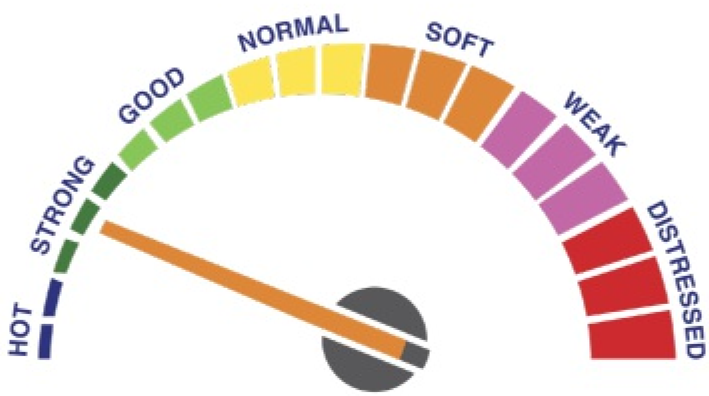
Housing Inventory: "Severe, Accelerating, Chronic Shortages in Every Market, in Every Price Range"

In stark contrast to the recent New Home Sales data, a new white paper from Black Knight suggests that, by the time we include existing homes, there are actually "severe, accelerating, chronic shortages in every market," and "in every price range."

Collateral Analytics (a division of Black Knight) compiles various monthly statistics focused on price, availability, time on market, etc. to arrive at what it refers to as a "market condition rating" (MCR) for the top 100 metro areas in the U.S. The MCR ranges as follows: "hot, strong, good, normal, soft, weak, distressed" with a majority of the nation tending to fall in the middle 3 categories at any given time.



Today's analysis points out that we typically see less than 10% of the market fall into one of the extreme categories, even at the top/bottom of major housing cycles, but that current conditions may force a revision in the MCR methodology. Reason being, 16% of metro areas are in "hot" territory right now and a whopping 80% are very close. Moreover, zero out of the 100 metro areas ranked as anything less than "good" on the MCR scale.

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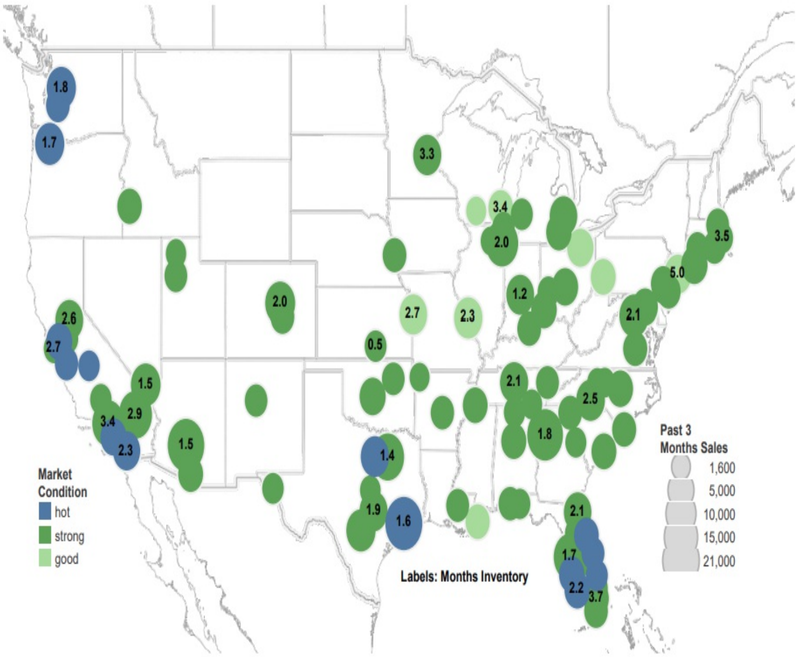
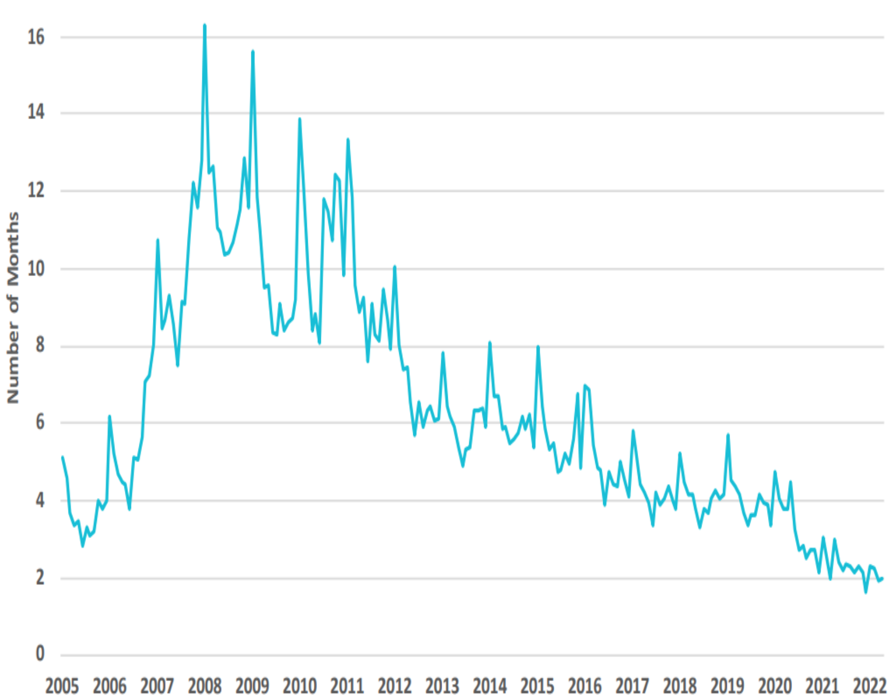
Exhibit 1: Market Conditions in the Top 100 CBSAs



