

Homebuilders

Monthly sales update: new and existing home sales both grew in January

Industry Overview

New and existing home sales rise in January

Total home sales rose to 4.7mm in January, rising 2.9% MoM and declining (1.2%) YoY. Affordability improved during the month (relative to December) with mortgage rates steady between 6.6%-6.7%. Our New Home Sales Indicator suggests growth will accelerate in early 2024 after a moderation slowdown at the end of 2023. Our Existing Homes Sales (EHS) Indicator suggests existing home sales troughed in 2023, but inventory levels likely need to increase to get a significant (>15%) recovery in 2024 (see report: [New home recovery poised to continue: Existing homes rebounding from trough](#))

New homes sales up 1.5% MoM and 1.8% YoY

January new home sales increased to 661k seasonally adjusted annual rate (SAAR), 1.5% higher as compared to 651k in December (downwardly revised from 664k). While the headline growth was likely below expectations, however, weather was a significant headwind the South region in January, which was down (15.6%) MoM (ex-South region +33.5% MoM). Homebuilders continue to support sales through building more affordable (smaller) homes, offering rate buydowns and selective price reductions. In January, the median new home price rose to \$420.7K (up \$7K MoM) but fell (2.5%) YoY, and 10% above the median resale home (vs. long-term average of 17%). New home inventory SA remained at 8.3 months in January (well above LT average of 5.9 months).

Existing home sales up MoM, but months' supply falls

Existing home sales rose to 4.00mm SAAR in January, from revised 3.88mm in December. Total existing home inventory rose to 1.01mm homes (2.3mm long-term average), but supply fell to 3.0 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 6.7%.

Exhibit 1: Existing and New Home sales trends

In January, both existing and new home sales rose MoM

Existing Home Sales	Oct.	Nov.	Dec.	Jan.	2023	Long-term average*
SAAR (Thousands)	3850	3910	3880	4000	4087	5290
MoM change	-3.3%	1.6%	-0.8%	3.1%	N/A	0.0%
Monthly YoY change	-14.3%	-6.7%	-5.8%	-1.7%	-18.7%	-0.1%
Median single family existing home price (Thous)	\$396.0	\$392.2	\$385.8	\$383.5	\$392.8	N/A
YoY change in median price	3.0%	3.6%	3.7%	5.0%	0.6%	4.6%
Existing home inventory (months)	3.6	3.5	3.1	3	2.7	5.3
New Home sales	Oct.	Nov.	Dec.	Jan.	2023	Long-term average*
SAAR	670	607	651	661	668	705
MoM change	-4.0%	-9.4%	7.2%	1.5%	N/A	0.2%
Monthly YoY change	16.1%	4.3%	2.4%	1.8%	3.9%	0.8%
Median new single family home price (Thous)	\$417.5	\$428.3	\$413.1	\$420.7	\$427.4	N/A
YoY change in median price	-16.0%	-7.4%	-13.8%	-2.6%	-6.6%	5.7%
New home inventory SA (months)	7.9	8.9	8.3	8.3	7.9	5.9

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

* January 1999-January 2024.

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26 February 2024

Equity

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LT = long-term

SA = seasonally adjusted

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January summary

Total Home sales, the sum of new home and existing home sales, increased to 4.7mm in January, rising +2.9% MoM and fell (1.2%) YoY, due to higher sales in both new and existing homes. January total home inventory rose to 1.35mm, increased 2.6% MoM and +2.8% YoY on a monthly basis.

Exhibit 2: Total Home sales trends

Total Home sales rose MoM, but were well below the long-term average in January

Total Home sales	Oct.	Nov.	Dec.	Jan.	2023	Long-term average*
SAAR (Thousands)	4520	4517	4531	4661	4755	5991
MoM change	-3.4%	-0.1%	0.3%	2.9%	N/A	0.0%
Monthly YoY change	-10.8%	-5.3%	-4.7%	-1.2%	-16.1%	-0.1%
New home inventory as a % of total listings	30.3%	30.9%	34.5%	33.9%	32%	14.3%
Spread between new and existing home prices	5.4%	9.2%	7.1%	9.7%	9%	16.6%
Average mortgage rate	7.6	7.4	6.8	6.6	6.8	5.1

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

*January 1999-January 2024. Average mortgage rate average is January 2000-January 2024.

