

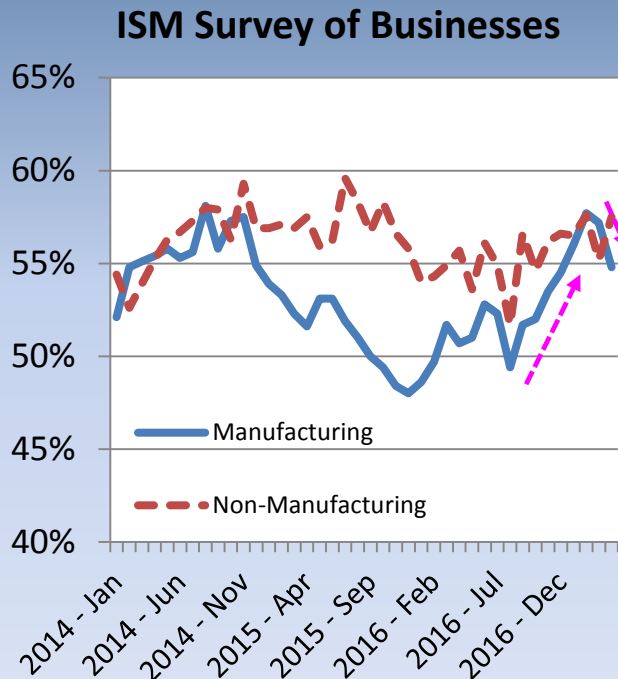
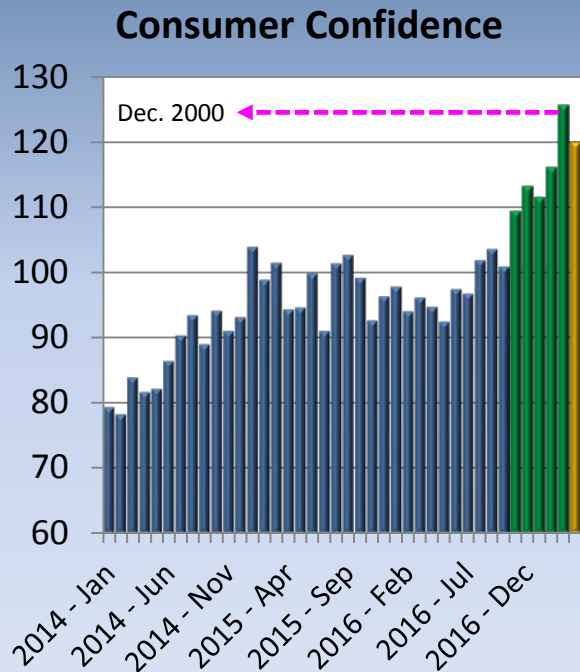
# “Housing in a New Paradigm”

Northern Virginia Association of REALTORS® Finance Summit  
May 24<sup>th</sup>, 2017

Ken Fears

Director of Housing Finance and Regional Economics  
National Association of REALTORS®

# Consumers Confident! ... Businesses too!

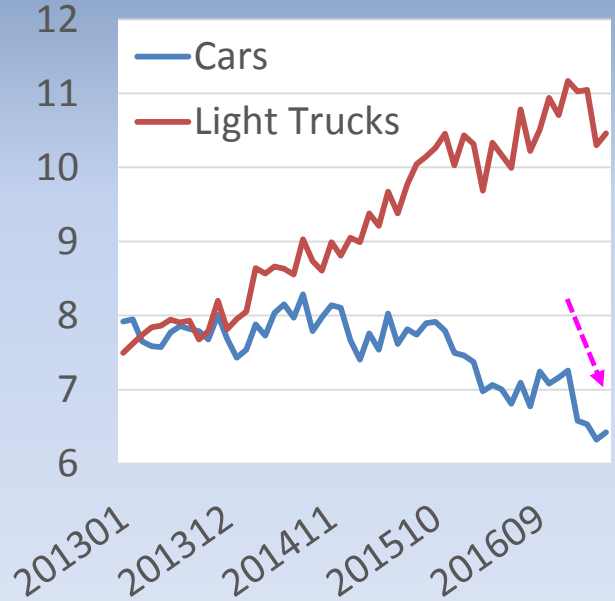


# Soft Spot? Consumer Spending and Autos

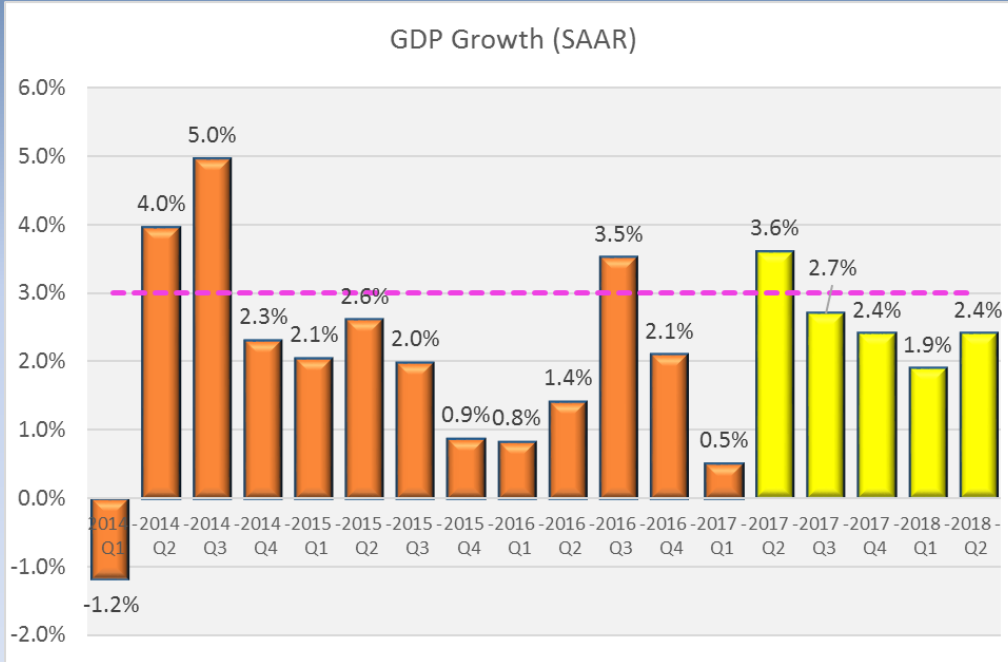
Retail Sales (SA - \$b)



Vehicle Sales (SA - \$mm)



# Why We Care About GDP



GDP = Income

More GDP per worker

= Productivity

= more pay per worker

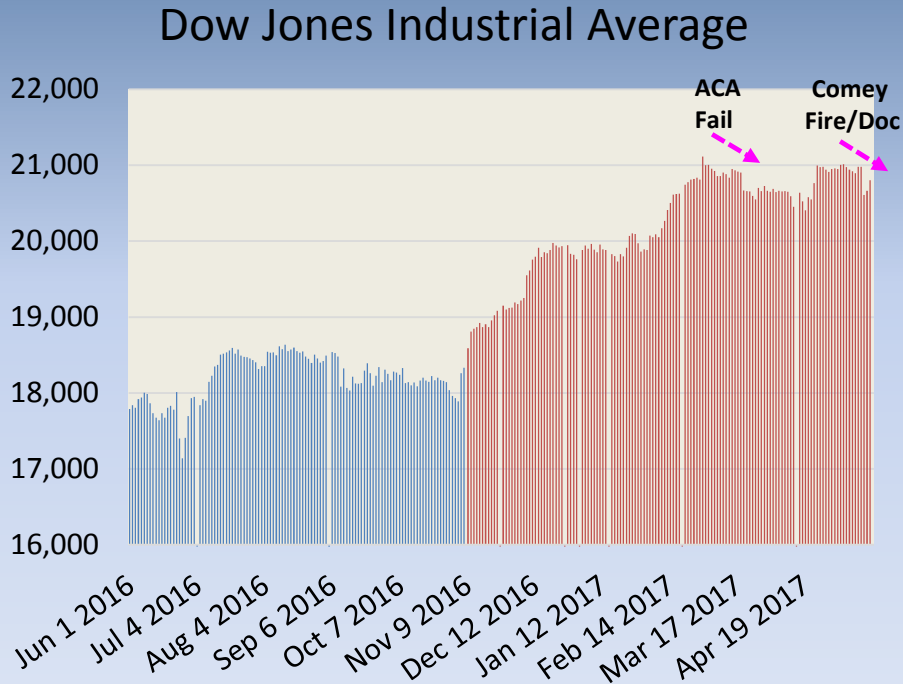
# President Trump's Plan to Grow GDP

## Economic Potential

- GDP growth
  - Infrastructure spending
  - Trade
  - Deregulation
  - Corp Tax Reductions
    - MID?
- Interest Rates
  - Short-term – baked in?
  - Longer-term – nominations
  - Trade, immigration, spending
  - Renegotiate the debt?!?!?



# Stock Market Questions Promises

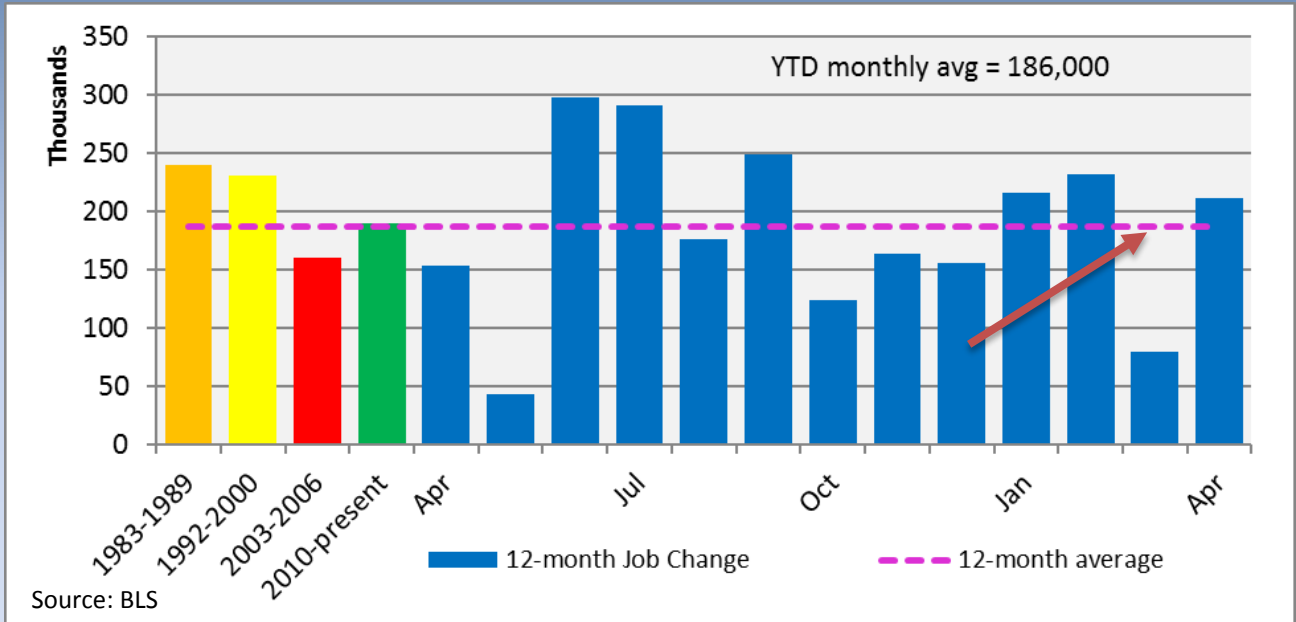


But Can President Trump Deliver?

