Episode Summary

In this episode of Driving It Home, Dr. Clare Losey and discuss economic predictions for 2024, zooming the lens in on the housing market. Both express cautious optimism for the year, noting the previous year's market shifts, particularly the effects of higher mortgage rates and market adjustments post-pandemic. Dr. Losey predicts that while mortgage rates are expected to decrease gradually, they will likely not drop enough to significantly stimulate refinance activity, although a decline would increase homebuyers' purchasing power.

Dr. Losey offers a nuanced outlook on home prices, expecting them to remain relatively flat, with possible variations of 3-5% up or down, considering the high mortgage rates and elevated home prices since the pandemic. The housing market is still deemed competitive, and the stability in prices would maintain the value for sellers. They also discuss the effects of the upcoming election on the 10-year treasury yield, which could introduce volatility affecting mortgage rates, though any effects are expected to be short-term.

The conversation also touches on the housing market sales, which are anticipated to be flat compared to 2023, influenced by the market's adjustment to post-pandemic conditions and a higher rate environment. Dr. Losey explains that the COVID-19 pandemic led to anomalous market behavior, which is now stabilizing. They speculate on the impact of local regulatory changes on housing supply, particularly in Austin, with the HOME Initiative allowing for more housing units per parcel. The slow pace of construction and the complexity of development regulations temper expectations for rapid changes. They conclude that 2024 could be a more predictable and potentially favorable year for first-time buyers, with more stability and less volatility in the housing market.

Episode Transcript

[00:00:00] **Emily Chenevert:** Hey guys, Happy New Year! We're excited to bring you a new Driving It Home here in a video format. I'm here with Dr. Clare Losey. Good morning, and happy New Year.

[00:00:07] **Dr. Clare Losey:** Good morning, Emily, and Happy New Year to all of our listeners.

[00:00:10] **Emily Chenevert:** Yeah, I'm excited for you to give us a bit of a prediction or a peek into what you think is coming in 2024. I know I'll have to push you a little to actually make the predictions, as is typically the case with economists, but we won't hold you to it. But we're excited to know what you think is coming as we're looking towards a new year, and our members are in their business planning and getting ready for what we hope will be an exciting market year.

[00:00:32] **Dr. Clare Losey:** Indeed, indeed. I think the phrase for 2024 is essentially cautious optimism. Just the idea that, of course, 2023 was marked by this market shift in which we saw the ongoing effects of mortgage rates, of course, higher mortgage rates, and then just our market adjusting to those post-pandemic conditions. But moving into 2024, we'll kind of talk about where rates, home prices, and sales will potentially be in the Austin market. And again, I think listeners will come away cautiously optimistic.

[00:01:10] **Emily Chenevert:** I like the optimistic part of cautiously optimistic. We'll settle there a bit, but it’s fair to say that we're hedging a touch. And I think there's been quite the shift at the end of last year, and now we're in 2024 looking at more positive headwinds for us. But I know that we need to hedge that and be careful that we're not kind of overstating as well.

[00:01:28] **Dr. Clare Losey:** Exactly.

[00:01:29] **Emily Chenevert:** Yeah. So, what are you expecting with rates specifically for this year?

[00:01:33] **Dr. Clare Losey:** We all know that 2023 brought particularly high mortgage rates on a recent historical basis, right? These are the highest rates that we've seen since 2001. However, the good news heading into 2024 is that mortgage rates are likely to gradually dissipate -and I'll stress that gradually. We aren't expecting any significant shifts in mortgage rates per se, but maybe, hopefully, somewhere to the tune of ending up in the low to mid-6 % range.

[00:02:05] **Emily Chenevert:** Yeah, that sounds far better than what we saw in the early fall of last year.

[00:02:09] **Dr. Clare Losey:** Exactly.

[00:02:09] **Emily Chenevert:** Certainly, in the context of the fact that we're still in a really competitive market, that prices continued to sort of push and weren't softening so much to accommodate those high interest rates of last fall. So, that sounds like a good thing for buyers.

