



# Monthly Economic Update: Housing Market Trends

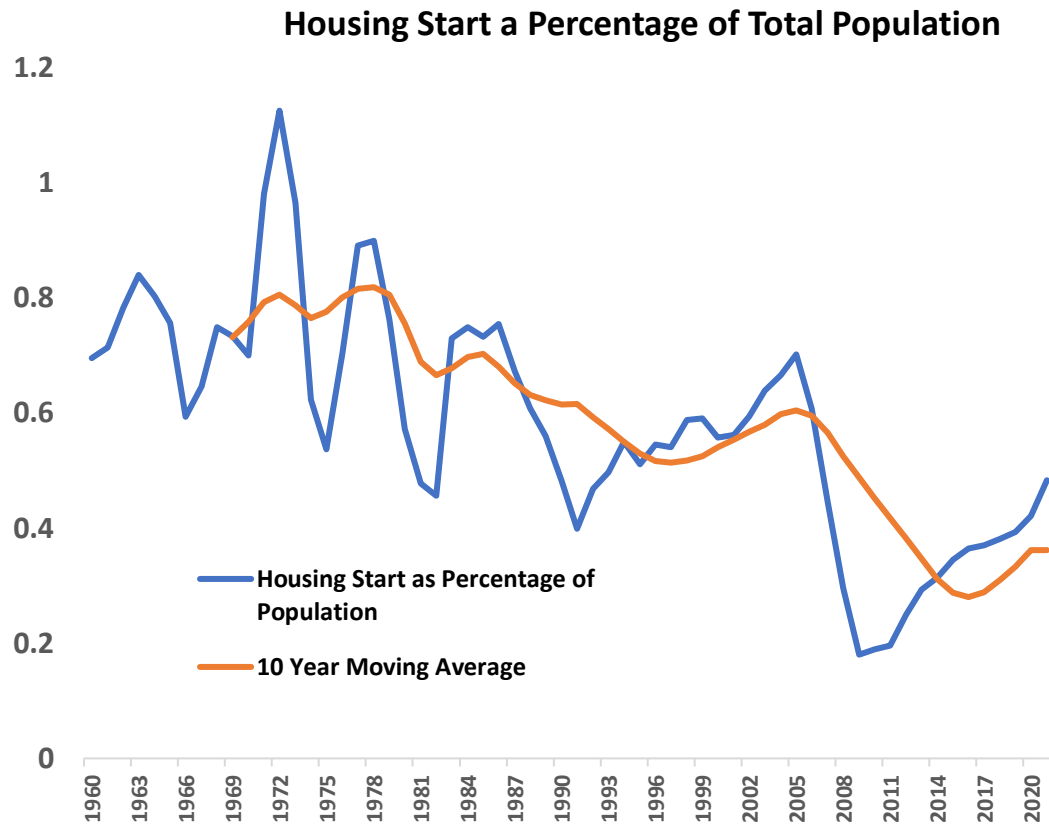
Dawit Kebede, Sep. 2022

# Summary

- Affordable new housing supply is not matching population growth
- Low interest environment boosted housing demand leading to unusually high price increases in the last three years
  - Price increase is slowing down with declines reported in some metro areas on a monthly basis but still higher than a year ago.
- FED policy to fight inflation increased the cost of borrowing making house purchase unaffordable
  - Significant decline in home purchases as 30-year fixed mortgage exceeds 6%

