

Economic and Housing Market Outlook: What's Ahead for 2022?

NAMMBA Connect Tour

March 24, 2022

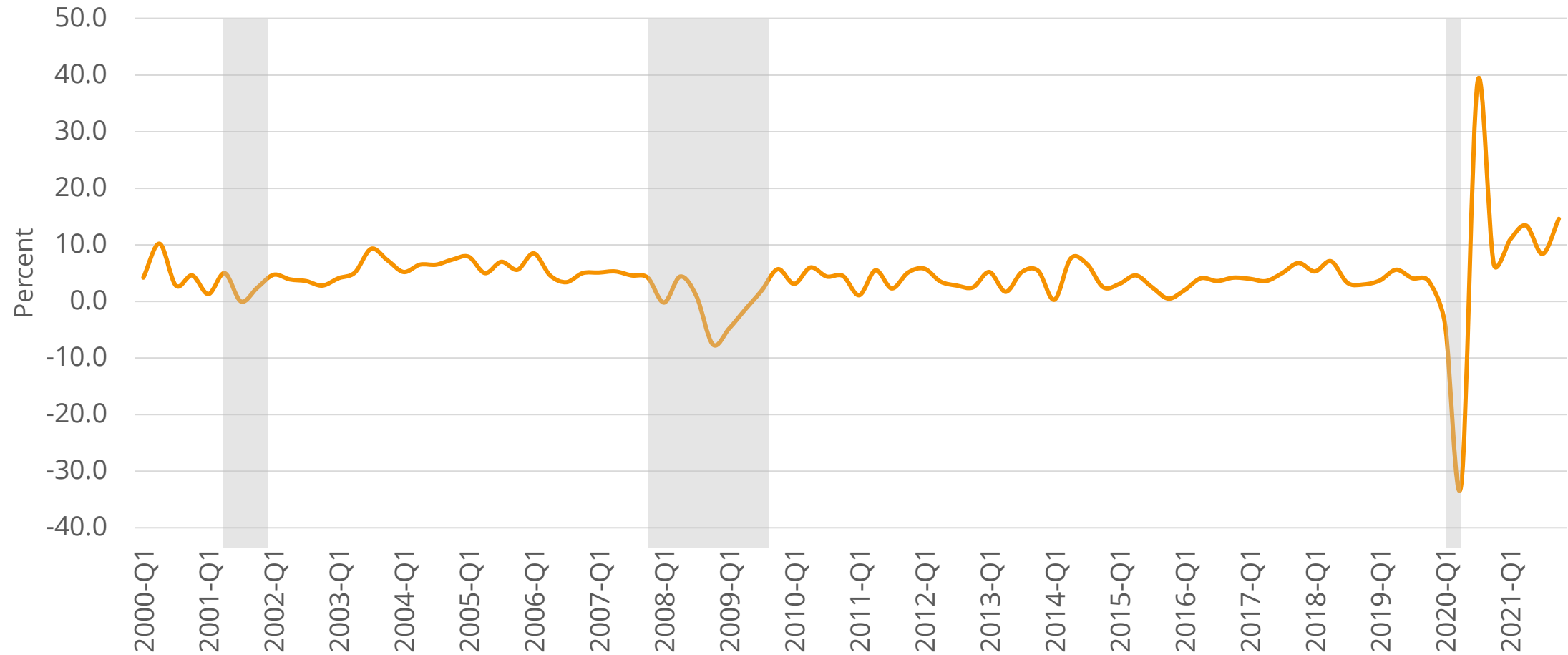
Lisa Sturtevant, PhD
Virginia REALTORS®
Chief Economist



