2023
BOSTON

The Housing Market: Where We Are Now and What to Expect in 2024

NCSHA
National Council *of* State Housing Agencies

DISCUSSION LEADER

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Market Insights and Opportunities

Jaya Dey, Principal Economist,

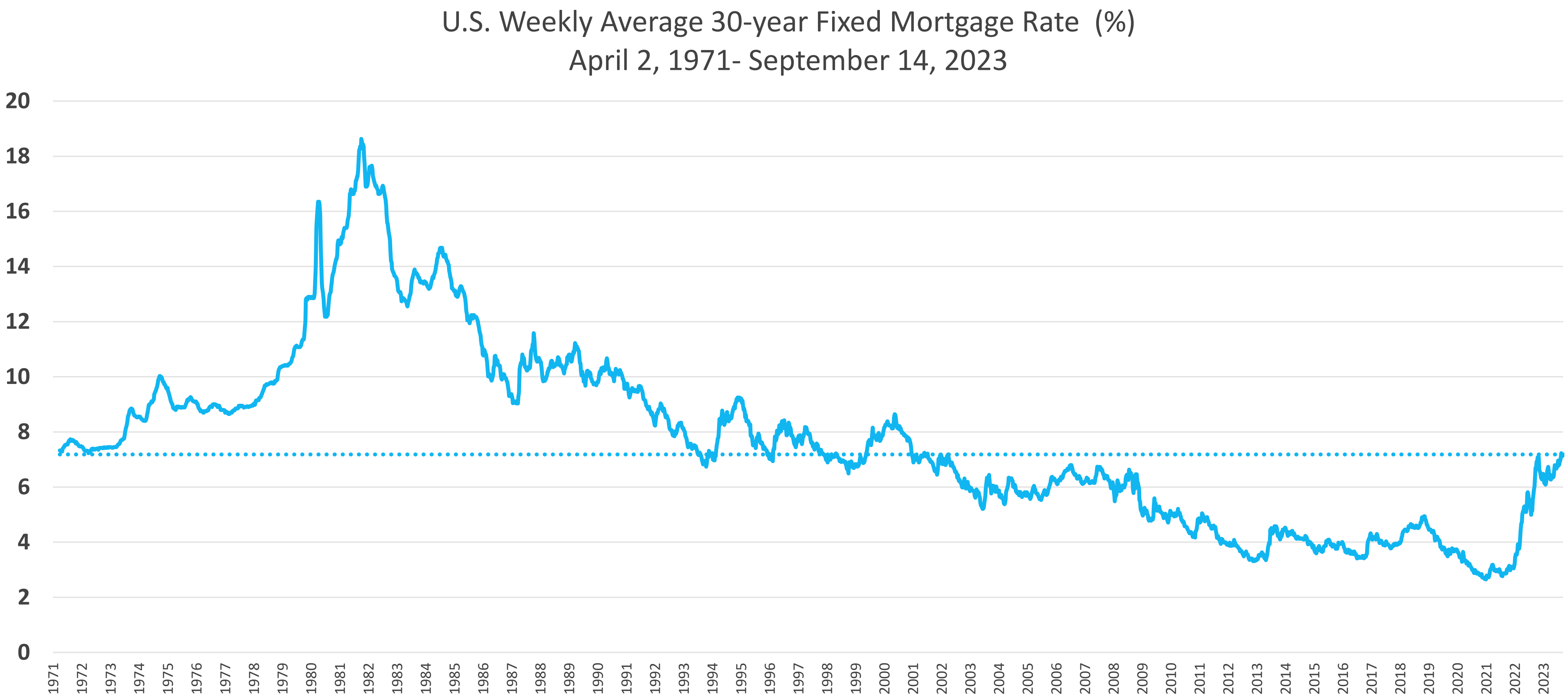
Single-Family Mission and Community Engagement

Freddie Mac

09/18/2023

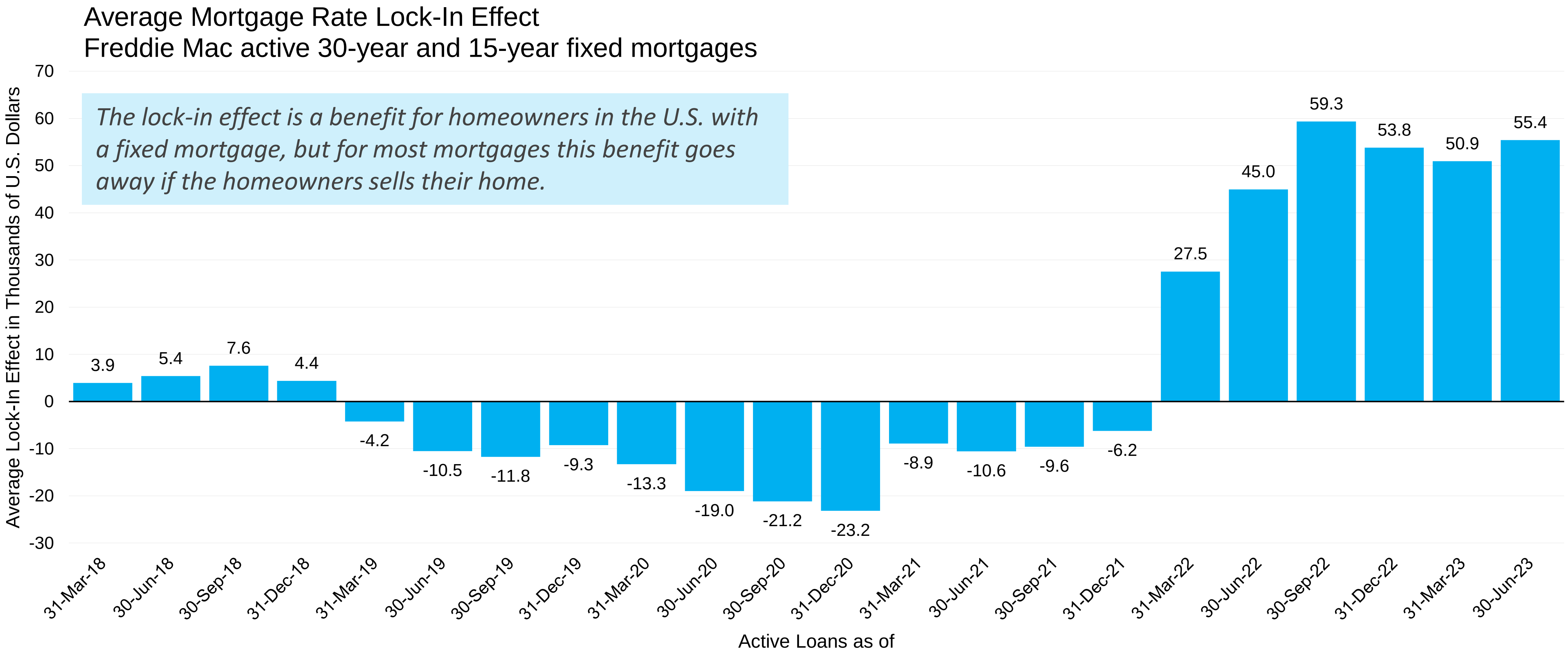
Housing Market Outlook

Mortgage rates in the U.S. are the highest in over 20 years



Source: Freddie Mac Primary Mortgage Market Survey

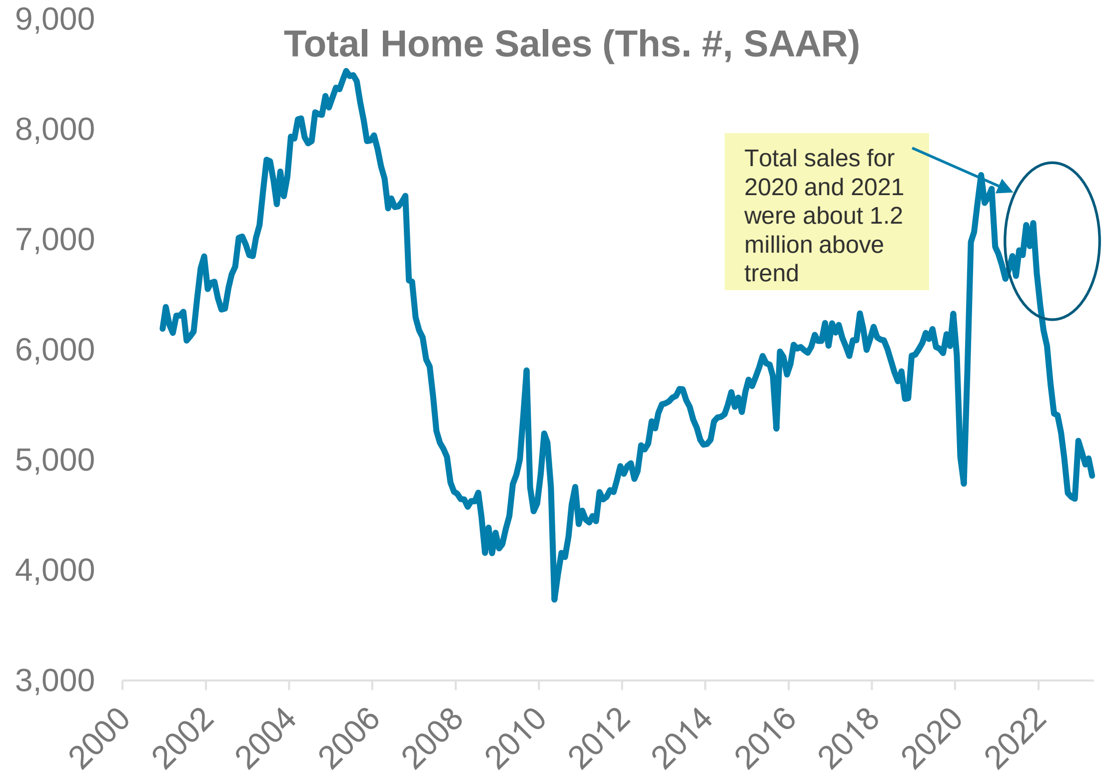
Homeowners with 30-Year Fixed-Rate Mortgages have Locked in an Average of $55,000 per Household

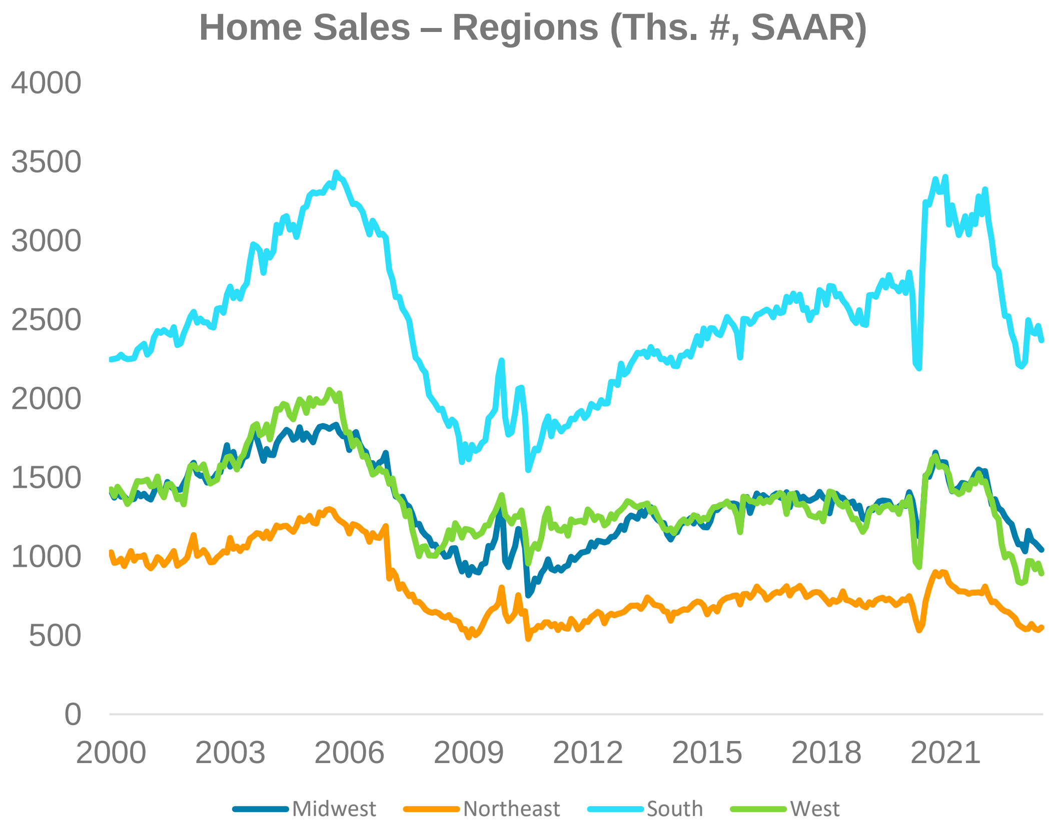


Source: Freddie Mac

Note : Lock-in computed by the formula $V = B - \sum_{i=1}^{n} \frac{P}{(1+r)^n} - \frac{F}{(1+r)^{n+1}}$ where B is the current outstanding mortgage balance, P is the monthly principal and interest payment, r is the current prevailing 30-year/15-year mortgage rate in the PMMS, n is the remaining months left on the mortgage and F is any partial payment due after n periods due to curtailment.

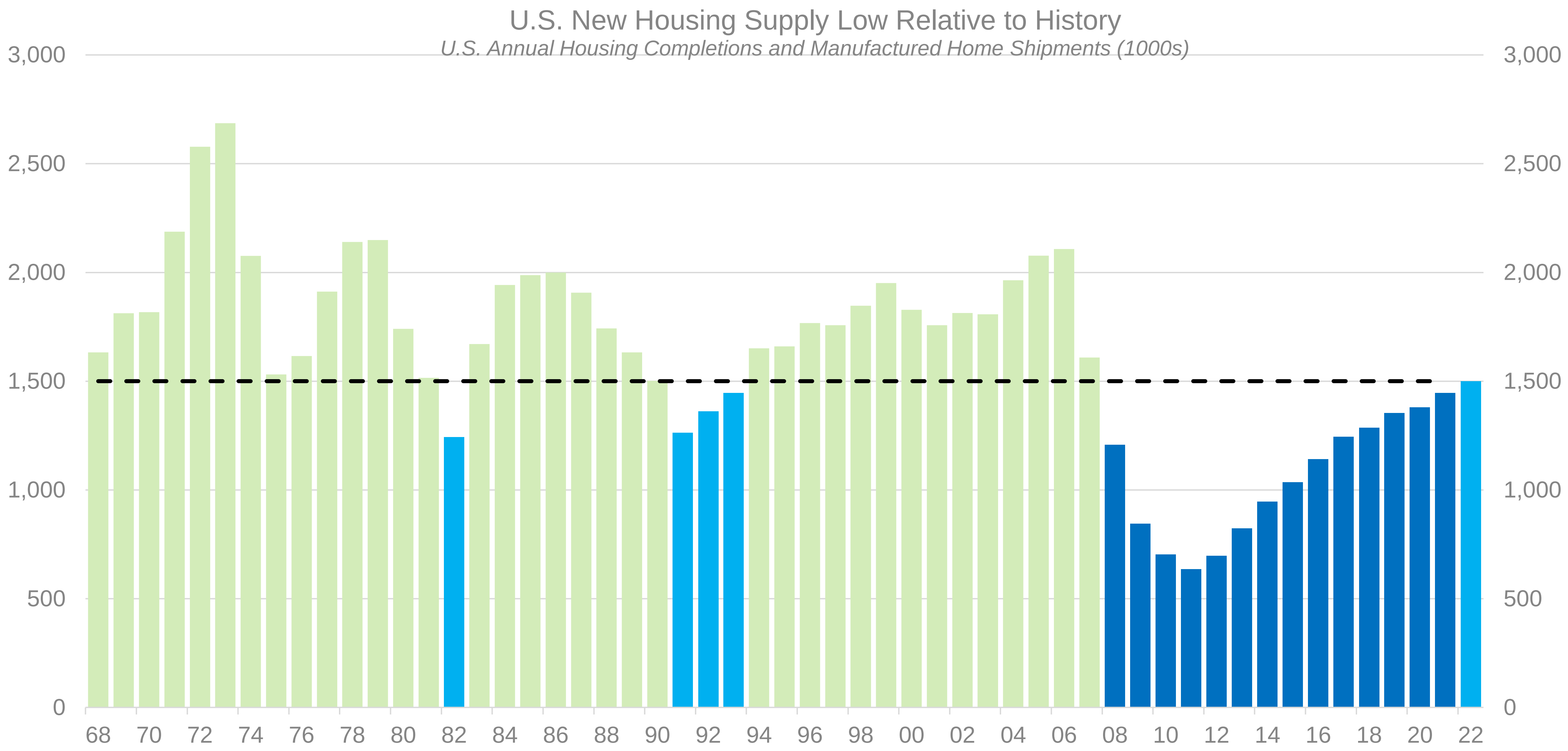
Home Sales Remain Low





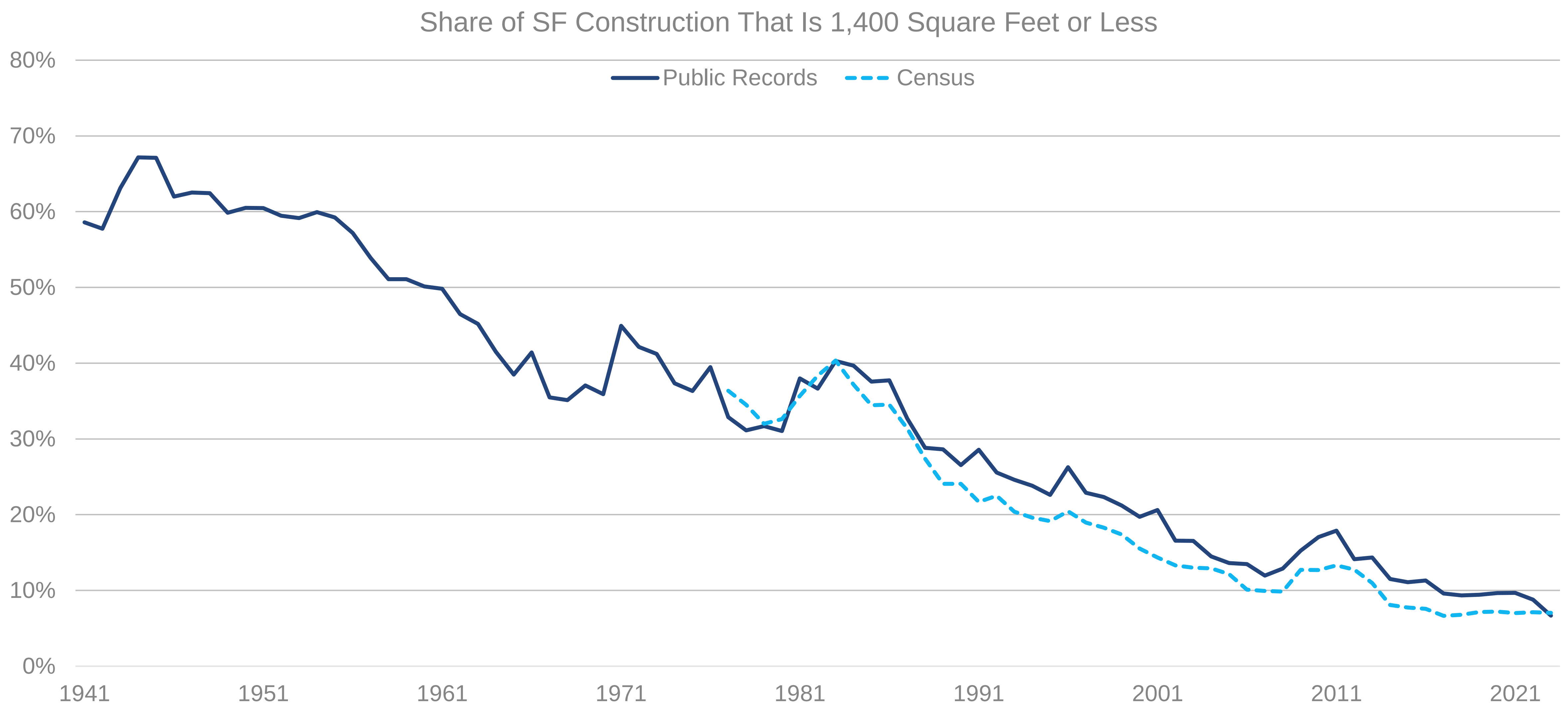
Sources: National Association of Realtors (NAR); U.S. Census Bureau. Total sales includes new and existing SF until 1999, when existing condos and coops are included
Note: Data as of June 2023

New Housing Completions Improved in 2022, But Still Below Pre-GFC Levels…



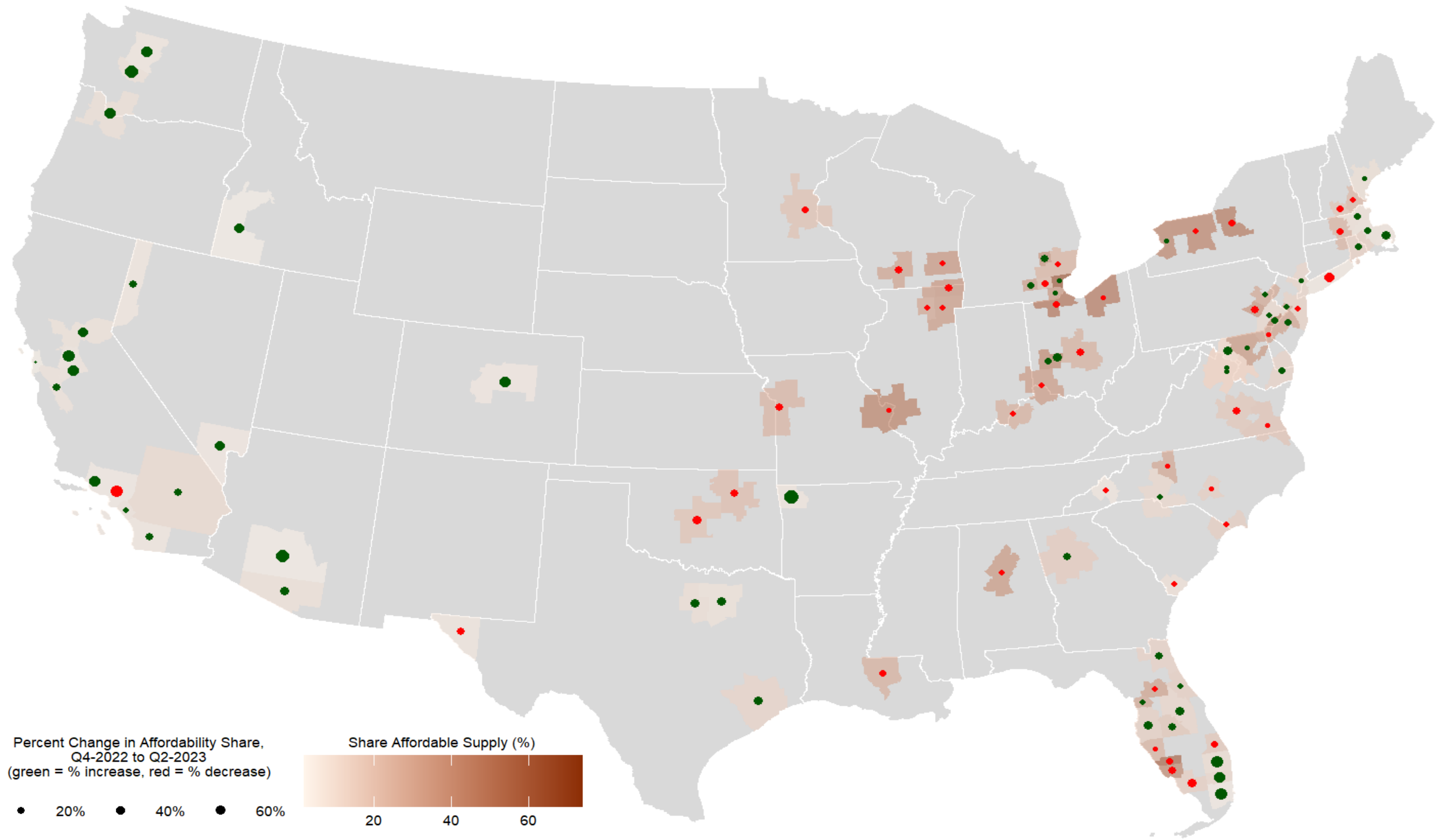
Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety

….and Entry-Level Supply Had Been Declining for Decades



Source: Census and CoreLogic. Data excludes condos.

