



4/22/2022

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

The red-hot U.S. housing market is beginning to simmer as we move through the spring buying season, traditionally the busiest period for home sales. Rising mortgage rates on top of soaring home prices are starting to reign in the market following a string of record-setting months.

For years ultra-low mortgage rates have led to more sales, higher prices, and ultimately fueled the U.S. housing market. This was especially true coming out of the COVID-19 pandemic where we saw the average 30-year fixed-rate mortgage drop to 2.65%¹ in January of 2021, the lowest figure ever recorded. Couple this with the work-from-home trend fueling demand, and a significant lack of supply of existing homes for sale, and the result is a median sales price of over \$408,100 at the end of 2021, up over 30% from just five years prior². Things are beginning to change, however. Mortgage rates began a gradual ascent in December of last year before catapulting over the past two months. The average 30-year fixed-rate mortgage reached 5% last week for the first time in over 10 years, a 64% increase over where the rate was one year ago. This has predictably contributed to a slowdown in sales, February existing home sales fell by 7.8% before slipping another 2.7% in March³.

This now raises the question of whether we will see a significant decline in home prices. I am even starting to see headlines taunting words like ‘crash,’ ‘bubble,’ and ‘collapse,’ hinting that we are heading towards another 2008 scenario with respect to the housing market. I believe fears to this extent are quite overblown at this point, and for multiple reasons. Namely, the significant supply-demand imbalance in the housing market is likely to persist. Even with new housing construction continuing to climb, there is still an estimated shortage of 3.8M homes in the U.S.⁴ When you consider the tight labor market facing the home building industry, longer lead times for materials, and overall higher input costs, this gap is not likely to close any time soon. This should provide a cushion for the market even as sales begin to slow. Additionally, Millennials are now the largest generation living in the U.S. with the

¹ FRED Economic Data

² FRED Economic Data

³ National Association of Realtors

⁴ Freddie Mac

majority of them now entering the housing market for the first time. This should provide a strong demographic tailwind for years to come.

Thanks for reading, and as always, if you have any questions, or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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