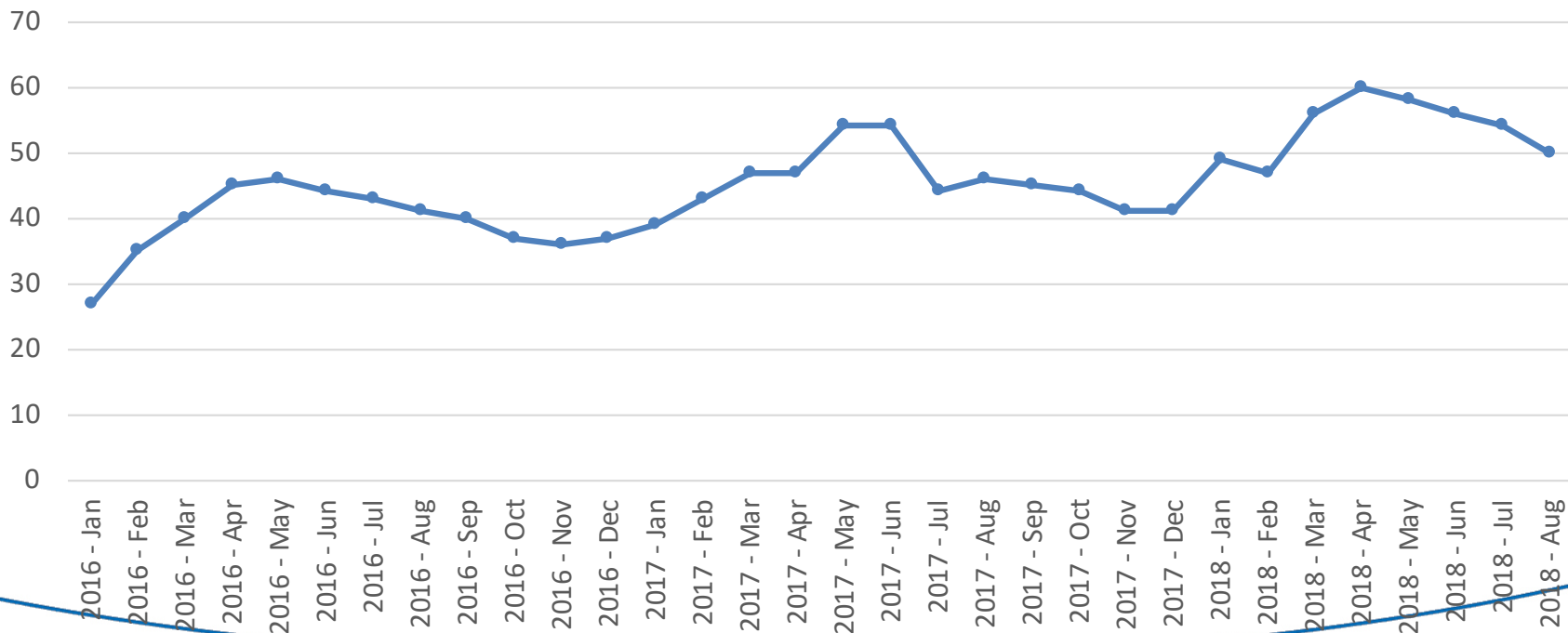


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# Median Days on Market

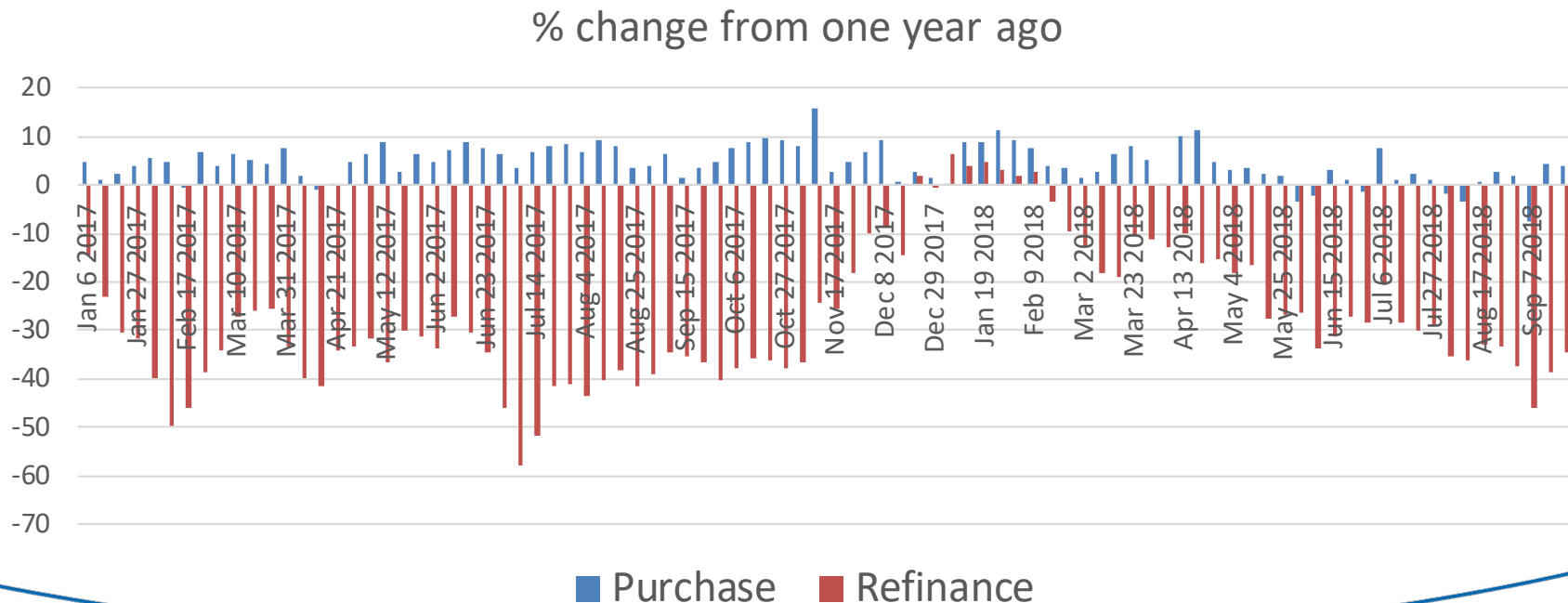


# % of Offers At or Above Asking Price

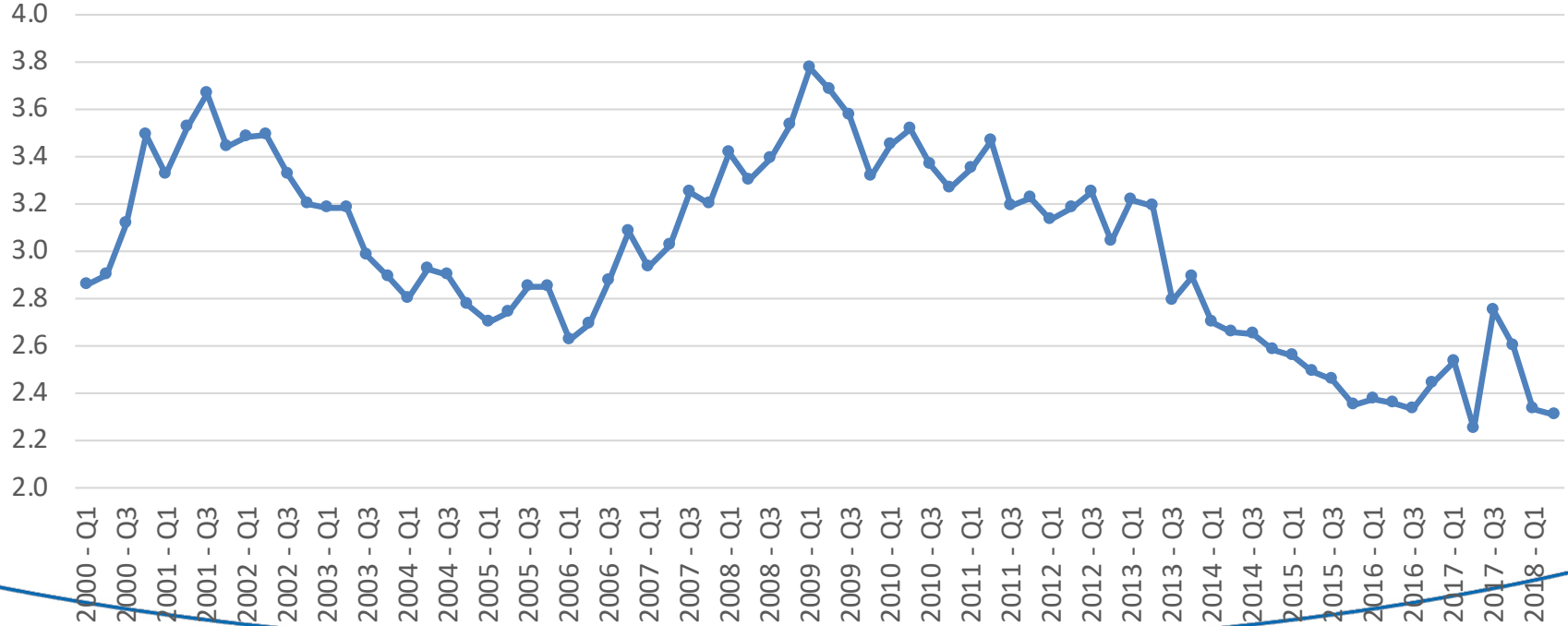




