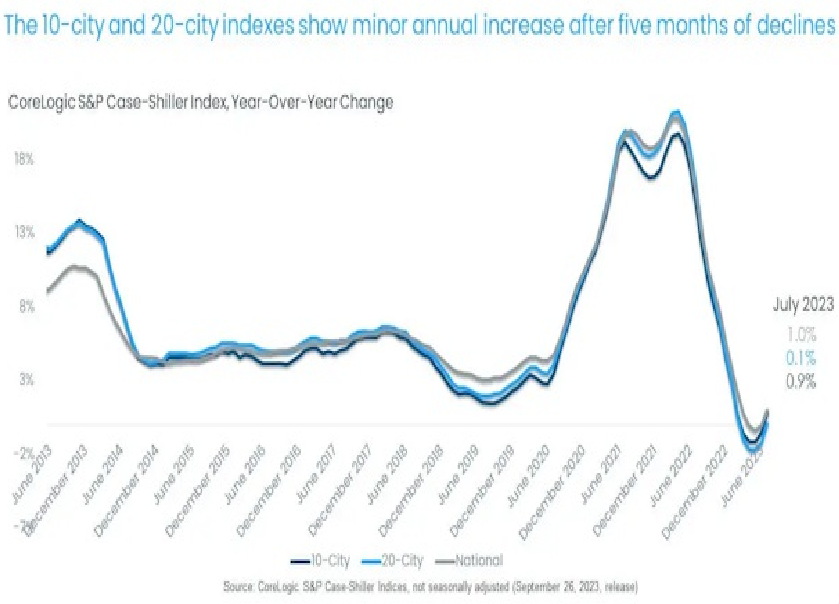
Home Price Appreciation Continues Defying The Odds

Home prices have resumed their upward climb despite mortgage rates that have doubled post-COVID. According to Craig J. Lazzara, Managing Director at S&P CoreLogic Case-Shiller Indices, the National Index for July hit an all-time high.

That index, which covers all nine U.S. census divisions, rose 1.0 percent from the previous July, after posting zero change on an annual basis in June. The 10-City Composite showed an increase of 0.9 percent after a 0.5 percent loss the previous month and the 20-City Composite was up 0.1 percent, improving from an annual loss of 1.2 percent.



Chicago, Cleveland, and New York led the way for the third consecutive month reporting the highest year-over-year gains among the 20 cities in July. Chicago remained in the top spot with a 4.4 percent increase, with Cleveland (which has long vied with Detroit for the low spot in Case-Shiller's numbers) was second, with a 4.0 percent annual gain. New York held down the third spot with a 3.8 percent increase. Eight of 20 cities reported lower prices and 12 of 20 reported higher prices in the year ending July 2023 compared to prior annual numbers. Eighteen of the 20 cities accelerated at a higher rate than in June.

Lazzara said, "We have previously noted that home prices peaked in June 2022 and fell through January 2023, declining by 5.0 percent in those seven months. The increase in prices that began in January has now erased the earlier decline, so that July represents a new all-time high for the National Composite. Moreover, this recovery in home prices is broadly based. As was the case last month, 10 of the 20 cities in our sample have reached all-time high levels. In July, prices rose in all 20 cities after seasonal adjustment and in 19 of them before adjustment.

"That said, regional differences continue to be striking. On a year-over-year basis, the Revenge of the Rust Belt continues. The three best-performing metropolitan areas in July were Chicago, Cleveland, and New York, repeating the ranking we saw in May and June. The bottom of the leaderboard reshuffled somewhat, with Las Vegas (-7.2 percent) and Phoenix (-6.6 percent) this month's worst performers. The Midwest (+3.2 percent) continues as the nation's strongest region, followed by the Northeast (+2.3 percent). The West (-3.8 percent) and Southwest (-3.6 percent) remain the weakest regions."

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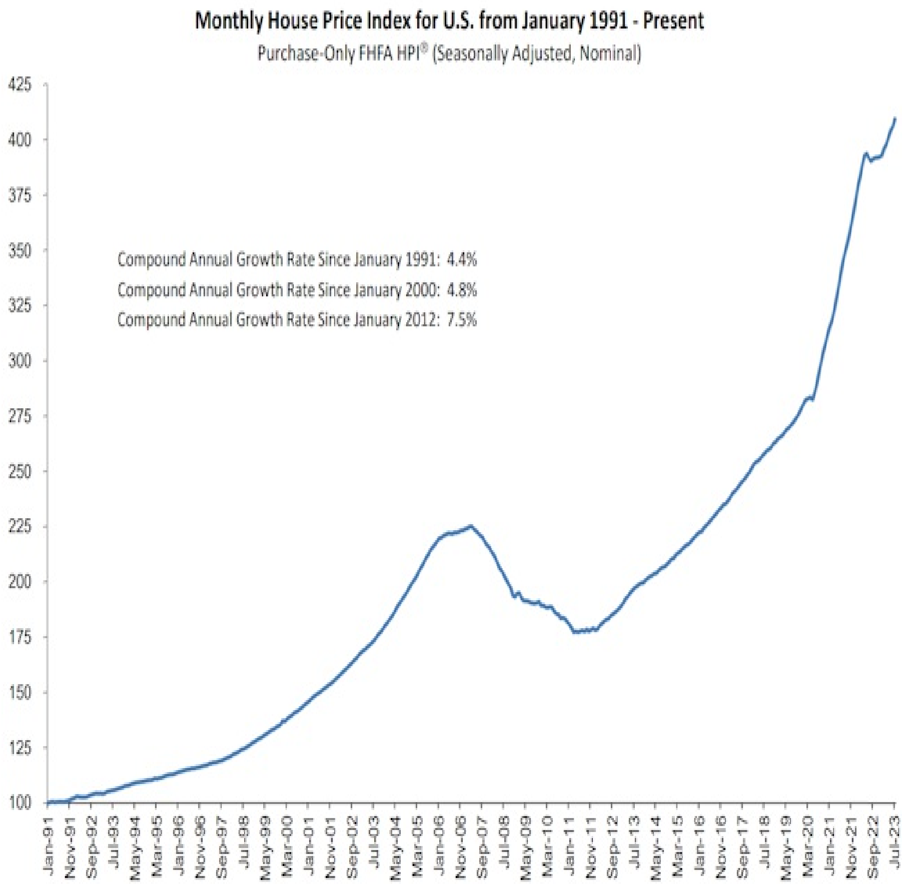
Lazzara noted that the year-to-date increase in the National Composite (5.3 percent) is well above the median full calendar year increase in more than 35 years of data. "Although the market's gains could be truncated by increases in mortgage rates or by general economic weakness, the breadth and strength of this month's report are consistent with an optimistic view of future results."

