

Homebuilders

Home Sales Snapshot: November was slow, but drop in rates means it's old news

Industry Overview

Mortgage rates still a headwind in November

Mortgage rates remained elevated in November (although down from 7.79% peak). Total home sales slightly fell to 4.4mm, as compared to 4.5mm in October, a decrease of (1.2%) MoM and (6.2%) YoY. We think October/November will be the peak affordability headwind to homebuyers following the 109bps decline in 10-year treasury yields since October 19. In November, we launched the [BofA US Home Sales Indicators](#). Our New Home Sales Indicator suggests growth in new home sales will remain soft through year-end due to the spike in mortgage rates in October/November, however, the recent pullback in rates could drive recovery into 2024. Our Existing Homes Sales Indicator suggests existing home sales troughed but will remain muted into 2024.

New homes sales down (12.2%) MoM, but up 1.4% YoY

November new home sales declined to 590k seasonally-adjusted annual rate (SAAR), (12.2%) lower as compared to 672k in October. Homebuilders continue to support sales through building more affordable (smaller) homes, offering rate buydowns and selective price reductions. In November, the median new home price rose to \$434,700, down (6.0%) YoY and 11% above the median resale (vs. long-term average of 20%). New home inventory seasonally adjusted (SA) rose to 9.2 months supply in November (vs. long-term average of 5.9 months).

Existing home sales flattish MoM in November

Existing home sales rose slightly to 3.82mm SAAR in November, from 3.79mm in October. Existing home inventory slightly fell to 1.13mm homes (2.2mm long-term average) or 3.5 months (5.3 months long-term average). The "lock-in effect" continues to pressure resale inventory with 80% of homeowners financed at mortgage rates <5%, compared to the current mortgage rate of 6.67%.

Exhibit 1: Existing and New Home sales trends

In November, Existing Home Sales went up MoM, but New Home sales declined MoM

Existing Home Sales	Aug.	Sep.	Oct.	Nov.	2022	Long-term average*
SAAR (Thousands)	4040	3950	3790	3820	5026	5294
MoM change	-0.7%	-2.2%	-4.1%	0.8%	N/A	0.0%
Monthly YoY change	-15.3%	-15.6%	-14.6%	-7.3%	-17.9%	-0.1%
Median price for existing single family homes (Thousands)	\$410.2	\$397.4	\$396.0	\$392.1	\$390.3	N/A
YoY change in median price	2.9%	2.0%	3.0%	3.5%	10.3%	4.6%
Existing home inventory (months)	3.3	3.4	3.6	3.5	2.7	5.3
New Home sales	Aug.	Sep.	Oct.	Nov.	2022	Long-term average*
SAAR	654	700	672	590	641	705
MoM change	-10.2%	7.0%	-4.0%	-12.2%	N/A	0.2%
Monthly YoY change	2.5%	23.5%	16.5%	1.4%	-16.9%	0.8%
Median new home price (Thousands)	\$440.9	\$427.4	\$414.9	\$434.7	\$457.8	N/A
YoY change in median price	0.1%	-10.5%	-16.5%	-6.0%	15.3%	4.6%
New home inventory SA (months)	7.9	7.4	7.9	9.2	8.5	5.9

Source: BofA Global Research, US Census Bureau, National Association of Realtors, Haver Analytics

* Jan 1999-November 2023

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22 December 2023

Equity
United States
Homebuilders

Rafe Jadrosich
Research Analyst
BofAS
+1 646 855 5815
rafe.jadrosich@bofa.com

Shaun Calnan, CFA
Research Analyst
BofAS
+1 646 855 1362
shaun.calnan@bofa.com

Victoria Piskarev
Research Analyst
BofAS
+1 646 855 0657
victoria.piskarev@bofa.com

[BofA US Home Sales Indicators: Introducing the BofA US New Home and Existing Home Sales Indicators 21 November 2023](#)

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November summary

Total Home sales, the sum of new home and existing home sales, slightly fell to 4.4M in November, a decrease of (1.2%) MoM and (6.2%) YoY, due to lower sales in new homes. November total home inventory stayed flat at 1.45mm MoM and YoY on a monthly basis.

Exhibit 2: Total Home sales trends

Total Home sales fell MoM and were well below the long-term average in November

Total Home sales	Aug.	Sep.	Oct.	Nov.	2022	Long-term average*
SAAR (Thousands)	4694	4650	4462	4410	5667	5999.6
MoM change	-2.2%	-0.9%	-4.0%	-1.2%	N/A	0.0%
Monthly YoY change	-13.2%	-11.4%	-11.1%	-6.2%	-17.76%	-0.1%
New home inventory as a % of total listings	30.8%	30.5%	30.3%	31.1%	31%	14.3%
Spread between new and existing home prices	7.5%	7.5%	4.8%	10.9%	17%	20.4%
Average mortgage rate	7.1	7.2	7.7	7.3	5.3	5.1

Source: BofA Global Research, US Census Bureau, National Association of Realtors

*Jan 1999-November 2023. Average mortgage rate average is Jan 2000-November 2023.

