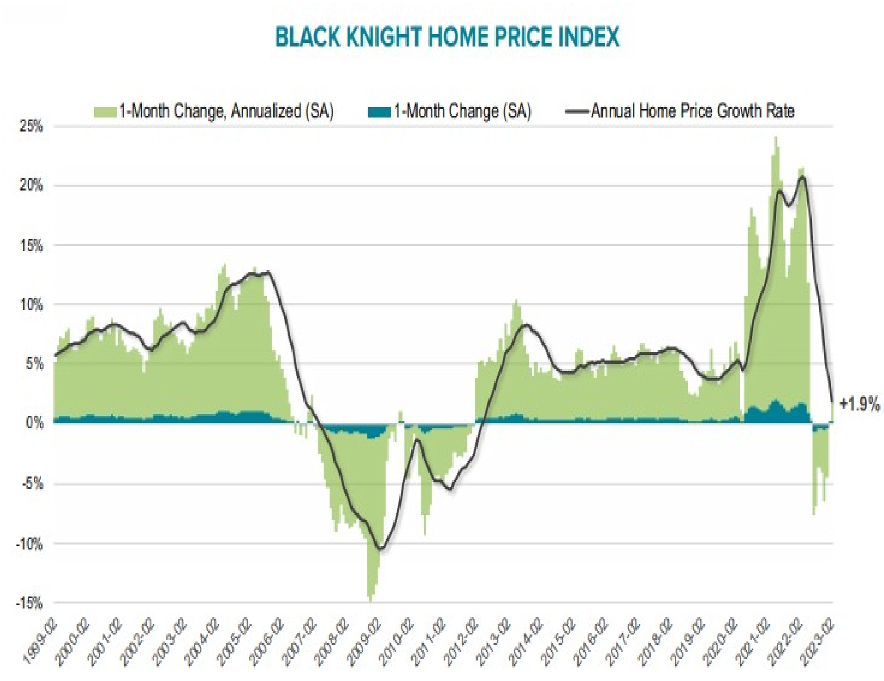
Home Prices End 7-Month Slide

It wasn't yet the season, but February's home price environment seems to have gotten a jump on the vaunted spring housing market. Black Knight's *Mortgage Market* reports that home prices rose 0.16 percent on a seasonally adjusted basis during the month, **the first increase in seven months**. This brought home prices within 2.6 percent of their June 2022 peak.

On an annual basis, prices are up 1.94 percent compared to February 2022, the smallest annual growth rate since early 2012. Black Knight expects that growth rate to fall to zero by the April *Monitor* report, **but also suggests it could be a temporary low if inventory remains depressed** and interest rates ease. They caution that the first condition is likely, the second is not.



Source: Black Knight Home Price Index (HPI)

The turnaround was broad-based. Thirty-nine of the 50 largest U.S. markets saw prices increase in February – in sharp contrast to just three months earlier when 48 of those 50 were experiencing price declines.

Black Knight Vice President of Enterprise Research Andy Walden noted that purchases increased in early February when rates declined, and borrowers were quick to take advantage of limited inventory.

Those inventory issues appear likely to continue. Wallace said, "The unfortunate reality is that the scarce supply of inventory that's the source of so much market gridlock isn't getting any better. In fact, seasonally adjusted inventory levels continued to deteriorate in February, marking not only the fifth straight month of such declines but also the largest inventory deficit we've seen since May of last year, with more than 90 percent of markets seeing such deficits grow in February.

