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It's notable that the price of the homes under contract is still 3-5% above last year. At \$399,900, this is unchanged for several weeks.

August 19, 2024, 3:47 pm By Mike Simonsen

Unsold inventory of homes for sale has been on the rise all year. It hasn't turned the corner yet — inventory rose across the country this week — but at less than 1% rate. There are some signs that inventory growth is slowing with newly lower mortgage rates and the end of the summer.

Is inventory growth finally slowin...



In the years before the pandemic, it would be totally normal for inventory to peak at the end of July or in August. Recently unsold inventory would rise later in the year, especially in the last two years as the market slowed when inventory climbed up to November. We probably have another month or more of inventory growth, but that growth seems to be slowing.

Slower growth of unsold homes on the market is a result of too few sellers on the supply side and stability on the demand side. We've been in an extended period of weak or declining homebuyer demand, so the unsold supply of homes continues to build. If demand stabilizes, maybe we're at the peak of this trend for the season.

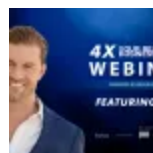
We're on the lookout for these subtle shifts in the market because that has implications for home price appreciation and for home sales volumes for the year. There's nothing in the data that says 2024 is going to accelerate, so the most

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optimistic scenario we're watching for is stability and maybe poised for a sales recovery in 2025.

Let's look at the details of the U.S. real estate market as of mid-August 2024:

Inventory is up

There are now 698,000 single-family homes unsold on the market. That's up less than 1% for the week. That's the least growth in the inventory trend in months. This makes sense as it is late in the season.

I'm interested in the timing of this year's seasonal peak of inventory. We're in a slow market so it's not a surprise that the supply of unsold homes is still growing.

Maybe we're in the opposite scenario this year with mortgage rates falling in the second half of the year, maybe we'll hit the inventory plateau earlier.

New listings come at slow rate

On the new listings side, we've covered the slow rate of sellers now for two full years. This week was no different with 67,000 new listings of single-family homes. This is right where we expected it for the week. There's no sign of any big surge in sellers. The most dire predictions about where the housing market is heading would require a surge of sellers.

Even in the states like Florida and Texas, which lead in inventory growth, things have probably plateaued. Total unsold inventory in Florida actually ticked down this week. New listings in Florida are down and indeed fewer new sellers this week than the same week in either of the last two years. Texas hasn't rolled over yet, but we're keeping an eye on it. Texas inventory grew by 1.5% or a little faster than the national average for the week.

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So not all signs are showing the plateau in unsold homes. Texas drives a lot of the country, so we'll see if my speculation here comes through.

Home sales down a teeny bit

There are 366,000 single-family homes under contract. That's a fraction fewer than a week ago, and unchanged from last year. There were 66,000 single-family sales that are newly pending this week, plus another 13,000 condos. Some 79,000 total sales started in mid-August is still very low, it's aiming for that 4 million annual sales mark and hasn't climbed notably.

As mortgage rates fall, we'll see if there is any notable uptick in buyer demand. Payments are still very expensive, of course, but they're at their lowest point of the year. Is there a threshold that motivates buyers? I previously assumed that being at 6.5% would be a visible threshold for increased homebuyer demand, but I haven't seen any confirmation of that.

If we see any uptick in buyer demand, we're looking at September or even October before the sales needle moves. If we're not lucky, then rates haven't fallen far enough or buyers are just going to wait until next year before taking any action.

Home prices unchanged

The median price of single-family homes in the US is \$449,900. That's unchanged from the last few weeks. If you walk into the housing market today to buy or sell a house, this is what the market looks like. It's the same median price as last year and as it was in August 2022. Prices nationally are unchanged for two years.

The price of the new listings this week is \$400,000. That's roughly the same as last week and last year, as well.

It is notable that the price of the homes under contract is still 3-5% above last year. At \$399,900,

this is unchanged for several weeks. Last year, the pending home sales prices hovered around \$380,000.

Price reductions plateau

Price cuts on the homes listed for sale have plateaued for a few weeks. Some 39.5% of the listings have taken a price cut from the original list price. I do expect price cuts to continue to grow slowly as the summer turns into fall. As it gets later in the year, any seller who hasn't gotten the offer they want has two options: cut the price or withdraw the listing. Either way, the percentage of the active market with price cuts increases. This should continue to increase slowly for a couple more months.

Withdrawals of active listings are definitely climbing. This happens every year, in every market, but it's happening a bit more now. On the one hand withdrawals are a bearish sign. There are no buyers and sellers are so discouraged they're walking away. On the other hand, this illustrates that sellers can walk away. It signals that home owners are not interested in a weak market and are in a good position to wait. That implies continued tight inventory — or a cap on inventory growth, and it implies there is less downward pressure on home prices even in a time of weak demand.

If mortgage rates continue to fall and a few more buyers are motivated, then we'll see this price reduction data top out in the next month or so before declining for the fall. If we're unlucky and rates bounce back up. For example, if the Fed doesn't cut rates as expected in September, then the mortgage markets will react sharply. Mortgage rates could jump in September, and then we'd see a big jump in this price reductions the same way it happened in both September 2023 and 2022.

If sellers finally change their expectations, we'll see it in the data quickly. Mortgage rates stayed higher for longer than anyone anticipated this

year. Maybe we've finally turned the corner? If we're lucky? For buyers and sellers, these conditions can change fast. They need to hear the data from you so they know how to respond.

Mike Simonsen is the founder of Altos Research.

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