



Housing & Mortgage Outlook

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May 16, 2018



Economic & Housing Outlook

- Effect of higher mortgage rates
 - Inventory-for-sale remains low
 - Less refinance, more purchase & home-improvement HELOCs
- Tax reform effect on home prices and sales (none so far)

Short-term Interest Rates Heading Up

Federal funds target as of today: 1.50% to 1.75%

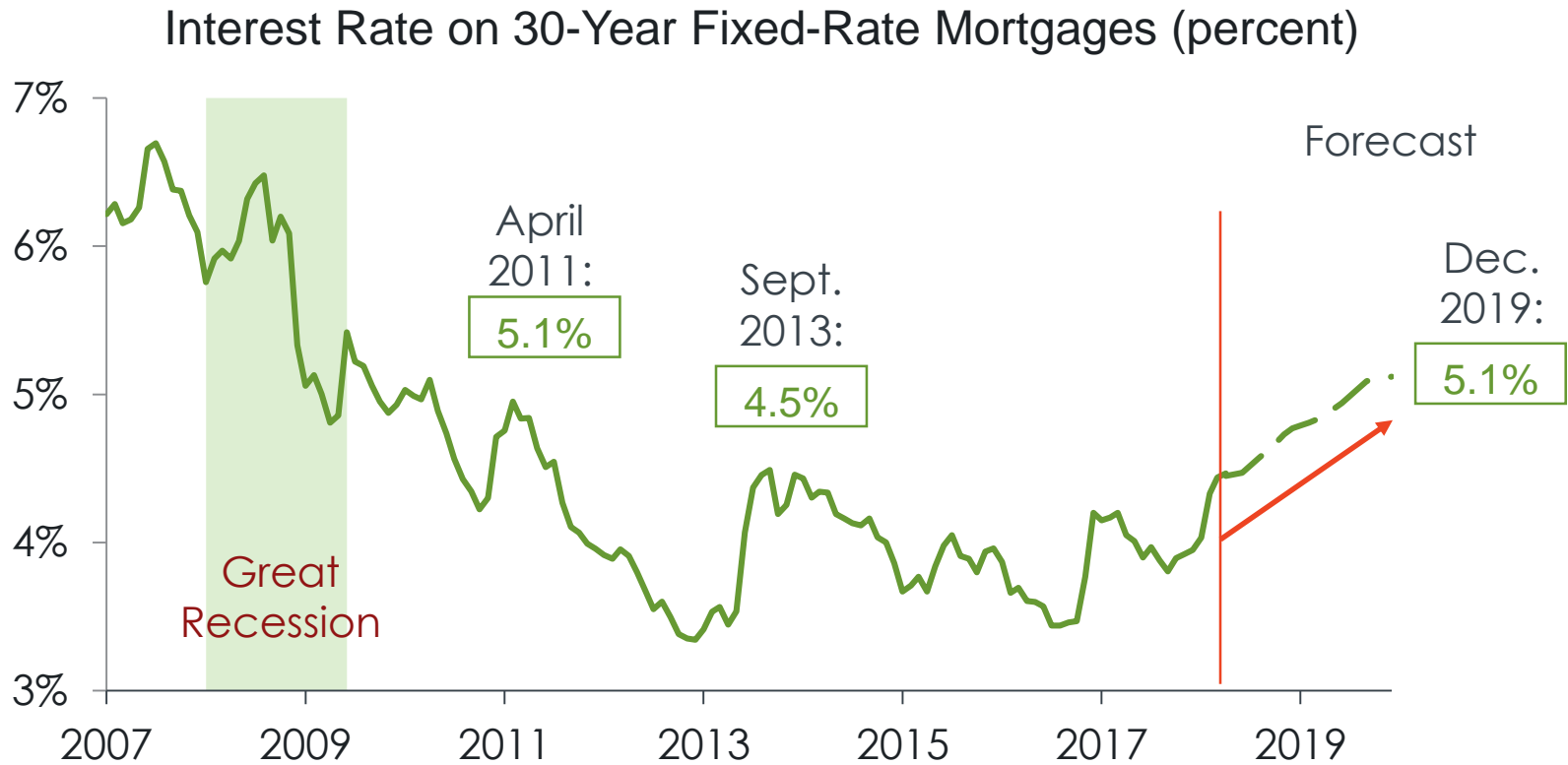
Federal funds target projected for December 31, 2018
(based on FOMC member projections):

<u>Federal Funds Target</u>	<u>Number of FOMC Members</u>
Same as today	2
2.00% to 2.25%	6 ← Median
2.25% to 2.50%	6
2.50% to 2.75%	<u>1</u>
FOMC Members projecting	15

Source: Federal Open Market Committee projections released March 21, 2018 (individual FOMC participant's judgment of the appropriate level of the target federal funds rate at the end of 2018).

Mortgage Rates Heading Up

Rates today at 4.5%; forecast to rise to 4.8% by Dec. 2018 & 5.1% by Dec. 2019



4

Source: Freddie Mac Primary Mortgage Market Survey®; forecast is an average of MBA, Fannie Mae, Freddie Mac, NAHB, NAR and IHS Markit projections.

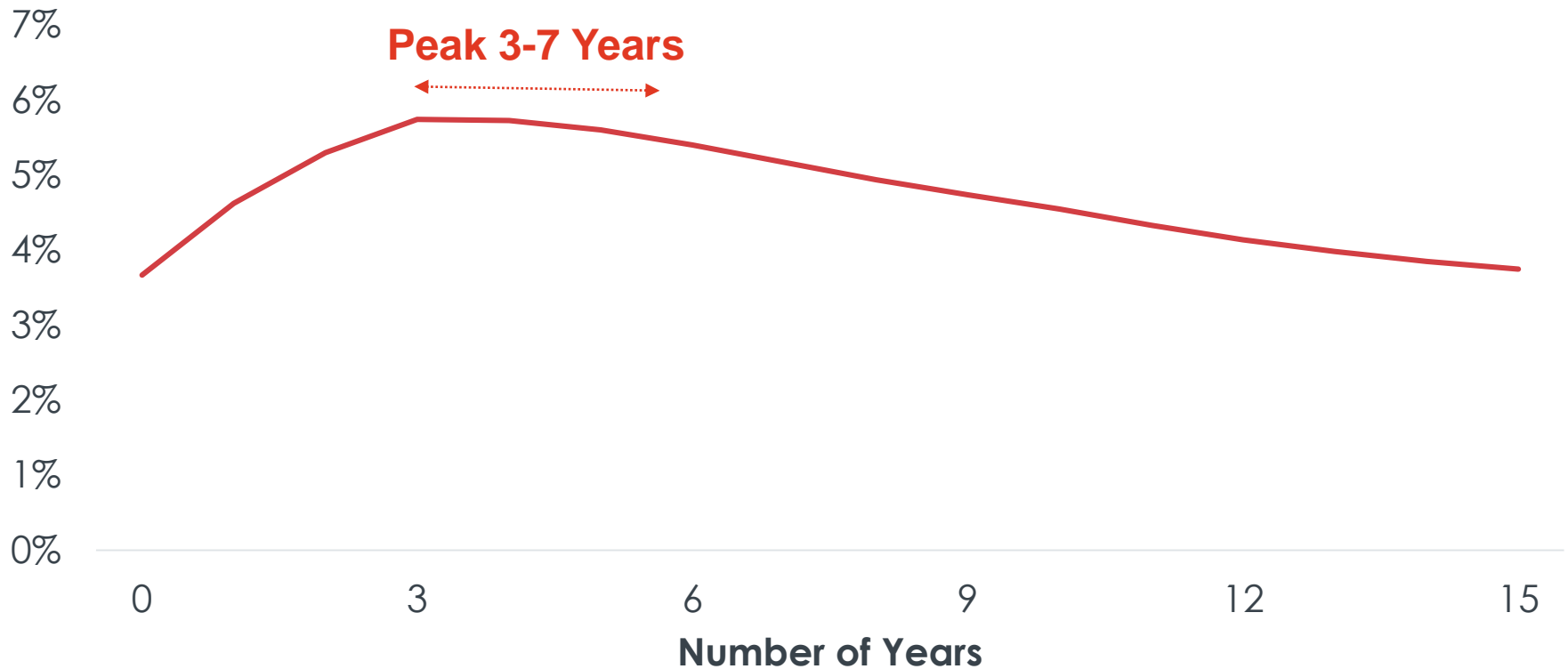
Effect of Higher Mortgage Rates

Interest rates expected to rise in 2018:

