A year in housing to remember, reviewed - by William Pastuszek

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William Pastuszek

The year past in housing has been tumultuous and thought-provoking. In fact, the last few have not exactly been steady as it goes. And contrasting now with last December is attention-getting, showing some interesting and fundamental changes. 2021 seems a long time ago now, doesn't it, a different time?

There is no free lunch. As we know from Greenspans's era of "irrational exuberance," low interest rates stimulate the economy and once stimulated, things can get out of control. Newton's Third Law says, essentially, that for every action in nature there is an equal and opposite reaction. It seems, in the case of capitalistic economic behavior, the reactions can be opposite and unequal, i.e., magnified. Central banks were in high stimulus mode during the height of COVID-19, i.e., zero interest rates and quantitative easing that led to systemic inflation, which led to steady interest rate increases – a cycle that has not yet run its course – and which has caused the "optimism exuberance" to turn negative rather quickly. So, in old school terms, there is no free lunch.

Let's take a look at this kinetic situation:

Interest Rates: It's a bit amazing to see how the price of debt drives economic behavior and nowhere so much as with housing. The cost of financing a home purchase has essentially doubled in 12+ months.

Affordability already was an issue before the addition of the deleterious effects of inflation and higher interest rates.

Housing Affordability Index: The National Association of Realtors publishes a Housing Affordability Index (HAI) showing that affordability has continued to drop. So have median prices nationally, which have shown a downward trend while the cost of a monthly payment increased +/-50% over the past year. While some rate relief has taken place, rates basically doubled in twelve months.

Affordability - Automobiles: Higher interest rates play out in other consumer areas, such as the cost of financing an automobile. While pricing may have peaked as vehicle availability has increased, APRs probably haven't. Edmunds reports the APR for newly financed vehicles was 5.7% in 3Q2022, a peak not reached since the third quarter of 2019.

Credit Card Debt: LendingTree.com quotes the Federal Reserve Bank of New York in noting that Americans' total credit card balance is $925 billion in the third quarter of 2022. That represents a $38 billion jump from $887 billion in the first quarter of 2022.

Housing: The housing markets are showing pretty big cracks as demand has cooled due to increased interest rates, (still high) prices, and economic uncertainty. The National Association of Realtors (NAR) reports a decline in prices nationally with less volume. In Massachusetts, The Warren Group reports a double-digit decline in sales volume from a year ago for both 1-4 family housing and condos. Median prices are still showing appreciation, according to The Warren Group.

However, the Massachusetts Association of Realtors (MAR) showed a decrease of 4% in the median price of single-family homes. Condo prices showed an increase of .84%. MAR reports that closed sales were down significantly for both singles and condos from a year ago.

MLSPIN data shows that days to offer and days on market have not dramatically changed year over year. Inventory is up slightly, from .66 months of supply to 1.14 months. The number of closed sales was down dramatically from +/-50,000 to 43,000 and the number of listings is also down. Sales prices are still coming in over list price.

Let's revisit the trends once the effect of higher rates gets fully built into the data:

Builder Sentiment: The National Association of Home Builders reported recently that builder sentiment fell for the eleventh straight month in November as the result of elevated interest rates, stubbornly high building material costs, and declining affordability conditions taking a toll on buyer demand.

Lumber Prices: After a sharp spike in March, prices seem to be headed down. Builder Magazine notes a decline in August, representing a 2022 low. That does not mean that prices have reached reasonable levels. Some observers attribute the decline to lower housing demand and a trend indicative of further weakness to show up in housing markets.

Energy Prices: The U.S. Energy Information Administration shows that gas prices have steadied recently. While up slightly from a year ago, the more recent trend has been downward.

In New England, residential heating oil prices are still a good deal higher than they were at the same time in 2021.

On a Different Note: Aaron Judge, after a season to be remembered, is staying with the Yankees. Xander Bogaerts, unfortunately, is not staying with the Red Sox. This doesn't bode well for the Red Sox, who went nowhere this year and may not have any better luck next year.

What does this all mean? There seems to be a pattern here. The party is now long over. The question is, how long will the pain last as the withdrawal from the easy money era sets in. And it's not just housing. There are cracks showing in the otherwise sacrosanct commercial real estate sectors too: This is a fitting subject for a future article. For now, those of us that try to make sense of markets have to live under conditions of uncertainty, wondering how bad the downturn could be. Not a great way to spend the holidays, but, on the other hand, this season should be better than last year's, which was subdued due COVID-19 flareups.

William Pastuszek, Jr., MAI, ASA, MRA heads up Shepherd Valuation Services, Needham Mass.