

August 16, 2022

Presented by Domonic D. Purviance, FRB Atlanta

# **Residential Real Estate Market Update:**

**Firm Foundations or Shifting Sands?**



Federal Reserve  
Bank *of* Atlanta

## Key Question for Housing

- Will home prices decline sharply?
- Will foreclosures increase?



Federal Reserve  
Bank *of* Atlanta



# Overview

## Agenda

- ❑ ECONOMIC OVERVIEW

*Inflation, GDP, Employment*

- ❑ HOUSING COSTS

*Interest Rates, Home Prices, Affordability*

- ❑ HOUSING DEMAND

*Consumer Sentiment, Sales, Inventory*

- ❑ CREDIT QUALITY AND POTENTIAL RISKS

*DTI, FICO, LTV, Delinquencies*

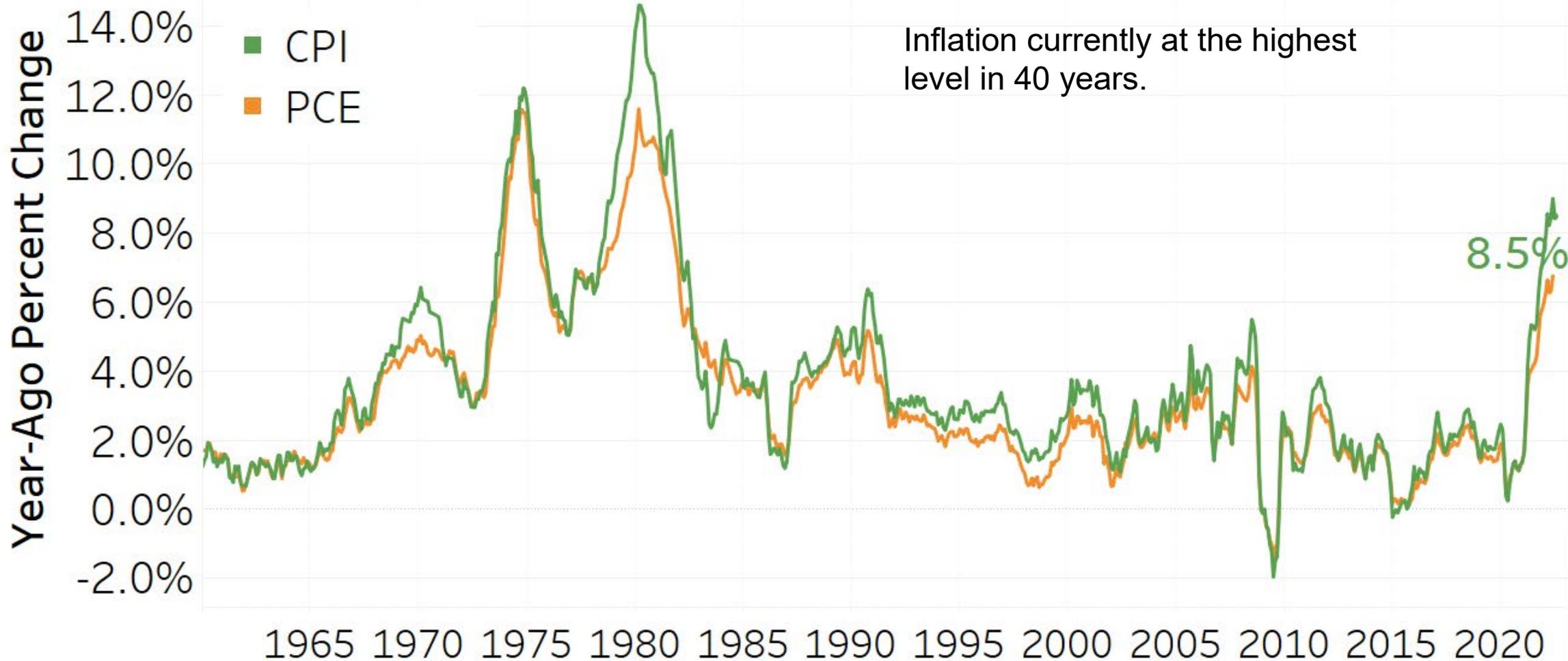
# Economic Overview



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# U.S. Inflation (CPI vs. PCE)

Source: Bureau of Economic Analysis; Bureau of Labor Statistics; SRC - Risk Analysis Unit



# U.S. CPI Inflation Breakout (YoY%)..



	All Items	Commodities	Core Inflation	Education & Communication	Energy	Food	Housing	Medical Care	Recreation	Transportation
July 2022	8.5%	12.0%	5.9%	0.5%	32.9%	10.9%	7.4%	4.8%	4.4%	16.4%
June 2022	9.0%	13.4%	5.9%	0.8%	41.5%	10.4%	7.3%	4.5%	4.6%	19.6%
May 2022	8.5%	13.0%	6.0%	0.8%	34.4%	10.1%	6.9%	3.7%	4.5%	19.3%
April 2022	8.2%	12.9%	6.1%	1.0%	30.2%	9.4%	6.5%	3.2%	4.3%	19.8%
March 2022	8.6%	14.2%	6.4%	1.6%	32.2%	8.8%	6.4%	2.9%	4.8%	22.5%
February 2022	7.9%	13.1%	6.4%	1.6%	25.7%	7.9%	5.9%	2.4%	4.9%	21.1%
January 2022	7.5%	12.4%	6.0%	1.7%	27.0%	7.0%	5.7%	2.5%	4.8%	20.9%
December 2021	7.1%	12.2%	5.5%	1.6%	29.4%	6.3%	5.1%	2.2%	3.3%	21.3%
November 2021	6.8%	12.0%	5.0%	1.7%	33.1%	6.1%	4.8%	1.7%	3.2%	21.1%
October 2021	6.2%	10.5%	4.6%	1.8%	29.8%	5.3%	4.5%	1.3%	3.8%	18.7%
September 2021	5.4%	9.0%	4.0%	1.7%	24.9%	4.6%	3.9%	0.4%	3.5%	16.5%
August 2021	5.2%	8.9%	4.0%	1.2%	25.1%	3.7%	3.5%	0.4%	3.4%	17.6%
July 2021	5.3%	9.1%	4.2%	1.1%	23.8%	3.4%	3.3%	0.3%	3.5%	19.1%
June 2021	5.3%	8.9%	4.4%	2.1%	24.5%	2.4%	3.1%	0.4%	2.4%	21.4%
May 2021	4.9%	8.1%	3.8%	1.9%	28.0%	2.1%	2.9%	0.9%	1.6%	19.8%
April 2021	4.2%	6.7%	3.0%	1.7%	24.9%	2.4%	2.6%	1.5%	2.2%	14.9%
March 2021	2.7%	4.1%	1.7%	1.5%	13.3%	3.5%	2.1%	1.8%	1.1%	6.0%
February 2021	1.7%	2.2%	1.3%	1.7%	2.3%	3.6%	1.8%	2.0%	0.8%	0.6%
January 2021	1.4%	1.4%	1.4%	1.7%	-3.9%	3.8%	1.8%	2.0%	0.1%	-1.4%
December 2020	1.3%	0.7%	1.6%	2.0%	-7.3%	3.9%	2.0%	1.8%	0.9%	-2.6%
November 2020	1.1%	0.2%	1.6%	1.9%	-9.7%	3.7%	2.0%	2.4%	1.3%	-3.4%
October 2020	1.2%	0.3%	1.6%	2.1%	-9.3%	3.9%	1.9%	2.9%	1.3%	-3.5%
September 2020	1.4%	0.6%	1.7%	2.2%	-7.6%	4.0%	2.0%	4.2%	1.5%	-3.1%
August 2020	1.3%	0.1%	1.7%	2.3%	-8.9%	4.1%	2.1%	4.4%	1.3%	-4.1%
July 2020	1.0%	-0.8%	1.5%	2.3%	-10.8%	4.1%	2.0%	5.0%	1.0%	-5.8%
June 2020	0.7%	-1.2%	1.2%	1.4%	-12.2%	4.5%	2.0%	5.1%	1.6%	-7.9%
May 2020	0.2%	-2.5%	1.3%	1.5%	-18.3%	4.0%	2.2%	4.9%	2.1%	-10.7%
April 2020	0.4%	-2.5%	1.5%	1.6%	-17.5%	3.5%	2.2%	4.8%	1.0%	-9.4%
March 2020	1.5%	-0.4%	2.1%	1.5%	-5.8%	1.9%	2.4%	4.7%	1.3%	-2.4%
February 2020	2.3%	1.2%	2.4%	1.5%	2.6%	1.8%	2.7%	4.6%	1.5%	1.7%
January 2020	2.5%	1.7%	2.3%	1.5%	6.0%	1.8%	2.8%	4.5%	1.4%	2.7%

# Crude Oil Prices

Source: Marketwatch.com

## Crude Oil WTI (NYM \$/bbl)



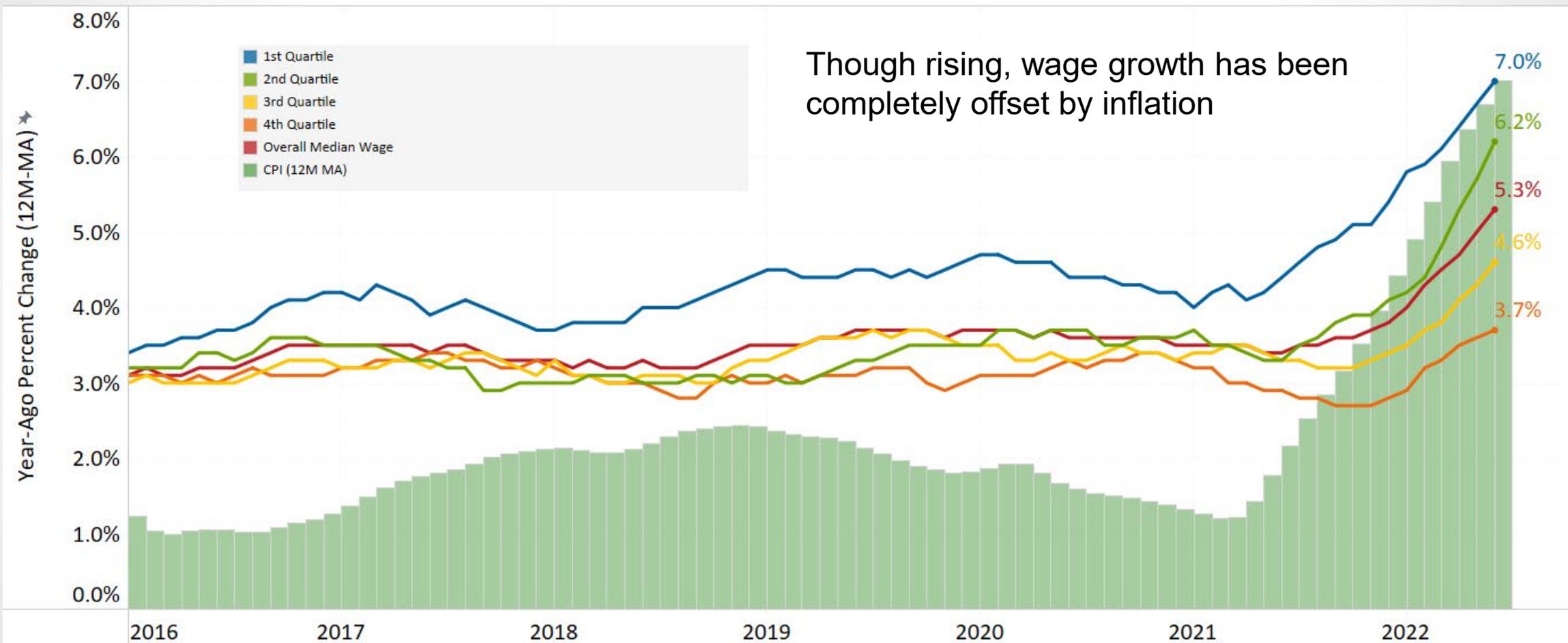
# Lumber Prices – USD per 1,000 board feet

