Real Estate Guide

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Where are the homes? Glaring need for housing construction

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LOS ANGELES (AP) — The highest mortgage rates in more than two decades are keeping many prospective homebuyers out of the market and discouraging homeowners who locked in ultra-low rates from listing their home for sale.

The dearth of available properties is propping up prices even as sales of previously occupied U.S. homes have slumped 21% through the first eight months of this year.

The combination of elevated rates and low home inventory has worsened the affordability crunch. Where does that leave homebuyers, given that some economists project that the average rate on a 30-year mortgage is unlikely to ease below 7% before next year?

Mike Miedler, CEO of real estate brokerage franchisor Century 21, recently spoke to The Associated Press about the challenges homebuyers face. He says the impact high rates are having on affordability and home inventory underscores the need for construction of more affordable homes. The interview has been edited for length and clarity:

Q: With the average rate on a 30-year mortgage hovering above 7% since August, is this the new normal or should buyers hold out for rates to ease?

A: You've seen the fastest run-up in mortgage rates that we ever have in history. And at the same time, I think we've got to recognize that they're still right on par with what is probably the 50-year average for a mortgage rate in this country. But I don't see anytime soon we're going to be going back to 2% or 3% mortgage rates. I think we're probably somewhere in this 5% to 7% range for the foreseeable future.

Q: The national home sales inventory has been inching higher, but remains very limited at around 1.1 million homes. What's the solution?

A: If you look over the Great Recession from a real estate perspective here in 2008-2012, when so many people lost their homes to foreclosure and you overbuilt, what's happened this last decade is anywhere from 3.5 million to 5-plus million homes that we're short. We're kind of going into a macro supply and demand issue, which is you've got the largest generations in U.S. history — millennials and Gen-Z — entering their main homebuying years, and we just don't have enough property to sell and for people to move into. (Homebuilders) are developing more of what I would call high-end properties, but not enough creative first-time homebuyer situation properties. And I think that's really the solve to all of this.

Q: After years of underbuilding, the pace of new home construction would need to ramp up sharply and remain elevated for years to make a dent in the housing shortage. Does that mean the housing market will be limited by a low level of homes on the market for the foreseeable future?

A: If there's not a lot of movement in rates, where a move-up buyer can see getting into a bigger home, a more dream home, something that is going to get them more bang for their buck, then you're probably going to see this inventory issue persist. And we may continue to see somewhere along the lines of plus or minus 4 million existing homes sold, year over year, versus the normal 5 to 5.5 (million) that we've seen over the last decade or so.

Q: Home prices skyrocketed during the pandemic and haven't eased significantly despite the housing downturn that began last year. Are you optimistic more first-time buyers will be able to afford to buy a home in the next few years?

A: I think you have to look at just affordability in general. It takes about nine years for the current generation to save for that 10% down (payment). When boomers were doing it in the 80s and 90s, it only took you about five years. And so I think that's why you're seeing more and more people having to go to the 'bank of mom and dad' to borrow. But that's also why you're seeing a lot of drive into more affordable markets. People are moving to places where obviously there are jobs, but (also) inventory that they can afford.

Real estate financing options

The decision to buy a home is significant. Real estate is the biggest investment the average person will make in his or her lifetime, which underscores just how significant the home buying decision can be.

The real estate experts at Zillow recently reported that the national median price of a home in the United States is $272,446. However, since the National Association of Realtors reported a record low housing inventory late in 2020, the average house price has been rising rapidly nationwide. The Federal Reserve Bank of St. Louis estimates the median home sales price at $374,900, and certain states have much higher prices. WOWA, a real estate and finance technology company, says the average sale price of a home in Canada was $679,051 in July 2021.

Most people do not have $300,000 to $600,000 in savings on hand to purchase a home in cash. That means they'll need to rely on financing to pay for their dream homes.

Conventional lending

Conventional lending refers to when a bank or another financial institution loans a home buyer money to buy a home. This is one of the most common ways to fund a home purchase. Personal credit score as well as credit history help determine eligibility and interest rates for conventional loans. Availability of assets as well as income level are some additional determining factors. Conventional loans are traditionally 10-, 15- or 30-year notes and will require a certain percentage as the down payment to secure the loan. The bank will determine the down payment requirement, which is typically somewhere between 3 and 20 percent.

