



LACK OF HOUSING INVENTORY ISSUE

Economists say the housing market will continue to boom, but where will we find the inventory? Let's look at the numbers.

by Steve Murray, senior advisor

According to multiple sources, including Realtor.com and the National Association of Realtors® (NAR), housing inventory is at an all time low. Currently, the national average is less than two months of housing inventory is available. Several markets we've examined indicate it's lower than that. Yet, most housing market economists think we will sell more homes in 2021 than in 2020. They predict that both new and existing home sales will be up.

Where is the inventory to come from? What will cause 4.5 to 5.5 million existing homes to come on the market when those sellers have nothing to buy? Consumers are sitting on nearly \$1.4 trillion (with a 'T') more in savings accounts than was the case before the pandemic hit, and the federal government is supplying an additional \$2.5 trillion (with a 'T') to the economy. Is anyone considering that we are worsening the affordability issue

beyond what can be imagined?

From the best data we've been able to find, the difference between housing formations and new, single-family and multi-family construction since the housing recovery started in 2011 is between 4 and 5 million units. That is, we built 4 to 5 million fewer units in the last 10 years than the number of new households that were formed. This includes single-family, condo, and multi-family for rent.

There are many challenges to our industry, but none more so than inventory and affordability. If the federal, state, and local governments, together with the private sector and institutions like NAR, would focus on this issue, then maybe solutions could be found. Do not expect to find this at the top of any of these organizations' priorities.

BIDEN'S \$15,000 TAX CREDIT FOR HOMEBUYERS

In particular, the proposed \$15,000 tax credit to help get people into homes could hurt the market. Certainly, there's nobody in the Realtor universe who would argue about any incentives to help people buy homes. It's a good thing for all of us, and we think it's good for people to be able to own a home. Remember, it was the federal government, every bit as much as Wall Street, that caused the last crash in the housing market and the economy from 2006 to 2009.

The bottom line is that starting with the Clinton administration and moving into the George W. Bush administration, home ownership was seen as a positive thing. It turned out not to be true. The home ownership rate went from 64.5% to almost 70% in 2005 because of the stimulus provided to people. Anyone remember subprime mortgages, Alt-A mortgages, no-interest mortgages, homebuyer tax credits, homebuyer down payment assistance programs, and Fannie and Freddie lowering their underwriting standards?

What does that have to do with President Biden's \$15,000 tax credit? We have two major problems. If we have the critical low inventory we have right now, where are they going to find the homes to buy, particularly when they're competing with cash-down investors and iBuying companies like Opendoor, Zillow and Redfin? The \$15,000 tax credit will help buyers be more competitive, but it's not going to be a windfall for young home buyers, and it's not going to help the way the government thinks it will.

DO THE WORK

It's my thinking that if the federal government would do the messy, hard work of strategizing with state and local governments to build more housing—particularly affordable and workforce housing—it would be far better than simply handing a young family a check and saying, "Okay, we've done our part. Now go out and compete in the marketplace to try to buy a home." I just don't think it will have that big of an impact. It sounds good. It's a wonderful sound bite. It's a wonderful program. It will help some, but not as much as we think it will.

The truth is that the lack of housing is a real challenge that is not going away.

Steve Murray is a senior advisor for HW Media. ▲

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