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Realtors Blast Tax Plan Again, Present Ideas for Increasing Homeownership

The last of a series of three working papers on the **hurdles hampering homeownership** was introduced on Friday in conjunction with the 2017 Realtors® Conference and Expo and the 2018 forecast for housing from Lawrence Yun, chief economist of the National Association of Realtors (NAR). Yun said that the many positives for housing that should pave the way for an increase in existing home sales are being handcuffed by continued supply shortages and passage of a tax bill that could disincentivize homeownership.

"Despite considerable demand all year, pending sales have lost a step in recent months because low supply is **pushing prices higher** and making homebuying less affordable in several parts of the country," Yun said.

Yun is estimating the current year will finish with existing home sales at a pace of 5.47 million units. While this would make 2017 the best year since 2006 when sales hit 6.47 million, it will achieve only a modest 0.4 percent increase from 2016. Yun said he expects another 3.7 percent increase in sales next year, to 5.67 million units. He also forecasts price hikes of around 5.5 percent both this year and next.

The biggest impediment to sales, Yun said, is the massive **shortage of supply** in relation to overall demand. The slow pace of new home construction is creating a further logjam, delaying housing turnover. Because of the lack of new homes, homeowners are staying put longer, typically 10 years, keeping inventory low and hurting affordability.

"The lack of inventory has pushed up home prices by **48 percent from the low** point in 2011, while wage growth over the same period has been only 15 percent," said Yun. The inability of renters who want to become homeowners but cannot do so means they are missing out on the significant wealth gains that have come to homeowners through appreciation.

Yun expects single-family housing starts to jump 9.4 percent to 950,000 next year, but that remains well below the 50-year average of around 1.2 million starts. New single-family home sales are likely to total 606,000 this year and rise to around 690,000 in 2018.

After two consecutive quarters of 3 percent economic growth, Yun expects GDP to come in around 2.2 percent for the year and to expand to 2.7 percent overall in 2018 if job growth remains solid and residential construction picks

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/17

Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
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%

up. He also sees interest rates climbing gradually to 4.50 percent by the end of next year.

		Value	Change
Builder Confidence	Mar	51	+6.25%

Yun was joined on stage at the Expo by Ken Rosen, chairman of Rosen Consulting Group and UC Berkeley's Fisher Center for Real Estate and Urban Economics. Both men cautioned that the legislative overhaul proposed last week by the Republican-controlled House of Representatives could very well **affect home sales and prices** next year and into the future. They called the tax bill as proposed "a direct tax hike on homeowners" and said it nullifies the homeownership incentive for all but the top 5 percent of tax filers. It could, according to an NAR analysis, negatively affect home values by about 10 percent and raise taxes on middle-class homeowners by an average of $815.

Rosen, principal author of the three working papers published by NAR and the Fisher Center, including the recent one, Rebuilding the American Dream: Strategies to Sustainably Increase Homeownership, said a perverse mix of affordability challenges, student loan debt, tight credit conditions and housing supply shortages continue to hamper many households' homeownership aspirations. This is despite extremely low mortgage rates that should be fostering the biggest for-sale housing boom in American history.

The paper's solutions fall into two broad general categories;

First, Eliminating supply constraints:

The paper suggestions policy changes that would **reduce regulatory burdens** such as minimum lot sizes, overriding local regulations with state-wide reforms and speeding environmental reviews. Rosen said new home construction could be increased through more use of pre-fab and modular construction, more training for and apprenticeships in the construction trades, and a tax credit for buyers of new homes. He also suggested greater use of accessory apartments,

Then, Improving Access to Affordable, Safe and Sustainable Homeownership:

The nearly two dozen suggestions the paper makes in this category include:

- Broadening affordability through innovations such as downpayment savings programs, graduated payment mortgages, and lease-purchase arrangements
- Reducing student debt burdens by allowing tax deductions for interest payments, standardized mortgage underwriting, and creation of student debt mortgages
- Treating "post-foreclosure stress disorder" through a public relations campaign promoting homeownership benefits, individual counseling, and targeted assistance to reentering homebuyers.
- Improving mortgage credit availability by making small loans profitable, reducing post-foreclosure lending aversion, revisiting debt-to-income ratios and developing alternative scoring models.
- Assuring a sustainable future for the GSEs

Rosen said, "Ownership rates are currently below their peak across the younger age groups and in cities that have seen sharp price increases, and it's not a good thing. A higher rate of homeownership makes sense. It is so important to the financial health of the economy. Homeownership helps **households accumulate wealth** over time, reduces inequality, increases investments in communities and boosts economic growth."

He added, "A willingness to embrace new ideas will go a long way towards easing the constraints of low supply, student debt and weaker affordability that are currently suppressing homeownership."

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