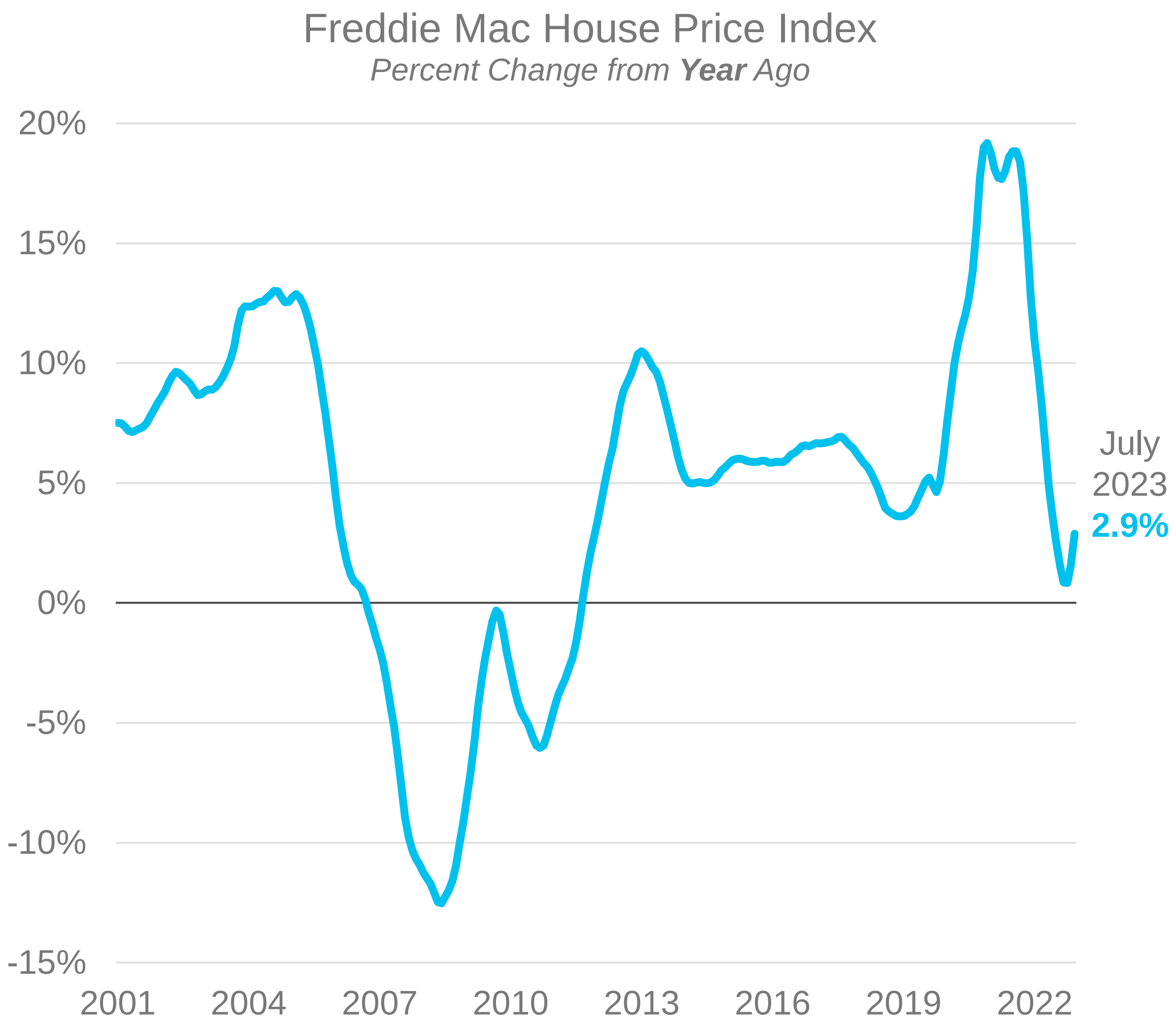
Affordable For-Sale Listings are Increasing in Most Markets

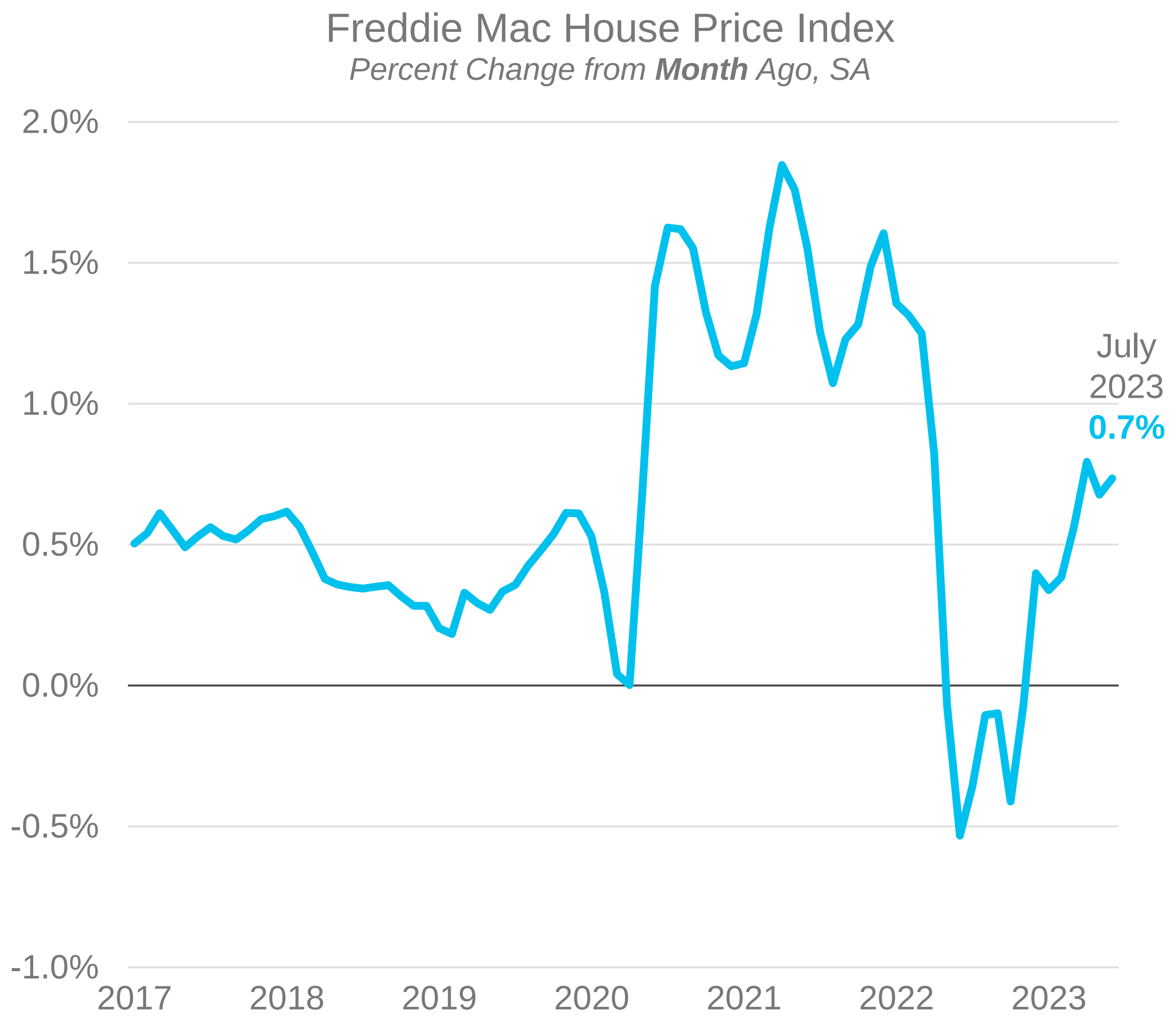


- Due to a combination of lower quarterly interest rates and higher income limits, from Q4 2022 to Q2 2023, the share of homes with a for-sale price affordable to individuals at 80% or less increased in many metros with lower affordability.

Note: Housing Insights and Solutions calculations using Core Logic MLS data and Freddie Mac PMMS data for Q4 2022 and Q2 2023, and FHFA area median income (AMI) data for 2022 and 2023. We define a home's for-sale price as "affordable" if its corresponding mortgage payment—at 3% down, prevailing quarterly mortgage interest rates, and a 30-year contract—is less than or equal to the quarterly income of a household at 80% or less of the AMI. The share of for-sale affordability is defined as the number of active listings that meet this affordability threshold divided by the total number of active listings for the given quarter. Light brown indicates a low degree of for-sale affordability in Q4 2022, while dark brown indicates a high degree of affordability. Points in green indicate a (positive) percent increase in for-sale affordability from Q4 2022 to Q2 2023, while points in red indicate a (negative) percent decrease over the same period.

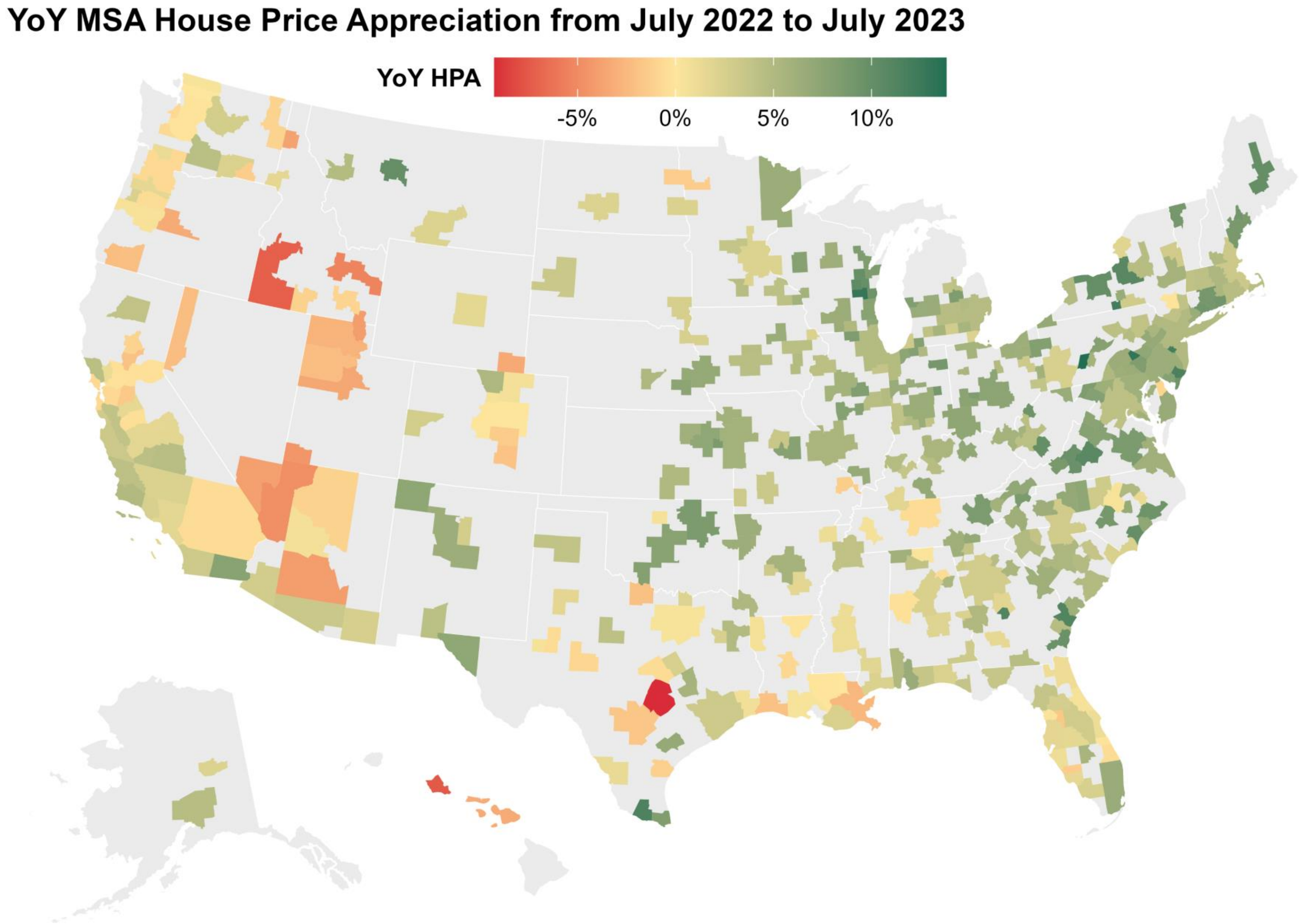
Lack of Supply Has Led to a Rebound in Home Prices





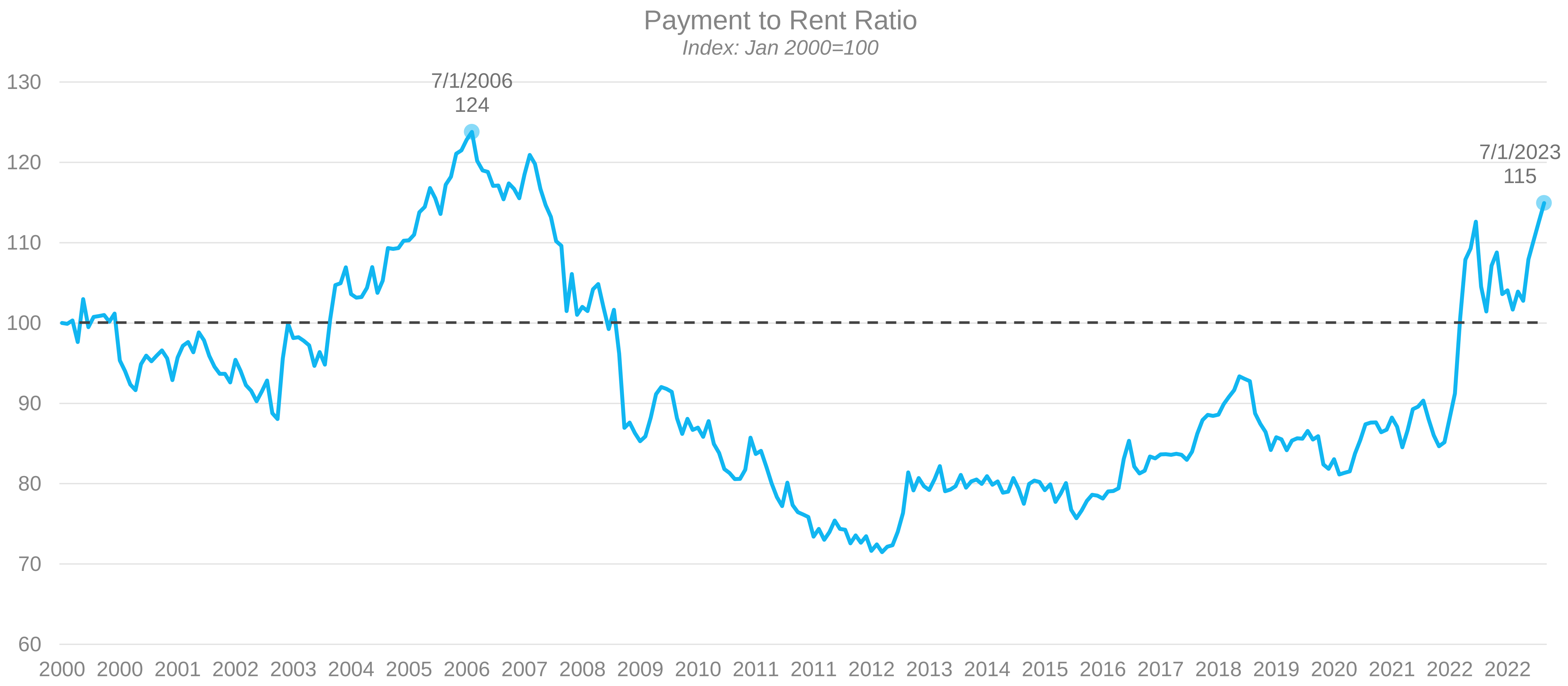
Source: Freddie Mac

House Prices Rebounding Across Majority of Metro Areas



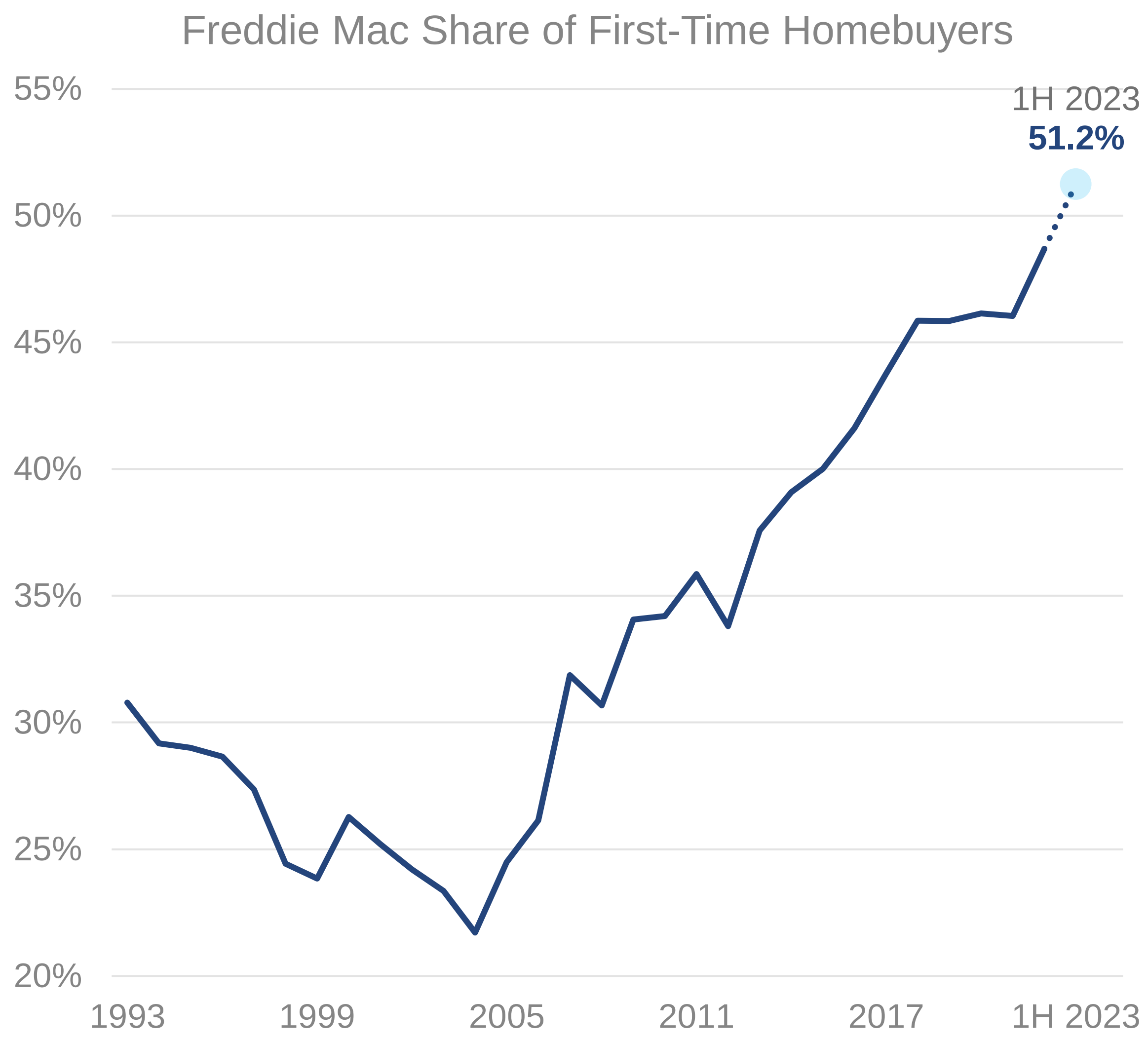
Source: Freddie Mac House Price Index, SA

