Investment Outlook Report

2024 Real Estate

What many had hoped would be a rosy spring home-buying season ended as a thorny challenge for many prospective home buyers already demoralized by a frustrating market.
Yet, even as sales stalled amid elevated mortgage rates and home prices, one silver lining emerged—more resale inventory entered the market, which has begun to put some downward pressure on the pace of home price growth.

Other good news for home shoppers is the decline in the median price for a new home—now below the median resale home price—even as builders continue offering incentives to lure buyers.
Nonetheless, experts say the housing market will only see renewed momentum once mortgage rates drop enough to ease buyer affordability obstacles and incentivize homeowners locked in at low rates to move.

Housing Market Forecast for 2024

Experts insist the housing market will improve despite high mortgage rates, out-of-reach home prices and sluggish sales transactions amid dampening demand.
Unfortunately, hopeful buyers continue to see a delay in this yearned-for transformation, thanks to several ongoing headwinds. One is inflation taking its sweet time cooling off, further delaying the Federal Reserve from cutting the federal funds rate.

Mortgage rates indirectly track this benchmark interest rate banks use as a guide for overnight lending. Consequently, with the federal funds rate at its highest level in over two decades, mortgage rates—and borrowers—are feeling the added impact on their ability to afford a home.
Meanwhile, U.S. home prices remain unaffected by persistently high mortgage rates, posting an annual 6.3% gain in April, according to the latest S&P CoreLogic Case-Shiller Home Price Index. Even as this annual gain marked a slowdown from the 6.5% gain in March, the index still broke the previous month's record high.

Many experts expect a Fed rate cut will help stimulate the housing market, but it remains unclear when—and if—even a single cut will occur in 2024.

Will the Housing Market Finally Recover in 2024?

For a housing recovery to occur, several conditions must unfold.
"For the best possible outcome, we'd first need to see inventories of homes for sale turn considerably higher," says Keith Gumbinger, vice president at online mortgage company HSH.com. "This additional inventory, in turn, would ease the upward pressure on home prices, leveling them off or perhaps helping them to settle back somewhat from peak or near-peak levels."

Of course, mortgage rates would need to cool off, which seems promising given the recent declines. The average 30-year fixed mortgage rate trended down over the course of June and early July, coming in at 6.95% for the week ending July 3.

However, when mortgage rates finally go on the descent, Gumbinger says don't hope they cool too quickly. Rapidly falling rates could create a surge of demand that wipes away any inventory gains, causing home prices to rebound.

"Better that rate reductions happen at a metered pace, incrementally improving buyer opportunities over a stretch of time, rather than all at once," Gumbinger says.
He adds that mortgage rates returning to a more "normal" upper 4% to lower 5% range would also help the

NAR To Implement Settlement Agreement Changes in August

Following years of litigation, the NAR has agreed to pay $418 million to settle a series of high-profile antitrust lawsuits filed in 2019 on behalf of home sellers. The settlement received preliminary court approval in April. A judge is expected to grant final approval in November. Meanwhile, NAR announced that the new required practices will go into effect on August 17.

The required new rules prohibit broker compensation offers on multiple listing services (MLS), the private databases that allow local real estate brokers to publish and share information about residential property listings.

Moreover, sellers will no longer be responsible for paying buyer broker commissions—upending an accepted practice that has been in place for years—and real estate agents participating in the MLS must establish written representation agreements with buyers.
If you sold a home in the past ten years, you may be eligible for a small piece of this settlement pie. Visit realestatecommissionlitigation.com for more information about filing a claim.

Housing Inventory Forecast: When Will There Be Sufficient Supply To Reduce Prices?

Despite more resale homes entering the market, the inventory shortage remains severe and likely will for some time, thanks to multiple headwinds.
For one, many homeowners remain "locked in" at ultra-low mortgage rates, unwilling to exchange for a higher rate in a high-priced housing market. Consequently, demand continues to outpace housing supply—and likely will for a while.