- **Affordability lessens**
- **Owner mobility may lessen, for-sale inventory remains lean**
 - **Adds to home-price pressure: expect 6% U.S. & 8% L.A. HPI rise in 2018**
- **Single-family originations: less refinance, more purchase, HELOC flat**
 - **New refi mix: more FHA-to-conventional, cash-out, longer-term**
 - **New loans: credit box may open up, fraud risk may increase**

Rising Rates A Hurdle for Home Sales

Percent of home buyers that sell by length of ownership, 1976-2016



Source: CoreLogic

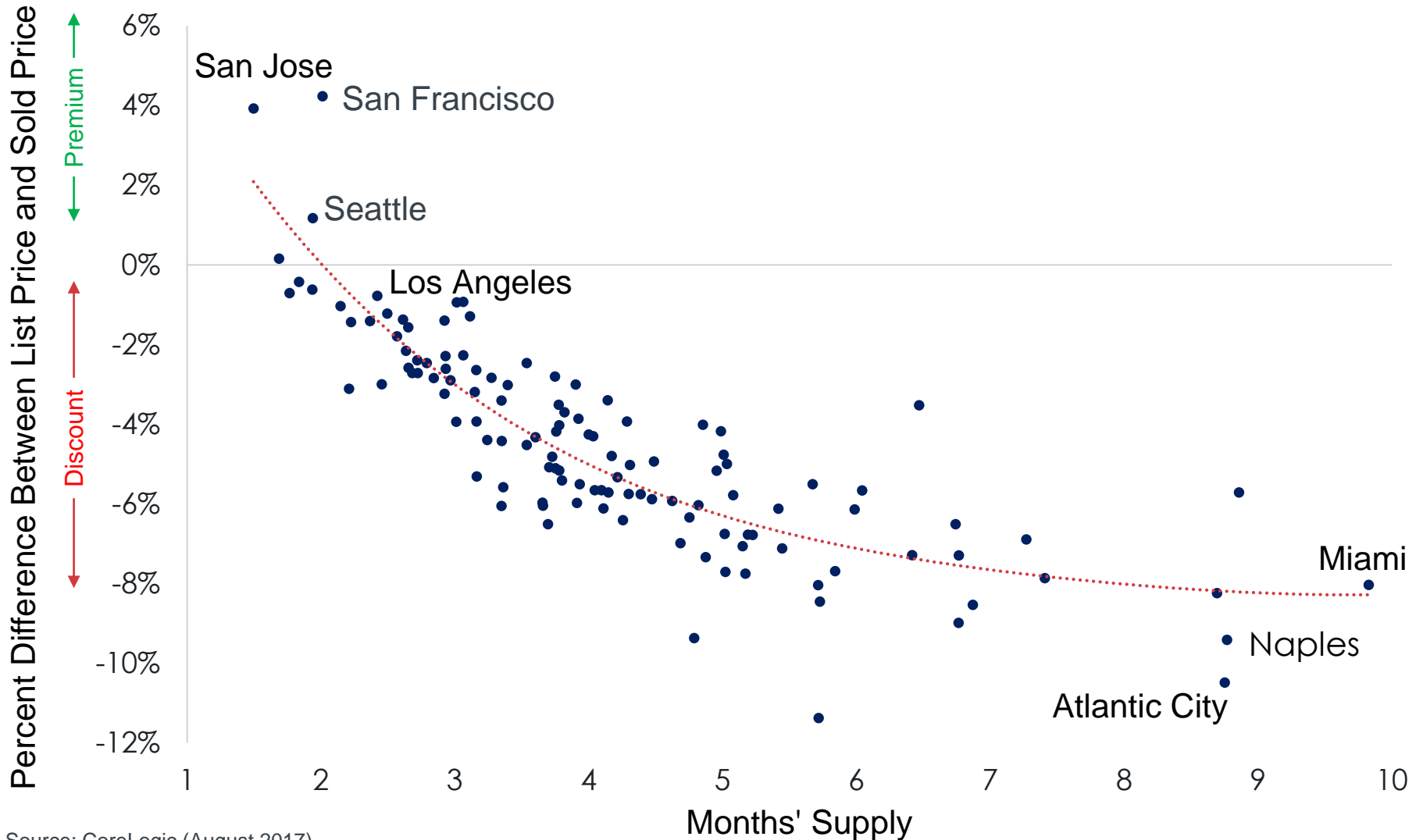
Rising Rates A Hurdle for Home Sales

Percent of home buyers that sell by length of ownership, 1976-2016



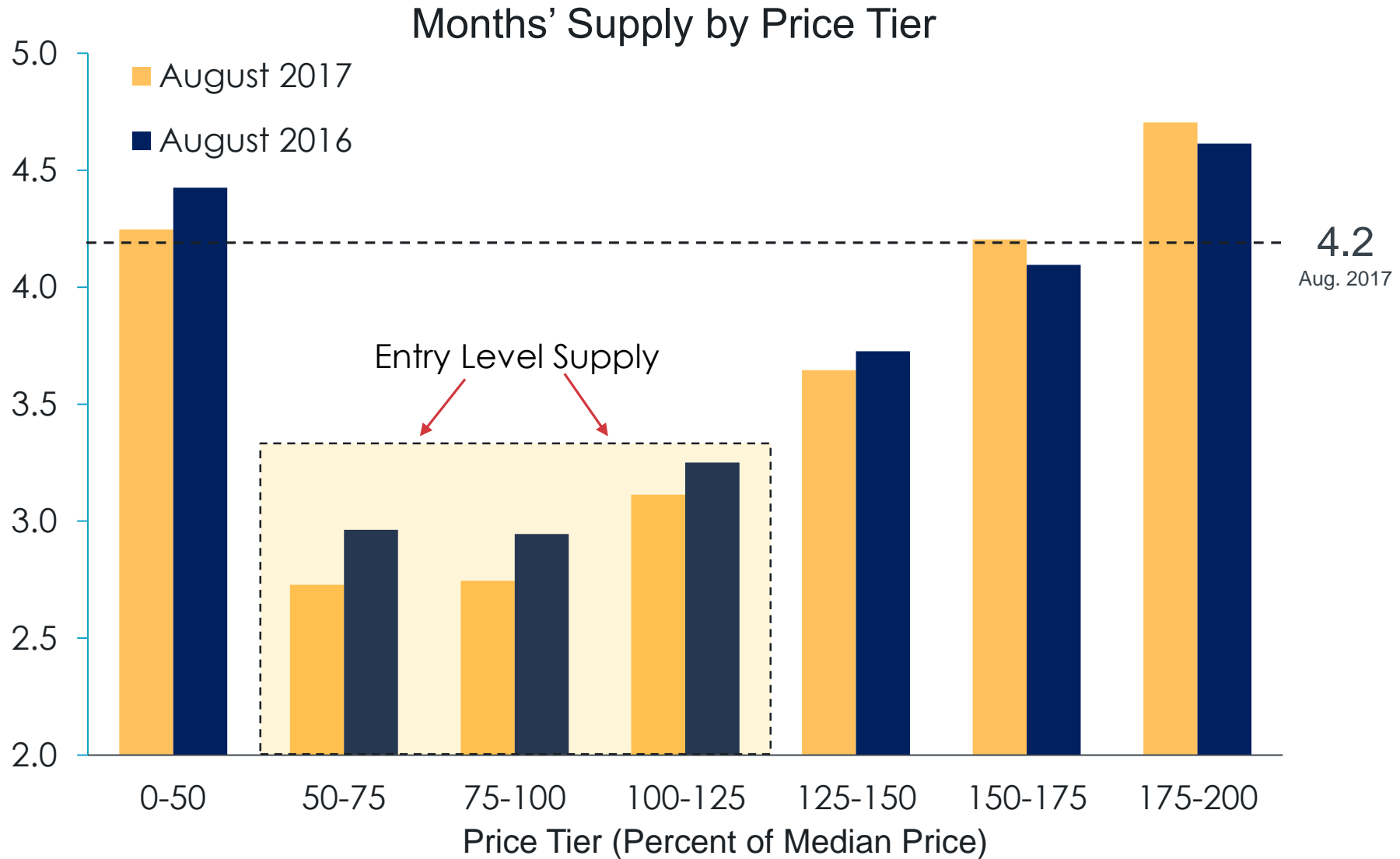
Source: CoreLogic

Price Pressures Rapidly Increase As Supply Drops Below 3 Months



Source: CoreLogic (August 2017)

