



FIRST AMERICAN PREDICTS HOT SPRING HOMEBUYING SEASON DESPITE MARKET DIP

First American's Potential Home Sales Model for March found that potential existing-home sales decreased to a 6.26 million seasonally adjusted annualized rate (SAAR), a .1 percent month-over-month decrease. Currently, potential existing-home sales is 527,022 million (SAAR), or 7.8 percent below the pre-recession peak of market potential in April 2006.

"After hitting its highest point since 2007 last month, housing market potential fell modestly in March, according to our Potential Home Sales Model. Housing market potential remains near the 13-year high point, but the severely limited supply of homes for sale and an uptick in mortgage rates pulled market potential for existing-home sales off its February peak," First American Chief Economist Mark Fleming said in a release. "Annual comparisons of housing market potential will be very large for the next few months, as the housing market came to a halt last year at this time when the pandemic shut down the economy.

"However, housing market potential is 16.5 percent higher than two years ago and will remain strong due to a demographic-fueled shift away from renting to homeownership driven by millennials aging into homeownership and accelerated by still low mortgage rates."

On a month-over-month basis, mortgage rates increased by the greatest amount since February 2018, Fleming said, which contributed to a \$13,000 decline in house-buying power.

"Existing homeowners today are sitting on record amounts of equity, which could be used to move out and move up. Rising house appreciation contributed to a gain of approximately 33,300 potential home sales in March," he said. "However, while many homeowners may want to use their equity to buy something bigger and better, they first must find something to buy. The fear of not finding something to buy in an environment of historically low inventory is one reason tenure length reached a high of just over 10.5 years. In March, homeowners staying put and a lack of new construction collectively contributed to a loss of just over 6,100 potential home sales."

Even so, Fleming predicted the housing market will remain hot into the spring homebuying season.

"According to the most recent NAR existing-home sales report, homes in February were selling at the fastest pace on record, and house price appreciation is accelerating," he said. "The rapid pace of sales and rising prices indicate that the month-over-month moderation is due to the lack of supply, not a lack of demand. The issue is inventory – you can't buy what's not for sale.

"However, as widespread vaccinations prompt the economic recovery to pick up speed, consumers and lenders will likely grow more confident. Similarly, a safer environment may prompt equity-rich homeowners who were unwilling to open their homes to showings during the peak of the pandemic, to finally put their homes on the market. More supply will help ease this super sellers' market."