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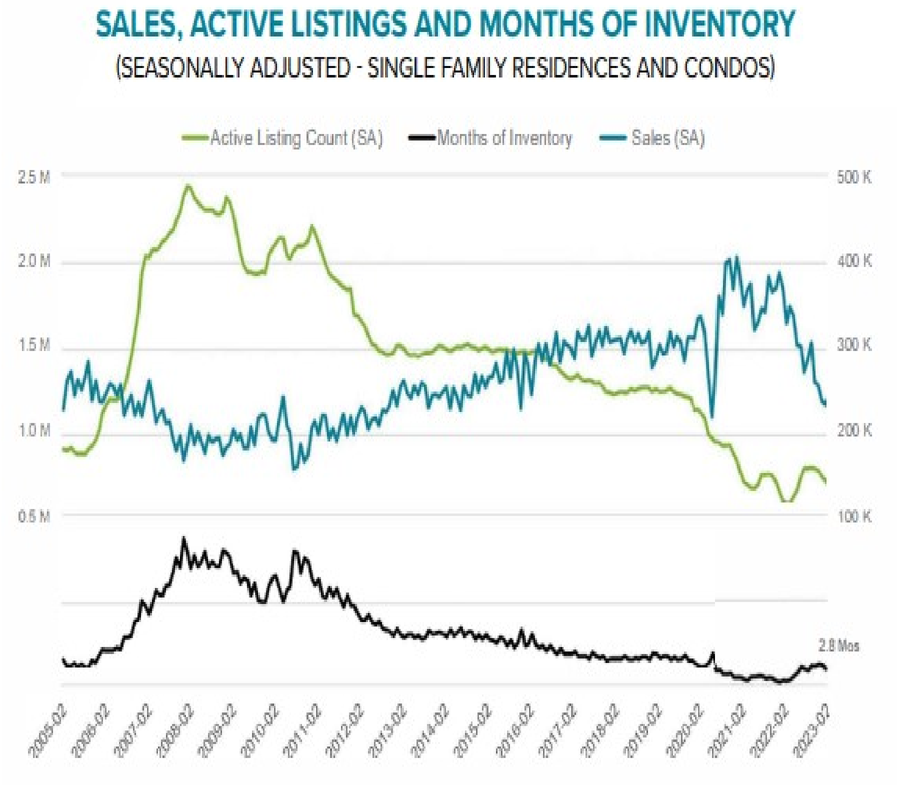
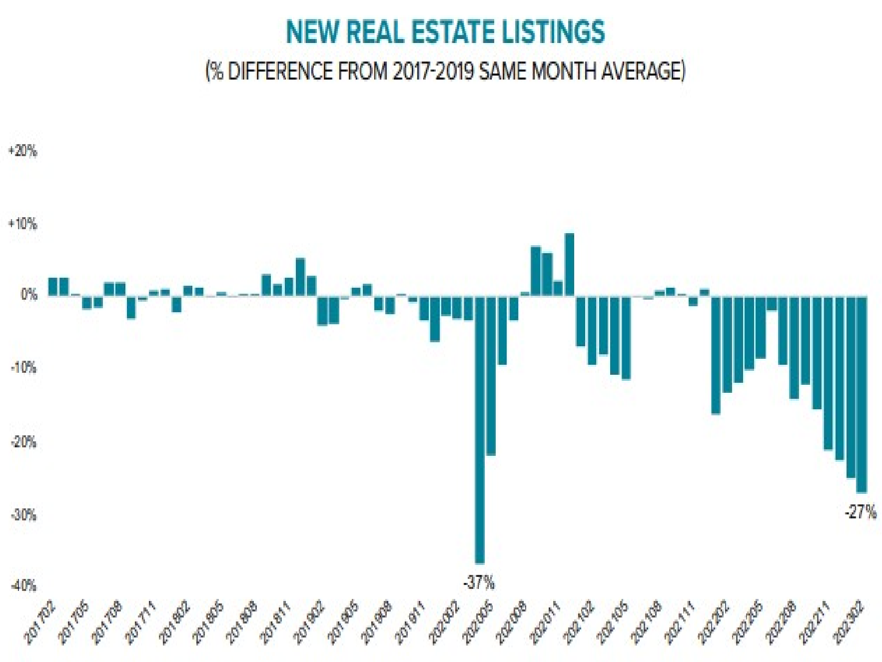


