



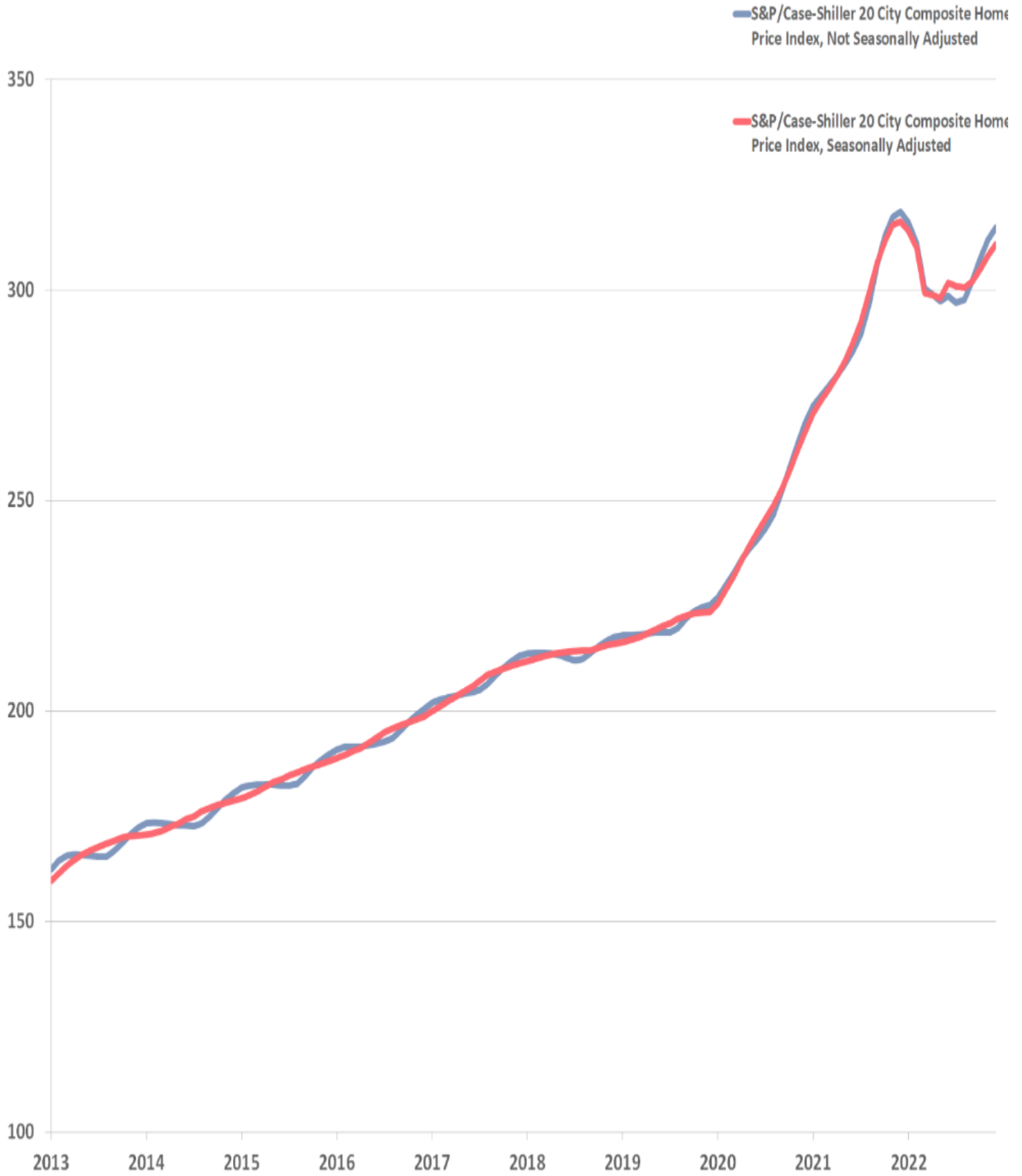
The Daily Dish

Housing Market Tour

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 13, 2023

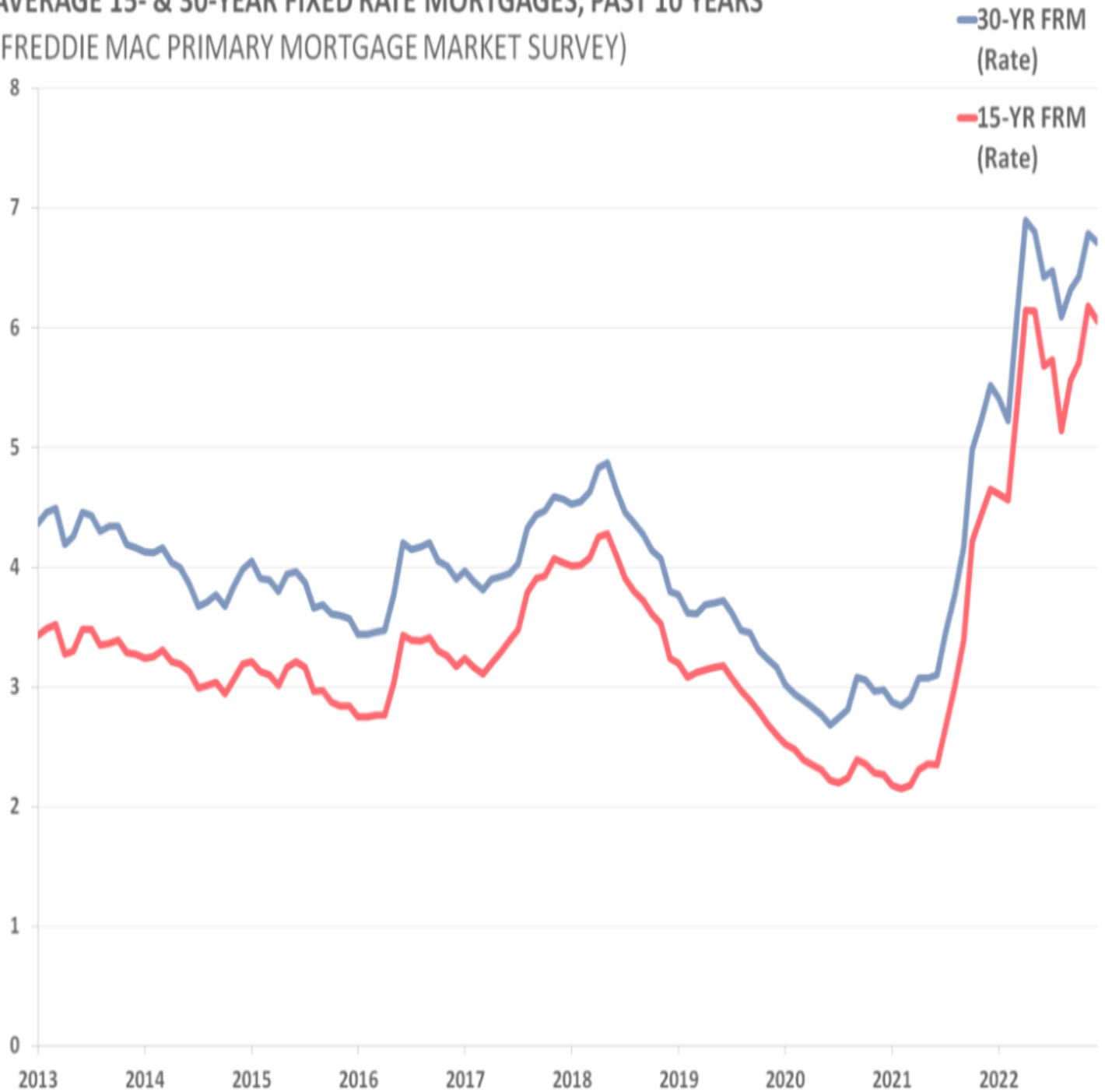
Thomas Kingsley has posted his [Housing Chart Book](#) for the 2nd quarter of this year, making this a good moment for a quick tour of housing conditions. Perhaps the most notable recent development has been an uptick in home prices. As measured by the Case-Shiller price index, home values have done a U-turn and are rising again after falling sharply after the onset of the Federal Reserve's interest rate hikes.