FHA loan

A Federal Housing Administration loan is issued by an FHA-approved lender. These loans are designed for low-to-moderate-income borrowers, according to the financial guide Investopedia. FHA loans require lower minimum down payments and lower credit scores than many conventional loans. FHA loans also require mortage insurance up front, plus annually for 11 years or the life of the loan depending on the length of the loan.

HELOC

A Home Equity Line of Credit, commonly called a HELOC loan, borrows against the available equity in your home to create a line of credit, much like a credit card. These funds can be used for large expenses or to consolidate higher-interest rate debt on other loans, according to Bank of America. It may be possible to use a HELOC to secure funding to make improvements to a home for those who want to flip it as an investment property.

Private money lenders

Individuals investing in real estate who do not intend to use a property as a primary residence may turn to private money lenders. These investors can tap into capital from personal connections and lend at specified interest

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rates and payback periods, according to Fortune Builders, a real estate investing resource. Keep in mind the interest rate will likely be higher with a private lender than through a conventional lender. The repayment term also will be shorter.

VA-backed loan

The U.S. Department of Veterans Affairs has a program for acquiring loans through conventional lenders that will be partially guaranteed against loss through the VA. This enables a lender to give better loan terms, such as the option to pay no down payment. Interested parties need to qualify for a Certificate of Eligibility and then work with qualified lenders.

People have several options to finance the purchase of a home. These loans can help make the dream of home ownership a reality. Potential buyers are urged to speak with mortgage professionals or financial planners to consider their options.

Exterior renovations that can improve home value

Renovating a home to improve its value can be a smart investment. Interior improvements, such as updating kitchens and baths, offer good return on investment, but there are plenty of exterior renovations that can add value to a home and give it that coveted “wow” factor.

• Abundant and well-planned landscaping can instantly boost curb appeal. According to the landscaping company Lawn Starter, 71 percent of prospective home buyers say a home’s curb appeal is an important factor in their buying decisions. As buyers use the internet to look for their dream homes, there’s no denying a beautifully landscaped, nicely photographed property can entice buyers to click and read more about a house.

• Improving home value may come down to fixing areas of the home that can negatively affect its appeal to buyers. Hire an inspector to look at key components of the house and recommend what needs to be fixed. This way it is

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Why it pays to work with a real estate agent

Equity, pre-approval, contingencies, appraisal. These are terms associated with buying real estate, but even seasoned home buyers may not fully understand them. Navigating the real estate market can be challenging, but in today's economic climate, marked by inflation, high interest rates and high home prices across the country, it is more important than ever to understand the minutiae that is involved in buying and selling property. That's just one of many reasons why buyers and sellers can benefit from the help of a seasoned real estate professional.

Types of real estate professionals

Many people use the terms real estate agent, real estate broker and Realtor® interchangeably. While these professionals handle many similar tasks, there are some notable distinctions between them. A Realtor® is a registered term used to describe a real estate professional who is a member of the National Association of Realtors®. These individuals must adhere to a strict code of ethics, and have access to market data and transaction management services unique to this specific trade organization. A real estate agent is licensed to help people buy and sell real estate, and is paid a commission when a deal is completed. A real estate broker does the same jobs as an agent, but is also licensed to work independently and may employ his or her own agents. The broker also may get a percentage

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discovered before home buyers come in and do their own inspections. Termite infestations, deteriorating roofs and hidden water leaks are some things that might need fixing.

• The front door is the focal point of a home's exterior. Invest in a new door or paint it a striking color to add appeal. Remodeling magazine's "Cost vs. Value Report 2019" indicates changing an entry door to a steel replacement can offer 74.9 percent ROI. Such a door provides visual appeal and added security — things buyers look for. In addition to the front door, make sure that the entryway has a level walkway, steps that are in good repair, accents that are free from rust or tarnish, and decorative plants.

• Outdoor lighting can add to the ambiance of a property and serve as a security feature. Utilize different lights, such as a bright light by the entry, uplighting in trees and shrubs for drama, a light-lined path to the door to improve visibility, and motion-detection lights to improve the security of the property.

