REAL ESTATE UPDATE

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- ☑ **Residential Purchases**
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- ☑ **Home Equity Loans**

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

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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.

Selected Interest Rates

March 21, 2024

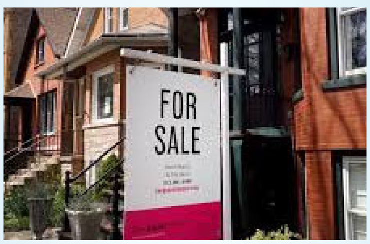
30 Year Mortgages———6.87%
2023 High (Oct 19)———7.79%
2023 Low (Jan 26)———6.09%
15 Year Mortgages———6.21%
10 Year Treasuries———4.28%

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.

In This Issue

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

Should I Buy...

While much homeownership "suitability" analysis focuses within the area of finances, there are also other "non-financial" questions with regard to suitability. For example…

- Is this house in the right location? Location may be important with regard to commuting to jobs and activities. With higher energy costs and increased traffic in urban areas, commuting takes on a higher level of significance.

- Is the home large enough for my present and future family and is this where I want to raise them? This issue requires not only the analysis of family size and school districts, but also the proximity to activities and other services.

- Is this the home I would like to retire in? For those whose children are older, the question of retirement comes into play. For example, does the house require major maintenance that you don't have the ability to take on during retirement?

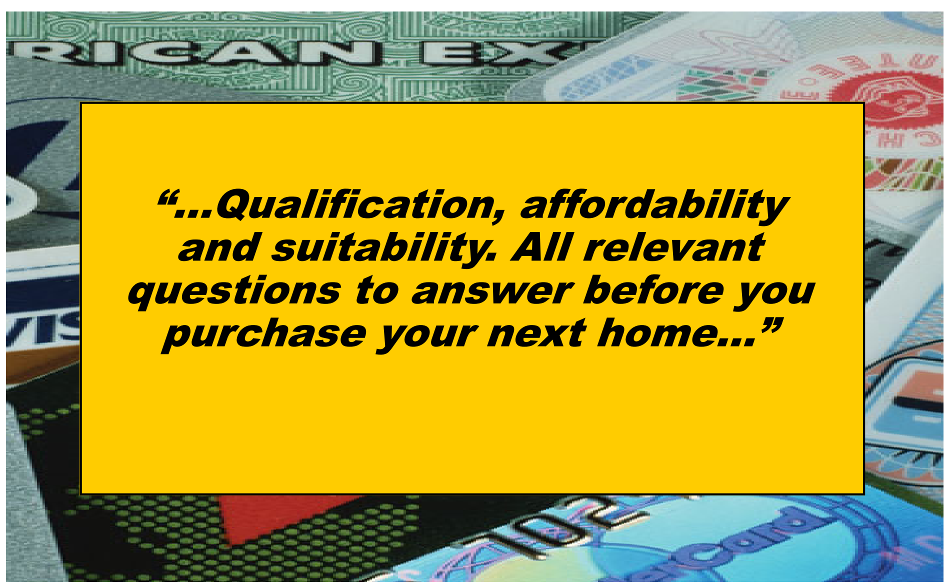
- Does this home have the amenities my family desires? For example, do I want a big yard for children to play in or for other enjoyment? Do I want a big kitchen and dining room in order to entertain?

- If I were to leave quickly, how marketable or rentable is this house? The best "buy" which is most affordable because it is in the middle of the country may not be the best choice for those who need to be mobile.

We could go on and on regarding the choice of the home and location. However, we can't ignore the financial aspects of suitability. These include–assessing the house with regard to meeting your financial needs in the future.

For example, the cost of the housing payment after taxes represents an important issue with regard to affordability. Part of the reason this home may be affordable is because of the tax deduction. However, if you are not paying taxes because of other deductions, you may not receive most of the benefit of the home purchase.

This may be especially true for those who are self-employed and may use their status to "write-off" much of their income. The future becomes an issue when the status of your income and de-



"...Qualification, affordability and suitability. All relevant questions to answer before you purchase your next home..."

...This House?

ductions change. If income is to rise, then the home actually will become more affordable in the future, both because you have more income and because the tax deduction may become more important.

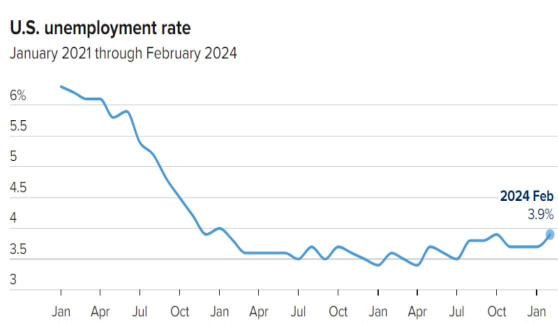
If you are employed and will get the benefit of a tax deduction, you can make the home more affordable on a monthly basis right now by increasing your withholding exemptions on your IRS Form W-4 which is filed with your employer. This will lower your tax withholding on a monthly basis and can make more income available each month to help you afford the payment.

Another financial issue with regard to suitability involves whether future changes may make the home more or less suitable. For example, the payments of adjustable rate mortgages may change in the future and this possibility must be taken into account when purchasing and financing a home. When short-term rates rise, so do the payments on adjustable rate mortgages, especially if the start rate is very low. This is called a "teaser rate." Basically, if your payment were to rise by $200 to $1,000 per month, depending upon the size of the loan, could you afford the increase?

There are additional issues with regard to the future suitability of home ownership–

- Will the long-term appreciation of the home help you finance debts at a lower-monthly cost than you are paying now? Debt-consolidation loans using the equity in a home have been very popular in the past for a nation that seems to be very dependent upon the use of credit. Of course, the use of this equity means that it cannot be used for other purposes such as retirement.
- Will the home require major maintenance in the near- or long-term? The purchase of "fixer-uppers" may be very suitable for those who are handy or have liquid assets for contractors. For others, having a home in need of maintenance can be a psychological and financial burden.
- Will my situation change in the future? Retirement, job changes, increases and decreases in income and family size. All of these are relevant to analyze.

Qualification, affordability and suitability. All relevant questions to answer before you purchase your next home..... ❑



Between a Rock & a Hard Place...

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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..... ❑

"...The economy continues to grow in spite of higher interest rates..."

My goal is to provide expert advice and direction for my clients with an overall goal of providing a real estate finance transaction that exceeds their goals and expectations.

-- John Doe
Senior Loan Officer

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

Address Correction Requested

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