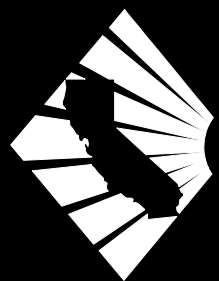




# 2017 Housing Market Perspectives



CALIFORNIA  
ASSOCIATION  
OF REALTORS®

National Reverse Mortgage Lending Association

May 15, 2017

Jordan G. Levine

Senior Economist

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# Overview

- **Post-Election Outlook**

- Started 2017 with a bang!
- **STILL** Lots of uncertainty—hard time to forecast
- What to worry about, what to be hopeful for
- Global, U.S., and California economy
- Full employment? Up-/Downside Risks?

- **Housing Market Trends**

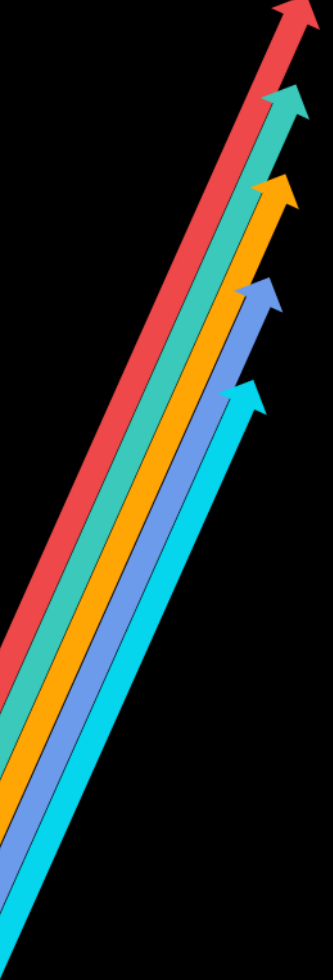
- Story remains the same, plus some wild cards
- Lots of challenges—especially in the core
- Expect people to continue to be priced out

- **Demographics**

- Boomers still staying put, turnover still down
- Turnover, tenure, equity, and downsizing

- **2017 Forecast**





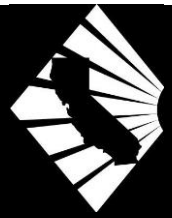
# Post-Election Outlook



# The federal policy whipsaw

1. Deregulation: industry & banks
  1. General regulatory environment
  2. CFPB & Dodd-Frank
2. Tax cuts on business & people
  1. 3 brackets, lower rates
  2. More than half corporate rate
3. Tax reform: repatriating profits
4. Infrastructure investment?
5. Better trade terms?
6. Economy relatively healthy

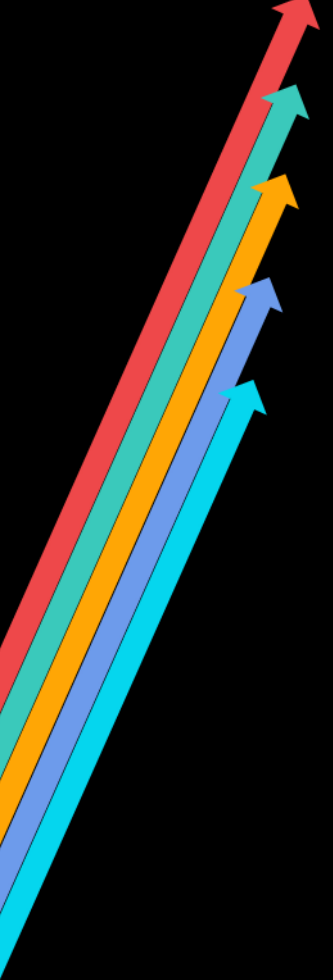
1. CSEs and the FHA/HUD
  1. Will they stay or will they go?
  2. MIP reduction already gone
2. Mortgage interest deduction?
3. Pro-growth = higher rates
  1. Especially if more hawks at Fed
4. Supply is already an issue here
5. CA very exposed to trade war
  1. What does retaliation look like?
  2. Capital flows to/from China?
6. Healthcare & Immigration
  1. Demand, but also Fed \$\$
  2. CA exposed there too
7. Uncertainty & Market volatility



# The good, bad, and the ugly

1. Economy relatively healthy
2. Deregulation: industry & banks
  1. General regulatory environment
  2. CFPB & Dodd-Frank
3. Infrastructure investment?
4. Tax cuts on business & people
  1. 3 brackets, lower rates
  2. More than half corporate rate
5. Tax reform: repatriating profits
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1. Mortgage interest deduction?
2. GSEs and the FHA/HUD
  1. Will they stay or will they go?
  2. MIP reduction already gone
3. Healthcare & Immigration
  1. Demand, but also Fed \$\$
  2. CA exposed there too
4. Uncertainty & Market volatility
5. Pro-growth = higher rates
  1. Especially if more hawks at Fed
6. Supply is already an issue here
7. CA very exposed to trade war
  1. What does retaliation look like?
  2. Capital flows to/from China?



# Tax Reform



# Putting more money in pockets is good. But what about homeownership?!

- **Overhaul of the current tax code**

- Reduction in tax rates
- Drop from 7 tax brackets to 3
  - 10%, 25%, 35%
- **Increase standard deduction**
  - Remove virtually all other deductions
- Eliminate the federal estate and gift taxes

- **Results/Consequences?**

- Good for renter's pocket books, not good for their wealth
  - Historically, people just don't save unless they have a home
  - Bad for wealth accumulation, communities, and social engagement
- Bad for homeowners—will take a tax hit because of lost deductions
- Reduces the incentive to become a homeowner—very bad!



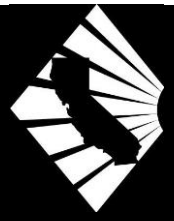
# Macro effect of fiscal policies?

Tax Reform  
Boosts GDP

Big  
Infrastructure  
Stimulus

More  
Demand for  
Housing



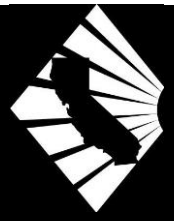


# Effects of all federal policies?

Higher  
Demand

Full  
Employment

Potential  
Inflation



# Net effect of all federal policies?



Tax Cuts



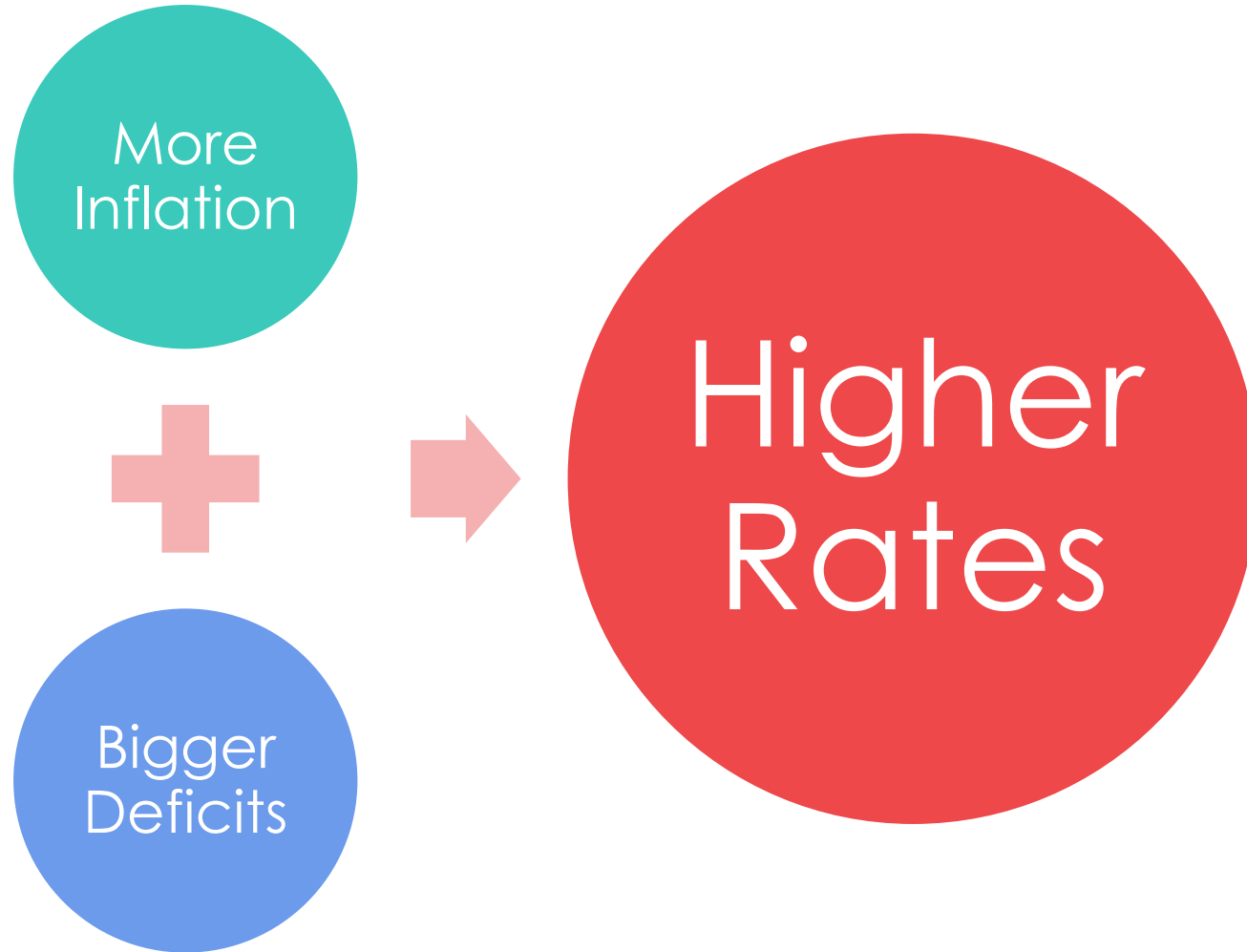
Bigger Deficits



More Potential Inflation



So what? Here's the punchline.





# Second order effects on housing?





# So what's the punchline?

Higher prices

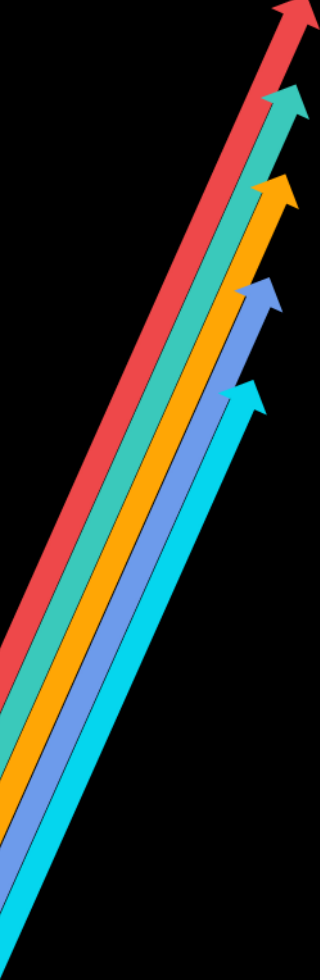
Higher rates

Less  
affordability

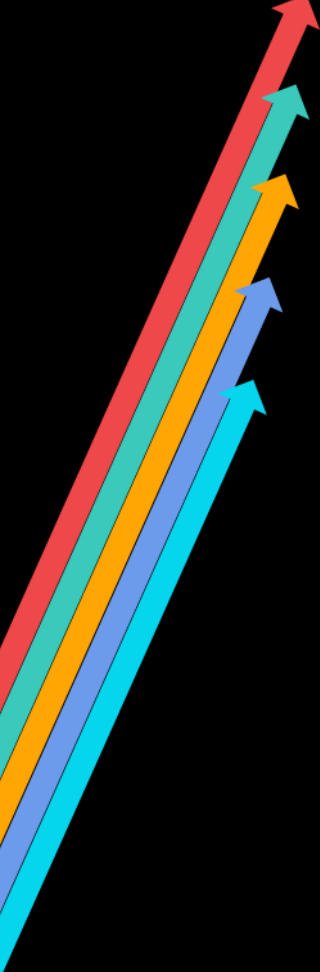
Tax hit to existing homeowners

No incentive to  
own for renters

Bad news for homeownership?



# Economic Update



# WORLD MARKET CHECK

EVERYTHING  
GOOD?

NOPE!

NON!

NEIN!

NEJ!

NYET!

否

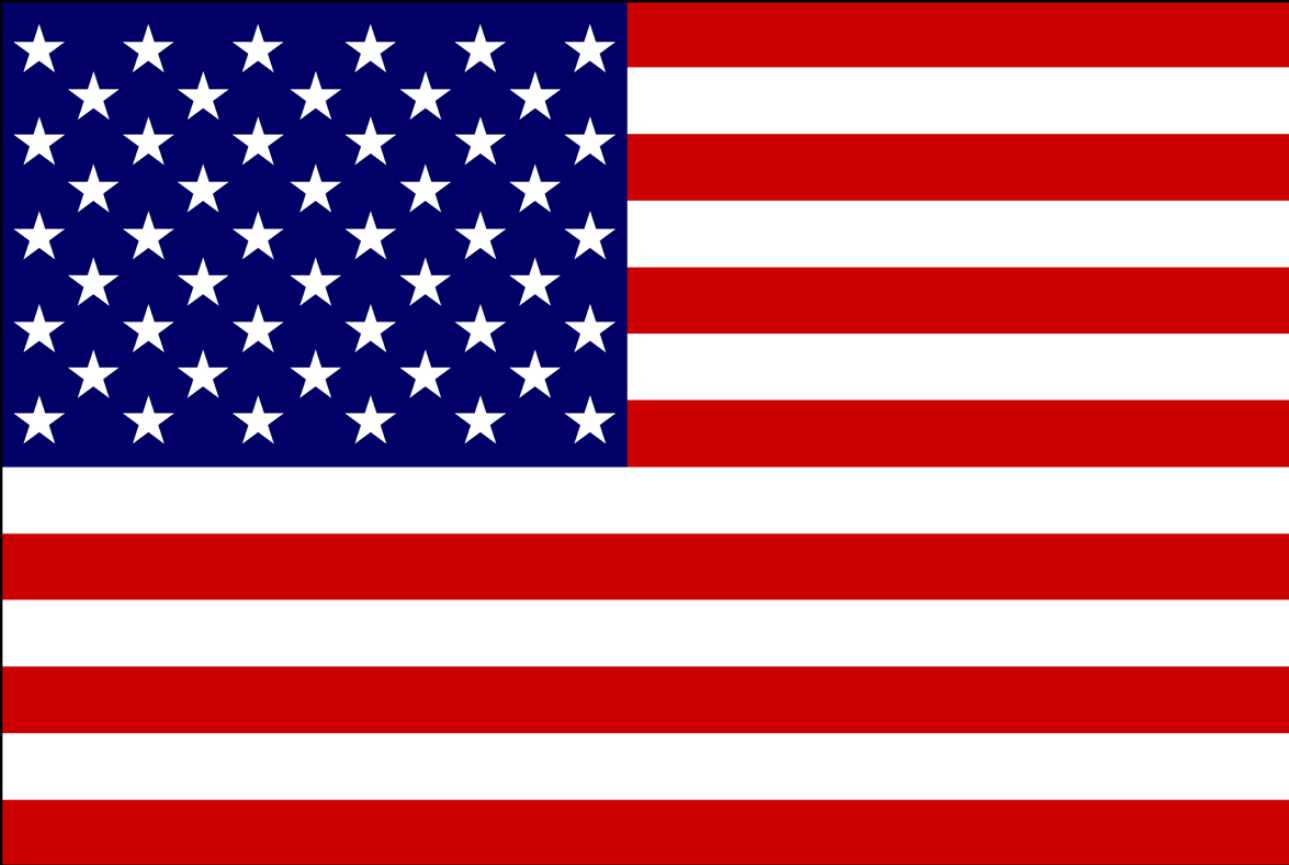
iNO!

NEE!

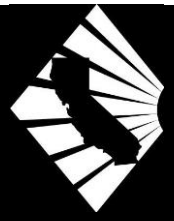
B. Rich JP  
HEDGEYE



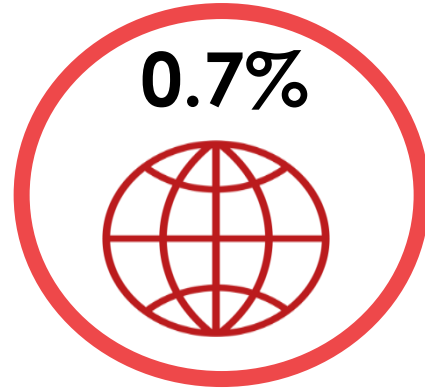
How's the economy closer to home?