Source: Stockmarket.com



# U.S. Hourly Wage Inflation

Source: Federal Reserve Bank of Atlanta; Bureau of Labor Statistics; SRC - Risk Analysis Unit

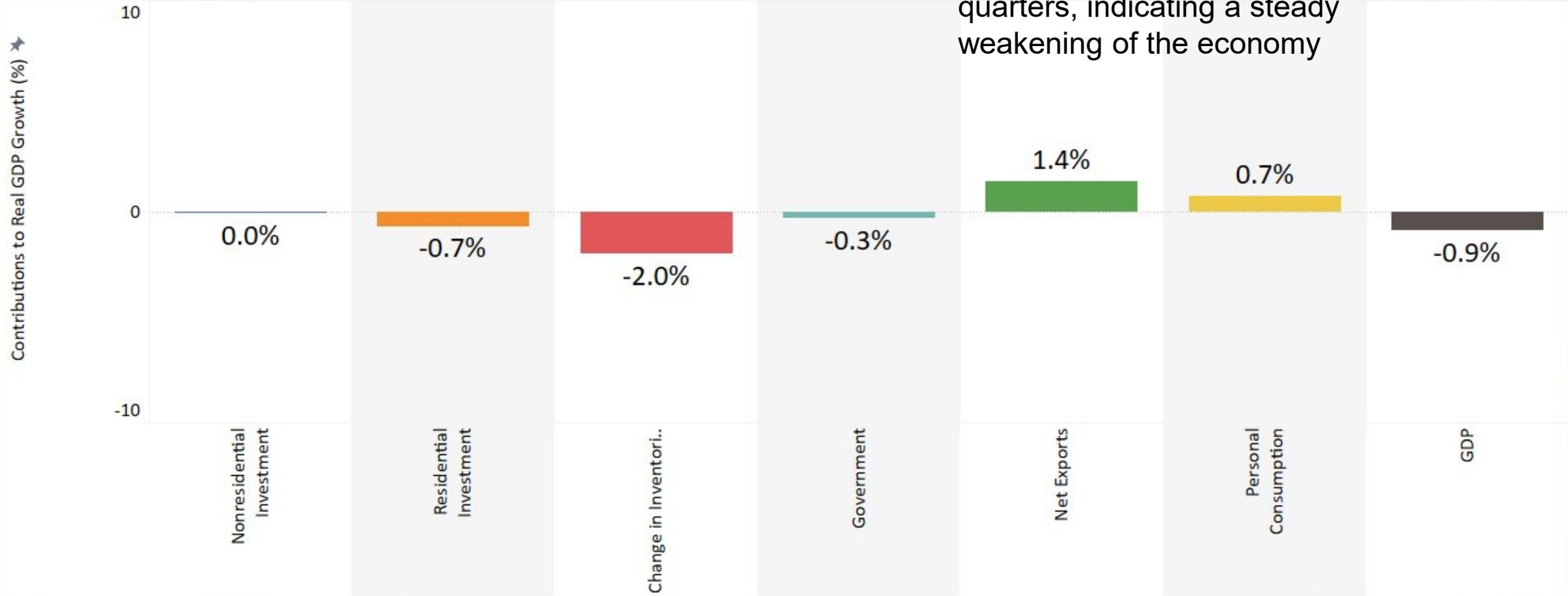


# Contributions to Real GDP Growth

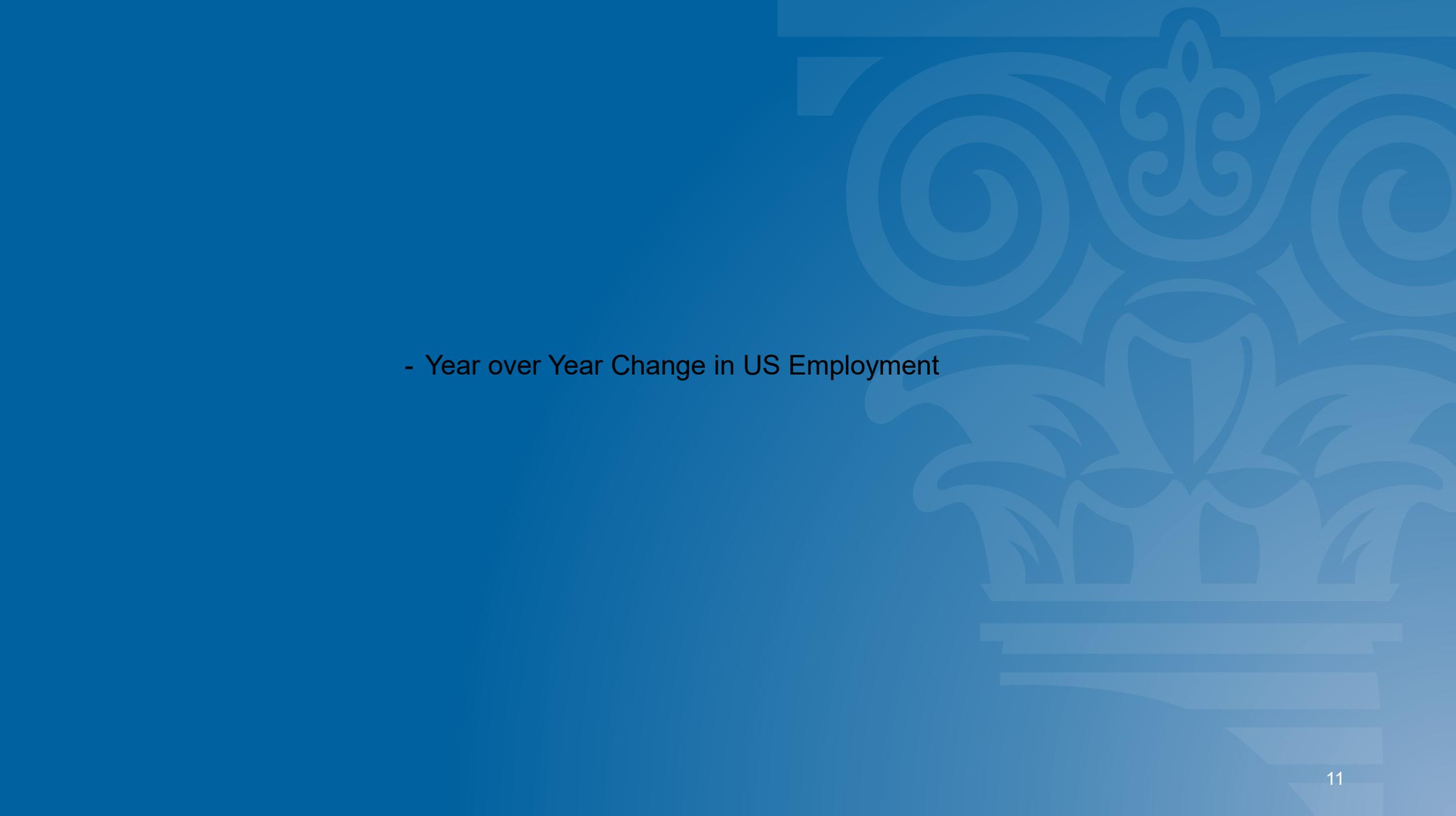
Source: Bureau of Economic Analysis; SRC - Risk Analysis Unit



GDP by Component - 2022 Q2



GDP declined for 2 consecutive quarters, indicating a steady weakening of the economy



