

# Housing Recovery

*Myth or Reality*



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## U.S. HOUSING MARKET ALL SET FOR RECOVERY

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We all have been reading the headlines – it's been over a year in running. With direct impact on jobs and income generation, U.S. housing market has always been the engine of growth for its economy. That's why housing continues to be at the center stage ... Housing continues to be at the center stage of political agendas and media discussions. Much to the homebuyers relief, mainstream media has been projecting that real estate market is destined for growth and paced up recovery, and the future is all sunshine and rainbows. But of late, this optimistic view has been questioned by housing experts and the discrete lot of homebuyers for whom data and facts take precedence over news stories. Needless to say, it has sparked a debate among those who believe that housing

recovery is for real and those who argue that it's all a big hocus-pocus created by Feds and private equity firms to fuel their crony financial intentions. If tabloids are to be believed, the much-awaited U.S. housing recovery is on its way. In order to find out how truthful the media reports are, we took a closer examination of the optimistic recovery figures and came out with a detailed report. This report tackles the important question - Is housing recovery for real or is it just headed to another bubble burst? The report reveals some of the valuable market insights and underlying patterns in the so – called recovery.

- ▶ An alarmingly large number of cash buyers are bagging the best deals, sidelining borrowers and first-time home buyers.
- ▶ Job market is improving but the wages remain stagnant, making the average buyers shying away from considering a home purchase.
- ▶ The housing market is showing a sudden surge in mortgage delinquency rate



## LENDING VOLUME FALLS, ALL-CASH PURCHASES SURGE

The year 2014 began with mortgage lending volume hitting a 17 years low. The downturn was triggered by a percent point increase in the interest prices last year. What makes this figure even more worrisome is the fact that while mortgage lending took a fall, the market witnessed a significant upsurge in all-cash purchases made by institutional landlords, investors and private equity firms.

The housing experts believe that the multi-billion fall in the lending volume shows a major shift from loan refinancing to all-cash purchases. Comparing the quarterly sales figure of year 2013 and 2014, refinancing volume tumbled from 69% to 34% while all-cash purchases surged from 20% to 43%.

Residential Sales Figure - 2013 and 2014



## U.S. HOUSING IS RECOVERING. BUT FOR WHOM?

### Thread 1

There has been a substantial fall in the sales volume of first time home buyers. In 2008, the year of great recession, primary home sales volume was down to 70%. This year, it got even lower. In 2013, the sales volume fell further to 61%. It's the lowest sales volume since the year 2005.

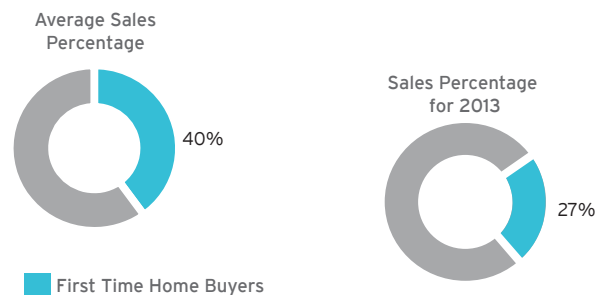
Primary Home Sales Volume



### Thread 2

The interesting thing is that though primary volume fell, the overall home sales figure is touching new heights. There has been a significant fall both in the sales

National Sales Figure



volume of single family homes and number of first-time homebuyers. National sales figure for first time buyers dropped from an average of 40% to a mere 27% by the end of 2013.

### Thread 3

The overall home sales is rising. But surprisingly the number of mortgage applications is falling or at best remaining flat.

Now, that is boggling. Existing home sales is rising, but mortgage applications are falling. Someone has to be buying those homes, right?



Well, the housing recovery might be real but it's definitely not benefitting the homebuyers. It's the institutional landlords, investors and private-equity firms who are cashing in housing market, giving the average American a run for their money. These investors buy a property with the sole intention of renting it out or reselling it. The leading mortgage finance companies have reported that such investors make a whopping 20% of the overall sales in the housing market.

People were very hopeful when Obama administration took charge and promised to address their housing woes. Apparently, they have not been quite successful in stopping bankers, Wall Street investors and mortgage lenders from acquiring properties. The rate at which these big fishes of housing market are acquiring properties, it is anything but favorable to the interests of first-time buyers and average homeowners.

