THE Chairman's Report 2018

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

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A HOT real estate market... six years and running!

Fueled by steady job and wage growth, low unemployment, and record-breaking stock market gains, our national economy sizzled in 2017. And though the temperatures outside are often below freezing, in our area we are basking in a HOT real estate market!

In the Berkshire Hathaway HomeServices Fox & Roach market area, the number of homes sold in 2017 was 8% greater than the previous year. This is the sixth consecutive year of growing sales.

Number of Sales 2012 – 2017

2012	2013	2014	2015	2016	2017
55,567	61,614	62,208	69,474	76,805	83,086

Source: Trend MLS

Will this trend continue in 2018? I believe it will. Here's why:

As we begin 2018, all indicators point to continued economic growth.

- Unemployment remains very low, and is expected to go even lower. This will support continued wage and income growth, which bodes well for the real estate market.

Interest rates remain at historic lows, and mortgage credit is becoming more easily available, as banks gain confidence in this much-improved credit environment.

- Demographics will continue to play an important role in this strong market. An increasing number of millennials are entering their mid-30's, traditionally the age when many people buy their first home. Moody's Analytics believes that, while many millennials continue to live with their parents, the low unemployment rate suggests that they are working. This indicates that they will likely be in a good position to buy homes.
- Interest rates remain at historic lows, and mortgage credit is becoming more easily available, as banks gain confidence in this much-improved credit environment.
- Average sales price is on the rise. As the market recovered over the past six years, average sales price remained relatively stagnant. In the past two years, we can see a noticeable increase. In some of our market areas, home prices have clearly made a gain, while some markets have yet to recover to the 2007 peaks. A shortage of desirable properties for sale is causing values to close this gap even further. However, price appreciation varies depending upon location and price range. Be sure to get the specifics about what your own property may be worth from your BHHS Fox & Roach sales associate.

Average Sales Price 2008 through 2017

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
$246,694	$254,586	$254,310	$235,914	$251,173	$255,823	$259,156	$252,363	$262,852	$273,585

Source: Trend MLS

If you are thinking about making a move, seriously consider doing it now, to get the best possible house for the money.

All of these positive trends do have a downside — rising interest rates and home prices will cause a decrease in housing affordability:

Interest rates are rising

As our economy grows, inflation will compel the Federal Reserve to raise interest rates. I expect that the Fed will bump short-term rates at least three times this year. As it does, mortgages will cost more, and buyers will pay more for the same amount of house as they would have at a lower interest rate. To find out how your current and future buying power may be affected, contact your Trident Mortgage Company mortgage consultant.

Housing prices will increase

The number of desirable properties for sale continues to decline. In 2017, the number of properties on the market decreased 11% over the previous year, and Days on Market fell from 70 to 59. Particularly desirable listings receive muliple offers and sell immediately. When housing follows the typical supply and demand curve, and demand for desirable housing continues to outpace supply, prices typically will rise.

With the exception of Center City Philadelphia, home prices in Southeastern Pennsylvania have remained relatively stable. We are now starting to see some appreciation in the suburbs, and I expect this to continue.

What does this mean for you? If you are thinking about making a move, seriously consider doing it now, to get the best possible house for the money. The longer the wait, the more interest rates and housing prices will increase, and it won't be possible to get the same amount of house a year from now. Avoid getting burned in the future, and contact your BHHS Fox & Roach sales associate to get moving before this market overheats.

Lawrence F. Flick IV
Chairman
Berkshire Hathaway HomeServices
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The Tax Cuts and Jobs Act Effect on Real Estate

Most economists agree that this new tax legislation will provide our economy with modest improvement, especially during the next two years. The new law does reduce the tax benefits of owning, but this may be balanced by other benefits the tax code offers. We can't view each item in the tax code in a vacuum. Even if the new tax laws somewhat dampen the enthusiasm of owning a home, our robust economy will continue to support a growing trend, resulting in an overall benefit for homeowners.

Homeownership has been, and continues to be, the most lucrative financial investment most people make in their lives. I don't see this changing any time soon. It's also important to remember why people buy homes. Is it because they receive a tax break? I don't think so. Life events and changes in personal situations — marriage, divorce, a growing family, the pride of owning a first home — are reasons people buy and sell homes.