Source: Black Knight CA Monthly Market Condition Ratings

While all of the data points used to calculate MCR are connected, the paper points out that one stands out from the rest in the current cycle: Months of Remaining Inventory. The following charts shows this statistic on the national level, where it looks substantially similar to the same metric from NAR's Existing Home Sales data.

U.S. Existing Single Family Months of Inventory Remaining



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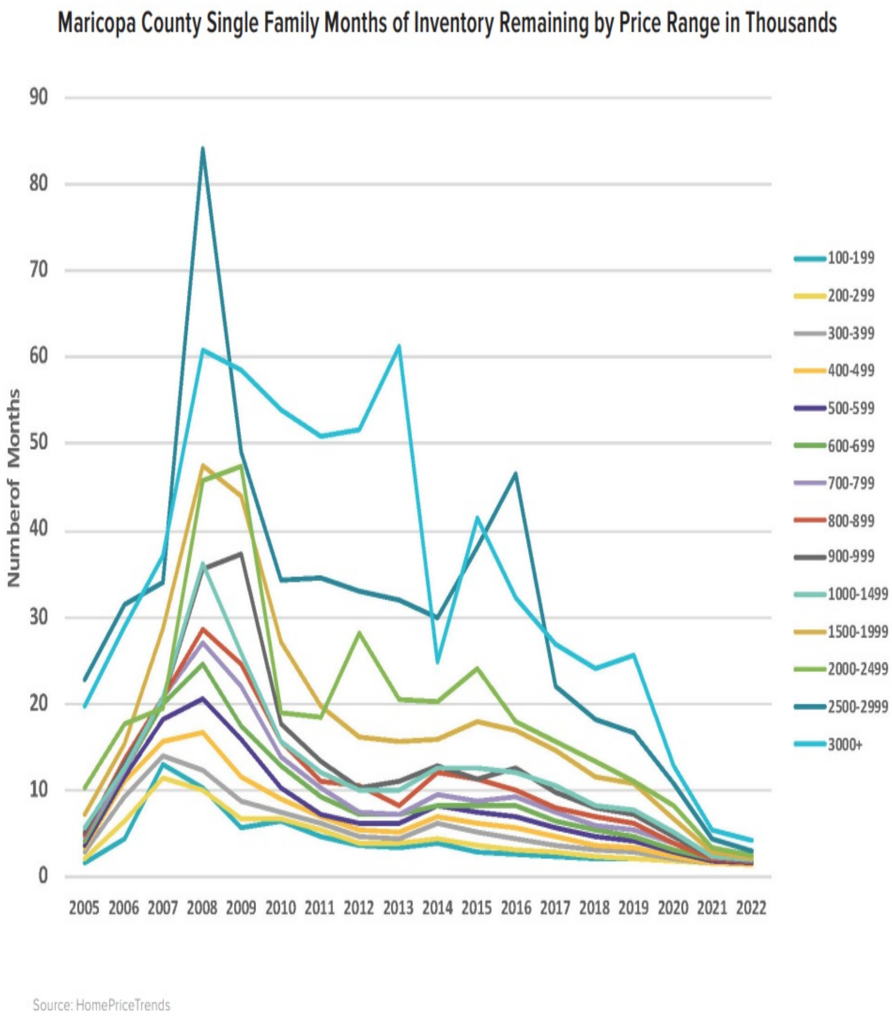
The paper singled out several metro areas for further examination based on price ranges. The findings were similar for all of them: whereas there has been a good amount of variation between higher and lower priced homes in the past, the distribution has drastically compressed over the past few years. This began before the pandemic, but became an even bigger issue afterward.



The authors cite 7 key reasons for the trend:

1. Increased informational efficiency - It's easier than ever to shop for and find homes.

2. Accommodating fiscal policy- Rates spent longer than ever at lower-than-ever levels. Owners who refi'd at these rates have little incentive to give up their mortgages.

3. Remote Work - Everyone moved to the suburbs!

4. Institutional Investors - Housing has been a fashionable investment on Wall St and these institutional investors account for a significant amount of demand--especially in the lower price tiers.

5. Restrictive Zoning - Certain metros have rules that prevent higher density housing, thus increasing demand for single-family homes.

6. Supply Chain - Land, labor, and material shortages only hurt housing availability further.

7. Rooted Sellers - See number 2 above, but also consider that a starved inventory situation only creates an additional reason for sellers to stay put.

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