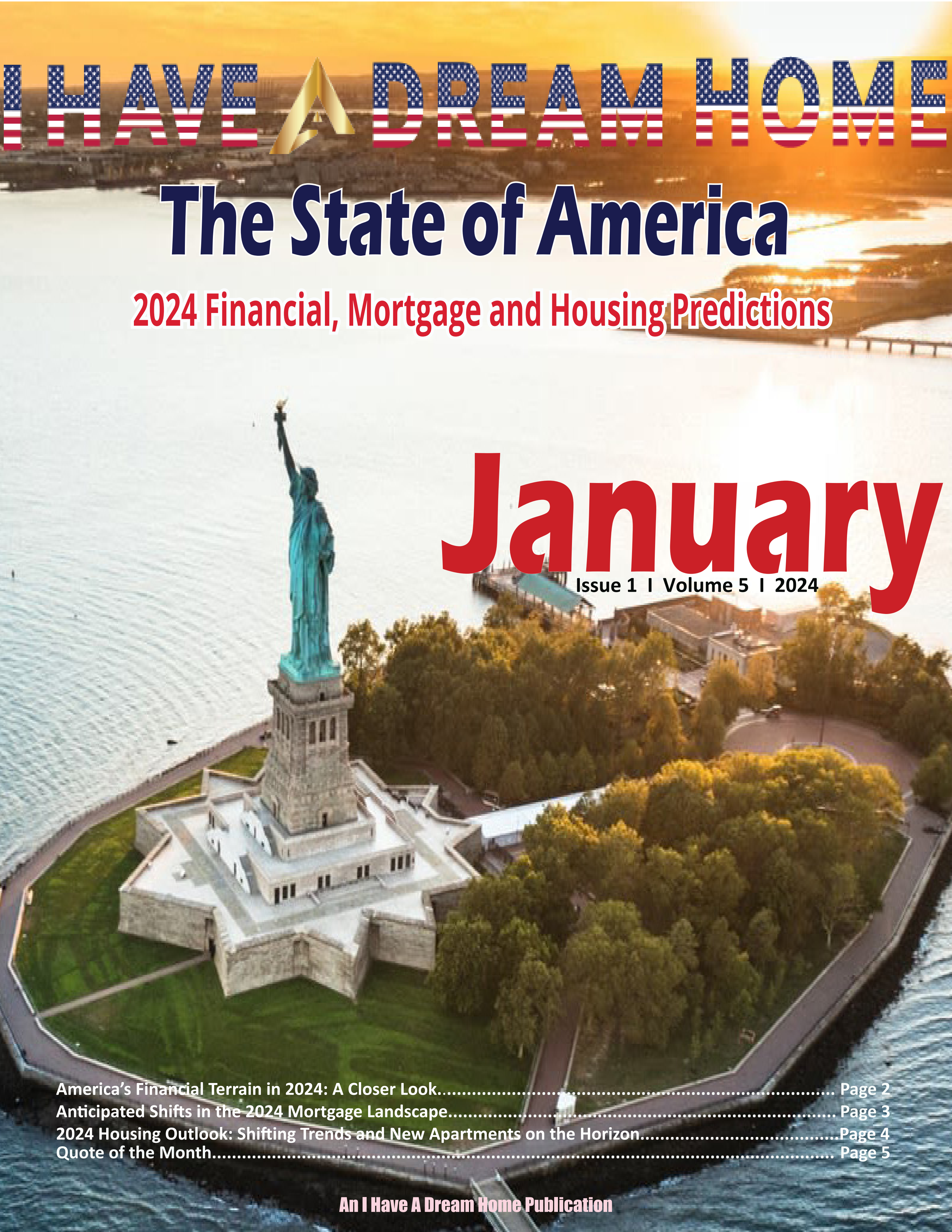

I HAVE A DREAM HOME

The State of America

2024 Financial, Mortgage and Housing Predictions

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Financial Predictions

America's Financial Terrain in 2024: A Closer Look

Concerns about the financial landscape in 2024 have come to the forefront, with notable shifts in America's debt rating and potential hurdles on the horizon. Lawrence Yun sheds light on the challenges, stating, "Another problem is that America's debt rating has been downgraded from AAA to AA due to the large budget deficits from this year and the past three years," referencing Fitch Ratings' recent adjustment.

Fitch Ratings, on August 1, 2023, downgraded the United States' Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA+' from 'AAA.' This decision reflects anticipated fiscal challenges over the next three years, an escalating government debt burden, and governance concerns that set the U.S. apart from 'AA' and 'AAA' rated peers. The erosion of governance, particularly in fiscal and debt matters, has been evident over the past two decades, marked by debt limit standoffs and last-minute resolutions.