"I don't expect to see a meaningful increase in the supply of existing homes for sale until mortgage rates are back down in the low 5% range, so probably not in 2024," says Rick Sharga, founder and CEO of CJ Patrick Company, a market intelligence and business advisory firm.
New home construction has provided some relief, but not enough to fill the inventory gap meaningfully.
The U.S. remains 4.5 million homes short, up from 4.3 million a year ago, according to Zillow analysis.
Entry-level home supply is particularly dire, contributing to an ongoing cycle of propped-up demand and inflated prices.

Here's what the latest home values look like around the country.
Home Builder Sentiment Dips
Builder sentiment continues to wilt with the summer heat.

High mortgage rates and sticky inflation are largely to blame for the dampened outlook for new construction, with builder confidence sliding from 45 to 43 in May, according to the most recent National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI). This is the second consecutive month of downward movement and negative sentiment.

A reading of 50 or above means more builders see good conditions ahead for new construction.
Meanwhile, the construction of new homes, which had been on a tear, helping to fill the hole left by scant resale inventory, has slowed.

Permits for new single-family homes fell to their lowest seasonally adjusted annual rate since June 2023 amid builder blahs, dipping 2.9% month-over-month in May, according to the latest data from the U.S. Census Bureau and the U.S. Department of Housing and Urban Development (HUD). Housing starts were down 5.2%, and completions slid 8.5% from April.
However, there's a silver lining for hopeful buyers—25% of builders slashed prices in May to boost sales,

Residential Real Estate Stats: Existing, New and Pending Home Sales

Current and anticipated home sales transactions fizzled across the board in May thanks to scorching-high mortgage rates. Here's what the latest home sales data has to say.
Existing-Home Sales

Existing-home sales dipped 0.7% in May, according to the latest report from NAR, marking the third straight month of declines as ascending mortgage rates and home prices deterred potential buyers. In May 2023, home buyers could get a mortgage rate well over half a percent lower at a time when homes were also more affordable.

Sales also fell 2.8% compared to May last year.
Experts believe home sales activity will perk up once inflation eases and the Fed finally starts to cut interest rates. Nonetheless, many prospective buyers—particularly first-time and lower-income home shoppers—will likely be left out in the cold, with the median price for an existing home in May soaring 5.8% from a year ago to a new record high of $419,300.

"Home prices reaching new highs are creating a wider divide between those owning properties and those who wish to be first-time buyers," said Lawrence Yun, chief economist at NAR, in the report. "The mortgage payment for a typical home today is more than double that of homes purchased before 2020."
One upside to fewer sales is that resale inventory has been loosening since December. The latest NAR data shows inventory growing 6.7% month-over-month, logging 1.28 million unsold homes at the end of March. Still, only 3.7 months of inventory remain at the current monthly sales pace. Most experts consider a balanced market between four and six months.

New Home Sales
Meanwhile, new homes are also not invulnerable to high mortgage rates despite their shiny appeal.
Amid mortgage rates hovering close to or above 7%, May sales of newly constructed single-family houses plunged 11.7% 4.7% compared to April and 16.5% from a year ago, according to the latest U.S. Census Bureau and HUD data.

The good news for prospective buyers is that the slow pace of new home sales puts new home inventory at a level not seen since early 2008, according to Lisa Sturtevant, chief economist at Bright MLS.
"Buyers that remain in the market are starting to have more leverage, and sellers of existing homes are increasingly offering concessions, including help with closing costs and money toward repairs," said Sturtevant.
Moreover, those shopping for new construction will be happy to hear that the median price for a new home in May fell $500 to $417,400—nearly two thousand dollars below the median existing-home price.