[00:02:22] **Dr. Clare Losey:** Indeed, indeed. And there's been a lot of discussion in the news, and probably folks have tuned into this, as to whether there'll be this surge of refinance activity in the wake of lower rates. I'm generally inclined to say probably not. I don't think that mortgage rates are going to decline significantly enough to really spike that refinance activity among those buyers who purchased maybe in late 2022 or sometime in 2023.

[00:02:51] **Emily Chenevert:** Yeah, the gap's got to be big enough that it's worth the [inaudible] cost, right?

[00:02:55] **Dr. Clare Losey:** Exactly, exactly.

[00:02:56] **Emily Chenevert:** That makes sense.

[00:02:56] **Dr. Clare Losey:** Overall, of course, if mortgage rates decline, of course, they're going to start the year a little bit higher, and we should see this softening over time. But as they do decline, homebuyers purchasing power will increase. So essentially, the maximum home price that they can afford will rise slightly.

[00:03:15] **Emily Chenevert:** Yeah, so my sense is that everybody sort of took a breath, and we were just relieved initially that we did not see one more spike at the end of 2023 and then sort of anticipating and hopeful that there will be this soft and kind of low pull back on the rate overall this year.

[00:03:30] **Dr. Clare Losey:** That's right. We also have to remember the elephant in the room; there is no analogy. Being made, but just it being an election year.

[00:03:39] **Emily Chenevert:** Well played. (Laughter)

[00:03:40] **Dr. Clare Losey:** You know, the potential effect of the election on the 10-year treasury yield. Of course, the 10-year treasury yield, its direction, and the magnitude of its shifts are the most significant indicators of the future direction and magnitude of change with respect to mortgage rates.

[00:03:59] **Emily Chenevert:** What does history tell us about volatility in response to elections? And is that specific to the dynamics of that individual election cycle? Or is it just elections are are funky business and they create funky business in the economy?

[00:04:14] **Dr. Clare Losey:** That's a really great question. And I would say it is somewhat dependent on the specific election itself. Moving into this year, it appears that we're going to have two candidates who have already previously run against each other. And we can predict maybe a little bit more volatility with respect to the ten-year T yield around the time of the election. But I want to stress that that's more of a shorter-term trend. So, it's not something to really look at as a long-term prognostication.

[00:04:45] **Emily Chenevert:** Yeah, it makes sense to me also that when the gap between them is so far that there's a higher degree of volatility to some degree because the markets are trying to predict which end of the fringe, we might be working towards.

Which is, you know, we will ride that out together this year and see what comes next. What else are you predicting in 2024?

[00:05:05] **Dr. Clare Losey:** So with respect to home prices, and we have to remember that in 2023, you know, we saw double-digit declines on a year-over-year basis in home prices. I am anticipating that home prices are going to be essentially flat, relative to last year, with a magnitude of 5%, either way, 3 to 5%, up or down, on a year-over-year basis. The reason being, of course, that mortgage rates are still elevated, and although they're again expected to decline, they do remain elevated, at least on a recent historical basis. And two, we have to remember that home prices are still very much elevated themselves relative to pre pandemic levels. In 2023, in any given month, the median sales price was still 40 to 50 percent higher than the commensurate month in 2019.

[00:05:57] **Emily Chenevert:** Right.

[00:05:57] **Dr. Clare Losey:** So overall, just kind of eking away at home buyers' affordability and just, again, coupled with a still high mortgage rate environment.

[00:06:07] **Emily Chenevert:** Right. I mean, my sense is that a flat home price this year is still an incredible value in the sense that we continue to have pressure on available housing stock and the continued growth here and the continued interest in buyer demand. And that given those years of double-digit increases, the one year and a half-ish of softening was not enough to make up for how high we were. And, so if you're staying stable as a seller, you've still got incredible value and probably incredible equity in the property as well.

[00:06:39] **Dr. Clare Losey:** Exactly. And we have to remember, too, that the COVID-19 pandemic was such an anomaly in and of itself.

[00:06:45] **Emily Chenevert:** In all the ways.