# Jumping off from a decent starting point



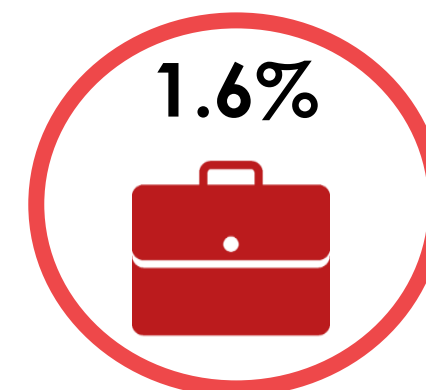
GDP 2017-Q1



Consumption  
2017-Q1



Unemployment  
April 2016

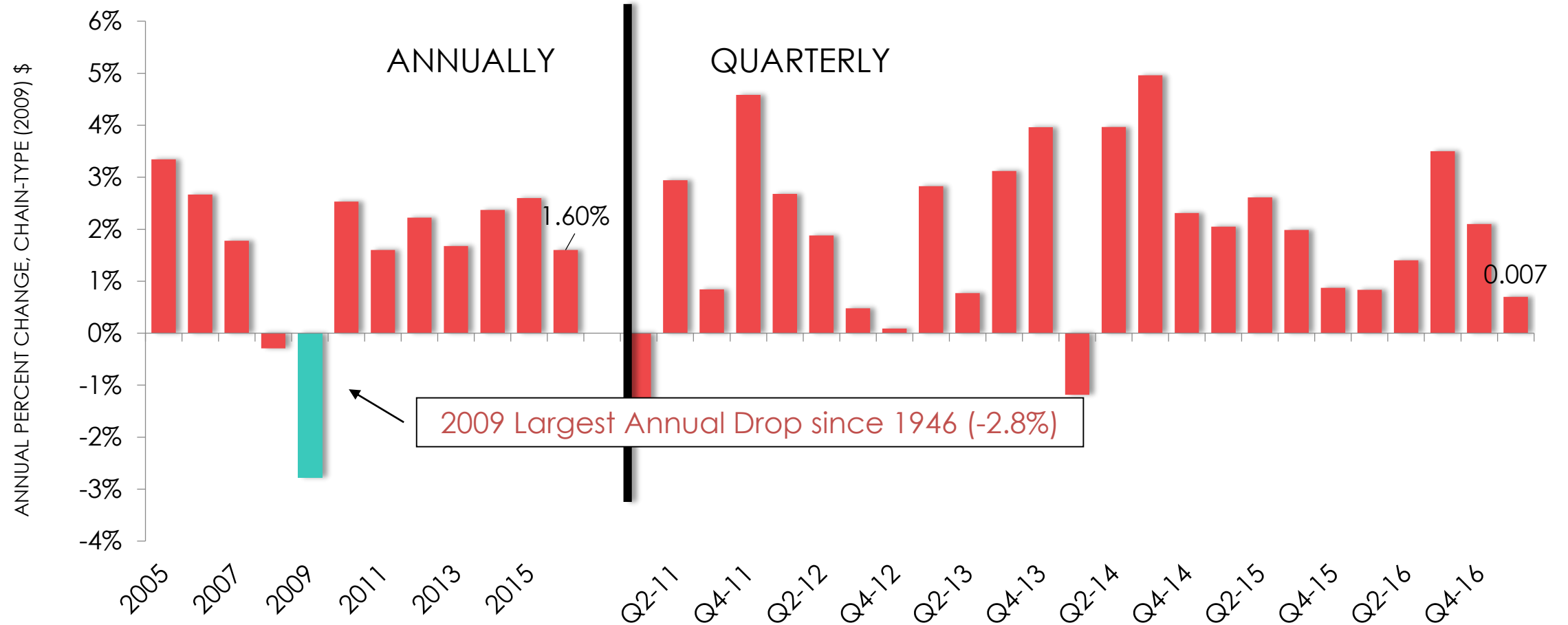


Job Growth  
April 2016



# Slowest GDP growth since Q1 2014

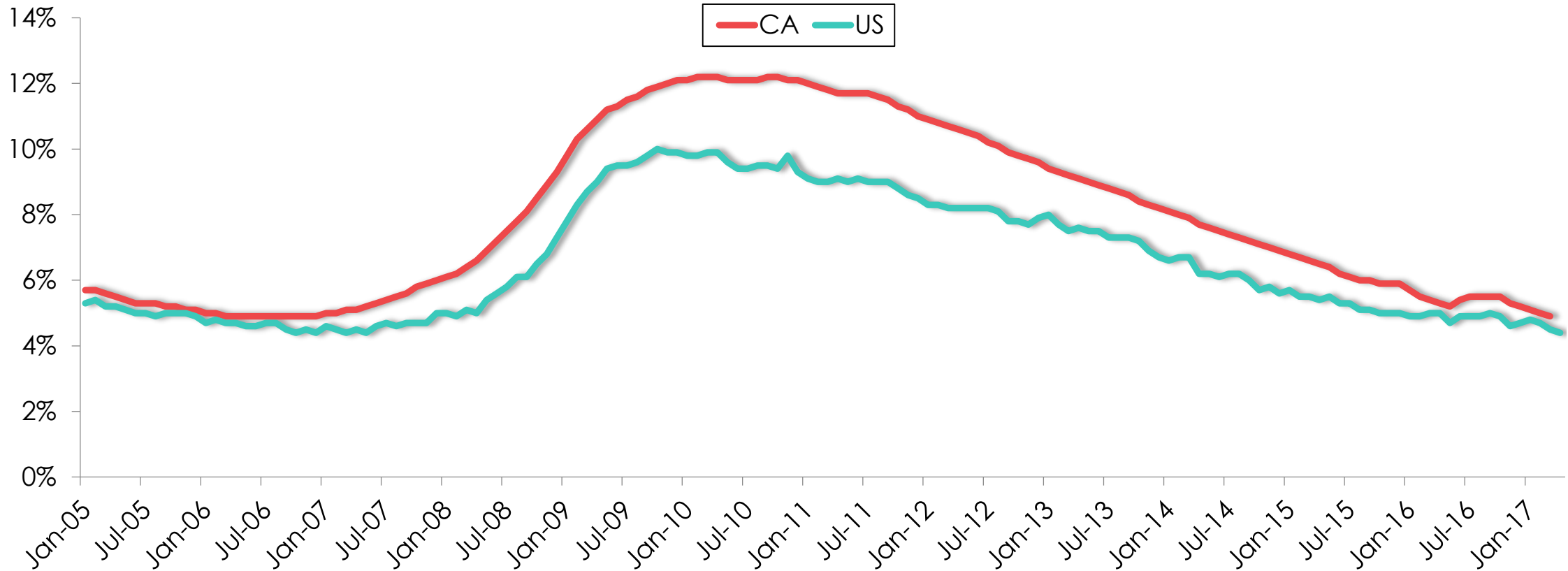
2016: 1.6%; 2017 Q1: 0.7%





# Unemployment rates lowest since 2007

US 4.4% (April 2017) & CA 4.9% (March 2017)



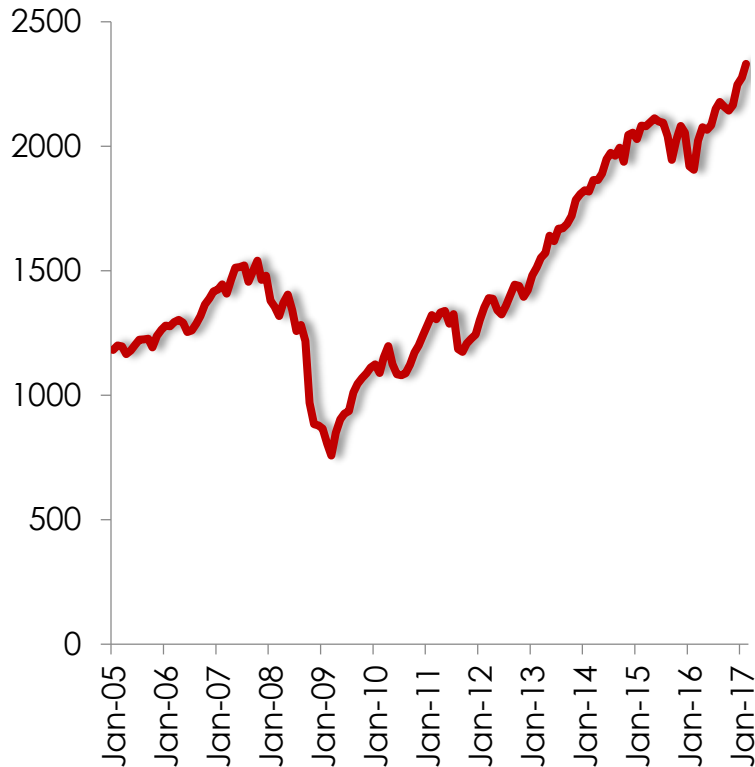
SERIES: Unemployment Rate

SOURCE: U.S. Bureau of Labor Statistics, CA Employment Development Dept.

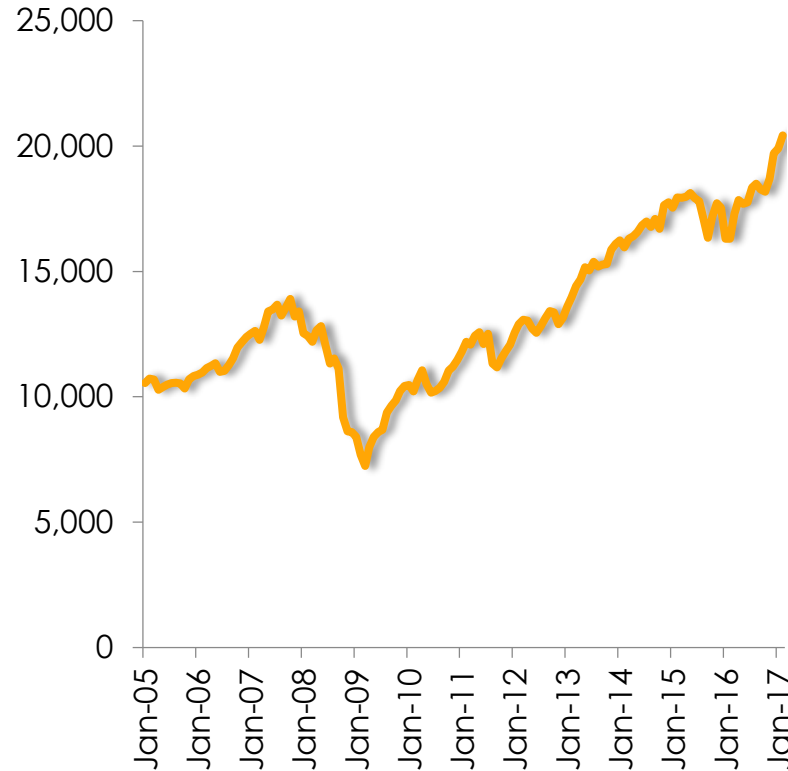


# Stock Market at an All-Time High

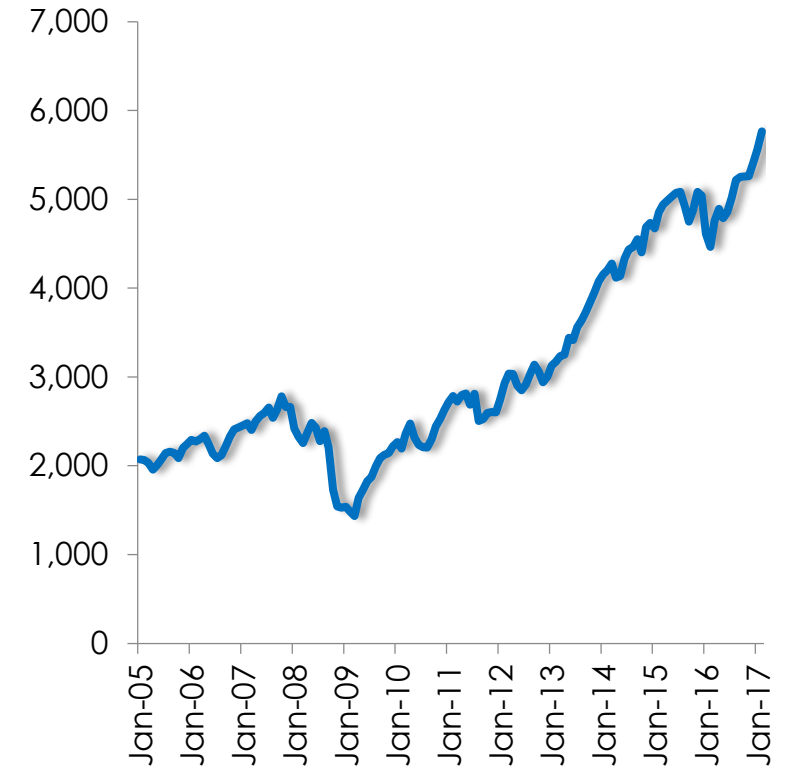
S&P 500  
Feb 2017: 2329.9



Dow Jones  
Feb 2017: 20424.1



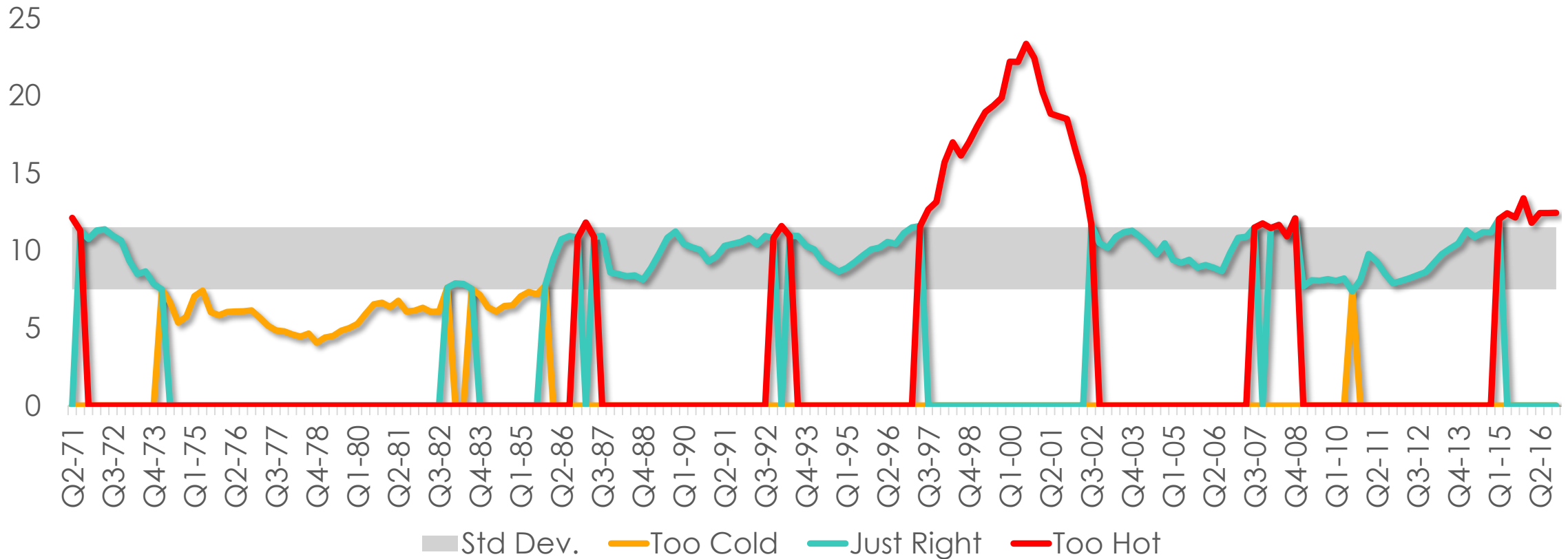
NASDAQ  
Feb 2017: 5764.7





# Biggest risks to housing are external

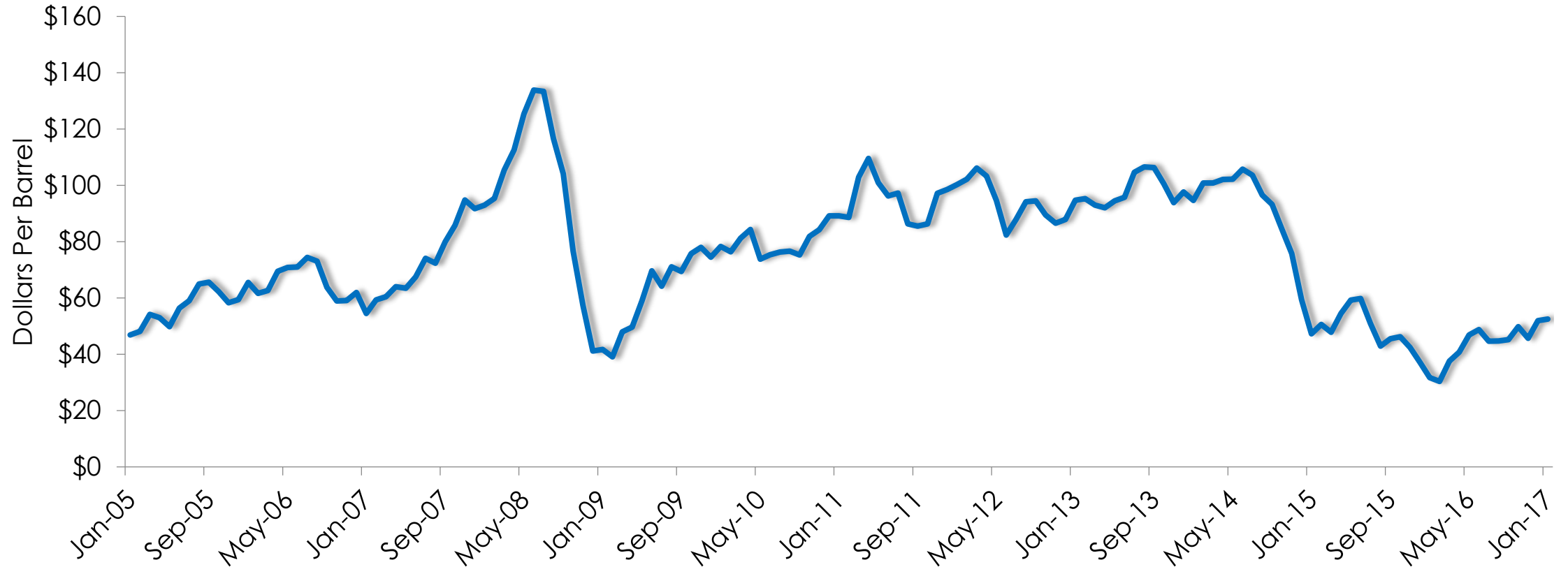
U.S. Price/Earnings Ratio  
Stock Market Value over Total Corporate Profits



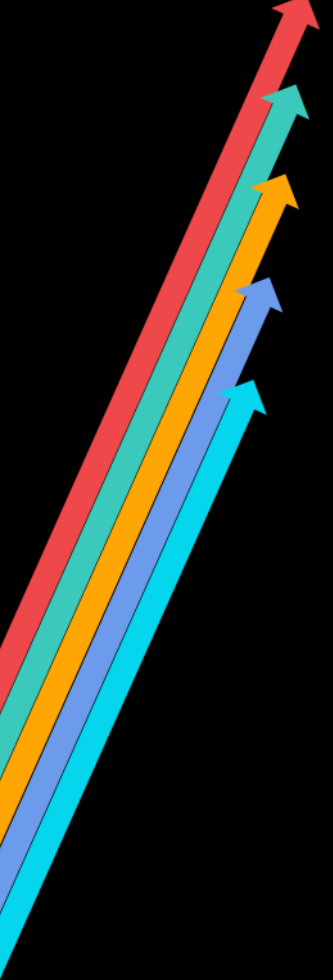
SERIES: Wilshire 5000 Market Cap Divided by Corporate Profits  
SOURCE: St. Louis Federal Reserve Bank



# Crude oil prices have stabilized



SERIES: Crude Oil Prices: West Texas Intermediate  
SOURCE: U.S. Energy Information Administration

