

MID-YEAR MARKET UPDATE
JUNE 2024

The State of the Housing Market

exp[®]
REALTY

TABLE OF **CONTENTS**

- 3** Introduction
- 4** Mortgage Rates Remain High - And Will Likely Stay High Through 2024
- 5** Pending Sales Have Flattened in Recent Weeks
- 6** April Is the 32nd Consecutive Month With Fewer Sales Than the Prior Year
- 7** Inventory up 39% Year-Over-Year, Still Down by Almost 40% From 2019
- 8** New Listings up 10% From Last Year, but Trending Negative
- 9** Supply / Demand Imbalance Causes Home Prices To Rise
- 10** Prices Aren't Rising Everywhere
- 11** Demographics Will Continue To Drive Demand
- 12** New Home Sales Account for 13% of the Market
- 13** More New Home Inventory Is on Its Way
- 14** What's the Outlook for the Rest of 2024?

INTRODUCTION

Let's take a midyear look at the U.S. housing market, and some of the factors driving current trends. First, we'll review existing and new home sales and prices, then at available inventory of homes for sale, housing starts and permits and finally what seems most likely to happen over the second half of the year.

2023 was a difficult year for home sales, particularly existing home sales, which totaled approximately 4 million units and was the lowest number of homes sold in the last 25 years.

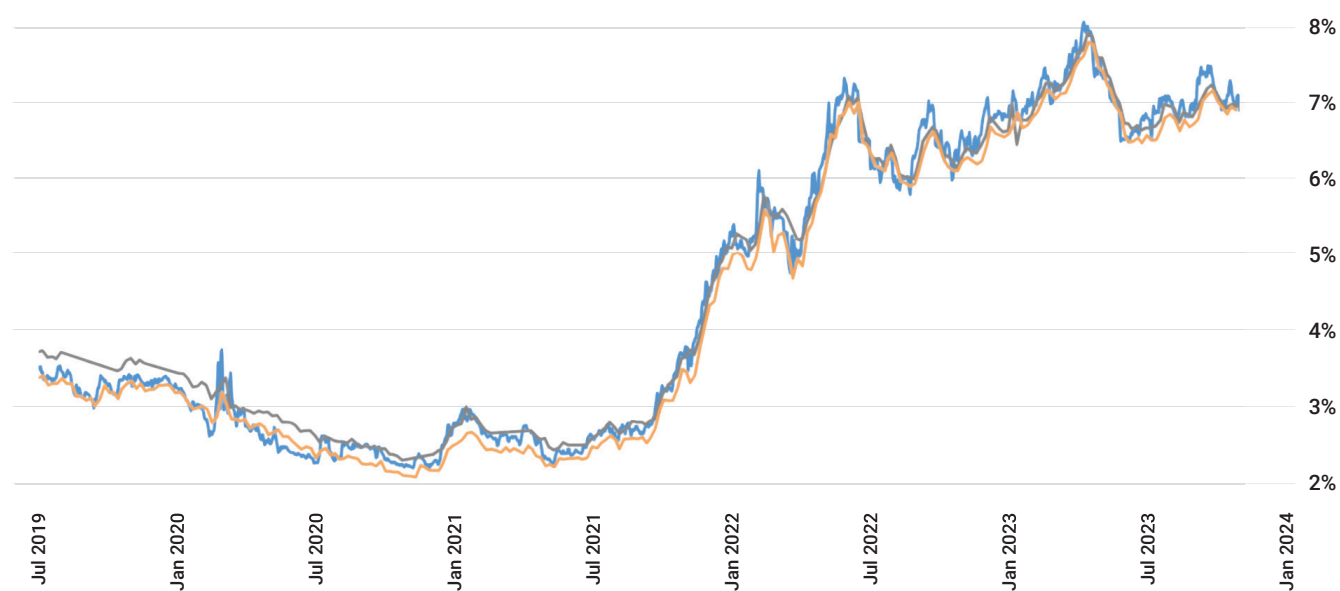
Home prices, on the other hand, increased by almost 6% last year. That increase, coupled with stubbornly high mortgage rates, made affordability a challenge for many interested homebuyers last year, and it seems like we're seeing more of the same in 2024. But let's take a look at the underlying data, and glean insights that might give us an advantage over our competition in the months ahead.

Mortgage Rates Remain High- **And Will Likely Stay High** Through 2024

- ✎ Mortgage rates have stayed between 7.0% and 7.5% since the year's start, contrary to predictions of a gradual decline. This stability is due to the Federal Reserve's policies. With inflation not yet at the Fed's 2% target, **strong wage growth, job creation, and faster-than-expected economic growth, the Fed has adopted a "higher for longer" stance on the Fed Funds Rate.**
- ✎ They plan only one rate cut, likely in December. As a result, mortgage rates are expected to **stay around 7% until 2025**, rather than dropping below 6% as initially forecasted.

BOTTOM LINE

Mortgage rates are likely to stay at or above 7% until the Federal Reserve cuts the Fed Funds Rate, making homeownership less affordable for many prospective buyers.



