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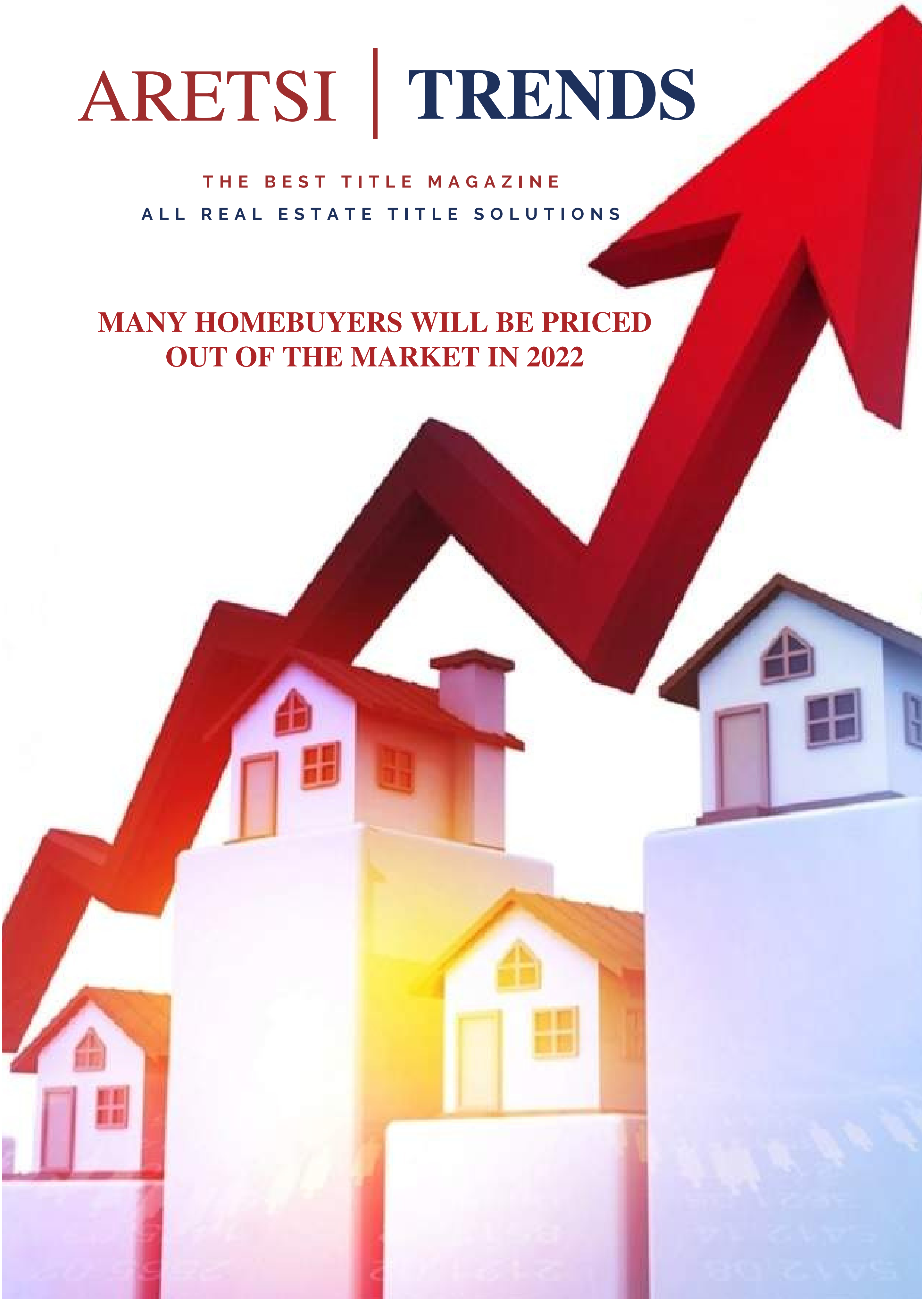
MANY HOMEBUYERS WILL BE PRICED OUT OF THE MARKET IN 2022