- Tax Reform
- Regulatory Changes

Legislative impasse and international tensions weigh on market

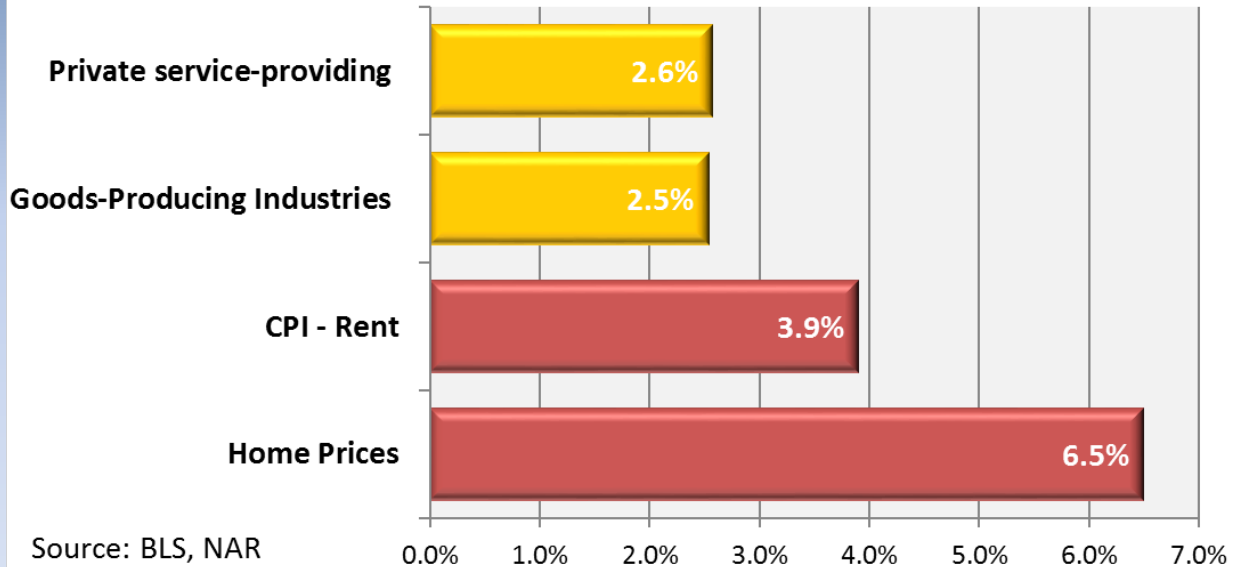
# Employment Growth Stable, but Erratic



Will soften in the near term as labor market tightens, draws more back to economy

