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Key Housing And Mortgage Lending Trends For 2022

By **Marty Green** (February 1, 2022, 5:48 PM EST)


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For several years, the U.S. residential real estate market has been characterized by a shortage of new single-family homes — the result of an extended period of underbuilding following the Great Recession, compounded by the global COVID-19 pandemic and attendant supply-chain issues.

This shortage will continue throughout 2022. Though builders have added substantial inventory in recent years, it will take more than a year — or even two or three — to make up for what the National Association of Realtors estimates to be an undersupply of between 5.5 million and 6.8 million single-family homes necessary to meet existing demand.

To understand the magnitude of the nationwide housing shortage and how we got to this point, one need only compare the average number of homes built before and after 2008.

According to the U.S. Census Bureau, an average of 1.2 million new single-family homes were built each year between 1987 and 2007. Between 2008 and 2021, that number fell dramatically to only 697,000, leaving an annual gap of 500,000 single-family homes compared to the historical average.

Over a 14-year period, that shortfall results in a cumulative deficit of 7 million single-family homes, before accounting for the oversupply that existed in 2008, which most experts believe was between 1 million and 1.5 million homes.

While the housing shortage is pervasive nationwide, it is even more significant in the dynamic Texas markets of Dallas-Fort Worth, Austin, Houston and San Antonio, as well as in Phoenix, Las Vegas, Miami, Atlanta and other markets that continue to experience extraordinary population growth.

While I don't see the inventory shortage easing in 2022, improvements in the supply chain, labor market and other areas should help homebuilders continue to increase supply.

But it is important to understand that it will take homebuilders many, many years to address this massive shortage because of the time and capital it takes to add available lots, obtain necessary permits, acquire additional construction crews and contract for the necessary construction products. Acquiring crews could be particularly challenging in this labor market, where there are approximately 350,000 open construction jobs to be filled, according to the U.S. Bureau of Labor Statistics.

In addition, single-family housing starts in 2021 were still only 1.12 million units, according to the Census Bureau, compared to approximately 1 million new households created in the U.S. each year, according to the Pew Research Center. The bottom line is the shortage of single-family homes will continue to make this a seller's market in 2022.

Renovation Loan Programs Are on the Rise

Due to the pervasive shortage of homes, we've seen a dramatic increase in mortgage lenders and builders offering renovation loan programs. Many borrowers are building, expanding and/or remodeling their homes rather than moving, given the lack of available homes that fit their needs or price limitations.

In addition, the fact that the average U.S. home is now over 41 years old — compared to 34 years old in 2007 — means that the need for maintenance or updating is more pronounced. But given the increase in home prices in virtually every metropolitan area, renovation or expansion often makes terrific economic sense. Mortgage lenders that can't offer a robust renovation and construction product may be at a distinct disadvantage in coming years.

However, these loan programs require special legal expertise, so it is critical that lenders consider the legal restrictions before venturing into this space. In December 2019, the Consumer Financial Protection Bureau issued guidance regarding the treatment of construction loans, and lenders would be well-served in reviewing those requirements to ensure their disclosures and other compliance-related matters are addressed in accordance with this guidance.

Rising Rates Will Challenge Lenders

Multiple anticipated interest rate hikes will challenge mortgage lenders this year, requiring them to be creative in financing and qualifying their borrowers. The inflationary pressures in the economy have become obvious to everyone, including the Federal Reserve, and virtually everyone anticipates at least a quarter-point rise in rates when the Federal Reserve Board of Governors meets in March.

Most lenders also anticipate at least two additional rate hikes in 2022, which could increase rates as much as a full percentage point higher than they were at the start of the year. While rates are still quite low by historical standards, the combination of higher rates, higher sales prices and inflation will reduce the number of homes for which new purchasers can qualify.

To offset these dynamics, lenders will need to offer more adjustable-rate mortgage products, as higher interest rates and home prices will make new homes far less affordable. An adjustable-rate mortgage initially offers the borrower a lower rate, usually for five to seven years, so the payment during this period is lower than it would be with a fixed-rate loan.

These loans are trickier from both a disclosure and loan documentation standpoint, so lenders must consider some of the complex legal challenges to avoid major issues. Consumers will also need to be vigilant about locking in their interest rates — whether a fixed-rate loan or an adjustable-rate mortgage — for a sufficient period to facilitate the closing of the loan.

I anticipate that lenders will lack the flexibility to offer borrowers free rate-lock extensions as they have in the past, as they become too expensive in a rising rate environment, and lenders will need to charge to offset this cost.

The Great Resignation

The so-called Great Resignation could have a profound impact on the residential real estate and mortgage markets — both industries with aging workforces. With many real estate agents and mortgage loan officers coming off two years of record incomes, it's no surprise that many are deciding to retire now on a high note.

What is surprising, however, is that so many of these people are only in their 50s. In speaking with some of those who have chosen early retirement, it became apparent that COVID-19 has made everyone much more aware of their own mortality and the possibility of missing out on enjoying retirement altogether. So, the increase in retirements across the board will provide new opportunities for young professionals who wish to move into the residential real estate and mortgage space.

Work From Home or Work Somewhere Else

The Great Resignation is not all about retirement. In most instances, it is simply an employee leaving one job for another. The combination of salary increases and the ability to work from home has caused many people to view a job change as something much less scary and potentially very positive.

After all, if an individual has been working from home and is in an industry that will continue to allow them to do so, a job change doesn't involve a shift in their commute or work environment; it just changes the company providing their paycheck, and the amount of that check is often much higher than their previous employer was offering.

As some companies start bringing team members back to the office, they should be mindful that the work-from-home option has become extraordinarily common. If companies don't continue to at least offer employees the option of periodically working from home, they will be at a disadvantage in attracting and retaining key people.

In 2022, the challenge will be striking the right balance of work-from-home opportunities as people return to the office. The second side of that equation is ensuring that employees set the right boundaries so that they aren't living at work instead of working from home. Some companies are beginning to monitor employees' breaks and limit hours worked in a day or consecutive days to combat the burnout resulting from team members feeling they need to be perpetually on call.

From a housing perspective, I anticipate more homes with multiple dedicated workspaces will be built in 2022, since households may include two or more people working from home at the same time. Builders report that the longer-term availability of the work-from-home option has made homes with two offices or dedicated workspaces essential for many new buyers.

Not So Fast on the Job Change

As individuals look at new job opportunities, they need to be aware that a job change can complicate mortgage qualification. Accordingly, people in the market for a new home or a refinance of an existing mortgage may want to delay leaving their jobs until after their loans close. A recent job change can complicate the underwriting of a mortgage, particularly if the borrower is changing fields or is in a job that relies heavily on bonus or commission income.

The Second-Home Market Will Continue to be Robust

Expect the second-home market to continue to be very hot. As people became more comfortable working from home, many with the means to do so quickly figured out that they could work just as effectively from a second home overlooking the beach, mountains or lake as they could from their home in the city or suburbs.

As a result, the inventory for homes in scenic locations is very scarce. As much as U.S. housing prices have risen overall, prices in strong second-home markets have increased even more. In 2022, I expect that executives and others who can afford second homes will take advantage of the freedom that Zoom and other technologies have created. Therefore, we should see the demand for second homes continue to be robust in 2022.

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