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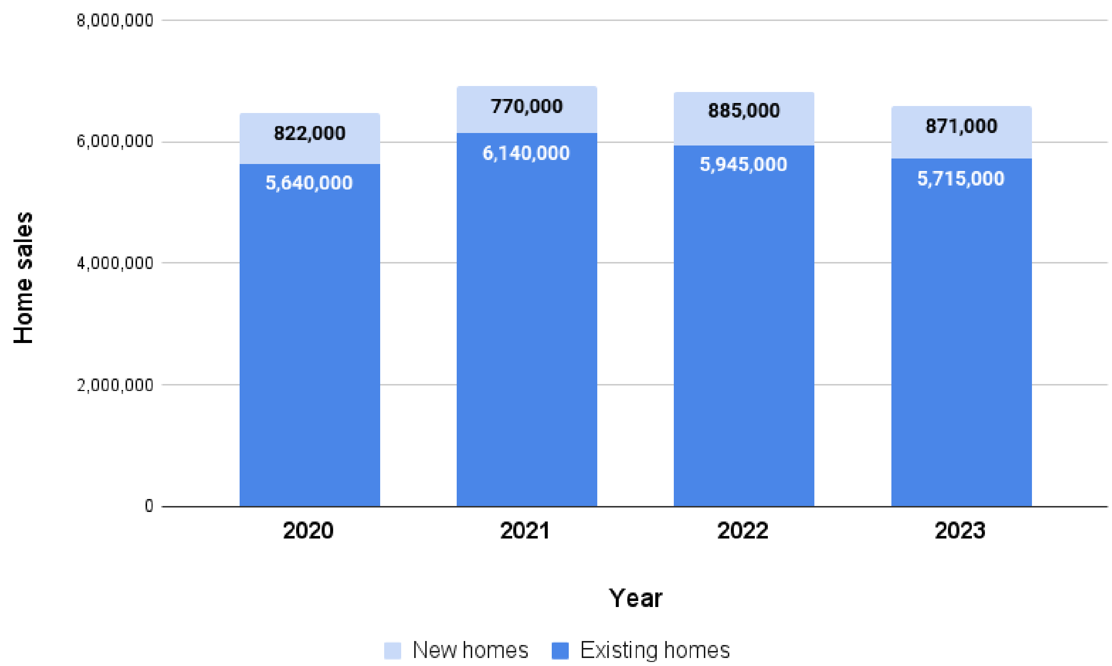
MANY HOMEBUYERS WILL BE PRICED OUT OF THE MARKET IN 2022

Fannie Mae forecasts rising mortgage rates and home prices will dent existing home sales by 3.2%.

Rising mortgage rates and last year's record-breaking runup in home prices are expected to price many would-be homebuyers out of the market this year, denting sales of existing homes but bringing home price appreciation back down to more sustainable levels, Fannie Mae economists say.

"We expect the narrative around housing this year to shift from one of the extremely limited inventories leading to hypercompetitive bidding wars to one in which increasingly more would-be homebuyers are priced out of the market," Fannie Mae economists said in commentary accompanying their latest monthly forecast.

NEW AND EXISTING HOME SALES



Source: Fannie Mae Economic and Housing Outlook, January 2022.

Fannie Mae economists see sales of existing homes falling by 3.2 percent this year, to 5.945 million, which would still be the second-best year since 2006. Sales of new homes are projected to grow by 14.9 percent, to 885,000, as builders start putting homes now under construction on the market. Even with the projected increase in new home sales, total home sales are expected to fall from 6.91 million in 2021 to 6.83 million this year.

But that forecast could prove to be overly optimistic, Fannie Mae economists warn, if mortgage rates continue to rise as the Federal Reserve winds down its purchases of government debt and mortgages and starts raising short-term interest

"The Fed has accelerated the pace at which it intends to reduce monetary accommodation, as inflation appears more resilient than initially expected," said Fannie Mae Chief Economist Doug Duncan, in a statement. "Currently, we expect inflation to run above the Fed's two-percent target through 2023, and for the Fed to respond by tightening over that period. The resultant rise in interest rates will likely put additional stress on housing affordability measures vis-à-vis higher mortgage rates for consumers and the continued, though decelerating, rise in home prices."

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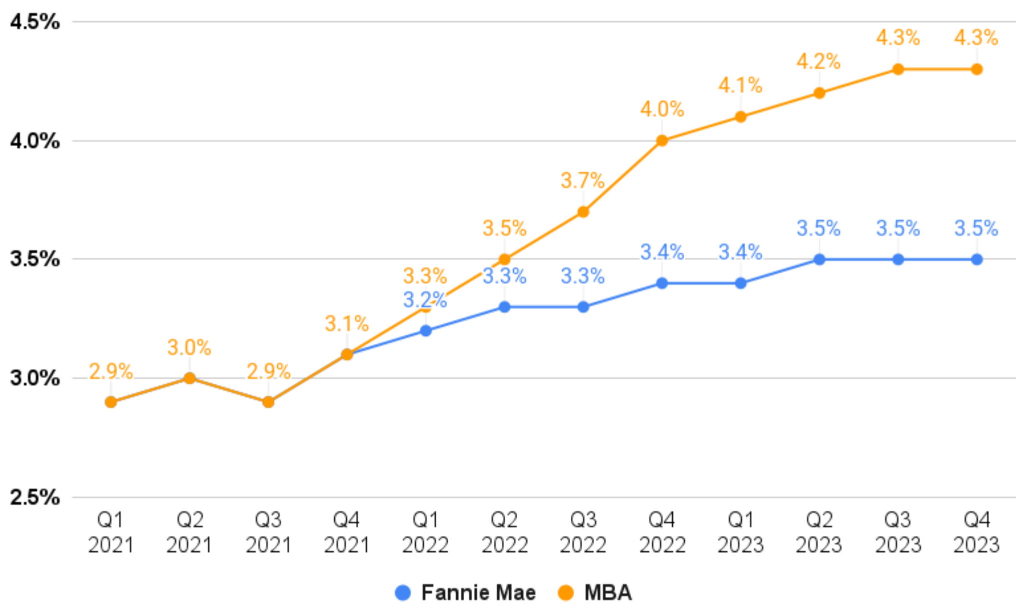
The Fed is in the process of winding down an emergency program implemented during the pandemic, in which it was purchasing $120 billion in Treasurys and mortgage-backed securities every month to keep interest rates low. When it's done tapering, Fannie Mae economists expect the Fed to start raising the short-term federal funds rate in March and implement three rate increases this year.