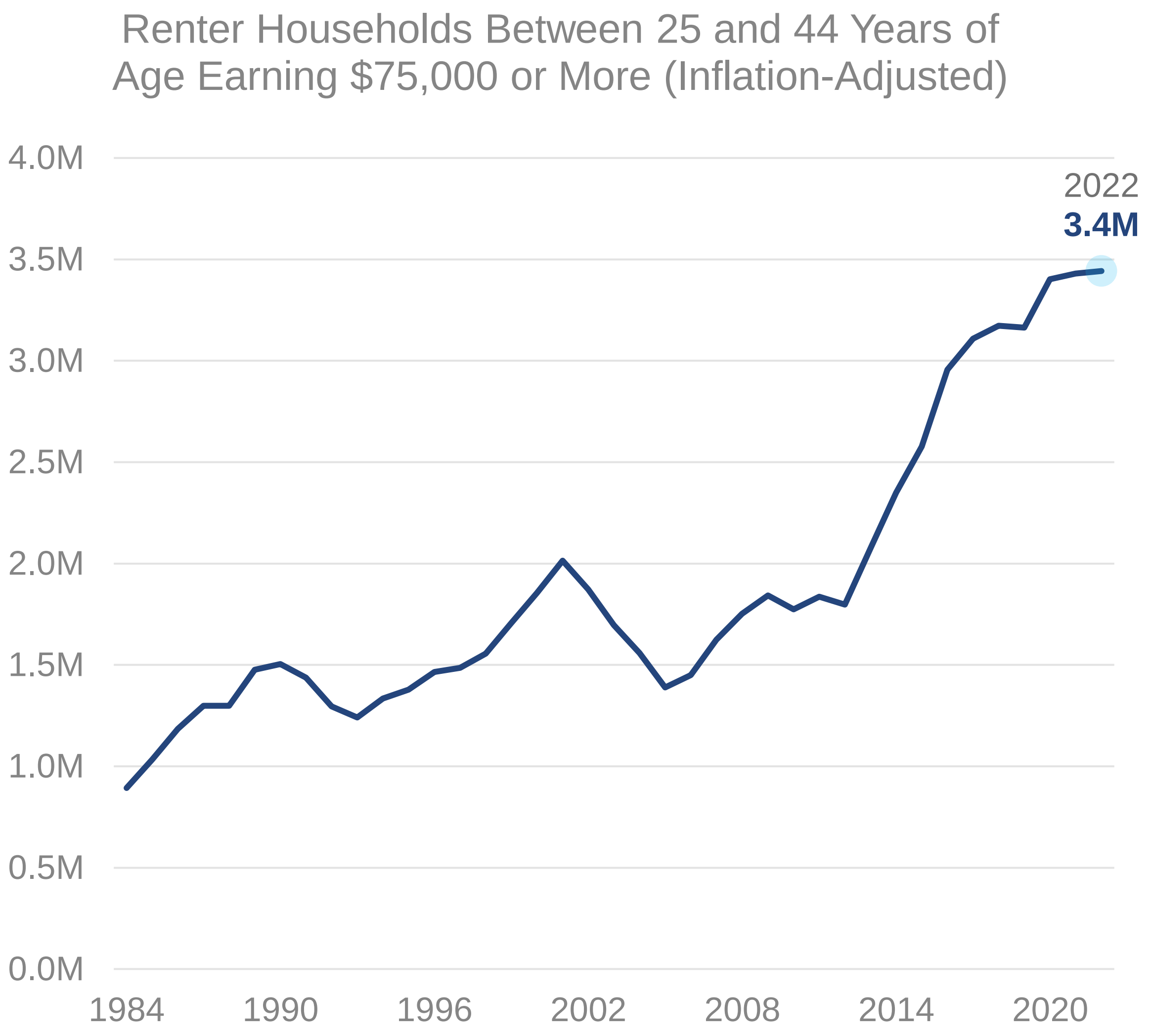
Monthly Mortgage Payment to Rent Ratio Remains Elevated and Is Approaching its July 2006 Peak



Sources: Freddie Mac EHR calculations. Limited to homes in first year of the rental lease. For rents in PITI to Rent ratio, we use actual rents and addresses listed on Freddie Mac Loan Product Advisor loan applications. For the mortgage payment, we estimate what the mortgage would be on that exact house by matching the rental address to our Home Value Explorer (HVE) home value estimates and assume a 90 LTV loan, typical purchase tax and insurance, and the FRM30.

While the Overall Purchase Demand Is Weak, Entry-Level Demand Is High Due to Millennials Reaching Prime First-Time Homebuying Age

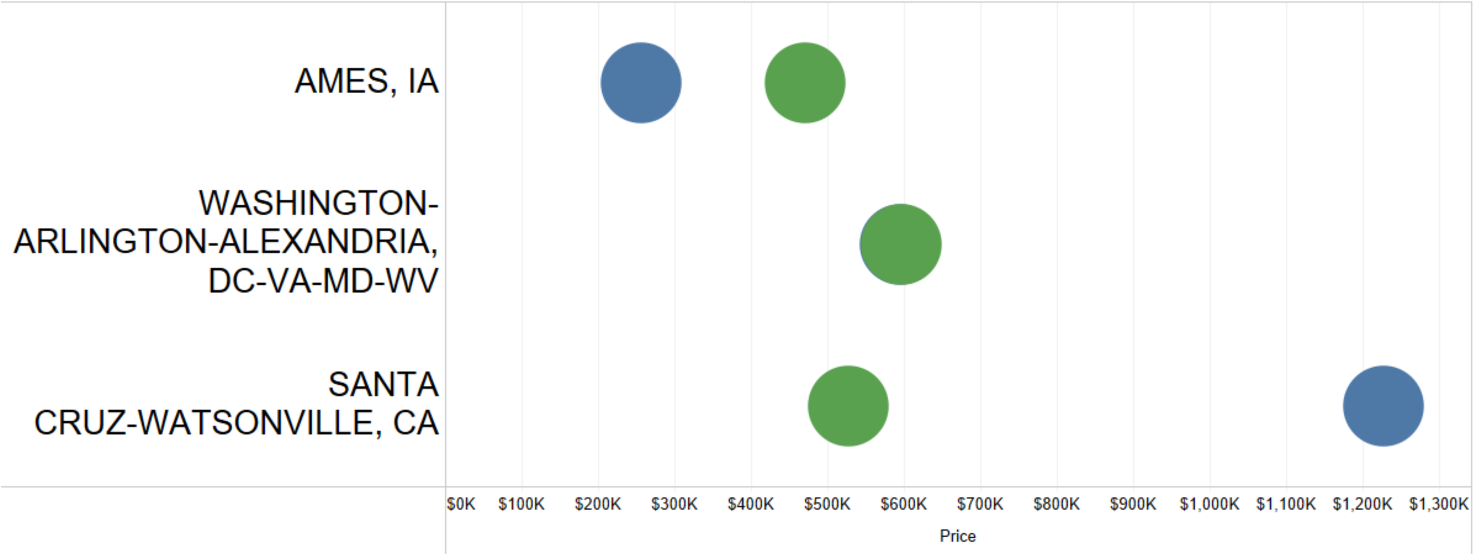




Source: Freddie Mac and IPUMS USA, University of Minnesota, www.ipums.org

Market Opportunities

Evaluating Maximum House Price for a Typical Household



Affordability Ratio=1.8

Affordability Ratio=1.0

Affordability Ratio=0.4

The **green dot** represents the maximum house price, the **blue dot** represents the median home value at the MSA level, which serves as a benchmark. Affordability Ratio is obtained by dividing maximum house price by median home value.

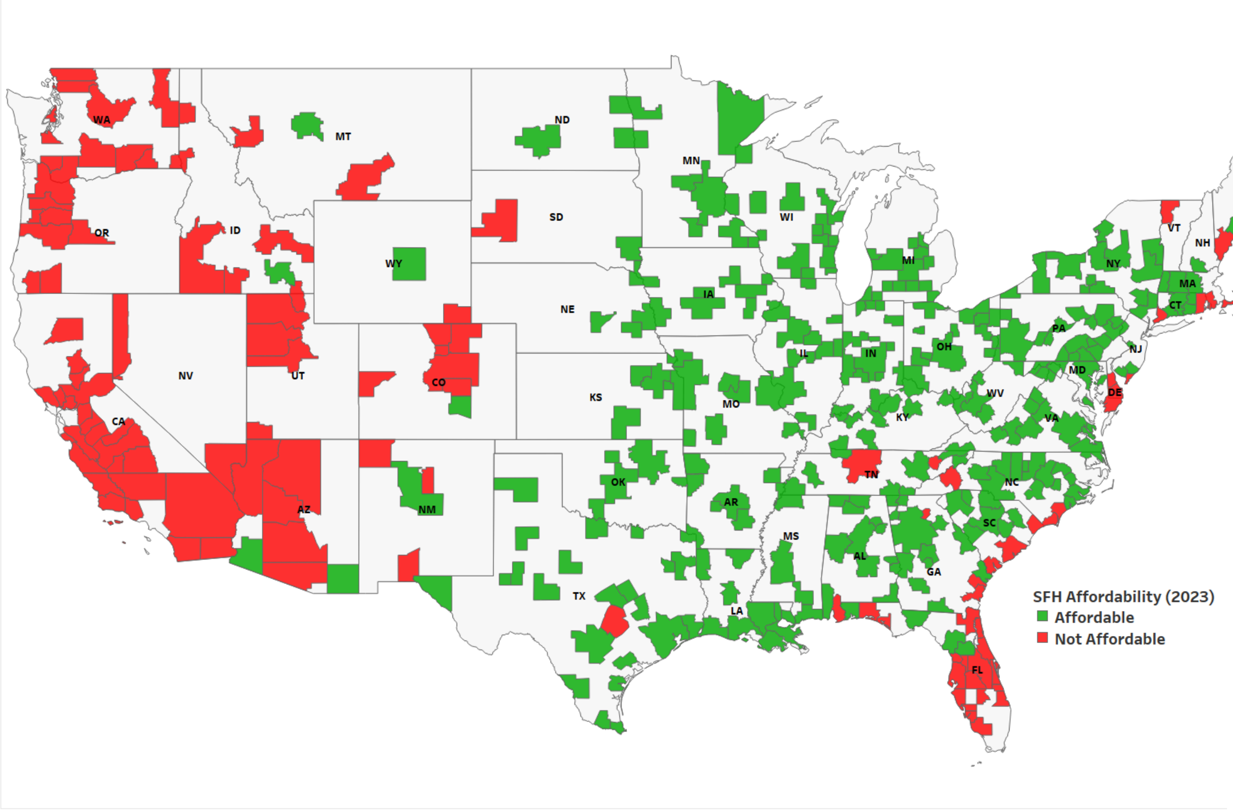
- We define **Maximum House Price** as the maximum house price a household can afford such that the monthly mortgage payment is less that 31%* of monthly household income, assuming a 3% down payment and a prevailing 30-year fixed-rate mortgage.

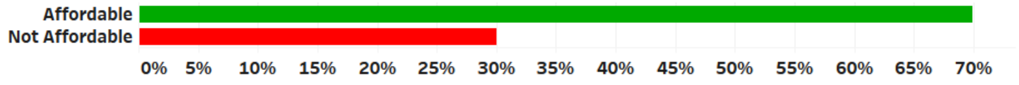
*Many lenders require a front-end DTI 31% and back-end DTI 43%

Note: The calculation for maximum house price is based on FFIEC/HUD median family income data of 2021 and 2023. Interest rate is derived from the average PMMS30. For August 2023, the average interest rate was 7.07 percent.

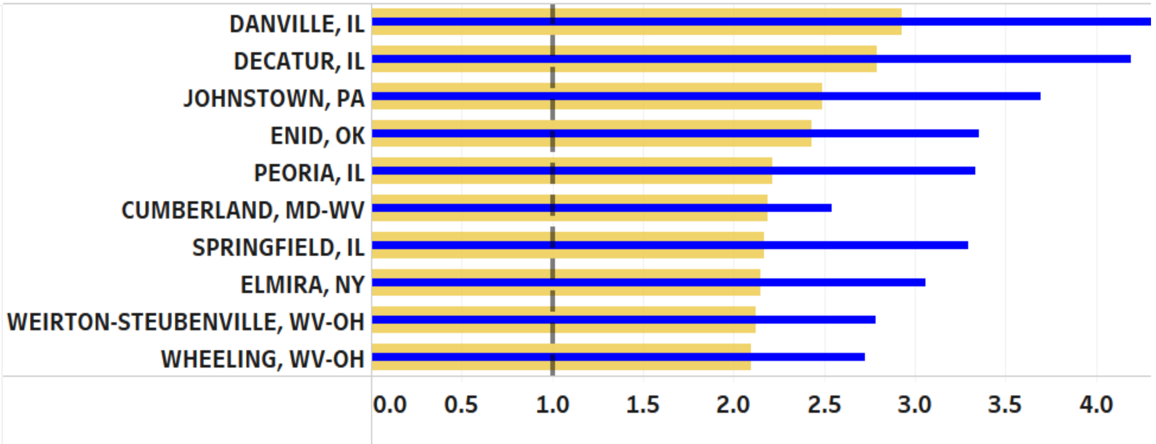
For more information, please see: https://www.jchs.harvard.edu/research-areas/working-papers/potential-shared-equity-and-other-forms-down-payment-assistance

Despite a Rise in Interest Rate, Almost 70% of Metros are Still Considered to be Reasonably Affordable

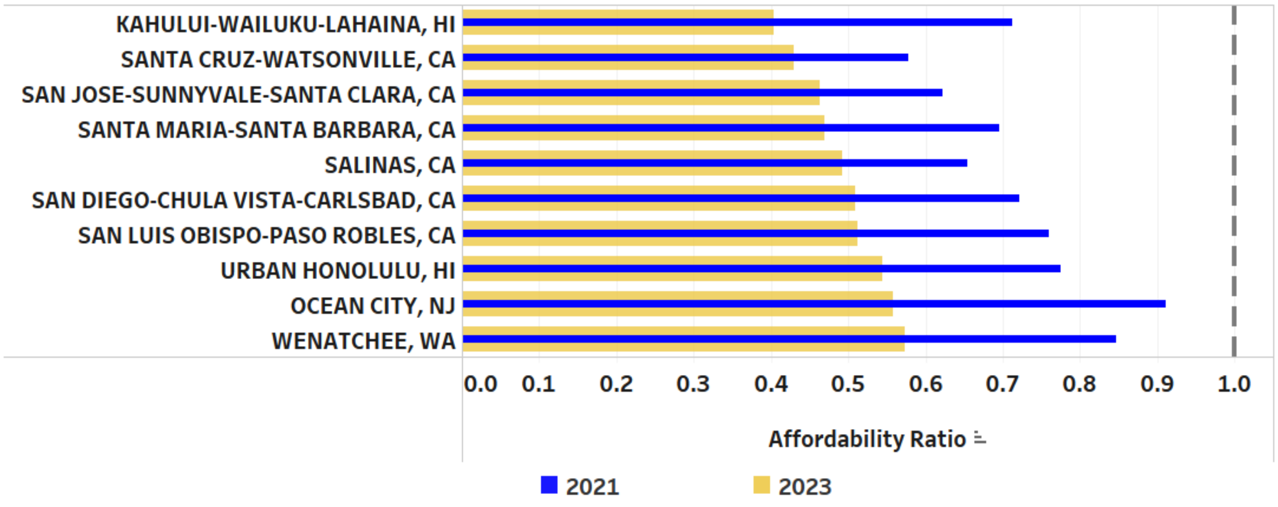




Top 10 Most Affordable CBSAs

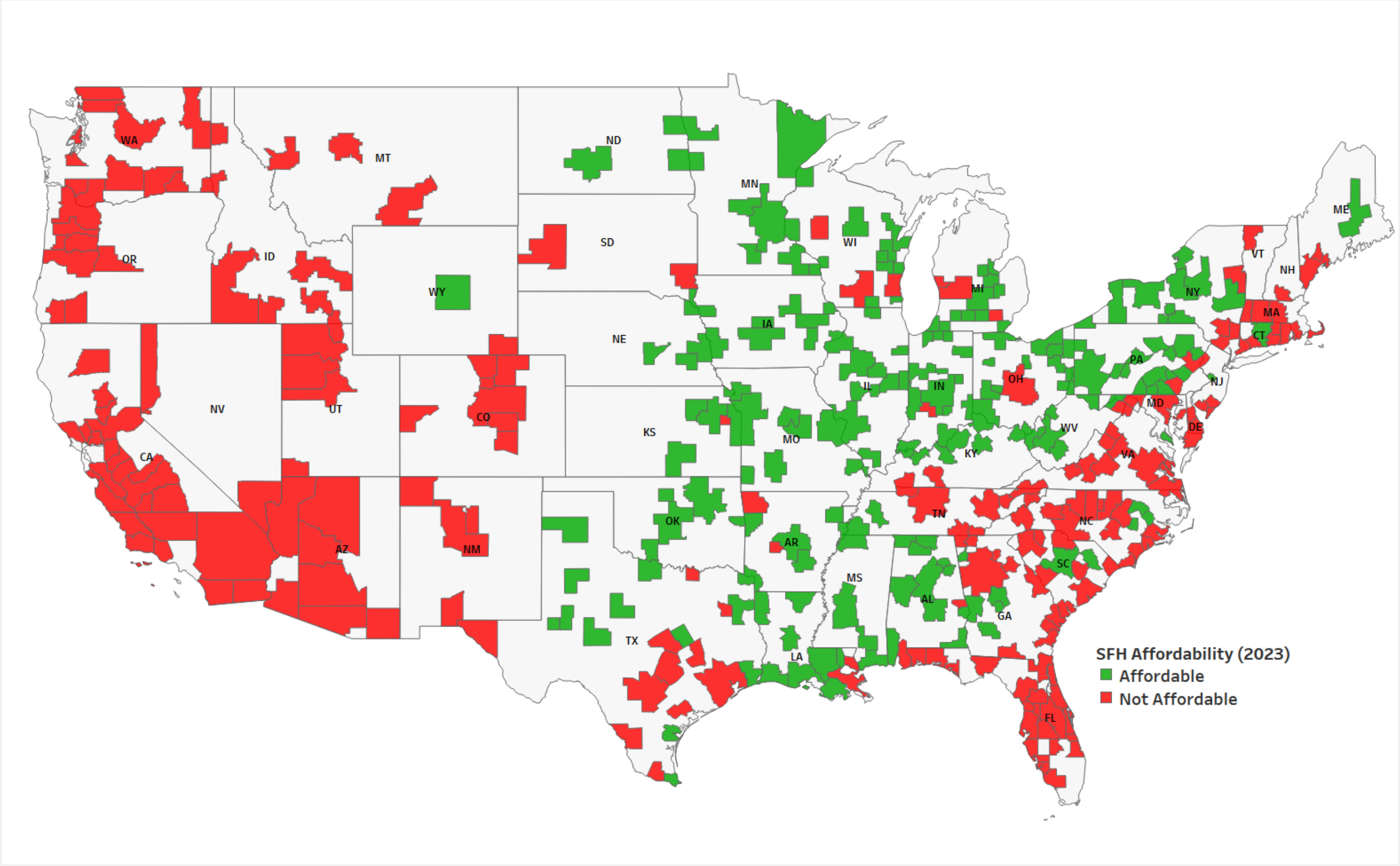


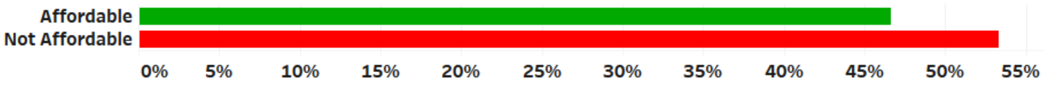
Top 10 Least Affordable CBSAs



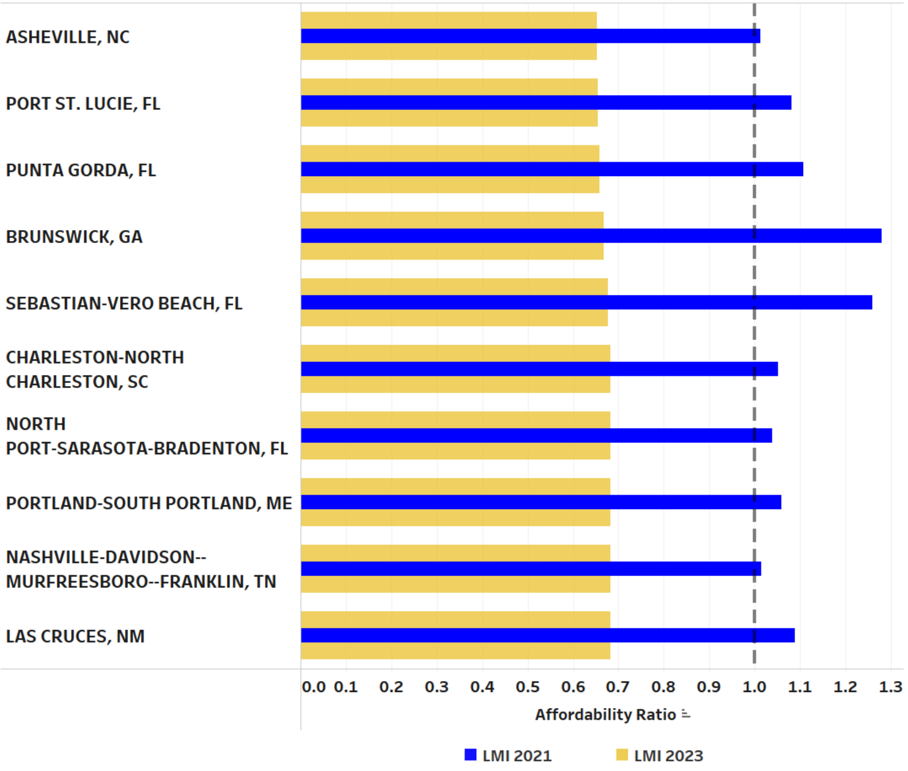
Note: The calculation for the maximum affordable price (i.e., mortgage capacity) is based on FFIEC/HUD median family incon operates under the assumption that the front-end debt-to-income ratio would be limited to 31%, assuming they were obtaining mortgage with a 3% down payment. Interest rate is derived from the average PMMS30. For August 2021 and August 2023, th 3.07 percent and 7.07 percent, respectively.