- Year over Year Change in US Employment

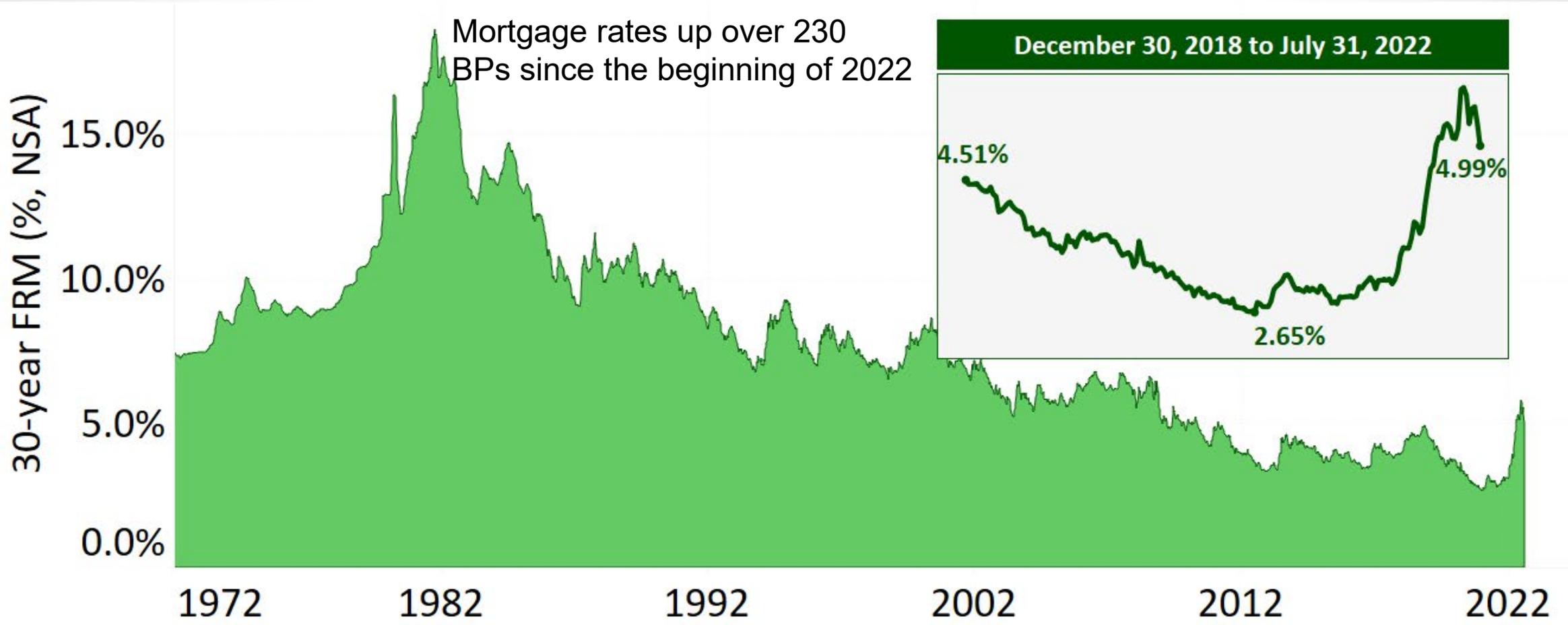
# Housing Costs



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# Mortgage Rates

Source: Freddie Mac; SRC - Risk Analysis Unit



# U.S. Median Home Prices

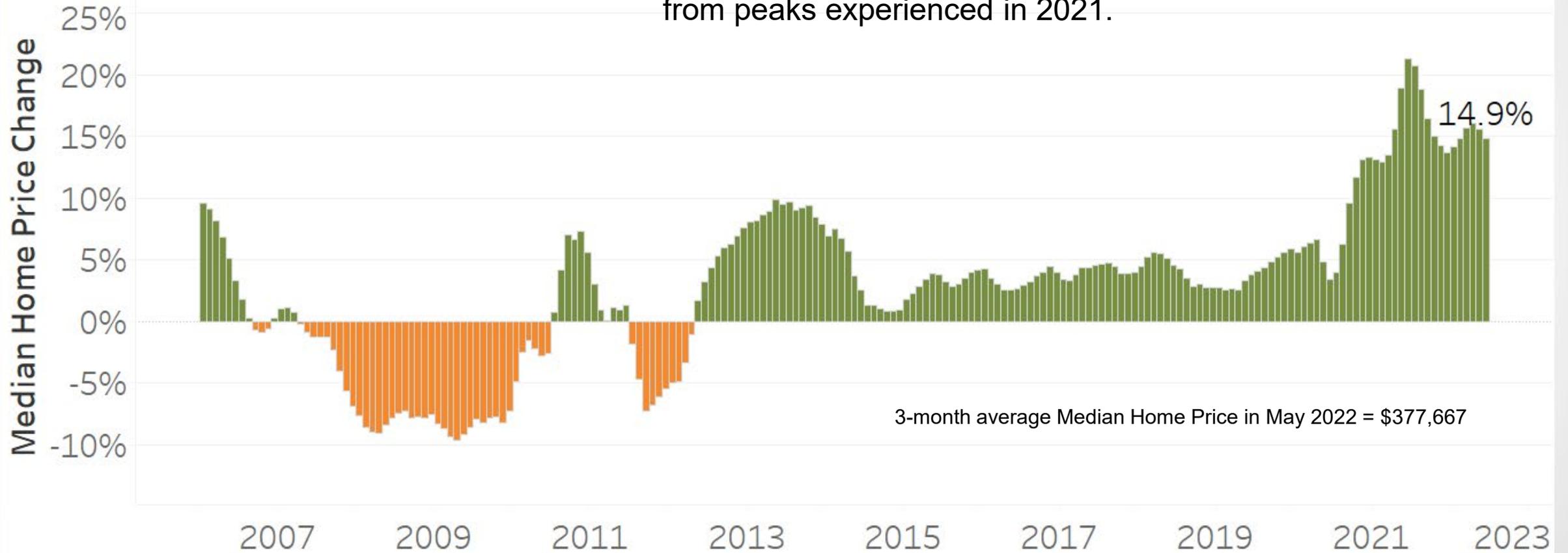
Source: Corelogic; SRC - Risk Analysis Unit



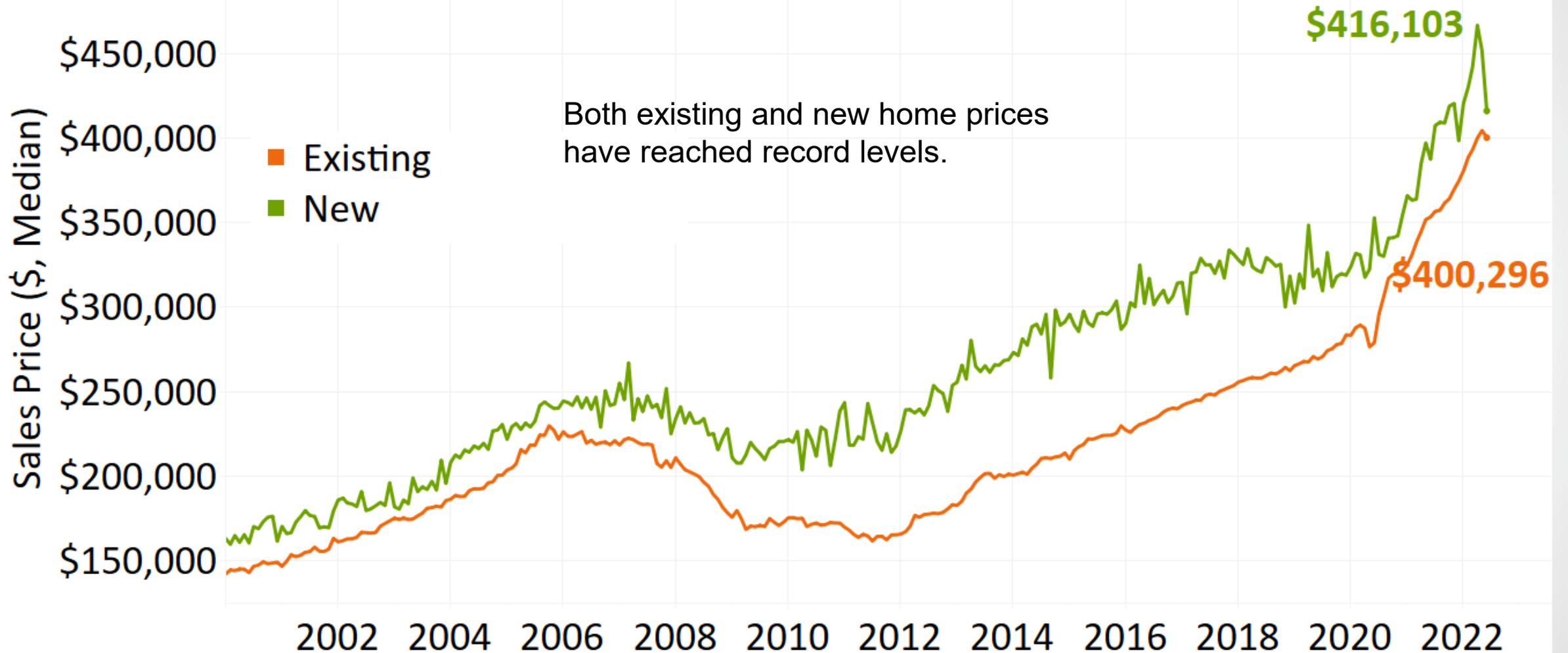
## National Trend

January 2006 to June 2022

The national rate of price appreciation is moderating from peaks experienced in 2021.



# U.S. Median Home Prices..



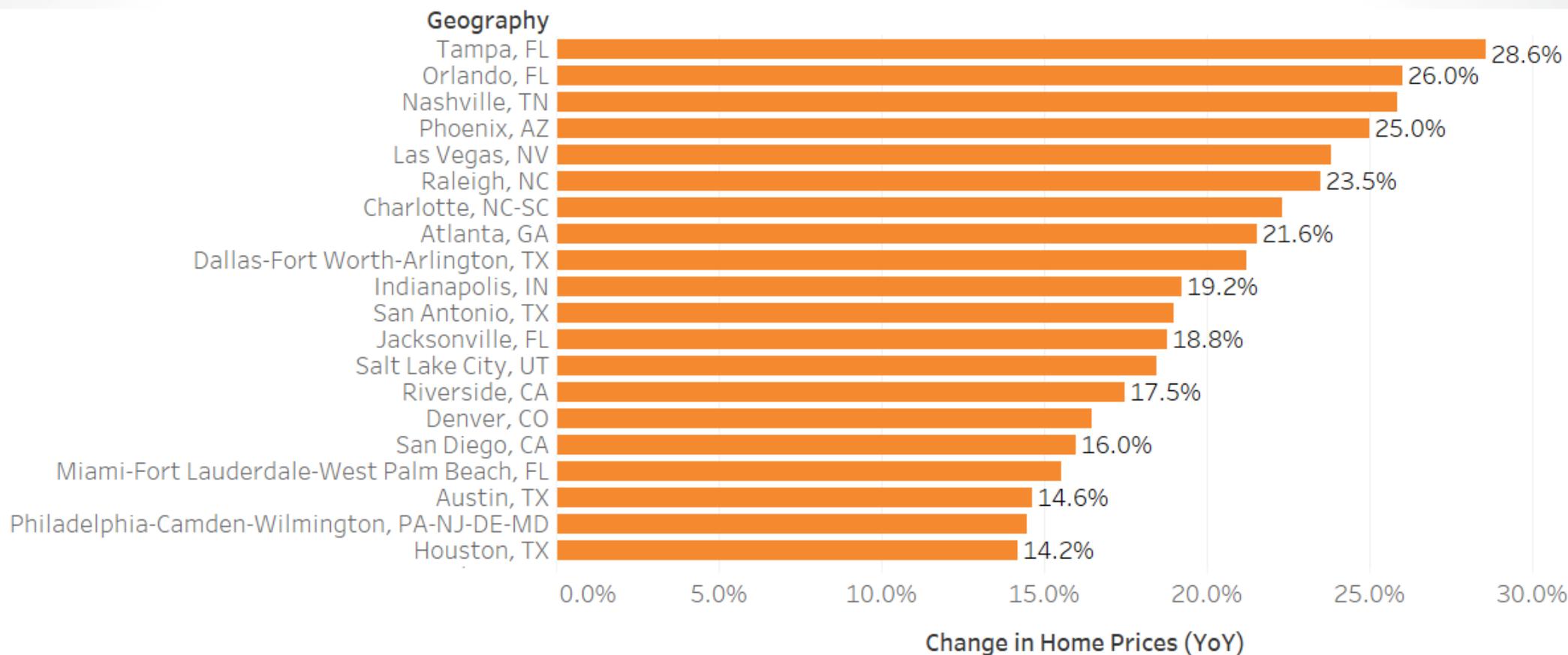
# Change in Home Sales Price (Year over Year)

