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Economics Group

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Existing Home Sales Decline Again, Amid Low Inventories

Existing home sales fell 1.8 percent in June, marking the second drop in the past three months. Sales are being restrained by a lack of homes available for sale, particularly at lower price points. Prices firmed further.

Home Sales Are Being Held Back By Low Inventories

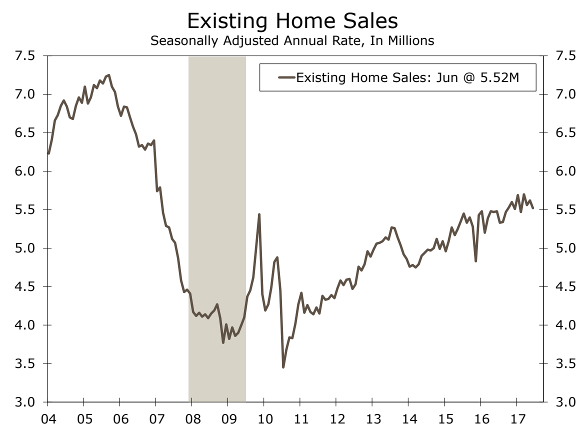
Existing home sales fell 1.8 percent in June, as exceptionally lean inventories kept buyers on the sidelines. The housing market appears to be woefully out of balance. The entrance of investor buyers earlier in the recovery process has taken many lower-price homes off the market, particularly in the Sun Belt, where these investors concentrated their purchases. Lot development costs and construction costs have also risen dramatically, meaning that very little new supply has been added to the pipeline in recent years. ***There are simply too few homes available for entry-level buyers to purchase, particularly in the South and West, which account for the bulk of the nation's new household growth***.

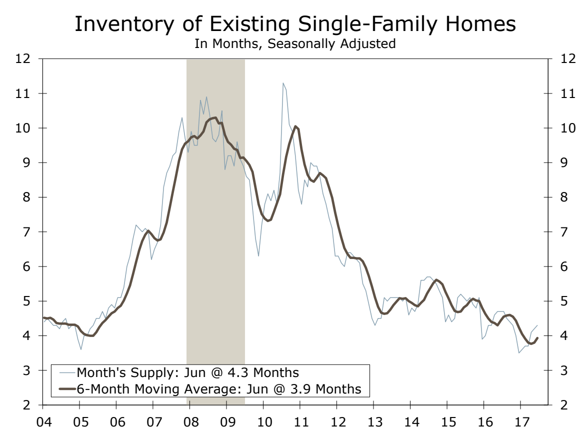
While sales came in below expectations, June's decline was not a huge surprise. Pending home sales, which measure signed purchase contracts, have fallen in four out of the past five months, with the only increase coming in February. While demand appears to be flagging, the primary impediment to stronger sales is a lack of supply. Moreover, sales of new homes fell 1.8 percent, June's 5.52 million unit sales pace remains 0.7 percent above its year ago pace. By contrast, total housing inventory declined 0.5 percent from the prior month and is now 7.1 percent below its year ago level. The 1.96 million homes available for sale at the end of June represent just a 4.3-month supply at the current sales pace, which is down from 4.6 months one year ago.

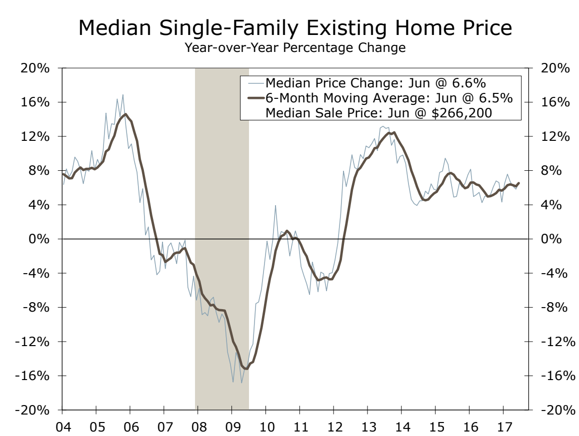
As noted earlier, the lack of inventory is most acute at lower price points. Sales of homes priced below $100,000 have declined 9.3 percent over the past year, while sales of homes prices between $100,000 and $250,000 have increased just 0.1 percent. By contrast, sales of higher priced homes have risen much faster, particularly in the South and West.

The rising share of home sales at higher price points is due to a number of structural shifts that are having a profound and lasting impact on the housing market. In addition to homes lost to institutional buyers and lack of new home construction, demand for higher priced homes has been stoked by the resurgent stock market and rising demand for homes closer to key employment centers. The move back toward the center cities has set off a boom in housing tear-downs, which has further removed lower priced housing options, and replaced them with higher-end homes.

The supply and demand imbalance has led to a prolonged run-up in home prices. The median price of an existing home has risen 6.5 percent over the past year to a record $263,800. The median price of an existing single-family home rose 6.6 percent over the past year to a record $266,200. With home prices rising faster than median income, housing affordability has continued to decline, which has further inhibited first-time home buyers.







Source: National Association of Realtors and Wells Fargo Securities

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