June 12, 2019 – June 12, 2024

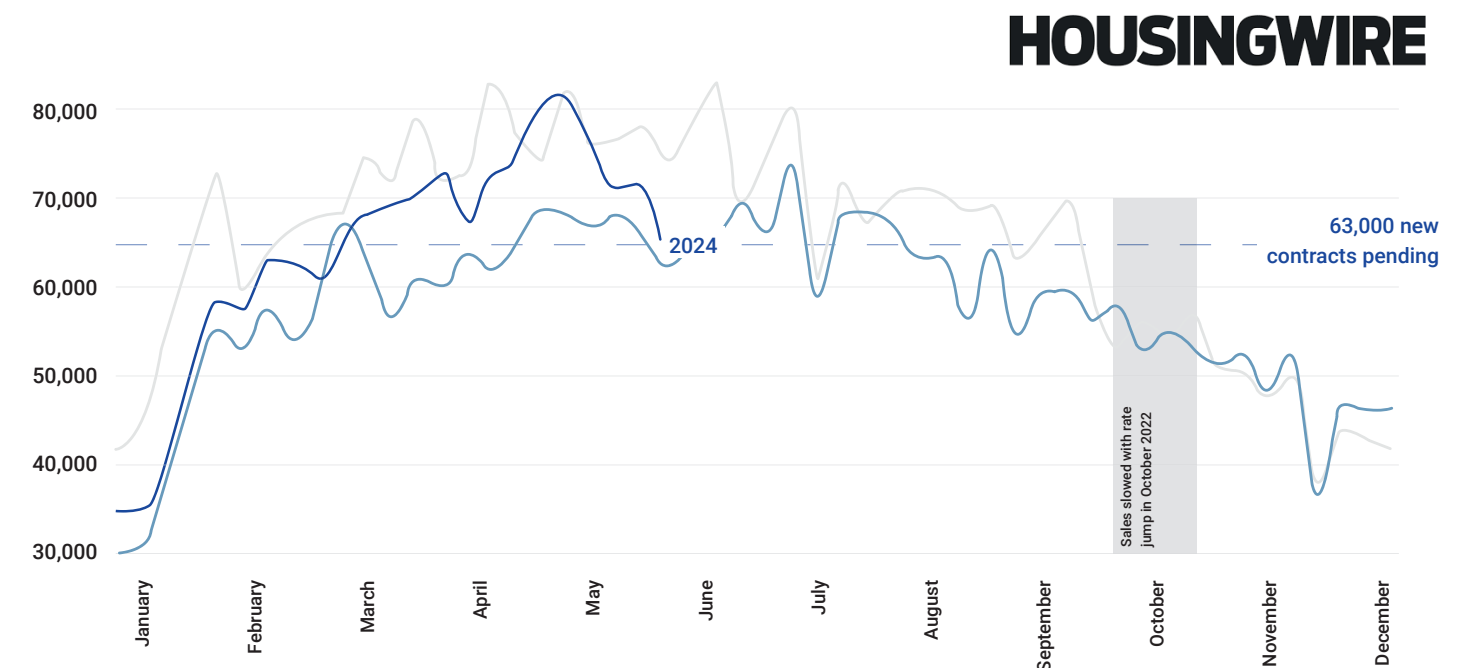
Source: CoreLogic public records

Pending Sales Have **Flattened** in Recent Weeks

- ✎ **Pending sales, typically a good predictor of future home sales,** were outperforming 2023 numbers in early 2024. However, due to rising mortgage rates, June's pending sales have declined and are now only up 1% from last year.
- ✎ This decline, which is unusual during the spring and summer seasons, may be an indication that sales may continue to be weaker-than-usual through what is normally the most active selling period of the year.

BOTTOM LINE

Today's home selling environment is very rate-sensitive; sales will likely stay sluggish until mortgage rates decline modestly.



Weekly New Contracts Pending (U.S. Single Family)