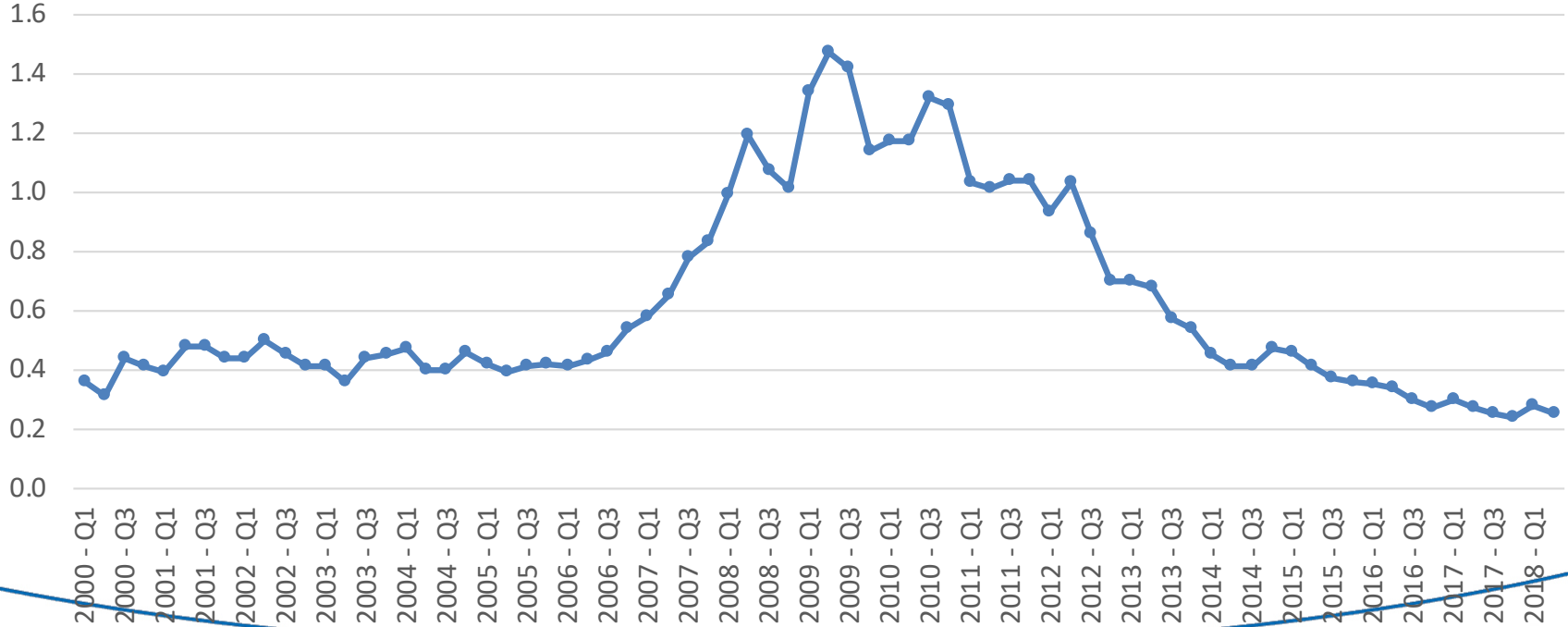
# Mortgage Applications for Home Purchase is Positive, Though Refinancings Collapsing



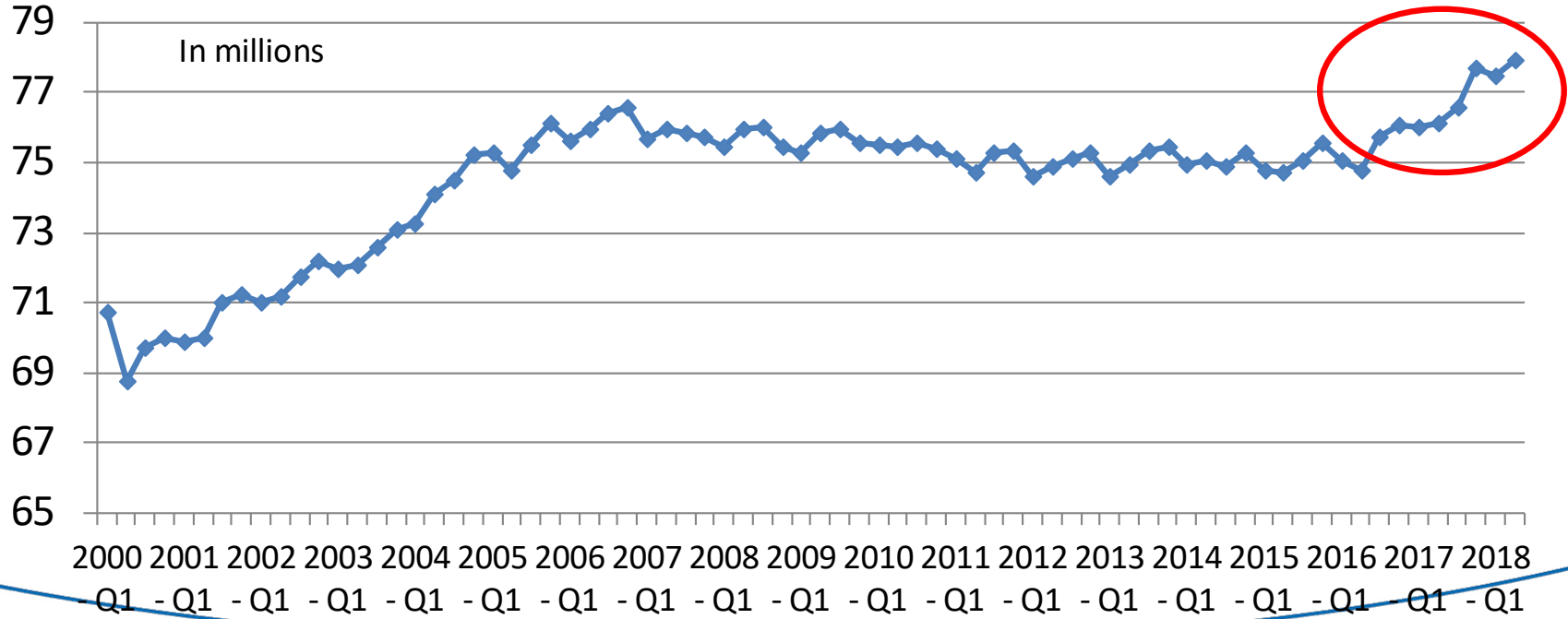
# Early Stage of Delinquency: Late Mortgage Payment (30 to 59 days)



