

HOUSING REPORT

WASHTENAW COUNTY | YEAR END 2018

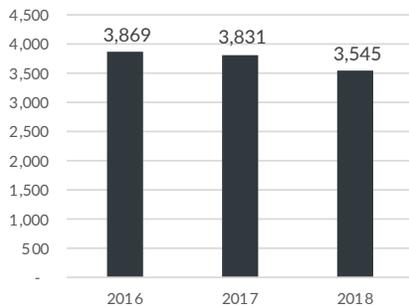


Washtenaw County

2018 Highlights

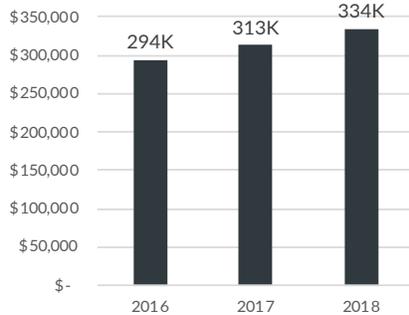
Despite closed sales tailing off compared to the prior year, 2018 was a remarkable year for Washtenaw County real estate sales. Both average price and price per square foot were up 6% and 7% respectively and the total closed volume of \$1.18 billion was just slightly behind the prior record year. Not bad for a market near the end of a 10-year recovery run.

Single Family Closed Homes



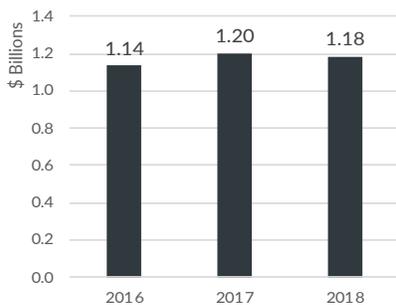
Closed Sales—After peaking in 2016, there was a 1% decline in 2017 followed by a 7.4% decline in 2018. Shrinking lower and mid-priced markets were the primary cause of the decline. The number of “under \$400k” sales fell by 358 units while the number of “over \$400k” sales rose by 78 units.

Average Sale Price



Average Sale Price—Average sale price completed its ninth consecutive year of rising with a \$21k jump up to \$334k. That 7% increase was caused in part by a shift in the mix of what sold as opposed to rising property values. Despite a larger proportion of sales coming from high-end markets, upper-end values were flat in 2018.

Closed Volume



Closed Volume—2018 provided a great sales performance by finishing just 1% short of 2017’s historic record high closed volume year.



2019 Outlook

Most experts predict that closed sales will decline and the rate of price increases will slow through and beyond 2019.

Rising interest rates, prices and property taxes (as prices rise, taxes rise) which have been increasing faster than incomes have been squeezing buyers out of the market or limiting the kind of home they can afford.

The peak of the post-recession demand is waning as many of those who were in position to take advantage of past market opportunities already have.

Baby Boomers are working longer, putting off retirement, and delaying their next move. Many bought or refinanced at sub 3% interest rates. Their taxes have also been “capped” for years. Not wanting to give up those rates and the lower capped taxes on their existing homes have been keeping Boomers from moving.

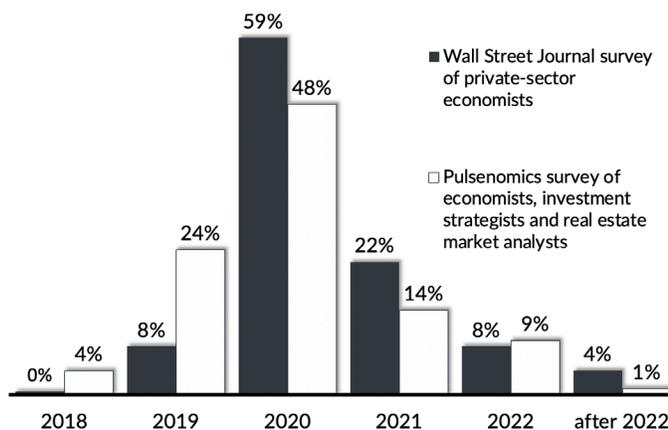
Many Millennials put off buying while they focused on paying down their student debt. With interest rates and prices rising, those who haven't already done so may want to take their first plunge into the market soon rather than waiting. Many of the homes they can still afford today will be moving out of reach.

