U.S. HOUSING MARKET UPDATE

AUGUST 2024

SECOND HALF OUTLOOK

Where the Market is Headed

eXp REALTY

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Introduction

As we make our way through the second half of 2024, home sales remain sluggish, with forecasts predicting under 4 million existing home sales by year-end – the lowest in decades.

Affordability is at its lowest since the 1980s due to high mortgage rates, and despite a 40% year-over-year increase in inventory, there's only a 3-month supply, far from a healthy market.

However, there's reason for optimism. Mortgage rates are starting to decline, with more drops expected as the Fed cuts rates, improving affordability and encouraging more homeowners to sell. Meanwhile, new home sales are on track to hit 700,000 by year-end, with builders adding inventory in growth regions and offering buyer incentives.

In the following pages, we'll explore sales trends, pricing, and inventory, offering key data to keep you and your clients informed about the current market and what's ahead.

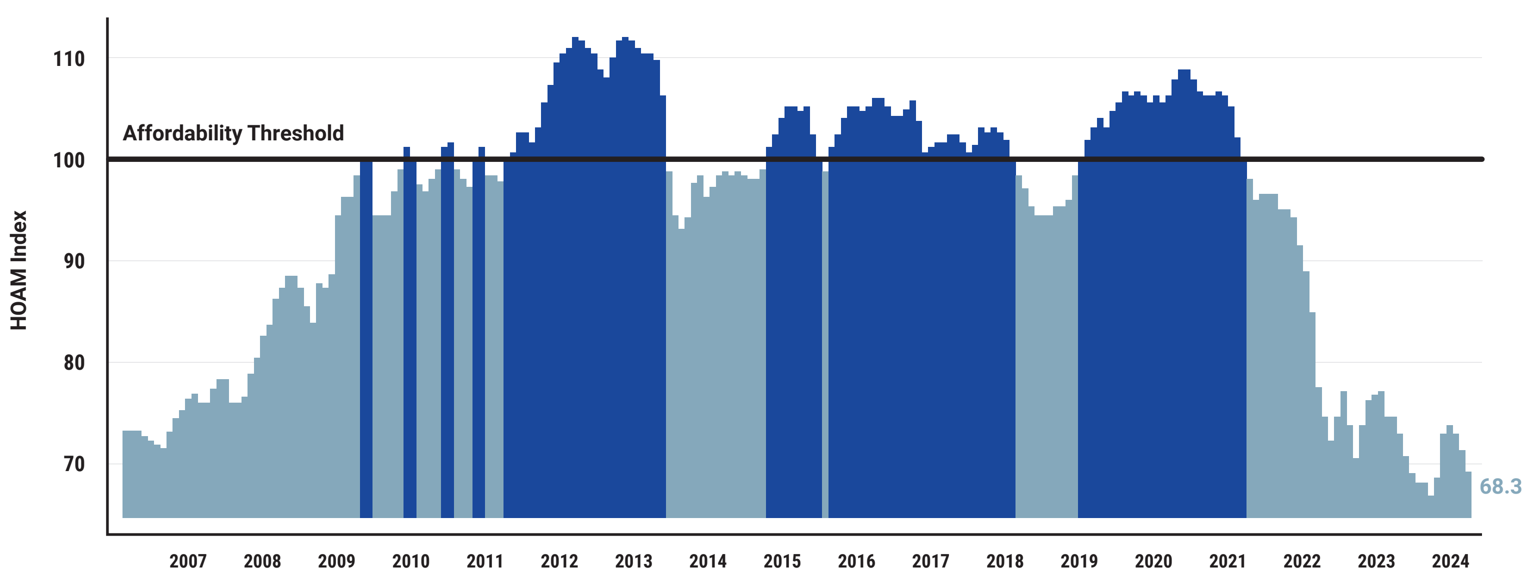
Affordability is at its worst level in decades

- **AFFORDABILITY INDEX HITS LOWEST LEVELS IN DECADES**
  The Atlanta Federal Reserve Bank's Affordability Index is 68.3 (100 = affordable), one of the lowest levels the index has reported since the 1980s.

- **MONTHLY INCOME OUTLOOK**
  For someone earning a median wage today, a median-priced home takes up almost 45% of their monthly income. Ideally, affordability should be 28-30% of monthly income.

Federal Reserve Bank of Atlanta National Home Ownership Affordability Monitor (HOAM) Index

Data through May 2024



Source: The Federal Reserve Bank of Atlanta

BOTTOM LINE Affordability is near record lows, making it hard for prospective homebuyers, especially first-timers, to find a home they can afford.

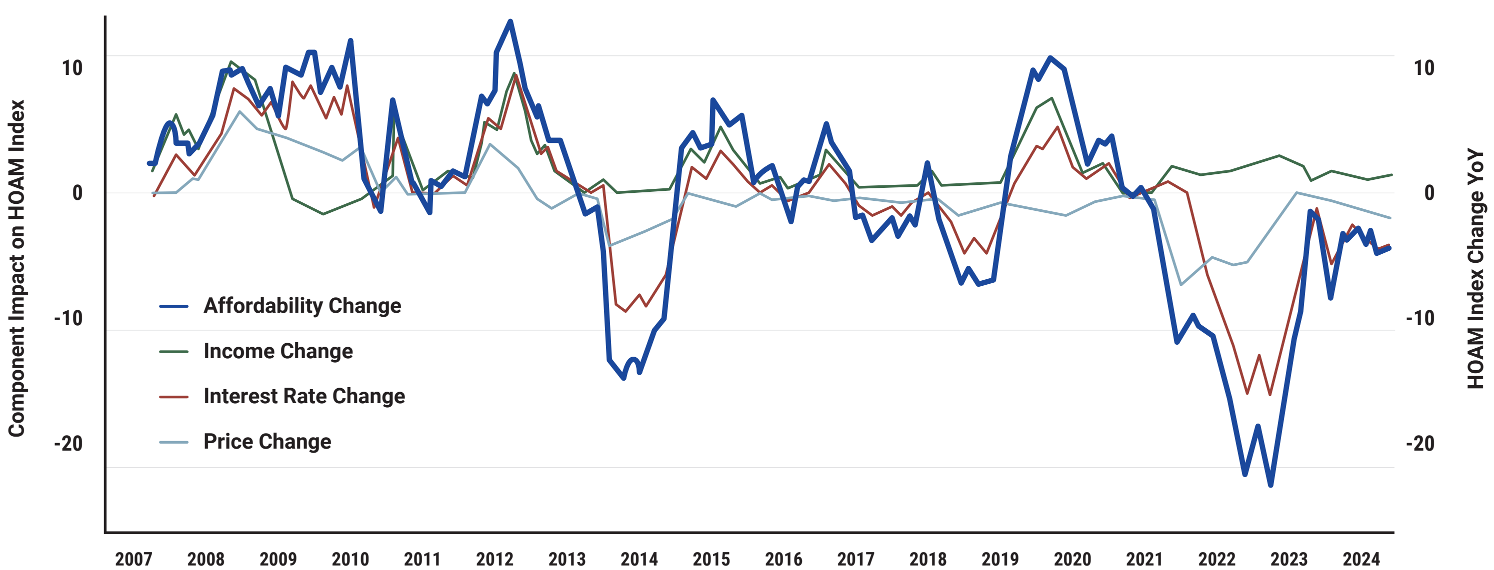
Both home prices and mortgage rates are impacting affordability

- **COMPONENTS TO AFFORDABILITY**
  There are three components to affordability: Home prices, financing costs and wages. All three have combined to limit affordability for homebuyers.

- **WAGE GROWTH LAGGING**
  Since the COVID-19 pandemic, home prices have surged by more than 40%, while mortgage rates doubled in the latter half of 2022. Meanwhile, wage growth has lagged.

Drivers of Affordability

Tracks actual and not percentage change. Does not sum to change in index as other components (such as taxes, insurance, or PMI) are not included.



