

Homebuilders

Monthly sales update: New homes improve in December; Existing lowest since 1995

Industry Overview

New home sales rebounded as total home sales stayed flat

Total home sales were flattish at 4.4mm in December, rising 0.2% MoM and declining (4.8%) YoY. Affordability improved during the month with the decline in mortgage rates to 6.6%. In November, we launched the [BofA US Home Sales Indicators](#). Our New Home Sales Indicator suggests sales recovery will likely continue into 2024 supported by the pullback in rates. Our Existing Homes Sales (EHS) Indicator suggests existing home sales troughed but will remain muted into 2024.

New homes sales up 8.0% MoM and 4.4% YoY

December new home sales increased to 664k seasonally-adjusted annual rate (SAAR), 8.0% higher as compared to 615k in November (upwardly revised from 590k). Homebuilders continue to support sales through building more affordable (smaller) homes, offering rate buydowns and selective price reductions. In December, the median new home price fell to \$413,200, down (13.8%) YoY and just 7% above the median resale home (vs. long-term average of 17%). New home inventory seasonally adjusted (SA) fell to 8.2 months supply in December (still well above long-term average of 5.9 months).

Existing home sales decline to lowest level since 1995

Existing home sales fell to 3.78mm SAAR in December, from 3.82mm in November. The annual US existing home sales from the National Association of Realtors fell to 4.09mm, the lowest sales pace since 1995 of 3.85mm. Existing home inventory declined to just 1.0mm homes (2.3mm long-term average) or 3.2 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 6.6%.

Exhibit 1: Existing and New Home sales trends

In December, Existing Home Sales fell MoM, but New Home rose steadily

Existing Home Sales	Sep.	Oct.	Nov.	Dec.	2023	Long-term average*
SAAR (Thousands)	3950	3790	3820	3780	4087	5289
MoM change	-2.2%	-4.1%	0.8%	-1.0%	N/A	0.0%
Monthly YoY change	-15.6%	-14.6%	-7.3%	-6.2%	-18.6%	-0.1%
Median existing single family home price (Thous)	\$397.4	\$396.0	\$392.2	\$387.0	\$392.9	N/A
YoY change in median price	2.0%	3.0%	3.6%	4.0%	0.7%	4.6%
Existing home inventory (months)	3.4	3.6	3.5	3.2	3.1	5.3
New Home sales	Sep.	Oct.	Nov.	Dec.	2023	Long-term average*
SAAR	698	676	615	664	668	706
MoM change	6.7%	-3.2%	-9.0%	8.0%	N/A	0.2%
Monthly YoY change	23.1%	17.2%	5.7%	4.4%	4.2%	0.8%
Median new single family home price (Thous)	\$426.1	\$414.6	\$426.0	\$413.2	\$427.4	N/A
YoY change in median price	-10.8%	-16.5%	-7.9%	-13.8%	-6.6%	5.7%
New home inventory SA (months)	7.5	7.8	8.8	8.2	7.9	5.9

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

* Jan 1999-December 2023

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25 January 2024

Equity
United States
Homebuilders

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

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

Victoria Piskarev
Research Analyst
BofA
+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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December summary

Total Home sales, the sum of new home and existing home sales, stayed largely flat at 4.4mm in December, rising +0.2% MoM and fell (4.8%) YoY, due to lower sales in existing homes. December total home inventory fell to 1.32mm, decreased (8.7%) MoM and rose +1.7% 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 December

Total Home sales	Sep.	Oct.	Nov.	Dec.	2023	Long-term average*
SAAR (Thousands)	4648	4466	4435	4444	4755	5999.7
MoM change	-1.0%	-3.9%	-0.7%	0.2%	N/A	0.0%
Monthly YoY change	-11.4%	-11.0%	-5.7%	-4.8%	-16.1%	-0.1%
New home inventory as a % of total listings	30.5%	30.3%	31.0%	34.2%	32%	14.3%
Spread between new and existing home prices	7.2%	4.7%	8.6%	6.8%	9%	16.6%
Average mortgage rate	7.2	7.6	7.4	6.8	6.8	5.1

