Why the Falling Home Sales?

By **Harlan Green** / Special to *VOICE*

Economic VOICE

TOTAL EXISTING-HOME SALES, transactions that include single-family homes, townhomes, condominiums, and co-ops, decreased 6.4 percent from November to a seasonally adjusted rate of 4.99 million in December (www.nar.realtor/existing-home-completed). Sales are now down 10.3 percent from a year ago (5.56 million in December 2017), according to the National Association of REALTORS.

Why is this happening, at a time when interest rates are plunging almost back to recession levels? The anti-regulation crowd says it's due to the 2015 TRID regulations that gave borrowers three extra days to go over their loan documents before closing—thanks to the Dodd-Franks legislation and the Consumer Finance Protection Bureau enacted during the Obama administration.

Banks never liked the new regulations since it cost money to make the changes to borrower and closing documents. But it protected borrowers who were sometimes confronted with changed loan terms at the closing, and had to either accept or possibly lose their new purchase.

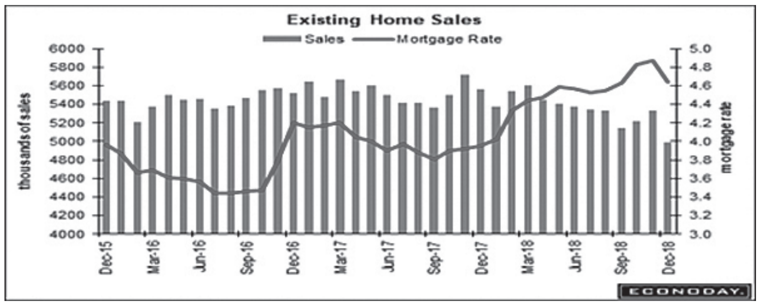
But there's a much more convincing reason for the sales drop off – not enough housing inventory. New homes are not being built fast enough to satisfy new adults of the millennial generation now forming families. These children of the baby boomers are the largest population segment ever, born approximately between 1980 and 1996. And, most of the new homes are not being built in the affordable range.

Lawrence Yun, NAR's chief economist, says current housing numbers are also partly a result of higher interest rates during much of 2018. "The housing market is obviously very sensitive to mortgage rates. Softer sales in December reflected consumer search processes and contract signing activity in previous months when mortgage rates were higher than today. Now, with mortgage rates lower, some revival in home sales is expected going into spring."

In fact, interest rates have declined substantially since last fall, and are almost back to recession lows. The 30-year conforming fixed rate has dropped to 4.0 percent with one origination point, for the most credit-worthy borrowers.

And what about inventories? "Several consecutive months of rising inventory is a positive development for consumers and could lead to slower home price appreciation," says Yun. "But there is still a lack of adequate inventory on the lower-priced points and too many in upper-priced points."

Overall, total housing inventory is much lower. It decreased at the end of December to 1.55 million, down from 1.74 million existing homes available for sale in November, but represents an increase from 1.46 million a year ago.



Unsold inventory is at a 3.7-month supply at the current sales pace, down from 3.9 last month and up from 3.2 months a year ago.

Not enough new homes are being constructed, as I said. This is an incredibly low inventory level and a major reason for the lower sales' numbers.

The median existing-home price for all housing types in December was \$253,600, up 2.9 percent from December 2017 (\$246,500). December's price increase marks the 82nd straight month of year-over-year gains.

There are several reasons for the lower construction totals, but it can't be higher interest rates, which have really only risen on the short term end—i.e., on the Prime Rate that controls installment loans, which is up more than 1.5 points to 5.50 percent.

It should affect credit card and auto loan debt, but that debt hasn't fallen, as consumers are flush with cash due to the low unemployment rate.

It's really because many communities don't want to build more affordable housing thanks to the Not In My Backyard (NIMBY) crowd. The housing situation has deteriorated so badly at the lower and middle earner price range in states like California that new Governor Gavin Newsom is pledging to somehow finance—or create legislation that encourages the building of—3.5 million new units by 2025.

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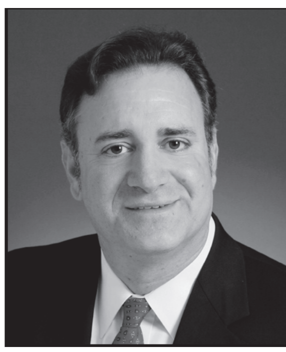

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Santa Barbara South County Sales

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
'11	80	94	146	119	135	140	147	156	160	128	126	170
'12	114	113	183	170	225	215	217	213	173	218	190	275
'13	141	146	189	197	265	209	217	216	181	178	138	167
'14	142	132	141	186	207	174	196	179	171	160	137	170
'15	142	113	235	202	226	210	207	217	155	149	124	150
'16	126	118	153	166	220	195	174	214	187	161	158	159
'17	142	132	164	149	189	257	193	224	178	173	172	170
'18	101	121	172	179	234	211	165	225	184	171	145	163