5 Factors to Consider in 2018 That Could Cause Housing To Be Stuck in a Big Rut.

BY JOE MELENDEZ

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With the roller coaster 2017 housing year behind us, let's look beyond the numbers and examine some lessons learned and look at areas that if addressed properly could mean even more success for 2018. Looking at the big numbers including purchase volume and prices, you would have to conclude it was a great year from a new purchase perspective. But there are undercurrents that indicate we have perhaps cannibalized today for the future.

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Like the rush of refi's from the past few years that have steadily fallen in 2017 – currently at the lowest levels in 16 years– we may have reached a peak in new purchases – at least for a while. Why? The housing industry could be facing a bit of a rut. Consumers who can afford today's homes have likely already locked in and those who have not, may choose to sit it out for a while. Let's take a deeper look at the issues we might continue to face in 2018.

1. Potential home sellers do not want to become homebuyers

Housing inventories have been at a record low for the better part of 2017. We have what's been dubbed the best sellers' market ever with 79 percent of the homeowners in America say "now is a good time to sell," according to the latest ValueInsured Modern Homebuyer Survey. But, with home prices are at a record high; many potential sellers simply do not want to be buyers after they sell their homes. In fact, some homeowners who would want to sell admit to "feeling stuck," with 63 percent saying now is a good time to sell *but not to buy* due to those same high home prices and 61 percent of all homeowners who want to sell soon say they are "waiting until prices to buy are better to make a move." At today's high home prices – and many overvalued according to other industry data– it is less expensive for many homeowners to just stay put. This is particularly true based on the fact the industry had record high refinance volumes just last year. This points to the fact that many potential sellers have recently refinanced making it unlikely that they will be willing to give up their historically low mortgage rates.

2. Renting is no longer an attractive alternative for homeowners

In the not-so-distant past, if home sellers got sticker shock from the home prices, they would consider selling and then renting. This is particularly true in cases of empty nesters who wanted to downsize, and enter retirement or a new phase of their life that included traveling more and being at home less. But rents now are also at a record high, and people lose the flexibility and control of homeownership. Studies have shown once converted to homeowners, Americans rarely go back to renting believing that it is a better lifestyle or financial alternative. It is true that in times when rents are more affordable, homeowners could have the option to sell at a hefty profit and rent for a while until they purchased another home. But at today's high rent prices, interim renting may no longer seem like a good strategy. After all, according to ValueInsured's latest survey, 81 percent of all Americans and 89 percent of homeowners say owning is more financially beneficial than renting.

3. There are other expenses competing for a buyer's budget

This has always been historically true, but likely more so today and in the months to come with reports of millennials financing everything from bedsheets to concert tickets. And do not forget about those expensive avocado toasts and bachelor parties on top of spending on such items as iPhones and other electronics as well as cable bills to watch Game of Thrones and student loan debt. At the same time, wage growth remains sluggish and nowhere near the growth rate of home prices. Compared to their parents, today's homebuyers have more essentials and exponentially far more non-essentials competing for their budget. When value for the dollar is not there for new homebuyers, they suffer from buying inertia before committing to a mortgage.

4. Homebuyers remember

At least some do. There are certainly homebuyers buying at today's record high prices, but there are also others who have retreated and remember well their own personal experience in 2007/2008 or at least that of a loved one, neighbor or co-worker. The sad truth is it certainly would not take the "six degrees of Kevin Bacon" for any homebuyer today to recall anyone they know who suffered greatly – or even had their entire personal wealth wiped out – in the last housing crisis. In many of the country's top real estate markets, you do not need to go further back than six years – or in some cases two years – to remember the last market correction. Some people might say a short memory is important for getting back up and trying again after a failure but that may only be true if you do not have your entire life's savings and your family's future on the line. Regardless of academic or policy talking heads saying a bubble is unlikely, this more fiscally conservative generation remembers, with nearly 6 in 10 Americans (59 percent) believing another 2008-style housing crisis could happen again in their lifetime and 65 percent of all millennial homebuyers saying they are concerned about buying high. So they wait to buy a home.

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5. Lack of innovation

Now in 2018 – three quarters of a century since most of our grandparents got their first home mortgage – assuming a digital mortgage or slick online portal is innovative for our industry is simply laughable, and a disservice to our customers. It has been at least 17 years since we all *expected* everything to be simple, digital and quick – it's the price of entry, already baked in, even if you want to sell groceries. Today's parents routinely watch their toddler walk up to a poster and attempt to swipe and change the picture, only to be puzzled when the image is not dynamic. Our industry needs to go beyond eye candy to meet the emotional needs of buyers. Homebuyers do not necessarily understand the buying process from all the logistical, technical standpoints – nor should it be their job to do so – but their everyday experience prepares them to expect consumer empowerment, convenience, turn-key gratification and a brand relationship mostly devoid of loyalty. Homebuyers will price shop their home loans, just as they do everything else, until they see real differentiation and consumer empowerment. So glossing over the process is not the answer.

LOs and real estate brokers need to bring value-adds to preempt cold feet, calm buyers' jitters in today's bubbling market and offer long-term solutions that give buyers greater control of their homeownership experience beyond matching – or shaving – points and rates. This is the first line of opportunity to rebuild trust and confidence in the mortgage industry.

We have our work cut out for us in the coming years. More immediately with the promised regulatory and economic changes, our industry will be tasked with drastically changing the home buying process, interactions with and offerings to consumers. The next generation of homebuyers is looking for trusted advisors who can look out for not only their current transaction but their financial future. And when you can deliver that, expect a repeat serial buyer customer and more referrals to come because the next generation of consumers also relies heavily on reviews and referrals to make their purchase decision.

With your phone (likely an iPhone X, not a desk phone) ringing off the hook (or rather, social media notification going off), with innovation and progress in lending, at least your business will not be stuck in a rut. ❖

About The Author

Joe Melendez is founder and CEO at ValueInsured. During his career, Melendez has specialized in building substantial relationships and developing strong business alliances that help bring innovation to the financial market. His focus at ValueInsured is to reignite the home purchasing process by focusing on the specific need to protect the homebuyer's down payment.