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To most reading this article it is no surprise to hear that the National Housing Market has reached all-time highs. After all, we have been in the midst of a year-long pandemic where most individuals spent more time in their residence than any time prior. Unsurprisingly, this led to a fundamental shift in the characteristics that many people desire from their homes - more land, larger homes, more ambience, more on-site amenities, etc. This has led to a supply/ demand imbalance of single family homes, amplified in cities with above average job growth, and specifically those homes that offer these now more desirable qualities. Yet, there is far more to this recent home buying frenzy than merely the pandemic. We have seen a sustained period of historically low interest rates, below average new-housing starts, and a dwindling supply of existing homes on the market. All of these factors contributed to a supply and demand imbalance that has elevated the Median Existing Home Sales prices to \$329,100 as of March 2021 which is a 17.2% increase year-over-year¹.

SUPPLY

Nationwide, the supply and demand imbalance has left the US Housing Markets with an average of only 2-months of inventory¹. Conventionally, we may think this is due to the sharp disruption in New Housing Starts that we saw in the early innings of the COVID-19 Pandemic in April and May of 2020; however, when we contrast this with the pace of New Home Completions through 2020 and into the first quarter of 2021, the supply of new home completions (vs. New Housing Starts) actually has remained relatively stable.

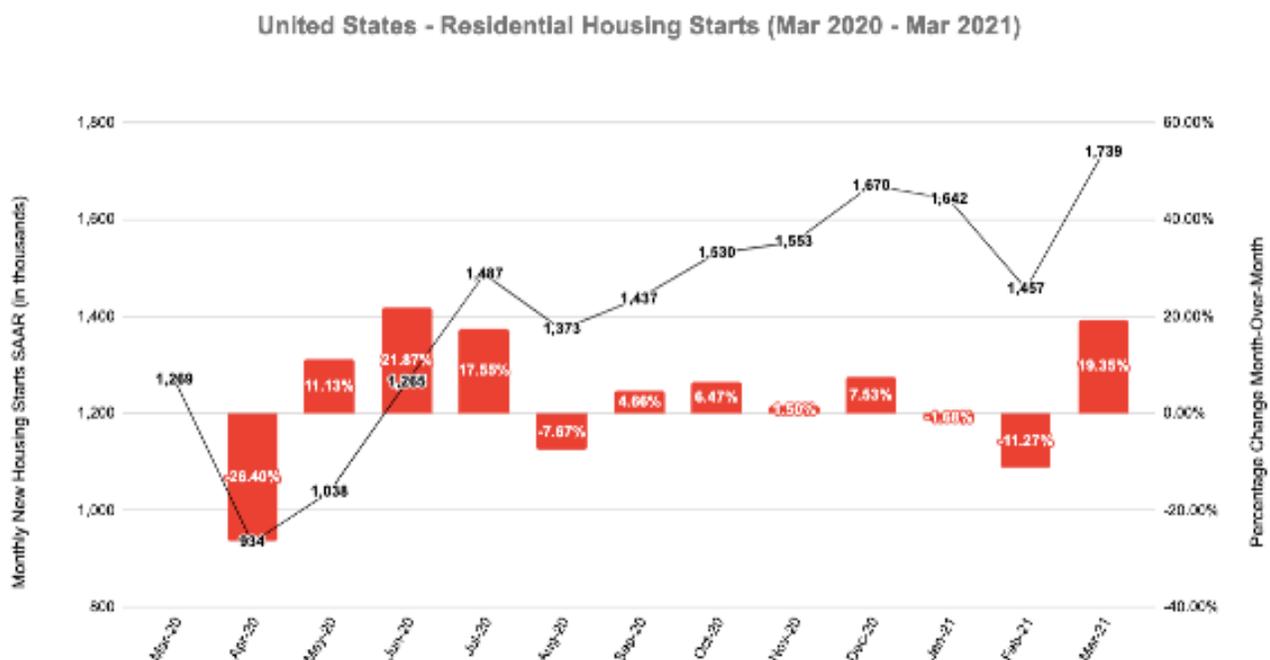


Chart Source: US Census Release Number CB21-61, April 16, 2021, Monthly New Residential Construction, March 2021

