



Home Sales Continue to Decline Amidst Lean Inventories, Rising Prices and Higher Rates

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Existing Home Sales Decline Modestly in August

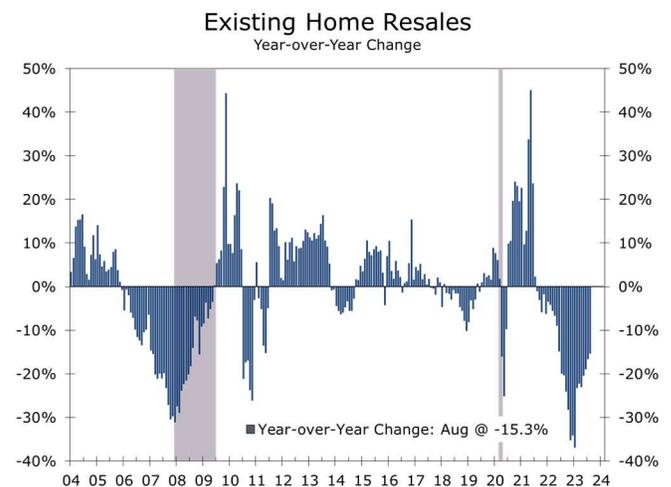
- ▲ Existing home sales fell 0.7% in August to a 4.04 million-unit pace.
- ▲ Sales of single-family homes fell 1.4% to a 3.6-million-unit pace, while sales of condos and co-ops rose 4.8% to a 440,000-unit pace.
- ▲ Overall sales fell 2.6% in the West and 1.1% in the South but rose 1.0% in the Midwest and were unchanged in the Northeast.
- ▲ Inventories of existing homes remain tight, with just 1.11 million homes for sale at the end of August, which is unchanged from July.
- ▲ The median price of an existing home rose to \$407,100 in August and is up 3.9% from last August. The median price for a single family home rose to \$413,500, up 3.7% year-to-year. The median price for condos/co-ops rose 6.2% over the past year to \$354,600.
- ▲ Affordability hurdles are likely pushing more buyers into condominium and co-ops.
- ▲ *Existing home sales continue to trend lower, as buyers continue to bid up prices amidst exceptionally low for-sale inventory. Sales closed in August were put under contract in June and July, when mortgage rates were a quarter percentage point lower than today.*

Existing home sales continued to trend lower in August, with overall sales declining 0.7% to a 4.04 million unit pace. Sales have fallen 15.3% over the past year and have declined year-to-year for the past 25 months. Overall sales are down a cumulative 38.4% since peaking in January 2021.

The slide will likely continue. Existing sales track closings, which were likely put under contract in June and July, when mortgage rates were about half a percentage point lower than their current 7.19%. There were some faint hopes that sales would level off or even edge higher in August because pending home sales, which track purchase contracts, rose modestly in July. Buyers are facing affordability hurdles, however, and higher mortgage rates may have upended some of those purchase contracts.

A record low share of consumers feel that now is a good time to buy a home.

The housing market is in an odd place today. Ordinarily a 38% drop in sales would lead to a moderation in prices, and that appeared to be the case last year, with the price of a median home falling around 13% from June 2022 until January of this year. The number of homes for sale fell even more than sales have, however, which means there is more competition for the paltry number of homes available for sale. Prices have since surged back near their previous high.



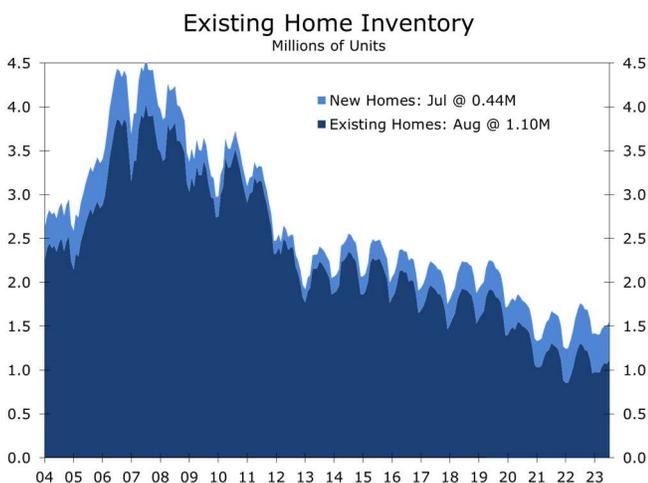
Source: National Association of Realtors



The persistent imbalance between the supply and demand improved modestly in August. Sales of existing homes have fallen 15.3% over the past year, while the inventory of existing homes available for sales has fallen 14.1%. At the current sales pace, the 1.1 million existing homes available for sale equates to a 3.3 month supply, which is the same as it was in July but up from 3.2 months a year ago. A normal supply of would be around 4.5 to 5 months, a level that has not been maintained consistently in more than 7 years.

Existing home inventories would have to essentially double in order to moderate home price gains. Doubling for-sale inventory will be tough, however. Nearly 80% of homeowners with a mortgage currently have a rate of 5% or less, 60% have a rate of 4% or less, and just over 37% have a mortgage rate of 3% or less. Few of these homeowners have any incentive to sell their homes today, as they would be giving up their ultra-low rate mortgage, which has insulated them from soaring housing costs.

The National Association of Realtors also took note of the nascent stabilization in existing home sales. Existing home sales have fallen in 17 of the past 19 months. The only significant increase was in February, when a temporary pullback in mortgage rates to 6% enabled buyers to rush back in and complete sales that had fallen through when rates spiked late last year.

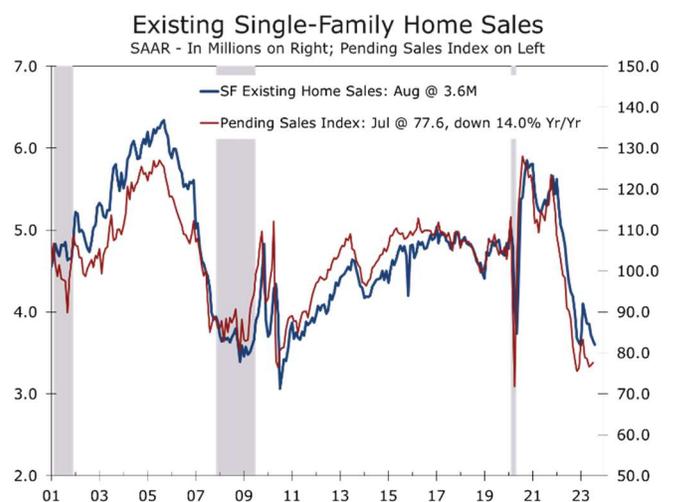


Source: National Association of Realtors

Sales have shown signs of stabilizing in recent months. Pending home sales rose 0.9% in July following a 0.4% rise in June. Those gains raised hopes existing home sales would perk up in August and September. The lag between purchase contracts and closings is typically around 6 weeks. This past month's drop in existing home sales was the smallest of any of the 17 declines since the persistent slide in existing home sales began back in February 2022.

Unfortunately, purchasing a home likely became tougher in September. Mortgage rates have spiked in recent weeks and are currently about a quarter point higher than they were in mid-August and rates appear headed even higher in the aftermath of yesterday's FOMC meeting. Mortgage applications for the purchase of a home have been trending lower.

The combination of rising interest rates and higher home prices has pulled affordability to its lowest level in decades. A family earning the median income, that purchase the median priced home with a 20% down payment, must devote a record 28.5% of their gross income to interest and principal payments. When you add in taxes and insurance, which have also spiked, home sales still look like they are headed a bit lower.



Sources: National Association of Realtors

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