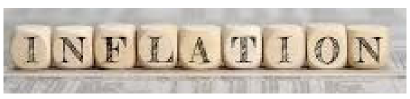
REAL ESTATE TRENDS

FOR REALTORS, HOMEOWNERS AND PROFESSIONALS

April 2024

Between a Rock & a Hard Place

It is no fun being a member of the Federal Reserve right now. The economy continues to grow in spite of higher interest rates and inflation has calmed down. But inflation is still being a bit stubborn and it is taking a longer time to reach the Fed's stated goal of 2.0% inflation rate. Here is the problem --- even though costs for food and services have become steadier (note they have not dropped,), shelter costs are contributing enough to price pressures to keep inflation elevated as a whole.

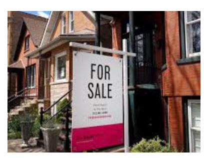


The good news is that we are no longer talking about 9.0% inflation rates—we are more in the 3.0% to 4.0% percent range. However, this is not close enough to the "magic" 2.0% number. Which is where the problem comes in. Higher interest rates caused by the Fed's medicine to combat inflation are contributing to the higher shelter costs. Logically, if the Fed lowered interest rates, the costs for mortgages would be lower and this would take some pressure off shelter inflation. Higher rates affect not only those buying homes, but also those who are renting because landlords pass on the higher costs of mortgages to their renters.

Seem simple? Not so fast. If the Fed lowers interest rates too quickly in an era of housing inventory shortages, the price of real estate could start climbing more rapidly. The cost of homes is another important part of the equation and significant increases would theoretically offset the savings of lower interest rates. Thus, the Fed can't afford to lower rates too quickly and the situation becomes a balancing act. Which is why we say that the Fed is between a rock and a hard place. The solution? The Fed needs to start lowering rates, but slowly unless the economy slows and the housing inventory shortage eases...

Housing Price Forecast

A panel of housing experts expects annual national home price growth of 3.8% this year and 3.4% in 2025, according to the Q1 2024 Fannie Mae Home Price Expectations Survey. Fannie Mae and Pulsenomics polled more than 100 experts across the housing and mortgage industry and academia. Their consensus for national home price growth is higher than last quarter's expectations of 2.4% for 2024 and 2.7% for 2025.



Additionally, a higher percentage of panelists indicated higher upside risk to their home price forecasts–41 percent in the first quarter compared to 26 percent in fourth-quarter 2023–with a majority citing ongoing housing supply constraints and lower mortgage rates as their basis for that belief.

"On average, our panelists continue to expect home price growth to decelerate this year, but their overall outlook was revised upward this quarter," said Hamilton Fout, Fannie Mae vice president of economics. "If mortgage rates move toward the panel-predicted six percent median rate by the end of 2024, we would expect this to be supportive of continued home price growth, particularly given the persistent supply-side challenges facing the housing market."...

Source: Fannie Mae

Selected Interest Rates

March 21, 2024

30 Year Mortgages———6.87%
2023 High (Oct 19)———7.79%
2023 Low (Jan 26)———6.09%
15 Year Mortgages———6.21%
10 Year Treasuries———4.28%

Sources—Fed Reserve, Freddie Mac
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for comparison purposes.

Ownership & Wealth

Homeownership plays an integral role in a household's accumulation of wealth. Households who own a primary residence build primary residence equity, while renters have zero residence equity. In the third quarter of 2023, CoreLogic's homeowner report analysis detailed that U.S. homeowners with mortgages have seen their equity increase by a total of $1.1 trillion, a gain of 6.8% from the same period in 2022.

An analysis of the Survey of Consumer Finances (SCF) suggests that the households who owned a primary residence own owned 16 times more stocks and bonds than renters, and 15 times more business interests and retirement accounts than renters. On the debt side of homeowners' balance sheets, the value of the primary home mortgage debt was the largest liability faced by homeowners. More than half of homeowners above the age of 65 did not have mortgage debt. For renters, the value of credit card and installment debt was the largest liability in their debt category.

Net worth, the measure of households' wealth, is the difference between families' assets and liabilities. An analysis of the 2022 SCF found that homeowners had a median net worth of $396,000, while renters had the median net worth of just $10,400...

Source: National Association of Home Builders

Did You Know...

Home buyers who paid cash accounted for 32% of home sales in January, marking the highest rate since 2014, the National Association of REALTORS® reports. Many leveraged equity from a prior home sale. Vacation-home buyers and investors made up the bulk of all-cash buyers over the last six months, according to NAR. However, in the last two years, more buyers purchasing a residence are using cash as well.