FANNIE MAE AND MBA MORTGAGE RATE FORECASTS



Fannie Mae economists project mortgage rates will rise only gradually, hitting 3.4 percent by the end of this year before leveling off at 3.5 percent in 2023. Economists at the Mortgage Bankers Association are predicting a more abrupt rise in rates, to 4 percent by the end of 2022 and 4.3 percent next year.

But both projections were made before minutes of the Fed's December meeting were released, which revealed that after tapering its asset purchases, the Fed was contemplating shrinking its balance sheet.

That news prompted a runup in 10-year Treasurys and mortgage rates, which pose an "upside risk to our published interest rate forecast," Fannie Mae economists said. Based on more recent data, Fannie Mae estimates that mortgage rates could go up by two-tenths of a percentage point more than currently forecast.

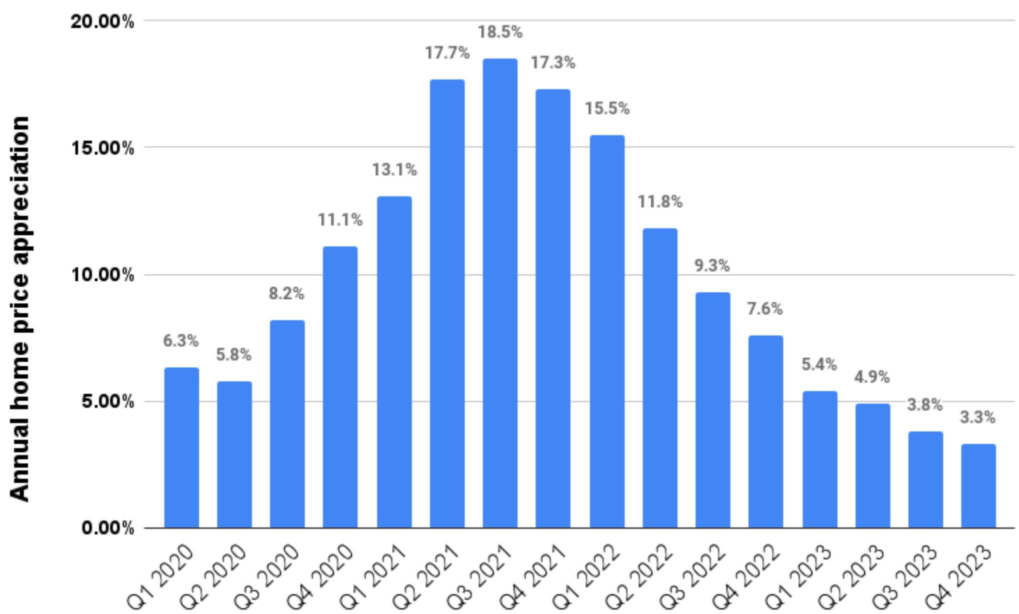
The latest survey from the Mortgage Bankers Association shows rates on 30-year fixed-rate loans averaged 3.64 percent during the week ending January 14. The Optimal Blue Mortgage Market Indices, which track daily changes in mortgage rates, show rates on 30-year fixed-rate conforming mortgages hit 3.78 percent on Tuesday.

Looking at recent history, a 100-basis point change in the 30-year mortgage rate for a year can dent home sales by 8 percent, with a one-to-two quarter time lag, Fannie Mae economists noted. "As such, we could expect home sales to be about 1 to 2 percent lower than our published forecast over this next year if the recent rate increase holds."

However, the same forces pushing interest rates higher — consumer and investor confidence in continued economic growth — could also support home purchases, "partially mitigating any negative effects on sales from higher rates," Fannie Mae economists said. But if interest rates are readjusting "due to new expectations over long-run inflation or a shift in monetary policy, then the effect could be larger. Our next forecast will of course incorporate formally any recent interest rate changes."