Economic Indicators

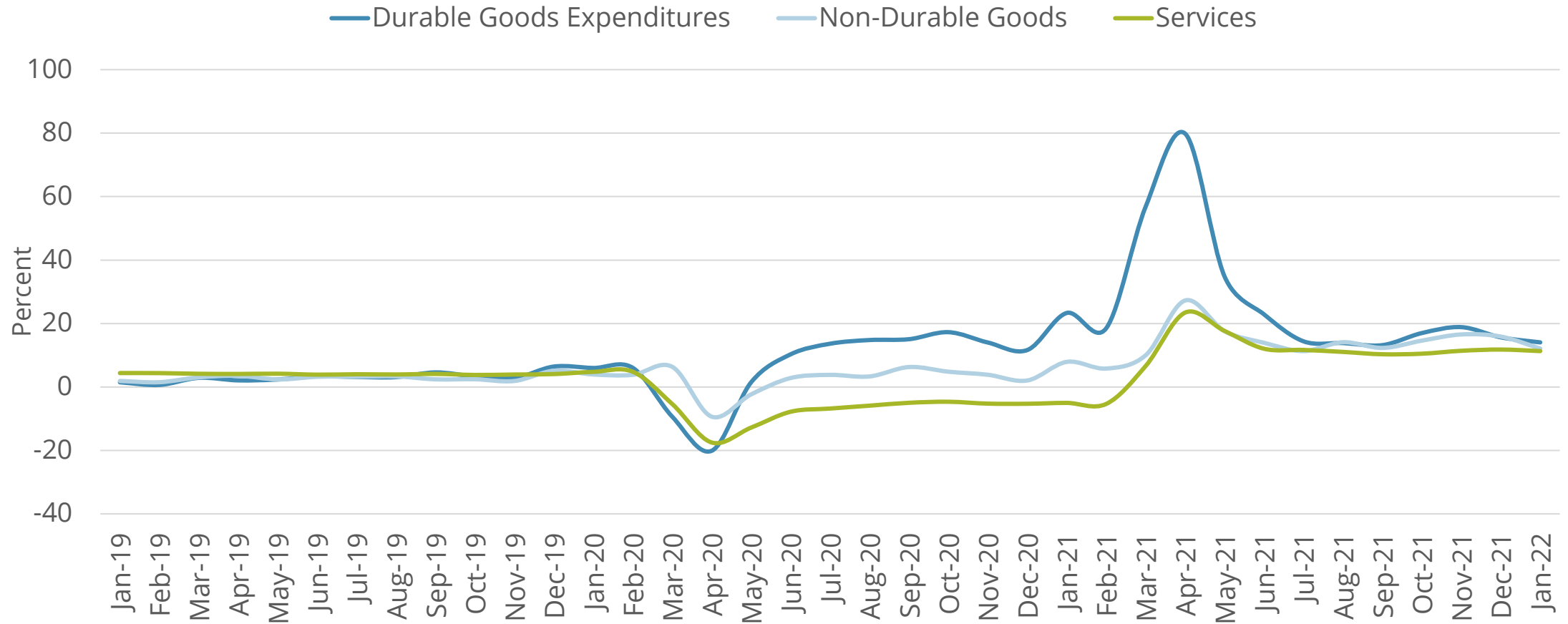
Gross Domestic Product

Annualized Change



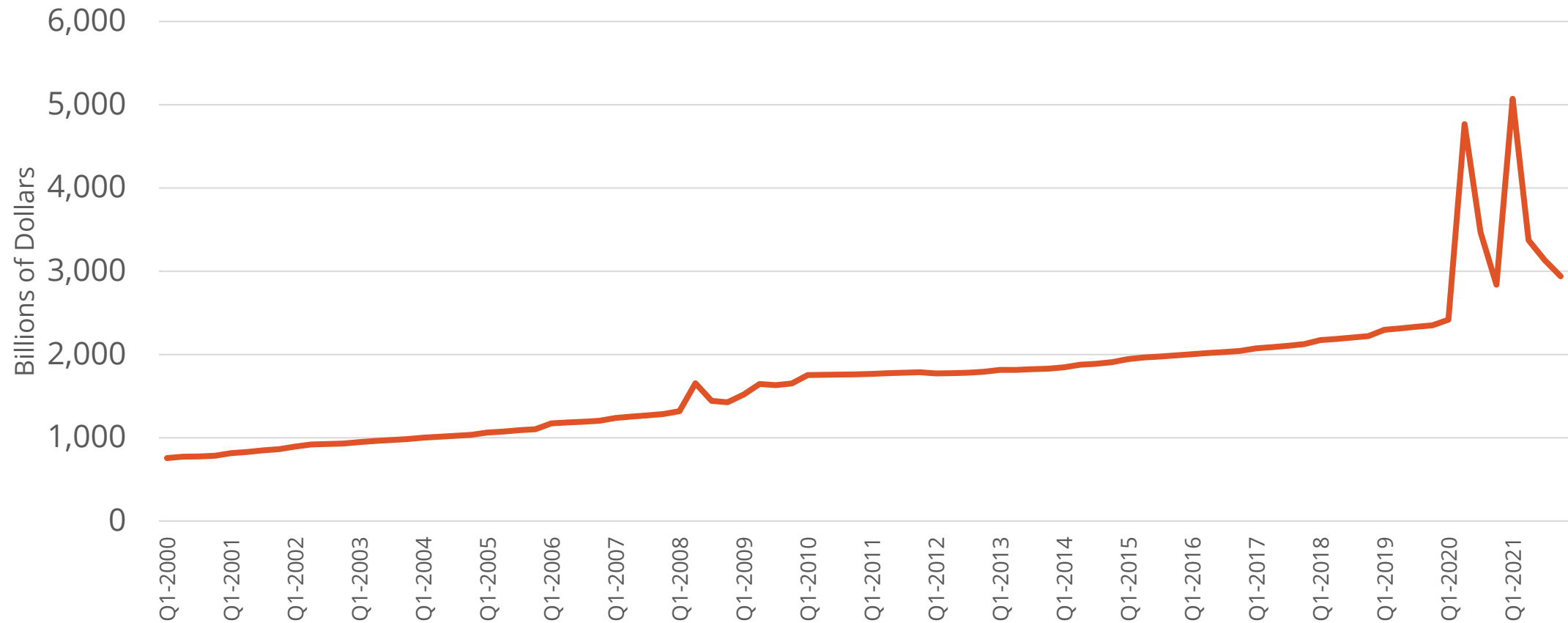
Personal Consumer Expenditures

Year-over-year change

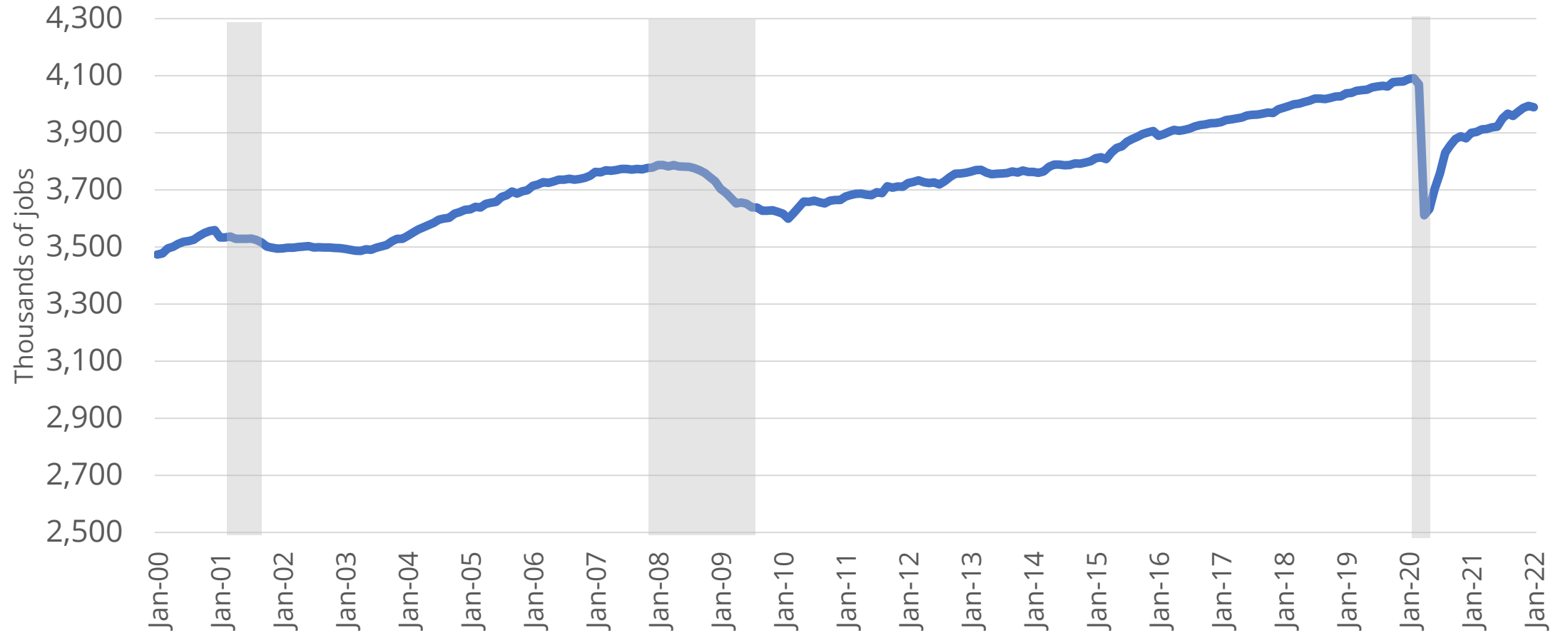


Stimulus Payments

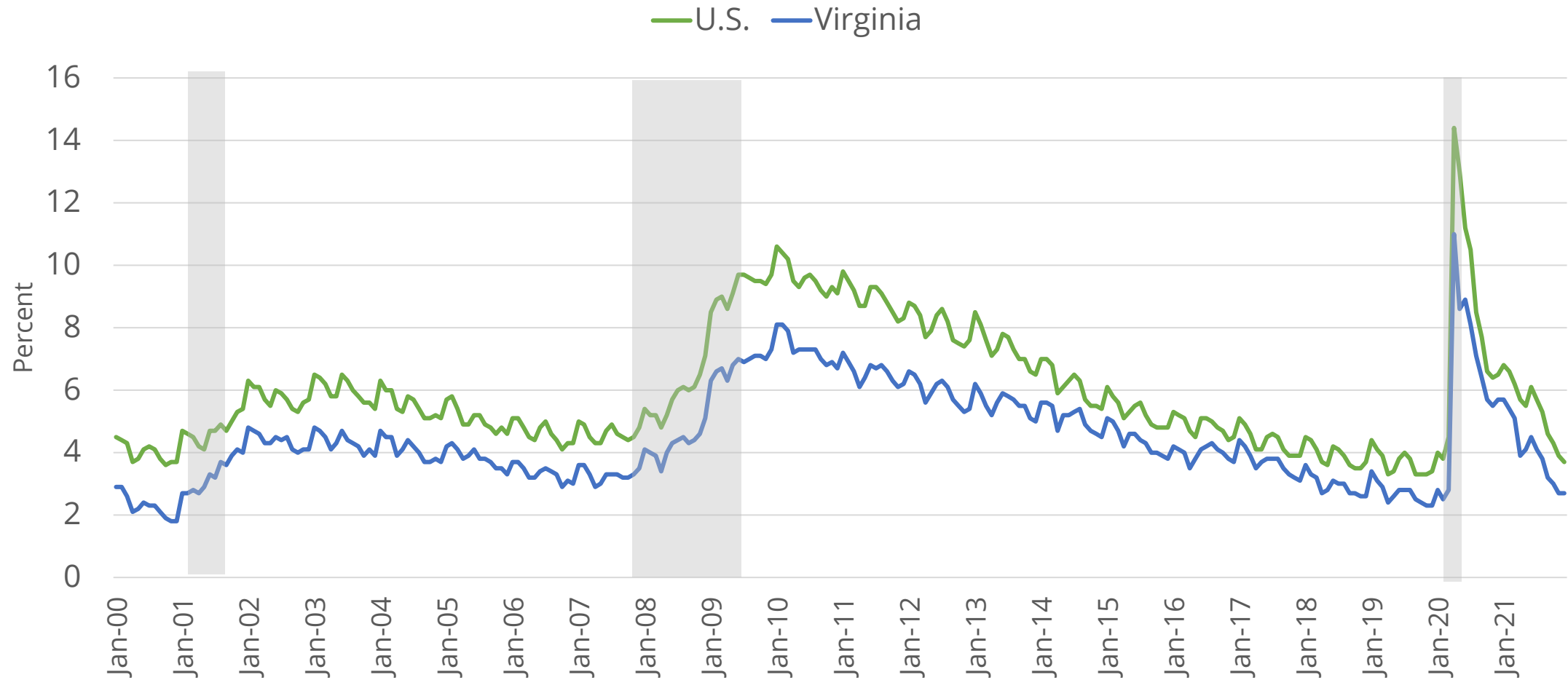
Federal Government Transfer Payments to Individuals



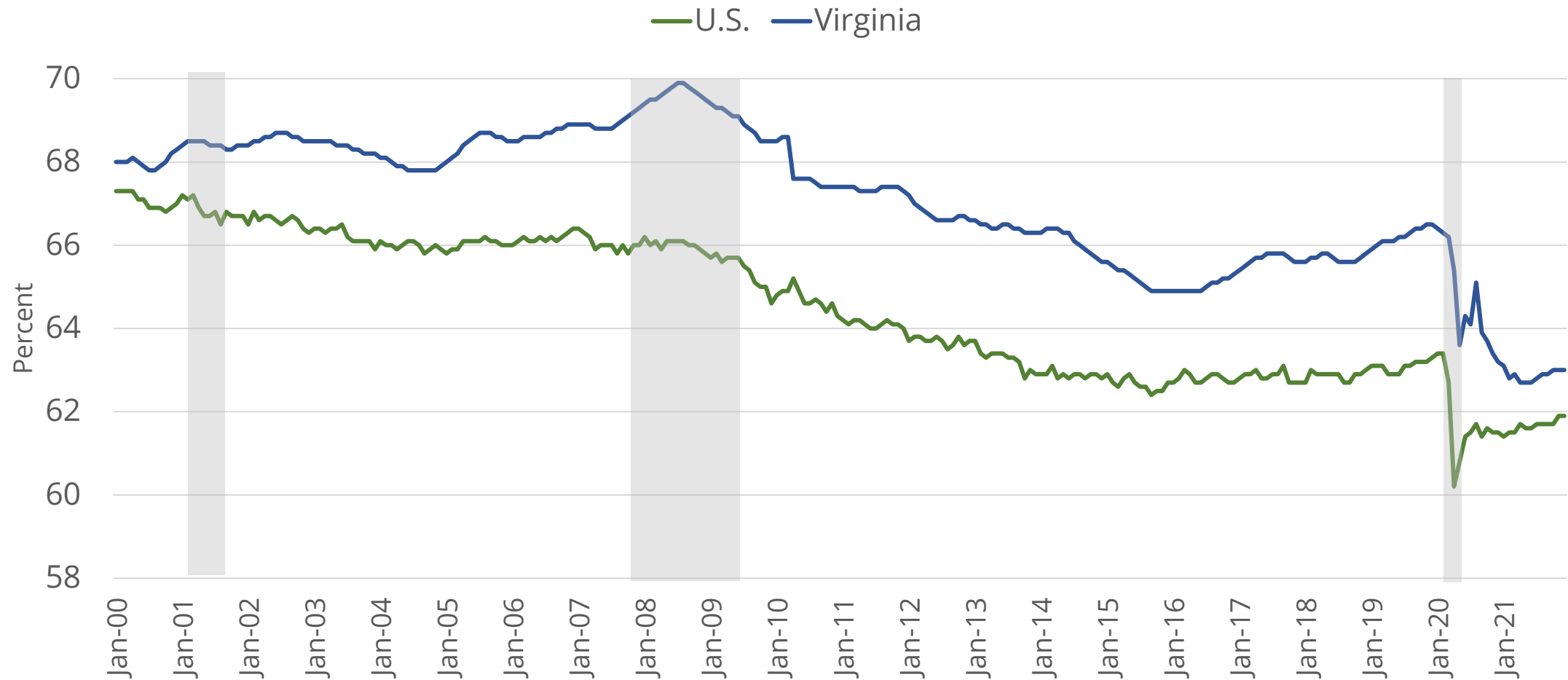
Employment Virginia



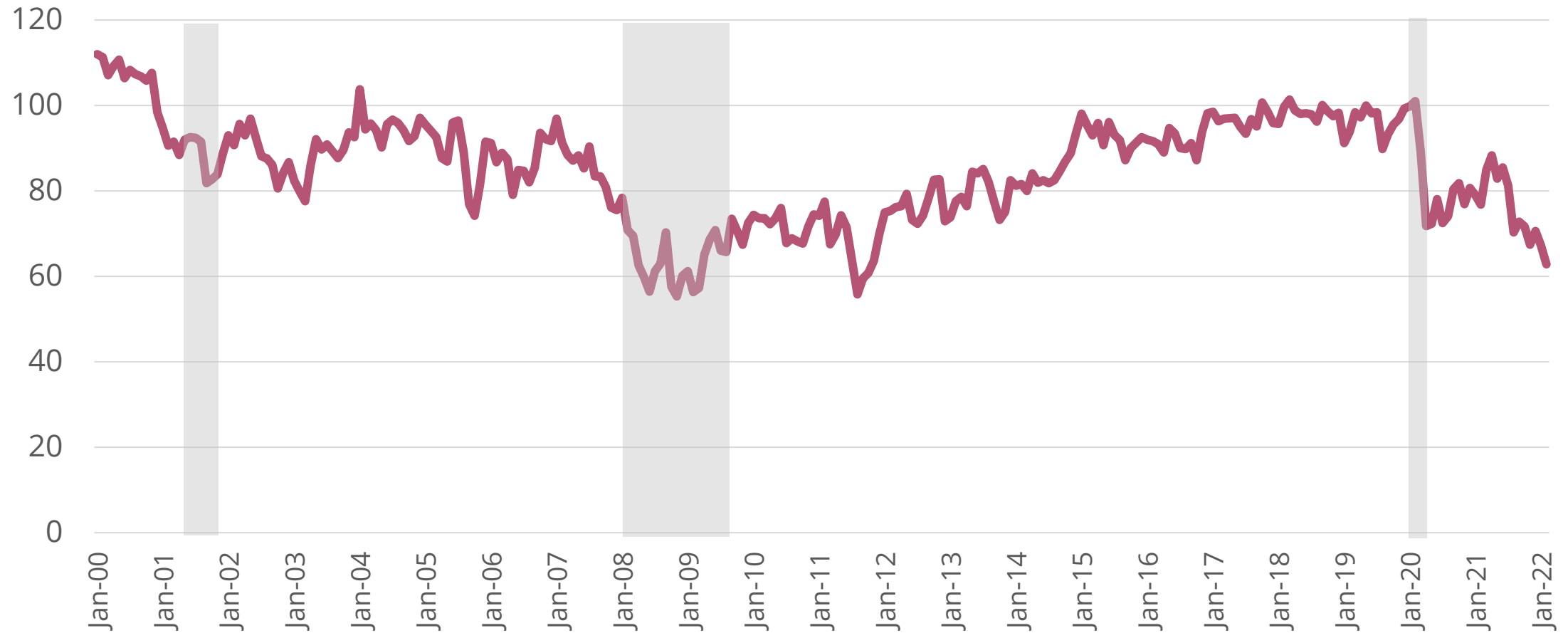
Unemployment Rate



Labor Force Participation Rate



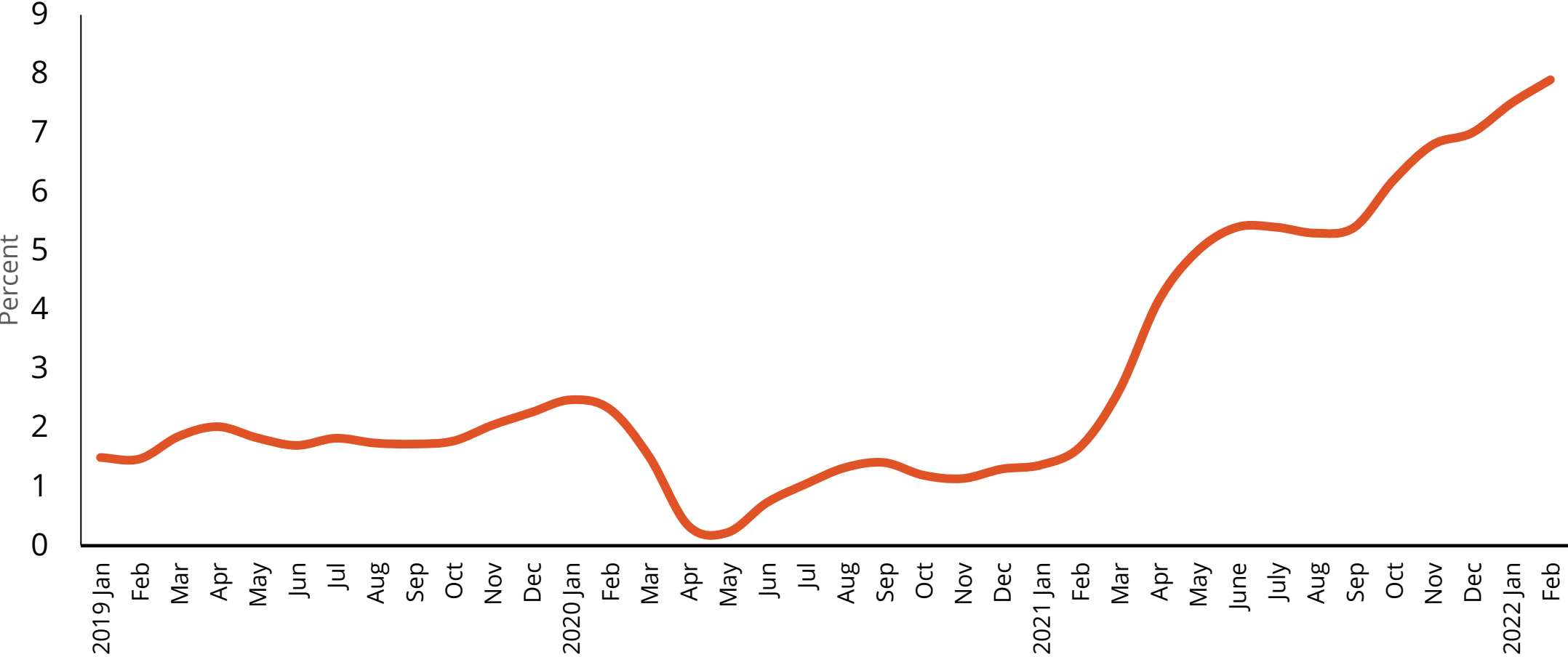
Consumer Sentiment U.S.



