Lower Rates Will Increase Home Sales and Home Prices 11/15/23

If you thought home prices were done going up, wait until mortgage rates start to follow the recent drop in interest rates in earnest. In this report, we will show why a drop in rates will cause more activity in the housing market and the net effect will most likely be even more demand for housing, an increase in sales, and continued higher prices.

The Logic

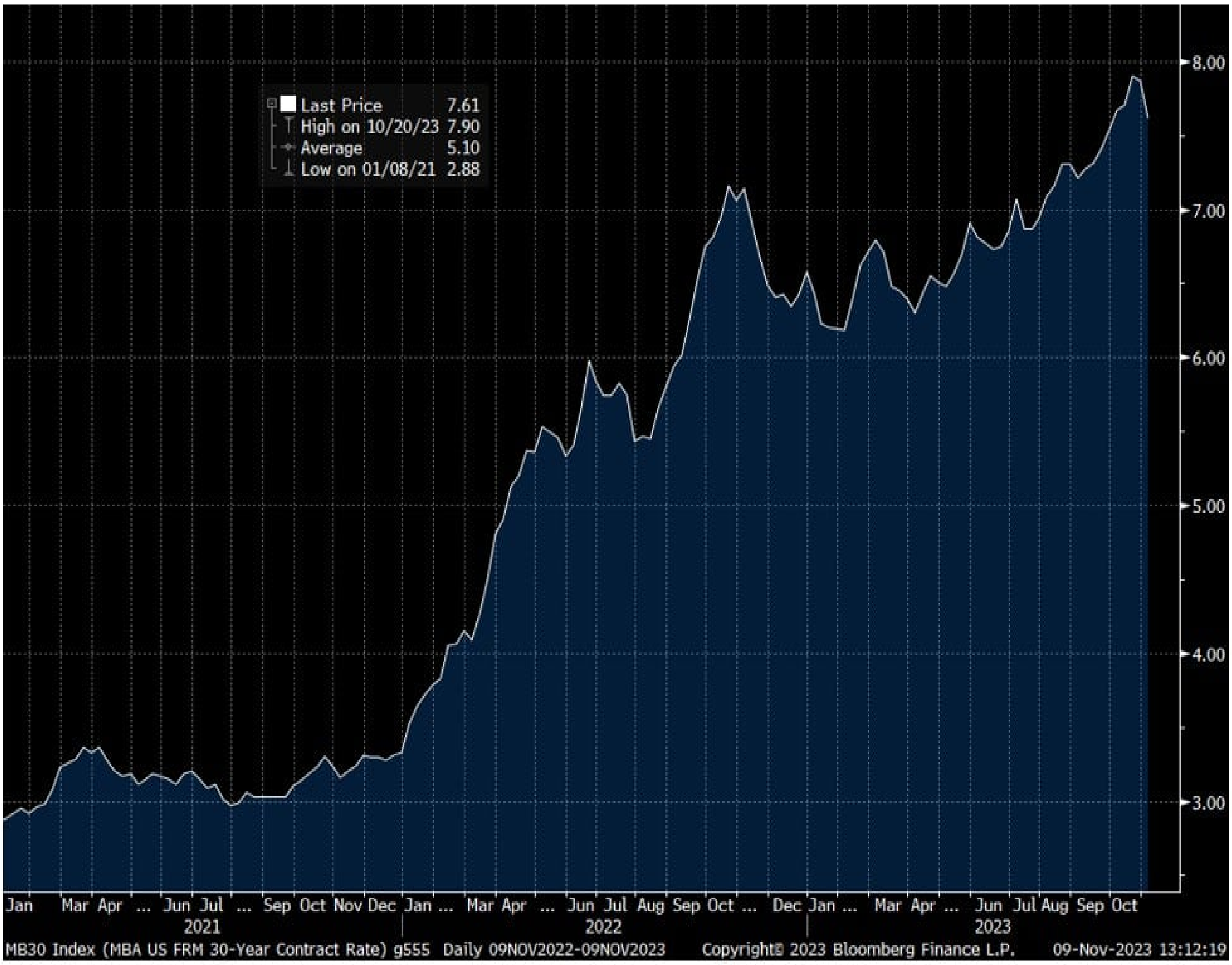
Something new is happening with interest rates, and it may be only the beginning of the move. The yield on the U.S. 10 Year is now 4.44%, down from 11% on 10/19/23, about three weeks ago.

