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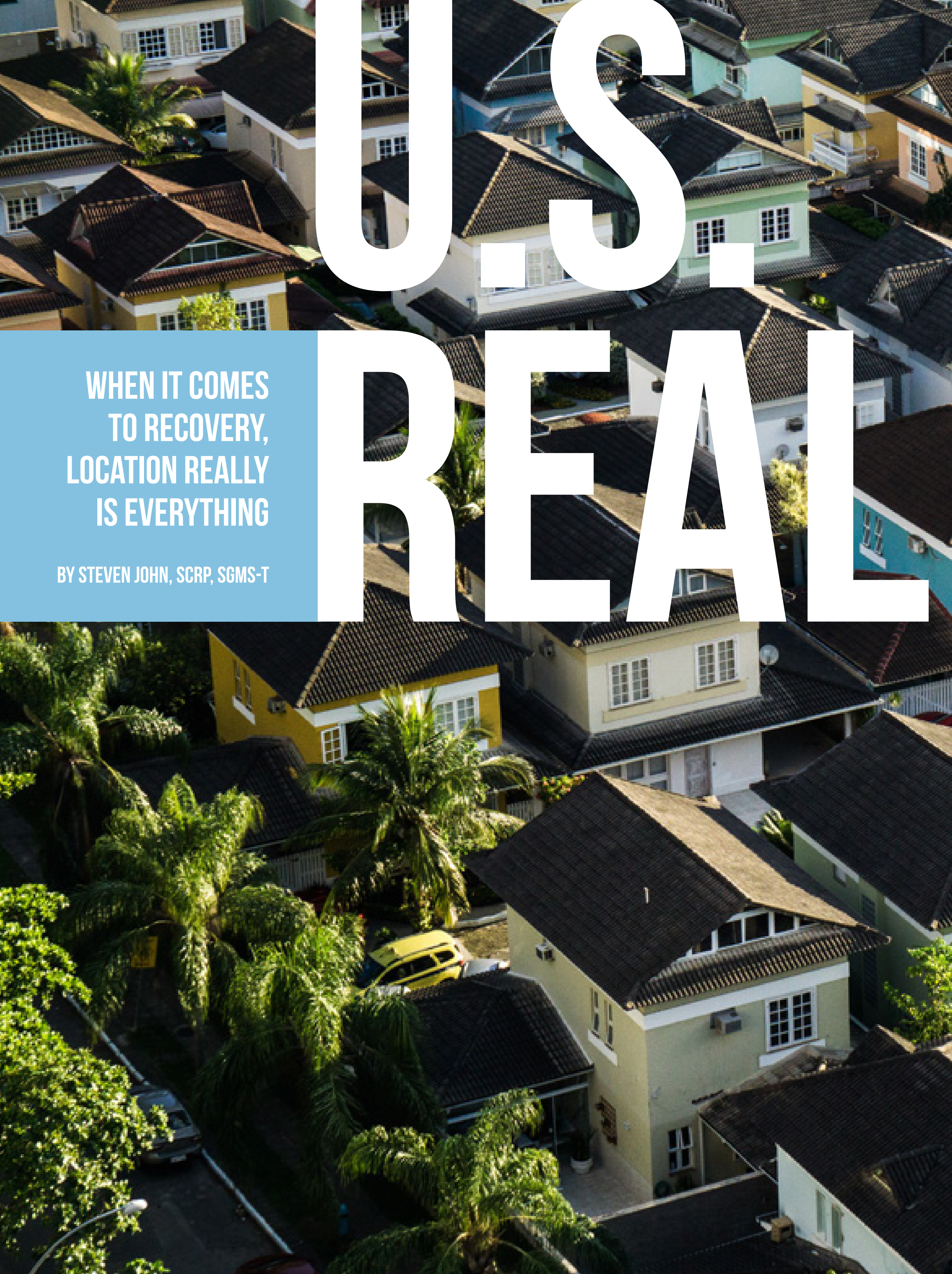
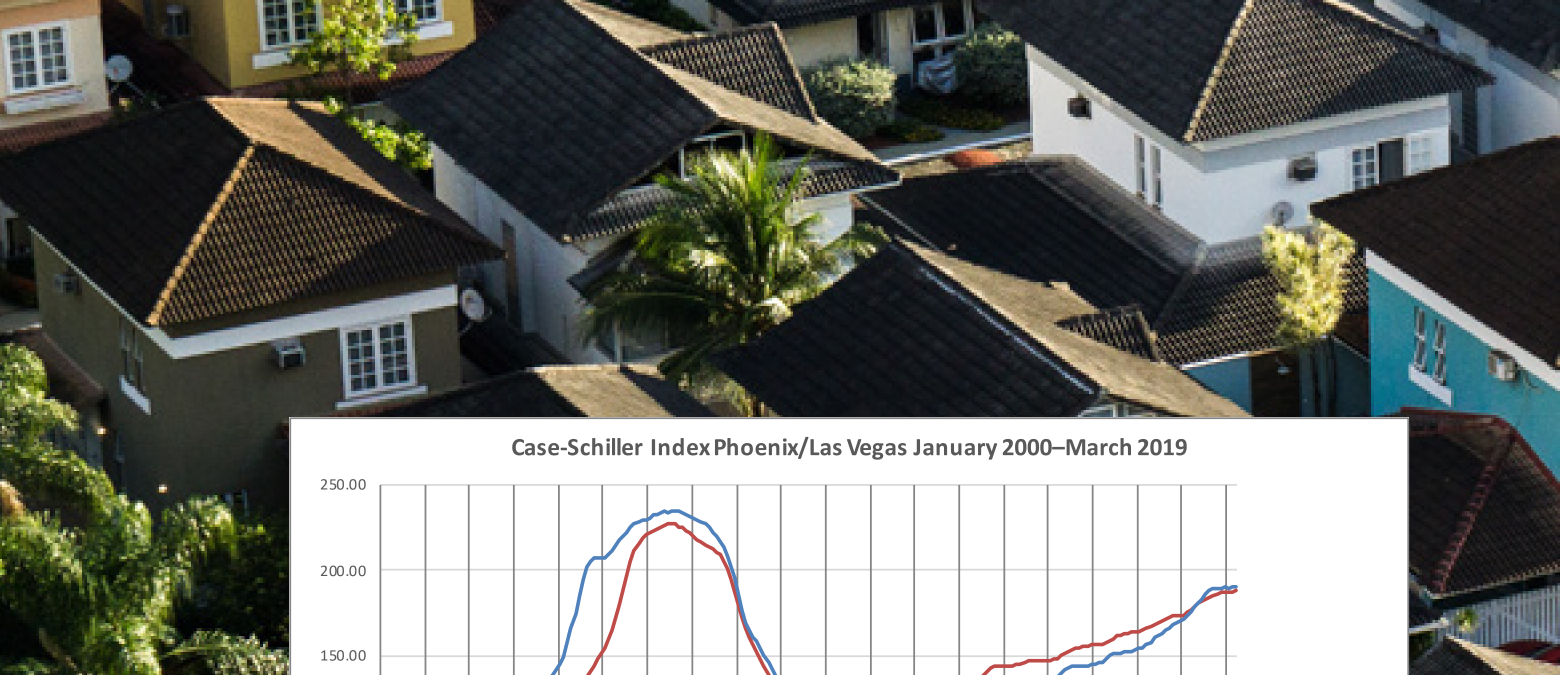
U.S. REAL