Source: U.S. Bureau of Labor Statistics, seasonally adjusted

Inflation

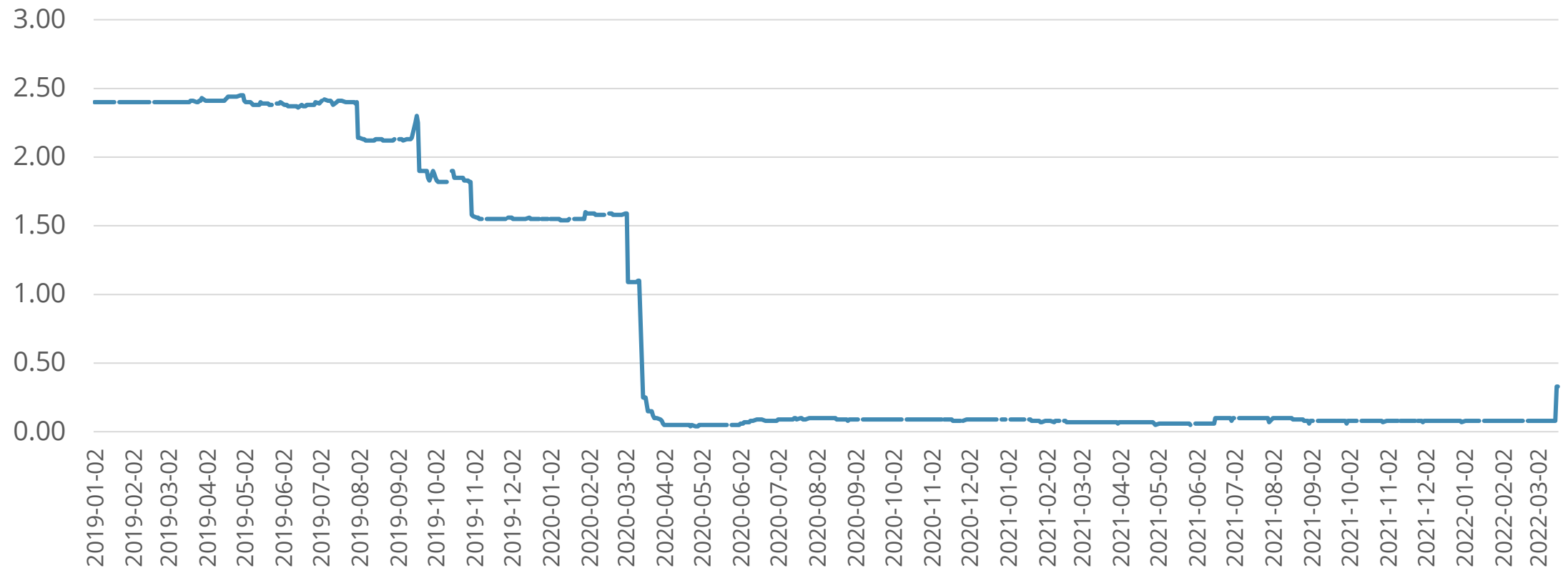
Change in CPI-U



Source: Bureau of Labor Statistics

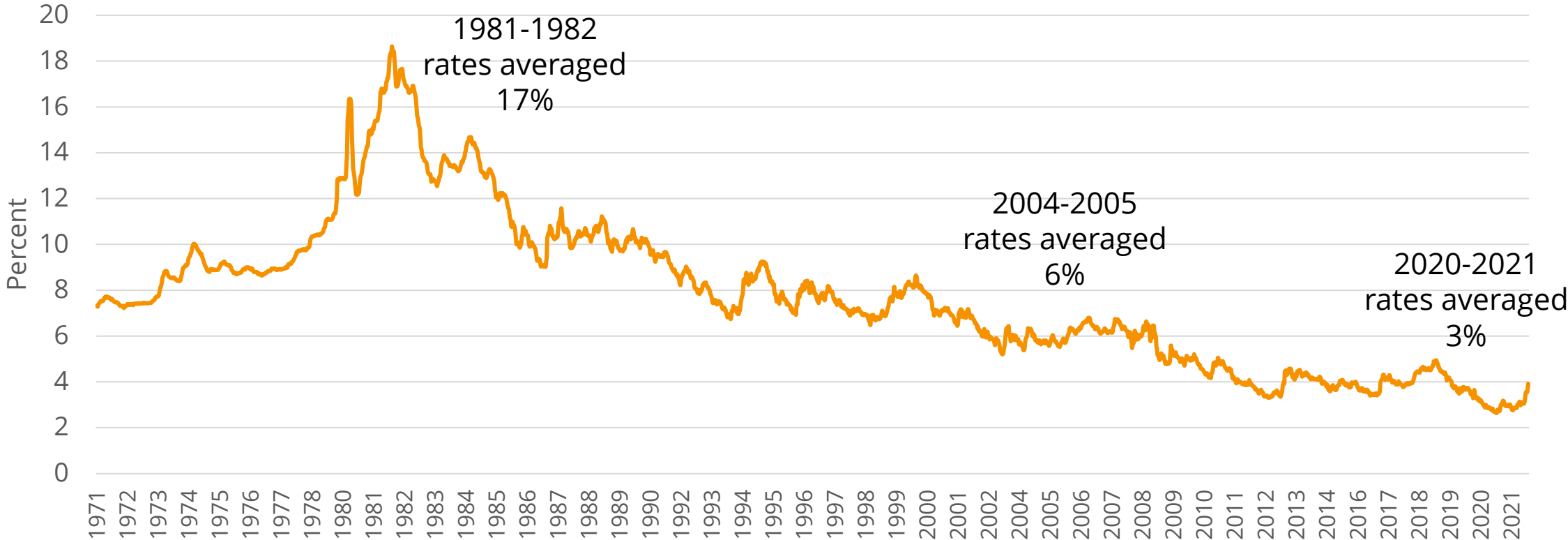
Federal Reserve Raises Short-Term Interest Rates

Effective Federal Funds Rate



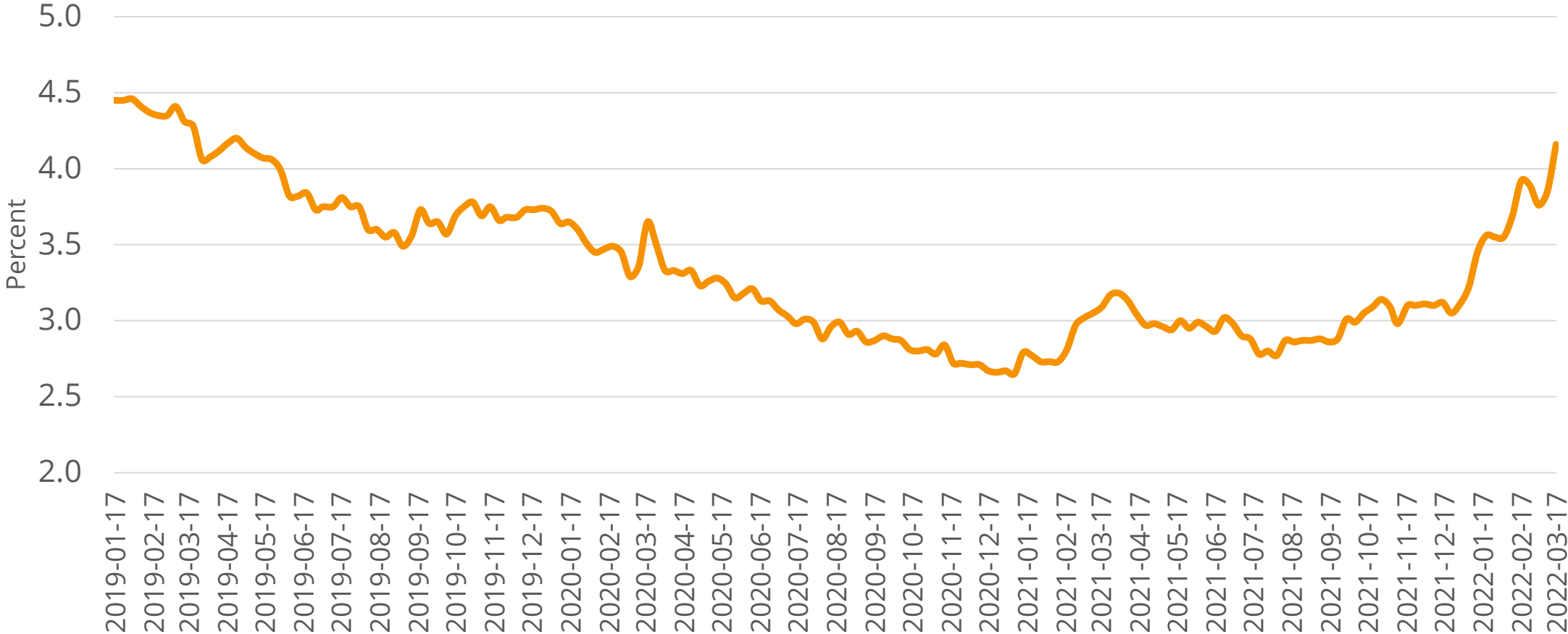
Long-Term Mortgage Rates

30-Year Fixed Rate Mortgage Rate (weekly average)



Mortgage Rates Rising in Early 2022

30-Year Fixed Rate Mortgage Rate (weekly average)

