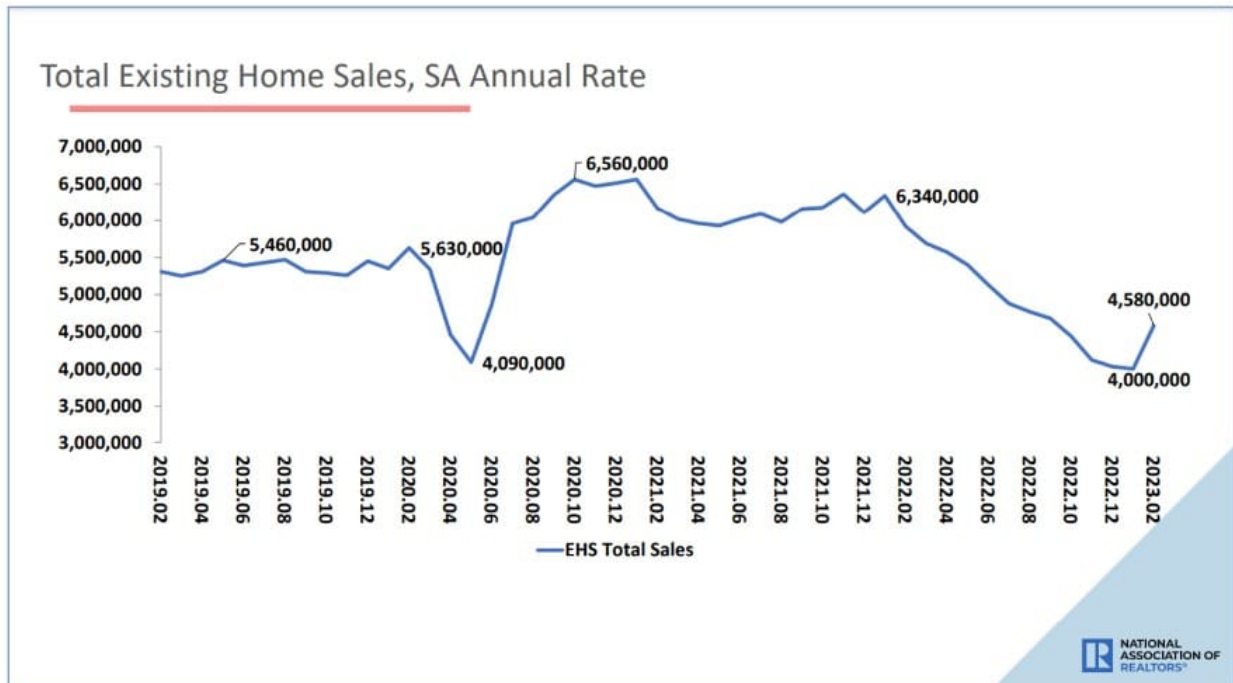


Is the Housing Market Really in Trouble?

Yesterday the NAR reported that Existing-home sales jumped 14.5% in February to a seasonally adjusted annual rate of 4.58 million. Sales are still down a lot year over year, but the one-month increase was historic.



February's jump in Home Sales was the 3rd largest in the last 23 years. The only 2 larger increases came during the boom associated with Covid. 4 of the 10 largest jumps came in the wake of the Housing Crisis. All 10 came just before or during enduring home price increases.

Rank	Dates	US EXISTING HOME SALES - 1 MO CHANGE (%)
1	7/31/2020	22.38%
2	6/30/2020	19.07%
3	2/28/2023	14.50%
4	12/31/2015	13.81%
5	10/31/2009	8.66%
6	11/30/2009	8.37%
7	4/30/2010	7.35%
8	2/28/2019	6.84%
9	1/31/2002	6.74%
10	8/31/2010	6.67%

If you have been reading the headlines about housing, however, you would think it was the end of the world. Below is a smattering of only the most recent troubling housing articles from the Wall Street Journal and the Atlantic to Barrons and Fox News.