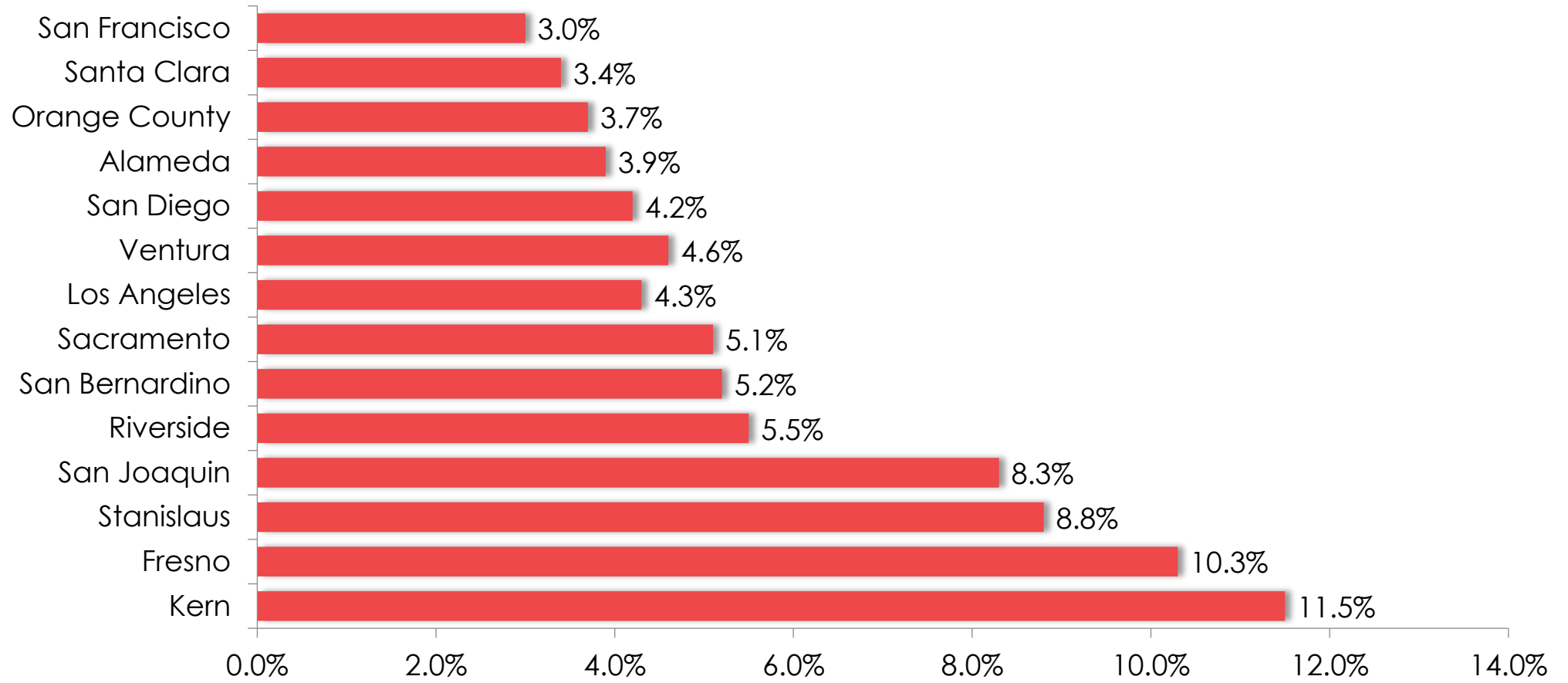


In California, Demand  
Isn't the Problem



# Unemployment rate by California metro

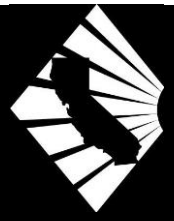
March 2017: California 4.9%



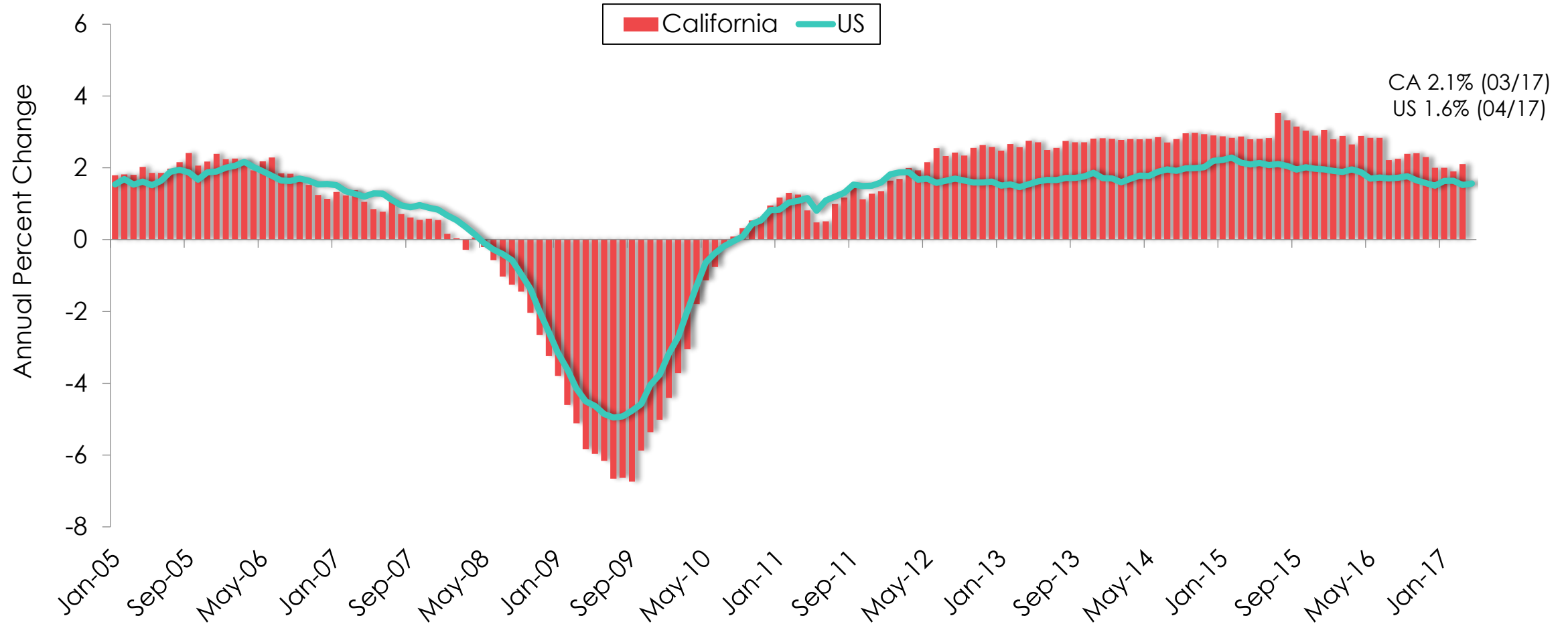
SERIES: Total Nonfarm Employment

SOURCE: CA Employment Development Division





# CA jobs growing faster than Nation



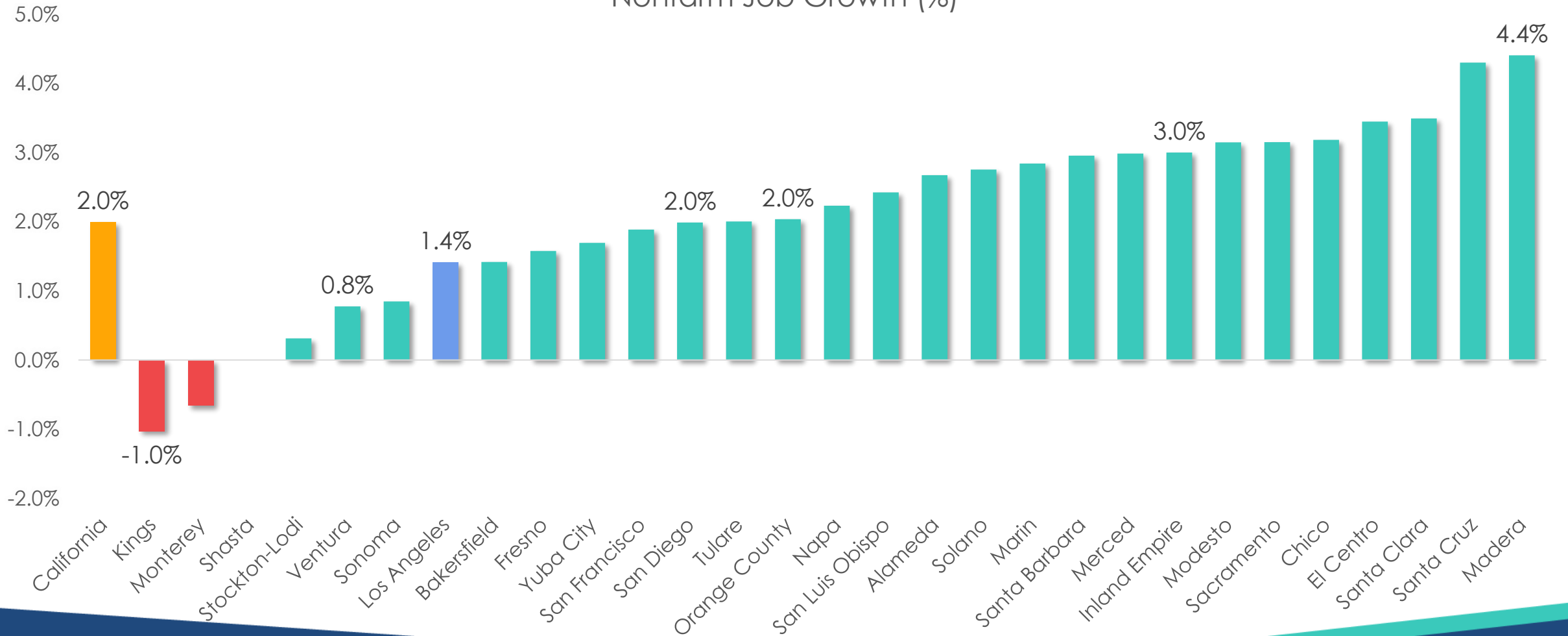
SERIES: Total Nonfarm Employment

SOURCE: U.S. Bureau of Labor Statistics, CA Employment Development Dept.



# Job Trends by California Metro Area

Nonfarm Job Growth (%)

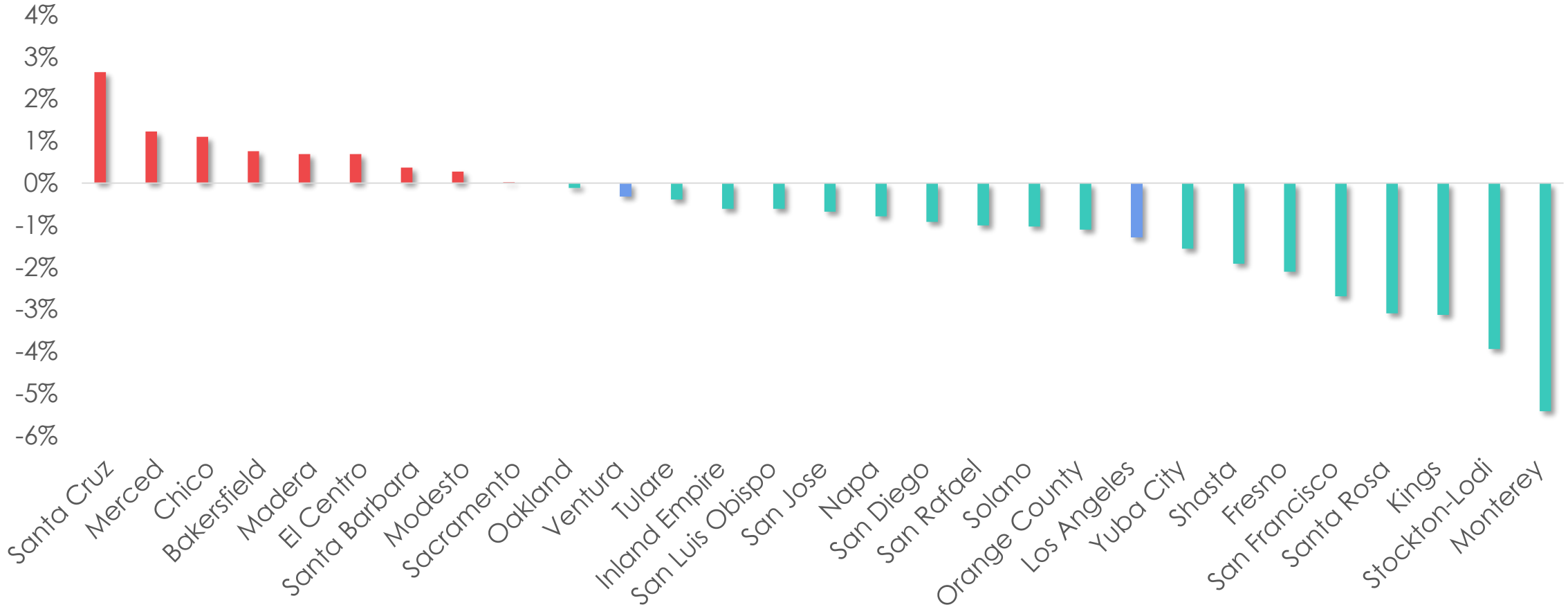


SERIES: Total Nonfarm Employment  
SOURCE: CA Employment Development Dept.



# But at a slower pace...

Job Growth Accelerating?

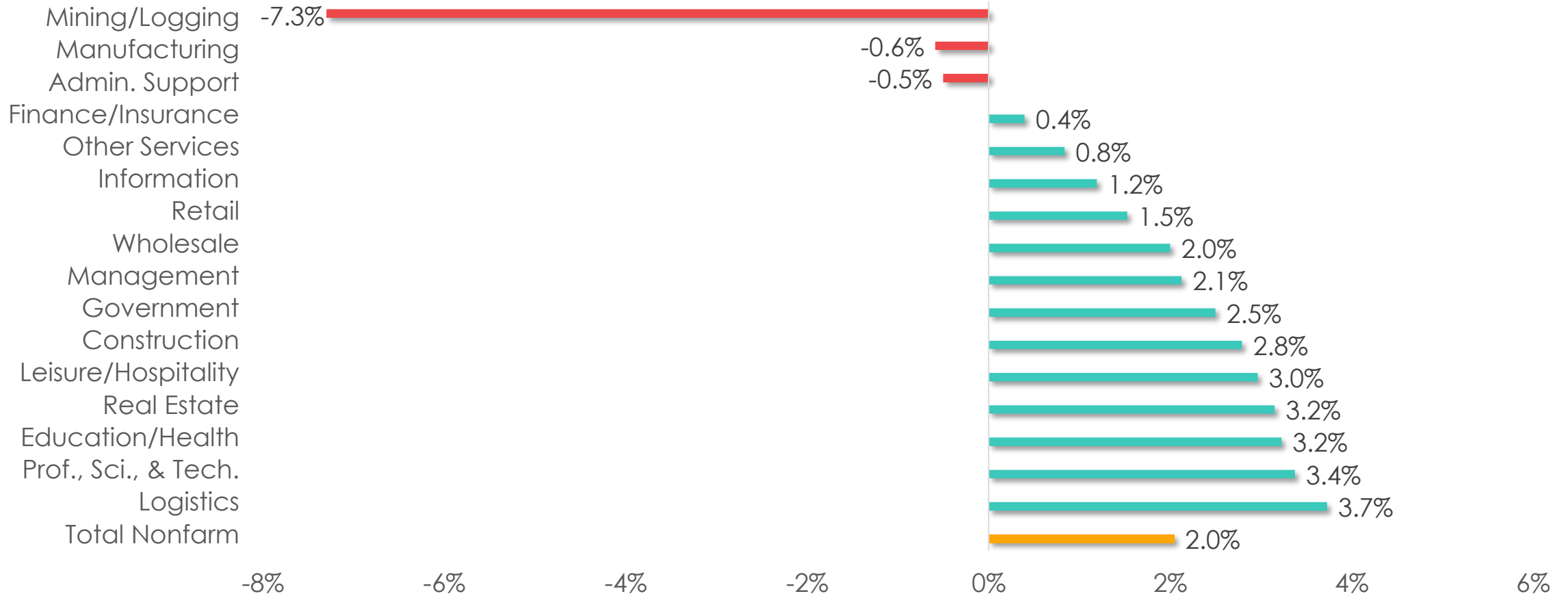


SERIES: Total Nonfarm Employment  
SOURCE: CA Employment Development Dept.



# Most sectors still growing

California Job Growth

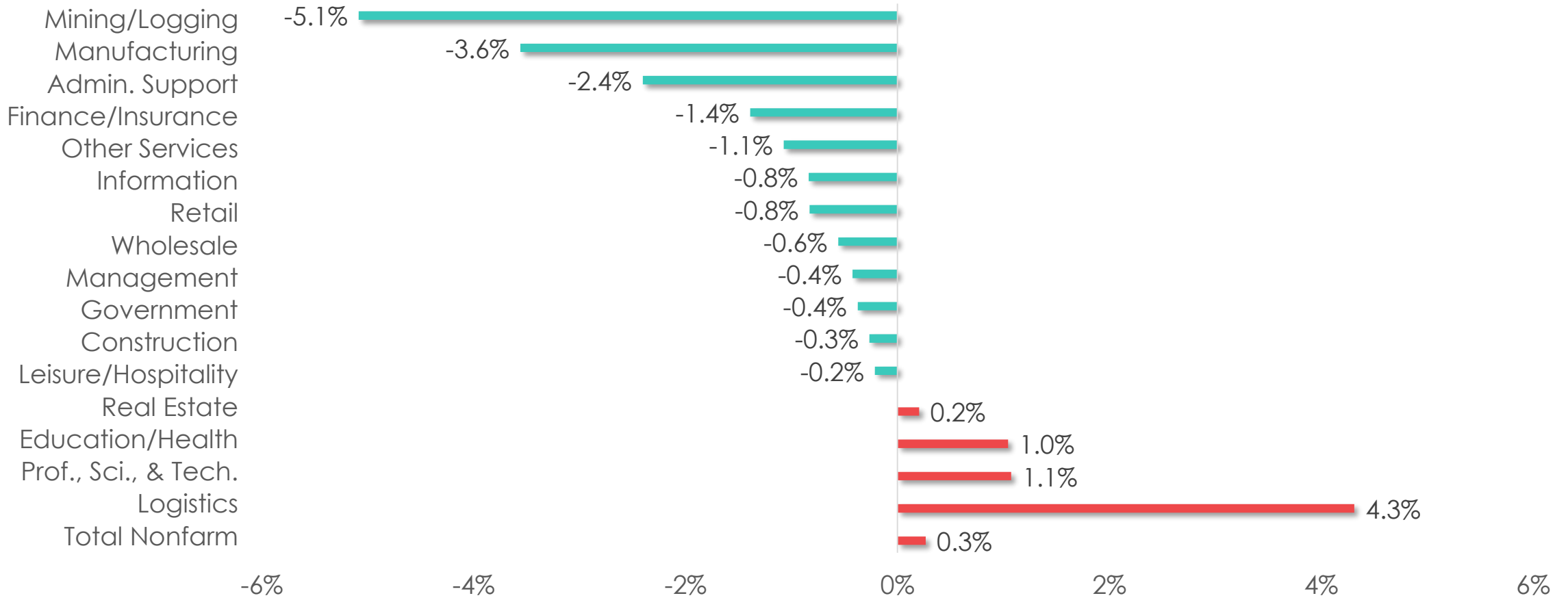


SERIES: Total Nonfarm Employment by Industry  
SOURCE: CA Employment Development Dept.



# Again, at a slower pace

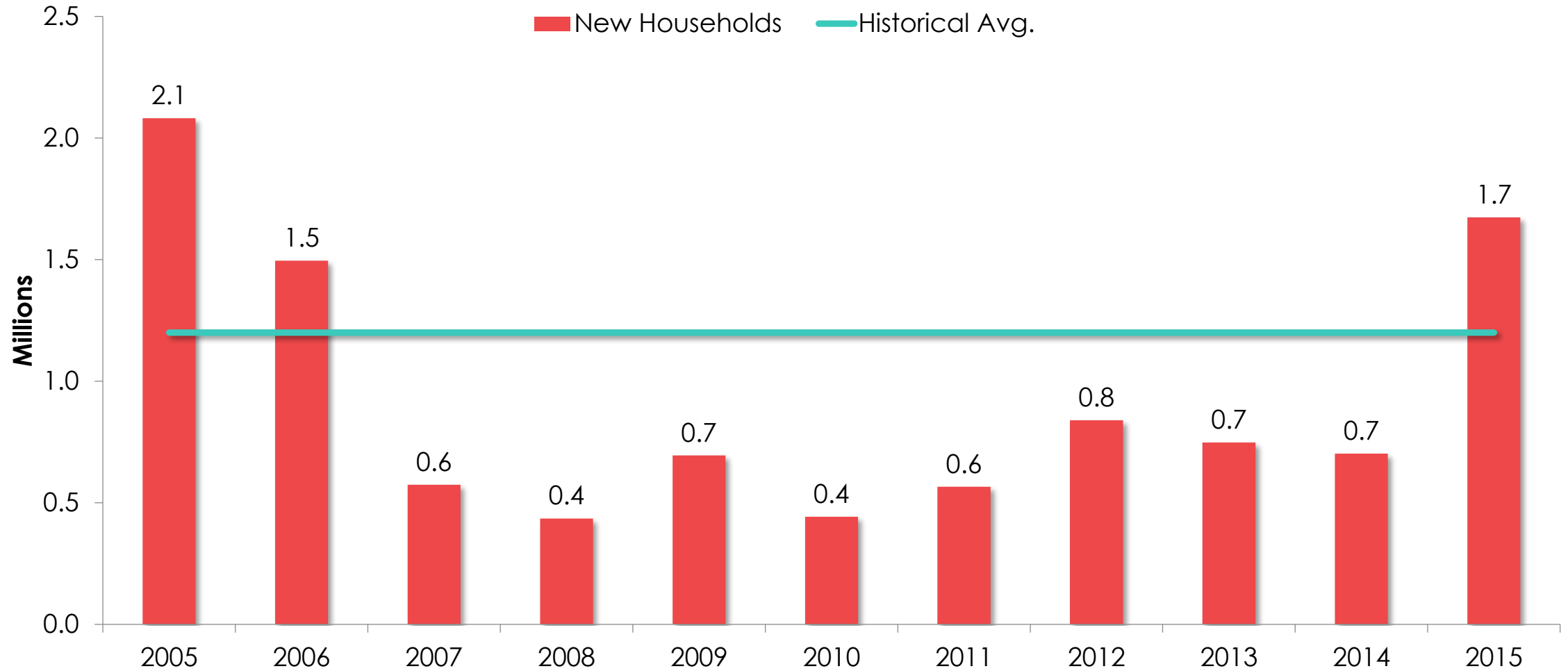
## Job Growth Accelerating?