United States - Residential Housing Completions (Mar 2020 - Mar 2021)

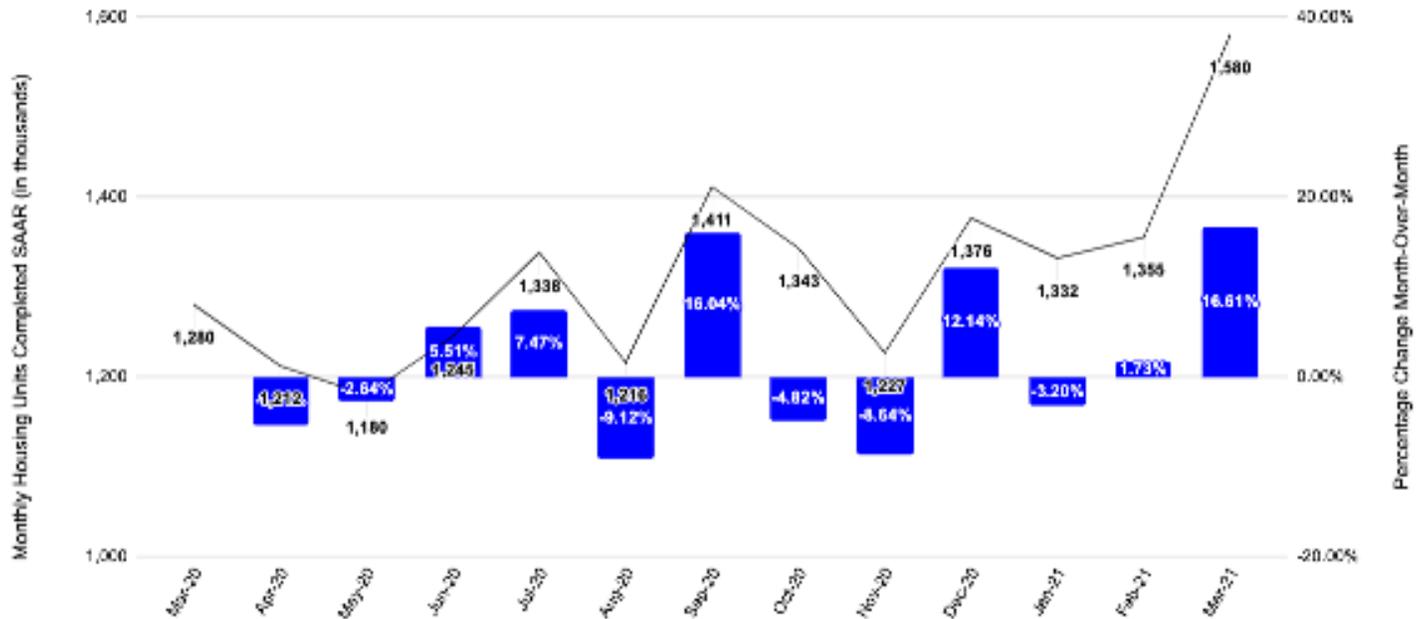


Chart Source: US Census Release Number CB21-61, April 16, 2021, Monthly New Residential Construction, March 2021

This insight indicates the actual housing supply constraints are coming from a drop in Existing Homes for sale versus new construction. Looking at the chart below, we see that as the supply of existing homes has decreased, there has been a corresponding increase in average home prices.

United States - Existing Home Supply (Mar 2020 - Mar 2021)