US real estate market in 'big trouble,' expert warns - Fox News 1/13/23

<https://www.foxbusiness.com/real-estate/us-real-estate-market-big-trouble-expert-warns>

The Housing Market Is Worse Than You Think ? New York Times 11/4/22

<https://www.nytimes.com/2022/11/04/realestate/housing-market-interest-rates.html>

The Housing Market Has Gone From Bad to Worse - The Atlantic 11/4/22

<https://www.theatlantic.com/newsletters/archive/2022/11/us-real-estate-housing-market-shortage/671988/>

Is the housing market about to crash? Here's what experts say - Bankrate 3/13/23

<https://www.bankrate.com/real-estate/is-the-housing-market-about-to-crash/>

January's strong jobs report could spell trouble for the housing market - Housing Wire 2/3/23

<https://www.housingwire.com/articles/januarys-strong-jobs-report-could-spell-trouble-for-the-housing-market/>

A Big Chill Is Here for the Housing Market. Next Year Could Bring More Trouble. - Barrons 12/2/22

<https://www.barrons.com/articles/housing-market-mortgage-rates-home-prices-51669939424>

Why The Housing Market is in Big Trouble. - CNBC 3/10/23

<https://www.msn.com/en-us/money/realestate/why-the-housing-market-is-in-increasingly-big-trouble/vi-AA18toul>

40 Cities That Could Be Poised For a Housing Crisis - Banking Rates 3/11/23

<https://www.gobankingrates.com/investing/real-estate/cities-in-danger-of-housing-crisis/>

It's Time To Start Worrying About The Housing Market Again ? Financial Samurai 3/7/23

<https://www.financialsamurai.com/time-to-start-worrying-about-the-housing-market-again/>

We have been telling clients since the beginning of 2020 that the housing market and home prices will remain strong overall until the drastic shortage of homes is corrected.

TPA has been consistently bullish on housing as prices have increased by 33%. World Snapshot Reports:

- 3/12/20 House Prices Should Remain Stable For The Long Term
- 11/13/20 History Tells Us The Housing Market Will Be Fine When Rates Rise
- 4/28/21 This Is Not A Housing 'Bubble'?
- 11/23/21 Have No Fear Of Housing.
- 1/24/22 The stock market may look like hell, but housing will remain strong for the long term.
- 4/1/22 House Price Increases Are In Line With Historical Patterns

- 6/8/22 Conditions Do Not Exist for A Weak Housing Market
- 10/7/22 The Truth About Housing Inventory
- 10/18/22 Today's Housing Market - Why 2022 is not 2007.
- 1/26/23 The Overwhelming Argument for House Price Stability

It may be helpful to look at Home Sales historically. The chart below shows Existing Home Sales since 2000. In the past 23 years, home sales have seen highs of over 7 million a year in the boom years of 2005-2006 and over 6 million per year during Covid. Sales have dipped below 4.5 million in the housing crisis of 2008-2009, briefly in 2011 in the wake of the crisis, briefly at the start of Covid, and recently as mortgage rates doubled in a year. The chart shows that the range has been about 4.2 million to 6.3 million. We are currently near the lows. So, if history is any guide, the next move is higher.



Source: NAR Data

Finally, we provide the table below that will be familiar to most of our readers by now. The table below shows the origins of the current housing shortage and provides an analysis of the current situation and what it would take to get to an equilibrium between supply and demand. Using data provided by the St. Louis FED since 1959, the table looks at housing starts each year and calculates the average housing starts from 1959 to 2007 at 1.547 million homes. Using this 48-year average and the housing starts that follow, we can determine a housing deficit each year and a cumulative housing deficit.

From 2007 to 2022 the cumulative housing deficit has increased to over 7.4 million homes. That is one of the main reasons for the incredible price increases seen since the start of 2020. It is important to see this huge deficit and not an irresponsible consumer or rampant speculation as the true reason why prices have risen. It is an extreme lack of supply that has caused house prices to soar.

It is also important to understand the herculean task of bringing supply and demand in line. The largest number of housing starts was 2.36 million homes in 1972. This is far above the housing starts for 2022 of only 1.55 million. Even if somehow home builders were able to replicate the starts of 1972, the table below shows that it would take about 9 years to get back to the long-term

average supply.

We reiterate our stance that the housing market will remain strong for the foreseeable future. The huge increase in home sales last month is just another indication of the demand that exists in the market.