Rates had moved up fast, from the lows of 2020 to the recent highs. The move was faster than at any other time in the past 50 years.

US 10-Year Yield – 20 years

The U.S. 10 Year has broken the trend and should continue to decline. We see bond and mortgage rates continuing to decline, probably back near the 4% level. Yesterday, Reuters stated, ?U.S. residential mortgage plunged last week by the most in nearly 16 months.?* *Any kind of mortgage relief should bring buyers to the market.*

30-YEAR FIXED MORTGAGE RATE



The question that anyone considering buying or selling a home may want to know is, If rates decline, what will this mean for the housing market?

Before answering this question, we need to look at three current facts.

1. **HOUSING INVENTORY**

Housing inventory has been weak for years.

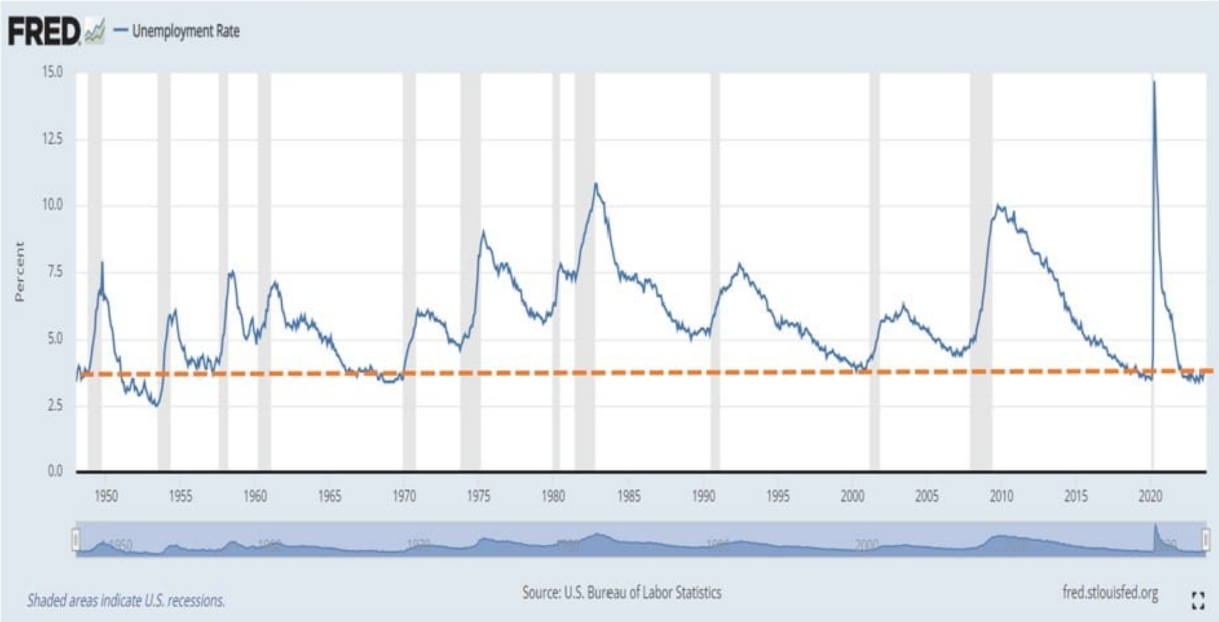
U.S. EXISTING HOME SALES INVENTORY

Also, as we have discussed since April 2020, the U.S. housing market is and will be in a supply deficit situation for many years. Readers of the Real Estate Edge will recognize the table below, which shows Housing Starts since 1959. The average Housing Starts from 1959 to the start of the Housing debacle in 2007 was 1.547 million per year. The period from 2007 to 2020 created a running deficit of over 7.5 million homes. The huge inventory deficit from the Housing Crash has led to a continuing decrease in Housing Inventory.