Source: Federal Reserve Bank of Atlanta - Supervision, Regulation, and Credit Division



Date: June 2022

Metros with Population >500,000



- Market Level Price Change map

# US New Home Market

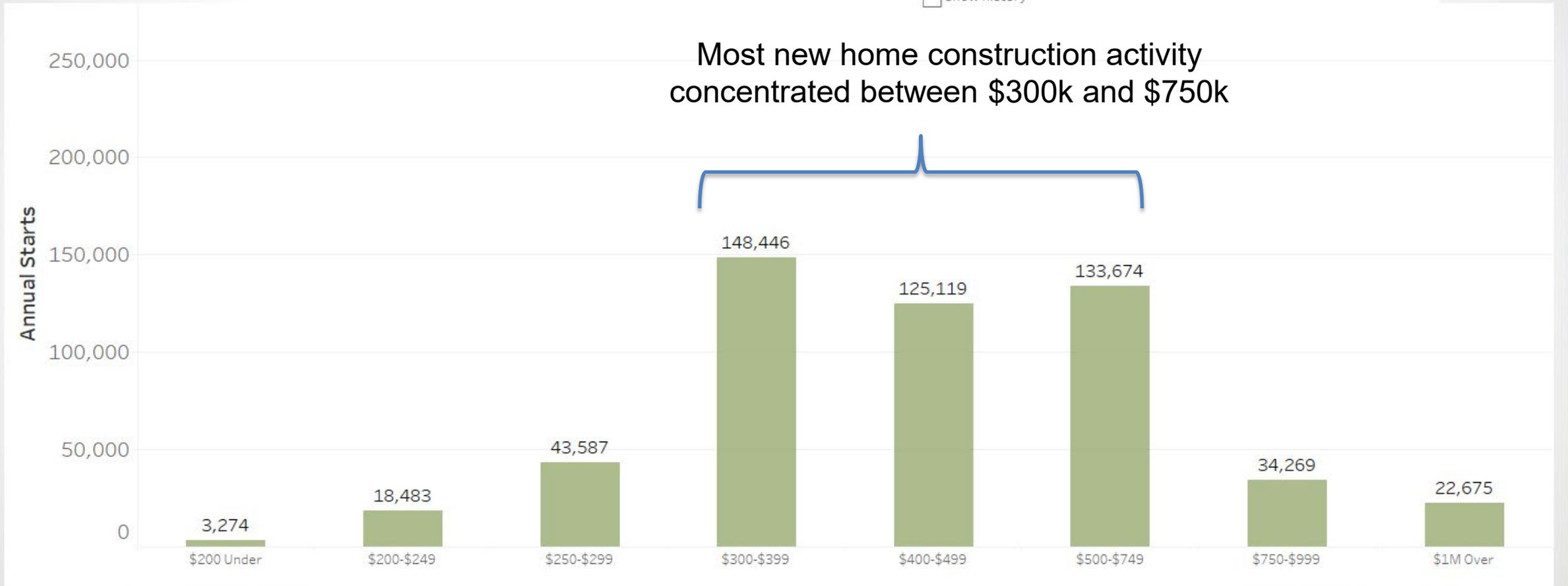
Source: Zonda Intelligence; SRC - Risk Analysis Unit



## Starts by Price Range

Date  
June 2022  
 Show history

Most new home construction activity concentrated between \$300k and \$750k



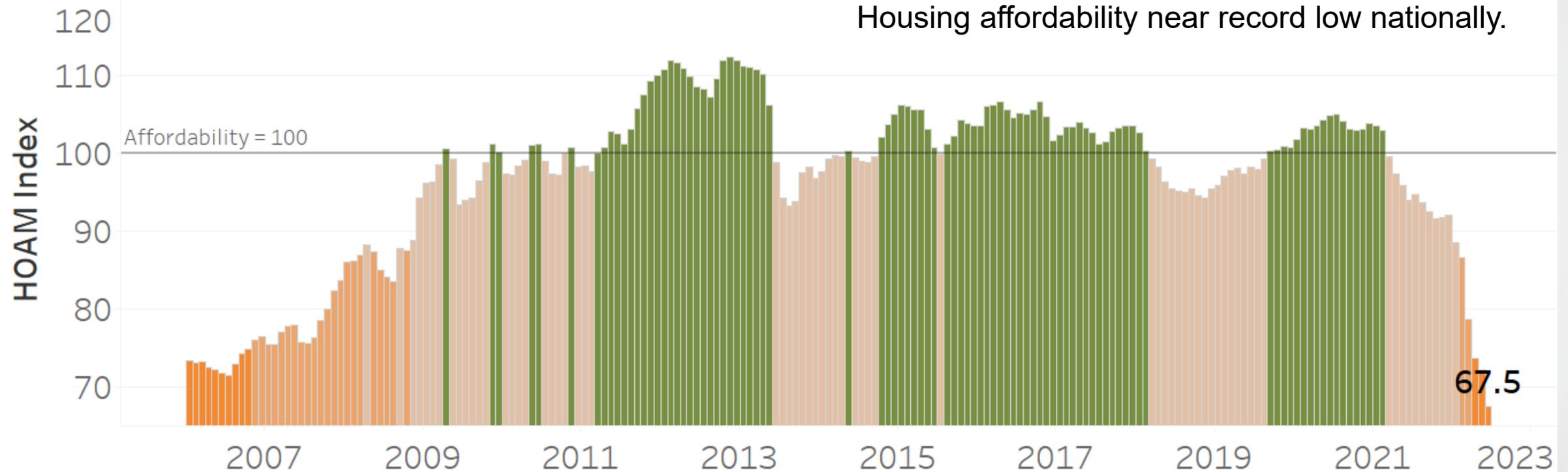
# National Home Ownership Affordability Monitor (HOAM) Index

Source: Federal Reserve Bank of Atlanta - Supervision, Regulation, and Credit Division



## National Trend

January 2006 to June 2022



HOAM Index

62.96

112.35

# National Home Ownership Affordability Monitor (HOAM) Index

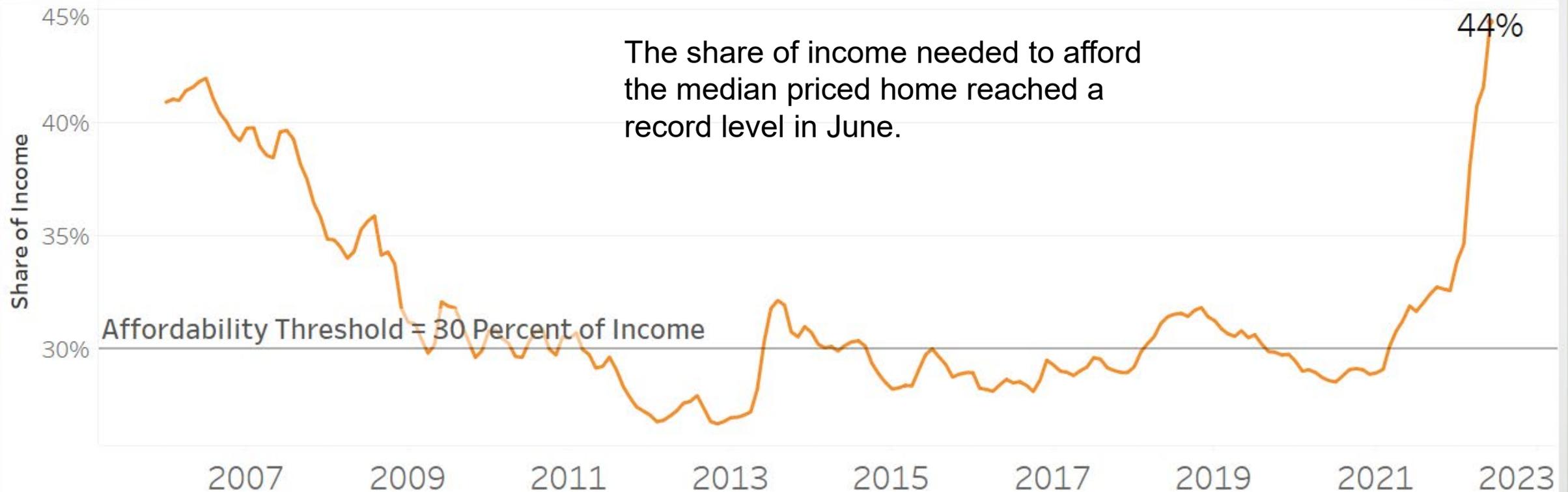
Source: Federal Reserve Bank of Atlanta - Supervision, Regulation, and Credit Division



## National Trend

Share of Median Income Needed to Own Median Priced Home

January 2006 to June 2022



# Affordability Ranked by Metro Area

Source: Federal Reserve Bank of Atlanta - Supervision, Regulation, and Credit Division