However, Less Than 50% of Metros Are Affordable For Typical Low-To-Moderate Income Families





Top 10 CBSAs Highest Decline in Affordability (2021-2023)



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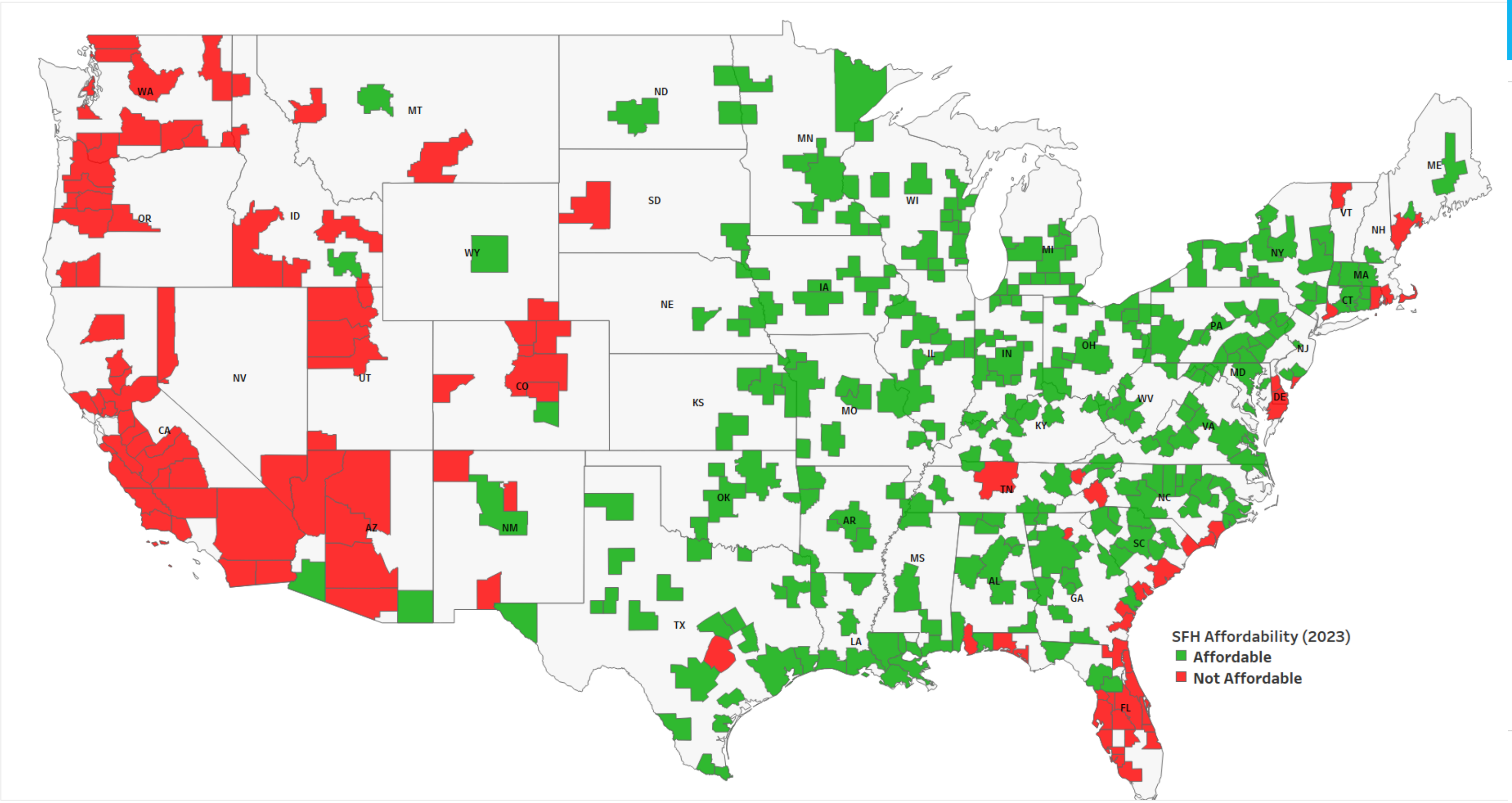
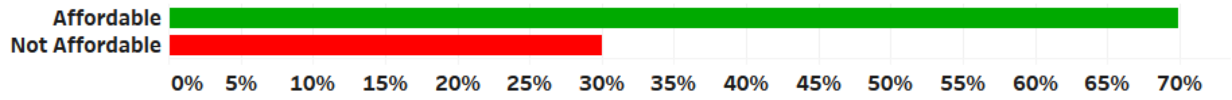
In Most Metros, Typical Low-To-Moderate Income Families can still afford 80% of Median Priced Homes





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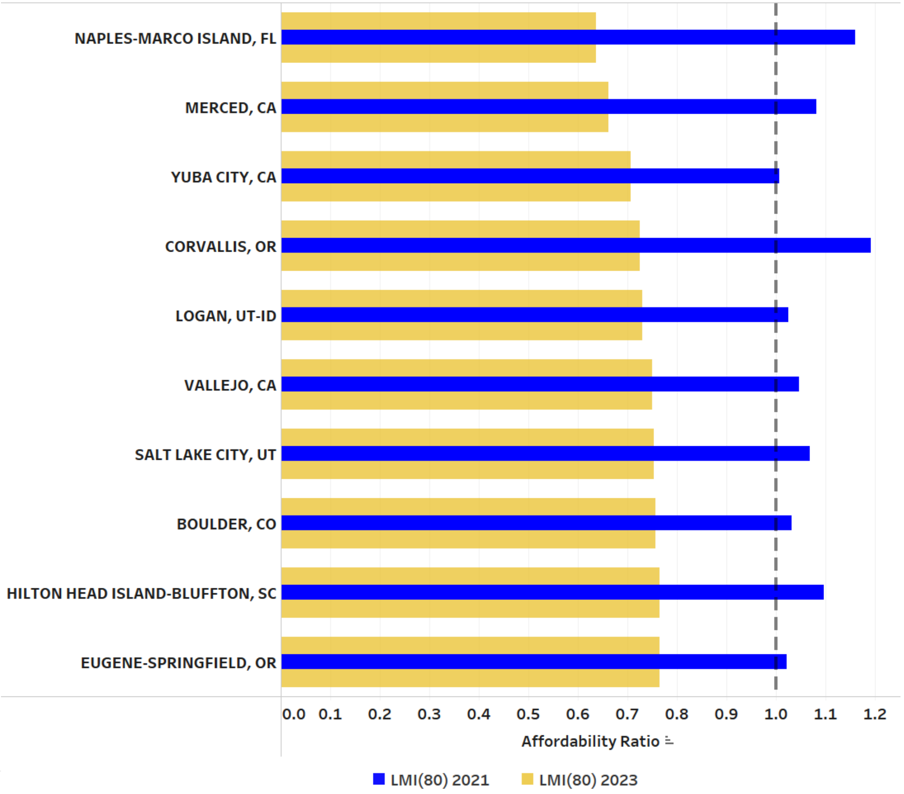

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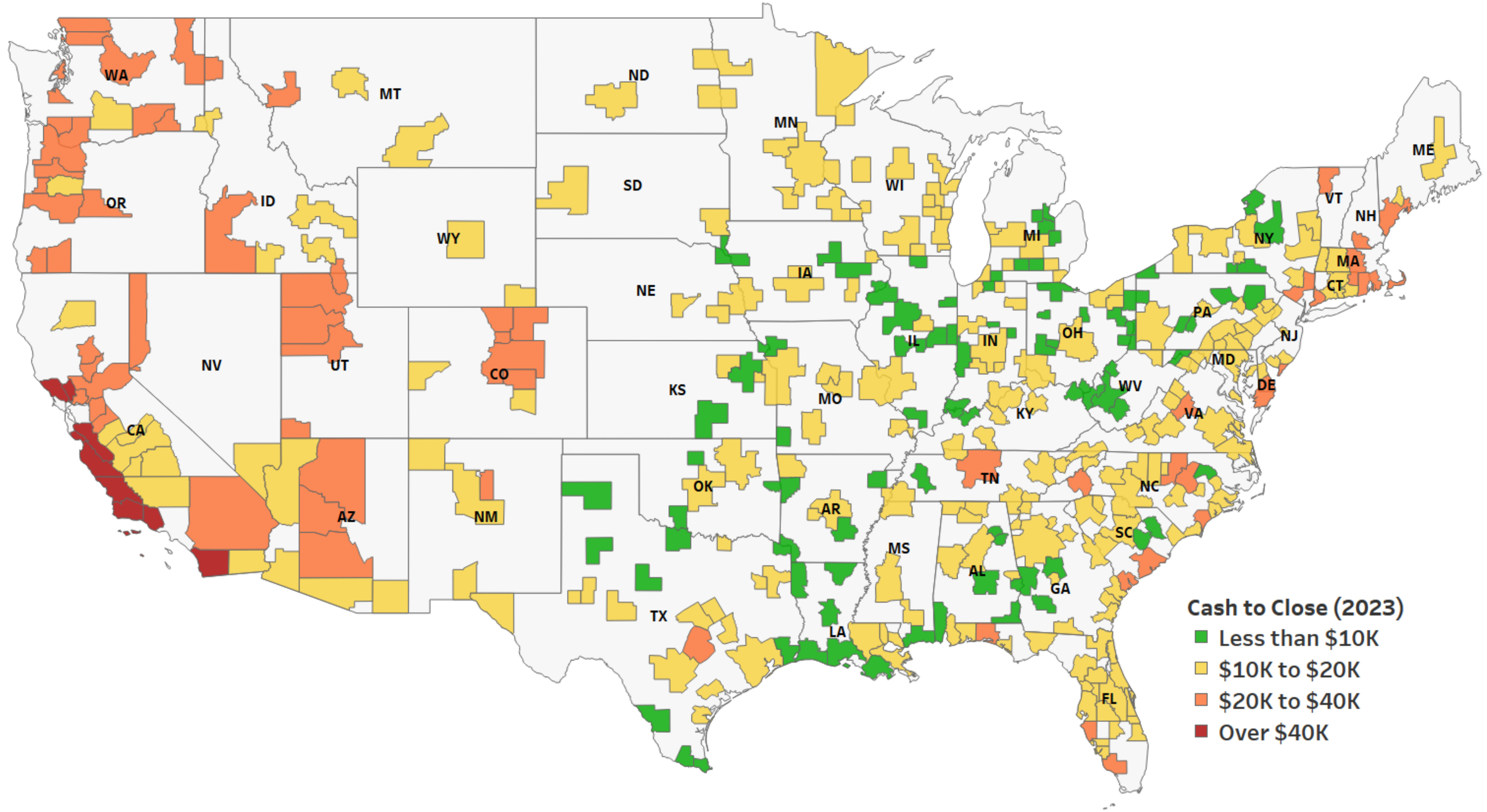
The Cash Required at Closing Remains Significant in Most Markets, With Median Amount Exceeding 13K



Note: The calculation for the cash to close shortfall is based on FFIEC/HUD median family income data and Freddie Mac Home Value Explorer data for August 2021 and 2023. It involves determining the down payment as 3 percent and Closing Costs as 2.2 percent, respectively, of the median house price value at the MSA level for both years. According to Bureau of Economic Analysis, savings are estimated by assuming a flat savings rate of 7.5 percent for 2021 and 4.4 percent for 2023, based on family post-tax income. This calculated savings is then deducted for 6 months. Net income is determined by subtracting both state and federal taxes from gross income. The resulting cash to close shortfall represents the additional funds required to completing a home purchase after considering these factors.

Summary of Opportunities:

- Rise in interest rates and house prices have led to decline in maximum house price of a typical household compared to the median home value
  - Despite that, in many metros, a typical household has income high enough to afford monthly payments on a median priced home
  - In more than 70% of markets, typical LMI families can afford a moderately priced home
- Housing supply increased recently but only modestly. Existing listings declined due to the rate lock-in effect.
- Down-payment is a barrier to homeownership. Reducing costs at closing, could increase opportunities for a typical renter household become borrower of the future.

FitchRatings

Housing Trends, Affordability and State HFAs

Teresa Galicia
Associate Director
Community Development & Social Lending (CDSL)

October 2023

Contents

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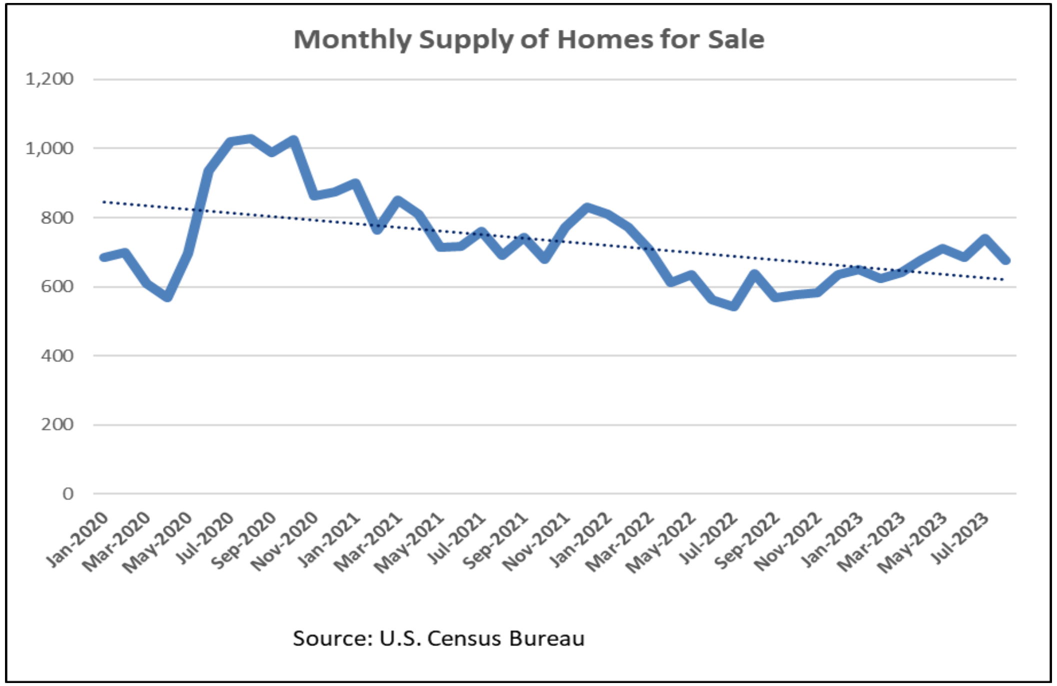
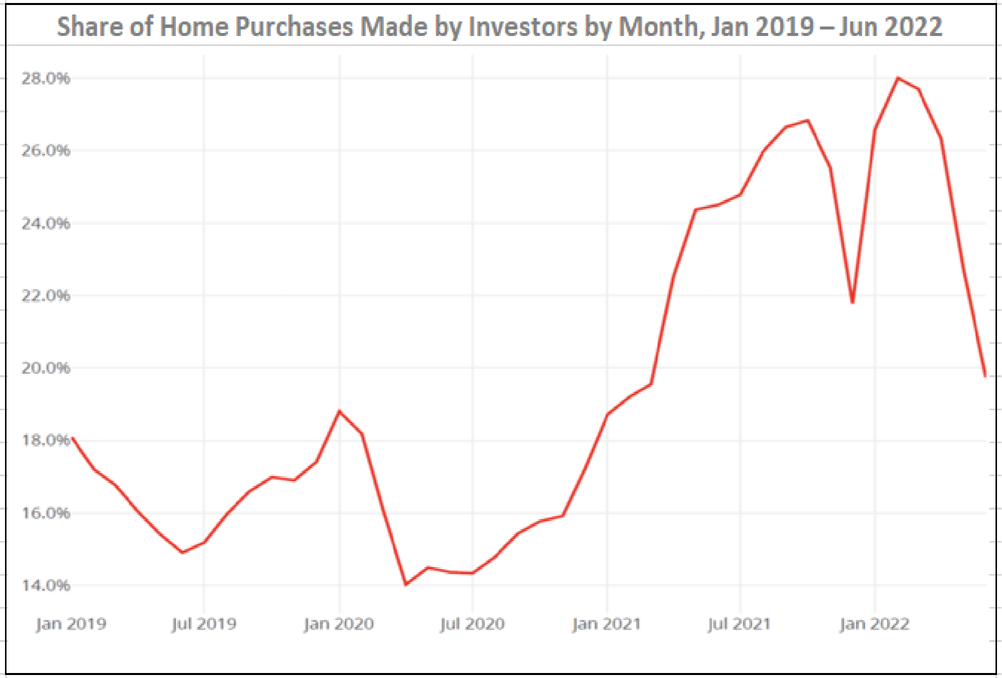
Housing Trends

Is This Time Different?

Housing Supply: Still Very Tight

- Supply is still at historical lows.
- Regional differences appear minimal.
- Costs prove burdensome as investors have slowly retreated from the single-family market after buying up moderately priced homes either to convert to rental or upgrade for resale.
  - ✓ *CoreLogic reported investor share of single-family homes sold in 2022 hit 28% and has since declined each month.*





Source: U.S. Census Bureau; CoreLogic

Housing Construction: Much More Sensitive to Economic Conditions

- Although overall housing inventory remains at low levels, the number of new housing units under construction increased sequentially since YE 2020.
- This elevated growth trend in housing starts has reversed.
- Several barriers continue to limit how much new housing can be built.

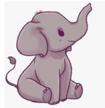
  - ✓ In short term, the price and availability of materials remain key constraints.
  - ✓ Chronic labor shortages and restrictive local land use regulations make it difficult for developers to build modestly priced housing.

Rising cost of land and construction costs due to inflation, as well as rising financing costs, could force some builders to stop construction.

Source: Joint Center for Housing Studies (JCHS) of Harvard University, “The State of the Nation’s Housing 2023”

Housing Demand: Slowing...What's Happening?

- Demand is cooling, but has not collapsed.
- Regional differences are emerging.



✓ *Nationwide home prices fell 0.2% yoy in April 2023. However, housing market trends vary regionally. The West experienced a decline of 7.1% yoy in March. The Northeast, Midwest and South slowed but still grew by 3.4%, 3.8% and 5.56% yoy, respectively.*

✓ *The elephant in the room: buyers, rates and expectations.*

U.S. Housing Demand

How competitive is the market?

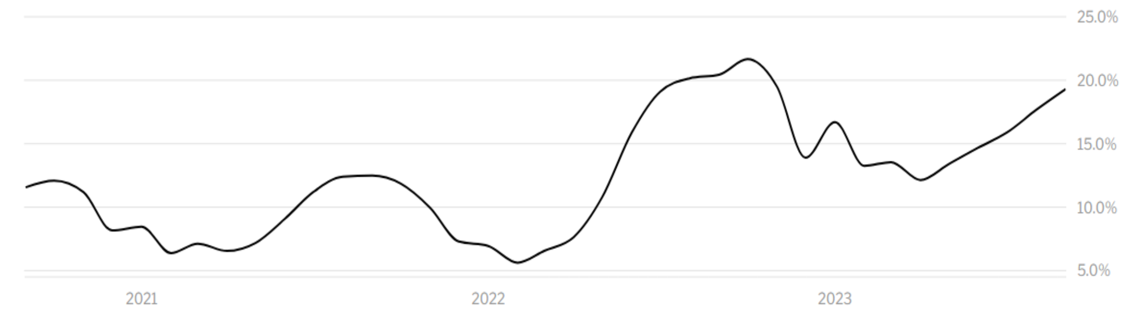
In September 2023, 33.2% of homes in the U.S. sold above list price, up 1.1 points year over year. There were only 19.3% of homes that had price drops, down from 20.0% of homes in September last year. There was a 99.6% sale-to-list price, up 0.3 points year over year.