# Housing Supply

Source: Census Bureau, HUD via St. Louis FRED

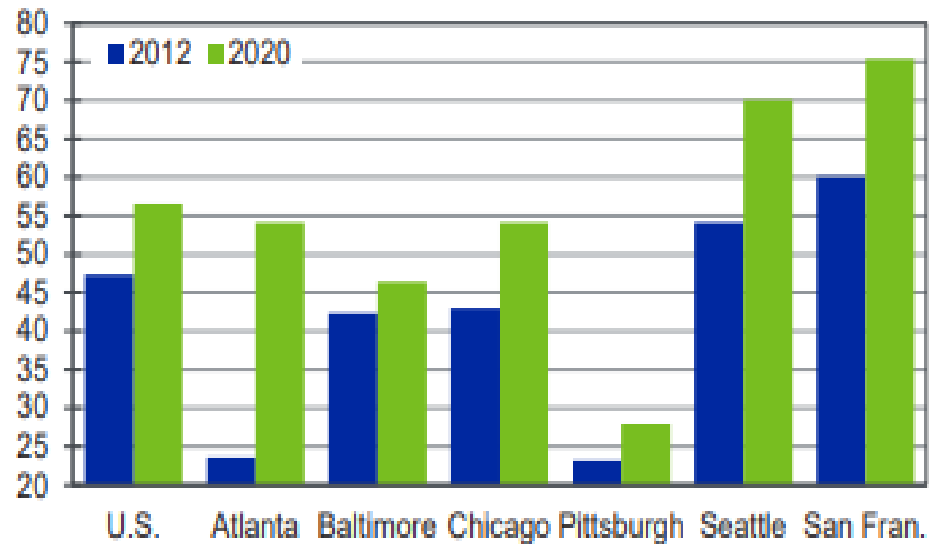


- New home construction collapsed to the lowest level in 2009 with only 550K starts. A decline of 73% from its peak in 2005.
- Construction of high-end homes and apartments recovered first (*Moody's Analytics, March 2021*)
  - Supply  $\geq$  demand nationally by the middle of the last decade.
- Construction of affordable housing has been much slower to recover from the great recession.

# Supply Constraints for affordable housing since the financial crisis

- **Land** – cost has increased to 55% of the total price of median-priced home nationally

Land share of house price, %



Source: Moody's Analytics

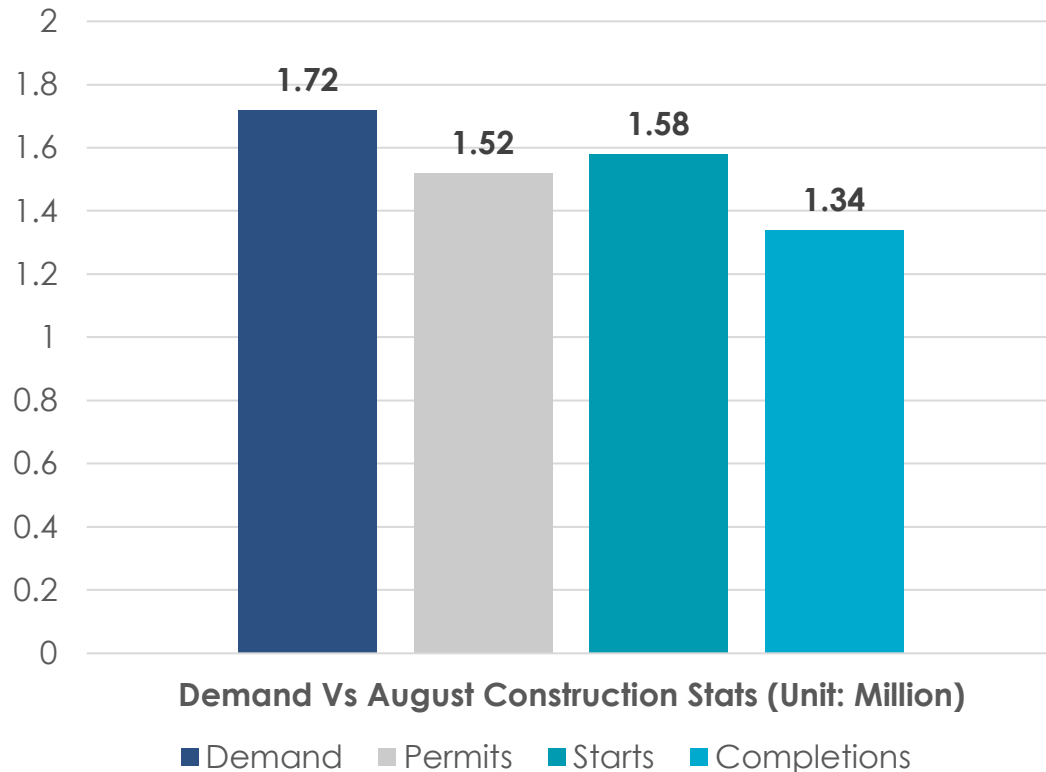
- **Lending**

- Tight construction financing - particularly for small banks serving small builders. This impacts supply of affordable housing.

