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HOUSING MARKET CRASH: IS IT GOING TO CRASH IN 2020 OR 2021?

With 10 years having now passed since the Great Recession, the U.S. has been on the bean along for much of the ride and continues to benefit greatly from the overall health of the economy. However, hot economies eventually cool and with that, hot housing markets move more towards balance.

Housing Market Crash: Is It Going To Crash In 2020 or 2021?

Before the COVID-19 pandemic, Realtor.com's national housing forecast was that home price growth will flatten, with an expected increase of 0.8 percent. Inventory was predicted to remain constrained, especially at the entry-level price segment. Mortgage rates were predicted to likely bump up to 3.88 percent by the end of the year. Tight inventory coupled with rising mortgage rates would have lead to dropping sales. Buyers were expected to continue to move to affordability, benefiting smaller and mid-sized markets.

The housing market predictions were pointing out that all the housing indices would trend upward for the nation as a whole as well as in every state, including the top 100 metro areas. After the coronavirus pandemic came into being, the housing market forecast runs the gamut from optimistic to pessimistic. The pace of home sales relative to inventory reached a new record high in February, although hints of deceleration were beginning to surface.

The median existing-home price for all housing types in March was $280,600, up 8.0% from March 2019 ($259,700), as prices increased in every region. The median home price gains marked 97 straight months of year-over-year gains (nationally). In March, the unsold inventory was equal to a 3.4-month supply at the current sales pace, up from three months in February and down from the 3.8-month figure (from a year ago).

Zillow had earlier predicted that there will be a housing recession in 2020. They blamed monetary policy for this; the market has been expanding rapidly but is due for a correction. They also cite housing affordability or a lack thereof. That means the Millennials hitting the ideal age to buy their first home often can't afford it or build it. Nor are we going to see the masses of regulation that limit land use and drive up housing costs repealed any time soon.

Minor tweaks to allow for accessory dwelling units (ADUs) or new denser multifamily housing units take years to achieve anything.

What does this mean for the housing market in 2020? We'll see prices for affordable and starter homes continue to increase at near double-digit rates while the general real estate market goes up at near or just above the rate of inflation. Specific areas may appreciate or depreciate depending on inventory and demand. We can use the consumer's demand for each generation to give us a housing market forecast for 2020 and beyond.

The inflation of new home prices has slowed to something close to the rate of inflation. However, we shouldn't expect housing prices to fall, since the cost of new construction is going up. A lack of people in the skilled trades and increases in the minimum wage will increase the pay rates of those building homes. That's aside from the steadily inflating material costs. Baby Boomers continue to have a major impact on the housing market, though this is radically different from how older generations impacted housing markets in the past. Baby Boomers are much more likely to remain healthy and active in their old age.

This means they're less likely to pass-away or sell the family home to a young family and move into assisted living. When the retiree decides to downsize, they may sell the 2500 square foot single-family home, but they compete for a smaller starter home instead of moving into a retired adult community. The divorce rate and broken families of the past few decades exacerbate things, too. Mom or Dad lives alone in the house instead of sharing it with their significant other. Housing demand is driven by the number of households, not the number of adults, so divorced and single individuals drive up demand for their own homes, too.

The sheer cost and inconvenience of moving have resulted in the average time people remain in one place to increase. In 2019, the average person remained in the same house for roughly eight years. For comparison, the average stay was only four years in 2007. This results in less churn in the housing market and fewer available existing homes on the market. At the same time, Generation Xers were hard hit by the Great Recession.

They've only recovered since 2012. This means that Generation Xers are much more likely to remain in the rental market than prior generations at that age. This drives up rental rates and eats into the rental supply. Yet this generation hasn't abandoned the dream of owning a home, increasing demand for starter homes.

Housing market predictions for 2020 and beyond run the gamut from optimistic to pessimistic. For example, Zillow predicts that there will be a housing recession in 2020. They blame monetary policy for this; the market has been expanding rapidly but is due for a correction. They also cite housing affordability, or a lack thereof. That means the Millennials hitting the ideal age to buy their first home often can't afford it or build it.

Nor are we going to see the masses of regulation that limit land use and drive up housing costs repealed any time soon.

While Millennials are painted as unwilling to settle down (and they are much more likely to rent than prior generations), they do account for a third of all new home buyers. They also account for nearly half of all mortgages. We can expect them to continue to buy homes and condos at an increasing rate as they settle down and start families. They're just more likely to buy a condo in a walkable community than a single-family house in the suburbs than Generation X.

Millennials are affecting the real estate market in other ways, too. They prioritize a low maintenance home with smart appliances and an energy-efficient design. If you can't offer this, they'll either lower the price or move on to something else. They also prefer walkable communities over having to drive everywhere. They'll pay a premium to be near public transit, too, since this can offset transportation costs.

