DMBA Appraisal Update – Summer/September 2022

Special request questions for DMBA Members? If any of you have questions during the month, please feel free to email or call for a personal response. If the topic is of enough interest, it can be expanded and included in next month's update. Thanks,

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Mark's Market Thoughts:

Where did all the sales go??

Recently, in reviewing volumes of various articles regarding forecasts and predictions the realization was many of the current articles are "going fishing"! What does that mean? Everyone is throwing out various directions and results to the housing market to say, when we arrive at the finish line, "Look at me! I was right!". Truthfully, we are in new territory, and no one knows. The politicians cannot agree if we are in a recession or not. The unemployment is low, consumer prices at record highs and the mortgage rates appear to have knocked our crazy residential sales off their unrealistic appreciation pace. US National Debt remains out of control.

Last week I was speaking to a Realtor on one of our appraisal assignments. She said we received only one contract; it was good and took only 15 days. Less than three years ago and that would have been a fast and great sale. Unfortunately, our near-term memory still recalls sales taking place in hours with a dozen or more offers above list price.

Listing prices remain high as the sellers temp the market one last time for that buyer to fulfill their selling fantasy. A new reality arises, and reductions are becoming common the number of listings is up, the number of sales is down, the refinances have disappeared. We are in the lull of seeking a new normal.

What will the outcome be? Again, no one knows for sure; we can guess and make prediction on past observations. However, the market will take care of itself.

My concern in the government's roll. We watched masses of the unqualified borrowers be awarded loans based on governmental mandates to end up with the great 2008-10 real estate recession and market crash! Our recent low interest rates resulted in an unprecedented and vigorous appetite for realty purchases and the rush of appreciation of qualified buyers trying to grab the low rates before the inflation anchor was removed and the rates set sail.

Our local markets remain in shortages and houses are still, a few, being bid above list price by competing buyers. Most entry level markets are now at $250-300k+ and remain in the distant suburban markets or in small pockets of urban renewal sections of the city. The wealthy are still paying cash or obtaining minimal loans and the interest rates have not, . . yet affected the higher priced SFRs. Yet, change is in the air. This spring we have observed some of the most rapid and stronger price jumps ever, for the Dallas market. The last gasp onto the lower interest rates.

What next?

Unsettled world affairs with Russia? China may contain the greatest threat to our economy and could become that economic catalysts? Our borders and local politics will have impact. However, the greatest threats "remain hidden within" governmental regulations. Words as Diversity, Equity, Inclusion, (DEI) are being presented to the Realtors and appraisers associations and instituted into all types of associations, companies, bylaws, and regulations. Our banking system is being influenced by energy goals and their lending practices of some of the larger investment managers.

Today, I am still trying to understand all this myself as I remain a student to life, learning through experiences and hope my decisions are for the best.   As a profession united, in fair and equal goals, the outcome should be acceptable, although will likely be different for what we anticipated.

As noted previously, the following are an example of predictions attempted analysis of just some the government laws. Hang on tight as the changes are likely not foreseen!!

Thank you,

Mark Bond, MAI, SRA

Press Release

Economy Constrained by Competing Effects of Elevated Inflation and Strong Labor Market

August 22, 2022

Housing Activity Expected to Soften Through 2023 Due to Higher Mortgage Rates and Home Price Gains

WASHINGTON, DC – Tightening monetary policy and elevated inflation remain the primary causes of a stagnating economy despite strong job growth, according to the August 2022 commentary from the Fannie Mae (FNMA/OTCQB) Economic and Strategic Research (ESR) Group. The ESR Group's latest forecast of real gross domestic product (GDP) growth for full-year 2022 and 2023 remained essentially flat compared to last month at 0.0 percent and negative 0.4 percent, respectively. The continued expectation that real GDP growth will be negative beginning in 2023 is due to the combined effects of tighter monetary policy weighing on business and residential investment and still-elevated inflation weighing on consumer spending. The ESR Group does expect inflation to slow gradually, with the headline Consumer Price Index forecast to average 7.2 percent annually by year-end 2022 and 1.8 percent by year-end 2023, but it notes the precariousness of predicting headline inflation due to energy price volatility and the possibility of renewed supply chain or manufacturing disruptions. The core personal consumption expenditure price index, the focus of the Federal Reserve, is expected to end 2023 at 2.9 percent.

The ESR Group expects total home sales to decrease 16.2 percent in 2022. This decline represents a further downward revision from last month's forecast of a 15.6 percent drop, as recent incoming data point to a faster slowdown in near-term sales than previously expected, despite mortgage rates having moved lower over the last few months. The latest forecast also projects total mortgage origination activity at $2.47 trillion in 2022, down from $4.47 trillion in 2021, and then a further reduced $2.29 trillion in 2023.

"The economy is progressing largely as we'd previously forecast," said Doug Duncan, Fannie Mae Senior Vice President and Chief Economist. "The near-term decline in gas prices has given consumers a chance to catch their breath and shift some spending elsewhere. Likewise, lower interest rates at the longer end of the yield curve should be supportive of the economy through the end of 2022, which is why we're forecasting modest economic growth in the second half. However, we maintain the view that a modest recession is likely to emerge in the new year as the labor market softens and the effects of tighter monetary policy are more acutely felt."

Duncan continued: "Housing remains clearly on the downtrend – and has been for several months now – due to the combined effects of outsized home price increases and the significant and rapid run-up in mortgage rates. The question for many market observers is how quickly, and with how much additional tightening, the core inflation rate will come down to the Fed's preferred target. In our view, the labor market's continued strength suggests that the Fed is likely to maintain its aggressive posture through the end of the year."