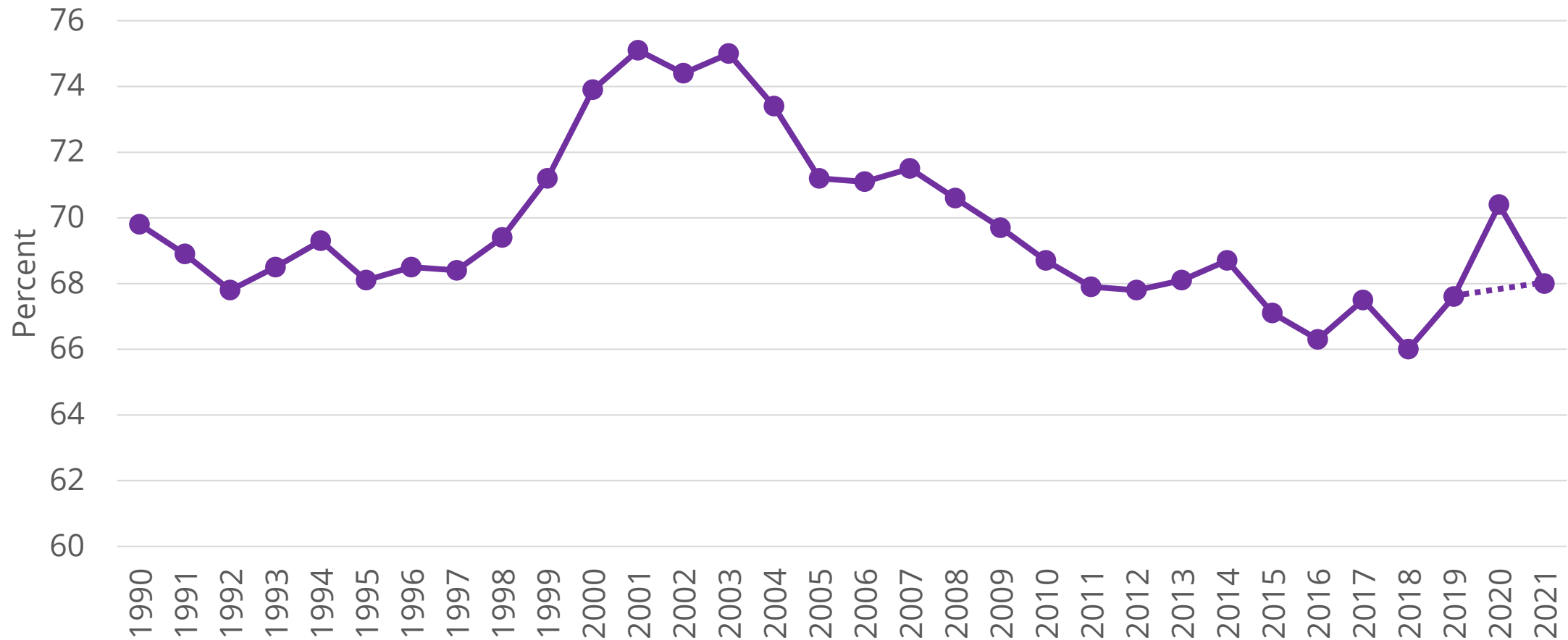


Housing Market Trends

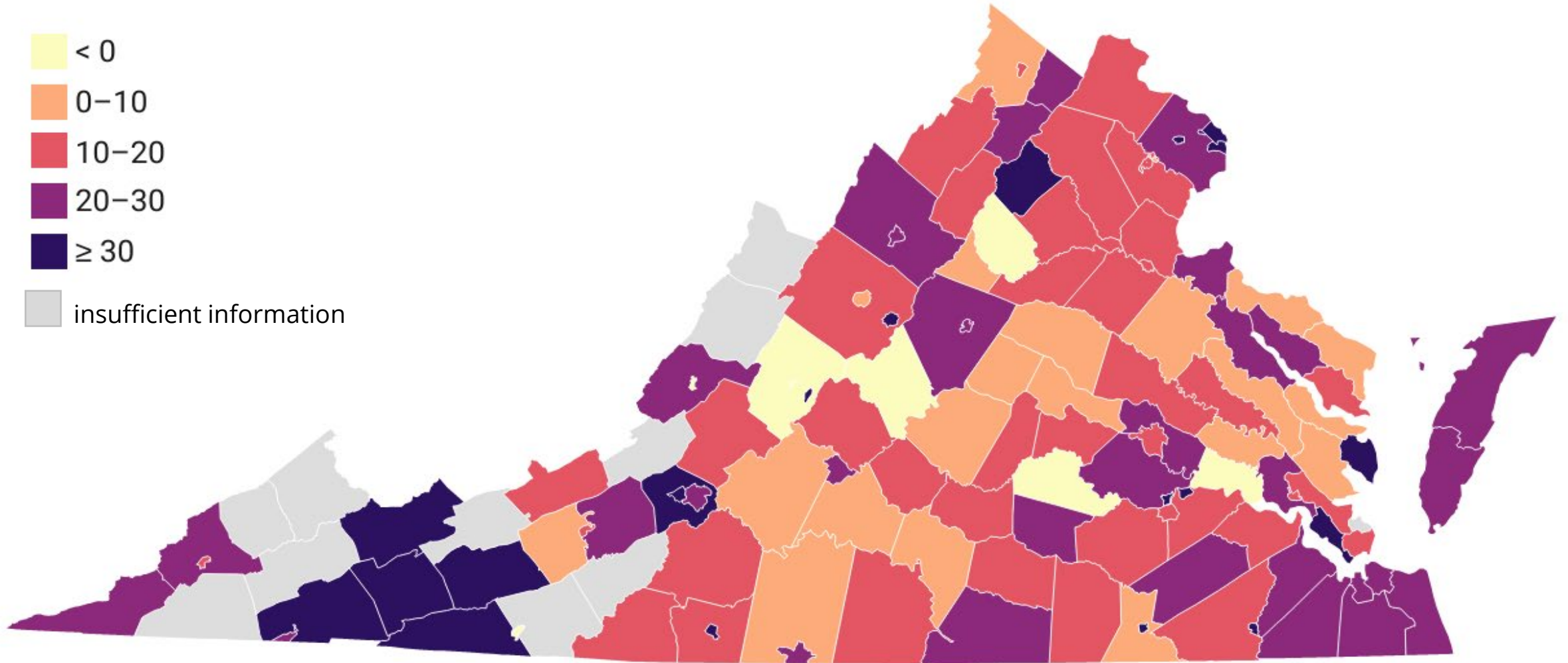


Homeownership Rate

Virginia

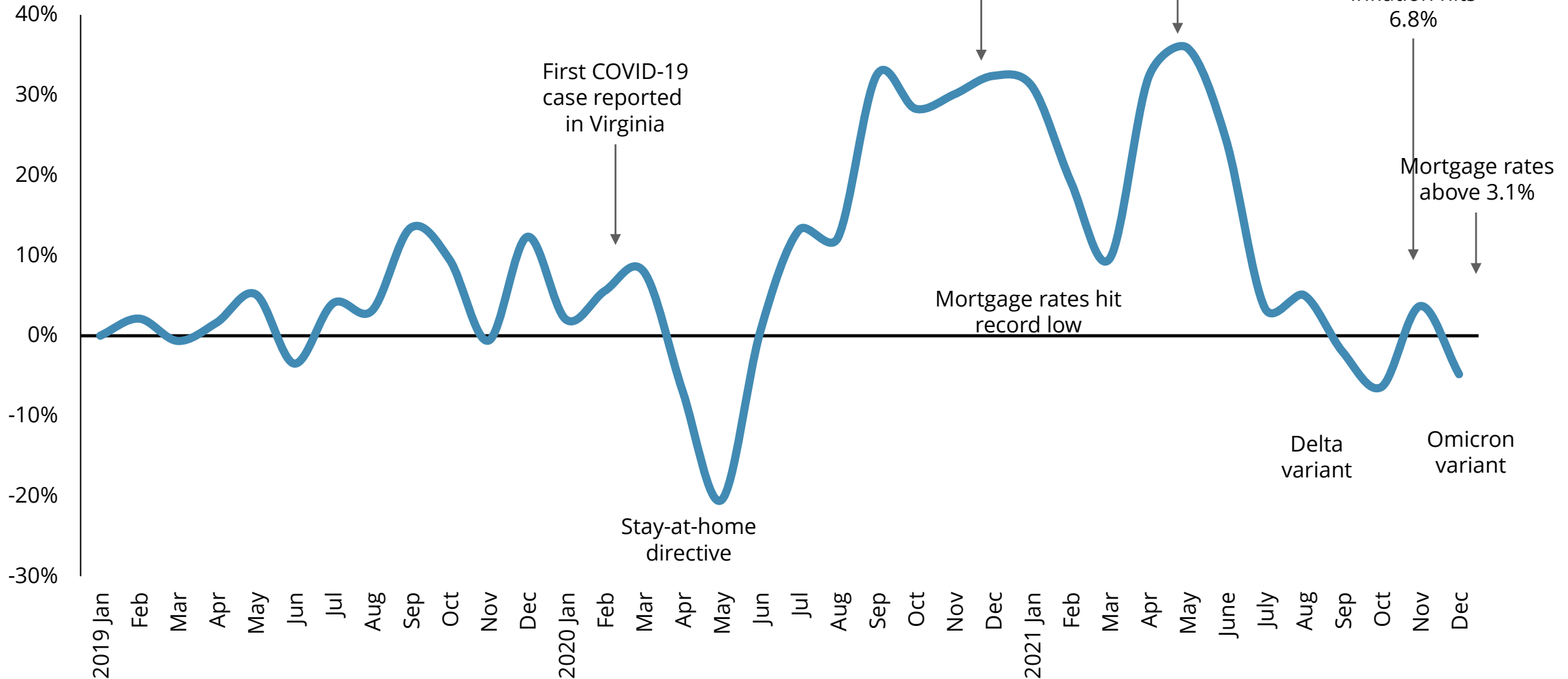


White-Black Homeownership Rate Gap 2019



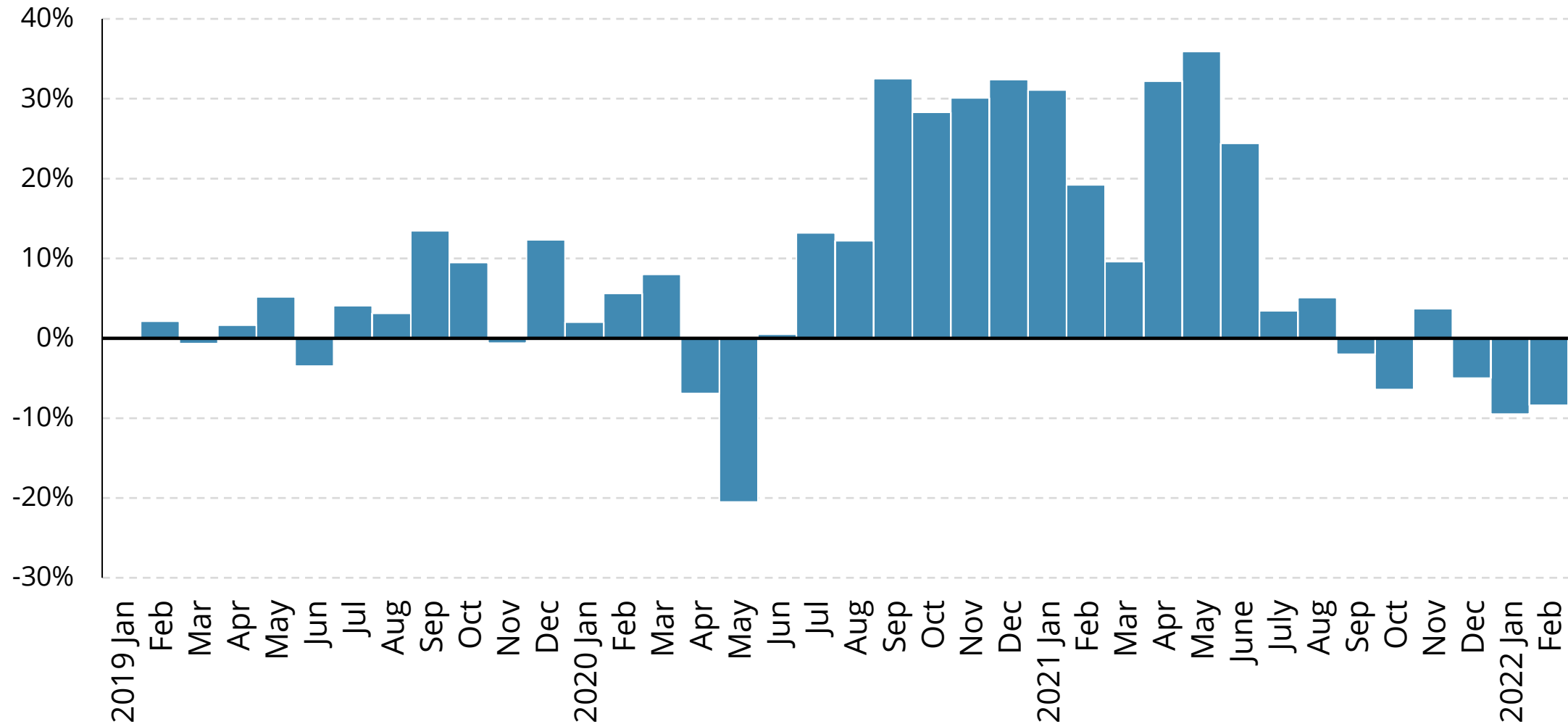
Virginia Home Sales

Virginia Y-o-Y Change in Monthly Home Sales



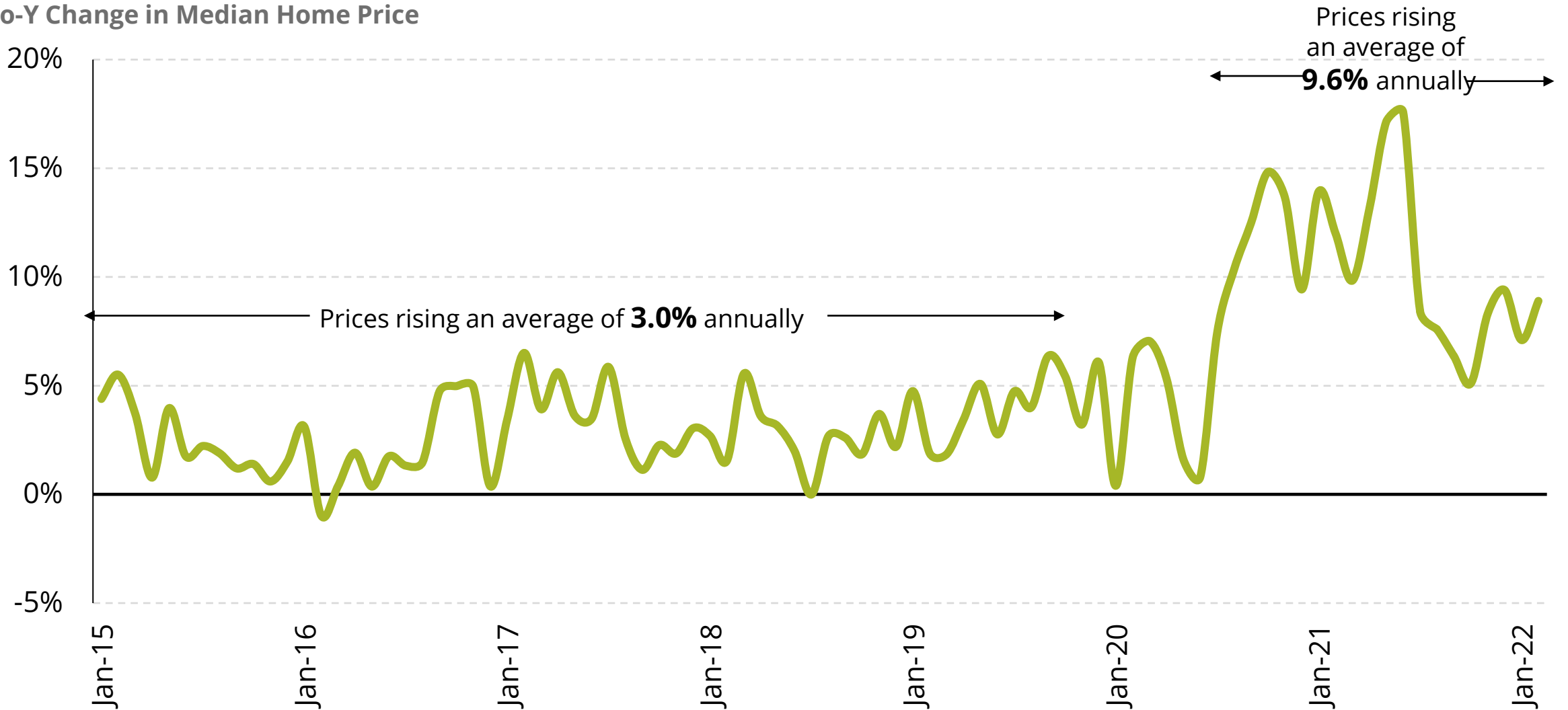
Virginia Home Sales

Y-o-Y Change in Monthly Home Sales



