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# Negative equity, millennials, employment still chilling housing market

**Mortgage market still looking for breakout momentum**

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Is there a housing bubble forming? Where are home prices heading? GSE reform? What about starts? And mortgage credit? What are the growth prospects for non-agency?

Those were just a few of the questions discussed at a crowded housing industry focused panel at **ABS Vegas 2015**, the **Structured Finance Industry Group/IMN** capital markets conference at the **Aria Resort & Casino** in Las Vegas.

This is the second ABS Vegas conference since the split of SFIG from the **American Securitization Forum**.

More than 6,000 traders, investors and structured finance/securitization professionals turned out for the three-and-a-half day program, developed by leaders representing the full spectrum of industry participants including investors, issuers, financial intermediaries, regulators, law firms, accounting firms, technology firms, rating agencies, servicers and trustees.

Moderator Vishwanath Tirupattur, managing director at **Morgan Stanley**, led the discussion panel comprised of Eknath Belbase, head of mortgage strategy for **Andrew Davidson & Co.**; Scott Buchta, head of fixed income strategy at **Brean Capital**; Jeffrey Johnson, partner at **Morgan Lewis & Bockius**; Sharif Mahdavian, managing director at **Standard & Poor's Ratings**, and Mark Fleming, chief economist for **First American**.

On the issue of where home sales are going, Belbase said it comes down to employment.

"Employment numbers are starting to look good, but not good enough. That's the major question that will define demand," Belbase said.

Buchta, meanwhile, said he was looking more at the issue of underwater borrowers and negative equity.

"We have slowly rising home prices, and it might take another couple of years, but every time we unlock more underwater borrowers (it) helps the overall aggregate sales levels," Buchta said.

Fleming, meanwhile, said that there were a lot of factors that are contributing to home sales, which are running right now at an annualized rate of 5 million — about a million or half a million behind where he thinks it should be.

"If I were boiling it down and making it simple, home sales should go the way of household formation," Fleming said. "It's under where we should be, given interest rates, employment rates and economic growth rates.

"Setting aside even reduced formation rates from millennials, we're still under by half a million to a million homes a year," he said. "One reason is the negative equity effect. We have a relatively low inventory and the demand is (from) all these existing homeowners locked with insufficient home equity or negative equity. (Another) fundamental is credit availability, particularly on the credit score side."

Mahdavian said he believes even if those issues were resolved, he doesn't believe millennials will be buying homes at the rate of previous generations.

Mahdavian said he sees a pickup in wages coming, and continued low interest rates will make this year an interesting one to see if the stall-out pattern will change.

"It's not so much due to credit as underemployment," Mahdavian said. "It's going to continue to slowly thaw. Demand will have to come from first-time homebuyers and millennials, but it may not be this year."

"It might be a couple of years," Belbase added.

The majority of attendants said they think the homeownership rate at the end of 2015 will be under 63% — which hasn't been seen since the 1960s.

On the issue of the impact of energy prices on housing, Belbase said it would be bad in the shale states, but in general it could be the equivalent of a 2% to 3% increase in income.

Buchta took the opposite view, saying since much of the growth in income and jobs has been in energy, it will have a negative net impact on the economy and housing.

On housing starts, the majority of attendants polled by a wide margin said they expect housing starts to end 2015 at 1-1.2 million.

"When you look at '14, why it was disappointing was it came after that investor-fueled 2013. I see slow, sustained growth and not something to jump out," Buchta said.

Few – just 6% – said mortgage credit availability is too loose, with an almost even split between just right and too tight.

On the issue of GSE reform, the moderator asked simply: Does it matter right now? Is reform in the cards right now?

"…It could impact dramatically, but haven't heard anyone talk about the issue recently. Prospect of any significant reform could be impactful but won't be happening anytime soon," Mahdavian said.

"No," Johnson said.

Fleming was almost as curt.

"Nah, not going to happen. Credit risk transfers are successful. They're profitable," Fleming said.

"There's more downside risk to messing with GSEs right now than benefit," Buchta said.

Trey Garrison is the Senior Financial Reporter for HousingWire.com. Trey has served as real estate editor for the Dallas Business Journal, and was one of the founding editors of D CEO Magazine. He has been an editor for D Magazine — considered among the best city magazines in the United States — and a contributor for Reason magazine.