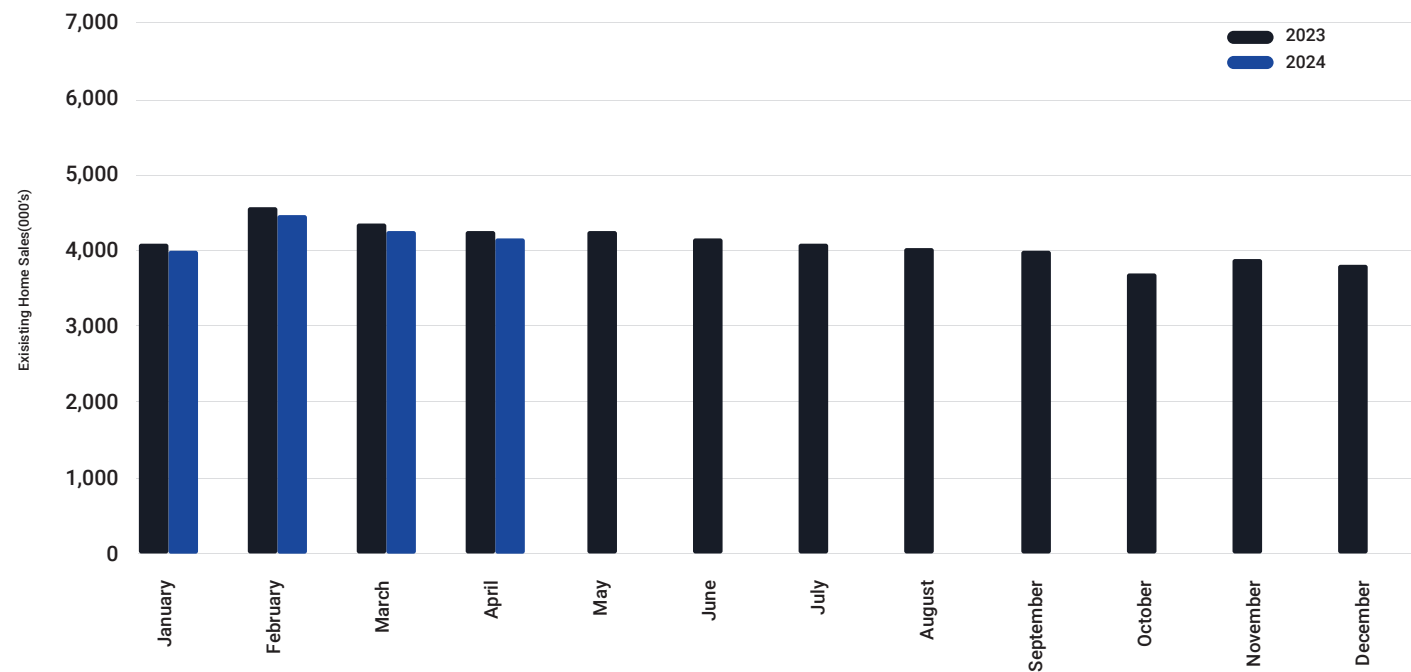
Source: Altos Research

April Is the 32nd Consecutive Month With Fewer Sales Than the Prior Year

- April marked the 32nd consecutive month of declining existing home sales compared to the previous year. This year continues an unusual trend of month-over-month sales declines during spring and summer, typically periods of increased sales.
- Contrary to forecasts predicting a rebound in 2024, home sales have been weaker every month so far. The main reasons are affordability, at its worst in 50 years, and limited inventory.

BOTTOM LINE

Existing home sales are projected to be lower than in 2023, which was the lowest in 25 years. If your sales match or exceed 2023 levels, you're outperforming most competitors.



Existing Home Sales – 2023 & 2024, SAAR (000s)

