ZILLOW: LUXURY HOMES IN HIGH DEMAND WHILE STARTER HOMES PILE UP ON MARKET

New Zillow data reveals that the housing market is splitting in two. Luxury homes are selling at a faster pace than a year ago, with shrinking supply and growing bidding wars. Starter homes are piling up on the market, sitting longer and drawing price cuts as buyers fail to show up. The pattern mirrors a broader economic divide, with stock market gains supporting demand at the high end while rising everyday costs weigh on potential starter home buyers.

Zillow defines starter homes for this analysis as those in the 5th to 35th percentile of home values in a given region. Nationally, the typical starter home is worth about $202,000, up 2.3 percent from a year ago. Luxury homes are those in the top 5 percent of home values in a given region. The typical luxury home is worth about $1.9 million, up 3.1 percent from a year ago.

Across nearly every metric, conditions are moving in opposite directions in these two segments, according to Zillow. Inventory for starter homes rose 4.5 percent year-over-year in June, while luxury home inventory fell 5.2 percent. Price cuts were more common on starter homes, with 25 percent of starter homes cutting their price in June, compared to 20.6 percent of luxury home listings.

"The best time to buy a home is when nobody else wants to," Zillow Senior Economist Kara Ng said in a release. "Starter homebuyers today have more options, more negotiating power, and sellers who are more willing to deal. The challenge is that the same financial pressures making it harder to save for a down payment are also making it harder to take advantage of that opportunity."

Despite friendlier conditions at the more affordable end of the market, sales are down, while the inverse is true at the top of the market. Starter home sales fell 5.4 percent year-over-year in May, the latest month with complete data. Luxury home sales grew 6.2 percent during the same period.

The divergence is sharpest in San Francisco. Luxury home sales across the metro area surged 21.6 percent year-over-year in May, while luxury inventory fell sharply and fewer listings cut their price. Starter homebuyers are hanging back: Sales slipped 1.2 percent year-over-year in May, while more than twice as many starter home sellers cut their price in June (22.2 percent) to try to entice buyers off the sidelines than did luxury homebuyers (9.4 percent).

Starter homebuyers are making decisions in a tough economic environment. Hiring has slowed, inflation remains elevated, and consumer sentiment has fallen to historic lows. In conditions such as these, households tend to delay major financial commitments like a home purchase.

Higher-income households, however, are facing a very different set of circumstances. Stock market gains have bolstered purchasing power at the top of the income spectrum, keeping demand for luxury homes strong.

As conditions shift in favor of buyers, those who are financially prepared will be best positioned to move when the moment is right. Zillow Home Loans' BuyAbility tool gives buyers a personalized, real-time estimate of the home price and monthly payment that fits within their budget and shows listings within their BuyAbility directly in their Zillow search.

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