Mortgage Market Watch

Spring 2021

U.S. Bank presents this update on a wide variety of U.S. housing market trends that will help you drive your business in 2021. Trend information that may impact your clients includes rising home sale prices, falling inventory levels, mortgage industry highlights, decreased homebuilding, and the ongoing impact of the COVID-19 pandemic including recovery efforts.

Mortgage highlights

Interest rates rising slightly: Fannie Mae's latest 2021 GDP forecast on a Q4/Q4 basis is 6.6%, and their 2022 forecast moved to 3% (up from 2.8%).

According to Freddie Mac, mortgage rates are still at near historic lows but are rising slightly. The 30-year fixed rate mortgage reached an average weekly low in March of 3.02%, up from a low in February of 2.73%. Prior to March 2020, the record low for the 30-year fixed rate mortgage was 3.31% the week ending November 21, 2012, during the recovery from the Great Recession. The 30-year fixed rate mortgage was 3.64% one year ago.

Purchase origination up and refinance originations revised down: Fannie Mae predicts purchase mortgage originations are expected to be $1.8 trillion in 2021, up 13% from 2020. Refinance originations are expected to be $2.1 trillion in 2021, a 6% decrease from the February forecast. The forecast for 2022 refinance volume was also revised downward by about $240 billion to $1.1 trillion.

Underwater borrowers continue to decline: The number of underwater borrowers continues to decline. According to CoreLogic, in the fourth quarter of 2020, the total number of mortgaged residential properties with negative equity decreased by 8% from the third quarter of 2020 to 1.5 million homes, or 2.8% of all mortgaged properties. On a year-over-year basis, negative equity fell by 21% from the fourth quarter of 2019.

"The return of rates to the highest level since last June contributed to a slowdown in applications for both purchases and refinances. The rapidly recovering economy and improving job market is generating sizeable home buying demand, but activity in recent weeks is constrained by quicker home-price growth and extremely low inventory."

- Joel Kan, AVP, Mortgage Bankers Association

What does this mean for your clients?

Low interest rates mean that it is a great time to buy, but inventory and affordability continue to be major challenges. Advise your homebuyers to get pre-approved for a home loan. Additional items to keep in mind in low-inventory markets:

- New construction may be the only option in some areas; make sure your homebuyers have access to a lender that offers longer-term rate locks and/or can accommodate a single-close construction loan so they have equal access to your benefits when building.
- Vacant residential property may be a good option if your homebuyers are planning to build in the near future. Find a lender that offers lot loans.
- Increasing home prices typically means that the need for jumbo mortgages will also increase. During the pandemic, many lenders tightened their requirements or eliminated originating jumbo loans, so it's important for your homebuyers to find a mortgage company that is offering jumbo loans.

Housing market snapshot

U.S. housing market indicators as of February 2021 continue to grow at a historically fast pace. According to Zillow, in February 2021, the year-over-year change in a typical U.S. home value was +9.9%, and is predicted to rise 11.4% through February 2022. The median existing-home price for all housing types in February was up 15.8% from February 2020. The National Association of Realtors® (NAR) reported that, compared to one year ago, median home prices increased in each of the four major regions, and the national price jump marks 108 straight months of year-over-year gains.

The housing market continues to be bolstered by near record-low mortgage rates, although they are rising slightly. A wider reopening of the economy as COVID-19 vaccinations become available and restrictions are lifted is also helping to boost the housing market. Low inventory continues to drive prices up, which is offset somewhat by low interest rates which are increasing affordability.

According to Zillow, several key indicators point to a strong market:

- **The labor market is improving**: 916,000 jobs were added to the economy in March, the most in a single month since August, and the national unemployment rate fell 0.2 percentage points to 6.0%.
- **Residential construction is strong:** Employment in the residential construction industry increased 1.2% in March from February, and spending on private residential construction is up 21.1% from a year before.
- **Pending sales fell, but consumer confidence is up:** The NAR Pending Home Sale Index fell 10.6% in February from January, and 0.5% from February 2020, but the Conference Board's Consumer Confidence Index showed 8.4% of respondents surveyed in March plan to buy a home in the next six months, the highest share in the survey's history (dating back to 1978).

The following table has city-specific year-over-year home value statistics through February 2021 (seasonally adjusted, middle price tier of homes) for select cities from Zillow.

