



June 8, 2021

FUSCO FINANCIAL ASSOCIATES

Market Commentary

Dear Valued Clients,

The U.S. real estate market is flying high again, sparking some to wonder if we are approaching a housing bubble after the collapse of the housing market during the 2007 – 2009 financial crisis. The combination of near historical low mortgage rates, the work-from-home trend during the pandemic fueling an increase in demand, and a lack of supply in the existing home market, home prices have surged. The median existing home price hit a new record high in April, over \$341,000, which is a 19% increase from 12 months ago¹.

The average rate for a 30 year fixed rate mortgage has dipped below 3% (2.95% as of 5/27/2021)². The low mortgage rates are fueling demand across the country. Meanwhile, builders are producing new homes well below demand levels, as prices for land, labor and materials, particularly lumber, rise.

Existing home sales dropped 2.7% in April, the third consecutive monthly decrease. Housing inventories relative to sales have collapsed to historical lows. Demand continues to be robust as the pandemic driven work from home trend has encouraged a relocation from urban apartments to suburban homes. Properties typically were on the market for only 17 days prior to sale in April and nearly 90% of the homes sold in April were on the market for less than a month³.

While housing prices continue to increase, their impact is likely understated in the reported inflation measures. The Consumer Price Index (CPI) utilizes Owner's Equivalent Rent, not home sales, as part of its inflation calculations. The CPI views housing units as capital goods, not consumption items for day-to day living. Owner's Equivalent Rent is based on the expected monthly rent, unfurnished and without utilities, if a home owner were to rent their home. The shelter component accounts for approximately 25% of CPI⁴. Since this piece of CPI is based on survey

data, the price increases are slower to adjust to their price expectations than the housing market is to react to supply and demand conditions.

Please continue to stay safe, 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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¹Marketwatch

²St. Louis Federal Reserve Bank

³National Association of Realtors

⁴Bureau of Labor Statistics

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