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HOUSING NEWS REPORT

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JANUARY 2018 VOL 12 ISSUE 1

2018 HOUSING OUTLOOK

8 ECONOMISTS PROVIDE PREDICTIONS

MY TAKE

BY INGO WINZER

FOUNDER AND PRESIDENT, LOCAL MARKET MONITOR **P18**

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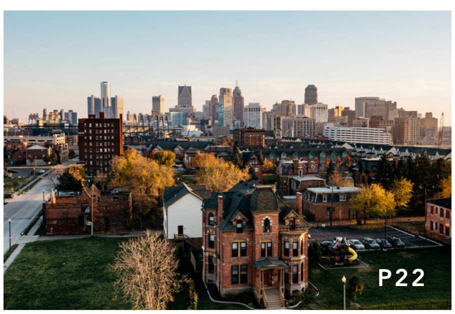

P1 8 ECONOMISTS PREDICT 2018 HOUSING MARKET TRENDS

Low housing inventory, the new tax reform law, and homeownership rates — primarily among millennials — will dominate the housing market headlines in 2018, according to eight leading economists. Other key topics touched on by many of the economists included the impact of an increasing homeownership tenure, the importance of new construction, and the rising affordability challenges.

P18 MY TAKE: 2018 AND BEYOND

In 2018 we will see a number of markets where home prices climb into bubble territory, renting will continue to be a popular option, and while some markets will have strong growth, a much larger number will grow at a very modest rate, according Ingo Winzer, founder and president of Local Market Monitor. Winzer names names when it comes to what he calls the bifurcation of markets: those that are seriously overpriced or headed that way in the near future; and those that will continue to offer housing at reasonable prices.

P22 LOCAL SPOTLIGHT: DETROIT'S ROCKY HOUSING REBOUND

A seven-year stretch of ranking in the nation's top 10 metro areas for most foreclosure filings, along with high unemployment and a population exodus during the Great Recession — followed by the largest municipal bankruptcy in U.S. history — took the Motor City into an economic abyss from which it is finally emerging.

P30 BIG DATA SANDBOX: THE 2017 HOMEBUYER NAME GAME

An analysis of first names of homebuyers in 2017 sheds light on which generation is becoming more active buying homes — primarily millennials with names like Dylan, Chelsea, Austin, Alexandra and Taylor — and which generations are becoming less active — Gen-Xers and the pre-baby boomer Silent Generation and Greatest Generation with names like Gerald, Kristin, Stanley, Kurt and Jaime.

P31 DATA IN ACTION: WHERE HOME FLIPPERS ARE FLOCKING

The Q3 2017 home flipping rate increased from a year ago in 44 of the 93 metropolitan statistical areas analyzed in the report, led by Baton Rouge, Louisiana; Winston-Salem, North Carolina; Salem, Oregon; Indianapolis, Indiana; and Buffalo, New York. See how your local market fared when it comes to home flipping with our interactive home flipping heat map.

LEAD ARTICLE

8 Economists Predict 2018 Housing Market Trends

HOUSING NEWS REPORT STAFF

Low housing inventory, the new tax reform law, and homeownership rates — primarily among millennials — will dominate the housing market headlines in 2018, according to eight leading economists interviewed by *Housing News Report*.

We asked each economist seven questions relating to housing trends they expect in 2018, and while there were differing views on the impact of the new tax reform law and what represents the biggest threat to the housing market, all agreed that interest rates will rise in 2018 along with home prices — albeit at a slower pace than in 2017.

Other key topics touched on by many of the economists included the impact

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of an increasing homeownership tenure, the importance of new construction in relieving the housing inventory shortage and rising affordability challenges.

Below is a list of the economists interviewed along with a table of contents for each question covered. Given the wealth of content provided, for each section we highlight a few key takeaways along with the full responses from all the economists.

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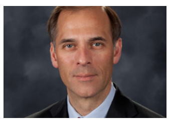
THE 8 ECONOMISTS



MARK ZANDI
CHIEF ECONOMIST
MOODY'S ANALYTICS

LAWRENCE YUN
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JAVIER VIVAS
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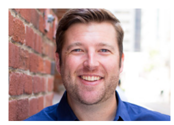
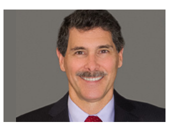
ALEX VILLACORTA
EVP, ANALYTICS
HOUSECANARY

PETER MUOIO
CHIEF ECONOMIST
TEN-X



RALPH MCLAUGHLIN
CHIEF ECONOMIST
TRULIA



ROBERT KLEINHENZ
ECONOMIST AND EXECUTIVE DIRECTOR OF RESEARCH, BEACON ECONOMICS

MATTHEW GARDNER
CHIEF ECONOMIST
WINDERMERE REAL ESTATE

THE 7 QUESTIONS

1. What will be the most important housing market trend(s) in 2018 and why? **P3**
2. What is your outlook for existing home sales and prices in 2018? **P5**
3. What is your outlook for new home sales and prices in 2018? **P7**
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5. What is your reaction to the GOP tax proposal as it relates to the housing market? **P11**
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1. WHAT WILL BE THE MOST IMPORTANT HOUSING MARKET TREND(S) IN 2018 AND WHY?

ZANDI: The Trump tax cuts will have a significant impact on housing markets in 2018. Most significantly, it means that house prices in parts of the country where homeowners rely on the mortgage interest deduction and property tax deduction will come under significant pressure. This includes the Northeast corridor, south Florida, Chicago, and the west coast. Nationwide, house price growth will slow in 2018 to the low single digits, but could fall in some of these regions.

YUN: It will be interesting to see how the tax reform fallout of diminishing mortgage interest and property tax deductions impact the upper-end market, especially in high-taxed states. Perhaps the impact is significant, with more sellers willing to unload, or it could be minimal as the stock market wealth and tax cuts for the wealthy more than make up for any extra burden of not able to deduct the full amount. The lower-end market will barely notice any changes arising from the tax reform as the ability to deduct would not change.

VIVAS: Nationally, 2018 could set the stage for an inflection point for housing. For the last two and a half years, we've seen prices rise and inventory drop at unsustainable levels. In 2018, we're predicting more manageable increases in home prices and a modest acceleration of home sales compared to this year, with much of the growth concentrated in the Southern markets. We also expect inventory declines to slowly decelerate throughout the year, but the easing of the shortage will vary greatly by market and price tier. Also, we expect millennials to gain market share, going from 40 percent of all mortgages in 2017 to 43 percent in 2018, largely due to the sheer size of what is now the largest generation in U.S. history.

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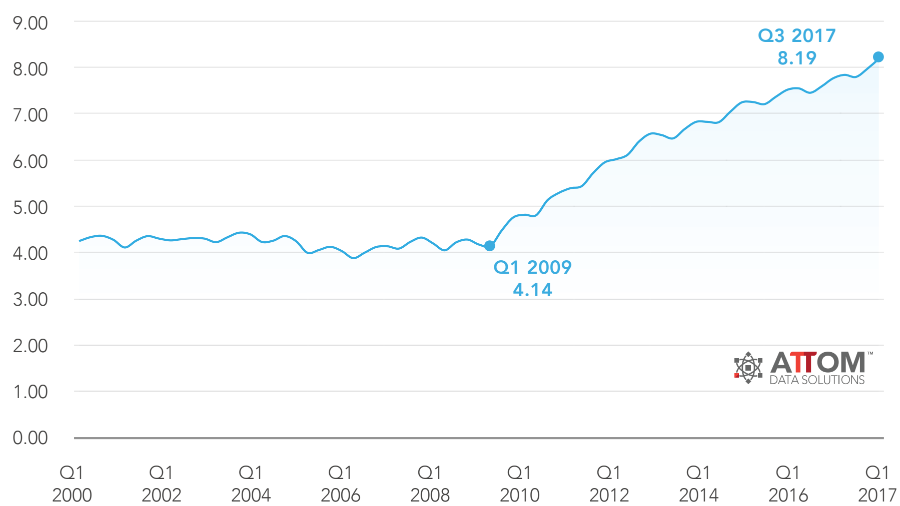
AVERAGE U.S. HOMEOWNERSHIP TENURE (YEARS)



"The Trump tax cuts will have a significant impact on housing markets in 2018."

— ZANDI

"Nationally, 2018 could set the stage for an inflection point for housing."

— VIVAS

"It will be interesting to see how the tax reform fallout …(will) impact the upper-end market."

— YUN

"One of the biggest market trends for 2018 will be lack of inventory."

— VILLACORTA

VILLACORTA: One of the biggest market trends for 2018 will be lack of inventory, both new and existing, in many markets around the country. The inventory shortage is directly related to affordability issues that came into focus this year and show no signs of subsiding. Particularly in markets with strong job opportunities, lack of inventory is creating upward price pressure that is pricing out many entry-level home shoppers. As a result of rapidly increasing home prices in these markets, many homeowners are staying put as they slowly emerge from negative equity positions. The increasing homeownership tenure is now over eight years (compared to historical norms of four years), further exacerbating the inventory and affordability problems.

As this trend unfolds in unique local markets around the country, look for pockets of price appreciation (and, more specifically, price depreciation) as segments of the market way beyond long-run norms revert back to historic levels.

MUOIO: As we expected in 2017, inventory should remain the most important housing market trend in 2018. With homeownership tenure on the rise and homebuilders facing challenges with construction costs, even an uptick in inventory across 2018 will not provide much relief to the current shortage. A healthy labor market should continue to stoke housing demand, and as a result tight inventory levels will continue to limit sales growth and fuel further price gains, bringing affordability concerns into focus. In addition to prices and sales, inventory will ultimately continue to impact homeownership rates, first-time buyers, and the ability for a key millennial segment to enter the housing market.

MCLAUGHLIN: We predict that the homeownership rate will continue to climb in 2018, with homeownership outpacing renting for the indefinite future. However, we don't expect this increase to come quickly, as low inventory, slow wage growth, and expensive starter homes in many of our largest markets present strong headwinds for those looking to transition into homeownership. Overall, these broad trends are important, since strong renter household formation is one of the reasons why the homeownership rate dropped precipitously after the onset of the Great Recession. The fact that 2017 brought three consecutive quarters where owner households outpaced renters is a strong sign this trend is reversing.

KLEINHENZ: New home construction will continue to increase in 2018, which is needed to accommodate continuing growth in the number of U.S. households.

