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HOUSING MARKET AND THE ECONOMY

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After the housing crash and resulting financial crisis, investor attention was focused on the housing market recovery. Now that the crisis is over and housing has recovered, investors are paying less attention to this area of the economy. Because housing is typically the largest purchase most people make, it is important for both homeowners and investors to keep track of the housing market and its impact on the economy overall, as well as on various other sectors and industries. Thus it's worth looking at national trends because they influence the overall economy, but regionalism does help to explain why some markets are hotter than others.

After starting the year at the fastest pace in almost a decade and experiencing a slide in existing home sales in February, March existing home sales rose to their highest pace in over 10 years. Total existing home sales which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 4.4% to a seasonally adjusted annual rate of 5.71 million in March from a downwardly revised 5.47 million in February. March's sales pace is 5.9% above March a year ago and surpasses January as the strongest month of sales since February 2007 with sales of 5.79 million. The strongest markets in March were in the Northeast (10.1%) and the Midwest (9.2%) with the West seeing the only a decline in sales activity. The median existing-home price for all housing types in March was $236,400, up 6.8% from a year ago after February's increase of 7.7%. March's price increase marks the 61st consecutive month of year-over-year gains.

NAR Chief Economist Lawrence Yun says that existing sales roared back in March and were led by hefty gains in the Northeast and Midwest. "The early returns so far this spring buying season look very promising as a rising number of households dipped their toes into the market and were successfully able to close on a home last month," he says. "Although finding available properties to buy continues to be a strenuous task for many buyers, there was enough of a monthly increase in listings in March for sales to muster a strong gain. Sales will go up as long as inventory does."

Declining inventories of homes for sale has been a notable problem since the beginning of the housing recovery in 2013. This problem has grown more serious over the past 2 years. Total housing inventory at the end of March increased 5.8 percent to 1.83 million existing homes available for sale, but still 6.6% lower than a year ago (1.96 million). Inventory has fallen year-over-year for 22 straight months, implying that demand is outweighing supply. At the current pace of sales, it would take 3.8 months to exhaust available homes for sale, the lowest since February 1999 and a little above the historic low of 3.5 months. Properties typically stayed on the market for 34 days in March, down from 45 days in February and 47 days a year ago. Low inventory of homes for sale is driving home prices higher. The S&P CoreLogic Case-Shiller National Home Price Index (HPI) rose 7.1% nationwide in March compared to March 2016 but is still 2.8% below the April 2006 peak. Washington State showed the largest HPI gain of all states in March

2017 followed by Utah. Prices in 27 states have risen above their pre-crisis peaks and prices in 10 states are within 5% of their pre-crisis peaks.

According to Freddie Mac, the average commitment rate for a 30-year conventional, fixed-rate mortgage rose for the fifth straight month in March to 4.20% from 4.17% in February. The average commitment rate for all of 2016 was 3.65%. The Mortgage Bankers Association, Fannie Mae, Freddie Mac and the National Association of Realtors are all projecting that mortgage interest rates will move upward in 2017. Increasing interest rates will definitely impact purchasers by lessening home-buyer affordability, which will lead to a drop in mortgage refinancing and affect other aspects of the housing market such as homeowner demand and mobility. Mobility, or the number of years between the home purchase and its subsequent sale to another buyer, increases by one year when rates increase by 1.5 percentage points. The nearly 0.75% rise in fixed mortgage rates since last summer, suggests that the for-sale inventory may continue to remain lean for the foreseeable future, adding upward pressure to home-price growth.

It seems that first time buyers are still struggling to enter the market. First time buyers were 32% of sales in March, unchanged from February, and up slightly from a year ago. The NAR released a survey looking at the home buying opportunities of student debt borrowers who are current in their repayment. Student loan debt in America has reached $1.4 trillion, surpassing every type of consumer dent except mortgages. The average 2016 graduate has $37,172 in student loan debt per borrower. This represents a 6% increase from the average debt of 2015 graduates. The survey findings agree with the notion that repaying student debt is a contributing factor to the low homeownership rate among young adults and the underperforming share of first-time buyers. Most of these non-homeowners (71%) believe their debt is stymieing their ability to purchase a home and over half of all borrowers say they expect to be delayed from buying by more than five years. A majority of non-homeowners in the survey who earned over $50,000 a year, which is above the median U.S. qualifying income needed to buy a single family home, reported that student debt is hurting their ability to save for a down payment. Conversely, 31% of current homeowners said their student debt is postponing them from selling their home and purchasing a new one.