- **Material and Labor**

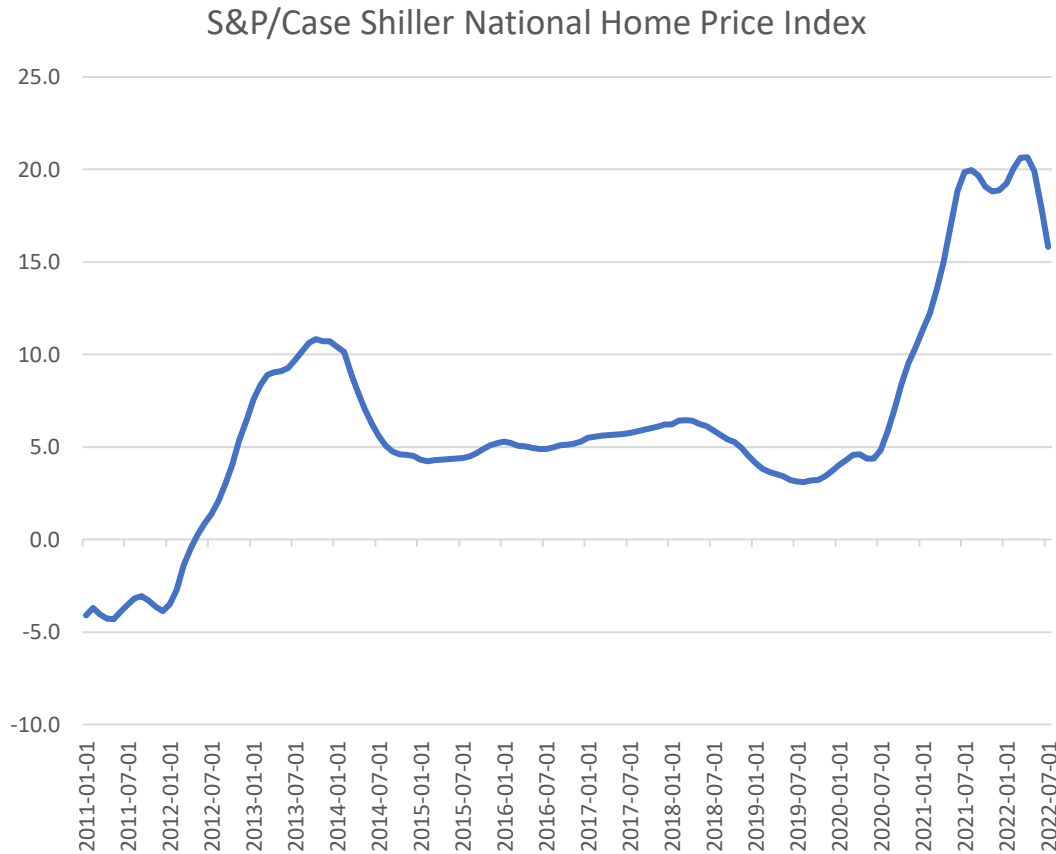
- Trade Conflicts and supply chain

# Demand for Housing



- **1.72 million** homes **per year** needed in the **next 10 years**.
- August 2022 **new permits** are down **14.4%** from a year ago on Seasonally Adjusted Annual Rate.
- New Starts are about the same as a year ago and Completions are higher by 3.1%. Both are within the margin of error.
- Demand Exceeds Supply.