Home Value Index

City	Year-over-Year +/-
Portland	+10.6%
Los Angeles	+9.7%
San Diego	+13.8%
Las Vegas	+8.5%
Minneapolis/St. Paul	+7.9%
Chicago	+7.9%
St. Louis	+14.8%
Atlanta	+6.9%
New York	+2.2%

Source: Zillow.com

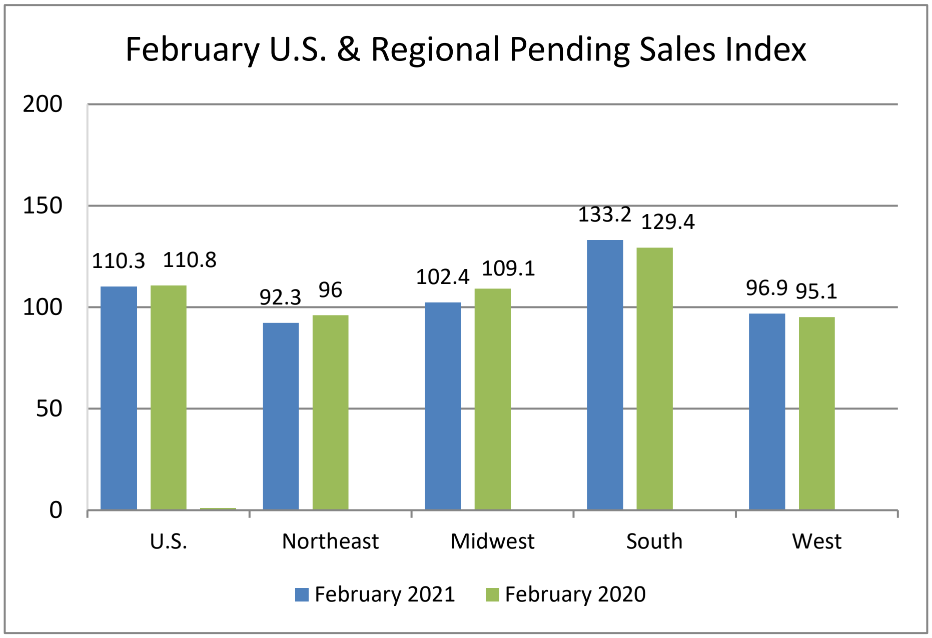
New home purchases dropped to the slowest pace in nine months: According to the U.S. Department of Housing and Urban Development (HUD) and the U.S. Census Bureau, purchases of new single-family homes declined to the slowest pace in nine months, dropping 18.2% to 775,000 units (seasonally adjusted annual rate) in February from an upwardly revised pace of 948,000 units in January, but were still 8.2% higher than one year ago. For all of 2020, sales reached 815,000 units, 19.3% higher than in 2019 and the strongest pace since 2006. (Sources: HUD and Census Bureau)

Existing home sales fell to a six-month low: Sales of previously owned (existing) homes fell to a six-month low. NAR reported that February sales of existing homes (including single-family homes, townhomes, condominiums and cooperatives) decreased 6.6% to 6.22 million units (seasonally adjusted annual rate) from a downwardly revised 6.66 million in January, but still 9.1% higher than a year earlier. For all of 2020, existing home sales climbed to 5.64 million units, 5.6% higher than in 2019 and the strongest pace since 2006.

"The demand for a home purchase is widespread, multiple offers are prevalent, and days-on-market are swift, but contracts are not clicking due to record-low inventory."

- Lawrence Yun, NAR chief economist

Pending home sales drop slightly after eight consecutive months of increases: Data from the National Association of Realtors® shows that, after eight consecutive months of year-over-year increases, U.S. pending home sales declined 0.5% from February 2020. The Pending Home Sales Index dropped to 110.3, down from 126.4 in December. Pending home sales had year-over-year decreases in the Northeast and Midwest, and small increases in the South and West.



Source: National Association of Realtors® (NAR)

Home prices accelerate again: Year-over-year home price increases accelerated once again. The Federal Housing Finance Agency (FHFA) seasonally adjusted purchase-only house price index was up 1% in January. Home values increased 12% from January 2020 to January 2021. The FHFA index shows that U.S. home values are 40% above their peak, set in April 2007 during the housing bubble.