Rising interest rate affect everyone. Sellers who are planning to make a move should do so before rates continue to rise. As they rise, fewer buyers can afford a given price.

Source	2018	2019	2020	2021
HPES	+5.9	+4.2	+2.9	+2.6
Zelman & Assoc.	+5.5	+4.5	+4.1	N/A
MBA	+5.8	+4.3	+2.9	+1.9
Freddie Mac	+5.1	+4.3	+2.9	N/A
NAR	+4.7	+2.5	+3	N/A
Fannie Mae	+5.4	+4.1	+2.2	N/A
AVERAGE	+5.4	+3.9	+3	+2.3

Recession Fear

Rising fear that a recession is on the horizon could cause demand for homes to scale back as prices continue to rise. Consumer confidence is wavering due to recession fear, stock market jumps, trade wars, and the longest government shut-down in history.



Washtenaw County

Buyer Costs

In addition to rising prices, both mortgage rates and property taxes are moving targets that can limit affordability.

Mortgage Rates: As prices and rates rise, the number of buyers that qualify to purchase a given home goes down. For a typical home in the \$200k to \$250k price range, a 1% increase in the mortgage rate results in a 10% drop in the number of buyers who can afford it.

The typical Freddie Mac mortgage payment is projected to reach \$1,000 a month in 2019. The payment on a similar home in 2012 would have only been \$550 a month.

As prices rise, property taxes rise. In Michigan, once you own your home, taxes are capped so that the most they can rise in a given year is the less than 5% or the change in the Consumer Price Index (CPI).

Property Taxes: Since 2015, the average local sale price rose 15%, but the CPI-capped taxable assessment values increased by less than 6%. Taxes on the same house bought in 2015 would be approximately 9% less than taxes on the same house purchased today. This is another reason why in a rising market, there are tax benefits for locking in your cap sooner while prices are lower rather than waiting for prices to go up.

With prices, mortgage interest rates and property taxes rising faster than an average buyer's income, it makes sense for both buyers and sellers who are planning to make a move to do so sooner rather than waiting.

Millennial Challenges

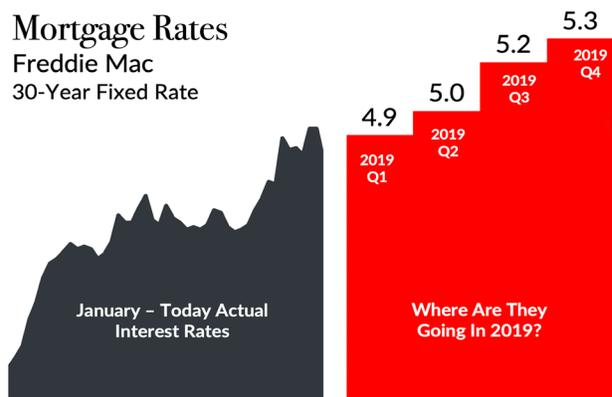
Student debt is having an impact on millennial homeownership. According to a recent Bloomberg business report, 36% of households between 24 and 32 owned homes in 2014—a drop of nearly 10% from the same age group in 2005. During that same period, average student debt doubled from \$5,000 to \$10,000.

44 million borrowers collectively owe \$1.5 trillion in student loan debt in the U.S. Student loans are now the second highest consumer debt category—behind mortgages.

This has been a concern as Millennials enter into what are typically first-time home buying years. Currently the average age of a first-time home buyer is 32. If student debt remains the burden that it is today, the average age when a 2018 college graduate will purchase their first home will be 36—14 years after they graduate with a bachelor's degree.