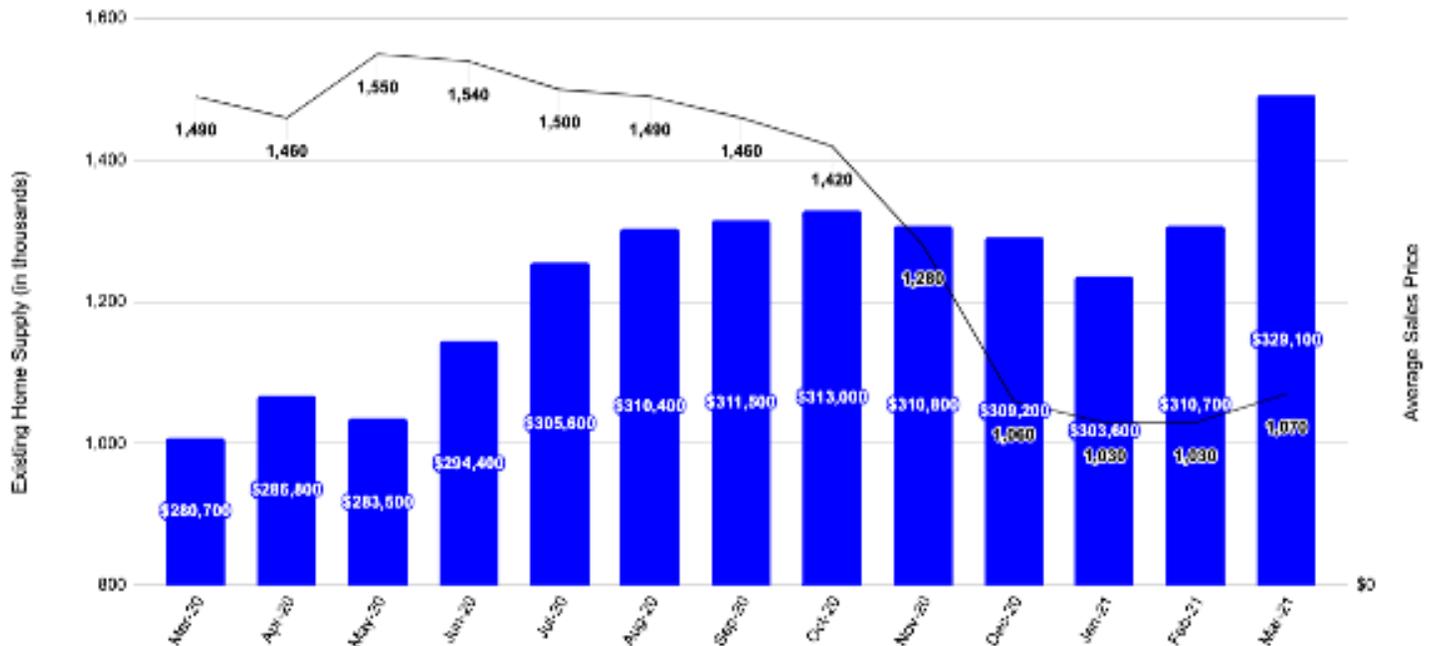
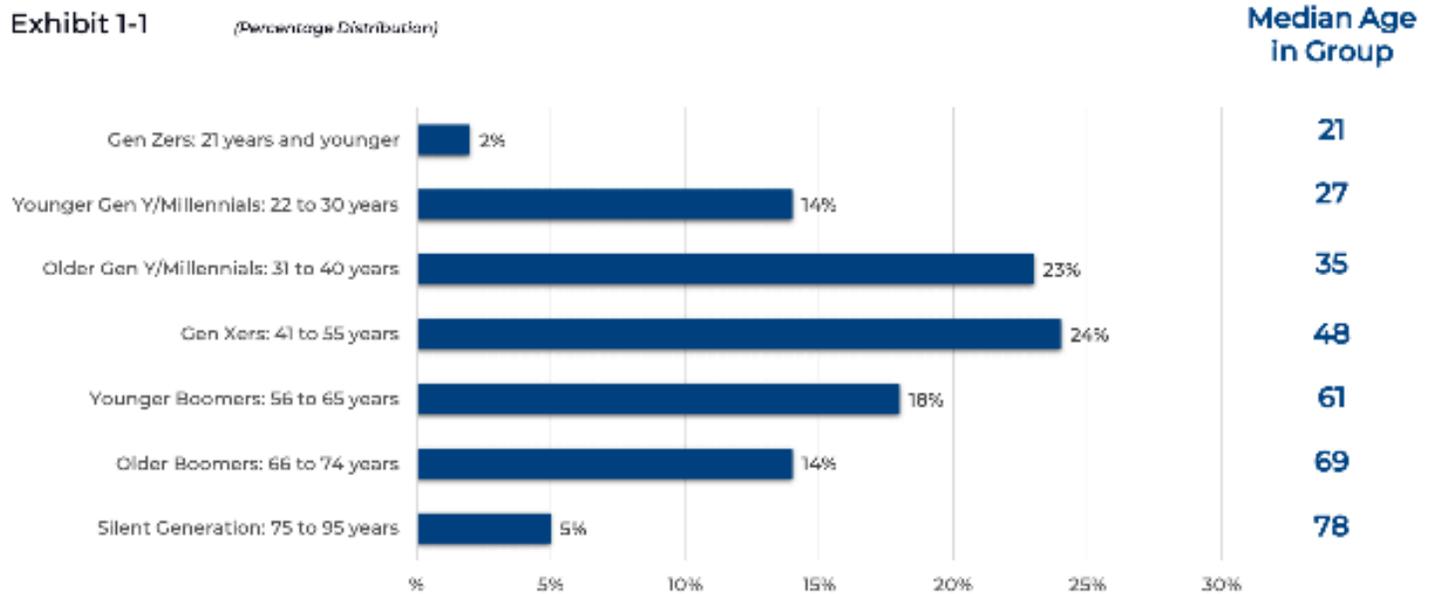


