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Housing Market

Peak homebuying season is clouded by mixed signals

Home sales are running slightly ahead of last year's pace, but 7% mortgage rates are prompting many buyers to sit on the sidelines

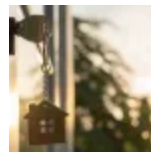
May 13, 2024, 6:27 pm By Mike Simonsen

As the U.S. hits peak homebuying season, the signals across the country are mixed at best as some markets are accelerating while others are slowing quickly. Inventory continues to build at the national level, something that's happening most rapidly in the South.

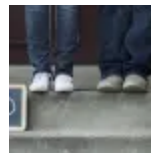
Home sales continue to run just a little ahead of last year's pace, but with mortgage rates in the 7s, there are a ton of potential homebuyers sitting on the sidelines. So, the pace of sales isn't breaking out. Instead, there are only a few more sales than a year ago and that gap is not really improving.

While you'll see headlines that home prices are up 5% or 6% over this time last year, the real-time and leading indicators for home prices tracked by **Altos Research** are weaker than that. In fact,

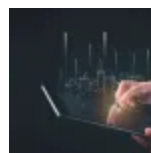
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some of the indicators are showing no price gains at all over the past year. Look for the home price headlines to cool in the second half of the year.

All in all, you can see how effectively 7% mortgage rates have slowed the housing market. Rates, however, may be inching lower as the yield on the 10-year Treasury moves lower and the spread between the 10-year and 30-year mortgage rate compresses a bit. If rates move into the 6s soon, expect a small uptick in sales volume and possibly some recovery in the leading indicators of home prices.

On Thursday, May 16, at 10 a.m. Pacific time, Altos Research holds its monthly webinar, where we dive deep on all of the local data trends and the leading indicators for what will happen in the remainder of 2024. If you need to communicate about the real estate market with buyers and sellers, you should join us. In the video below, there's a link in the description for the May webinar. Click that to reserve your spot now.

Mixed signals for peak home buy...



At Altos Research, we track every home for sale in the country each week. The data so often defies expectations or changes very quickly. We track all the pricing, supply and demand, sales, and all the changes in that data so you can understand immediately as it happens. Let's look at the details of the U.S. real estate market as of mid-May 2024. It's the peak season for buyers and sellers.

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Housing inventory

There are now 568,000 unsold single-family homes on the market. That's up 1.5% for the week. It's not a massive gain, but inventory is growing and will continue to grow over the next few months.

There are 35% more homes on the market than a year ago, a gap that continues to expand. We're currently expecting 700,000 unsold homes on the market by the end of September. In the webinar later this week, we'll take time to examine the national inventory forecast and those for many local markets.

The inventory chart in the video above is a handy way to illustrate how sensitive consumers are to changes in mortgage rates. Remember that, back in 2022, as mortgage rates were rising quickly, so too was inventory. In May of that year, inventory was climbing by 3% to 4% each week. That's represented on the light red line, which curves dramatically higher each week.

By mid-May 2022, inventory had overtaken the level of the year prior and we were moving out of the COVID-19 pandemic. You can then compare the curve to this year (the dark line). Today, inventory is climbing by 5,000, 10,000 and even 15,000 properties per week. But two years ago, inventory was climbing by 20,000 or 30,000 each week. This is a much different market now.

Last year, the largest weekly inventory gain topped out at about 6,000 properties. See how the red line from last year was flat all year long? Inventory in 2023 didn't really accelerate until mortgage rates approached 8% in the fall. There are more sellers now as rates have stayed higher for longer. Higher rates allow unsold homes to accumulate on the market.

This forecast will compress a bit if mortgage rates finally decline. But they haven't come down yet, so inventory continues to build.

New listings

Slightly fewer new listings hit the market this week – 69,000 single-family homes that are newly listed, plus another 20,000 listed that are already under contract. That's actually 3% fewer new listings than last week.

There is still a sense of optimism that more sellers will help this market grow. Ideally, the combined number of new listings should be above 100,000 each week, so it's a bit disappointing to see only 89,000 today.

Still, there are 10% more sellers this week than at this time last year. There are more new listings unsold, more immediate sales and 24% more

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This series can bounce around, for a lot of reasons, from week to week. Each line on the new listings chart in the video represents a year. The takeaway is that a healthy market would look like past years, where there were 100,000 or more new listings in a given week. We have more sellers than last year, but not a lot. Hopefully, this number climbs in a few more weeks.