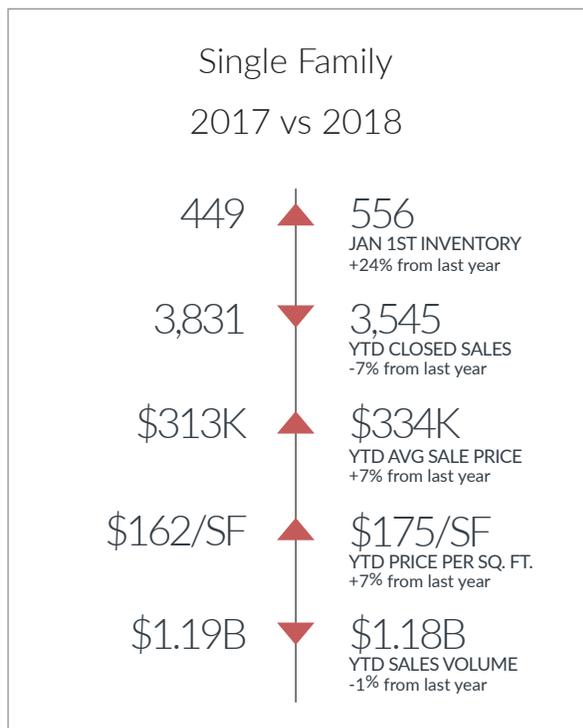
Mortgage Rates

Freddie Mac
30-Year Fixed Rate



Washtenaw County

Summary



Inventory—Through 2018, available inventory rose in all but the over-\$800k price range. Heading into 2019, listings were up by 24%.

Closed Units—Sales dipped 7% last year. Those in the lower price ranges dropped by 25%. The \$400-\$800k was the only market segment with additional sales.

Values—Prices rose an average of 7% in 2018. The increase was a little more for entry-level properties and a little less for the middle price ranges. Values leveled off and, in many cases, dropped slightly for homes priced over \$800k. Expect that upper-end market to be flat in 2019.

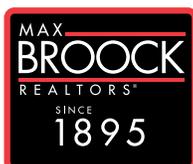
Summary—As with many surrounding markets, sales in the entry and middle price ranges have been shrinking while upper-end market, are seeing more activity. Despite the increase in sales, values in those upper-end markets have been flattening and even beginning to fall.

Inventory—Condo inventory is nearly double what it was a year ago. Much of the growth has been the result of new higher-end developments in Ann Arbor.

Closed Units—Despite the additional inventory, sales dropped by 14% in 2018—particularly in the lower and middle price ranges.

Values—The 14% rise in average sale price suggests values rose more than they did. Much of that increase was the result of a shift in the mix of what sold. Price per square foot of higher-end properties (over \$400k) dropped 8%.

Summary—More than half of the current condo listings are upper-end new development units with an average list price in excess of \$500k. These units are coming on the market faster than they can be absorbed. While the number of over-\$400k sales increased by 25% last year, average price per square foot dropped by 8%.