Show Less

Homes Sold Above List Price	Homes with Price Drops	Sale-to-List Price
33.2%	19.3%	99.6%
+1.1 pt year-over-year	-1.1 pt year-over-year	+0.3 pt year-over-year

All Home Types

1 year 3 years 5 years



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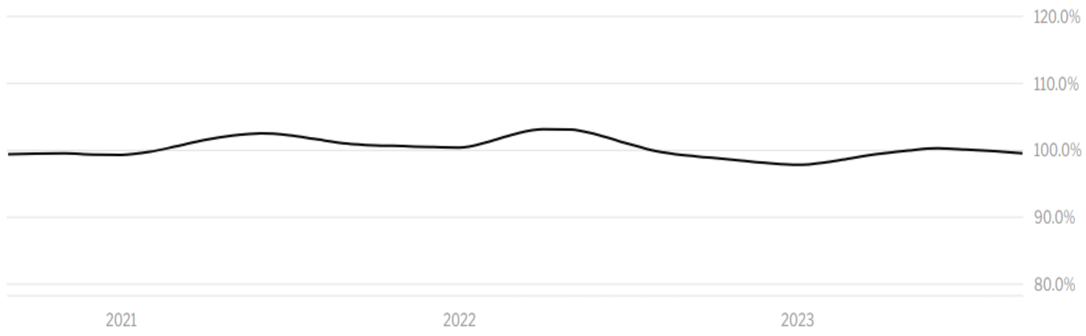


Source: U.S. RMBS 2Q23 Sustainable Home Price Report, Redfin and data from MLS

2

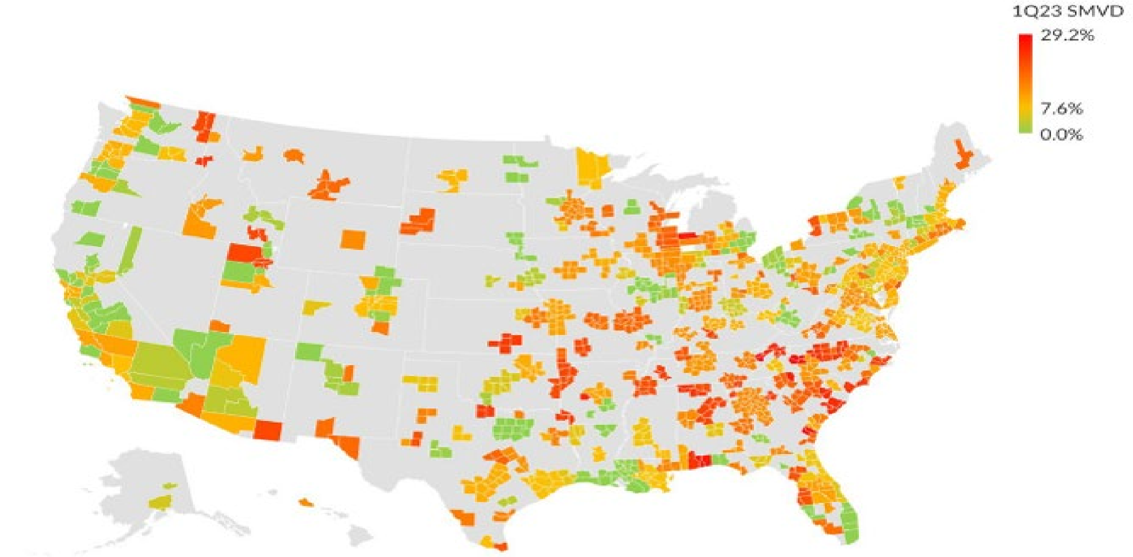
Sustainable Home Price Highlights

FitchRatings

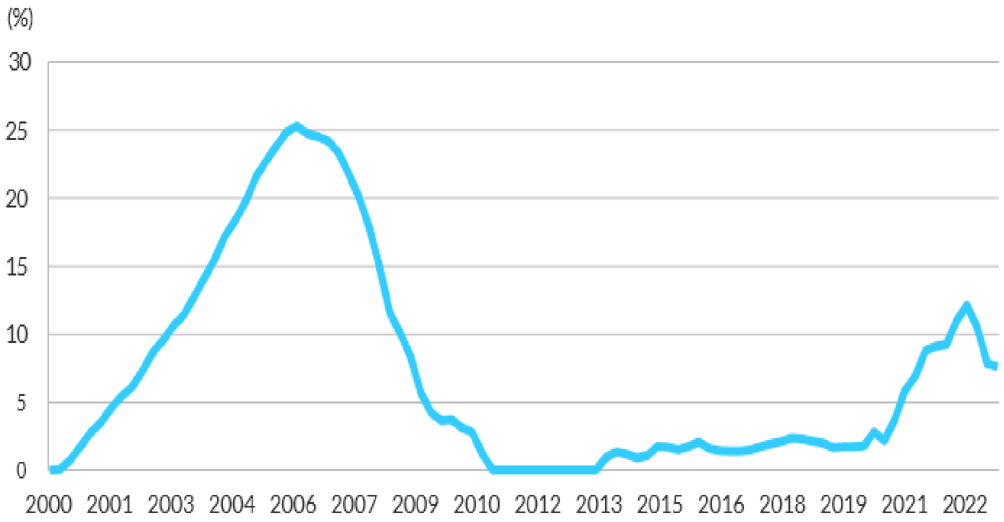
Actual and Sustainable Home Price Updates

- Fitch estimates home prices in 82% of the U.S. are overvalued.
- Yet, overvaluations are flattening.

Fitch's Overvaluation Estimates



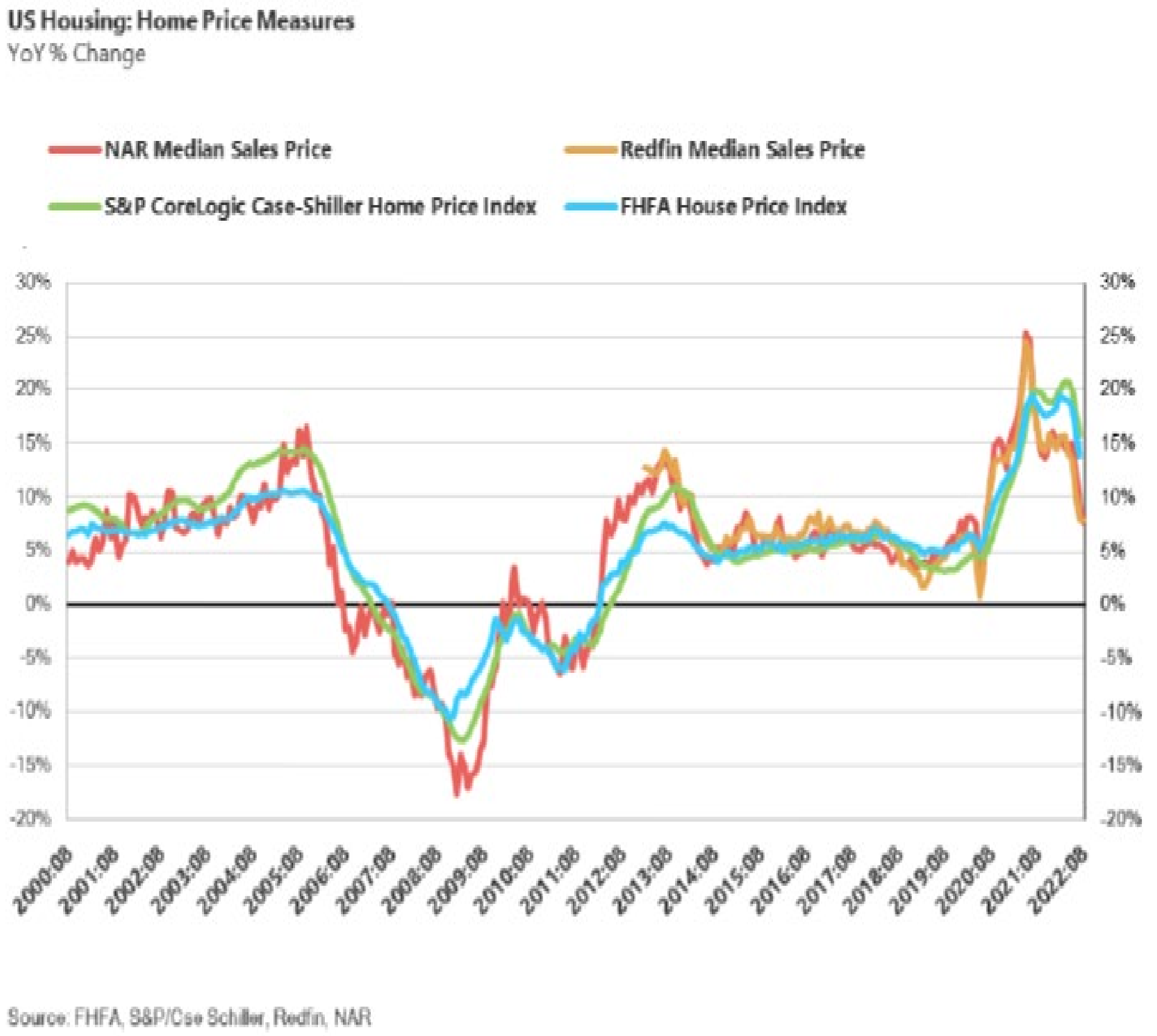
National Home Prices Currently 7.6% Overvalued



Source: Fitch Ratings

Home Prices: Correction Underway?

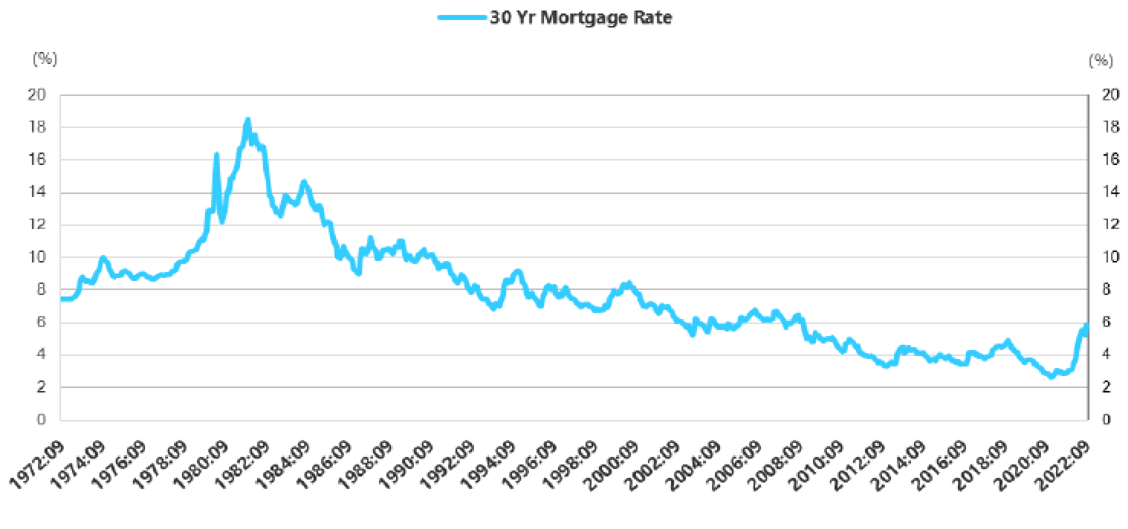
- Home price appreciation nationwide continues to increase.
- Fitch Ratings estimates that national home prices were overvalued by 7.6% as of Q2 2023.
- Home price moderation is in progress.
- Home prices dropped 0.2% in July, marking first national decline since 2012.
- Fitch expects that national home prices will likely experience some corrections as a result of worsening affordability.
- Despite that, Fitch deems a housing market crash akin to the Great Financial Crisis highly unlikely, as housing inventory is still constrained, and existing homeowners who have locked in low mortgage rates are unlikely to sell their properties.



What Does a 7+% Mortgage Rate Mean for Housing?

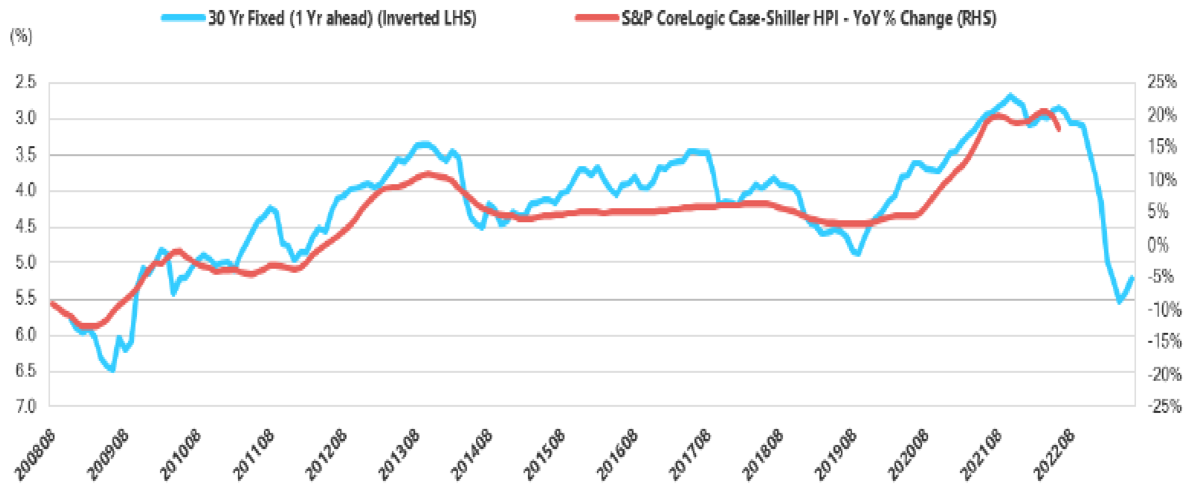
- Rapid deterioration in affordability, discretionary income shrinks even more.
- Overwhelming majority of mortgages are fixed at much lower rates.
- Prices likely to weaken further.
- Studies have found 100 bps increase in mortgage rates results in 3% decline in home prices, on average.
- Are you willing to give up that 3% mortgage rate?

US Housing: 30 Yr Mortgage Rate



Source: Freddie Mac

Mortgage Rates v Home Price Growth



Source: Fitch Ratings, Freddie Mac, S&P/Case Schiller

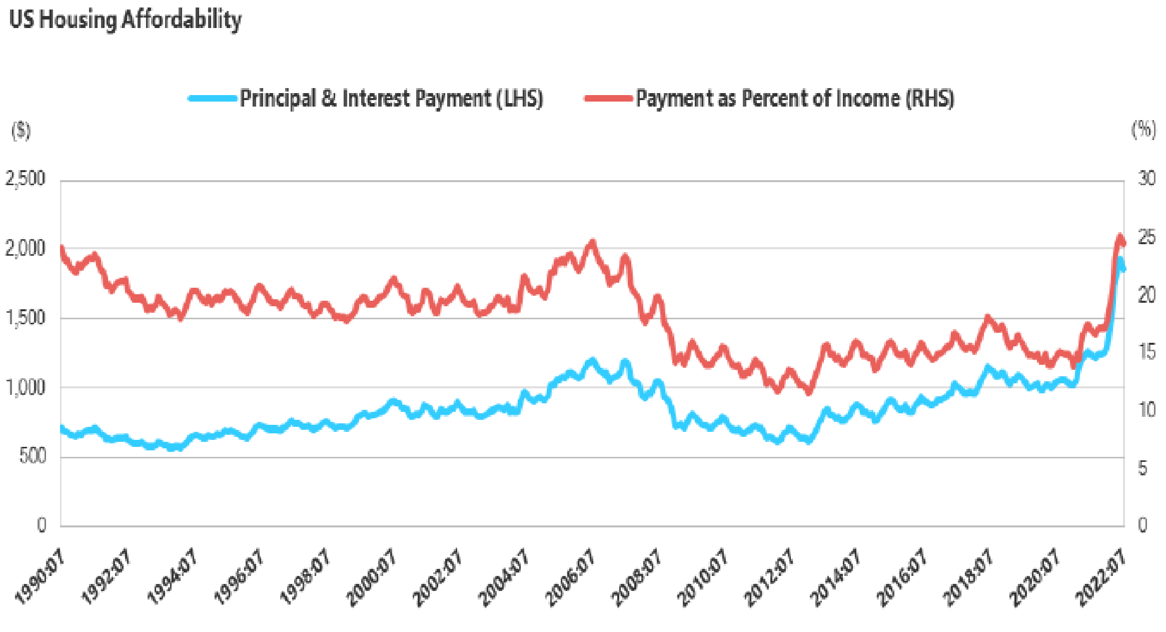
3

The Affordability Squeeze

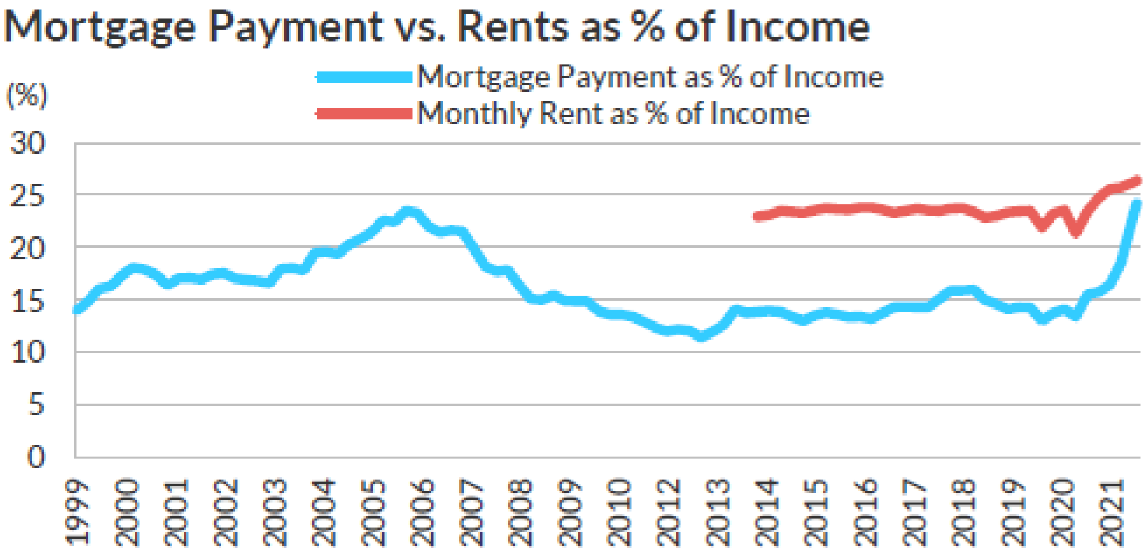
FitchRatings

Worsening Affordability Softening Demand

- Affordability continues to worsen and owning a home is more difficult due to high prices and elevated mortgage rates.
- Mortgage payments as a percentage of income are projected at 25%, exceeding the highest level during the Great Financial Crisis.
- Housing inventory is on the rise but still constrained.



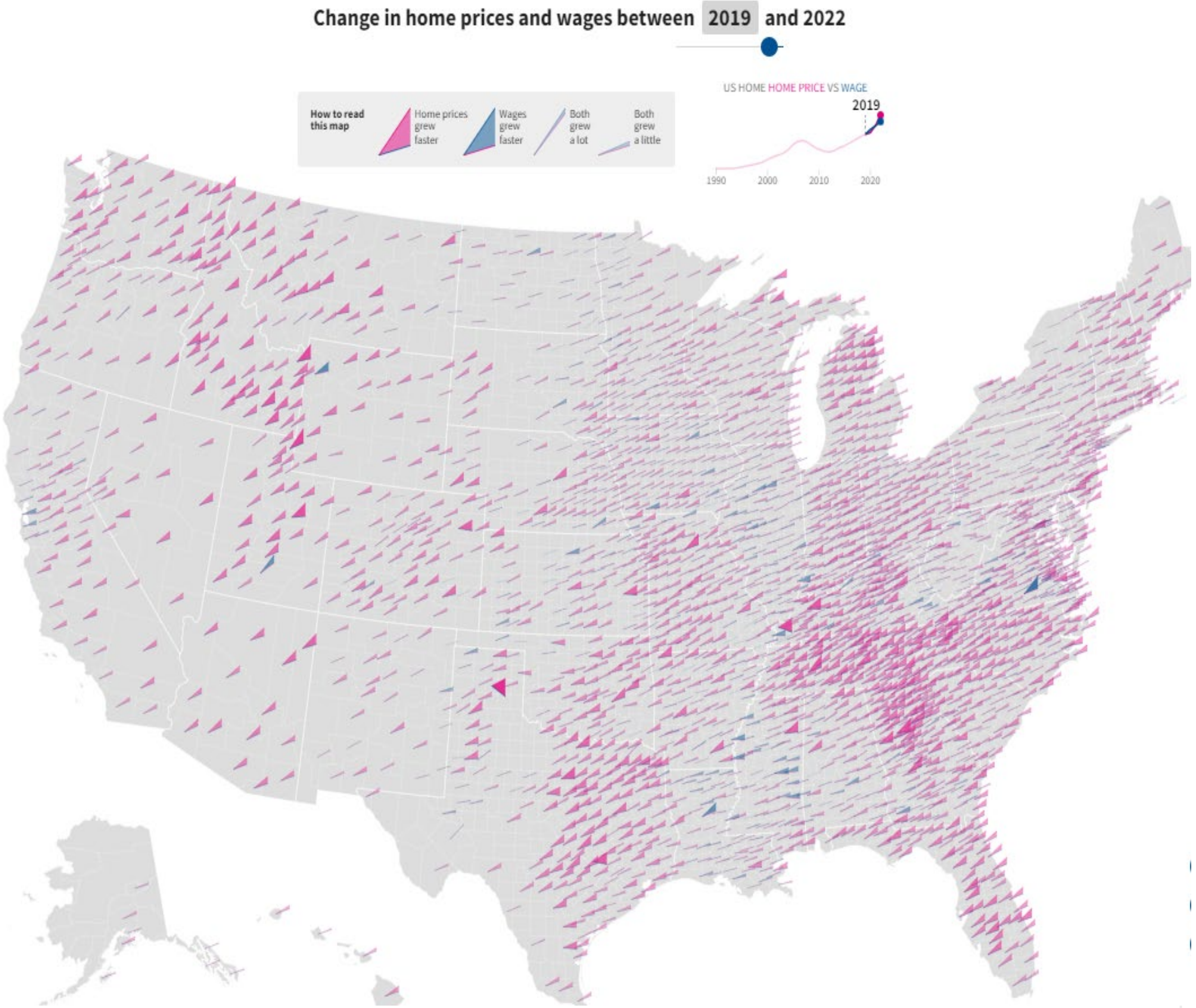
Source: NAR



Source: Fitch Ratings, National Association of Realtors, Freddie Mac, Zillow.