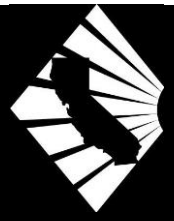


SERIES: Total Nonfarm Employment by Industry  
SOURCE: CA Employment Development Dept.



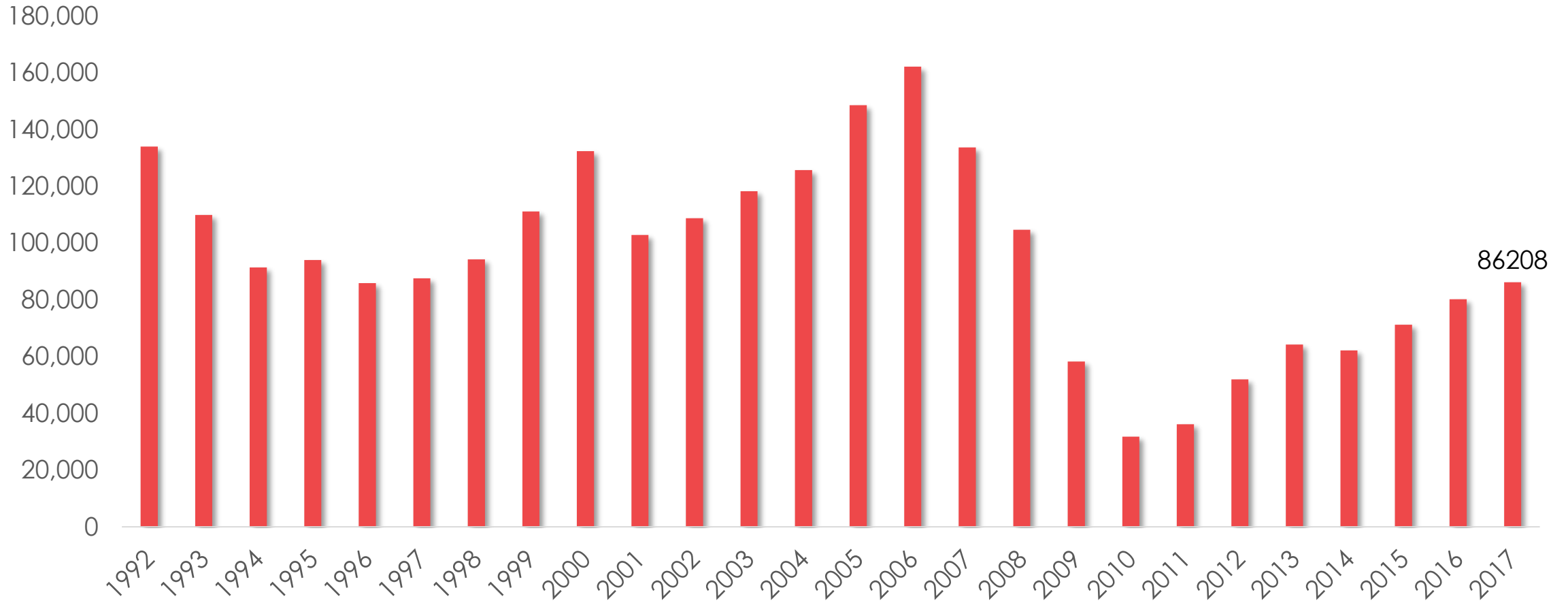
# Better economy = kids out of basements

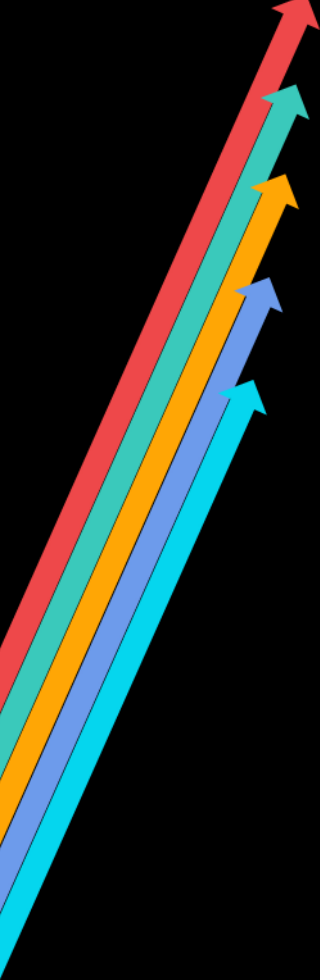




# California household formation picks up

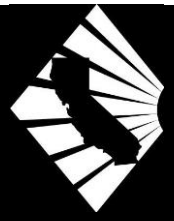
Household Formation





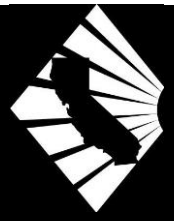
The Fed





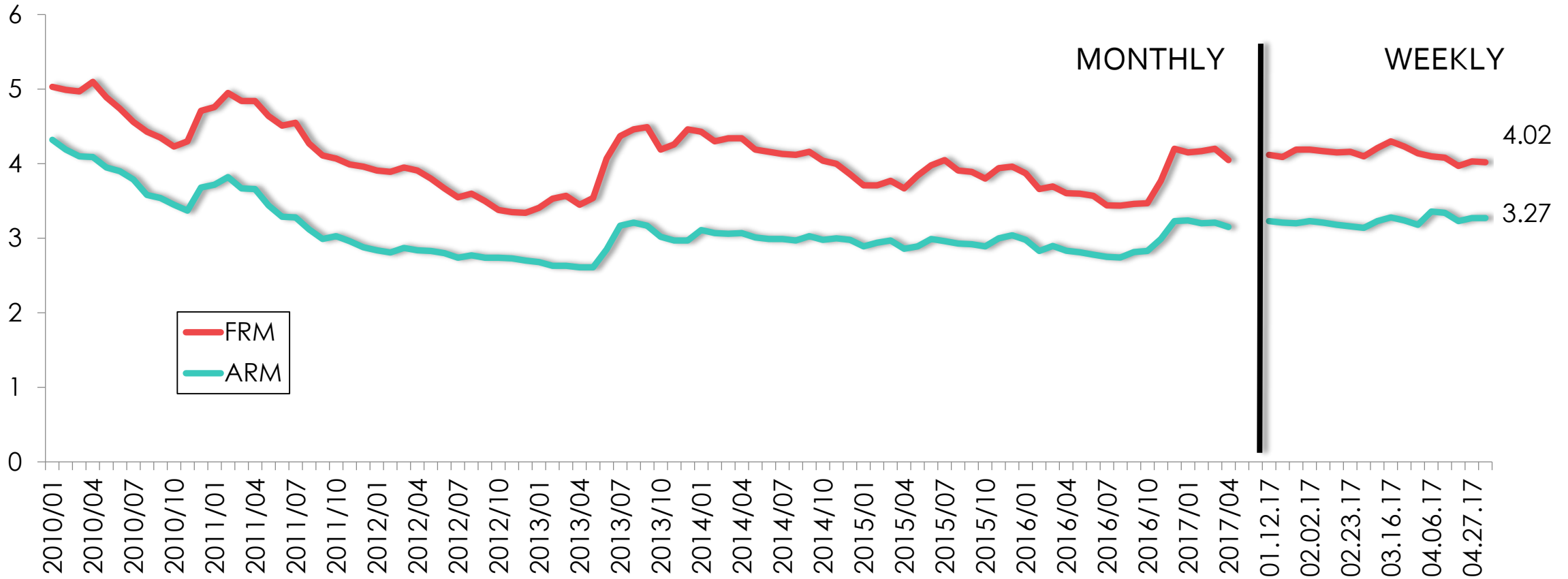
# Not a question of if, but how much/quickly

- **Rates rise with fiscal stimulus**
  - More inflation anticipated, core nearly at Fed target
  - 10-year treasuries already up to ~2.5%
- **December rate hike, same in March**
  - Expect more this year, but may not be as many
  - Yield curve to flatten, so 30-Yr FRMs may not rise as much
- **Janet is off the chopping block for now**
  - Other vacancies to fill too
  - Raphael Bostic got one, that's a good thing – pro-housing
- **Still, we can probably expect rates to keep rising**



# Mortgage Rates down, don't get too excited

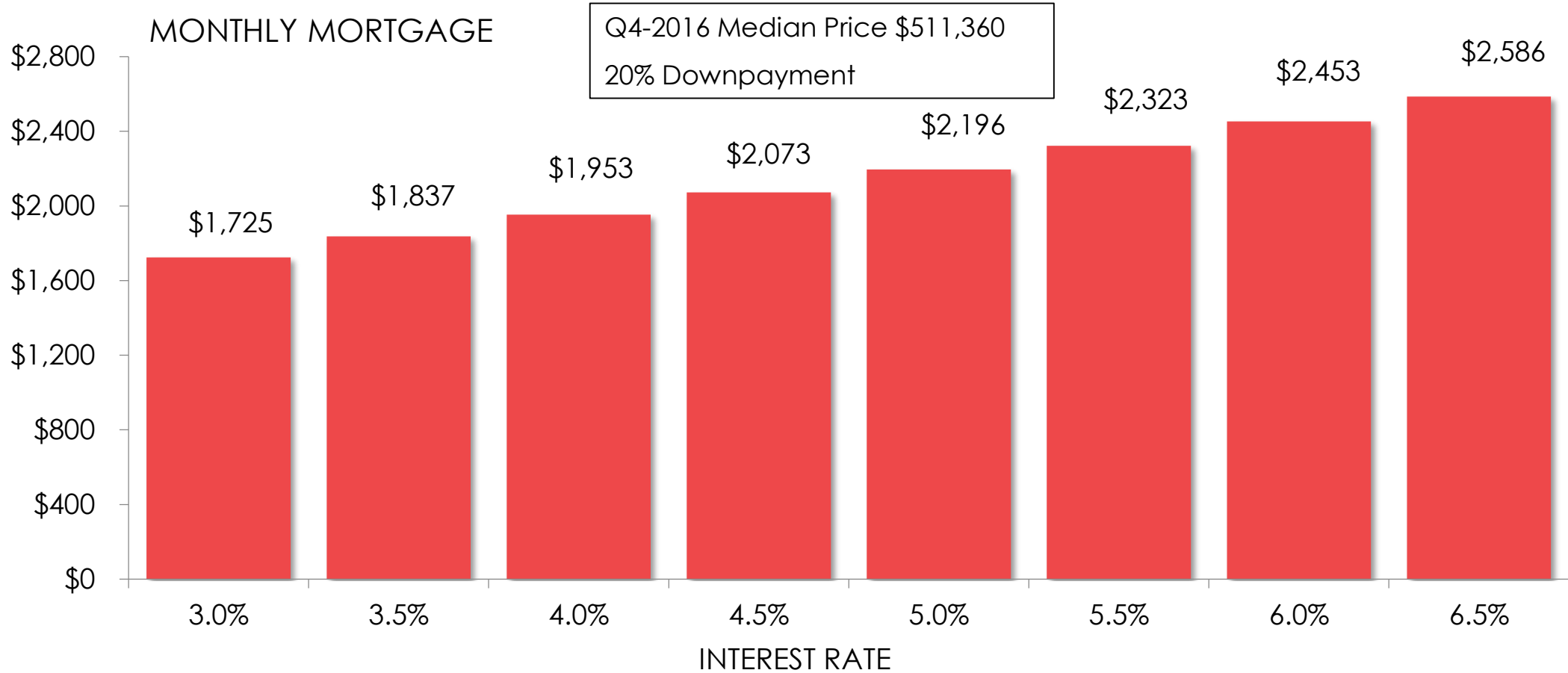
January 2010 – May 4, 2017





# Median Monthly Mortgage Payment - CA

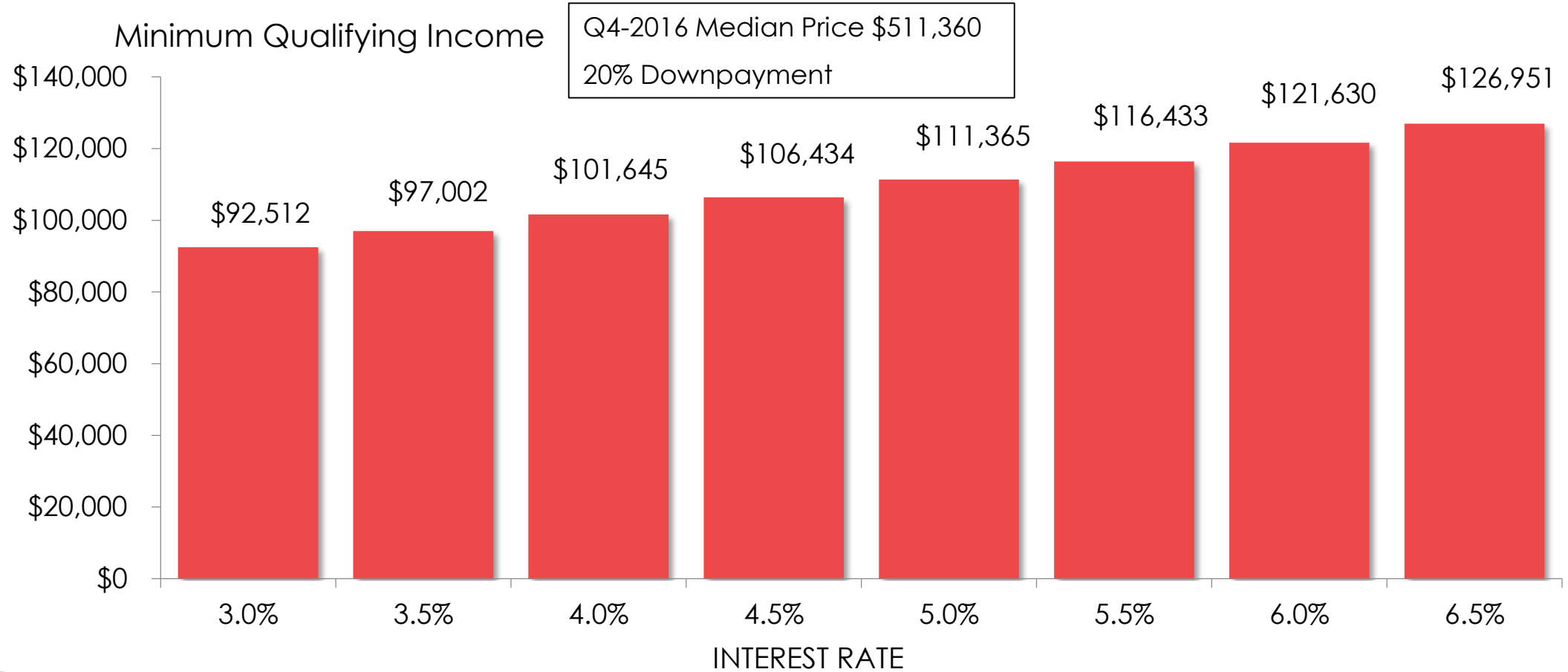
## What Will Happen When Mortgage Rates Increase?





# Minimum Qualifying Income - CA

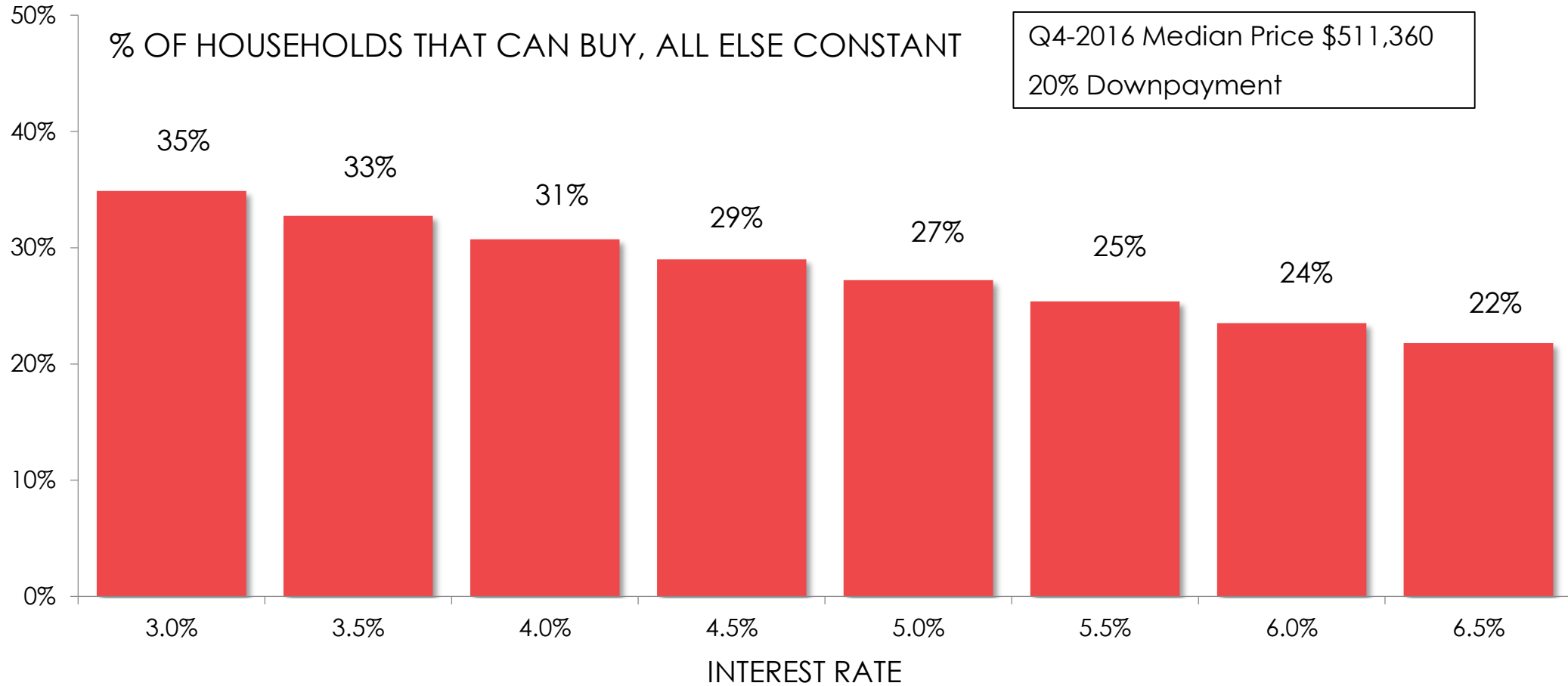
## What Will Happen When Mortgage Rates Increase?