[00:06:47] **Dr. Clare Losey:** And it really sparked all of these effects in the Austin housing market in particular, where we saw that exorbitant sales activity and price growth. It's really the product of a number of different factors, right? Just working from home, so people were no longer commuting to their jobs, and they could choose to live farther out, maybe. , changes in household preferences with respect to the characteristics of their homes, wanting bigger homes, you know, office space, and all of that. Folks are relocating to the Austin environment, especially as businesses relocate. And, of course, to the lower rate environment during the COVID-19 pandemic. And the point of reiterating all of this is just to say that we experienced demand that we otherwise wouldn't necessarily have seen during that period. And we have to remember that over the long term, on average, housing tenure has increased.

[00:07:40] **Emily Chenevert:** Right.

[00:07:41] **Dr. Clare Losey:** So, homeowners tend to stay in their homes on average now about nine to ten years. So, you know, as we're thinking about buyers matriculating through the market, we have to remember again that a higher proportion of buyers actually entered the market during the pandemic than otherwise would have.

[00:07:58] **Emily Chenevert:** Right.

[00:07:59] **Dr. Clare Losey:** And so, we're continuing to see just the effects of that, right? Just a little bit of dissipation.

[00:08:05] **Emily Chenevert:** Right. And even at that, that excess in demand was at the height of a nearly 10-year trajectory leading up to that point; that was just a normal market run. You know, growth in Austin, significant economic anchors, and then layered with the excess that the pandemic drove. It absolutely makes sense that we've softened some of that, but I think the demand is still very high here based on everything that you tell us. And the experiences of our agents. I think that we will see strength in that, especially if prices do hold into next year.

[00:08:35] **Dr. Clare Losey:** Right. And I think 2024 could be a better year for first-time buyers than 2023 was. Just given where we expect home prices and mortgage rates to kind of continue to settle out.

[00:08:48] **Emily Chenevert:** And if nothing else may be more predictable, which is also just in terms of agents, of you guys working with your clients, predictability can be such a value and just setting expectations. This is what it's going to be. This is within reason what we think your interest rate will be when you close or when it comes time for that. That gives some assurance that this is a move that you can understand and rely on to some degree as well.

[00:09:11] **Dr. Clare Losey:** Right. Right. Especially as we're not anticipating those broad swings in the federal funds rate, for example.

[00:09:18] **Emily Chenevert:** When you're constantly wondering what your buying power is going to be as a buyer.

[00:09:22] **Dr. Clare Losey:** When the next rate hike could be.

[00:09:23] **Emily Chenevert:** Totally. Yeah. Yeah.

[00:09:24] **Dr. Clare Losey:** And two, another factor that. Could drive mortgage rates lower is just the fact that the Fed may decide to actually cut rates in 2024. Right now, if you look at their summary of economic projections that was published in December, essentially, we're looking at potentially a 50 to 75 basis point or something 0.5 to 0.75 percentage point decline in the federal funds rate, which has an indirect effect on mortgage rates.

[00:09:50] **Emily Chenevert:** As we've talked about many times on this podcast.

[00:09:52] **Dr. Clare Losey:** Right, everyone's sick of me talking about that. But essentially, it is just the idea that it could induce downward pressure on rates. Especially as the inflationary pressures hopefully continue to ease.

[00:10:02] **Emily Chenevert:** So, we're in January. We're going to start where we start. What you should be able to relay is that there's some level of reliability that this is probably the height for the year and that, if anything, things are only going to get better. And I think you hedge that carefully in terms of agent-to-client conversation so that they don't hold out and wait to see what happens. But understanding that even if there are those reductions, they're likely to be sort of nominal at first.

[00:10:27] **Dr. Clare Losey:** Modest.

[00:10:28] **Emily Chenevert:** And I think that gives a healthy amount of just calmness to the transaction and understanding in terms of what buyers are facing into this year.

[00:10:37] **Dr. Clare Losey:** Exactly.

[00:10:37] **Emily Chenevert:** What else are you predicting in 2024?

[00:10:39] **Dr. Clare Losey:** So, with respect to sales, similar to home prices, just in the sense of likely essentially flat relative to 2023. Again, the magnitude of three to five percent up or down in any individual month on a year-over-year basis, and similar rationale to that of expectations for home prices, just with respect to kind of our market readjusting to post-pandemic conditions you know firmly entrenched in that higher rate environment. And as we were talking about, you know, that pent-up demand and excess demand, so to speak, that was being met during the COVID-19 pandemic.