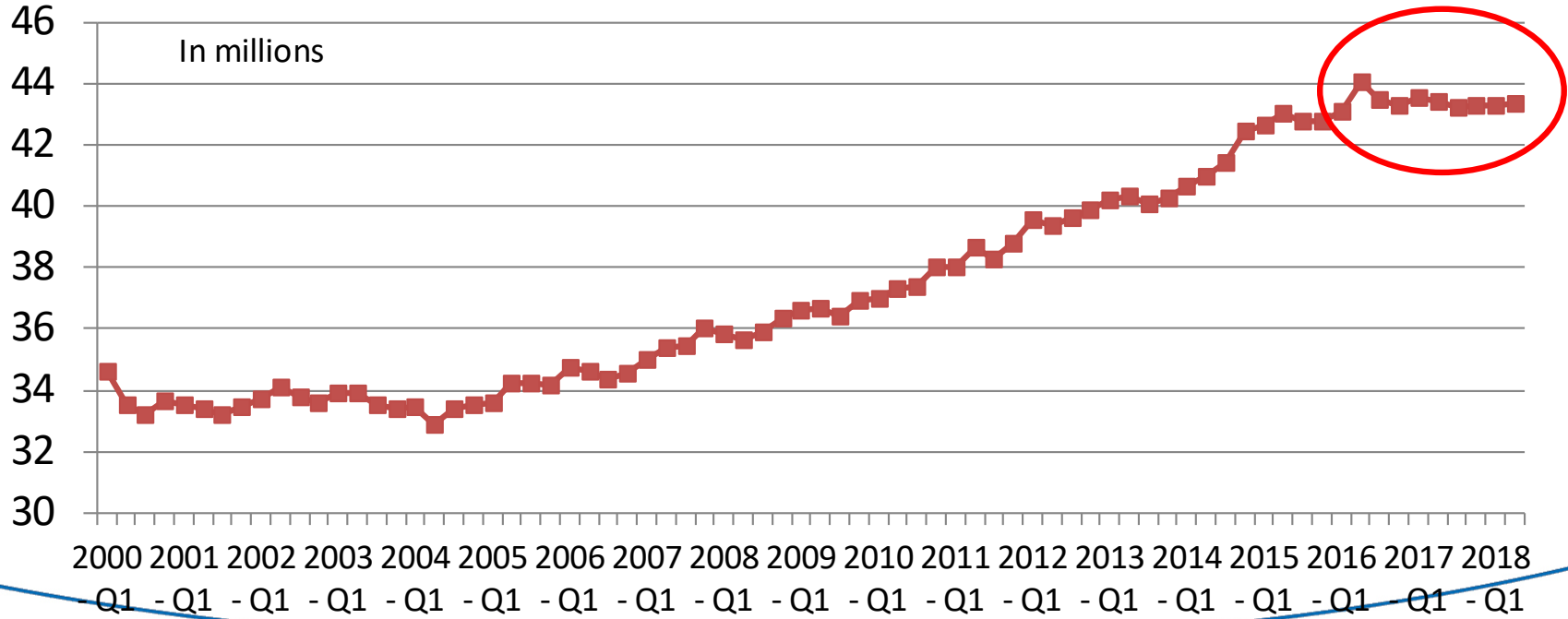
# Last Stage of Delinquency: In Foreclosure



# Homeowners

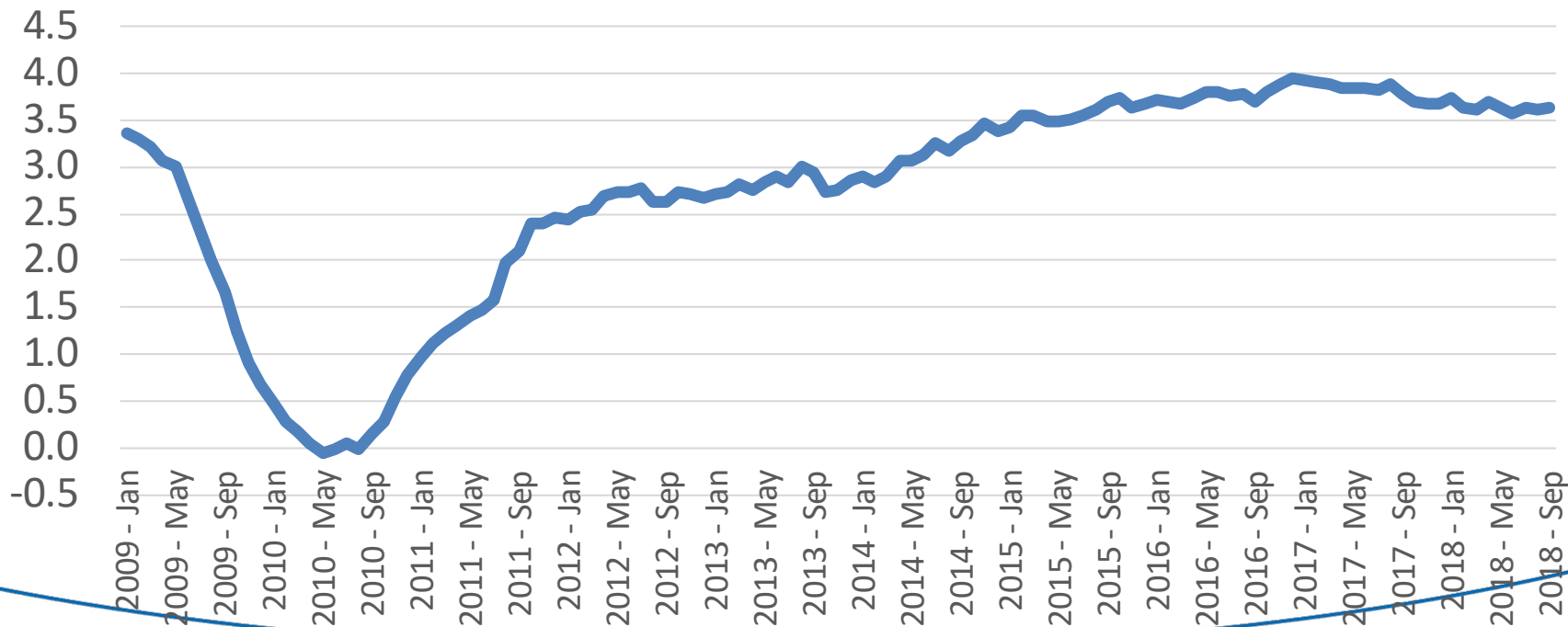


# Renters



# 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)



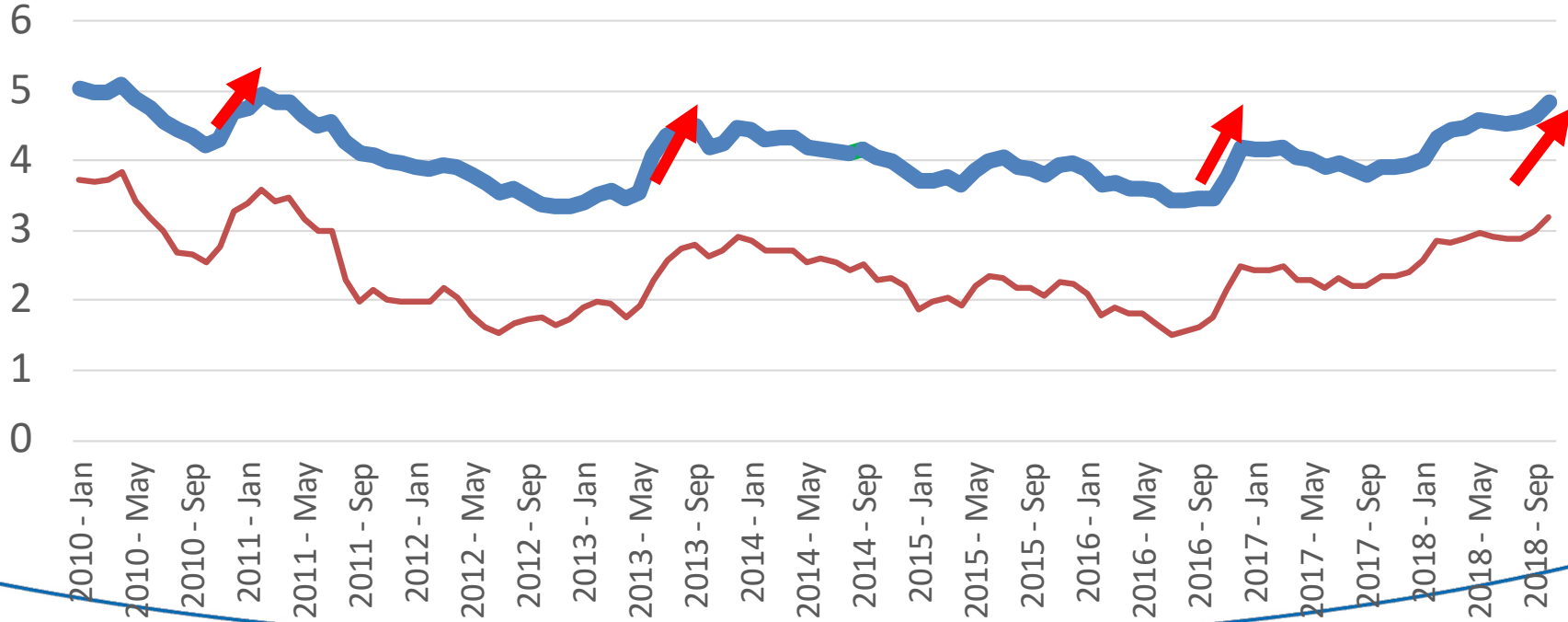
Source: Organisation for Economic Co-operation and Development



