THE CHAIRMAN'S REPORT 2019

A Message from Lawrence F. Flick IV Chairman
Berkshire Hathaway HomeServices Fox & Roach, REALTORS®
and The Trident Group

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A New Year – A New Market

As we start the New Year, the economy continues to thrive. Alongside it, the real estate market remains steady, but is not experiencing the same rate of growth. This is a bit of a paradox, considering a strong economy generally propels the real estate market forward.

Real estate sales have been increasing every year since 2012, which was the bottom of sales activity. In 2018, sales remained flat, with a noticeably downward trend in the last four months of the year.

There are two core reasons for the current slowdown of sales.

First, there is a lack of inventory:

- The average time that people stay in their homes is longer, increasing from seven to ten years in the last decade. As a result, there are fewer homes on the market, contributing to the shortage of homes for sale. This is especially true for entry level first-time move-up buyers.

Year/Year % Change Units Sold

2012	2013	2014	2015	2016	2017	2018
16%	15%	1%	12%	11%	8.5%	Even

Source: Trend MLS November 2018

Months Supply of Inventory

$1,000,000+	14
All Prices	4

Source: Trend MLS November 2018

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- Even though the Great Recession is over and the economy is good, concern about the market continues to cause some to postpone selling their current home and buying a new one. And those who bought at the top of the market in 2007/2008 may not yet have enough equity to sell their present home and buy a new one.
- There is psychological pushback about interest rates. Today, the average current homeowner has a mortgage rate of 3.75%. The thought of buying a new home at a rate that would be at least 5% (which is still historically very low) is causing some homeowners to hesitate in the decision to sell their house and buy a new one.
- There is a lack of single family new construction. Most of the Berkshire Hathaway HomeServices market area has very little vacant land to develop. And where land does exist, regulatory requirements are time-consuming and make it very expensive for potential builders to acquire.

The second reason sales are slowing is because it is becoming less affordable for the average person to purchase a home:

- Interest rates are rising and are expected to continue to rise through the year. With each increase, the mortgage payment on the same home also increases. Talk to your Trident Mortgage loan consultant to find out how rising rates affect your buying power.

- As you can see in the chart below, home prices in our area are beginning to rise.

% Change Home Prices 2018 v 2017

MARKET AREA	FHFA HOME PRICE INDEX
Overall BHHS Market Area	4.7%
City of Philadelphia	6.8%
Southeastern PA Suburbs	3.3%
Southern New Jersey	3.4%
Northern Delaware	3.0%

Source: Federal Home Finance Administration

Do rising home prices mean we are in a housing bubble?

We are not heading towards a real estate bubble. I say this because a stronger regulatory environment for mortgages was enacted after the Great Recession. To obtain a mortgage today, borrowers must have good credit and a steady source of income. That wasn't always the case in the last housing boom when little or no documentation loans were common.

Home prices are rising, but throughout the United States (with the exception of some coastal areas) the increase has been limited to 3 to 4% annually. Our area is more conservative. Prices were flat for several years and have now just begun to rise, but at a sustainable level.

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What can we expect in 2019?

The economy will continue to grow throughout 2019. Many economists believe that we will not enter a recession until the spring or summer of 2020. Some of the things that will sustain our economy are:

- Low unemployment. In fact, there are more open jobs than people seeking work
- Wages are increasing
- Even though they are rising, interest rates are low
- The tax cuts introduced last year will continue to stimulate the economy this year

Of course, there is always the chance that an outside force will have a negative effect on our economy. Among those could be a trade war with China or the fallout of Brexit.

The real estate market will continue as it did in 2018. Limited inventory, decreasing affordability and rising interest rates will add to some additional cooling in 2019. However, gradual changes in several demographic groups will keep the market moving forward:

- The largest group of millennials are reaching the age of first-time homebuyers
- Millennials who own houses in cities may move to the suburbs when they have children
- Younger baby boomers will want to move to a smaller home

It's a New Year and a new market. Even with new trends in the real estate market, it remains a great time to sell or buy a home.

