

Charles Shinn Gives A Cautious 2019 Housing Forecast

While the economy roars, housing hits a soft patch and needs to retool

By Charles C. Shinn Jr., PhD, Founder, Builder Partnerships

With the stimulus from the \$1.5 trillion tax cut package and the reduction of government regulations, some economists have stated that we currently have the best U.S. economy in modern history. Currently, we are effectively at full employment, with unemployment at 3.7 percent for the last three months, the lowest rate since 1969. In November, wages had grown 3.1 percent year over year. Wage growth should strengthen during 2019.

Consumer confidence was the strongest in 18 years in October; consumer spending rose for the seventh straight month. This year's holiday season spending was very strong, with online sales up more than 18 percent. The only concern is the consumer is increasing debt.

The economy is expected to be strong for 2019, even though the effect of the tax stimulus will plateau, interest rates will increase, and consumer debt is rising. Forecasters predict GDP growth for 2019 will be 2.7 to 2.8 percent for the year.

The Federal Reserve raised short-term interest rates four times in 2018 by 25 basis points each time. The 30-year mortgage interest rate in mid-December rose to 5.10 percent; this is a 172-basis point increase since December 2012, which was the cycle low of 3.34 percent. If the Fed follows through with the three increases in 2019, the 30-year rate will increase at least another 0.5 percent.

The soft patch

The housing sector, both new and existing homes, started losing momentum beginning in March. The trend has deepened as interest rates have increased, impacting housing affordability and the buyers' belief that now is a good time to buy a home.

Builders have reported buyer traffic is down, sales are down, and cancellations are increasing. We are beginning to see new home discounts of as much as \$50,000 to \$100,000 and offers of 5 percent real estate co-op commissions. Land developers are being more aggressive in liquidating their land holdings.

The housing affordability index has dropped almost 32 percent since the high registered in January 2013. Existing home sales rates have been decreasing for the last six months. Since the cycle bottom in January 2012, the median sales price for existing homes has increased 65.2 percent, or \$100,800.

New home sales dropped 8.9 percent on an annual rate in October. The rate

has decreased five out of the last seven months, with a decrease of 19 percent since March. For the year, sales are up 2.8 percent through October. However, as sales have slowed since March, the percentage of growth for this year has been diminishing.

The median sales price for new homes peaked in March at \$335,400, revealing a drop of 7.7 percent by October, declining to \$309,700. On a year-over-year basis, the median price has fallen 3.1 percent since October 2017.

New home inventories had been steadily increasing for the last year, with 50,000 more homes in inventory this October than last year; this represents a 17.5 percent increase. Since May, the completed

We are seeing lenders moving funds from new construction to remodeling, with forecasts of a 12 percent to 15 percent reduction in new home loans during the fourth quarter of this year.

As the millennial buyers gain momentum in home buying, there will be an increase in entry-level home purchases of about 15 percent, provided home builders respond and can produce the housing product the millennial buyer wants.

home inventory has expanded by 23.3 percent. In October, inventories jumped 4.3 percent. This added 14,000 homes to inventory, which increased inventory homes to a 7.4-month supply.

My forecast for 2019

With this softening during a strong economy, it has been difficult to forecast where housing is headed. During the last 60 days, most housing economists have been adjusting their 2019 housing forecasts down.

Because of the softening market, the price inflation for housing will moderate from 6 percent in 2018 to only about 2.5 percent for 2019.

At this point, I am more cautious than most of the housing forecasters. I am concerned about affordability with the rapidly escalating home pricing and the increasing mortgage interest rates. Builders need to work very hard to try to keep the monthly mortgage payment in a range that will give them the needed sales velocity. The homes need to be smaller and more efficient.

We will probably see more discounting, mortgage locks, and buy-downs as the interest rates increase. I predict we will begin to see a lot of movement toward a 40-year mortgage in an effort to reduce monthly payments. The millennials are here; they will control the housing markets for the next 50 years like the baby boomers have done for the last 50 years.

The industry needs to retool to address this demographic change. [n](#)

Calcagni
REAL ESTATE
Celebrating 50 years

Put our experienced sales and marketing teams to work for you!

Joel Grossman
New Business Development Director
203.272.1821 x1203
Joel_Grossman@calcagni.com

137
~~136~~ COMPLETED NEW HOME COMMUNITIES!

HIDDEN BROOK
SOLD OUT!
Thank You!

Calcagni
Let Local... It Matters

calcagni.com /CalcagniRealEstate

Cheshire 203.272.1821 Hamden 203-288-1821 Southington 860-621-1821 Wallingford 203-265-1821