• A fresh coat of paint or new (or cleaned) siding can instantly give homes a facelift. Neutral, warm and inviting colors tend to have the widest appeal. Adding manufactured stone veneer to the home can offer a 94.9 percent ROI, says Remodeling. And after doing the front door and siding, investing in a garage door replacement offers the highest ROI of all exterior projects listed on the "Cost vs. Value Report 2019." This improvement returns 97.5 percent when selling.

Knowing which improvements add value to a home can help homeowners tailor their efforts to those that are most financially beneficial.

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of the commission from agents in addition to his or her own commissions, according to Investopedia.

Buyer and seller

A professional may represent either the buyer or seller or both. A buyer's agent is negotiating for the buyer in the transaction, while a seller's agent negotiates for the seller. Real estate professionals also can represent both parties, known as dual agency. Typically this does not occur in the same transaction, as that can create a conflict of interest. Commissions typically fall between 5 and 6 percent on real estate transactions, an amount that is split by all real estate professionals working on the transaction.

Why work with a real estate professional?

Homeowners may wonder why they should seek the services of a real estate agent, broker or Realtor®. That's particularly so for sellers, as buyers typically do not pay a real estate representative any money.

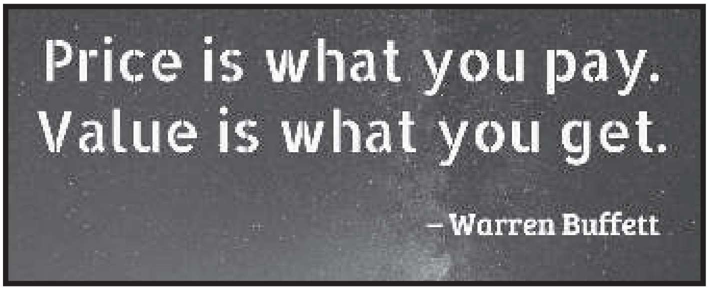
• Expertise: Considering that buying and selling a home is one of the biggest financial transactions one will make, it makes sense to leave it in the hands of experienced professionals.

• Price a home right: Real estate professionals will conduct a market analysis and look at "comps" in the area to determine a price that is fair and will help a house move. When working with buyers, the agent or broker also will be able to help them come up with a reasonable offer price.

• Access to MLS: Agents and brokers have access to the Multiple Listing Service, which is widely used across the United States for listing available properties. It helps sellers sell faster and will enable buyers to view multiple properties all in one database.

• Negotiations: Leaving negotiations to a third party removes emotion from the transaction and can help everyone involved resolve issues and agree on acceptable terms.

Buying and selling real estate is a complex process. Real estate professionals can simplify the process and make it more enjoyable for buyers and sellers alike.



Steps to take before applying for a mortgage

A home is the single biggest purchase most people will ever make. That's perhaps become even more true in recent years, when the cost of homes has increased dramatically.

The sticker price of a home may come as a shock to first-time buyers, but few homeowners purchase their homes in cash. Mortgages are a vital component of home ownership for the vast majority of buyers. Mortgages are loans obtained through the conveyance of property as security. When homeowners pay off their mortgages, the title of the property officially transfers to them from their lenders.

Though most homeowners utilize mortgages to buy their homes, that does not mean the process is the same for everyone. A host of factors affect mortgage terms, and there's much prospective homeowners can do to secure the best agreement possible.

• Recognize why a low interest rate is important. Mortgage interest rates have drawn considerable attention in recent years, as rising inflation has led to rates that have reached their highest point in more than a decade. Even a seemingly small difference in interest rates can save or cost homeowners thousands of dollars, if not tens of thousands, over the course of a loan. For example, the financial experts at Bankrate.com note that the difference between a 5.5 percent interest rate and a 6 percent interest rate on a $200,000 mortgage is roughly $64 per month. That might not seem like a lot, but over the course of a 30-mortgage the borrower who gets the 6 percent loan will pay in excess of $23,000 more in interest than the borrower who secures the 5.5 percent loan. Recognition of the benefits of securing the lowest interest rate possible can motivate prospective buyers to do everything in their power to get a low rate.

