



DECEMBER 2021 NEWSLETTER

HAPPY
Holidays

The 2022 Housing Market Predictions.....	Page 2
2022 Housing Market Forecast.....	Page 3
Housing Market Forecast (continued).....	Page 4
Happy Holidays Message.....	Page 4
Quote of the Month	Page 4

The 2022 Housing Market Predictions as told by 7 Leading Forecast Models



A perfect storm. That’s the best way to describe the red-hot hot housing market we’ve seen from coast-to-coast during the pandemic.

It was spurred by a combination of recession-induced low mortgage rates, remote work allowing buyers to sprawl further away from their workplace, and a demographic wave of first-time millennial homebuyers entering the market. Of course, years of under-building means there simply aren’t enough homes available to meet this demand.

But how much longer will this run last? After all, home price appreciation of 19.9% (a 12-month record set between Aug. 2020 and Aug. 2021) can’t be sustained forever.

Already, there are signs the housing boom is losing some steam due to seasonality, a cooling period that happens like clockwork most years during the holiday and vacation stretch.

That’s not all; more homebuyers are beginning to push back against surging prices. In October 60.3% of sales involved a bidding war, a slight decline from the all-time high of 74.5% in April 2021. There’s also the increased likelihood the Federal Reserve will raise rates to tamp down inflation; unfortunately, rising mortgage rates would price out some buyers altogether.

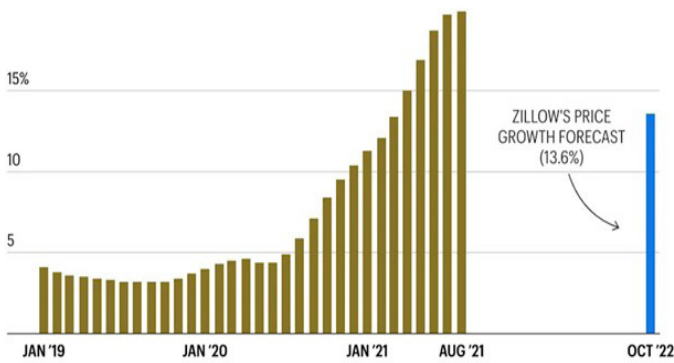
What does this mean for home price growth in 2022? According to predictions by seven industry forecast models reviewed by Fortune, buyers and sellers alike won’t get much peace of mind from these forecasts. For one, economic models don’t produce anything close to a consensus, some predict price growth next year will go down while others forecast a slow rate of appreciation.

Let’s take a look at these models, and also look at why there’s so much uncertainty heading into 2022.

Lambert, L. (2021). Where the housing market is going in 2022, as told by 7 leading forecast models. *Yahoo Finance*. [Where the housing market is going in 2022 as told by 7 leading forecast models \(yahoo.com\)](https://www.yahoo.com/news/where-the-housing-market-is-going-in-2022-as-told-by-7-leading-forecast-models-141910608.html)

U.S. home price growth

Year-over-year change in the S&P CoreLogic Case-Shiller Home Price Index



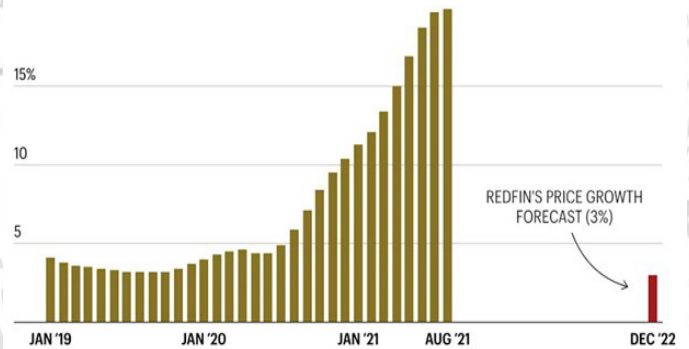
THE MOST RECENT READING (AUGUST 2021) CAME IN AT A RECORD 19.9%. BROWN REPRESENTS ACTUAL GROWTH, BLUE REPRESENTS A FORECAST.

CHART: LANCE LAMBERT • SOURCE: S&P DOW JONES INDICES LLC; ZILLOW

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On the high end of the spectrum are Zillow and Goldman Sachs. Zillow projects home prices will rise 13.6% between Oct. 2021 and Oct. 2022. Meanwhile, Goldman Sachs forecast a 16% uptick between Oct. 2021 and Dec. 2022 (or 13.5% on an annualized basis). For perspective, the largest 12-month uptick in the lead up to the 2008 housing crash was 14.1%. Simply put: Researchers at both Zillow and Goldman Sachs see priced out buyers falling further behind next year.

