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CAPITOL ASSETS

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EQUAL HOUSING OPPORTUNITY REALTOR®

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THE SPRING HOUSING MARKET OUTLOOK

Every spring the housing market begins the most active period of the year for home sales, and its arrival is usually met with varying parts of optimism and concern. This year we are pretty optimistic, on balance, about the spring market, but there are some well-founded concerns about later in the year.

If the first month of the year is any indicator, home sales in 2017 may surprise everyone. Sales of existing homes in January were at their fastest pace since February 2007, almost ten years ago. Because these were closed sales, they mostly stemmed from contracts signed at the end of last year.

The National Association of Realtors cited strong hiring and improved consumer confidence for the sales surge. Another impetus for the sales boom was likely the bump up in mortgage rates following the election. Rising mortgage rates are usually a strong motivator for procrastinating home purchasers.

Looking forward, perhaps even more so than for the last couple of years, home sellers will be in a strong position early on due to the shrunken inventory of homes for sale in many markets. The inventory of homes in January was only 3.6 months of supply at the current sales pace. Six-months supply is a balanced market.

As a result of the sparse supply of homes, spring sellers should be able to up their asking prices over last year's sales, especially in those communities where competition is scarce. Of course, sellers will need to watch out for low appraisals if the selling price is too out of line with comparable sales.

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Too, sellers should remember that an increased price means that there will be fewer buyers who can qualify to purchase their home. And if mortgage rates start to climb from current levels, even more purchasers would be pared from their home's buyer pool. So sellers might do well to temper their price demands a tad.

As for spring homebuyers, there is no question that the inventory crunch will be a big challenge unless more sellers show themselves. Still, with a little patience, recent history suggests spring buyers should ultimately be able to find that house they are looking for.

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OUTLOOK *continued from page 1*

We only need to look at last year (and January) to see that a low number of homes for sale can be overcome. Inventories were on the low side throughout 2016, but, notwithstanding that hurdle, it proved to be the best year for sales since 2006.

And despite the current inventory squeeze, the National Association of Realtors envisions 2017 existing home sales will exceed last year's by just a bit. **Buyers who stay in the game this year will find homes and deals will get done.**

That said, due to the sparse inventory conditions, home price gains are expected to continue this year, though at a pace that may finally be slowing down to a more sustainable one.

Housing data analytics firm CoreLogic reports that from December 2015 to December 2016 home prices were up 7.2% nationwide. Prices are now at all-time highs in about half of U.S. markets and more should be setting records in 2017.

For the twelve months ahead for the period ending December 2017, CoreLogic predicts home prices will rise another 4.7%. Some other housing economists see even smaller price appreciation, in the 2% to 3% range.

It should be noted, though, CoreLogic has underestimated how strongly the lack of inventory would push prices higher by a couple of percentage points each of the last two years. Other housing prognosticators were even more blindsided by price gains that substantially exceeded their forecasts.

The downside: rising prices are gnawing at the favorable affordability numbers we have seen in the last few years. Affordability figures rest on a calculation that involves home prices, mortgage rates and household incomes.

The numbers say incomes are rising for American families, which has helped offset home price gains to some extent and keep affordability more stable. However, the affordability equation will really start to deteriorate if mortgage rates begin to climb significantly.

The affordability issue is important for sellers to understand, because the more buyers who get priced down in the market, the fewer potential buyers for their home.

However, affordability is vitally important for buyers to appreciate. If mortgage rates, in particular, start to move unfavorably, they will be able to purchase less home, possibly being priced out of the neighborhoods they are striving to be a part of or even out of the purchase market entirely.

We have been in a sweet spot for mortgage rates for so long that we fear some aspiring homebuyers fail to sufficiently appreciate that we are so very near historically low levels and that may not continue for much longer.

A move back to something more closely approaching historical norms could be a jangling wakeup call for snoozing potential purchasers.

To avoid disappointment, all 2017 homebuyers would do well to get an early start on their home search. That way they can get in front of any unexpected price rises if inventories get even sparser and minimize their risk from future rate increases.

But won't they have a better selection of homes if they wait until the height of the spring market?

Well, it's true that the spring market usually can be counted on to bring in additional sellers and that should happen again this year. But no one is expecting a tsunami of spring sellers, which is what it would take to get to a normal level of homes for sale.

One reason cited for so many reluctant sellers is that they don't believe they have sufficient home equity to enable them to pursue a move they might otherwise want to make.

Thanks to recent price gains, that is increasingly NOT the case, but a lot of homeowners haven't kept up to speed with recent appreciation and may be underestimating how much equity they actually have.