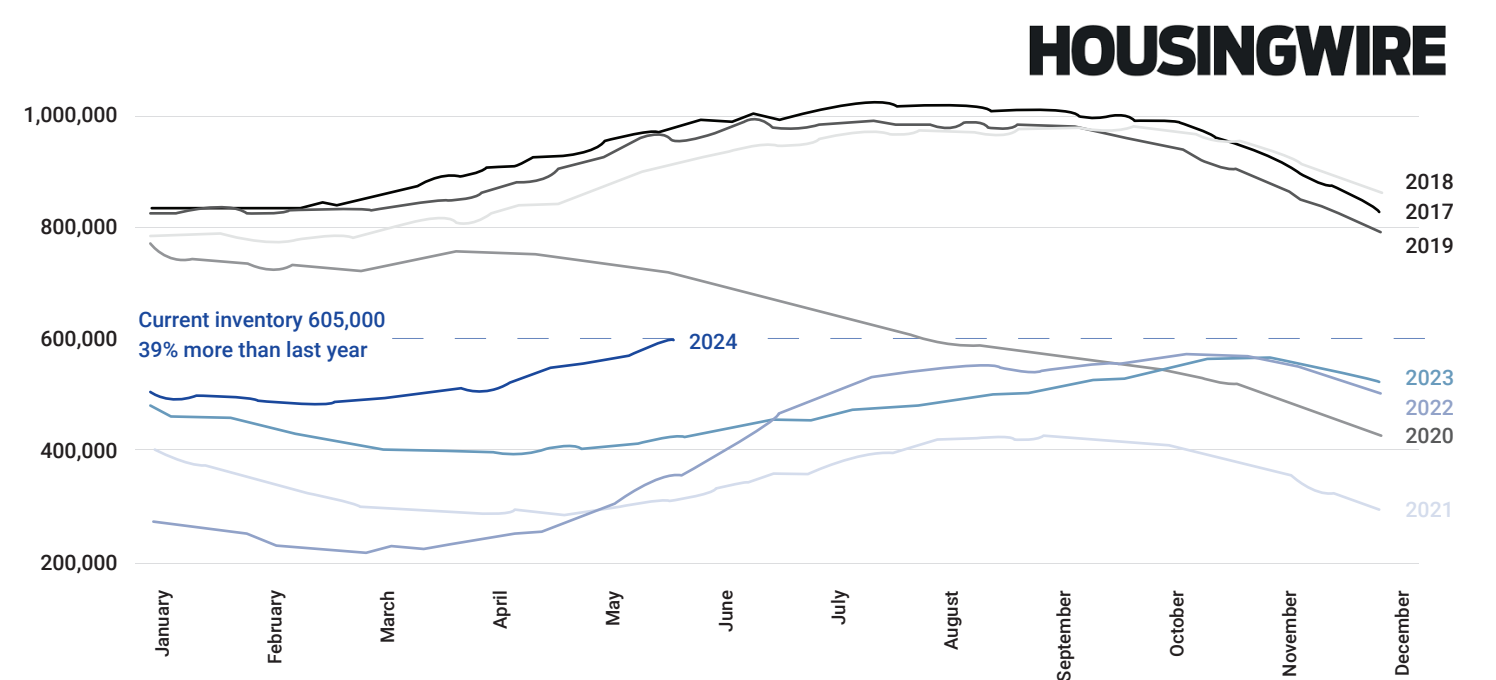
Source: CalculatedRiskBlog.com

Inventory up 39% Year-Over-Year, Still Down by Almost 40% From 2019

- The other major challenge for home sales is the lack of inventory. Mid-June saw over 605,000 units available, representing only a 3-month supply, compared to the normal 6-month supply and just over half of June 2019 levels. Rising prices and high interest rates have weakened both demand and supply.
- About 90% of homeowners have a mortgage rate of 6% or less, and 67% have a rate of 4% or less, making it financially unfeasible for most to sell their home and buy another at higher rates.

BOTTOM LINE

Mortgage rates need to drop to the low-to-mid 5% range for most homeowners to afford selling and buying new homes. This will keep existing home inventory tight until at least 2025.



Weekly New Contracts Pending (U.S. Single Family)

Source: Altos Research

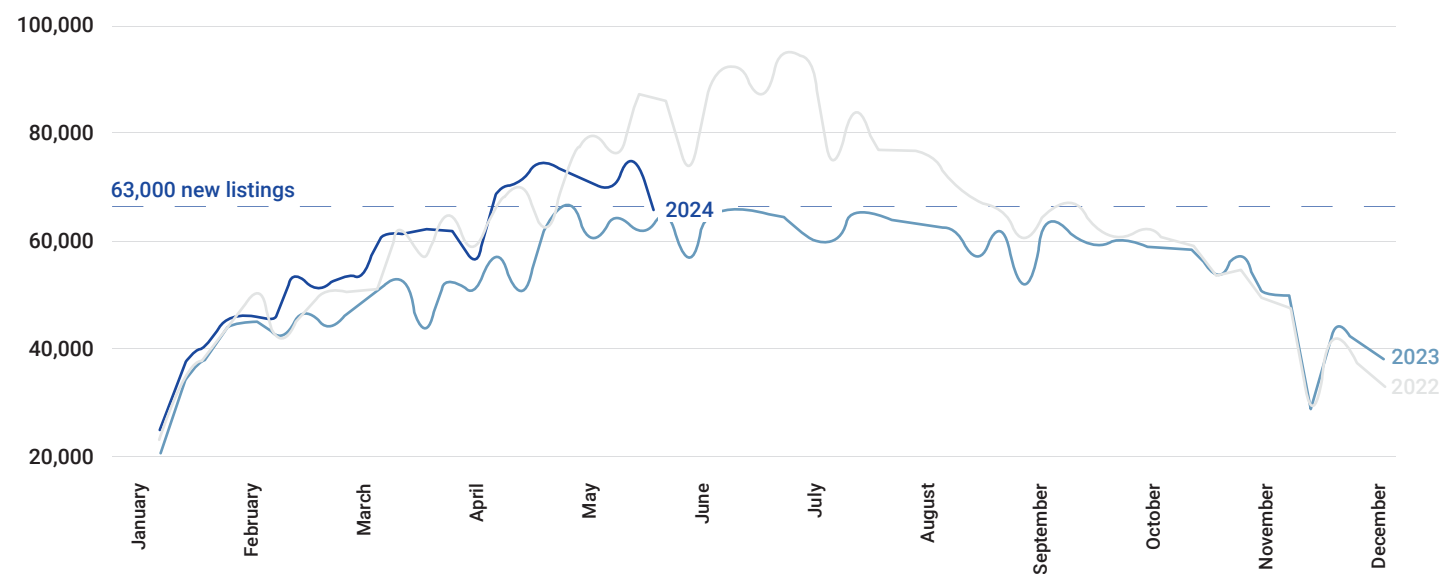
New Listings up 10% from Last Year, but Trending Negative

- New listings in 2024 had been exceeding 2023 numbers until recently, when they dropped, suggesting potential sellers are holding off. Last year, listings leveled off around this time and stayed at or below June levels through the summer before declining seasonally.
- Although inventory is up 39% year-over-year, new listings are only up 10%, indicating properties are taking longer to sell. Inventory growth is due to a slight increase in listings, weaker demand, and longer sales cycles.

