Real Life

ECONOMY

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Seeds of a Housing Shortage

The market is looking much improved today, with home sales and prices heading up. But within this improvement are the seeds of a long-term challenge: falling inventories.

The inventory of existing homes is at its lowest level in seven years, while newly constructed home inventory has hit a 50-year low mark. Falling inventory is causing home prices to shoot up higher and faster than most analysts anticipated. The national median price of transacted homes was up 9.5 percent in August. Other price measures, like Case-Shiller and the Federal Housing Finance Agency price index, which look at price changes in sales of the same properties over time, have been rising as well, at double-digit annualized rates in recent months. Of course, not all markets are this robust. Phoenix is looking to notch a 25 percent gain for the year, while Chicago is just emerging from negative territory.

As winter approaches, inventory will slide further. Few homes are newly listed after Thanksgiving. Historically, inventory tends to be 15 percent lower in winter than summer. Last year's seasonal decline was even more dramatic, at 25 percent. We hope we won't see an inventory decline of that magnitude this winter. Home values rising much faster than income growth will markedly cut into housing affordability.

But that may well be what's in store. Distressed home listings will continue to fall because fewer borrowers are now seriously delinquent. Home construction is up, but only reaching half of the historic average of housing starts. Even the many pent-up sellers—those normal, nondistressed home owners who've been holding back for better market conditions—will not help the net inventory situation, because most of them will be selling to buy a trade-up property.

Slight seasonal relief should come in March, just as the spring buying season gets underway. But a deeper and longer-term issue to watch out for is the increasing possibility of a housing shortage across many parts of the country. ■

INSIDE VIEW

Learn what the latest economic indicators mean for the real estate industry.

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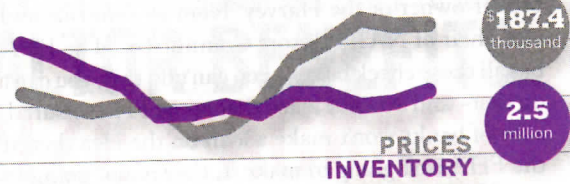
Market Pulse

Sales and prices are up and the length of time it takes to complete sales is down, but NAR's data for August suggests real estate isn't out of the woods. The national median home price, at $187,400, is up 9.5 percent from year-ago levels, and the market is on pace to see 4.82 million home sales this year, a 9.3 percent improvement over last year. Almost two-thirds of sales are completed within three months, a big jump from a year earlier. But practitioner confidence, a good indicator of how the market will look down the road, has barely budged for months. *All trend lines are from August 2011 to August 2012.*



Existing-home sales is a seasonally adjusted annual rate, which is the actual rate of sales for the month, multiplied by 12 and adjusted for seasonal sales differences. **Pending home sales** is an index that measures housing contract activity. An index of 100 is equal to the level of activity during 2001, the benchmark year. **Inventory** measures the number of existing homes on the market at the end of the month. **Buyer and seller traffic, current conditions, six-month expectations, and time on market** derive from a monthly REALTOR® Confidence Index. Results are based on 3,421 responses to 6,000 surveys sent to large and small real estate offices. The survey asks practitioners to indicate whether conditions are strong (100 points), moderate (50), or weak (0). *Some data may be revised from previous issues.*