RECENT HOME SALES DATA

Month	New Home Median Sale Price	Existing-Home Median Sale Price	New vs. Existing Price Difference	Percentage Difference
February 2024	$420,900	$383,800	$37,100	9.7%
March 2024	$436,900	$392,900	$44,000	11.0%
April 2024	$417,900	$406,600	$11,300	2.8%
May 2024	$417,400	$419,300	-$1,900	-0.45%

Pending Home Sales
And don't expect home sales numbers to heat up much as we move through summer.
NAR's Pending Homes Sales Index dipped 2.1% in May. This reading comes on the heels of a dismal April when the index plummeted 7.7%. Mortgage rates remained above 7% over much of those two months. Year-over-year pending transactions also took a nosedive in May, sinking 6.6%.
A pending home sale marks the point in the purchase transaction when the buyer and seller agree on price and terms and is considered a leading indicator of a closed existing-home sale within the next one to two months.
With a 70.8 index reading, the pending sales pace remains at a four-year low—or the weakest since the earliest days of the pandemic.
However, despite home prices continuing to break records, experts expect loosening inventory and evidence of a slowing economy to soon provide at least some relief for home shoppers.
"With mortgage rates falling below 7% once again in June, frozen buyer activity may start to thaw in the second half of the summer," said Hannah Jones, senior. economic research analyst at Realtor.com, in an emailed statement.

Spring Home Shoppers Face Chilly Affordability Challenges: Will Summer Be Better?

Spring home-buying season never sprung, thanks to persistently high housing costs keeping frustrated shoppers on the sidelines.
In the week ending May 30, when mortgage rates were 7.03%, borrowers who put 20% down on a $419,300 median-priced resale home with a 30-year mortgage had to shell out a monthly mortgage payment of $2,238, not including property taxes and insurance.
By comparison, someone who purchased a resale home a year ago when the median price was $396,500 and the 30-year-fixed mortgage rate was 6.57% is paying $2,019—or $219 less per month.
Considering this math, it's no wonder that the latest NAR Housing Affordability Index reading receded from 101.12 in March to 95.9 in April. A national index reading below 100 indicates that a median-priced home is unaffordable for the typical family earning a median income.
So, when will hopeful home buyers expect to get some relief?
Despite the typical first-time home buyer can only afford 29% of homes for sale nationwide, according to the First Time Home Buyer Outlook Report published by First American Financial Corp, deputy chief economist Odeta Kushi says there is "a light at the end of the tunnel" due to anticipated slower home price growth and lower mortgage rates.
Sam Khater, chief economist at Freddie Mac, noted in a press release that the 30-year mortgage rate hit its lowest level in nearly three months and expects rates to decline further over the summer.

Pro Tips for Buyers and Sellers

Here are some expert tips to increase your chances for an optimal outcome in this tight housing market.

Pro Tips for Buying in Today's Real Estate Market

Hannah Jones, a senior economic research analyst at Realtor.com, offers this expert advice to aspiring buyers:

- **Know your budget**. Instead of focusing on price, figure out how much you can afford as a monthly payment. Your monthly housing payment is influenced by the price of the home, your down payment, mortgage rate, loan term, home insurance and property taxes.
- **Be flexible about home size and location**. Perhaps your budget is sufficient for a small home in your perfect neighborhood, or a larger, newer home further out. Understanding your priorities and having some flexibility can help you move quickly when a suitable home enters the market.
- **Keep an eye on the market where you hope to buy**. Determine the area's available inventory and price levels. Also, pay attention to how quickly homes sell. Not only will you be tuned in when something great hits the market, you can feel more confident moving forward with purchasing a well-priced home. A real estate agent can help with this.
- **Don't be discouraged.** Purchasing a home is one of the largest financial decisions you'll ever make. Approaching the market confidently, armed with good information and grounded expectations will take you far. Don't let the hustle of the market convince you to buy something that's not in your budget, or not right for your lifestyle.