The forecast assumes that in the near term, the Omicron surge "will have only modest and temporary economic impacts. The severity of the variant appears to be lesser than prior waves, and most high-frequency economic indicators suggest a smaller change in consumer behavior compared to the 2020-2021 winter wave of COVID."

ANNUAL HOME PRICE APPRECIATION, BY QUARTER



Source: Fannie Mae Economic and Housing Outlook, January 2022.

Fannie Mae economists expect that national home price growth "will remain strong but decelerate" in 2022 and that worsening affordability will slow home price growth from a peak of 18.5 percent during the third quarter of 2021, to 7.6 percent by the end of the year.

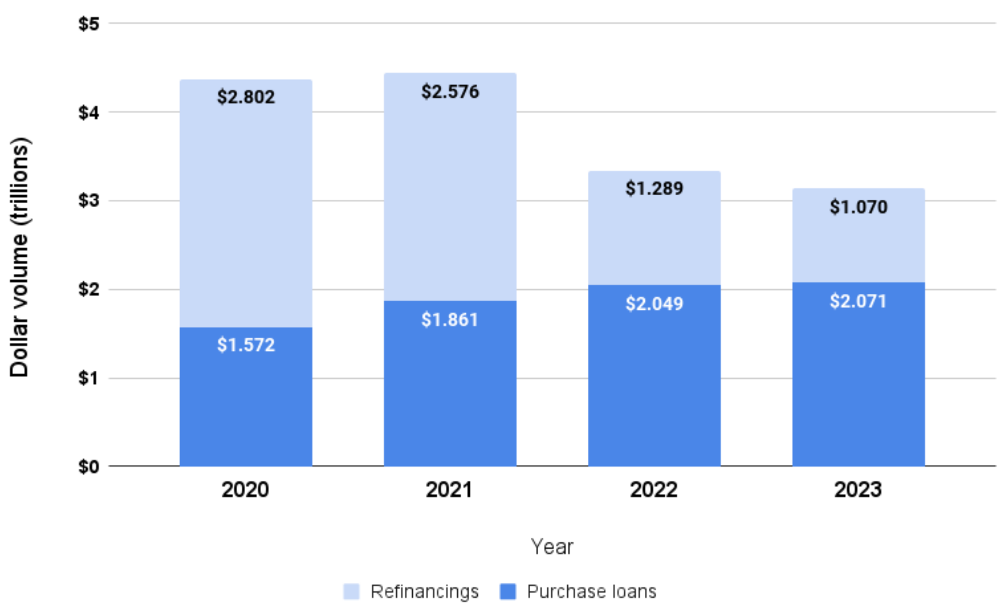
"Our expectation of 7.6 percent growth in 2022 is still considerably higher than the average pace of 5.4 from 2012 to 2019," Fannie Mae economists said. "However, this represents a large deceleration from 2021's expected record house price growth of 17.3 percent."

Fannie Mae economists are keeping a close eye on recent increases in the average back-end debt-to-income (DTI) ratios of borrowers, particularly for first-time homebuyers, as an indicator of growing affordability issues.

This measure is likely soon to meet or eclipse the recent high recorded in 2018, which precipitated a notable slowing in home sales following a rise in mortgage rates," they said. "For now, there appear to be ample prospective homebuyers engaging in bids to facilitate sales even as some drop out of the market completely, but the amount will likely lessen as the year unfolds."

However, Fannie Mae economists see a risk that some metro areas "have overheated and will experience at least modest price declines over the next year or two," singling out Boise City and Austin as examples "where there may be declines."

MORTGAGE REFINANCING AND PURCHASE LOAN ORIGINATIONS BY YEAR



Source: Fannie Mae Economic and Housing Outlook, January 2022.

While a modest dip in home sales is expected this year, Fannie Mae economists see rising home prices driving a 10 percent increase in purchase mortgage originations, which are projected to hit $2.049 trillion this year. But rising mortgage rates are expected to gut the pandemic-fueled refinancing boom, with refi originations falling by 50 percent, to $1.289 trillion.

But if recent increases in mortgage rates hold, Fannie Mae economists say purchase mortgage volumes could be $33 billion lower in 2022 than they're currently forecasting, and that 2022 refinance volumes could be about 10 to 15 percent lower than forecasted.

By Matt Carter
Source: https://www.inman.com/2022/01/19/many-homebuyers-will-be-priced-out-of-the-market-in-2022-fannie-mae/?utm_source=inbriefselect&utm_medium=email&utm_campaign=inbrief&utm_content=895257_textlink_0_20220119&message_id=26417526.93710

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