

Home Price Surge Seen Slowing After Record Run

By: Jann Swanson | Tue, Apr 6 2021, 10:46 AM

CoreLogic's February Home Price Index (HPI) essentially echoed that the price report last week from Black Knight. The company said that its index **recorded its highest annual growth since 2006 at 10.4 percent**. Demand continues to clash with an historically low supply creating affordability challenges, especially as mortgage rates also begin to rise. The HPI increased 1.2 percent on a month-over-month basis.

Those challenges have begun to push homebuyers away from high-cost metro areas as the spring homebuying season looms. The number of homebuyers in the top 10 metros with the largest net out-migration - including West Coast metros like Los Angeles, San Francisco, and San Jose - who chose to move to another metro increased to 21 percent in 2020, up 3 percentage points from 2019. This sentiment is reflected in CoreLogic's recent consumer survey, which found that 57 percent of current non-homeowners on the West Coast feel the home options in their area are not at all affordable.

"Homebuyers are experiencing the most competitive housing market we've seen since the Great Recession," said Frank Martell, president, and CEO of CoreLogic. **"Rising mortgage rates and severe supply constraints are pushing already-overheated home prices out of reach** for some prospective buyers, especially in more expensive metro areas. As affordability challenges persist, we may see more potential homebuyers priced out of the market and a possible slowing of price growth on the horizon."

Those metro areas where the affordability constraints continue to be prevalent have had the largest increases. For instance, in February, home prices increased 16.2 percent year over year in Phoenix, 12.5 percent in Seattle and 8.2 percent in Los Angeles. At the state level, Idaho, Montana, and South Dakota had the strongest price growth in February, up 22.6 percent, 19.5 percent, and 17.1 percent, respectively.

"The run-up in home prices is good news for current homeowners but sobering for prospective buyers," said Dr. Frank Nothaft, chief economist at CoreLogic. "Those looking to buy need to save for a down payment, closing costs and cash reserves, all of which are much higher as home prices go up. Add to that a rise in mortgage rates and the affordability challenge for first-time buyers becomes even greater."

CoreLogic forecasts an increase of 3.2 percent in home prices over the 12 months ending in February 2022. Increased inventory as the pandemic wanes, coupled with affordability concerns that may discourage potential homebuyers, **could lead to a slowdown in home price growth by the end of this year**.

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