ECONOMIC UPDATE

REGIONS

January 22, 2021

December Existing Home Sales: Supply, Or Lack Thereof, The Story Of 2020. And 2021 Too?

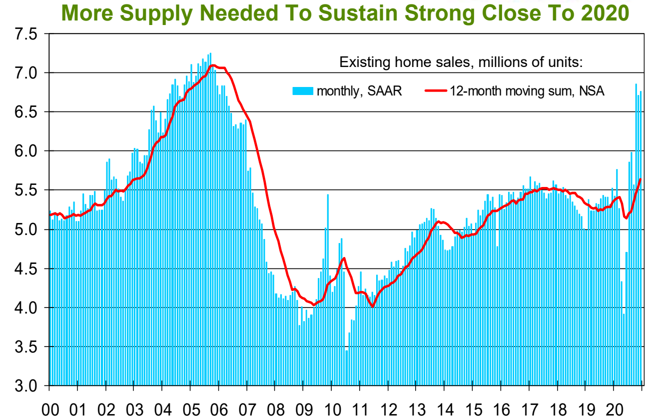
- Existing home sales rose to an annualized rate of 6.760 million units in December from November's (revised) sales rate of 6.710 million units
- Months supply of inventory stands at 1.9 months; the median existing home sale price rose by 12.9 percent on a year-over-year basis

Total existing home sales rose to an annualized rate of 6.760 million units in December, beating our above-consensus forecast of 6.700 million units, while the initial estimate of sales in November was revised slightly higher. On a not seasonally adjusted basis, there were 537,000 existing home sales in December, ahead of our forecast of 521,000 and up 8.9 percent from November, much larger than the typical increase for the month of December. Inventories of existing homes for sale hit another all-time low in December, leaving the months supply metric at 1.9 months, itself a new all-time low. Reflecting strong demand and extraordinarily lean inventories, the median existing home sales price was up 12.9 percent year-on-year, the fifth consecutive month with a double-digit increase. It is perhaps tempting to look at the lofty headline sales numbers of recent months, or at the steadily rising trend sales rate, and conclude that the market is strong, but the details beneath the headline sales number raise the question of just how healthy the market is. Specifically, price appreciation is becoming significantly out of alignment with income growth, and while low mortgage rates can make up for that disparity for a time, they cannot do so indefinitely. So, while sales ended 2020 on a strong note, that cannot be sustained without some relief on the supply side of the market.

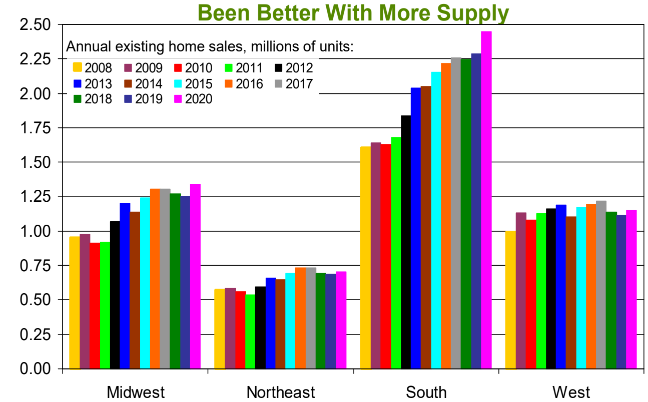
For 2020 as a whole, there were 5.643 million existing home sales, a 5.6 percent increase from 2019 and the highest annual total since 2006. Across the four broad geographic regions, sales rose by 6.6 percent in the Midwest, by 2.9 percent in the Northeast, by 7.1 percent in the South, and by 3.0 percent in the West. It goes without saying that had there been more available inventories, 2020 sales would have been even stronger. Indeed, 2020 marked the sixth consecutive year in which the intra-year peak in listings was below that of the prior year. Keep in mind that the NAR inventory data are not seasonally adjusted, and there are clear seasonal patterns with the intra-year peak typically coming in June. To some extent, the record-low inventories seen in 2020 reflect potential sellers holding their home off the market due to the pandemic. While it figures that this constraint will begin to ease as the economy opens back up, that won't likely be a meaningful source of supply side relief until the back half of 2021. Moreover, that still leaves what we think to be the two primary drags on inventories in place. The wave of foreclosures associated with the 2007-09 recession helped give rise to single family REITs, which has resulted in significant numbers of existing homes being diverted to the rental segment of the market. Given that single family REITs are seeing strong growth in cash flows from rents on single family homes rising at a rapid pace and are also seeing capital appreciation from rising home values, it is unlikely they will be looking to unload supply any time soon. Additionally, in over 55 percent of the owner occupied housing stock the primary householder is 55 years-old or older, and turnover amongst this group has fallen significantly. At some point this will change, but the pandemic has likely pushed the timing of any such change further off into the future than would have otherwise been the case. In short, while we do expect some relief on the supply side of the market in 2021, our sense is that this will still leave the market for existing homes undersupplied.

Given how strong price appreciation has been over the past several months, our sense is that affordability will be more sensitive to a given change in mortgage interest rates than has been the case in past cycles. This is worth keeping in mind as mortgage rates are likely to increase, even if at a gradual pace, over the course of 2021. While robust house price appreciation has provided a powerful lift to household net worth, the flip side of that coin is that prospective first-time buyers are facing increasing difficulty in raising down payments and in some markets are being priced out. While new construction can act as somewhat of a buffer, affordability is also becoming an issue in that segment of the market, and builders are contending with order books growing faster than they can be filled. As we've been noting over recent months, while we remain constructive on the demand side of the market, we worry that affordability constraints may begin to eat away at demand. We do not believe that we are that point right now, but we may not be far from it.

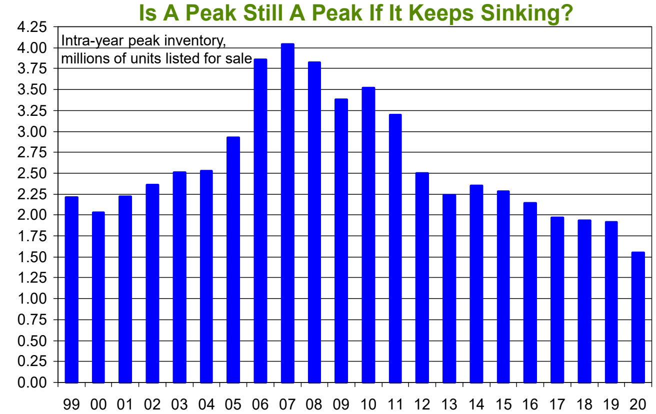
More Supply Needed To Sustain Strong Close To 2020



2020: A Good Year That Could Have Been Better With More Supply



Is A Peak Still A Peak If It Keeps Sinking?



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