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Affordability Sidelining First Time Buyers in a Big Way

The demand, steady gains in employment, low interest rates, and higher rents are all incentives to buy a home. But the National Association of Realtors® (NAR) says the fast appreciation of home prices, driven by a severe drought in available homes, has kept many first-time buyers **on the sidelines.**

NAR's annual *Profile of Home Buyers and Sellers*, released on Monday, identifies many 2017 housing and consumer trends. The Profile lists results of a survey of recent buyers and sellers and shows increases in single female and trade-up buyers, smaller down payments, mounting levels of student debt, a growing incidence of houses selling for more than their listing prices, and for-sale-by-owner transactions reaching an **all-time low of 8 percent** for the third straight year as more consumers use a real estate agent to buy or sell.

The share of first-time buyers dipped to 34 percent of homes from 35 percent in the 2016 survey, and the **fourth lowest share** in the survey's history. NAR says the share over the last 36 years has averaged 39 percent.

"The dreams of many aspiring first-time buyers were unfortunately dimmed over the past year by persistent **inventory shortages**, which undercut their ability to become homeowners," according to Lawrence Yun, NAR chief economist. "With the lower end of the market seeing the worst of the supply crunch, house hunters faced mounting odds in finding their first home. Multiple offers were a common occurrence, investors paying in cash had the upper hand, and prices kept climbing, which yanked homeownership out of reach for countless would-be buyers.

"Solid economic conditions and millennials in their prime buying years should be translating to a lot more sales to first-timers," Yun said, "but the unfortunate reality is that the nation's homeownership rate will remain suppressed until entry-level supply conditions increase enough to improve overall affordability."

Among the challenges faced by younger consumers, those typically in their prime homebuying years, is the level of **student debt.** Forty percent of first-time buyers indicate they have such debt, up 1 point from 2016, with the typical debt balance increasing from $26,000 to $29,000. At least half owe $25,000 or more. A quarter of buyers said saving for a down payment was the most difficult part of homebuying and 55 percent said student debt delayed their home purchase.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.98	+0.17
10 YR Treasury	4.8827	-0.0472
30 YR Treasury	5.2549	-0.0533

Pricing as of: 11/2 9:57AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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Yun said a separate NAR study earlier this year showed a large number of Millennials believe that studen debt was delaying homeownership, typically by seven years. "Even in markets with a plethora of job opportunities and higher pay, steep rents and home prices make it extremely difficult to put savings aside for a down payment."

Single females accounted for 18 percent of home purchases, their largest market presence since 2011. This group was the second most common household buyer type, although far behind married couples (65 percent), and they bought slightly more expensive homes than single men despite earning less. The 7 percent share of single male buyers remained below unmarried couples (8 percent) for the second straight year.

First-time buyers typically put only **5 percent down** on their homes, which matches the previous recent low in 2013. First-timers cited personal savings as the primary source of their down payment, followed by a gift from a friend or relative (25 percent). Over half of those buyers said it took a year or more for them to save up the money.

Meanwhile, higher home values were probably responsible for the ability of move-up buyers to make bigger down payments, 14 percent of the purchase price, than in 2016 (11 percent). Proceeds from a home sale surpassed personal savings as the larger source of down payments.

For the second straight year, the median age of first-time buyers was 32 years old. They had higher household incomes ($75,000) than a year ago ($72,000) and purchased a slightly smaller home (1,640-square-feet; 1,650-square-feet in 2016), but paid more for it, ($190,000 vs $182,500) than in 2016.

Repeat buyers were older than ever - up two years from the last survey to 54 years old. NAR said this may indicate that older households may plan to stay in the workforce longer making them more comfortable about buying. Overall, repeat buyers had roughly the same household income than last year ($97,500) and purchased about the same sized home, 2,000-square-feet, but for $266,500 compared to $250,000 in 2016.

Forty-two percent of buyers said they **paid the list price** or more for their home, a 2-percentage point increase and a new survey high. A higher than listing price purchase was most likely (51 percent) in the West.

"Many of those in the market to buy a home this year had little room to negotiate," Yun said. "Listings in the affordable price range drew immediate interest, and the winning offer often times had to waive some contingencies or come in at or above asking price to close the deal."

It does seem **easier for borrowers** to obtain a mortgage. Thirty-four percent reported the process was somewhat or much more difficult than they expected compared to 37 percent last year.

Turning to the seller side, NAR reports he or she was typically 55 years old, had a higher household income ($103,300) than last year ($100,700) and had owned the home for 10 years before selling - matching the all-time high set both in 2014 and a year ago.

With home values steadily rising over the past several years, sellers realized a median equity gain of $47,500 compared to $43,100 in 2016, representing a 26 percent increase from the purchase price.

The percent share of buyers trading up to a larger home increased for the third straight year, rising to 52 percent from 46 percent in 2016. In 2014, 40 percent of buyers purchased a bigger home. Yun said both these increases reflect the more favorable conditions at the upper end of the market where listings are more plentiful.

The NAR survey was mailed to a random, geographically weighted sample of recent homebuyers and was also available on-line. Of 145,800 surveys distributed there were 7,866 responses, a rate of 5.6 percent.

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I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me to be your mortgage lending partner.

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