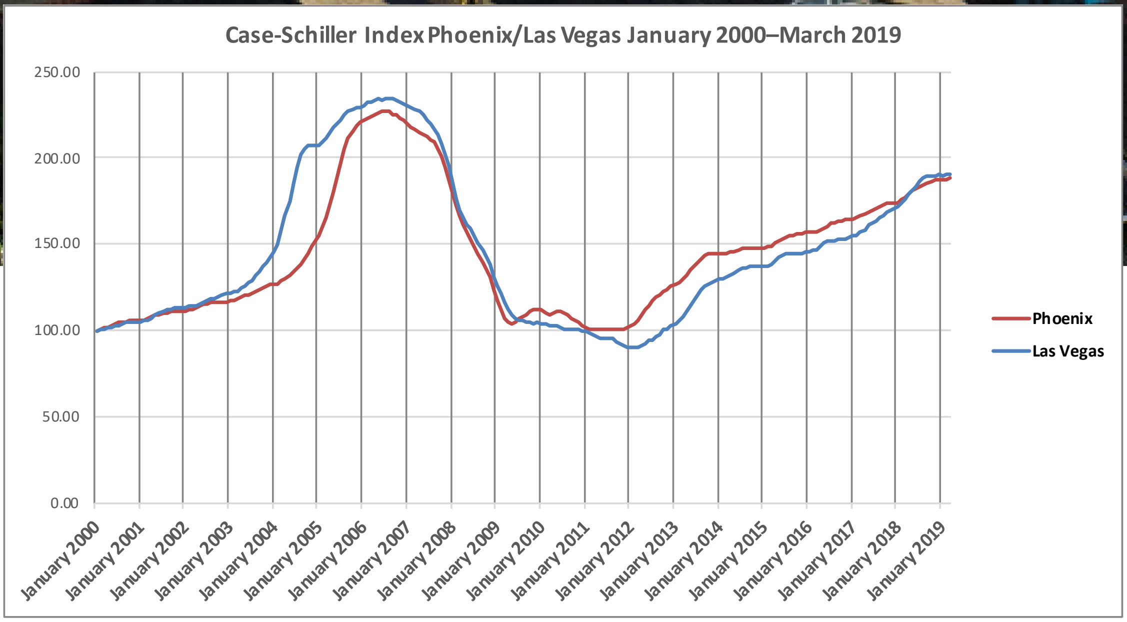
WHEN IT COMES TO RECOVERY, LOCATION REALLY IS EVERYTHING

