BUILDER
Money
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Zonda / Metrostudy Sees Much of the Same in Housing for 2019, 2020

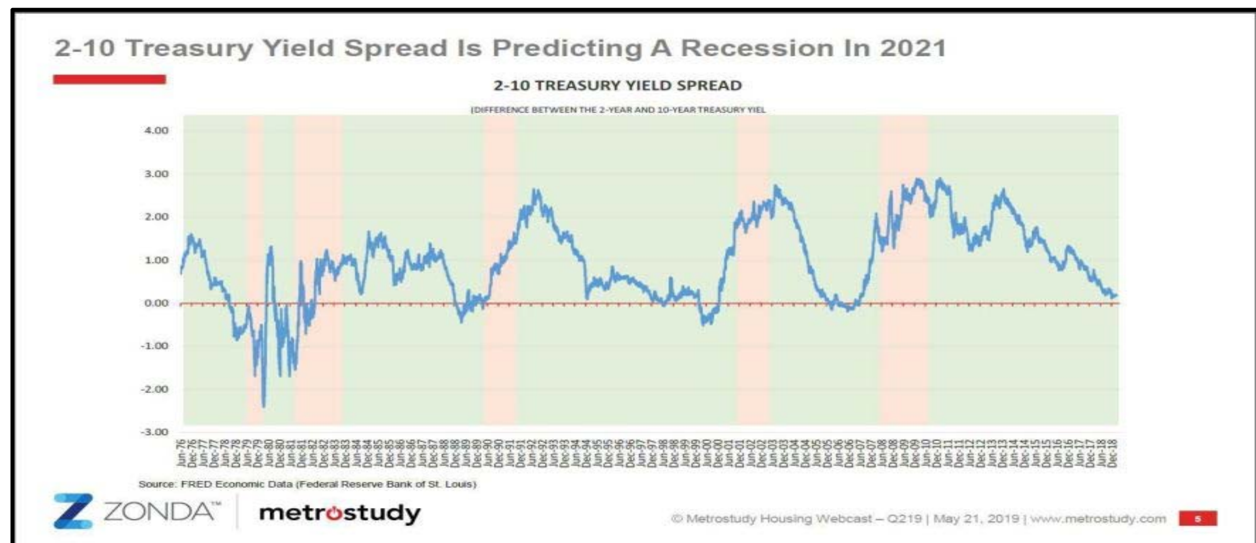
The experts are predicting a recession, but not until 2021.

By Scott Sowers

Mark Boud, Chief Economist Metrostudy

The Zonda / Metrostudy teams recently gazed into their crystal balls to provide financial analysis for the homebuilding industry, which includes bad news for the end of year 2021. “We’re predicting a fairly healthy year for the remainder of 2019 with about 2.575 million jobs being created this year,” said chief economist Mark Boud of Metrostudy. “This forecast was done before the recent news on tariffs so this may be revised downward. As time goes on we do predict a recession and predict job losses to begin at the latter part of 2021 and going into 2022.”