2. **ECONOMY**

Labor has remained stubbornly strong throughout the Covid years and throughout the period when the FED has raised interest rates faster than any other period in the past half-century. The U.S. Unemployment rate is now 3.96%. This is at the low end of the range for the past 70 years. **It is difficult to imagine that the economy will now fall apart when it has remained stalwart in the face of all these pressures.**

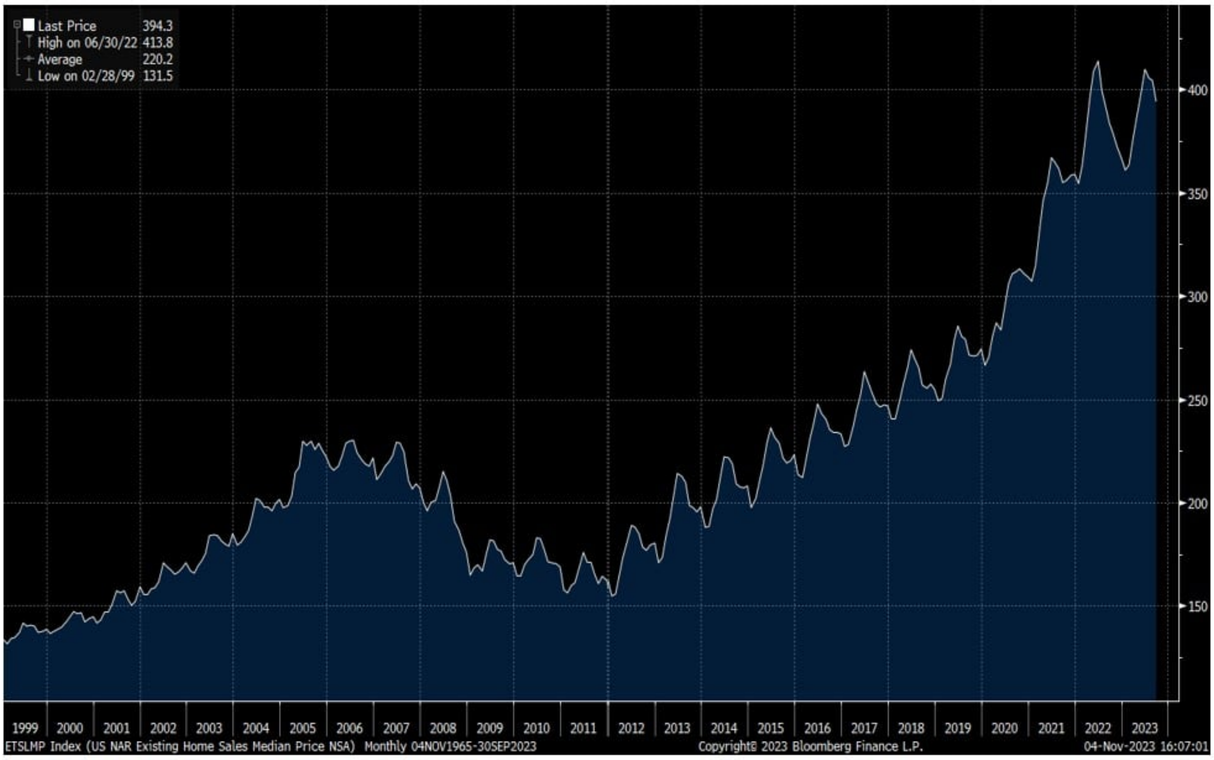
U.S. Unemployment Rate



3. **HOME PRICES**

Home Prices continue to climb in the U.S. After a historic increase of ___% from April 2020 to April 2022, Median Home Price in the U.S. was $396,000 in September, which was up 2.8% year over year. This was in the face of those historic rate increases.

U.S. Median Home Prices



So, if interest rates continue to decline, that drop will be in an environment of low housing supply, full employment, a stubbornly robust economy, and continued demand for homes.

In order to look at the possible Inventory, Sales, and Price effects on the housing market, it is helpful to consider how different players in the market would be affected by a decrease in rates. In the table below, we have divided the players in the housing market into 4 types:

- **Downsizers** ? people who would like to sell their larger homes and buy a smaller home to lower their monthly housing costs. These people have held off selling at higher prices, because a smaller home would not save them much money due to increased mortgage rates. Now, with financing becoming more attractive, they may consider a sale.

EFFECT ? since they are both buying and selling, the effect should be neutral.

- **Upgraders** ? people who want or need a larger home for their family. These people have held off buying because higher rates made it prohibitive or because there was no supply.

EFFECT ? since they are both buying and selling, the effect should be neutral.