Source: The Federal Reserve Bank of Atlanta

BOTTOM LINE While rising mortgage rates have received most of the blame for today's limited affordability, home price appreciation and lagging wages have also contributed.

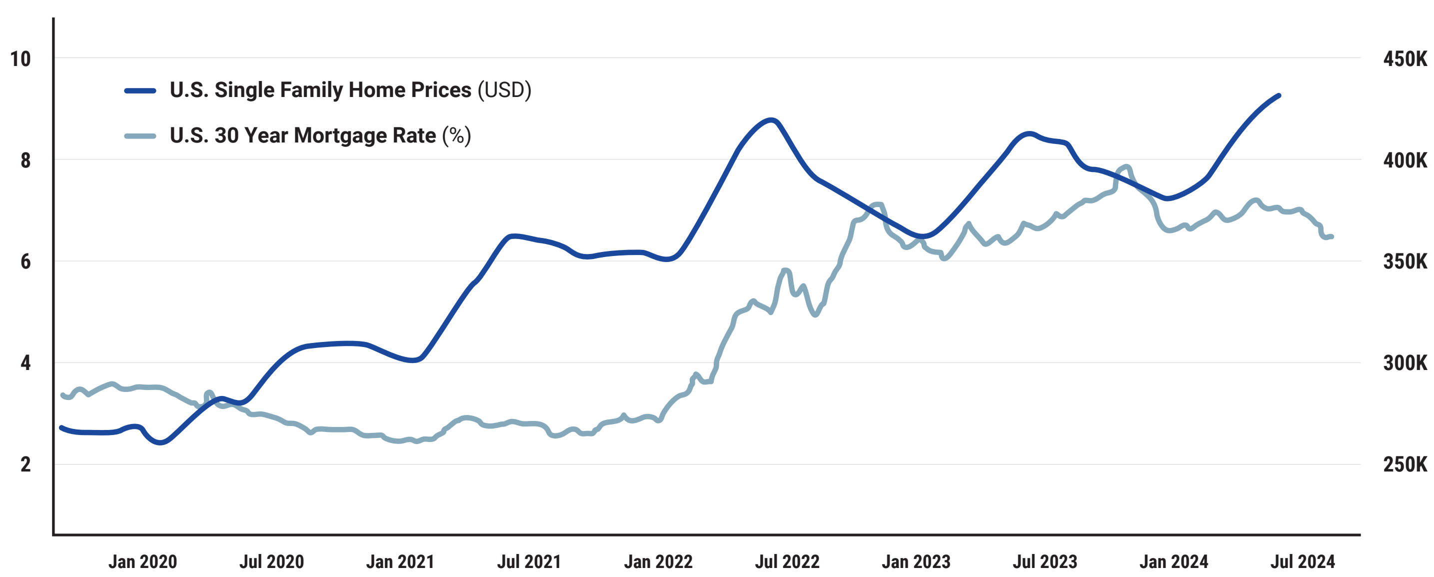
Mortgage rates and home prices have both risen

- **SLOWING HOME PRICE GROWTH**
  Contrary to popular belief, rising mortgage rates don't always lead to falling home prices. In this cycle, both mortgage rates and home prices have risen together, though home price growth slowed significantly when mortgage rates doubled.

- **RISING HOME PRICES**
  Recent modest declines in mortgage rates could have improved affordability, but these benefits have been countered by rising home prices in many markets.

Single Family Home Prices and 30 Year Mortgage Rate

Data through July 2024



BOTTOM LINE

Rising mortgage rates don't necessarily mean home prices will drop, though appreciation often slows. When both rates and prices rise, affordability becomes strained for many prospective buyers.

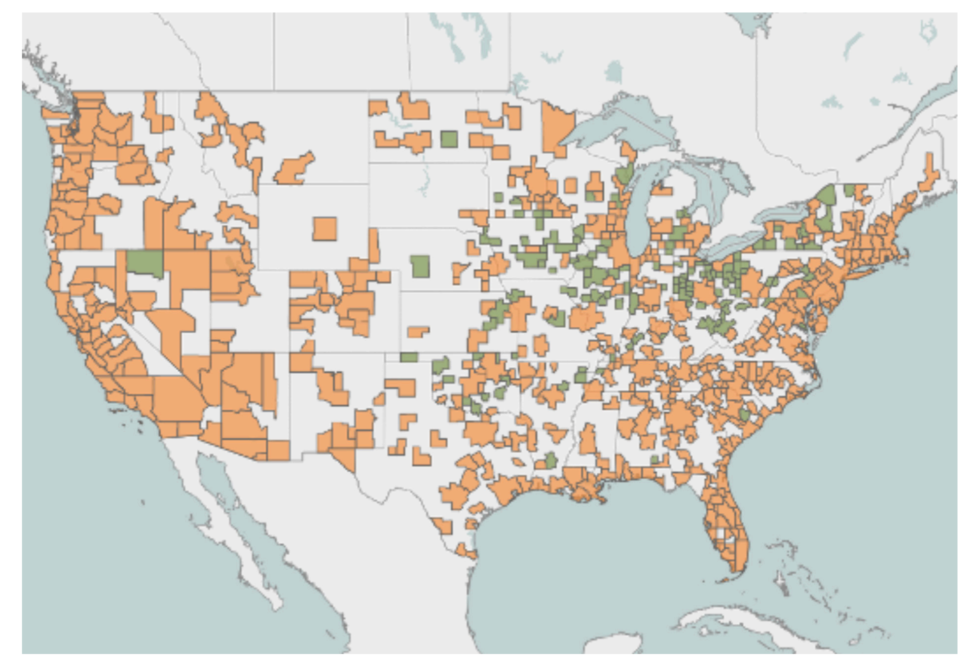
Affordability levels vary, but only four markets meet affordability threshold

- **AFFORDABILITY THRESHOLD**
  Only four metros with populations greater than 500,000 residents meet the affordability threshold set by the Federal Reserve Bank of Atlanta: Dayton, Akron and Youngstown in Ohio, and Des Moines, Iowa.

- **SCATTERED AREAS OF AFFORDABILITY**
  The Midwest has the most affordable markets, although there are scattered areas of affordability in the South, Southeast, and even in some of the smaller metro areas of the Northeast.

Metro Areas Ranked from Most to Least Affordable (Population > 500,000)

May 2024



Dayton, OH	106.3
Des Moines / West Des Moines, IA	104.3
Akron, OH	103.8
Youngstown-Warren-Boardman, OH-PA	101.8
Pittsburgh, PA	99.8
Toledo, OH	98.5
Syracuse, NY	98.2
St. Louis, MO-IL	96.3
Scranton-Wilkes-Barre-Hazelton, PA	96.0

HOAM Index (Min / Max)