BY STEVEN JOHN, SCRP, SGMS-T



ESTATE UPDATE 2019





Data Source: S&P CoreLogic Case-Shiller Home Price NSA Index March 2019

The national housing market in the U.S. has recovered!

At least it has if you look at home prices at the national level. The S&P U.S. Case-Schiller index at March 2019 showed national home prices 11.7% over their 2006 peak. The Composite-20, Case-Shiller's measure of the 20 largest metro areas, is 3.7% over 2006 peak: a clear recovery if we focus only on national averages.

NATIONAL VS. LOCAL

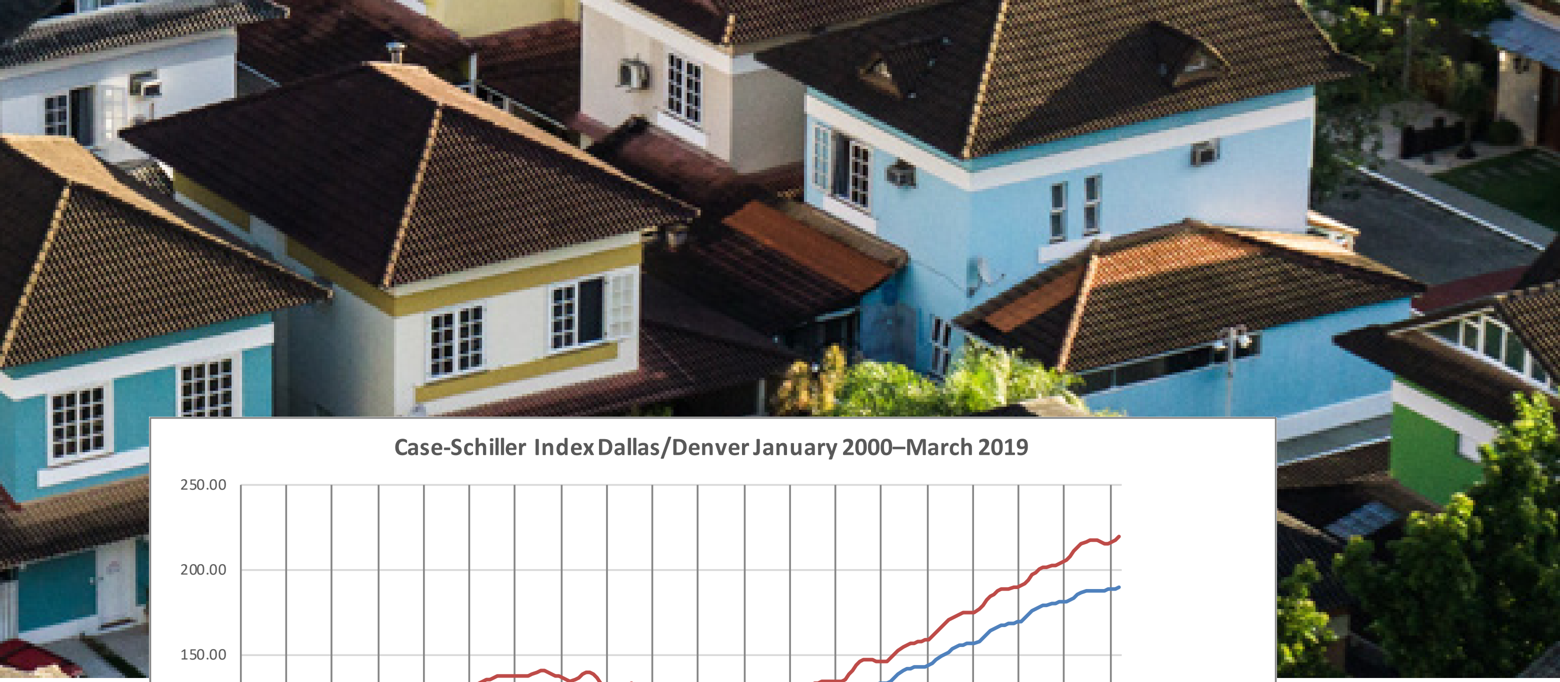
However, an adage often repeated in the real estate industry is, "All markets are local," or maybe, "There is no such thing as a national real estate market." Like most sayings, there is much truth in the statement. Although it sometimes can be used as an excuse by agents for why a house is not selling despite a robust national picture, local markets can and do vary from the overall average for a variety of reasons.