Chart Source: Copyright ©2021 "Summary of March 2021 Existing Home Sales Statistics." NATIONAL ASSOCIATION OF REALTORS®. All rights reserved. Reprinted with permission. May 13, 2021, <https://cdn.nar.realtor/sites/default/files/documents/ehs-03-2021-overview-2021-04-22.pdf>.

DEMAND

Further fueling the current price momentum is the long awaited swell of Millennials that has now come of age to buy their first homes. “Home building since the end of the Great Recession hasn’t kept pace with population growth, while tens of millions of Millennials simultaneously have recently come of first home-buying age, creating a nationwide generational housing supply shortage that’s been deepening for years (which a ton of “experts”, policymakers, and lenders like Freddie Mac long saw coming).”²

AGE OF HOME BUYERS



Note: Buyers 21 years and younger only made up only two percent of the share of all buyers. They were not included in much of chapters 1 through 5 on home buyers due to the low number of responses for analysis.

Chart Source: Copyright ©2021 “2021 NAR Home Buyer and Seller Generational Trends.” NATIONAL ASSOCIATION OF REALTORS®. All rights reserved. Reprinted with permission. May 14, 2021, <https://www.nar.realtor/sites/default/files/documents/2021-home-buyers-and-sellers-generational-trends-03-16-2021.pdf>

This price momentum has been seen not just in National Averages, but across 99% of Metro Areas where Single-Family Home Prices rose as of Q1, 2021. In other words, home price increases are not being driven by abnormally high gains in a “few” markets, but rather across nearly all markets... i.e. the whole tide is rising. In fact, 89% of these markets have shown double-digit price appreciation over the prior quarter.³

With no indication the Federal Reserve will abruptly rein in the monetary supply and with new housing starts unable to keep pace with current demand, we strongly believe this supply and demand imbalance will persist through the remainder of 2021 and continue to push up average home prices through 2021. Aside from unforeseen macroeconomic events, the main risk factors that could reign back home prices would be an unexpected, dramatic increase in interest rates, or a swell of new housing supply - that would most likely take until early 2022 before it effectively impacts current housing demand.

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² Taylor, Peter Lane. “America’s Housing Market Is Officially Over-Heating Everywhere. How Long Will It Last?” Forbes, ForbesLife. April 18, 2021, <https://www.forbes.com/sites/petertaylor/2021/04/18/yes-americas-housing-market-is-officially-over-heating-everywhere-how-long-can-it-last/>

³ Hyman, Michael. “Single-Family Home Prices Rose in 99% of Metro Areas in 2021 Q1” NATIONAL ASSOCIATION OF REALTORS®, The Economists’ Outlook Blog. May 13, 2021, <https://www.nar.realtor/blogs/economists-outlook/single-family-home-prices-rose-in-99-of-metro-areas-in-2021-q1>