Housing Buoyed Amid Late Bump

But President-elect Trump still the "X" factor in market forecast

Paul Davidson
@Pdavidsonusat
USA TODAY

The housing market is expected to pick up moderately this year on steady job and income growth and an easing supply crunch, but rising mortgage rates are likely to temper the gains, economists say.

The "X" factor is President-elect Donald Trump. Some of his proposed policies could juice home sales and starts more than anticipated while others may constrain the market.

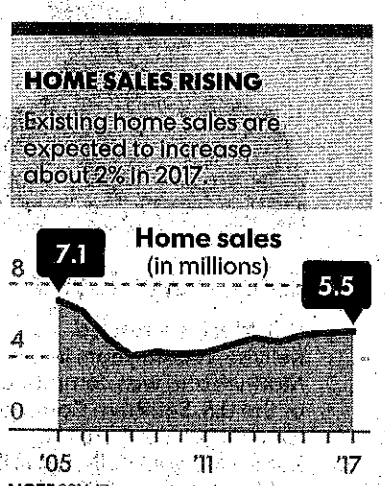
"We think 2017 is going to be another solid year" for housing, says Ralph McLaughlin, chief economist of real estate research firm Trulia. "But home buyers will continue to face headwinds."

Existing home sales are projected to increase 2% to a post-recession high of about 5.5 million in 2017, says Lawrence Yun, chief economist of the National Association of Realtors. But that's less than this year's 3.3% gain and below the 5.75 million considered normal in light of population growth.

Among the chief stumbling blocks is the rise in mortgage rates. Since late October, the average 30-year rate has climbed from 3.47% to 4.32%, boosting the monthly payment on a $200,000 mortgage by $97. Yun estimates the rate will increase to about 4.6% by the end of 2017, adding another $34 to that monthly mortgage check.

Rates are rising in anticipation of higher inflation under Trump's fiscal stimulus plan and faster interest rate hikes by the Federal Reserve.

McLaughlin notes that with rents soaring in recent years, owning a home is still a far better deal than renting in most of the country. But as mortgage rates edge higher, Yun says, some low- and moderate-income buyers will no longer qualify for a loan.



NOTE 2016-17 are projected
SOURCE National Association of Realtors
KARL GELLES, USA TODAY

"People at the margins (will be) priced out," he says. He estimates the increase in rates over the next year will mean 400,000 fewer home sales than if borrowing costs were flat.

Kendall Walker, a real estate agent at Redfin in Northern Virginia, says she hasn't yet seen customers ditch their house hunts because of higher rates. But she adds, "We've had some buyers come down in price" to offset the bigger mortgage burden, reducing the size of their dream homes by as much as 30%.

Fortunately, Yun says, steady job and pay gains will result in an overall pickup in home sales in 2017. Many economists expect current average annual earnings growth of 2.5% to approach 3% by the end of next year as the low, 4.6% unemployment rate forces employers to bid up for workers.

Another positive development is the prospect of somewhat more ample supplies. There was a four-month inventory of homes nationally in November, according to the Realtors group, well below a healthy six-month stockpile. That has crimped sales and pushed up prices, which have risen 5% to 6% the past couple of years.

One reason for the meager inventory: The housing crash left many homeowners owing more on mortgages than their homes were worth. Some have hesitated to unload their units until they realize bigger equity gains, McLaughlin says. Also, many investors snapped up cheap homes during the crisis and rented them out, leaving fewer on the market.

But as a result of rising prices, the share of homeowners who are "seriously underwater" fell to 10.8% in the third quarter from 29% in 2012, according to ATTOM Data Solutions and RealtyTrac. Higher home values also have prodded more investors to sell their units, a trend McLaughlin expects to continue.

Meanwhile, homebuilders are expected to respond to the tight supplies by putting up more houses. Housing starts are estimated to increase 10% from 1.18 million this year to about 1.3 million in 2017, according to a survey of 53 economists by Blue Chip economic Indicators.

That's not too far from the 1.5 million deemed normal and well above the roughly 400,000 bottom in 2010. Yun says single-family home construction will drive the gains.

He predicts the current four-month inventory of existing homes will increase to five months by midyear.

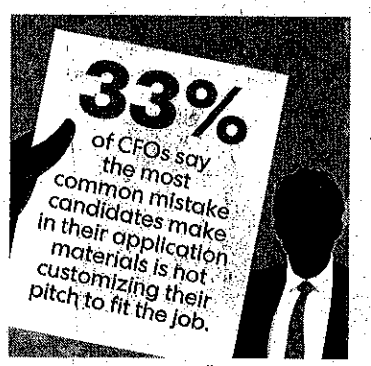
Trump's policies are a wild card. His tax cuts could put more money in buyers' pockets and goose demand, Goldman Sachs says. And his proposal to lift some financial regulations could make it easier for some consumers to obtain mortgages, McLaughlin says. But his proposed restrictions on immigration may curtail population growth and dampen housing demand while exacerbating a construction worker shortage that's already constraining housing starts, Goldman and McLaughlin say.

As mortgage rates edge higher, "people at the margins (will be) priced out."

Lawrence Yun, chief economist of the National Association of Realtors

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SOURCE Accountemps survey of 2,220 U.S. chief financial officers
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