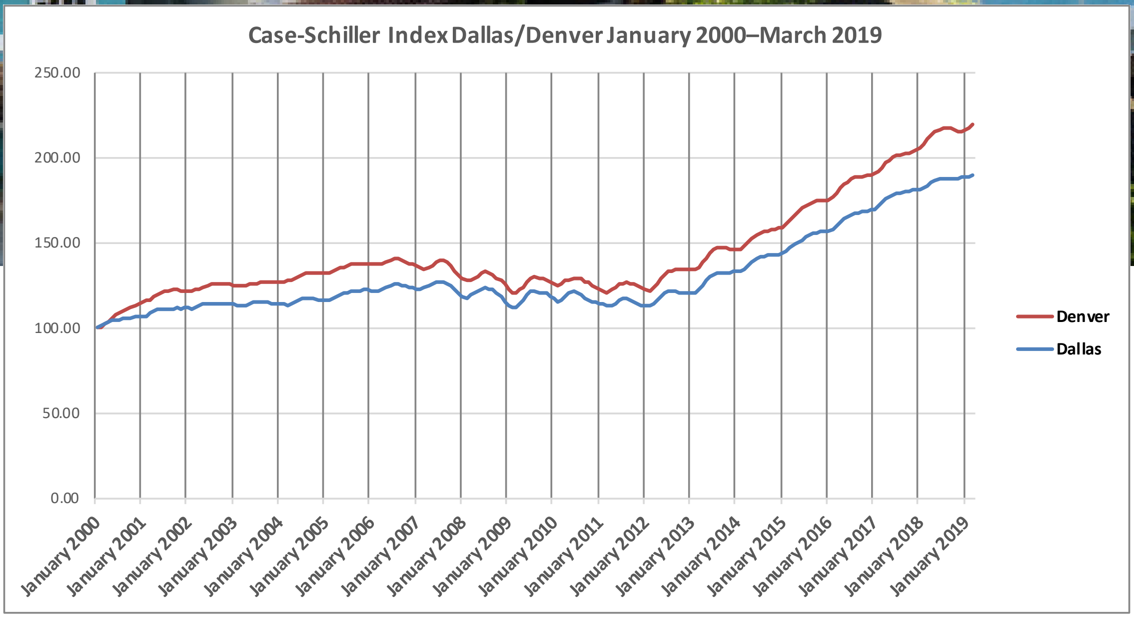
Drilling down into the 20 individual metro area markets tracked in S&P's Case-Schiller Composite-20 index, while 12 are over their 2006 peak or within just a few percentage points of it, the other eight markets are still well below. A homeowner who bought at or near the peak in one of these metro markets may still be underwater and will find it difficult to sell and relocate. Markets still below their 2006 peaks are listed in the table above.

Let's look at how some of the larger metro markets have fared over the past decade.