32.6 | 167.4

BOTTOM LINE

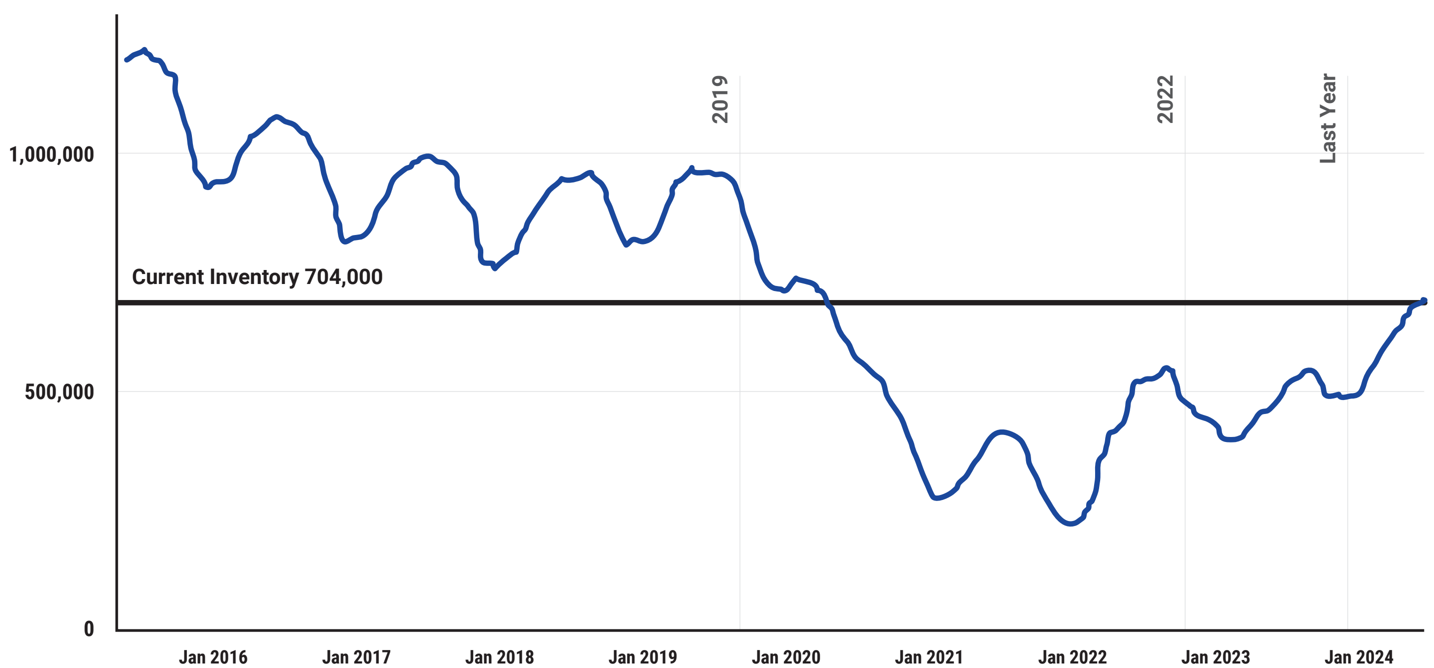
Affordability levels vary across the country, but most markets are considered to have limited affordability.

Inventory levels improving, but still below pre-pandemic levels

- **CHALLENGES FOR POTENTIAL BUYERS**
  The restricted supply has created challenges for potential buyers trying to enter the market and has played a role in preventing prices from dropping.
- **HOME SALES STILL LOWER THAN 2019**
  The number of homes for sale has risen by nearly 40% this year, yet this is still about 300,000 fewer homes than were available at the same time in 2019.

Total Inventory for Sale

U.S. single family inventory is 38% greater than last year

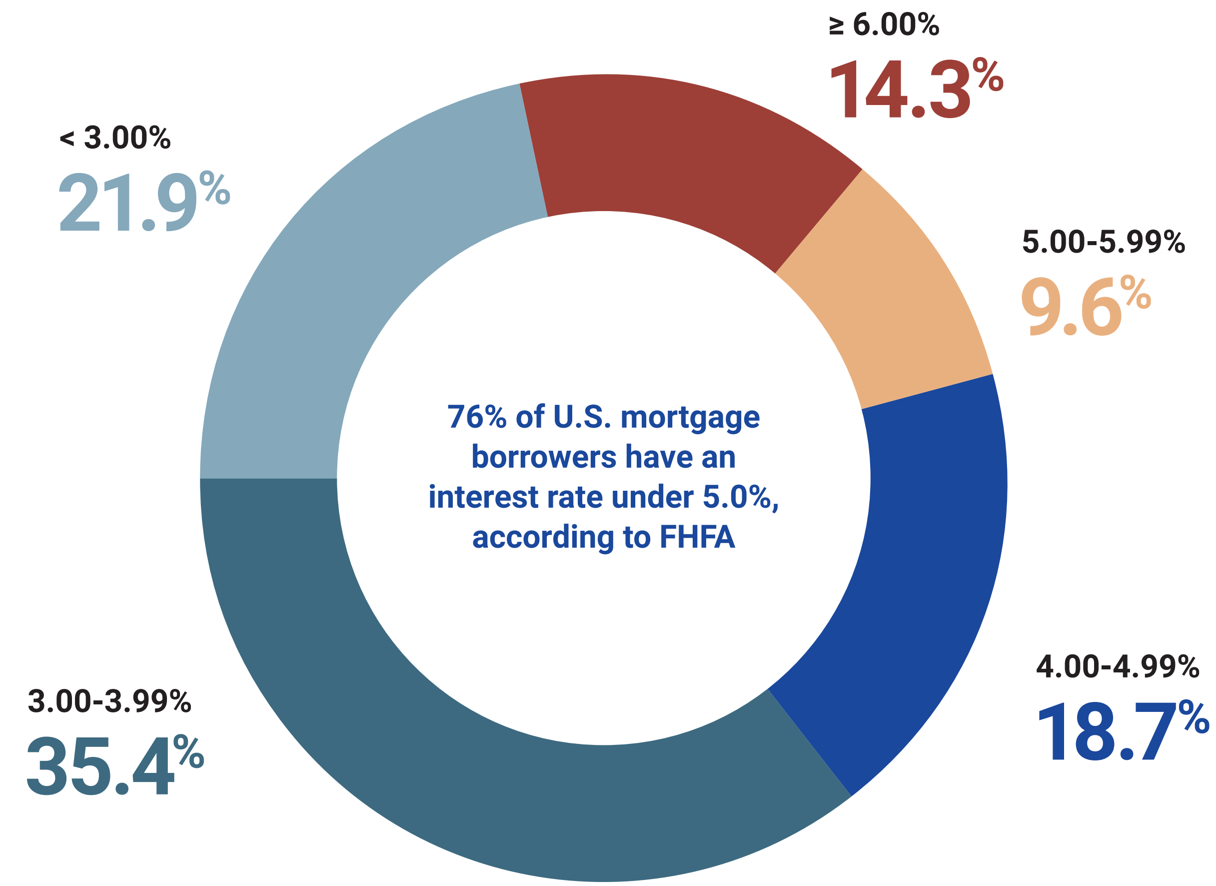


Source: Altos Research

BOTTOM LINE While inventory is improving, it hasn't yet returned to pre-pandemic levels. Typically, when inventory is low compared to demand, home prices tend to rise.

"Rate Lock" continues to keep inventory levels low

- **LOCKED IN BY LOWER RATES**
  Many homeowners can't afford to sell their properties because they're "locked in" by low mortgage rates. Trading a 3% or 4% rate for a 6.5% or 7% rate on a pricier home would significantly raise their monthly payments.
- **THE NEED TO SELL**
  Over time, many homeowners will need to sell due to job loss, job transfer, family changes or financial difficulties leading to foreclosure. However, those with low mortgage rates who don't need to sell will likely stay and wait for better market conditions.