[00:11:18] **Emily Chenevert:** Caught up a little bit.

[00:11:19] **Dr. Clare Losey:** That's the idea.

[00:11:20] **Emily Chenevert:** And so now we're still in an incredibly healthy market, realistically. It did not feel that way as the jolt happened quickly following the pandemic, but this is strong. I mean, where there's a balance to some degree between buyers and sellers and some availability of housing stock, whereas there was almost none, where this balance should feel like an active marketplace is my sense in 2024.

[00:11:43] **Dr. Clare Losey:** Yes, indeed. And two, we have to remember. So we talk a lot about the rate of change. And for math folks, that's the first derivative. And if that makes your head spin, that's totally okay.

[00:11:53] **Emily Chenevert:** Very academic and impressive. I have no clue what you're saying.

[00:11:56] **Dr. Clare Losey:** Just bear with me. So we talk a lot about the rate of change, which is year over year, month over month. But you also want to be attuned to the rate of change of the rate of change, the second derivative, which essentially is just...

[00:12:11] **Emily Chenevert:** Is that like the committee on committees? Because I've heard of that as well in the association world.

[00:12:15] **Dr. Clare Losey:** It's just a very complicated way of saying, for example, increasing at a decreasing rate. Something to that effect. So, for example, if we do see a month in 2024 where home prices are higher, say they're 3 percent higher than the previous year. They're increasing right at, maybe, an increasing rate. But for example, if we see a negative year-over-year number, then it's decreasing, right? But at a decreasing rate.

[00:12:49] **Emily Chenevert:** So a slower change overall, less dramatic, more stable, incrementals up and down...

[00:12:55] **Dr. Clare Losey:** Right.

[00:12:55] **Emily Chenevert:** ..is what we should anticipate into the year, which should be easier for agents as they're articulating to clients the status of the housing market. You know, I think it's been really difficult over the last year to watch them have to kind of explain volatility. And that part of why we even launched this podcast and the work that you're doing with us was to create opportunity to improve our narrative around that. But I think this year, what we'll see to your point is slower ups and slower downs year over year, and in the long run, a lot of health is still in the market.

[00:13:28] **Dr. Clare Losey:** Exactly. Yeah, just the idea, as you're saying, that there should be less volatility on average.

[00:13:34] **Emily Chenevert:** Ups and downs will happen still.

[00:13:35] **Dr. Clare Losey:** Right.

[00:13:35] **Emily Chenevert:** That's to be expected.

[00:13:36] **Dr. Clare Losey:** To a lesser degree.

[00:13:37] **Emily Chenevert:** Right. Well, talk to me a little bit about what you predict in terms of, and the thing that we can most impact, locally with the city council, with our efforts from a regulatory standpoint to provide for more housing. What are you expecting this year?

[00:13:51] **Dr. Clare Losey:** And I'm stepping on the toes a little bit of Taylor.

[00:13:54] **Emily Chenevert:** Of Taylor Smith, our Deputy Director of Government Affairs, but he'll like this.

[00:13:57] **Dr. Clare Losey:** He was so awesome. But, you know, just thinking about changes that the city is trying, emphasizing trying, to make with respect to the Land Development code.

[00:14:07] **Dr. Clare Losey:** Of course, the HOME Initiative was recently passed on December 7th, and it essentially just allows for more housing supply to be built on any individual parcel of land. So, up to three units, three housing units could potentially be built on an individual parcel of land. And this really constitutes redevelopment, right? I mean, the majority of activity that would be happening in the city of Austin on this front would be, in the case of a developer, you know, buying an existing home and raising that home, tearing it down, and then, you know, building a couple more units or whatnot. The first caveat to make is, of course, that this is all still matriculating. The home initiative is still matriculating through. Phase one was passed, but there's a second phase that's a little bit variable.