House price changes increased by region from January 2020 to January 2021 as follows:

East South Central	West South Central	West North Central	Mountain
11% increase	10.2% increase	10.7% increase	14.8% increase

The CoreLogic Home Price Index increased year-over-year by 10.4% in February 2021 compared with February 2020. The CoreLogic HPI Forecast indicates that home prices will increase on a year-over-year basis by 3.2% from February 2021 to February 2022.

"Record-low mortgage rates were a significant driving force behind last year's rebound in housing market activity. However, heavy competition for the few houses on the market drove home prices to historic highs, and mortgage rates are no longer enough to sway the affordability challenges for consumers. While new construction may help balance home prices towards the end of 2021, we may expect to see demand slow in the medium-term."

- Frank Martell, president and CEO of CoreLogic

Inventory of homes reaches a new record low: According to HUD, the inventory of existing homes for sale reached a new record low. The listed inventory of new homes for sale, at 312,000 units at the end of February, increased 2.6% from December but was down 4.6% year-over-year. That inventory would only support 4.8 months of sales at the current sales pace.

Available existing homes for sale, at 1.03 million in February – a new record low – were down 29.5% percent from 1.46 million units a year earlier. That listed inventory represents only a 2-month supply, up slightly from the previous month. A shortage of homes for sale – especially at the lower end of the market – has been holding back sales for several years.

NAR statistics indicate that 74% of the homes sold in February 2021 were on the market for less than a month. Properties typically remained on the market for 20 days in February – an all-time low – down from 21 days in January and 36 days in February 2020.

"Despite the drop in home sales for February – which I would attribute to historically low inventory – the market is still outperforming pre-pandemic levels," said Lawrence Yun, NAR chief economist.

> *"Despite first-time buyers driving high demand, entry-level homes remain in short supply. Homes priced below 75% of the local median price had 14% annual appreciation, negating most of the benefits of record-low mortgage rates. When interest rates rise, the affordability squeeze for first-time buyers will become even more of a challenge."*
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> *- Dr. Frank Nothaft, CoreLogic chief economist*

Housing starts fall to slowest pace in six months, but up slightly from one year ago: New construction fell to the slowest pace in six months. According to HUD and the Census Bureau, single-family housing starts fell 8.5% to a seasonally adjusted 1.04 million homes in February, from a downwardly revised pace of 1.14 million units the previous month, but were up slightly, 0.6%, from one year ago. Multifamily housing (five or more units in a structure) starts, at a seasonally adjusted 372,000 units, decreased 14.5% from 435,000 units in January and down 27.6% from a year earlier.

Total housing starts dropped 10.3% to a seasonally adjusted 1.42 million units and were down 9.3% year-over-year. Total construction of new homes reached 1.38 million units for all of 2020, 7% higher than in 2019 and the strongest pace since 2006.

There may be some good news on the horizon. According to U.S. Census Bureau data, builders applied for 14% more permits this year than last. Following is a list of the top 10 cities with the largest one-year building permit increases from Realtor.com:

City	Number of permits	One- year increase
1. Dallas	11,636	+23%
2. New York	9,097	+2%
3. Phoenix	8,614	+9%
4. Washington, D.C.	5,795	+30%
5. Atlanta	5,721	+1%
6. Los Angeles	5,306	+7%
7. Seattle	5,169	+38%
8. Philadelphia	4,653	+52%
9. Charlotte	4,359	+11%
10. Tampa	4,251	+24%

Source: Realtor.com

What does this mean for your clients?

While mortgage rates are at historic lows, they are slowly beginning to rise and are forecast to continue to rise modestly. Continuing record low housing inventory and rising home prices continue to create a challenging market for homebuyers. Homebuyers will continue to need more in-depth counseling on market conditions and affordability to prepare for buying and selling their properties.

- First-time homebuyers will be challenged with down payment requirements. Homebuyers should find a lender that has low down payment requirements.
- For active military and veteran homebuyers, find a lender that has VA financing with low or no down payment requirements.
- Encourage homebuyers to make sure that all their records are in order and they are pre-approved for a mortgage so they can move quickly when a property is located that meets their needs.

Sources:

Mortgage Bankers Association (MBA)

U.S. Department of Housing and Urban Development (HUD)

U.S. Census Bureau

The National Association of Realtors® (NAR)

The Federal Housing Finance Agency (FHFA)

CoreLogic

Freddie Mac

Fannie Mae

Zillow.com