



# IS THE U.S. HOUSING MARKET HEADED FOR ANOTHER BUBBLE?

GRAEBEL EXAMINES RECENT NEWS ABOUT RESIDENTIAL REAL ESTATE.

In 2012, the U.S. housing market officially hit bottom. Now just one year later, people are already talking about another real estate bubble thanks to the substantial price gains hitting various regions of the country.

Driven by low interest rates, tight inventories, and high investor interest, U.S. home prices are on the rise. With a 12.2-percent year-over-year increase in home prices, May 2013 saw the largest jump since February 2006, and became the third month in a row to achieve double-digit gains.<sup>1</sup>



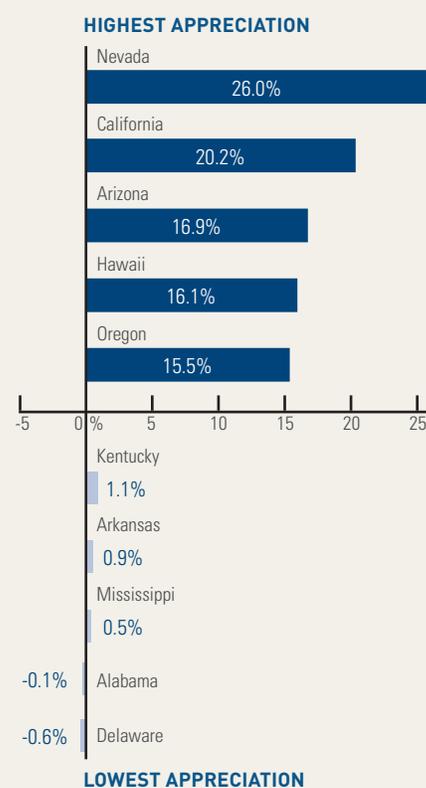
But do these gains mean that the country is headed for new trouble? Many fundamentals point to one answer: no. A number of differences exist between what is happening now and what happened a decade ago. This white paper will shed some light on the situation and share why there's little reason to see danger in the real estate market today.

## RIISING HOME PRICES

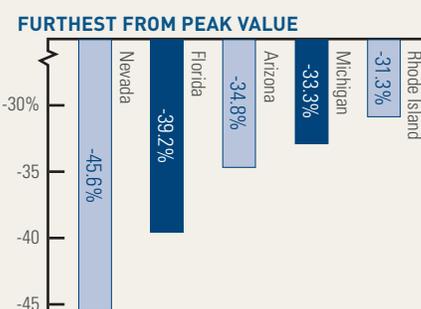
The 12.2-percent rise in home prices in May marked the fifteenth consecutive increase in home prices, according to a report released last month by CoreLogic.<sup>2</sup> Despite these gains, the housing market is still 20-percent below its April 2006 peak.<sup>3</sup> While the market has been steadily increasing in value for 15 straight months, only the last three months have seen double-digit increases. To compare, home prices saw double-digit gains for 45 straight months from August 2002 to April 2006, when the market peaked.<sup>4</sup>

A number of regions are experiencing higher-than-average appreciation. In terms of metro areas, many of the places that saw the greatest drops in value are also experiencing the fastest gains in appreciation (see Figures 1 and 2). Sacramento, California; Las Vegas, Nevada; San Francisco, California; Riverside, California; and Phoenix, Arizona posted the highest price gains in June.<sup>5</sup> San Jose and Denver are also experiencing double-digit price gains, but neither of these cities experienced the substantial decrease in value. San Jose is only 3-percent off its peak value, and Denver is even.<sup>6</sup> Some markets, like Sacramento, are starting to level out, as month-over-month increases in listings add more supply to field demand.<sup>7</sup>

**FIGURE 1: YEAR-OVER-YEAR HOME PRICE APPRECIATION<sup>8</sup>**



**FIGURE 2: PERCENTAGE OFF PEAK VALUE<sup>9</sup>**



<sup>1</sup> "Home Price Index Report." CoreLogic, May 2013.

