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15-Year High For New Home Sales, But Prices Are Flat. Here's Why

This week's New Home Sales report (for the month of March) stole the show, coming in over 1 million for the first time since 2006.



But although sales are up 66% year-over-year, prices have **fallen** in recent months and are now basically **unchanged** from last year. What's up with that?

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

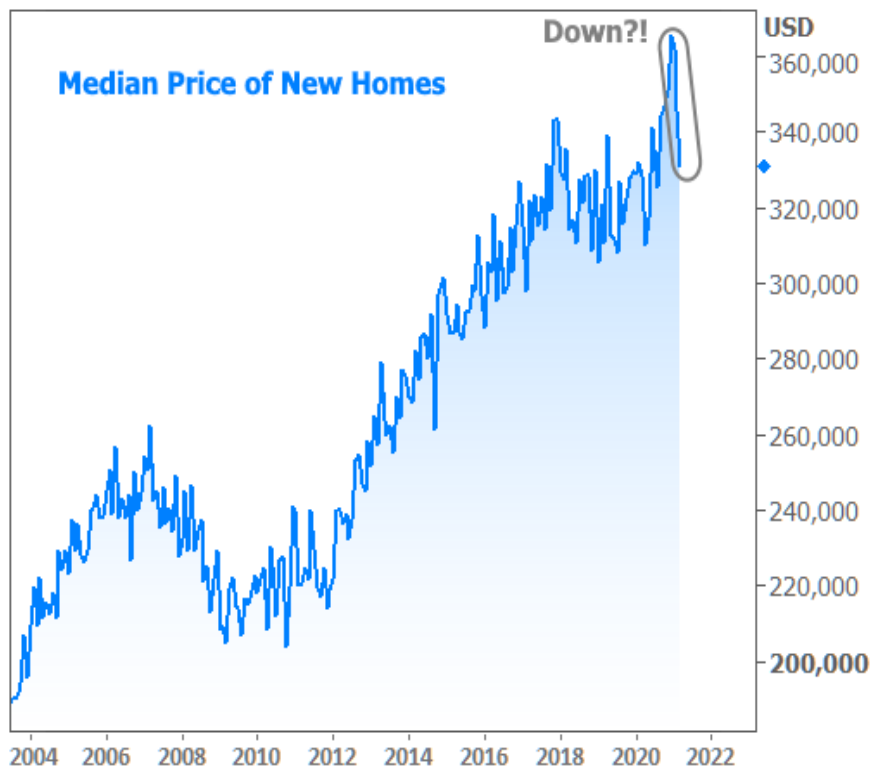
MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.81	-0.02
10 YR Treasury	4.9299	+0.0084
30 YR Treasury	5.3082	+0.0081

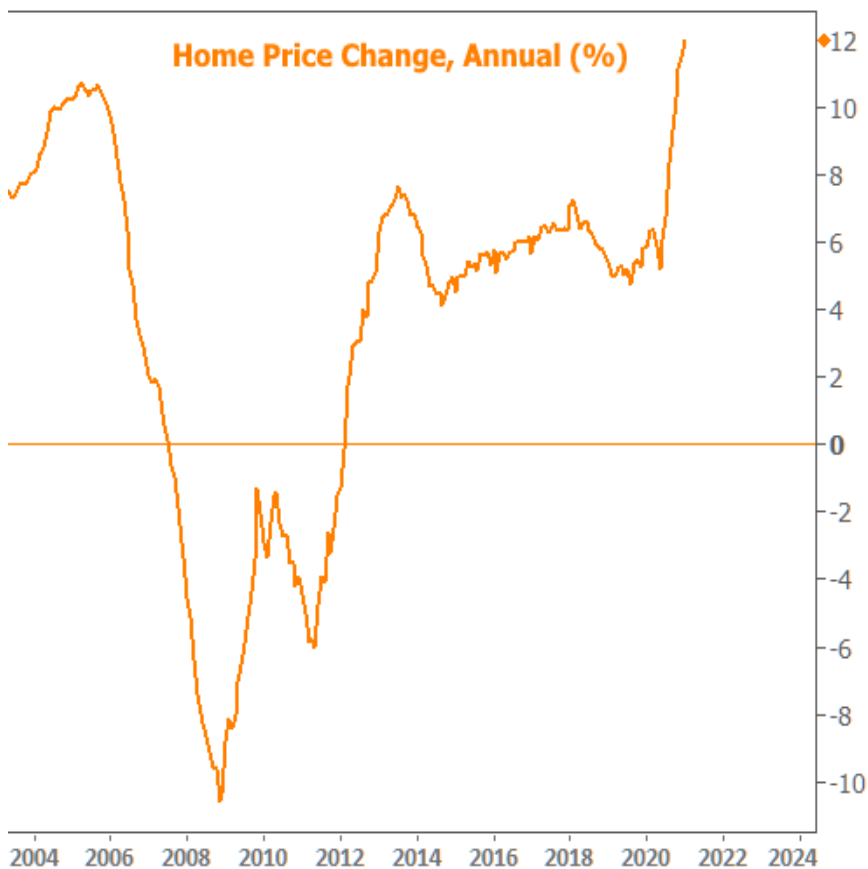
Pricing as of: 10/30 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%