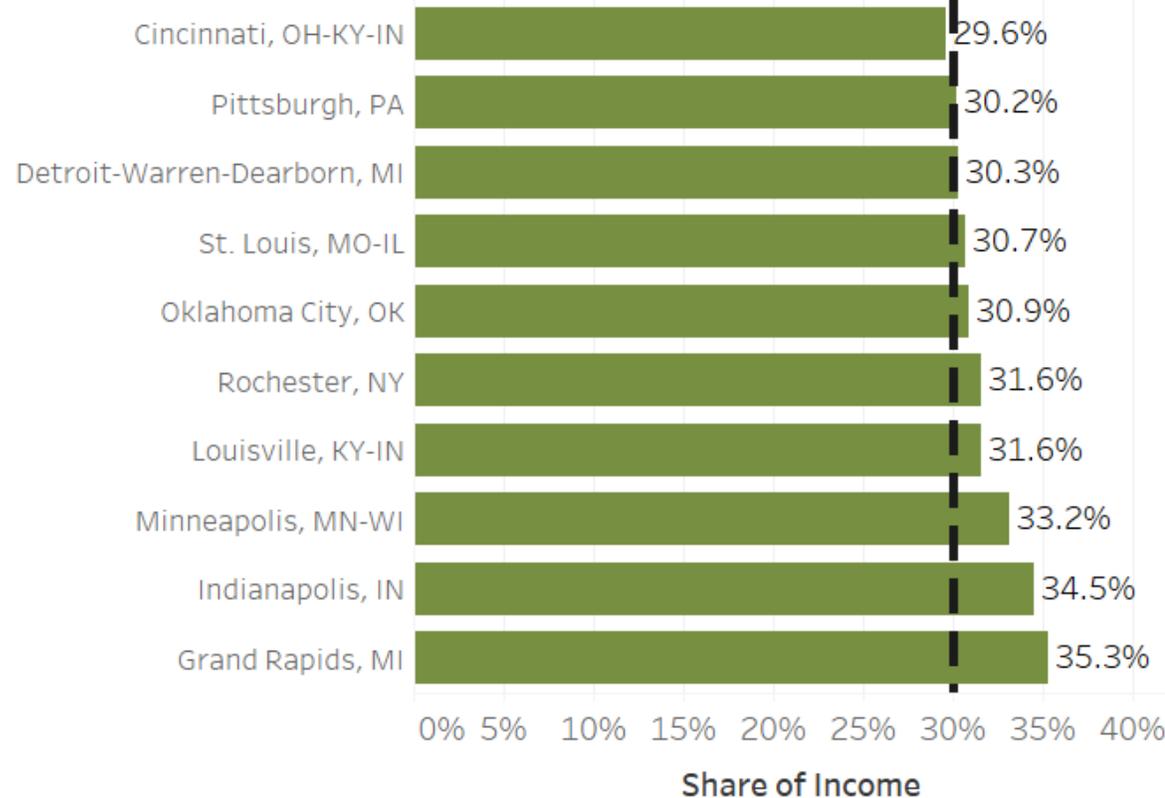
Note: LINE = 30 percent share of income affordability threshold



June 2022

## Most Affordable Metro Areas (Population > 500,000)

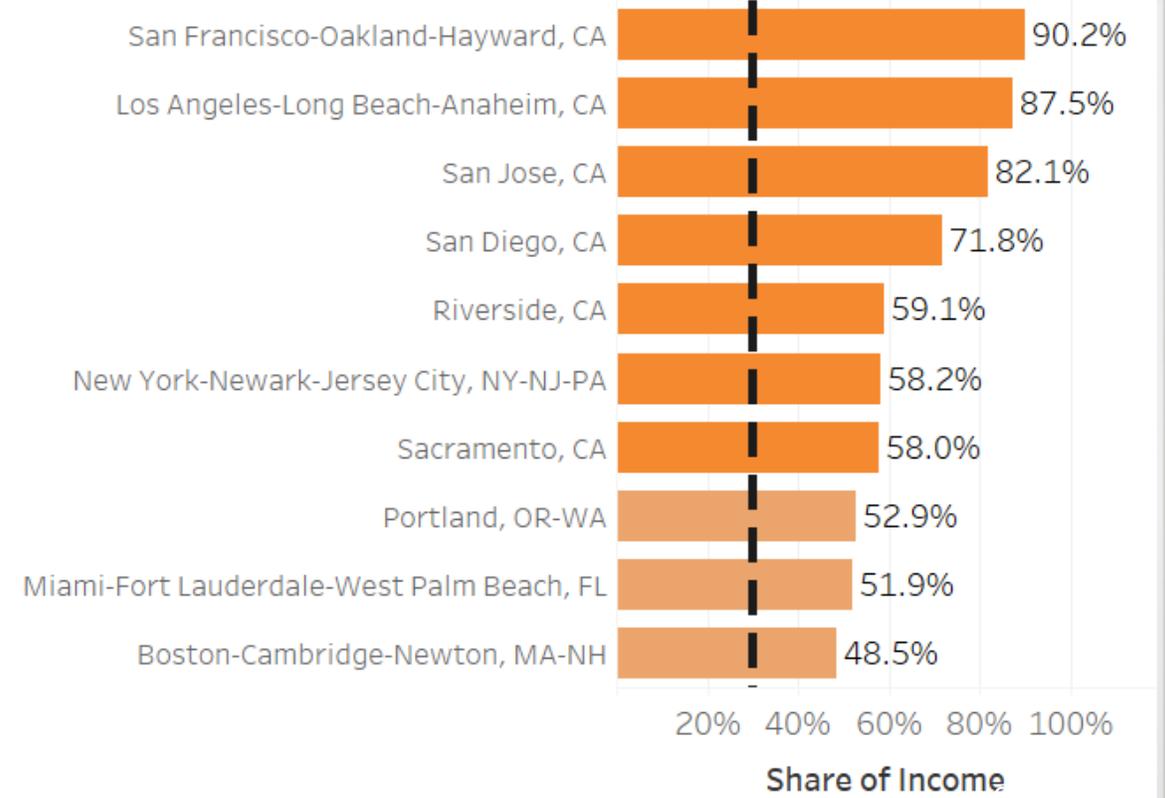
### Geography



June 2022

## Least Affordable Metro Areas (Population > 500,000)

### Geography



# Declining Affordability

Impact on Consumers



Median Priced Home  
**\$400,000**

Payment in Jan 2022 @ 3.8% = **\$2,254**

Payment in July 2022 @ 5.8% = **\$2,689**

**Difference = \$432**

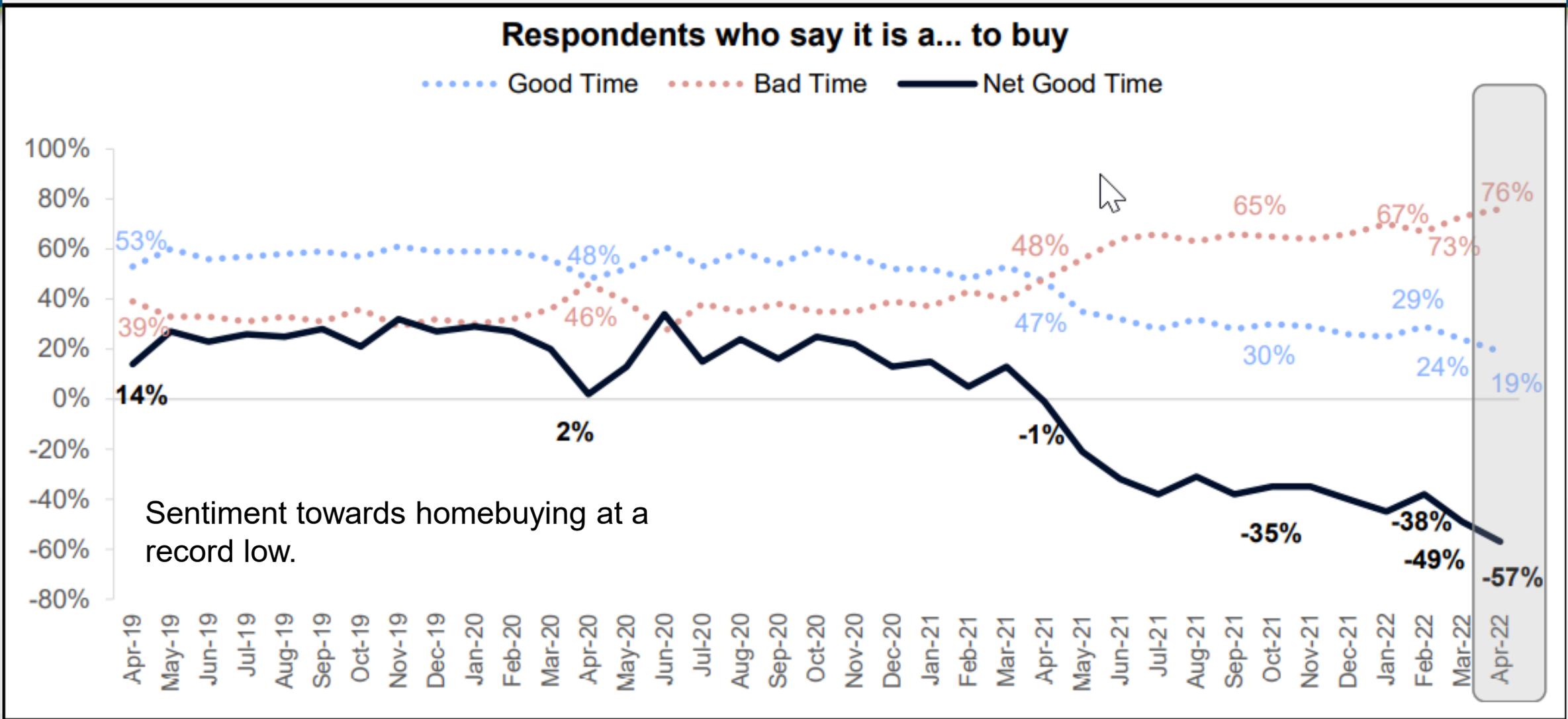
# Housing Demand



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# Home Purchase Sentiment Index - BUYERS