GARDNER: Last year I predicted that 2017's big story would be millennial buyers. For the most part, my forecast was accurate with first-time buyers making up 34 percent of all home purchases so far this year. However, they are not buying across all regions of the country; rather they're currently drawn to less expensive markets, such as North Dakota, Ohio and Maryland.

For the coming year, I believe millennial buyers will continue to be one of the biggest influencers in housing. I also believe that they will begin buying in more expensive markets. That's because millennials are getting older and further into their careers, enabling them to save more money and raise their credit profiles.

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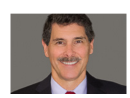
"Inventory should remain the most important housing market trend in 2018."

— MUOIO

"We predict that the homeownership rate will continue to climb in 2018."

— MCLAUGHLIN



"New home construction will continue to increase in 2018, which is needed…."

— KLEINHENZ

"I believe millennial buyers will continue to be one of the biggest influencers in housing."

— GARDNER

2. WHAT IS YOUR OUTLOOK FOR EXISTING HOME SALES AND PRICES IN 2018?

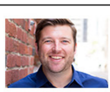
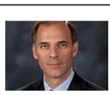
YUN: More uncertainty than in the past because of tax reform and the ongoing issue of inventory shortage and housing unaffordability. Still, there is pent-up household formation that will be released and builders are marginally building more. So existing-home sales will likely not see much change (0 percent), while home prices at the national level rise by only 3 percent.

VIVAS: We're projecting home prices to increase 3.2 percent year-over-year, which is a slow-down compared to the 5 percent to 7 percent price growth we've seen in the last three years. As price gains begin to taper off, we also expect a slight pick-up in home sales of 2.5 percent year-over-year — 5.60 million homes — due partially to inventory increases. That marks an improvement over 2017, where sales were up 0.4 percent at 5.47 million homes.

VILLACORTA: Both are on pace to rise, but each trend is fighting separate headwinds, so we should see some moderation in 2018.

On the home sales side, lack of inventory will limit sales. Many current homeowners are finally emerging from negative equity positions to face a housing market they can't afford if they sell. So unless current homeowners seek to downsize or relocate, there will be challenges to unlocking existing inventory. Also, increasing existing-home sales over the past eight years is nearing long-term historical rates, suggesting that some moderating pressure is likely in 2018.

Constrained supply will also add upward pressure to home prices — in certain market segments. We are already seeing higher-end markets (those above $1 million) softening in terms of growth, while others are seeing explicit market declines. Uncertainty, permeating the housing market for the last decade, will continue, and consumers will think hard before jumping into the market.

ECONOMIST		2018 EXISTING HOME SALES	2018 EXISTING HOME PRICES
	YUN	0% CHANGE	3% INCREASE
	VIVAS	2.5% INCREASE	3.2%INCREASE
	VILLACORTA	INCREASE	INCREASE
	MUOIO	INCREASE	INCREASE
	KLEINHENZ	3% TO 5% INCREASE	5% TO 7% INCREASE
	MCLAUGHLIN	SURPASS 6 MILLION	3% TO %% INCREASE
	GARDNER	INCREASE TO 5.616 MILLION	4.4% INCREASE
	ZANDI	HOLD STEADY AT 5.8 MILLION UNITS	SLOW TO LOW SINGLE-DIGIT INCREASE

MUOIO: Existing home sales and prices should both rise in 2018. Elevated homeownership tenure should limit available inventory and sales growth, though underlying demand should remain strong. There is also the possibility that rising prices provide homeowners greater equity and encourage more listings, a development that has yet to occur but becomes more likely with time. There will also be some regional disparity as tax reform plays out, with more expensive coastal markets affected by the revised SALT and mortgage interest deductions. With some of these markets already

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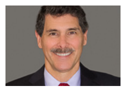
"Many current homeowners are finally emerging from negative equity positions to face a housing market they can't afford if they sell. So unless current homeowners seek to downsize or relocate, there will be challenges to unlocking existing inventory."

— VILLACORTA



"The economy has been expanding for eight and a half years, the third longest of the post-World War II era. The expansion has been marked by steady growth in fundamentals but the housing market has not been normal: Homeownership rate is still low by historic standards; New home construction has lagged household growth; Millennials are still shaking off the effects of the great recession but there continue to be delays in life cycle decisions: forming households, becoming renters, becoming homeowners."

— KLEINHENZ

confronting weaker affordability prospects, prices will have less room to grow.

MCLAUGHLIN: We expect existing home sales to crack the 6 million mark in 2018, as demand for homes — especially amongst first time homebuyers — continues its slow and steady increase. Given that inventory remains tight, we also expect prices of existing homes to increase between the 3 percent to 5 percent range per month on a year-over-year basis, pushing the seasonally adjusted sales price to between $275,000 and $280,000 by the end of the year.

KLEINHENZ: First of all, the economy has been expanding for eight and a half years, the third longest of the post-World War II era. The expansion has been marked by steady growth in fundamentals but the housing market has not been normal: Homeownership rate is still low by historic standards; New home construction has lagged household growth; Millennials are still shaking off the effects of the great recession but there continue to be delays in life cycle decisions: forming households, becoming renters, becoming homeowners.

With these observations in mind, the median price of an existing home should increase by 5 percent to 7 percent, and sales will increase by 3 percent to 5 percent.

GARDNER: U.S. existing home sales should rise to 5.616 million in 2018 with home prices rising by 4.4 percent. Total sales will be higher; however, inventory limitations will continue to impact the market. As new construction activity picks up, I expect to see some modest improvement in the number of available homes for sale, but 2018 will remain a seller's market across most of the U.S.

ZANDI: Existing home sales should at least hold steady in 2018 near 5.8 million units, but house price growth will slow to the low single digits. Supporting sales will be the strong job market and easier mortgage underwriting standards. But higher mortgage rates and changes to the tax code will limit any gain in sales and weigh on house price growth.

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3. WHAT IS YOUR OUTLOOK FOR NEW HOME SALES AND PRICES IN 2018?

VIVAS: For 2018, we expect a 7 percent increase in new home sales.

VILLACORTA: As we've seen since 2010, new home sales will generally continue upward in 2018 as the new home market continues to make up for lost time post-housing crash. For example, the 10-year high of the seasonally adjusted annual rate of 685,000 units in October is a positive metric in terms of overall growth, but there's still room to grow: 2007 (the last time we saw sales that high) was down 48 percent from the peak value in 2005. It's likely that in 2018, we'll see new sales climb over 750,000 units on a seasonally adjusted annual rate.

Though there is a shortage of inventory, which typically means continued price growth, the affordability crisis will create a "ceiling" as builders begin to price competitively to stay close to the mass of demand. Next year will be a near-carbon copy of the flat trend of sales prices we saw this year.

MUOIO: New home sales and prices should both rise in 2018. New home sales do not have the same inventory constraint as existing-home sales, and should continue to rise as strong demand eats up new supply. Though homebuilders remain challenged by a tight labor force, rising material costs, and land constraints, new inventory should grow in 2018 as housing starts and permits recently reached a 10-year high. With the size of new homes declining for the first time in a decade, we could see price growth soften, though elevated construction costs and robust demand should

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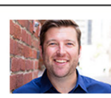
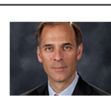
ECONOMIST		2018 NEW HOME SALES	2018 NEW HOME PRICES
	YUN	^ 10% INCREASE OR MORE	MODERATING
	VIVAS	^ 7% INCREASE	NA
	VILLACORTA	SURPASS 750,000 UNITS	– FLAT
	MUOIO	^ INCREASE	^ INCREASE (SOFTENING)
	KLEINHENZ	^ INCREASE (MID SINGLE DIGITS)	^ INCREASE
	MCLAUGHLIN	750,000 TO 800,000 UNITS	^ 3% TO 4% INCREASE
	GARDNER	655,000 UNITS	^ 4.1% INCREASE
	ZANDI	HOLD STEADY AT 700,000 UNITS	^ INCREASE (SLOWING)

continue to fuel price gains for new homes in 2018.

MCLAUGHLIN: We expect new home sales to fall between 750,000 and 800,000 in 2018, as historically low existing inventory continues to push buyers towards newly built homes. Prices will likely rise between 3 percent and 4 percent, pushing the median sales price of new homes to between $320,000 and $330,000.

"Though homebuilders remain challenged by a tight labor force, rising material costs, and land constraints, new inventory should grow in 2018 as housing starts and permits recently reached a 10-year high. With the size of new homes declining for the first time in a decade, we could see price growth soften."

— MUOIO

"While housing starts and sales will rise in 2018, they will still remain well below the long-term average due to escalating land, labor, materials, and regulatory costs. I do hold out hope that home builders will be able to help meet the high demand we're expecting from first-time buyers, but in many markets it's very difficult for them to do so due to rising construction costs."

— GARDNER

KLEINHENZ: New home prices will increase somewhat faster than existing home prices with sales increasing in the mid-single digit percentage range.

GARDNER: New home sales should rise to 655,000 in 2018, and I expect prices to increase by 4.1 percent. I hoped that builders would already be breaking ground on a lot of homes but, unfortunately, this has yet to be the case.

While housing starts and sales will rise in 2018, they will still remain well below the long-term average due to escalating land, labor, materials, and regulatory

costs. I do hold out hope that home builders will be able to help meet the high demand we're expecting from first-time buyers, but in many markets it's very difficult for them to do so due to rising construction costs.

ZANDI: Similar to existing sales, new home sales in 2018 should hold their own close to 700,000 units, but house price growth will slow due to the tax law changes and a shift in new construction to lower-priced starter homes.

YUN: Whatever the builders construct, they can sell. So new home sales can easily rise by 10 percent or more. The prices will moderate as homebuilders will be cautious of building very large homes due to high-end market concerns surrounding tax reform.

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4. WHERE ARE MORTGAGE INTEREST RATES HEADED IN 2018?

ECONOMIST		2018 MORTGAGE RATES
	VILLACORTA	75 BASIS POINT INCREASE
	MUOIO	RISE
	MCLAUGHLIN	RISE TO 4.2% OR 4.3%
	KLEINHENZ	25 BASIS POINT INCREASE
	GARDNER	AVERAGE 4.4%
	ZANDI	WELL OVER 4%
	YUN	AVERAGE 4.5%
	VIVAS	AVERAGE 4.6%

"While a near-1-point jump in rates will certainly help to cool some demand, specifically in the refi segment of the market, interest rates should still be attractive to home buyers who remember when rates were regularly north of 6 percent."