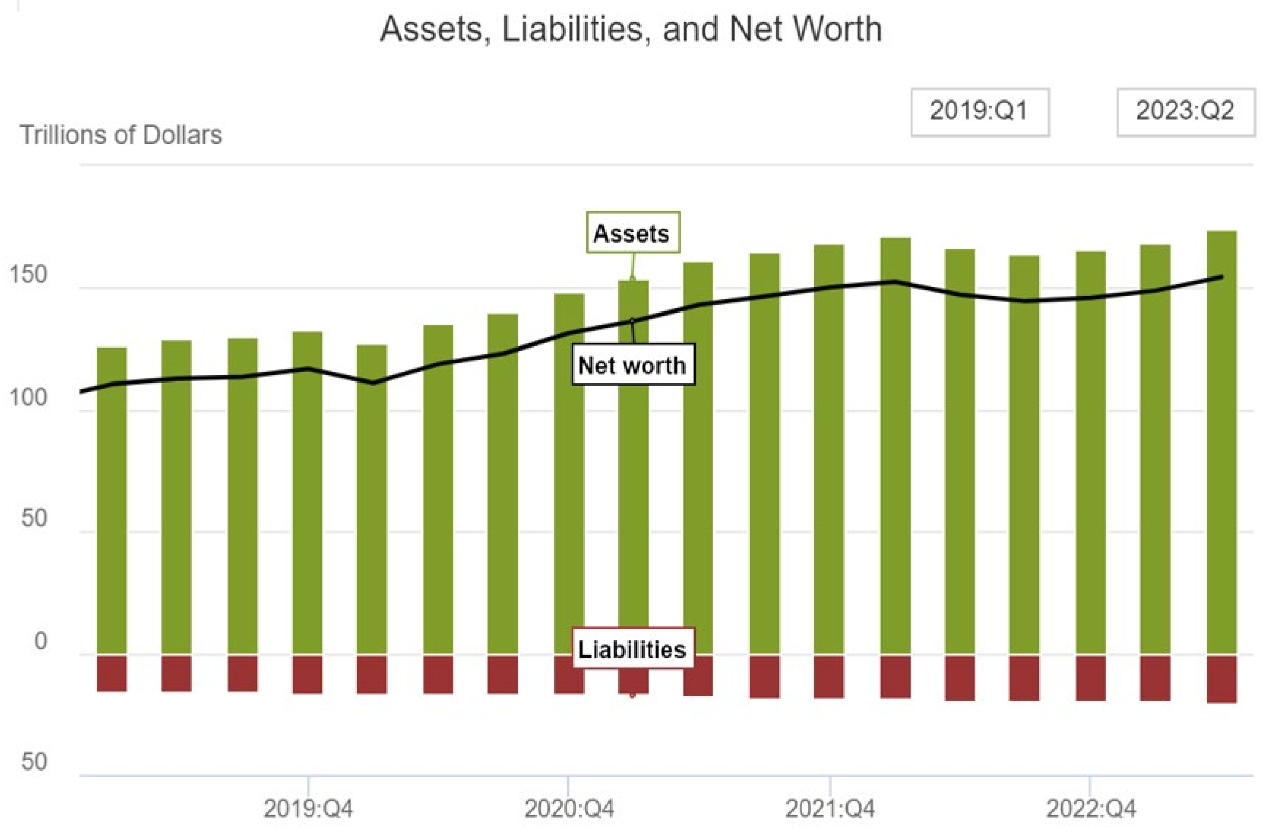
Higher Hurdles for First-Time Homebuyers

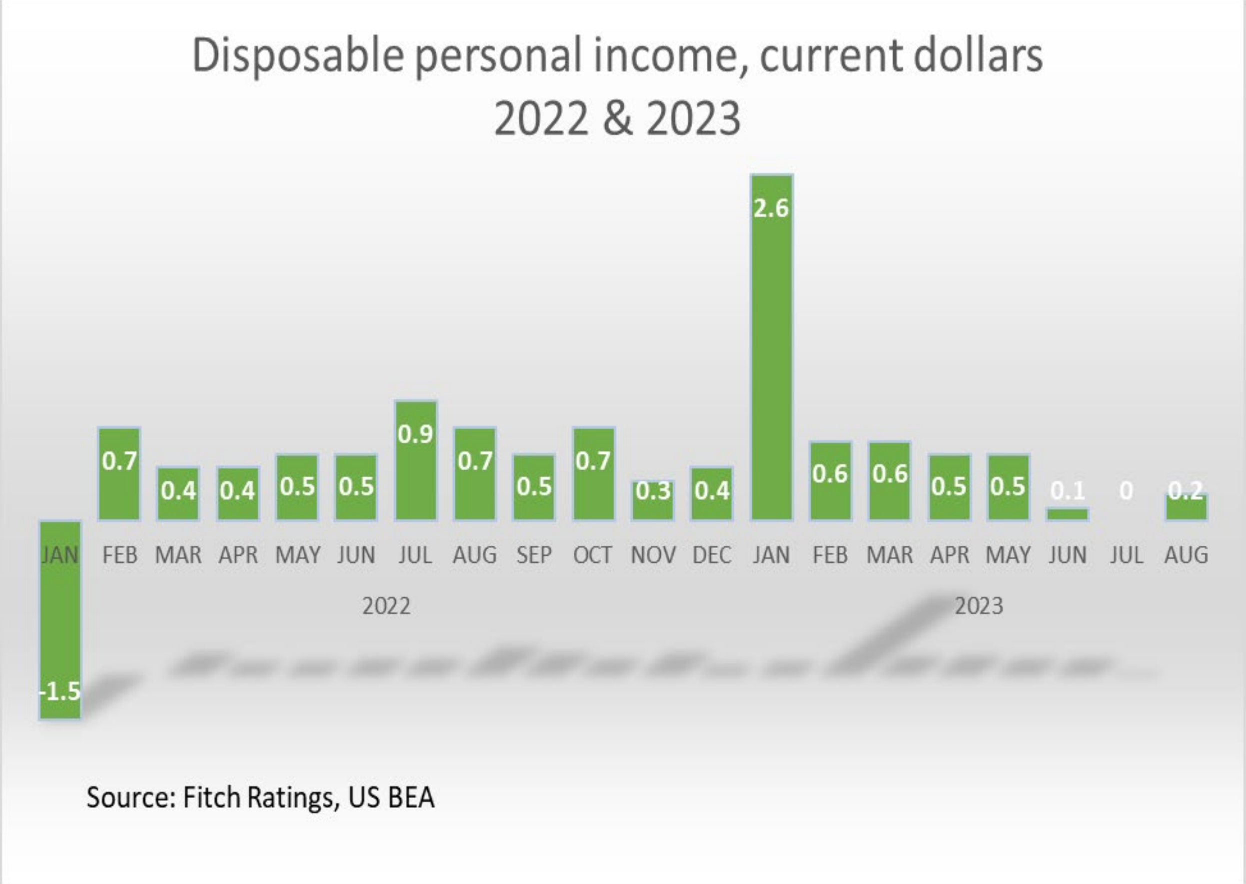
- The ratio of median home price to median household income reached a new high.
- The impact on monthly mortgage payments of a hike in interest rates is equivalent to that of a jump in home prices.
- The down payment that a first-time buyer would have to make on a median-priced home (typically 7.0%) amounted to $27,400 in 2022.
  - ✓ This requirement alone would rule out 92% of renters, whose median savings are just $1,500.
- Recent interest rate hikes raised the minimum income needed to afford a monthly mortgage payment on the median-priced home from $79,600 to $107,600—effectively pricing out some 4 million renter households.
- The nationwide share of cost-burdened households paying more than 30% of their incomes for housing stood at 30%.
  - ✓ Moreover, 14% of a ll households were severely burdened and spent more than 50% of their incomes for shelter.



Consumer Net Worth Still Notably Higher Than Pre-Pandemic

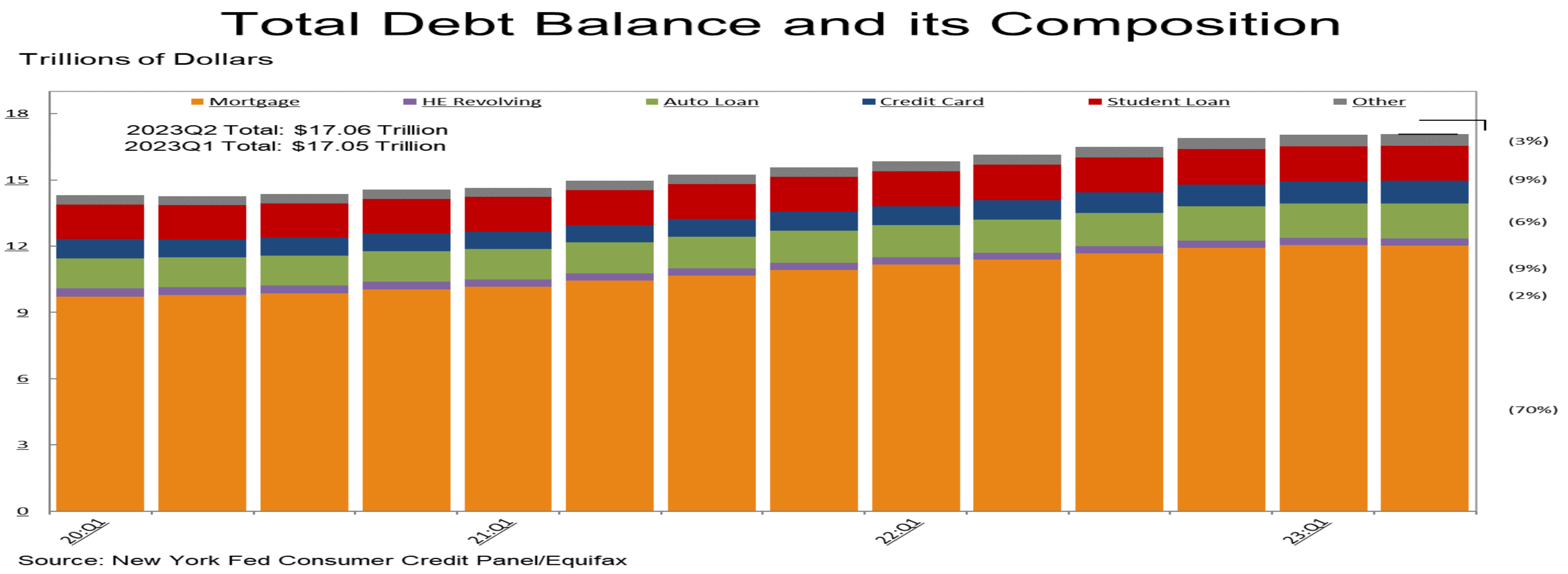
- Aggregate household balance sheet has been resilient, despite equity market correction.
- Yet, monthly savings rate are now below pre-pandemic levels.





Mortgages and Auto Loans Fuel Liabilities Growth

- Household debt in 2023 remains elevated, largely driven by mortgage debt.
- Credit card spending has rebounded.
- Rising insurance rates
- Delinquencies, debt service, and burden are stable.
  - ✓ Household debt service and household leverage remain at multi-year lows
  - ✓ Delinquencies across all household liabilities have stayed low



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State HFA Observations

FitchRatings

HFA Loan Programs Continue to Weather Challenges

Challenges Despite Low Delinquencies

- Reflecting the continued improvement in the economy, mortgage delinquencies nationwide experienced a swift correction.
- However, with the expiration of the CARES Act moratorium and other safeguards in 2021, hundreds of thousands of financially stressed homeowners could be at risk of losing their homes.
- While the share of homeowners behind on their mortgage payments, the shares for households of color and lower-income households were still disproportionately high.

Ongoing Importance of Competitive Mortgage Rates and Down Payment Assistance

- HFAs continue to tap their internal resources to fund down payment assistance (DPA) to make HFA loans more attractive to first-time homebuyers. The DPA funds are offered as either grants or second lien mortgages.

Persistent Volatility Restricts Market Access

- Many State HFAs may choose to stay out of the capital markets altogether and find other ways to fulfil their public purpose missions of affordable housing and/or community development. It is also possible that some issuers may consider returning to the use of variable-rate debt and derivatives to make issuing bonds a more economically viable option.

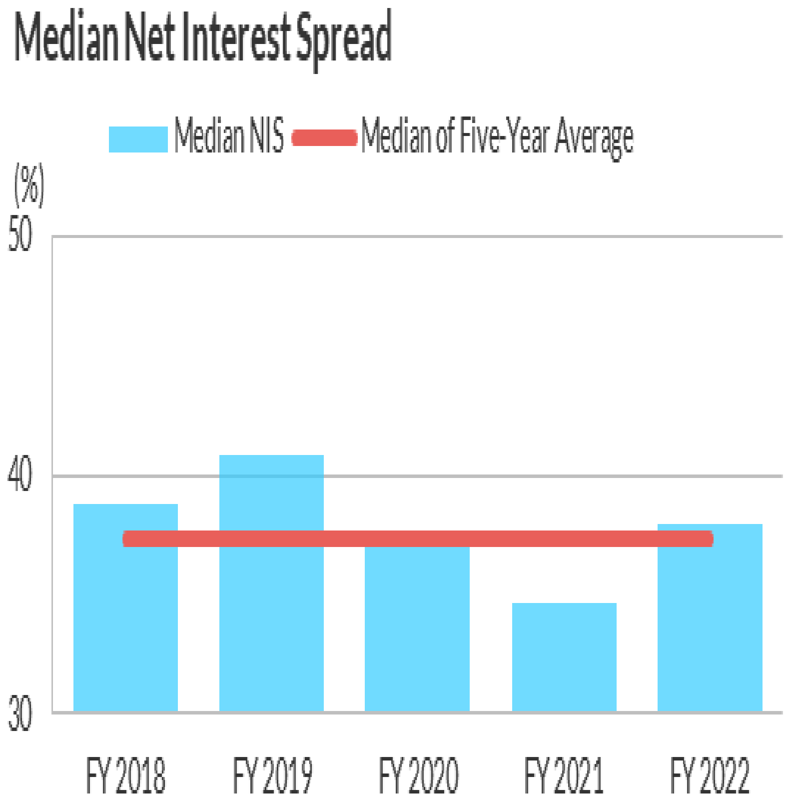
Source: **State Housing Finance Agencies Peer Review 2023**

Fitch’s Sector Outlook: Neutral

- State HFAs reported balance sheet and equity declines, but maintained strong leverage and profitability metrics in fiscal 2022.

- Rising mortgage rates and still elevated home prices have strained affordability, which provides opportunities for HFAs to respond to persistent affordable housing needs while returning to growth in their balance sheets.

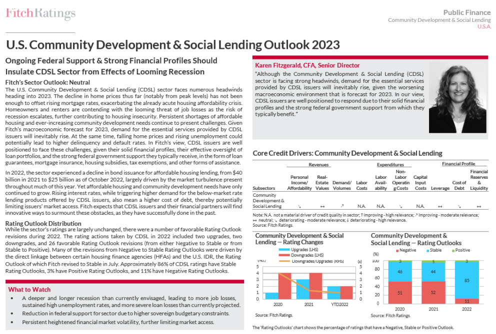
- Higher interest rates increase profitability on investment earnings and can also widen the mortgage to bond interest rate spread, making the HFA loans more profitable. This will likely have more of an impact on net interest spreads in FY 2023 given the longer duration of the high rate environment compared with FY 2022.

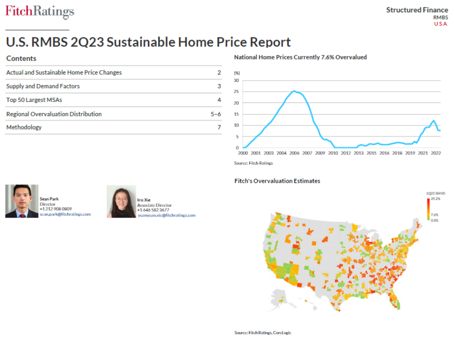


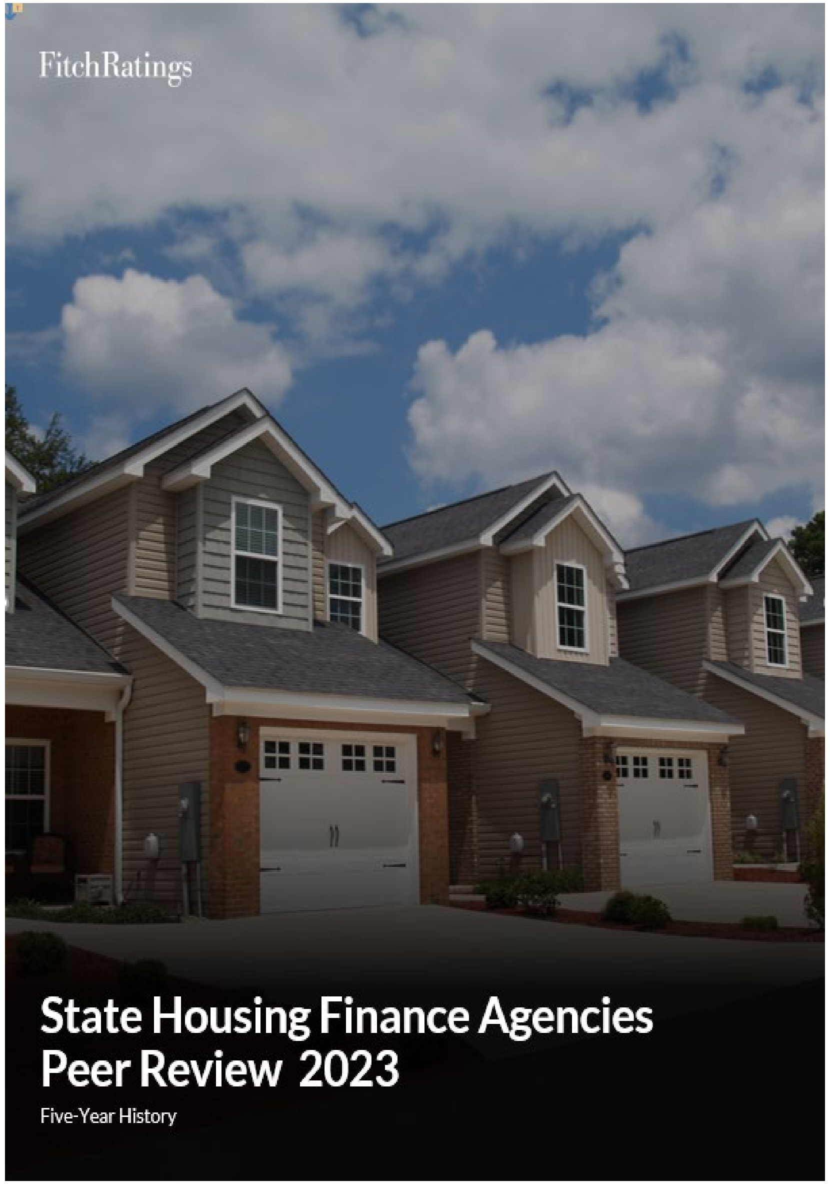
Source: Fitch Ratings, Fitch Solutions

Fitch Publications

- State Housing Finance Agencies Peer Review 2023
- U.S. State Housing Finance Agencies Stable Despite Balance Sheet Declines in FY 2022
- U.S. Public Finance Rating Actions Report and Sector Updates: Third Quarter 2023
- HFA Loan Performance Compares Favorably to RMBS Loans
- U.S. Community Development & Social Lending Outlook 2023
- U.S. RMBS 2Q23 Sustainable Home Price Report
- US Debt Ceiling Policy Actions Consequential for Public Finance Credit







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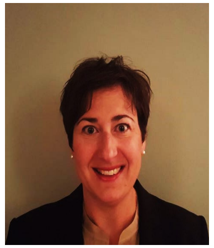

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The Housing Market: Where We Are Now and What to Expect in 2024