• Work on your credit score. So how can borrowers get the best possible rate? One way to go about it is to improve credit scores. Average mortgage interest rates vary significantly by credit score, with higher scores earning borrowers significantly lower rates. According to data from FICO, as of mid-February 2023 borrowers with a FICO score of 760+ earned an average interest rate of 6.06 percent, while those with scores between 620-639 secured an average rate of 7.65 percent. By bolstering their credit scores before applying for a mortgage, prospective homeowners can improve their standing in the eyes of mortgage lenders, which can potentially save them tens of thousands of dollars over the life of the loan.

• Identify how much you want to spend. Prospective home buyers may be approved to borrow much more money than they think they will qualify for. That's because lenders do not consider factors like utilities, insurance, day care, or other expenses everyone has. That means it's up to borrowers to determine how much those expenses will be, and how much they should be spending on a home. Though it might be tempting to borrow up to

the amount lenders approve you for, in general it's best to stay below that amount so you can capably meet all of your additional obligations.

Mortgages enable millions of people to buy homes each year. Some simple steps before applying for a mortgage can help prospective homeowners secure the best terms.

Existing home sales fell 2.0% in September

WASHINGTON — Existing-home sales faded in September, according to the National Association of REALTORS®. Among the four major U.S. regions, sales rose in the Northeast but receded in the Midwest, South and West. All four regions registered year-over-year sales declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – waned 2.0% from August to a seasonally adjusted annual rate of 3.96 million in September. Year-over-year, sales dropped 15.4% (down from 4.68 million in September 2022).

"As has been the case throughout this year, limited inventory and low housing affordability continue to hamper home sales," said NAR Chief Economist Lawrence Yun. "The Federal Reserve simply cannot keep raising interest rates in light of softening inflation and weakening job gains."

Total housing inventory registered at the end of September was 1.13 million units, up 2.7% from August but down 8.1% from one year ago (1.23 million). Unsold inventory sits at a 3.4-month supply at the current sales pace, up from 3.3 months in August and 3.2 months in September 2022.

The median existing-home price for all housing types in September was $394,300, an increase of 2.8% from September 2022 ($383,500). All four U.S. regions posted price increases.

"For the third straight month, home prices are up from a year ago, confirming the pressing need for more housing supply," Yun said.

According to the REALTORS® Confidence Index, properties typically remained on the market for 21 days

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in September, up from 20 days in August and 19 days in September 2022. Sixty-nine percent of homes sold in September were on the market for less than a month.

First-time buyers were responsible for 27% of sales in September, down from 29% in August 2023 and September 2022. NAR's 2022 Profile of Home Buyers and Sellers – released in November 2022 – found that the annual share of first-time buyers was 26%, the lowest since NAR began tracking the data.

All-cash sales accounted for 29% of transactions in September, up from 27% in August and 22% in September 2022.

Individual investors or second-home buyers, who make up many cash sales, purchased 18% of homes in September, up from 16% in August and 15% one year ago.

Distressed sales – foreclosures and short sales – represented 1% of sales in September, unchanged from last month and the previous year.

Single-family home sales slipped to a seasonally adjusted annual rate of 3.53 million in September, down 1.9% from 3.6 million in August and 15.8% from the prior year. The median existing single-family home price was $399,200 in September, up 2.5% from September 2022.

Existing condominium and co-op sales recorded a seasonally adjusted annual rate of 430,000 units in September, down 2.3% from August and 12.2% from one year ago. The median existing condo price was $353,800 in September, up 6.8% from the prior year ($331,300).

Existing-home sales in the Northeast rose 4.2% from August to an annual rate of 500,000 in September, down 16.7% from September 2022. The median price in the Northeast was $439,900, up 5.2% from the prior year.

In the Midwest, existing-home sales declined by 4.1% from the previous month to an annual rate of 930,000 in September, down 18.4% from one year ago. The median price in the Midwest was $293,300, up 4.7% from September 2022.

Existing-home sales in the South dipped 1.1% from August to an annual rate of 1.82 million in September, a decrease of 11.7% from the previous year. The median price in the South was $360,500, up 3.1% from September 2022.

In the West, existing-home sales trailed off 5.3% from the previous month to an annual rate of 710,000 in September, down 19.3% from one year ago. The median price in the West was $606,100, up 1.8% from September 2022.

