



Mortgage Market Watch



Winter 2022

At U.S. Bank, we're committed to supporting your business whether you're a realtor, builder or financial services professional. Mortgage Market Watch brings you a mix of data and analysis to help you stay on top of housing market trends.

In this issue:

- Latest historical numbers and recap of the 2021 year-end housing market
- A look ahead at the 2022 housing market, including some “hidden gems”
- The elusiveness of affordability in today’s housing market
- The latest economic forecast from the Mortgage Bankers Association
- Thoughts on the recent construction boom



By the numbers

3.05%

Lowest rate for a 30-year fixed mortgage in December 2021¹

11.9%

Rise in new home sales from Nov. 2021 to Dec. 2021²

-4.6%

Fall in existing home sales from Nov. 2021 to Dec. 2021³

6.0 months

Supply of new houses for sale at end of December 2021 at current sales rate²

-8.7%

Fall in housing completions from Nov. '21 to Dec. '21²

¹Freddie Mac ²Census Bureau ³National Association of Realtors



Highlights and Insights

Let's take a deep dive on data sets, industry trends and research findings with insights from mortgage experts on how these impact your clients and your business.

Housing market predictions for 2022

According to Zillow's "Hot Housing Takes for 2022" the housing market may not set records like it did in 2021, but the company's economists are still predicting a very strong year. Here are three forecasts from Zillow's look into the crystal ball for 2022:

Prediction: Average national home values grow 11% in 2022. This is down from last year's projected average of 19.5% but are still among the strongest growth numbers Zillow has ever recorded. Also, existing home sales are predicted to be up to 6.35 million in 2022 from 6.12 million in 2021.

Prediction: Smaller Sun Belt communities experience price increases like last year's surge in the region's star markets. The work-from-home trend continues, and becomes a permanent fixture of business culture. The continued search for affordability (not to mention good weather) pushes value-seekers into lower-profile communities.

Prediction: First-time homebuyers continue to struggle with selection and affordability. But a growing trend has Gen Z innovating their way into a tough market. Young buyers team up with friends or get help from relatives to purchase what would traditionally be called a second home or vacation home. Even though interest rates are slowly climbing, they are still predicted to be historically low. First-time home buyers will enter the market in this unconventional way, building home equity for the future.

What does this mean for your clients?

Continue to advise your clients to get **pre-approved** for a home loan. Also, make sure you are working with a mortgage provider that is knowledgeable about the market. Ensuring that homebuyers have all approvals and paperwork ready will empower them to navigate a consistently competitive landscape.

The 2022 housing market’s “hidden gems”

Top 10 Undervalued Metro Area Housing Markets in 2021



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Source: National Association of Realtors®. A market is undervalued if its median home price-to-median family income ratio is at the lower end of the distribution of 378 markets relative to the distribution of its combined set of market fundamentals, namely, job growth, wage growth, population growth, population to housing permits, net domestic migration to population, share of population ages 25 to 44 years old, and fraction of households with broadband services.



A white paper from the National Association of Realtors (NAR) has identified the top 10 undervalued housing markets in the United States. To qualify, the market must feature a favorable ratio between the median home value and the median family income. The NAR also factored in variables such as wage growth, job growth, population growth, net migration to the area, and access to broadband internet. Here’s a sample of the top 10 markets and highlights of why they made the list:

Fayetteville-Springdale-Rogers, Arkansas-Missouri

Over a three-year period starting in Q3 of 2018, this metro area experienced the highest cumulative job growth of the communities on the list. Fayetteville-Springdale-Rogers also experienced the second highest population growth from 2017 to 2020.

Huntsville, Alabama

In addition to strong job growth, this city in northern Alabama ranks second on the list in terms of access to broadband services. With 75.8% of households having broadband, the area is expected to continue to attract businesses and workers in 2022.

Knoxville, Tennessee

In terms of affordable housing Knoxville is one of the most affordable, with a median property value of \$228,878.

Palm Bay-Melbourne-Titusville, Florida

This stretch of beach communities that's home to Cape Canaveral experienced the second-highest wage growth of a three-year period (27.2%). The area also has the highest percentage of households with broadband services.