BOTTOM LINE

The inventory of existing homes for sale in 2024 will be higher than in 2023 but won't return to pre-pandemic levels, as homeowners with low mortgage rates have little incentive to list their properties.

HOUSINGWIRE



Weekly New Listings (Unsold)
U.S. Single Family 2018-2024

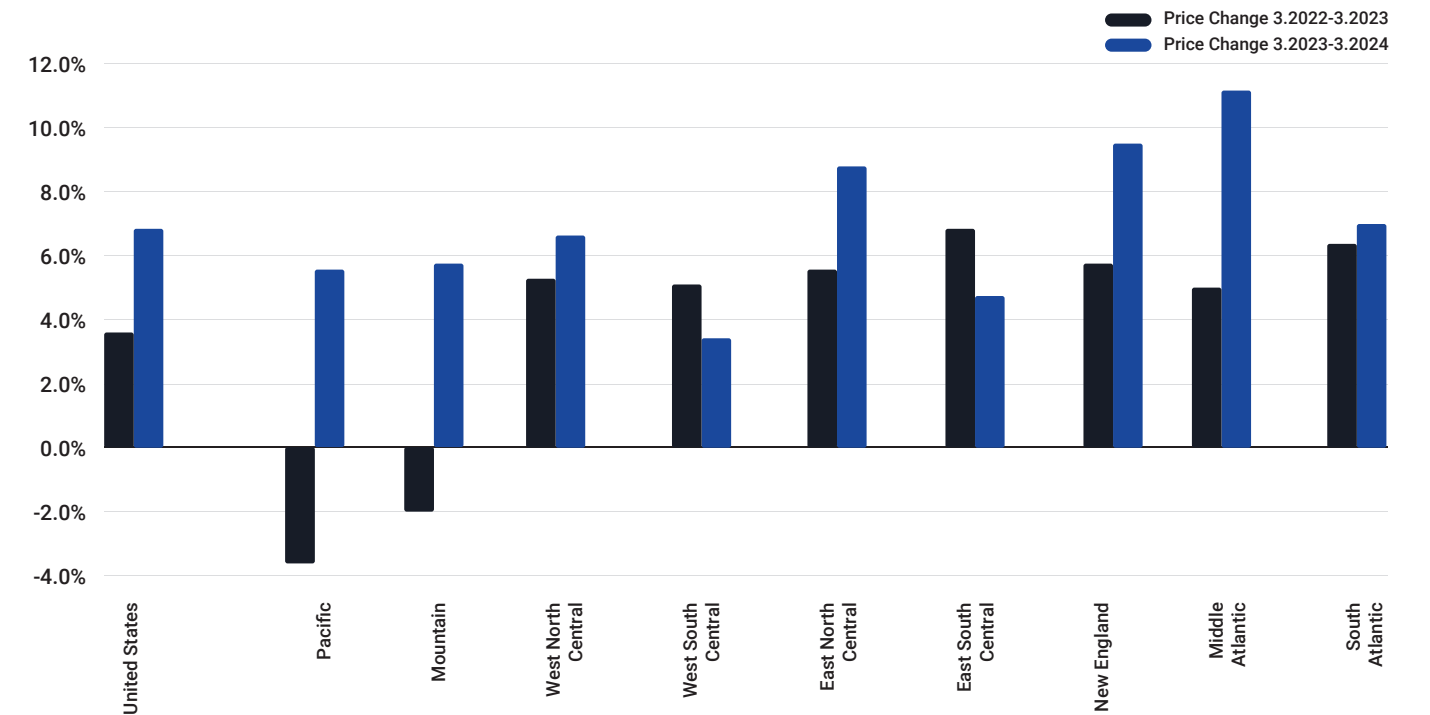
Source: Altos Research

Supply/Demand Imbalance Causes Home Prices To Rise

- Demand has softened due to affordability issues, but supply has declined even more, causing home prices to rise nationwide. The Federal Housing Finance Agency (FHFA) reports a 6.7% increase in home prices from Q1 2023 to Q1 2024, with similar increases of 5-7% from other indices.
- Prices are rising fastest in the Northeast, where inventory is lowest, and have rebounded in the Pacific and Mountain regions.

BOTTOM LINE

The imbalance between demand and supply is driving up home prices, making a market crash in pricing unlikely for the foreseeable future.



