ATTOM™ Q4 2023

HOUSING NEWS REPORT

Will Home Sales Grow in 2024?

Key Signals to Watch

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HOUSING NEWS REPORT

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Will Home Sales Grow in 2024? Key Signals to Watch

By Mike Simonsen. Founder and President of Altos Research

If you follow the housing data closely, you'll know that inventory of unsold homes on the market is up over 2022. Inventory climbed well into November, and new listings each week are also running higher than last year. What you may not realize is that sales are now also a little bit higher each week than in 2022. Supply is inching up… and so is the pace of sales.

When I say "sales" in this context, the data I'm talking about is the new contracts pending each week. These homes are not actually sold yet; it takes a month or two in the contract pending stage before the sales close. So here I'm talking about an early proxy measure for sales.

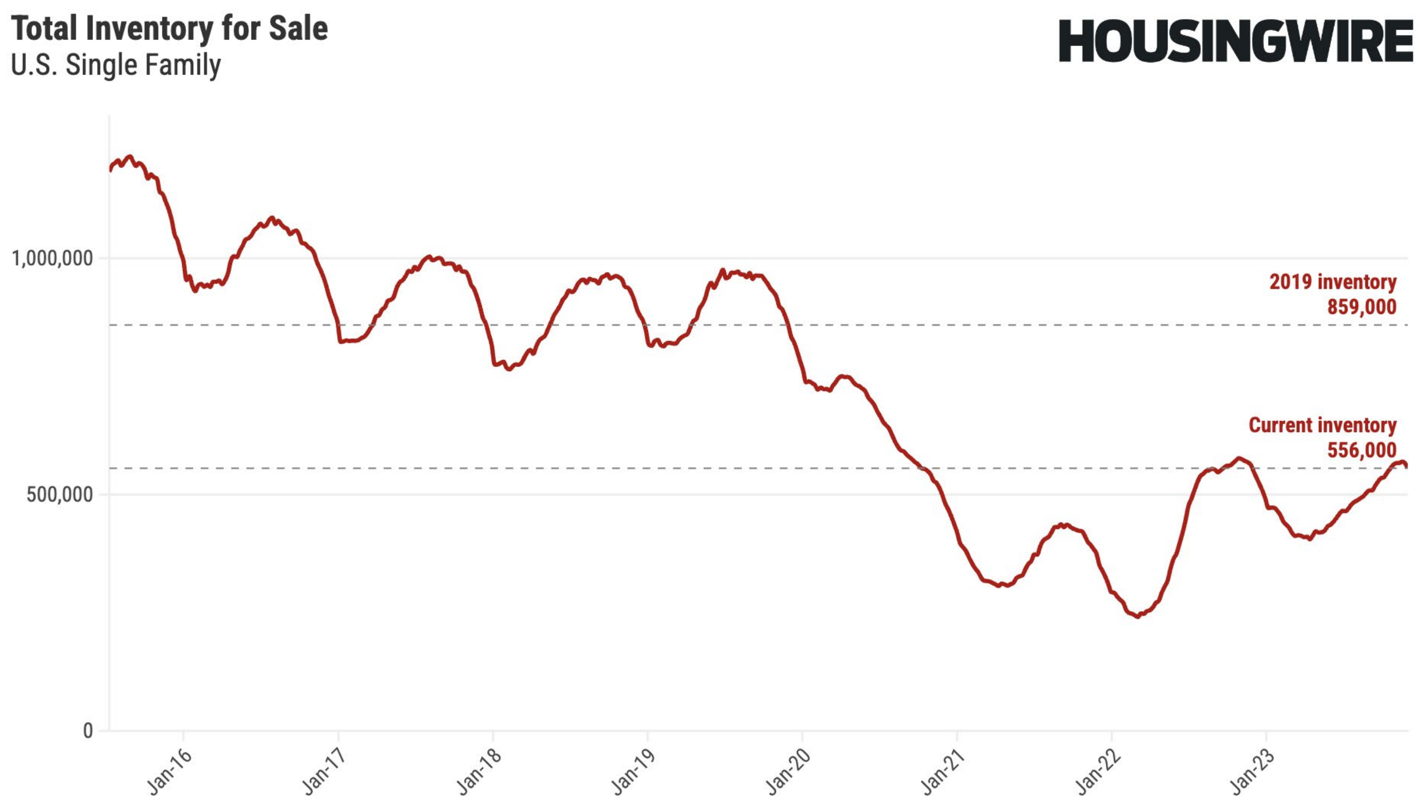
For a few weeks now, the number of homes going into contract each week - the new contracts pending - has been slightly more than last year at this time. This is still a very early reversal of the year's trend. The total number of home sales in contract is still fewer than last year. It's just that each week is now looking a tiny bit better. We have to continue this growth trend for a couple more months, but the early trend is there.