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New Homes sales: down MoM, but up YoY

November 2023 new home sales (seasonally adjusted annualized rate) decreased to 590k, compared to October sales of 672K (-12.2% MoM) and 582K in November 2022 (+1.4% YoY). November 2023 new home inventory increased to 451K, a decrease of (0.9%) YoY on a monthly basis. Months of inventory increased to 9.2 in November compared to 7.9 in October (+16.5% MoM), and decreased (2.1%) YoY on a monthly basis. Median home prices for new homes rose to \$434,700, + 4.77% MoM and fell (6.0%) YoY.

Exhibit 3: New Home sales trends

New Home sales fell in November for the second consecutive month

New Home sales	Aug.	Sep.	Oct.	Nov.	2022	Long-term average*
SAAR (Thousands)	654	700	672	590	641	705
MoM change	-10.2%	7.0%	-4.0%	-12.2%	N/A	0.2%
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Source: BofA Global Research, US Census Bureau, Haver Analytics

*Jan 1999-November 2023

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New home sales benefitting from lack of existing home inventory

Total home inventory stayed largely flat at 1.45mm as new home inventory slightly increased and existing home inventory stayed flat in November. Existing home inventory is still low compared to its historical average and has been affected by elevated mortgage rates and the “lock-in effect”. New homes are now tracking near a record high percentage of the total inventory of homes available at 31%.

Exhibit 4: New home inventory as a % of total inventory

New home inventory was 31% of total inventory in November 2023, up +1% MoM from October



Source: BofA Global Research, Census Bureau, National Association of Realtors, Haver Analytics
Data through November 2023

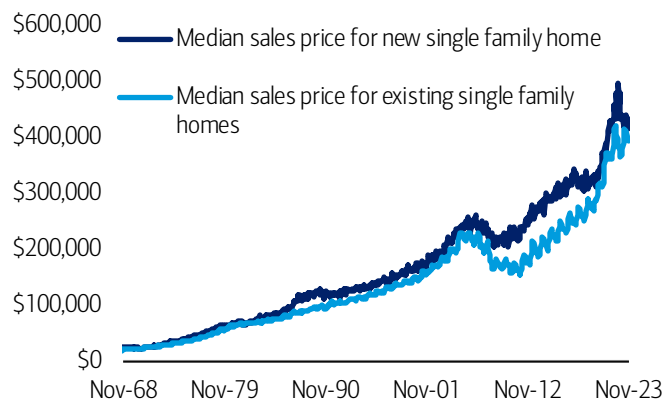
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Spread between new and existing home prices has widened

In February 2012, the premium on new home sales peaked at 53.7% versus the median existing home sales price, as builders slowed the pace of new construction and existing home prices fell. Since then, the spread has narrowed between new and existing median home prices but has widened compared to October since new home median price increased +4.77% MoM and existing home median price fell (1.0%) MoM. New home prices are at 10.9% premium in November 2023, up from the 4.8% premium in October.

Exhibit 5: Median sales prices of new homes vs existing homes

In November, the median sales price of new homes decreased (6.0%), YoY, while existing family homes increased 3.5% YoY

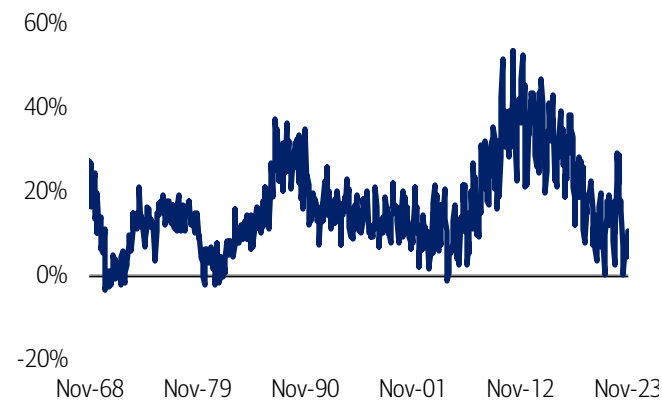


Source: BofA Global Research, Census Bureau, Haver Analytics
Data through November 2023

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Exhibit 6: Price premium of new homes vs existing homes

The new home median price is 10.9% higher than existing homes price in November



Source: BofA Global Research, Census Bureau, Haver Analytics
Data through November 2023

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Homebuilders are building smaller homes to improve affordability

In 3Q 2023, the median floor area in new homes was reported by US Census Bureau as 2221 square feet, a 1.9% increase from 2Q 2023, but a (2.7%) decrease since 3Q 2022, and a (10.4%) decrease since the peak in 1Q 2015.

