REAL ESTATE UPDATE

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THIS NEWSLETTER IS BROUGHT TO YOU BY:

Will it Take a Recession?

For most of last year, it was apparent that the Federal Reserve wanted to the economy to stop growing so fast. Though you would never hear them say that they were trying to force us into a recession, certainly forecasters were predicting a recession. But the recession never came as the economy and especially the American consumer provided some formidable resilience. Month-after-month we expected the economy to slow down, yet this never happened.

Well, finally there are signs of a slower economy. Of course, this happens after the economic prognosticators have all but buried the word recession and replace it with the phrase "soft landing." And as the economy and inflation slows, we hear the same refrain from the members of the Fed – we are not stopping until our inflation work is done. While this is commendable, we would like to remind our readers that the Fed has a history of waiting too long to get things started and then waiting too long to end their activities.

The inflation we witnessed was worldwide based upon the effects of the pandemic.

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Did You Know…

"According to Redfin, the typical homebuyer has gained some $22,500 in purchasing power from April to July as mortgage rates have eased in the past few months."

Selected Interest Rates

July 18, 2024

30 Year Mortgages—6.77%
2023 High (Oct 19)—7.79%
2023 Low (Jan 26)—6.09%
15 Year Mortgages—6.05%
10 Year Treasuries—4.18%

Sources—Fed Reserve, Freddie Mac
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for

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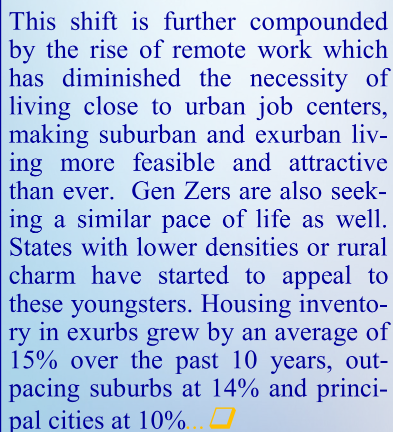
Heading to The Burbs

According to a new report from StorageCafe, people have been looking for an alternative to busy urban areas and the suburbs have stepped up their game as of late. Point-and-case, suburban areas across the country are now growing faster than major cities, providing plenty of room to grow their families and for those seeking a better semblance of a work-life balance.

As the current housing market is still seeing higher home prices and limited inventory, these are the main reasons that are driving people out of urban areas and into the suburbs and beyond. RentCafe further stated that millennials are the most active generation in terms of both moving and homebuying. For millennials, most of whom are in the parenting stage of their lives, the need for larger homes and outdoor spaces is paramount.



This shift is further compounded by the rise of remote work which has diminished the necessity of living close to urban job centers, making suburban and exurban living more feasible and attractive than ever. Gen Zers are also seeking a similar pace of life as well. States with lower densities or rural charm have started to appeal to these youngsters. Housing inventory in exurbs grew by an average of 15% over the past 10 years, outpacing suburbs at 14% and principal cities at 10%...

Source: StorageCafe

The Federal...

Some may argue that the most powerful person in the world is not the President of the United States. The most powerful person in the world is the Chairperson of the Federal Reserve. Certainly, when the Fed talks everyone listens–the markets, Congress and even the President.

So who is the Federal Reserve and why is this entity so important? The Federal Reserve was founded by Congress in 1913 as the central bank of the U.S. The Federal Reserve (Fed) conducts the nation's monetary policy and regulates our banking institutions.

The Federal Open Market Committee consists of twelve members including the seven members of the Board of Governors of the Federal Reserve System and the President of the Federal Reserve Bank of New York. The FOMC meets eight times each year and may meet by telephone at other times. For example, the FOMC met unscheduled directly after the terrorist attacks of September 11th and directed a Federal Funds rate decrease before a scheduled meeting which took place the first week in October, in which this rate was lowered again.

Open market operations–purchases and sales of U.S. Treasury and federal agency securities–are the principal tool for implementing monetary policy. Fiscal objectives are achieved partially through the setting of a target for the federal funds rate, which is the interest rate at which depository institutions lend balances at the Fed to other depository institutions overnight. These institutions may need such money to stay within reserve requirements set by the Fed.

The highest the Federal Funds rate has been in the past generation has been 8%. It was lowered to virtually zero during the financial crisis of 2008 and kept there for a significant amount of time. It began rising briefly during the latter stages of the recovery; however, the Fed pushed it back down to zero during the pandemic-reduced recession. The pandemic recovery ignited inflation and the period of 2022-2023 was again beset by Fed rate hikes.

