Housing Affordability Near Two-Year Low Due to Lack of Inventory

Mortgage rates are at record lows, but that hasn't been enough to offset rising home prices due to a nationwide inventory shortage. According to the National Association of Home Builders (NAHB)/Wells Fargo Housing Opportunity Index (HOI), due to these factors, housing affordability continued to decline in the third quarter of 2020.

Overall, 58.3 percent of new and existing homes sold between the beginning of July and end of September were affordable to families earning an adjusted U.S. median income of $72,900. This is down from the 59.6 percent of homes sold in the second quarter of 2020 that were affordable to median-income earners—the lowest reading since the fourth quarter of 2018.

"Though low mortgage rates and favorable demographics have helped spur demand, a lack of inventory exacerbated by supply chain issues stemming from the COVID-19 pandemic have contributed to rising home prices," said NAHB Chairman Chuck Fowke, a custom home builder from Tampa, Fla. "Surging lumber prices also peaked more than 170 percent above mid-April levels in September, raising building costs. However, lumber prices are now trending lower, which is good news for prospective home buyers."

"A six-month supply of homes is considered a normal supply and demand balance, and this figure has been running below a four-month rate since July, putting upward pressure on home prices," said NAHB Chief Economist Robert Dietz. "As builders look to ramp up production, the work-at-home trend is contributing to a suburban shift, meaning that buyers have additional market power to shop for affordable markets."

According to the index, the national median home price jumped to an all-time high of $313,000 in the third quarter, surpassing the previous record-high of $300,000 set in the second quarter. Meanwhile, average mortgage rates fell by 29 basis points in the third quarter to a record-low of 3.05 percent from 3.34 percent in the second quarter.

Tied as the nation's most affordable major housing markets are Lansing-East Lansing, Mich., and Scranton-Wilkes Barre-Hazleton, Pa.. In Lansing-East Lansing, 89.4 percent of all new and existing homes sold in the third quarter were affordable to families earning the area's median income of $75,000. Likewise, 89.4 percent of all new homes sold in Scranton-Wilkes Barre-Hazleton were affordable to families earning the area's median income of $66,600. Among the top five affordable major housing markets were Pittsburgh, Pa.; Harrisburg-Carlisle, Pa.; and Albany-Schenectady-Troy, N.Y. Meanwhile, Cumberland-Md.-W.Va., was rated the nation's most affordable smaller market, with 96.2 percent of homes sold in the third quarter being affordable to families earning the median income of $57,500. Smaller markets joining Cumberland at the top of the list included Wheeling, W.Va.-Ohio; Lima, Ohio; Binghamton, N.Y.; and Monroe, Mich.

The nation's least affordable major housing market? San Francisco-Redwood City-South San Francisco, Calif., where, just 9 percent of the homes sold during the third quarter were affordable to families earning the area's median income of $130,900. Other major metros at the bottom of the affordability chart were in California. In descending order: Los Angeles-Long Beach-Glendale; Anaheim-Santa Ana-Irvine; San Diego-Carlsbad; and San Jose-Sunnyvale-Santa Clara. All five least affordable small housing markets were also in California. At the very bottom of the affordability chart was Salinas, where 10.9 percent of all new and existing homes sold in the third quarter were affordable to families earning the area's median income of $75,800. In descending order, other small markets at the lowest end of the affordability scale included Merced; Santa Cruz-Watsonville; San Rafael; and Napa.

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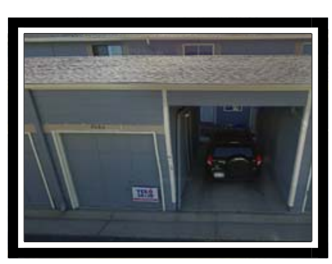
11306 W 107th Place
Westminster - $456,000

Highly updated home in Countryside, almost everything has been updated! Kitchen wall removed to open up the floorplan. Newer appliances, windows, roof.

5971 Scotswood Court
Boulder - $840,000

Best value in the Willows! This move-in-ready home has been lovingly & meticulously maintained by the current owners for 24 years. Fabulous, lushly landscaped.



8660 Carr Loop
Westminster - $325,000

Remodeled townhome backing to open space and walking trails. 2 bedroom, 3 1/2 bathroom. Family room in basement could easily be third bedroom.

2625 Marys Lake Rd
Estes Park - $459,990

Stunning End unit condo at Marys Lake Lodge! Perfect for home or income property. Sleeps 6 comfortably, Open floor plan with massive windows with views.

Fourth Quarter 2020

Trend Report

As we move into the holiday season, we're still tracking the changes COVID has brought to our market. In the top left chart below, Current Showings compared to 2019, we see that we've had stronger showing activity since the spring shutdown when compared to last year. Surprisingly, showing activity is rising again as we enter the typically slower time of the year.

As you can see in the top right chart below, demand as represented by the number of single family homes under contract remains above last year's numbers but has moderated from its 40% higher peak. This moderated, yet still stronger than 2019, demand coupled with extremely tight supply, half of last year's levels, is keeping market conditions in many price points and areas frenzied. Multiple offers are still quite common for many new listings. If a home doesn't get strong activity during its first week on the market, however, the activity can moderate quickly, and those homes can take some time to sell. We're seeing this most commonly in homes that aren't in top condition, attached homes, and in the upper end of the price ranges for the different cities in the County. The other remarkable trend in this chart is the recovery in our sales even though we lost our two typically busiest months to the Statewide Stay at Home orders. For the sales in single family homes to have caught up to and surpassed the 2019 levels during an ongoing global pandemic during a divisive election year is astonishing.

Our Available Inventory, middle left chart, continues to show our dramatic lack of Inventory, with fewer single family homes for sale across the County than we've seen at any time since I started tracking this metric. When we zoom in and look at the Inventory in finer detail in the individual cities, we see some interesting trends. Inventory is the lowest ever in Erie, Longmont, Louisville, Superior and the Suburban Plains. In Lafayette, Inventory is lower than any year except for 2015. In the City of Boulder, Inventory was lower in 2016, 2015 and 2014. I believe the current Inventory levels in Boulder are due to the higher average sales prices there, but I don't have a good explanation for the Lafayette numbers.

The Percent of Homes Under Contract, bottom left, is also showing the strong market. You can see that every City in the County has a higher percentage under contract right now than they did 12 months ago. For some of these areas, such as Superior, the difference is positive but minor, while in some areas like Erie and the Suburban Plains, the change is impressive.

COVID has broken so many of our long-term, seasonal patterns in the real estate market, that predicting the future based on past performance feels especially risky right now. I do expect that we'll see some moderation for the market as we approach the end of the year holidays and I also expect spring of 2021 to be a typical strong time for home sellers but I'm not sure I want to prognosticate further. As I write this during a time of increasing COVID case counts and positivity rates, I'm not as worried as I was this spring as we now have some viable vaccine candidates on the horizon and our market has already survived and thrived after one bout with COVID. Be healthy everyone!

Mike Malec