beyond the headlines

Emerging Trends in Real Estate

Source: The Urban Land Institute

Generational homebuying trends, the lingering impact of the Global Financial Crisis and the economic outlook for the current recovery cycle all gain a mention in a joint report from the Urban Land Institute and PWC. Released October, the 39th edition of *Emerging Trends in Real Estate* highlights the markets to watch in 2018, with two Californian markets making the top 10.

Making sense of the story:

- Soft landing. High home prices may be creating panic in pockets of the U.S., but other economic indicators are trending towards a ‘soft’ rather than a ‘hard’ landing at the end of this economic cycle. Investors aren’t showing the same fervor as they have in previous economic recoveries, tending to remain conservative or defensive as the cycle has matured. Plus, economic recovery from the GFC has been gradual with GDP growth averaging just 2.1 percent annually.

- Generation Z. With a start date for the cohort ranging anywhere from 1995 to 2001, Generation Z may not have housing on their mind quite yet, but the industry needs to prepare for them. Likely to show an initial preference for urban centers, Gen Z has expressed a higher desire for homeownership than millennials in surveys of housing preferences conducted by brokerage firms.

- Baby Boomers. Residual effects from the GFC, including the wiping out of retirement savings, and unemployed adult children staying in – or returning to – the family home have resulted in a ‘silver tsunami’ of baby boomers staying put for longer.

- Los Angeles. Ranked number 7 in ‘markets to watch/overall real estate prospects in 2018, one of only two ‘primary markets’ and one of two Californian cities to make it into the top 10. Light rail investment is creating new opportunities, asset prices are still within ‘reasonable’ range for a gateway market.

- San Jose. Ranked number 8 in ‘markets to watch.’

Full story:
https://americas.uli.org/wp-content/uploads/sites/125/ULI-Documents/EmergingTrendsInRealEstate2018.pdf

In other news…

California's low-income housing crisis could get worse under GOP tax plan

Source: KPCC

The Republicans federal tax cut proposal would have a "devastating" impact on California's affordable housing and homelessness crisis if passed as is, experts say.

GOP members of the U.S. House of Representatives released an initial proposal Thursday that would drop the corporate tax rate from 35 percent to 20 percent, and enact a host of other changes. Also in the plan: the complete elimination of a set of programs that currently fund about 40 percent of affordable housing construction in the country, along with financing for community centers and health clinics.

The largest of these proposed cuts calls for the elimination of tax-exempt private activity bonds, which developers use to finance construction for developments benefiting low-income people. Without the tax-exempt bonds, California stands to lose about $2.2 billion in funding for affordable housing construction each year, said Matt Schwartz, CEO of California Housing Partnership Corp.

"We're going to lose over 20,000 affordable homes annually if this bill becomes law," Schwartz said. "That's over two-thirds of our production that would be wiped out. And that would be just a devastating blow at a time when we were just hoping to start making progress again."

Full story:
https://www.scpr.org/news/2017/11/03/77325/gop-tax-plan-could-sharply-cut-california-s-low-in/

More housing markets are overvalued, and consumers feel the pain

Source: CNBC

The steady rise in home prices is so far showing no boundaries, and that is turning up the heat on some already overheated housing markets.

Home prices rose 7 percent nationally in September, compared with September 2016, a higher annual increase than was seen in August, according to CoreLogic, a real estate data firm.

As a result, 48 percent of the nation's top 50 housing markets are now considered "overvalued," up from 46 percent in August. A market is considered overvalued when home prices are at least 10 percent higher than the long-term, sustainable level. For the top 100 markets, 36 percent were considered overvalued.

Las Vegas, Denver, Los Angeles, Miami and the New York-New Jersey metropolitan area are all considered overvalued.

By comparison, these pricey markets, Boston, San Francisco and Chicago, are considered at-value, based on long-term price sustainability.

Full story
https://www.cnbc.com/2017/11/07/more-housing-markets-are-overvalued-and-consumers-feel-the-pain.html

You need to earn $159,000 a year to buy the typical O.C. home

Source: Orange County Register

You needed a six-figure income to afford a typical house sold in the Los Angeles metro area this past summer, according to the latest California Association of REALTORS® housing affordability index. The minimum income needed to afford the median-priced house in the Los Angeles metro area was $101,270 during the third quarter, up $10,000 from the same quarter in 2016. That's an 11 percent increase.

C.A.R. assumes you're using conventional financing — that is, making a 20 percent down payment on a 30-year fixed-rate mortgage. And it uses the traditional affordability metric of paying no more than 30 percent of gross earnings on your monthly house payment.

Some professionals say buyers often can stretch their incomes and buy with smaller down payments or adjustable-rate loans to reduce the minimum income needed. But the C.A.R. index shows that steadily rising home prices continue to erode into consumers' ability to switch from renting to homeownership.

Full story

http://www.ocregister.com/2017/11/02/you-need-to-earn-159000-a-year-to-buy-the-typical-orange-county-house-realtors-report/

Housing industry unites against Republican tax plan

Source: HousingWire

The Tax Cuts and Jobs Act will slash the mortgage interest deduction in half from $1 million to $500,000, double the standard deduction and reducing the capital gains exemption, allowing homeowners to deduct profits from a home sale only once every five years, instead of two.

And the mortgage industry is uniting against the bill.

An analysis shows Californians could get hit the hardest under the new tax plan, so it is no surprise the California Association of REALTORS® announced its preliminary concern with the tax plan.

"We are currently reading through the bill proposed today to determine the exact impact it will have on California homeowners and its housing market," CAR President Geoff McIntosh said. "From what we have seen so far, limiting the mortgage interest deduction to $500,000 will no doubt hurt homeownership in states with high housing costs such as California."

The National Association of REALTORS® agreed with the California chapter's response, saying Realtors cannot support a bill that could hurt homeownership.

Full story

https://www.housingwire.com/articles/41736-housing-industry-unites-against-republican-tax-plan

Cities Where Home Prices Rise Fastest

Source: National Association of Realtors (Realtor Mag)

Prices continue to accelerate at record paces in a few select markets, and investors and homeowners are seeing their equity stake surge.

Realtor.com®'s research team analyzed 300 of the nation's largest metros between September 2014 and September 2017 to find which markets have seen the largest increases in median list prices over that period. Researchers looked at the percentage change—not total dollar uptick—over one-, three-, and five-year periods.

"Price growth continues to spread into the last remaining affordable pockets in the country," says Javier Vivas, director of economic research for Realtor.com®. "Strong double-digit appreciation is more common in less expensive markets, so it's not surprising that half of these markets are in the Midwest."

Full story
http://realtormag.realtor.org/daily-news/2017/11/07/cities-where-home-prices-rise-fastest

What you should know

- Fannie Mae's Book of Business increased at a compound annualized rate of 2.7 percent in September.
- The Conventional Single-Family Serious Delinquency Rate increased two basis points to 1.01 percent in September.
- Multifamily Serious Delinquency Rate decreased one basis point to 0.03 percent in September.
- Fannie Mae completed 6,003 loan modifications in September.