"The Northeast posted the strongest price gain resulting from higher demand coupled with inventory falling by 20%," Yun said. "The West experienced softer price growth reflecting a pause after years of unsustainable and rapid price increases, especially in the Rocky Mountain region."

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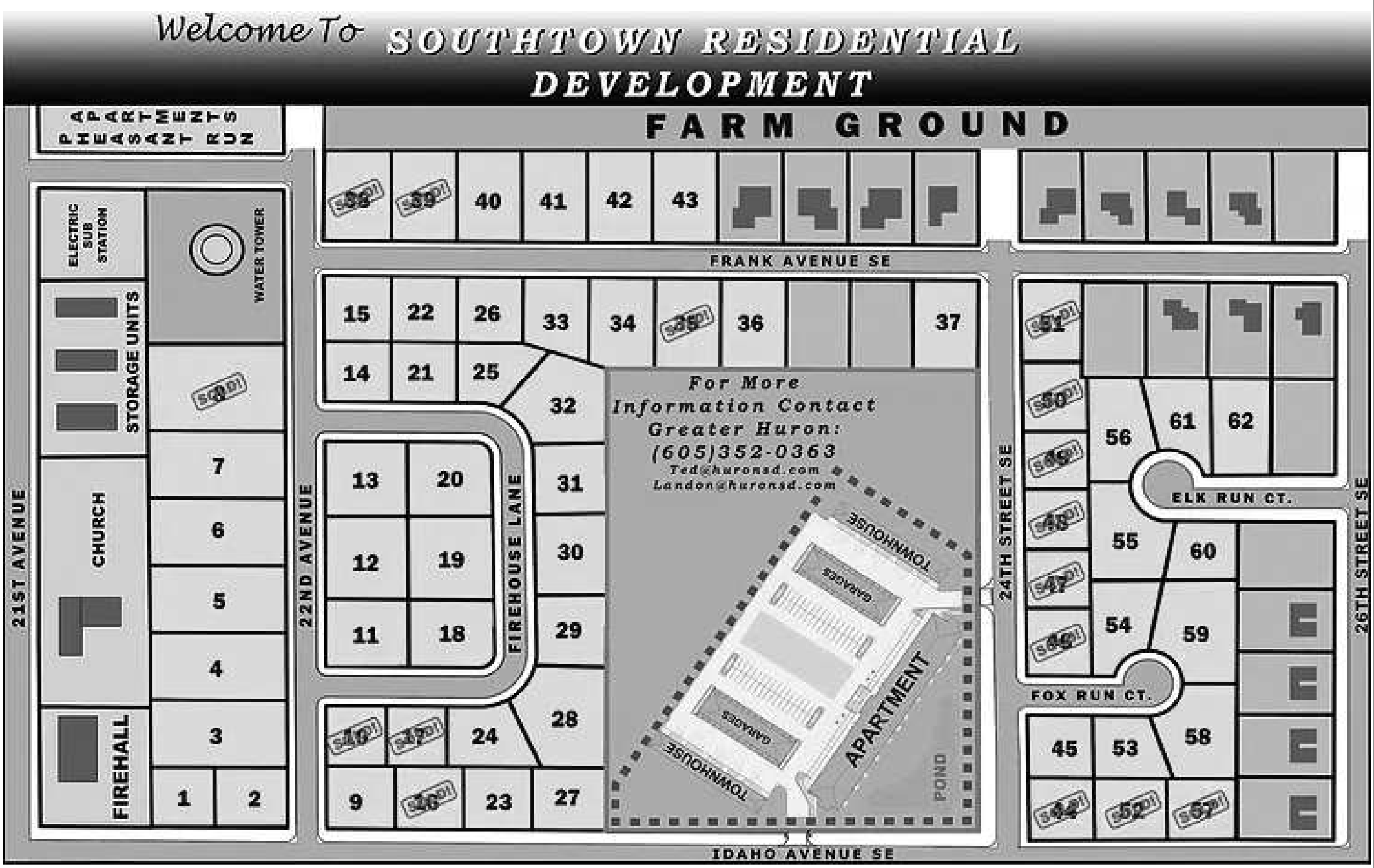

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