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Single Family Homes

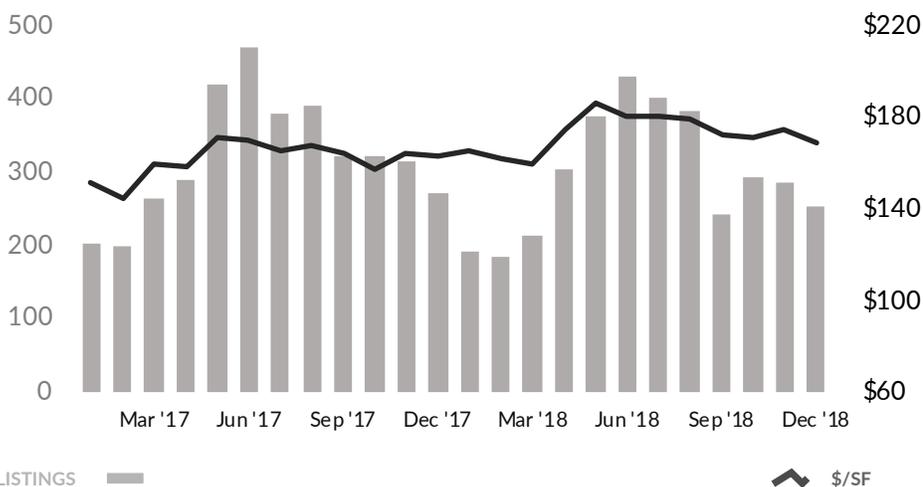
Closed Sales

3,545
2018 CLOSED SALES
-7% from last year

\$334K
2018 AVG SALE PRICE
+7% from last year

\$175
2018 PRICE PER SQ FT
+7% from last year

\$1.1B
2018 DOLLAR VOLUME
-1% from last year



Price Range	Field	Q1	Q2	Q3	Q4	Total
All	Units	587	1,107	1,025	826	3,545
		-11%	-6%	-6%	-9%	-7%
	\$/SF	\$162	\$180	\$178	\$172	\$175
		7%	8%	8%	7%	7%
\$10-200k	Avg Sale Price	\$319K	\$346K	\$340K	\$321K	\$334K
		9%	6%	6%	7%	7%
	Units	160	195	207	203	765
		-26%	-29%	-21%	-26%	-25%
\$200-400k	\$/SF	\$112	\$117	\$117	\$118	\$116
		12%	10%	8%	10%	10%
	Units	288	583	532	427	1830
		-10%	-4%	-6%	-2%	-5%
\$400-800k	\$/SF	\$154	\$167	\$164	\$161	\$162
		4%	5%	5%	6%	5%
	Units	121	298	253	174	846
		16%	12%	9%	0%	9%
\$800k+	\$/SF	\$193	\$206	\$206	\$200	\$203
		4%	5%	7%	2%	5%
	Units	18	31	33	22	104
		-18%	-3%	10%	0%	-2%
\$800k+	\$/SF	\$212	\$256	\$260	\$276	\$252
		-9%	5%	0%	0%	0%

Summary

Inventory levels grew through 2018 and, heading into 2019, were up 24% compared to the prior year. The biggest increase was in the \$200-\$400k price range. Annual sales were down 7% from the prior year but average sale price was up that same amount. Values were up in all but the over-\$800k price range where price per square foot remained even with the prior year. Moving into 2019, look for sales to continue to slow as higher interest rates take a bite out of affordability and entry and mid-level markets continue to shrink.

Data source: Realcomp MLS using Great Lakes Repository Data. Percent changes are compared to the same period last year (Year-Over-Year)



Washtenaw County

Condo/Lofts

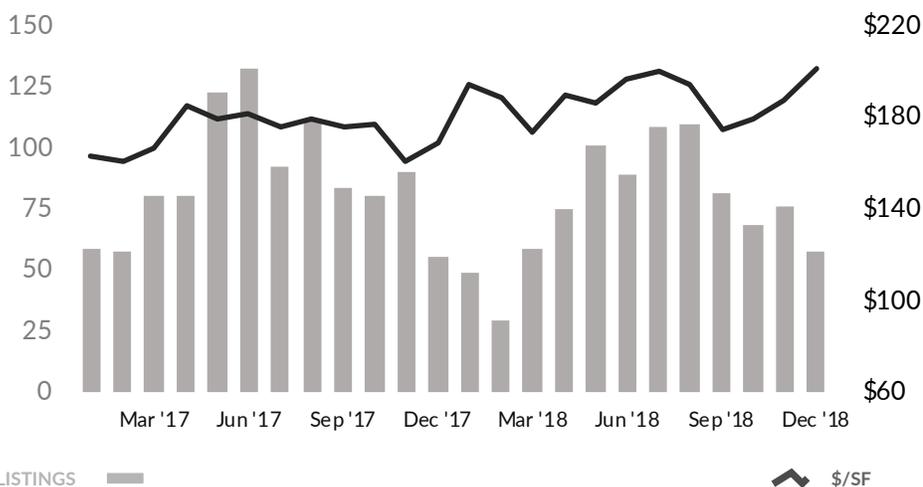
Closed Sales

899
2018 CLOSED SALES
-14% from last year

\$253K
2018 AVG SALE PRICE
+14% from last year

\$189
2018 PRICE PER SQ FT
+9% from last year

\$228M
2018 DOLLAR VOLUME
-2% from last year

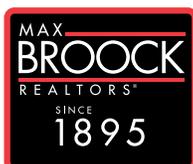


Price Range	Field	Q1	Q2	Q3	Q4	Total
All	Units	135	265	298	201	899
		-31%	-21%	4%	-11%	-14%
	\$/SF	\$183	\$190	\$191	\$188	\$189
		12%	5%	8%	12%	9%
Avg Sale Price		\$250K	\$248K	\$257K	\$256K	\$253K
		17%	12%	13%	15%	14%
\$10-400k	Units	29	58	61	40	188
		-49%	-29%	-9%	-27%	-28%
	\$/SF	\$113	\$128	\$120	\$116	\$120
		18%	7%	11%	7%	11%
\$400-800k	Units	41	76	90	61	268
		-43%	-41%	-22%	-33%	-34%
	\$/SF	\$155	\$154	\$158	\$157	\$156
		5%	-2%	3%	4%	2%
\$800-1.4m	Units	49	107	117	75	348
		-14%	7%	56%	17%	18%
	\$/SF	\$187	\$195	\$192	\$199	\$193
		2%	0%	4%	9%	4%
\$1.4m+	Units	16	24	30	25	95
		78%	4%	7%	67%	27%
	\$/SF	\$289	\$316	\$332	\$270	\$303
		-24%	-14%	3%	-4%	-8%