<sup>2</sup> Ibid.

<sup>3</sup> "The MarketPulse." CoreLogic, July 2013.

<sup>4</sup> Kristen Scholer. "Real Estate Run-up Brings Back Bubble Fears." Fiscal Times, June 24, 2013.

<sup>5</sup> "Zillow Real Estate Market Report." Zillow, June 2013.

<sup>6</sup> Ibid.

<sup>7</sup> "May Real Estate Health Report Shows Regional Markets Leading Recovery as Supply Begins to Respond to Demand." Realtor.com, June 13, 2013.

<sup>8</sup> "Home Price Index Report." CoreLogic, May 2013.

<sup>9</sup> Ibid.

The national median list price of \$199,900 for June represents a 5.27-percent year-over-year increase.<sup>10</sup> According to *Forbes*, one reason for the rise in median home price can be attributed to the 33-percent year-over-year increase in sales of homes worth more than a half a million dollars.<sup>11</sup>

## INVENTORY WON'T STAY TIGHT FOREVER

The combination of strong demand and a lack of supply is one of the biggest reasons for the run-up in home prices, but this situation won't remain forever. As home prices increase, more homeowners return to a state of positive equity – and that means they can more easily list and sell their homes. In many cases homeowners can now offload their homes without taking a loss on a sale in the form of out-of-pocket expenses or a credit loss.<sup>12</sup>

In the first quarter of 2013, approximately 850,000 homes emerged from being underwater, bringing the total number of mortgaged residential properties with equity to 39 million.<sup>13</sup> While good news, 19.8-percent of the country's mortgaged residential properties (or 9.7 million) are still underwater.<sup>14</sup> Nearly a third of these homes are located in just five states: Nevada, Florida, Michigan, Arizona, and Georgia.<sup>15</sup>

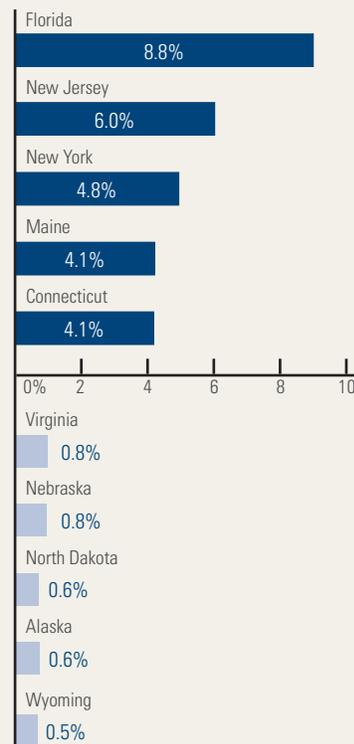
Additionally, the number of homeowners who are over 90 days past due on their mortgages has shrunk by 39-percent since the January 2010 peak – and at 5.6-percent of total mortgages, the rate of serious delinquent mortgages is the lowest its been since December 2008.<sup>16</sup>

Foreclosure inventory across the country has decreased 27-percent in the last year.<sup>17</sup> In May, 52,000 foreclosures were finalized. While this figure is still much higher than the nationwide average of 21,000 foreclosures between 2000 and 2006, the past 17 consecutive months have seen declines in the number of completed

foreclosures.<sup>18</sup> Thirty-six states now have foreclosure inventories less than the national rate of 2.6-percent, and as seen in Figure 3, only a few states have rates that are significantly higher than the national average.<sup>19</sup>

**FIGURE 3: HIGHEST AND LOWEST FORECLOSURE INVENTORIES<sup>20</sup>**

### HIGHEST FORECLOSURE INVENTORY



### LOWEST FORECLOSURE INVENTORY

Positive news in the real estate market and in unemployment – currently sitting at 7.6-percent<sup>21</sup> – is giving existing homeowners the confidence they need to consider selling. According to the June 2013 Fannie Mae Monthly National Housing Survey of 1,007 U.S. homeowners, 36-percent of respondents believe now is a prime time to sell a home – an 11-percent increase from one year ago.<sup>22</sup> And

even more telling, nearly three-quarters of respondents believe now is a great time to buy.