# Income Growth Solid, but Uneven

## 12-Month Change in Income by Industry (April)

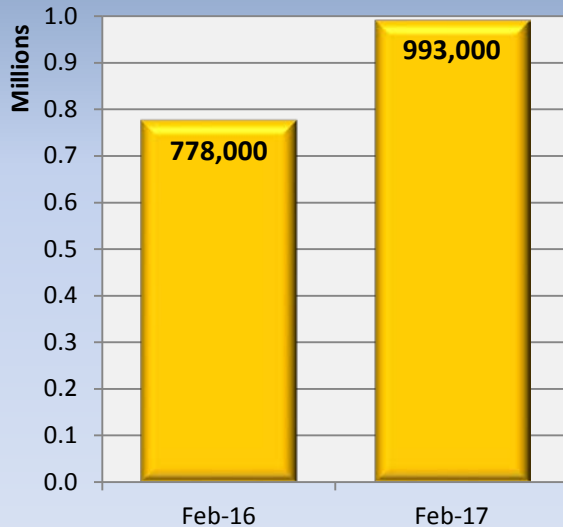


Should grow with full employment

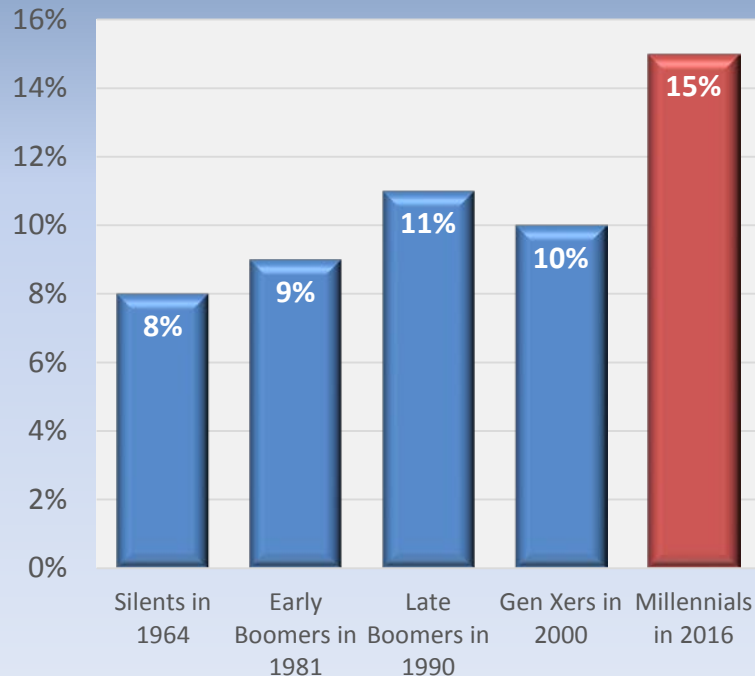


# 96% of Renters Under 35 Want to Own Eventually

## 12-month Employment Change 20-34 year olds

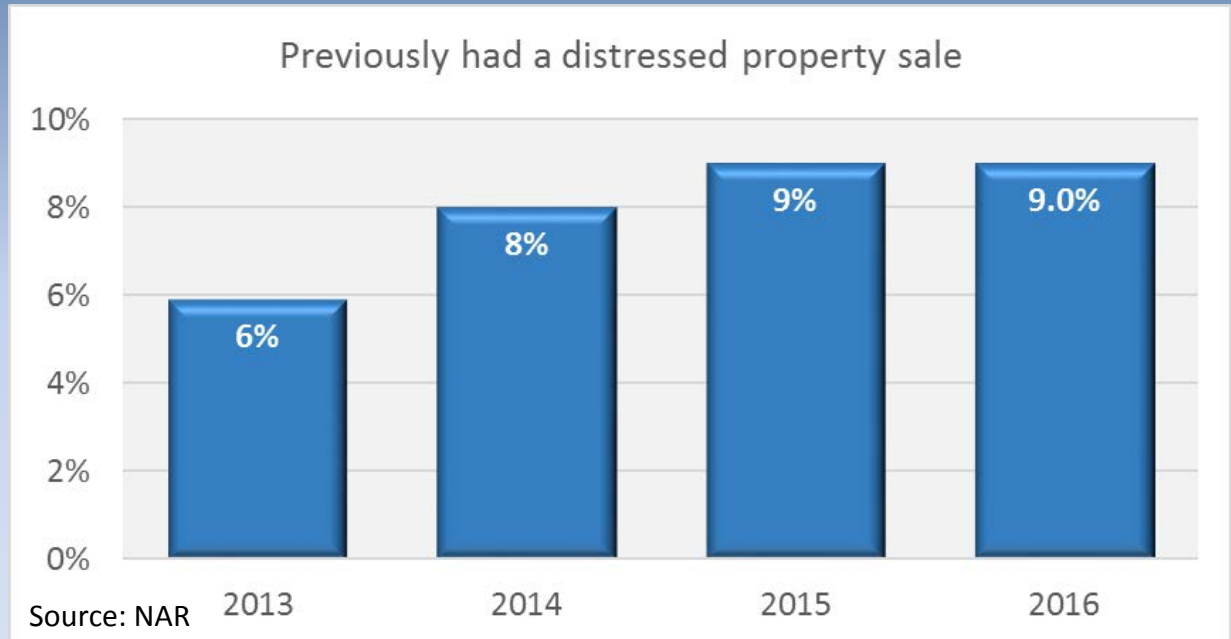


## % of 25 to 35 Year-Olds Living in Parents' Home



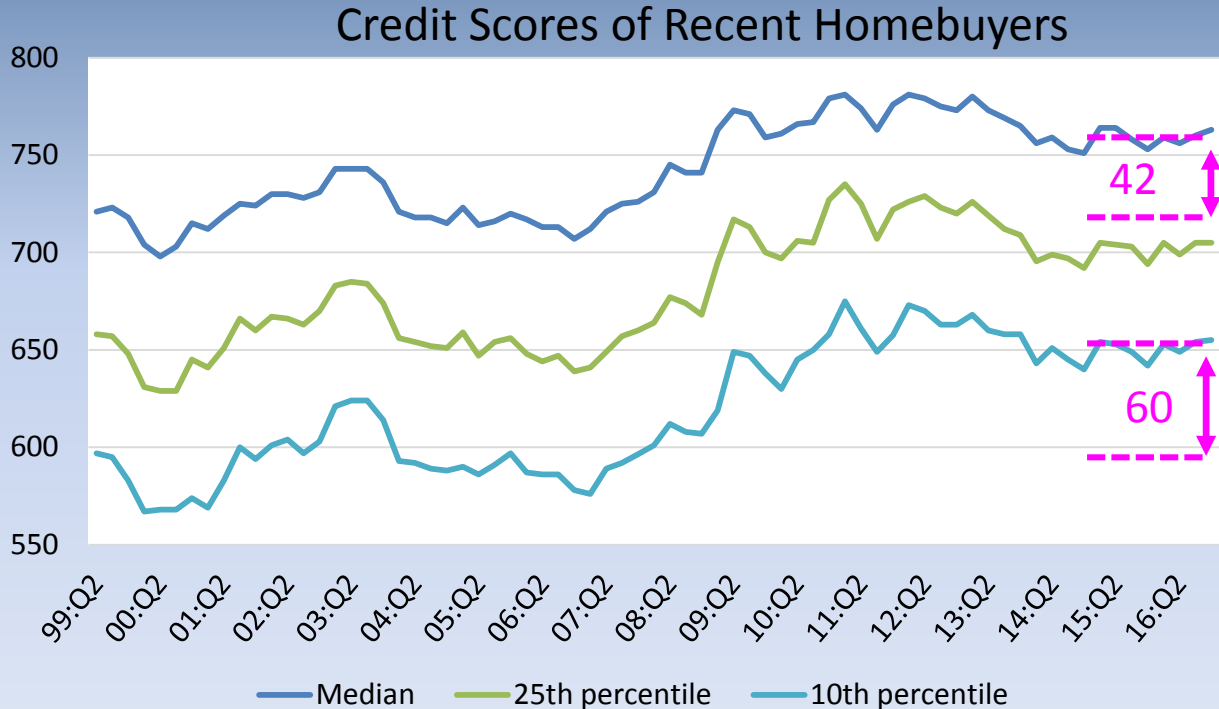
Source: BLS, PEW, NAR

# Return Buyers Supporting Market

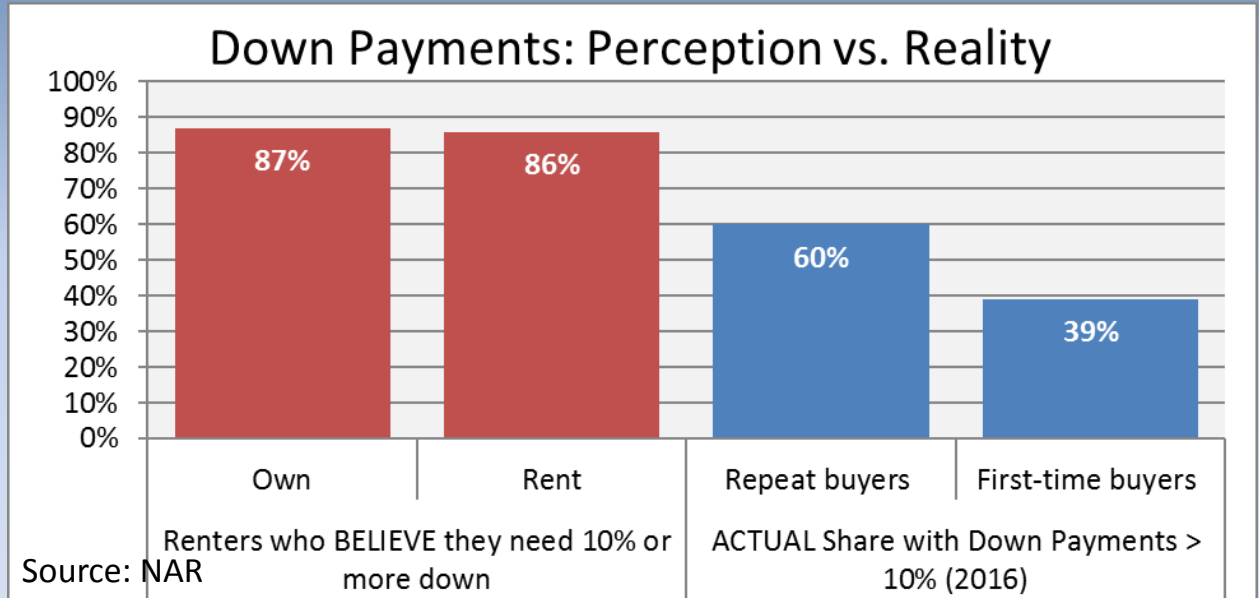


Median return buyer out of the market for 5 years after distressed sale

# Average Accepted FICOs Remain High

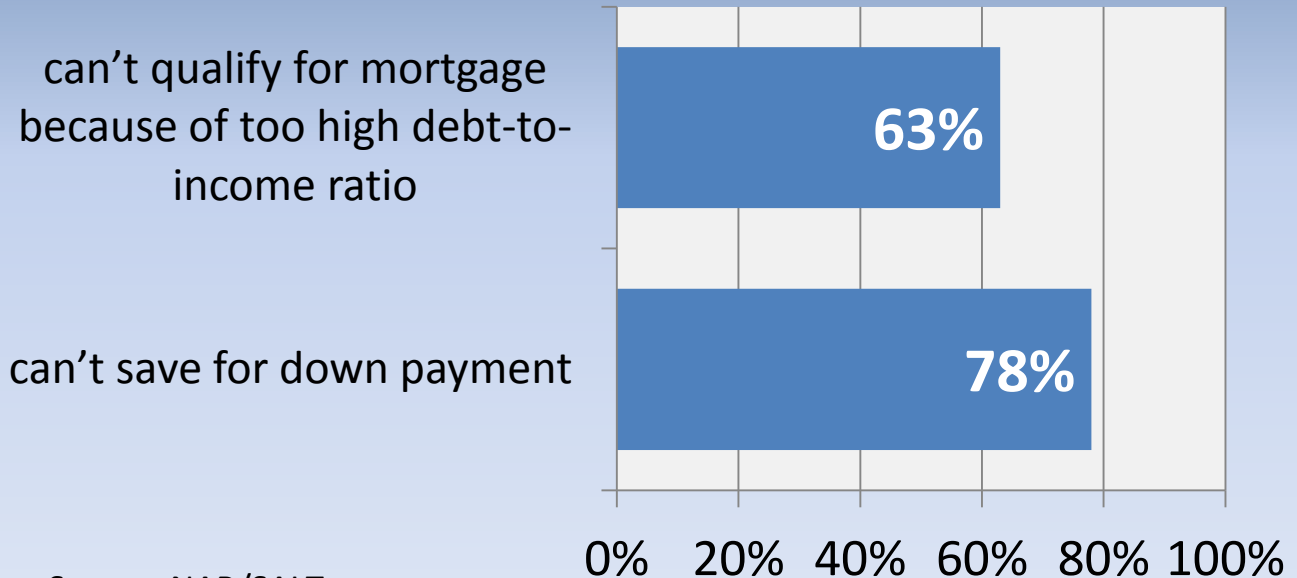


# Renters' Perception is Not Reality



# SALT/NAR Student Debt Survey

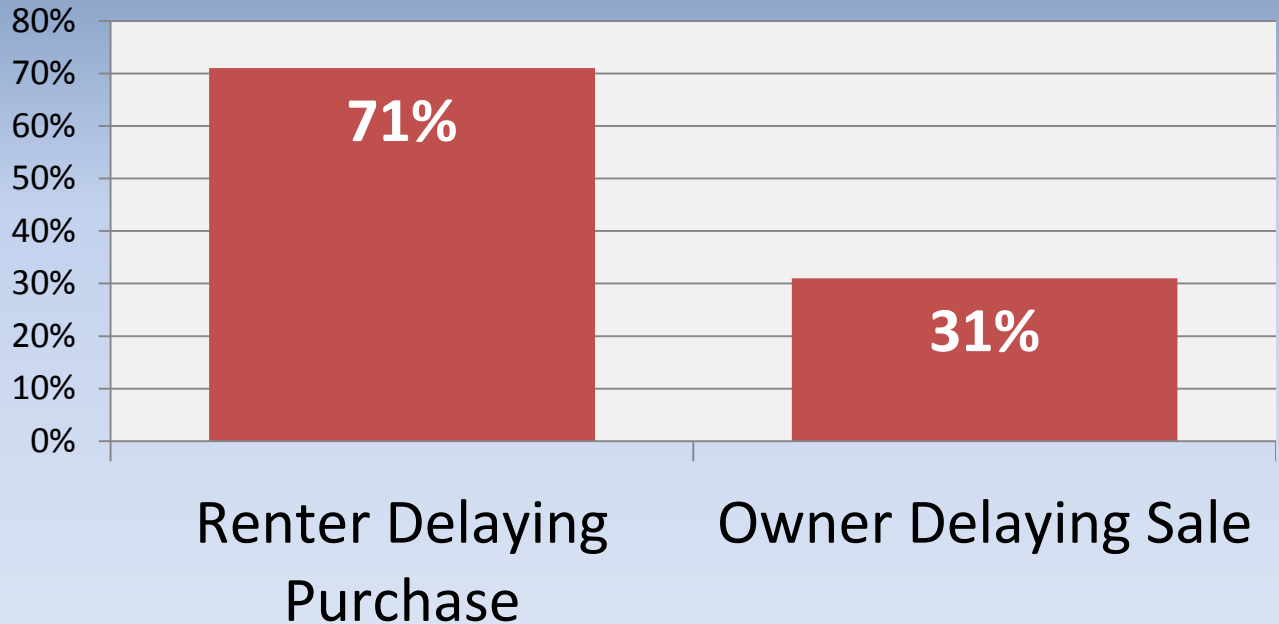
## Student Debt: Renters' Perception of Ability to Purchase



Source: NAR/SALT

# SALT/NAR Student Debt Survey

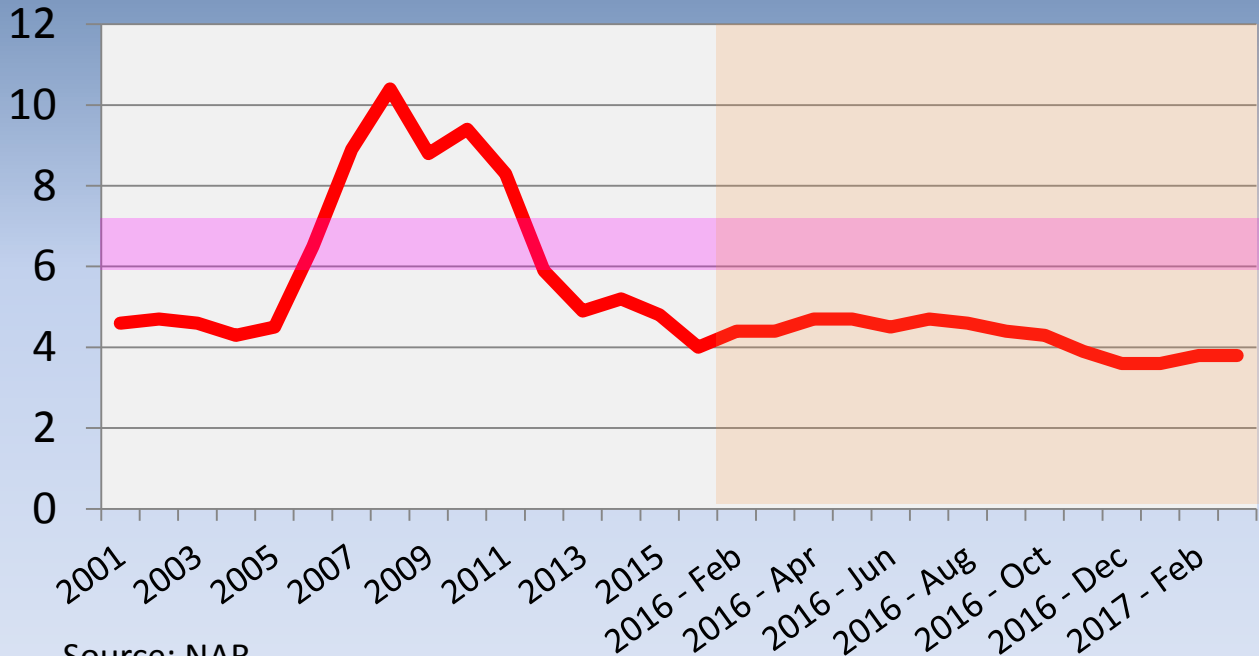
## Student Debt Would Delay Purchase by 5 or More Years