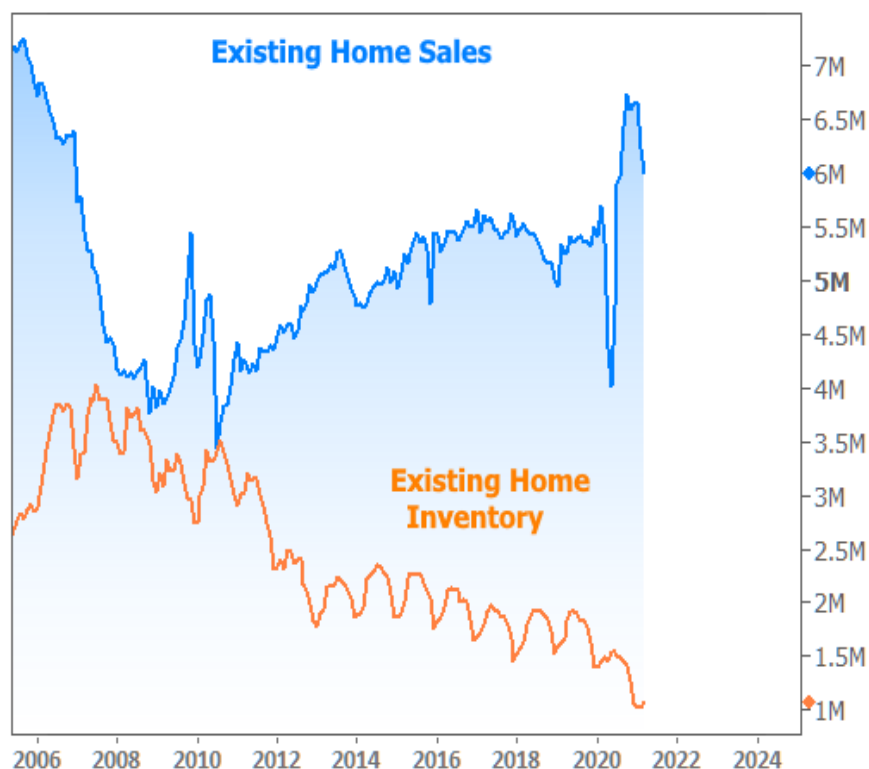
Making this all the more puzzling (at first glance, anyway) is the fact that home price appreciation has been **breaking records** according to some reports. Here's the widely-followed FHFA House Price Index:



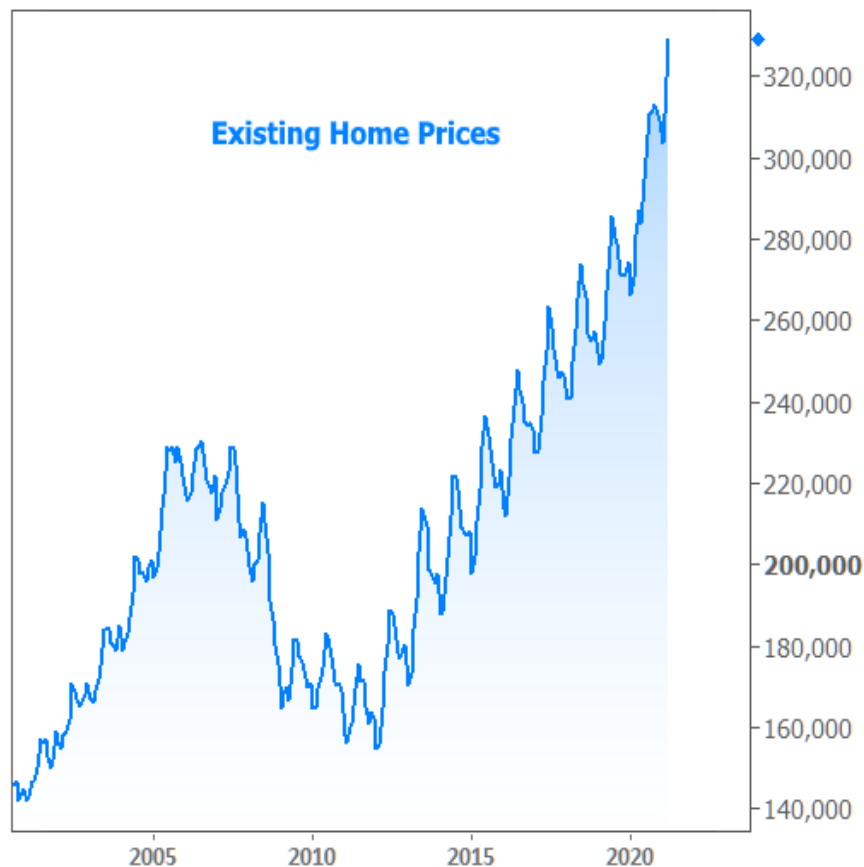
FHFA's data is for REPEAT sales and refinances. That means it **doesn't** capture **new** home prices at the time of construction despite thoroughly tracking home prices in general.