[www.imf.org/housing](http://www.imf.org/housing) | #HousingWatch

# Mortgage Rates to Rise Permanently

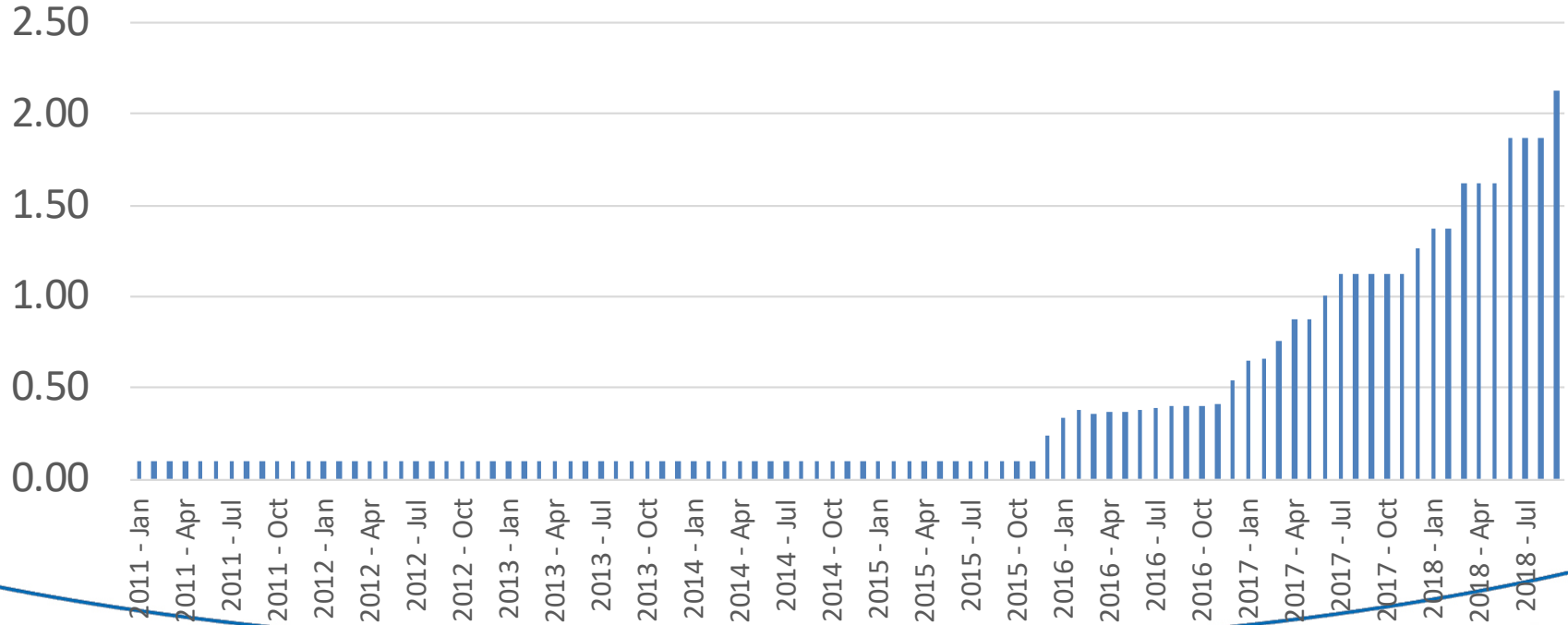
(around 170 basis points spread above 10 year Treasury)





# The Fed ... “Gone Crazy”

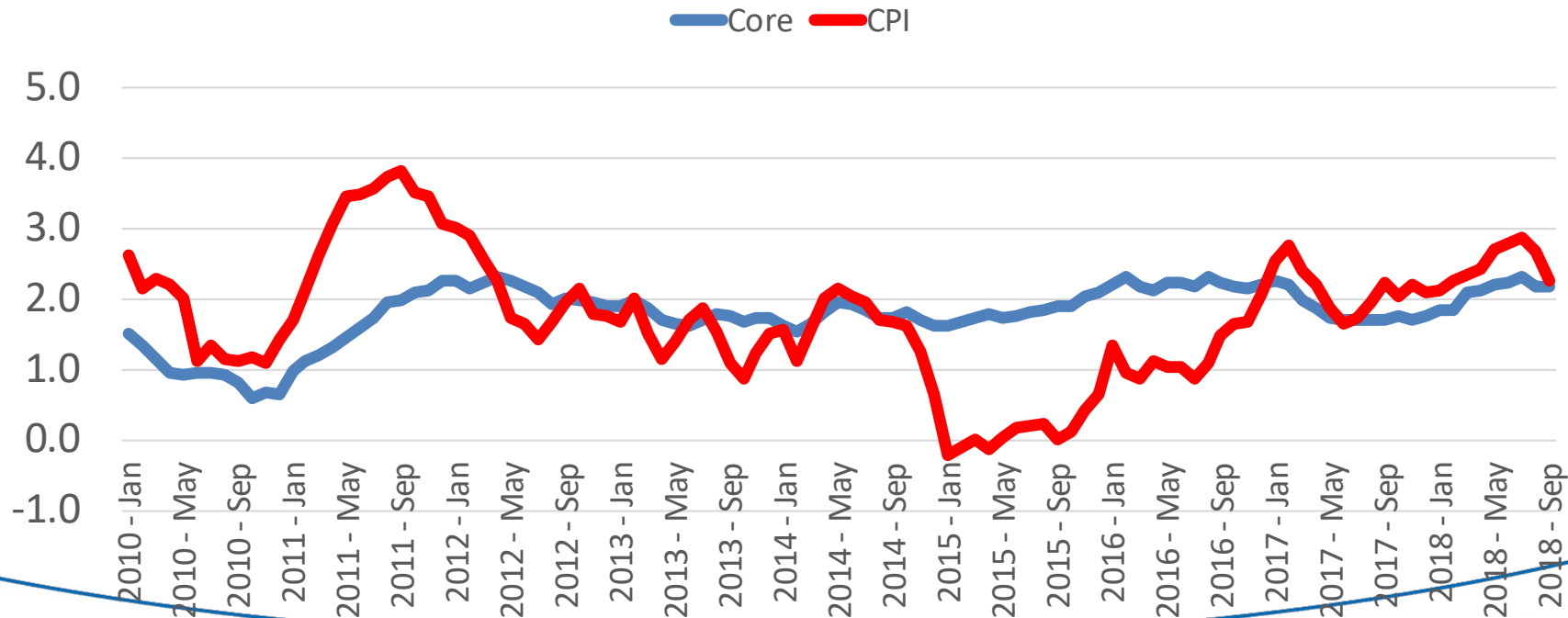
## Fed Funds Rate ... from zero to ...



