

### Mortgage Rate Swell Has Yet to Extinguish Hot Home Prices

**For-sale home availability is very low.** The number of existing homes offered for sale came in at just 850,000 houses in January, compared to an average of 1.7 million homes listed during the same month in 2015-2019. Voracious demand, a portion of it coming from those looking to invest in homes that will be offered for rent, is limiting the number of days that available homes are on the market for. Some households tempted to sell and harvest sizable profits are being deterred by the lack of options that will be available if they do leave their current homes, which is making it hard for those who are now in entry-level homes to move up the quality stack. Also, the typical generational swap, where older homeowners downsize or enter age-restricted communities, remains relatively slow.

**Extended renter cycle a longer-term trend.** Spiking home prices are pushing housing purchases out of reach for some in the youngest portion of the millennial group and among their slightly younger Gen Z counterparts. Furthermore, those in their 20s and early 30s continue to be comparatively slow to marry and have children — life shifts that tend to trigger home buying. Some also express a preference for the flexibility and lifestyle that apartments provide. This combination of factors means people are remaining renters longer than they did in the past, which is a trend expected to continue in the foreseeable future.

**Mortgage rate climb has little impact on pricing so far.** The 30-year mortgage rate approached 3.9 percent during February, up 80 basis points since the start of the year. Historically, more expensive financing has tended to put downward pressure on homebuyer demand, and, in turn, cooled price growth. If demand, perhaps, isn't quite where it would have been without the mortgage rate bump, buyer appetite remains way ahead of product availability. Thus, the median sales price of both new and existing homes is continuing to climb sharply.

### Developing Trends

**Construction costs soar above the previous high.** In February, the index tracking real estate construction costs jumped to a new record, following a two-month retraction from the prior peak set in November 2021. The cost index now tops the early 2020 pre-pandemic level by more than 11 percent, with the impacts of development cost run-ups being felt across all types of real estate. Single-family construction starts fell 2.4 percent year-over-year in January, despite an imperative need for additional home deliveries, given current demand levels and near-term prospects.

**More new homes on the market, but fewer being sold.** The number of newly built homes listed for sale climbed to 406,000 units during January, reaching the largest tally since mid-2008; the number of new homes sold, however, fell 19.3 percent year-over-year. There are several reasons for this divergence, most notably the underlying characteristics of the homes listed for sale. Only 9 percent of new homes were completed when listed on the market. The remaining dwellings were either under construction or not yet built. Limited availability of materials and labor could sustain these opposing trends for listings versus executed sales.

**1.8** Months Supply of Existing Homes for Sale at the Current Sales Rate

**16%** Year-over-year Change in the Median Sale Price of an Existing Home

### Low Inventory Becoming the New Normal