There's a separate home sales report for "existing" sales, and it does a better job tracking with FHFA's home price trends. Fortunately, that report also came out this week. In some ways, it caused the plot to thicken.

Unlike New Home Sales, **Existing Homes Sales** fell in March and are now noticeably below levels seen at the end of 2020. Record low inventory is the primary reason.

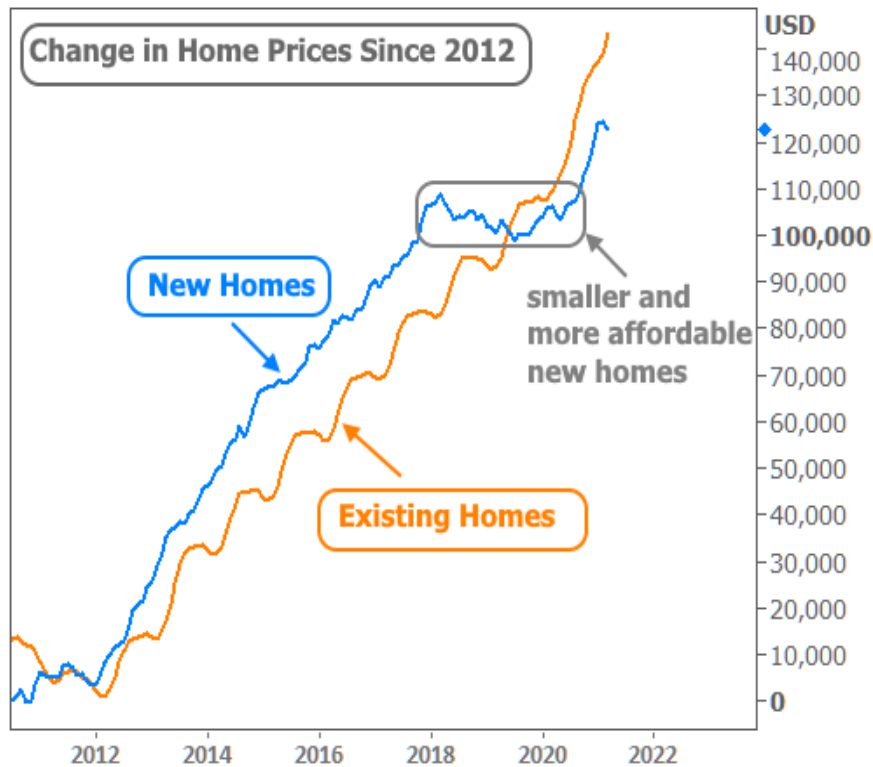


As you might expect, when home sales are falling due to inventory constraints, we shouldn't be seeing any downward pressure in prices. Indeed, existing home prices **easily smashed** their previous record (set last month).



One can't help but notice the rhythmic regularity in the existing home price chart. This is another huge clue in solving our new home price mystery. It suggests that new home prices must be diverging from the broader trend for their own reasons (i.e. something specific to the new home market). Reason being: existing homes comprise a FAR larger portion of the housing market. And because existing homes already--well--exist, their price trend is significantly **less** affected by changes in buyer preferences or builder offerings.

At last we come to the answer. There is indeed something about new homes causing prices to fall. In a word: **SIZE**. The median home is almost 200 sq ft smaller than it was in 2017, and, as anyone who has shopped for a home recently knows, **lot sizes have shrunk** even faster. The net effect is an average new home that is smaller and more affordable.