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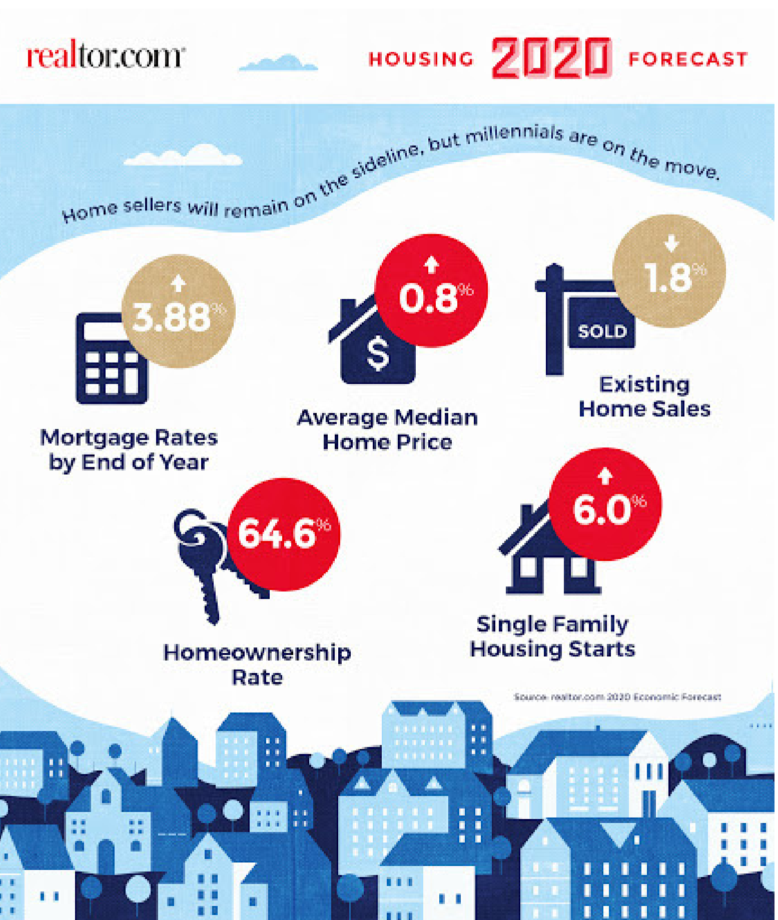
In short, they'll pay a little more for a house or condo that lets them ditch a car. What does this mean for our 2020 housing market forecast and beyond? Home prices will continue to rise slowly due to limited supply and demand, but homes that meet Millennial's ideals and their budgets will continue to appreciate at double-digit rates.

The fall in GDP associated with the coronavirus pandemic, and the rise in unemployment, is unprecedented. Despite that, there is little sign so far that the housing market is about to subside. ***Housing market predictions*** *that take Covid-19 into account have already come out. Before the pandemic hit the nation the supply of new housing was failing to keep up with demand. Social-distancing requirements are also likely to hold construction back in the coming months. With many sellers remaining on the sideline and a decline in housing starts, inventory will remain constricted.*



Under normal market conditions, prices would be expected to skyrocket as inventory declines at a faster rate, but buyer demand is expected to see-saw throughout 2020 as the second wave of coronavirus pandemic pop-ups in fall. Hence, home price growth will flatten, with a forecasted increase of just 1.1 percent. If the pandemic worsens further in the coming months, the sales are forecasted to take a hit as sellers might again de-list their properties and buyers would also stay away.

Capital Economics is estimating four million homes will be sold in 2020. This would be the lowest rate since 1991. For comparison, roughly 5.3 million homes sold in 2019. The trade war with China threatened international trade, creating a cloud that deferred business investment. Now we're looking at a certain economic downturn due to the government's choice to close the vast majority of businesses, nearly killing the service economy.

Experts think that the economic cost we've paid to try to contain the virus will weight down the economy into 2021. That is why home sales are expected to be around six million in 2021 instead of the previously projected 6.3 million. Economic sentiment affected the U.S. housing market, too. The number of homes for sale fell nearly 16 percent in March 2020, after listings fell 15 percent year over year in February. This was equal to roughly 200,000 homes being taken off the market.

People were reluctant or unable to show their homes, while others are afraid it won't sell and thus didn't list their homes at all. US housing market predictions for the longer term will depend on the lingering impact of this virus. How long will it take for the economy to return to normal? How quickly will the service economy re-open and get people back to work?

HOUSING MARKET FORECAST 2021

Recovery is also expected to be uneven. Housing markets that are more heavily impacted should expect a slower recovery than markets that were hit less severely. If you're wondering what the state of the housing market will be like over the next six months, especially if you're an investor, then here is some good news for you. The mismatch between supply and demand is driving prices higher, but this isn't a housing bubble. While housing demand has been softening nationwide due to the pandemic and job losses, the market is in much better shape than a decade ago.