Source: NAR/SALT

# Months Supply Remains Low

Months supply remains extremely low

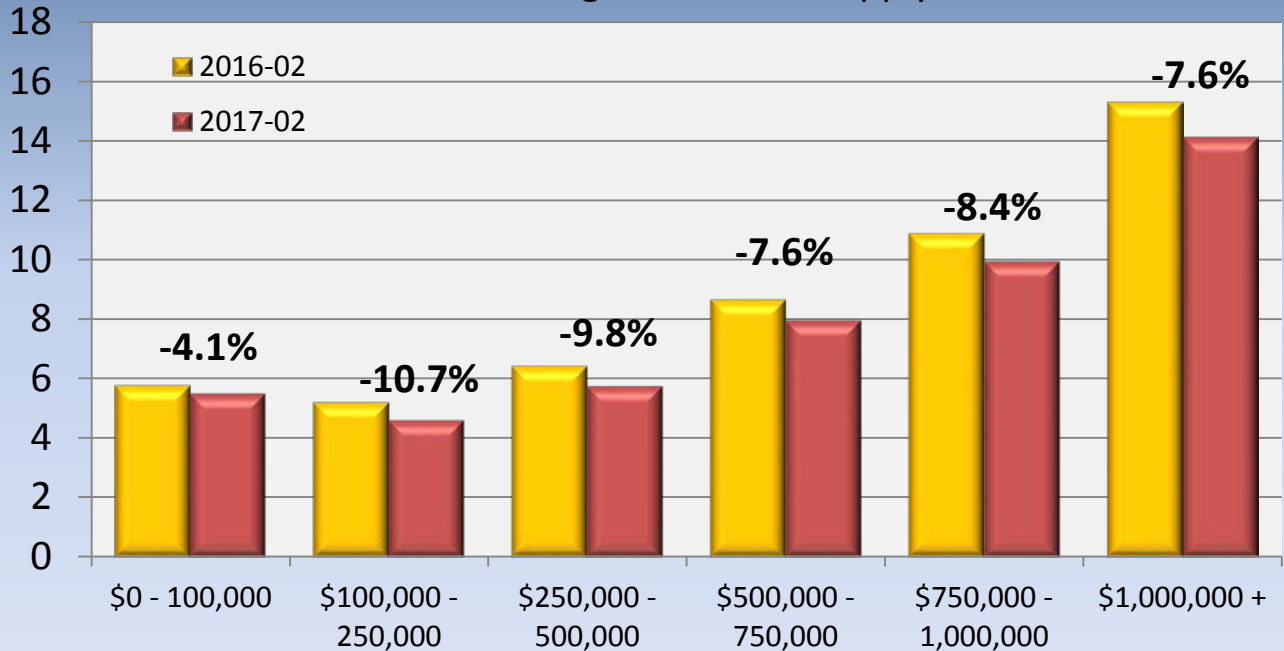


Source: NAR

What does a long seller's market do to quality of stock? Expectations?

# Tight Inventory Impacts Entry Level Sales

12-month Change in Months Supply

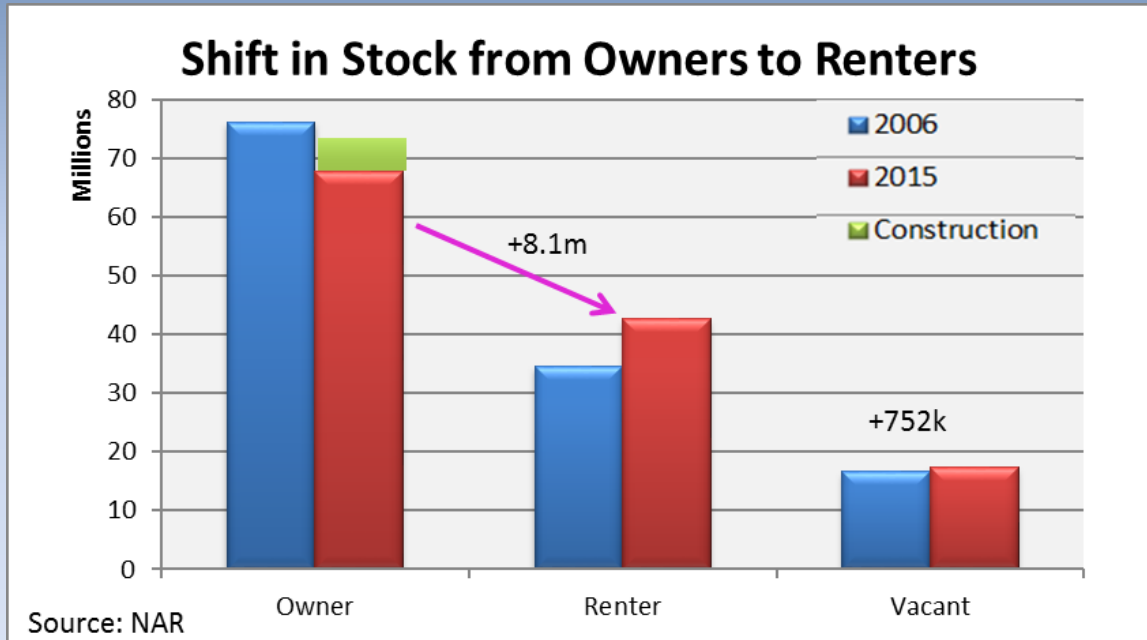


Source: NAR

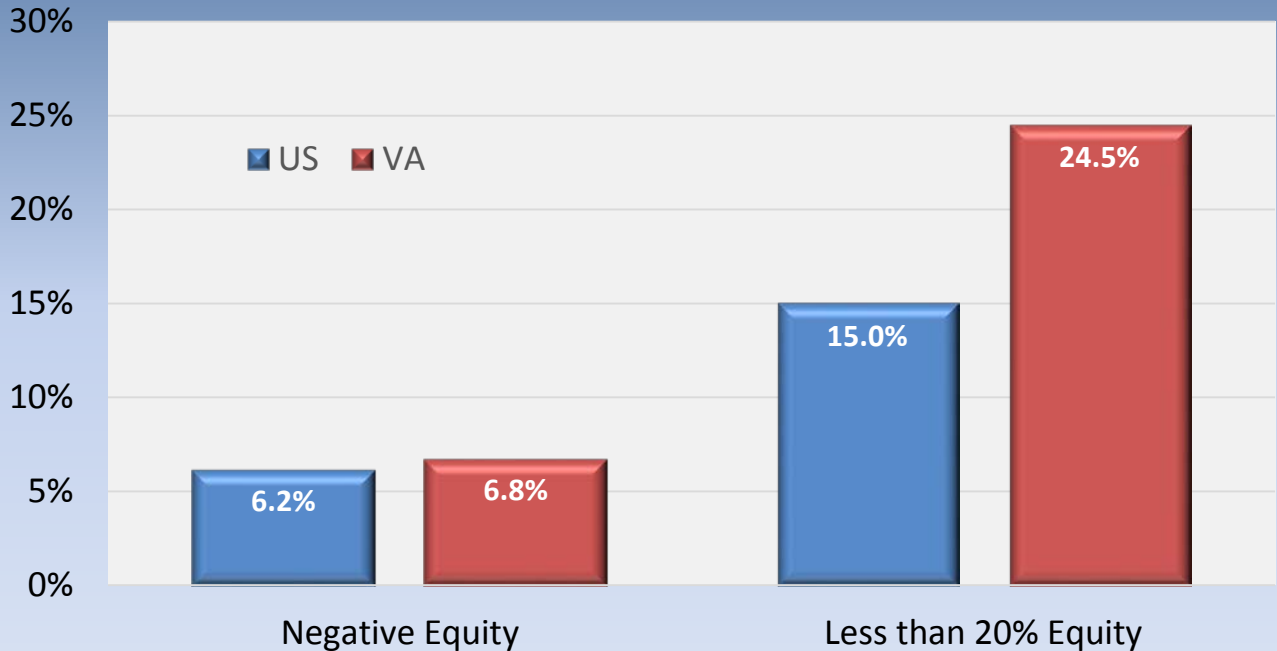
**“Fire Drill” houses**



# Single-family Rental Impacts Stock



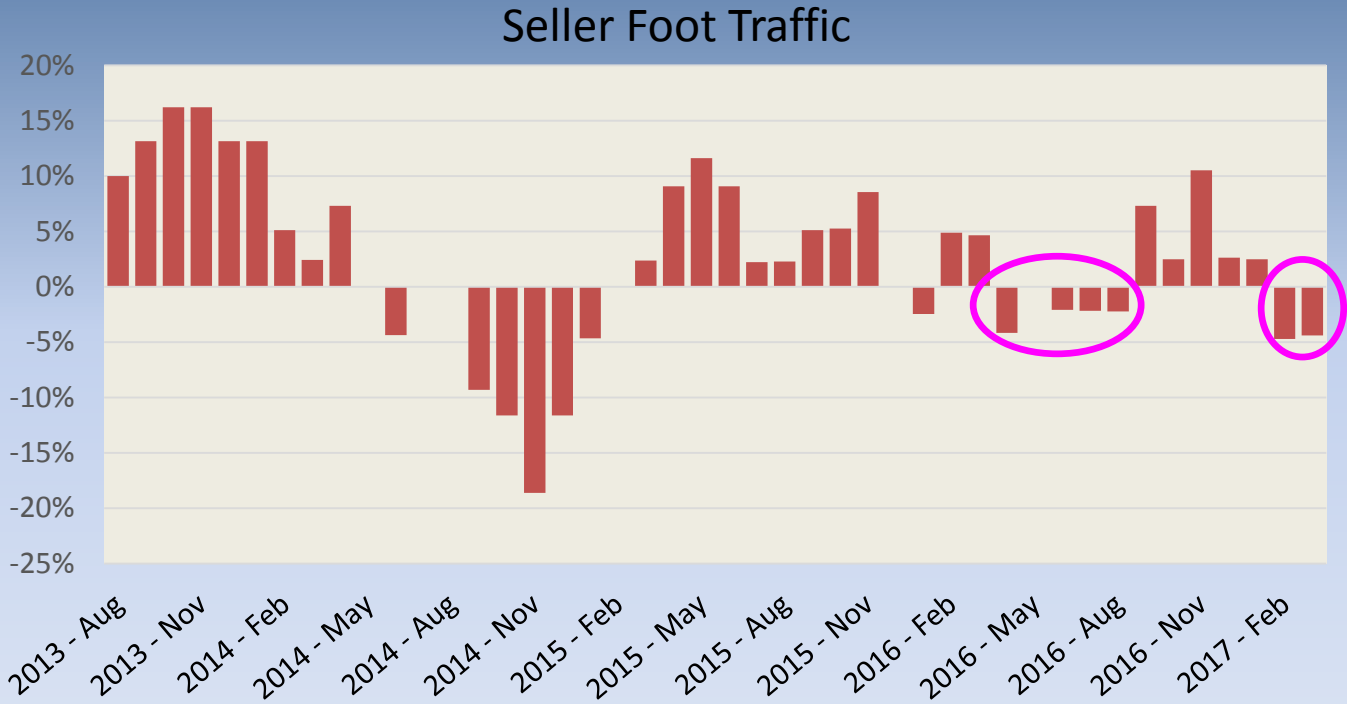
# Underwater Declining, but Trade-up Difficult without Equity