S&P/CASE-SHILLER 20-CITY HOME PRICE INDEX, PAST 10 YEARS

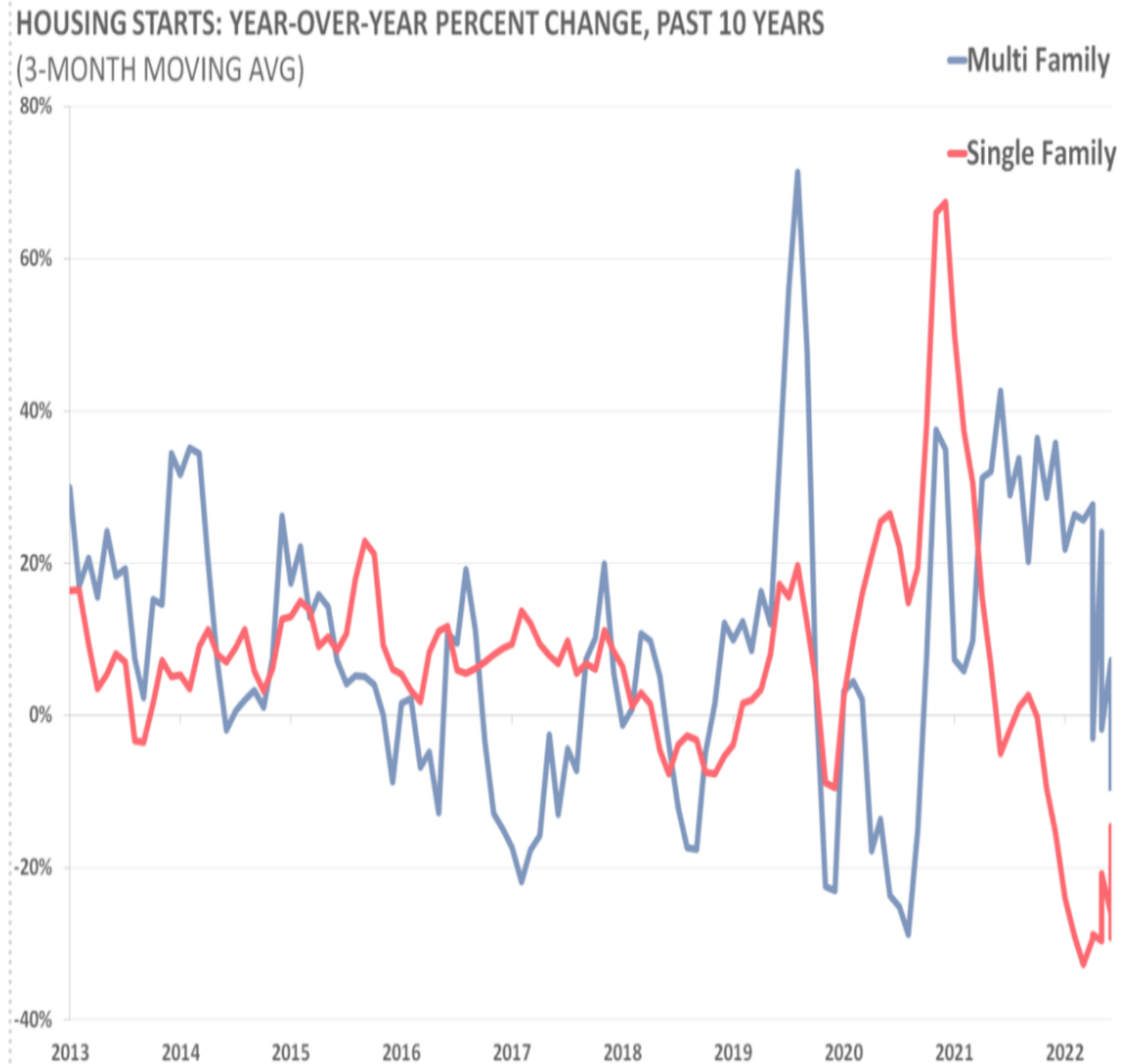


One normally associates rising prices with an upward shift in demand due to favorable buying conditions. But mortgage rates remain high – in fact, extraordinarily high compared to recent levels. And while income growth has by and large held up, growth in real disposable income has flattened out in recent months.

