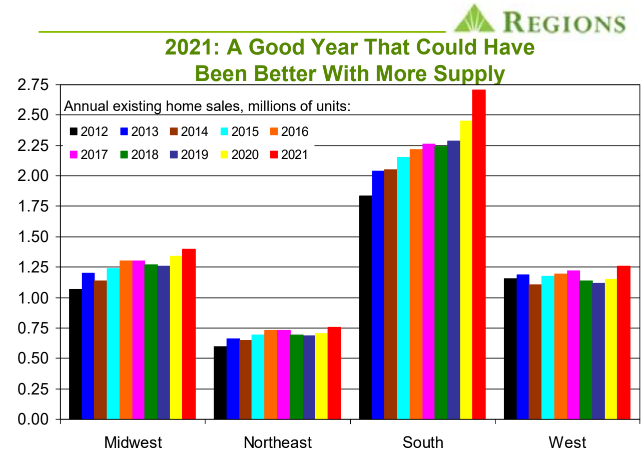
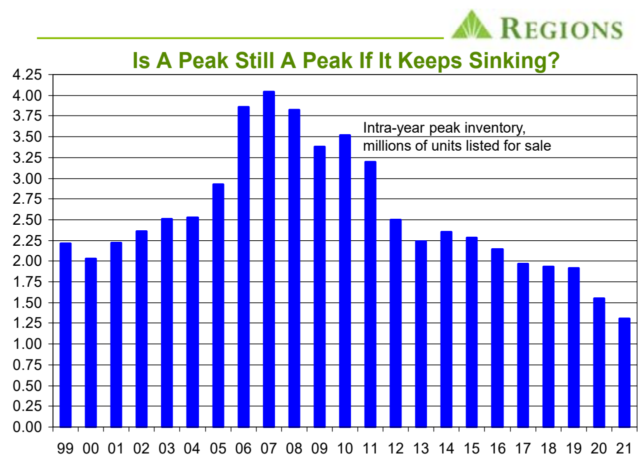
December Existing Home Sales: A New Record Low For Inventories Weighs On Sales

- Existing home sales fell to an annualized rate of 6.180 million units in December from November's (revised) sales rate of 6.480 million units
- Months supply of inventory stands at 1.8 months; the median existing home sale price rose by 15.8 percent on a year-over-year basis

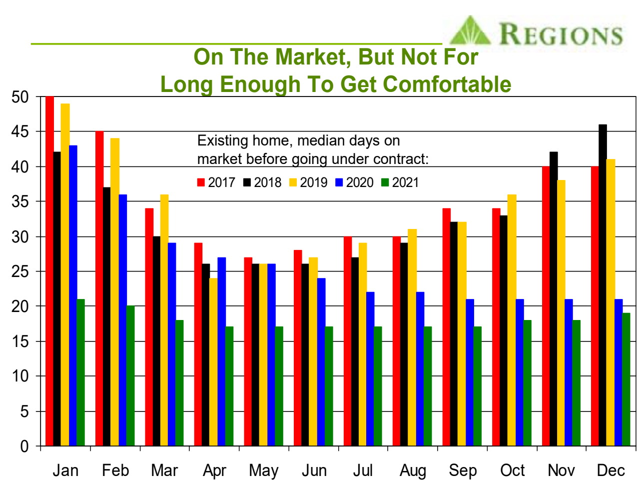
Total existing home sales fell to an annualized rate of 6.180 million units in December, far below expectations, while inventories tumbled to a new record low. Sales were particularly weak in the West region, which where some of the most intense inventory and affordability constraints reside. Listing of existing homes for sale fell to 910,000 units, well below our forecast and easily the lowest on record, sufficient to cover only 1.8 months of sales, also a new record low. The median existing home sales price was up 15.8 percent year-on-year, making December the second straight month in which the over-the-year increase was larger than in the previous month, which is consistent with other measures showing the pace of price appreciation picked up in the latter stages of 2021. Keep in mind that existing home sales are booked at closing, so December closings mainly reflect sales contracts signed in either October or November, when mortgage interest rates were considerably lower than they now are. With elevated prices already weighing on affordability for many buyers, particularly first-time buyers, higher mortgage interest rates will curb growth in demand for home purchases. While that would contribute to a slower pace of house price appreciation, the reality is that the market remains chronically undersupplied, which will sustain a faster pace of price appreciation that would otherwise be the case.



On a not seasonally adjusted basis, there were 511,000 existing homes sold in December, up 1.6 percent from November but below our forecast of 533,000 sales. Sales in the Midwest and West regions fell short of our forecast, while sales in the Northeast and South regions matched our forecast. For all of 2021, there were 6.118 existing homes sold, up 8.4 percent from 2020 and the highest annual total since 2006. Sales rose by 10.4 percent in the South region in 2020, with increases of 9.5 percent in the West, 7.1 percent in the Northeast, and 4.6 percent in the Midwest. While the 8.4 percent increase in sales in 2021 is impressive, the reality is that the increase would have been much larger had there been more inventory. As noted above, listings fell to 910,000 units in December, down 18.0 percent from November and down 14.2 percent from December 2020. The NAR inventory data are not seasonally adjusted, and there are clear seasonal patterns in listings, with listings tending to start building in the spring and peak during the summer months before tailing off over the final months of any given year. One metric we've always liked to track is how the intra-year peak in listings compares with those in prior years, which we illustrate in our middle chart. Last year marked the seventh consecutive year in which the intra-year peak in listings was lower than that of the prior year, and even should listings turn higher in the months ahead, they will be doing so off of a record-low base. We've often made the point that, while it may be getting more attention now, the housing market has been undersupplied for the past several years and, even with diminished affordability trimming growth in demand, will remain so for some time to come.



Of the sales closed in December, 79 percent were on the market for less than a month before going under contract, which is actually down slightly from the shares of the prior several months. The median days on market metric ticked up to 19 days in December from 18 days in November but, as seen in our bottom chart, homes aren't lasting nearly as long on the market as used to be the case. In 2017, the median days on market averaged 35.1 days, but in 2020 that was down to 26.1 days and fell to 18.0 days in 2021. At the same time, investor purchases and all-cash purchases accounted for higher shares of sales in 2021 than had been the case in prior years. The group most impacted by lean inventories and competitive market conditions is first-time buyers, and while these buyers accounted for 30 percent of all sales in December, that share is nonetheless well below where it would be an a more balanced market. Inventories are particularly lean across the lower price points, and first-time buyers are less likely to be able to compete with cash offers, which are more attractive to sellers as they remove concerns over mortgage approvals and appraisals not matching sales prices. Again, this will not change without a reversal on the inventory front. Indeed, we've been talking about lean inventories for years now, making it all the more frustrating that there are still no signs of any improvement, let alone meaningful and sustained improvement.



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