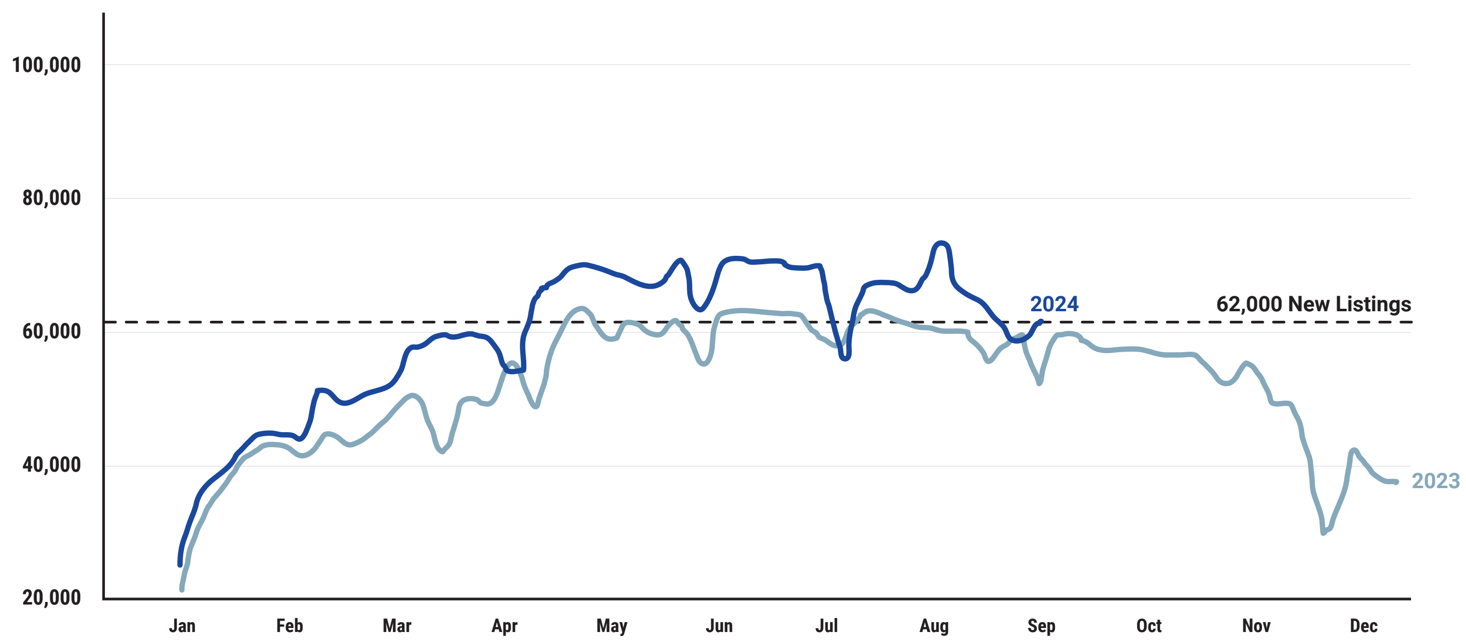
Source: Federal Housing Finance Agency

BOTTOM LINE Over three quarters of all homeowners have a mortgage rate of less than 5%, and are unlikely to list their home for sale until mortgage rates decline significantly.

New listings are only up about 5% year-over-year

- **PROPERTIES TAKING LONGER TO SELL**
  Inventory has risen by nearly 40%, yet new listings have increased by only around 5% compared to last year. This indicates that the inventory surge isn't due to an influx of new listings; rather, properties are taking longer to sell once they hit the market.
- **LIMITED INVENTORY**
  Rate lock is one reason new listings are weak. Another is the limited inventory: homeowners aren't sure they'll find a house to buy if they sell.
- **NEW LISTINGS ALREADY HIT PEAK**
  New listings and inventory have likely reached their peak for the year, as listing activity typically decreases in the third and fourth quarters.

Weekly New Listings (Unsold)
U.S. single family



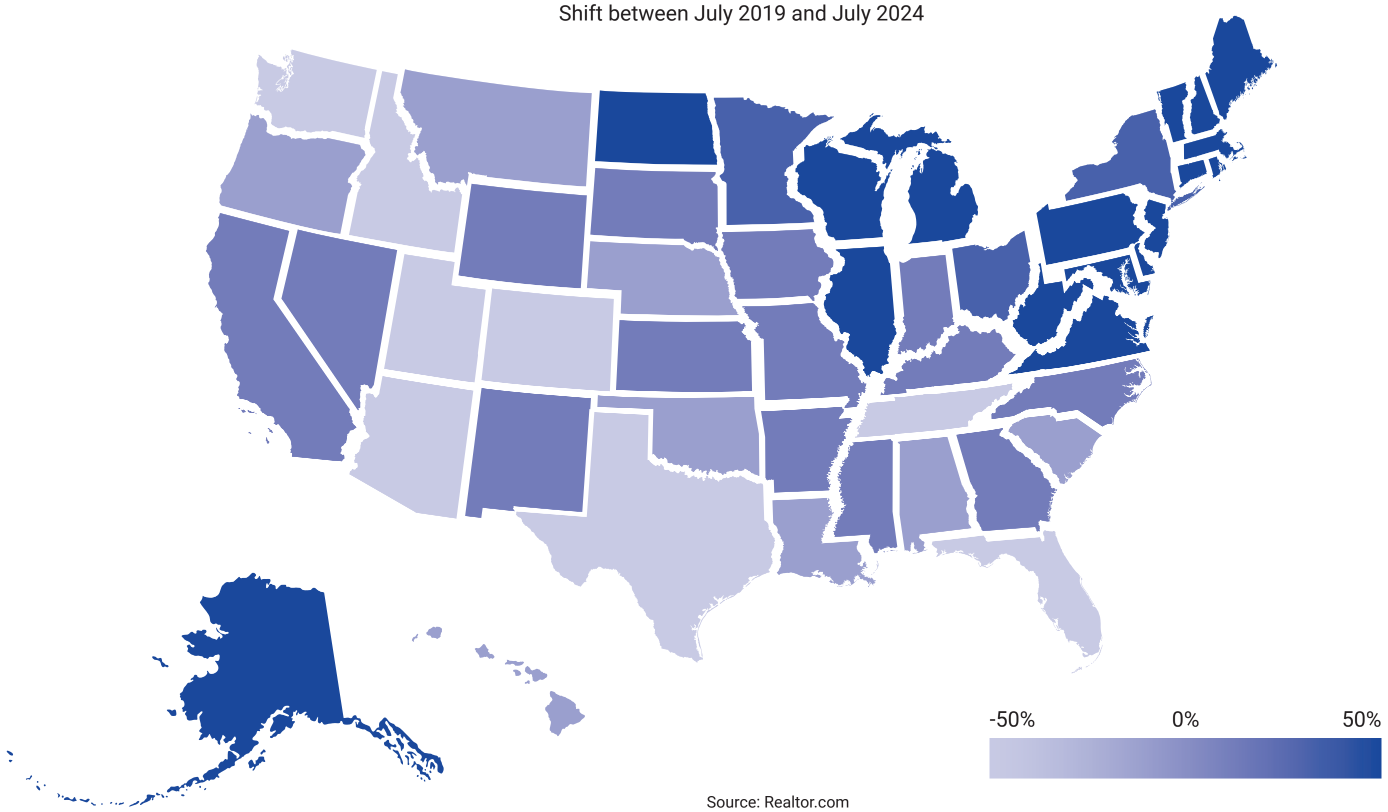
Source: Altos Research

BOTTOM LINE Although inventory levels have improved, the current housing market offers a three to four-month supply of homes for sale. In contrast, a normal, balanced market typically has around a six-month supply.

Only four states have more inventory today than before the pandemic

- **INVENTORY RETURNING TO PRE-PANDEMIC LEVELS**
  Inventory is gradually returning to pre-pandemic levels, though the pace varies across different regions of the country.
- **LIMITED INVENTORY NATIONWIDE**
  Only four states – Florida, Idaho, Tennessee, and Texas – currently have more inventory than they did at this time in 2019.
- **WEAKER RECOVERY NUMBERS**
  States with high home sales often have weak recovery numbers: Illinois inventory is down 66%, New York 46%, and California 31%.

Active housing inventory for sale compared to pre-pandemic levels
Shift between July 2019 and July 2024



Source: Realtor.com

BOTTOM LINE Inventory continues to increase slowly and gradually, but is far below pre-pandemic levels in most of the country.