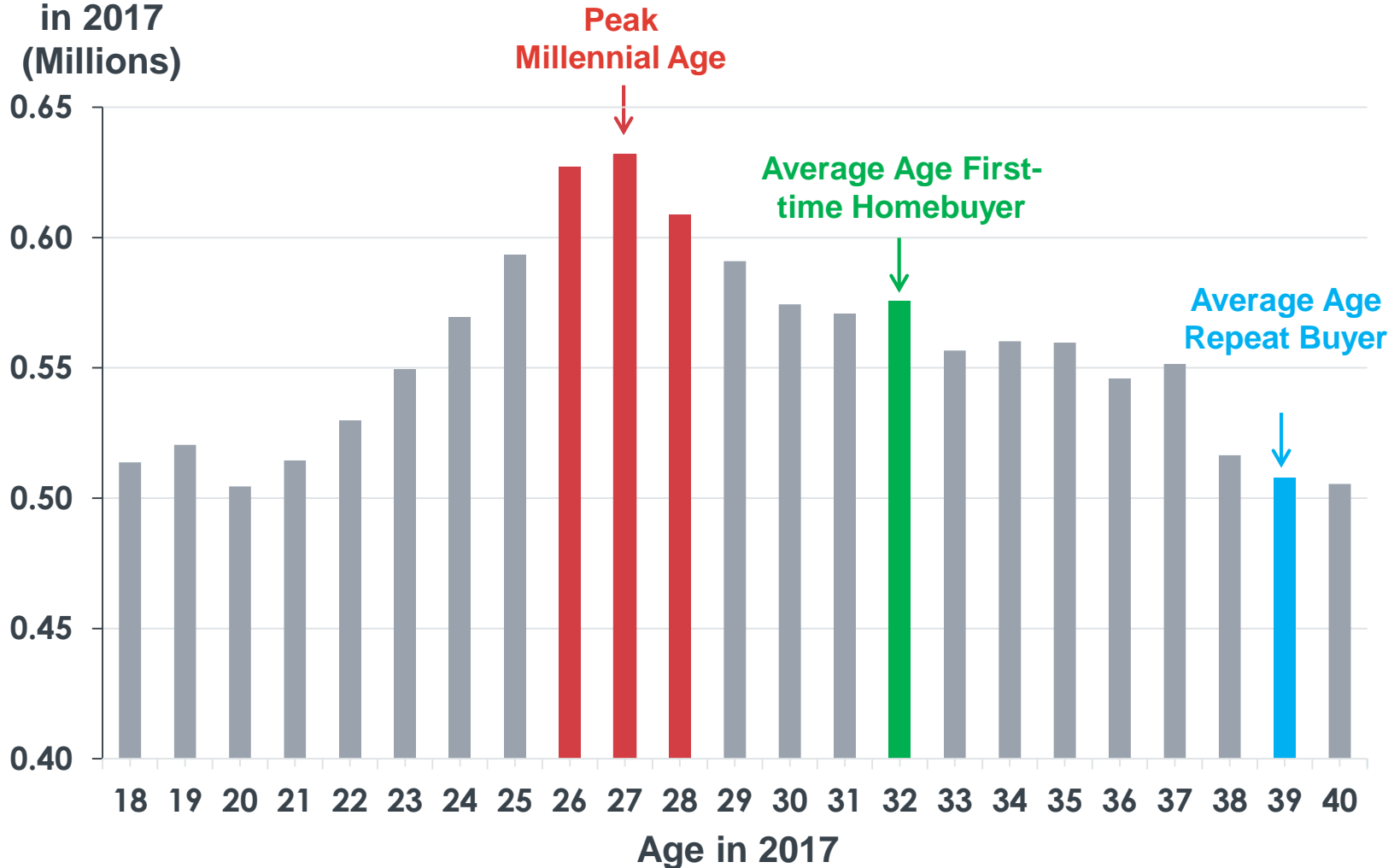
Inventory Tighter for Entry-Level Buyers



Source: CoreLogic, National Association of Realtors®

Demographic Tailwind Has Arrived

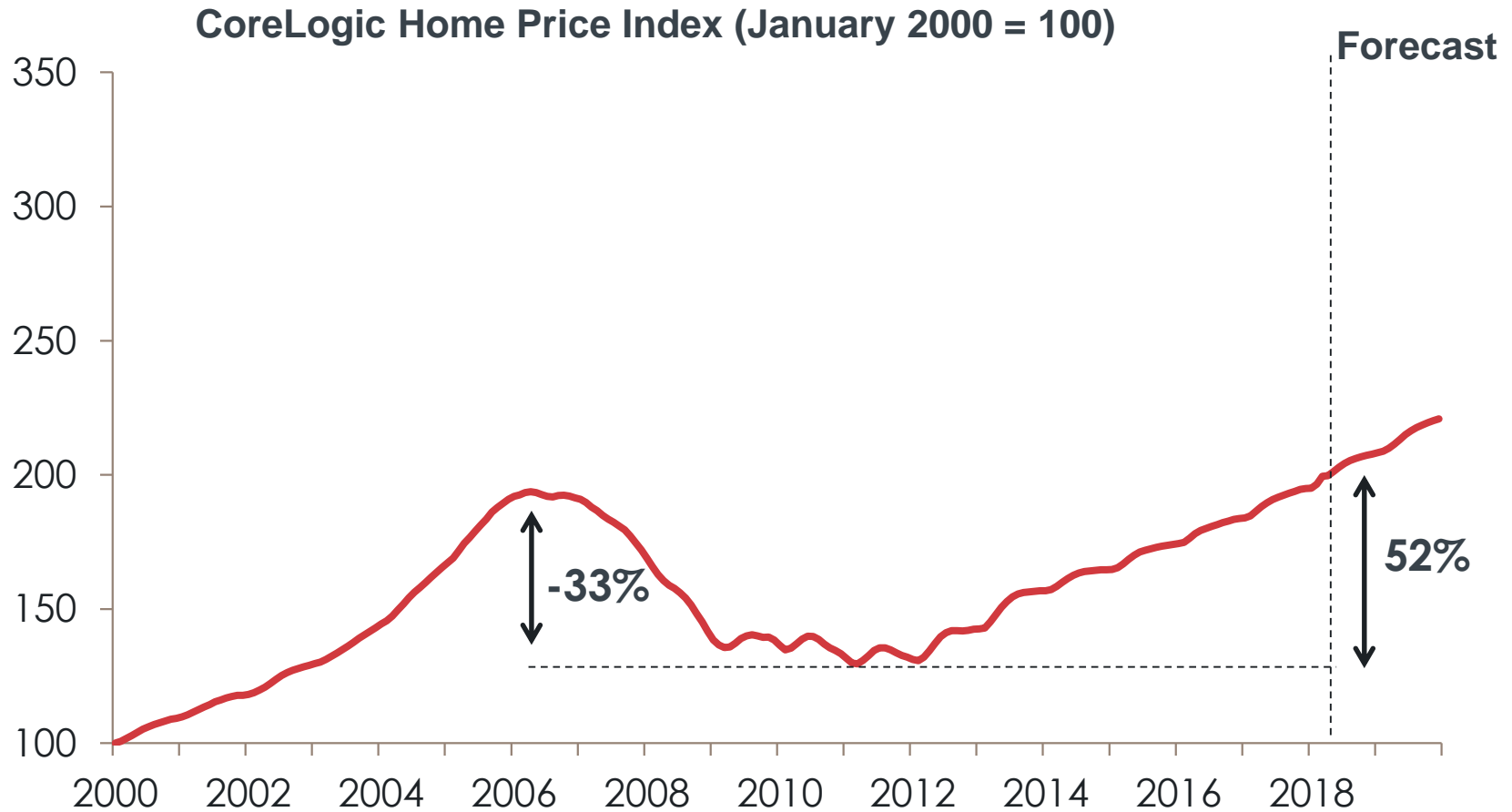
California
Population
in 2017
(Millions)



