

RECAP:

# 2016 WAS

# A SOLID YEAR

Solid job creation and record-low mortgage rates made 2016 a solid year for housing, but affordability challenges stunted sales in December.

BY SAM BOURGI

**T**he U.S. housing recovery stumbled in December, a sign that rising borrowing costs and razor tight inventories were eroding homebuyer affordability after a year of solid growth.

Existing home sales, which represent the largest share of available housing stock, tumbled 2.8% in December to a seasonally adjusted annual rate of 5.49 million, the National Association of Realtors (NAR) reported January 24.

Total existing home sales, which include single-family homes, townhouses and condominiums, finished 2016 at 5.45 million. That was well above the previous year's 5.25-million rate and the highest since 2006.

# New home sales, a more volatile segment of the market, **decreased 10.4% from November to a** seasonally adjusted annual rate of 536,000, **the Commerce Department said January 26.**

Lawrence Yun, chief economist at NAR, attributed the solid annual growth to “exceptionally low mortgage rates” and steady job creation. While jobs and average incomes continue to rise, borrowing costs have surged since the presidential election, reaching multi-year highs at the end of December.

Long-term mortgage rates rose last week for the first time this year, Freddie Mac recently reported. The average commitment rate on a 30-year fixed-rate mortgage rose 10 basis points to 4.19% in the week ended January 26. The average for a 15-year fixed-rate mortgage rose by 6 basis points to 3.40%. Rates on adjustable five-year mortgages slipped to 3.20% from 3.21%.

New home sales, a more volatile segment of the market, decreased 10.4% from November to a seasonally adjusted annual rate of 536,000, the Commerce Department said January 26. That was the slowest monthly increase since February and the biggest one-month fall since March 2015. Analysts in a median estimate expected sales to decline just 1% in December. New homes sales account for less than 10% of total transactions, and are subject to large monthly fluctuations.

Despite the sharp drop in December, new home sales recorded their strongest annual increase since the subprime mortgage crisis, according to the National Association of Home Builders (NAHB).

Even though home sales declined in December, the underlying market

fundamentals remain supportive of further growth in the sector. Total inventory for existing homes fell nearly 11% to 1.65 million in December. NAR said that was the lowest level since record-keeping began in 1999. It also suggests housing remains in strong demand and properties will continue to be snatched up at higher prices. This environment will prove challenging for first-time buyers, who are already being squeezed out of the market.

Groundbreaking for new homes surged more than expected in December, as a stronger economy lifted demand for rental housing. The increase coincided with separate data from the Labor Department showing unemployment benefits fell to nearly 43-year lows in January.

December housing starts surged 11.3% to a seasonally adjusted 1.23

million, the Commerce Department reported in January. Building permits, a bellwether for future construction plans, were little changed at a 1.21 million-unit pace.

A survey of homebuilder confidence by NAHB also pointed to steady market conditions at the start of 2017. Builder confidence in the market for new homes was little changed in January on optimism the new Republican administration will lower regulation and create a more business-friendly environment for small enterprises.

The Senate Banking, Housing and Urban Affairs Committee last week approved Ben Carson for housing secretary in a unanimous decision. The former Republican presidential candidate will lead the Department of Housing and Urban Development, which controls a budget of around \$47 billion. ❖

## ABOUT THE AUTHOR

Sam Bourgi has more than seven years of progressive experience in economic analysis, market research, public policy and the financial markets. He has a broad expertise in the financial markets, including commodities, real estate the foreign exchange. As a published author in both peer reviewed and industry research, Sam has covered topics ranging from mortgage-backed securities to consumer spending and labor. Sam's resume includes more than 40 government and industry publications, thousands of financial articles and hours of educational resources on personal finance and trading.