Virginia Home Prices

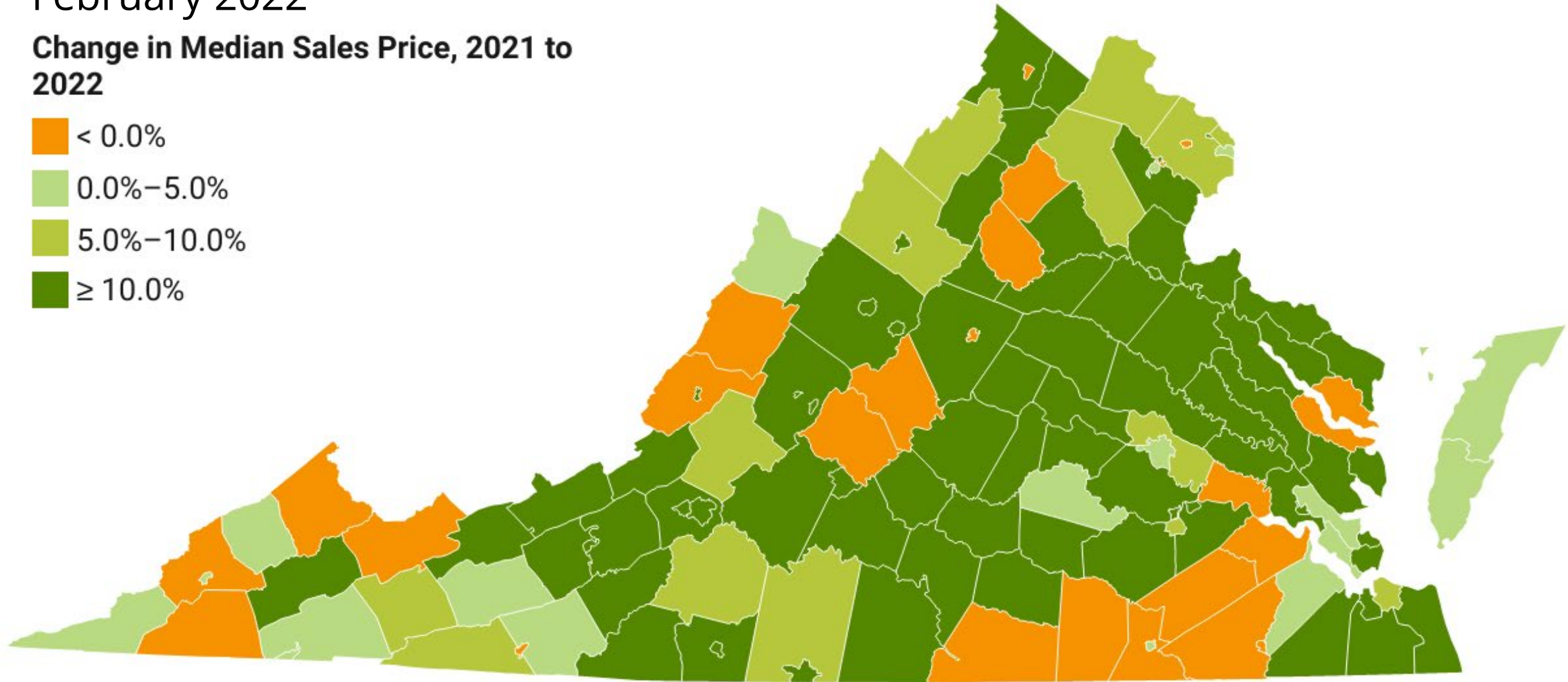
Y-o-Y Change in Median Home Price



Virginia Home Prices

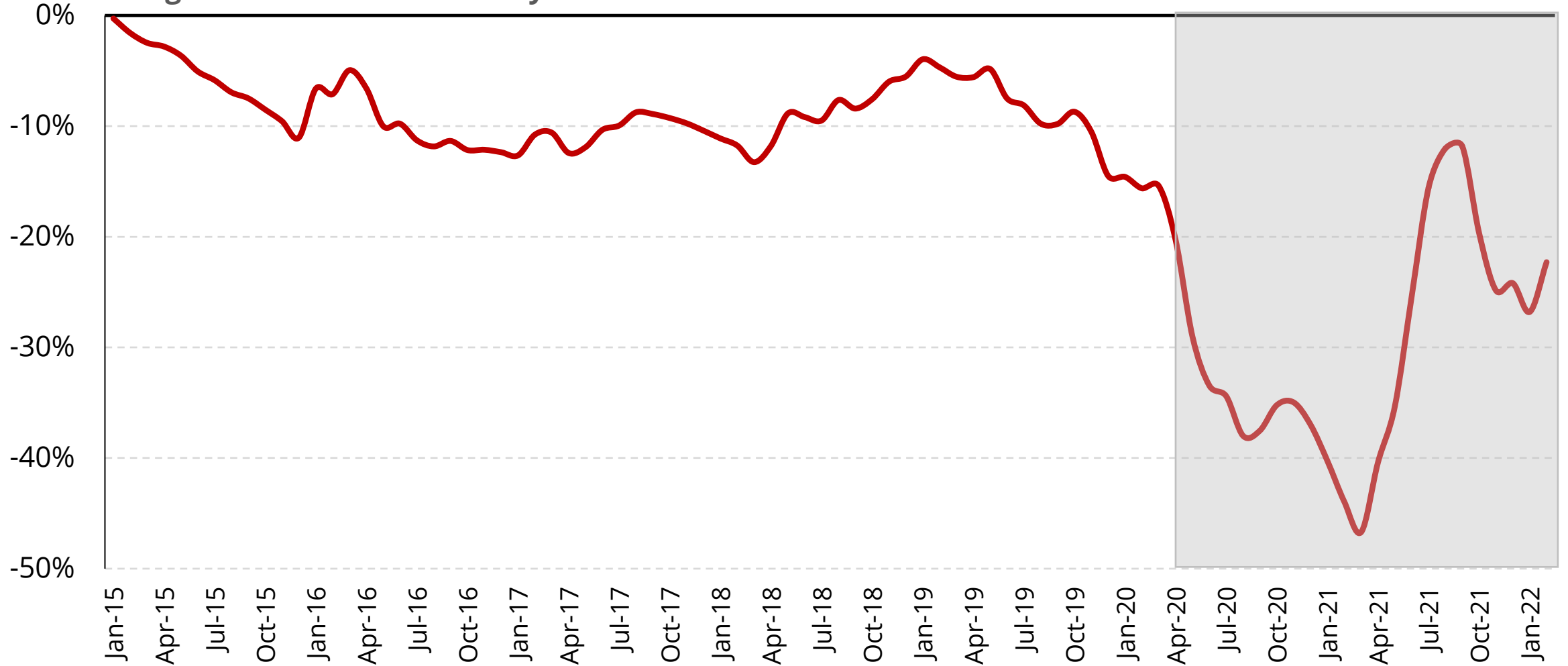
February 2022

Change in Median Sales Price, 2021 to 2022



Virginia Inventory

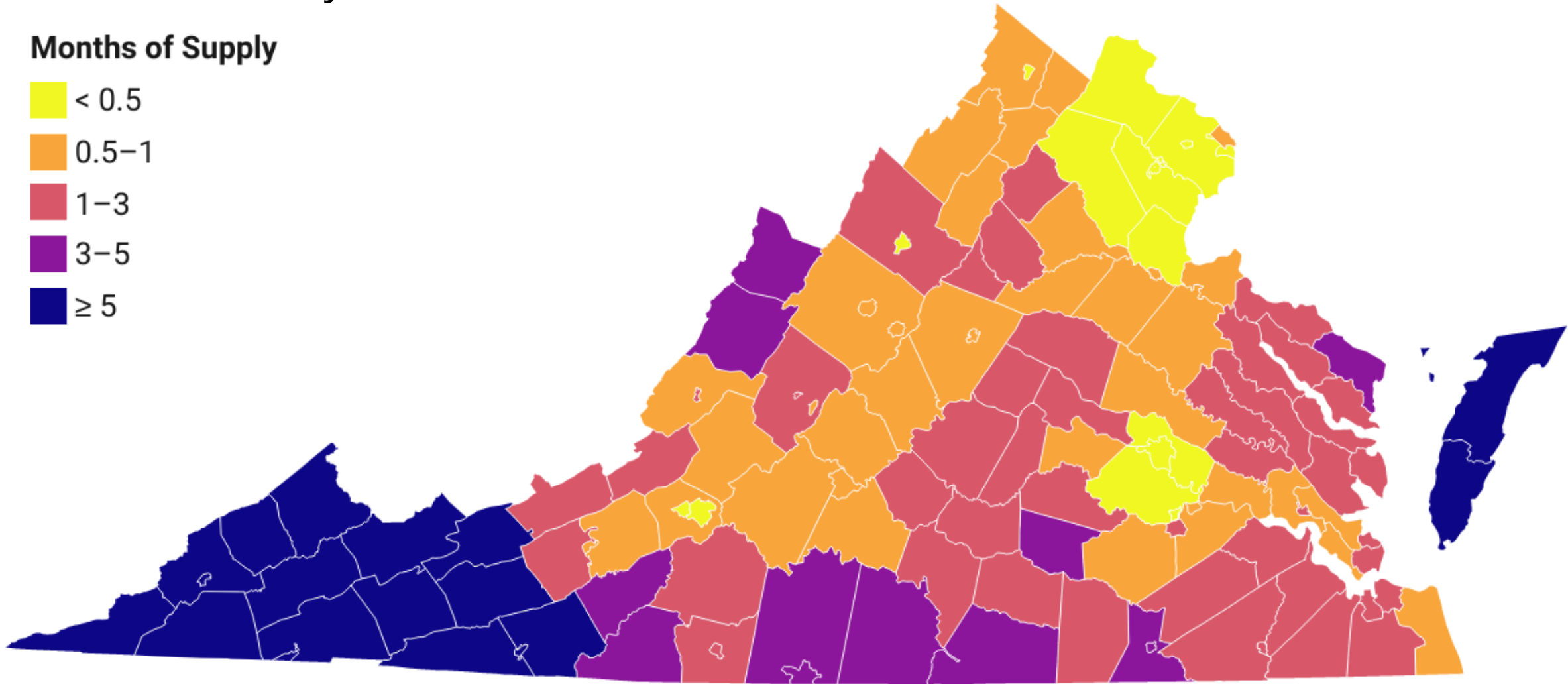
Y-o-Y Change in Month-End Inventory



Inventory

End of February 2022

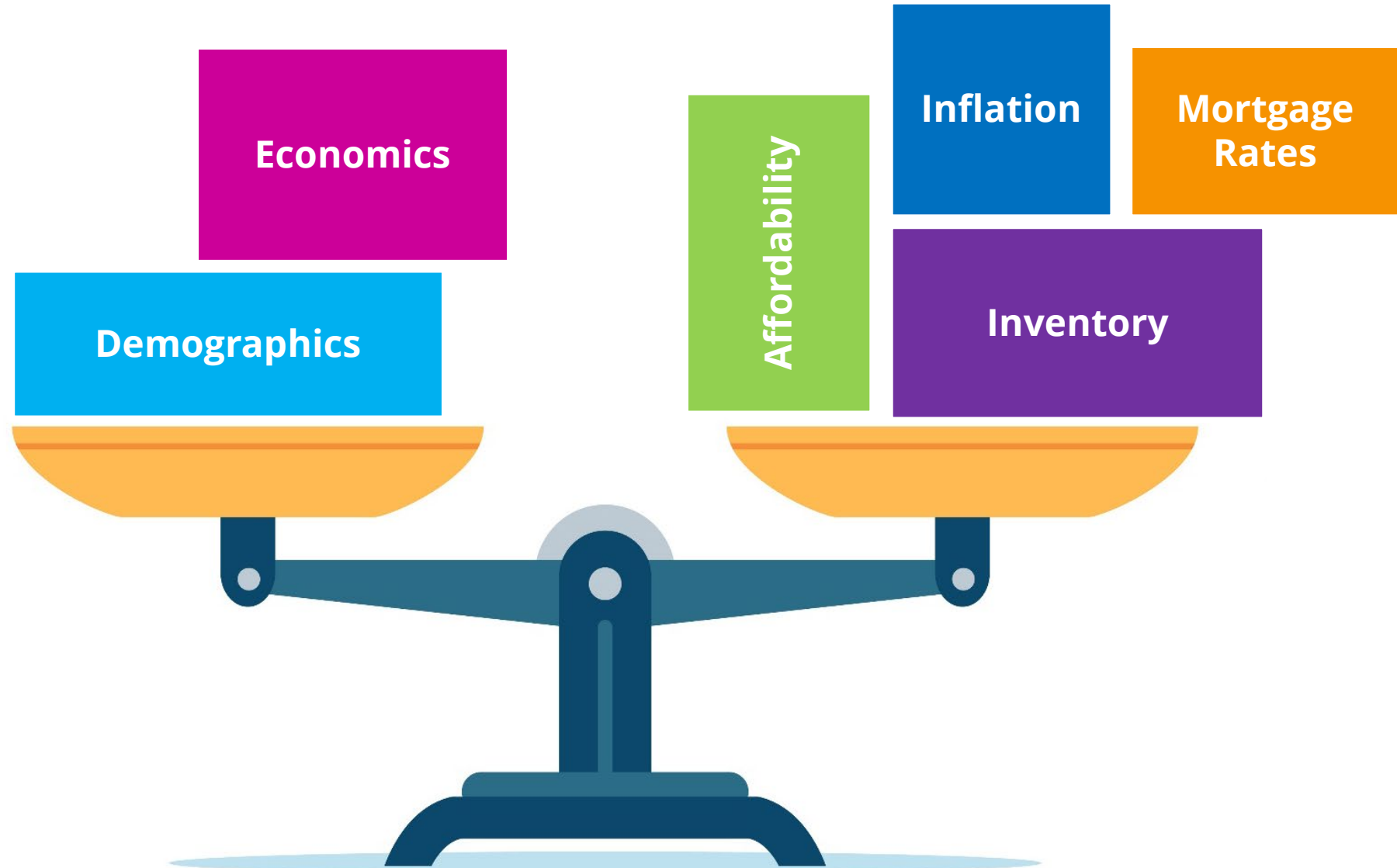
