JULY 2023

Market Insights

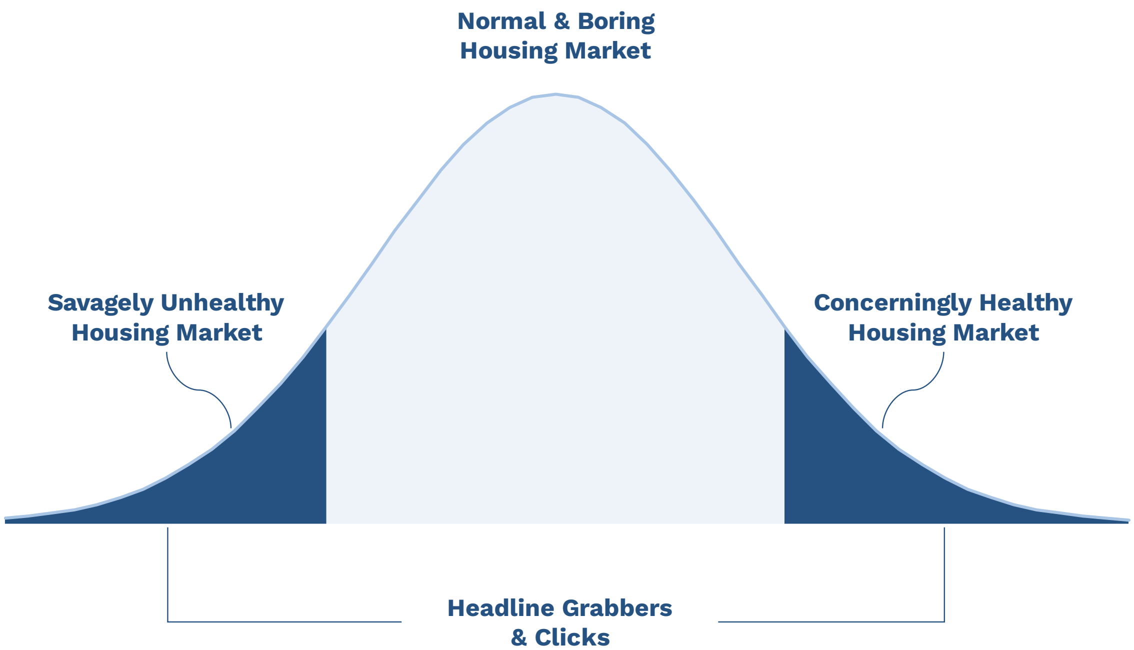
What's Up with Home Values?

PALISADES

HOME PRICES ARE SEEMINGLY DEFYING THE ODDS

Imagine the health of the U.S. housing market along the lines of a normal distribution curve, where a '**savagely unhealthy**' market sits on the far left, a **vibrant, healthy, and potentially overheated** market sits on the far right, and a **normal market** with historical levels of supply, demand, home prices, and credit availability resides in the belly of the curve.

Most current media coverage of the housing market focuses on the edges or extremes of the curve...things are either "**savagely unhealthy**" or "**concerningly healthy.**" As is so often the case, reality likely sits somewhere in between.



The mainstream headlines that called for the collapse of residential housing prices in 2022, and early 2023, focused almost entirely on the **interest rate effect on demand**. This first order observation completely missed the impact higher rates have on supply, which up to this point has proven to outweigh demand side factors. For example:

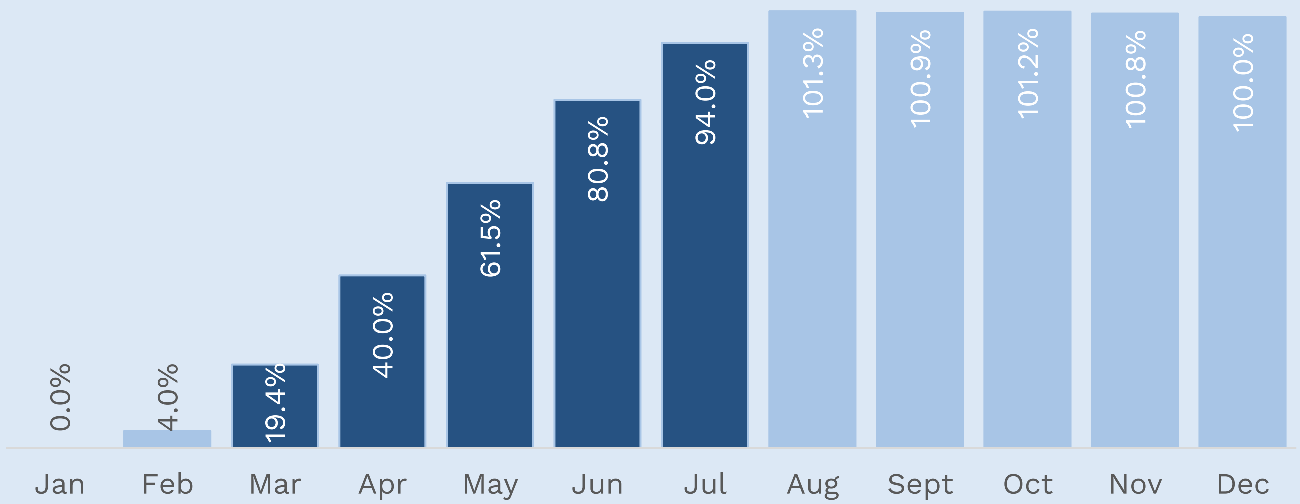
- **Existing home inventory (May 2023)**
  - **1.08 million** compared to **2.28 million** historical norm dating back over 24 years
  - *Market is severely undersupplied from raw inventory standpoint*
- **Months' supply of existing homes (inventory divided by sales) (May 2023)**
  - **3.0 months** versus historical average of **5.3 months** dating back to 1999
  - *Indicates demand is outpacing supply in the existing home market*
- **Owner occupied housing vacancy rate (March 2023)**
  - **0.8%** versus **1.6%** historical average dating back to 1968
  - *Buyers have few options when searching for single family housing*