These factors are loosening the inventory situation. [Realtor.com](http://Realtor.com) reports that listing inventory has grown by 25-percent since the start of the year.<sup>23</sup> Plus, builders have started construction on more new homes. Builders broke ground on nearly 600,000 single-family homes in June.<sup>24</sup> The total of single-family starts is still substantially lower than the healthy average of 1.3 million home starts,<sup>25</sup> but the current rate is 50-percent higher than the 2009 bottom point of the downturn.<sup>26</sup>

## RECORD-LOW BORROWING RATES HAVE GENERATED DEMAND

For months homebuyers have benefited from extremely low interest rates. These rates have driven people to enter the market on the quest of finding lower monthly payments. But that could be changing. In the last week of June, the average 30-year fixed-rate mortgage rose from 3.93-percent to 4.46-percent – bringing it to its highest rate since July 2011.<sup>27</sup> The rate increase was also the largest weekly gain in 26 years.<sup>28</sup> And this jump is not likely to be the only one. The National Association of Realtors expects that the 30-year mortgage rate will top 5-percent next year.<sup>29</sup> However, at the end of July, rates had dropped slightly to 4.31-percent.<sup>30</sup>

As people start to see rates rise, their sense of urgency will likely fuel even more demand – up to a point. May 2013 saw a six-year high in contracts on existing homes, as people rushed to secure a lower interest rate.<sup>31</sup> While still low by historic standards, the new mortgage rate adds real dollars to monthly payments. Buyers will now be able to afford homes that cost 15- to 20-percent less than what they could purchase at the lower mortgage rate.<sup>32</sup> These increases could price people out of the market, thus tapering demand – and in turn placing

<sup>10</sup> "June 2013 Real Estate Data." National Association of Realtors, July 17, 2013.

<sup>11</sup> Morgan Brennan. "3 Reasons the 'Bubble-Like' Surge in Home Prices Won't Last." *Forbes*, June 24, 2013.

<sup>12</sup> Morgan Brennan. "Inventory Levels Easing As Home Prices Rise, Negative Equity Retreats." *Forbes*, June 14, 2013.

<sup>13</sup> "CoreLogic reports 850,000 more residential properties return to positive equity in first quarter of 2013." CoreLogic, June 12, 2013.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> "The MarketPulse." CoreLogic, July 2013.

<sup>17</sup> "National Foreclosure Report." CoreLogic, May 2013.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

<sup>21</sup> U.S. Bureau of Labor Statistics, July 26, 2013.

<sup>22</sup> Pete Bakel. "Consumer Mortgage Rate Expectations Spike as Buying and Selling Sentiment Wane." Fannie Mae, July 8, 2013.

<sup>23</sup> Morgan Brennan. "3 Reasons the 'Bubble-Like' Surge in Home Prices Won't Last." *Forbes*, June 24, 2013.

<sup>24</sup> "New Residential Construction in June 2013." U.S. Census Bureau and U.S. Department of Housing and Urban Development, July 17, 2013.

<sup>25</sup> Morgan Brennan. "3 Reasons the 'Bubble-Like' Surge in Home Prices Won't Last." *Forbes*, June 24, 2013.

<sup>26</sup> Mortgage News Daily. [www.mortgagenewsdaily.com/data/housing-starts.aspx](http://www.mortgagenewsdaily.com/data/housing-starts.aspx)

<sup>27</sup> "Mortgage Rates Hit 4.46 Percent: Largest Weekly Hike in Nearly 30 Years." National Mortgage Professional, June 27, 2013.