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New Homes sales: up MoM and YoY

January new home sales (seasonally adjusted annualized rate) increased to 661k, compared to December sales of 651K, (+1.5% MoM) and 649k in January 2023 (+1.8% YoY). January new home inventory increased to 456k, an increase of +3.9% YoY on a monthly basis. Months of inventory stayed flat at 8.3 in January compared to December 2023 and increased 2.5% YoY on a monthly basis. Median home prices for new homes rose to \$420,700, +1.8% MoM and (2.6%) YoY.

Exhibit 3: New Home sales trends

New Home sales rose in January, +1.5% MoM and +1.8% YoY

New Home Sales	Oct.	Nov.	Dec.	Jan.	2023	Long-term average*
SAAR	670	607	651	661	668	705
MoM change	-4.0%	-9.4%	7.2%	1.5%	N/A	0.2%
Monthly YoY change	16.1%	4.3%	2.4%	1.8%	3.9%	0.8%
Median new single family home price (Thousands)	\$417.5	\$428.3	\$413.1	\$420.7	\$427.4	N/A
YoY change in median price	-16.0%	-7.4%	-13.8%	-2.6%	-6.6%	5.7%
New home inventory seasonally adjusted (SA) (months)	7.9	8.9	8.3	8.3	7.9	5.9

Source: BofA Global Research, US Census Bureau, Haver Analytics

*January 1999-January 2024

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New home sales benefitting from lack of existing home inventory

Total home inventory rose to 1.35mm as both new and existing home inventories slightly increased in January. 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 34%, flat compared to December.

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

New home inventory stayed flat at 34% of total inventory in January



Source: BofA Global Research, Census Bureau, National Association of Realtors, Haver Analytics
Data through January 2024

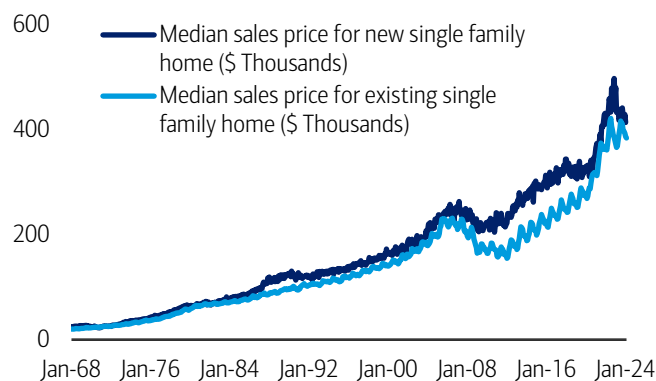
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Spread between new and existing home prices has widened

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 the peak, the spread has narrowed but widened MoM between new and existing median home prices since new home median price increased 1.8% MoM and existing home median price fell (0.6%) MoM. New home prices are at 9.7% premium in January 2024, up from the 7.1% premium in December.

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

In January, the median sales price of new homes decreased (2.6%), YoY, while existing family homes increased 5.0% YoY

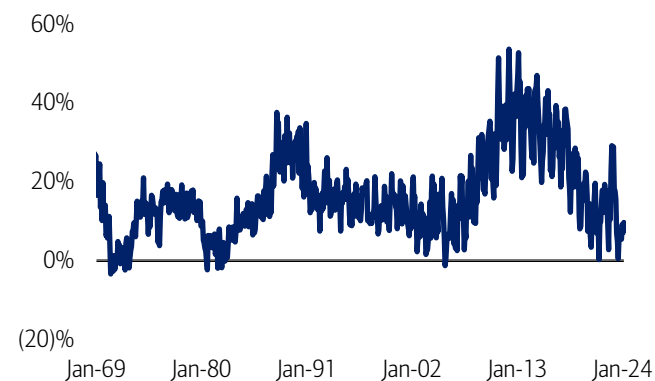


Source: BofA Global Research, Census Bureau, Haver Analytics
Data through January 2024

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Exhibit 6: Price premium of new homes vs existing homes

The new home median price is 9.7% higher than existing homes price in January



Source: BofA Global Research, Census Bureau, Haver Analytics
Data through January 2024

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Homebuilders are building smaller homes to improve affordability

In 4Q 2023, the median floor area in new homes was reported by US Census Bureau as 2156 square feet, a (2.6%) decrease compared to 3Q 2023 and a (2.3%) decrease since 4Q 2022, and a (14.4%) decrease since the peak in 1Q 2015.