— VILLACORTA

VILLACORTA: There is very little doubt that the mortgage interest rates only have one way to go in 2018, and that is up. Keep in mind that we are still in historically low territory, and the Federal Reserve has beenvery clear that rate increases are continuing through 2018. As a result, it's probable that mortgage interest rates will end the year up around 75 basis points from today's mark. While a near-1-point jump in rates will certainly help to cool some demand, specifically in the refi segment of the market, interest rates should still be attractive to home buyers who remember when rates were regularly north of 6 percent.

MUOIO: Mortgage rates should rise in 2018 as the Fed continues to hike interest rates. Nevertheless, increases should be gradual and remain favorable for potential buyers. Jerome Powell will carry the baton when Janet Yellen steps down as Chair of the Federal Reserve, and while he seems to take a laxer stance towards financial regulation, he should largely

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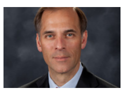
stick with his predecessor's approach to monetary policy, including the continuation of gradual interest rate increases.

MCLAUGHLIN: Mortgage rates are headed upward in 2018, likely between 4.2 percent and 4.3 percent. If the economy continues to crank along like it has, there's even more room for growth, especially if the Fed gets more aggressive with rate hikes.

KLEINHENZ: Given the amount of liquidity in the global financial system, long term rates such as those on mortgages will increase marginally (0.25 percent or so over the next year).



"Mortgage rates are headed higher in 2018 as the economy is at full-employment and wage and price pressures are slowly developing. Deficit-financed tax cuts will put more pressure on the Federal Reserve to normalize short-term interest rates, which in combination with larger deficits will put upward pressure on long-term rates, including fixed mortgage rates."

— ZANDI

GARDNER: Interest rates continue to baffle forecasters. The rise that many of us have predicted for several years has yet to materialize. As it stands right now, my forecast for 2018 is for interest rates to rise modestly to an average of 4.4 percent for a conventional 30-year fixed-rate mortgage — still remarkably low when compared to historic averages.

ZANDI: Mortgage rates are headed higher in 2018 as the economy is at full-employment and wage and price pressures are slowly developing. Deficit-financed tax cuts will put more pressure on the Federal Reserve to normalize short-term interest rates, which in combination with larger deficits will put upward pressure on long-term rates, including fixed mortgage rates. The 30-year fixed rate loan will have a rate of well over 4 percent by year-end 2018. Limiting the increase is continued low long-term rates overseas as the European Central Bank and Bank of Japan continue to purchase long-term bonds.

YUN: Most definitely higher. Likely to average 4.5 percent in 2018 because of the combined impact of rising inflation, fed rate hikes, and some unwinding of the Fed balanced sheet.

VIVAS: The realtor.com forecast expects mortgage rates to see 3 to 4 increases in the coming year, averaging 4.6 percent throughout the year, and reaching 5.0 percent by the end of 2018 due to stronger economic growth, inflationary pressure, and monetary policy normalization.

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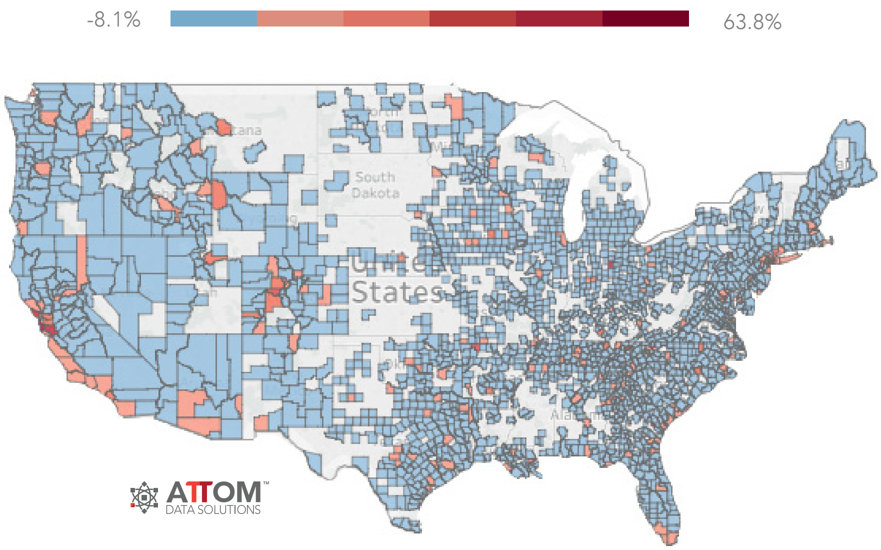
5. WHAT IS YOUR REACTION TO THE GOP TAX PROPOSAL AS IT RELATES TO THE HOUSING MARKET?

MORTGAGE INTEREST DEDUCTION CAP: IMPACT BY COUNTY

SHARE OF HOME PURCHASE LOANS OVER $750K IN 2017 YTD



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"Though tax reform may not cause an immediate demographic shock, over the long haul it could certainly shift populations from the West and Northeast to the South and Midwest."

— MUOIO

"We think the GOP tax plan won't have much of an impact on the broader U.S. housing market, but there is potential to cool high-cost, high-tax states."

— MCLAUGHLIN

MUOIO: While the GOP tax proposal may provide some lift to economic growth which broadly benefits the housing market, its impact will vary on a regional basis. The revised mortgage interest deduction will hurt price growth at the higher end of the price spectrum, which tends to be seen in coastal markets. The double whammy of SALT will further harm some of the same markets that already have higher taxes, while regions like the South and Midwest that tend to have cheaper prices and fewer state and local taxes will be more immune to these changes. The revised mortgage interest deduction could also give an advantage to all-cash buyers and investors in some of the more expensive markets. Though tax reform may not cause an immediate demographic shock, over the long haul it could certainly shift populations from the West and Northeast to the South and Midwest in search of tax relief and more attainable home prices, in turn shifting the fortunes of these regional housing markets. This occurs as millennial populations appear to be plateauing in some cities while entering their prime home buying years, suggesting the potential to seek areas with more affordable homes.

MCLAUGHLIN: We think the GOP tax plan won't have much of an impact on the broader U.S. housing market, but there is potential to cool high-cost, high-tax states. Nationally, about 9 percent of homeowners have property taxes above the new SALT cap of $10,000, and 9.5 percent of listings on the market now would come with a mortgage above the new $750,000 MID cap. That said, those numbers are significantly higher in places like San Francisco, New York, New Jersey, and Connecticut.

KLEINHENZ: Not much of a change for most of the U.S., but high-cost areas on the coasts and elsewhere will see that these new limits on mortgage interest deductibility and state and local taxes will temper market activity

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somewhat. It's worth mentioning that an upper-middle-class home in a state like California can sell in the neighborhood of $1 million, so this may contribute to softness in that price range going forward.

GARDNER: There are two changes to the income tax structure that could potentially have a significant impact on homeowners and the housing market.

The first is the mortgage interest rate deduction. The current plan calls for this to be capped at $750,000 from $1,000,000. In and unto itself, this can be considered a tax on wealthy households, but there have been almost 100,000 home sales so far this year where the mortgage loan was over $750,000 (almost 4 percent of total sales), so the effect would be felt by far more than just the wealthy.

This change will disproportionately affect high-cost markets in California, New York and Hawaii. To a lesser degree, the impact will also be felt in Seattle, as well as in parts of Colorado and Arizona.

The final tax bill also eliminates the deduction for interest on home equity loans which is currently allowed on loans up to $100,000. This is significant because it will largely affect the growing number of home owners who are choosing to remodel their home rather than try to find a new home in a supply-starved market.

I do not see that these changes will have any substantial effect at a national level. That said, some think that this legislation may reduce the value of high-end housing and that there will be a "trickledown" effect that will reduce housing values across the country, but I do not think that this will be the case.

The second proposal calls for a cap on state and local tax deductions (SALT) to $10,000. Again, the effects will be substantial, especially in areas such as California, New York and New Hampshire where taxes are considerable. While this measure will certainly have a dampening effect on housing, I do not believe it will lead to a substantial drop in home values.

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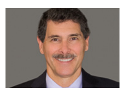


"High-cost areas on the coasts and elsewhere will see that these new limits on mortgage interest deductibility and state and local taxes will temper market activity somewhat."

— KLEINHENZ

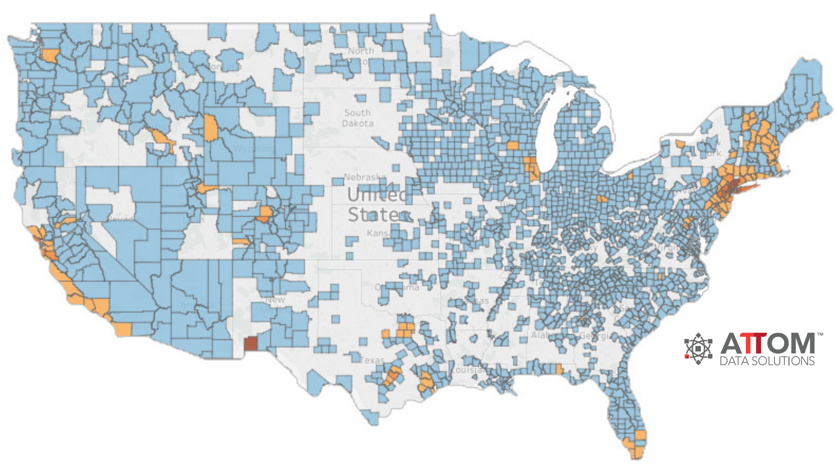
"Some think that this legislation may reduce the value of high-end housing and that there will be a 'trickledown' effect that will reduce housing values across the country, but I do not think that this will be the case."

— GARDNER

PROPERTY TAX DEDUCTION CAP: IMPACT BY COUNTY

HOMES WITH PROPERTY TAX $10,000+ PCT OF TOTAL HOMES

-8.7% 73.4%



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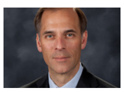

"The Trump tax cut is a net negative for the national housing market. …The impact of the tax cuts will vary substantially across the country."

— ZANDI

"At the end, very good to see the maintaining of capital gains exemption from residing two out of five years (compared to what was being discussed for five out of eight years).."

— YUN

However, I do worry that it will lead to fewer home sales, as households choose to stay put so they can continue to take advantage of the current mortgage interest deduction. This could lead to fewer listings, which could actually cause home prices to rise at above-average rates for a longer period of time.