Emerging Trends in Real Estate 2024

Real estate's next chapter comes into focus

Last year, the plan for the real estate industry was simple: Ride out current risks and reposition the business for a period of sustained growth and improved returns.
However, reality has set in for the industry leaders we interviewed for this year's Emerging Trends in Real Estate. They no longer expect a U-turn to the way things were before the pandemic. Instead, they've accepted the possibility that a lot of people won't be returning to the office after all, or at least not nearly as often. This has profound implications not only for office owners, managers and brokers, but also the nation's downtowns and other property sectors that depend on a vibrant office market.
There's also reluctant acceptance in the industry that interest rates will remain high for at least the next year and possibly even longer.
Even good news, such as investors being eager to acquire new assets, is tempered by bleak sector data. For example, despite available equity, transactions are down — and many in the industry point to instances where buyers and sellers simply can't agree on pricing because the dearth of sales limits price clarity.

Key themes from this report
A look at the top real estate markets for the year

Since undergoing some fundamental shifts in the immediate aftermath of the pandemic, market preferences have surprisingly not radically changed in the past two years. Respondents still see the best opportunities in the so-called "smile" markets situated along an arc in the southern third of the country.
The number of Sun Belt markets among the Top 10 has increased. At the same time, the number of Top 10 markets in cold-weather climates in the Northeast and Midwest remain at one (Boston). Three of the Top 10 markets from the 2023 report dropped out this year — Tampa/St. Petersburg, Miami and Charlotte — but all stayed in the Top 20.
"We think it will take until 2024 for an uptick in transaction volume, but it will come. It won't necessarily hinge on a lowering of interest rates by the Fed. It could happen before then as people get used to the new higher rates and start to transact again."
-Industry experts 2024 Emerging Trends in Real Estate

Dimon Says Commercial Real Estate Owners Are Handling Stress

By PYMNTS | February 26, 2024

JP Morgan Chase CEO Jamie Dimon said Monday (Feb. 26) that most owners of commercial real estate will be able to "muddle through" the current economic environment.

Those owners will be able to refinance and put more equity in, if there is not a recession, Dimon told CNBC Monday, according to a Bloomberg report.

Because many property owners are already handling the current level of stress, and the challenges of lower valuations and higher interest rates are already known, only "pockets" of the commercial real estate sector will experience problems, so long as the country avoids a recession, Dimon said.

However, if rates go up and there is a recession, there will be more commercial real estate problems — and some banks will have a bigger problem in this sector than others, Dimon said, per the report.

In early February, regional banking shares in the United States experienced a significant decline triggered by New York Community Bancorp's (NYCB) report on Jan. 31 that it faced challenges in its commercial real estate portfolio.

Residential Real Estate Market Size

Source: https://www.mordorintelligence.com/industry-reports/residential-real-estate-market?network=g&source_campaign=&utm_source=google&utm_medium=cpc&matchtype=p&device=c&gad_source=1&gclid=EAIaIQobChMIraCwgeCLhwMVCoJaBR0CGgZNEAMYAIAAEgliufD_BwE

Regional banks are facing pressure due to their exposure to the troubled commercial real estate sector, which has been affected by high borrowing costs and remote working trends.

NYCB reported on unexpected loss of $260 million in the fourth quarter of 2023, compared to a gain of $164 million in the same period the previous year. Bank executives attributed the loss to a rise in unexpected loan losses, particularly from loans tied to office buildings.

On Feb. 7, Moody's Investment Services lowered NYCB's credit grade to "junk," saying that the bank is dealing with "multifaceted" financial risks and governance challenges.

Another bank, PNC Financial Services Group, said in January that it saw delinquencies, total non-performing loans (NPLs) and net loan charge-offs increase during the fourth quarter, with its commercial real estate portfolio being a notable contributor to that increase.

Overall, compared to the third quarter, net loan charge-offs leapt 65% in the fourth quarter, PNC Financial Services Group reported Jan. 16.

"The CRE office portfolio is where we continue to see the most stress and the fourth quarter's net loan charge-offs were $56 million," Robert Q. Reilly, executive vice president and chief financial officer at PNC, said at the time.

This is a mission statement from Blackstone – "We invest thematically in high-quality assets, focusing where we see outsized growth potential driven by global economic and demographic trends." I'd like to rewrite a similar sentence and use for Sangre's Asset portfolio group that invest in RE.