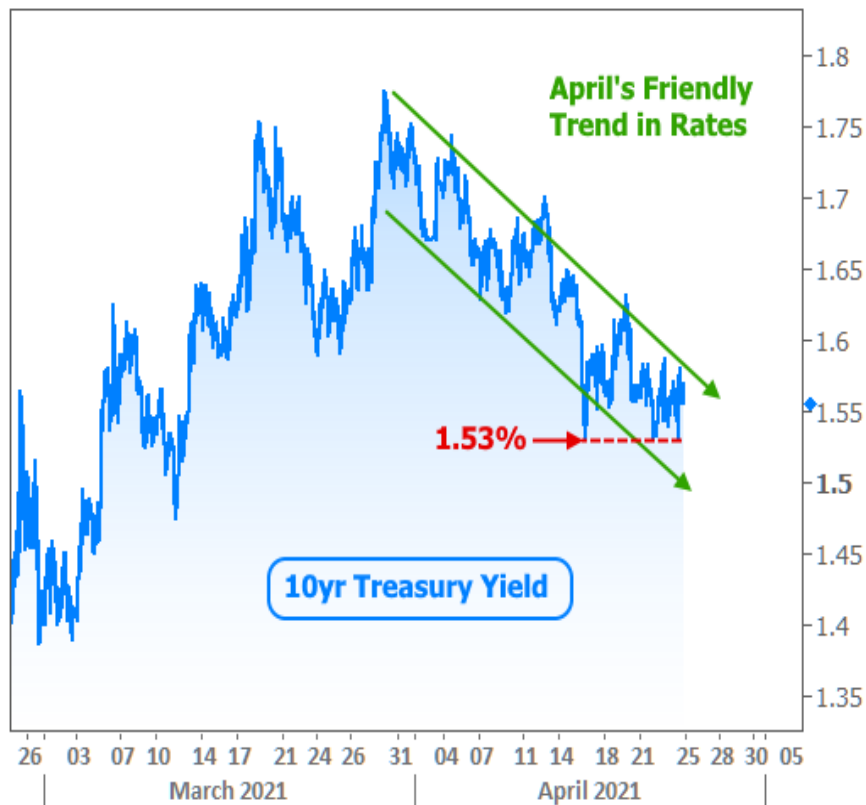


The price chart above would show an **even bigger** contrast were it not for material prices. Lumber is in the **insanity zone**, up more than 300% since the start of the pandemic. Experts disagree on when the madness will end and what sort of recovery we may see.



Persistently low interest rates continue to help offset high material prices. They also benefit existing and new home prices equally. 2021 **had** been an unpleasant year for interest rates up until April. And it wasn't until last week that rates really distanced themselves from recent highs seen at the end of March.

This week was **another good one for rates**, with the average lender back down to the lowest levels in almost 2 months. 10yr Treasury Yields (the most widely-followed benchmark for longer-term rates like mortgages), have been well-behaved in their move lower. The next milestone would be a break below 1.53%--a level that served as a floor both this week and last.

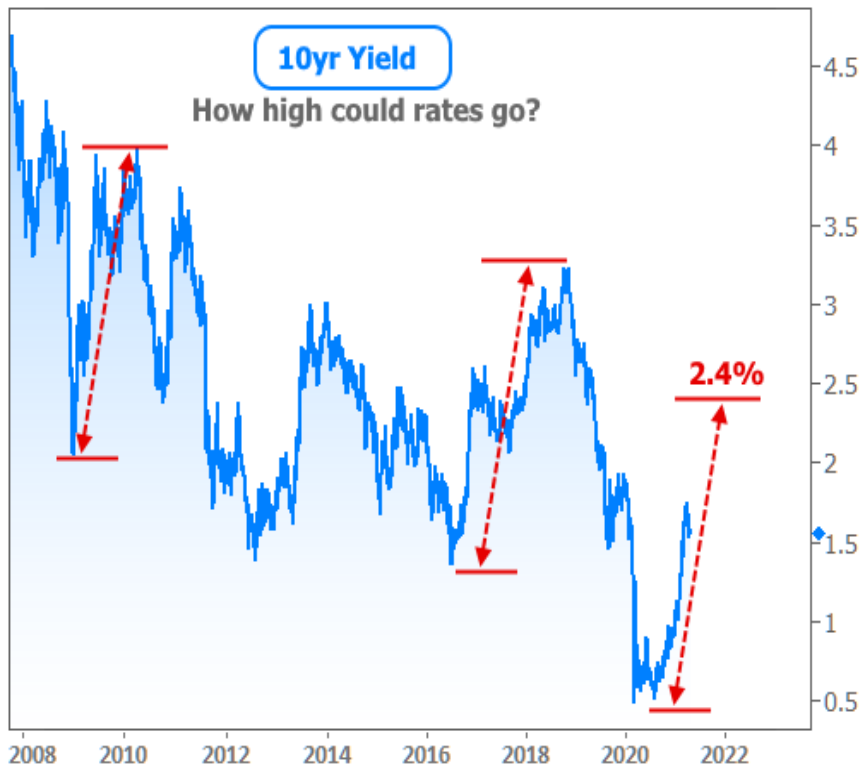


The continuation of this friendly trend depends on several factors. While everyone loves a good prediction, they're tricky business--especially when they pertain to the future. Even if someone is right about rates going lower, they might not be right about the timing or magnitude of the move.