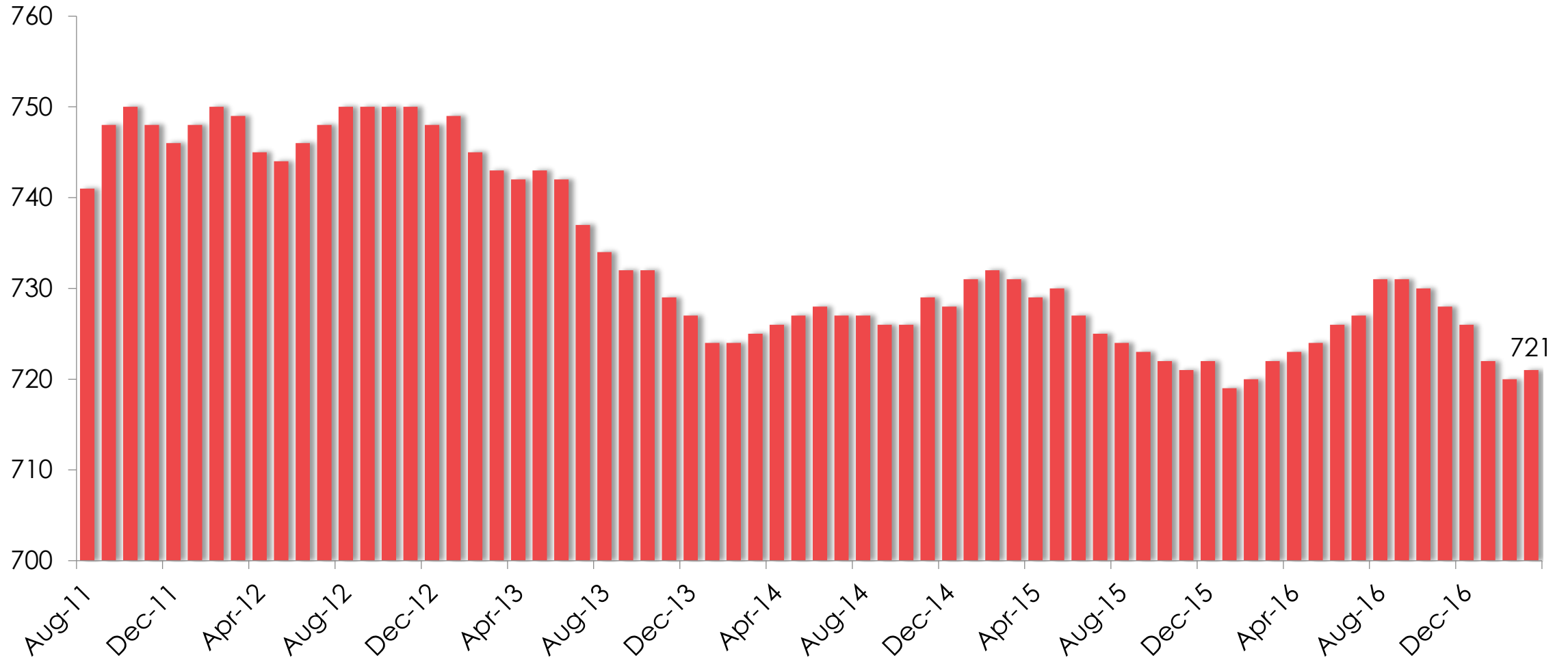
# Housing Affordability Index - CA

## What Will Happen When Mortgage Rates Increase?

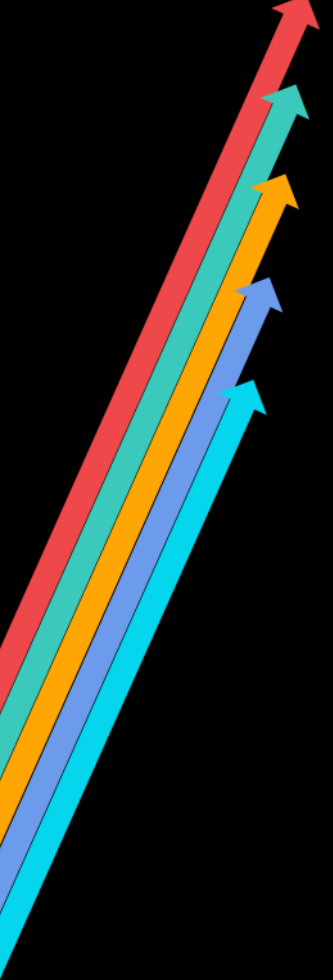




# Mortgage lending easing modestly



SERIES: Average FICO Score on Closed Loans  
SOURCE: Ellie Mae

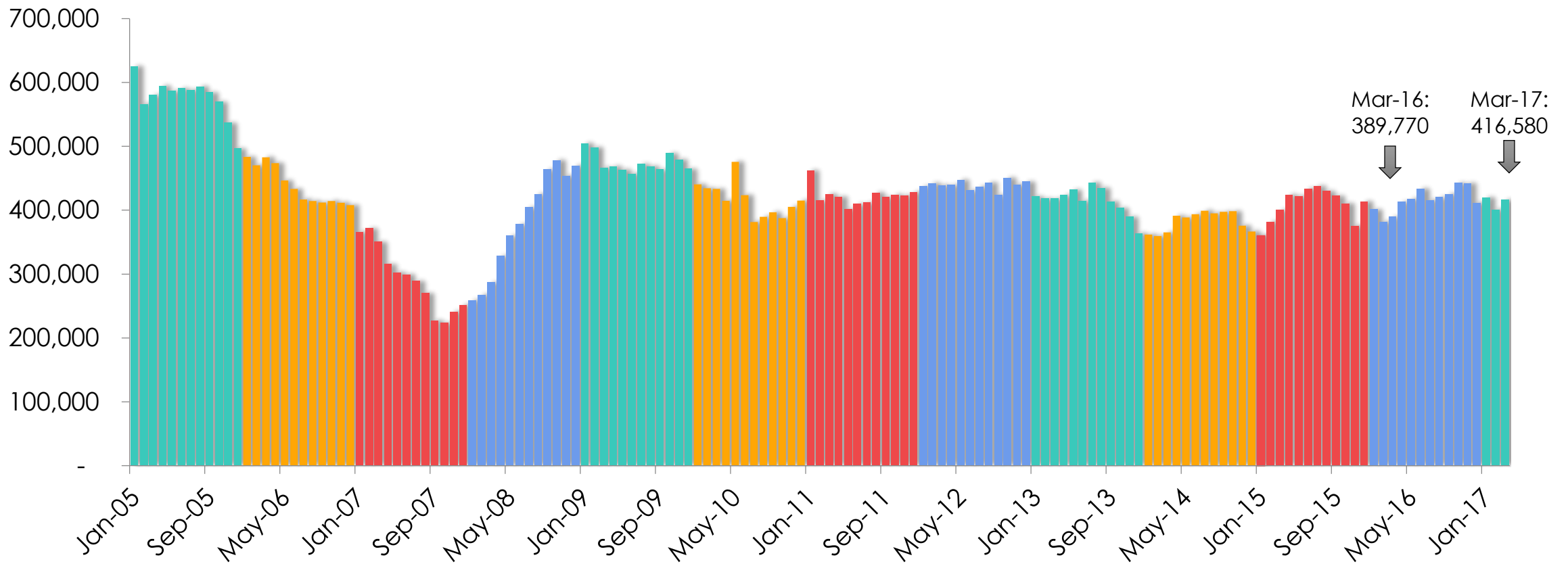


# Housing Market Trends

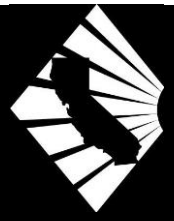


# Home Sales Up Strong in Q117, but Is the Trend Sustainable?

California, Mar. 2017 Sales: 416,580 Units, +5.4% YTD, +6.9% YTY



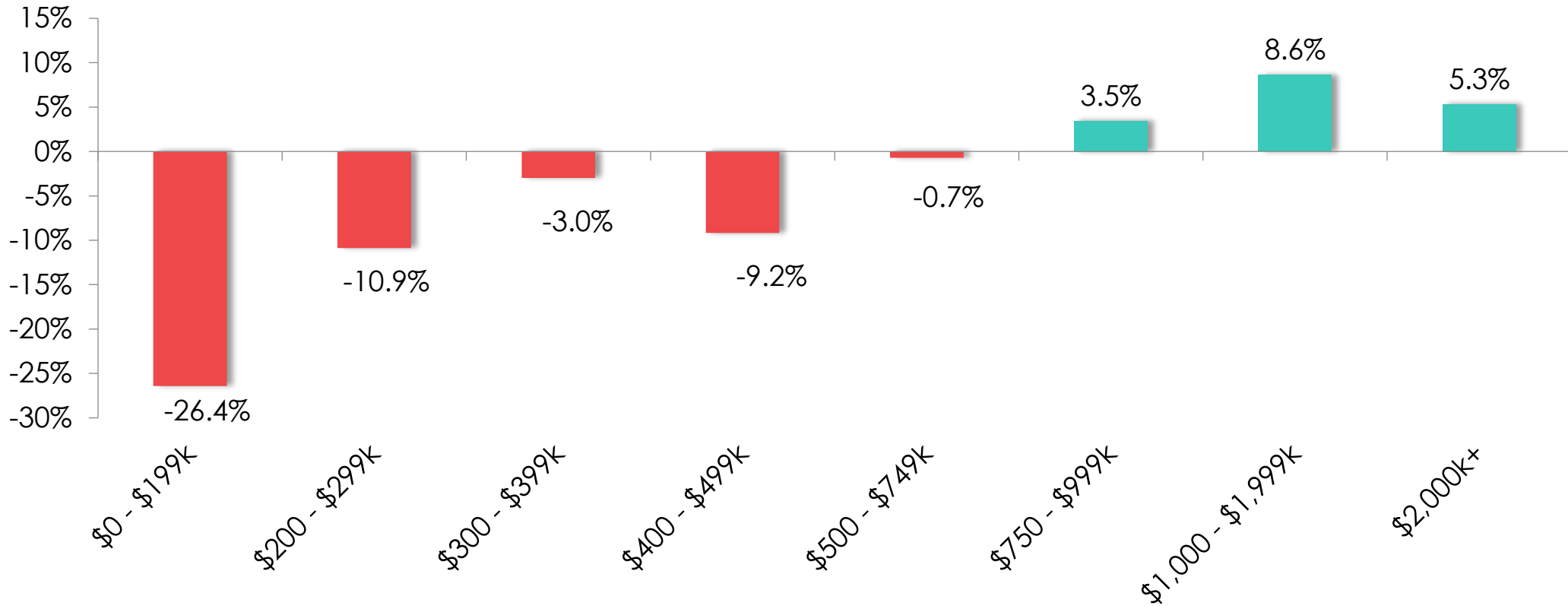


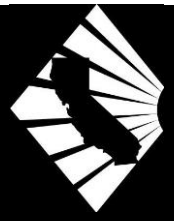


# Sales Improved in High-Priced Markets But Continued to Decline in Lower-Priced Segments

(Year-to-Year)

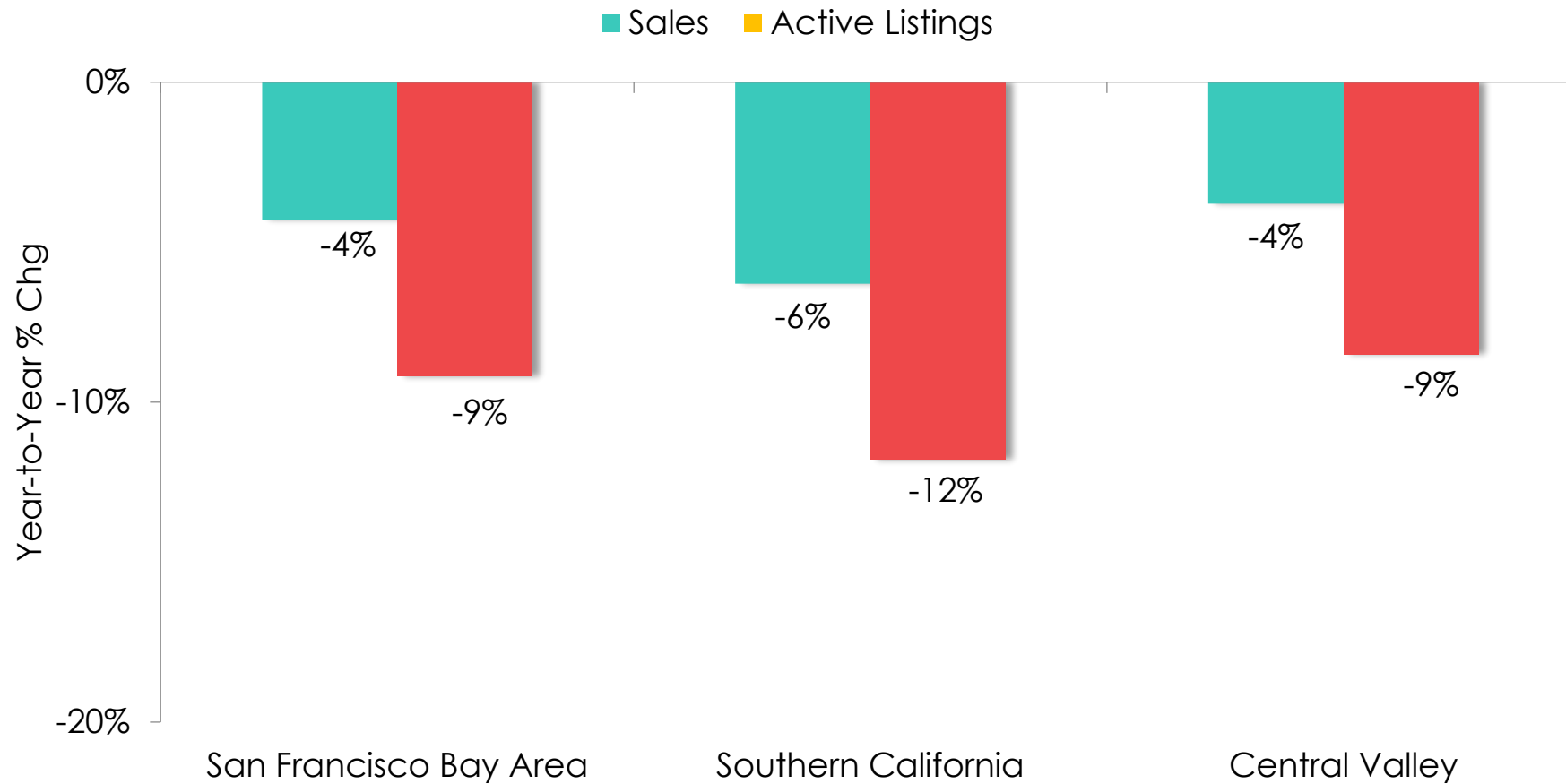
Apr-17





# Supply and Sales Dropped in Each Region

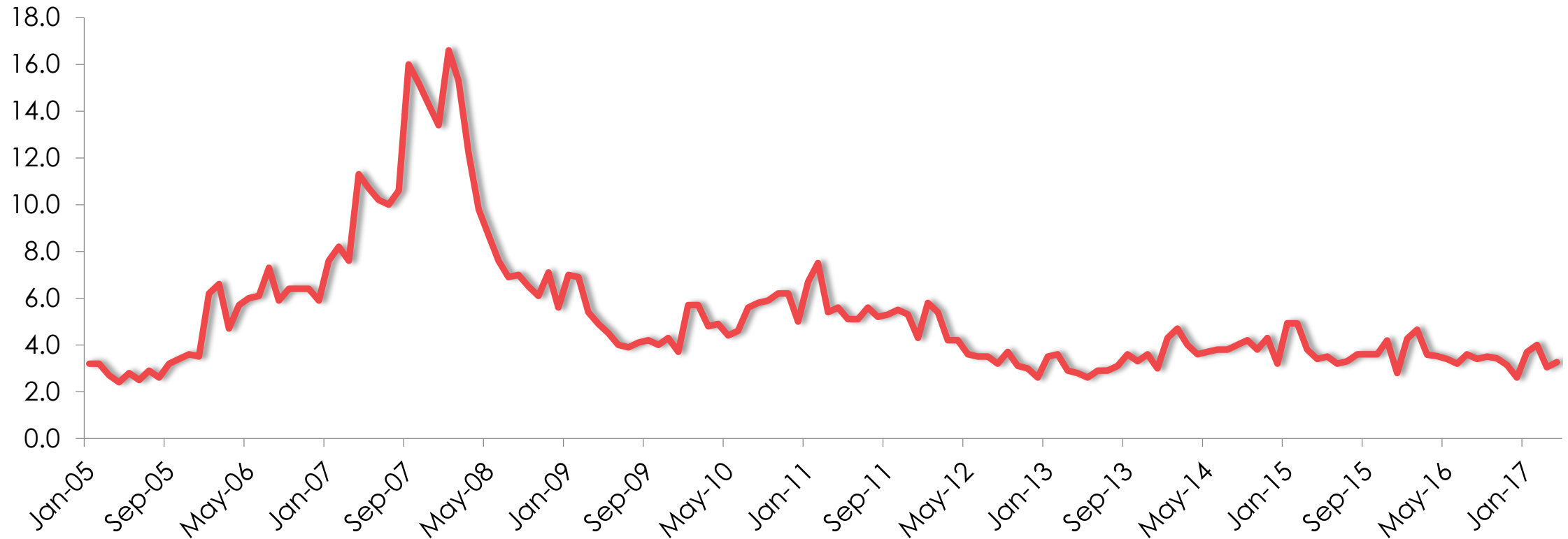
April 2017





# Inventory Improved from March but Declined from Last April

Apr. 2016: 3.5 Months; Apr. 2017: 3.3 Months

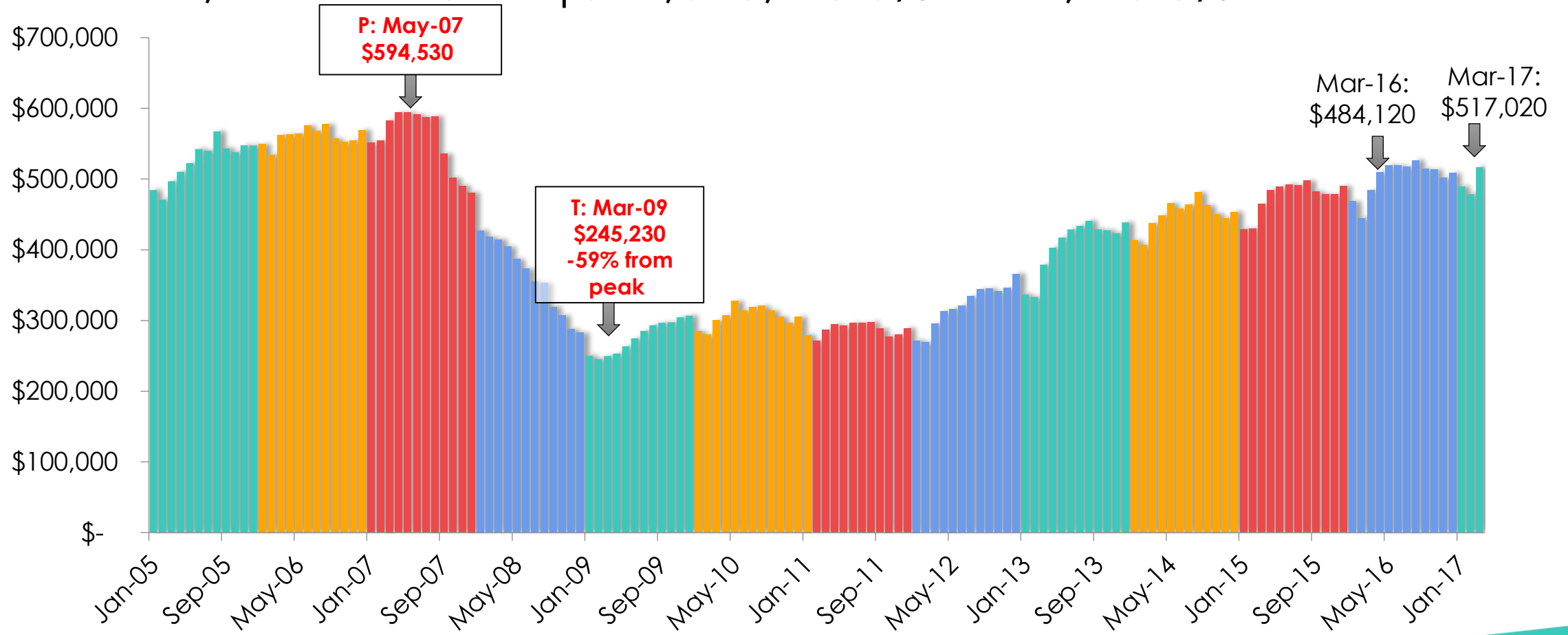


Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the number of "Sold" properties for the month in question.



