Here's how predicting housing cycles improves mortgage lending

A new service provided to LendingLife

Eric Fox | As published on HousingWire's REwired Blog | March 29, 2018

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If your favorite weather forecaster warns that a storm is coming, you can be fairly sure you're going to get wet. Only a few decades ago, such confidence was impossible. But, thanks to technology, the Internet, and a deeper understanding of our climate, we take it for granted today.

Although Property Value Forecasts are unlikely to have dedicated reports on the evening news, gauging which way the housing winds are blowing is of daily concern to lenders and stakeholders in U.S. financial services. For that reason, HousingWire invited my firm, **Veros Real Estate Solutions**, to provide a weekly column that looks out at various time horizons to check the ebb and flow of housing valuations.

For lenders, having reliable data-driven predictions is essential for a range of decisioning: determining reliable loan-to-value (LTV) thresholds; examining risk at origination; understanding at-risk portions of a portfolio for acquisition or loss-mitigation purposes; improving servicing strategies in situations of default, REO or short sale; and understanding and identifying suitable loan modification options to avoid additional risk for troubled homeowners.

For the past decade and a half, Veros has been refining the tools and methodologies that it uses to drive the forecasting data in its proprietary VeroFORECAST platform. VeroFORECAST uses more than 50 macro- and micro-level "key predictor variables" to realistically forecast residential home prices and market stability, up to 24 months into the future, for use in a majority of U.S. zip codes. A few of the more significant and dependable predicators include the rate of population growth, the current unemployment rate, and housing supply. The system analyzes single-family residence and condominium/townhouse property data, in three price tiers, across all the key predictors.

PROJECTING TOP APPRECIATING MARKETS

Once again, the U.S. market projected to appreciate at the highest rate is the Washington State MSA of Seattle, Tacoma and Bellevue. Its predicted appreciation rate of 11.1% is a full 1% higher than that of the second-highest ranking MSA in the VeroFORECAST, which is neighboring Bellingham with a predicted real estate appreciation rate of 10.1%.

The phenomenon of Washington State's appeal goes back decades, but a look at housing supply shows that a big change came in 2012. That year, against a national average housing supply between ten and 13 months, Seattle was below six months. By 2013 it had been cut in half and our current data is based on inventory of less than one month.

Economist Matthew Gardner with Seattle-based **Windermere Real Estate** said he is not surprised that our VeroFORECAST ranks four Washington State markets among the five fastest appreciating in America.

"Seattle, in particular," he told Veros, "continues to be a popular choice for residents coming from more expensive markets in California. In Seattle and the other Washington State metro areas that made this list, the supply of new construction homes is very limited, which puts additional pressure on existing home prices."

The other two Washington State markets in the top five are number three Kennewick-Pasco-Richland with a projected appreciation rate of 10% and Mount Vernon-Anacortes at 9.9%. Only Colorado's Denver-Aurora-Broomfield MSA, at number four, with an anticipated real estate appreciation of 9.9%, is a Top Five market outside Washington State. Another Evergreen State MSA made the Top Ten. With a predicted appreciation rate of 9.5%, Bremerton-Silverdale, Washington, is number 7.

Rounding out the ten MSAs with the highest projected property value appreciation are number six, Vallejo-Fairfield, California with 9.4%; Eugene-Springfield, Oregon, at number 9 with a forecasted 9.1%; and Reno-Sparks, Nevada, with 9.0%.

Source Coverage:

HousingWire Rewired: Here's how predicting housing cycles improves mortgage lending

VeroFORECAST Report: VeroFORECAST Predicts Continuing Strength in Housing Market With Top Markets Rising 10 Percent Over The Next 12 Months