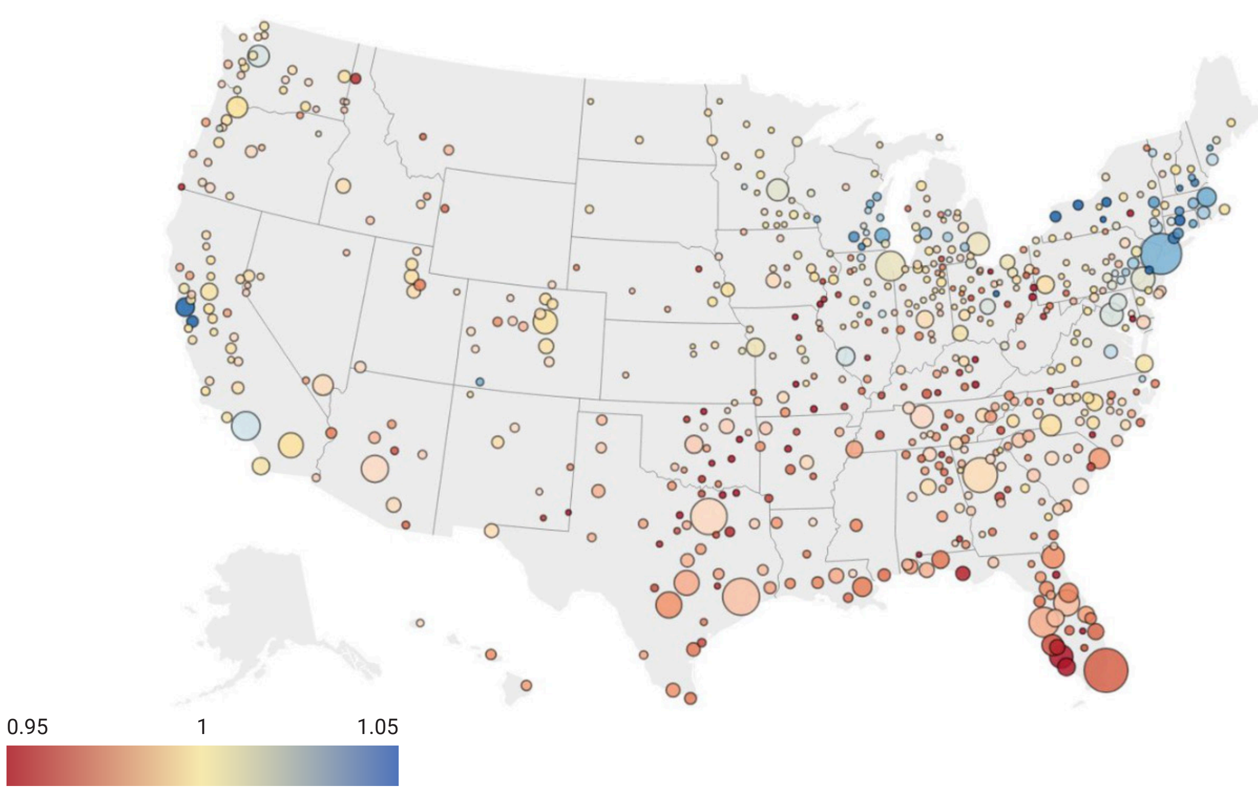
More inventory means better prices for buyers

- **BUYERS' VERSUS SELLERS' MARKET SCENARIO**
  This map illustrates a typical buyers' market versus sellers' market scenario: markets with abundant inventory generally favor buyers, whereas those with limited inventory typically benefit sellers.

- **INVENTORY AFFECT ON PRICING**
  This scenario also affects pricing: markets where inventory has recovered from the COVID-19 pandemic, like Florida and Texas, see more list price reductions, while in the Northeast, where inventory is much lower than in 2019, properties often sell above list price.

Housing sale-to-list ratio

A sale-to-list ratio above 1.0 means the typical home in that metro sold for more than the list price, while a ratio below 1.0 means the typical home sold for less than the list price.



Source: ResiClub analysis of Zillow data

BOTTOM LINE

Real estate remains a hyper-local business. While national sales figures show year-over-year price increases, varying inventory levels lead to different market dynamics nationwide. Inventory, or the lack thereof, is a key driver.

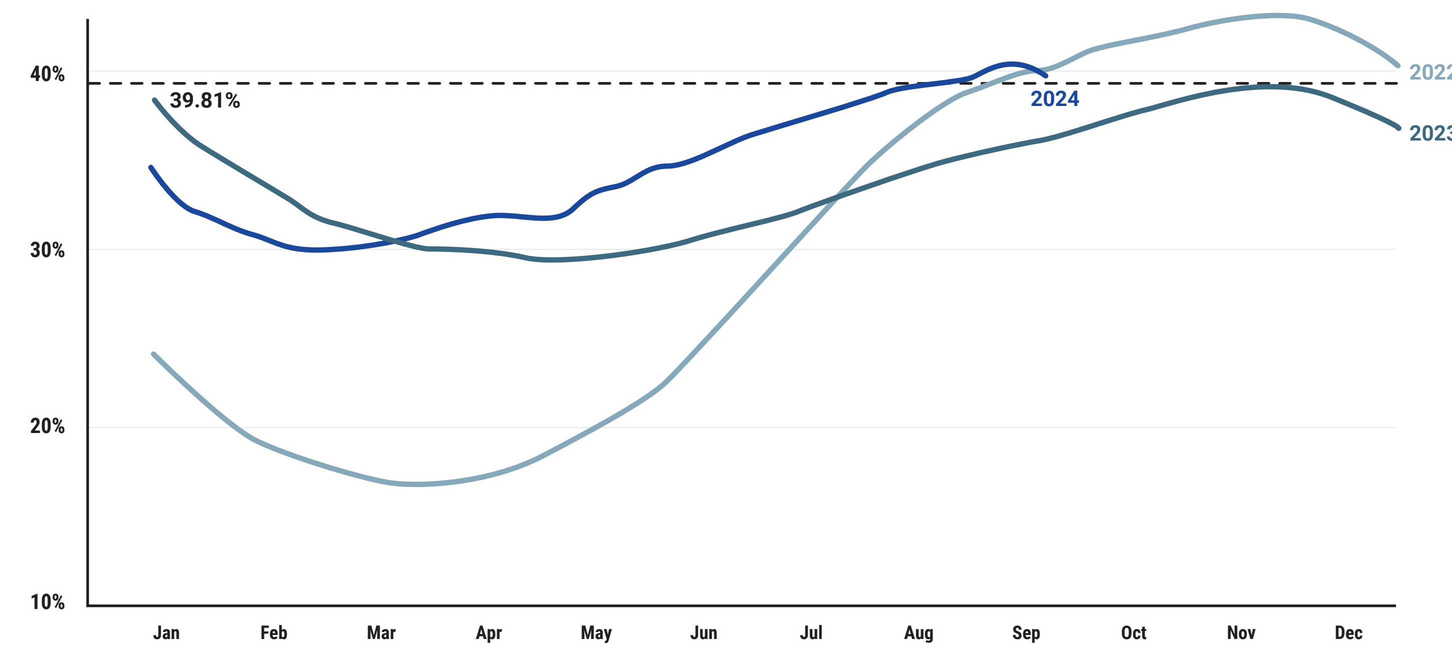
List price reductions higher than normal, but may have peaked early

- **PROPERTIES TAKING LONGER TO SELL**
  Nearly 40% of homes have a reduced list price, higher than the 33% average. However, this percentage seems to have peaked and is starting to decline, contrary to usual Q4 patterns when sellers typically lower prices during a slow season.

- **PROPERTIES TAKING LONGER TO SELL**
  Two factors may explain this decline: first, more sellers than usual seem to be withdrawing their listings instead of lowering their home prices.