Pending sales

The total count of homes under contract is just barely above that of May 2023. There are now 393,000 single-family homes in contract, up only a tiny fraction from last week. And there are only 2% more homes in contract now than a year ago. These are homes that are in the pending-sales process, in escrow to close. These sales will close in May and June.

There were 72,000 new sales this week, which was about 7% fewer than the week prior, but still 6% more than the same week in 2023. Each week, more sales are getting done than a year ago.

One of the accompanying charts in the video shows the total number of homes in escrow for each of the past three years. Home sales peak in June. There are 2% more homes in contract now than a year ago, but 15% fewer than in 2022, when there were 460,000 single-family homes set to be sold at this time in May.

The pace of sales fell dramatically in July of that year and again in September when mortgage rates spiked again. By the end of 2022 — at the right end of the chart — the pace of sales was way down and set up the coming drought of 2023.

This year, pending sales are slowly inching higher. It's interesting that we continue to have about 5% to 7% more homes going into contract each week, but the total homes in contract is only 2% to 3% more than a year ago. What's likely happening is that home sales are closing faster than last year.

Altos Research is measuring fewer days under contract. In 2022, the typical time to close approached 40 days as the market slowed. This year, the average number of days under contract is about 33.

You can imagine that home sales get delayed as financing changes rapidly, which is what happened last year. In 2024, there are more all-cash sales, for example, so no one is waiting for financing to close the deal. In 2023, not only were fewer sales starting, they were taking longer to close. These nuances help explain why more sales are happening even as many mortgage market metrics remain below last year's pace.

Home prices

Let's turn to home prices. The median price of a single-family home in the U.S. is \$450,000 today. That is unchanged from a year ago.

The average price of a new listing this week was also pretty close to \$450,000 and was up compared to last week. The change in the new listings price is actually a contrary, bullish indicator for future prices. It's the series that's up,

while others are flat or compressed compared to last year.

We're probably right at the peak for the year in the next week or two of this series. Prices for new listings typically peak in May before the market shifts toward the second half of the year.

The average price of a home under contract is \$400,000. That's unchanged for the week and up just 4% year over year. Essentially, the homes you have to choose from are listed at \$450K, but the price point being sought is \$400K. The list prices are flat from a year ago and pending prices are only slightly more.

In each of these cases, we see the tendency for prices to cluster around the big round numbers. If you're selling your home for somewhere in the range of \$450,000, for attention and marketing purposes, it's better to price it right at \$450K than it is to price it at \$451K, for example. Prices hit plateaus at these big numbers and then they jump. Right now, list prices have plateaued at \$450K and sales prices have plateaued at \$400K.

One of the charts in the video shows the annual trajectory for home prices. This is the asking price for all homes on the market. This series deserves to be highlighted as you can see how prices climb in the first half of the year before peaking in June. In 2022, the light red line was still climbing quickly due to the last of the momentum from the pandemic-fueled shopping spree.

Last year, the red line showed how home prices grew much more slowly in the first half of the year. The slope is more gradual, but it stayed more elevated in the second half of the year. At the right end of the chart, you can see how the end of 2023 set up the market for the home price gains that have occurred thus far in 2024.

But the slope of price appreciation this spring has been slower and these price gains are gone. By this measurement — looking at asking prices for all homes on the market — prices have had zero appreciation over the past year. Sellers know

exactly where to price their homes to sell. This tells us a lot about future sales.

Price reductions

As we look at the leading indicators of future home sales prices, we'll conclude today with the percentage of homes on the market with price reductions. In other words, out of all the homes listed, how many have taken a cut from their original list price?

Currently, 33.7% of the homes on the market have taken a price cut. That's up 30 basis points from last week and 410 basis points above the rate in mid-May 2023.

As the chart shows, there are more homes on the market now with price cuts than in any recent month of May. You can also see that the rate is climbing each week. The past three years are illustrated in red, while the gray lines represent each of the years in the prior decade.

Price cuts are always happening at this time of year. The bulk of homes get listed in the second quarter, and if they don't get offers, they take price cuts. This trend peaks later in the year, when the seasonal cycle resets before the holidays.

Today, more homes have price cuts, and a pretty significant number are adding to that set each week. If your house is listed now and it doesn't have an offer, you might cut your price in June, it receives an offer in July and the sale closes in August. That's one of the trends that we're watching now.

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