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A Message from Jeffrey Chalmers:

"Where could this force home values?"

NAR Curtails Earlier Home Sales Estimates

In the face of continuing inventory shortages, declining consumer sentiment in favor of buying a home, and concern about the homeownership impacts of the 2017 tax cut bill, the National Association of Realtors® (NAR) has revised down, albeit only slightly, its forecast for home sales this year.

Chief Economist Lawrence Yun told Realtors attending NAR's Legislative Meetings & Trade Expo that, after accelerating 3.8 percent in 2016, existing home sales rose only 1.1 percent to 5.5 million in 2017. He forecasts they will finish this year around 5.6 million, **a gain of 1.8 percent.** In his initial 2018 forecast last November Yun said he expected sales to increase by 3.7 percent to 5.67 million units. Looking further into the future, he sees 2019 sales totaling 5.7 million existing homes.

As he has dozens of times over the past several years, Yun cited the **widespread shortage of homes** for sale as **a major problem** for homebuyers. He said that, while home sales have been rising modestly since the first of the year, the short supply is putting pressure on home prices. Without a larger inventory to satisfy demand, contract activity "is likely to remain flat and will more or less continue sideways through the end of the year."

At the end of March there were 1.67 million existing homes available for sale, down 7.2 percent from the 1.80 million listings at the same point in 2017. Inventory has trended down steadily for the past five years, Yun said, and levels are the lowest in a generation. Available homes are estimated at a 3.6-month supply at the current sales pace compared to 3.8 months a year ago.

Despite the shortages, Yun said "Overall fundamentals remain solid, driven by a growing economy and steady job creation, which will sustain home sales in 2018 slightly above last year's pace. The worsening housing shortage means **home prices are primed to rise further** this year too, hindering affordability conditions for homebuyers in markets across the country."

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.41%	-0.10	0.00
15 Yr. Fixed	6.84%	-0.06	0.00
30 Yr. FHA	6.88%	-0.11	0.00
30 Yr. Jumbo	7.60%	-0.07	0.00
5/1 ARM	7.50%	-0.05	0.00
Freddie Mac			
30 Yr. Fixed	7.17%	-0.27	0.00
15 Yr. Fixed	6.44%	-0.32	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/1

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

Also speaking at the session, Danielle Hale, chief economist at realtor.com® said the affordable inventory shortage is especially acute. According to the website's data there are 250,000 fewer starter homes, those priced under $200,000, now than there were in May 2015. Millennials, boomers and inventors may all be going after the same affordable inventory of homes, so competition is great. Still she expressed some optimism saying they have started to see new listings grow in recent months, but adding "The inventory shortage isn't over, it took us years to get into an inventory rut, so it's **going to take us years to get out of it**, but we do see signs of a turnaround."

Yun also moderated his earlier prediction for a 5.5 percent increase in home prices this year. He said the aggregate of increases from 2011 to 2017 total 48 percent. He expects an additional 4 percent in appreciation this year. The increases, he said, have far outpaced income growth, which is up only 15 percent since 2011. Increased home prices on top of rising mortgage rates - Yun anticipates rates will rise to 4.6 in 2018 and 5 percent in 2018 - puts affordability, measured by NAR's Housing Affordability Index, at a six-year low and he said it will likely continue to fall in coming months.

"Challenging affordability conditions have **prevented a meaningful rise in the homeownership rate** after having fallen to a 50-year low a few years ago," said Yun. "To increase homeownership, more home construction is needed, which could be boosted by delivering regulatory relief to community banks, removing the lumber tariff, re-examining stringent zoning laws and training more workers for the construction industry."

A third speaker, Jessica Lautz, NAR's director of demographics and behavioral insights, presented findings about homeownership from her doctoral thesis, *Is the Dream Still Alive? Tracking Homeownership Amid Changing Economic and Demographic Conditions.* According to Lautz, the affordability crisis has impacted some segments of homebuyers more than others, specifically African American and Hispanic/Latino buyers and those with student debt.

She said **student loan debt has risen dramatically** and presents a massive barrier to homeownership, delaying homeownership among millennials who have it by a median of seven years. Her research found that consumers with student loan debt who were successful in buying purchased a home costing 17 percent less than those without any student debt.

Consumer optimism that now is a good time to buy a home has fallen the past two years, Yun said, citing data from an NAR survey and other studies. Hale said realtor.com has found that buyers aren't giving up their dreams of purchasing a home. New survey data from the website found three-fourths of recent shoppers started their home search in 2017 and are still in the market in 2018.

"Buyers know it's tough, 35 percent of shoppers anticipate a lot of competition, but they remain optimistic, and more than 70 percent expect to close in 2018," she said.

Yun said affordability conditions would improve measurably if homebuilders increased their production of homes, especially in the affordable price ranges. He forecasts housing starts to come in around 1.3 million in 2018 and reach 1.4 million in 2019, but that is barely above year-ago levels and well below demand.