Will this nascent home sales growth continue in 2024? Here are a few key signals to watch:

Inventory

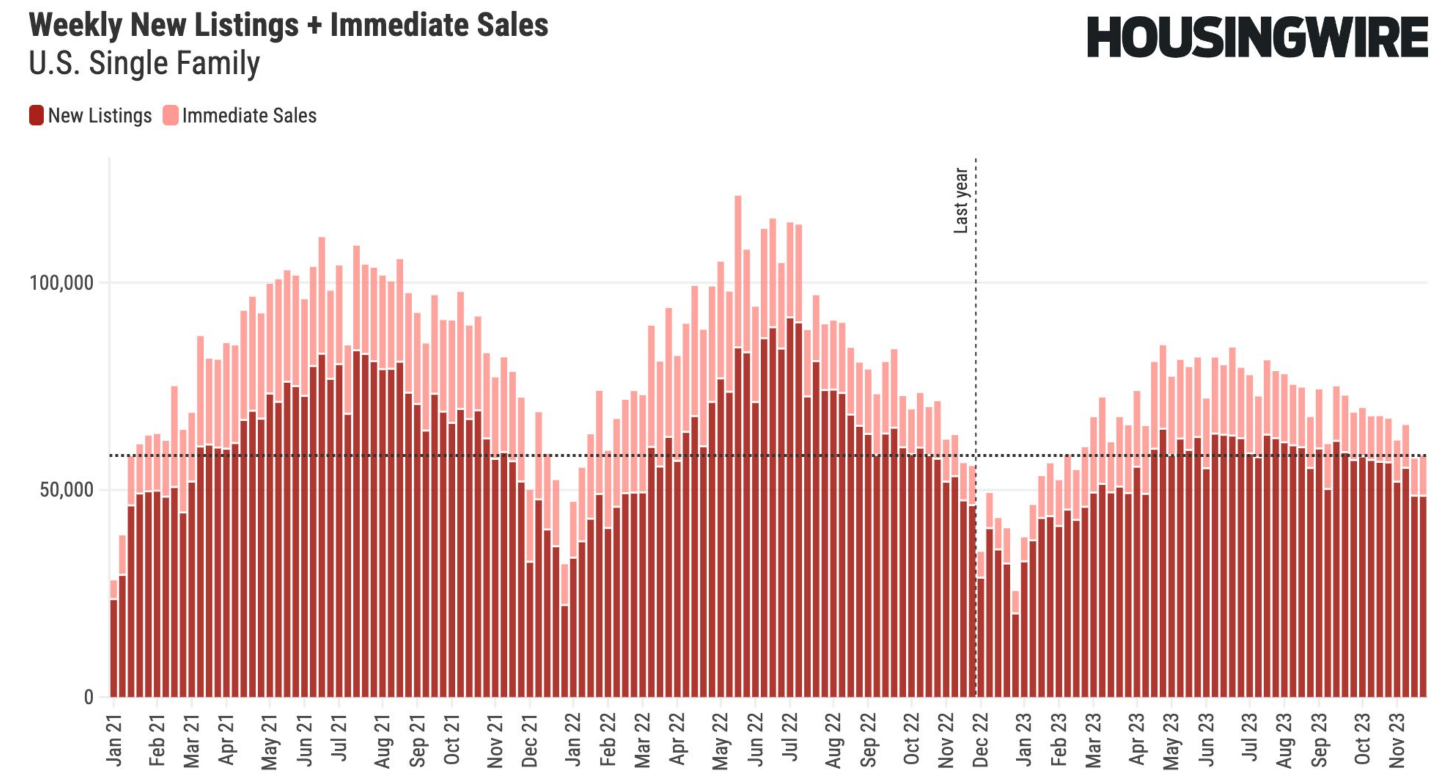
As we've discussed, inventory rose late into November this year, which is very unusual. There are about 1% more homes on the market now than in 2022 at this time. It looks to me like sellers are more accustomed to the new mortgage rate environment and more likely to choose to move. So that's contributing to inventory loosening up just a bit. Believe it or not, home sales for much of 2023 were supply-constrained. So slightly more inventory implies slightly more sales in 2024.