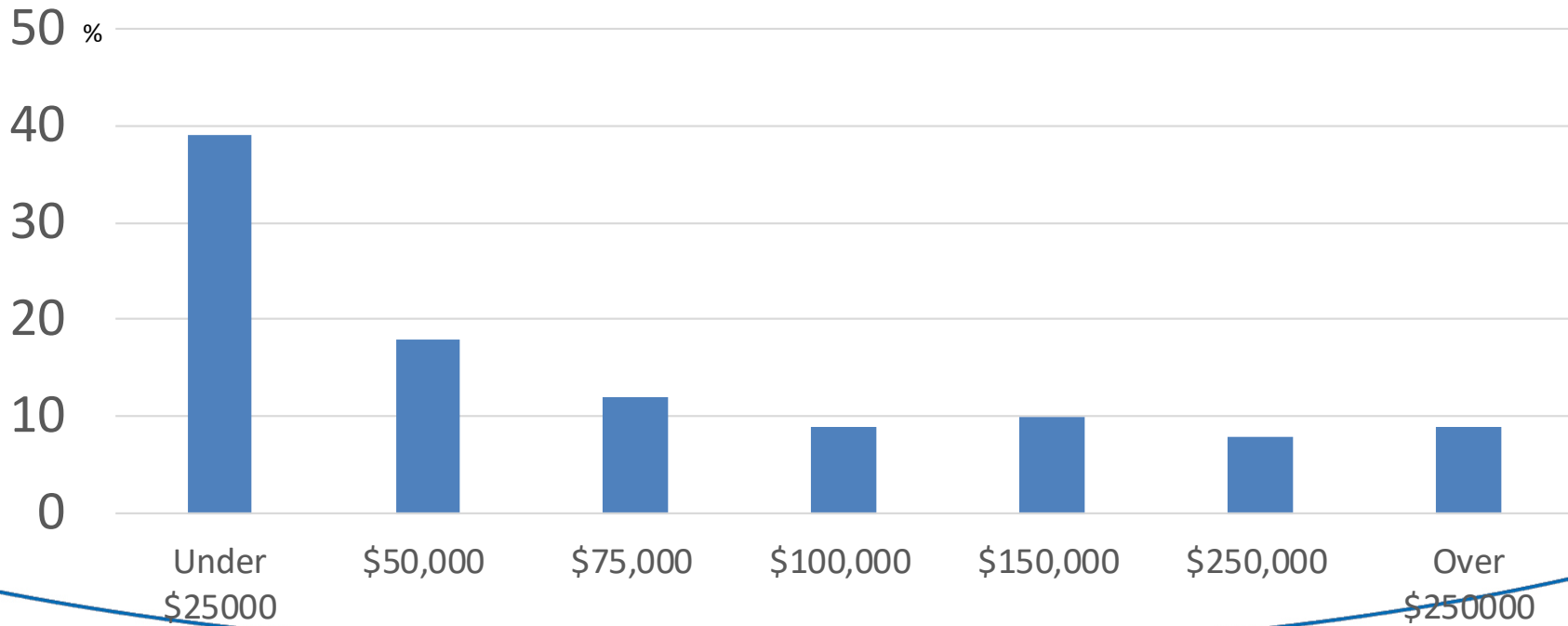
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# Consumer Inflation Stabilizing

(year over year % growth)

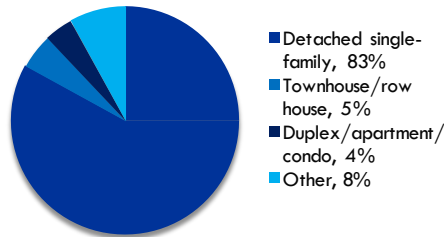


# Realtors<sup>®</sup> Gross Income Distribution

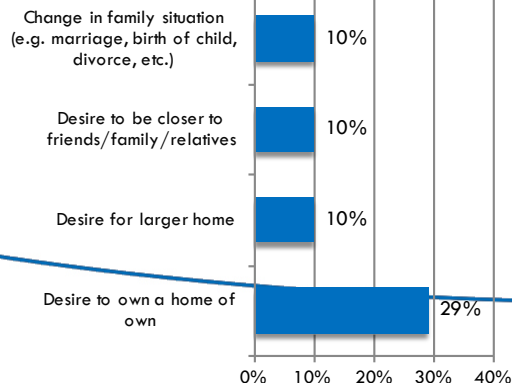


# Buyers of Multi-Generational Housing

## Type of Home Purchased

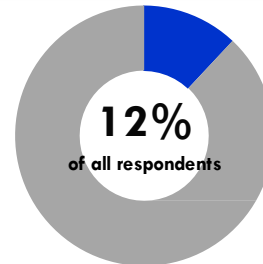


## Reasons to Purchase Home



## 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%

## 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



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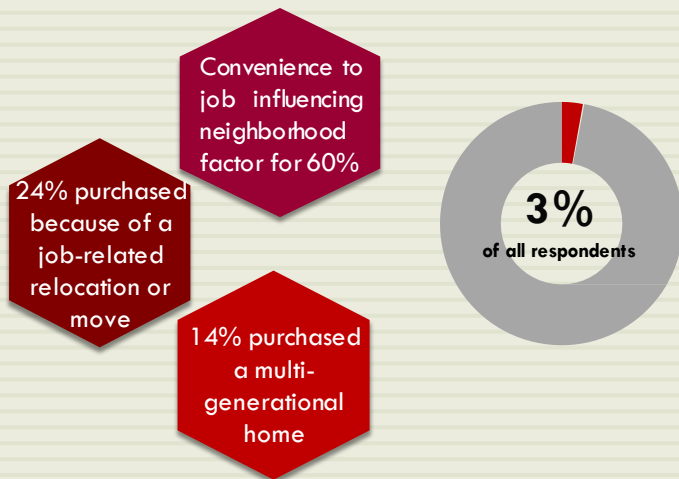
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# Buyer, Self, or Spouse are Active in the Armed Forces or Veteran

## 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

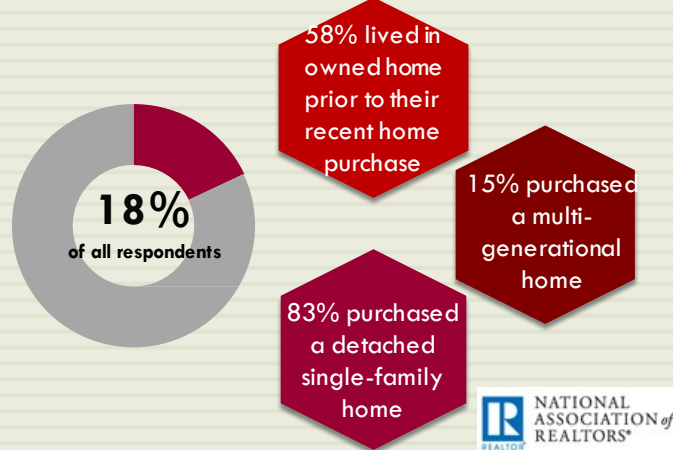
Unique to these buyers:



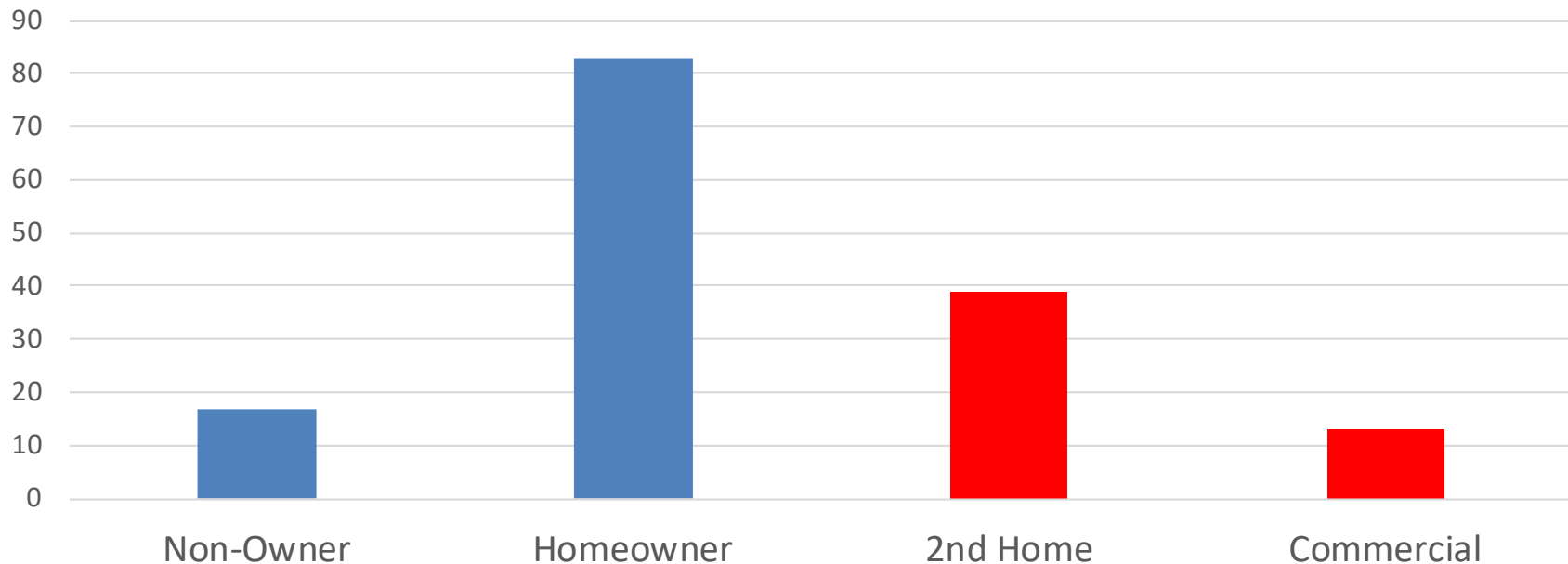
## Veteran Buyer Facts

- 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:



# Realtors® Property Ownership



# 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

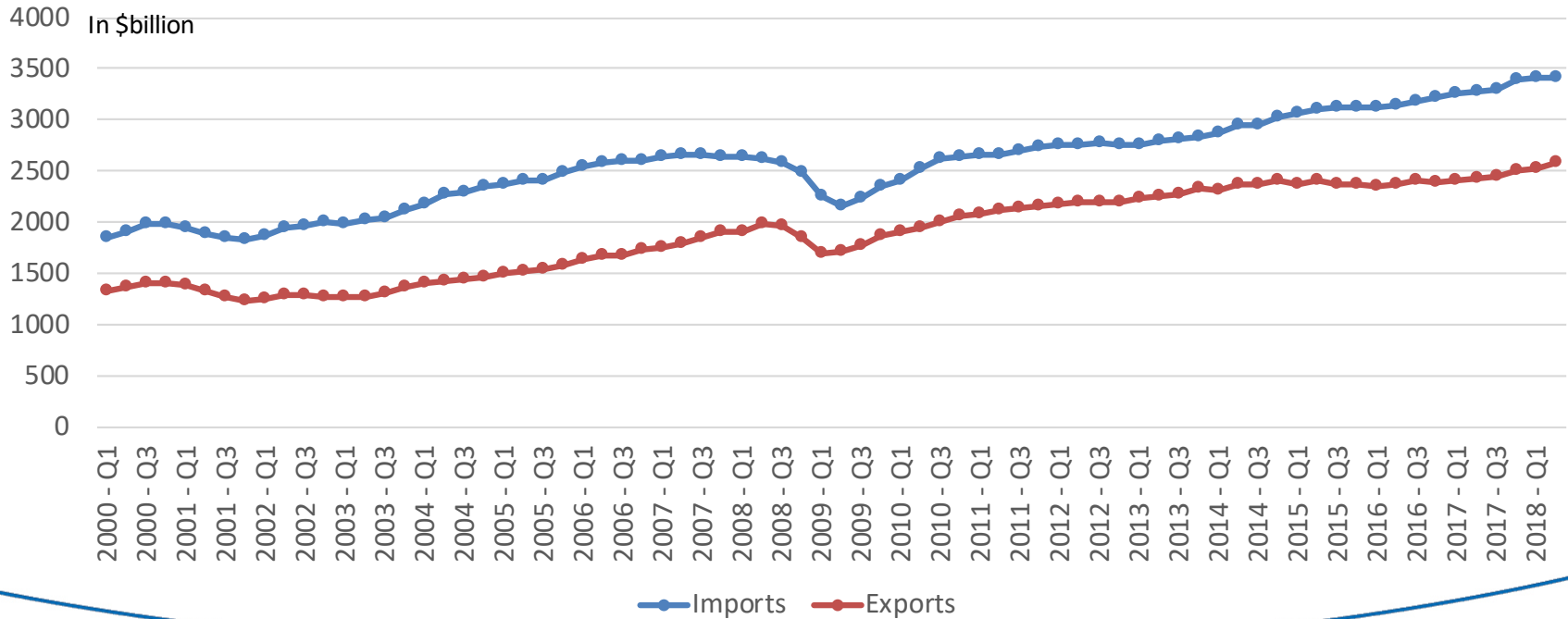


# Risk Factors

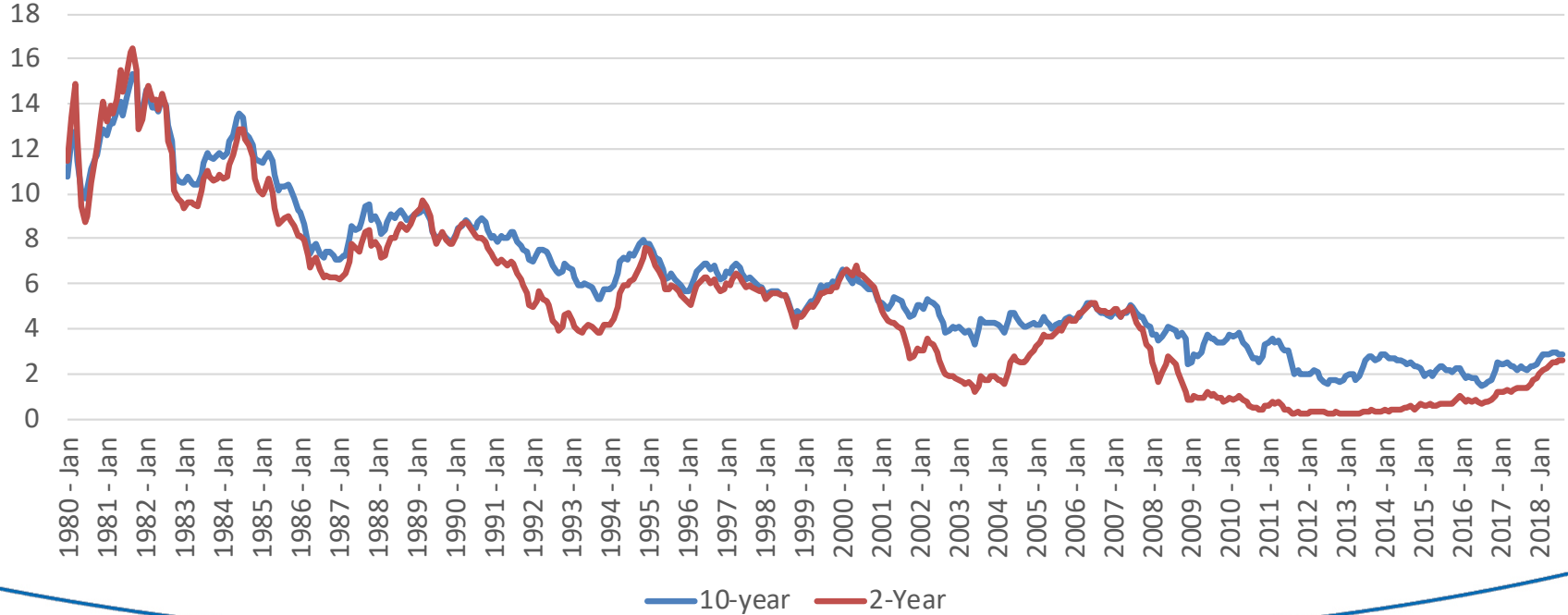
- International Trade Wars
- Inverted Yield Curve
- Shift to Snowballing Pessimism

# International Trade

(Growing 5% per year, twice as fast as GDP)