Chris Herbert

NCSHA Annual Conference and Showcase 2023

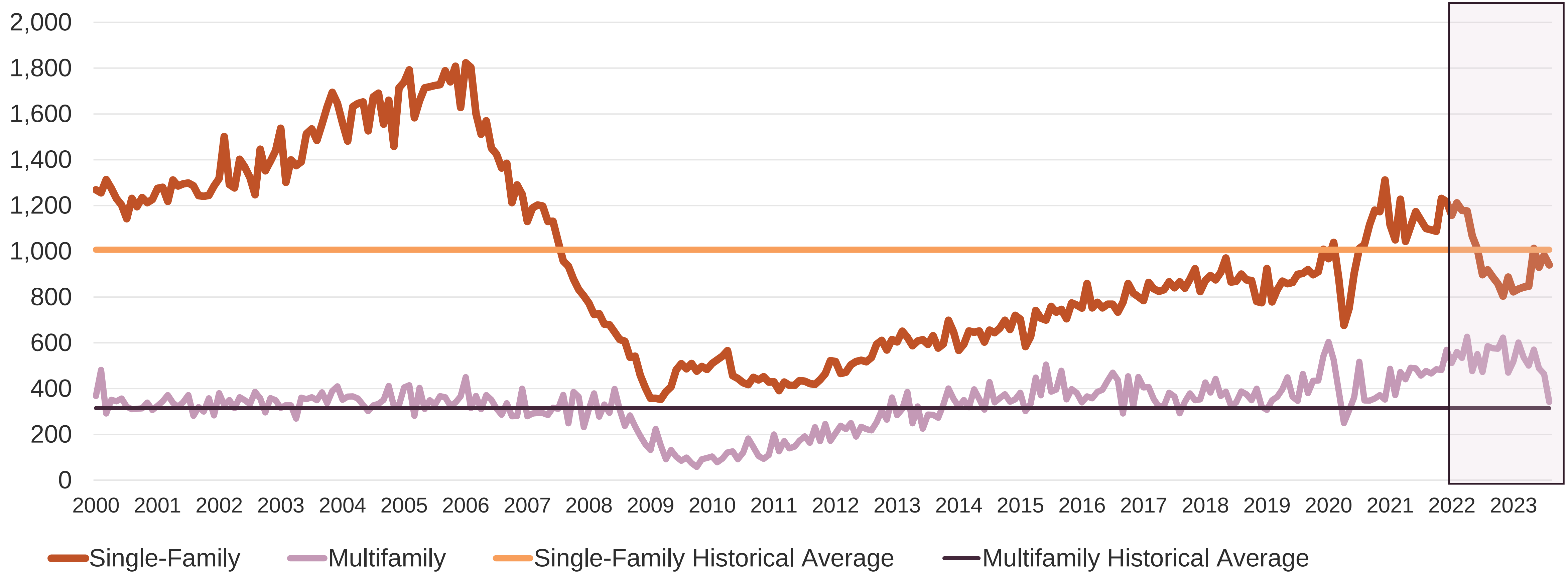
Boston, MA

October 16, 2023

JCHS
JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

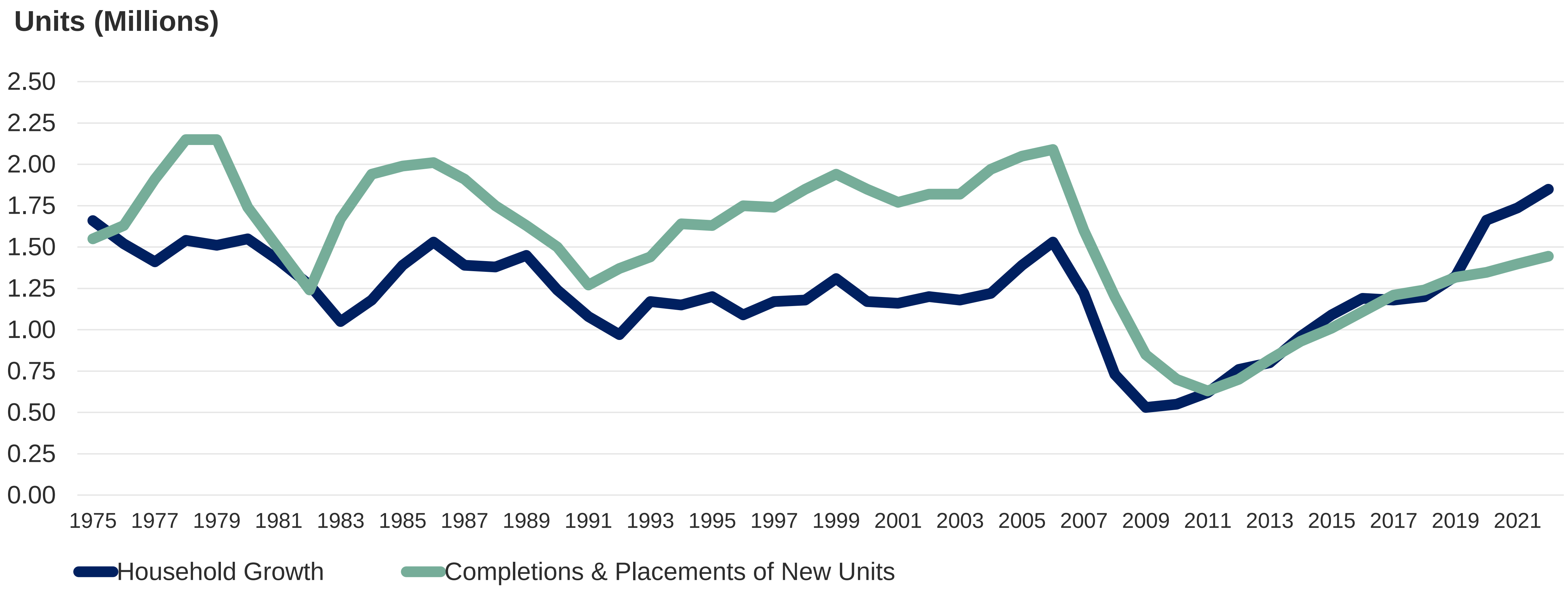
Single-Family Construction Fell Sharply in 2022, Although Multifamily Building Has Only Recently Begun to Slow

Annualized Housing Starts (Thousand of units, seasonally adjusted)



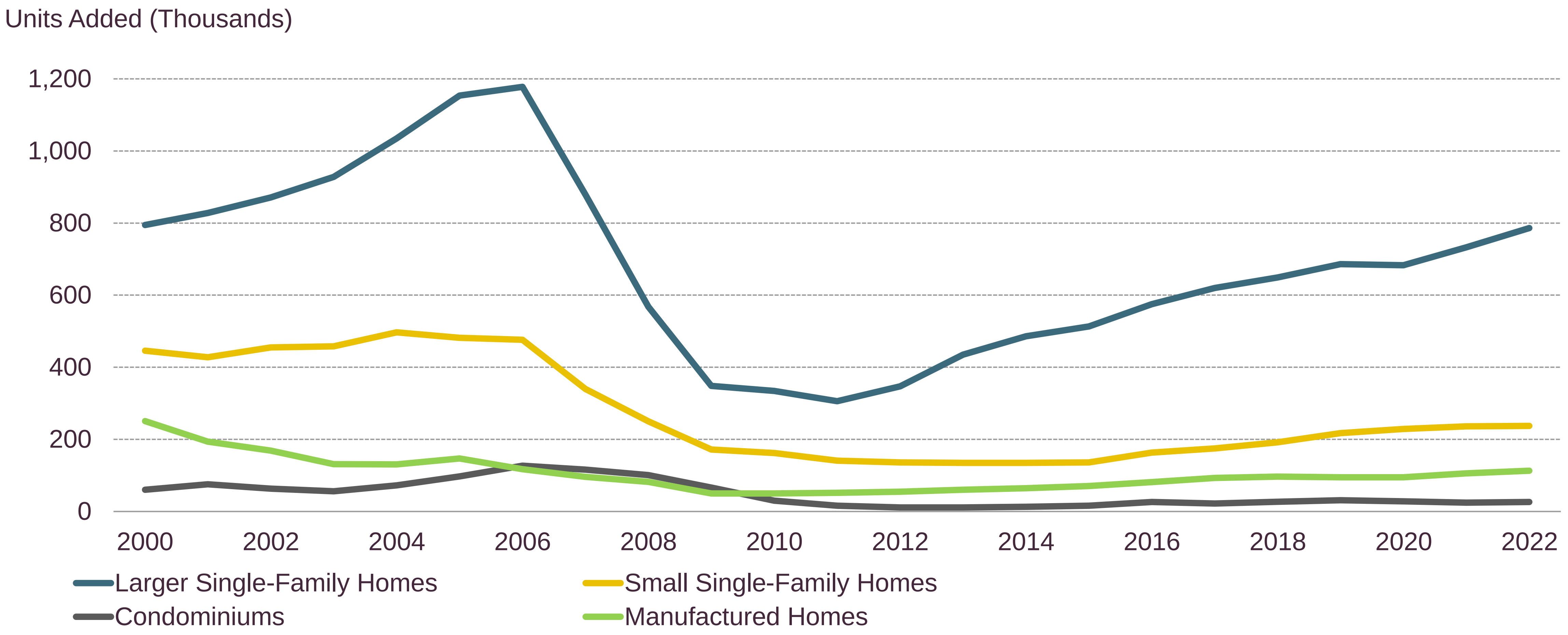
Note: Single-family and multifamily historical averages are of seasonally adjusted monthly data from January 1990 to March 2023.
Source: JCHS tabulations of US Census Bureau, New Residential Construction.

Housing Construction Has Struggled to Keep Pace with Robust Household Growth Since the Start of the Last Decade



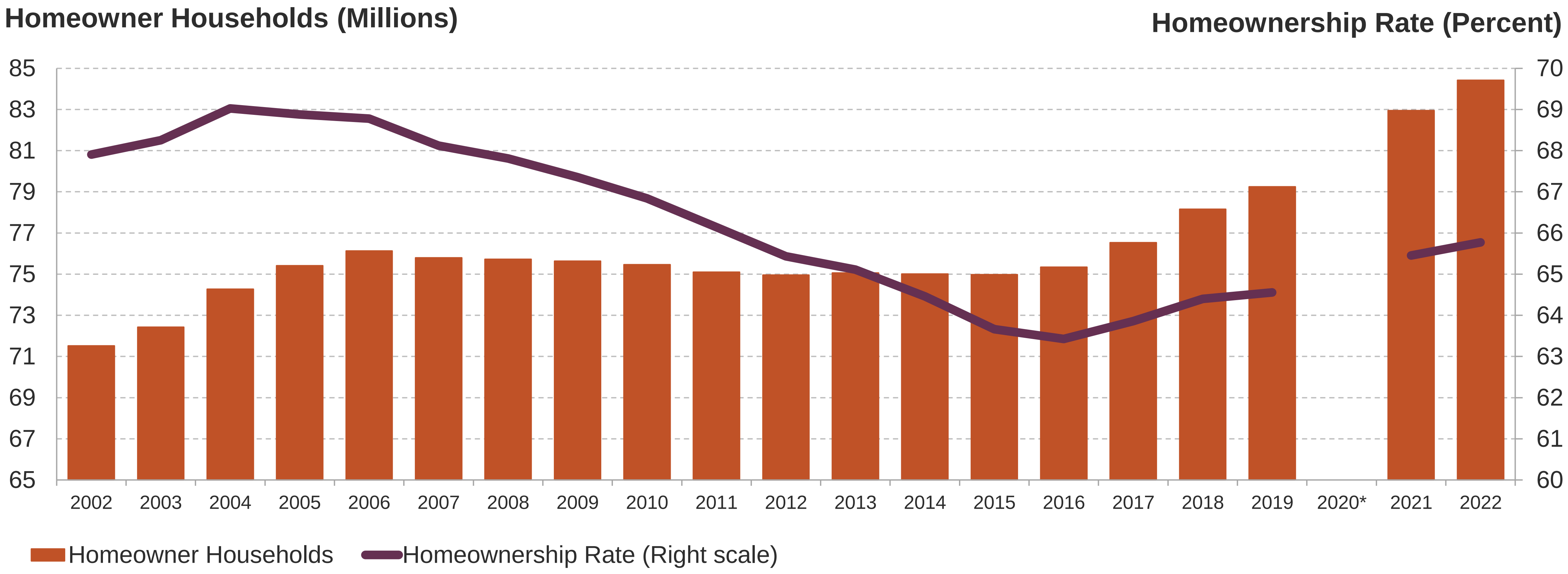
Notes: Household growth data are three-year trailing averages. Placements refers to newly built mobile homes placed for residential use.
Source: JCHS tabulations of US Census Bureau Housing Vacancy Survey, New Residential Construction data.

Much of the Shortfall in New Construction is Among Smaller, More Affordable Homes



Notes: Small single-family homes are under 1,800 sq. ft., and larger single-family homes are 1,800 sq. ft. and over. Condominiums are multifamily units built for sale. Manufactured homes are manufactured housing shipments. Single-family completions by home size for 2017 were unavailable at time of publication.
Source: JCHS tabulations of US Census Bureau, New Residential Construction and Manufactured Housing Surveys.

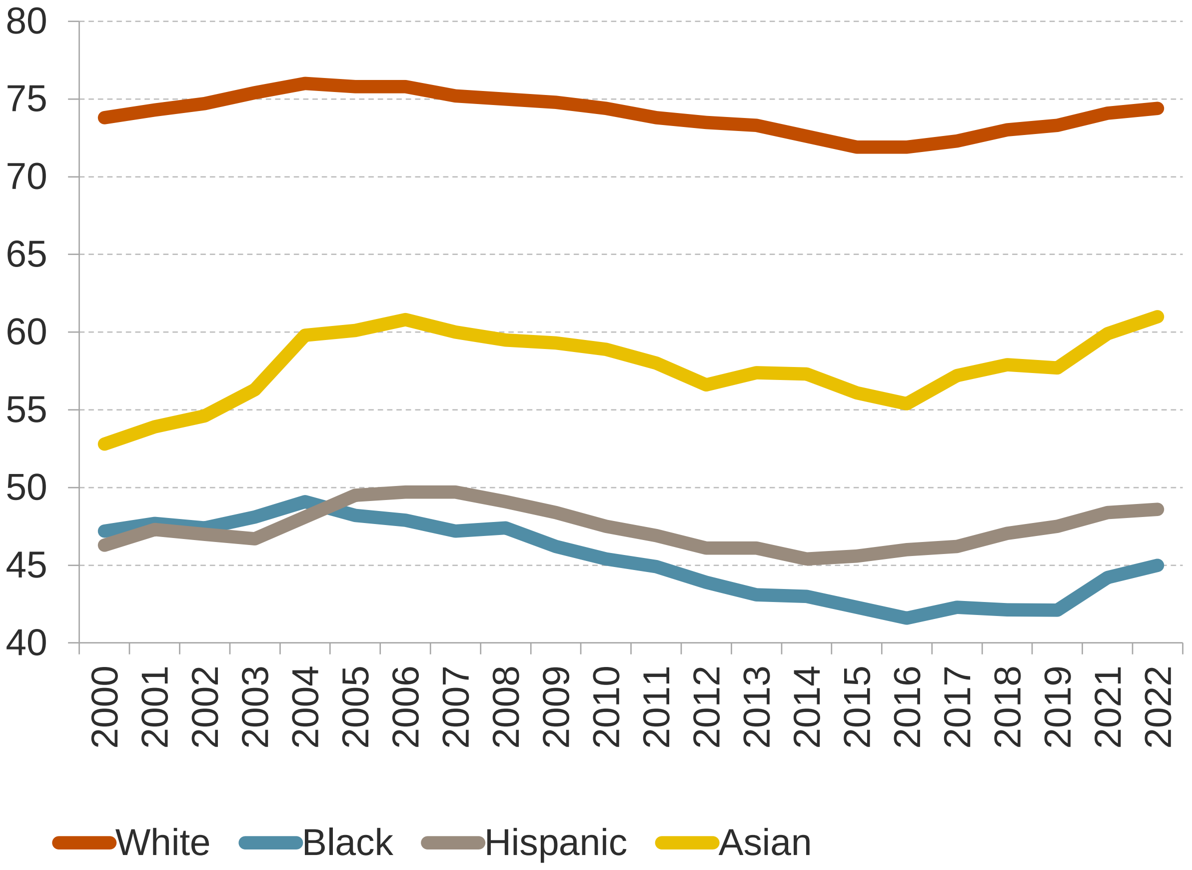
Homeownership Has Been Making Significant Gains After a Decade of Stagnation



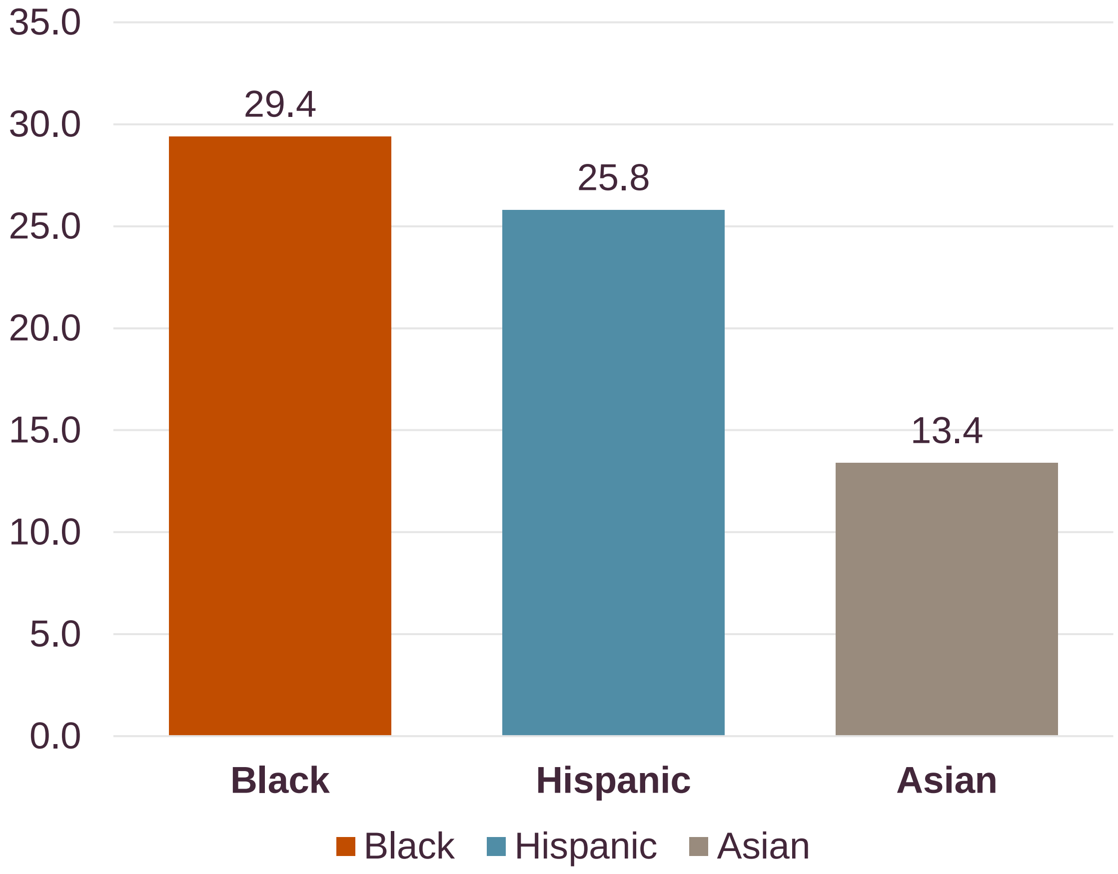
Note: Estimates for 2020 are omitted due to data collection issues experienced during the pandemic.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

BIPOC Homeownership Had Been on the Rise But Affordability Challenges Make it Increasingly Hard to Close Racial Gaps

Homeownership Rate by Race/Ethnicity (Percent)

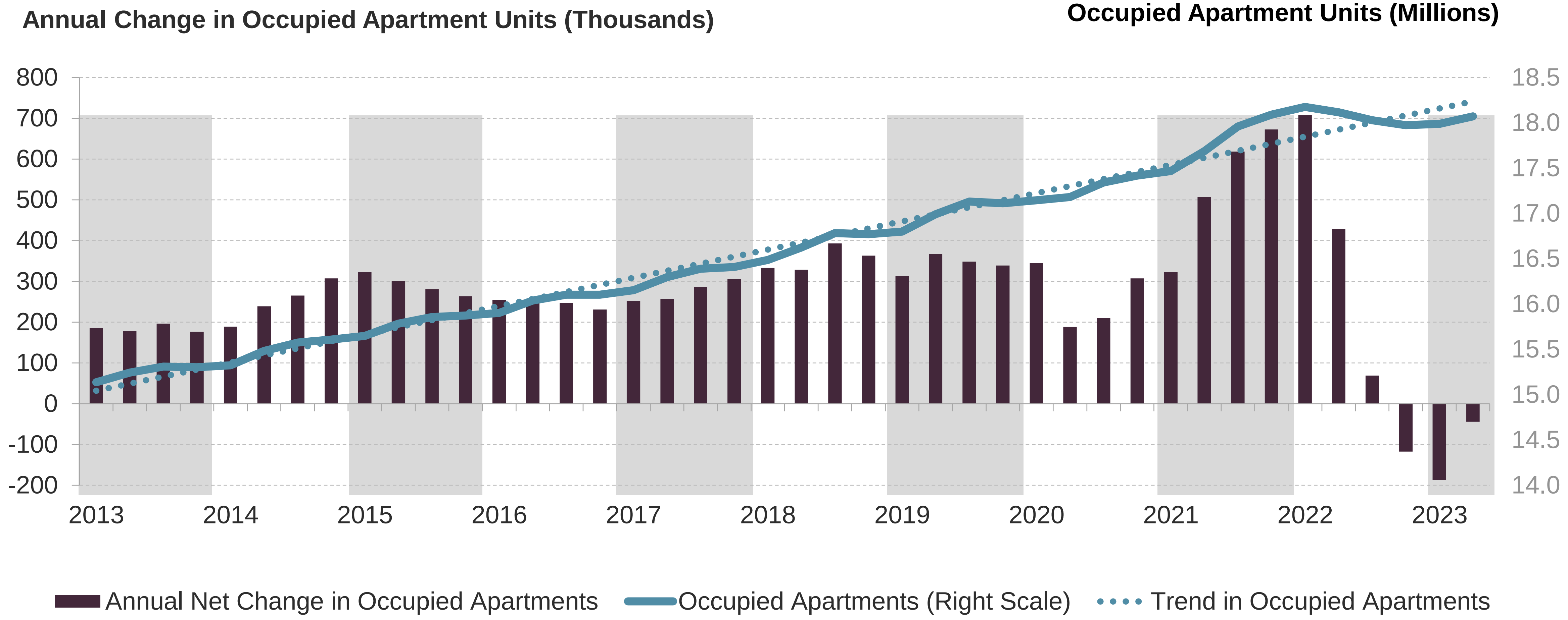


Shortfall in Homeownership in 2022 Relative to White Rate (ppt)