What we're watching for: slow but steady growth in inventory. If inventory continues to grow moderately, this could signal a healthy market with increased sales in 2024. A dramatic drop in rates would decrease inventory due to heightened demand.



Source: Altos Research

Will Home Sales Grow in 2024? Key Signals to Watch, cont.



Source: Altos Research

New Listings & Immediate Sales

I've been highlighting the new listings and immediate sales chart this fall. Each week we have slightly more new listings than a year prior. But of course, sellers are still very restricted. This is how you know there's no panic flood of sellers. We have slightly more sellers this week than last year at this time: 58,000 new listings, of which 10,000 went into contract already.

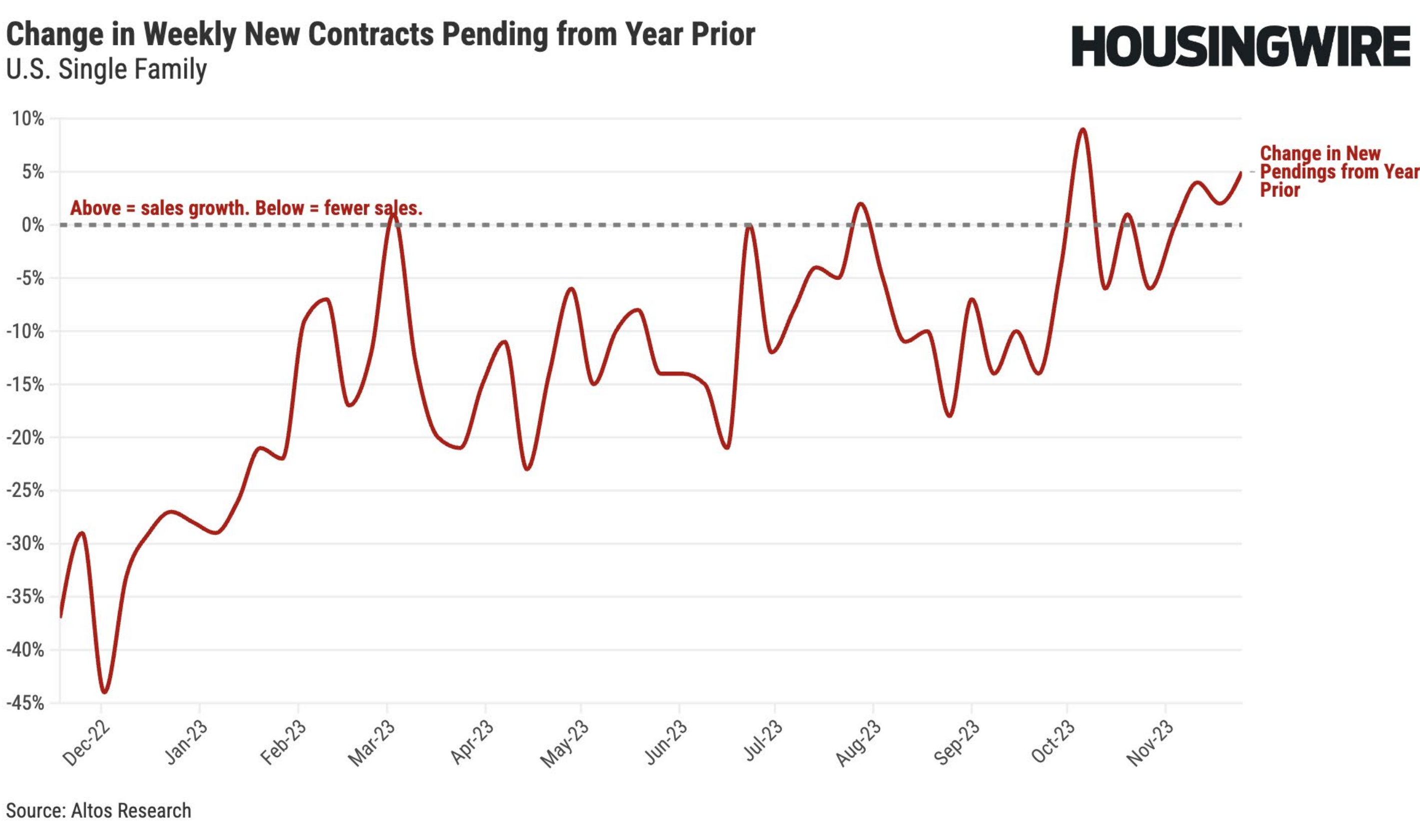
The immediate sales are those new listings that take offers and go into contract within just a few days. Tracking immediate sales is a good indicator of demand.

