Home Prices Likely to Remain Under Pressure in 2022

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

In 2020, total home sales in the U.S. reached a 14-year high, pushing the median sales price up +9% to its highest level on record. When 2021 began, as realtors complained of severely depleted inventories, Realtor.com forecasted a +7.0% rise in existing home sales and a +5.7% price increase. As this year draws to a close it appears that sales will easily exceed last year's count while the median price will more than triple the Realtor.com forecast.

National Association of Realtors (NAR) Chief Economist Dr. Lawrence Yun expects home prices will continue to climb next year, but at a much slower +2.8% pace. Dr. Yun called the current price-to-income ratio "alarming," but mentioned that unlike in 2007 and 2008 there is no subprime lending problem or oversupply to contend with. He expects building activity will increase in 2022, although nowhere near the levels of 2005 during the last major housing bubble.

Dr. Yun's anticipated price moderation in 2022 isn't shared by all industry experts. In fact, industry groups are all over the board in their predictions. Zillow research recently lowered its 2022 forecasted home price increase from +13.6 to +11%, and noted "flexible work options continue to shape housing decisions in new ways in 2022." Fannie Mae predicts a +7.9% increase, Redfin is forecasting a +3.0% rise and the Mortgage Bankers Association's forecast model actually shows a decline in the median price of existing homes by the end of 2022.

As this year draws to a close it appears that sales will easily exceed last year's count while the median price will more than triple the Realtor.com forecast.

Since the rapid rise in home prices over the last two years is a result of demand overwhelming supply, hopes for price moderation hinge on bringing that balance more in line. This morning on the demand side, the NAR announced existing home sales for November had climbed for the third straight month. The +1.9% rise brought the annualized sales pace to 6.46 million units, the highest in 10 months …although NAR analysts believe unexpectedly strong November sales may reflect buyers making purchases before mortgage rates climb further. Average days on the market is still significantly lean at 18 days, and the available supply, at 2.1 months, remains less than half of what is historically considered to be a tight market.

Last week, housing starts rose a better-than-expected +11.8% in November to a 1.68 million unit annual rate, and are up +8.3% year-over-year. Building permits climbed +3.6% to a 1.71 million unit pace. Although residential construction over the past 12 months was the strongest in 14 years, the backlog of projects in the pipeline stands at the highest level in 22 years of series history.

Since the rapid rise in home prices over the last two years is a result of demand overwhelming supply, hopes for price moderation hinge on bringing that balance more in line.

On the bright side, builders are optimistic with the NAHB index for December matching the highest level of 2021, but while demand remains strong, the housing sector continues to be plagued by shortages of workers, materials and supplies.

Market Indications as of 11:55 A.M. Central Time

DOW	Up 228 to 35,720 (HIGH: 36,432)
NASDAQ	Up 123 to 15,464 (HIGH: 16,057)
S&P 500	Up 33 to 4,682 (HIGH: 4,712)
1-Yr T-bill	current yield 0.26%; opening yield 0.25%
2-Yr T-note	current yield 0.67%; opening yield 0.65%
3-Yr T-note	current yield 0.95%; opening yield 0.93%
5-Yr T-note	current yield 1.22%; opening yield 1.20%
10-Yr T-note	current yield 1.46%; opening yield 1.45%
30-Yr T-bond	current yield 1.86%; opening yield 1.86%