# Imbalance between Supply and Demand Led to Upward Pressure on Prices

California, March 2017: \$517,020, +8.0% MTM, +6.8% YTY



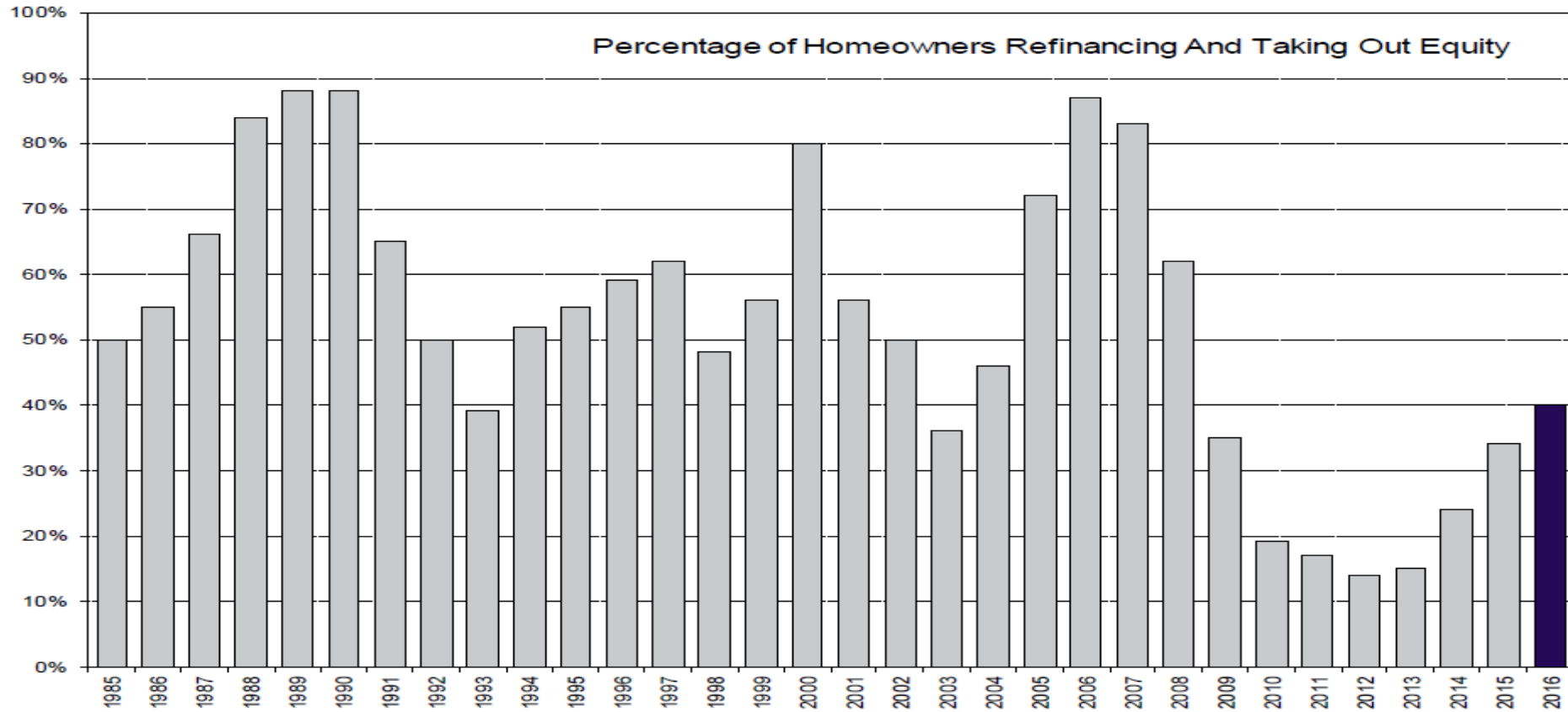


# Fewer Homes Underwater

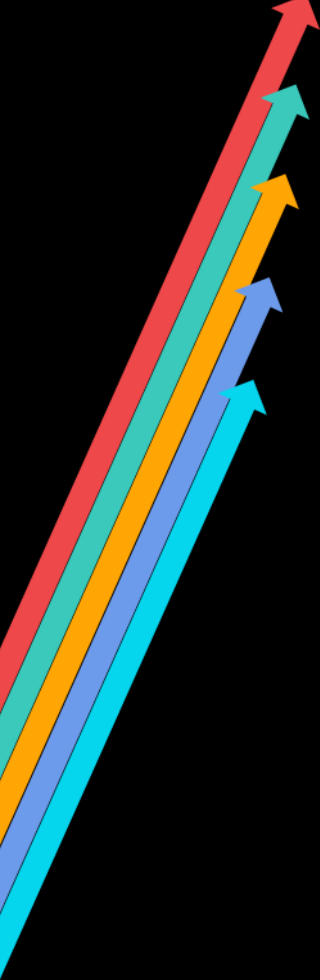




# More owners cashing in



SERIES: Percentage of Homes with Cashing Out During Refi  
SOURCE: Ivy Zelman & Associates

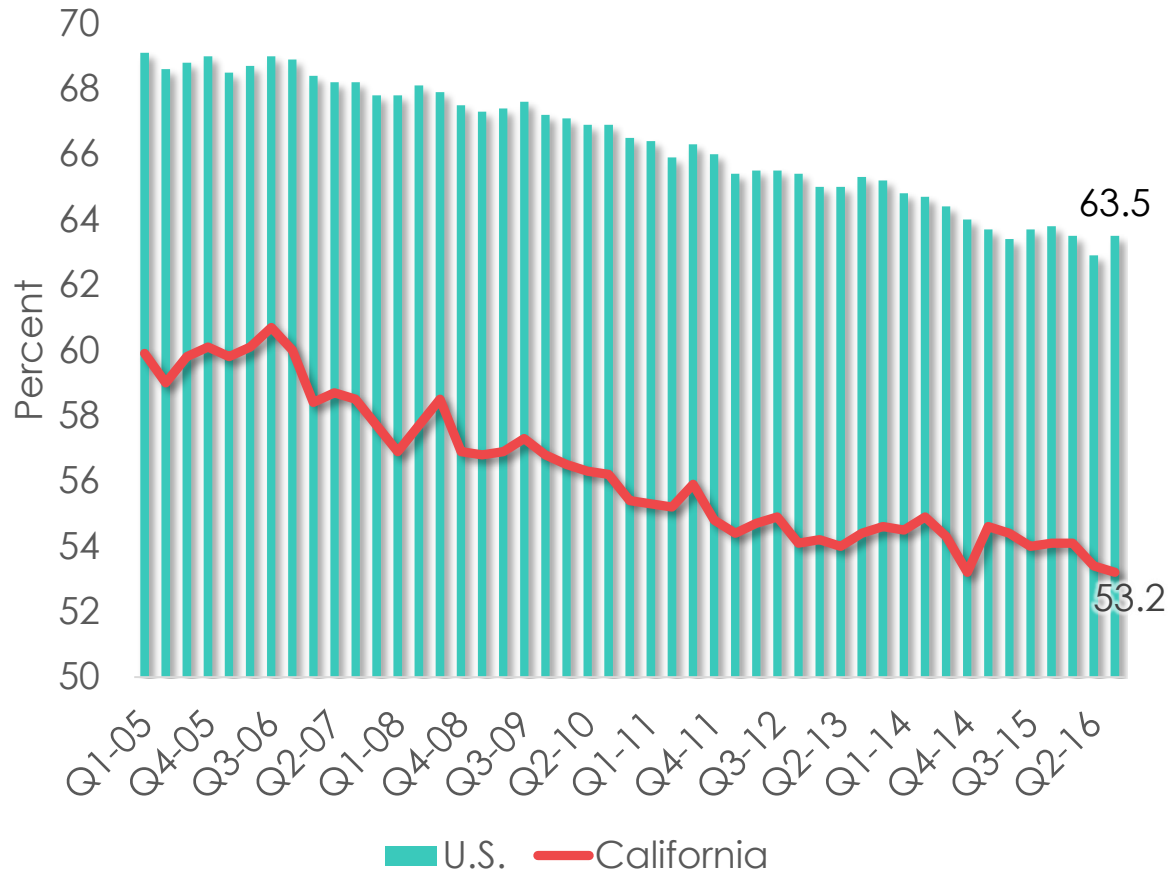


# Recent Trends in Homeownership

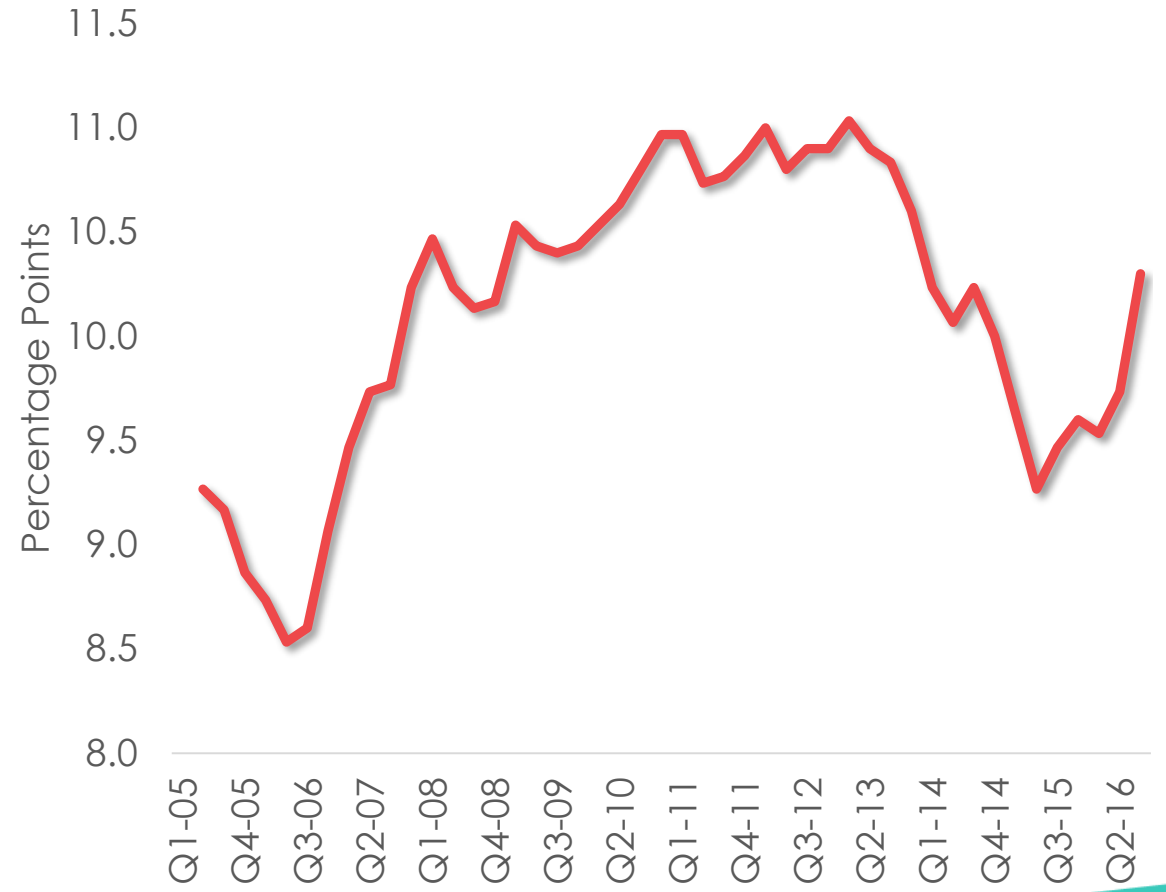


# Homeownership dropped, big gap in CA

### Homeownership Rate, 2005-2016



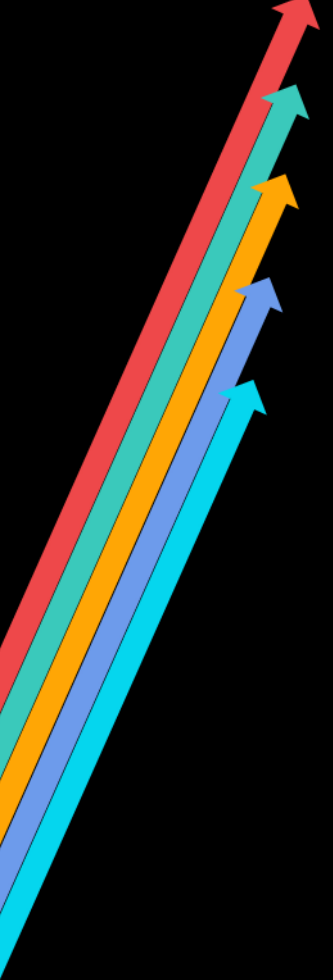
### Homeownership Gap (Smoothed)



SERIES: Homeownership Rate (%)

SOURCE: U.S. Census Bureau, Housing Vacancy Survey (HVS)