The lack of a medium-term fiscal framework, coupled with a complex budgeting process, has contributed to successive debt increases. Despite a bipartisan agreement to suspend the debt limit until January 2025, confidence in fiscal management has been undermined. Limited progress in addressing rising social security and Medicare costs further compounds the challenges, reflecting the broader economic shocks and policy decisions of the past decade.

In the realm of finance, inflation remains a wildcard with potential implications for the real estate market. Danielle Hale, chief economist at realtor.com®, acknowledges optimism for the housing market in 2024 but highlights inflation as a potential disruptor.

If inflation fails to improve, long-term interest rates could rise, discouraging homeowners from selling and perpetuating inventory bottlenecks. Younger homebuyers might continue to be sidelined by elevated housing costs, opting to remain as renters, leading to substantial ramifications for the housing market.

While overall inflation is showing signs of easing, "shelter inflation" continues to rise. The latest Consumer Price Index reading indicates a decrease to 3.1% in November, though still above the Federal Reserve's target of 2%. Lawrence Yun anticipates an "oversupply" of new apartment units impacting housing markets, potentially driving rental rates down and contributing to better control of inflation. There is hope that this scenario will disincentivize the Federal Reserve from further raising short-term rates.

In conclusion, the financial landscape in 2024 poses challenges, but careful monitoring and strategic decisions can navigate these uncertainties, ensuring a resilient approach to the evolving economic scenario.

Mortgage Predictions

Anticipated Shifts in the 2024 Mortgage Landscape

As the nation grapples with a housing affordability crisis, optimism emerges on the horizon. Industry experts project a positive turn in the second quarter of the coming year, forecasting a decline in mortgage rates that may offer relief to many Americans.

According to Lawrence Yun, the chief economist for the National Association of Realtors, the 30-year mortgage interest rates are expected to hover around 6 percent by the spring of 2024. Speaking at an event organized by the Hudson Gateway Association of Realtors in White Plains, New York, Mr. Yun expressed his belief that brighter days lie ahead for the real estate industry in the second quarter of the upcoming year.

Acknowledging the challenges posed by rising interest rates, dwindling inventory, and runaway inflation, Mr. Yun suggested that the current environment for buying a home, particularly for first-time buyers, is less than ideal. However, he sees a positive trajectory on the horizon, stating, "Total sales may still be slightly lower than 2019, but definitely an improvement over 2023."

Reflecting on the current market conditions, Mr. Yun attributed the slowdown to factors such as rising interest rates, depleted inventory, and escalating inflation. He emphasized the need for a change, urging the Federal Reserve to halt interest rate hikes as inflation trends back to normal levels.

Despite a challenging 2023, existing-home sales are poised for improvement in 2024 after two years of sharp declines. The expectation is that mortgage rates have likely peaked and are now on a downward trend from their recent high of nearly 8%. Projections indicate that the 30-year fixed-rate mortgage will average around 6.3% in 2024, potentially improving housing affordability and enticing more home buyers to re-enter the market.

NAR (National Association of Realtors) predicts a significant increase in existing-home sales by 13.5%, with new-home sales potentially rising by 19% by the end of the next year. Advocating for reduced interest rates, NAR underscores the potential impact on making home buying more affordable for a broader range of individuals.

Despite a 21% decline in existing home sales from the previous year, Mr. Yun noted that newly constructed home sales have returned to pre-COVID levels. However, he acknowledged that higher costs associated with new construction could still pose financial challenges for first-time buyers.

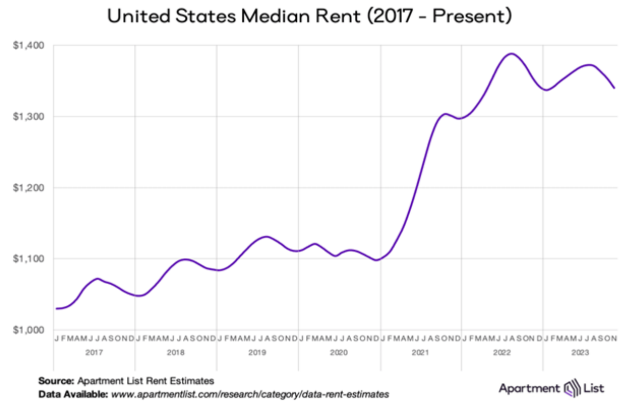
Looking ahead to 2024, some housing markets are expected to experience higher sales upticks than others.