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

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

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New Homes sales: up MoM and YoY

December 2023 new home sales (seasonally adjusted annualized rate) increased to 664k, compared to November sales of 615K, (+8.0% MoM) and 636K in December 2022 (+4.4% YoY). December 2023 new home inventory increased to 453K, an increase of +0.4% YoY on a monthly basis. Months of inventory fell to 8.2 in December compared to 8.8 in October, and fell (6.8%) MoM, and decreased (3.5%) YoY on a monthly basis. Median home prices for new homes fell to \$413,200, (3.0%) MoM and (13.8%) YoY.

Exhibit 3: New Home sales trends

New Home sales rose in December, +8% MoM and +4.4% YoY

New Home sales	Sep.	Oct.	Nov.	Dec.	2023	Long-term average*
SAAR	698	676	615	664	668	706
MoM change	6.7%	-3.2%	-9.0%	8.0%	N/A	0.2%
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YoY change in median price	-10.8%	-16.5%	-7.9%	-13.8%	-6.6%	5.7%
New home inventory seasonally adjusted (SA) (months)	7.5	7.8	8.8	8.2	7.9	5.9

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

*Jan 1999-December 2023

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New home sales benefitting from lack of existing home inventory

Total home inventory fell to 1.32mm as new home inventory slightly increased and existing home inventory fell in December. 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%, up from 31% in November.

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

New home inventory rose to 34% of total inventory in December 2023, up +10% MoM from November



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

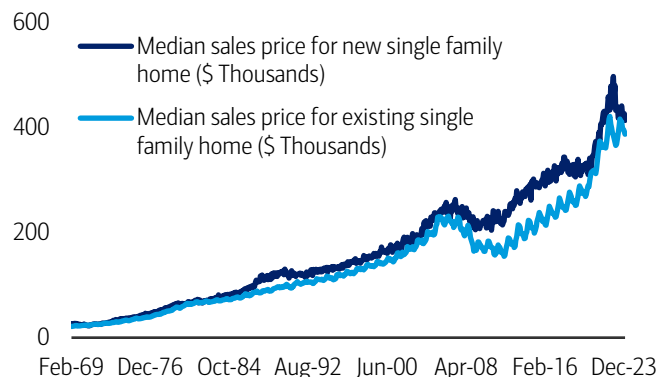
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Spread between new and existing home prices has narrowed

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 since new home median price decreased (3.0%) MoM and existing home median price fell (1.3%) MoM. New home prices are at 6.8% premium in December 2023, down from the 8.6% premium in November.

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

In December, the median sales price of new homes decreased (14%), YoY, while existing family homes increased 4.4% YoY

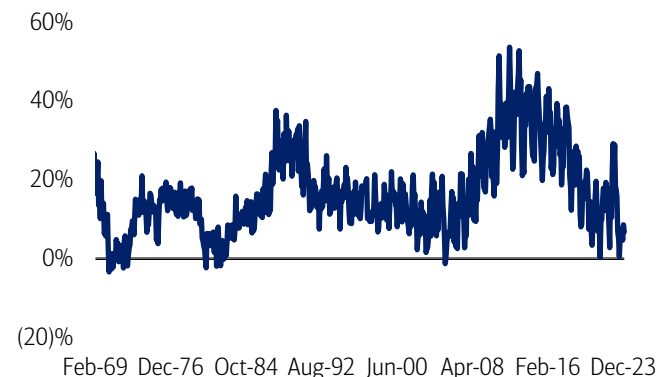


Source: BofA Global Research, Census Bureau, Haver Analytics
Data through November 2023

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Exhibit 6: Price premium of new homes vs existing homes

