# First-Time Buyers Face New Competition

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Investors are scouring real estate markets looking for low-priced homes, and they're increasingly stepping on the toes of first-time home buyers, who are hunting in the same price range. "The investor is starting to gobble up pretty much anything under $200,000," Dennis Cisterna, chief revenue officer for Investability Real Estate, which markets rental homes, told *The Dallas Morning News*. "We are not adding any new supply to the market to serve that first-time home buyer."

Housing inventories are at the lowest level in 30 years, and the shortages are most pronounced in the low and middle price ranges. "We are losing inventory at a record pace and in the segment of the market with the most demand," says Javier Vivas, a realtor.com® analyst.

Investors comprised 33 percent of all single-family and condo sales in 2016, the highest percentage ever recorded by real estate data firm ATTOM Data Solutions. "This is setting the stage for a boom in single-family rentals," says Daren Blomquist, an economist at ATTOM.

But while institutional investors dominated the rental housing market after the housing crash, they're increasingly being priced out of markets such as Denver and Dallas. Smaller mom-and-pop investors are now stepping in to take their place. "The investors are competing for those starter homes," Blomquist says, adding that 61 percent of investor purchases are for homes between 1,000 and 2,000 square feet.

Investors also tend to pay cash, which is making it difficult for first-time buyers who need financing to compete. About 19 million single-family

homes in the U.S. are now owned by investors, according to ATTOM Data Solutions.

*Source: "First-Time Buyers Hunting Affordable Housing are up Against Property Investors … and Losing," The Dallas Morning News (June 16, 2017)*

# Don't put your money in a house, says a new report

- Rising home prices and potentially increasing mortgage rates could hamper investments.
- Renting may be a better option than buying, according to the report.

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If you're planning on house hunting this weekend, you might want to do a little math first.

Owning a home used to be a great way to build wealth, but that equation is turning. It may, in fact, be more lucrative to invest your money elsewhere.

As home prices rise quickly and mortgage rates threaten to increase, the rent versus buy equation is tipping toward rent, according to an index from Florida Atlantic University. It factors in home prices, rents, mortgage rates and alternative investments that create wealth. Essentially, it calculates the wealth accumulated when owning a home compared with the wealth accumulated when renting the same property and investing the down payment somewhere else.

"The major drivers for this quarter's scores appear to be slowing rents relative to the costs of ownership and climbing mortgage rates," said Ken Johnson, a real estate economist and one of the index's creators at FAU's College of Business.

"Thus, on the margin, more potential owners should favor renting and reinvesting in a portfolio of stocks and bonds as opposed to ownership. This shift should slightly lower the demand for ownership and contribute to the slowdown in housing prices around the country."

Of the 23 cities the index measures, 11, including New York City and Boston, are still in 'buy' territory — some very definitively, like Chicago, Cincinnati and Cleveland. Nine, including Minneapolis, Atlanta, Miami, Philadelphia and Los Angeles, hover right around zero, meaning it is a toss-up between buy and rent. Three cities, Dallas, Denver and Houston, are in historically high territory for renting being the better option for building wealth.

Despite different levels currently, *all* of the cities are steadily moving toward rent in the FAU index, because home prices have risen so steeply in the past few years and continue to gain. Mortgage rates bumped higher after the presidential election in November, and although they have fallen since, they are expected to rise through the end of 2017.

This may be why another index, measuring homebuyer sentiment, is dropping. The monthly Fannie Mae survey found those who said now is a good time to buy a home fell to its lowest level ever. In addition, fewer respondents said they were confident about holding on to their jobs.

"High home prices have led many consumers to give us the first clear indication we've seen in the National Housing Survey's seven-year history that they think it's now a seller's market," said Doug Duncan, senior vice president and chief economist at Fannie Mae.

"However, we continue to see a lack of housing supply as many potential sellers are unwilling or unable to put their homes on the market, perhaps due in part to concerns over finding an affordable replacement home. Prospective homebuyers are likely to face continued home price increases as long as housing supply remains tight."

Clearly affordability is weighing on the housing market, especially as more and more younger buyers enter it for the first time.

# Research: Rental Demand to Escalate by the Millions

By Suzanne De Vita

Inventory shortages are weighing down just about every housing market, with supply on all sides—renter- and owner-occupied—on a months-long downtrend. A new multifamily report now estimates that by 2030, some 4 million new apartments alone will be needed to keep pace with demand.
“Apartment rentals are on the rise, and this trend is expected to continue at least through 2030, which means we’ll need millions of new apartments in the U.S. to meet the increased demand,” said Cindy Clare, chair of the National Apartment Association (NAA), in a statement on the report, released recently by the NAA and the National Multifamily Housing Council (NMHC).
Meeting demand will require a minimum of 325,000 new apartments, defined as buildings with five or more rental units, built each year—a lofty endeavor, considering only 244,000 apartments were constructed between 2012 and 2016, according to the report.

The primary catalysts behind the need are the as-ever delay in home-buying and the formation of new renter households as a result of aging and immigration. One million new renter households, on average, were formed each year over the last five.
“Renting is not just for the younger generations anymore,” said Dr. Norm Miller, principal at Hoyt Advisory Services, which collaborated with the NAA and the NMHC on the report. “Increasingly, baby boomers and other empty nesters are trading single-family houses for the convenience of rental apartments; in fact, more than half of the net increases in renter households over the past decade came from the 45-plus demographic.”
Immigrant households, in addition, will have a deeply transformative effect on both the renter- and owner-occupied housing markets.

“Immigration affects rents and home prices far more than it affects the labor market,” said Alex Nowrasteh, immigration policy analyst at the Center for Global Liberty and Prosperity at the Cato Institute, at the 2017 REALTORS® Legislative Meetings & Trade Expo in May. Nowrasteh pointed to increases in home values and rents that parallel population growth, much of it spurred by immigrants.
The report finds that demand, though widespread, will be most felt in sought-after markets in the South and West, including Arizona, Georgia and Nevada, and in markets on the East Coast, such as in New York and Virginia.

“The western U.S. as well as states such as Texas, Florida and North Carolina are expected to have the greatest need for new apartment housing through 2030, although all states will need more apartment housing moving forward,” Clare said. “The need is for all types of apartments and at all price points”—affordable stock included.

Another recent report out of the National Low Income Housing Coalition (NLIHC) purports an inability for renters in every state, earning minimum wage and working 40 hours each week, to afford a two-bedroom rental, giving way to a shortage of 7.4 million affordable units for low-income renter households. Research by the Joint Center for Housing Studies at Harvard University affirms the need, with roughly 6 million older, low-income renter households, as well, burdened.
“Apartments and their 39 million residents contribute $1.3 trillion to the national economy,” said Bob DeWitt, chair of the NMHC.
“The growing demand for apartments…will make a significant and positive impact on our nation’s economy for years to come.”
*Sources: National Low Income Housing Coalition (NLIHC), National Apartment Association (NAA)/National Multifamily Housing Council (NMHC)*
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