The Great Recession had a much more significant impact on our real estate market than this tax bill ever will. During that downturn, our economy and real estate market went through their bumpiest time since the Depression of the 1930's. Both have since recovered, and continue to grow. There's no reason to believe this will stop any time soon.

AN INDEPENDENT VIEW

Joel L. Naroff, Ph.D. is the President and founder of Naroff Economic Advisors. A nationally recognized economic forecasting expert, Joel was awarded the Lawrence Klein Award for Blue Chip forecasting excellence and was the Bloomberg Business News top economic forecaster in 2008. In 2007, he received the National Association of Business Economists Outlook Award and was named the top economic forecaster by MSNBC in 2006.

National Economic Outlook: The national economy is in the best shape it has been in over a decade. Job growth is solid, the labor market is extremely tight and the unemployment rate is likely to go below 4%. Consumer confidence and spending are high and businesses are investing again. This is a broad based expansion touching just about every sector and that bodes well for 2018.

The passage of the tax bill will accelerate the already solid growth. This is a massive fiscal stimulus that comes not when the economy is weak but when it is already strong. There are major incentives for businesses to invest and most taxpayers will get a tax cut, even though the vast majority of the tax benefits accrue to upper income households.

But no good economy goes unpunished. There are risks that arise from piling fiscal stimulus on top of strong growth and labor shortages. It is likely that wage gains will accelerate and that could lead to interest rates rising faster and greater than expected.

A jump in interest rates could affect the stock markets, as investors are not factoring in significant increases. Is the stock market a bubble that could burst and cause a major slowdown? That is not clear, as earnings and growth should improve this year. It would probably take another year of outsized gains, coupled with higher rates, to raise a warning flag.

The Tax Bill and the Housing Market: As for the impact of the tax bill on the housing market, there are several concerns that might moderate the increases in prices we have seen recently. The impacts, though, would only be in certain markets.

The first issue is the one already stated: Strong growth could cause rates to increase more than expected. Given that housing prices are rising, affordability could become a problem.

The second is the limitation on state and local tax deductions. The biggest problem will likely be in the shore/second home areas. High real estate taxes and prices are problematic for the second home market. Those who live in New Jersey – or even the high tax, high property value areas in and around Philadelphia – could see their taxes rise. That would be capitalized into property values.

Finally, potential buyers may no longer consider the high costs of owning a second home as worth the value. That might reduce demand for home ownership but at the same time, potentially making renting a more desirable option. That is a double whammy for the markets: Higher costs that get capitalized into prices and lower demand.

City of Philadelphia: The City's economy is solid, but growth has moderated. Job gains have eased, but that could change significantly when the Comcast research and technology center opens later this year. Housing demand remains strong, though the rise in prices may be softening the market. The large amount of new construction also has to be absorbed.

Pennsylvania Suburbs: The Montgomery-Bucks-Chester area's growth rate hasn't budged much for the past year. It is decent, but nothing great. Still, unemployment rates are the lowest in the region and home prices are rising at a faster clip. Closer-in suburban locations are becoming more popular as housing prices in Center City jump.

Southern New Jersey Suburbs: The Camden Renaissance is gaining speed. Job growth has faded to a more sustainable level but that is expected to improve if the announced residential, commercial and industrial developments actually come to fruition. This area should be a strong location for housing over the next few years.

Central New Jersey: The Trenton region has hit a downdraft, with growth slowing during the second half of 2017. That said, strong gains in professional and business service companies provide hope that the softening will be temporary. The area is, to no small extent, affected by the state of affairs in the New Jersey government and with Gov. Christie leaving, it was not surprising that there was some economic slowing. However, Governor Murphy is facing significant budgetary challenges, so it isn't clear how fast this area will expand over the next year.

Delaware: Delaware's economy has stabilized and critically, Wilmington is expanding once again. The job gains are broad-based and indicate the problems the metro area faced may finally be behind it. If the state can find a way to make downtown Wilmington more attractive as a residential location, conditions would improve dramatically. But the City is well behind Camden in its transition and significantly faster growth is not expected. The softness in the economy has translated into a largely flat housing market.