What we **can** know is that over the longer run, rate levels will be determined by the health of the economy, the state of the pandemic, inflation, and the level of new debt issuance (used to pay for things like covid relief and infrastructure). Since we don't really know how everything will shake out, we have to assume there are several potential outcomes ranging from "moderately lower" to "significantly higher."



Granted, if rates move significantly higher, it **wouldn't** be overnight, but it's important to understand lessons from history. They provide 2 clear, recent examples of how long a "rising rate environment" can last, and how much ground it can cover.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Apr 21				
7:00AM	w/e MBA Purchase Index	295.5		279.5
7:00AM	w/e MBA Refi Index	3219.9		2916.7
Thursday, Apr 22				
8:30AM	w/e Continued Claims (ml)	3.674	3.667	3.731
8:30AM	w/e Jobless Claims (k)	547	617	576
8:30AM	Lagarde / ECB Press Conference			
10:00AM	Mar Leading index chg mm (%)	1.3	1.0	0.2
10:00AM	Mar Existing home sales (ml)	6.01	6.19	6.22
10:00AM	Mar Exist. home sales % chg (%)	-3.7	0.8	-6.6
Friday, Apr 23				
9:45AM	Apr PMI-Composite (source:Markit)	62.2		59.7
10:00AM	Mar New Home Sales (%) (%)	20.7	12.8	-18.2
10:00AM	Mar New Home Sales (ml)	1.021	0.886	0.775
Monday, Apr 26				
8:30AM	Mar Durable goods (%)	0.5	2.3	-1.2
8:30AM	Mar Core CapEx (%)	0.9	1.5	-0.9
1:00PM	5-Yr Note Auction (bl)	61		
Tuesday, Apr 27				
9:00AM	Feb CaseShiller 20 yy (%)	+11.9	11.7	11.1
9:00AM	Feb Monthly Home Price yy (%)	+12.2		12.0
10:00AM	Apr Consumer confidence	121.7	113.0	109.7
1:00PM	7-Yr Note Auction (bl)	62		
Wednesday, Apr 28				
7:00AM	w/e MBA Purchase Index	281.4		295.5
7:00AM	w/e MBA Refi Index	3185.3		3219.9
2:00PM	N/A FOMC rate decision (%)	0.000 - 0.250	0.125	0.125
Thursday, Apr 29				
8:30AM	Q1 GDP Advance (%)	6.4	6.1	4.3
10:00AM	Mar Pending Sales Index	111.3		110.3
10:00AM	Mar Pending Home Sales (%)	+1.9	5.0	-10.6
Friday, Apr 30				
8:30AM	Q1 Employment costs (%)	0.9	0.7	0.7
8:30AM	Mar Core PCE Inflation (y/y) (%)	1.8	1.8	1.4
9:45AM	Apr Chicago PMI	72.1	65.3	66.3
10:00AM	Apr Sentiment: 1y Inflation (%)	3.4		3.7
10:00AM	Apr Consumer Sentiment (ip)	88.3	87.4	86.5

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Apr Sentiment: 5y Inflation (%)	2.7		2.7

About Your Los Angeles Mortgage Broker

Shannon's expertise in residential mortgage lending spans more than 20 years. Beginning on the ground floor of the wholesale side of lending, Shannon subsequently succeeded as a loan officer, account manager, and account executive while working for one of the nation's largest mortgage lenders. In contrast to those who chose to leave the mortgage industry when the Los Angeles housing market began to spiral in 2008; Shannon's passion for helping others to become homeowners remained firmly intact. In fact the changes in the market and new lending laws made her want to help homebuyers to navigate the new rules of real estate lending more than ever. As such, she chose to transition to the retail side of real estate financing in effort to work closer with families, veterans, and those who had previous financial hardships to achieve their goals of home ownership. As a homeowner and real estate investor, Shannon's personal experience in obtaining mortgage loans for her own purchases is extensive. She has bought and sold multiple properties and continues to invest in real estate throughout Los Angeles County. Shannon's specialization and breadth of experience in real estate purchase loans enables her to offer standard/conventional loans, government loans, hard money loans, and specialty/portfolio products.

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