The new home median price is 6.8% higher than existing homes price in December



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

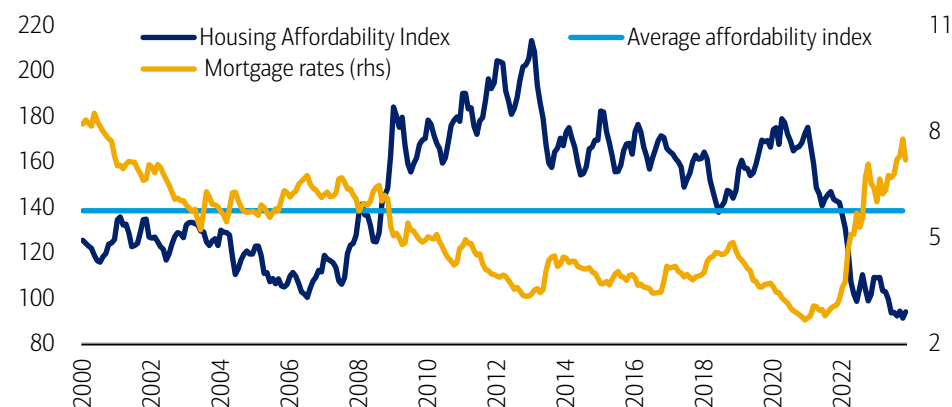
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Housing Affordability down YoY, but up MoM in November

The Housing Affordability Index was reported by National Association of Realtors (NAR) at 94.2 in November, tracking at 32% below the historical average 138.6. In November, mortgage rates fell to 7.22% from its peak of 7.79% in October, causing the affordability index to rise. The National Association of Realtors (NAR) affordability index was down (7.5%) YoY in November but rose 3.1% MoM.

Exhibit 8: Housing Affordability Index vs mortgage rates

Affordability still down (7.5%) YoY, but up 3.1% MoM in November when mortgage rates started to fall



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 November 2023

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Existing home sales: down MoM in December

December 2023 existing home sales (seasonally adjusted annualized rate) fell to 3.78mm, compared to November sales of 3.82mm (-1.0% MoM) and 4.03mm in November 2022 (-6.2% YoY). December 2023 existing home inventory decreased to 1.00mm (-11.5% MoM) but rose +4.2% YoY on a monthly basis. Months of inventory decreased to 3.2 in December but rose +10.3% YoY on a monthly basis. Median home prices for existing single-family homes fell to \$382600, a (1.3%) decrease MoM, but a 4.0% increase YoY.

Exhibit 10: Existing Home Sales Trends

Existing Home Sales fell (1.0%) MoM and (6.2%) YoY in December

Existing Home Sales	Sep.	Oct.	Nov.	Dec.	2023	Long-term average*
SAAR (Thousands)	3950	3790	3820	3780	4090	5289
MoM change	-2.2%	-4.1%	0.8%	-1.0%	N/A	0.0%
Monthly YoY change	-15.6%	-14.6%	-7.3%	-6.2%	-18.6%	-0.1%
Median existing home price for single family homes (Thousands)	\$392.8	\$391.6	\$387.7	\$382.6	\$388.1	N/A
YoY change	2.0%	3.0%	3.6%	4.0%	1.1%	4.6%
Existing home inventory (months)	3.4	3.6	3.5	3.2	3.1	5.3