What we're watching for: slightly more sellers each week. We want growth in the new listings, and we want the immediate sales to not evaporate. If new listings were to shoot up, or immediate sales to stop, those would be bearish signals.

Will Home Sales Grow in 2024? Key Signals to Watch, cont.

Pending Sales

Here's another way to look at the growth in home sales. In this chart I've mapped out the new pendings volume compared to the same week a year earlier. Most of the year the home sales rate in America was down 20-30% over last year - a seasonally adjusted rate that dropped from 6 million home sales per year to 4 million. In this chart I've drawn the line at 0%. When the data is below that, then home sales are shrinking. We started 2023 at the left side of this chart with 30-40% fewer contracts happening each week. But now at the right end of the chart, we're above the line. Sales are growing at a 5% pace over the same week a year ago. The longer the data stays positive, the more growth in sales in 2024.



The trend here is clear. We had a big shock. The market went from screaming hot to very cold. We had less demand and less supply. Everything has been restricted. The data shows that's starting to loosen up a little bit. As recently as October, even though this chart has been improving all year, we were still in a shrinking market with 5% fewer home sales each week. That's finally reversed now. Fingers crossed that the trend continues into 2024.

What we're watching for: stability in mortgage rates. Consumers are more sensitive to changes in rates than to the absolute level of rates. So even stable rates in the 7s all year would support the trend of improving sales.

> *"We had a big shock. The market went from screaming hot to very cold."*

Want to get this data for your local market?

Click here to run a free Altos report.

Mike Simonsen

Founder and President of Altos Research

A true data geek, Mike founded Altos Research in 2006 to bring data and insight on the U.S. housing market to those who need it most. Altos provides national and local real estate data to financial institutions, real estate professionals, and investors across the country. In 2022 the company was acquired by HW Media, publisher of HousingWire and RealTrends. Mike uses Altos data to identify trends in the real estate market well before the headlines, and his work has been featured in the New York Times, The Atlantic, Fortune, Forbes and other publications.

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Q4 2023

Vacant Property and Zombie Foreclosure Report

Zombie Foreclosures Increase as Lenders Pursue More Delinquent Mortgages

by ATTOM Staff

ATTOM's Q4 2023 Vacant Property and Zombie Foreclosure Report reveals that 1.3 million residential properties in the U.S. sit vacant, representing 1.27 percent of homes. This is virtually unchanged from the previous quarter.

In Q4 2023, 320,765 residential properties are in foreclosure, marking a 1.7 percent increase from the previous quarter and a 12.8 percent increase from the same period in 2022. This rise is attributed to the lifting of the nationwide moratorium on foreclosure proceedings that was implemented during the early stages of the Coronavirus pandemic.

Among these properties, approximately 8,900 are considered "zombie foreclosures," indicating that they have been abandoned by their owners. This represents a 1.4 percent increase from the previous quarter and a 15.3 percent increase from a year ago. However, these zombie properties account for only a small fraction of the total housing stock in the U.S., approximately one in every 11,412 homes.

The stability in the number of zombie properties is reflective of the rebound in the U.S. housing market from the previous year's setback. Median home values grew by 11 percent during the Spring-Summer buying season, reaching a record of $350,000.