Source: Corelogic, NAR

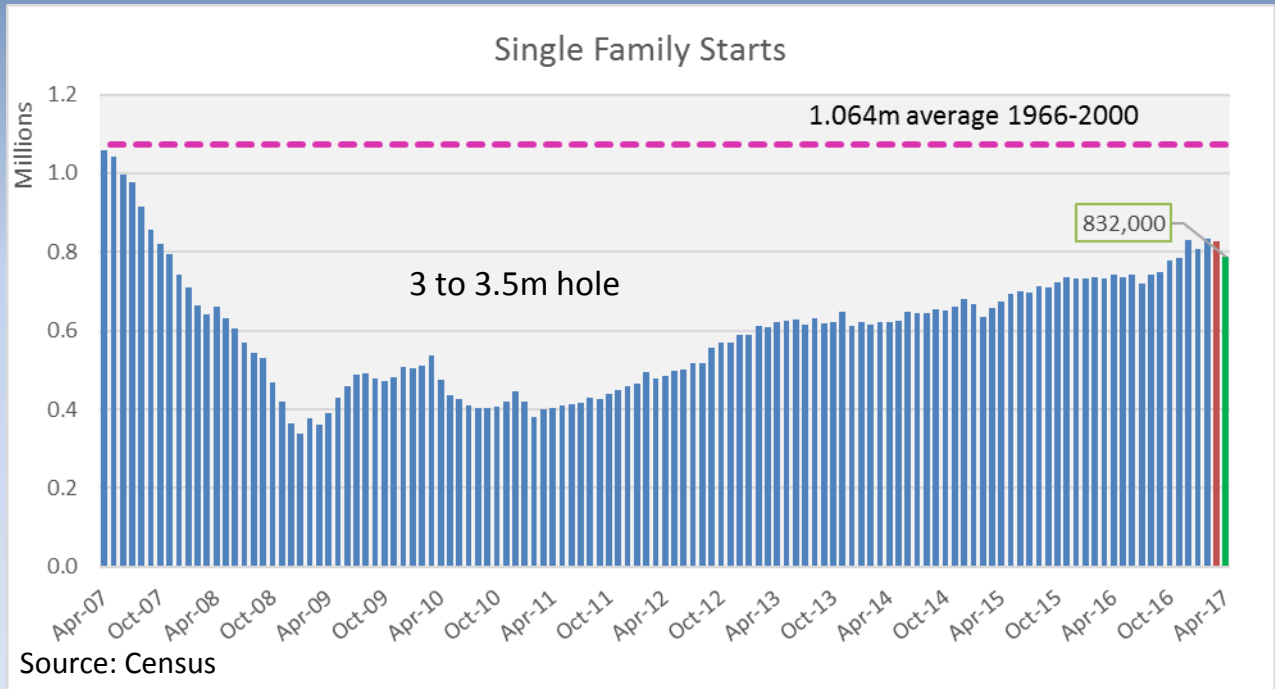
Tremendous Healing, but Double Trigger Events Possible in Slowdown

# What's Holding Sellers Back???



Limited supply, weak credit, and little equity erode seller incentives

# Single-family Construction Rising

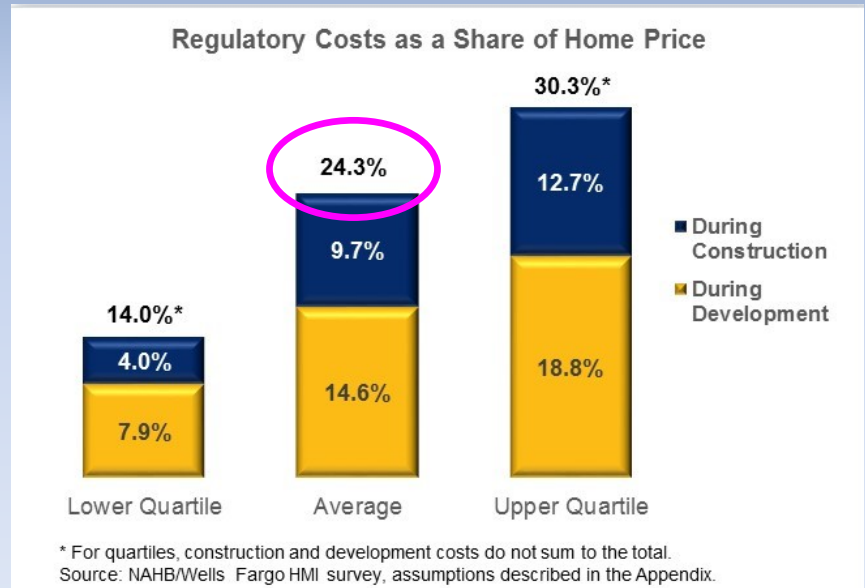


# Where is the Construction?

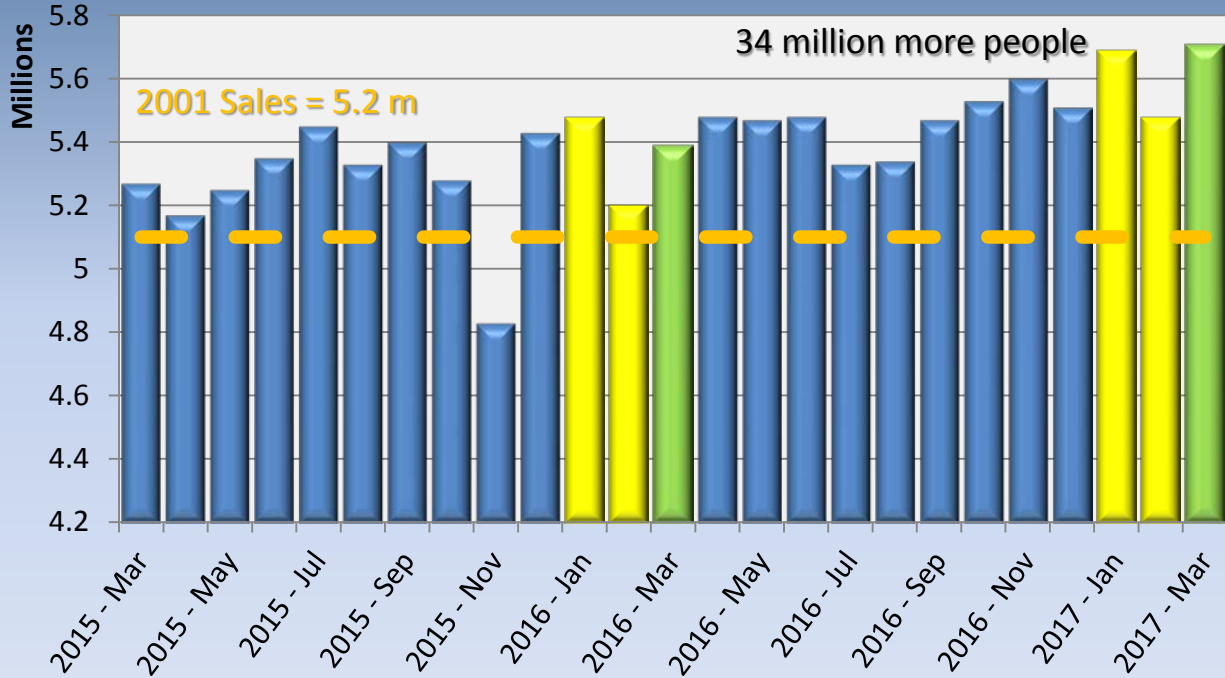
- Focused on upper end along with condos and multi-family

- Labor, land, loans, and local restrictions

➤ Loans replaced by lumber??