AVERAGE 15- & 30-YEAR FIXED RATE MORTGAGES, PAST 10 YEARS (FREDDIE MAC PRIMARY MORTGAGE MARKET SURVEY)

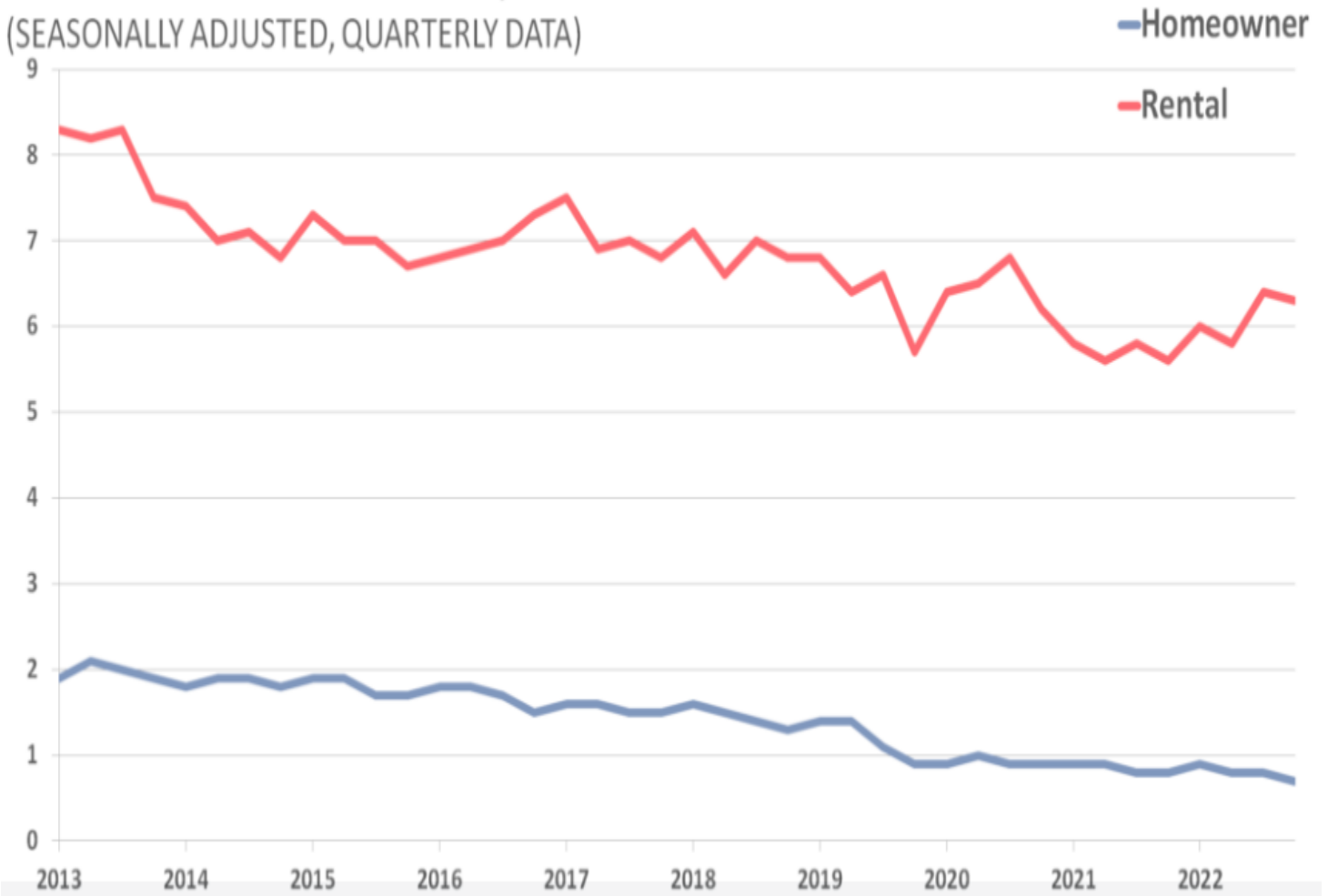


So, if it is not demand, the answer must lie in supply conditions. Despite a recent uptick in single-family housing starts, building activity remains well below its recent peaks. Home builders face the same challenges in rising costs and labor scarcity as do other sectors of the economy. This relative absence of new supply has exacerbated the affordable housing challenges in the United States.



Vacancy rates in both the owner-occupied and multi-family sectors started the Fed's tightening cycle at lower levels – and have fallen farther still.

HOME AND RENTAL VACANCY RATES, PAST 10 YEARS (SEASONALLY ADJUSTED, QUARTERLY DATA)



Closing the loop, the recent rise in home prices is far from a sign of a healthy, robust housing market. Most likely, a broad-based recovery lies on the other side of the upcoming soft landing or mild recession, depending on your degree of optimism; the result of which will continue to depend largely on how the Fed interprets housing market signals. Only then will interest rates be at a level to support greater demand while labor market and other supply conditions permit starts of a sufficient number of new single- and multi-family units.