Percent of properties with recent price reductions

U.S. single family price cuts decreased by 50bp this week



Source: Altos Research

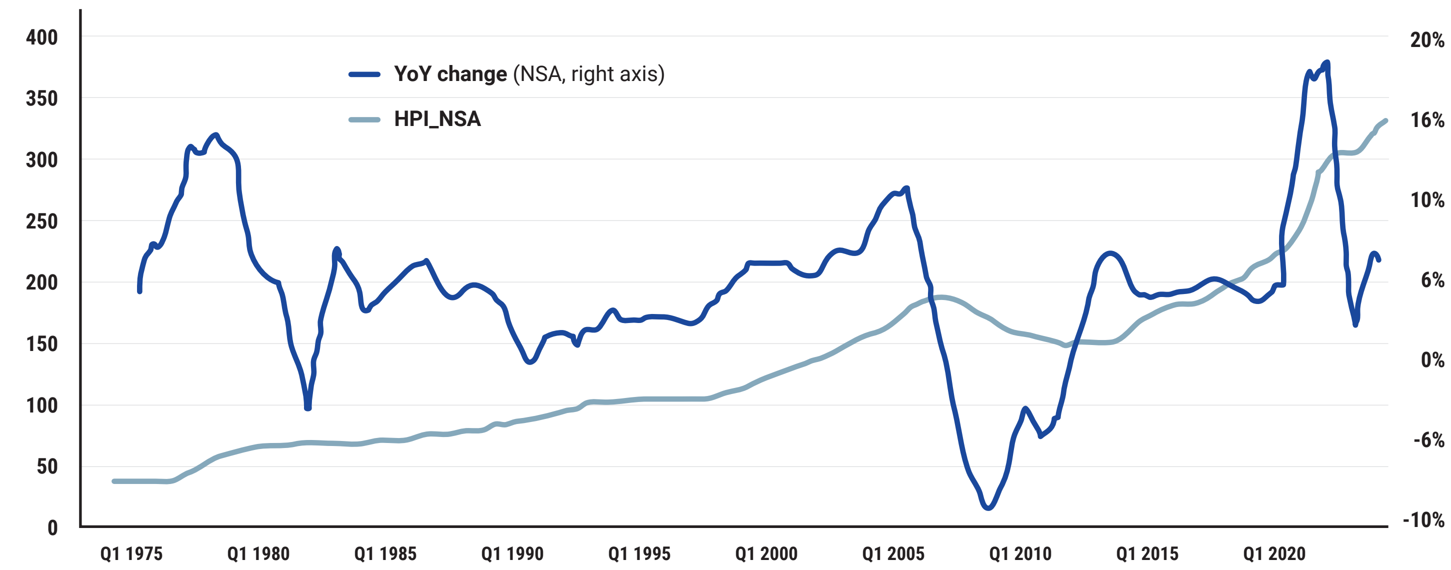
BOTTOM LINE

List price reductions seem to be declining nationally, despite usually increasing in the fourth quarter. However, each market is different, and areas with limited supply may see few list price reductions.

Fannie Mae reports home prices up 6.6% from 2023 at mid-year

- **PRICE INDEX ANNUAL INCREASE**
  Fannie Mae's Home Price Index (HPI) shows an annual increase of 6.6% at the end of the second quarter, which is very close to the 6.3% annual increase reported by Case-Shiller for the same period.

- **DIFFERING MEDIAN SALES PRICES**
  The HPI shows a median sales price of nearly $350,000, significantly lower than NAR's $427,000 median for June home sales. This is likely because NAR covers a wider range of homes than Fannie Mae.



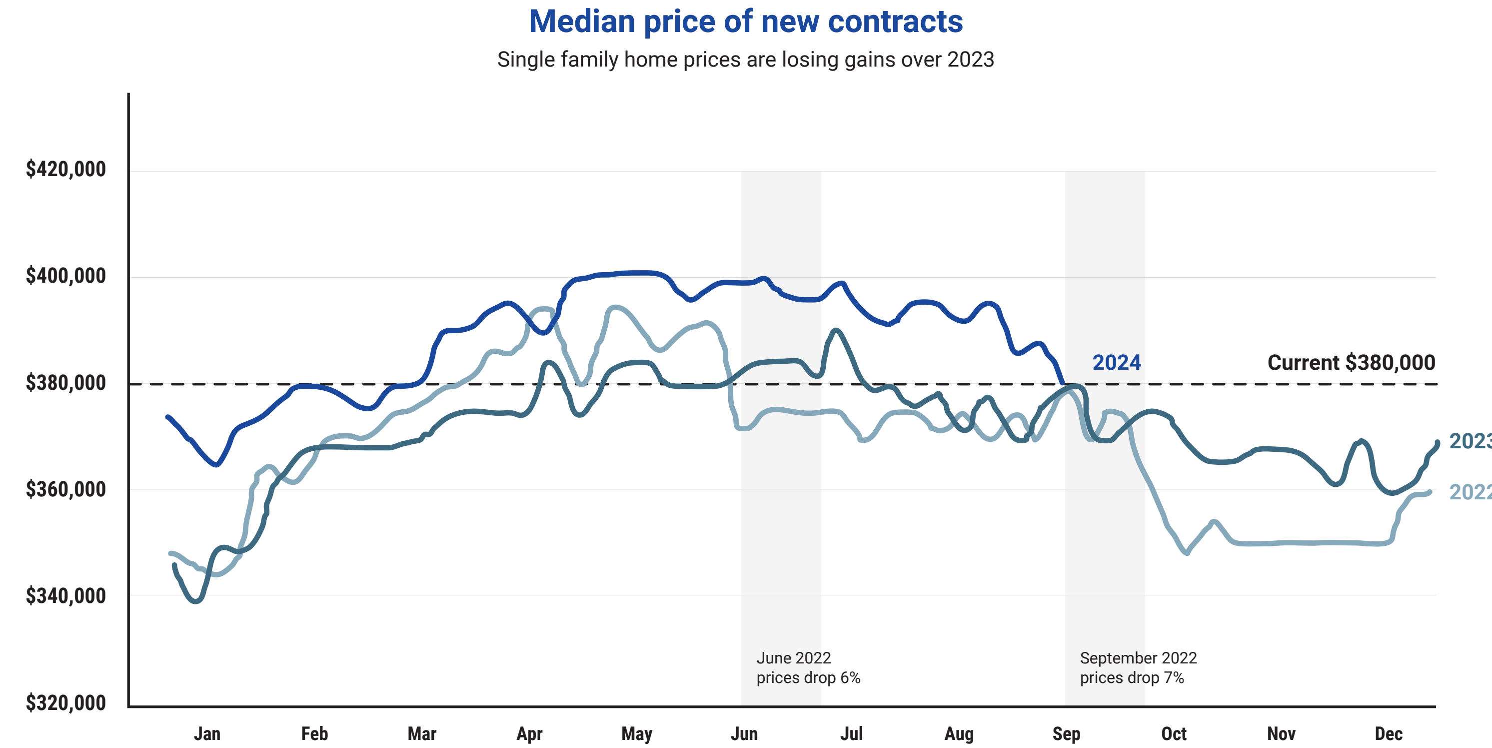
Source: Q2 2024 Fannie Mae Home Price Index (FNM-HPI)

BOTTOM LINE **Virtually every group that publishes home sales data is reporting year-over-year price increases between 4% and 7%.**

Prices in more recent contract closings are flat

- **PRICES HAVE STABILIZED YEAR-OVER-YEAR**
  Recent data from Altos Research, reflecting prices from contracts closed in recent weeks, suggests that prices have stabilized year-over-year. The median price for pending sales contracts is $380,000, nearly matching 2023's figures.

- **POSSIBLE WEAKNESS IN PRICING**
  Price increases earlier in the year had been in the 3% to 5% range, so there may be some weakness in pricing, even with slightly lower mortgage rates.



