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Existing Home Sales Slip 1.3% in January

Existing home sales fell modestly in January, but are up nearly 10% over the past year. Sales continue to be constrained by exceptionally lean inventories. Prices have firmed, raising affordability hurdles.

Sales are Rising, Inventories are Falling

The National Association of Realtors (NAR) reported that existing home sales fell 1.3% in January to a 5.46 million-unit pace. Resales have bounced around recently, posting small gains and small losses for the past six months. However, sales are up a very healthy 9.6% over the past year, and, with mortgage rates falling, the trend remains positive.

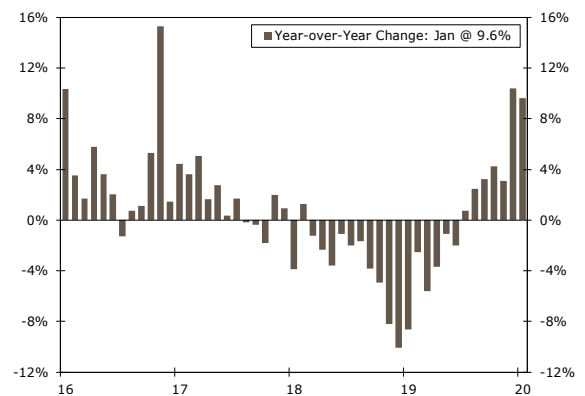
Existing home sales reflect closings and tend to be less impacted by the weather than housing starts. This year may mark a bit of an exception, with unseasonably mild weather in December and January coinciding with a pullback in mortgage rates. The bulk of closings typically take place 45 to 60 days after a contract is signed, which means we might see a rise in sales in February and March. Realtors cannot sell homes that are not on the market, however, which would likely limit an upside breakout.

The lack of inventory is clearly evident in the January data, which show sales up nearly 10% from last year and the number of homes available for sale falling by an even larger 10.7%. The 1.42 million units of inventory for sale is the lowest since 1999, and presents a major hurdle for sales. The mismatch between rising sales and falling inventories means that homes are selling quickly and often above the asking price. Homes sold in January remained on the market for an average of 43 days, which is up from 41 days in December but down from 49 days a year ago. Many homes are selling much more quickly than that, with the NAR reporting that 42% of homes sold in January were on the market for less than a month.

The competition for homes is pulling prices higher. The median price of a single-family home has risen 6.9% over the past year to \$268,600. Price appreciation bottomed at just under 4% year-to-year in April 2019, and has climbed every month since. Competition for homes priced at or below the median has been particularly intense. Demand for higher priced homes in the Northeast is also reviving, following a period of slower sales and discounting related to tax reform, which limited deductions for mortgage interest and property taxes.

With price appreciation rebounding in the Northeast, the affordability migration to the South has accelerated. Markets such as Austin, Nashville, Charlotte and Tampa are all seeing stronger net migration from the Northeast and West. Sales in the South have risen 11.7% over the past year and the median price is up 6.3%. Both gains are well ahead of the nation. Despite faster price appreciation, homes in the South are selling at a greater discount to homes nationwide, and the Northeast and West in particular. The median resale price in the South is currently 14% below the nation, 26% below the Northeast and a whopping 42% below the West.

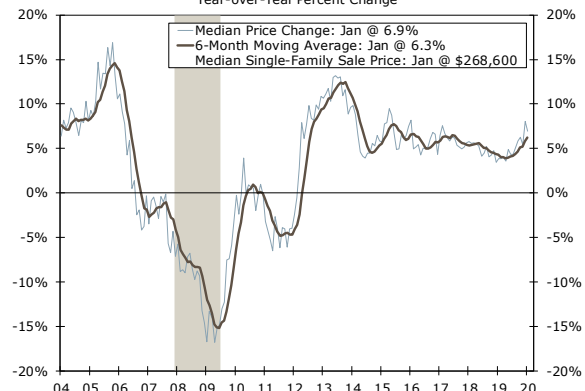
Existing Home Resales



Inventory of Existing Single-Family Homes
Months Supply at Current Sales Pace



Median Single-Family Existing Home Price
Year-over-Year Percent Change



Source: National Association of Realtors and Wells Fargo Securities

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