ZANDI: The Trump tax cut is a net negative for the national housing market. The reduced value of the tax deductions related to housing, including the mortgage and property tax deductions, combined with higher mortgage rates, will weigh on housing demand and house prices. The impact of the tax cuts will vary substantially across the country.

YUN: At the end, very good to see the maintaining of capital gains exemption from residing two out of five years (compared to what was being discussed for five out of eight years). Also, the compromise resulted in a $10,000 property tax deduction, which 95 percent of homeowners could theoretically fully deduct. The $750,000 mortgage amount limit for interest deduction also permits a vast number of homeowners to fully deduct, if they still itemize compared to standardized deduction.

VIVAS: At the time of the realtor.com forecast, both the House and Senate had bills up for consideration, but neither had passed therefore the impact of the Tax Cuts and Jobs Act was not included in the forecast.

We expect the Tax Cuts and Jobs Act will impact both current homeowners and affect the overall housing market, which is already stifled by low inventory and an increasing lack of affordable homes.

The plan will likely increase after-tax income for many, including first-time buyers and millennials. However, increased demand will put more upward pressure on housing pricing and the economic stimulus created by the plan will likely lead to higher mortgage rates, keeping homeownership out of reach for many.

The combined impact of the $750,000 cap on mortgage interest deductions and the increase of the standard deduction will eliminate the tax benefits of homeownership for many.

Based on a recent realtor.com analysis, capping the mortgage interest rate deduction at $750,000 is only likely to impact 1.3 percent of mortgages. Although the national impact may be limited, it's likely to discourage homeownership in large urban areas with high-priced housing stock, which

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could result in a decrease of both home sales and prices.

The states (including the District of Columbia) that are likely to be impacted the most (based on market share of mortgages above $750,000):

1. **Washington, D.C**. (8.9 percent)
2. **California** (6.1 percent)
3. **Hawaii** (6.0 percent of mortgages)
4. **Massachusetts** (2.9 percent)
5. **New York** (2.3 percent)

The metros that are likely to be most impacted (based on market share of mortgages above $750,000):

1. **San Jose-Sunnyvale-Santa Clara**, Calif. (21.8 percent)
2. **San Francisco-Oakland-Hayward**, Calif. (21.6 percent)
3. **Los Angeles-Long Beach-Anaheim**, Calif. (9.6 percent)
4. **Urban Honolulu**, Hawaii (7.5 percent)
5. **San Diego-Carlsbad**, Calif. (6.4 percent)

VILLACORTA: The new tax reform bill will clearly have an effect on home buyers, sellers, and renters. The net effect for the housing market, however, is harder to discern.

The reduction in the mortgage interest deduction limit alongside the cap on state and local taxes, specifically property taxes, will have mixed effects across the country. Overall, the aim of the bill reduces the tax saving incentives for homeowners, but it is unclear whether that will be enough to stymie what has been very active housing demand over the last few years.

What is clear, however, is that this bill will add more uncertainty to a housing market that has been searching for firm rational footing since the turn of the millennium. Whether this new tax reform bill reduces the tax burden for a given consumer is yet to be known, but the market is already flush with uncertainty, and this uncertainty will tip markets in various directions.

For example, higher-end markets have already been seeing softening price growth, and this new headwind could be the catalyst that starts to send some local markets tipping downward. In major metros that are largely represented by these high-end prices (such as the San Francisco Bay Area), there is even more potential for a larger market effect.

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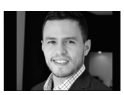

"The combined impact of the $750,000 cap on mortgage interest deductions and the increase of the standard deduction will eliminate the tax benefits of homeownership for many."

— VIVAS

"This bill will add more uncertainty to a housing market that has been searching for firm rational footing since the turn of the millennium."

— VILLACORTA

6. WHAT IS THE BIGGEST INTERNAL THREAT TO THE HOUSING BOOM AND WHY?

MCLAUGHLIN: New construction. We are in dire need of both new and existing inventory, and building the former helps the latter through a "chain-reaction" effect. A new home is bought up by someone who sells their existing one, which frees up another one, and so forth. If we don't build enough homes, especially in some of our most productive regional economies, we risk pricing out an entire generation of homebuyers and slowing economic growth.

KLEINHENZ: I don't see this as a housing boom, rather as a less-than-normal housing market performance in a period of economic expansion. The expansion appears to be intact for another year or so, meaning that 2018 should see continued improvement in the housing market.

GARDNER: Without a doubt, housing affordability is the biggest threat to the nation's housing market. Home prices have been rising across much of the country at unsustainable rates and, although I still contend that we are not in "bubble" territory, it will represent the greatest impediment to the long-term health of the housing market.

YUN: Tax reform is likely to marginally nudge the buying versus renting calculus so that the homeownership rate falls over time. That would be a pity because the end result will be greater inequality in wealth

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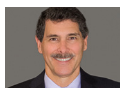
"We are in dire need of both new and existing inventory, and building the former helps the latter through a 'chain-reaction' effect."

— MCLAUGHLIN

"Without a doubt, housing affordability is the biggest threat to the nation's housing market."

— GARDNER



"I don't see this as a housing boom, rather as a less-than-normal housing market performance in a period of economic expansion. The expansion appears to be intact for another year or so, meaning that 2018 should see continued improvement in the housing market."

— KLEINHENZ

"The two biggest internal threats are limited inventory, causing prices to rise and locking up a new generation of home buyers; and … uncertainty that has the potential to reduce confidence in a market that has yet to truly return to normal standards."

— VILLACORTA

distribution in the country as fewer homeowners enjoy the rise in housing equity, while the renters see no equity gains.

VILLACORTA: The two biggest internal threats are limited inventory, causing prices to rise and locking up a new generation of home buyers; and the aforementioned uncertainty that has the potential to reduce confidence in a market that has yet to truly return to normal standards.

Many have pointed to the resurgence of the first-time home buyer, specifically millennials, to bring in more demand and raise the homeownership rate. Given the headwinds of student loan debt, relatively flat wage growth, and rising home prices, it's hard to see this group being the savior for the housing market in 2018. First-time home buyers are a critical segment of the market needed to churn the rest of the market levels, and if they are unable or unwilling to engage, then there is a real threat that prices could retreat significantly to reel them back in.

"Affordability is one of the biggest internal threats to the housing market. After years of unabated price gains that have outpaced more stagnant wage growth, affordability is becoming a more prominent concern. While it may not pose an immediate threat to the housing market in 2018, this is something to monitor as prices continue to expand amid strained inventory levels."

— MUOIO

MUOIO: Affordability is one of the biggest internal threats to the housing market. After years of unabated price gains that have outpaced more stagnant wage growth, affordability is becoming a more prominent concern.

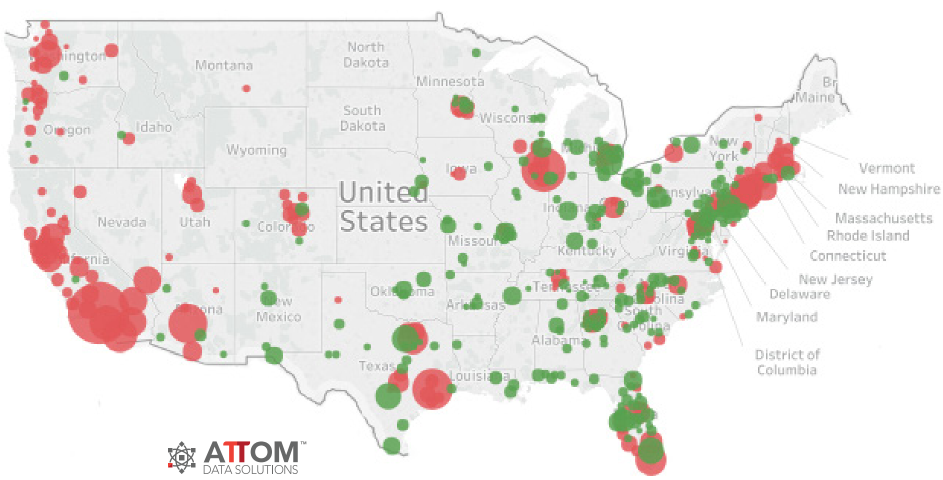
While it may not pose an immediate threat to the housing market in 2018, this is something to monitor as prices continue to expand amid strained inventory levels. As previously discussed, rising interest rates and tax reform will also challenge affordability for more buyers in the coming years.

It is worth noting that there is regional disparity when it comes to affordability concerns, as coastal markets are at greater risk. In addition to broadly weaker affordability prospects due to elevated prices, many of these markets are also threatened by pending tax reform. A number of California markets are notably vulnerable to deteriorating affordability, including San Francisco, San Jose, and Los Angeles.

BUY OR RENT IN 2018?

MORE AFFORDABLE TO BUY OR RENT IN 2018

BUY RENT



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7. WHAT IS THE BIGGEST EXTERNAL THREAT TO THE HOUSING BOOM AND WHY?

"The most serious threat to the housing market in 2018 is the Trump tax cuts."

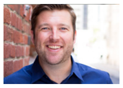
— ZANDI

"Tax reform is currently the biggest external threat facing the housing market."

— MUOIO

"The U.S. housing bubble talk is nonsense. But there are good reasons to think that home prices are overvalued abroad, including in Canada, China and Britain. A price decline in any of these markets will get a headline coverage and may impact the psychology of buying here in the U.S."

— YUN



"Our current economic expansion is getting long in the tooth, at least from an historical perspective. Global political instability and conflict could potentially kick off a global recessionary period, which would put a stop to the current housing market boom"

— MCLAUGHLIN

GARDNER: At this time, there are certain geo-political threats that have the potential to create economic turmoil and affect the nation's housing market in very negative ways. There is still too much "sabre rattling" going on – specifically regarding North Korea – and this is very troublesome.

ZANDI: The most serious threat to the housing market in 2018 is the Trump tax cuts. The after-tax mortgage rate will rise significantly in key parts of the country, hurting housing demand and house prices. The damage would be more serious if not for very tight single family housing markets as builders have not been able to put up enough particularly entry-level housing since the financial crisis for a range of reasons.

YUN: The U.S. housing bubble talk is nonsense. But there are good reasons to think that home prices are overvalued abroad, including in Canada, China and Britain. A price decline in any of these markets will get a headline coverage and may impact the psychology of buying here in the U.S.

