

Millennials Feeling the Pinch

As millennials are entering their prime as homebuyers, they are feeling the pinch between very low inventory for entry-level priced homes and rising interest rates in the metro DC market.

Contrary to much of the conversation these days, the overall inventory of homes is not at a record low. At the end of April 2014, there were almost 5% fewer fully available homes than there are right now. However, a huge shift of the price range of homes on the market has occurred.

In April 2014, 45% of all homes on the market were priced less than \$500,000, and homes in this price category constituted 67% of all sales. Today, just 33% of homes are priced less than \$500,000, and the percentage of total sales has dropped to 62% of the market.

No question – inventory is down significantly from this time last year, but the decreases have not been evenly distributed. While overall inventory is down 15%, the number of homes priced less than \$500,000 is down 26%. But there are 3% more homes available priced more than \$1,000,000.

In the suburban markets, the differences are even starker. In Northern Virginia and Loudoun County, there are 32% fewer homes priced less than \$500K than last year, and Montgomery County is down 23%.

It isn't just the scarcity of inventory facing millennials – or any other first-time buyer – that makes this a challenging market. Mortgage interest rates are about a half point more than they were in November, making homes slightly less affordable. And ironically, those higher rates are contributing to the relative paucity of new listings coming on the market. In our robust sellers' market, one might expect there would be a significant jump in the number of sellers taking advantage of very favorable market conditions.

However, new listings are up only 2% in the metro area year-to-date compared to the same time last year. Plenty of homeowners who purchased or refinanced in the last few years and locked in sub-4% mortgages are in no hurry to sell their homes. The prospect of giving up those very favorable rates, only to face the prospect of buying a home in a tight market at higher rates, is keeping people in their homes longer.

Another factor preventing many millennials from buying homes is student loan debt, and that's certainly not unique to the Washington area. In their "Student Loan Debt and Housing Report – 2016," the National Associations of REALTORS® found that, among those who are current in their debt repayments, 71% of non-homeowners cite student loan debt as the factor delaying them from buying a home. The level of debt impacts both their ability to save for a down payment, as well as their debt-to-income ratios to qualify for a mortgage. The delay in buying a home among non-homeowners and homeowners alike is five years.

So, buyers of entry-level homes are truly feeling the pinch of low inventory and higher interest rates. Nonetheless, perspective and patience are both virtues. Mortgage rates are still extraordinarily low from a historical perspective, and markets seek balance over time. Millennials and anyone else can be successful buyers with planning and persistence.

Inventory of Homes Priced Less Than \$500,000 April 2017 Compared to April 2014 & April 2016

Jurisdiction	Change from April 2014	Change from April 2016
Northern Virginia	-14.5%	-32.3%
Loudoun County	-41.6%	-31.8%
Montgomery County	-9.2%	-23.2%
Washington, DC	-5.4%	-2.7%

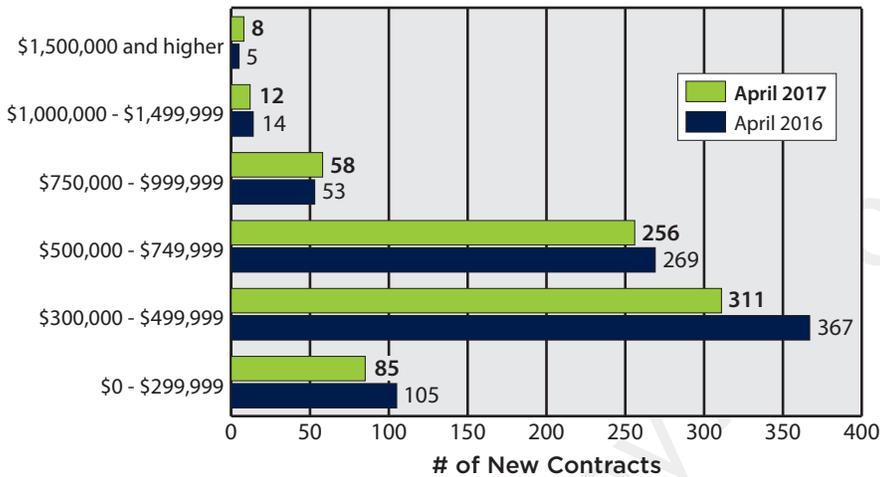
FULLY AVAILABLE LISTINGS

Loudoun County - April 30, 2016 vs. April 30, 2017



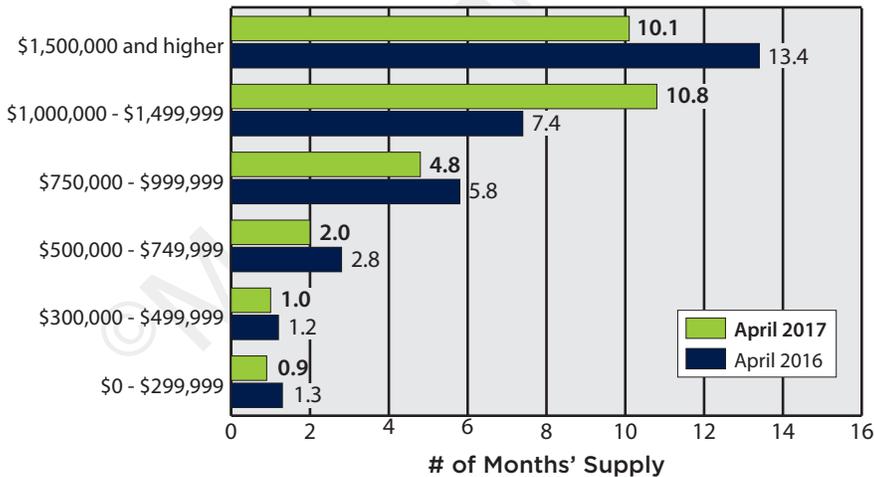
NEW CONTRACT ACTIVITY

Loudoun County - April 2016 vs. April 2017



MONTHS' SUPPLY

Loudoun County - End of April 2016 vs. End of April 2017



FULLY AVAILABLE LISTINGS

- The available inventory for April 2017 was **down 22.7%** from April 2016. There were decreases for homes priced less than \$1 million, with significant drops for homes priced less than \$749,000.
- 27.7%** of all homes on the market have had at least one price reduction since coming on the market.
- In April 2016, 28.6% of all homes on the market had at least one price reduction.

CONTRACT ACTIVITY

- The number of new contracts ratified in April 2017 was **down 10.2%** from the number of contracts ratified in April 2016.
- Two price categories had increases in contract activity, and the lower two had significant decreases.
- As noted on page 3, contract activity year-to-date is **up just 0.4%**.
- 20.0%** of all homes going under contract in April 2017 had at least one price reduction before going under contract.

MONTHS' SUPPLY

- The overall supply of homes on the market at the end of April was **1.9 months**, down from 2.2 months at the end of April 2016.
- This is the 24th month in a row with a decrease in months' supply after twenty consecutive months with increases.



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