Source: Fannie Mae

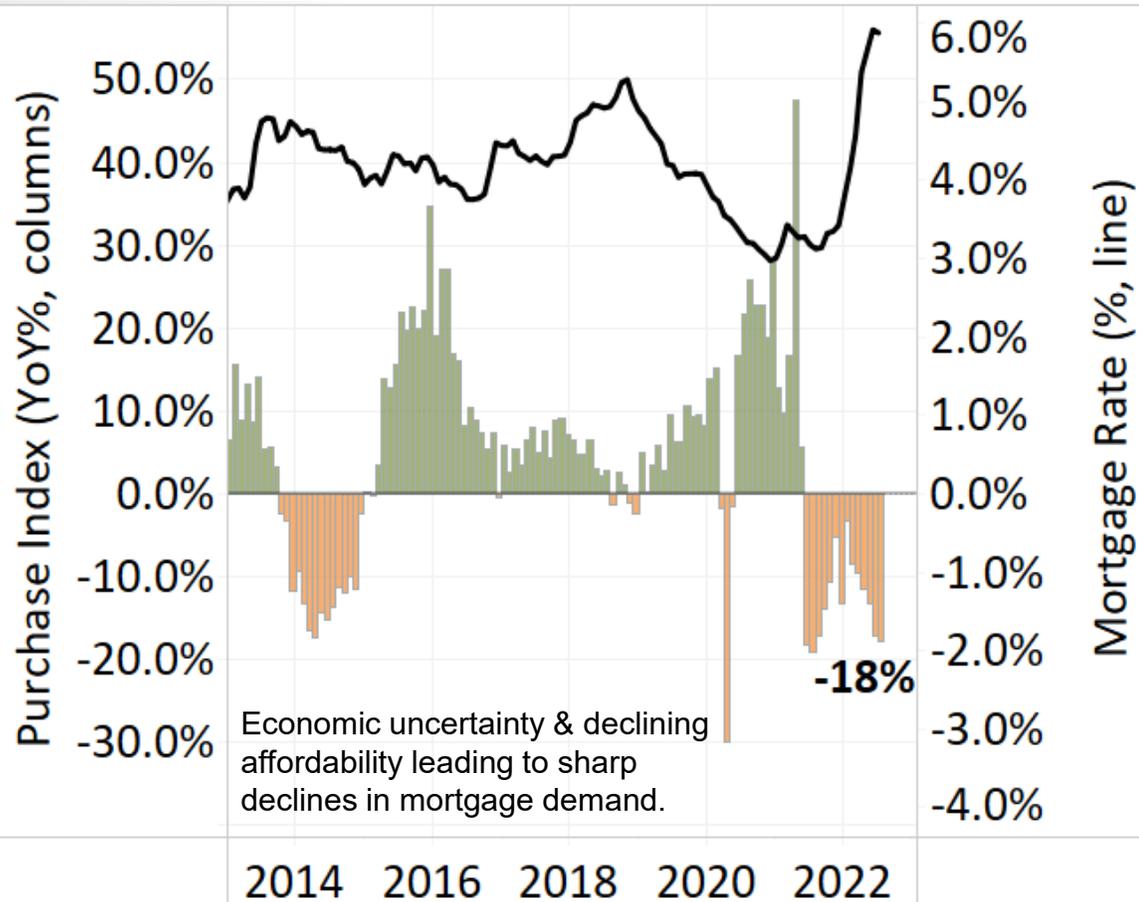


# U.S. Mortgage Applications and Rates

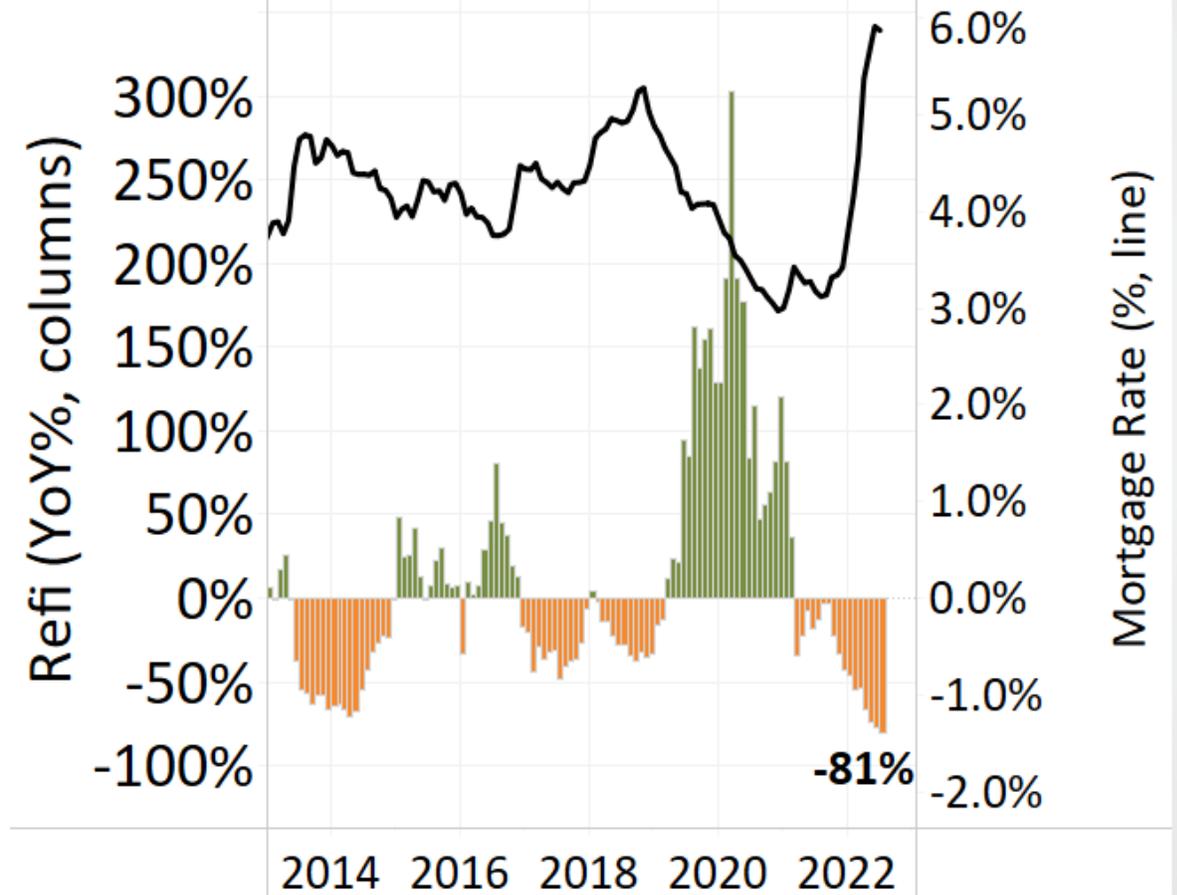
Source: Mortgage Bankers Association; SRC - Risk Analysis Unit



## Purchase Index



## Refi Index



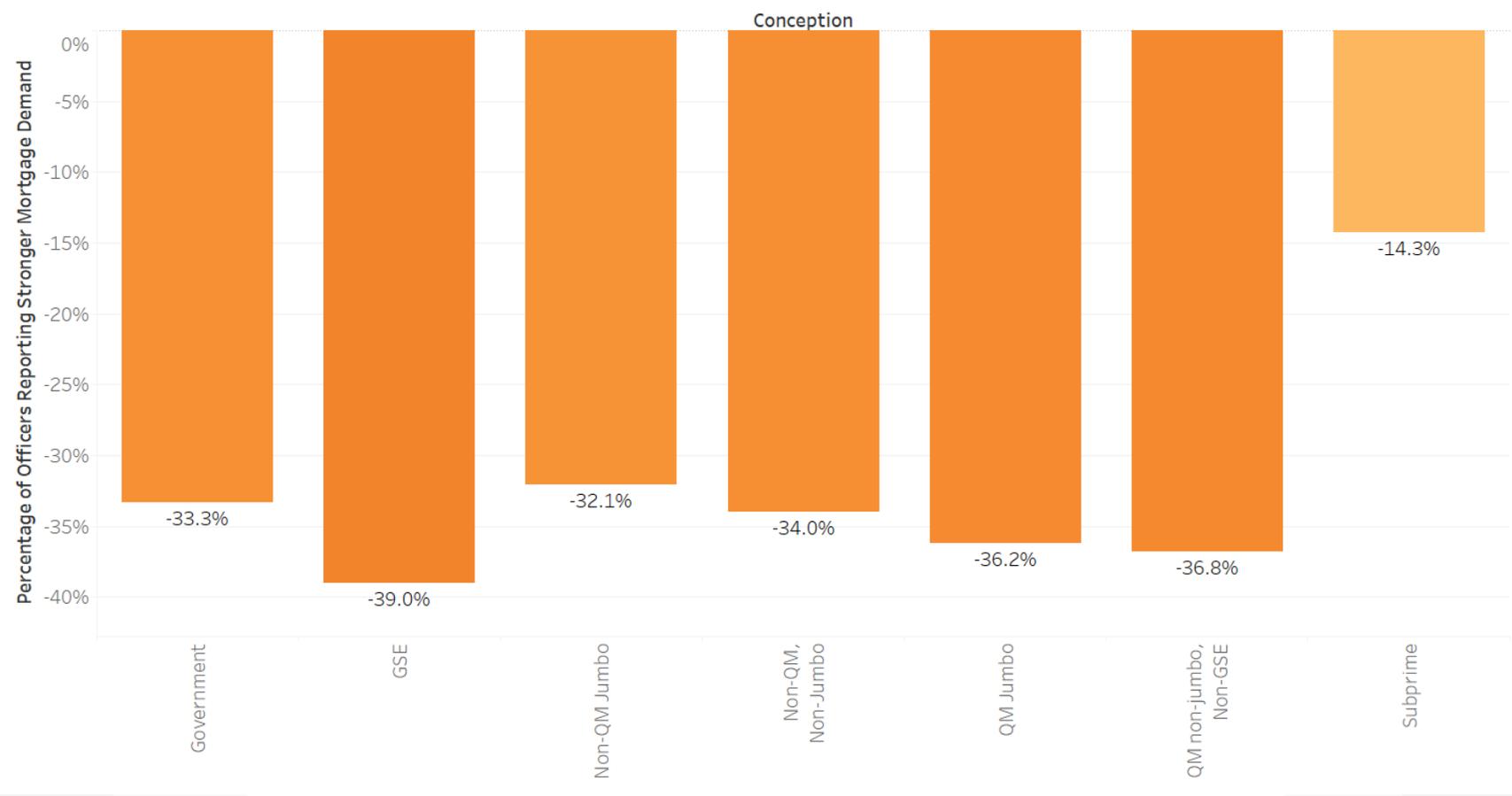
Note: Difference in mortgage rates from previous chart is due to different data source (Freddie Mac vs MBA)