Source: Altos Research

BOTTOM LINE **Property prices nationally may be peaking for the year, as they typically decline in the third and fourth quarters. With lower mortgage rates, this could be good news for homebuyers.**

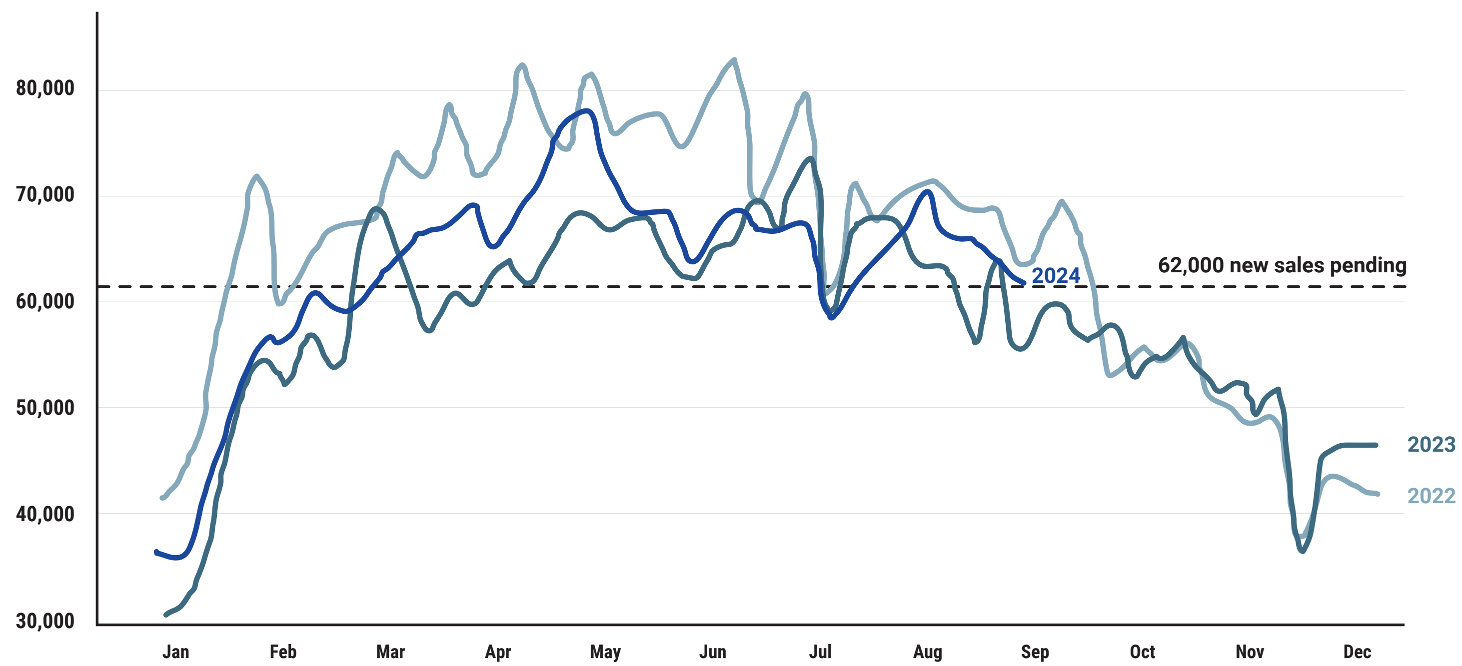
Pending home sales up from 2023, but down from 2022

- **PENDING SALES TRENDING DOWN STEADILY**
  Pending sales are a pretty accurate barometer of where final sales will end up, and they've been trending down steadily in recent weeks.

- **MARKET ON TRACK TO CLOSE WITH NEARLY MILLION HOMES SOLD**
  The latest report indicates 62,000 pending sales, suggesting the market is on track to close the year with nearly 4 million homes sold, mirroring the final figures from 2023.

Weekly new contracts pending

On pace for 4MM home sales in 2024



Source: Altos Research

BOTTOM LINE Pending sales suggest year-end numbers similar to 2023, but if mortgage rates drop, there might be a slight uptick.

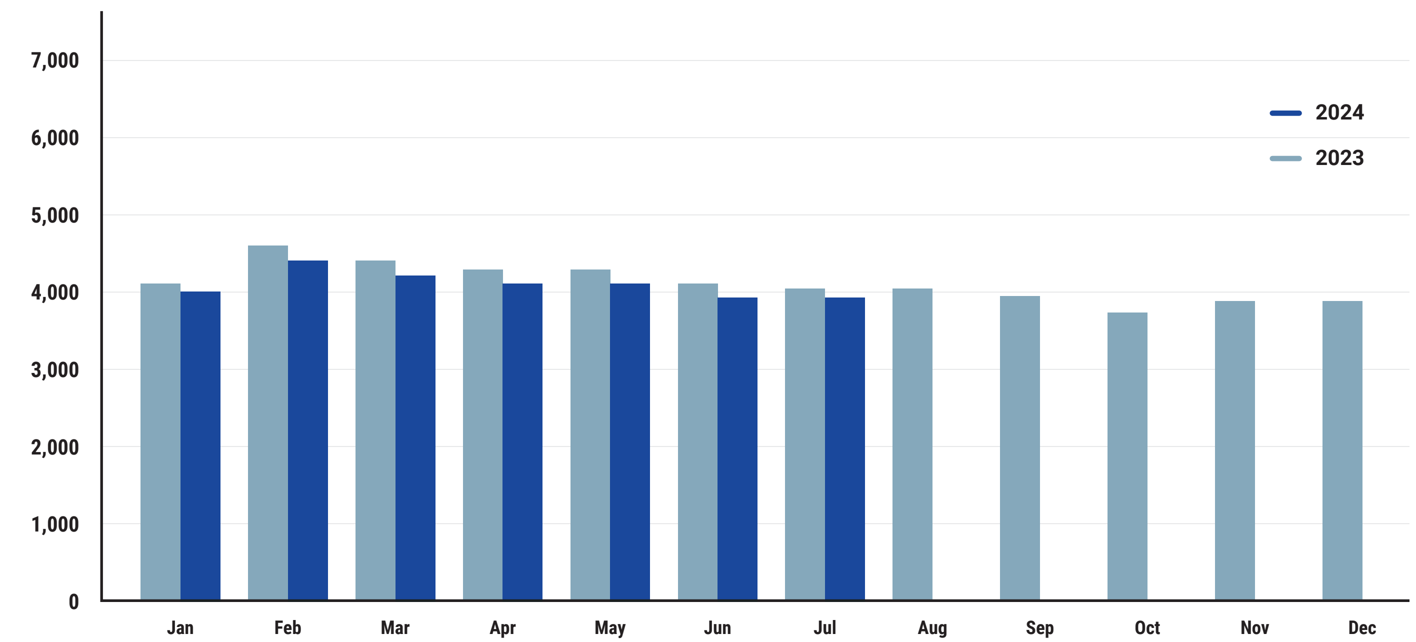
July is the 36th consecutive month where existing home sales were lower than the prior year

- **FEWER EXISTING HOME SALES**
  July presented a classic mix of good and bad news. Home sales edged up slightly from June, ending a four-month trend of consecutive monthly declines. However, it also marked the 36th straight month of fewer existing home sales compared to the previous year.

- **BELOW 4 MILLION HOME SALES ON THE YEAR**
  NAR's seasonally adjusted sales number suggests that we could end the year below 4 million home sales. July came in at about 3.89 million on an annualized basis. In 2023, there were slightly more than 4 million existing home sales, compared to over 5 million in 2022 and more than 6 million in 2021, when mortgage rates were at historic lows.

Existing home sales

2023 and 2024, SAAR (000s)



Source: National Association of Realtors

BOTTOM LINE If you're selling more homes this year compared to last, you're outperforming the market, which has been experiencing a three-year decline in total existing home sales.