VILLACORTA: There are clearly several classes of external threats that could derail the current housing market, but most are tied to the overall U.S. economy. For instance, shocks to the major financial markets, such as a stock market correction, could lead to a downturn in housing, as could a spike in unemployment. And of course, any major military conflict would also upend the trajectory of the economy and risk changes in many sectors, including housing.

MUOIO: Tax reform is currently the biggest external threat facing the housing market. As discussed earlier, tax cuts and economic growth broadly support the housing market, although changes to the SALT and mortgage tax reductions may disproportionately harm expensive or high-tax markets.

MCLAUGHLIN: An imminent recession. While there aren't many signs that point to one, our current economic expansion is getting long in the tooth, at least from an historical perspective. Global political instability and conflict could potentially kick off a global recessionary period, which would put a stop to the current housing market boom. However, even if a recession does hit soon, it's not likely to be as bad for the housing market as the Great Recession. ■

MY TAKE

2018 and Beyond

BY INGO WINZER
FOUNDER AND PRESIDENT, LOCAL MARKET MONITOR

If You Read No Further

In 2018 we will see a number of markets where home prices climb into bubble territory. Renting will continue to be a popular option. And while some markets will have strong growth, a much larger number will grow at a very modest rate.

Fallout from the Crash

The big real estate crash that began in 2008 revealed several fundamental weaknesses of the U.S. economy and, more immediately, the real estate markets.

Before the crash it seemed that more Americans were able to buy into the home-owning middle class. For years government policies had encouraged homeownership, through direct government programs, though pressure on banks to expand lending, and by encouraging the Federal Reserve to keep interest rates low. These policies bore fruit: the homeownership rate rose from 64 percent in the 1980s and 1990s to almost 70 percent in 2005.

At the same time, the steady rise in home prices seemed to create greater wealth for most American families. From 1990 to 2005, home prices more than doubled, while inflation was just half that. The equity people had in their home — for most, their biggest investment — grew steadily.

And the real estate sector created a ton of new jobs — an increase of 2 million from 1990 to 2005 — that provided a good income for construction workers, lenders and Realtors.

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Then the crash came. Home prices dropped 15 percent in four years (much more in some places); 2 million jobs were lost in construction; and the homeownership rate is now back to 64 percent.

But the crash did more than bring us back to where we started.

It revealed that much of our spending in the past decade was not due to a wealthier and higher-income society, but to one that was financing purchases by piling up more debt. It revealed that fewer — not more — people can afford to buy a home.

And it revealed the extent to which ordinary people are in hock. Adjusted for inflation, consumer debt (mortgages not even included) doubled from 1990 to today — to $12,000 per man, woman and child.

Who are the Customers?

Those annoying baby-boomers (I'm one), who stoked the real estate markets for decades and heedlessly piled up debt, don't play much of a role in real estate anymore. They already own a home and are more likely to be selling than buying in the next few years.

The good news is that the generation that follows is now in the prime home-buying age bracket. There are 85 million people in the 25-to-44 age group; by 2025 there will be well over 90 million. This is the group that will be buying homes or renting apartments.

The bad news is that they don't — and won't — have much money. The American economy just isn't producing a lot of high-paying jobs anymore. Four and a half million new jobs were created over the last two years, but only 12 percent of them pay more than $1500 per week.

And in addition, this generation carries a lot of debt — most significantly a trillion dollars of student loans.

Bifurcated Real Estate Markets

When America was young, cities that prospered were on transportation routes (ports, rivers, railroads) or close to natural resources (coal, iron ore, wheat). These days, successful cities have research universities, a specialized workforce, the outsourced services that companies need, and the urban infrastructure that workers find congenial.

These demands have created two types of real estate markets: Those where builders can't keep up with the influx of new workers and prices are rising sharply; And those where there isn't much growth and prices will rise very slowly. You can say we have always had this mix of markets, but this time the mix is extreme. We'll have many markets that are mediocre and just a concentrated few where home prices will increase until they inevitably get out of hand. Just 50 cities now account for 75 percent of the U.S. economy.

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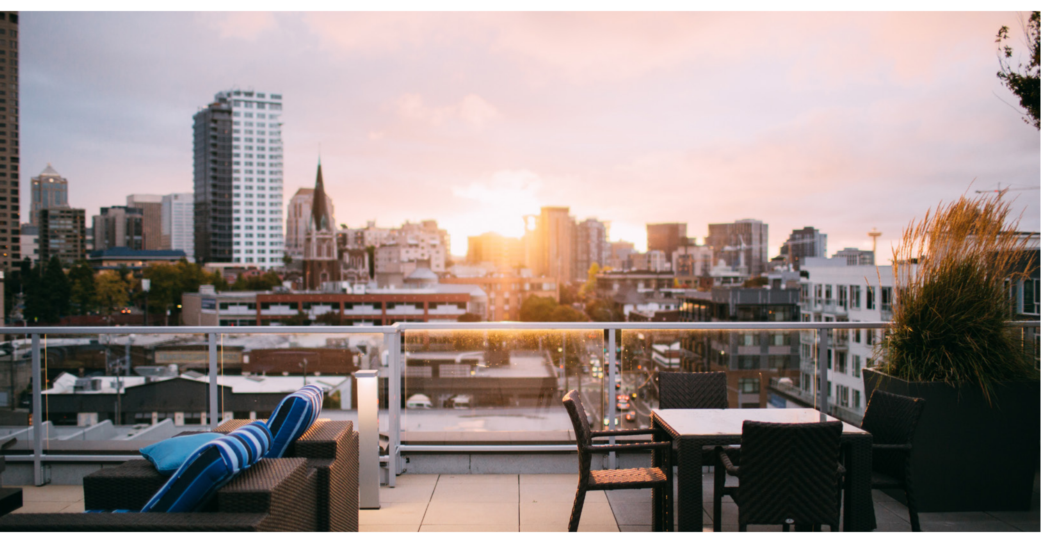

"But the crash did more than bring us back to where we started.

It revealed that much of our spending in the past decade was not due to a wealthier and higher-income society, but to one that was financing purchases by piling up more debt."

The crash — when home prices dropped everywhere — at first hid this bifurcation of markets, but we're now seeing the differences. So far only Denver is a seriously overpriced market, but Los Angeles, Dallas, Phoenix, Tampa, Seattle, Miami, Portland, Austin, San Francisco and Salt Lake City are almost sure to follow.

Meanwhile, Chicago, Cincinnati, Detroit, St. Louis, Pittsburgh, Atlanta and a host of smaller markets will continue to offer housing at reasonable prices.

What Investors and Lenders Can Do

It's always easiest to do what you've been doing all along. But the changes we're seeing in the real estate markets aren't just a temporary phenomenon, they will become more important as time goes by. Real estate is like a giant ship that doesn't turn quickly. Will homeownership crash below 60 percent, below 50 percent? Not any time soon, but averages can hide what's happening at the edges, which is where investors and lenders have the greatest opportunities.

"It's always easiest to do what you've been doing all along. But the changes we're seeing in the real estate markets aren't just a temporary phenomenon, they will become more important as time goes by. Real estate is like a giant ship that doesn't turn quickly."

My first recommendation: be careful in 2018 if you invest in the Denver-like markets I listed above. Home prices and rents will still go higher but you're looking several years down the road, when a local crash will become more likely.

Second, rentals will continue to be in demand everywhere. In the slower-growth markets you need to be more careful about your purchase price, and you need to be more picky about the location of your property.

Third, keep an eye on the local economy. Unless you plan to buy a property and hold it forever, give yourself options by staying on top of local job growth and local home prices.

And lenders — get busy with new forms of financing. Regular mortgages will remain a staple, but buying/leasing a home should be as easy as a three-year lease on a car. One party owns the asset, one party pays to inhabit the asset for three to five years, and the lender puts it all together. And there's a lease-to-buy option. ■

INGO WINZER

Ingo Winzer is the Founder and President of Local Market Monitor, Inc. and has followed real estate dynamics and the economy for over 30 years. Mr. Winzer also co-founded First Research, Inc., which follows 250 sectors of the national economy and was acquired by Dun & Bradstreet in 2007. Mr. Winzer is a graduate of MIT with an MBA from Boston University.

ATTOM Table of Data Elements

Pr Public Records									**Ls** Landslide
Ta Tax Assessor									**Eq** Earthquake
De Deed	**Ml** Mortgage Loan							**Fl** Flood	**Fi** Fire
Fc Foreclosure	**Pf** Pre-foreclosure	**Ow** Ownership	**Er** Environmental Risks	**Sf** Superfund Sites	**Bf** Brownfields	**Rp** Registered Polluters	**Ut** Underground Storage Tanks	**Sp** Spills	**Nh** Natural Hazards
Pm Plat Maps	**Ft** FCC Towers	**Sc** Schools	**Nc** Neighborhood Characteristics	**Dl** Former Drug Labs	**Aq** Air Quality	**Uv** UV Index	**Rd** Radon	**Hh** Health Hazards	**Sh** Sinkholes
Dg Demographics	**Cr** Crime	**Co** Criminal Offenders	**Pc** Property Characteristics	**Hc** Home Condition	**Bp** Building Permits	**Hv** Home Values	**Av** Assessed Values	**Pb** Parcel Boundaries	**Us** Utility Score
		NEW **Pv** Pre-mover	NEW **Ms** MLS Analytics	NEW **Qa** Quantum AVM	Coming Soon	Coming Soon	Coming Soon		

- Public Records
- Property Characteristics
- Health Hazards
- Environmental Risks
- Neighborhood Characteristics
- Natural Hazards

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LOCAL SPOTLIGHT: DETROIT

Detroit's Rocky Housing Rebound

BY JOEL CONE, STAFF WRITER

A seven-year stretch of ranking in the nation's top 10 metro areas for most foreclosure filings, along with high unemployment and a population exodus during the Great Recession — followed by the largest municipal bankruptcy in U.S. history — took the Motor City into an economic abyss from which it is finally emerging.

"What we're seeing now is a nice mix of urban revitalization and talent attraction," said Peter Chapman, executive vice president of business development for the Detroit Economic Growth Corporation. (DEGC).

"We have major corporate stakeholders in downtown and the urban core. When you look at cities that are undergoing positive change, one of the things you have to have is family and friends money. That's the first wave of investment you see like the projects by the Ilitches and Dan Gilbert."