Source: U.S. Census Bureau, Population Estimates by state and age

Expect U.S. HPI Up 6% Per Year, 2018 & 2019

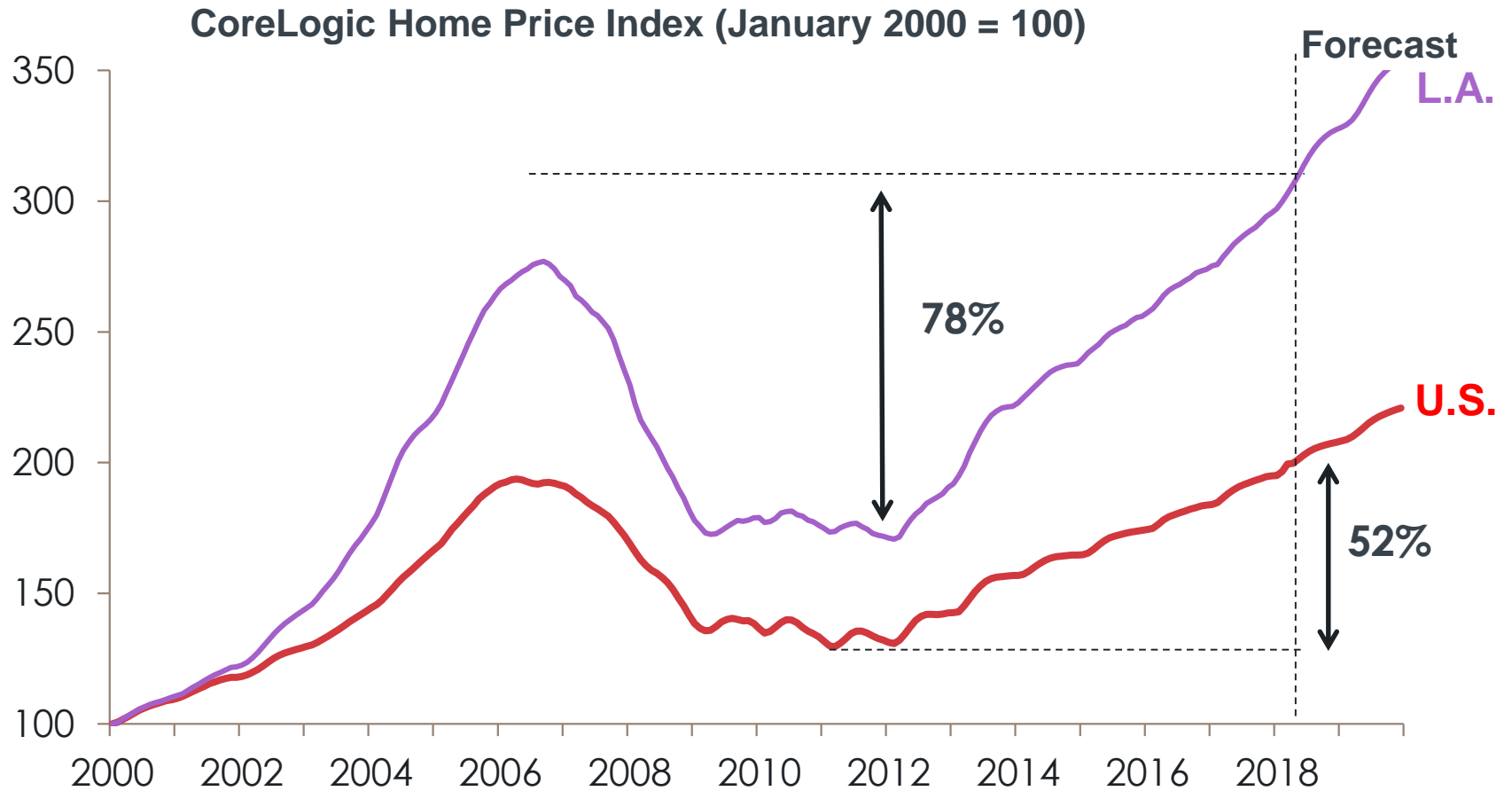
Oct. 2017 back at 2006 peak, but real (inflation-adjusted) index was 18% below



Source: CoreLogic Home Price Index (May 1, 2018 release), pre-recession peak occurred April 2006, trough March 2011, and CoreLogic HPI Forecast

Expect L.A. HPI Up 8% Per Year, 2018 & 2019

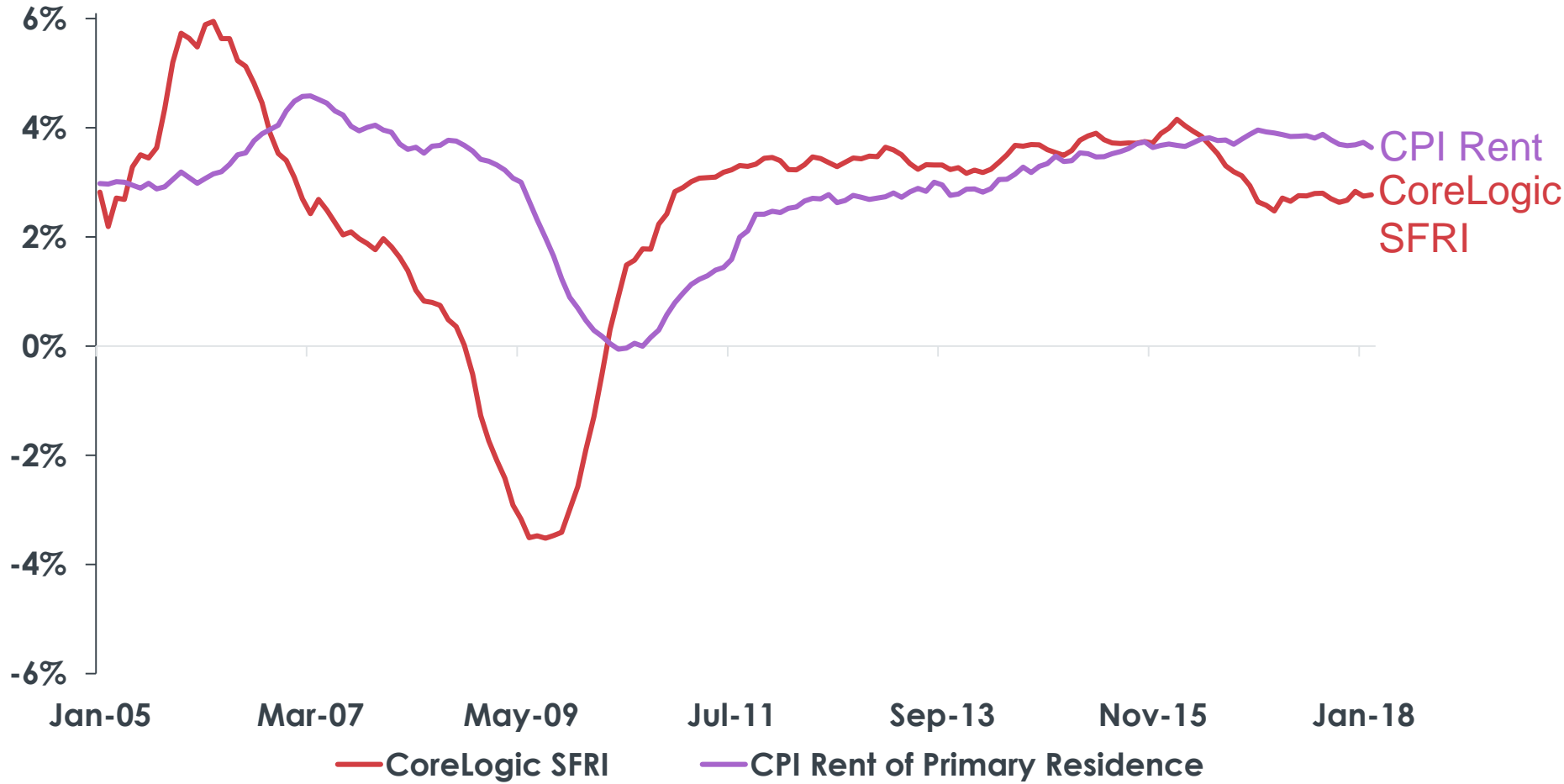
Mar. 2018 nominal 9% above 2006, real (inflation-adjusted) index 10% below