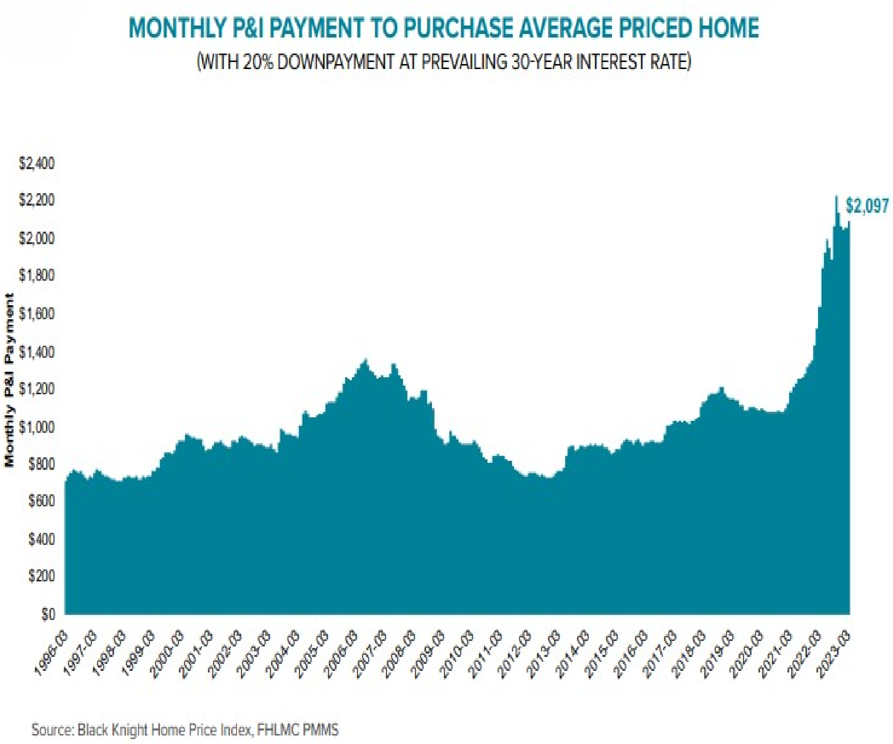
Source: Black Knight, Collateral Analytics

Sellers are staying on the sidelines (and, apparently actively pulling existing listings from the market), so far, too. He noted that new listings were 27 percent below pre-pandemic levels in February and overall for-sale inventory, which had recovered to within 38 percent of those levels late last year **has dropped back to a 47 percent deficit.** Wallace said, "Without a significant shift in interest rates, home prices, or household income, this is a self-fulfilling dynamic that is quite likely to continue for some time."



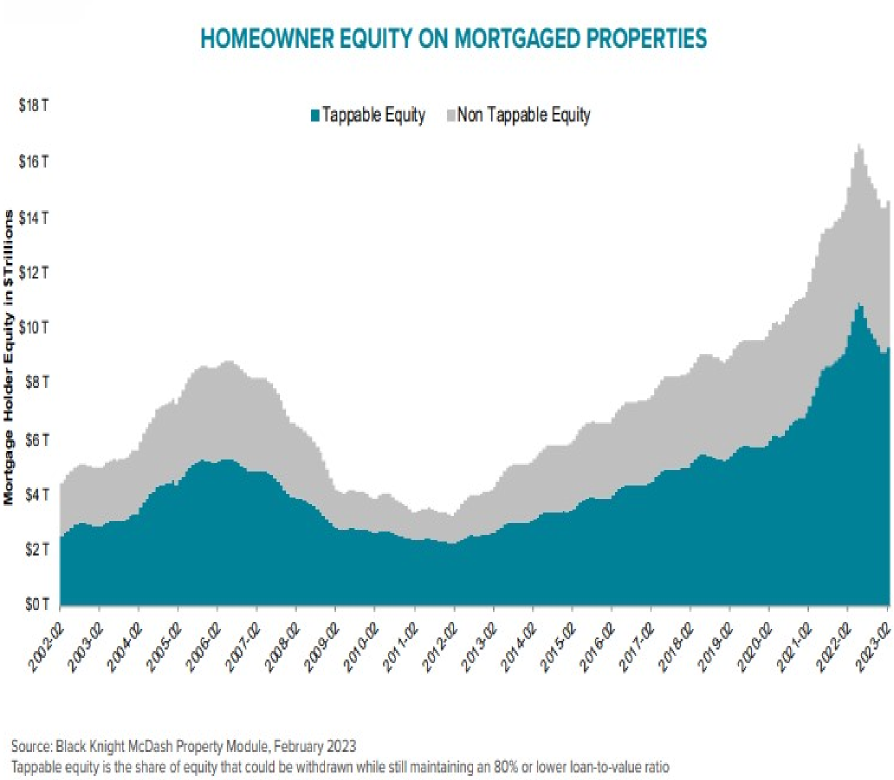
Source: Black Knight, Realtor.com

The rising prices threaten to worsen affordability. The monthly principal and interest payment on a median-priced home has improved in recent months but is still up $813 over the past year and a half. Home affordability remains below long-run averages in 49 of the 50 states.