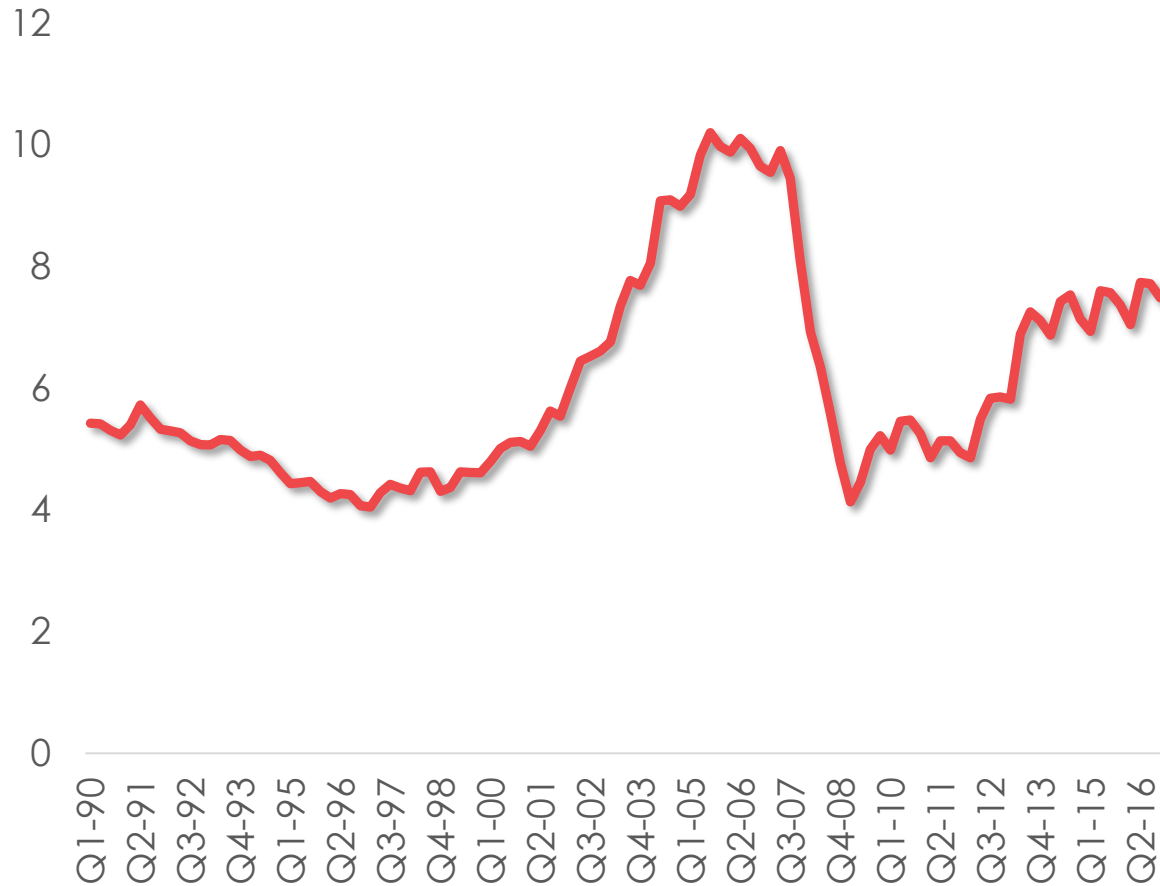


# Achieving Homeownership in California

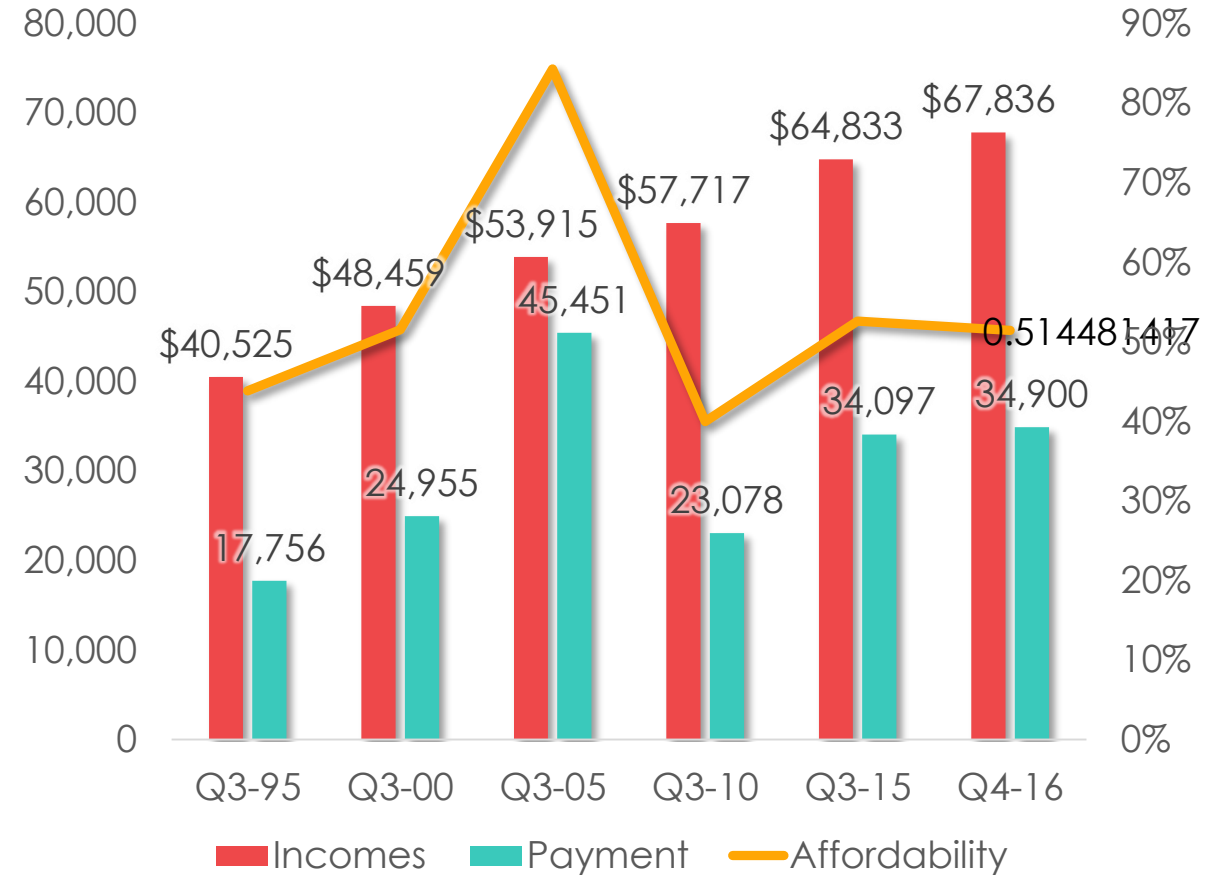


# Interest rates were the saving grace

### California Price/Income Ratio



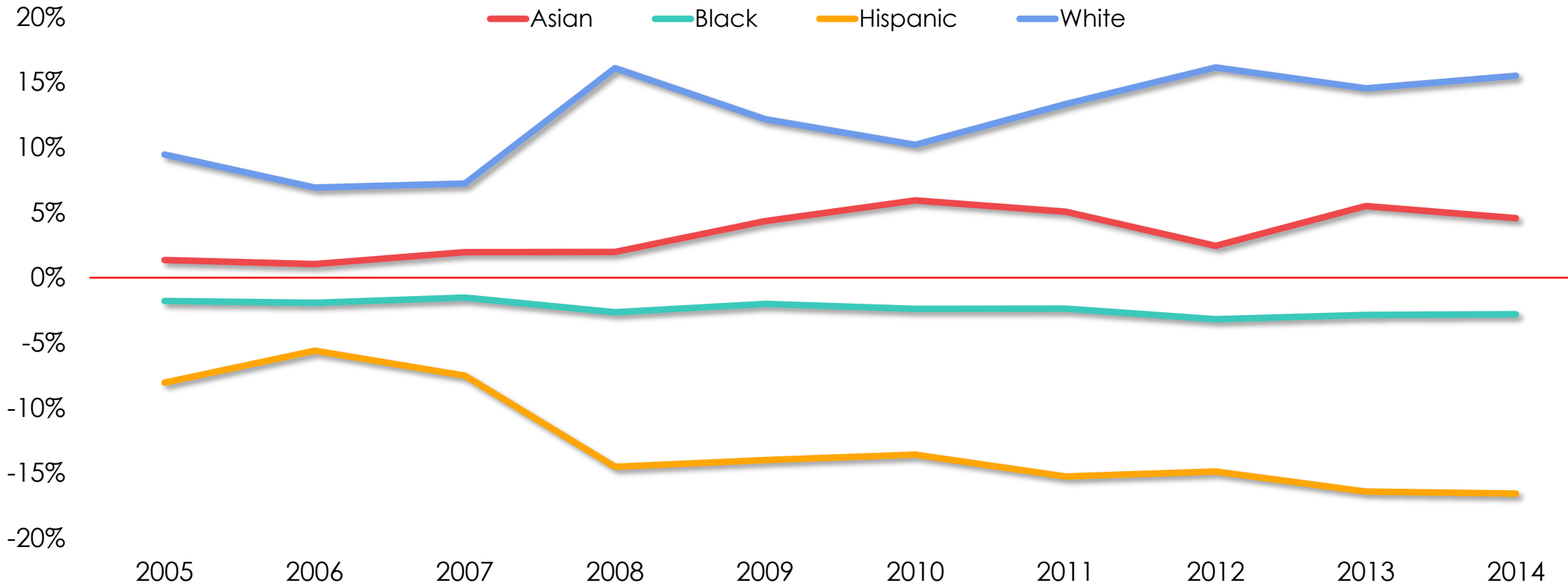
### Payments vs. Incomes



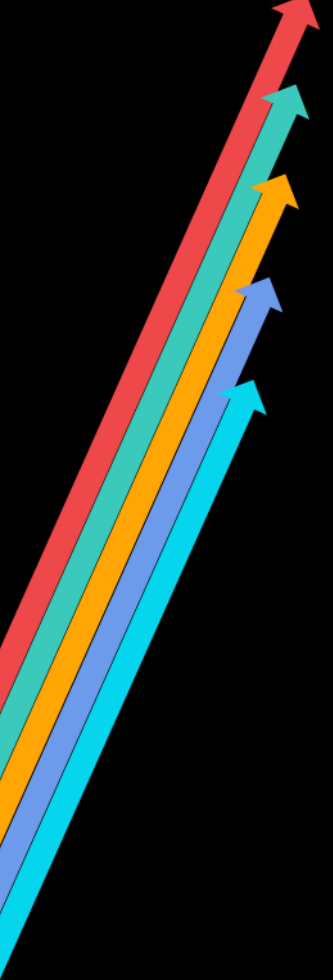


# Homeownership challenges by race

**California Transaction Surplus/Deficit by Race/Ethnicity**  
Percent of Transactions Relative to Percent of Population



SERIES: Surplus/Deficit of Home Sales Relative to Population Base  
SOURCE: U.S. Census Bureau, American Community Survey

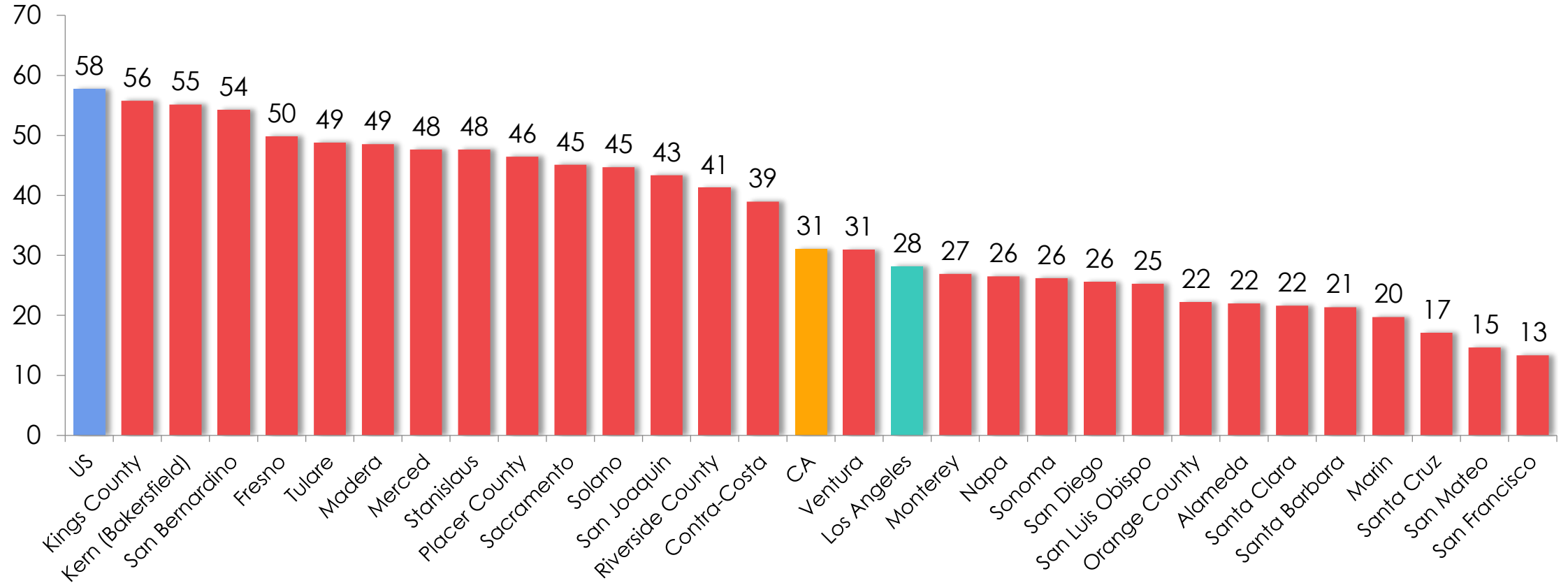


# Supply & Affordability: Connecting the Dots



# Affordability still a problem

2016-Q4: % able to purchase median-priced home

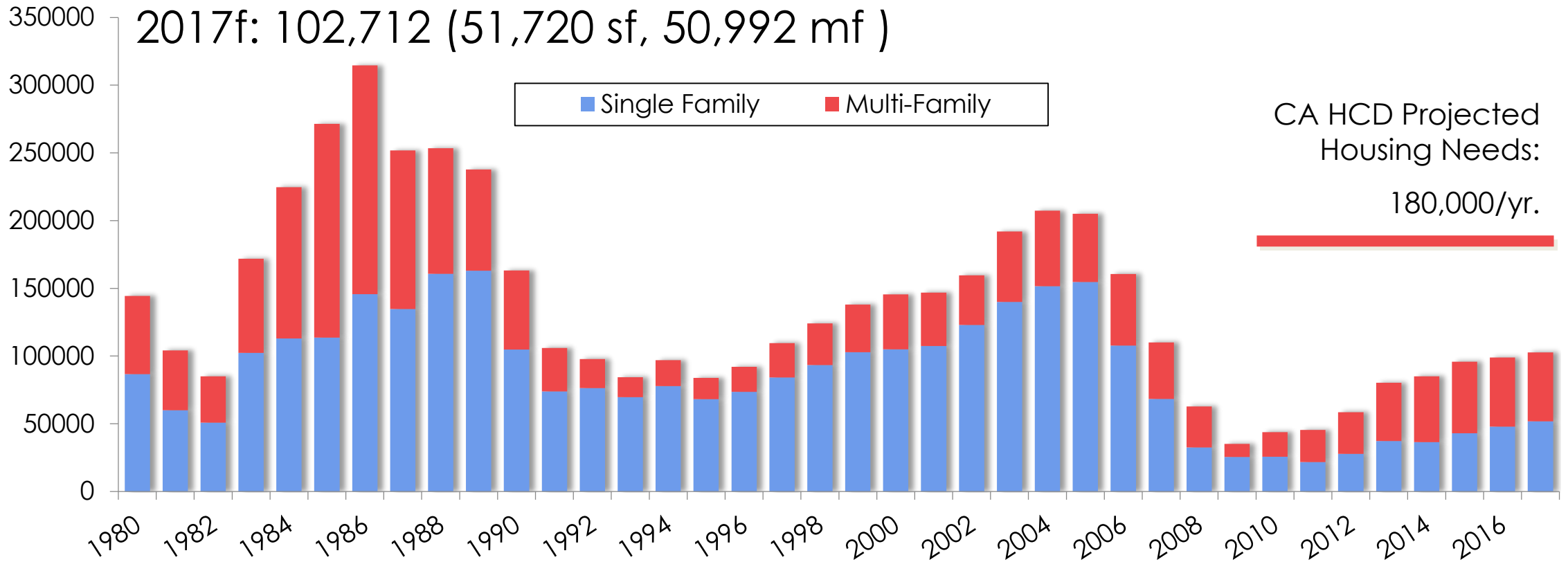


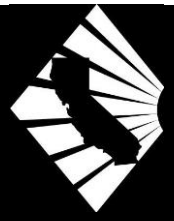


# “Missing” 77,000 new units annually

2016: 98,881 (47,889 sf, 50,992 mf)

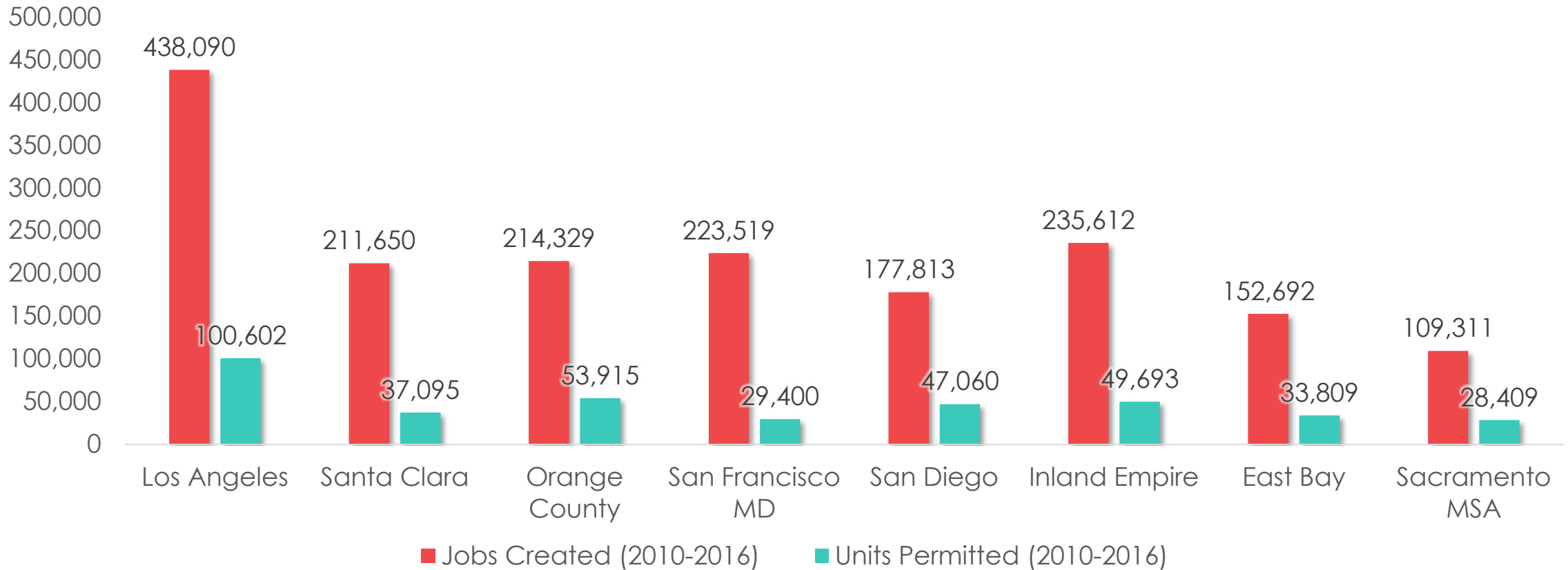
2017f: 102,712 (51,720 sf, 50,992 mf )





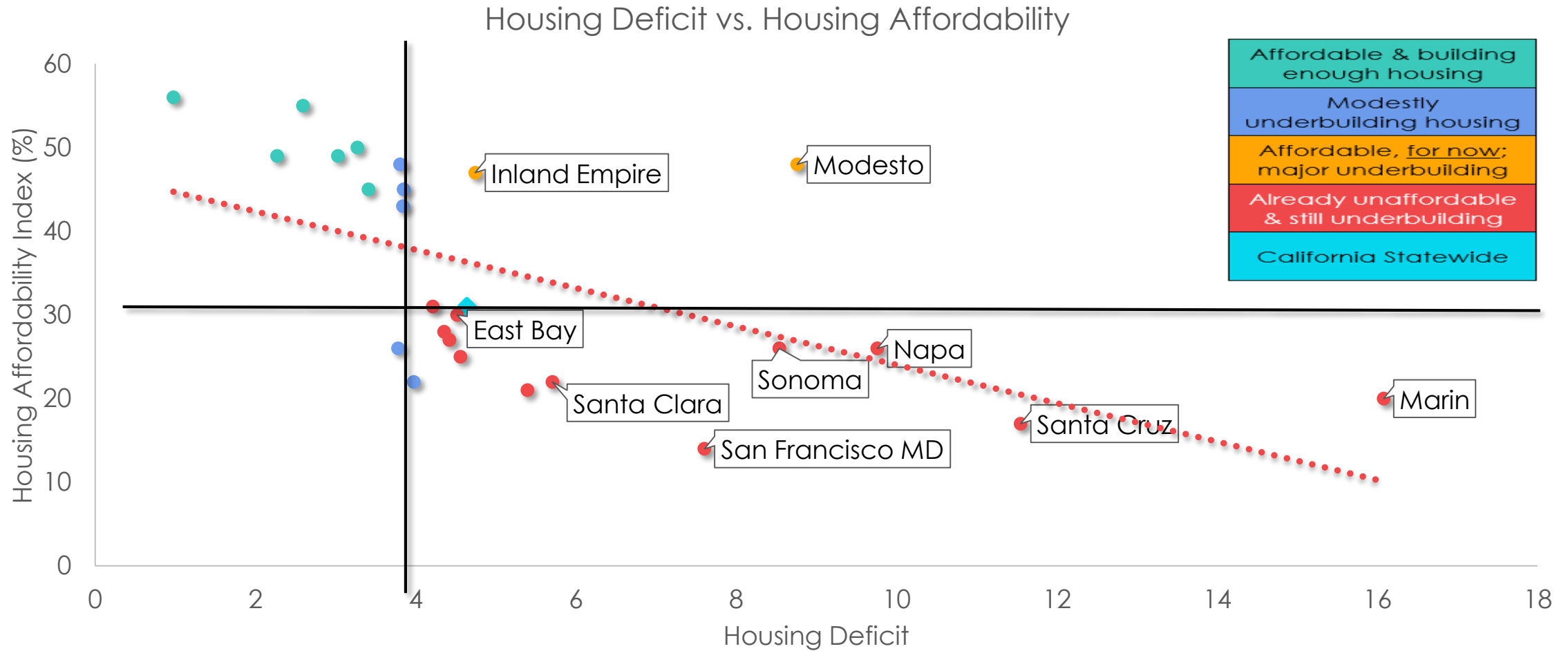
# Most underbuilt counties in California

Jobs Created vs. Units Permitted  
2010-2016

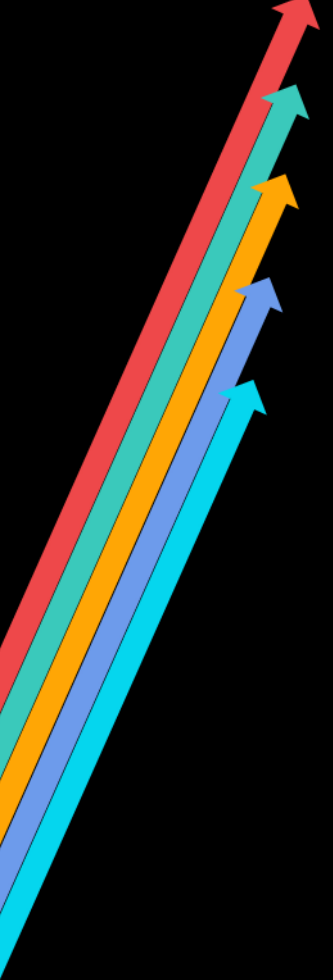




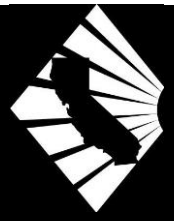
# More “underbuilding,” less affordability







# Lack of Turnover: Causes and Consequences

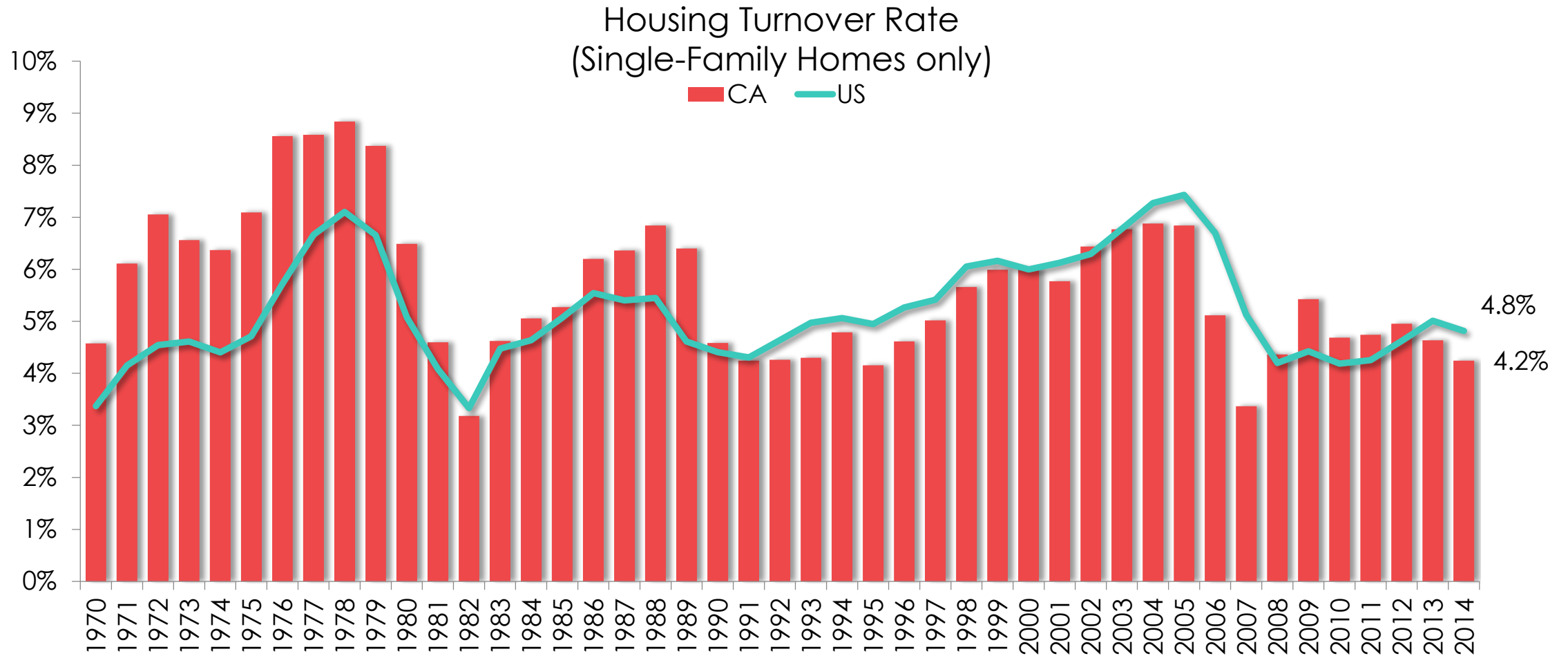


# Where is the inventory?

- **Long-Time Homeowners are not moving as in the past**
  - Low rate on current mortgage
  - Low property taxes
  - Capital gains hit
  - Where can I afford to go?
  - Could not qualify for a mortgage today
- **Remodel and stay**
- **Are we headed for the “European Model” where children inherit the home of their parents?**
- **One more thing...Secular decline in marriage**



# Fewer units turning over since the Great Recession



SERIES: Percent of existing single-family homes being sold  
SOURCE: Census Bureau, American Community Survey, Moody's Analytics, C.A.R.