Source: CoreLogic Home Price Index (May 1, 2018 release), L.A. CBSA pre-recession peak occurred Sept. 2006, trough Feb. 2012; CoreLogic HPI Forecast

CoreLogic SFRI Uses Rent of New Tenants; CPI Rent Index Exhibits a 12-Month Lag

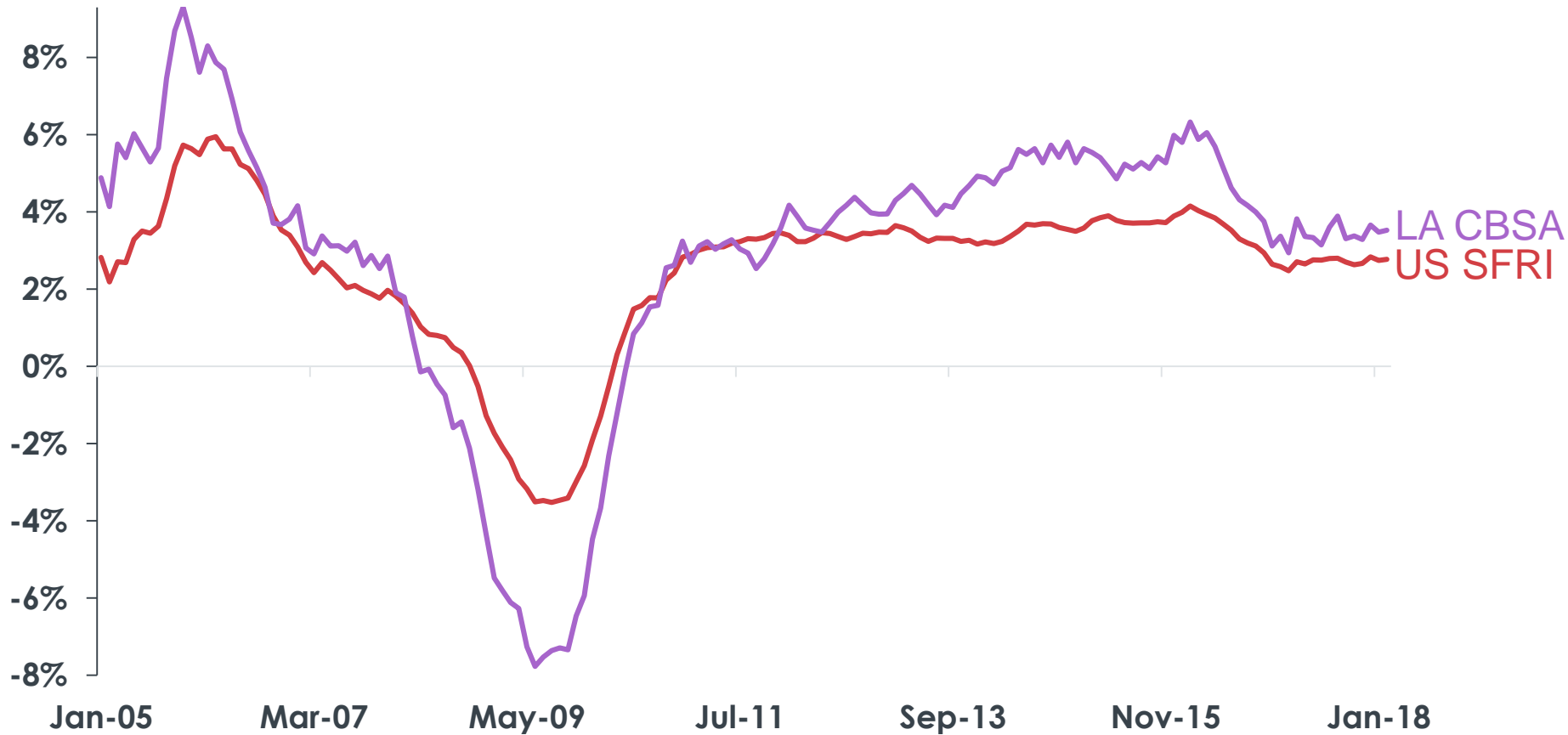
Percent Change from One Year Ago



Source: CoreLogic Single-family Rental Index, Bureau of Labor Statistics CPI (through February 2018)

Annual SF Rent Growth in Los Angeles CBSA 1% Faster than in U.S. Since 2011

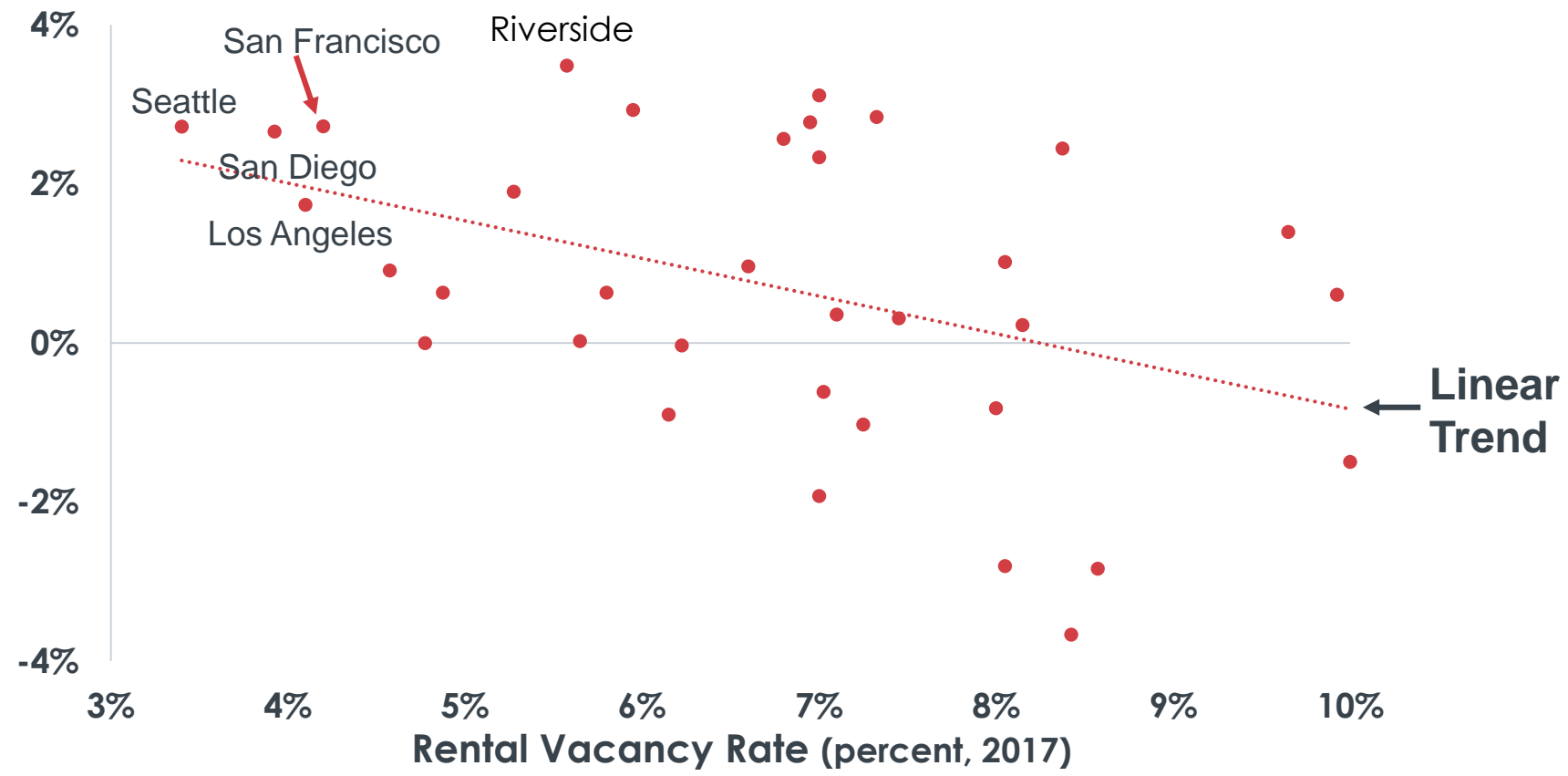
Percent Change from One Year Ago



Source: CoreLogic Single-family Rental Index (through February 2018)

Rent Growth Faster in Low-Vacancy Metro Areas

Real Rent Growth
(percent, 2016Q4 to 2017Q4)