Twelve-Month House Price Changes -
Prior Year vs. Most Recent Year
Purchas-Only FHFA HPI® (Seasonally Adjusted, Nominal)

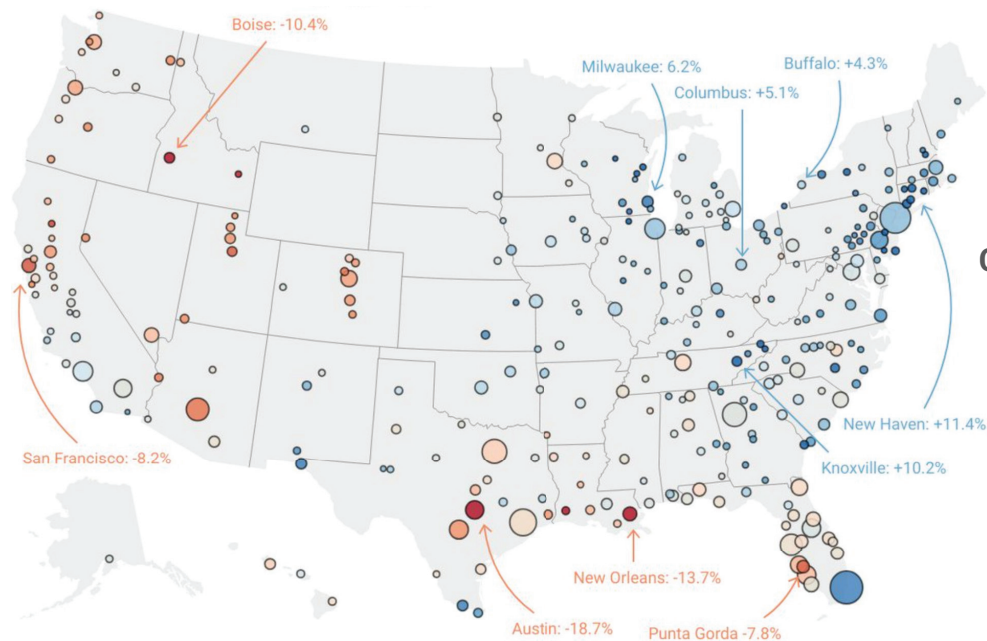
Source: FHFA

Prices Aren't Rising **Everywhere**

- It's crucial to understand local market price trends, as they can vary widely. Austin, Boise, and New Orleans have seen double-digit declines from their 2022 peaks, while San Francisco is down over 8%.
- In contrast, prices in San Diego and Orange County have risen. Florida shows both large gains and losses, while Texas, California, and Florida have significant inventory increases impacting prices.
- Nationally, 35.1% of homes on the market have had price cuts, above the historical average of 30-33%, indicating buyers may be reaching a price ceiling.

BOTTOM LINE

While prices are rising nationally, each market is unique, and there are signs that price increases may be slowing down or even reversing course in some cases.



Change in metro-level home prices since each metro's respective peak in 2022
U.S. Single Family 2018-2024

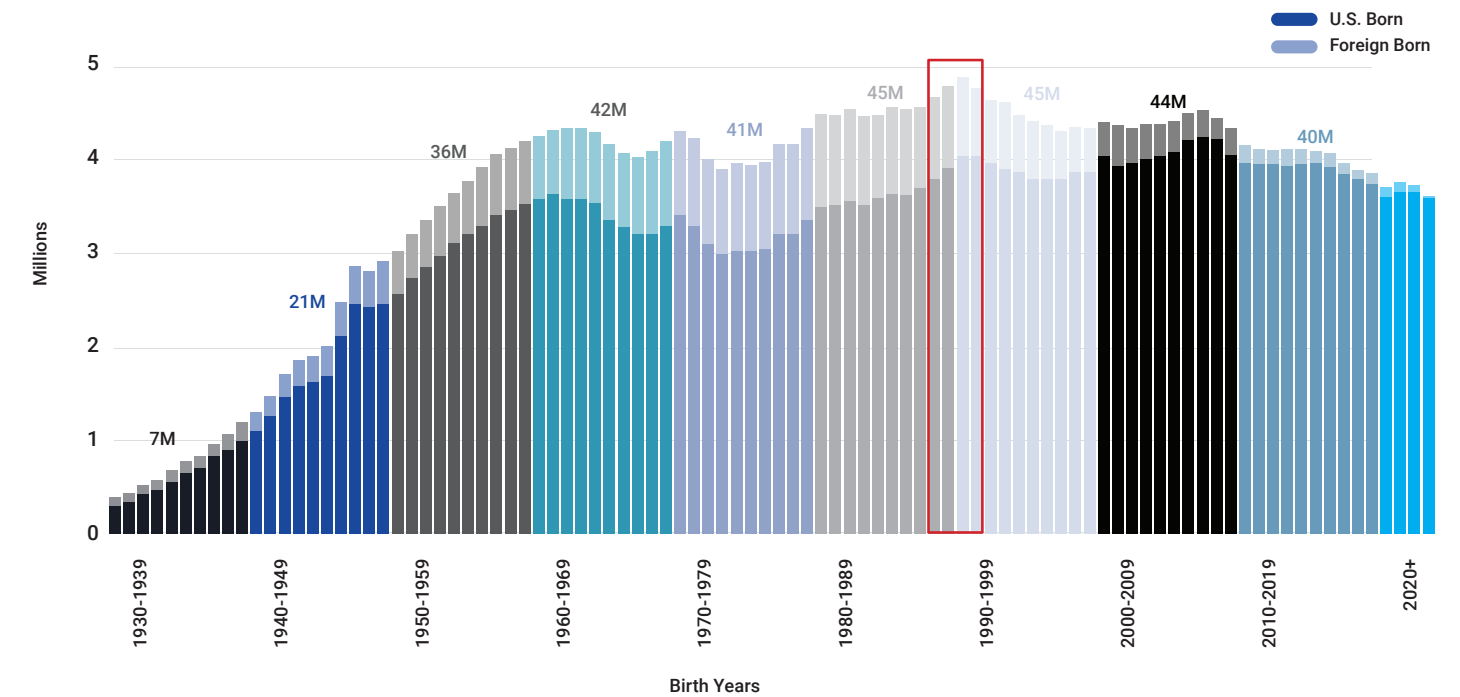
Source: Pulled from the Lance Lambert Inventory Tracker