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

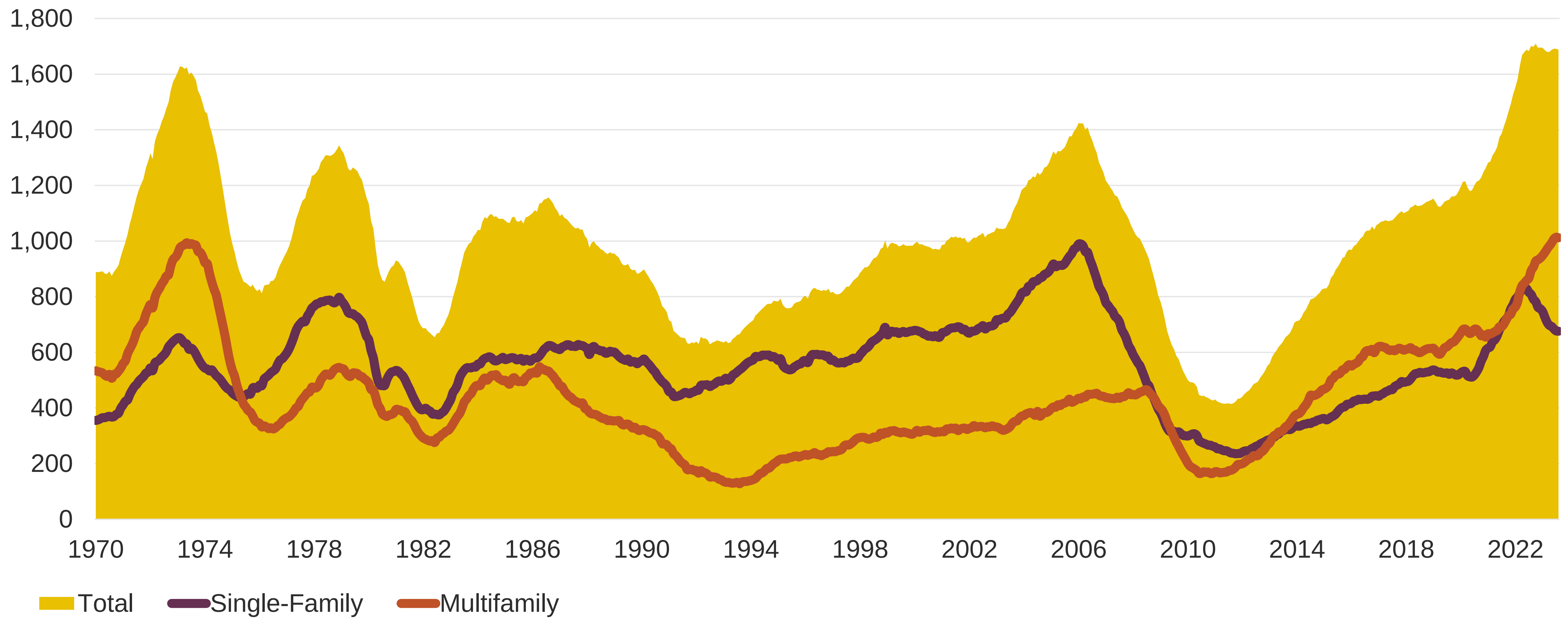
Rental Demand Has Dropped Over the Past Year, Perhaps Signaling Softening Over Coming Year



Note: Data are four-quarter rolling totals for professionally managed apartment buildings with five or more units.
Source: JCHS tabulations of RealPage data.

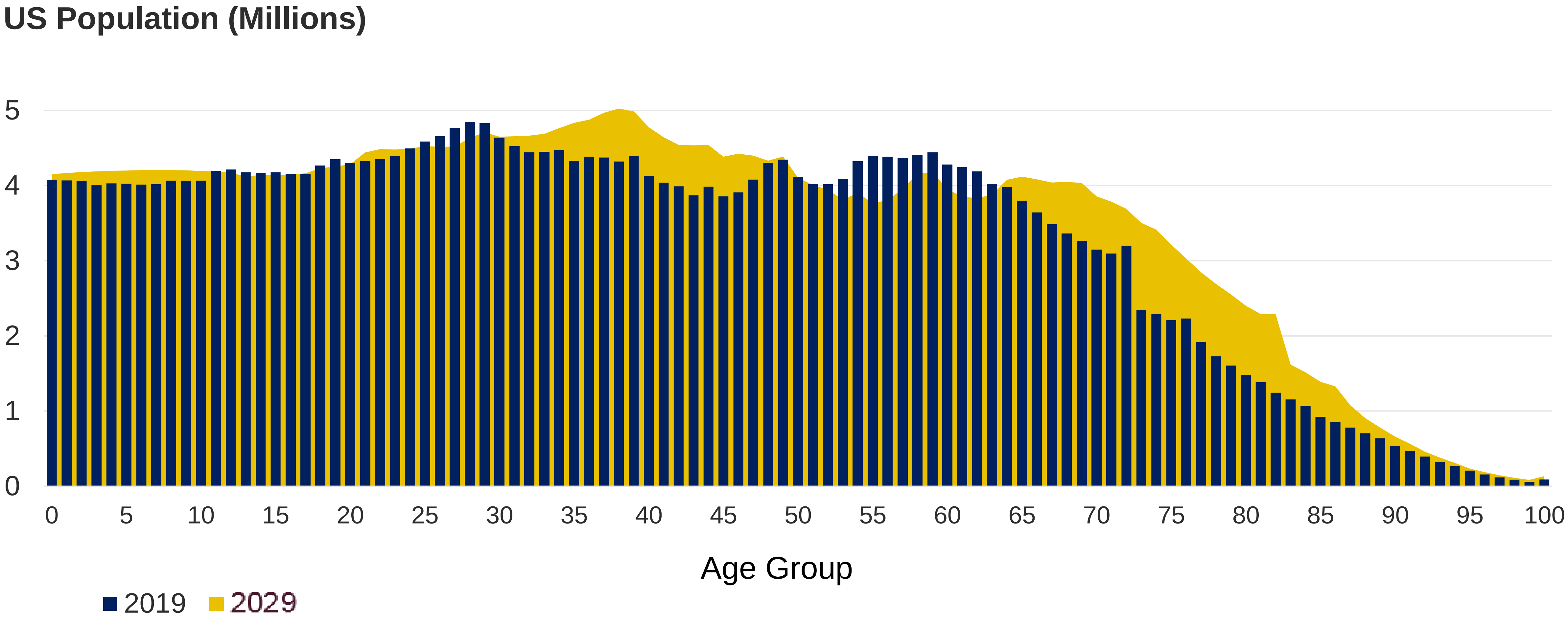
Multifamily Construction Pipeline Hovers Near Record High in Early 2023, Adding to Likely Market Slackening Ahead

Annualized Units Under Construction (Thousands, seasonally adjusted)



Source: JCHS tabulations of US Census Bureau, New Residential Construction.

Looking Beyond 2024, Housing Demand Will Increase for Entry-Level Homeownership and Among Older Adults, But There Will Not Be a Substantial Falloff in the Number of Younger Renters

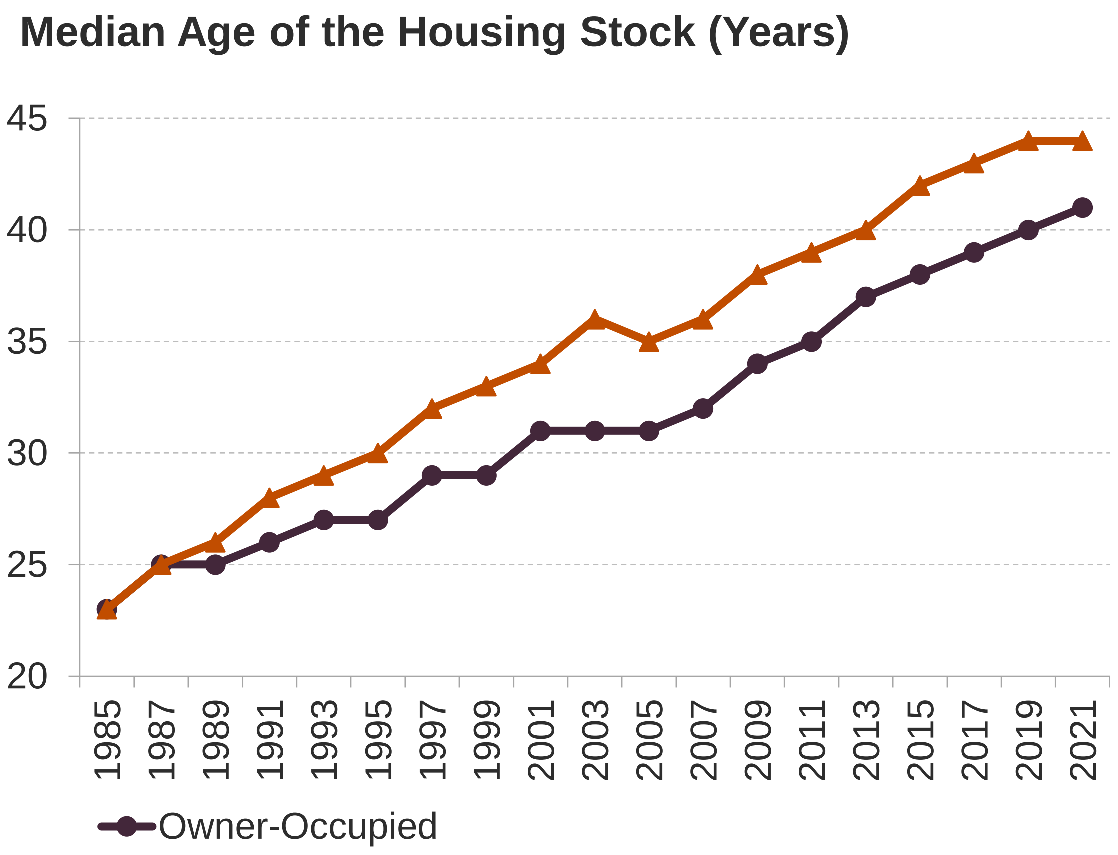


Source: JCHS tabulations of US Census Bureau, 2017 National Population Projections.

There is an Urgent Need to Invest in the Housing Stock for a Range of Reasons

- **Update an Aging Housing Stock**
- Minimize Damage from Future Disasters
- Reduce Household Emissions
- Address Housing Needs of an Aging Population
- Reverse Decades of Disinvestment in Underserved Neighborhoods

The Housing Stock is Older Than Ever



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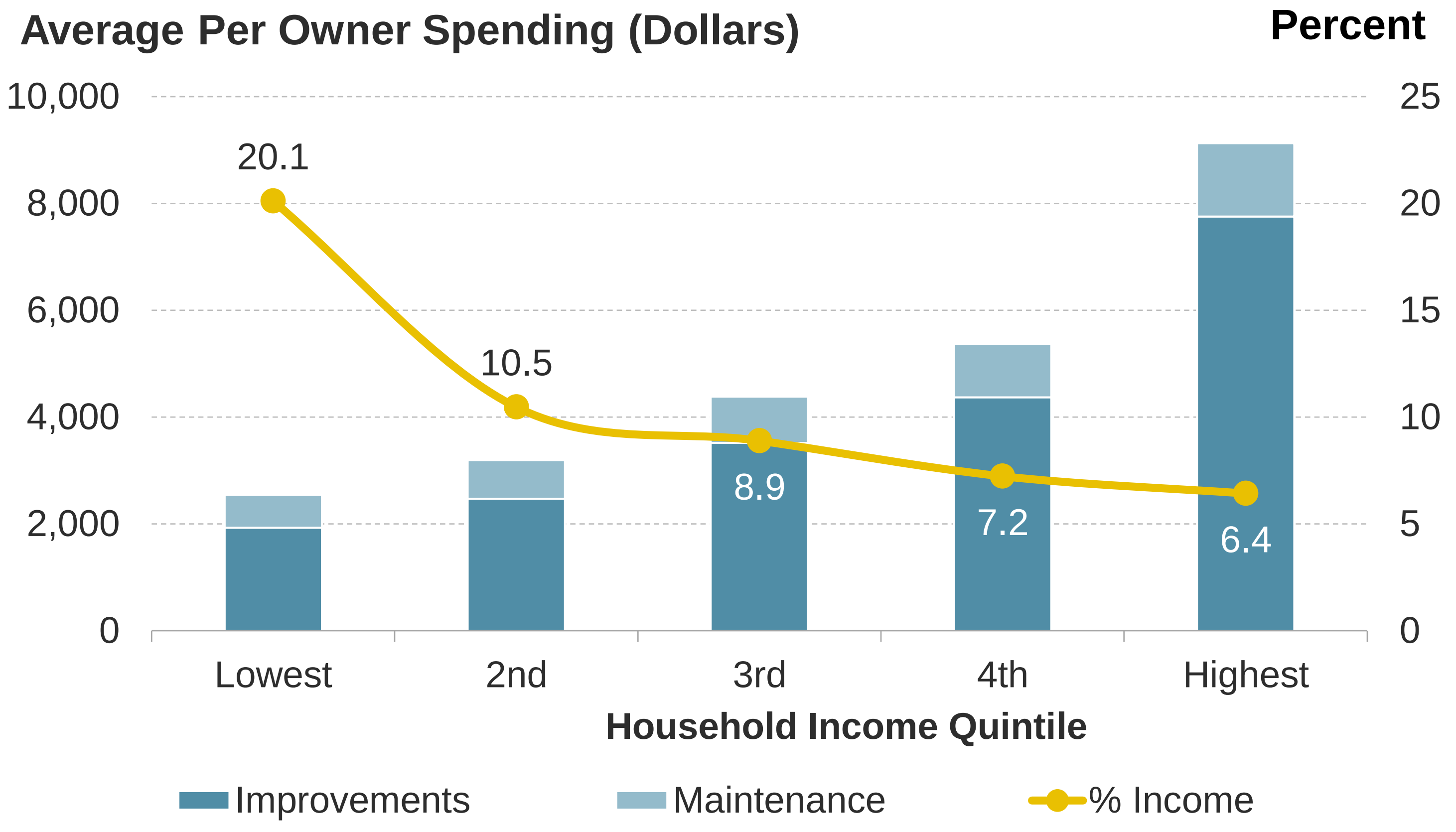
Lower-Income Owners Spend Less on Improvements and Repairs, But Their Investment Represents a Larger Share of Their Incomes



Source: JCHS tabulations of HUD, 2021 American Housing Survey.

Urgent Need to Invest in the Housing Stock

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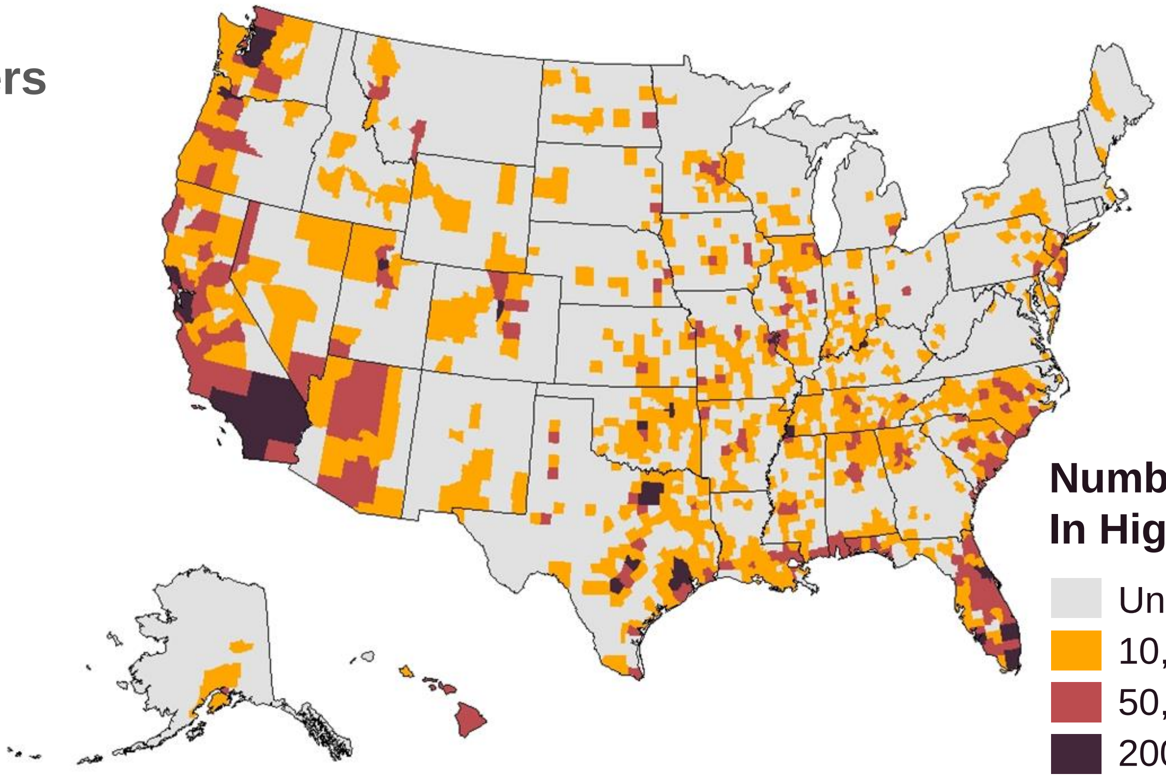
More Than 59 Million Homes Are Threatened by Climate-Related Disasters



Number of Units In High-Risk Counties

- Under 10,000
- 10,000–49,999
- 50,000–199,999
- 200,000 and Over

Notes: High-risk areas have a moderate, relatively high, or very high expected annual loss (EAL) score. EAL represents the average annual dollar loss resulting from natural hazards. The number of units in high-risk counties are aggregated from the tract level.
Source: JCHS tabulations of Federal Emergency Management Agency, November 2021 National Risk Index EAL data; US Census Bureau, 2021 American Community Survey 5-Year Estimates.

Urgent Need to Invest in the Housing Stock

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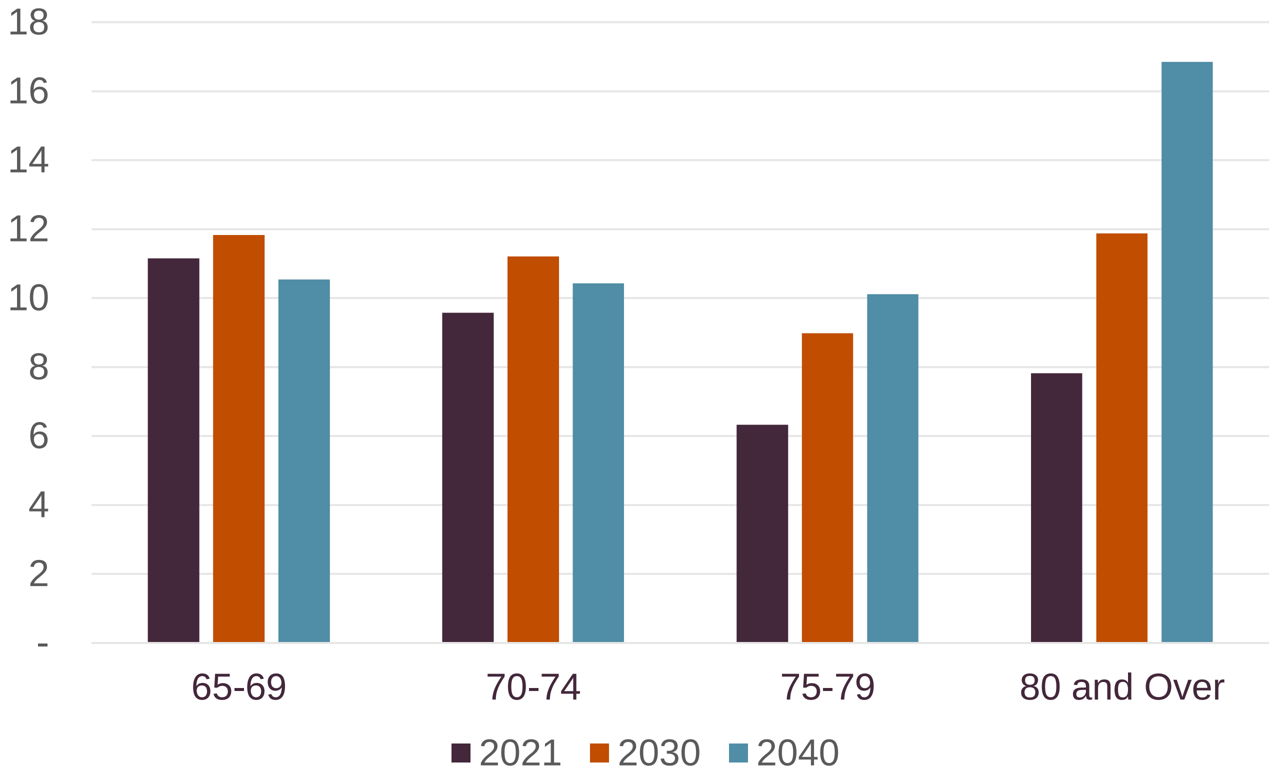
The Oldest Age Groups Will Increasingly Driving Household Growth

Households by Age of Household Head (Millions)



Source: JCHS household projections

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