



# NEW HORIZONS: 2024

REPORTS ON HOUSING  
**ECONOMICS EXPLAINED**

ARTICLE BY:  
MATTHEW GARCEAU



## A POSITIVE OUTLOOK AHEAD FOR HOUSING

The year 2023 brought challenges and frustrations to many prospective homebuyers as mortgage rates and residential real estate prices soared, creating a daunting scenario of unaffordability. However, as we step into 2024, there are emerging green shoots and positive signs that suggest a more favorable environment for those looking to purchase a home.

Despite persistent inventory challenges, industry experts, including Sam Khater, Chief Economist at Freddie Mac, express optimism about the spring home-buying season in 2024. Khater predicts a busier market compared to the previous year, indicating a potential shift in the real estate landscape.

One key factor contributing to this optimism is the belief that the Federal Reserve has concluded its rate-hiking campaign aimed at lowering inflation. The decision to keep the federal funds rate unchanged and the signals of potential rate cuts in 2024 offer hope for a more affordable borrowing environment, encouraging homebuyers to enter the market.

However, it is essential to acknowledge that even with potential rate cuts, challenges to home affordability are expected to persist. Pent-up demand and low inventory levels will likely continue influencing home prices, creating hurdles for some buyers.

Existing home sales faced a cooling trend in December, declining by 1% from the previous month and 6.2% from a year earlier. The year 2023 concluded with a significant drop in existing home sales, hitting a 28-year low at 4.09 million, according to the National Association of Realtors (NAR).

Simultaneously, median home prices surged to a record high of \$389,800. In the home sales report, Lawrence Yun, Chief Economist at NAR, remains optimistic, stating, "[December's] sales look to be the bottom before inevitably turning higher in the new year." Yun attributes this optimism to lower mortgage rates, which have decreased notably in the past two months, and the expected increase in housing inventory in the upcoming months. This combination could reinvigorate buyer interest and contribute to a more dynamic housing market in 2024.

The ICE Home Price Index for December reported an annual growth rate of 5.6%, indicating an accelerating housing market. While this may raise concerns about affordability, experts suggest that the growth rate is a residual effect of the strong run in the spring and summer of 2023. Recent data indicates a potential cooling of the growth rate in the coming months.

Examining monthly payment trends provides a nuanced perspective on home affordability. Homeowners are currently required to make a monthly payment of \$2,257 for a median-priced home across the U.S., assuming a 30-year fixed-rate loan and a 20% down payment. This figure represents a decrease of nearly 10% from the record high in October. However, it is important to note that it is still significantly higher than the levels seen at the beginning of 2022.

The average payment, constituting 33.4% of the median household income, has decreased from a 38-year high of over 38% in October. Despite this improvement, it remains nine percentage points above the 30-year average debt-to-income ratio of 24.2%. Comparatively, it is slightly less than the 33.8% peak observed prior to the housing market downturn in 2006.

Another notable positive indicator for the housing market is the record equity held by mortgage holders at the end of 2023. With \$16 trillion in equity, marking an 11% increase from the end of 2022, homeowners are in a strong financial position. This surge in equity could provide stability and confidence in the market, potentially attracting more buyers.

While 2023 presented challenges for homebuyers, the dawn of 2024 brought a sense of optimism with potential signs of a more favorable housing market. The Federal Reserve's stance, anticipated growth in the spring home-buying season, and record equity for mortgage holders contribute to the positive outlook. However, challenges such as persistent affordability issues and potential market cooldowns should be closely monitored as the year unfolds.