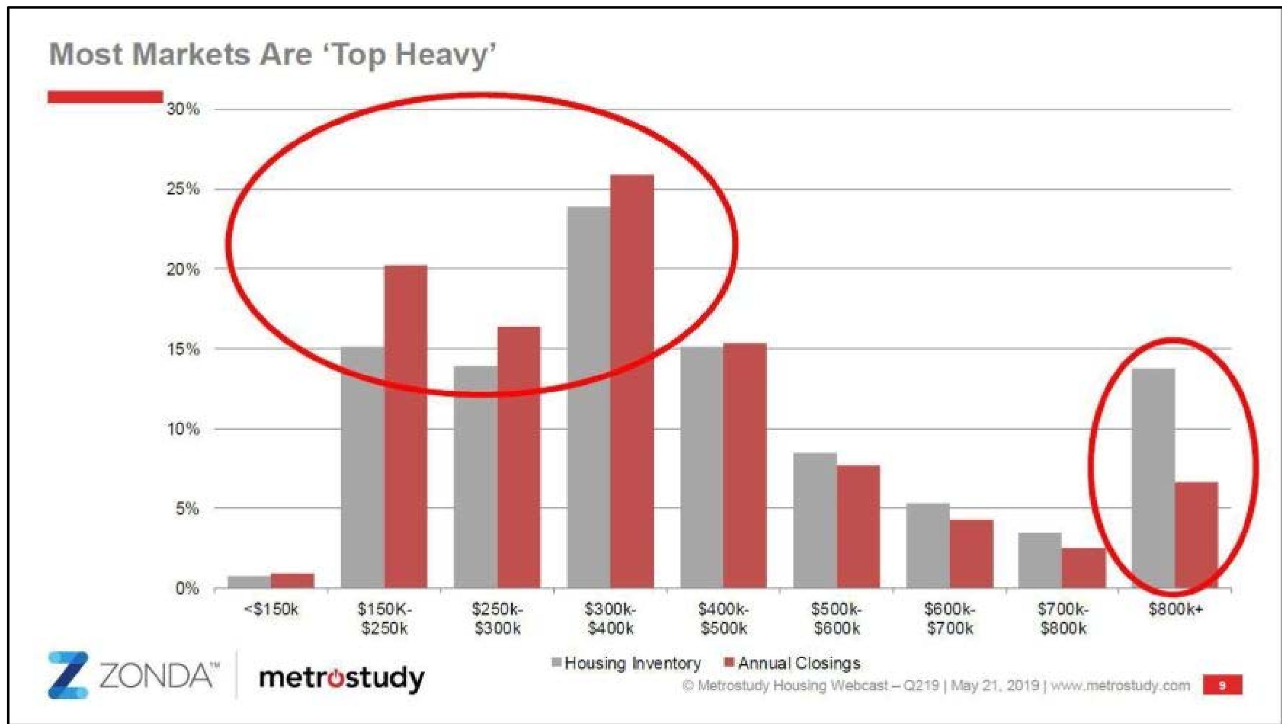
The good news is Boud and his team don’t believe the recession will be nearly as bad as what happened during the housing crises. The timing of the recession prediction is based on the 2-10 treasury yield spread, a key economic metric that measures the difference of yields on short term (2-year) treasury bonds versus long term (10-year) treasury bonds. When the short term bonds are worth more than the long terms the yield curve is “inverted” and a recession typically follows about 18 months later.



The current 2-10 yield spread has been dropping since 2014 and was very close to inversion the last time it was measured which was in the fourth quarter of 2018. “We expect it to go inverted sometime this year and that corresponds with a recession in the later part of 2021,” said Boud.

The magic number for housing starts, which includes single family and multifamily, are predicted to hover around 1.2 million in the near term as vacant lot inventory continues to drop. Interest rates on the other hand, are expected to rise. “We’re still predicting a bit of an increase and will top out at about 5.5% in a year and a half,” said Boud. “This pattern has always been erratic but the overall pattern has been upward caused by continued economic growth and inflation that will be enhanced by the tariff activity that we’re seeing.”

The pent-up demand on the affordable end of the housing scale continues to represent an opportunity for builders as the number of closings exceeds housing inventory levels in the lower ranges starting at $150,000 and topping off at $400,000. On the opposite end of the spectrum, existing inventory for homes valued at $800,000 and above are more than double the amount of closings. Boud cites price reductions and losses on sales as more evidence of a luxury glut.



The price range between new homes and existing homes has widened as new home sizes remain in the 2,400 square foot range – which is where it’s been since 2010. Home renovation projects are expected to rise and remain especially attractive for homeowners locked into low, fixed-rate mortgages.

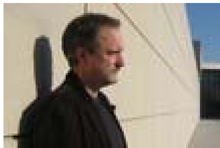
Disruptive trends currently influencing the industry include the giant tech firms Amazon, Google, and Apple moving deeper into the housing business. Offsite construction continues to pick up steam generated from the labor shortage. The dominance of auto-centric home design is

also expected to decline as two-car garages shrink to one car. Separate parking areas may start to arise at multifamily projects as cars become automated and park themselves.

The key takeaways from the latest report include:

- The national housing market will continue to be significantly undersupplied in 2019. There are high levels of pent-up demand in lower price ranges.
- The national housing market will become increasingly overvalued in 2019. Price appreciation will slow or stop, costs will continue to rise. However, the risk of a home price collapse is small in most markets due to under supply.
- The recent drop in mortgage rates may reverse as economic pressures combine with the impact of debt and higher risk in an environment of tariffs and unpredictable government policies.
- We are in the middle of the eighth inning of the cycle with a mild to moderate price correction predicted in years 2019+ with price corrections mostly confined to larger, higher priced single-family homes. Though most markets are over-valued, few have developed a supply bubble.
- There are worries. The greatest short term worries are centered on cost and reduced affordability. The greatest long term worries are the national debt and policies that damage the middle class.

About the Author



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