Zillow: July market shows sales surge, but slower second half is predicted

Home sales surged 7 percent in July, the strongest annual gain seen so far this year, according to the Zillow July Market Report. But a closer look takes some air out of that headline figure. Newly pending listings are up 0.3 percent year-over-year, suggesting the pipeline of future sales is running dry.

July's headline sales figure reflects contracts signed weeks earlier, when mortgage rates were hovering in the 6.5 percent range. A fresh oil price shock in July sent mortgage rates higher, likely prompting many home shoppers to pause their search.

The affordability edge that has been a silver lining to an otherwise disappointing home shopping season may disappear in the coming months. Home values are up 1.1 percent from a year ago, according to the Zillow Home Value Index (ZHVI).

A monthly mortgage payment on the typical home in July, assuming a 20 percent down payment, was 0.9 percent lower than the year prior. Unless they reverse course, mortgage rates will be higher than last year in August, likely enough to push the typical mortgage payment above year-ago levels.

"July was a strong month for existing home sales, but unfortunately it may represent the peak of what we can expect for the rest of the year," Zillow Chief Economist Mischa Fisher said in the report. "Closed sales in July mostly reflect offers accepted in June, when underlying pent-up demand for housing, combined with an improving rate environment, drove strong activity.

"Unfortunately, the weak growth in newly pending sales in July and the worsening rate environment portend a weaker half of the year for sales growth, with flat to declining transaction volumes for the remainder of the year in some regions," Fisher added.

Home values and mortgage payments reflected the typical U.S. home value is $371,757, while the ZHVI rose 0.4 percent month over month in July. Home values are 1.1 percent higher than a year earlier.

The monthly mortgage payment on a typical home is $1,888, assuming a 20 percent down payment and excluding taxes and insurance. That is 0.9 percent lower than last year.

As to inventory, the Zillow report shows there were 1.41 million homes for sale nationwide in July, while active inventory was 1.5 percent higher than a year earlier. Inventory rose 0.9 percent from June. New for-sale listings totaled 387,203 in July, up 3.1 percent from a year earlier and down 4.2 percent from June.

On the sales side, 382,898 homes were sold in July, according to the preliminary Zillow sales count nowcast. That is 7 percent higher than a year earlier but down 2.7 percent from June. These figures will be revised mid-month, while newly pending listings, which measures listings that changed from for-sale to pending status rather than closed sales, shows 0.3 percent growth from a year earlier and a 7.7 percent decrease from June.

Looking at the competition angle, homes took a median of 25 days to go pending in July. That was five days longer than a year earlier and one day longer than June. The share of listings with a price cut in July was 27.1 percent. That was down from 27.4 percent a year earlier and up from 25.7 percent in June.

Finally, 30.8 percent of homes sold above list price in June, the most recent data available. That's compared to 30.9 percent a year earlier and 30.2 percent in May.

The Zillow August Market Report is expected to be released Sept. 8.

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