Months of Supply



Outlook

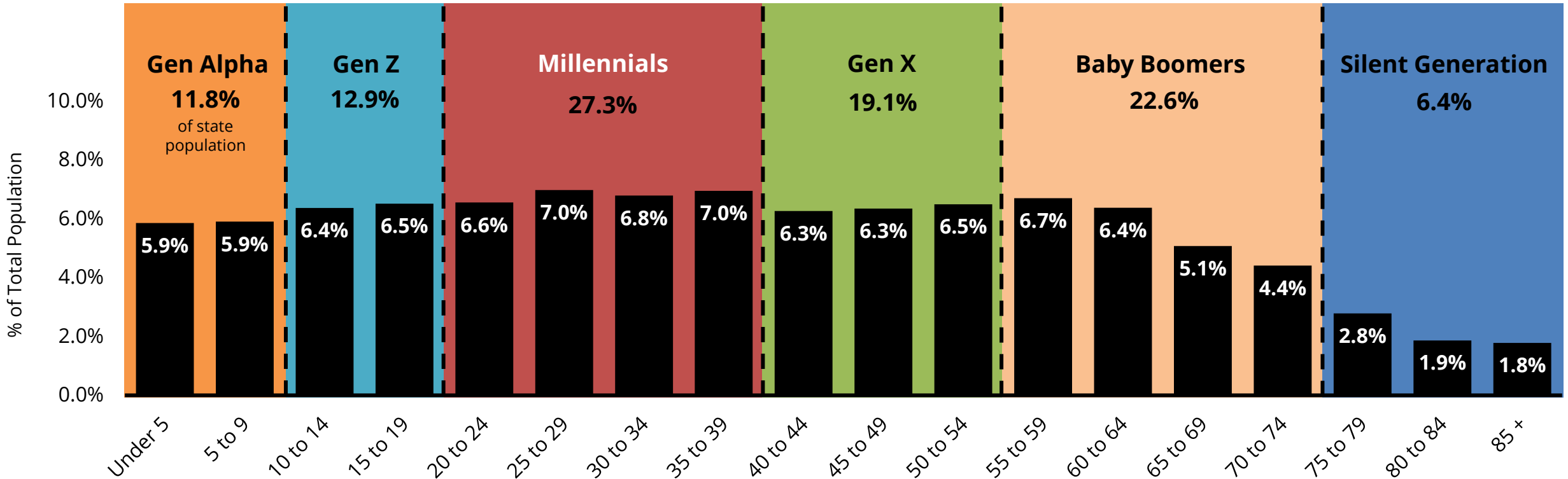


What will tip the scales in the 2022 housing market?



Demographics

Age distribution in Virginia (2019)



Source: U.S. Census Bureau

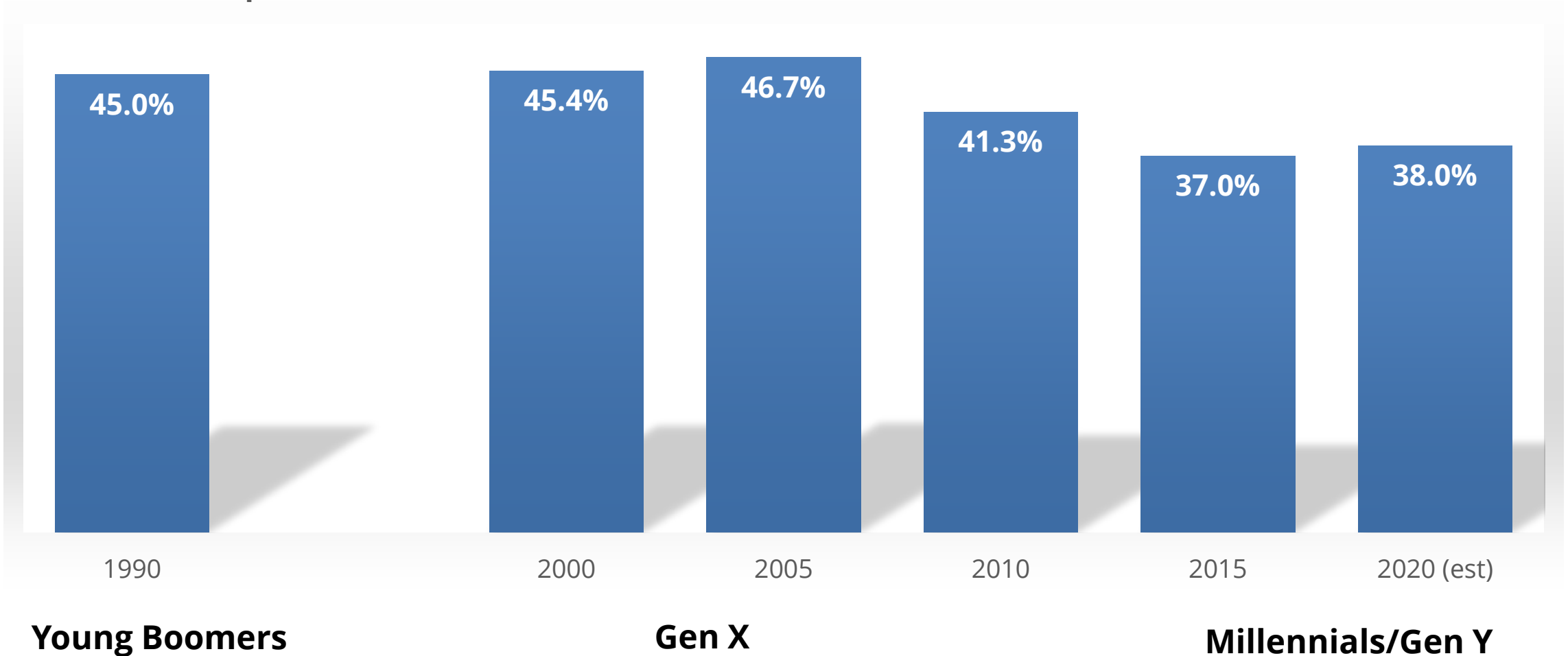
Age

Note: Generation age ranges are approximate

Demographics

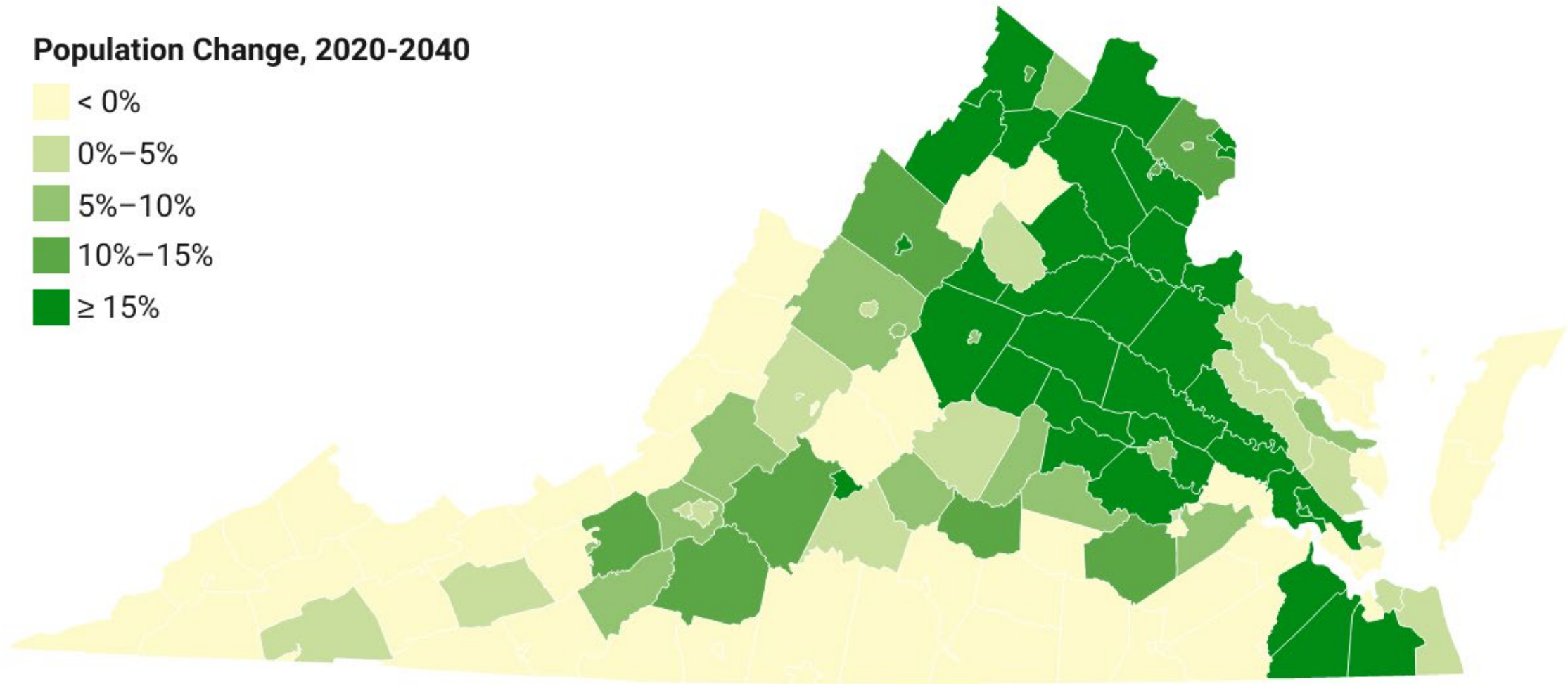
Homeownership rates among Millennials remain relatively low