While zombie foreclosures have increased in some states, they remain largely absent in most areas. The largest quarterly increases in states with at least 50 zombie properties occurred in Kentucky, Connecticut, Maryland, Texas, and California. Conversely, New Mexico, New Jersey, Maine, Nevada, and Georgia saw the largest decreases.

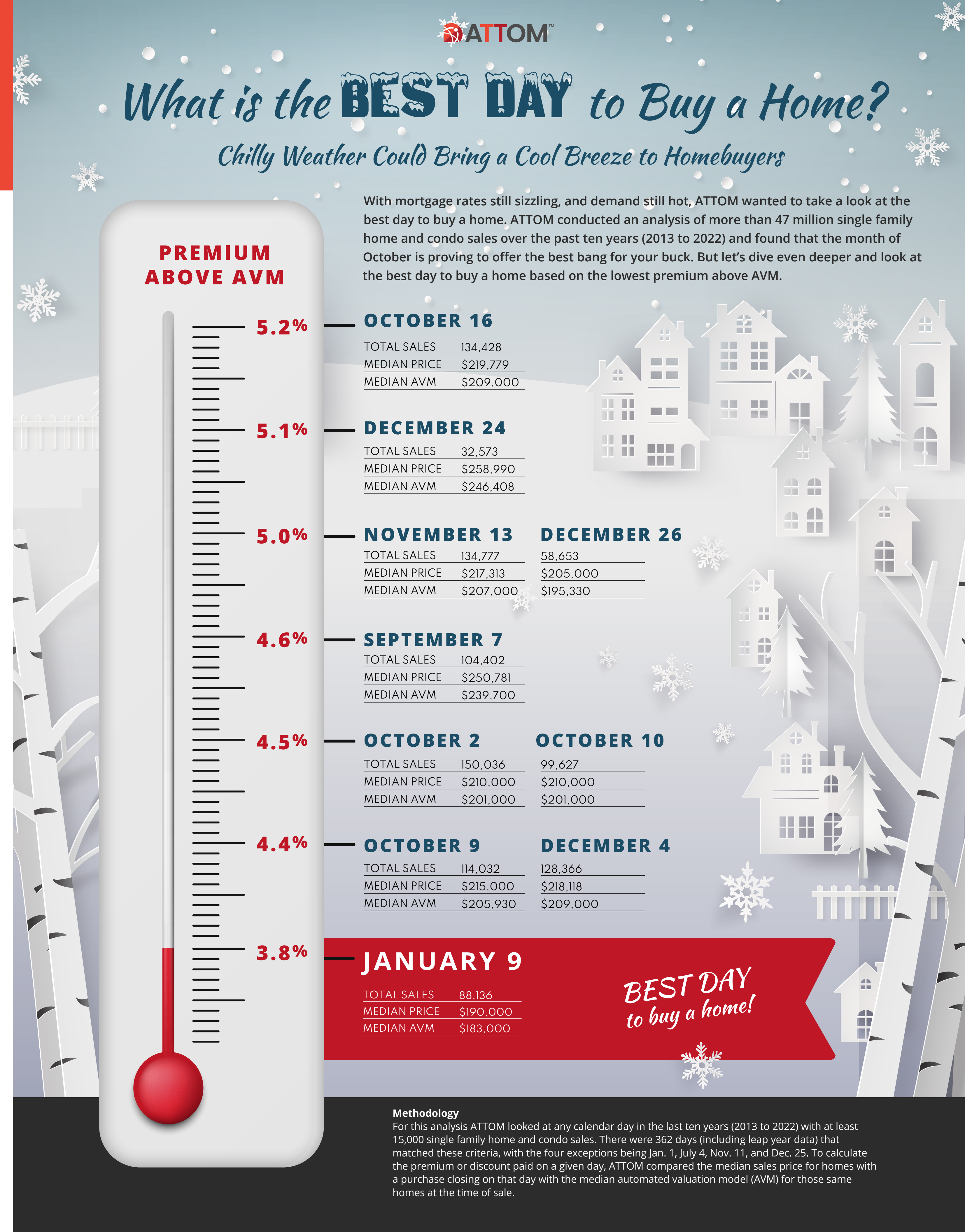
New York has the highest ratio of zombie homes to all residential properties, followed by Ohio, Illinois, Iowa, and Indiana.