Sellers should note that with rising interest rates and home prices, we may see a transition from our current seller's market to a more balanced one. Houses that are priced right and show well sell quickly, still often with multiple offers. Talk to your Berkshire Hathaway HomeServices Fox & Roach sales associate about the best strategy to sell your house.

To get the most house for your money, buyers should act now before interest rates and home prices rise even more. Your Trident Mortgage Company loan consultant will work with you to make sure you are pre-approved for a mortgage, so you are ready to make your best offer when you find the home you want to buy.

I wish each of you a happy, healthy and prosperous New Year!

Larry

Lawrence F. Flick IV
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AN INDEPENDENT VIEW

Joel L. Naroff is the President and founder of Naroff Economic Advisors, a strategic economic consulting firm. He is the author of Big Picture Economics, *which has been translated into Chinese. Joel has won numerous forecasting awards, is often quoted in the national and international press, and is a newspaper columnist and radio commentator.*

National Economic Outlook: The U.S. economy remains strong. However, the rate of growth is trending back toward more sustainable levels as the sugar-high from the tax cuts fades. That moderation is expected to continue through 2019. Recognizing this changing trend is critical, as most business mistakes are made when activity is strong and it is assumed it will remain that way for an extended period.

The consumer should continue being the leading driver of growth, though at a more reasonable pace. Despite tight labor markets, wage gains are barely offsetting inflation, and with the savings rate declining, it is doubtful households can maintain the current pace.

Business investment has been disappointing, given the massive corporate tax cuts. Firms have not aggressively used the windfall to expand plants or improve productivity by investing in equipment or software. There is little reason to think that will change this year.

As for trade, we still don't know the final impacts of the trade battles. So far, exports are slowing, limiting growth.

Rising government spending at all levels has added to growth. But budget deficits are widening. The federal deficit could reach $1 trillion, which does not bode well for continued government spending.

Putting it together, it is likely the high water mark for growth was hit last spring. The expansion should moderate all through this year.

The national housing market faded during the second half of 2018. The most obvious explanation is the increase in interest rates. While they are not high by any measure, the rise came on top of large gains in housing prices in many metro areas. That is starting to price households out of the market. Affordability has become an acute problem at the entry-level, where supply is minimal.

There are also demographic reasons why the housing market is likely to remain soft. Millennials are not buying homes at the pace of previous generations. There are lifestyle and economic explanations, though the two are somewhat intertwined. This critical group may be several years away from becoming fully involved with the housing market. That implies the level of sales could be lower than would be expected given the demographics.

The outlook for housing in 2019 is for sales to be only modestly higher than in 2018. A 3% gain would be about as good as could be expected. Prices should continue increasing but also at a slower pace than in the past few years. Price increases in the 4% range would be good, though in many areas they will be a lot lower.

City of Philadelphia: Philadelphia is growing faster than the Pennsylvania and New Jersey suburbs. There is little reason to expect that to change. The biggest problem facing Philadelphia is rising real estate costs, both residential and commercial. Affordable housing has been an attractive force for the Millennials and the supply is disappearing. Still, look for the Philadelphia economy and housing market to outperform.

Pennsylvania Suburbs: The area's growth rate has improved but is still disappointing. With growth impediments developing in Philadelphia, businesses and households are again looking to the close-in suburbs, which should do decently in 2019.

Southern New Jersey Suburbs: The Camden Renaissance is moving into its second phase as the companies attracted there are now operating. Uncertainty about some of the highly anticipated private housing, commercial and hotel developments, though, are the chief concerns. Look for the Southern New Jersey suburbs to grow at or even faster than the Philadelphia suburbs, with housing sales and prices rising faster than across the river.

Northern Delaware: Delaware's economy is lagging. The upturn noticed in the first half of 2018 has leveled off and growth was mediocre, at best. There are no factors that would create the belief conditions will change this year so expect the housing market to be fairly soft.