#### Overall Sales in Housing Market



## HOUSING RECOVERY: FACT OR FICTION

If the recovery stories have some element of truth, it will have some implications, affecting an average American family. The parameters of a real housing recovery are healthier job market, flat or falling delinquency rate and renewed access to credit for consumers. Unluckily, none of it seems to happen. Let's take a look at the performance of these parameters.

- **Job Market:** Had the housing market been really recovering, house prices would have raised more or less in line with the average income. But the job market suggests otherwise. Over the year, U.S. job market has

improved on many parameters but rise in the wages is not one of them. Though the unemployment rate has fallen to 6.7% (last quarter, 2013) to 6.1%, wages are still stagnant. A major fraction of the workforce is still waiting for a decent raise, a sign that housing recovery might lose its steam.

- **Delinquency Rate:** Starting at 5.88%, the delinquency rate in the third quarter of 2013 was more than double of the average from past years.
- **Access to Credit:** Yet another factor that falsifies idea of a housing recovery is the tightening of credit standards by lenders this year. As access to credit gets lower, homebuyers get further pulled away from lending, putting more holes in the housing recovery theory

## WHAT DO BELIEVERS SAY AND WHY THEY MIGHT BE WRONG?

Now let's turn to the believers of housing recovery. They say that rising home prices is the strongest indicator of the housing recovery. When home prices surge, the homeowners are motivated to sell their homes leading to a rise in the inventory. In turn, high inventory drives sales volume. But contrary to the presumption, rising home prices might not indicate a recovery at all. The experts are expecting a 5% rise in home prices by the end of 2014. But if it exceeds this point, it will prove deteriorating to the market as it leads to rise in property taxes, create wealth parity and push buyers out of the market.

Low inventory is often associated with decrease in sale numbers for residential or commercial property. The claims of low inventory, more or less like rising home prices, seem to be unsubstantial. But low inventory leads to high demand which didn't happen and high demand leads to building up of new homes which didn't happen either. The analysts believe that in this case, it's the low demand not the low inventory that is holding back the housing market.

Brian Nolan, a housing market expert in California, quoted, "Even if the inventory improves, the residential sales volume will continue to plummet." Conclusively, it can be said that it's not the low inventory that has put brakes on home sales. Rather, it is being used as a playing card to deter the focus from the real problem.



Rising home prices is the strongest indicator of the housing recovery

## WHAT IF IT REALLY ISN'T TRUE?

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It all began in the year 1995. There was a substantial rise in the percentage of Americans who owned their homes. This rise was attributed to the prominence of subprime mortgages. Subprime mortgages are designed for those aspiring homebuyers who aren't blessed with flying credit scores. As subprime mortgages grew, there was an unprecedented growth in homeownership. The stagnant wages and mounting non-mortgage debt stretched the finances of many homeowners and mortgage foreclosures began to show up, eventually culminating in the economic crisis in 2008. It's been 6 years, but to the dread of millions, foreclosures are far from getting favorable for the homeowners. The fictional housing recovery fueled by big bankers, mortgage lenders, private equity firms and Wall Street investors are going to push down the U.S. economy down the abyss, the same way.

The implications are staggering. In case, the reports of housing recovery turn out to be fluke, the average American homebuyers will have to face an upsurge in foreclosures, higher unemployment rate and stricter



Even if the inventory improves, the residential sales volume will continue to plummet

credit norms. It's a vicious cycle. The greater the number of foreclosures, the larger fraction of the society, especially middle-class, feels the negative impact.

The bad news is, the signs of surged foreclosures have started to show up. As per the foreclosure data report of RealtyTrac for January '14, 1 in every 1,058 homes in the U.S. received a foreclosure filing. The rise in foreclosure activity has been most significant in New York and New Jersey, the two most densely populated areas in U.S. Closely following them is Florida.





## THE VERDICT

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The mainstream financial media suggests that housing recovery is all the way up. But looking at the housing market parameters, be it artificially created low interest rates, low demand, low new home construction, low homeownership rate or low income, it can be safely stated that the market hasn't recovered yet of the 2008 economic crisis.

Housing market definitely looks optimistic because big fishes are investing significantly in real estate. But a major fraction of that investment is being made in commercialized or rent property. The average American is still where he was, aspiring to turn his home owning dream into reality. We are not sure if the bubble burst is going to happen or not but in the midst of speculations and misinformation, the average homebuyer's dream of home owning has definitely burst!

Eventually, all the housing facts and figures can be boiled down to one thing - The housing recovery might be a myth after all.