The overall vacancy rate for residential properties in the U.S. has remained stable at 1.27 percent. States with the highest vacancy rates include Oklahoma, Kansas, Michigan, Alabama, and Indiana, while states with the lowest vacancy rates are New Hampshire, New Jersey, Vermont, Idaho, and North Dakota.

Additional findings from Q4 2023 include high zombie foreclosure rates in specific metropolitan areas, vacant investor-owned homes in certain states, vacancy rates among foreclosed, bank-owned homes, and high zombie-foreclosure rates in select U.S. counties and zip codes.

Click Here to View Our Zombie Foreclosure Infographic

To learn more and access more detailed data or get the data behind the stories, contact one of ATTOM's data experts.



Q3 2023

U.S. Residential Mortgage Market Overview

by ATTOM Staff

The U.S. residential mortgage market faced notable changes in the third quarter of 2023, as outlined in ATTOM's latest report.

Mortgage Issuance Declines

In Q3 2023, the U.S. residential mortgage market experienced a 3% decline in mortgage issuance compared to the previous quarter. This marks a continuation of a trend seen over the past two years, with only one quarter - Q2 2023 - bucking the downward trajectory.

The impact of this decline is significant, with total residential lending activity plummeting by 26% compared to the same period last year and a staggering 63% drop from the peak observed in 2021.

Refinance, Purchase and HELOCs

Refinance mortgage originations inched up for the second consecutive quarter following a two-year downward trend. In Q3 2023, lenders issued 516,461 residential refinance mortgages, a 5% increase from the previous quarter. However, refinance activity remained significantly lower, down 25% from the same period in 2022 and a substantial 81% less than the peak observed in Q1 2021.

Purchase mortgages, after a surge of nearly 30% in Q2 2023, declined by 7% in the third quarter, with lenders originating 751,720 purchase mortgages.

Home-equity lines of credit (HELOCs) also decreased in the third quarter, with a 7% drop compared to the previous quarter, partially reversing gains from Q2.

FHA and VA Loans, Purchase Loan Amounts

Mortgages backed by the Federal Housing Administration (FHA) continued their upward trajectory, accounting for 15.2% of all residential property loans originated in Q3 2023. This marks the eighth consecutive quarter of growth.

In contrast, residential mortgage loans backed by the U.S. Department of Veterans Affairs (VA) decreased, representing 4.9% of all residential property loans originated in the same period.

Lastly, while the median single-family home loan amount saw a slight decrease to $319,500 in Q3 2023, down payment percentages increased, with the typical down payment rising to 9.2% of the median purchase price.

In summary, the third quarter of 2023 presented a challenging landscape for the mortgage market, characterized by declining lending activity, increased interest rates, and evolving borrower preferences. Stability may emerge as the housing market enters the fall season, contingent on interest rates remaining steady.

To learn more and access more detailed data or get the data behind the stories, contact one of ATTOM's data experts.

How the ADU Revolution Will Change the U.S. Real Estate Market

By Peter Miller

America has too few houses, the central reason for the soaring real estate prices seen during the past few years. But are we stuck with a long-term housing shortage and stiff pricing, or is there something that can be done?

As gloomy as the housing shortage seems, relief may be as close as our basements, garages, and backyards. Accessory development units – ADUs – are here today, and they may do much to reduce or even end the housing backlog. How? By making better use of the housing stock we've got.

How Big Is The Housing Shortage?

Nobody knows how many additional units it will take before soaring home prices are not an everyday reality. What we do know is this: the final figure, no matter what it is, will amount to millions of units.

We have what can be called an "underbuilding" crisis. There are lots of people on the hunt for housing and not enough homes for sale. Freddie Mac says we need an additional 3.8 million units, while Zillow estimates the shortage at 4.3 million units.

According to the National Association of Realtors (NAR), "The gap between single-family housing starts and household formations grew from 5.5 million at the end of 2021 to 6.5 million at the end of 2022 as household formations picked up significant steam and single-family home construction waned."

Why hasn't there been more construction? One big reason is that we don't have enough workers – the industry had 431,000 job openings in September. Another reason is that if we do well fighting inflation and interest rates go down, we'll likely have an even bigger existing home shortage. That's because lower mortgage rates will increase the pool of potential buyers who compete for available properties, keeping costs high.