The housing market is well past the recovery phase and is now booming with higher home sales compared to the pre-pandemic period. For the first time since the pandemic began, all four major components of real estate activity—the demand, supply, pricing, and sales—are growing above the pre-COVID pace. However, we may see home sales temper toward the latter part of 2020 and into 2021 if the unemployment rate stays elevated, but slower home sales are different than a busted housing bubble.

Many experts were predicting that the pandemic could lead to a housing crash worse than the great depression. But that's not the case. The good thing, at least for buyers and investors alike, is that house prices have nearly flattened and are poised to remain stable in the latter half of this year. The housing market forecast from Realtor.com shows that sales of homes will decline by 15 percent in the year 2020 as a whole. The home prices would flatten out. That's compared to the original housing market forecast of a decline of 1.8 percent in home sales. Single-family housing starts, which were expected to increase by 10 percent in 2020, are now predicted to decline by 11 percent.

- Home price growth will flatten, with a forecasted increase of 1.1 percent
- Inventory will remain low, but the rate of decline steadies and the mix of homes for sale shifts toward greater availability of lower-priced homes
- Mortgage rates remain low and may slide under 3 percent by the end of the year
- Home sales are constrained by low inventory and diminished seller and buyer confidence as the effects of COVID linger in the labor market
- Buyers seeking affordability and space drive interest in the suburbs

It's mainly due to an unprecedented health crisis and economic uncertainty that has compounded this temporary restraint on real estate transactions. According to their statistics, the new listings have declined across the nation's largest metros as sellers wait out the crisis. The positive forecast is that there is expected a short-term bump in sales for late summer and early fall due to pent up buyer demand, fear of the pandemic reducing, and low mortgage rates.

CURRENT ECONOMIC SITUATION

The pandemic cost 22 million payroll jobs in March and April, and about 9 million have been recovered through July. But more recently, job openings appear to have stalled, and other statistics indicated that the labor market remains in the grips of recession. On August 27, the Labor Department said that the number of Americans applying for jobless benefits topped 1 million last week, just as it has most weeks since late March.

That's about four times the number of average weekly applicants before the pandemic. And the near-term job prospects are dim for people in service industries such as restaurants, hotels, travel, and entertainment. According to the U.S. Bureau of Labor Statistics, as of July, the U.S. unemployment rate stood at

HOUSING AFFORDABILITY OVERVIEW FOR 2020 & 2021

Housing Affordability is driven largely by the gap between household income and home value. It is influenced by the balance between housing supply and demand, the labor market, and mortgage rates by way of Federal monetary policy. ***Housing is affordable*** *when the housing of an acceptable minimum standard can be obtained and retained leaving sufficient income to meet essential non-housing expenditure.*

The most commonly used indicator in the US and many other countries is the ratio of house prices to incomes or earnings. A higher ratio indicates relatively more affordability. A ratio of 100 indicates that median- family income is just sufficient to purchase the median-priced home. Ratios above 100 indicate that the typical household has more income than necessary to purchase the typical house.

Therefore, low-income households spending a high proportion of their income on housing may and vice versa. To afford a typical mortgage payment, a given family needs to spend no more than 25% of income on its mortgage payment (for a 30-year fixed-rate mortgage with a 20% down payment).

Households spending more than 25% of the income on housing costs are likely to face financial burden or stress. Qualifying income is derived from the monthly payment on the median-priced existing home, at the effective mortgage interest rate

Affordability was already a problem for the US housing market before the coronavirus hit. There was a shortage of affordable housing, driving up the cost of the homes Millennials can afford. This is important since half of all home mortgages are given to Millennials. And they are forced to compete for new housing stock since Boomers and Generation Xers tend to hold onto their homes. The housing affordability index determines the affordability of the housing market by comparing the median household income to the median home price.

The national housing affordability index was 170.0 for February 2020. That was a nearly one percent increase from the prior month and an eight percent increase from a year before. An affordability index of 100 would mean that the average person could afford the average home. An increasing affordability index means more people are priced out of the housing market. The economic fallout of the coronavirus is probably going to make housing less affordable, not more so. The official unemployment rate jumping ten percentage points or more means many people are out of work.

In June, employment in leisure and hospitality rose sharply. Notable job gains also occurred in retail trade, education and health services, other services, manufacturing, and professional and business services. All of this adds up to tens of millions of households seeing their income drop, many of them substantially. And home prices will remain steady or drop just a few percentage points. The result is a dramatic drop in the average household income while the housing portion of this equation is almost unchanged. We could easily see the housing affordability index hit 200.