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

*Jan 1999-December 2023

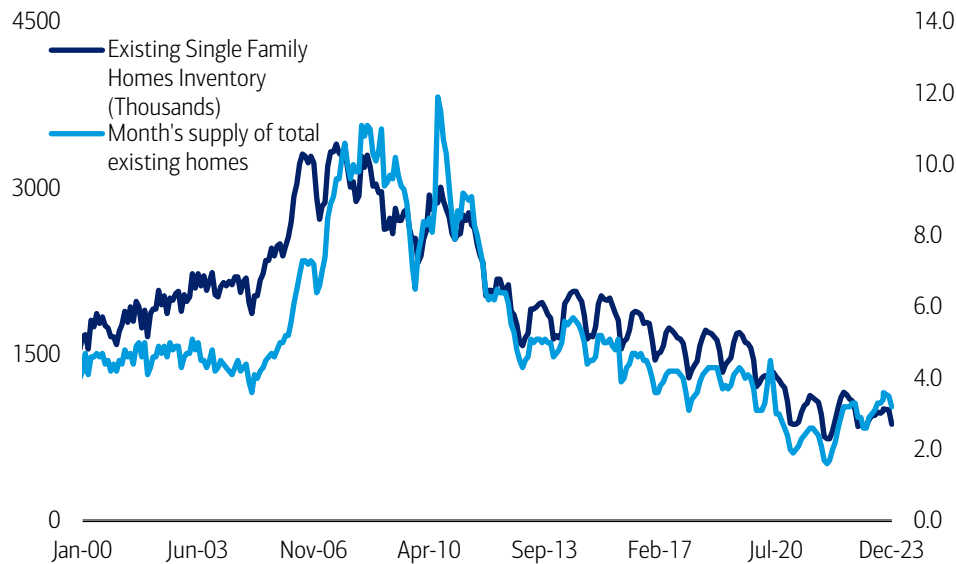
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Hold your houses: lack of inventory stifling home turnover

Existing home sales are tracking at the lowest level since 2010 and our EHS indicator suggests turnover will likely 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 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. December single family existing home inventory is at 870k vs. 1.97mm historical average since 1982. Months of supply for total existing homes is at 3.2 months, vs. a 5.3 month historical average since 1999.

Exhibit 10: Existing home inventory

Existing home inventory fell (12%) MoM in December



Source: BofA Global Research, National Association of Realtors

Data through December 2023

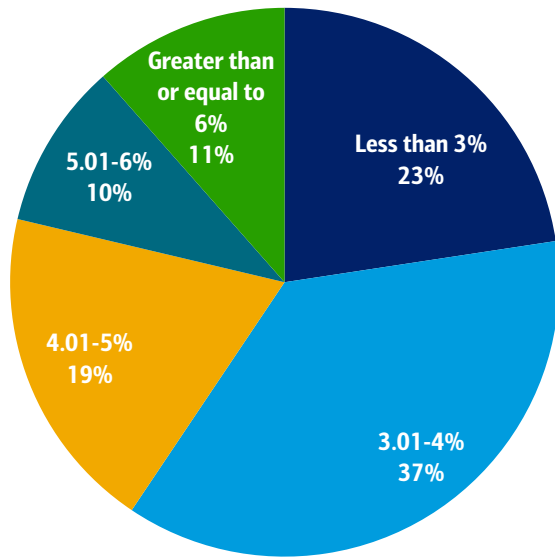
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Homeowners are still locked in at low rates

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 6.6%. 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 3Q 2023

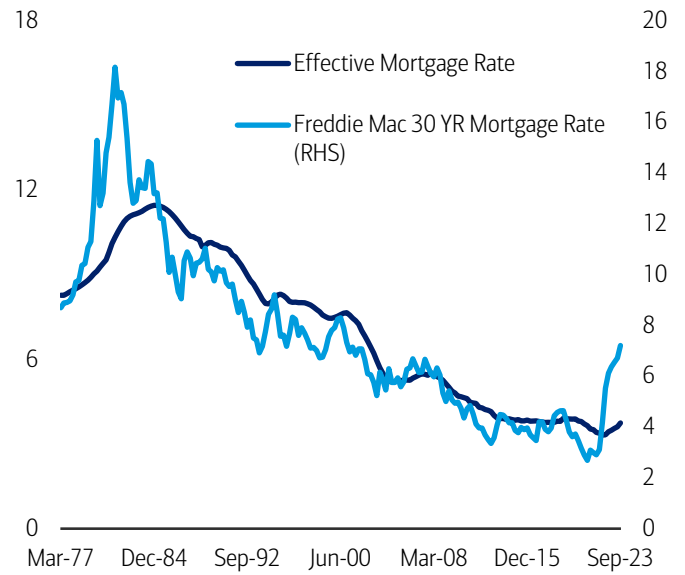


Source: BofA Global Research, NMDb

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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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