HOUSING MARKET STARTING TO NORMALIZE

OCTOBER 2022 — Potential existing home sales dipped again in July, according to the First American Potential Home Sales Model. They decreased to a 5.45 million seasonally adjusted annualized rate (SAAR), a 0.2 percent month-over-month decrease and a 14.4 percent year-over-year decrease.

"It's clear that the housing market has slowed from its pandemic-era frenzy, as buyers adjust to the new reality of higher mortgage rates," First American Chief Economist Mark Fleming said in a release. "Excluding the spring of 2020 when the housing market came to a brief halt, existing-home sales in June declined to their lowest level since February 2019. **The decline is not a crash, but rather an adjustment to a not-so-new normal. Potential homebuyers are facing greater economic uncertainty and mortgage rate volatility, but there remains a deep-seated desire for homeownership, especially among millennials."**

Median household income in July rose 4.7 percent year-over-year, Fleming said, but that was not enough to offset the affordability loss created by the increasing 30-year, fixed mortgage rate.

"The result was a 23 percent decline in house-buying power, which was one of the primary culprits behind cooling demand," he said. "The annual decline in house-buying power reduced market potential by nearly 520,000 sales compared with a year ago. However, the month-over-month trend offered a bright spot as house-buying power edged higher by 1.7 percent in July, as rates dipped lower and household income continued to rise. A decrease, or even stabilization, in mortgage rates may encourage some potential buyers to come off the sidelines."

Household formation rose despite the decline in affordability.

"The rise in household formation contributed 60,000 potential home sales in July because the decision to buy a home is both a financial and lifestyle decision, and many millennials are aging into marriage and family formation, which are highly correlated with the decision to become a homeowner," Fleming said.

Sellers have become less active, mostly because they want to hang on to their low interest rate mortgages, he said. Homeowners opting not to sell reduced housing market potential by 84,000 sales year-over-year.

"However, homeowners today have record levels of equity, and as their equity grows, they are more likely to consider using that equity to purchase another home that better suits their needs," Fleming said. "Rising home prices contributed to an increase of 154,000 potential home sales compared with one year ago."

What does this all mean for housing market potential?

"The housing market is adjusting to a not-so-new normal," Fleming said. **"Slowing sales are a symptom of a housing market that's coming off a two-year pandemic-influenced frenzy and settling into a pace that's more in line with historical norms.** From the perspective of homebuyers and sellers, there are financial concerns that may hold them back from the market, but there are still plenty of reasons to jump in. Millennials continue to age into their prime homebuying years, which will keep long-run demand steady."

SOURCE: The Title Report https://bit.ly/3U9rbsm