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RE34RC03: National Economic Trends and the Real Estate Professional



- I. Importance of National Economic Trends for the Real Estate Professional
 - A. National Economic Trends (i.e. interest rates, price appreciation, housing affordability etc.) impact individual consumer's ability to purchase a home and the Real Estate Professional's ability to address a consumer's homebuying needs (see The State of the Nation's Housing)
 - B. Trends in home prices are a key component of a real estate appraiser's value conclusion (see The Appraisal of Real Estate – American Institute of Real Estate Appraisers 12th Edition – Chapter 3 "Foundations of Appraisal", Chapter 6 "Money Markets and Capital Markets" and Chapter 7 "Data Collection")
 - a. National housing trends impact the supply and demand for housing and the resulting prices a consumer will pay for individual transactions
 - C. Municipal tax rates and property assessments are directly impacted by national real estate trends' impact on property values (See Property Assessment Valuation – International Association of Assessing Officers Chapter 4 "General Data -Trends Affecting Property Value and International, National and Regional Data")
- II. Housing and the Economy
 - A. Understanding the role of housing and consumer trends is critical to meeting homebuyer needs, interacting with appraisers and understanding the forces that impact municipal tax rates and assessments
 - a. Housing's contribution to the national economy (See State of Nation's Housing)
 - b. Home price appreciation trends (See Office of Federal Housing Enterprise Oversight Price Appreciation Index <http://www.ofheo.gov/HPI.asp>)
 1. Impact on appraisals and property assessments
 2. Impact on national and Massachusetts' economy
 - c. Impact of mortgage rates on the economy (see The Appraisal of Real Estate – American Institute of Real Estate Appraisers 12th Edition – Chapter 6 "Money Markets and Capital Markets")
 1. Stable and declining rates positively impact property values
 2. Volatile and/or increasing rates negatively impact property values
 - d. Strong new and existing home sales are indicative of a strong real estate market (See National Association of Realtors Existing Home Sales Data and Housing Affordability Index <http://www.realtor.org/rodesign.nsf/pages/researchctr>)
 - e. National Homeownership Rate is a key indicator of the strength of the housing sector (see US Census Information on homeownership rates (<http://www.census.gov/hhes/www/hvs.html>))
 1. All income levels benefit
 2. Increasing home ownership levels increase amount of low and moderate income consumers' ability to purchase homes
 3. Factors effecting the national homeownership rate:
 - Mortgage interest rates
 - Unemployment rate
 - Job Growth
 - Home price appreciation
- III. Housing Demographics (See State of Nation's Housing)
 - A. Household growth is the increase of the number of individuals, groups of individuals or families seeking to purchase or rent a home.
 - a. Household growth is the primary driver of housing demand
 - B. Currently the key drivers of household growth are minorities, aged and older singles and empty nesters
 - C. Minorities are forecasted to add 7.5 million households between 2000 and 2010 and another 7.8 million households between 2010 and 2020.
 - a. Minority share of US households are expected to grow steadily from the current 25% to 33% of US households over the next 20 years.
 - b. Example: Hispanics comprise nearly half of the 25.3 million immigrants arriving in the US since 1980. Hispanics will be a key driver of household growth in the next twenty years.
 - c. Example: During the 1990's Hispanic households grew by 58%.
 - D. Family composition will impact household growth through declining household size.
 - a. The number of people living alone is expected to rise by nearly 5 million from 2000-10. Number of elderly empty nesters, divorce rates and declining remarriage rates are key drivers of this growth.
 - E. The demographic outlook for the next decade.
 - a. The ability of minority households to access the homeownership markets will be critical to the strength of national and Massachusetts' housing markets over the next decade.
 - b. Positive household growth trends should support stronger new home construction, demand for second homes than the 16.6 million units built and manufactured during the decade of the 1990's.
- IV. Conclusion
 - A. Interdependence is the key to the factors that impact the housing role in the economy
 - B. House price appreciation is driven by the following factors
 - a. Interest rates
 - b. Household growth
 - c. New home construction
 - d. Existing home sales
 - e. Job Growth
 - C. All the above factors impact prices consumers can pay for housing and the resulting values that are key to property appraisals and municipal tax assessments

Recommended Course Materials:

- The State of the Nation's Housing (available at www.jchs.harvard.edu)
- US Census Information on homeownership rates (<http://www.census.gov/hhes/www/hvs.html>)
- The Appraisal of Real Estate – American Institute of Real Estate Appraisers 12th Edition – Chapter 3 "Foundations of Appraisal", Chapter 6 "Money Markets and Capital Markets and Chapter 7 Data Collection"
- Property Assessment Valuation – International Association of Assessing Officers Chapter 4 "General Data -Trends Affecting Property Value and International, National and Regional Data"
- Office of Federal Housing Enterprise Oversight Price Appreciation Index (<http://www.ofheo.gov/HPI.asp>)
- National Association of Realtors Existing Home Sales Data and Housing Affordability Index (<http://www.realtor.org/rodesign.nsf/pages/researchctr>)