The Affordability Hurdle

Even if additional units come into the housing stock, it won't matter for millions of households. The reason? Affordability. According to ATTOM in Q3 2023, the national median sales price of a SFH and condo was $350,000 up 6% from last year. Meanwhile, according to the Census Bureau, real median household income went from $76,330 in 2021 to $74,580 in 2022, a 2.3% decline.

The National Association of Home Builders reported that in November new home affordability reached its lowest level since 2012 when the association first began keeping such records.

Of course, affordability is even more restricted if you're in a high-cost metro area. According to ATTOM, in the third quarter the median home sales in San Jose was priced at $1.45 million while other metro locations well above the national average included Los Angeles ($900,000), Seattle ($688,000), Honolulu ($670,513), Boston ($650,000), and Naples ($620,000).

"It's a difficult irony of having a strong economy," said Washington state Governor Jay Inslee. "Well-paid workers flock here for jobs, forcing lower-paid workers to compete for housing. When there's not enough housing for all, rents and prices skyrocket beyond what many can afford."

Single-family Zoning

In 1926 the Supreme Court decided that local governments could restrict the use of private property by establishing zoning restrictions.

"The development of detached house sections," said the Court in Euclid v. Ambler, "is greatly retarded by the coming of apartment houses, which has sometimes resulted in destroying the entire section for private house purposes; that in such sections very often the apartment house is a mere parasite, constructed in order to take advantage of the open spaces and attractive surroundings created by the residential character of the district."

From the Euclid decision arose the widespread use of single-family zoning. With such zoning, you can have individual homes on individual lots but not duplexes, triplexes, fourplexes, and multifamily projects. The result is more land

consumption per unit, fewer residents, and higher property values.

Another consequence is who gets to live where. A 2023 study by the Urban Institute found that "multifamily-zoned neighborhoods tend to be renter-occupied, more racially diverse, and lower income, while single-family zoned neighborhoods tend to be owner-occupied, white, and higher income. As such, the type of zoning is an indirect mechanism for income segregation."

Meanwhile, according to The New York Times, "it is illegal on 75 percent of the residential land in many American cities to build anything other than a detached single-family home."

But now that percentage is falling. The reason? States and local governments are dropping single-family zoning, a movement that's creating new opportunities for ADUs.

The ADU Movement Is Spreading

California and New Hampshire got the ball rolling in 2017 when state-wide ADU rules went into effect.

California's 2017 standards, said the City of Los Angeles, allowed "ADUs that are attached to an existing single-family dwelling cannot be larger than 50% of the existing living areas. Both attached and detached ADUs cannot exceed 1,200 square feet."

In some cases, California owners can convert an existing garage into an ADU or add one above a garage under the new standards. Many setback rules are suspended.

The New Hampshire approach was similar.

"Under the law," said the New Hampshire Housing Finance Authority (NHFA), "homeowners statewide now have the right to create an ADU for a family member, caregiver, or as a rental unit, in accordance with local ordinances."

An ADU, according to NHFA, was defined as a residential living unit that "provides independent living facilities for one or more persons, including provisions for sleeping, eating, cooking, and sanitation on the same parcel of land as the principal dwelling unit it accompanies." The unit could be part of an existing home, or it could be a DADU -- a detached accessory dwelling unit.

Now the ADU movement has spread and will likely become nearly universal. While the rules differ by jurisdiction, CNN reported in August that "Minneapolis, Arlington, Gainesville, Charlotte, Walla Walla, Washington, and other cities have reformed single-family zoning laws in recent years. Oregon, California, Washington, Montana, and Maine have ended them statewide."

More challenges to single-family zoning are inevitable, partly because the federal government sees them as a prime reason for soaring rental rates and unmet housing needs. As the White House said last summer, "Restrictive local land use rules slow down housing production, or prohibit housing being developed at all, which increases the costs to rent or purchase a home."

Why ADUs Are Quick & Easy

One way to overcome the housing shortage is to avoid the time and cost it takes to build new units and instead grab the ADU option and subdivide millions of existing properties.

ADUs create several advantages.