<sup>28</sup> Morgan Brennan. "Pending Home Sales Hit 6-Year High As Rising Mortgage Rates Propel Home Buyers." *Forbes*, June 27, 2013.

<sup>29</sup> Morgan Brennan. "3 Reasons the 'Bubble-Like' Surge in Home Prices Won't Last." *Forbes*, June 24, 2013.

<sup>30</sup> "Average 30-year mortgage rate falls to 4.31%." USA Today, July 25, 2013.

<sup>31</sup> Diana Olick. "Signs of a Housing-Market Falloff as Mortgage Rates Rise." AOL Real Estate, July 11, 2013.

<sup>32</sup> Ibid.

downward pressure on the home price run-up. Currently, Americans spend three times their annual incomes on their homes, which is greater than the 2.6 ratio prior to the bubble.<sup>33</sup>

While mortgage rates are low, some prospective homebuyers are experiencing difficulty getting loans. And that's a big difference between today and a decade ago. In 2012, homeownership rates declined for the eighth straight year. At its peak, homeownership was at 69-percent, and now it sits at 65-percent.<sup>34</sup>

One likely cause for the decrease in homeownership is the amount of first-time buyers active in the market. Traditionally, first-time buyers accounted for 40-percent of all home purchases, but in May 2013, this demographic comprised only 28-percent of all buyers according to a report in *The Washington Post*.<sup>35</sup> This unbalanced ratio can cause a trickle effect across the market. Current owners of starter homes may find selling their homes and purchasing a larger home more difficult, which in turn reduces demand for more expensive properties.

Individuals who are paying off student loans are 36-percent less likely to own a home than their peers without student debt.<sup>36</sup> This number could grow even larger in the future, as the doubling of interest rates for federally subsidized student loans, known as Stafford loans, on July 1 may further strap young college grads. While the new interest rate impacts new loans made after July 1, 2013, the 3.4-percent increase will add up to \$4,000 to a standard 10-year repayment plan for a student who borrowed the maximum of \$23,000.<sup>37</sup>

Congress is currently working on a solution to decrease the interest rate on student loans. At the time of publication, the Senate had passed a bill that would set rates for Stafford loans at 2.05-percent above the 10-year Treasury note.<sup>38</sup> The bill would allow undergraduates to borrow

money for this fall at a rate of 3.86-percent and be retroactive to July 1. Rates would be fixed through the life of the loan; however, increases in the Treasury note could cause the rates for new loans to tap out at 8.25-percent for undergraduates, 9.5-percent for graduate students, and 10.5-percent for parents.<sup>39</sup>

Along with student debt, young people may have difficulty buying homes because many lenders require larger down payments, typically around 20-percent. Additionally, cash-rich investors who don't require financing contingencies are beating other buyers, especially first-time homebuyers, to the affordable homes.

New regulations and documentation requirements mean prospective borrowers must undergo rigorous reviews. However, truly creditworthy borrowers are getting loans, and according to the Fannie Mae survey, 47-percent of respondents are optimistic about their ability to secure a mortgage.<sup>40</sup>

In many cases, to qualify for mortgages, borrowers:<sup>41</sup>

- > Need to have their income, assets, and employment verified
- > Should know their credit scores and demonstrate they can responsibly manage existing credit
- > Typically have a FICO score at or above 760

## THE INVESTOR MARKET

Investors are gobbling up properties to capitalize on low rental vacancies and future capital gains. Hedge funds, foreign investors, private equity firms, and wealthy real estate partnerships are purchasing single-family homes and condos at rapid rates.<sup>42</sup> They've spent billions of dollars over the last year purchasing homes in some of the country's most depressed markets, including Phoenix, Las Vegas, and parts of California and Florida.<sup>43</sup> Many of the properties snapped up

by investors have been damaged foreclosed properties or short sales, as these homes offer discounted pricing and profit potential from renting or flipping.<sup>44</sup>