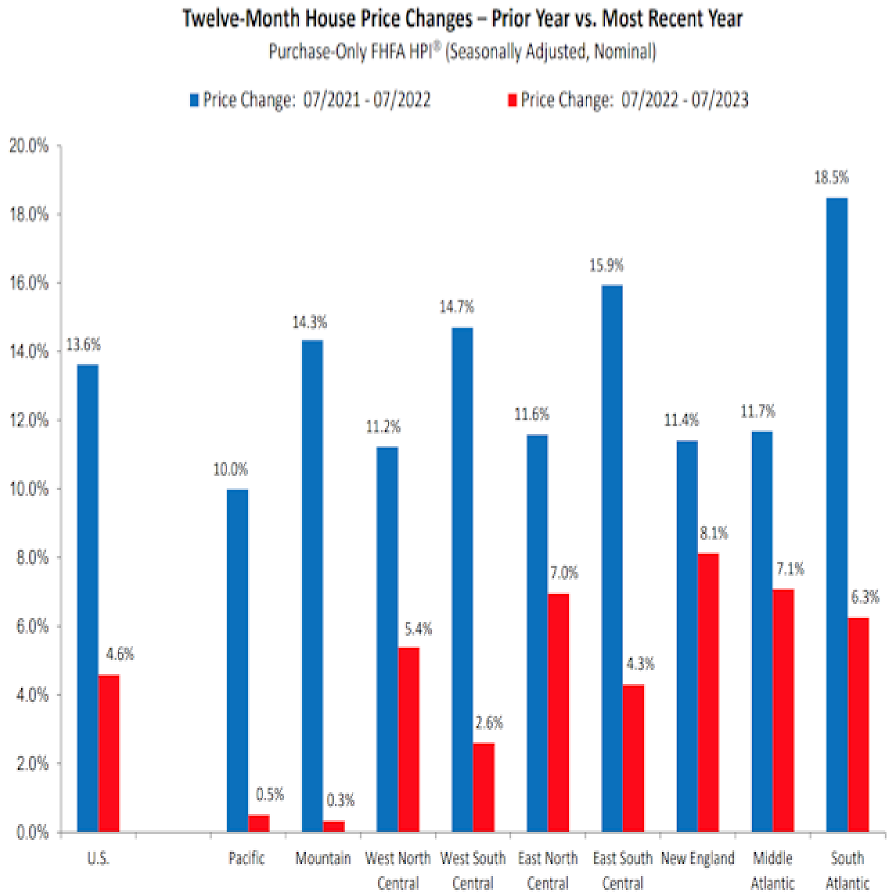
Before seasonal adjustment, all three of the Case-Shiller indices posted a 0.6 percent month-over-month increase in July. After adjustment, the National Index was also up 0.6 percent, while the 10-City and 20-City composites rose 0.8 percent and 0.9 percent, respectively.

Dr. Selma Hepp, CoreLogic's Chief Economists commented, "After a strong, 5 percent cumulative U.S. home price gain since the early spring, monthly increases are plateauing to a seasonal average, which reflects the pressure that higher mortgage rates have put on affordability. As a result of the early 2023 growth, annual price appreciation should accelerate in the coming months before slowing again. Areas in the Midwest continue to lead the national gains given their relative affordability. Markets that saw home prices reset following the recent surge in mortgage rates are expected to see stronger gains over the next 12 months, particularly those in the West."

The Federal Housing Finance Agency's (FHFA) Housing Price Index posted much larger gains than the Case Shiller numbers. The monthly increase, seasonally adjusted, was 0.8 percent and the 0.3 increase estimated for June was revised upward to 0.4 percent. From July 2022 to July 2023 prices rose 4.6 percent.



On the census division level, monthly changes ranged from 0.1 percent in the East South Central division to 1.4 percent in the Middle Atlantic and South Atlantic divisions. The 12-month changes were lowest in the Mountain division at 0.3 percent and highest in New England at 8.1 percent.



Case-Shiller Indices track the matched price pairs for thousands of individual houses. Each was benchmarked in January 2000 at 100. The current value of the National Index is 310.16 and the 10- and 20-City Composites are at 330.50 and 316.68, respectively. National home prices are now 68 percent higher than their 2006 peak and are more than 130 percent above the trough of 2012.

FHFA's HPI is based on home sales financed by either Fannie Mae or Freddie Mac. It was benchmarked at 100 in January 1991 and currently stands at 409.5.