# Officers Reporting Stronger Demand for Mortgage Loans

Source: Senior Loan Officer's Survey, Federal Reserve Board

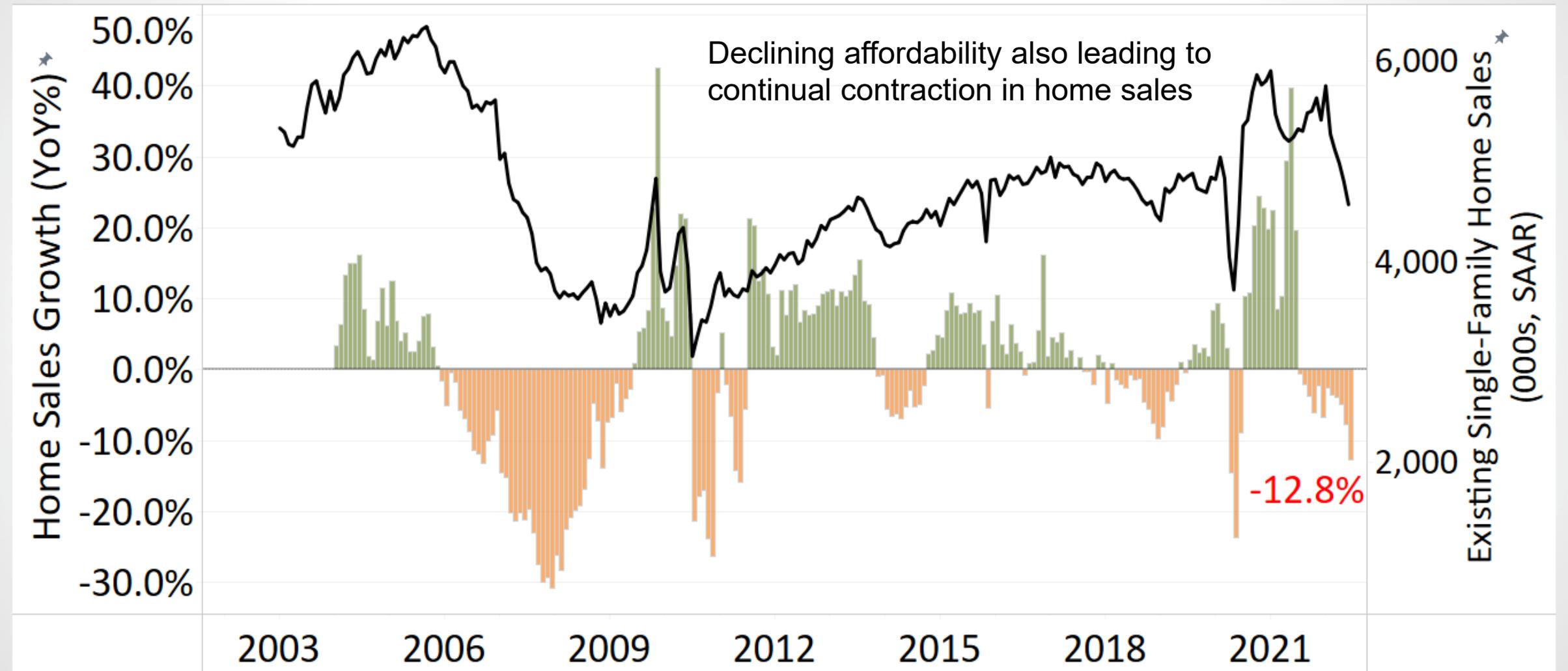
## Mortgage demand declining across all mortgage types.

Date: April 2022



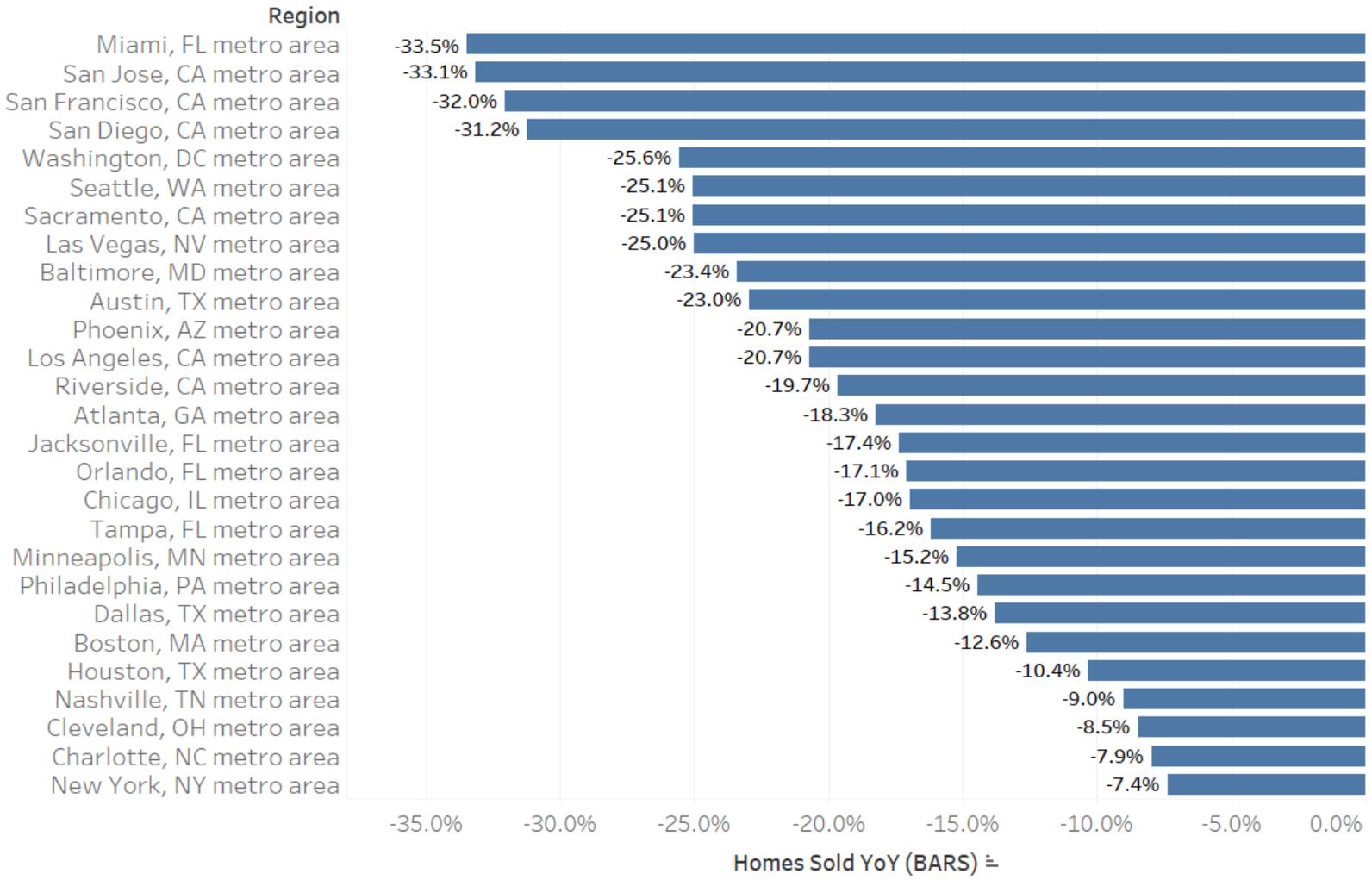
# U.S. Existing Single-Family Home Sales

Source: National Association of Realtors; Federal Reserve Bank of Atlanta - Supervision, Regulation, and Credit Division



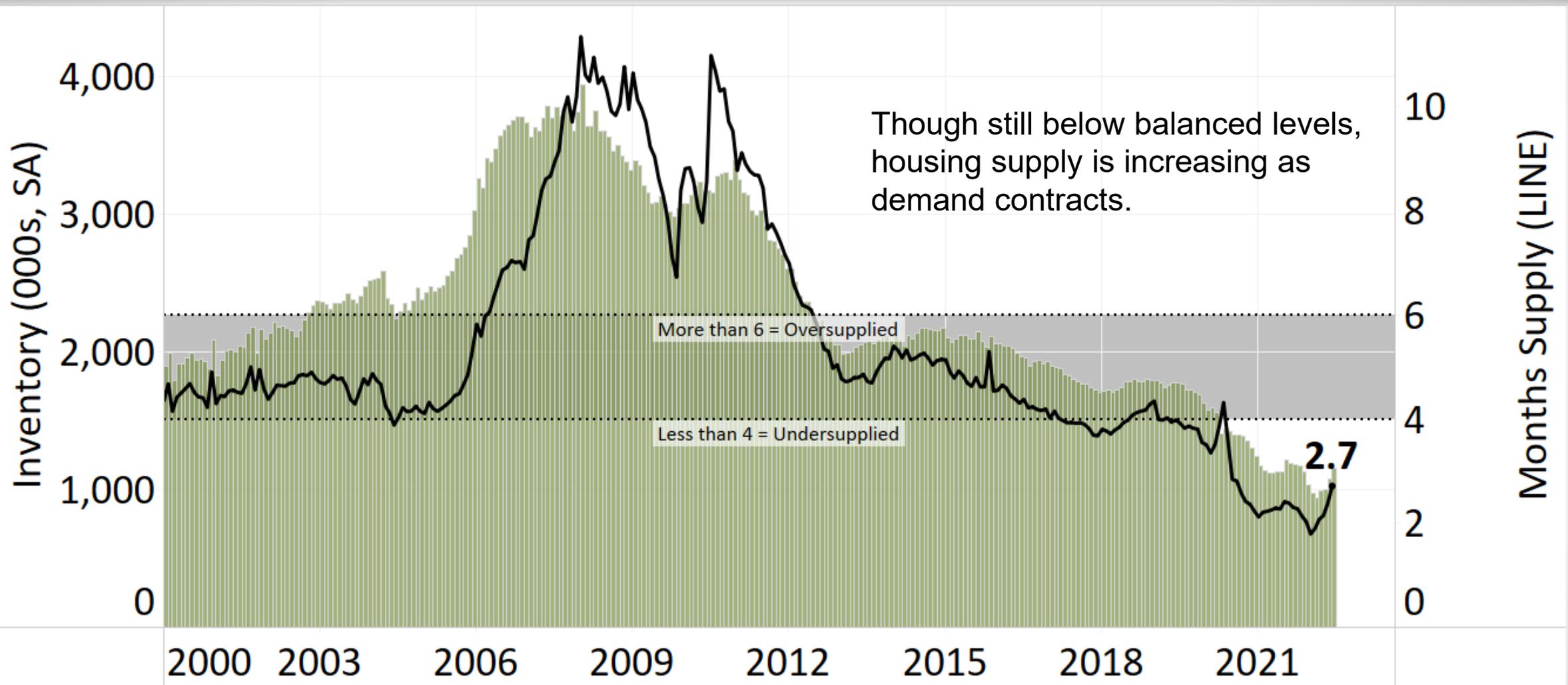
# Change in Existing Home Sales (YoY)