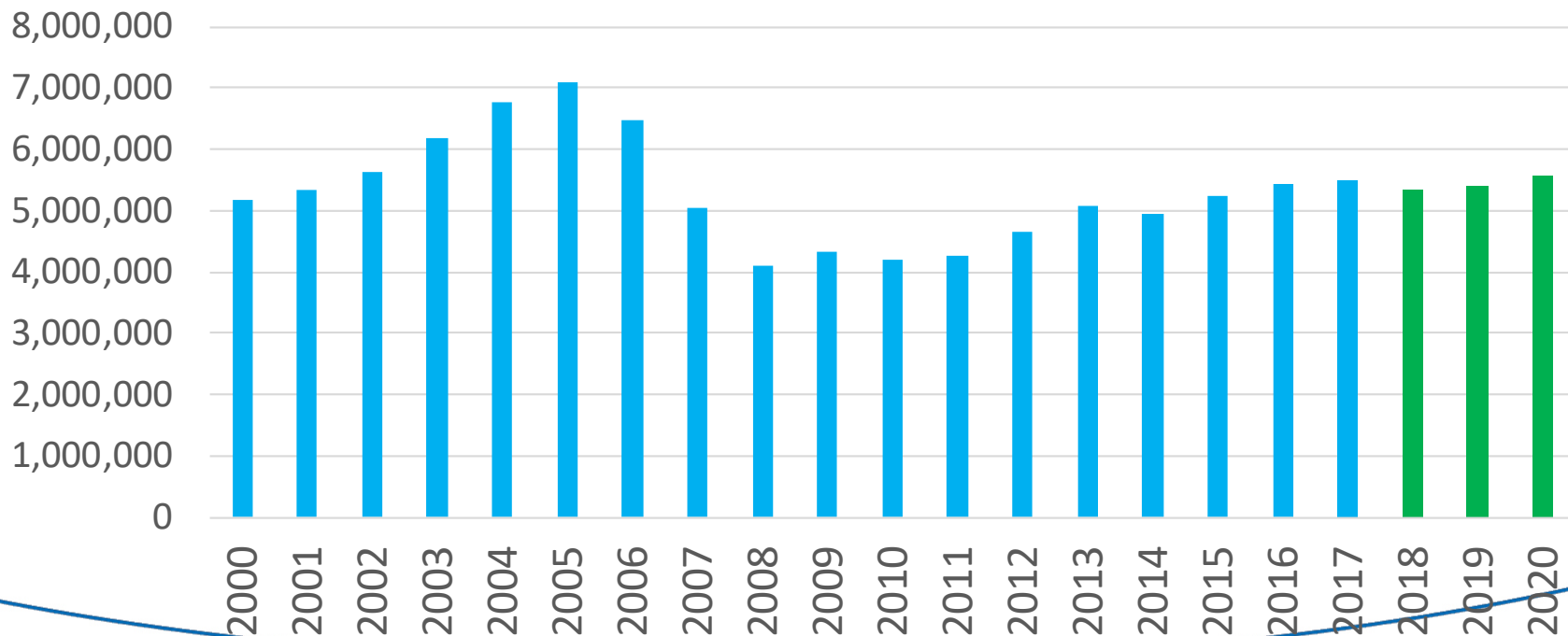
# Yield Curve Inversion?



# Forecast

# National Existing Home Sales

Little Drop in '18; Little Gain in '19 and '20



# Forecast of Home Sales: Boring!

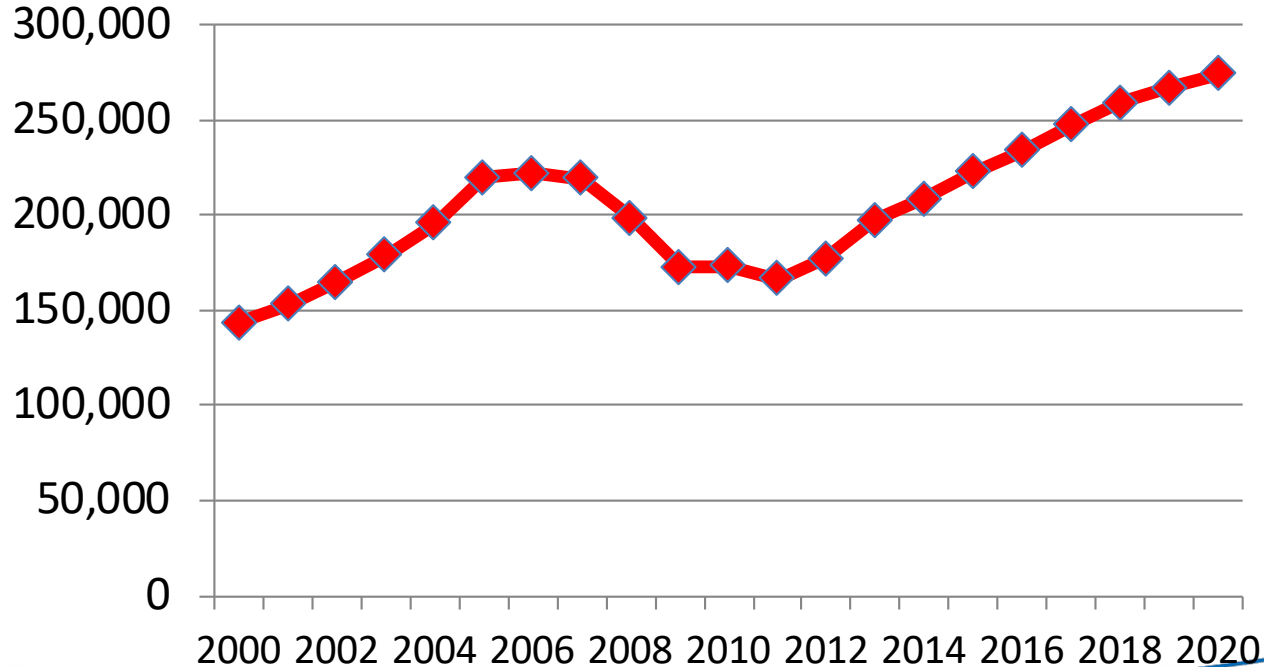
	Existing Home Sales	Newly Constructed	Total
2016	5,450,000	561,000	6.0 million
2017	5,510,000	613,000	6.1 million
2018 forecast	5,345,000	623,000	6.0 million
2019 forecast	5,400,000	690,000	6.1 million
2020 forecast	5,550,000	740,000	6.3 million
2000 Reference	5,173,000	877,000	6.1 million

# Forecast of Home Price

	Median Home Price	% change
2016	\$233,800	5.1%
2017	\$247,200	5.7%
2018 forecast	\$258,900	4.7%
2019 forecast	\$266,800	3.1%
2020 forecast	\$274,000	2.7%