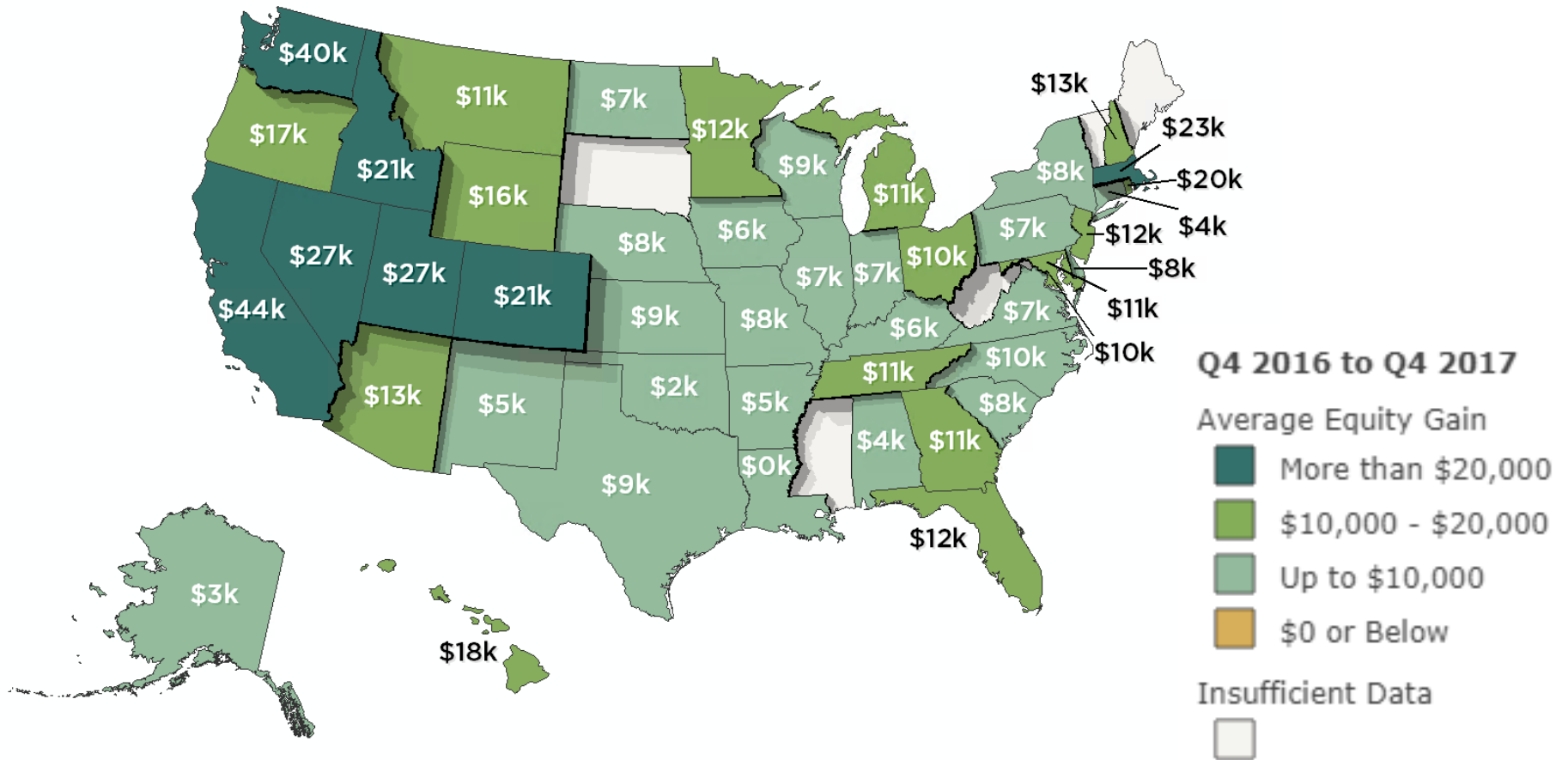


Source: CoreLogic Single-family Rental Index, Bureau of Labor Statistics Consumer Price Index less Shelter, U.S. Census Bureau Housing Vacancy Survey (Table 4), 35 metropolitan areas; line represents a univariate regression

Average Equity Gain per Homeowner in 2017

U.S.: Average \$15,100 per home

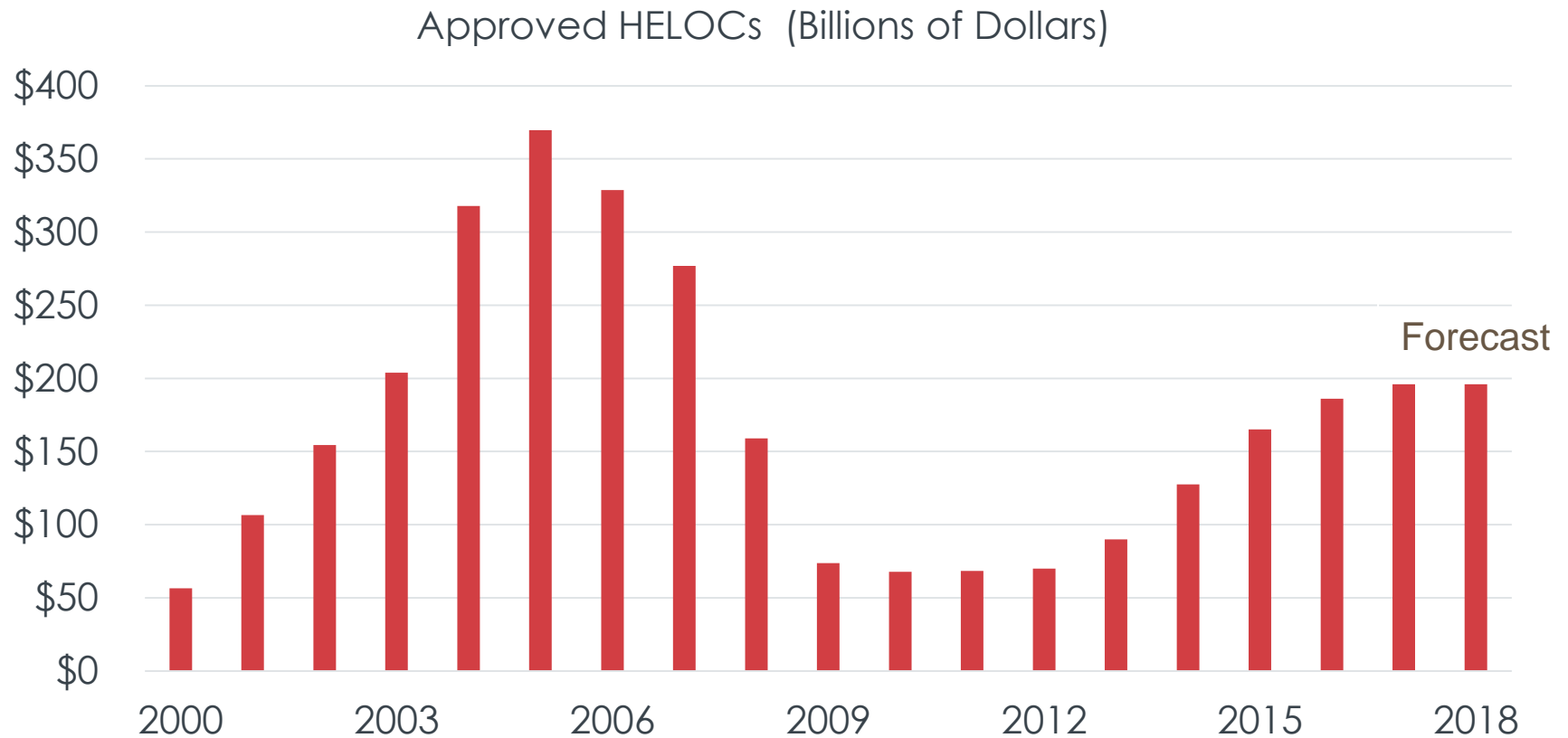
Los Angeles, CA CBSA: Average \$45,900



Source: CoreLogic Equity Report for 2017 Q4

HELOC Volume Projected to Hold Steady

7.5% growth in home improvement HELOCs projected for 2018 offsets decline in HELOCs for other purposes