Exhibit 7: New home median floor area (NSA, Square feet)

Median floor area decreased (2.7%) YOY in 3Q 2023



Source: BofA Global Research, Census Bureau, Haver Analytics
Data through 3Q 2023

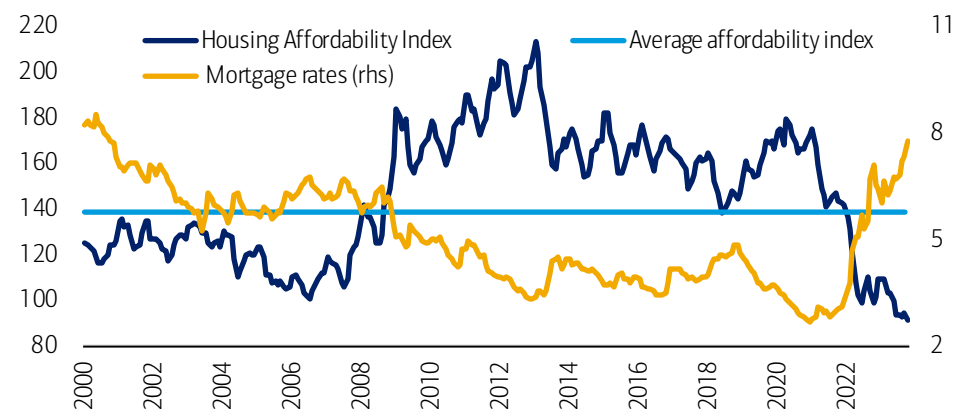
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Housing Affordability reached new record low in October

The Housing Affordability Index was reported by National Association of Realtors (NAR) at 91.4 in October, a new low and tracking at 34% below the historical average 138.7. A contributing factor was the rising mortgage rates in October, which have affected whether a typical family earns enough income for a mortgage loan, that peaked at 7.8% before falling in November due to the Fed signaling the end of the hiking cycle.

Exhibit 8: Housing Affordability Index vs mortgage rates

The housing affordability index decreased (7.7%) YoY



Source: BofA Global Research, Haver Analytics, FHLMC Note: Contract interest rates on commitments for 30-year fixed-rate first mortgages. Prime mortgages only.
Data through October 2023

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Existing home sales: flattish MoM in November

November 2023 existing home sales (seasonally adjusted annualized rate) slightly increased to 3.82mm, compared to October sales of 3.79MM (+0.8% MoM) and 4.12mm in November 2022 (-1.7% YoY). November 2023 existing home inventory decreased to 1.13mm (-1.7% MoM) and stayed largely flat (+0.9%) YoY on a monthly basis. Months of inventory decreased to 3.5 in November, +6.1% YoY on a monthly basis. Median home prices for existing single-family homes fell to \$392100, a (1.0%) decrease MoM, but a 3.5% increase YoY.

Exhibit 10: Existing Home Sales Trends

Existing Home Sales have stayed flat MoM

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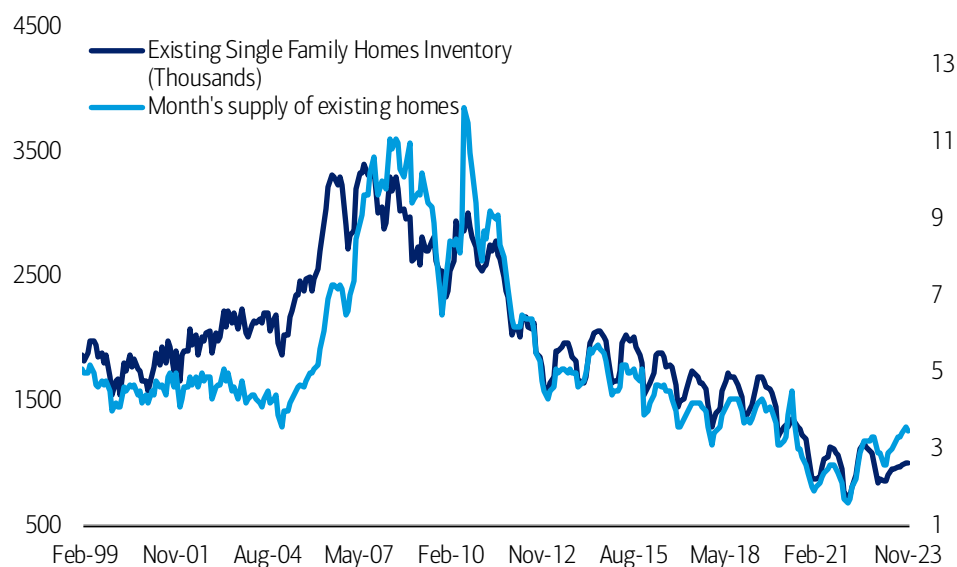
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Hold your houses: lack of inventory stifling home turnover