MARKET	% BELOW PEAK
Phoenix	–17.2%
Washington, D.C.	–8.5%
Miami	–13.8%
Tampa, Florida	–9.0%
Chicago	–15.4%
Las Vegas	–18.9%
New York	–6.7%
Seattle	–3.9%

Data Source: S&P Case-Schiller Composite-20 Index





Data Source: S&P CoreLogic Case-Shiller Home Price NSA Index March 2019

HOT, HOT, HOT

Not only two of the warmest parts of the country, but measured by percentage price increase, the two hottest markets right now are Las Vegas, up 8.24% over the last 12 months, and Phoenix, up 6.06% in the same period (see chart, page 40). While hot now, these markets still have a way to go to reach the peaks attained in 2006. Phoenix remains 17% below the June 2006 high-water mark, and Las Vegas is almost 19% below its August 2006 apex. Just to prove the point that all markets are local: Within the Phoenix metro area, Central Phoenix is up only 1% over the last 12 months, more affluent Scottsdale is up 8%, and the growing area of Apache Junction is up 12% (Long Realty, "The Housing Report," June 2019).

A TALE OF TWO CITIES

While not quite as hot, the cities of Dallas and Denver tell a story of consistency (chart above). These markets did not reach the lofty highs experienced by some markets in 2006 and, as a result, did not experience the crash of 2007–2008. As such, both cities have seen real appreciation over the last 10 years versus the race to recoup what was lost, as was experienced elsewhere.

LOCAL MARKETS CAN AND DO VARY FROM THE OVERALL AVERAGE FOR A VARIETY OF REASONS.

From the peak in 2006, Denver home prices are up 56.7% as of March 2019, and Dallas is up 49.5% for the same period. Steady price growth is the name of the game for these cities, with Denver up 4.3% in the last 12 months and Dallas up 3.0% for the same period.

THE CRYSTAL BALL

Forecasts for future price increases are conservative but optimistic, as new demand will continue to outstrip supply. Millennials entering their prime homebuying years will boost demand for some years to come. There are 26 million people in the oldest millennial cohort (30–35 years).

For the years 2018–2030, the 20–44 age group will grow by 8 million or 7.4%, traditionally a source

HOME VALUE	MORTGAGE	RATE	PAYMENT
$312,500	250,000	5%	$1,342.05
$312,500	250,000	4%	$1,193.54
$351,250	281,000	4%	$1,341.54

for household formation and homebuying. But will millennials behave the same way their parents did? We know that marriage and children are prime motivators for home purchase. Based on analyses of Google search frequency by Zelman and Associates, a leading housing research firm, searches for the terms "wedding registry" and "baby registry" have grown significantly since 2012 and are well above average frequency for these terms in the last decade.

This data is further supported by looking more closely at U.S. birth rates. While total birth rates, according to the Centers for Disease Control, are down 5% below the 30-year average, the rate for parents 25 and older is 11.5% above the 30-year average, providing additional support for increasing household formation. Overall, the homeownership rate in the U.S. appears to have bottomed. From a high of 69% in 2004 to a low of 63% in 2016, the current ratio shows a gradual uptick to 64% in 2018.

A POINT OF INTEREST

Against all expectations from a year ago, mortgage interest rates have once again reached historical lows. According to the Freddie Mac Economic & Housing Research group, rates for a 30-year fixed-rate mortgage dropped to 4.07% in May 2019 from their recent high of 4.87% in November 2018. Rates in June continued to decline below 3.88%. While not quite to the rock-bottom rates seen in 2012, the current level is well below historical averages.

Nothing makes a home more affordable quite like a low interest rate. Homeowners are concerned about the price of their home two times—when they buy and when they sell. They think about their mortgage payment every month. The size of the mortgage payment has a lot to do with the decision on whether to buy and how much to buy. The impact rates have on the monthly payment is shown in the examples in the chart above.

Rates affect both the amount of the monthly payment and the size of home a borrower can afford. In line 1 of the chart, assuming a 5% interest rate, the borrower qualifies for a $250,000 loan, or a home value of $312,500 at 80% loan-to-value. If rates go to 4%, the same borrower can pocket a savings of almost $150 per month or, alternatively, is now able to afford a home worth substantially more. Lower interest rates make homes more affordable and allow more buyers into the market.

Gino Blefari, CEO of real estate company HomeServices of America, remains bullish on U.S. real estate. He says home prices will continue rising modestly in most markets as housing demand exceeds supply. Still, more resale homes are coming to market in cities around the country, which should help ease tight supply conditions. In short, less competition for available homes means more moderate home prices and greater balance for the market.

"This is normal and a good sign for real estate," Blefari says. "With mortgage rates returning to historically low levels and demand for housing strong—as the American economy continues percolating with an employment picture about as good as it has ever been and with even modest wage increases—the U.S. real estate market appears in good shape for the foreseeable future." *M*

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