THE MORTGAGE CORNER:

Future Home Sales Also Soaring

By **Harlan Green** / Special to Voice

IT LOOKS LIKE HOUSING SALES THIS YEAR COULD RETURN TO PRE-RECESSION LEVELS (though not into bubble territory), as all three major housing stats—existing, new, and now pending-home sales are off to a good start.

Pending home sales increased for the third consecutive month in April, in spite of all the market uncertainties, surging to the highest level in over a decade, according to the National Association of REALTORS.

The Pending Home Sales Index, a forward-looking indicator based on contract signings, hiked up 5.1 percent to 116.3 in April from an upwardly revised 110.7 in March and is now 4.6 percent above April 2015 (111.2).

Lawrence Yun, NAR chief economist, says huge gains in the South and West propelled pending sales in April to their highest level since February 2006 (117.4).

"The ability to sign a contract on a home is slightly exceeding expectations this spring even with the affordability stresses and inventory squeezes affecting buyers in a number of markets," he said. "The building momentum from the over 14 million jobs created since 2010 and the prospect of facing higher rents and mortgage rates down the road appear to be bringing more interested buyers into the market."

Pending home sales in the South jumped 6.8 percent in April, 5.1 percent higher than last April, while the index in the West climbed 11.4 percent in April, now 2.8 percent above a year ago. In the Midwest, which posted the only drop, the index declined slightly, but is still 2.0 percent above April 2015.

Although the future of mortgage rates is in question, Yun said, "Even if rates rise soon, sales have legs for further expansion this summer if housing supply increases enough to give buyers an adequate number of affordable choices during their search."

What is driving the burst in home sales in general? It's the increase in household formation, as millennials finally leave home or school to move into their own housing. A recent SF Fed paper predicts substantial household formation in the next several years, much higher even than predictions by the Harvard Joint Center For Housing Studies of one to 1.2 million households per year over the next decade.

"To the extent that headship rates among various age groups stabilize, household formation can be expected to more closely follow the growth in adult population...In that baseline projection, older age groups tend to have the highest growth rates. Since the older group also has traditionally higher shares of heads of households, this should mean a higher headship rate overall.

"Given current 12-month annual headship rates by age group, the Census Bureau projections imply household formations averaging on the order of 1.4 to 1.5 million per year through 2020. That compares favorably to an average of a little less than 900,000 annually over the past five years."

This is huge, folks. If household formation is increasing this much, then the real estate industry will help boost overall economic growth. Q1 2016 GDP growth was revised up slightly to 0.8 percent, and spending on residential construction increased at a 17.1 percent rate in the first quarter, the fastest pace since the fourth quarter of 2012. Residential construction added 0.56 percentage point to first-quarter GDP growth, up from the 0.49 percentage point reported last month.

This means there should be much higher second quarter GDP growth, needless to say, as retail sales are again booming. Consumers came back to life in April, driving retail sales 1.3 percent higher. Autos are the key component, up a sharp 3.2 percent to reverse the prior month's decline. Excluding autos, retail sales rose 0.8 percent, still a strong number.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.