Inventory Shortage Continues to Weaken New Home Sales

By: Jann Swanson | Thu, Dec 19 2019, 11:32 AM

Existing home sales fell back again in November, erasing most of October's 1.9 percent gain. **Sales have now declined in two of the last three months**. The National Association of Realtors® (NAR) said sales of previously owned single-family houses, townhouses, condominiums, and cooperative apartments were at a seasonally adjusted rate of 5.35 million, down 1.7 percent from the October rate of 5.46 million units. Sales for the month, however, were still up by 2.7 percent from the 5.21 million pace in November 2018. Sales of single-family homes were at a rate of 4.79 million units compared to 4.85 million the previous month, a loss of 1.2 percent but 3.5 percent higher than a year earlier. Coop and condo sales fell even further, 5.1 percent. The annual rate of 560,000 condo sales in November was 3.4 percent below the rate the previous November. The pullback was not unexpected. Analysts polled by Econoday had forecast a consensus sales rate of 5.45 million. NAR's estimate came in just under the low end of the predictions which ranged from 5.37 to 5.55 million units. Lawrence Yun, NAR's chief economist, said the decline in sales for November is not a cause for worry. "**Sales will be choppy when inventory levels are low**, but the economy is otherwise performing very well with more than 2 million job gains in the past year," he said.

The median existing-home price for homes sold in October was $271,300, an annual increase of 5.4 percent from the $257,400 median in November 2018. It was the 93rd straight month of year-over-year gains. Single-family home prices also increased by 5.4 percent compared to a year earlier to $274,000. The median existing condo price was $248,200 in November, an increase of 4.5 percent from a year earlier. Inventory continues to decline, dropping 7.3 percent from October to a total of 1.64 million units. The unsold inventory is estimated at a 3.7-month supply at the current rate of sales. It was estimated at 3.9 months in October. In November 2018 there was an estimated 4.0-month supply with 1.74 million units available. **NAR said November marked the fifth consecutive month the inventory has shrunk, and this is constraining home sales.**

Declining homes sales were especially notable among lower priced homes. **Compared to one year earlier there were 16 percent fewer homes sold that were priced below $100,000** and a 4 percent reduction for homes in the $100,000 to $250,000 price range. Other sources have pointed to the extreme shortage of inventory in those lower priced tiers. "The new home construction seems to be coming to the market, but we are still not seeing the amount of construction needed to solve the housing shortage," Yun said. "It is time for builders to be innovative and creative, possibly incorporating more factory-made modules to make houses affordable rather than building homes all on-site." Properties typically remained on the market for 38 days in November, up from 36 days in October, but down from the 42 days in November 2018. Forty-five percent of homes sold in November 2019 were on the market for less than a month.

First-time buyers were responsible for 32 percent of sales in November, little changed from either October or last November. The percentage of those new homeowners has been in the 30 to 35 percent range for most of the recovery. Individual investors or second-home buyers purchased 16 percent of homes in November 2019, up from both 14 percent in October and 13 percent in November 2018. All-cash sales accounted for 20 percent of the months transactions and distressed sales continue to make up only a negligible amount of transactions, 2 percent in November.

NAR recently released a list of 10 metropolitan area markets it expects to outperform both in sales and price gains. They are Charleston, Charlotte, Colorado Springs, Columbus, (Ohio); Dallas-Fort Worth, Fort Collins, Las Vegas, Ogden, Raleigh-Durham, and Tampa-St. Petersburg. These areas all have strong job growth, in-migration, and affordability. Yun cited NAR's Real Estate Forecast Summit earlier this month. Fourteen economists forecast a 29 percent chance of a recession next year and a consensus for 2 percent growth in the GDP. "**The consensus was that mortgage rates may rise, but only incrementally**," Yun said. "I expect to see home price affordability improvements, too. This year we witnessed housing costs grow faster than income, but the expectation is for prices to settle at a more reasonable level in the coming year in line with average hourly wage growth of 3 percent on a year-over-year basis."

Sixty-nine percent of the economists expect the Federal Reserve to hold rates constant next year while 31 percent said it might cut rates. The group predicted an average annual 30-year fixed mortgage rate of 3.8 percent and home prices (existing and new homes) to increase at a slower rate of 3.6 percent. November sales increased in the Northeast and Midwest regions compared to October but rose in all regions except the Northeast on an annual basis.

In the **Northeast** those sales grew 1.4 percent from October to a rate of 700,000 units but represented 1.4 percent fewer sales year-over-year. The median price in the Northeast was $301,700, an annual gain of 3.9 percent.

The **Midwest** posted the strongest monthly gain, 2.3 percent. The annual rate of sales in the region, 1.32 million units, was 1.5 percent ahead of the prior November. The median price in the Midwest was $209,700, a 5.9 percent jump from last November.

Existing-home sales in the **South** fell 3.9 percent to 2.24 million but remained 3.7 percent higher on an annual basis. The median sales price was $234,400, a 4.8 percent increase.

The sales pace in the **West** was down 3.5 percent from October to a rate of 1.09 million units, 4.8 percent above the rate the prior November. Sales prices accelerated by 7.1 percent to a median of $410,700.

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