The Fed also provides financial data on the state of the economy and rates. The "Beige Book" is a report on economic conditions and is published eight times a year based upon anecdotal evidence gathered by each Federal Reserve Bank. The Fed also publishes reports on interest rates, monetary assets, industrial production and consumer credit. One such report, H.15, is released daily with information on a variety of

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…Reserve

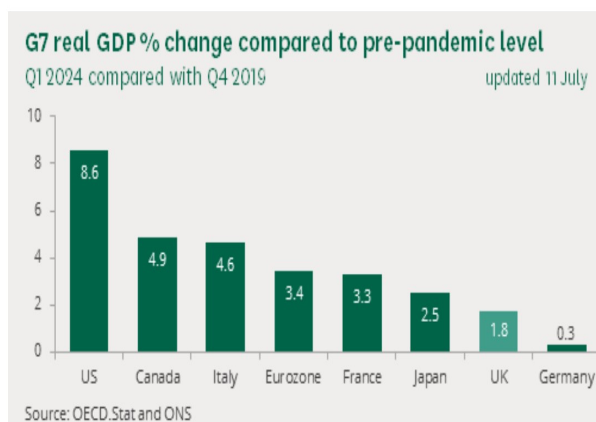
interest rate denominated instruments from Treasury Bill rates to mortgage rates. The Treasury Constant Maturity Indices published by the Fed are used as the basis for adjustments for many adjustable-rate mortgages.

So how does the Fed affect interest rates? By lowering the target for the federal funds rate, there is a direct effect upon short-term interest rates–especially the prime rate and three, six and one-year "T" bills. Banks typically lower or raise their prime lending rates as soon as Fed actions are announced. Many second mortgages, including home equity lines of credit (HELOCs), contain payments based directly upon these prime lending rates.

The effect on long-term rates is not as direct. If the markets perceive that the Federal Reserve is not being diligent against inflation (the federal funds rate is too low), long term rates may rise in response to "lax" monetary policies.

If the economy slows suddenly, long-term rates may decrease before the Fed takes appropriate action.

The Fed can also affect long-term rates by using its access to funds to purchase Treasury, mortgage and other long-term securities. This was a tool the Fed used in the aftermath of the fiscal crisis and was dubbed "Qualitative Easing (QE)." In the wake of the fiscal crisis, the Federal Reserve bought massive quantities of mortgage-backed securities at a time in which the secondary market for mortgages had collapsed, thereby bolstering the secondary market for mortgages. This support, as well as near zero benchmark for the federal funds rate, existed for almost a decade in the aftermath of the crisis and currently the Fed still holds massive quantities of mortgages and Treasuries which it purchased during the pandemic. During the more recent period of inflation, the Fed has been letting portions of this portfolio run off. …..



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The world economies halting on a dime and then starting up again armed with lots of stimulus in the form of government spending and low interest rates. Should the Fed have started raising rates from zero more quickly? Probably.

Will they hold higher rates longer than they should, thereby risking a recession? We hope not. The Fed is meeting as we publish this newsletter. It will be interesting to see what they say...

"…finally there are signs of a slower economy…"

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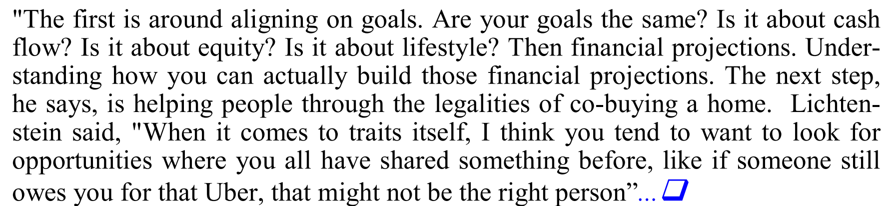
Buying With Friends

As housing prices increase, some are opting to buy a home with a friend instead of a romantic partner. According to a survey released by JW Surety Bonds earlier this year, 15% of Americans have co-purchased a home with someone other than their romantic partner, and another 48% said they would consider it. In the survey, 67% of respondents said sharing costs was a perceived benefit of co-buying. A majority of respondents also said that affording a better home and investment opportunities were also perceived benefits of co-buying.

Niles Lichtenstein, CEO of Nestment, helps pool together buyers to purchase a home. He said there are questions to ask before embarking on such a commitment. "In a lot of places, solo homeownership is just incredibly difficult," he said. "We're coming at this from educated backgrounds, but actually co-buying is a very difficult, complex process, which is why we built what we built." The survey noted, however, that 79% believed interpersonal conflict would be a potential drawback of co-buying a home. A majority also cited legal and financial complications and potential financial losses as other potential downsides.



"The first is around aligning on goals. Are your goals the same? Is it about cash flow? Is it about equity? Is it about lifestyle? Then financial projections. Understanding how you can actually build those financial projections. The next step, he says, is helping people through the legalities of co-buying a home. Lichtenstein said, "When it comes to traits itself, I think you tend to want to look for opportunities where you all have shared something before, like if someone still owes you for that Uber, that might not be the right person"... ❑

Source: Scripps News Life

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Address Correction Requested