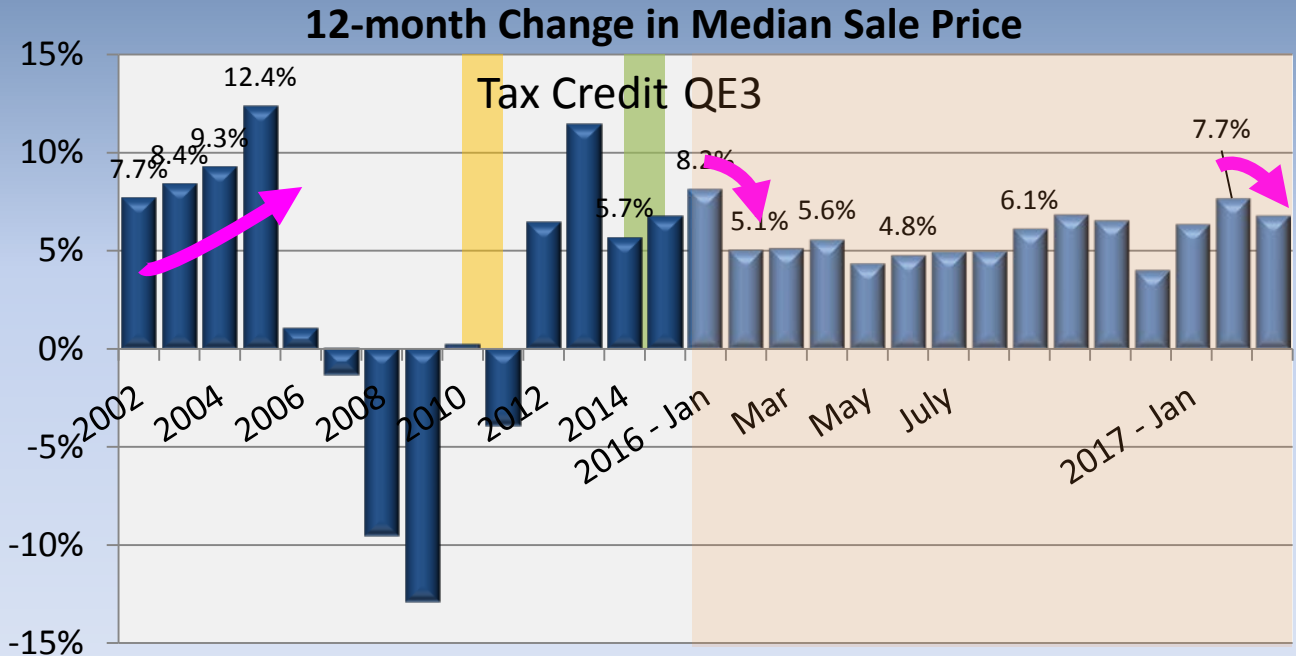


# Fundamentals Holding Back Sales



Source: NAR

# Price Growth Eased and Stabilized in Historically Strong Range



# Affordability to Decline – Remain Strong

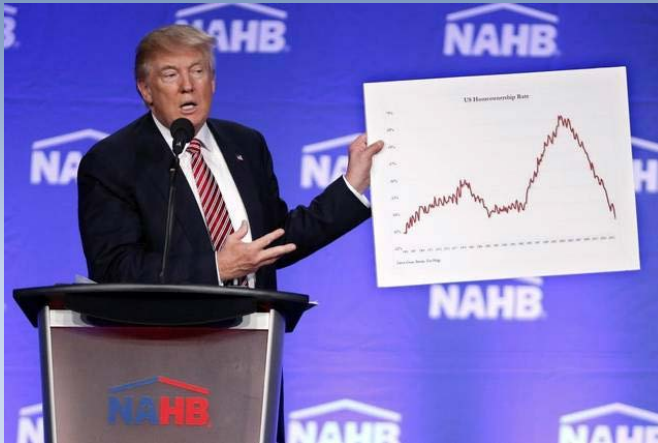
Housing Affordability Under Stress



Source: NAR



# President Trump and Housing



- Dodd-Frank
  - End outright?, or
  - Expand QM/QRM exemptions, and
  - Less enforcement
- DOJ – false claims enforcement
- Tax reductions
  - Impact guarantee fees
  - Consumers' income
  - MID? State tax deduction?
- GSE reform
- Construction – reg. and banking

# Tax Reform – Do No Harm

Administration is friendly to the MID but...

Seeks to eliminate:

- State and local deductibility
- Raise the standard deduction

Bigger impact than critics realize

- “only 31% of Americans use the MID”
- However, only 45% of Americans have a mortgage
- 80 to 90 percent of Federal income tax paid by homeowners

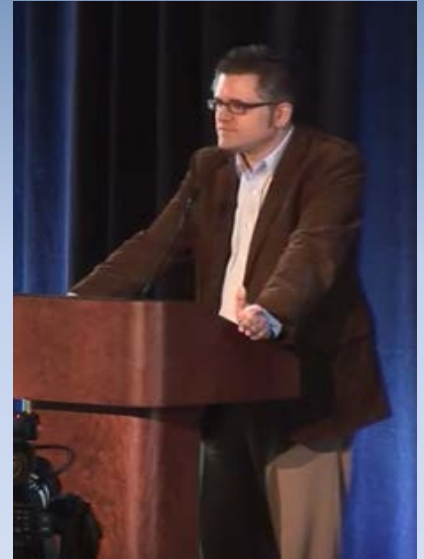
# Shaping Trump's Policy



Mnuchen



Cohn



Calabria

# Is the Art of Compromise Lost?

DeVos

Proposed  
Budget

ACA  
repeal or  
change

Gorsuch  
Nomination

Filibuster Rule  
Change

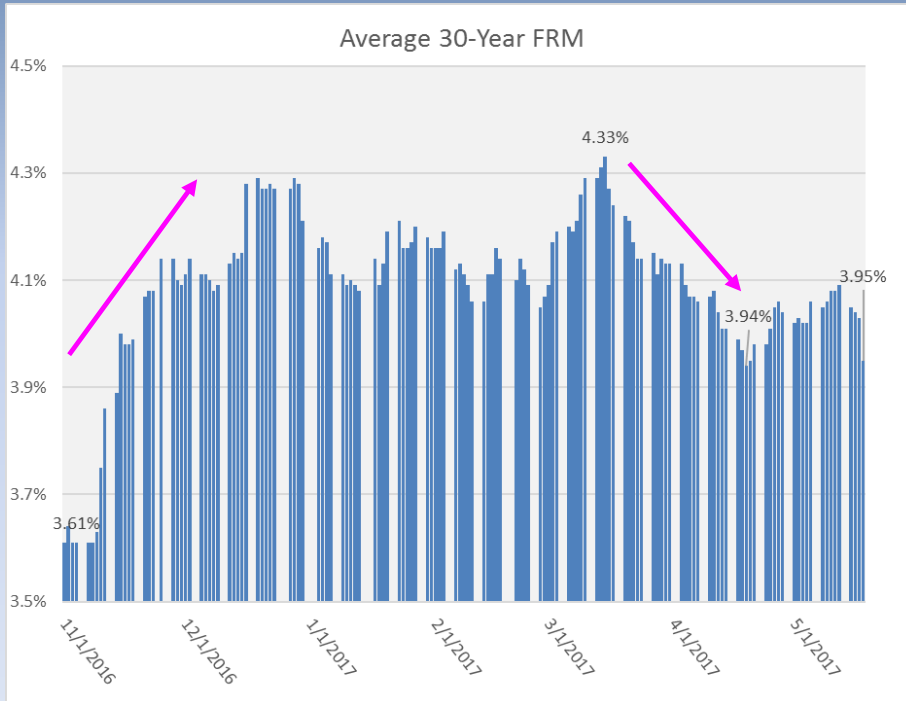
Tax  
reform

## Bi-partisan Opportunities

- Budget Extension
- Flood Insurance
- GSE Reform or incremental steps

# **HOUSING FINANCE**

# Rates to Rise for Two Reasons:

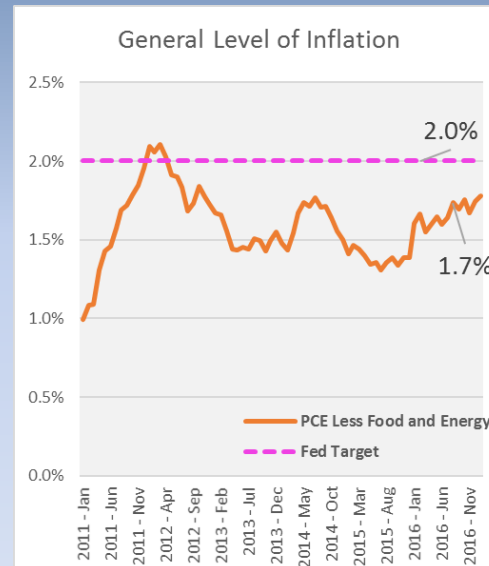
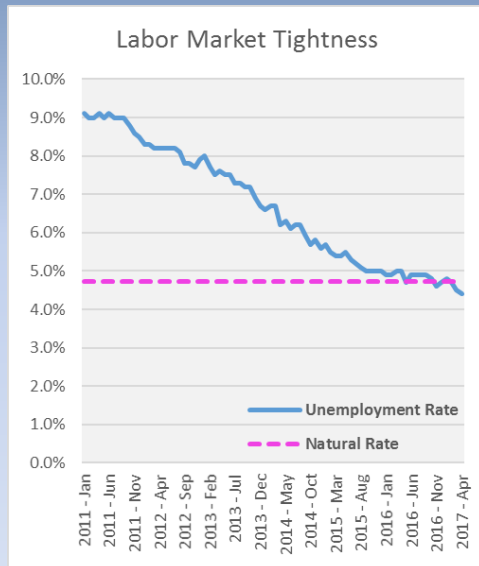