As home values have proven resilient due to this continued supply/demand imbalance, mainstream headlines are now raising concerns that housing inflation will create near term challenges for the Fed as it fights price pressures in the second half of 2023. **This too ignores a key component of housing – seasonality.**

Examining the S&P CoreLogic Case-Shiller Home Price Index ("**CS-HPI**") back to the mid-1980s, the data shows that home values tend to appreciate from **March through July (spring selling season)** and remain flat to down from **August through February (low season)**.

% of Cumulative Annual Home Price Appreciation by Month

Source: S&P CoreLogic Case-Shiller



Through April 2023, year-to-date national home values have **increased 2.3%**, according to CS-HPI, which **exceeds the 1.8% historical average**. **Home price increases are running 0.5% above trend through April**, which would imply 2023 is **tracking toward a 5.9% year-over-year** home price appreciation. This would be expected to peak in August at 6.0% before tapering back down to 5.9% in December.

Considering mortgage rates are now back to peak 2022 levels and likely to remain elevated in sympathy with Fed policy for the balance of 2023, **we anticipate 2023 national headline home price appreciation to end up around 2% to 3%**, consistent with Citigroup's forecast, but above both Fannie Mae and Mortgage Bankers Association forecasts of down 1.2% and flat, respectively.

Given the geography specific nature of housing, there will be wide variances within the data that will ultimately make up the year end 2023 average home price trends. We believe that there will be markets that realize significant drawdowns in values offset by markets that continue to demonstrate strength.

S&P CoreLogic Case-Shiller Home Price Index

As of April 2023

HPI	April 2023 Change	3-Month Change	Year-over-Year Change	Year-to-Date Change
National Case Shiller HPI	**1.31%**	**2.85%**	**-0.24%**	**2.29%**
20-City Case Shiller HPI	**0.91%**	**1.29%**	**-1.75%**	**1.04%**
Atlanta, GA	0.87%	1.69%	3.47%	**1.75%**
Boston, MA	1.54%	1.70%	0.84%	**1.98%**
Charlotte, NC	0.65%	1.65%	3.35%	**1.90%**
Chicago, IL	0.88%	2.17%	4.07%	**2.25%**
Cleveland, OH	1.80%	1.82%	2.91%	**1.96%**
Dallas, TX	0.46%	0.10%	-2.92%	**-0.38%**
Denver, CO	0.42%	0.80%	-4.62%	**-0.15%**
Detroit, MI	1.03%	2.22%	1.06%	**2.17%**
Las Vegas, NV	0.23%	-1.03%	-6.58%	**-2.06%**
Los Angeles, CA	1.12%	2.11%	-3.25%	**2.01%**
Miami, FL	0.34%	0.42%	5.16%	**0.60%**
Minneapolis, MN	0.48%	1.43%	-0.03%	**1.33%**
New York, NY	1.32%	2.43%	3.01%	**2.38%**
Phoenix, AZ	-0.09%	-0.27%	-6.18%	**-1.15%**
Portland, OR	0.79%	0.67%	-5.28%	**-0.01%**
San Diego, CA	0.93%	2.02%	-5.75%	**1.68%**
San Francisco, CA	0.97%	1.31%	-11.22%	**0.54%**
Seattle, WA	0.57%	-1.64%	-12.53%	**-3.16%**
Tampa, FL	0.38%	0.68%	2.40%	**0.44%**
Washington, DC	0.53%	1.09%	-0.58%	**0.75%**

While residential housing is currently struggling with ‘low’ everything (affordability, demand, supply, etc..), we believe that it will be a bright spot for the balance of the year, certainly as compared to commercial real estate. **In other words, while perhaps not headline grabbing, the reality is likely that housing in 2023 will end up somewhere in the middle of the normal distribution.**

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