Job growth remains a crucial determinant for long-term housing demand, as emphasized by Yun. NAR's evaluation (figure on left) of the largest U.S. metro areas identifies markets with the most pent-up housing demand for 2024.

In summary, while challenges persist, the housing market anticipates a positive shift in the coming year, offering hope for increased affordability and a revitalized real estate landscape.

Housing Predictions

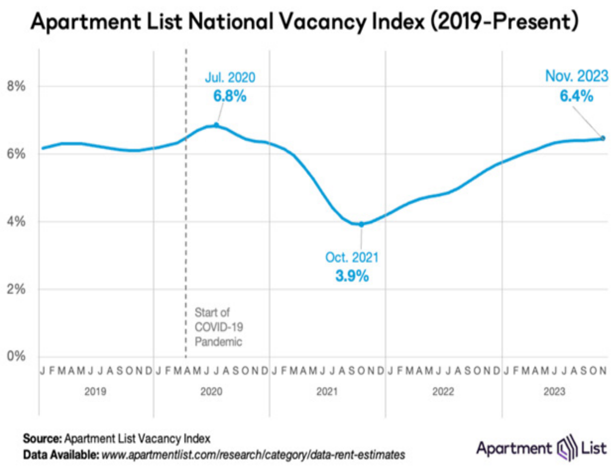
2024 Housing Outlook: Shifting Trends and New Apartments on the Horizon



The once sizzling rental market has undergone a noticeable shift, marking a departure from the rapid ascent seen in 2021 and early 2022. In 2023, the overarching narrative was a marked cool down in the rental sector.

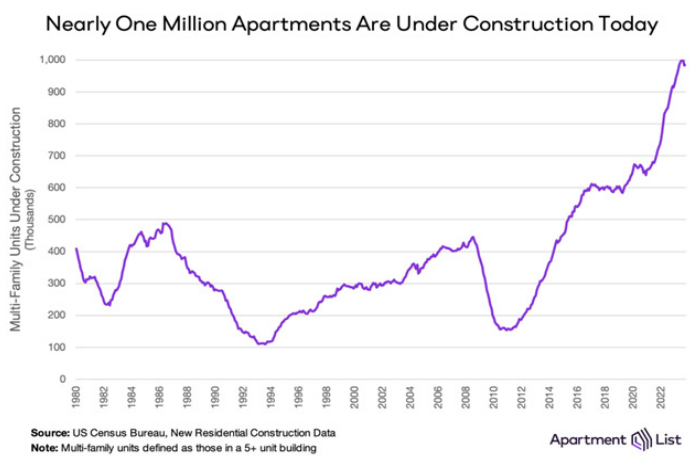
Year-over-year rent growth (*figure on right*), which reached its zenith at 18 percent, has now receded to a surprising negative 1.1 percent. This means that the national median rent today is marginally lower than it was a year ago.

This six-month streak of negative growth is unprecedented since the early days of the pandemic. While the recent dip hasn't entirely erased the gains of previous years – the national median rent remains 20 percent higher than pre-pandemic levels – it does signal a temporary pause in the rental market's fervor.



What led to this slowdown (*figure on left*)? Factors include stagnant household formation in response to elevated housing costs, inflation, and persistent economic concerns. However, the deceleration in rent growth is equally influenced by the supply side of the market.

The ongoing multifamily construction boom has resulted in increased supply, causing the national vacancy index to ease and stabilize at 6.4 percent, slightly surpassing the 2019 average. In essence, the scorching rental surge has cooled off, thanks to a balancing act between softened demand and a growing supply.



Looking ahead to 2024, the construction data from the Census Bureau points to a sustained surge in multifamily supply (*figure on right*). The number of new multifamily apartment units under construction surpassed one million for the first time in 2023, and completions are anticipated to peak in 2024. With an abundance of units in the construction pipeline, 2024 is poised to be the most robust year for new multifamily supply since the 1980s.

While multifamily demand may not experience a significant boom in the coming year, persistent obstacles to homeownership will continue to underpin rental demand. Record-high home prices and escalating mortgage rates have led to a standstill in existing home sales. Prospective buyers find it challenging to enter the market, and current homeowners with locked-in low mortgage rates are reluctant to sell. Consequently, many families are opting to remain renters for longer durations than they might have in the past.

In conclusion, the housing landscape in 2024 appears to be shaped by a recalibration in the rental market and a surge in new apartment constructions, presenting both challenges and opportunities for renters and investors.

“The object of a New Year is not that we should have a new year. It is that we should have a new soul and a new nose; new feet, a new backbone, new ears, and new eyes.”

— G.K. Chesterton

QUOTE OF THE MONTH

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