If you a homeowner who would like to make a move, but don't think you have sufficient equity, do talk to your Realtor. You might be surprised to find that you can take advantage of the favorable selling conditions after all.

Homebuilders Are Positive for 2017

One valuable gauge of market conditions is homebuilder sentiment. Builders, especially the big national companies, are constantly monitoring activity at their sales trailers and model homes, so they know the tone of the market better than most.

Builder confidence has stayed above 50, which is the demarcation between positive and negative sentiment, since July 2014, registering a reading of 65 in February, down from the giddy recent high of 69 in December.

The recent weak spot has been buyer traffic, which usually sags in the winter months. Understand, builders never think they have enough buyer traffic.

Homeseekers frustrated by the lack of existing home inventory or just looking for the most up-to-date home design and who are considering new construction will usually have to contract for future delivery. The typical new home takes about six months to build.

An early trip to builder communities (take your Realtor to help in your negotiations) before the crowds arrive should be especially well received at their sales offices.

Contracting early should enhance your bargaining power, as well as put you at the front of the line for a fall delivery.

Homebuilders continue to complain that they are having trouble finding workers skilled in the art of home construction, so make sure they know you are not in a rush for delivery or you might suffer. A measured pace of assembly will help ensure the best possible result and fewer headaches for the new-home purchaser.

For some tips on navigating a new construction purchase, see page 4.

RATES *continued from page 4*

Rising rates have taken a lot of wind out of the sails of the refinance market. So many homeowners have refinanced in recent years that even a small bump up in rates leaves many owners with little motivation to refi.

However, there is one exception to the refi doldrums we expect to see in 2017: cash-out refinances.

Homeowners who have a big pot of equity that was restored or created in the last year or two may be enticed to access some of that equity for worthy purposes: college costs for the kids, a home improvement project or to extinguish other, most costly, debt.

Conforming Limits Finally Rise

One big change for 2017 is in the maximum loan amount available with the various major mortgage programs.

For the first time since 2006, Fannie Mae's and Freddie Mac's conforming loan limit (maximum loan amount) has risen, from $417,000 to $4 24,100.

Both Fannie & Freddie's maximums for their special programs for high-cost areas have also risen, to $636,150 for the 48 contiguous states. All but 87 U.S. counties or their equivalent have higher limits for 2017. No counties have lower limits than in 2016.

FHA, which has been the choice of first-time homebuyers due its low (3.5%) minimum downpayment, will also have an increased maximum loan amount.

For 2017, FHA is able to insure to a maximum loan amount of $275,665 anywhere in the U.S. and to $636,150 in high-cost areas.

Some 2,948 counties have seen their FHA loan limit rise for 2017, while for 286 counties the maximum loan amount remains unchanged.

VA Limits Also Rise

VA loans, for veterans and qualifying reservists, National Guard members and military spouses, are available everywhere in 2017 for those who have full eligibility in amounts up to the $424,100 conforming limit without a downpayment.

Like FHA, Fannie & Freddie, the VA has special limits for high-cost metro areas. The 2017 limits cap VA loans in high-cost metro areas at the same $636,150 as Fannie and Freddie.

The way that VA mortgages work is that the VA provides a guarantee equal to 25% of the loan amount. Many lenders will do larger VA loans if the veteran is able to put down 25% of the excess above the limit.

The maximums in a given high-cost area may not be the same for all of these programs, due to differences in the formulas for calculating local median prices.

Check with your Realtor or mortgage specialist to find out the limits of each program in your area.

DISCLOSURE *continued from page 4*

as accurate a Loan Estimate as possible.

However, borrowers, for their part, should arm themselves with as much knowledge about closing costs as they can stomach, so they will understand what costs they will face and how they might change.

We mentioned earlier that there were closing items that too many homebuyers were surprised they had to pay. These included:

Mortgage insurance (which you will often have to pay in one form or another if you are making a downpayment of less than 20%);

Bank fees or points (which can be negotiated up or down in conjunction with the interest rate being paid);

Taxes (property taxes to be held in escrow and transfer taxes);

Title insurance (which can protect the purchaser and lender if any flaws in the title show up later); and

Appraisal fees and other buyer-paid items (there inevitably will be some).

If you want to start your education in advance of receiving your disclosures, go to the Consumer Financial Protection Bureau website **consumerfinance.gov** for a look at the forms.

The CFPB also has suggestions about how the disclosures can be used to shop for a mortgage, as well as better understand the one you finally decide on.