# Trend in Home Price Index

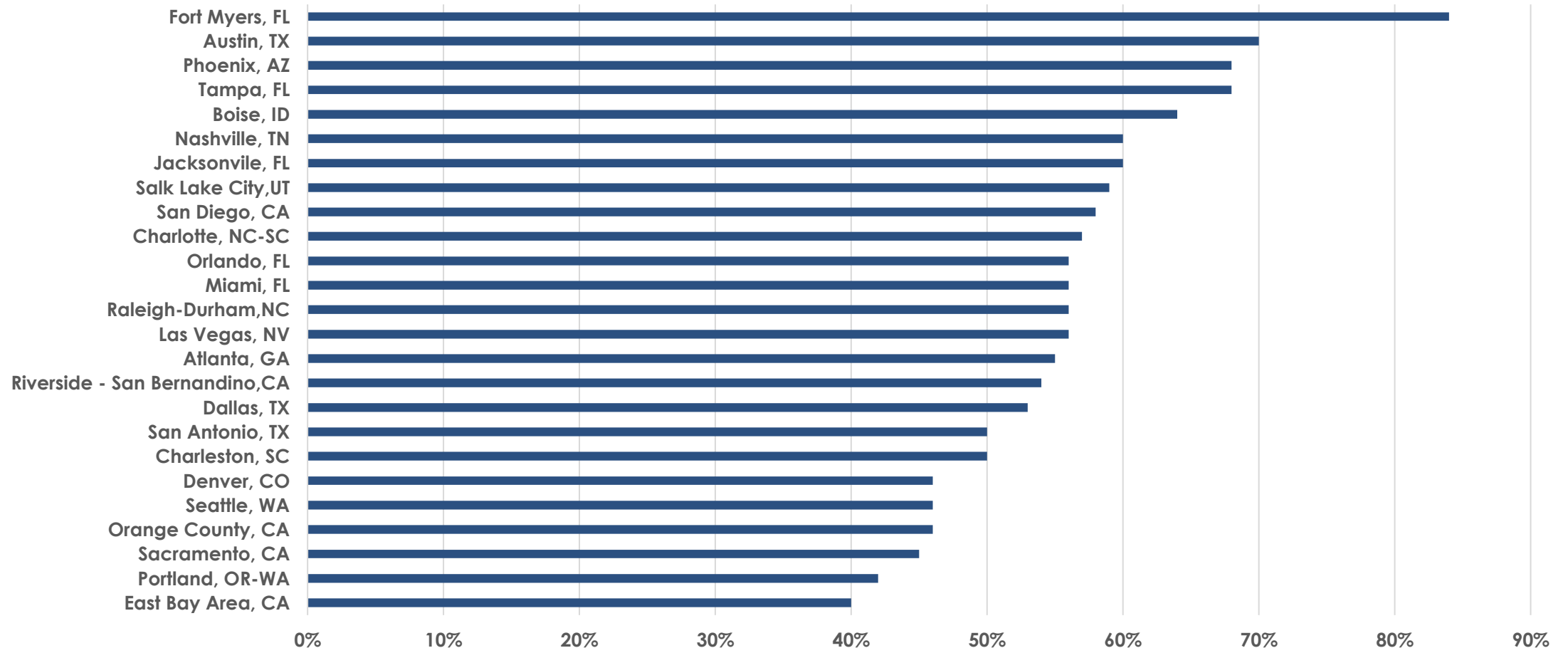


- Home Prices increased **15.8%** year over year in July compare with July 2021
- On a month-over-month basis, prices decline **0.3%** in July compared to June
- Some metro areas have seen prices decline on a monthly basis in June.
  - Seattle, San Francisco, San Diego, LA, Portland, Denver
- As mortgage rate crossed above 6% more metro areas are expected to see a price decline in next 12 months.