[00:14:58] **Emily Chenevert:** And to speak to that really explicitly, because I know that there have been concerns also about how much density we're allowing on single-family lots and whether that's an appropriate use of a single-family lot or not. Don't forget that there's context wrapped around what's doable. I could say that three units is what you're able to have on a single lot, but the compatibility standards apply. The need for runoff and the proper tree cover... I mean, there's a, there's a whole host of land development code ordinances and regulations that sit on top of what you're allowed to do and zoned to do. And so there's a lot of nuance. Still and, where this will happen and where it won't. But the idea is that at least we have supported putting more tools in the toolbox to allow for more housing. With that, we now need to think kind of judiciously and appropriately in the next phase about how, if at all, those compatibility standards change and evolve to allow for more of that housing to be built where it is zoned at this point. So there's a long way to go. This is not a fast change where we said, great, there are three units on every lot in Austin now. And I think there was some conversation from among the community that made it sound like that, frankly. And it's not that it's, there's still a lot of room to create nuance and to be careful about how these additional units make their way to the ground.

[00:16:20] **Dr. Clare Losey:** Yeah. And a couple of thoughts. On that, too. We have to remember that redevelopment occurs, and construction, in general, occurs at a very slow pace. So it's not as if we are going to have, you know, a million developers suddenly flooding the City of Austin.

[00:16:35] **Emily Chenevert:** Right.

[00:16:35] **Dr. Clare Losey:** And tearing down every single lot they can find.

[00:16:39] **Emily Chenevert:** Especially when it's still an incredibly painful, slow, and expensive process to develop in Austin.

[00:16:43] **Dr. Clare Losey:** Exactly. The permitting process is notoriously costly here and timely. So, Just the idea that we're going to see any significant change, especially in the short term, is very doubtful. Over the long term, we know that all else equal, essentially when we reduce regulations, when we allow for more housing to be built, that should increase the housing supply, which then should lower prices. I think the variable in this particular context, though, is where exactly the redevelopment will occur, right? So, if it's happening in highly desirable neighborhoods. Then, of course, we're going to be building just more expensive homes. So, we need that investment in some of the lower-priced neighborhoods as well.

[00:17:29] **Emily Chenevert:** Certainly. And I think that the power of some of the research that you've produced for us and that we've been able to share with our members and the community at large is things like that **Missing Housing Report** that identifies not just that there are houses missing but that they're missing at all price classes and segments of the market. We have to relieve those different price classes together so that we're not just pushing on one side of the balloon to elevate the other and vice versa.

[00:17:54] **Dr. Clare Losey:** Right. Yes. You can read that report on our website. It's the **Truth About Austin's Missing Housing**.

[00:18:01] **Emily Chenevert:** We'll figure out how much we're missing this year later.

[00:18:02] **Dr. Clare Losey:** Yeah. Stay tuned for that.

[00:18:04] **Emily Chenevert:** My prediction is that we're still missing way more houses than we should be.

[00:18:09] **Dr. Clare Losey:** Then I can possibly count. I can probably only count to 2.000. Kidding. Kidding.

[00:18:14] **Emily Chenevert:** That's impressive. That's what Excel is for.

[00:18:17] **Dr. Clare Losey:** There we go. There we go.

[00:18:20] **Emily Chenevert:** Well, Clare, it sounds like it's going to be a good year. I think it's one that my sense is will be more predictable, I hope, than what we have seen. There's some amount of unpredictability, certainly, in an election year, and we'll continue to monitor that and monitor the market's response to it. But I think that agents should be heading into this year feeling more confident in the conversations they're having with their clients about what to expect, and I think that, if anything, that creates more trust in their relationships with their consumers as well.

[00:18:48] **Dr. Clare Losey:** Indeed, indeed. And I'll be unpacking all of this a little bit more at our **Annual Meeting** on January 31st. We would love for you to be able to attend and to hear your thoughts on the market. You can feel free to email those to **communications@abor.com** ahead of the meeting, and I'll try to touch on as many as I can during that segment. As always, feel free to email communications@abor.com for ideas about the podcast, feedback, etc. We always love hearing from our members.

[00:19:18] **Emily Chenevert:** We will look forward to seeing you guys at Annual Meeting and Clare will look forward to seeing you next week.

[00:19:22] **Dr. Clare Losey:** Sounds great. Thanks guys. Take care, and happy 2024.