# Election Aftermath, Affordability and Market Trends

You're tuning in to a special episode of Drive with NAR: Mic Takeover here at NAR NXT in Boston, Massachusetts. I am James Dwiggins, aka Dwiggy, co-host of the Real Estate Insiders Unfiltered podcast. What's Up Dwiggy? Along with my partner in crime, Mr. Keith Robinson, aka Crazy Uncle Keith. Yes, sir. So, we're at the biggest event in residential real estate, doing a mic takeover. The next couple of days. We had Mr. Lawrence Yun on the show, the chief economist for the National Association of Realtors. Tell the viewers and listeners about this incredible episode. Yeah.

This takeover is so much fun. And you know, when you get Lawrence on the mic, he's going to spit fire. And he shared with us so many great insights around interest rates, inventory, what he's going to see for 2025.

Which was positive by the way.

Yes, yes. All good news, all things that we need to be reminded of as we are working our way through this tail end of 2024. It's a great episode. Put it in your ears, kids.

Lawrence, welcome to the podcast. We are very excited to have you here today. I know the energy is electric at the show. You've got a lot of stuff going on, but certainly there's been a lot of stuff to talk about in the world. The elections just happened. Um, we haven't even stopped talking about that on social media. It seems like. But, um, let's start with that. What are some of the economic policies that you think we can expect from President Trump in his second term?

Uh, well, first, you know, the Trump tax cut, which is scheduled to expire at the end of next year. Well, now, I don't think it's going to expire, right. So, it will be extended. And furthermore, there could be additional tax reductions, especially on things like tipped income, which Trump had earlier mentioned. But key question is whether or not there will be a credible plan to address the budget deficit. Because during the first Trump administration, mortgage rates were mostly at 4%. It really even went up to 5%. This time we will be lucky to get to 5% because of large budget deficit. So, I was looking forward to some credible plan to address the budget deficit over the long term.

And we haven't. We haven't seen either. Technically, either candidate put much of a plan forward on how to address that issue. And I think we're at, what, $1 trillion a year in interest at this point is where it's.

You know, $1 trillion in interest. But more importantly, the fact that government is borrowing, borrowing, borrowing just means less private capital, less mortgage money out there to lend. And consequently, my forecast on mortgage rate is about 6% average. You know, a little up a little below that throughout the 2025. I mean, it could surprise and maybe it will go lower. But I think in the one year, mostly around 6%.

Do you think that'll be the average over the next 12 months?

Essentially. New normal.

New normal. And is that enough to start to bring some of the lock in effect, that sellers have been having where they feel sort of stuck because of their interest rate? Is 5% enough to start to unlock some of that?

I would say not necessarily. However, what we are seeing this year is that more inventories are showing up. Back in July, I think we saw a turn in inventory, you know, a higher inventory in July versus one year ago August. A little higher figure 20% September, 30% more inventory. So, what this is indicating is that life changing events, marriages, divorce, people turning 65, the retirement years, um, life changing events, new jobs in different communities, changes in commuting patterns. So, people are saying, I love my 3%, but I cannot live in this house. I need a new house. So, more inventory is showing up and these life changing events constantly is ongoing. So, we're going to have another set next year saw the low point in inventory I think is over. We will have more inventory, which means that realtors they will be getting, you know, moving around rather than sitting on a desk. They have to go out to the yard, put the yard sign up. So now the key question is whether we're going to have buyers for those.

Right, right right right. Yeah. So, you heard it here first. Lawrence told us you can't live in an interest rate. And you're totally right. You got to live in a house, right? And the the life events are going to continue to happen. Do you think there is a lock in effect with some pent up, uh, seller demand that could come into the marketplace, or is that more of a myth?

Well, you know, most of the home sellers ever go being a renter, right? So home seller is automatically a home buyer. Uh, you know, the new home construction industry, they have actually done well in the past 18 months. More sales, more sales, even at higher interest rates. And one wonders why is that they are creating inventory. Their inventory level is roughly twice as high as what it was pre-COVID. So, it's clearly implying that if we have inventory, more sales can be done. And with the mortgage rates sort of settling down, hopefully at 6%. Let's remember one year ago at this time, mortgage rates were touching 8%, right. So, 6%. Definitely a good rate. People waiting for 4%. I don't think it's going to happen. 5% small probability. But the fact that homeowner bill wealth over time get into the market, start building that wealth. You know, that would be my advice for people who qualify and stay within the budget to get those mortgages.