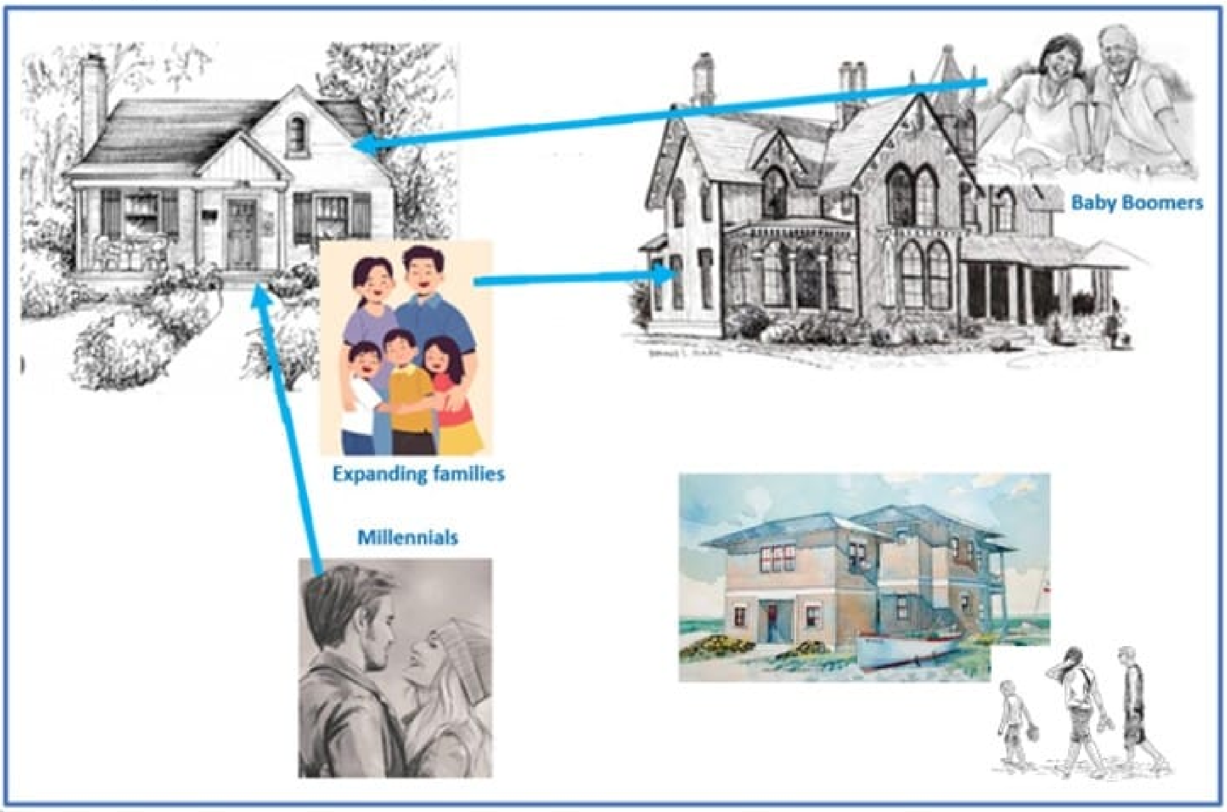
- **First-time buyers** ?mostly people in their 20s and 30s have been kept out of the market because of high prices, lack of supply, and, most recently, rates that made buying prohibitively expensive.

EFFECT ? lower rates will entice some of these people to act. The act will mean buying and more demand.

- **Second homeowners** ? these people have 2 or more homes. They are usually wealthier and less likely to use a mortgage.

EFFECT ?although these people may be tempted to sell at high prices and lower rates may make it easier for some people to buy from them, it is hard to determine if there would be any net effect.

The 4 players in the housing market



We have constructed the table below using the likely effects of each type of player above. From the table, the most likely scenario from lower rates would be more demand for housing, an increase in sales, and higher prices.

If interest rates continue to decline - variables and effect

Type	Sellers	Buyers	Home Inventory Effect	Sales	Home Prices
Downsizer	Sells	Buys	None	Increase	None
Upgrader	Sells	Buys	None	Increase	None
First Time Buyer	Not applicable	Buys	More demand	Increase	Increase
Second Home Owner	No change	No change	None	None	None
Net Effect			**More Demand**	**Increase**	**Increase**

St. Louis FED data - Housing Starts each year (additions to housing supply)

https://fred.stlouisfed.org/series/HOUST

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

*https://www.reuters.com/markets/rates-bonds/us-30-year-mortgage-rate-plunges-by-most-nearly-16-months-mba-2023-11-08/