Chapman was referring to Dan Gilbert, chairman and founder of Quicken Loans and Rock Ventures, and the Ilitch family, founders of Little Caesars Pizza, both key drivers for

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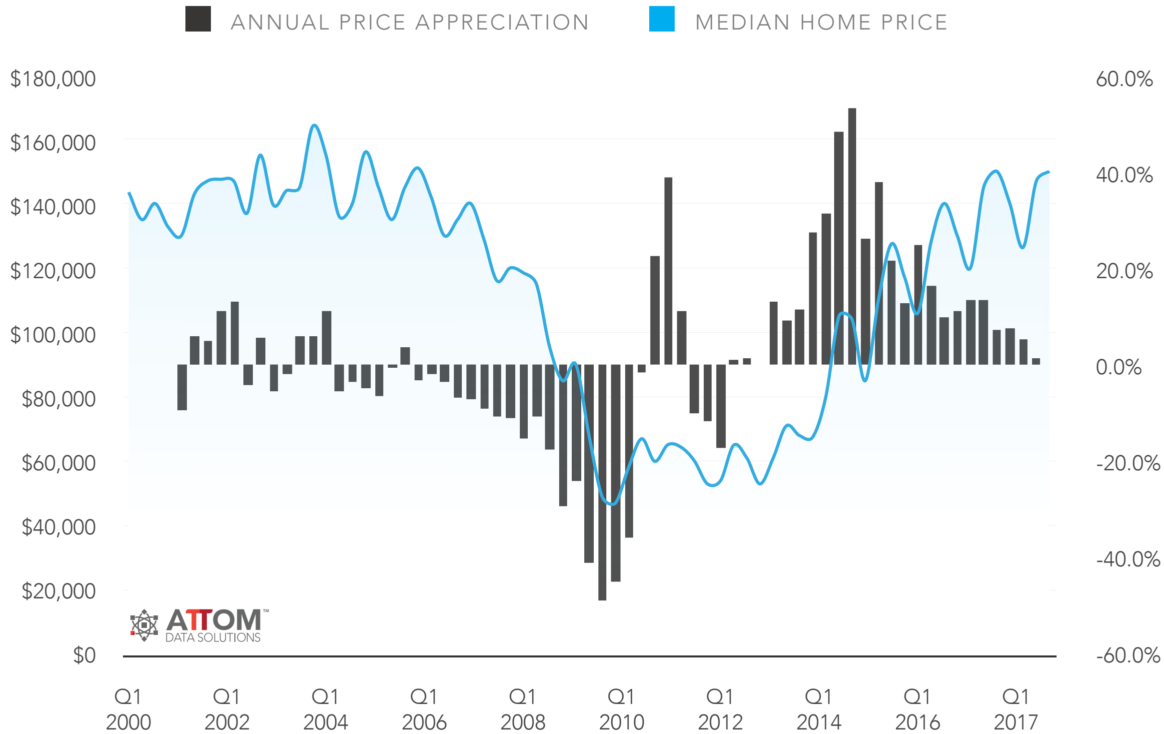
DETOROIT MEDIAN HOME PRICES



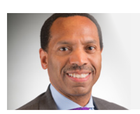
the revitalization of the city's central business district (CBD).

For his part, Gilbert has reportedly acquired more than 95 underutilized or vacant buildings in the CBD through his real estate company Bedrock, some of which will be converted to mixed-use residential and commercial.

As president and CEO of Ilitch Holdings Inc., Christopher Ilitch is doing his part, announcing early last year a planned investment of more than $1.2 billion in the city to develop a live, work and play environment in the CBD. His project, known as The District Detroit, claims to bring residential, commercial and entertainment venues to the table.

These projects are part of what is attracting major corporations such as

"We have major corporate stakeholders in downtown and the urban core. When you look at cities that are undergoing positive change, one of the things you have to have is family and friends money. That's the first wave of investment you see like the projects by the Ilitches and Dan Gilbert."



PETER CHAPMAN

EXECUTIVE VICE PRESIDENT OF BUSINESS DEVELOPMENT,
DETROIT ECONOMIC GROWTH CORPORATION

Microsoft and Google to Detroit's urban core and thus bringing jobs back as well. And Gilbert is spearheading an effort by the city to entice Amazon to select Detroit as the location for its second headquarters known as HQ2.

Another key reinvestment of billions of dollars throughout the state has come from the automotive industry, transforming the city's economy from a manufacturing hub to more of a high-tech center.

"Autonomous, connected, electric and shared transportation technologies. That's where we're seeing interest

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from tech companies that want to enter the automotive space. It requires a whole new set of suppliers," said Justin Robinson, vice president of business attraction at the Detroit Regional Chamber.

"The PlanetM Landing Zone is a physical point of entry for the best mobility startup companies to come and do business with the auto industry," noted Robinson, who added that there is interest from more than just companies in Japan and Germany, but also companies from Israel, Norway, Sweden, the Netherlands and the United Kingdom, all of which are interested in the industry's autonomous future.

Foreclosures Still 'Tax' the City

Millions of homeowners around the country lost their homes to foreclosures due to mortgage default back when the nation's real estate market took a nosedive in 2007. Thousands of Detroit homeowners suffered through the job losses and foreclosures of that time as well.

"Autonomous, connected, electric and shared transportation technologies. That's where we're seeing interest from tech companies that want to enter the automotive space. It requires a whole new set of suppliers."

JUSTIN ROBINSON
VICE PRESIDENT OF BUSINESS ATTRACTION
DETROIT REGIONAL CHAMBER

But in addition many local homeowners have lost homes due to unpaid property taxes triggering foreclosures after three years of non-payment.

According to a recent study conducted by two professors, between 55 to 85 percent of Detroit properties sold from 2008 to 2015 were assessed above the 50 percent of market value permitted by the Michigan State Constitution in violation of the Headlee Amendment of 1978 and Proposal A which followed it, coming down particularly hard on the lower income population.

A total of 6,624 single family homes and condos in the Detroit metropolitan statistical areas were foreclosed on as a result of unpaid taxes in 2017, down 49 percent from 2016, the second consecutive year with a 49 percent decrease, according to ATTOM Data Solutions. Despite the dramatic decrease in Detroit tax foreclosures

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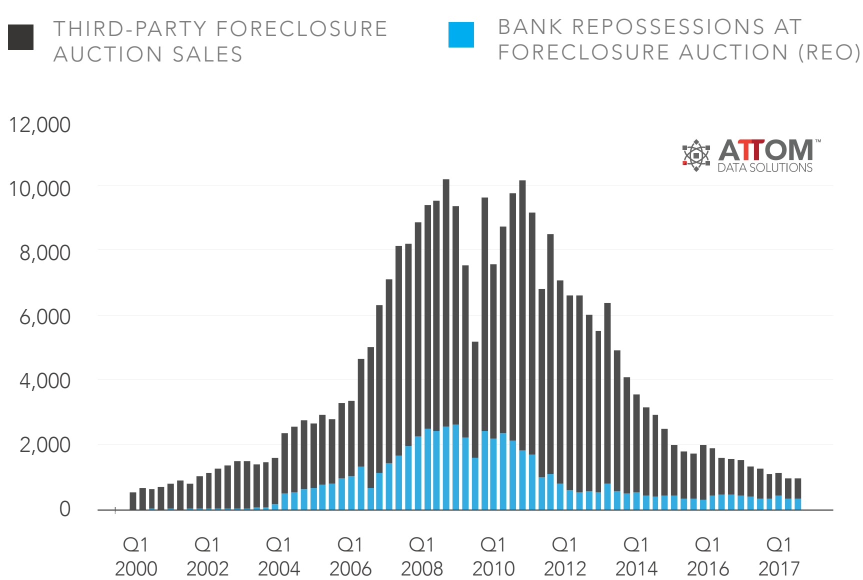
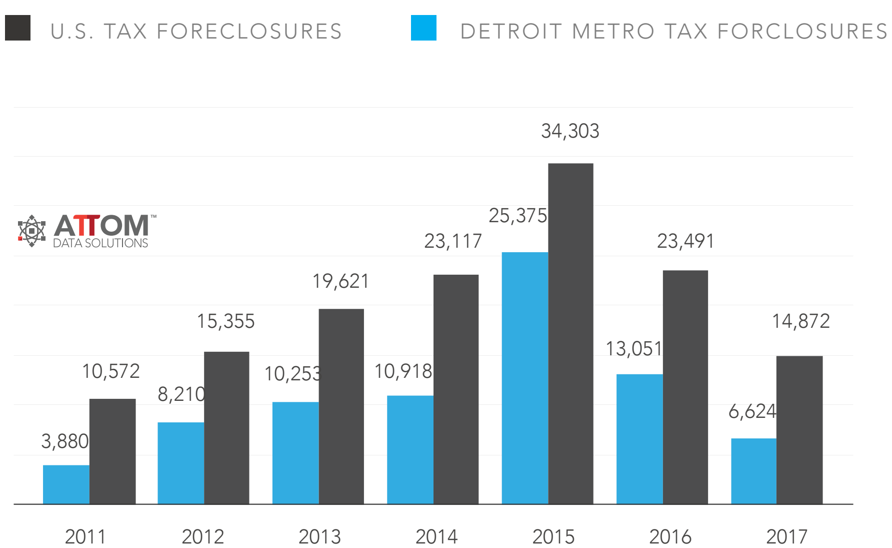
DETROIT METRO MORTGAGE FORECLOSURES



DETROIT METRO TAX FORECLOSURES



over the last two years, the metro area still accounted for 45 percent of all residential tax foreclosures nationwide.

A total of 972 single family homes and condos were foreclosed on as a result of mortgage foreclosure in the Detroit metropolitan statistical area in Q2 2017, down 28 percent from a year ago to the lowest level since Q4 2001, according to ATTOM Data Solutions. Mortgage foreclosure activity ticked up slightly in Q3 2017 to 981 completed foreclosures, but that was still down 22 percent from Q3 2016.

A 'War Zone' Outside Downtown

While unemployment in the Detroit metro area is down 1 percentage point between November 2016 and November 2017 to 3.7 percent, according to the Bureau of Labor Statistics, the area has not recovered from the population loss it has seen since the foreclosure crisis and the Great Recession. That population loss means there are still blighted areas just outside the CBD with vacant homes and homes occupied by Section 8 tenants.