St. Louis FED data - Housing Starts each year (additions to housing supply)							Possible Future						
https://fred.stlouisfed.org/series/HOUST													
DATE	Housing Starts (Thousands)	Deficit Per Year Starting JAN 2007	Cumulative Deficit	Running Average	Cumulative	Year #	DATE	Housing Starts (Thousands)	Deficit Per Year Starting JAN 2007	Cumulative Deficit	Running Average	Cumulative	Year #
1959	1,535	--	--	1,535	1,535	1	1996	1,469	--	--	1,504	57,142	38
1960	1,256	--	--	1,396	2,791	2	1997	1,475	--	--	1,503	58,617	39
1961	1,312	--	--	1,368	4,103	3	1998	1,621	--	--	1,506	60,238	40
1962	1,459	--	--	1,390	5,561	4	1999	1,647	--	--	1,509	61,885	41
1963	1,588	--	--	1,430	7,150	5	2000	1,573	--	--	1,511	63,459	42
1964	1,540	--	--	1,448	8,690	6	2001	1,601	--	--	1,513	65,060	43
1965	1,469	--	--	1,451	10,160	7	2002	1,710	--	--	1,518	66,770	44
1966	1,167	--	--	1,416	11,326	8	2003	1,854	--	--	1,525	68,624	45
1967	1,285	--	--	1,401	12,611	9	2004	1,950	--	--	1,534	70,573	46
1968	1,504	--	--	1,411	14,114	10	2005	2,073	--	--	1,546	72,646	47
1969	1,487	--	--	1,418	15,601	11	2006	1,812	--	--	1,551	74,458	48
1970	1,435	--	--	1,420	17,036	12	2007	1,342	-205	-205	1,547	75,800	49
1971	2,036	--	--	1,467	19,072	13	2008	900	647	-852	1,547	76,700	50
1972	2,361	--	--	1,531	21,432	14	2009	554	993	-1,845	1,547	77,254	51
1973	2,044	--	--	1,565	23,476	15	2010	586	961	-2,806	1,547	77,840	52
1974	1,332	--	--	1,551	24,808	16	2011	612	-935	-3,741	1,547	78,451	53
1975	1,160	--	--	1,528	25,968	17	2012	784	763	-4,505	1,547	79,235	54
1976	1,535	--	--	1,528	27,503	18	2013	928	619	-5,123	1,547	80,163	55
1977	1,962	--	--	1,551	29,465	19	2014	1,000	-547	-5,670	1,547	81,164	56
1978	2,001	--	--	1,573	31,465	20	2015	1,107	440	-6,110	1,547	82,270	57
1979	1,717	--	--	1,580	33,182	21	2016	1,177	-370	-6,480	1,547	83,447	58
1980	1,800	--	--	1,567	34,483	22	2017	1,205	-342	-6,822	1,547	84,652	59
1981	1,096	--	--	1,547	35,579	23	2018	1,247	-300	-7,122	1,547	85,899	60
1982	1,057	--	--	1,527	36,636	24	2019	1,291	256	-7,378	1,547	87,190	61
1983	1,705	--	--	1,534	38,342	25	2020	1,395	-152	-7,530	1,547	88,586	62
1984	1,766	--	--	1,543	40,108	26	2021	1,605	58	-7,472	1,547	90,191	63
1985	1,741	--	--	1,550	41,849	27	2022	1,555	8	-7,464	1,547	91,746	64
1986	1,812	--	--	1,559	43,661	28	2023	2,361	814	-6,650	1,547	94,106	65
1987	1,631	--	--	1,562	45,292	29	2024	2,361	814	-5,836	1,547	96,467	66
1988	1,488	--	--	1,559	46,780	30	2025	2,361	814	-5,022	1,547	98,828	67
1989	1,382	--	--	1,554	48,162	31	2026	2,361	814	-4,208	1,547	101,189	68
1990	1,203	--	--	1,543	49,365	32	2027	2,361	814	-3,394	1,547	103,550	69
1991	1,009	--	--	1,526	50,374	33	2028	2,361	814	-2,581	1,547	105,910	70
1992	1,201	--	--	1,517	51,575	34	2029	2,361	814	-1,767	1,547	108,271	71
1993	1,292	--	--	1,510	52,867	35	2030	2,361	814	-953	1,547	110,632	72
1994	1,446	--	--	1,509	54,313	36	2031	2,362	814	-139	1,548	112,994	73
1995	1,361	--	--	1,505	55,674	37	2032	2,363	814	675	1,549	115,356	74