

# How Changes in the Housing Market Can Affect Retirement Savings.

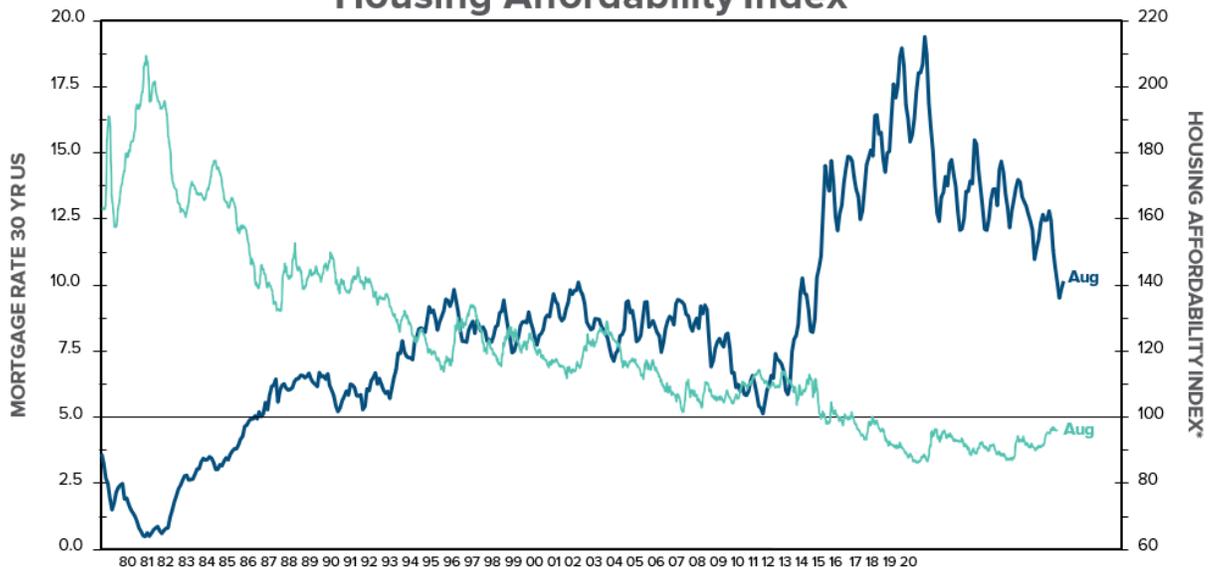
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According to the Federal Reserve, household net worth, or the value of all assets less liabilities, rose by nearly \$2.2 trillion in the second quarter to a record \$106.9 trillion. In many cases, a large percentage of this increase in net worth has been driven by home ownership and rising real estate prices. However, most recently the housing market, which has been an important contributor to economic growth, has shown signs of slowing down. This slowdown has been largely attributed to the decreasing affordability of new homes. New home purchasers are struggling as mortgage rates have increased, and construction costs are putting upward pressure on home prices across the country.

International tariffs have begun to impact most U.S. markets, including real estate. Recently a 20% tariff on Canadian lumber, imposed this past January, as well as other supply issues have driven up prices. Canada has historically been the largest lumber supplier to the U.S. and the additional cost of the tariff is estimated to add \$9,000 to a new single-family home. The inflated cost of materials is limiting the amount of new housing construction projects. This in turn creates a greater demand for existing homes on the market, further driving up prices. We're already beginning to see the impact of these tariffs, as in the second quarter the national median home price jumped from \$252,000 to \$265,000.

## 30 Year Mortgage Rates Vs. Housing Affordability Index



\* Index=100 when median family income qualifies for an 80% mortgage on a median priced existing single-family home. Rising Index indicates more buyers can afford to enter market.

Source: National Association of Realtors.  
Source: Federal Reserve Bank of St. Louis

Mortgage rates are also increasing. A year ago the average rate for a 30-year fixed rate mortgage was below 4% but is now close to 5%. The National Association of Realtors provides an index called the Housing Affordability

Index, which measures whether the typical family earns enough income to qualify for a mortgage on national and regional levels. This index is currently at a 10-year low and the National Association of Home Builders estimates that only 57% of homes available in the second quarter of 2018 were affordable to families earning the median income of \$71,900.

The recent tax bill reduced incentives for homeownership, with limitations on the deductibility of State and local taxes and mortgage interest. The Tax Cuts and Jobs Act of 2017 lowered the maximum mortgage amount that qualifies for interest deductions to \$750,000 from \$1 million. It also capped deductions for state and local taxes at \$10,000. This has negatively affected homeowners in high-tax areas. Potential home owners are evaluating the cost of ownership versus the cost of renting. Freddie Mac data indicates that for the majority renting is more affordable than owning.

Millennial homeownership is currently at a record low. Even in cases where income is enough to cover mortgage, taxes and insurance, the obstacle is the down payment. According to the Federal Reserve, student loan debt reached \$1.5 trillion in the first quarter of 2018, compared to \$600 billion ten years ago. This is a demographic (ages 25–34) which may be looking at renting versus buying a first home. As a potential first-time home owner this age group has been an important source of demand for the housing market.

With the issues currently facing the housing market, expectations of one's home being a nice nest egg upon retirement may not come to fruition. It should remind investors of the importance of saving for retirement and examining if one's current contribution rate to their retirement plan is enough to sustain a comfortable retirement.

Sources:

Source: U.S. Bureau of Economic Analysis

Source: CNBC Realty Check Diana Olick

Source: National Association of Realty

Source: Federal Reserve Bank of Saint Louis

Source: Green Street Advisors US Housing Dynamics October 2018

Source: <https://www.businessinsider.com/millennial-homeownership-lower-2017-6>

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