# Price Increases in some metro areas

Source: John Burns Real Estate Consulting

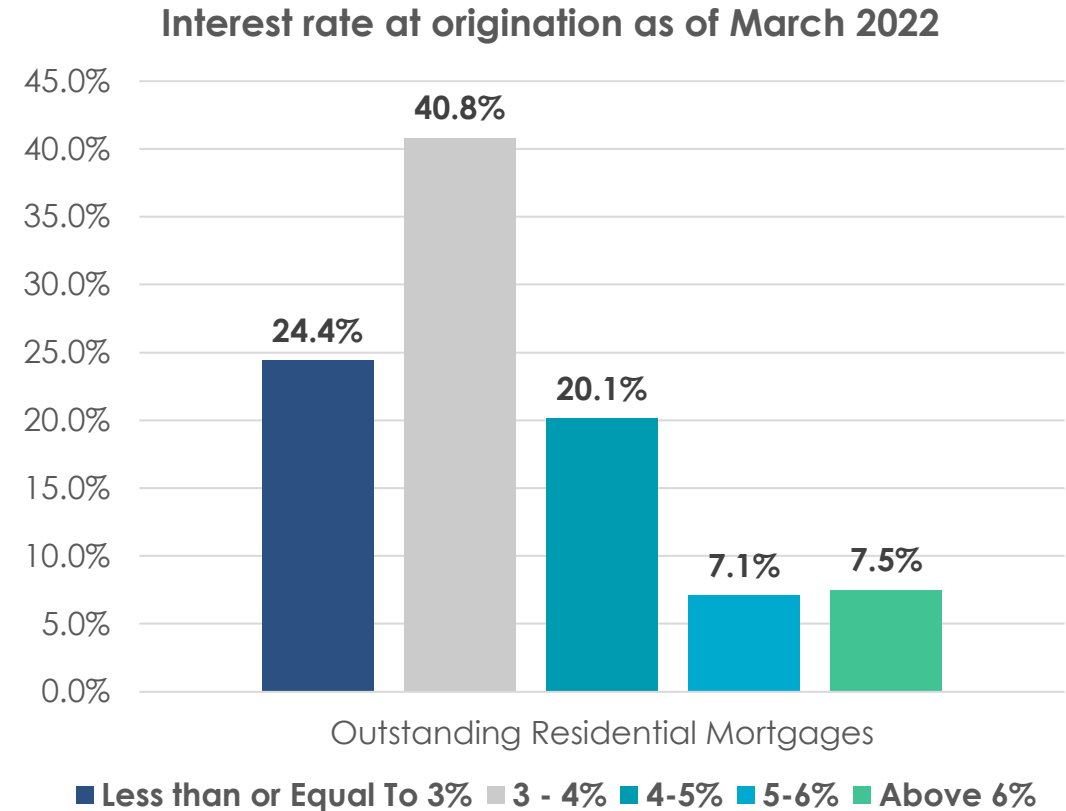
Price Increase Dec 2019 - June 2022



# Outstanding Residential Mortgages active as of March 31, 2022

Source : FHFA, National Mortgage Database(NMDB)

