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As the lock-in effect eases, the market for new homes is shrinking

A new Redfin report indicates that new homes, as a percentage of for-sale inventory, have dropped to their lowest levels since 2021

November 4, 2024, 12:19 pm By [Kennedy Edgerton](#)

As high [mortgage rates](#) reshape the housing market, [existing homes](#) are making up a larger percentage of for-sale inventory, and homebuyers are taking notice.

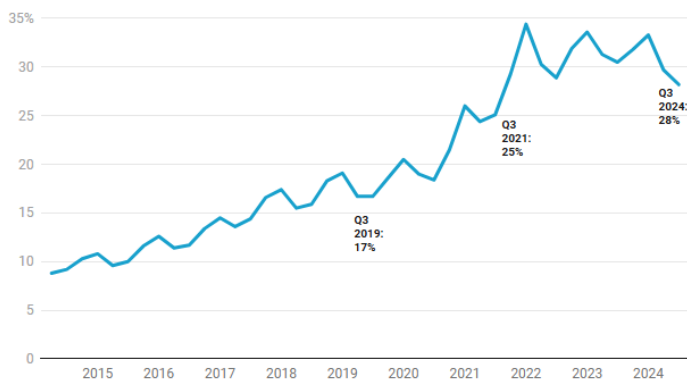
In the third quarter of 2024, newly built single-family homes made up just 28% of homes for sale, according to a recent [Redfin report](#) based on data from the [National Association of Realtors](#) (NAR) and the [U.S. Census Bureau](#). This marked the lowest market share for new homes in three years.

One year ago, new homes held a 30.5% market share, while first-quarter 2022 saw a record high of 34.4%. So, what's driving the recent decline? An overdue shift in homeowner attitudes about selling their homes is a major factor, Redfin reported.

The available inventory of existing homes rose by 22% year over year in Q3 2024. Recently, the ["lock-in effect"](#) has kept homeowners with historically low-rate mortgages from selling, but this effect is easing. Nearly 93% of homeowners with mortgages [had rates below 6%](#) in mid-2022, but that share dropped by roughly 4 percentage points at the start of the year, according to Redfin. This indicates that buyers and sellers alike are showing signs of frustration in waiting for rates to fall.

28% of Houses For Sale in Q3 Were Newly Built, the Lowest Share Since 2021

Quarterly share of U.S. single-family homes for sale that were new construction



Source: Redfin analysis of NAR, Census/HUD data • Created with [Datawrapper](#)

NAR data shows that the annualized rate of existing-home sales [dropped 1%](#) from August to September, landing at 3.84 million units. The sales pace was down 3.5% year over year. But even with these declines, the outlook is becoming brighter.

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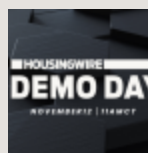
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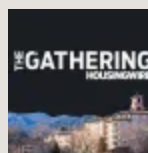
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"There are more inventory choices for consumers, lower mortgage rates than a year ago and continued job additions to the economy. Perhaps, some consumers are hesitating about moving forward with a major expenditure like purchasing a home before the upcoming election," NAR chief economist Lawrence Yun said in a statement.

New construction inventory has grown in recent months. Homebuilders have ramped up incentives — like mortgage rate buydowns and cash rebates — to boost sales, and new-home sales rose 6.3% year over year in September. But the increase in sales means that inventory levels will start to decline as fewer new homes are being built.

"Homebuilders have backed off since the pandemic-driven building boom, with high mortgage rates dampening demand; they're focused on selling the new homes they have on the books rather than constructing new ones," Redfin noted in the report.

Builders permits for single-family homes declined by 2% year over year in September and are down 23% from their post-pandemic peak in 2021, when permits reached a 15-year high. New homes, however, still occupy a larger market share compared to pre-pandemic levels, with inventory rising from 17% of all listings in 2019 to nearly 30% in Q4 2021.

As permits continue to decline, Redfin predicts that the new-home share of the market will fall further, leaving the door open for existing-home sales to take center stage in the market.

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