New home sales showing signs of improvement

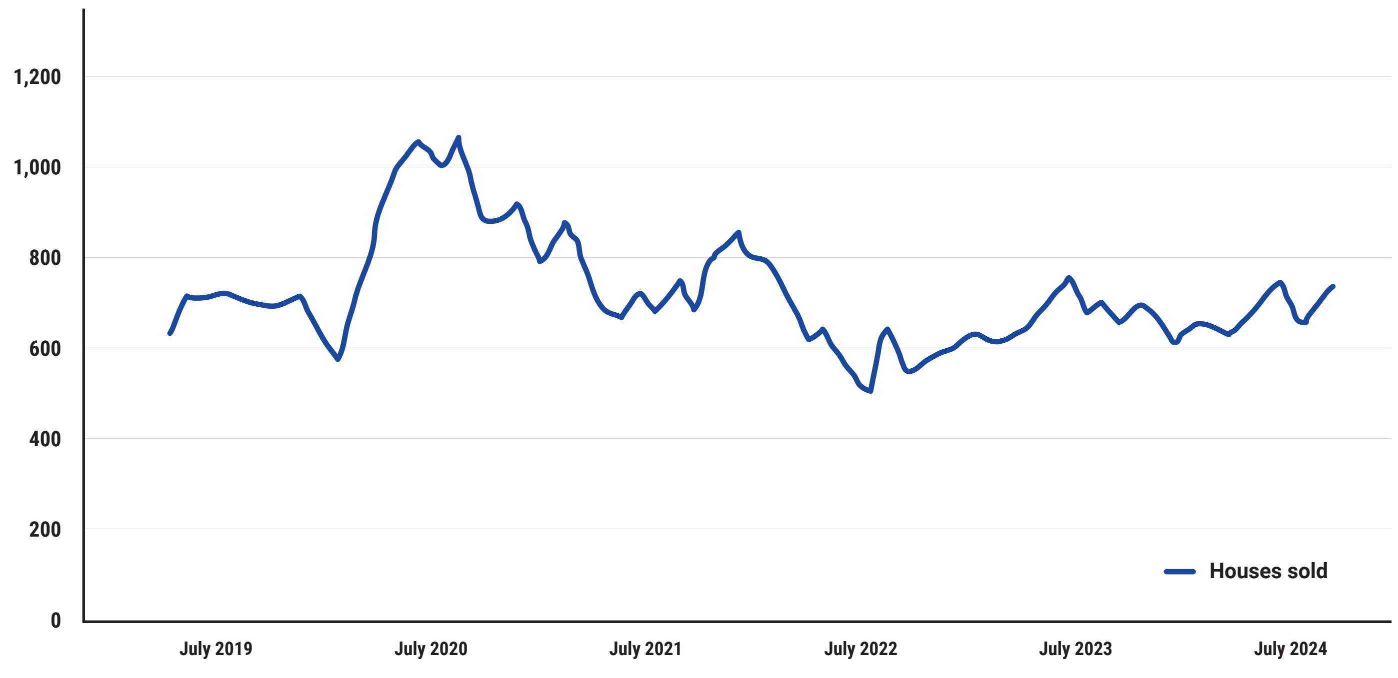
- **JULY HOME SALES UP**
  July new home sales jumped up to over 739,000, an increase of almost 11% from June and almost 6% from July of 2023.

- **MORE INVENTORY AVAILABLE**
  Part of the reason for this is simply availability: there's an almost nine-month supply of new homes available for sale compared to the 3 1/2-month supply of existing homes. Part of this is also concessions from builders: on average, homebuilders are offering incentives equal to almost 5% of the sales price to buyers.

- **BUILDERS PAYING POINTS TO BUY DOWN RATES**
  Another reason is mortgage rates: many builders are paying points to buy down mortgage rates for buyers, greatly enhancing affordability.

New residential house sales for July 2024

Seasonally adjusted annual rate



Source: U.S. Census Bureau, HUD, August 23, 2024

BOTTOM LINE **New homes are increasingly available, offering significant incentives for buyers and often providing favorable mortgage rates. Encourage your buyers to consider new homes as viable options.**

New homes might be less expensive than existing homes

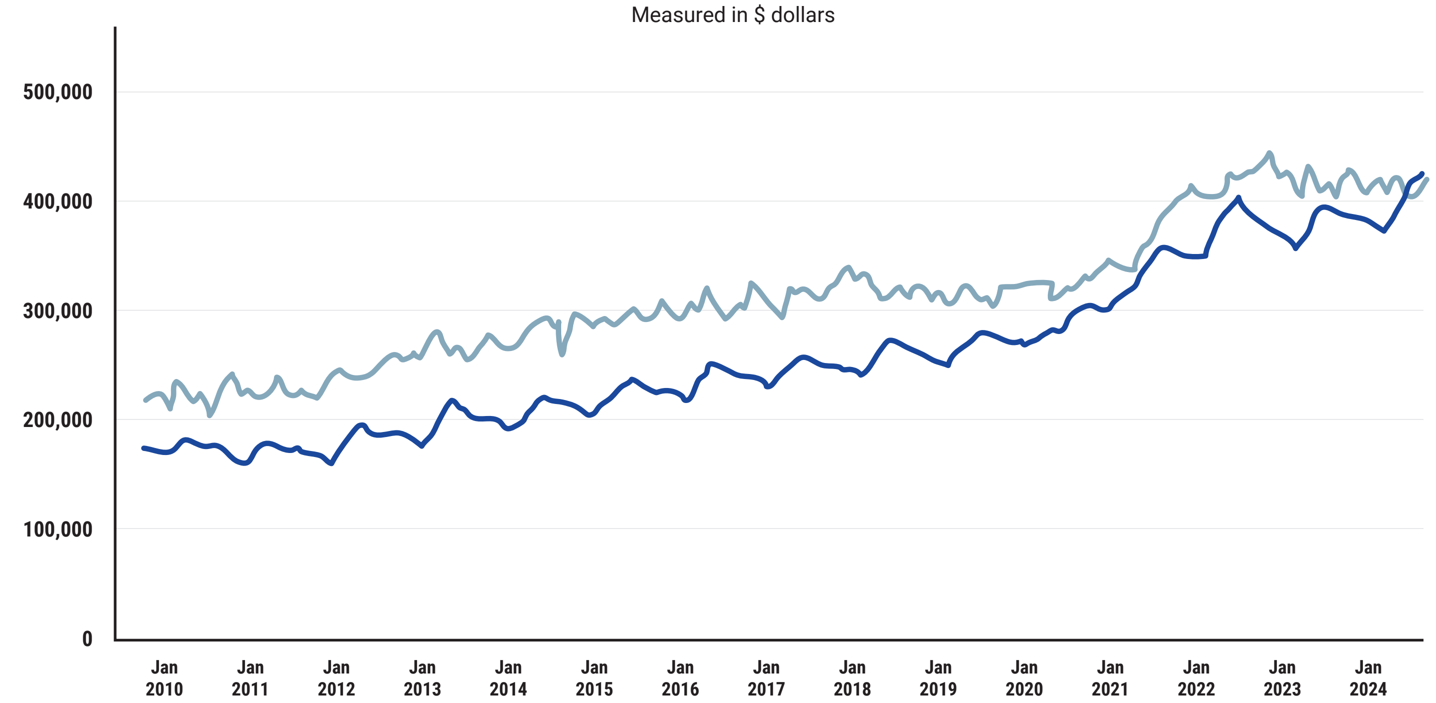
- **STRONG ECONOMIC CASE FOR BUYERS**
  A final reason new home sales might be increasing is affordability. For the first time in years, the median price of a new home is close to that of an existing home: $429,800 vs. $422,600. With builder incentives and preferential financing, there's a strong economic case for buyers to consider the new home market.

- **NEW BUILDER FOCUS**
  Builders have focused on building slightly smaller, slightly less expensive properties since finance rates jumped.

- **BUILDING IN LOWER-PRICED MARKETS**
  Another reason for this unusual pricing is that much of the building activity is in lower-priced markets like the Midwest and South, not in expensive ones like the Pacific Coast. In many markets, a new home will likely still cost more than a similar existing one.

Median home price of builders' homes cheaper than existing home price

Measured in $ dollars



Source: National Association of Realtors

BOTTOM LINE **New homes in today's market are no longer prohibitively expensive compared to existing homes, and might represent a better buy for your clients.**

What this all means

Existing home sales have hit their lowest activity in over a decade, but new home sales are picking up. With similar prices, builder incentives, and better mortgage rates, new homes could be a smart choice for some buyers.

Affordability remains tough but is improving as mortgage rates decline, home prices stabilize, and wages rise. The market is in a price correction phase that may last another 2+ years.

Buyers and sellers shouldn't expect a sharp drop in mortgage rates, even if the Fed cuts rates in September. A gradual decline over the next 12-18 months is more likely.

Watch listing data closely — nearly 40% of homes sold have had price reductions, especially those on the market longer. Many sellers are withdrawing listings rather than lowering prices, which could be new opportunities.

Inventory is improving unevenly across the country. Stay alert to local market signals to see if you're in a buyer's market or one shifting towards a seller's market.

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