Examples of two major Wall Street players that are capitalizing on the current market are Blackstone and Colony Capital. Blackstone has purchased 28,000 homes in seven states including Florida, Arizona, California, and Georgia. And Colony Capital has spent \$1.8 billion on more than 12,000 properties in the last 18 months.<sup>45</sup>

Wall Street isn't the only player in the investor market. Intrigued by low interest rates and discouraged by the stock market, amateur investors are also buying homes as long-term investments. However, they're taking risks to accomplish this task – often cashing out their 401(k)s or IRAs.<sup>46</sup> Doing so is cause for concern, as these types of loans come with repayment requirements, income taxes, and 10-percent early withdrawal penalties.

Investors may be squeezing out other potential homebuyers – especially if the investor can pay cash. Along with the impact on first-time homebuyers, investor demand causes prices to rise, which also puts pressure on ordinary buyers.

However, the investor homebuying boom may soon come to an end; June 2013 saw the percentage of investor-purchased homes drop to 19.7-percent, which is down 3.4-percent from February.<sup>47</sup> Buying property for investment today may not yield the same returns it did even just a few months ago – and the reason is basic economics. As more people purchase homes, prices go up. Rising prices cut into potential profits. Investors must also consider fees, taxes, insurance, maintenance, and other property-related expenses including tenant credit checks or even potential legal costs for evictions. Now instead of getting an 8-percent return, they may only make 2-percent on their investment.<sup>48</sup> And that

<sup>33</sup> Kristen Scholer. "Real Estate Run-up Brings Back Bubble Fears." *Fiscal Times*, June 24, 2013.

<sup>34</sup> Megan Hopkins. "Tight credit weighs on homeownership rate." *HousingWire*, June 28, 2013.

<sup>35</sup> Kenneth R. Hamey. "College debt is making it tougher for young people to buy starter homes." *The Washington Post*, June 28, 2013.

<sup>36</sup> *Ibid.*

<sup>37</sup> Mary Beth Marklein. "Student loan interest rate issue could affect millions." *USA Today*, June 18, 2013.

<sup>38</sup> Dan Kadlec. "Student Loan Rates Reset Lower – But Probably Not for Long." *Time*, July 29, 2013.

<sup>39</sup> Jonnelle Marte. "Could college loan bill increase student costs?" *MarketWatch*, July 26, 2013.

<sup>40</sup> Pete Bakel. "Consumer Mortgage Rate Expectations Spike as Buying and Selling Sentiment Wane." *Fannie Mae*, July 8, 2013.

<sup>41</sup> Sources:

> Megan Hopkins. "Tight credit weighs on homeownership rate." *HousingWire*, June 28, 2013.

> Kenneth R. Hamey. "College debt is making it tougher for young people to buy starter homes." *Washington Post*, June 28, 2013.

<sup>42</sup> Les Christie. "Amateur investors tap 401(k)s to buy homes." *CNN Money*, May 20, 2013.

<sup>43</sup> Nathaniel Popper. "Behind the Rise in Home Prices, Wall Street Buyers." *The New York Times*, June 3, 2013.

<sup>44</sup> "HousingPulse Tracking Survey." *Campbell/Inside Mortgage Finance*, June 24, 2013.

<sup>45</sup> *Ibid.*

<sup>46</sup> Les Christie. "Amateur investors tap 401(k)s to buy homes." *CNN Money*, May 20, 2013.

<sup>47</sup> "HousingPulse Tracking Survey." *Campbell/Inside Mortgage Finance*, July 22, 2013.

smaller figure is assuming the investor is able to successfully rent out the property to a good tenant.