You mentioned the builders. Are you are you feeling that they're going to continue to put more inventory out? What are we short on? Housing, depending upon whether it's single family or multifamily. What's the number range that we're behind on inventory in the US just to catch up with population growth and household formation?

The multifamily we temporarily have oversupply and in fact, we are actually seeing apartment rents fall in places like Charlotte, Nashville. They have a strong local job market growth, but they oversupply. So all these units are coming into units. They're reducing the rent. So the housing shortage is really on the single family units. And pre-COVID 2019 we did our estimate about 5 million housing units short in relation to the population that was growing. And we've been ringing that alarm bell yet. You know, we still have this housing shortage, residual shortage. But now with builders getting a little more active, Trump administration mentioning possibly opening up some of the federal land for more development, maybe less regulation, let the builders get into the market with less hassle. So let's see how we see in regarding the new home construction coming into the market. New home inventory eventually becomes existing home inventory.

Right, right, right. Dovetailing with that, affordability is something that we talk about a lot and something that that candidly, we're really worried about. With the rising home prices, interest rates being higher, all of those factors coming in. What are your thoughts about affordability? How do we solve is there an affordability problem first. And then I'm assuming that you're going to say yes. But if you do say yes, then how do we start to solve that affordability issue?

You know, the affordability index is a little formula. Is that historically low? It just means it's really hard for first time buyers to get into the market. Record high home prices, mortgage rates not really behaving. Lack of choices out there. So how do we address it? Well, first we need lower mortgage rates. So the Federal Reserve will be doing several rounds of rate cuts throughout next year. Key question is whether the mortgage rate can follow that pattern for consumers. They have to understand Federal Reserve does not control mortgage rates.

Say it again. Say it again so everybody hears it.

The Federal Reserve does not control grocery prices. They do not control mortgage rates. They only control short term interest rates in the hopes that they can influence the mortgage rate. So maybe with multiple rounds, mortgage rates can settle down if inflation is control. But you know the tariffs are not going to help inflation in the short term. But maybe the long term. If we have more production activity in America, more people going into the labor force looking for work, more supply of workers that can help contain inflation. But at the moment, I would say that mortgage rates going deeply down to three and four is not going to happen. It's going to be more like 6% new normal.

So we really got to focus on the supply side to work our way out of the affordability problem is that.

The supply side in terms of getting more inventory, so the home price growth begins to calm down. Let's have some years where income outpaces home price growth. And if the mortgage rate begins to come down, that will definitely improve affordability. You know, I was.

Reading just the other day that it's actually a guest we had on our on our show. I was talking about like 46% of some of the costs just to develop are permits and going through all of the, you know, the inspections and just the amount of bureaucratic work that has to be done for somebody to want to build there. They're just not wanting to do it. They're going to areas where it's less expensive. There's less red tape. Is that one of the issues that needs to be solved, at least in some parts of the country?

Well, you know, the area where you are from, James. They are simply not building enough.

California.

Or trying to take out a housing permit. You know, essentially $100,000 just to get anything done, just the paperwork itself. So that's going to make housing prices very costly. But overall, you know, the Midwestern states is reasonably affordable. Now we have seen some hybrid work model that is leading to some people saying, well, if I don't have to be in office in San Francisco, maybe I can buy a mansion in Cincinnati. So we see some of those trends. But of course, I think there is some return to office which will hinder some of the mobility. But the life changing events that's constantly ongoing, you know, these young family who have additional child in the family, you cannot live in that small starter home. You need a larger size home. So I think this will lead to more inventory and steady advancement in people's lives. Certainly advancement in real estate sales are.

We is the number we should expect for just that group of people that are just life events that are moving around 4 million units roughly. Is that a number that we should kind of count on? Well, let me ask you to ask this differently. What is the average amount of transactions on an annualized basis that typically happens in a normal market? Is it 553? What's the historic.