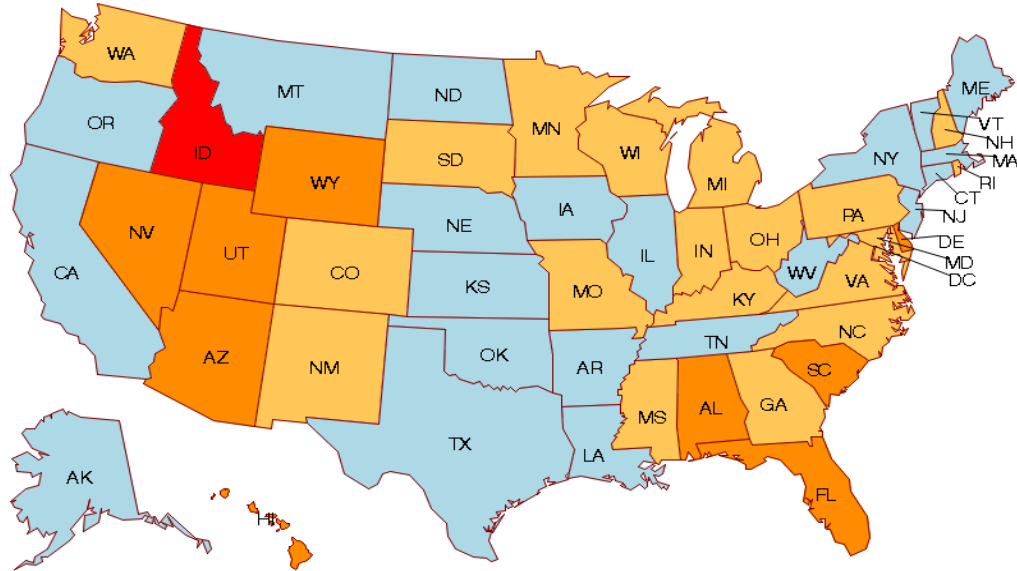


# Forecast of Median Home Price: \$15,000 wealth gain in two years





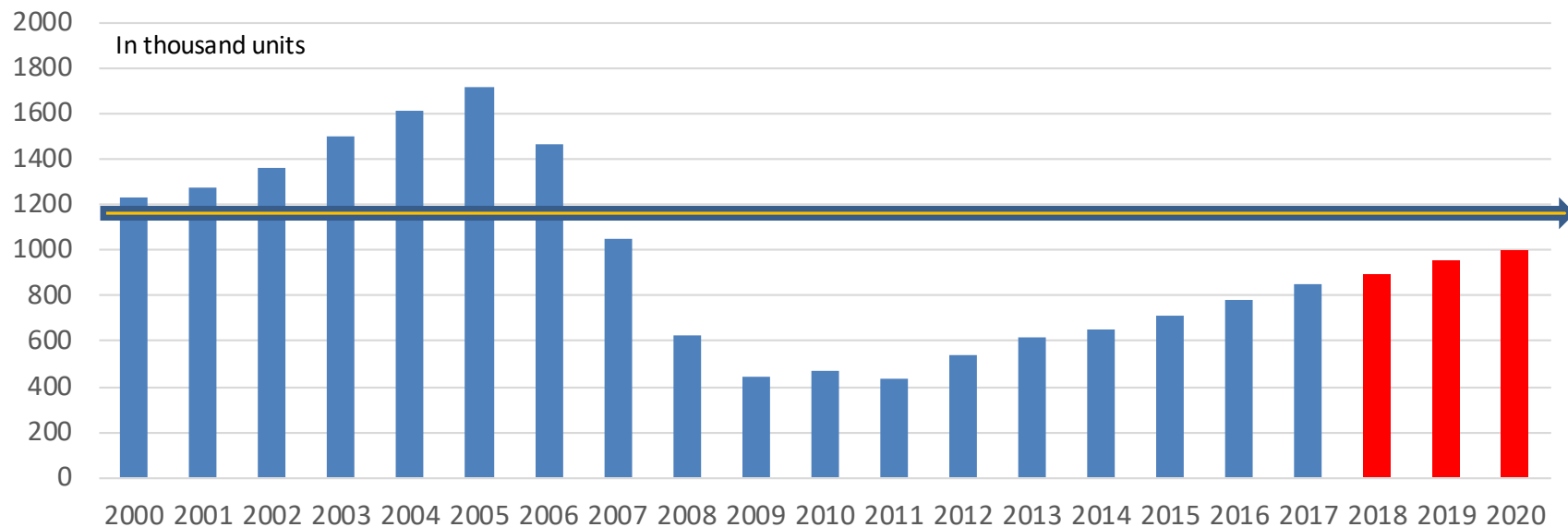
# REALTORS® Median Expected Price Change in the Next 12 Months



Median Expected Price Change Within Next 12 Months (in %) Among REALTOR® Respondents

0% to 2% 2.01% to 3% 3.01% to 4% 4.01% to 5%

# 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.

[OPEN TRACKER](#)



## REALTORS® AFFORDABILITY DISTRIBUTION CURVE & SCORE

Compare the housing affordability of selected metro area level to the affordability statewide.

[OPEN TRACKER](#)



## IS YOUR AREA BUILDING ENOUGH HOUSING?

Comparing single-family construction with the 20-year construction level and the employment growth for 175 metro areas..

[OPEN TRACKER](#)

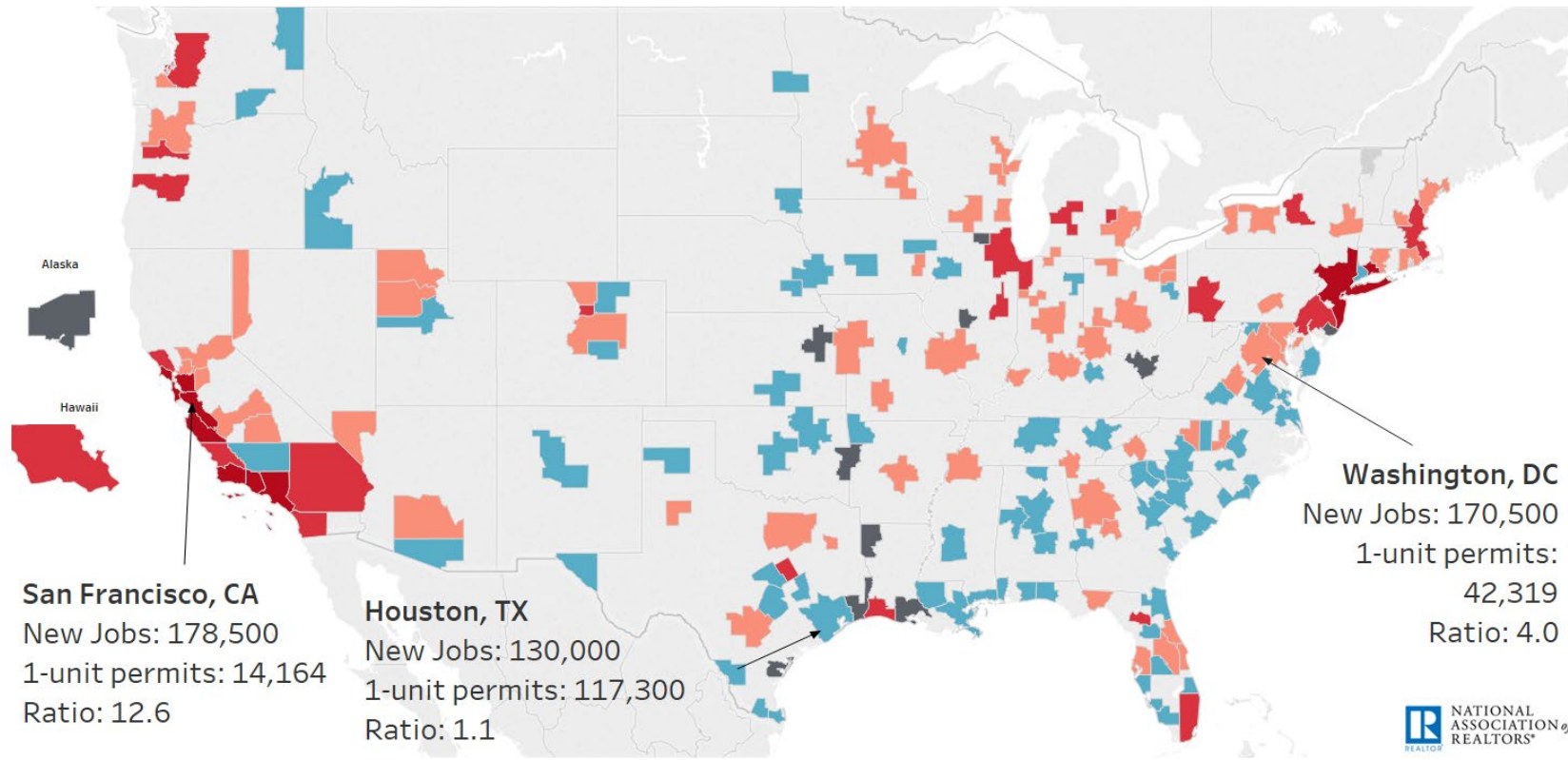


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# Housing Shortage Tracker

June 2018



■ high housing shortage ■ housing shortage ■ need for more permits ■ sufficient supply ■ no job creation ■ job loss

Sources: U.S. Census Bureau. U.S. Bureau of Labor Statistics. NAR Calculations

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ANALYSIS  
of  
TRENDS

# Local Solutions to Consider

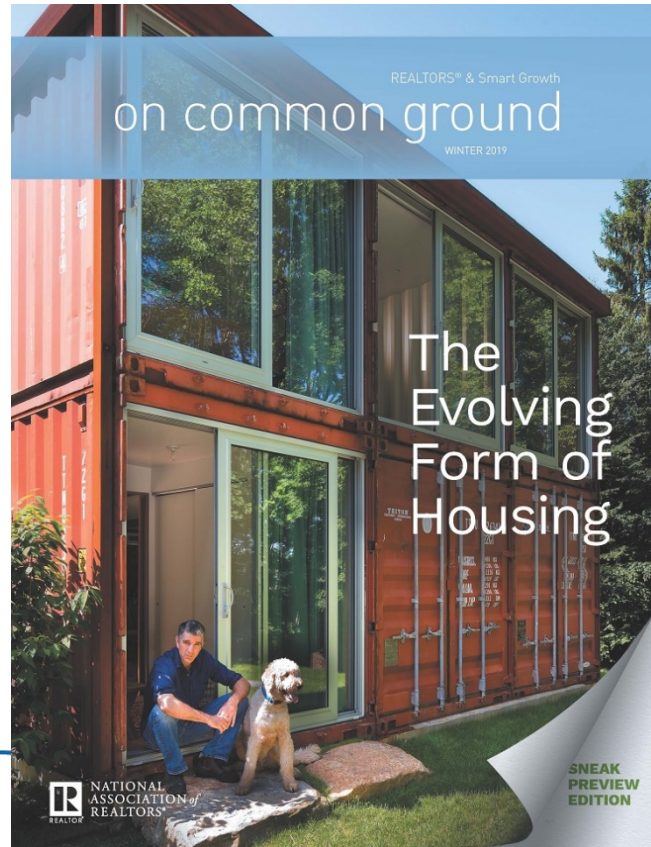
## Short-term approaches

- 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 !