Homeownership Rates, 25 to 34 Year Olds



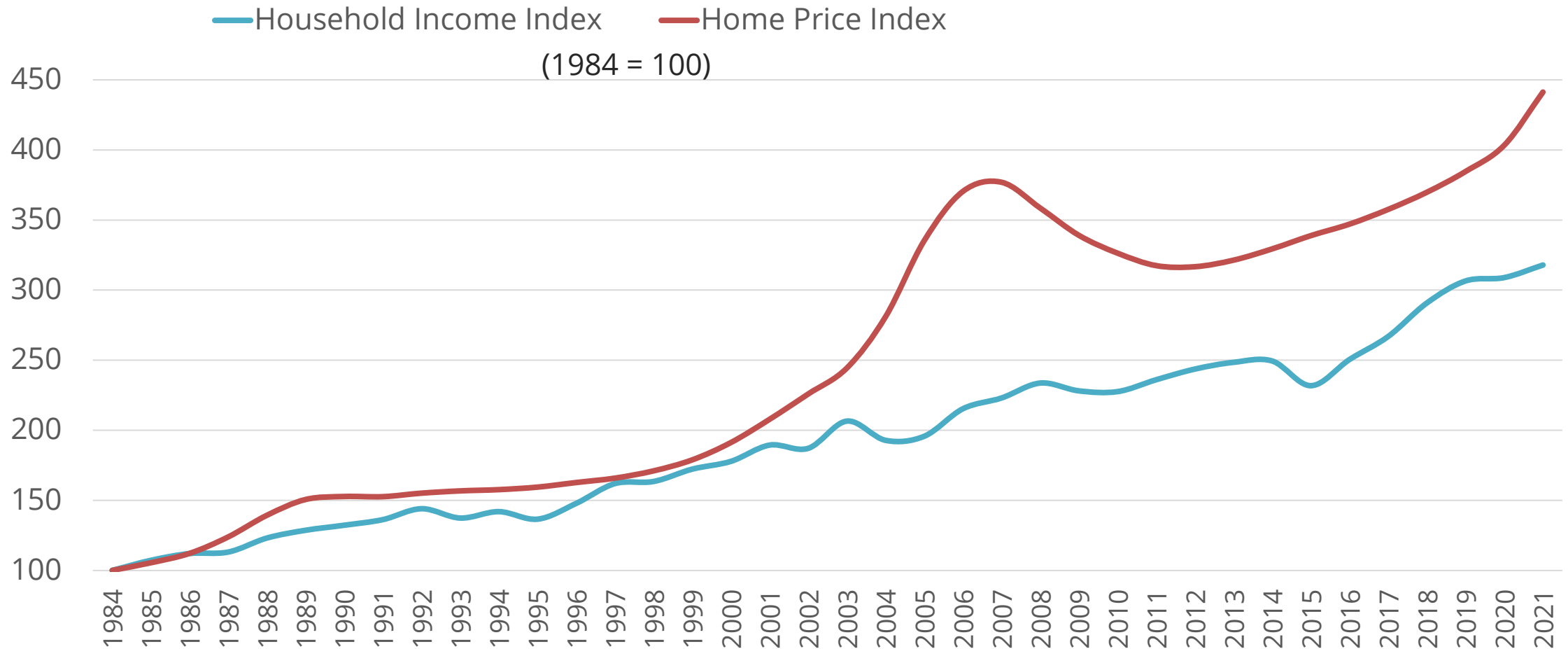
Demographics

Statewide population projected to increase by 14.2% over the next 20 years



Affordability

Home prices are rising much faster than incomes
Virginia



Rising prices and rising mortgage rates

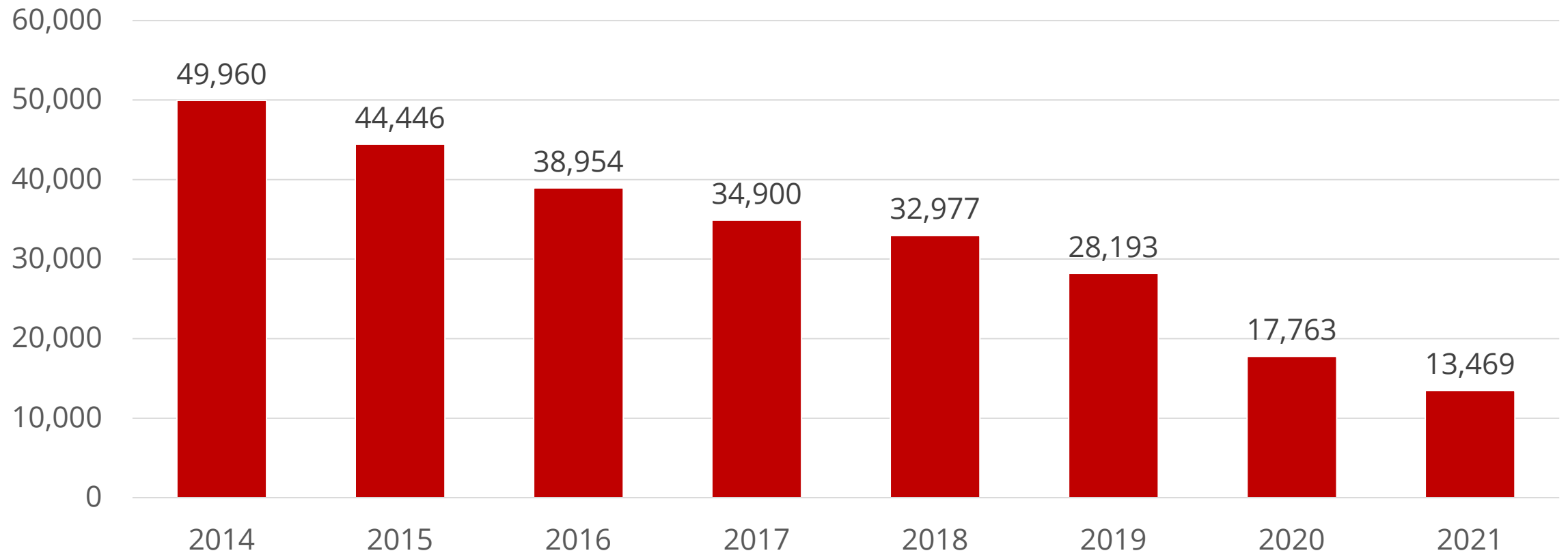
| | Median home price | Average mortgage rate | Monthly payment | Income Needed |
|----------|-------------------|-----------------------|-----------------|---------------|
| Dec 2017 | \$274,000 | 3.95% | \$1,235 | \$52,938 |
| Dec 2018 | \$280,000 | 4.64% | \$1,370 | \$58,714 |
| Dec 2019 | \$297,000 | 3.72% | \$1,302 | \$55,795 |
| Dec 2020 | \$325,000 | 2.68% | \$1,249 | \$53,530 |
| Dec 2021 | \$350,000 | 3.10% | \$1,420 | \$60,850 |
| 2022 | \$364,000 | 4.00% | \$1,650 | \$70,750 |

Source: Virginia REALTORS® Freddie Mac
Assumes 5% down payment, 1.5% closing costs, and a 30-year fixed rate loan.
Also assumes the total payment is no more than 28% of gross income.

Virginia Inventory

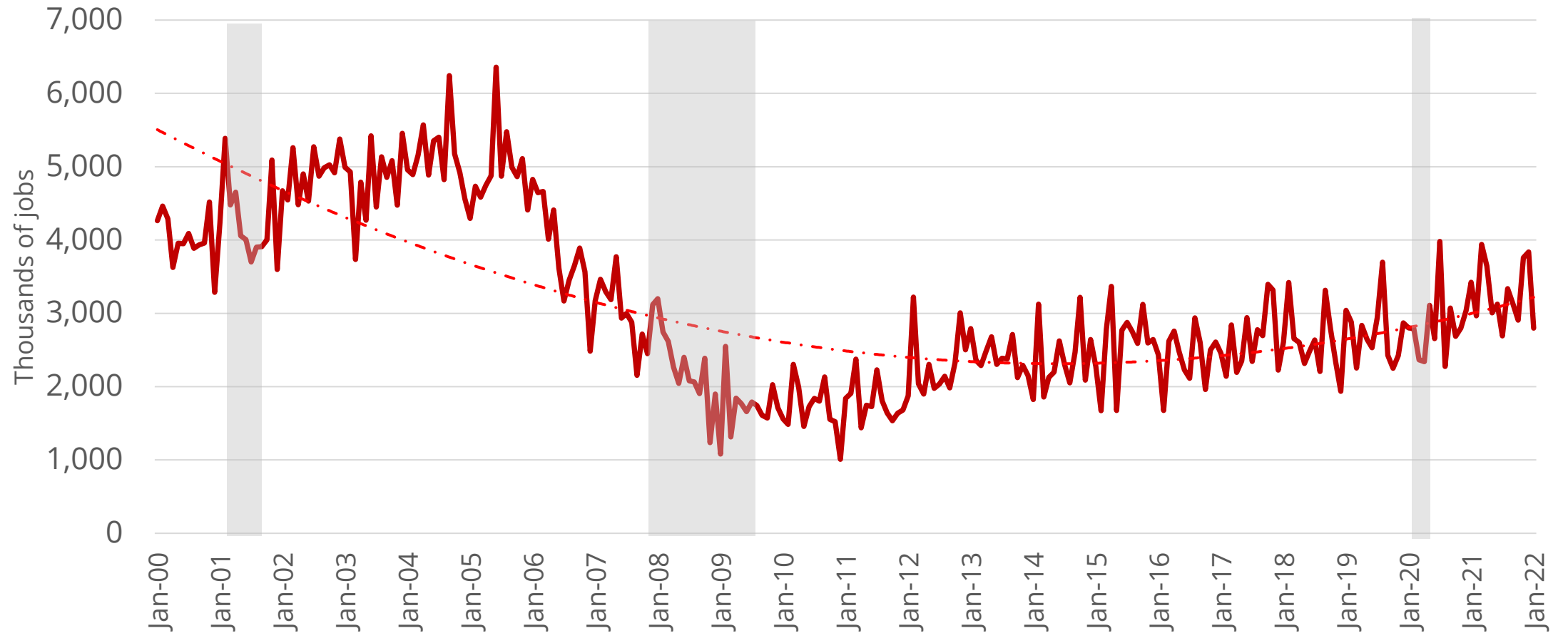
Inventory has been declining for years, but shortage got worse during pandemic

Number of active listings
End of December each year



New Housing Construction

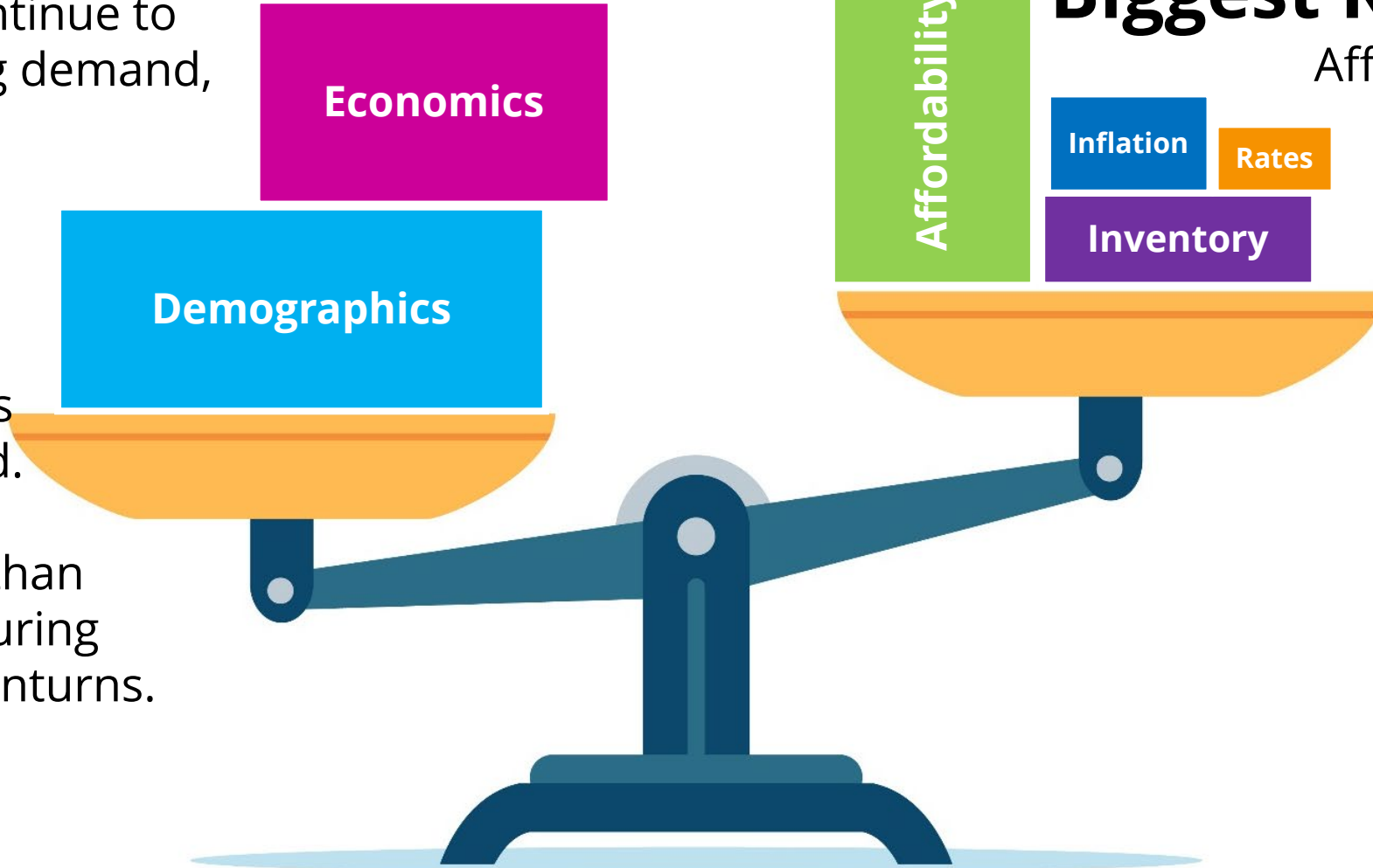
Units authorized by building permit
Virginia



Outlook for 2022

Economic and demographic factors will continue to support strong demand, outweighing potential challenges in the market.

Recession risks have increased. Virginia tends to fare better than other states during economic downturns.



Biggest Risks in 2022

Affordability will be the biggest challenge in 2022, with buyers in many markets priced out.

Mortgage rates will rise (~4.5%).

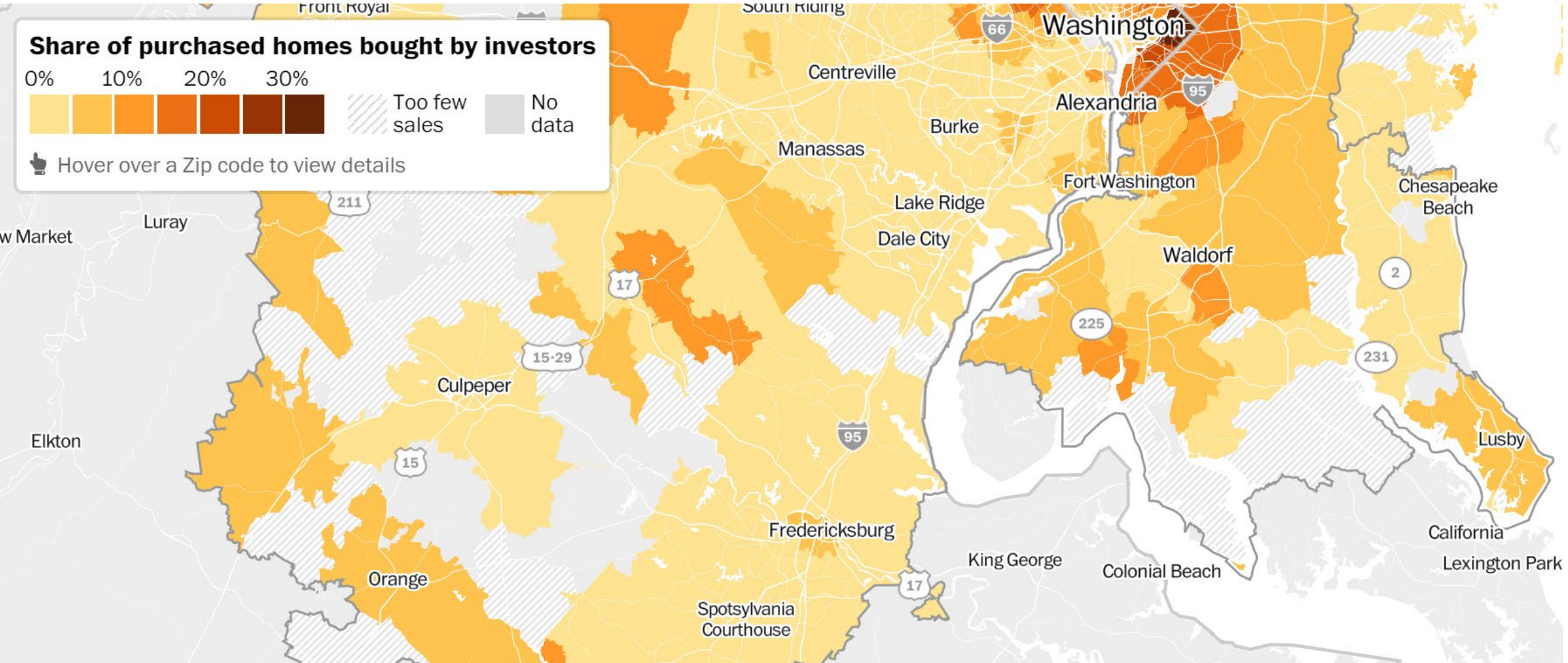
Inventory will continue to be very tight.