Student loan debt creates obstacles to homeownership in a few different ways. First, first-time home buyers cause a chain reaction in the housing market which creates activity throughout the economy, from moving trucks rental to appliance purchases. They often purchase a lower-priced starter home, which causes an established household to sell. Second, making a student loan payment every month reduces the amount of income you can save for a down payment. Third, student loans can make it harder to qualify for a mortgage. Lenders want all of your monthly debt obligations to equal no more than 43 percent of your monthly income. With a student debt payment, car payment and credit card payment, there may not be much room left for a mortgage payment.

Through the Dodd-Frank Act, Congress ordered the creation of TRID to improve the loan disclosures made to consumers. In October of 2015, any transaction involving a mortgage used the new disclosure forms created by the Consumer Financial Protection Bureau. The newly designed Loan Estimate and Closing Disclosure form make it easier to focus upon what is important. The forms' design and language make the loan terms and loan costs easier to understand and potential errors or problems easier to recognize. The other big change as a result of TRID is that the consumer must receive the closing documents within three business days of closing. The Closing Disclosure form captures all of the costs paid by the consumer. Three changes will require a new Closing Disclosure form and will require a new three-day waiting period: change

in APR greater than 1/8%, a change in loan product, or the addition of a pre-payment penalty. This change in loan disclosures did create a slowdown in the mortgage process while all parties in the transaction came to grips with the new rules.

Housing and the Economy

Housing is a significant driver of economic activity. When the economy is strong and people are confident about the future, they are more inclined to buy houses, upgrade their current homes, or buy larger houses. When they are more concerned about the economy, new home construction, remodeling, median prices, and housing sales are all depressed.

Housings impact can be either direct or indirect. Residential real estate is often the greatest source of wealth and savings for many people. Housing's combined contribution to gross domestic product (GDP) generally averages 15-18% (15.8% of fourth quarter 2016 GDP) and occurs in two basic ways:

Residential Investment (averaging roughly 3-5% of GDP and was 3.5% of fourth quarter 2016 GDP), which includes construction of new single family and multifamily structures, residential remodeling, production of manufactured homes, and broker fees.

Consumption spending on housing services (averaging roughly 12-13% of GDP), which includes renters' gross payments of rent and utilities, and owners' imputed rent (an estimate of how much it would cost to rent owner-occupied units). Including owners' imputed rent in GDP has been standard practice in national income accounting for a long time. Were owners' imputed rent not included, an increase in the homeownership rate would cause GDP to decline.

According to the National Association of Homebuilders, in 2015 (last available data) building an average single-family home created slightly less than three jobs. Building an average rental apartment created slightly more than one job, and $100,000 spent on remodeling created just less than one job. Probably the most obvious impacts of new construction are the jobs generated for construction workers. But at the national level, the impact is broad-based, as jobs are generated in the industries that produce lumber, concrete, lighting fixtures, heating equipment, and other products that go into a home remodeling project. Other jobs are generated in the process of transporting, storing and selling these projects. Still others are generated for professionals such as architects, engineers, real estate agents, lawyers and accountants who provide services to home builders, home buyers and remodelers.

Price appreciation enables households to refinance debt, thereby reducing interest expenses, as well as tap into home equity via lines of credit or cash-out refinancing. A one dollar increase in home values lifts consumer spending by five to ten cents.

The housing market looks healthy and should continue to improve. However, higher home prices, upticks in mortgage rates, modest wage gains, and still-cautious consumers and home-builders could hold back the pace of improvement. But this continued strong market should also lead to a modest tailwind to both the overall economy and the American consumer.

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