Historically five year before Covid. Yeah. Five-year average was roughly 5.3 million. 5.3. Okay. Last year, we hit 4 million. This year we're going to hit 4 million again. So two straight years of true bummer year in terms of home sales transaction, difficult environment for the realtors, people involved in real estate business like title insurance, mortgage originators. But let's remember the clients of the realtors homeowners. They're doing tremendously well. You know, mortgage default rates are historically low. So, the clients of the realtors are doing well, even though, uh, the practitioners who are in the business, it's been a difficult two years, but I think the worst is over. We are seeing a recovery in inventory, the job growth. Look at the stock market boom that occurred post-election. The Wall Street is optimistic, easier to tap into the capital, expand factories, hire more people. So the job addition will also create that steady flow of housing demand.

There's also one effect that I don't think it's talked about enough. In 2001, we had a breakout year, a great year from a volume number of homes sold. I think it was 6.1 million or something like that in 2001. Not trying to put you on the spot, but you know that number by chance.

I do not know the number by chance. However, what I can say is that some of those numbers were artificial because we had those, you know, toxic subprime mortgages, zero interest rate for three months and then, you know.

Yeah, yeah. Oh, I said 2001. I meant 20 2021, 2021. We had a banner.

Oh yeah.

Yeah yeah. So yeah, yeah. 2021 2022 a very solid you know, multiple frenzy offer situation. Any inventory that came drawing multiple bids. But that was due to the 3% 4% mortgage rate.

And I also think there are some people because of the ability to work remote and some of those things, I think it pulled forward a lot of transactions, people who maybe wouldn't have had that life event to move to Cincinnati and buy a mansion, but because now they were working from home, they could buy that mansion in Cincinnati. And so we forget sometimes that there were a bunch of transactions that happened in 2001, that we were somewhat artificially high in transaction volume. And when you pull all that forward, you're going to have the the downside of that effect for a couple of years after.

Well, I agree partially with that. So, the downside effect we saw it in 2023 and second half of 2022. So, you can say this was a payback for large sales that happened before. But now this year to be this low for second consecutive years. And based on population figures, it just doesn't match up. So, it's artificially depressed sales this year. It cannot be depressed given the job creation, population growth. And now mortgage rate again is not the three and 4%, but it's much better than 8% of one year ago. So given this condition, I think the worst is over, we are going to see some uptick in home sales. I did a presentation earlier. I'm glad that people are attending, you know, 10,000 realtors attending Boston conference. So, the slide showing roughly 10% growth in unit sales in 2025 and 2026. Of course, all forecasts will be wrong. But I think directionally, you know, we are going to see some improvement.

So, 10% on units, you're thinking next year that'll be meaningful for everybody that's in the business. Um, we obviously had a fed cut 25 basis points yesterday. Are you expecting more by the end of the year potentially.

Well one advice to Jerome Powell is that do the rate cut in January rather than December when Trump actually is in the white House. I think there's a little ego factor to satisfy, you know, President Trump. But aside from that, I think there will be additional 4 or 5 rate cuts that will happen in 2025. But what's going to happen to mortgage rates? Is it going to fall one on one step to step by step, or is that the mortgage rate will not fall because of high budget deficit? So trying to address the budget deficit. Some credible plan. It doesn't have to be immediate implementation. It's just a credible plan to come out that will help lower the mortgage. And Wall Street.

Will respond accordingly with that as well.

Yeah, maybe. Let's close with this. If there was one thing, since this is going to go to the entire membership, if you could, since you have a microphone in front of you and it's going to go to everyone, what's one thing you would want the entire membership to hear from you going into 2025?

You know, it's been a difficult two years, but the improvement is on the way. But as everyone knows, it is a fiercely competitive business model out there. People trying all different business model. So, you know, some people will succeed better than others. I was very happy to hear, even in this, this depressed market, some realtors saying I had the best year of my career individually. So, people need to position themselves, get that extra business. And I think there are some home sellers whose life could actually improve by looking for the next home, but the inertia is preventing it. So, I think it's a good for realtors to sort of talk to people to see if their life would improve by trading up or trading down or moving into different residence.

Aka start talking to your clients. Get in front of them now. So. Right. Lawrence, thank you so much for being here. We really appreciate everything that you do for the industry, all of your expertise. We couldn't possibly do our jobs without you. Again, thanks for stopping by the show.

Yeah, thank you so much. Thank you to your whole team as well.

Thank you. Thank you for joining us at the NAR NXT conference in Boston, Massachusetts. We have been doing the Drive with NAR podcast in association with Real Estate Insiders Unfiltered. We want to thank everybody for tuning in. We appreciate all of that. Make sure you subscribe to both podcasts. We got a lot of content coming.