**Expectations  
for Economic  
Growth**

**Unwinding of  
LSAPs**

# Fed's Hikes for "Orderly" Transition

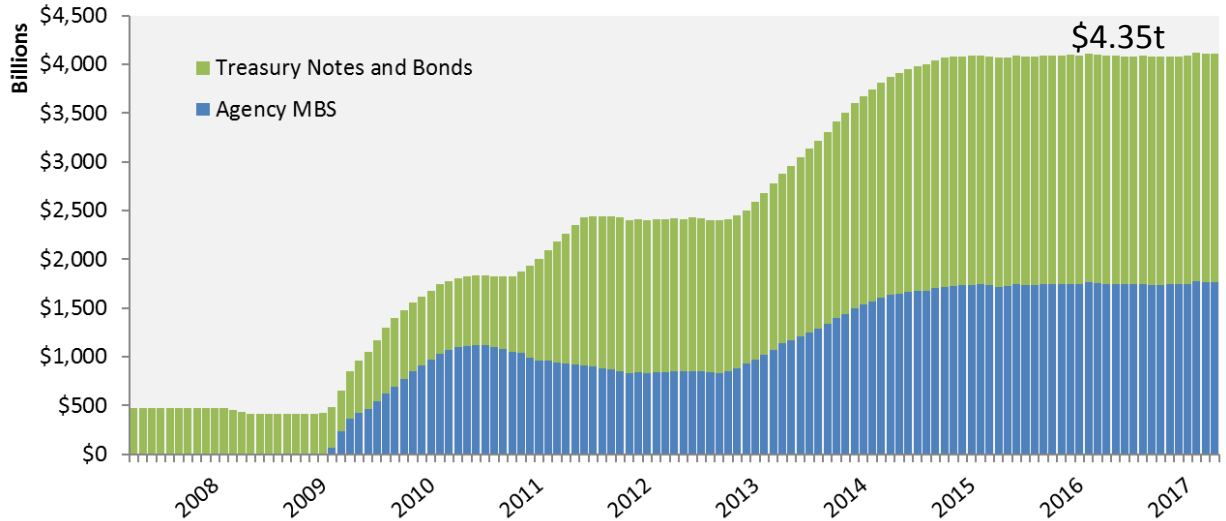
## The Dual Mandate



But consumers expect inflation and Fed needs credibility, smaller balance sheet

# Everything that Goes Up...

## Agency MBS and Treasuries Held by the Federal Reserve



Source: FRB, Freddie Mac



# SOME Normalization: When and How?

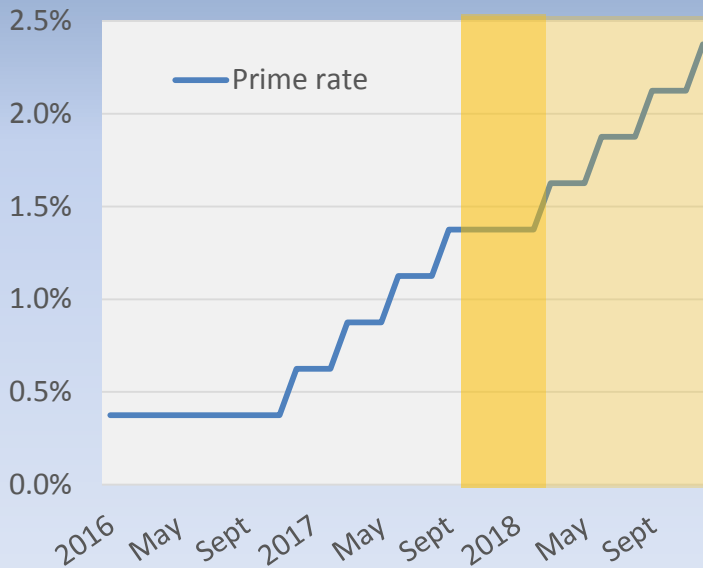
## Fed's Options on SOME

- Gradual Reduction in re-investments
- Sell MBS or Treasuries outright

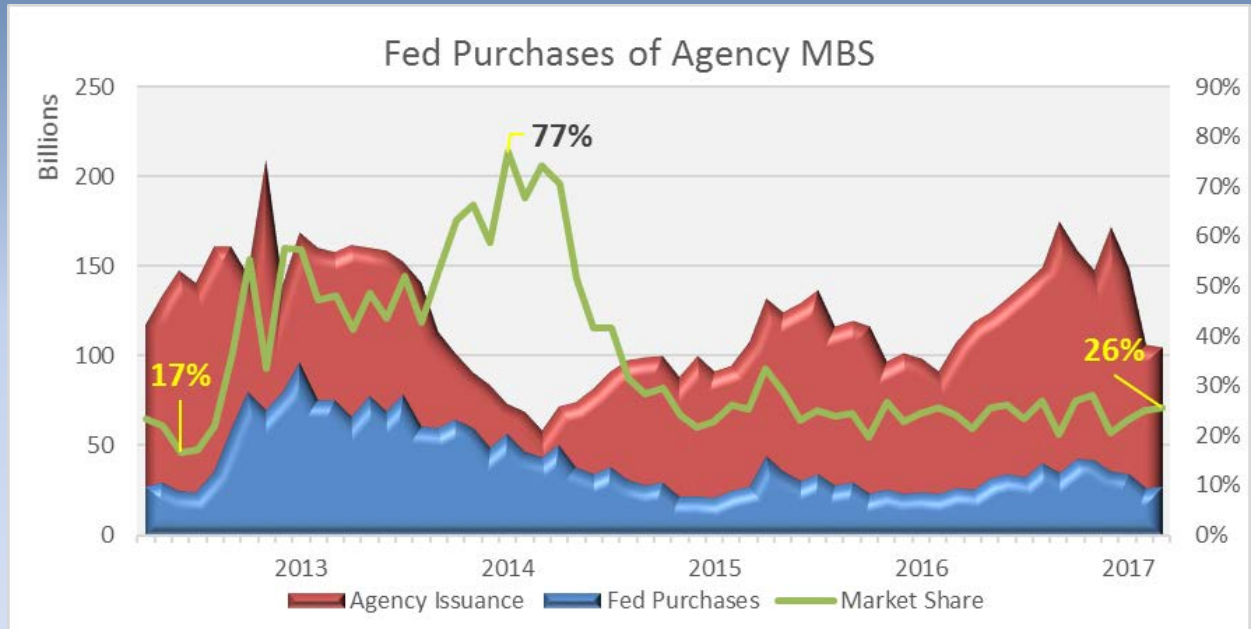
## Questions:

- Likely priced in early by the market
- Taper tantrum part II?

## Expected Timing Based on Comments

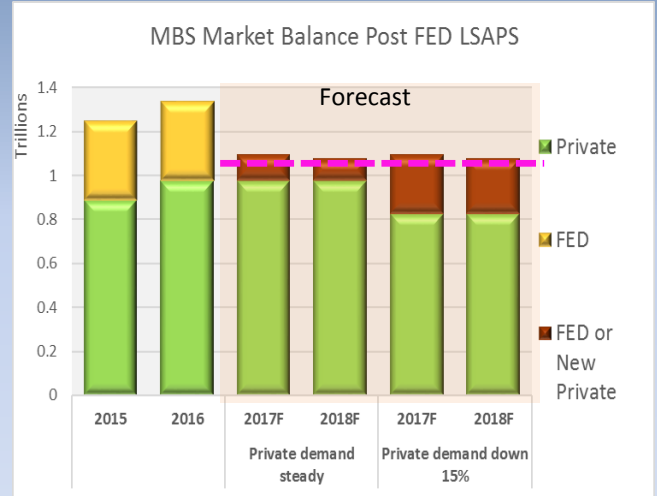


# New source of demand for \$1.8t?



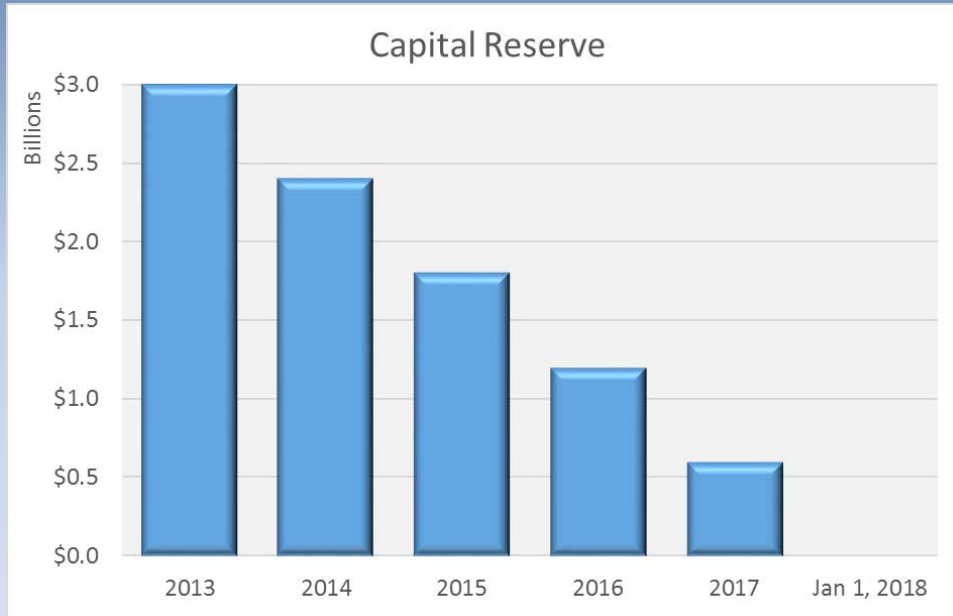
China?...Japan?...GSE portfolios?

# New Demand Must Offset Fed Purchases or Higher Rates



Decline in refinancing helps, but rates will rise

# Loss of GSE Capital the Spark for Reform?



“Whether it’s at the end of this year or the beginning of next year, that’s the time frame we’re looking at” Steve Mnuchen 5/1/17

Tax reform could exacerbate this or make it a headline issue

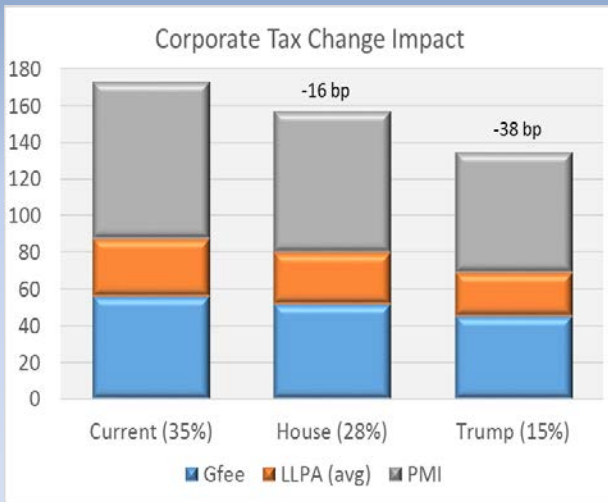
# Q4 2017 Could be a Doozy

- Budget battle
  - Tax plan
- Debt Ceiling
- GSE capital
  - Also, see tax plan
- FED taper of reinvestment?

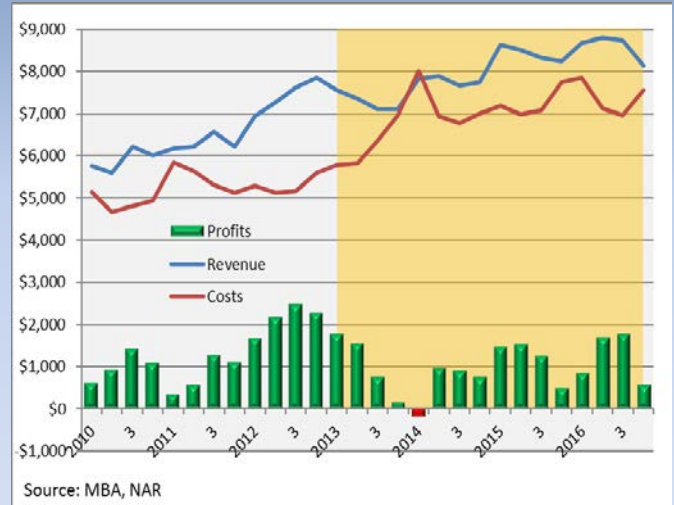


# Corporate Taxes and Deregulation: Consumers Benefit?

## Reduction of guarantee fees?



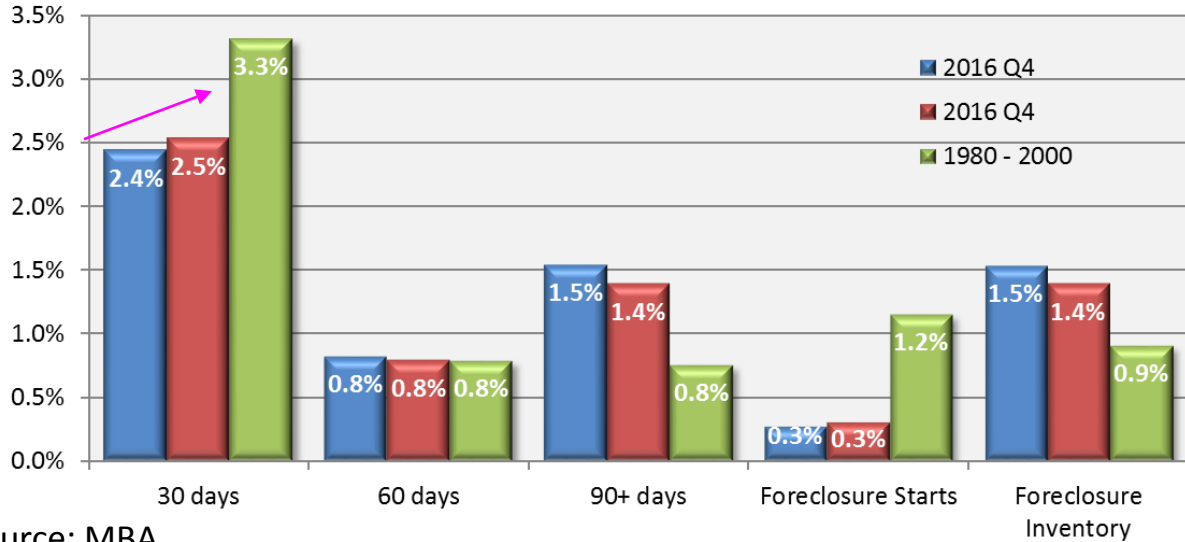
## Reduced Reg Expenses by Lenders?