This is one of the more certain housing market predictions. Another factor affecting this equation is the rising average price of new homes. Homebuilders were already prioritizing luxury homes over affordable and/or starter homes. This is why the median home price was rising in 2019. We can expect home builders to focus their limited manpower and resources on luxury homes that will sell for more. And that will worsen the housing affordability

What every Realtor should know about **Owner's Title Insurance.**

Make sure all of your clients are protected

You're a realtor, so you know that buying a home can be overwhelming for your clients. Homebuyers can feel confused and frustrated by the mounds of paperwork they have to sign. Plus, the fees associated with closing can sometimes be overwhelming even to an experienced buyer.

Owner's title insurance is one of those items often misunderstood by homebuyers at closing, yet its value is tremendous. As an important advisor to your clients, you are in a position to help homebuyers understand the benefit of an owner's title insurance and the dangers that can be incurred without it.

WHAT IS TITLE INSURANCE

The owner's title insurance is a policy that the homebuyer obtains to protect against possible claims on the title. This means that the owner's title insurance protects the property rights of the buyer. for more information about title insurance contact us at (813) 876 - 4373

ENDURING VALUE

The good news is that owner's title insurance protects the homebuyer's financially, as long as they own their home. for a low, one-time fee, homebuyers can rest assured, knowing they are protected against possible debts or claims to their property.

HOW IT PROTECTS

Obtaining an owner title insurance policy is the best way to be protected against unforeseen legal and financial discrepancies over the title of the property.

Some examples of unforeseen lawsuits include:

- *Pending mortgages and lawsuits or lien against the property for non-payment of taxes from the seller.*
- *Legal action pending against the property that could affect you.*
- *Undisclosed heir of a previous owner who claims ownership of the property.*
-

If a problem does arise, the insurance company will pay to have the problem resolved for the client. (Clear the title) If the problem can't be solved the insurance company will pay you the price you paid for the home. That's peace of mind.

However, the housing market forecast should not affect your decision to buy a home. Instead, you should make the decision to buy a home based on your economic situation. Pessimistic housing market predictions may scare some from listing their home, but many motivated sellers will list their property. That may contribute to a decline in sale prices, but it presents an excellent buying opportunity.

An April Realtor.com survey found out that after spending many long weeks confined in their homes, consumers' preferences shifted toward bigger homes and more outdoor space for their next homes. The share of home buyers looking at suburban markets near large cities and even across state lines is showing a rebound, as consumers look to a post-pandemic landscape, with cities in the Southeast seeing renewed interest.

WHAT MAKES HOUSING AFFORDABLE?

Lower mortgage costs and median income rises are the two important factors that make housing relatively more affordable. In 2020, historically low mortgage rates are certainly making home purchases more affordable. People still want to own homes, and with mortgage rates low, a lot of people are taking advantage of that even though there is an apparent economic slump.

*The **homeownership rate** reached 67.9% in the second quarter of 2020, according to a recent report from the U.S. Census Bureau. That's up from 65.3% of Americans owning their residences in the first quarter of the year and 64.1% in the **second quarter** of last year. The homeownership rate of 67.9 percent was 3.8 percentage points higher than the rate in the **second quarter** 2019 (64.1 percent) and 2.6 percentage points higher than the rate in the first quarter 2020 (65.3 percent).*

*The 30-year fixed-rate averaged 3.57% in the first quarter of 2020, down from 4.62% one year ago. The average monthly mortgage payment on a 30-year fixed-rate mortgage with a 20% down payment was $995, down from $1,048 a year ago. The current 30-year fixed-rate is averaged 3.15%. When refinancing a $200,000 outstanding loan balance into a 30-year fixed-rate mortgage, at the recent 50-year low average mortgage rate of 3.15%, **your monthly mortgage payment would now be $859.***

*The national median family income for the United States for FY 2020 is **$78,500**, an increase of almost four percent over the national median family income in FY 2019, according to U. S. Department of Housing and Urban Development. This **($859 mortgage payment)** is about **13% of the median family income** of $78,500, down from about 16% one year ago.*

A household is said to be cost-burdened when it pays more than 30 percent of its income toward housing expenses. As a more extreme measure, a household is said to be severely cost-burdened when it pays at least 50 percent of its income toward housing expenses. With today's mortgage rates at historic lows, you can refinance your mortgage to lower your monthly payments and improve your financial situation.

With rates at or near historic lows, refinancing could help you save by reducing your monthly payments and reducing the total amount of interest that you pay over the life of the loan. Also, the mortgage rates continue to slowly drift downward with a distinct possibility that the average 30-year fixed-rate mortgage could dip below 3 percent later this year.

Source:
https://www.noradarealestate.com/blog/housing-market-predictions/

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