- Complex zoning applications are gone with most ADUs, a major start-up expense.
- Homeowners have a greater ability to control the use of their property. At the same time, no one is required to have an ADU.
- ADUs can cost less than traditional single-family homes because the property already belongs to the ADU owner, and ADUs are typically smaller than the original home. There's no property to acquire and maybe nothing to finance or refinance with some conversions because many ADUs benefit from the use of existing spaces and structures.
- The property may well be in an older, established, neighborhood – a location that reduces both commute times and environmental costs.
- With separate living spaces, multigenerational housing becomes more practical. Even now, according to RentCafe, "20% of Millennials and 68% of Gen Z-ers still live with other family members, taking longer to leave home compared to previous generations."
- At the other end of the generational divide, the 2020 Census found that one in six Americans are now above age 65. With an

ADU, seniors can have someone move in to help around the house or perhaps provide home care. Alternatively, older individuals can move in with family and friends in a way that provides separate living space.

- With the growing use of hybrid work schedules, home office demand is growing – an ideal use for ADUs.

Can ADUs Be Sold?

An ADU is a separate and independent living unit, but selling off the new unit is often impractical. That's because existing financing is secured by the entire property, meaning subdivision creates the need for new surveys, legal work, financing the new lot, and refinancing the old one.

However, while subdividing may be implausible for homeowners, the story may be different for developers. We are likely to see the emergence of developers who specialize in ADUs. They will have the skills to quickly subdivide a property, assure refinancing for the selling owner when a lender is in the picture, and quickly turn around the new lot with a prefab ADU. Owners will work with brokers and attorneys to ensure that the transaction is in their interest.

ADUs: The Low-cost Rental Alternative

Soaring home prices have made real estate ownership unaffordable for millions of households. The situation with rental housing is similar: monthly costs are so high that many tenants live month-to-month with no ability to save.

Redfin estimated that the median U.S. asking rent in October was $1,978.

"October marked the seventh straight month in which the median asking rent was little changed from a year earlier," said the company. "The rental market has flattened out following a rollercoaster ride during the past two years; rent growth skyrocketed during the pandemic as housing demand surged, and then rapidly slowed last year as inflation and economic uncertainty intensified."

In its 2023 GAP report, the National Low Income Housing Coalition reported that "the shortage of affordable and available homes is most severe for extremely low-income renters, for whom there are only 3.7 million affordable and available units for 11.0 million households. This group faces a shortage of 7.3 million affordable and available homes."

Rather than sharing apartments or moving back in with friends and family, with ADUs many renters can have their own spaces, thus reducing apartment demand.

As ADUs become more common they will increasingly compete in the rental market. Freddie Mac estimated in 2020 that there were 1.4 million ADUs, a number that will surely grow as zoning barriers come down. While not all ADUs will become rental units, the numbers are so large that rental properties in many markets – especially for entry-level units – will face serious competition.

In addition, stealth ADUs -- rental units illegal under single-family zoning – will become more visible. Think of once-uncountable granny flats, English basements, and casitas.

New Real Estate Economics

Homeownership is usually seen as an outright cost with no offsetting income. However, such thinking may evolve with the growth of rental ADUs. ADU rent can now be used to underwrite ownership costs and play a role in financing and refinancing.

For instance, in October, the FHA announced that it would back loans for properties with ADUs. Rental income, it said, "may be considered effective income when the property is or will be a one-unit dwelling with an ADU, a two- to four-unit dwelling, or an acceptable one- to four-unit investment property."

In practice, the FHA program will have two major effects. First, as much as 75% of the actual or projected rental income can be used to qualify for financing. Second, other mortgage programs will invariably begin to recognize ADUs, the income they produce, and the value they represent when borrowers apply for financing and refinancing.

With one or more ADUs – and in some cases there can be more than one – it will be easier for purchasers to qualify for financing and for owners to refinance. Buyers will be able to qualify for larger loans because of the additional income represented by ADUs.

The bottom line: More buyer and renter interest will push up ADU property values, a nice bonus for current owners. Lenders will gain ADU experience over time and expand financing for such properties as a result. State and local governments will push ADUs because such properties can ease housing shortages while at the same time increasing both real estate values and property tax revenues. Current landlords will face new competition for tenants, and in some local markets that will mean stable and even falling rental rates.

Peter G. Miller

Peter G. Miller is a nationally-syndicated newspaper columnist, online contributor, and author of seven books.

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