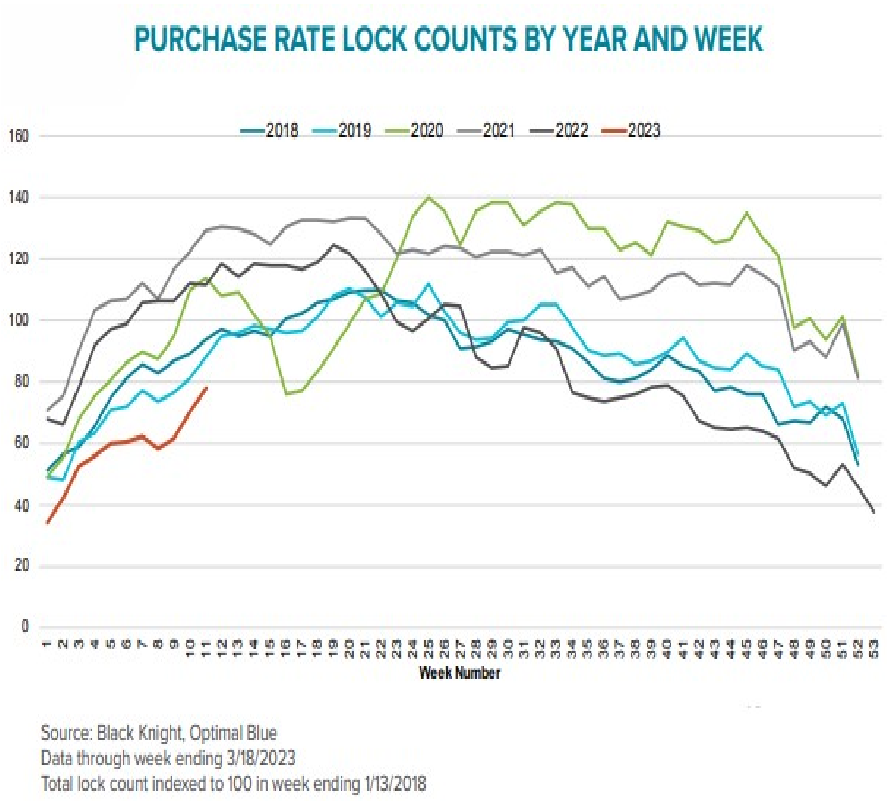


Other Highlights from the February Mortgage Monitor:

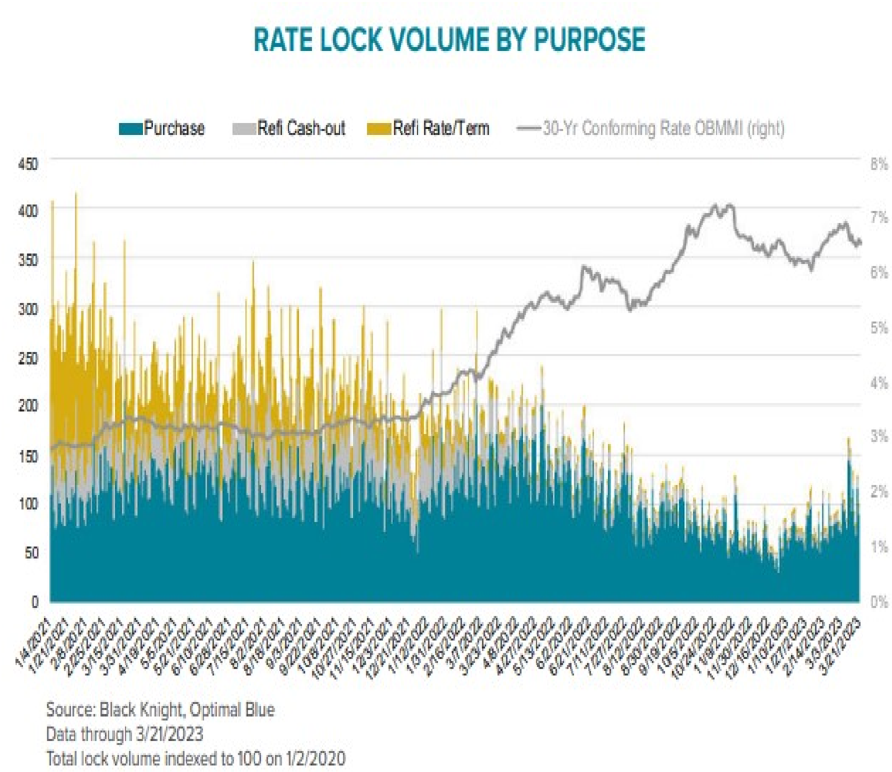
February's price strengthening also helped shore up homeowner tappable equity levels, which totals $1.6 trillion, 15 percent off their peak. Though down from $210,000 early last year, **the average mortgage holder still has $178,000 in tappable equity** to borrow against while retaining a healthy 20 percent equity stake in the home.