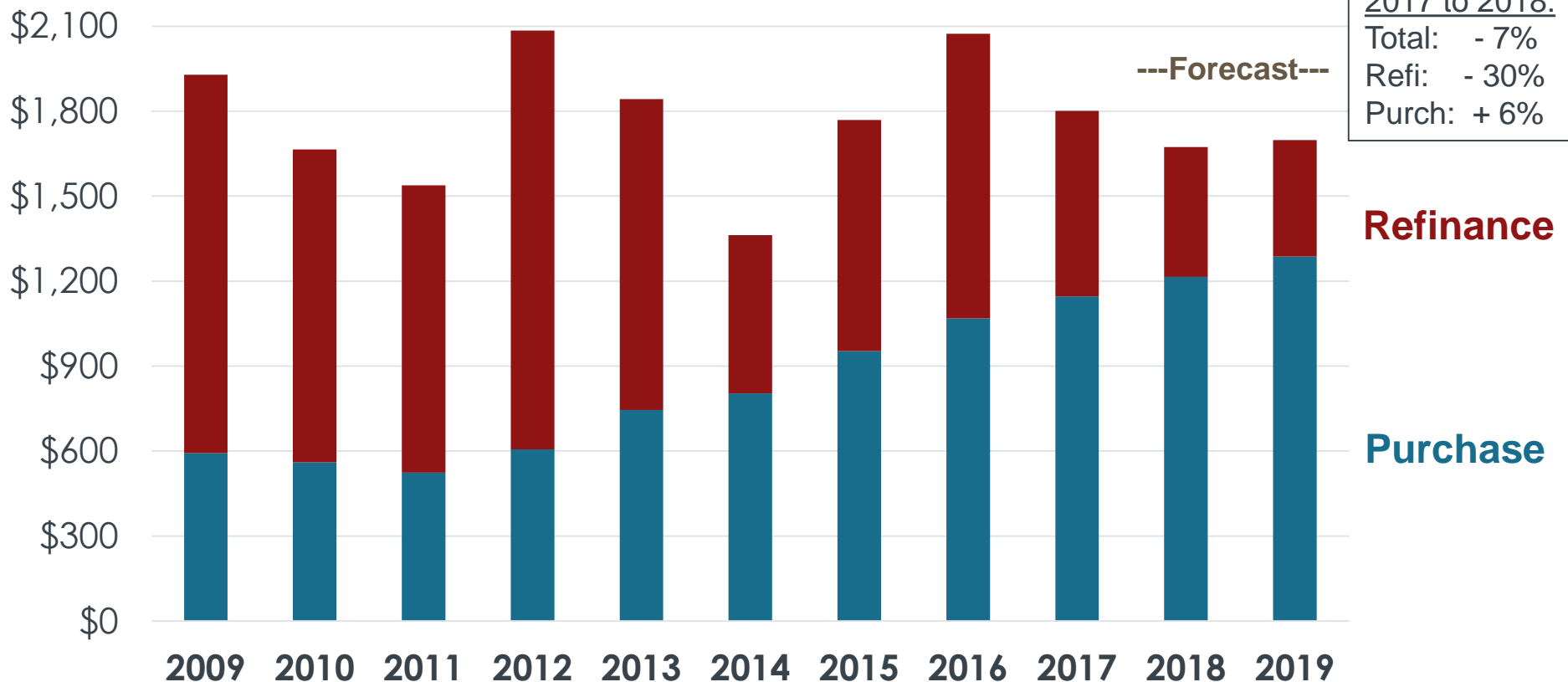
Source: CoreLogic public records, second-lien HELOCs placed more than 60 days after first lien; Harvard University Joint Center for Housing Studies LIRA.

More Purchase, Less Refi in 2018 and 2019

Smaller refi share leads to more stable annual originations forecast after 2017

Single-family Mortgage Originations (Billions of dollars)

2017 to 2018:
 Total: - 7%
 Refi: - 30%
 Purch: + 6%



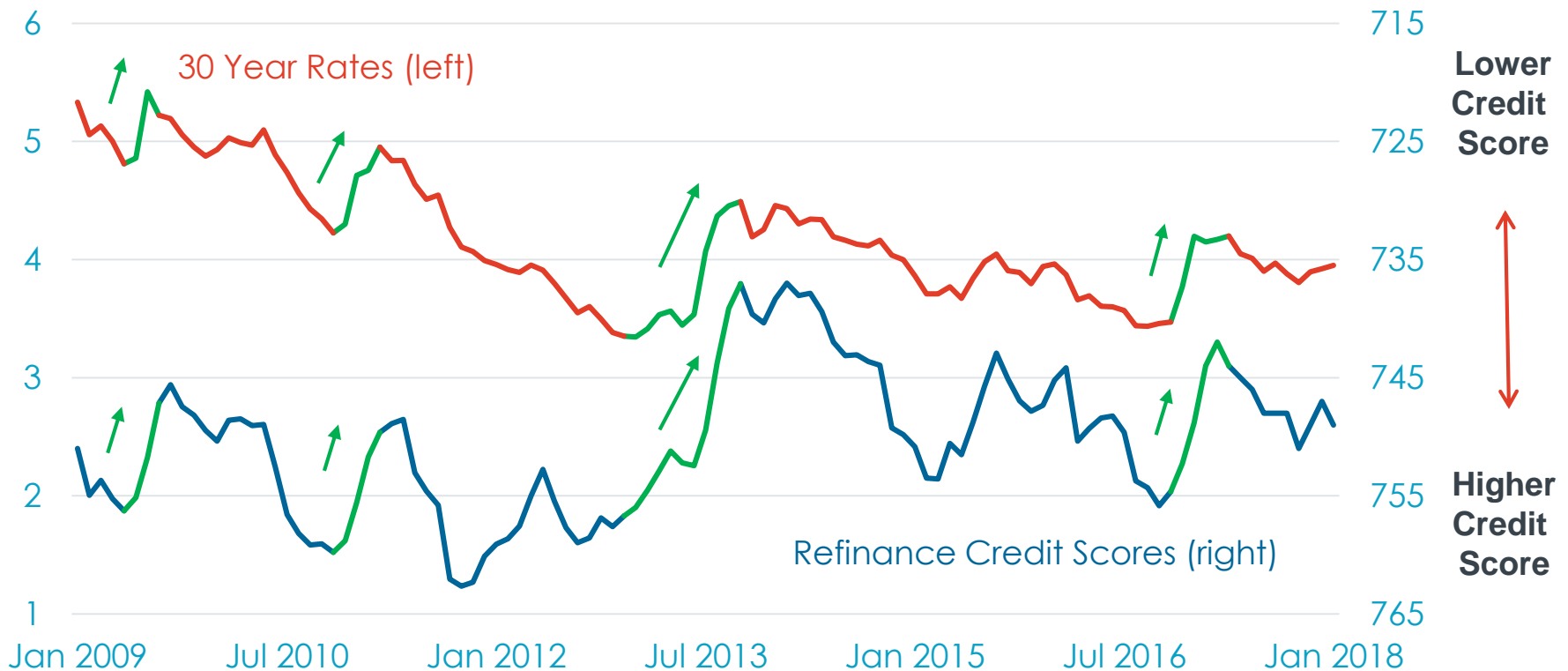
Source: 2009-2016 were benchmarked to HMDA. Forecast: 2018 & 2019 are an average of the latest projections released by Freddie Mac, Fannie Mae, and Mortgage Bankers Association. Originations exclude HELOCs.