What we **don't** expect in 2022

- Investors being major players in the market
- Foreclosures flooding the market
- A housing market “bubble bursting”

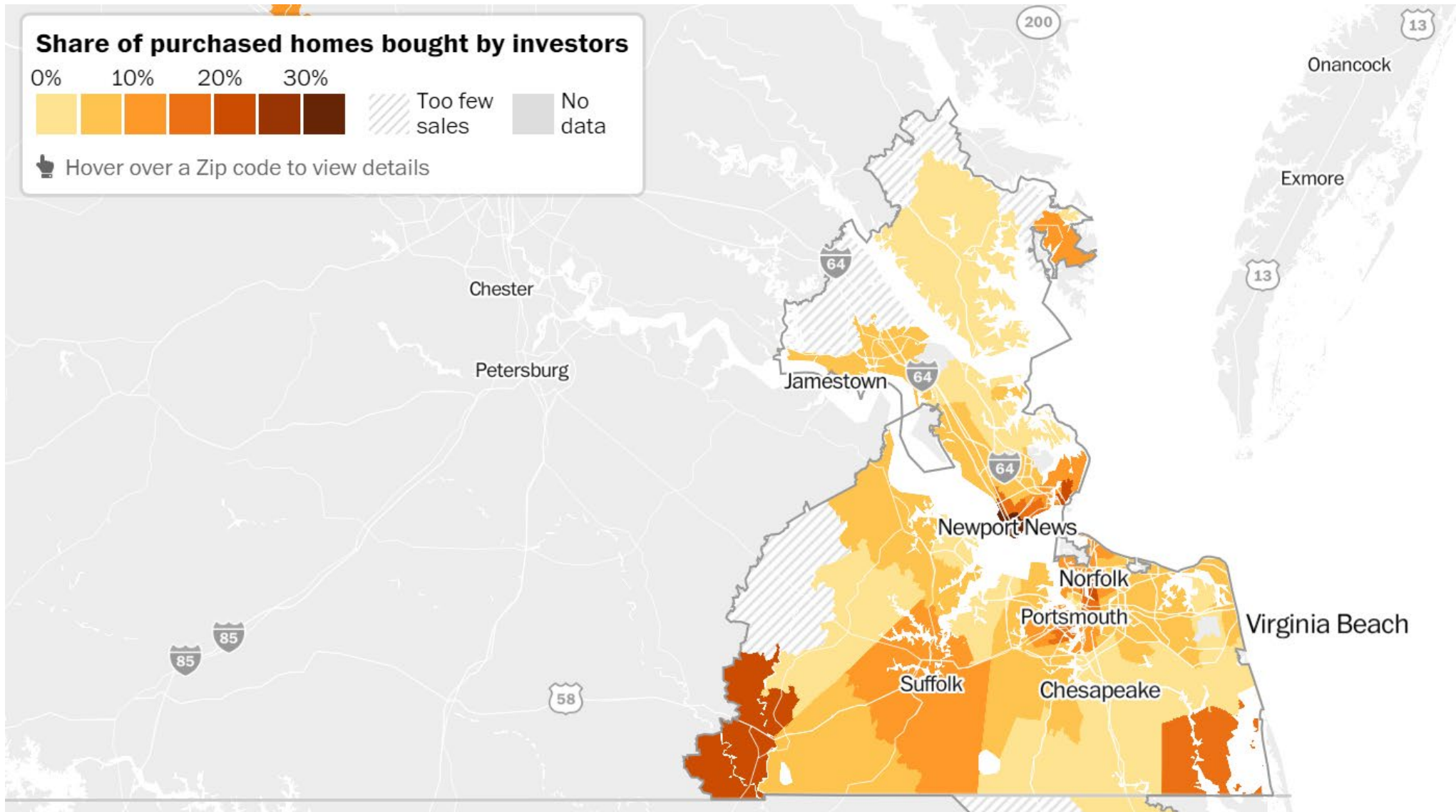
Investors are a **small share** of Virginia housing markets

Northern Virginia (6%)

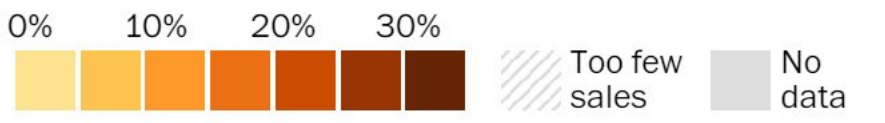


Investors are a **small share** of Virginia housing markets

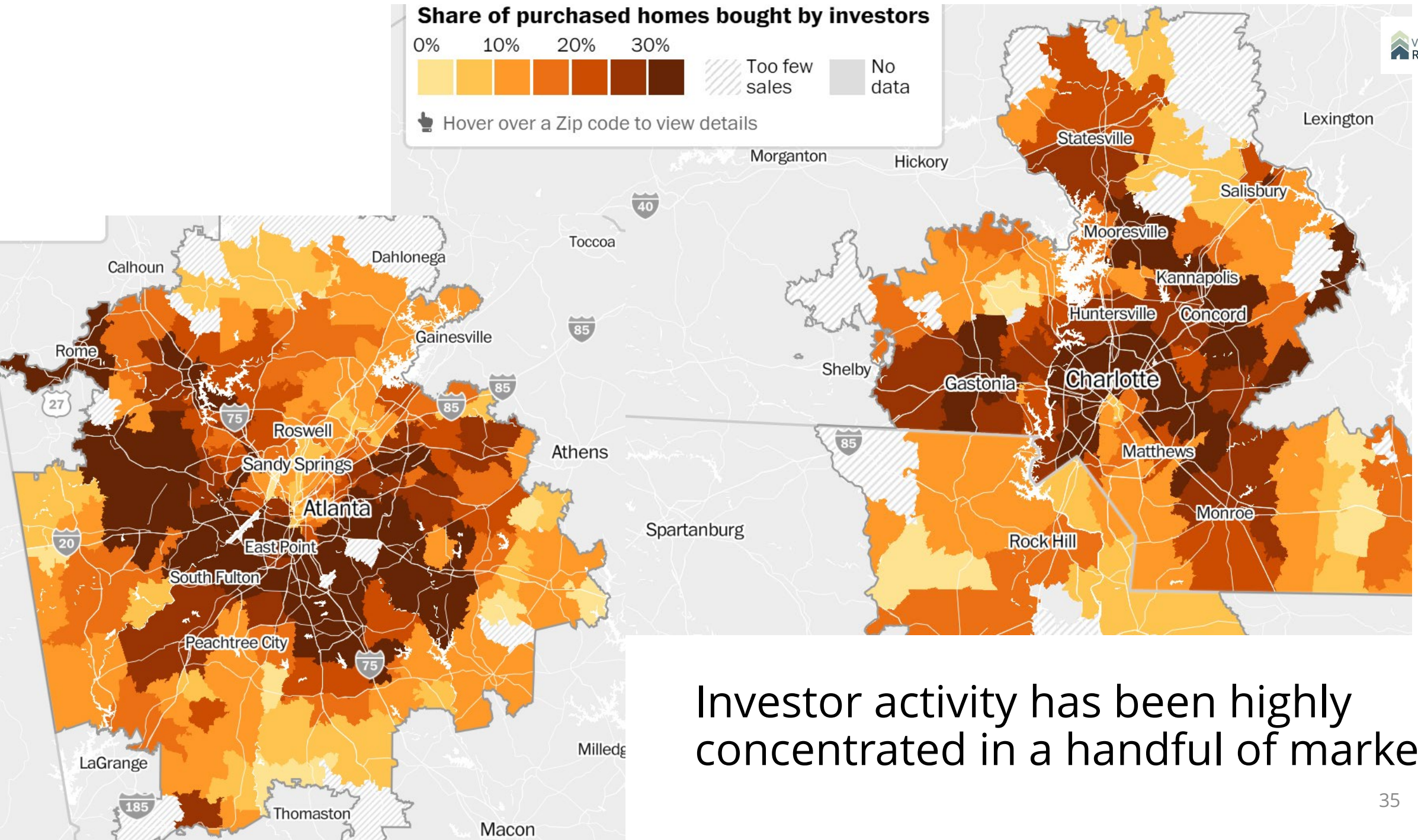
Virginia Beach (8%)



Share of purchased homes bought by investors

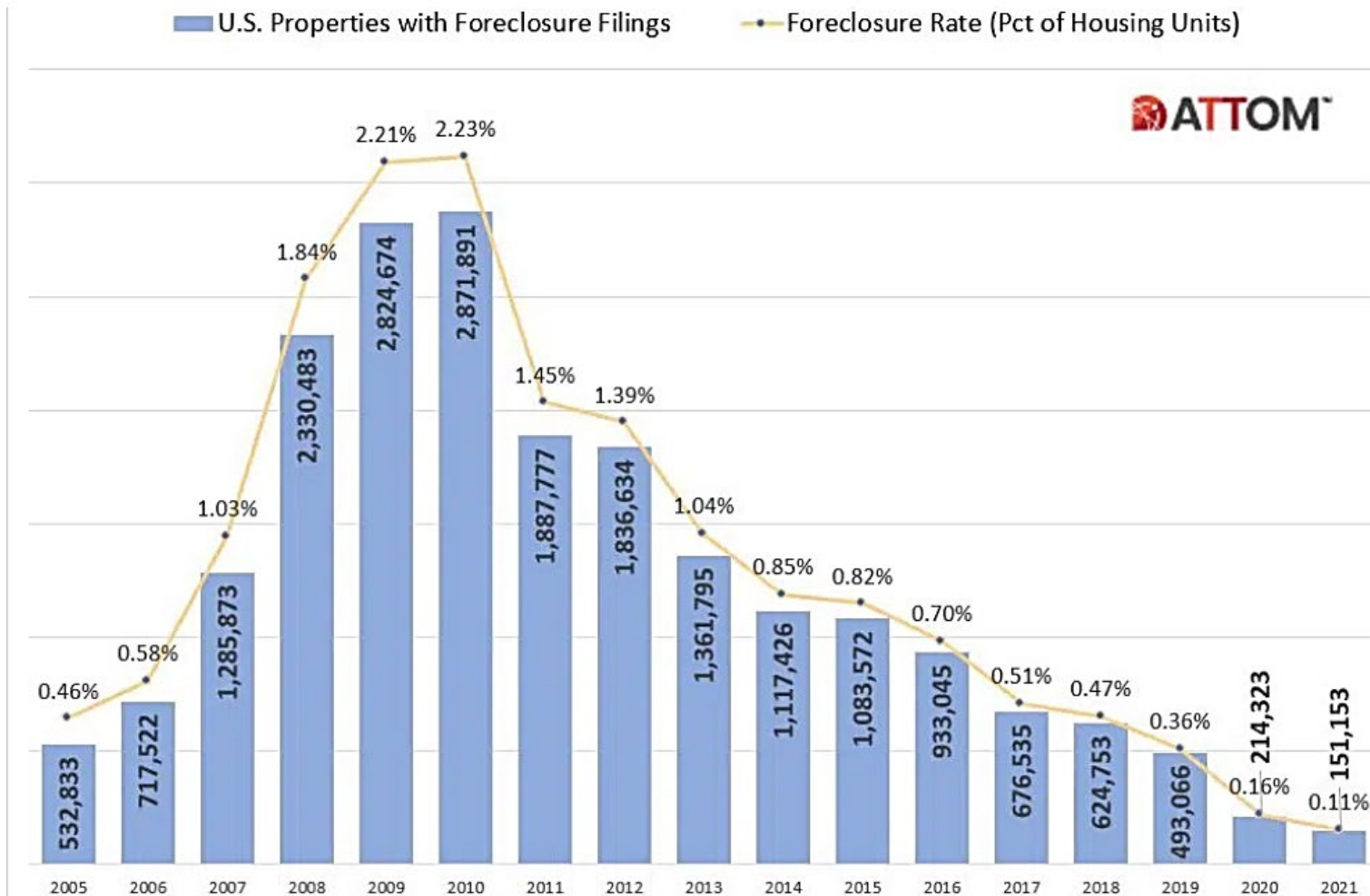


Hover over a Zip code to view details



Investor activity has been highly concentrated in a handful of markets

Foreclosure and delinquency activity is low, rising from a near zero level



Virginia ranked **31st (out of 50 states)** in terms of foreclosure activity at the end of 2021
Source: ATTOM

Virginia

| | Dec '21 | Dec '19 |
|---------------|---------|---------|
| Delinquency % | 2.9% | 3.1% |
| Foreclosure % | 0.1% | 0.2% |

Source: Black Knight

2022 is very different than 2008

2008

- Loose credit standards
- Extensive subprime lending
- Abundant supply and surges in new construction activity
- Unemployment rising

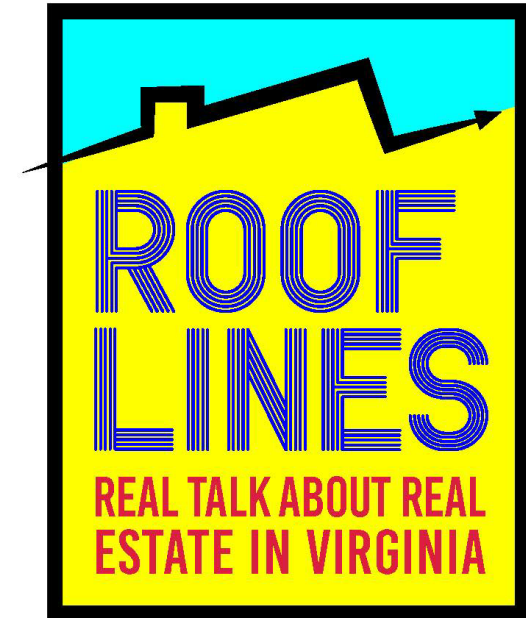
2022

- Tight credit standards
- Little subprime lending
- Extremely low inventory and little new construction
- Unemployment falling

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