

ARE HOME PRICES PEAKING?

REPORTS ON HOUSING
ECONOMICS EXPLAINED

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YEAR-OVER-YEAR PERCENTAGE CHANGES

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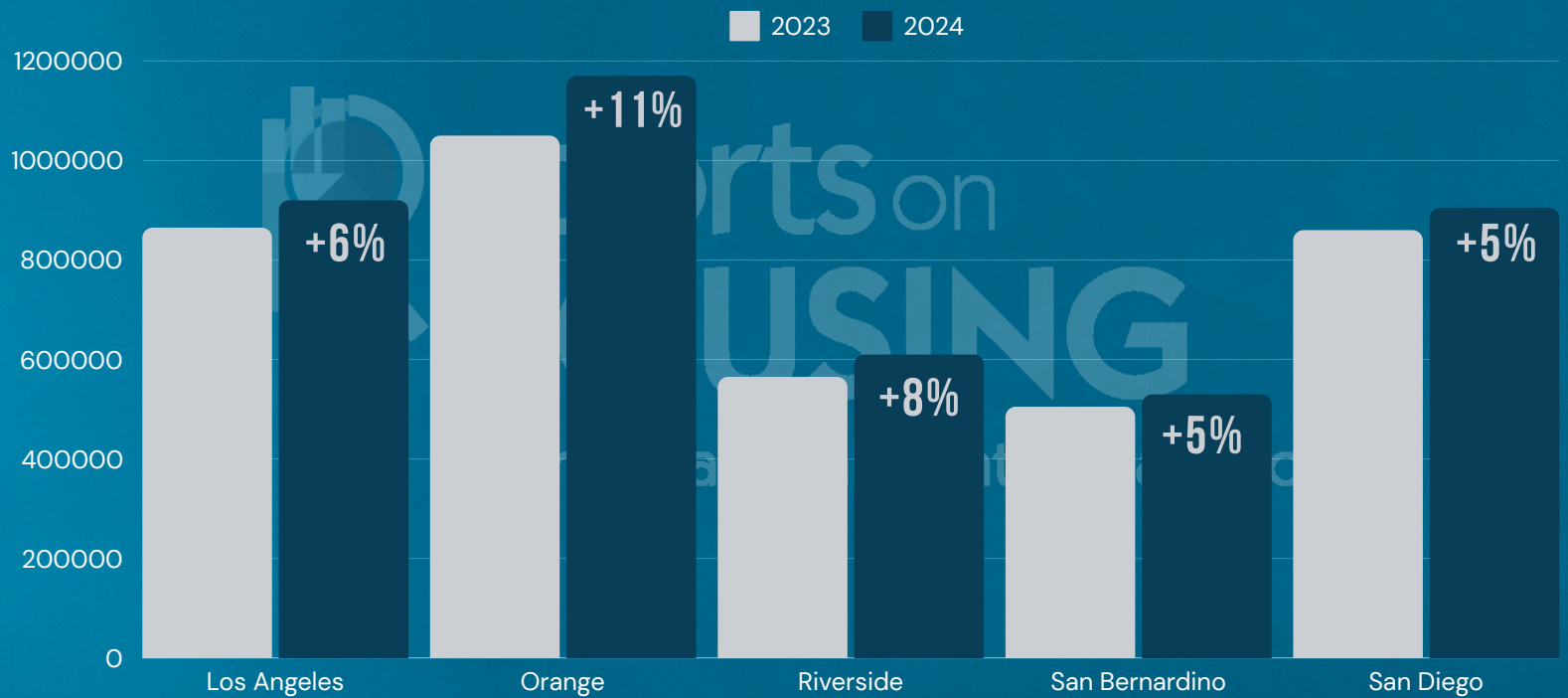
HOME PRICES HIT NEW RECORD HIGH

Homeownership has become increasingly unaffordable for many aspiring buyers, a trend exacerbated by the pandemic's high demand and soaring prices. This issue has only been compounded by high mortgage rates, making home loans more expensive and discouraging potential sellers from listing their properties. Typically, the housing market heats up during the spring, but as summer wanes, subtle changes are beginning to emerge.

Although home prices continue to climb, their growth is starting to slow. According to the S&P CoreLogic Case-Shiller Home Price Index, **nationwide home prices reached a record high** in June, increasing by 5.4% year-over-year. While this is still a substantial gain, it marks a deceleration from May's 5.9% increase.

The market has seen a slight uptick in homes for sale, but not enough to significantly lower prices or invigorate a sluggish market. The National Association of Realtors reported that existing home sales rose 1.3% in July from June. Yet, the sales pace remains near historic lows—homes sold at a seasonally adjusted annual rate of 3.95 million—the slowest July since 2010. Despite the increase in inventory, with 1.33 million homes on the market in July, it remains well below pre-pandemic levels. The median sales price of existing homes also climbed to \$422,600, a 4.2% increase from the previous July and a staggering 49% jump from July 2019, when the median price was \$283,600.

Over the past five years, this sharp increase in home values has been a boon for existing homeowners, but it's created significant challenges for those trying to enter the market. Lawrence Yun, chief economist at the National Association of Realtors, aptly described the situation: "It's very good news for homeowners getting all of those gains, but frustrating news for people who want to enter the homeownership market."



JULY YEAR-OVER-YEAR MEDIAN SALES PRICE BY COUNTY

Each county shows an increase in median sales prices from 2023 to 2024, with the most significant growth in Orange County (+11%) and Riverside County (+8%). Los Angeles and San Diego experienced a moderate increase of 6% and 5%, respectively, while San Bernardino had the smallest gain of 5%. The data suggests a general upward trend in housing prices across these counties.

However, there may be a glimmer of hope on the horizon. Mortgage rates have been falling in recent months, which could help alleviate the high-price, low-sales dynamic that has characterized the housing market in recent years. According to Mortgage News Daily, the average rate for a 30-year mortgage was 6.35% this week, down from a peak of nearly 8% last fall. These falling rates are partially due to expectations that the Federal Reserve will cut its key interest rate as it winds down its fight against inflation.

As mortgage rates decline, more homeowners may be tempted to list their properties, loosening the grip of the "lock-in" effect, where homeowners hesitate to sell because they don't want to lose their low-interest mortgages. For more information on the "lock-in" effect, you can check out our article from earlier this year. With more inventory, the upward pressure on prices might ease, providing much-needed relief to the housing market. While this would be a welcome change for buyers, the market is still characterized by fierce competition for the limited homes available, keeping prices elevated.

The big question now is whether this slowdown in price increases will persist and make housing more accessible for the thousands of buyers waiting on the sidelines or if lower interest rates will reignite demand, pushing prices even higher into 2025. Although both housing and inflation are cooling, the gap remains wider than usual, with the National Home Price Index averaging 2.8% higher than the Consumer Price Index. As we move into the fall, seasonal factors and an increase in inventory may ease home prices on a month-to-month basis, but significant price drops are unlikely. Prices are expected to remain higher than they were last year.