Summary

2018 condo sales dropped 14% compared to the prior year but average sale price increased by that same amount. This combination resulted in total closed sales being down by less than 2% from the prior record high year. An unusual trend to keep an eye on is that there were 31% fewer sales priced under \$225k and 19% more sales priced over \$225k. That change in the sales mix caused the average price to jump 14%, but values were much flatter than that. Price per square foot for sales in the \$225k-\$400k range increased just 4% and for sales above \$400k, it dropped 8%.

Data source: Realcomp MLS using Great Lakes Repository Data. Percent changes are compared to the same period last year (Year-Over-Year)



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Ann Arbor

Single Family Homes

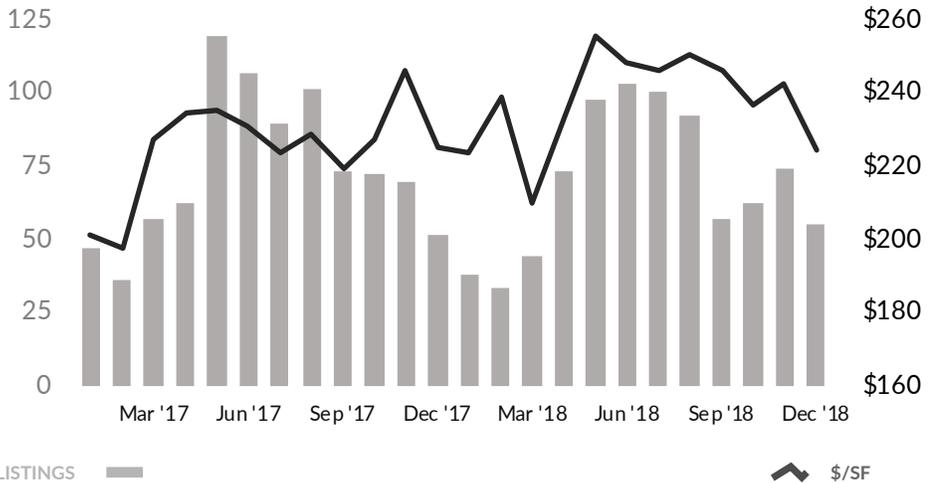
Closed Sales

828
2018 CLOSED SALES
-6% from last year

\$422K
2018 AVG SALE PRICE
+5% from last year

\$241
2018 PRICE PER SQ FT
+6% from last year

\$350M
2018 DOLLAR VOLUME
-1% from last year



Price Range	Field	Q1	Q2	Q3	Q4	Total
All	Units	115	273	249	191	828
		-18%	-5%	-5%	-1%	-6%
	\$/SF	\$223	\$247	\$247	\$235	\$241
		6%	6%	10%	1%	6%
\$10-100k	Avg Sale Price	\$389K	\$430K	\$441K	\$406K	\$422K
		2%	4%	9%	4%	5%
	Units	12	8	8	14	42
		-14%	-38%	-50%	-26%	-32%
\$100-200k	\$/SF	\$164	\$156	\$161	\$156	\$159
		15%	10%	0%	1%	6%
	Units	58	143	123	99	423
		-31%	-12%	-18%	-6%	-16%
\$200-400k	\$/SF	\$215	\$233	\$227	\$224	\$227
		11%	4%	9%	9%	8%
	Units	40	104	99	67	310
		18%	8%	18%	16%	14%
\$400k+	\$/SF	\$229	\$250	\$255	\$235	\$245
		0%	5%	10%	-10%	3%
	Units	5	18	19	11	53
		-38%	20%	46%	10%	15%
\$400k+	\$/SF	\$263	\$291	\$288	\$303	\$290
		-2%	2%	-1%	1%	1%

Summary

Ann Arbor inventory has been rising compared to previous years— heading into 2019, it was 88% higher than a year ago. Despite the additional inventory, sales in the entry and mid-level price ranges below \$200k fell by 99 units while the number of over \$200k sales rose by 45. The additional higher-end sales lifted the average sale price by 5%, even though higher-end values have been leveling off. Price per square foot of sales over \$400k rose by only 1% in 2018. Although there will continue to be more upper-end sales, expect values of those properties to be flat.