### KEEPING COSTS IN CHECK

While the pace of price increases will slow as supply and demand come into balance, this year will likely see an 8.5-percent increase in home prices overall. Next year, the rate increase should average about 4-percent, and then return to a more normal range of one percentage point above inflation in future years.<sup>49</sup>

“For companies relocating employees, it is crucial to stay informed on area trends,” explained Tim Callahan, president of global mobility for Graebel Companies, Inc. “Some cities in the U.S. are experiencing extremely hot home sale markets – and as a result, homes are not staying on the market as long [see Figure 4]. This situation can be difficult for individuals who are looking to place an offer on a house so they can move for their new position. On the flipside, other regions are experiencing sluggish sales. And these slower markets could prompt employees to think twice about taking a position that would require them to sell their current homes – and wind up with a loss on a sale and then have to purchase in an area where values are rising. Another option that

some employees may take is to use a property management option until the market improves.

“Because the real estate market is always changing, Graebel continuously works with our clients. Our continuous dialogue includes quarterly, in-person Client Business Reviews; real-time reports on client portals; and white papers, special reports, and other topical publications on industry trends. During the reviews, our client-dedicated people discuss client-specific programs, policies, and activities; compare results to service-level agreements, as well as similar volume clients and the industry as a whole; and provide recommendations to ensure more cost savings and positive experiences for the client and its employees.

“Our experienced relocation consultants work closely with each client and their people on the move to ensure the best possible relocation results. To help our customers navigate the real estate market, our team recommends several Realtors<sup>®</sup> based on their proven market experience and results. Each agent presents a comprehensive analysis and home-marketing proposal to the transferee, and we evaluate each agent’s offering with the employee to determine

agent selection. We then remain in close contact with the selected Realtor to ensure that the home-marketing program is implemented as presented and expanded if needed.

“To help customers settle in to their new destinations as quickly as possible, our consultants also prequalify and select a destination real estate agent for the home search stage. Because we have identified an individual’s or family’s criteria in advance, we are able to share details with the agent to help make the home search more efficient and effective.

“We stay up-to-date on local and national real estate markets. Leveraging this knowledge, we are able to provide our clients and their people with best-in-practice recommendations for listing homes for quick sale and purchasing property based on their specific markets.

“As a full-service global mobility partner, Graebel offers a variety of property management service options, as well as temporary living and rental property arrangement services.

“Our real estate services help companies provide their employees with the expert support needed for cost-effective, positive experiences. By proactively keeping our clients and their employees informed and prepared throughout the process, we eliminate the surprises that can negatively impact the experience, budget, and productivity during the relocation. Consequently, our customers are more satisfied with their relocations. And that means that our clients’ global workforce is more willing to move for their organizations again and again.”

**FIGURE 4: HOTTEST AND WEAKEST HOME SALE MARKETS<sup>50</sup>**

HOTTEST MARKETS		WEAKEST MARKETS	
MARKET	MEDIAN AGE OF INVENTORY (DAYS)	MARKET	MEDIAN AGE OF INVENTORY (DAYS)
Oakland, CA	17	Port St. Lucie, FL	112
Denver, CO	27	Central Florida RSA	116
Seattle-Bellevue-Everett, WA	30	Wilmington, NC	117
San Jose, CA	33	Naples, FL	121
Anchorage, AK	39	Myrtle Beach, SC	123



**Transform Your Approach to Global Mobility with Graebel. Thinking Ahead. Moving You Forward.**



Graebel World Headquarters | 16346 Airport Circle | Aurora, CO 80011 | 800.723.6683 | 303.214.2156 (fax) | marcom@graebel.com | www.GRAEBEL.com

The information contained in this document represents the current research of Graebel Companies, Inc. on the issues discussed as of the date of publication. Because of changing market conditions, Graebel cannot guarantee the accuracy of any information presented after the date of publication.

© 2013 Graebel Companies, Inc. All rights reserved. All trademarks are property of their respective owners.

<sup>48</sup> Ibid.

<sup>49</sup> Kiplinger Letter, June 7, 2013.

<sup>50</sup> “June 2013 Real Estate Data.” National Association of Realtors, July 17, 2013.