ATTOM Data Solutions reported that the Detroit metro area led the nation in total vacant residential properties in 2017 with more than 56,000 properties. However that represented a 12 percent decline in vacant properties from 2016. The Detroit metro ranked ninth highest in terms of vacant and underwater properties for last year with 2,324, a 10 percent decrease from the year before.

The housing situation on the outskirts of the CBD is troublesome, according to Dylan Borland, president of The Borland Group, who noted he is still

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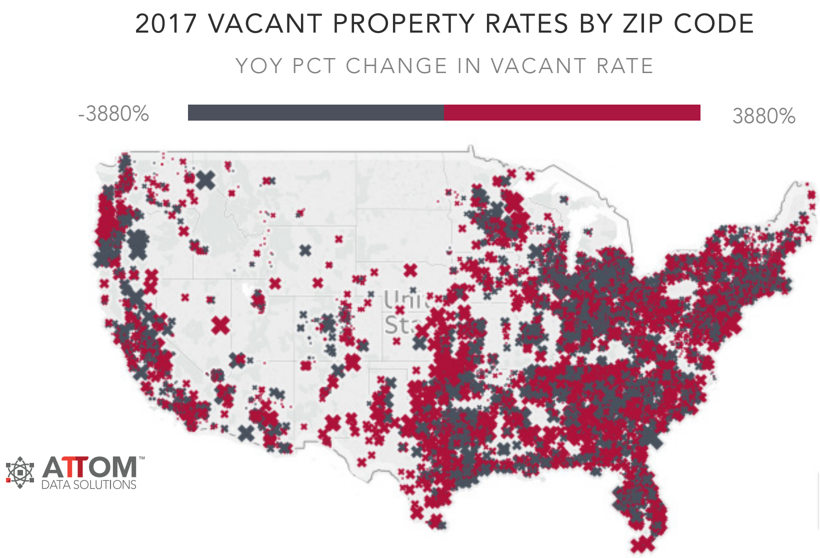

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"The city itself outside of downtown has a long way to go. You get outside of downtown and it's still a war zone."

DYLAN BORLAND
PRESIDENT
THE BORLAND GROUP

pleased to see the transformation and revitalization taking place in the city' s central core.

"The city itself outside of downtown has a long way to go. You get outside of downtown and it's still a war zone," said Borland, who said his real estate investment firm has fixed and flipped more than 2,500 homes in Detroit since 2006.

Low Prices Attracting Home Flippers

Home flips accounted for 6.1 percent of all home sales in the metro area in the third quarter, according to ATTOM. That was a 12 percent increase from the same quarter of 2016. In all, 78.9 percent of the flipped properties were purchased with cash while the remaining 21.1 percent were financed. The median purchase price was $70,000 while the flipped price was $119,000 — an average gross flipping profit of $49,000 per flip (70 percent gross return on original purchase price).

"Where else in the country can you get housing for a few hundred dollars. It's still a completely desolate area," Borland said. "That's the reason investors are attracted to it. They all want quick returns and quick cash. When you can make your money back in a year to a year and a half what do you have to lose? Still, the risk is very high. You're dealing with tenants who are not the best tenants."

Although Borland's firm is focusing more on building a portfolio of multi-family and commercial properties these days, when he did focus on the single family product it was because at the height of the foreclosure crisis the city was selling about 1,800 properties a month. By contrast it is now down to about 100 foreclosures a week at the auction sale.

The bulk of Borland's Livonia-based firm's investing is in Wayne, Oakland and Macomb counties. At present he owns three multi-family properties that are 100 percent occupied.

"The rents are significantly higher now. Our apartments rent for $1,100 to $1,200 a month and they rent out in a couple of days," Borland said.

Foreign (and Florida) Investors Flocking

Foreign investors flocking to Detroit have transformed Albert Hakim's real estate business.

"We had to start doing property management because of all of the overseas investors," said Hakim, who early in his career was an REO broker handling as many as 1,200 REO listings himself but has since founded City Management Group to manage 400

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houses throughout the city. "We have groups coming in from Israel, Argentina and Brazil as well as investors from Florida. Eighty percent overseas investors and 20 percent locals. And they're all buying a minimum of 10 properties each."

Hakim provided as an example Miami brokers who come to him, buy a rental property for $35,000 with a renter in place who's paying $750 a month, giving the investor a nice return on their money. Those brokers then turn around and sell the property to a Brazilian investor for $70,000 — still providing solid rental returns.

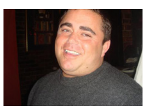
But those eye-popping rental returns to come with risk, Hakim cautioned.

"You're dealing with lower income people," he said. "The problem is half the people don't have jobs. They're getting state aid. If you can get between $600 and $750 (a month) be happy."

"Investors only want the city because of the numbers. It's all about the numbers. Every one of these investors are buying with cash. Not one mortgage. Then they're selling them with tenants in place," he explained.

Hakim also said that a lot of the properties he's selling are off-market properties he finds through his sources like other investors who bought them and now want to sell.

"We had to start doing property management because of all of the overseas investors. We have groups coming in from Israel, Argentina and Brazil as well as investors from Florida. Eighty percent overseas investors and 20 percent locals. And they're all buying a minimum of 10 properties each."



ALBERT HAKIM

FOUNDER, CITY MANAGEMENT GROUP

Detroit Demolition Derby

Some off-market, vacant properties in Detroit prove even too risky for investors.

Those properties are identified by the Detroit Land Bank Authority and, when

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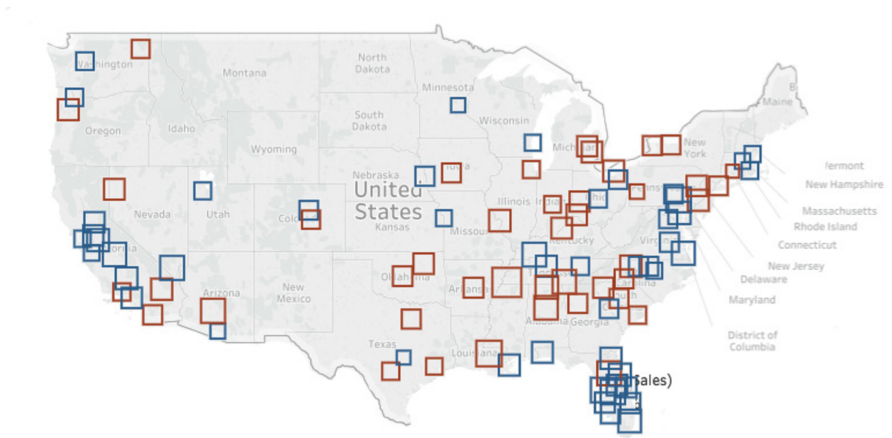
WHERE FLIPPERS ARE FLOCKING, AND FLEEING

Q3 2017 YEAR-OVER-YEAR PCT CHANGE IN HOME FLIPPING

-140% 140%



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possible, demolished. In fact the city's website has a demolition tracker.

According to that site, since 2014 the city has taken down 13,300 vacant buildings, and hopes to take down as many as 40,000 buildings in eight years total.

"The land bank is in the media more than anything else because of the demolition program," said Nick Najor, project liaison for the land bank authority.

Najor noted that the number of buildings the city can demolish is limited because it's using its allocation of the federal Hardest Hit Funds to finance the demolition effort. By law those funds can only be used in federally designated areas of the city.

Originally created in 2008, the land bank was expanded in 2014 in the aftermath of the municipal bankruptcy.

"The goal of every program is to make neighborhoods better and beautify every block of the city. There's no city in the country that has more unoccupied houses than Detroit."

NICK NAJOR
PROJECT LIAISON, DETROIT LAND BANK AUTHORITY

Putting Properties Back Into Productive Use

Najor estimated that the land bank owns about 100,000 properties in the city of Detroit. About two-thirds them are vacant lots and one-third are either single family residences or two-unit houses.

"With this gigantic inventory we have different programs to get homes back into people's hand to be put into productive use. We are the only avenue through which you can buy a Detroit property that's guaranteed to be to code and move-in ready."

Land bank properties are available only to owner-occupants, not investors. The houses are sold at auction and some can be purchased on the spot for as little as $1,000. Additionally, the land bank has a "side lot" program allowing homeowners to purchase the vacant side lot next to their home for only $100.

"The goal of every program is to make neighborhoods better and beautify every block of the city. There's no city in the country that has more unoccupied houses than Detroit," Najor said.

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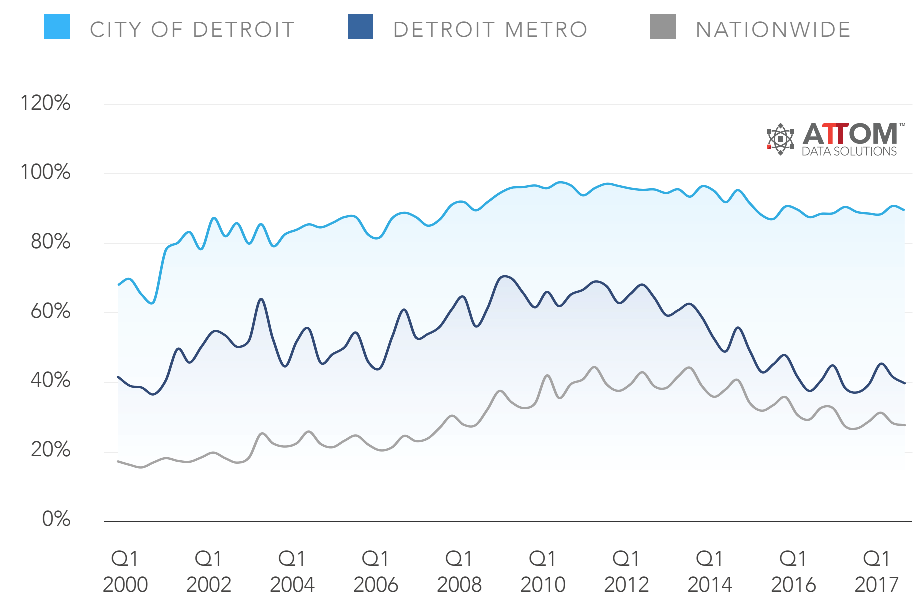
ALL-CASH SHARE OF HOME SALES



"The development within the city limits are multi-use or apartments. Most of the new home development is occurring outside the incorporated city limits of Detroit but physically within 20 to 30 miles."