Demographics Will Continue To **Drive Demand**

- Despite current market challenges, the long-term outlook for home sales is strong due to demographics. The number of young adults aged 25-34, prime for household formation and first-time homebuying, is at a historic high and will peak in a year or two.
- While many will rent temporarily due to affordability concerns, most in this age group aspire to homeownership. As market conditions improve, a ready cohort of buyers is expected to enter the market.

BOTTOM LINE

Long-term prospects for home sales are very strong, driven by a large cohort of young adults with aspirations of homeownership.



2023 U.S. Population by Year Born (Millions)
U.S. Single Family 2018-2024

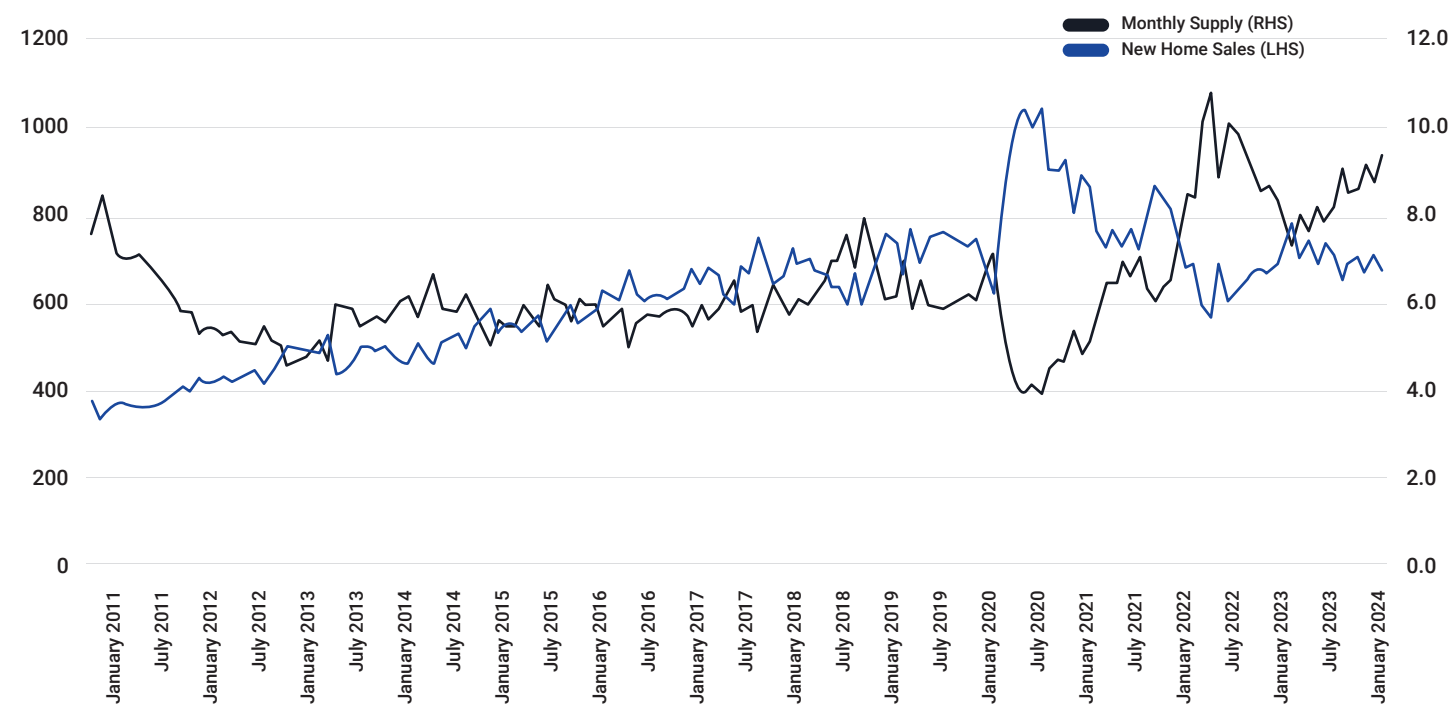
Source: John Burns Research and Consulting, LLC (Pub: March-24)

New Home Sales Account for 13% of the Market

- New home sales, typically less than 10% of the market, have been rising and show continued strength. This is due to better availability, an eight-month supply close to normal levels, and new home prices being more affordable, down 5.8% from their peak.
- The price gap between new and existing homes is narrower than usual. Additionally, builders are offering attractive financing terms, including points to reduce mortgage interest rates.