San Antonio-New Braunfels, Texas

This metro area is experiencing population growth while still maintaining affordability. San Antonio-New Braunfels had the second highest net domestic migration in 2020, but the median home value is estimated at \$227,684, the second lowest on the list.

What does this mean for your clients?

In 2022, homebuyers will continue to experience higher prices. But people who have the freedom to work from home can still find up-and-coming communities where there's both value and opportunity.

In today's market, affordability can prove elusive

Drawing on local home value data and mover data from Allied Van Lines, Zillow has captured a change in buying habits among interstate movers. In a recent article, Zillow notes that before the pandemic people who switched Zip codes mostly purchased similarly priced homes. Any savings were marginal. In 2020, however, interstate movers sought out homes that were \$29,500 cheaper. In 2021 that savings number increased to \$35,800.

But homebuyers seeking affordability need to move fast. Popular relocation markets such as Phoenix, Arizona and Austin, Texas can lose their affordability quickly. In 2020, moving to Austin saved an interstate homebuyer an average of \$140,000 on the purchase of their new home. In 2021 they saved less than \$25,000. Phoenix tells a similar story, with what Zillow calls "Zip-level price savings" dropping down to \$1,700 in 2021 from \$48,000 in 2020.

What does this mean for your clients?

All homebuyers need to be prepared to navigate a dynamic housing market. Value-seeking clients may need to be extra aggressive in finding the next emerging market before favorable price disparities evaporate.



Looking ahead

In the fall of 2021, we recapped a forecast from the Mortgage Bankers Association (MBA). In this issue we're turning to the MBA's December 2021 Commentary for an updated look at how the U.S. economy will affect the housing market.

In the previous newsletter we reported the MBA projecting an interest rate hike in 2022 followed by three rate hikes in 2023. As of December, the median Federal Open Market Committee (FOMC) member now predicts three rate hikes in 2022 because of higher inflation and continued economic growth. MBA economists forecast economic growth to be at an "elevated rate" of 4.0 percent.

The MBA is continuing to predict mortgage rate increases in the coming year. The organization is forecasting rates to rise to 4 percent by the end of 2022, based on the Fed backing away from the market as it reduces its role as the largest buyer of Mortgage-Backed Securities. Refinances, which fell in 2021, are expected to continue to fall. But the shortage in housing stock—coupled with interest rates that are still historically low—will continue to keep the housing market strong. The MBA predicts 2022 and 2023 to set records for housing originations.



Before we go

Here's where we look beyond the headlines and showcase one of the smaller stories that captured our attention this quarter. In this issue, we're offering thoughts on the recent "boom" in home building courtesy of one of Zillow's senior economists.

You *could* say we're in the middle of a housing construction boom. In a recent article, Zillow senior economist Jeff Tucker notes that since the 1970s the mark of a housing boom is 1.5 million residential building permits issued in a 12-month period. More than 1.5 million permits were issued between February 2020 and February 2021. From August 2020 through August 2021 there were 1,687,300 permits issued, a record number since the Great Recession of 2008.

But Tucker cautions against reading too much into these positive numbers. "The problem is that after permit activity bottomed out in 2009 at the depths of the housing crisis," he writes, "it took more than 11 years to get back to that threshold." Homebuilders are working at a frantic pace to keep up with demand, but there's still a long way to go to erase the deficit caused by a decade of under-building.

There's also an interesting interplay between the national statistics and the numbers from individual markets. Slower growing communities such as Cincinnati and Chicago give the appearance of having "excess" of homebuilding permits issued. This counterbalances stark shortfalls in markets such as Dallas, Miami, Phoenix, San Francisco, Seattle and the Washington D.C. metro.

The cumulative effect is a 1.35 million deficit in single-family home permits across the top 35 metropolitan areas. But depending on where you sit, the shortage can be even more acute. Tucker concludes by saying that "the market has not yet even begun a new boom cycle, so much as only just getting back to par following the last bust."

Thought starter

It's hard to imagine housing stock issues to be resolved any time soon. If you're a housing market professional what does this mean for your business in the next three years? Do you prepare to weather increased pressure on home values in general? Or do you specialize in finding incremental advantages in a dynamic market? Finally, as supply inevitably starts to normalize, what will be some of the signs of increasing stabilization?

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