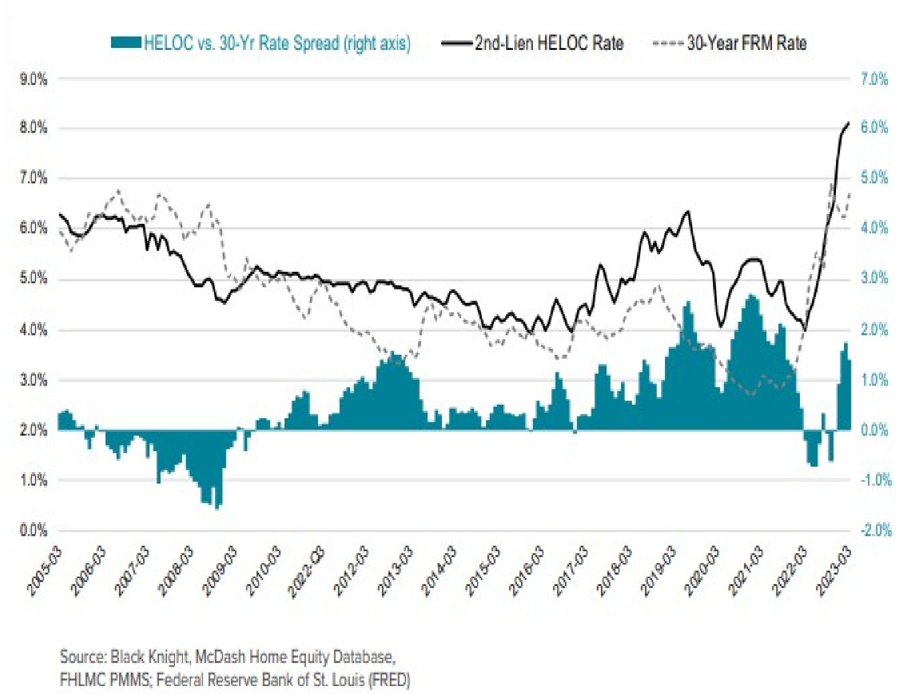
Purchase rate locks rebounded in mid-March as bank safety concerns pushed down on interest rates. Those locks were only 11 percent and 17 percent lower than in the same weeks in 2019 and 2018, respectively.



Refinance volumes remain very low, representing only 12.5 percent of rate locks. Cash-outs made up 7.1 percent and rate/term refis accounted for 5.4 percent.



The introductory rate on home equity lines of credit (HELOCs) has reached its highest level in more than 20 years. Continued upward pressure on short-term rates has increased the cost of equity utilization which could further constrain withdrawal rates. While the Fed has signaled high rates throughout 2023, the implied rate path of the bond market suggests short-term rates may ease later this year, which could reverse this effect.



Serious delinquencies (loans over 90 days past due) continued to fall nationally, down by 17,000 in February, but the national rate rose 7 basis points to 3.45 percent. The Increase was due to an influx of borrowers falling into the 30-day category. Those new delinquencies increased 71 percent.