BOTTOM LINE

While existing home sales are likely to decrease in 2024, new home sales may increase due to better availability, competitive pricing, and preferential financing options.



New Home Sales Fall 4.7% from March

New one Family Houses Sold (thousands of units, seasonally adjusted annual rate)

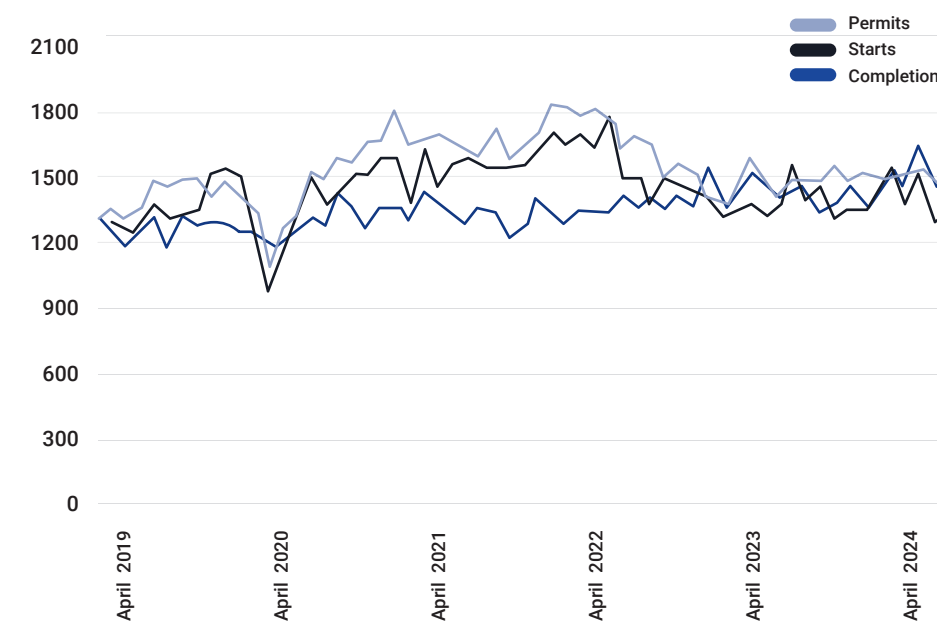
Source: U.S. Census Bureau, April 2024

More New Home Inventory Is on Its Way

- Headlines suggest housing starts are down month-over-month and year-over-year, but this is mainly due to a nearly 30% drop in multi-family construction, as a record number of apartments are coming to market this year.
- Single-family home starts tell a different story: in April 2024, starts were at 1,031,000 compared to 846,000 in April 2023, and permits were at 976,000 versus 855,000 in 2023.
- Currently, 1.65 million homes are under construction or completed and ready for sale, indicating builders are finally adding much-needed inventory.

BOTTOM LINE

Builders are optimistic about the housing market. Despite headlines about weaker starts, permits and starts are up significantly year-over-year, and builders are addressing the home under-supply.



BUILDING PERMITS:

1,440,000

HOUSING STARTS:

1,360,000

HOUSING COMPLETION:

1,623,000

NEXT RELEASE:

June 20, 2024

New Residential Construction - April 2024

Seasonally Adjusted Annual Rate(SAAR)

Source: U.S. Census Bureau, HUD, May16, 2024

What's the Outlook for the Rest of 2024?

Home sales, especially existing homes, started sluggishly in 2024, trailing the previous year's monthly volume. The market is on pace to fall below last year's 4 million sales, primarily due to affordability issues and limited inventory. Significant changes aren't expected until mortgage rates decrease, likely in 2025.

DEMAND & PRICING

There is pent-up demand from millions of young adults seeking homeownership, outpacing supply and driving prices higher. However, market appreciation rates are slowing, with some regions seeing price reversals and increased list price reductions.

NEW HOME SALES

New home sales remain stronger as builders bring more inventory to market, adjust pricing for higher finance costs, and offer below-market financing to creditworthy buyers.

CONSENSUS AMONG FORECASTERS

Most forecasters predict flat sales volume and flattening prices. Existing home sales may slightly decrease, while new home sales may see a slight uptick.

ADVICE FOR REAL ESTATE PROFESSIONALS

Despite limited listings, about **4 million home sales are expected this year** due to life events like deaths, divorces, marriages, growing families, job losses, and transfers.

Stay visible in your markets to secure listings from homeowners needing to sell.

Buyers may **prefer new homes**, so monitor local developments and consider working with builders.

Tough market conditions tend to eliminate weaker agents, reducing competition.



For more market updates, visit:
www.life.exprealty.com/insights/

MID-YEAR MARKET UPDATE
JUNE 2024