MIKE STOSKOPF
CEO, HOME BUILDERS ASSOCIATION OF SOUTHEASTERN MICHIGAN

"My program specifically, the entire goal besides increasing occupancy in the neighborhoods is to address the problem of the appraisal gap. It's incredibly tough to get houses to appraise out. The goal is to strategically choose the areas of renovation so it creates comps for others to get financing."

Only about 10 percent of home buyers in the city of Detroit used financing to purchase in the third quarter of 2017, according to ATTOM Data Solutions, which shows that 89.6 percent of all single family home and condo sales during the quarter were to all-cash buyers.

All-cash sales accounted for 40.8 percent of all single family home and condo sales in the broader Detroit metropolitan statistical area in the third quarter of 2017, up from 33.6 percent a year ago and the 17th highest share of cash sales among 98 metro areas analyzed in the ATTOM Data Solutions Q3 2017 Home Sales Report.

Building Boom Limited By Worker Shortage

While older housing inventory is being demolished in some parts of the Detroit metro area, new housing stock is being built in other parts.

The Home Builders Association of Southeastern Michigan is projecting that just under 5,400 building permits will have been issued in 2017, the highest yearly total since 2006.

"The development within the city limits are multi-use or apartments. Most of the new home development is occurring outside the incorporated city limits of Detroit but physically within 20 to 30 miles," said Mike Stoskopf, CEO of the builders association.

Stoskopf estimates that his region would be doing around 8,200 permits per year but is limited by a shortage of workers in the trade skills statewide.

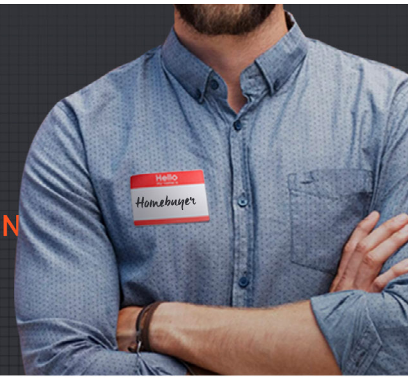
According to Stoskopf, a typical new home being built in the Detroit metro area is 2,200 to 2,300 square feet with a two- or three-car garage and a basement (not counted as part of the square footage). Including improvements and land cost the average sales price is around $380,000 — with ranch style houses go for a premium.

"Fifty-five and over is becoming the emerging market in Southeastern Michigan. What happens there is the trend for the state. The people with money that can afford the new construction are probably 45 years and over because they are established," he said. ■

THE 2017 HOMEBUYER NAME GAME

MILLENNIAL NAMES BUYING MORE, GEN-X AND PRE-BABY BOOMER NAMES BUYING LESS

BIG DATA ANALYSIS OF 4 MILLION SINGLE FAMILY HOME SALES

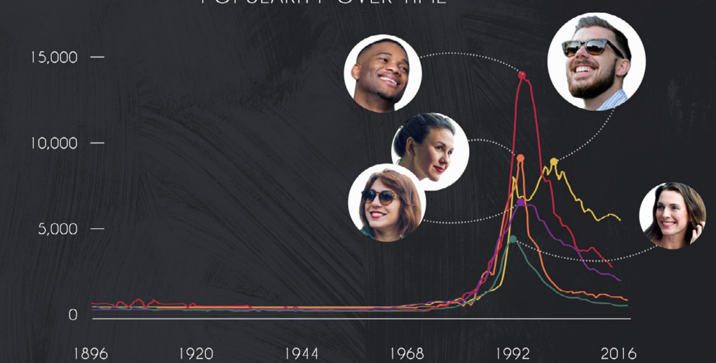


An analysis of first names of homebuyers in 2017 sheds light on which generation is becoming more active buying homes — primarily millennials — and which generations are becoming less active — Gen-Xers and the pre-baby boomer Silent Generation and Greatest Generation. The trends do vary by state. In Utah, buyers with the first name of Laura had the biggest increase in homes purchased, and in Rhode Island buyers with the first name of Peter had the biggest increase. View hottest homebuyer names by state at **www.attomdata.com/news.**

BUYER NAMES ON THE INCREASE

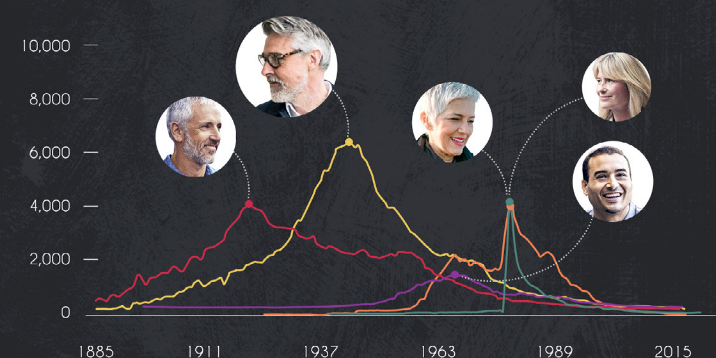
BUYER NAMES ON THE DECREASE

POPULARITY OVER TIME



*SOURCE: WWW.BABYCENTER.COM BASED ON SOCIAL SECURITY ADMINISTRATION DATA

POPULARITY OVER TIME



*SOURCE: WWW.BABYCENTER.COM BASED ON SOCIAL SECURITY ADMINISTRATION DATA

DATA IN ACTION

Where Home Flippers are Flocking, Fleeing

Nearly 49,000 single family homes and condos were flipped nationwide in the third quarter of 2017, a home flipping rate of 5.1 percent — down from 5.6 percent in the previous quarter and unchanged from a year ago, according to the ATTOM Data Solutions Q3 2017 U.S. Home Flipping Report.

Year-to-date through the third quarter of 2017 a total of 153,727 single family homes and condos nationwide have been flipped, nearly equal with the 153,854 flipped through the first three quarters of 2016, when the number of homes flipped increased to a 10-year high.

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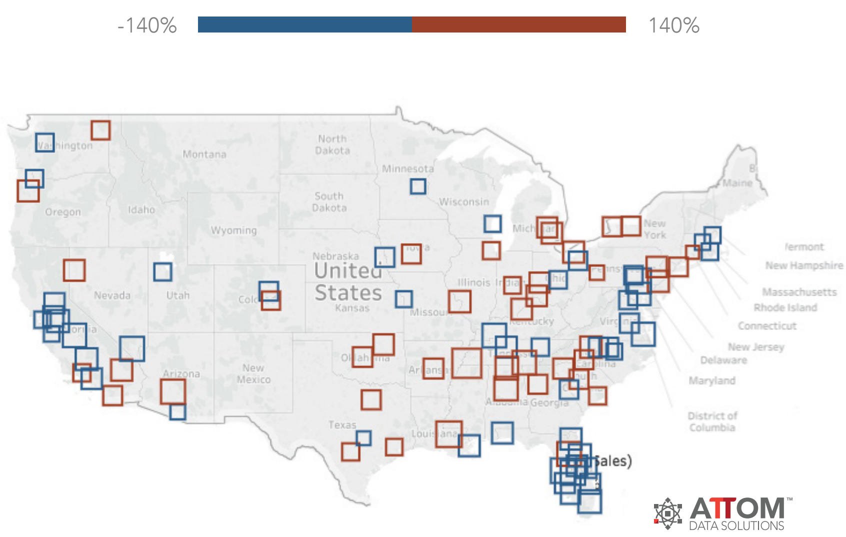
WHERE FLIPPERS ARE FLOCKING, AND FLEEING

Q3 2017 YEAR-OVER-YEAR PCT CHANGE IN HOME FLIPPING



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Home flipping rate increases in 47 percent of markets

The Q3 2017 home flipping rate increased from a year ago in 44 of the 93 metropolitan statistical areas analyzed in the report (47 percent), led by Baton Rouge, Louisiana (up 140 percent); Winston-Salem, North Carolina (up 58 percent); Salem, Oregon (up 51 percent); Indianapolis, Indiana (up 51 percent); and Buffalo, New York (up 47 percent).

Along with Indianapolis and Buffalo, metro areas with a population of 1 million or more that posted a year-over-year increase in home flipping rates of at least 10 percent were Louisville, Kentucky (up 22 percent); San Antonio, Texas (up 22 percent); New York, New York (up 21 percent); Cleveland, Ohio (up 17 percent); Birmingham, Alabama (up 17 percent); Charlotte, North Carolina (up 15 percent); Dallas-Fort Worth, Texas (up 14 percent); Rochester, New York (up 13 percent); Detroit, Michigan (up 12 percent); Hartford, Connecticut (up 11 percent); and Memphis, Tennessee (up 10 percent).

Home flipping rate down in Los Angeles, DC, Miami, Boston, San Francisco

The Q3 2017 home flipping rate decreased from a year ago in 49 of the 93 metropolitan statistical areas analyzed for the report (53 percent), including Los Angeles (down 6 percent); Washington, D.C. (down 6 percent); Miami (down 15 percent); Boston (down 5 percent); and San Francisco (down 2 percent).

"Across Southern California, investors are finding home flips for investment purchases to be a challenge due to an aging housing inventory requiring greater repair cost coupled with higher acquisition costs due to low available inventory," said Michael Mahon, president at First Team Real Estate, covering the Southern California housing market. 'That equates to increased risk for return on investment that is keeping many potential investors on the sidelines."

Other major markets where the Q3 2017 home flipping rate decreased from a year ago included Seattle (down 8 percent), Minneapolis-St. Paul (down 18 percent); Tampa-St. Petersburg (down 9 percent); Baltimore (down 2 percent); and Denver (down 2 percent).

"Although the number of flips in the Seattle market dropped back to levels not seen since early 2016, they are still well above the levels seen before the recession. I anticipate that the number of flips will continue to fall as home price growth eats into profits, which have been on the decline since 2013," said Matthew Gardner, chief economist at Windermere Real Estate, covering the Seattle market. "The Seattle region housing market remains very tight in terms of inventory and this has put substantial upward pressure on prices. Flippers can function to exacerbate this issue, so the sooner we see the number of flips drop back to pre-recession levels, the better." ■

"Across Southern California, investors are finding home flips for investment purchases to be a challenge due to an aging housing inventory requiring greater repair cost coupled with higher acquisition costs due to low available inventory."

BY MICHAEL MAHON
PRESIDENT, FIRST TIME REAL ESTATE

HOUSINGNEWSREPORT

Housing News Report is a monthly publication dedicated to helping individuals and institutions succeed by providing them with timely and relevant information about the residential real estate market.

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