Goldman Sachs further predicts that the supply-demand picture that has been the basis for our call for a multiyear boom in home prices remains intact. Unfortunately, of all the shortages afflicting the U.S. economy, the housing shortage might last the longest.

What's going on? Well, neither Zillow nor Goldman Sachs foresees the demographic wave of first-time millennial homebuyers letting up. We're in the midst of the five-year period (between 2019 and 2023) in which the five largest millennial birth years (between 1989 and 1993) are hitting the all-important first-time home buying age of 30. **According to their forecasts, there won't be enough homes to satisfy all that demand next year.**

Since 1980, Fortune calculates home prices on average have climbed 4.6% per year. Over the past year, price growth (19.9%) is four times that level.

The good news for would-be home buyers? Among the seven forecast models Fortune examined, four predict we'll see price growth in 2022 fall back closer to the historical average.

That includes Fannie Mae and Freddie Mac, which are predicting U.S. home price growth of 7.9% and 7%. That's slightly higher than the historical norm, however, it's hardly the eye-popping numbers we've seen during the pandemic. Meanwhile, models released by Redfin and CoreLogic foresee 12-month price growth falling to 3% and 1.9%, respectively.

What do the models predicting substantial price deceleration have in common? They foresee price growth getting chopped down by rising mortgage rates. As of Monday, the average 30-year fixed mortgage rate stands at just 3.1%. By the end of 2022, Fannie Mae projects it'll hit 3.4% while Redfin's model says 3.6%.

These jumps are bigger than they might appear at first glance. Let's say a borrower took on a \$500,000 mortgage. At a 3.1% mortgage rate, they'd see a \$2,135 monthly payment (not factoring in any taxes or insurance). But if that rate were the 3.6% as projected by Redfin, that payment would rise to \$2,273—or nearly an additional \$50,000 over the course of the 30-year mortgage.

Another unknown: Will corporate America begin pushing harder next year to bring staffers back into the office? If the workplace is less WFH friendly next year, that could translate into fewer buyers in both second home markets (like the Hamptons) and in the exurbs. That concern is shared by Frank Martell, CEO of CoreLogic, who wrote in the real estate data firm's latest forecast that "as we head into 2022, **we expect some moderation in the current pattern of flight away from urban cores as the pandemic wanes.**"

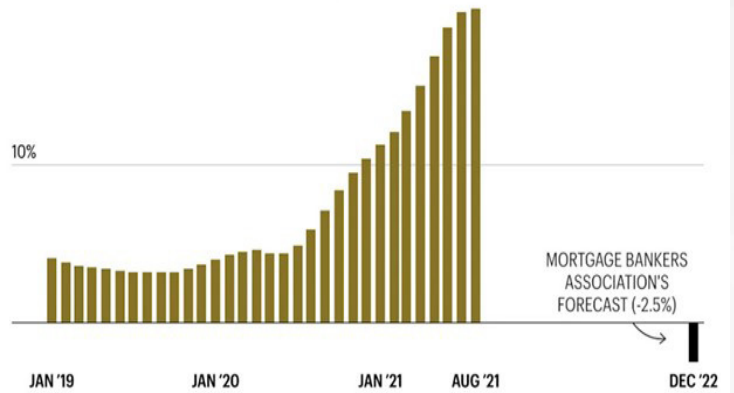
But there is one outlook that is relatively bearish on price growth.

The Mortgage Bankers Association, an industry trade group, is predicting that the median price of existing homes will decrease by 2.5% between the fourth quarter of 2021 and the fourth quarter of 2022. When you look closely at its model, it's easy to see why: The Mortgage Bankers Association is forecasting that the average 30-year fixed mortgage rate will hit 4% by the end of 2022. Over the course of 30 years, that'd add an additional \$90,000 in cost to a \$500,000 fixed rate mortgage

That said, even if the Mortgage Bankers Association's price drop comes to fruition, it would hardly be a housing crash. ***Instead, U.S. home prices would still be up over 20% from pre-pandemic levels.***

U.S. home price growth

Year-over-year change in the S&P CoreLogic Case-Shiller Home Price Index



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CHART: LANCE LAMBERT • SOURCE: S&P DOW JONES INDICES LLC; MORTGAGE BANKERS ASSOCIATION

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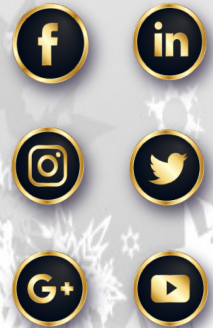
QUOTE OF THE MONTH

“Never doubt that a small group of thoughtful committed citizens can change the world: indeed, it’s the only thing that ever has.”

- Margaret Mead



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