# People are staying in their homes longer

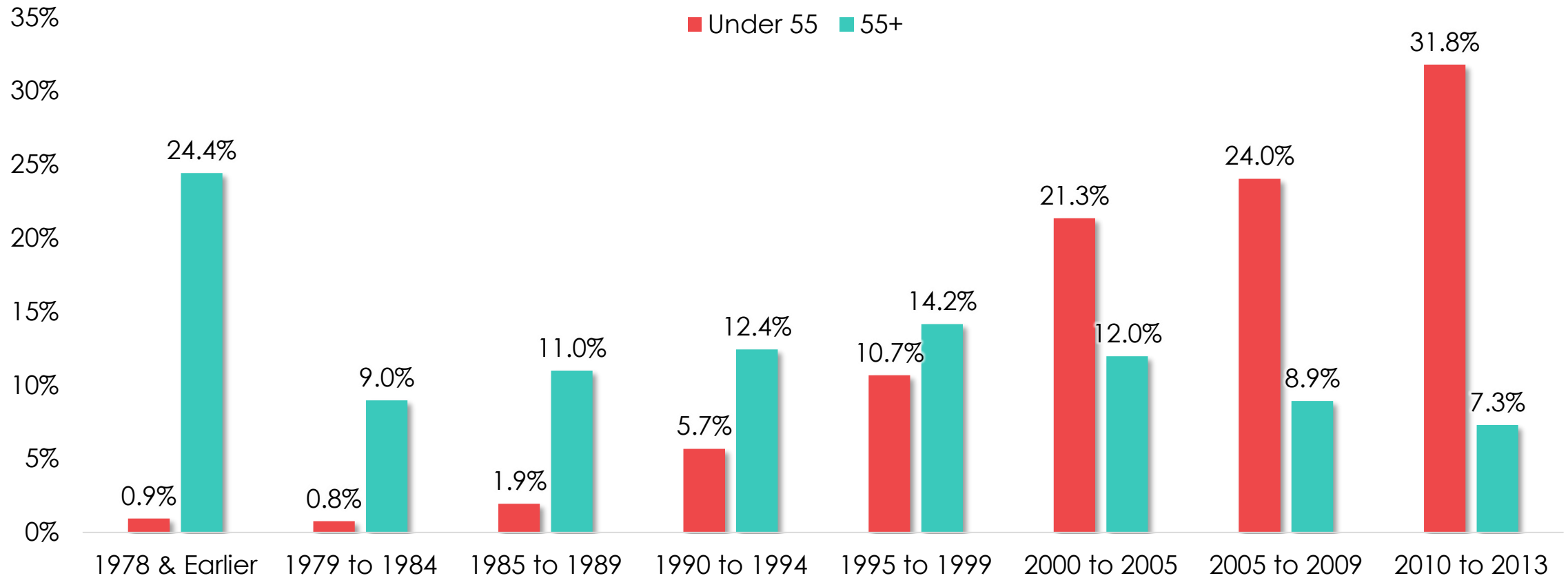




# Boomers not moving as often

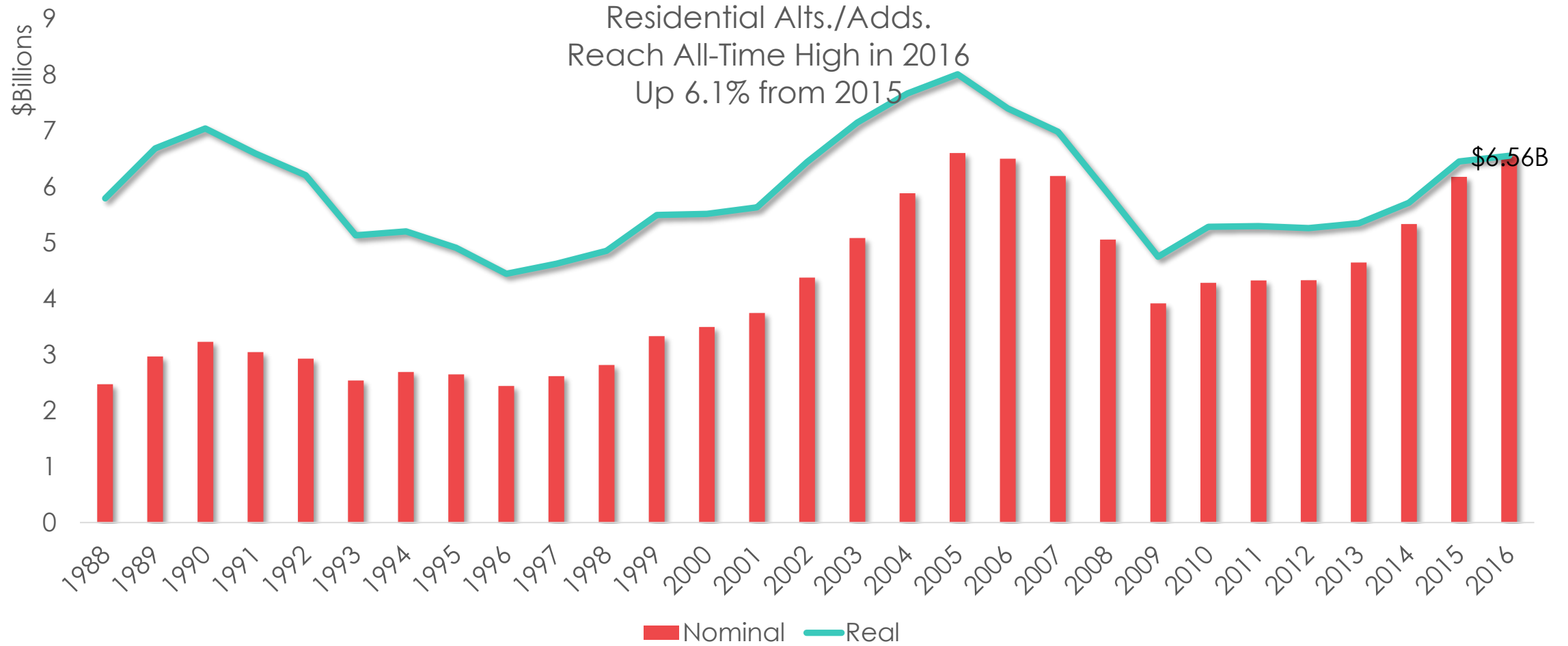
71% of Californian's aged 55+ haven't moved since 1999

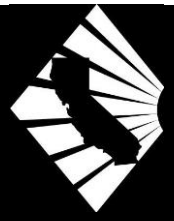
California Homeowners by Length of Tenure, 2013



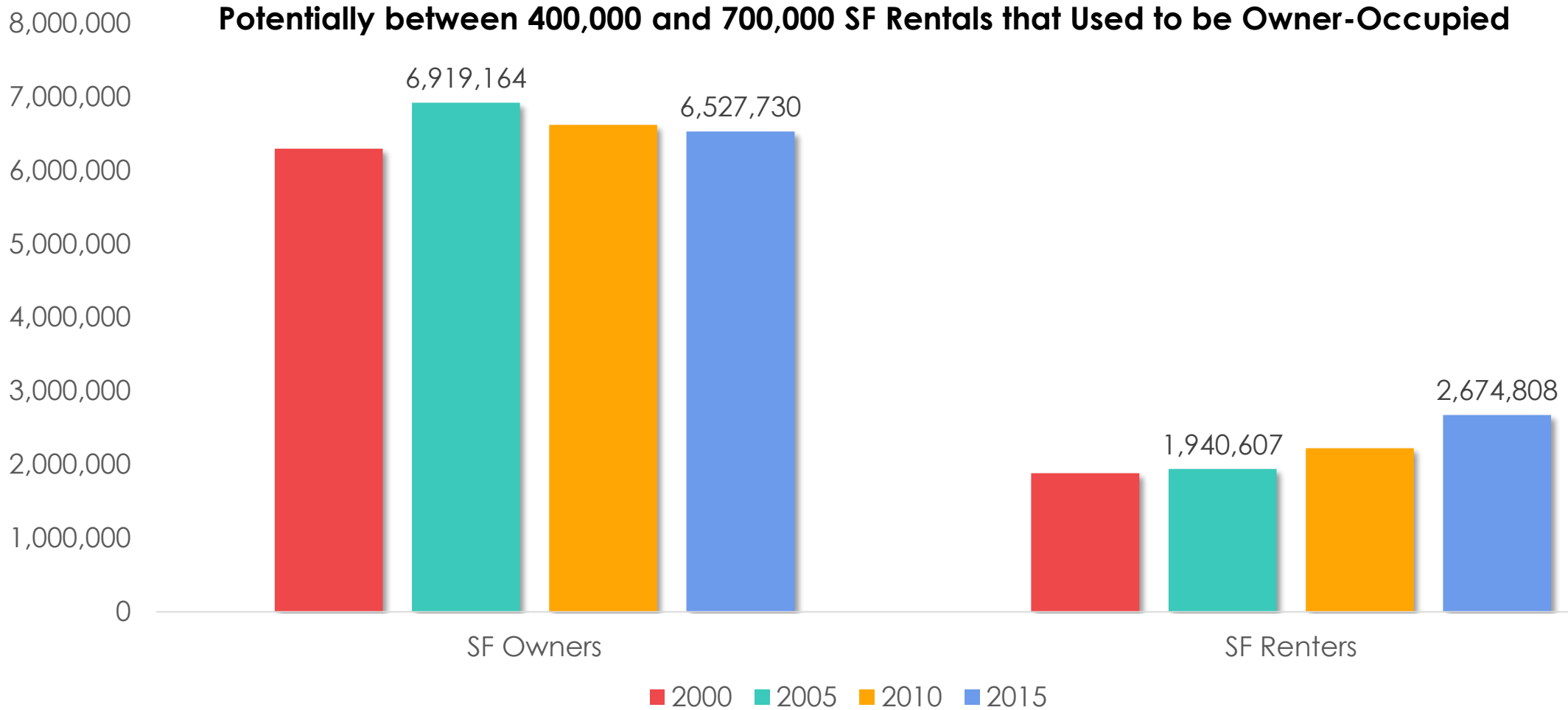


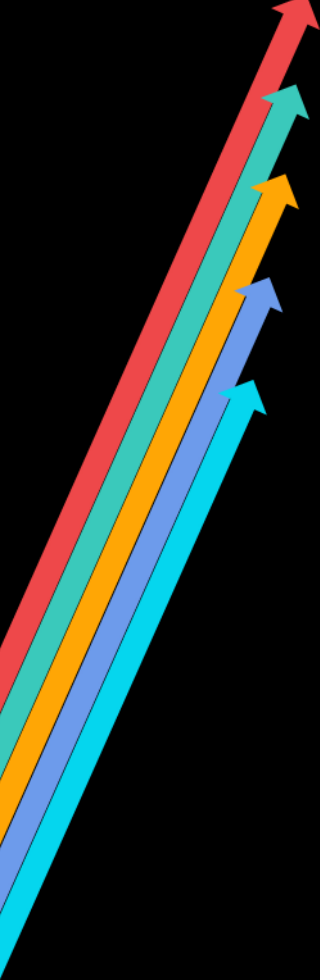
# Owners investing in staying put?





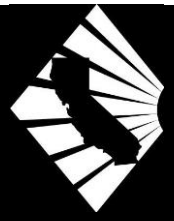
# More single family units now rentals





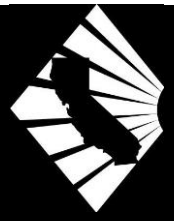
# The Forecast





# U.S. economic outlook

	2011	2012	2013	2014	2015	2016p	2017f
US GDP	1.6%	2.2%	1.7%	2.4%	2.6%	1.6%	2.1%
Nonfarm Job Growth	1.2%	1.7%	1.7%	1.9%	2.1%	1.8%	1.3%
Unemployment	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.7%
CPI	3.1%	2.1%	1.5%	1.6%	0.1%	1.4%	2.4%
Real Disposable Income, % Change	2.5%	3.2%	-1.4%	2.7%	3.4%	2.7%	3.0%
30-Yr FRM	4.5%	3.7%	4.0%	4.2%	3.9%	3.6%	4.4%



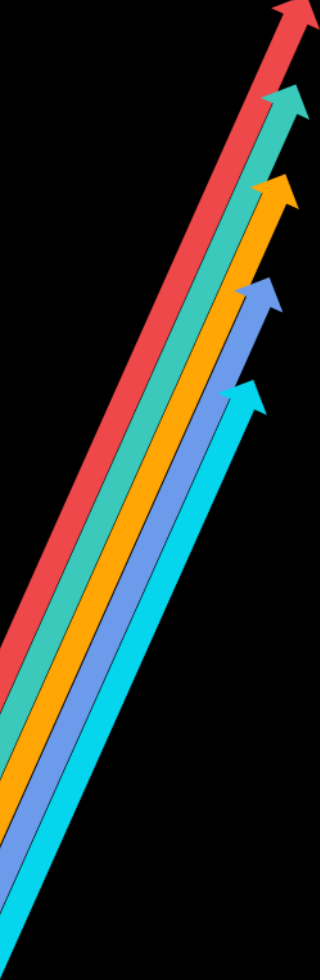
# California economic outlook

	2011	2012	2013	2014	2015	2016p	2017f
Nonfarm Job Growth	1.1%	2.4%	3.0%	2.2%	2.7%	2.3%	1.9%
Unemployment Rate	11.8%	10.4%	8.9%	7.5%	6.2%	5.5%	5.4%
Population Growth	0.7%	0.7%	0.9%	0.9%	0.9%	0.9%	1.0%
Real Disposable Income, % Change	3.5%	4.7%	-1.1%	3.2%	3.6%	3.0%	4.5%



# California housing market outlook

	2011	2012	2013	2014	2015	2016	2017f
SFH Resales (000s)	422.6	439.8	414.9	382.7	409.4	416.3	419.6
% Change	1.4%	4.1%	-5.9%	-7.8%	7.0%	1.7%	0.8%
Median Price (\$000s)	\$286.0	\$319.3	\$407.2	\$446.9	\$476.3	\$502.3	\$525.4
% Change	-6.2%	11.6%	27.5%	9.8%	6.6%	5.4%	4.6%
Housing Affordability Index	53%	51%	36%	30%	31%	31%	28%
30-Yr FRM	4.5%	3.7%	4.0%	4.2%	3.9%	3.6%	4.4%



# Conclusions



# Fasten seatbelts for bumpy ride

- **Lots of political uncertainty**
  - Big stimulus, how does that affect our housing imbalances
  - Threats to MID, Fannie/Freddie, FHA? MID is the one to worry about.
  - Trade, healthcare, immigration, federal funding, interest rates
  - All potential negatives
- **Economy and housing market doing ok for now, but...**
- **Several threats to homeownership in California**
  - Lack of housing and its effects on affordability
  - Low turnover rate further restricts supply
  - High prices and downpayment requirements
  - Rising interest rate environment is expected
  - Future policy changes: GSEs, Mortgage Interest Deduction?
  - Outmigration to more affordable areas
- **Many of these fundamental issues aren't abating any time soon**
- **Positive impacts on home equity**
  - With prices trending up, longer tenure means more equity building



# Housing Matters Podcast

[www.car.org/marketdata/podcast/](http://www.car.org/marketdata/podcast/)



# New Interactive Market Statistics

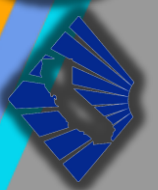
[www.car.org/marketdata/interactive](http://www.car.org/marketdata/interactive)



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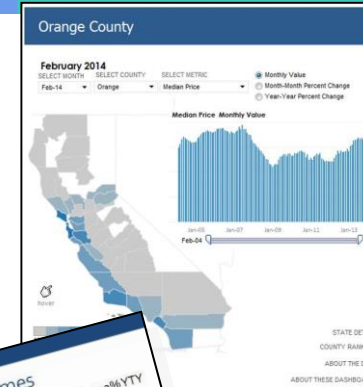
CARResearchInfo



On.car.org/CARResearch



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Market Snapshot  
Why is the market so hot? There are several reasons...  
Change in Inventory by Price Range

California July Sales  
Single Family Sales: 4,43K, 3,94K, 3,98K, 4,43K, 4,58K, 4,64K  
Regional Sales & Median Price  
San Francisco Bay Area's median price increased 10.0 percent...  
In Southern California, the median price of single family homes increased 5.8 percent...

Market @ A Glance						
Category	Reporting Period	Current Period	Last Period	Year Ago	Change from 12 Months Ago	Change from 1 Year Ago
Existing Home Sales (ARMS)	July 14	3,419	3,061	4,111	-10.8%	-10.0%
Median Home Price *	July 14	\$426,733	\$423,750	\$423,750	0.8%	+1.4%
Median Existing Home Inventory **	July 14	3.0	3.7	4.8	-3.5%	-38.0%
Median Days on Market (DOM)	July 14	35.7	33.9	37.9	0.2%	-18.4%
Traditional Housing Affordability Index (HAI)	July 14	30%	32%	39%	-3.0%	-6.4%
Current Home Affordability Index (HAI)	July 14	4.13%	4.18%	4.13%	-0.05%	-0.24%