Existing home sales are tracking at the lowest level since 2010 and our EHS indicator suggests turnover will remain under pressure into early 2024. The softer-than-expected October CPI report signaled the end of the Fed hiking cycle, with rates staging a huge rally afterward. Accordingly, the 30-year fixed mortgage rate has fallen by more than 30bp from its late-October peak of 8% ([Housing Watch: To buy or not to buy, that is the question](#)). However, Existing home inventory is still historically low with 80% of current homeowners currently locked in <5% mortgage rates. The housing market experienced similar dynamics in the early 1980's (mortgage rates ~18% in 1981), new home sales recovered to pre-mortgage rate spike levels by 1983 while existing home sales did not recover until 1985. November single family existing home inventory is at 1.00mm vs. 2.05mm historical average since 1982. Months of supply is at 3.5 months, vs. a 5.3 month historical average since 1999.

Exhibit 10: Existing home inventory

Existing home inventory has stayed flat MoM



Source: BofA Global Research, National Association of Realtors

Data through November 2023

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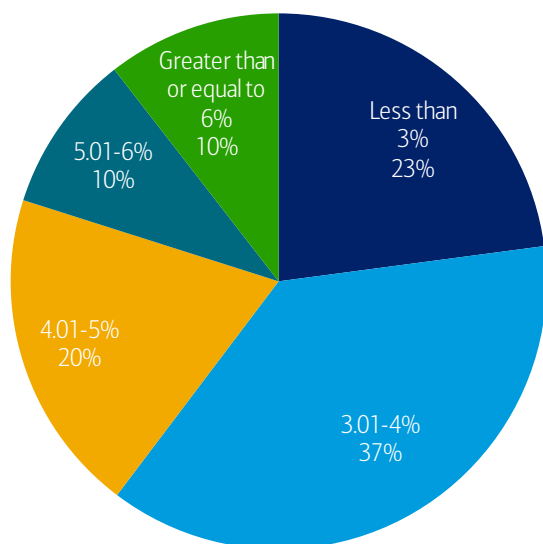
Homeowners are locked in at low rates

One big contributing factor of the low existing home inventory is the “lock-in effect” of low mortgage rates. According to National Mortgage Database (NMDb), 80% of homeowners have a fixed-rate mortgage below 5% compared to current rate at 6.67%. Effective mortgage rate was reported as 3.7% in 3Q 2023 and remains much lower than the current reported mortgage rate.



Exhibit 11: Ranges of mortgage rates

80% of homeowners had a below 5% mortgage rate in 2Q 2023

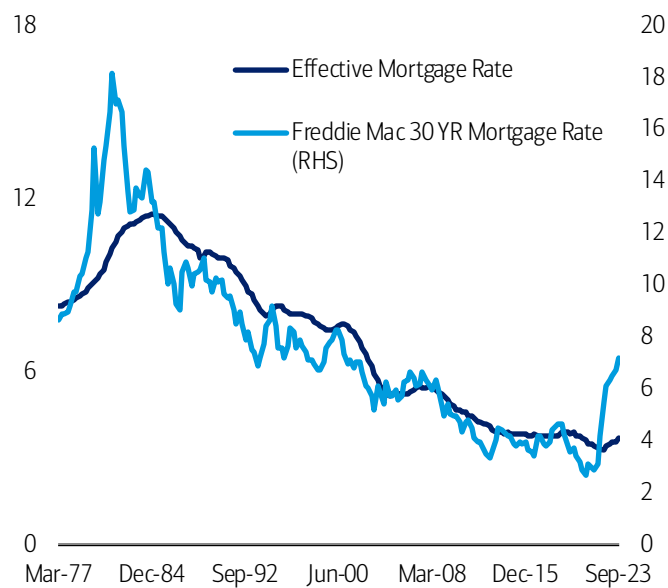


Source: BofA Global Research, NMDb

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Exhibit 12: Effective mortgage rate vs current mortgage rate

In September, there was a 3.46% spread between effective mortgage rate and Freddie Mac 30 YR mortgage rate



Source: BofA Global Research, Freddie Mac, Haver Analytics
Data through September 2023

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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