Stats, Starts, and Seeing into the Future

When it comes to predicting the future of the market, the best indicator is in 2015's housing data.

By **Brandon Boudreau**

"Never make predictions, especially about the future" —Casey Stengel

Despite these immortal words, as 2015 comes to a close, it's hard not to speculate on what the new year will bring. While no one can completely predict the future, it is possible to use current market conditions to extrapolate on the year to come. Just as we have seen in the past, home prices, inventory, and engaging millennials will be just some of the hot-button issues affecting housing and mortgage professionals in 2016.

Momentum Building into the New Year

The housing rally, while sometimes volatile, does appear to be stabilizing with assistance from rising employment. Recent stock market turbulence and fear that the economy is not strong enough led the Federal Reserve to continue to hold off raising rates. It is worth noting the Fed has not raised rates in nine years. The Fed Fund rate has remained at zero for seven years. The decision to keep historically low finance rates in place has allowed the housing rally to continue for the remainder of 2015 (albeit seasonally slowing) and should help the momentum going into next year.

Housing Starts, Inventory, and Pricing

In 2016, we will continue to see a rise in housing starts as high as a 10 percent increase year-over-year. In 2015 new construction did not meet demand and builders still have the proverbial green light, especially in hot markets like New York, Miami, Dallas, Denver, Atlanta, Phoenix, and Austin. There is also a housing shortage in California, but with uncertainty pertaining to the effect of the current drought and subsequent building restrictions, it is difficult to predict what will happen in the Golden State with homebuilders.

With historically low national inventory levels that are improving, existing home sales will also continue to rise, although rates will be exceeding 5 percent by 2016 year end. Optimism can be gained from the fact that the majority of homebuyers are purchasing homes under $250,000, so a slight uptick in mortgage rates will only limit the price of the potential purchase, not deter them from actually buying a new home altogether.

The national sales-to-list ratio is also showing that the housing market is still strong. However, the expected steady rise in rates will cut refinance volume by 20 percent year-over-year; but the refi rush for the lowest rate should steadily taper off.

It is not all doom and gloom, as the purchase market should help stabilize the overall lending market, leaving originations overall to only drop by 5 percent year-over-year. Even if employment numbers moving forward are not as strong as recent years, household formation is increasing, and the demand for housing is on the rise. We will continue to see an increase in property values and, as equity positions improve, more supply will be on the market and improve overall inventory. This is not the case everywhere, as we have already witnessed some markets start to taper off—like Baltimore and Philadelphia—and others that have been impacted by declining oil prices—like Alaska, North Dakota, and parts of Texas. Nationally we should expect home values to continue to rise. The improved inventory will help buyers get off the sidelines and property ladder climbers can make their moves much easier than in recent times.

The Millennial Factor

There is a lot of speculation as to when the millennial generation (75 million in all) will start "buying in" to the housing market. Based on recent studies, it appears the majority of this generation intend to own a home soon, but when will millennials start having a noticeable effect?

Millennials came out of college into one of the worst U.S. job markets of all time. While it may not be in 2016, the trend of millennial buying will start going the right way as inventory opens up. With the current student loan debt crisis ($1.2 trillion and counting) preventing many from being able to get their "skin in the game," coupled with current down payment requirements, the ability to qualify for a mortgage is still a looming issue.

New FHA rules that took effect in the third quarter of 2015 only make it more difficult for

student debt holders (even if you have a deferred payment plan in place) to qualify for a mortgage. Many large lenders have drastically moved away from FHA-backed loans due to perceived credit risk. The mortgage credit availability index continues to trend the way of loosening credit standards, but the data is skewed by jumbo loans, while entry-level market entrance is still relatively difficult to overcome.

Essentially, it is only getting easier for high-end real estate owners to qualify at this time. If loosening credit standards continue to be the trend in the conventional lending arena, it could be the catalyst to engage the millennial generation to help stop the declining trend of US homeownership, which is at a 48-year low. It is critical for the market as a whole to move towards more inclusionary housing policies. As lenders operate with more familiarity in today's regulated environment, the trend will continue for loosening credit standards. This is especially the case for larger institutions.

Rental Market Influence

The rental market is booming, and it is a clear indicator that incomes are not keeping pace with rising home prices. According to the S&P Case-Shiller, the 20-metro home price index rose 4.7 percent, while wage growth was only 2.2 percent year-over-year. When income does not pace with home prices, it generally affects the first time homebuyer the most. One upside to the rental numbers is that vacancy rates are getting better every month, and that is good for all stakeholders and the U.S. economy as a whole.

The rental market is not likely to slow down anytime soon. Distressed sales continue to make up less of the national market, now under 9 percent, which is the lowest it has been in 15 years. That trend will continue to decline with the combination of improving equity positions and more sound lending practices over the past five years that will safeguard against growing foreclosures.

The Appraisal Sector

The valuation profession has had to endure the turbulent market and sweeping regulatory changes as much as any group. Couple those complicated matters with an aging community of appraisers, increasing difficulty in bringing in new generations of residential appraisers, the scope of work on a typical appraisal assignment increasing, and fees not keeping pace, you have many of the industry leaders starting to wave warning flags.

The general population of appraisers has declined 20 percent in the past eight years and the current numbers do not truly demonstrate the number of semi-retired appraisers that are only occasionally practicing or performing much less volume than in years past, which could equal another 30 percent. This trend will only worsen sharply in the next five years. According to the Appraisal Institute, only 12 percent of appraisers are between 36-50 years of age and only 1 percent is 25 years old or less.

The new 2015 requirement to have a bachelor's degree before obtaining an appraisal license is only part of the barrier. An additional two-year training period before being allowed to sit for the state exam is simply not economically feasible for the new entrant or the fragmented mentor population of mainly home-based appraisers. While there are many trade associations and regulators looking at this issue, there is no solution on the table that will resolve the problem in the next year. The shortage of appraisers has already affected the lending markets in rural areas as well as booming markets. Ask anyone in charge of placing appraisal orders how difficult it is to not only place an appraisal in South Dakota, but Denver right now. The extended time it takes to receive an appraisal, the limited options of knowledgeable experts to place the order with, and the inflated price to get the appraisal done in the end hurt everyone in the transaction and ultimately the consumer. Any hot market in 2016 can expect to experience closing delays and higher costs simply because of appraiser shortages. There needs to be pressure from all sides to address this problem, sooner rather than later.

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A Promising Outlook

Through booms and busts, national recessions and sweeping regulations, the housing market has been a bumpy ride for the last 15 years. The next year should bring us to a "sweet spot" with less volatile events and more predictability for all sides. Although an election year seems to always increase the odds for a monkey wrench to be tossed, housing policies do not seem to even be in the presidential discussion—walls and emails are driving the agenda. Maybe that is a good thing for the housing market; the last two elections have put a bright spotlight on us as a whole and certainly brought to light many of the issues we have been working to resolve the last nine years. The perceived credibility of institutions and professionals involved in the housing market has improved since the low days of the housing-induced recession, and it is a great time to be in the industry. We can't all be winners in the housing market, but like Stengel said, "Without losers, where would the winners be?" **M**

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