

Home Purchases Continue to Slide, but Prices Keep Rising

Drop in home sales reflects a new mortgage rate climate. The nation's home buying activity level is cooling. April sales eased 4.8 percent year-over-year for the existing home stock and declined drastically more — down 26.9 percent — for new home completions. Influencing these sales figures, the number of households now financially qualified to purchase housing is shrinking, due to the combination of climbing prices and mortgage interest rates that have been topping 5 percent during recent weeks. April's typical sales prices hit \$396,000 for existing homes and \$460,000 for new homes. Existing home prices are up nearly 40 percent since the onset of the pandemic.

Inventories are limited, but some growth is on the horizon.

Just under 900,000 existing homes were available for sale in April. That figure was off by roughly 650,000 homes from the pre-pandemic count seen in 2019. Still, the inflection point in product availability appears to have been reached. The tally of existing homes on the market inched upward for a second consecutive month in April. New home listings trended ahead at a faster pace, now up 37 percent from the count recorded two years ago. However, only 9 percent of the new homes listed for sale in April were completed, as shortages in construction labor and building materials continue to delay deliveries. Total housing starts are on the rise. The annual increase in housing starts as of April registered at 15 percent, with the bulk of that jump in activity reflecting a boost in multifamily groundbreakings.

Manufactured homes and workforce rentals remain very tight.

Higher levels of manufactured housing and affordable rental construction could provide some relief as occupancy rates across these residential segments are historically high. Entering the second quarter, Class C apartment vacancy stood at just 2.0 percent, halving the pre-pandemic equivalent. Meanwhile, manufactured housing availability declined between 2019 and 2021 in 99 of 143 metros, bringing the national rate down to 6.1 percent last year. Greater development will likely not hinder metrics, but rather help alleviate the backlog of demand.

Developing Trends

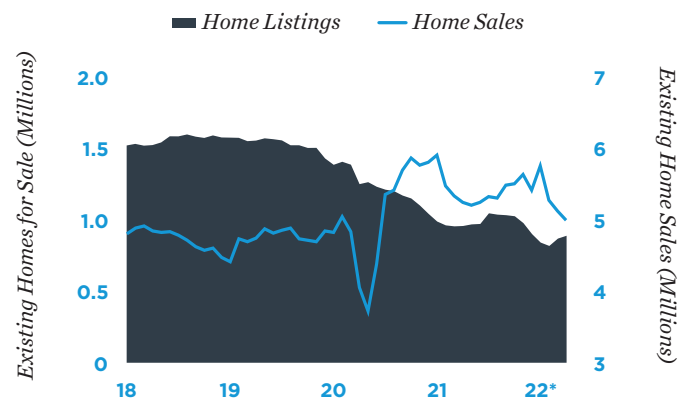
Building costs still rising. The construction cost index rose for the fifth straight month during May, as supply chain headwinds continued to put upward pressure on the price of materials. Concrete, gypsum, copper and steel costs are each up more than 10 percent annually. Shortages of appliances and home furnishings are also exacerbating building expenses.

The White House addresses the nation's housing shortage and cost run-ups. The Biden administration recently announced its Housing Supply Action Plan, a proposal targeted to stymie housing cost inflation by preserving existing inventory and boosting additions to the home stock. The plan appropriately realizes that there's no single solution that will move the needle enough to achieve the desired result. Thus, various proposed programs tweak zoning and land use regulations to allow for more building activity, and provide low-cost financing options for new construction and lifespan improvements within the existing inventory. More affordable multifamily developments and manufactured housing projects get particular attention.

5.3% Average Rate for a 30-Year Mortgage, Week Ending May 19, 2022

3.0% Average Rate for a 30-Year Mortgage, Week Ending May 20, 2021

Home Listings Slowly Climbing as Sales Ease



* Through April

Sources: IPA Research Services; Capital Economics; Freddie Mac; Moody's Analytics; Mortgage Bankers Association; National Association of Home Builders; National Association of Realtors; RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau; Wells Fargo



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