RULES *continued from page 4*

Get it in writing.

Make sure understandings between you and the builder about any aspect of the home, site or transaction are in the contract or an addendum. Verbal agreements are not worth the paper they are not printed on.

Everything has a cost.

Don't expect a builder to make free alterations or substitutions and they may want unusual design or materials selections paid for in advance.

Make decisions early.

The earlier that decisions are made, the less risk of incurring extra costs.

Stick with your decisions.

Try to make your decisions final. Changes, whether for a custom home or for a builder's model, can add time and expense to the project.

Check progress with a purpose.

Who can resist a tiny little peek (or two or three) to see how your new home is coming along? Builders will usually discourage it, though, for liability reasons (construction sites can be dangerous places, so leave the kids and pets at home).

If you do succumb to temptation, use the visit to make sure the home is being completed according to the plans and any modifications or choice of finishing items are being done as specified.

MORTGAGE RATES START SPRING MODESTLY HIGHER

As the spring 2017 housing market gets underway, 2016's ultra-low mortgage rates have given way to rates that are measurably higher, but still toward the low side historically.

However, there is a widely held presumption among economic analysts that rates will be going higher as the year progresses.

As 2016 started, it was expected that the Federal Reserve would be hiking short-term rates perhaps two or three times during the year.

However, with most of the world economies in the doldrums and the U.S. not exactly going gangbusters either, the Fed didn't feel confident enough to raise rates until December, and then only 0.25%. This year is likely to be a different story.

Interest rates in general and mortgage rates along with them jumped by about 0.75% following the November election, but were relatively stable early in 2017. Rates for 30-year fixed-rate conforming mortgages were around 4.2% in late February.

However, the Federal Reserve seems poised to hike more assertively in 2017, starting, perhaps, as early as mid-March. Current thinking of Fed-watchers is that the U.S. central bank will raise short-term rates maybe two or three times in 2017.

That won't necessarily translate directly into higher mortgage rates, though, so long as financial markets feel that inflation remains under control. Government budget policy may have a greater influence on longer term rates in 2017 than the Fed.

RATES *continued on page 3*

HOW TO AVOID CLOSING SURPRISES? STUDY YOUR MORTGAGE DISCLOSURES!

We were absolutely shocked when we read recently that a significant number (17%) of home purchasers were surprised to discover that they had closing costs to pay at settlement.

This was not supposed to happen with the "Know Before You Owe" mortgage disclosure procedures, but we also find that process is not working quite as it had been envisioned, so maybe a short overview is in order.

When a borrower applies for a mortgage, he or she must receive a Loan Estimate disclosing anticipated settlement costs within three business days of applying.

When settlement time rolls around, the borrower receives a Closing Disclosure with solid, final numbers. The Closing Disclosure must be given to a borrower not less than three business days before settlement.

However, borrowers are finding that their Loan Estimates and Closing Disclosures aren't always aligning perfectly. Some 58% of respondents in a survey said that their initial loan estimate figures were changed before settlement.

Why? There were a number of reasons, many of them understandable, including: a change in the settlement date, a change in the loan program the purchaser qualified for, a change requested by the purchaser and mistakes of some kind.

Many borrowers were okay with the adjustment. Unfortunately, a little more than a third of homebuyers said they were surprised when their Loan Estimate came up short of what they ultimately paid at settlement.

Certainly, lenders need to be as scrupulous as possible about providing

DISCLOSURE *continued on page 3*

SOME BASIC RULES FOR NEW-HOME BUYERS

Inventories of existing homes remain at exceptionally low levels in many of the stronger metropolitan housing markets. That is making it unusually frustrating for aspiring homebuyers.

As a result of a scarcity of existing homes for sale, homebuilders are hoping that buyers will, instead, increasingly turn to new construction.

In addition to certain availability (at some future date, of course), newly constructed homes offer the most up-to-date design features, finishings and details.

These advantages do come at a price, however. New homes are typically more costly relative to existing homes.

Here are some tips for purchasing a home from a builder. Be sure to bring your Realtor to help you negotiate and overcome all the issues and challenges along the way.

Know your wants and needs.

If you're not certain about your requirements and desires, then you may find they're not met when the house is completed and you're ready to move in. Homeowners should try going room by room to figure out what features of their current home they feel are most wanting of change or improvement.

Research your builder.

A great home design isn't worth much if the builder doesn't deliver what they have promised. Reference checks can include past customers, suppliers and subcontractors. Small builders, especially, may warrant a Dun & Bradstreet check to determine their financial soundness.

RULES *continued on page 3*