Servicing costs if reformed?

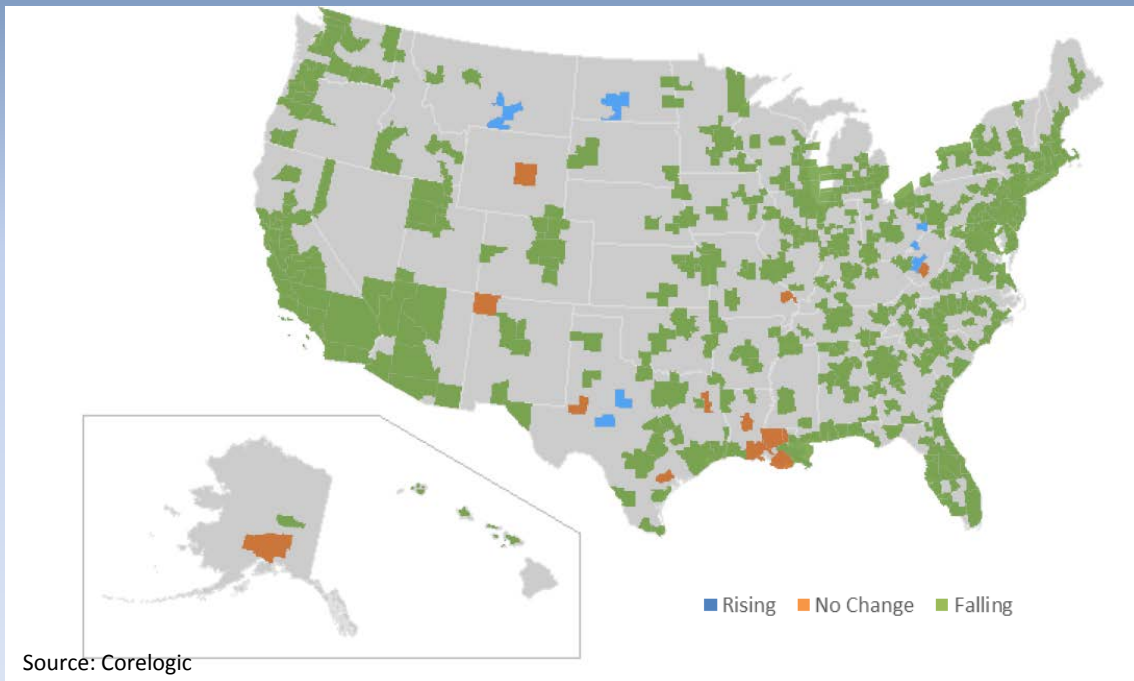
# Delinquencies Down vs Historic Average

Foreclosure Pipeline



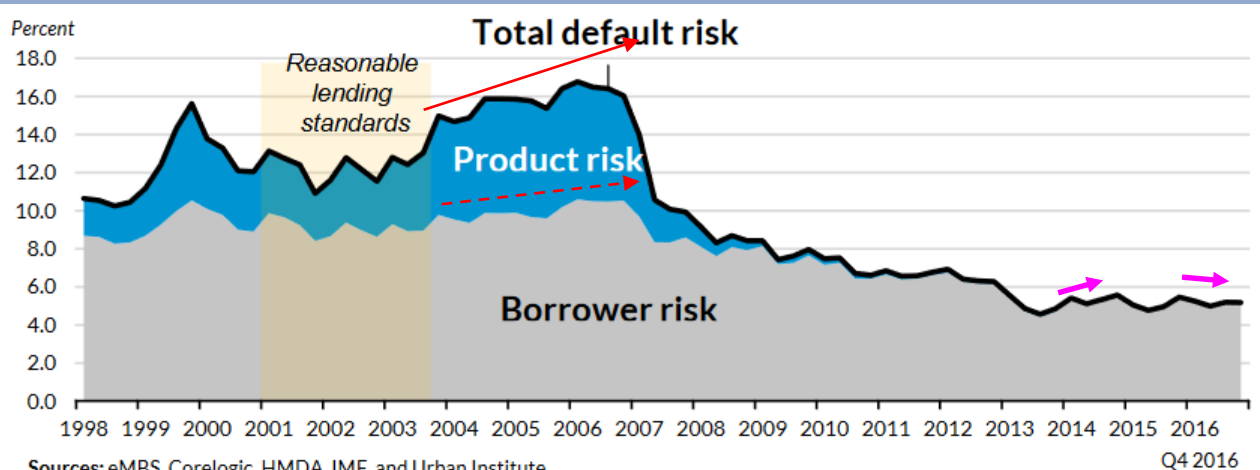
Source: MBA

# Oil States Driving 12-month Increase in Early-stage Delinquencies (CBSA)





# Urban Institute: Mortgage Risk is Low



Sources: eMBS, Corelogic, HMDA, IMF, and Urban Institute.

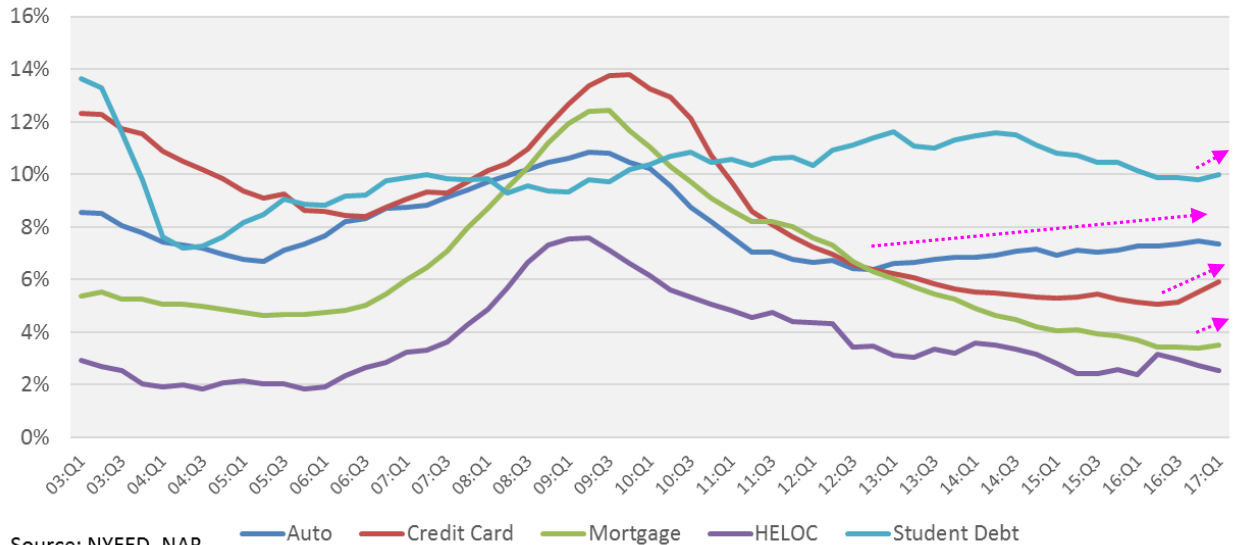
Note: All series measure the first-time homebuyer share of purchase loans for principal residences.

Q4 2016

Similar to AEI ... credit risk very low ... but watch closely

# Auto Lending Credit: Regional Canary?

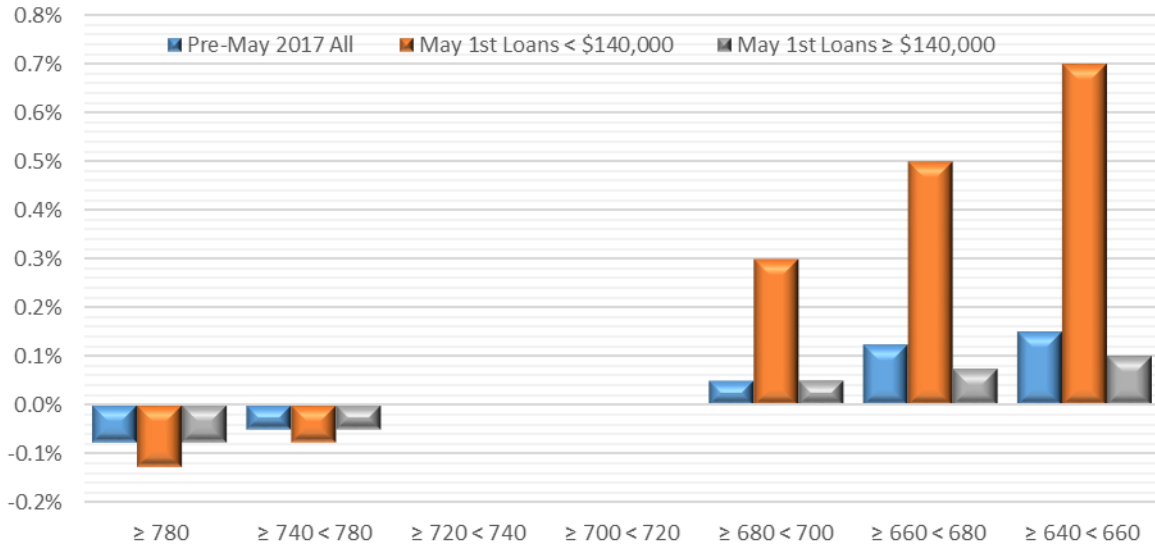
New 30 or More Days Delinquent Balances by Loan Type



Source: NYFED, NAR

# Sub-markets Overheating?

## Change in Rate for FHA Borrowers - Wells Fargo



Source: Wells Fargo Funding, NAR

# 2017 ... Rates and a New Direction

- **Demand:**

- Credit box lagging on FICO
- Employment and income will drive HH formation and affordability
- Move out!
- Reg reform – tax cuts?

- **Supply:**

- Will price gains draw out sellers?
- Builders?
- Local regulatory reform?

## Interest Rate Path:

- Hikes are Here!! And more coming
- Near term pause? Depends
- Smooth LSAPs unwinding
- Upside surprise?

	2016	2017	2018
GDP	1.6%	2.2%	2.4%
Rates	3.6%	4.3%	5.0%
Price Growth	5.2%	5.0%	3.5%
Home Sales	5.45m	5.64m	5.80m

# NAR Research—On Line

- Twitter:

- [https://twitter.com/NAR\\_Research](https://twitter.com/NAR_Research)

- Blog:

- <http://economistsoutlook.blogs.realtor.org/>

- NAR Research Page

- <http://www.realtor.org/research-and-statistics>