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

Median floor area decreased (2.3%) YOY in 4Q 2023

2600



Source: BofA Global Research, Census Bureau, Haver Analytics
Data through 4Q 2023

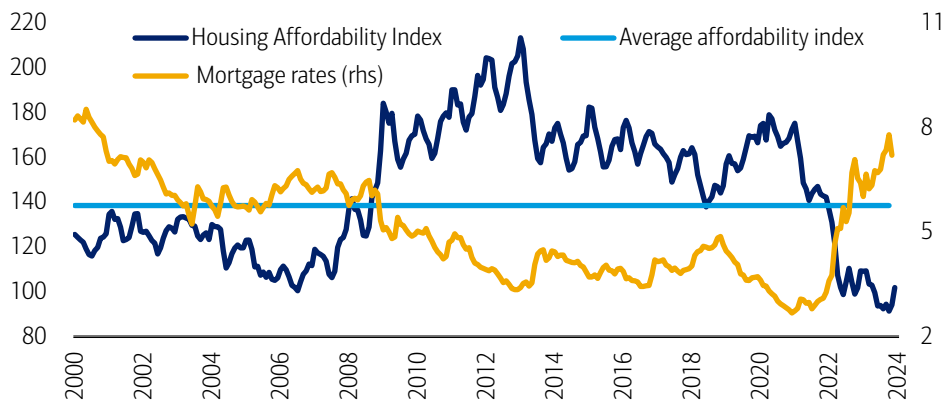
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Housing Affordability down YoY, but up MoM in December

The Housing Affordability Index was reported by National Association of Realtors (NAR) at 101.9 in December, tracking at 26% below the historical average 138.5. In December, mortgage rates fell to 6.61% from its peak of 7.79% in October, causing the affordability index to rise further. The National Association of Realtors (NAR) affordability index was down (6.8%) YoY in December but rose 8.2% MoM.

Exhibit 8: Housing Affordability Index vs mortgage rates

Affordability still down (6.8%) YoY, but up 8.2% MoM in December when mortgage rates fell further



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 December 2023

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Existing home sales: up MoM in January

January 2024 existing home sales (seasonally adjusted annualized rate) rose to 4.0mm, compared to revised December sales of 3.88mm (+3.1% MoM), but decreased as compared to 4.07mm in January 2023 (-1.7% YoY). January 2024 existing home inventory increased to 1.1mm (+2.0% MoM) and rose +3.1% YoY on a monthly basis. Months of inventory decreased to 3.0 in January but rose +3.4% YoY on a monthly basis.

Median home prices for existing single-family homes fell to \$383500, a (0.6%) decrease MoM, but a 5.0% increase YoY.

Exhibit 10: Existing Home Sales Trends

Existing Home Sales rose 3.1% MoM, but fell (1.7%) YoY in January

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

*January 1999-January 2024

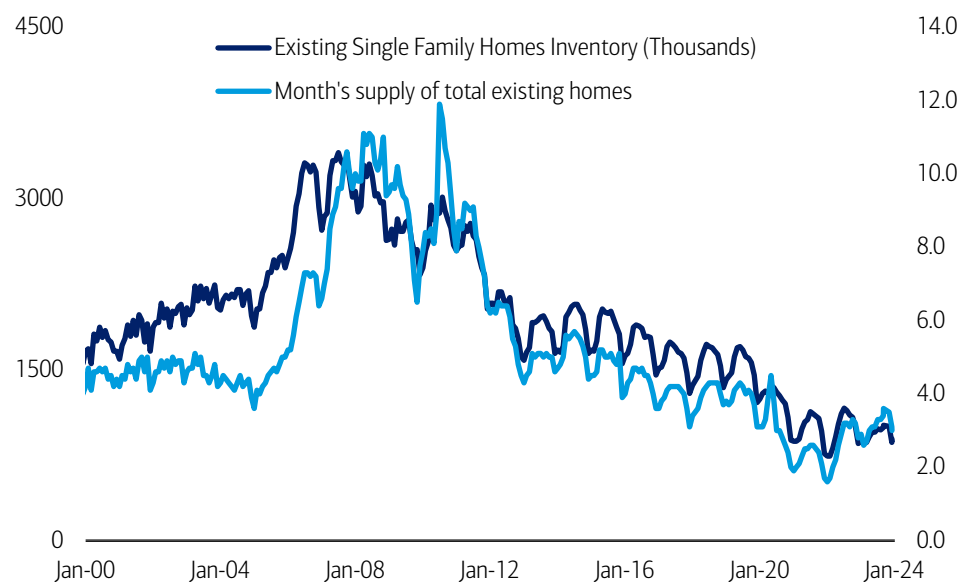
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Existing home sales likely troughed in December, but inventory is still falling