Visit the Economic & Strategic Research site at fanniemae.com to read the full August 2022 Economic Outlook, including the Economic Developments Commentary, Economic Forecast, Housing Forecast, and Multifamily Market Commentary. To receive e-mail updates with other housing market research from Fannie Mae's Economic & Strategic Research Group, please click here.

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and drive responsible innovation to make homebuying and renting easier, fairer, and more accessible. To learn more, visit:
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What Impact Will the Infrastructure Bill Have on the Housing Crisis?

- By Rose Morrison August 29, 2022 5:00 am

The United States is currently in what many consider to be a housing crisis. Market prices for purchased and rented homes are through the roof, with no clear end in sight.

More people are searching for homes than there are houses available. This supply and demand issue made property prices skyrocket, with few able to afford what sellers were asking. Particularly impacted are minority and low-income communities, which cannot keep up with the market trends.

Though the federal government has yet to pass legislation directly tackling the current housing crisis, some bills may affect it indirectly. A significant indirect influence comes with the infrastructure bill signed into law in November 2021.

The infrastructure upgrades inside the bill could significantly impact some of the housing market's problems.

The Current Housing Crisis

In the past few years, home prices have risen to the point where we are in another housing crisis. In 2020, 30% of all households had "unaffordable" mortgage or rent payments. Experts consider a price unaffordable if the owner or occupant spent 30% or more of their monthly income on the home, with one in seven households spending over half of their income.

Home prices continued to rise by over 20% between the spring of 2021 and the spring of 2022. This was due to an all-time housing shortage. Construction has failed to keep up with the demand of households, especially with the increase during the COVID-19 pandemic.

Housing isn't a new issue in major coastal cities. Some metropolitan areas like New York and Los Angeles have failed to provide enough housing for their residents for decades. Smaller towns and communities across the country offset this problem by offering many houses to rent or purchase. However, as of early 2022, the nation had a deficit of 3.8 million homes, with the most significant shortage of homes with low-income affordability.

With the country facing a lack of homes and the gap between black and white homeownership still over 28%, the search for solutions is ongoing.

It's hard to tell how the country will recover from this housing crisis, with no major legislation recently passed to address it. The good news is that a recently passed law may indirectly change the real estate market for the better.

The Infrastructure Bill

In November of 2021, President Joe Biden signed a bipartisan infrastructure bill into law. The Infrastructure Investment and Jobs Act dedicates $1.2 trillion to various projects around the nation, including:

- $55 billion for clean drinking water
- $65 billion for high-speed internet access
- $110 billion for bridge and road repair
- $39 billion to modernize transit
- $17 billion for port improvements
- $25 billion for improving airports
- $7.5 billion for more electric vehicle chargers
- $65 billion for upgraded power infrastructure
- $50 billion for weatherization and natural disaster protection
- $21 billion in pollution cleanup

The bill also makes the most significant investment in passenger rails. There's a push for more high-speed railways in the U.S., which will lead to faster and easier cross-country transportation.

How It Impacts the Housing Crisis

You may have noticed that there isn't specific funding for solving the housing crisis in the infrastructure bill. However, some of the investments could have an impact on the market. Here are a few things to be aware of if you are involved in property sales.

Appraisals

The bill is funding better drinking water, more transportation options, and upgraded power and internet. These investments could significantly raise home values if made in the right areas.

Potential deals fall through since home offers have been higher than appraisal values. When a bid is placed and accepted on a home, the contract will most likely be contingent on an appraisal since most lenders won't give to borrowers without one. Some appraisals don't come close to the asking price and offer, and it can be nearly impossible to agree upon a new sale price.

This keeps houses on the market longer, with few who can get the financing for them. However, if a community’s value goes up thanks to new demand in the area, the home’s worth can also increase, helping offers more closely match the appraised value.

Employment

All this investment toward new work creates the need for workers. According to the Biden administration, the bill will help add $1.5 million in jobs yearly.

The unemployment rate in the country has remained over 3%, with millions struggling to find and keep jobs. This makes low-income workers unable to compete with high rental and purchase prices.

Job opportunities aimed at struggling communities help low-income families improve their financial standing, helping them afford homes they otherwise wouldn’t be able to. Creating this financial ability means the high rent and purchase prices may not be as extreme anymore.

Multifamily Housing

The bill doesn’t have anything specifically related to the multifamily housing industry, but professionals in the field praise it for taking infrastructure burdens off industry investors.

The infrastructure improvements to water systems and transportation allow investors looking to purchase and build property for rent to worry less about mitigating those problems themselves to attract tenants.

This cost reduction for investors would have a chain effect on providing more housing options to communities in need. Better infrastructure means investors are more likely to come to an area, creating apartments and other multifamily homes for residents.

Looking Ahead

We don't yet know the total impact the infrastructure bill will have on the housing crisis. Experts predict that home prices won't drop anytime soon, as median prices reached an all-time high in June 2022.

Since the start of 2022, legislators have introduced 53 bills regarding housing in Congress, with only two ever making it past the introduction phase and none yet passing the House. It's essential to keep your eyes peeled on the local, state and federal legislation affecting your area and how it could impact real estate investments and business ventures.

There is some hope on the horizon. Though mortgage rates still have a long way to go, the country's seen some weekly decreases throughout the summer of 2022. High interest rates and inflation have cut some progress short as the country struggles to deal with the prices of almost everything.

Though the future is uncertain, the infrastructure bill seems like a step in the right direction.

- APPRAISAL, APPRAISAL BUZZ, APPRAISER, APPRAISERS, APPRAISING, HOUSING

Responses

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Rose Morrison is a freelance writer who covers real estate and home improvement topics. She is also the managing editor of Renovated. She grew up in a family of contractors, where she learned all she knows about renovations, home remodeling, and real estate. She now uses her writing to share her passion for making the real estate sector more productive and efficient.