When Rates Rise, Refi Credit Scores Fall

Refi Credit Scores Dip 10 points For Each 0.6% Rise in Mortgage Rates

30-Year FRM Rates (percent)

Refinance Credit Score (mean) – Inverse Scale



Source: CoreLogic TrueStandings Servicing, Freddie Mac (monthly average 30-year FRM led one month)

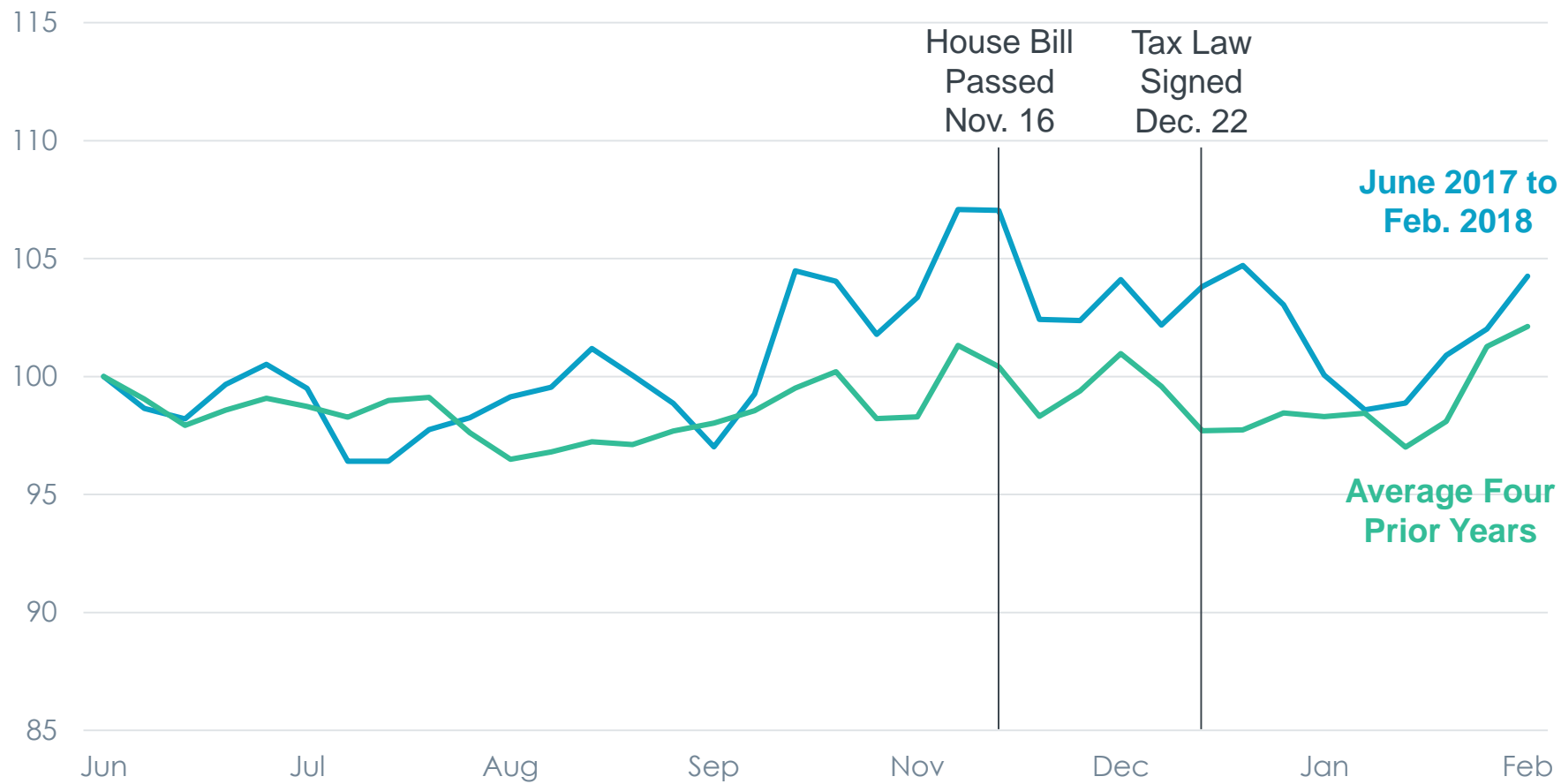
Tax Cuts and Jobs Act of 2017: Impact on Owner-Occupied Housing

1. Lowered maximum loan size for interest deductibility on new first liens to \$750,000.
2. Eliminated interest deductibility on many second liens.
3. Capped annual tax deduction for state and local income and property taxes at \$10,000.
4. Increased standard deduction reduces itemizers; lower marginal rates reduce deductions' value for those who do itemize.

Source: CoreLogic analysis of *Tax Cuts and Jobs Act of 2017*, Public Law no. 115-97

High-Cost Areas Price Trend Similar to Prior Years

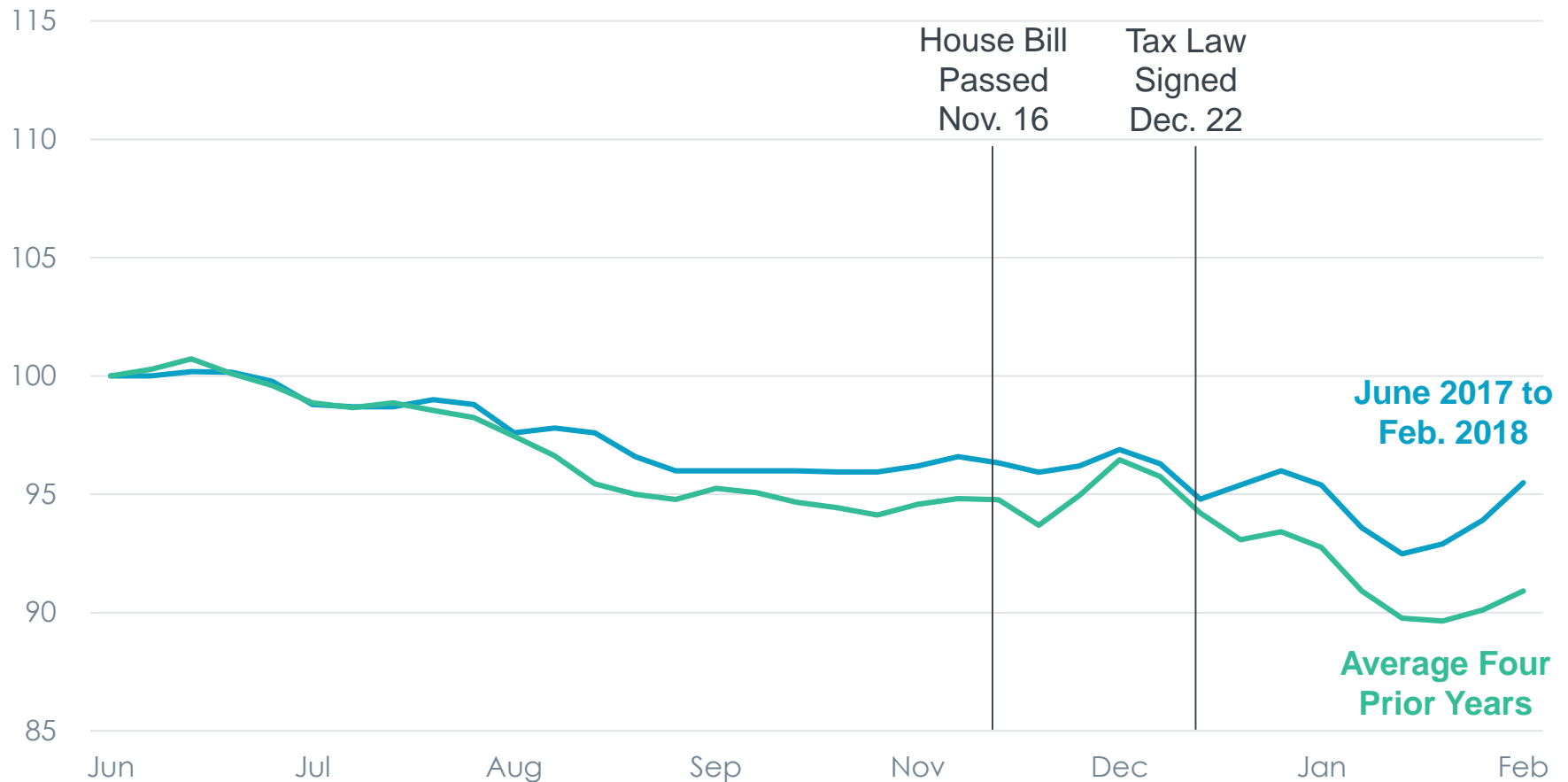
CoreLogic Median Price Index (2-week moving average, June 1st-2nd week=100)



Source: CoreLogic, 2-week moving average of MLS median sales price in high-cost area ZIP codes

Lower-cost Areas Price Trend Similar to Past Years

CoreLogic Median Price Index (2-week moving average, June 1st-2nd week=100)



Source: CoreLogic, 2-week moving average of MLS median sales price in non-high-cost area ZIP codes

2018 Housing Outlook

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Where to find more information

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<http://www.corelogic.com/blog>

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