Falling mortgage rates, higher MBA mortgage applications, and a rising pending home sales index inflected positive in the last three months and our EHS Indicator improved sharply. Existing home sales slightly fell in December and are tracking at the lowest level since 2010. The EHS indicator suggests existing home sales have troughed, but inventory levels likely need to increase to get a significant (>15%) recovery in 2024. Existing home inventory is historically low with 79% of current homeowners locked in at <5% mortgage rates ([Housing Watch: Turbulence but no crash](#)). Lower mortgage rates could be a catalyst to unlock additional supply. The housing market experienced similar dynamics in the early 1980s (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. January single family existing home inventory is at 890k vs. 1.96mm historical average since 1982. Months of supply for total existing homes is at 3.0 months, vs. a 5.3 month historical average since 1999.

Exhibit 10: Existing home inventory

Existing home inventory rose 2.0% MoM in January



Source: BofA Global Research, National Association of Realtors
Data through January 2024

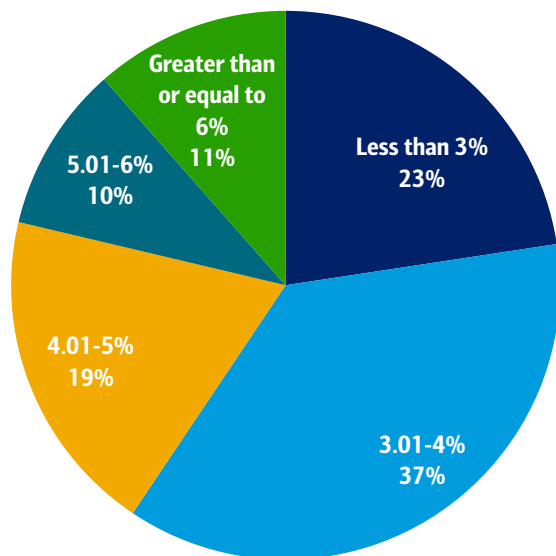
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Homeowners are still locked in at low rates

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), 79% of homeowners have a fixed-rate mortgage below 5% compared to current rate at 6.7%. Effective mortgage rate was reported as 3.8% in 4Q 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 3Q 2023

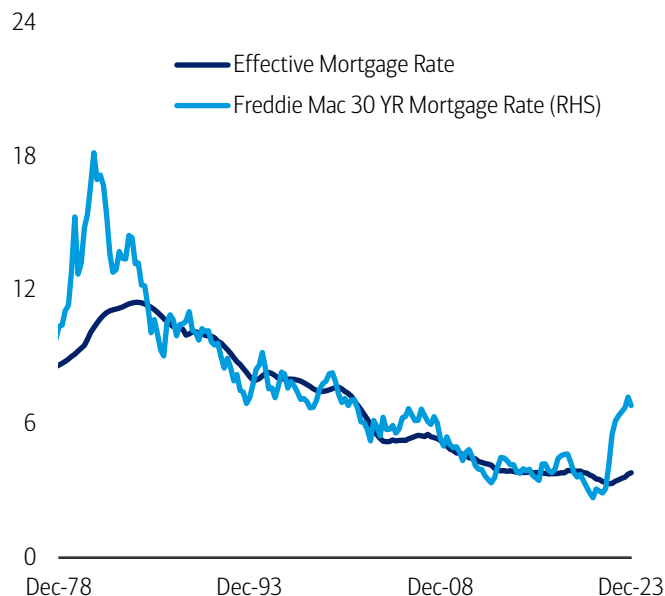


Source: BofA Global Research, NMDB

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Exhibit 12: Effective mortgage rate vs current mortgage rate

In December, there was a 3.02% spread between effective mortgage rate and Freddie Mac 30 YR mortgage rate



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

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