Data source: Realcomp MLS using Great Lakes Repository Data. Percent changes are compared to the same period last year (Year-Over-Year)



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Ann Arbor

Condo/Loft

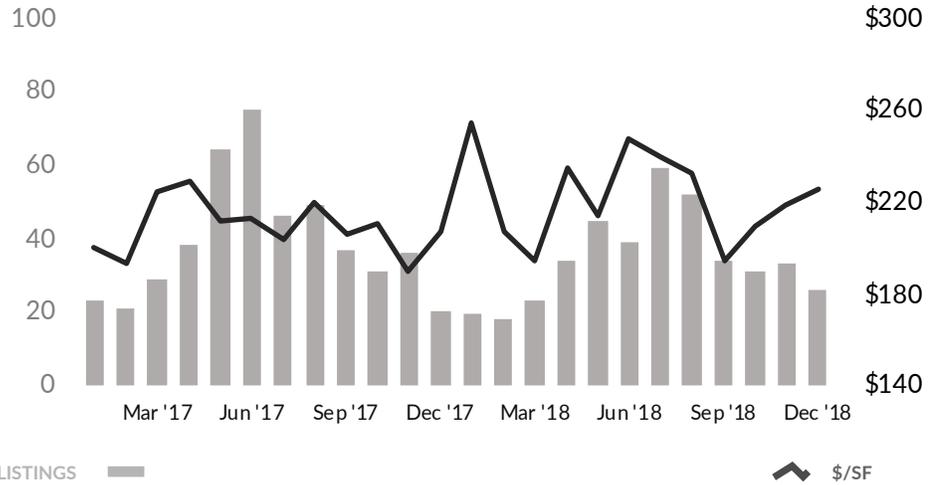
Closed Sales

413
2018 CLOSED SALES
-12% from last year

\$296K
2018 AVG SALE PRICE
+14% from last year

\$224
2018 PRICE PER SQ FT
+7% from last year

\$122M
2018 DOLLAR VOLUME
+3% from last year



Price Range	Field	Q1	Q2	Q3	Q4	Total
All	Units	60	118	145	90	413
		-18%	-33%	10%	3%	-12%
	\$/SF	\$216	\$230	\$227	\$218	\$224
		4%	7%	8%	9%	7%
\$10-100k	Avg Sale Price	\$284K	\$280K	\$317K	\$291K	\$296K
		5%	12%	20%	12%	14%
	Units	12	25	18	13	68
		-20%	-29%	-22%	-28%	-25%
\$100-200k	\$/SF	\$130	\$162	\$163	\$147	\$153
		7%	1%	19%	14%	9%
	Units	16	27	31	23	97
		-36%	-55%	-33%	-23%	-40%
\$200-400k	\$/SF	\$183	\$191	\$186	\$183	\$186
		4%	8%	4%	9%	6%
	Units	20	51	69	40	180
		-23%	-19%	57%	43%	12%
\$400k+	\$/SF	\$190	\$207	\$195	\$205	\$200
		1%	3%	7%	4%	4%
	Units	12	15	27	14	68
		71%	-21%	42%	27%	21%
\$400k+	\$/SF	\$318	\$386	\$345	\$302	\$339
		-27%	-6%	-6%	-2%	-9%

Summary

Despite rapidly growing inventory levels, which doubled in the past year, 2018 closed sales fell 12%. Heading into 2019, there were 48 available newly developed listings with 2018 or 2019 build dates. Those new units tend to be higher-end with an average list price of \$652k and a \$350 average price per square foot. A year ago, there were 27 available units priced over \$400k. This year, there are 65. That heavy influx of high-end units may be more than the market can absorb. As a result, price per square foot for 2018 sale priced over \$400k dropped by 9%.

Data source: Realtor.com MLS using Great Lakes Repository Data. Percent changes are compared to the same period last year (Year-Over-Year)