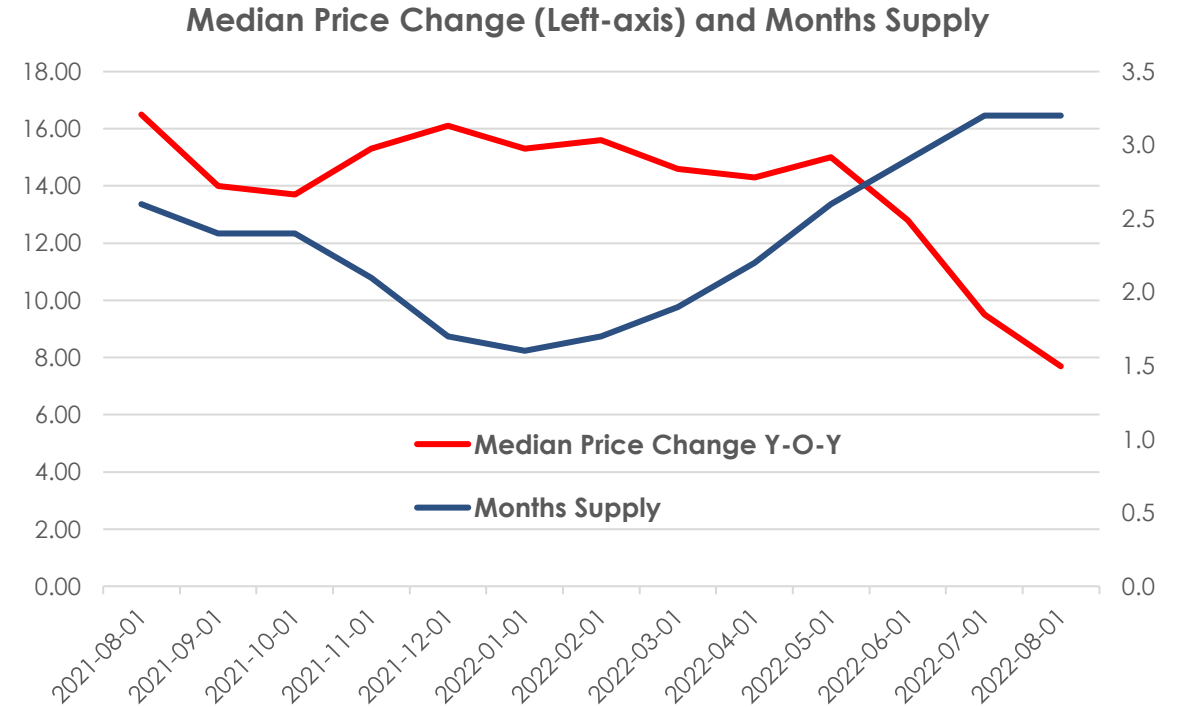
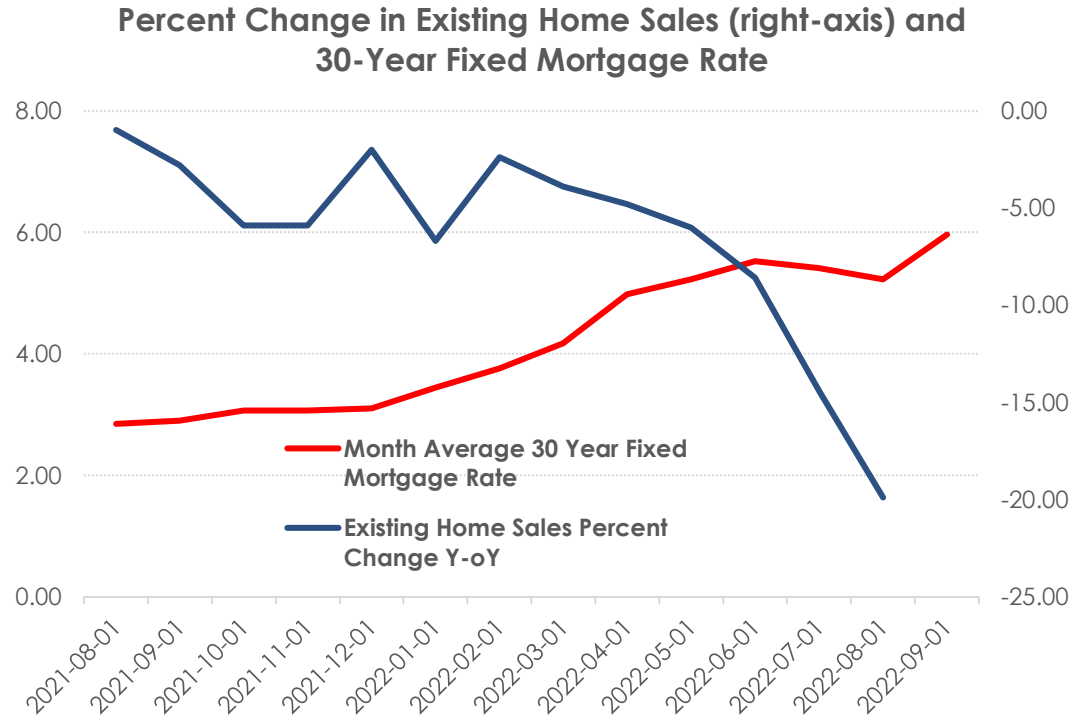
- Existing home-owners account for half of all home purchases.
- They are highly unlikely to buy when rates are above 6%.
- 64% of outstanding mortgages have an LTV ratio of less than or equal to 60%.
- Most will stay and renovate instead of looking for better homes.





