News From the FAMP Government Affairs Committee

Six Economists Reach Similar Conclusions on *2015 Housing Outlook*

By: Jann Swanson, Jan 20 2015

Optimism about the housing market has been a "misplaced notion"for the last seven years according to Wells Fargo Senior Economist Mark Vitner, But 2015, he says, could be the year.

Vitner was one of six economists making predictions for the housing market in 2015 for RealtyTrac's January issue of HousingNewsReport, Five of the economists were interviewed by the web magazine staff while Vitner made his forecast in for the regular "My Take" feature of the publication. While each of the six had a slightly different take, there was largely a consensus on both the past and the future.

Most, like Vitner, said that 2014 had not lived up to expectations. Lawrence Yun, Chief Economist for the National Association of Realtors® (NAR) said that neither housing starts nor home sales met expectations "despite amazingly and surprisingly low mortgage rates." He blamed tight credit for both mortgages and home construction as obstacles to a faster recovery. Mark Zandi, Chief Economist for Moody's Analytics said that the economy's performance struck to its script during the year but the housing recovery fell short with higher mortgages rates at the beginning of the year while tight mortgage credit weighed on single family housing demand.

Vitner said the clearest areas of improvement in 2014 were in cleaning up the results of previous excesses. By this he means the overhang of foreclosures, vacancies rates, and negative equity are all back to or approaching historical norms. In addition supplies of homes are actually tight in markets with strong job growth.

Beacon Economics partner Christopher Thornberg said his company had been bullish on 2014 in general and had forecast 3 percent growth but that hope was temporarily dashed by negative results in the first quarter. The U.S. economy has roared back since, he said, but this is not true for the rest of the world and we don't know yet if ongoing issues in Europe and the year-end collapse in commodity prices will push the U.S. off of its current growth track.

Zandi added that most unexpected happening was how quickly unemployment fell in 2014 and how strong job growth has been. Jed Kolko and Jonathan Smoke, chief economists for Trulia and Realtor.com respectively said the most surprising thing about 2014 was the reversal in mortgages rates after just about everyone expected them to rise as the economy strengthened and the Federal Reserve tapered its intervention.

In the coming year Vitner sees improved job growth finally pushing an increase in housing formation. There will also be more state-to-state migration which reflects both baby boomers moving into retirement and an increase in corporate relocations. Add to this a reversal in the escalation of interest rates, easing credit standards, and more moderate growth in home prices and he said Wells Fargo is raising its outlook upward, even though it "may be a little ahead of the pack."

Yun expects the most important trend this year will be some easing of underwriting standards which, while not enough, should boost home sales by 5 to 10 percent. For Thornberg the most important trend will be the return of retail buyers to the market. Credit will be looser and there is now $5.5 trillion more in equity in the market than three years ago which means money to roll into another home purchase. He also expects an influx of first-time buyers and an increase in the flagging homeownership rates across all age groups. He too sees a pickup in migration as "people have more confidence in their ability to move and find new work."

Smoke expects more first time buyers as well, something he says that has been missing in the recovery. This will be the result of both demographics - as Millennials reach the prime home buying ages of 25 to 34 - and economics as job growth continues to favor the young.

Kolko says demand for apartments will continue strong but the 2014 boom in multifamily construction means more new supply coming on the market which should slow rent increases.

When it comes to home prices most see future increases as moderate. Yun predicts increases of 7 to 10 percent, Zandi, Kolko, and Smoke all see gains under 5 percent.

Thornberg alone expects both home sales and price appreciation to "pick up steam," with prices gaining "close to double digits" by the end of the year.

While all of the economists expect home sales to increase in 2015 over 2014 they are all over the place when it comes to the scale. Yun projects existing sales will rise 7 to 10 percent and new home sales by 40 percent (off a very low base). Thornberg thinks sales will rise about 5 million, and Zandi forecasts sales of new and existing homes up by as much as 20 percent. Smoke sees an 8 percent rise in existing home sales and 25 percent in new home sales.

Yun and Smoke's enthusiasm regarding the new home segment isn't shared by Kolko who thinks it as well as single family construction starts will continue to lag. New household formation, he says, will primarily be a boon for rentals as those households save for a downpayment rather than buying right away. He adds that the vacancy rate for single family homes is still near recession highs and buyer demand hasn't recovered enough to support near-normal levels of single family starts or new home sales.

Others are more optimistic about residential construction. Thornberg expects single family permits to increase from the 650,000 expected when 2014 number are in to 750,000 in 2015 and Smoke is looking for 20 percent growth in starts with builders focusing on more affordable entry-level products even though lot, labor, and material costs will constrain them in that area.

Vitner was the most bullish about this component of the market. He said, "We now see the potential for homebuilding becoming a key upside surprise for the broader economy in 2015." He points in particular to Sunbelt markets as benefiting from this as cities such as Nashville, Dallas, Charlotte, and parts of Southern California have seen an influx of new businesses and new residents in recent years and are riding a wave of corporate relocations and expansions

All five of the men interviewed by RealtyTrac forecast higher interest rates for 2015 but Kolko added, "That's what we said a year ago too, and look how wrong that was." All five also see hope for some easing of credit with most stating how important that would be for the recovery. Smoke pointed to actions by the government sector both to clarify representation and warranty guidelines and to lower downpayments for some loans as an indication of intent, but added, "It's too early to say if these policy efforts and new programs are having an impact on the market, but the timing is perfect to align with large numbers of millennials moving into home ownership.