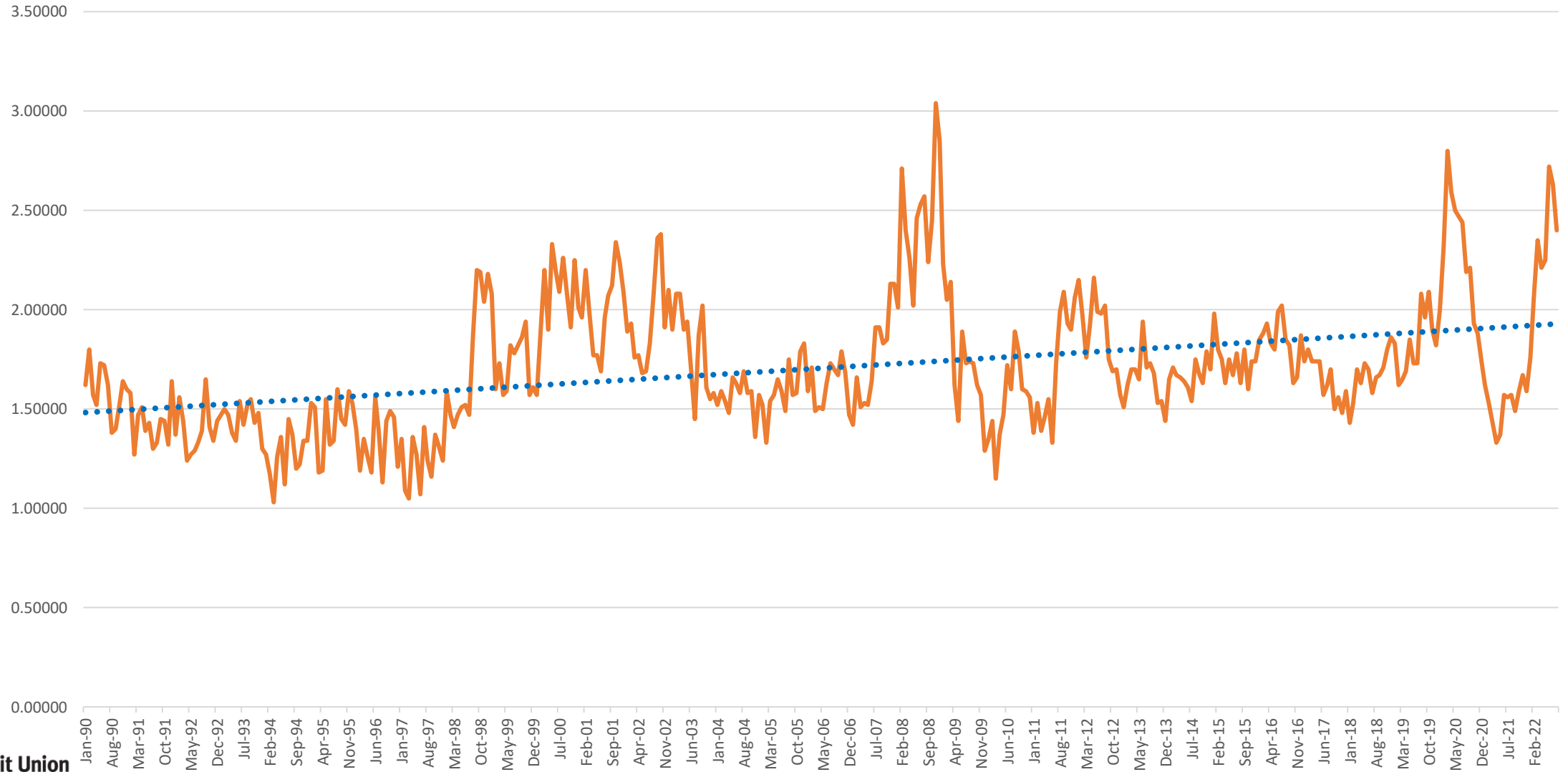
# Existing Home Sale Trends

Source: National Association of Realtors



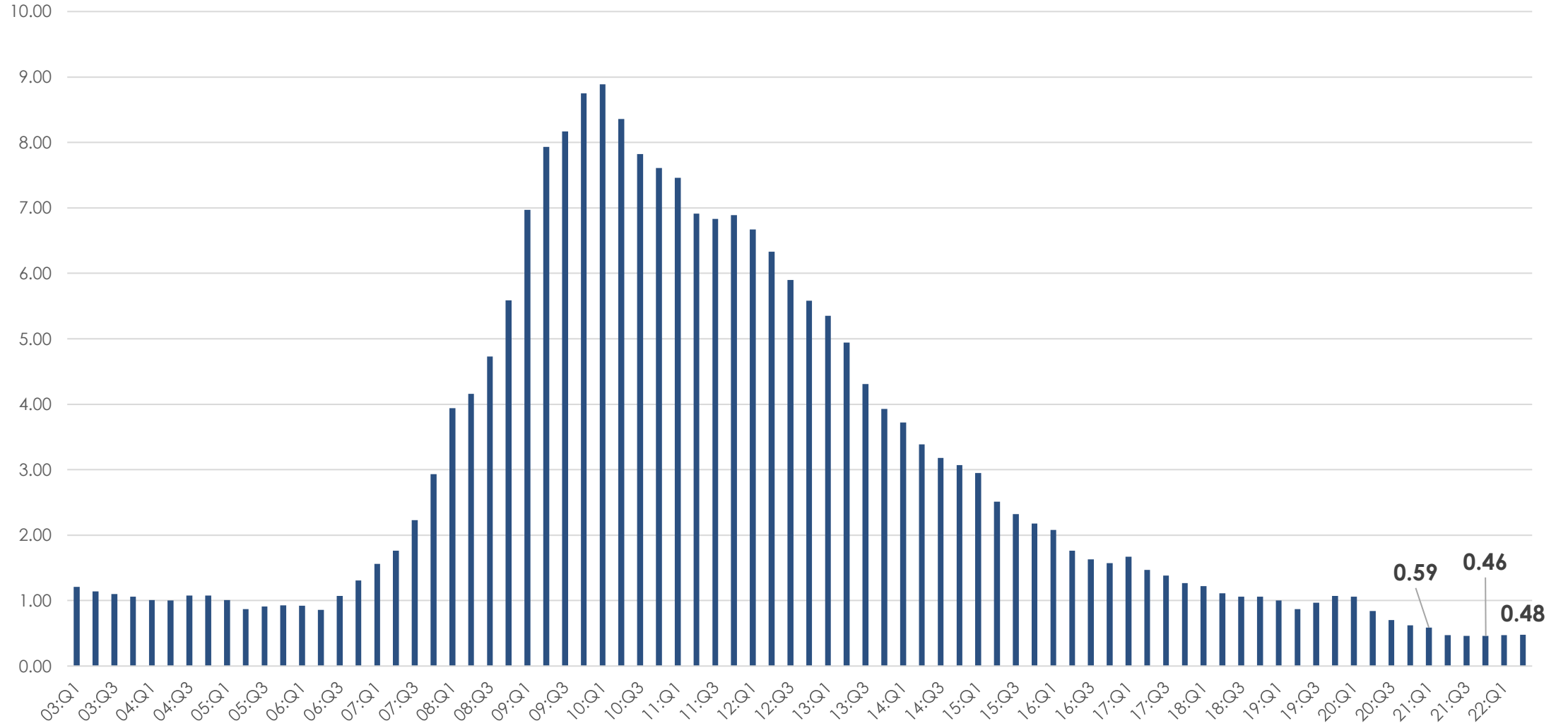
# Spread between 30-year fixed Mortgage and 10-year Treasury Yield

Source: St Louis FRED



# Percent Balance 90+ Days Mortgage Delinquency

Source: NY FED



# In conclusion

- Alleviating the cost and constraint of developing land
  - Zoning restricting multifamily housing development
  - Prohibitive permitting and developing fees
  - Some suggest making federal aid conditional on relaxation of these restrictions.
- Home purchases will decline as rates remain high
- Price declines are expected in areas that enjoyed significant high appreciations in the last 3 years, but this is just an adjustment – not a crash.