Source: Redfin



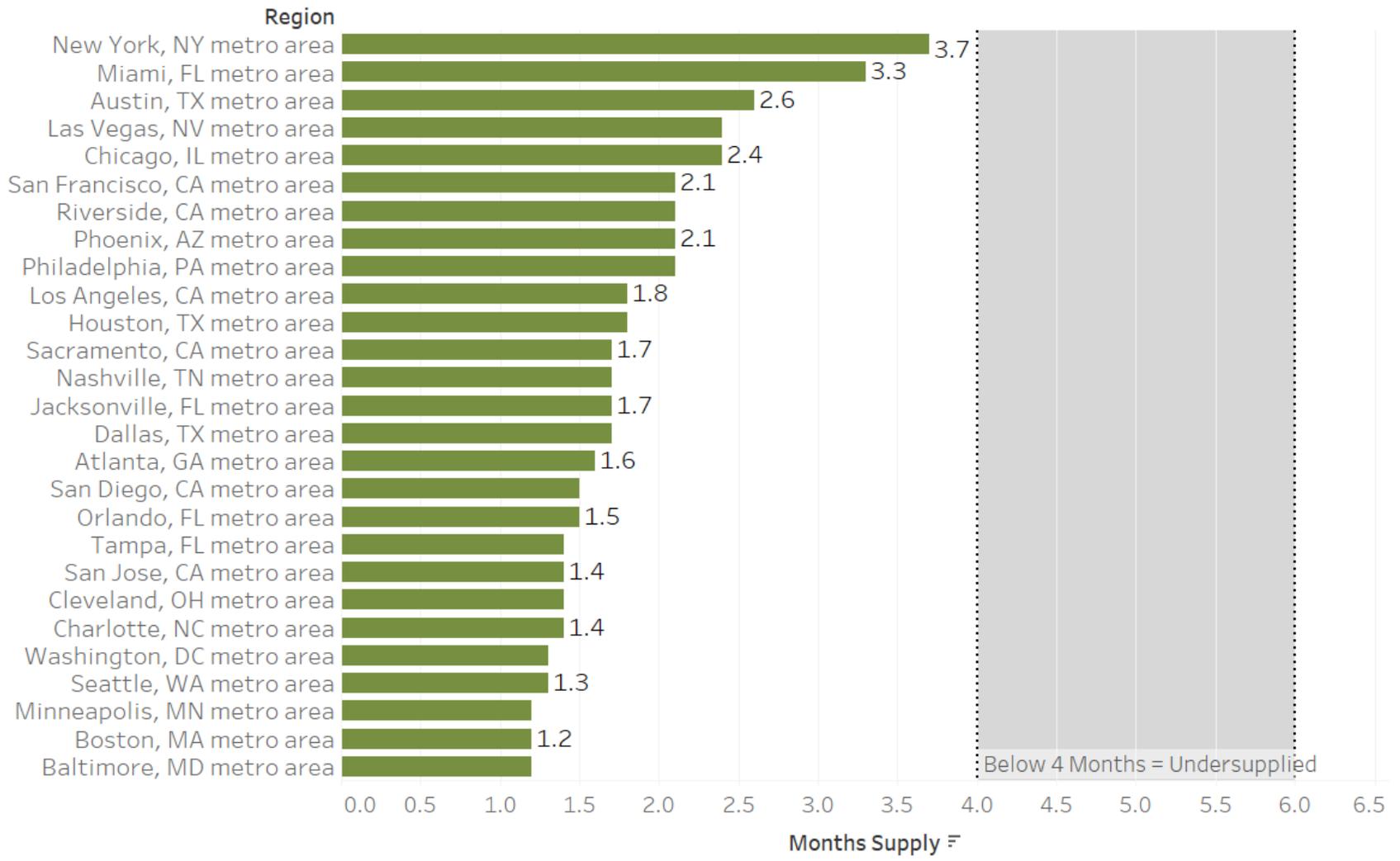
# U.S. Inventory and Months Supply

Source: National Association of Realtors; Federal Reserve Bank of Atlanta - Supervision, Regulation, and Credit Division



# Months Supply by Metro (June 2022)

Source: Redfin

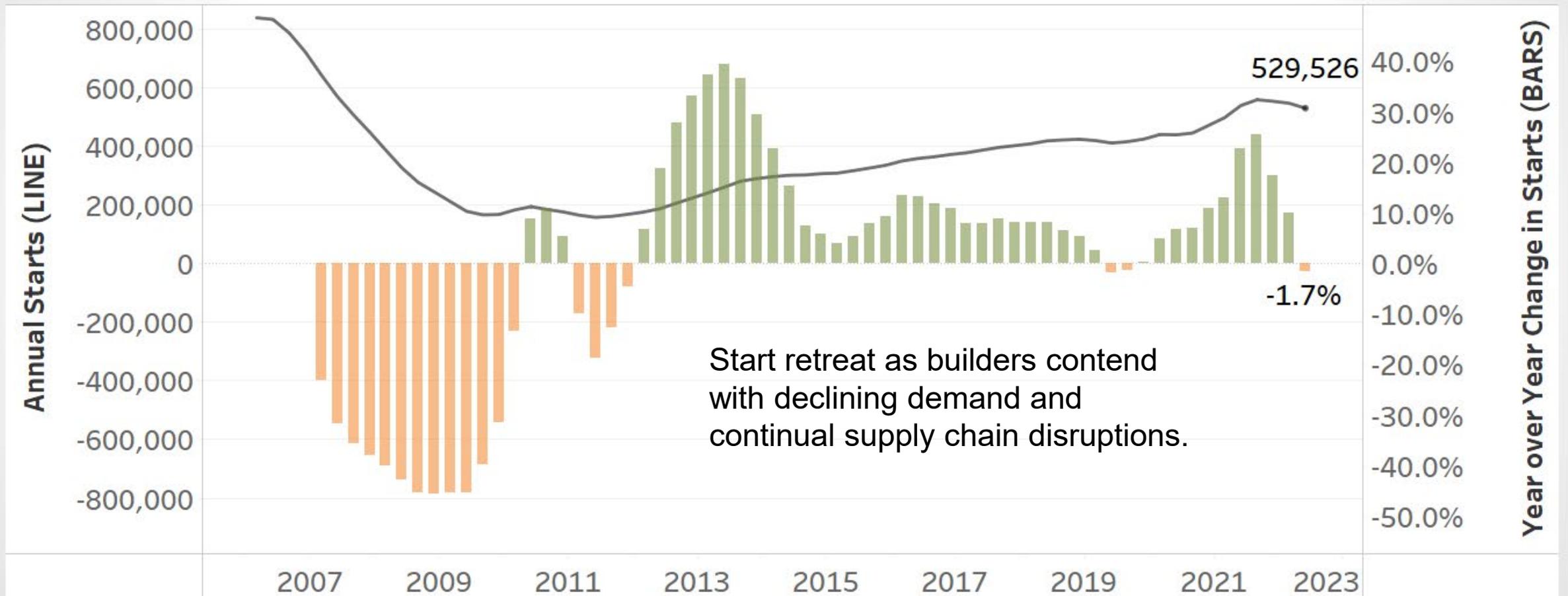


# US New Home Market

Source: Zonda Intelligence; SRC - Risk Analysis Unit



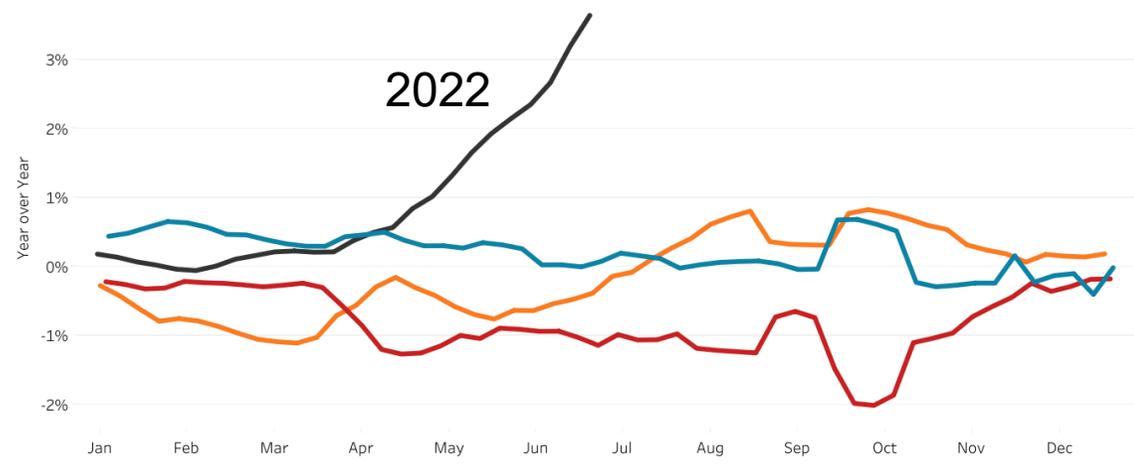
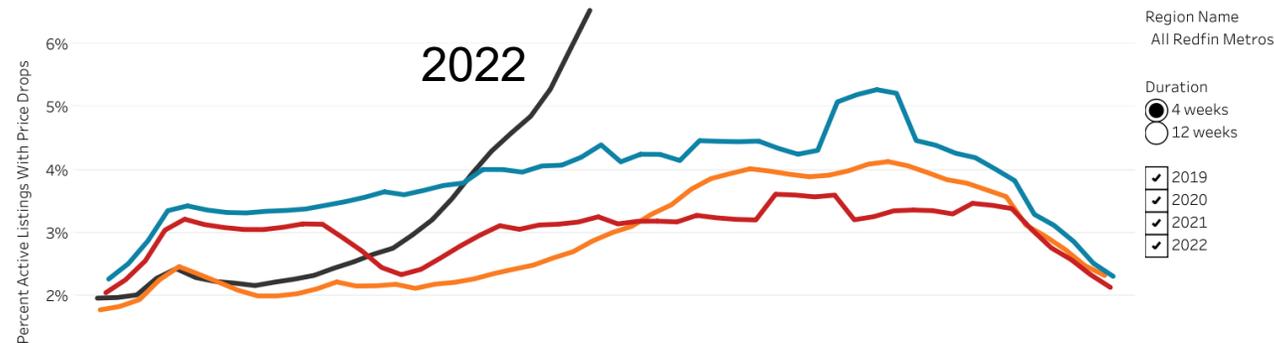
## Annual Starts Trends



# Listing with Price Drop (Weekly)

Source: Redfin; SRC – Center for Real Estate Excellence/Risk Analysis Unit at the Atlanta Federal Reserve

Percent of Active Listings with Price Drops in All Redfin Metros



The share of home sales that sold with a price drop continues to rise as housing demand wanes.

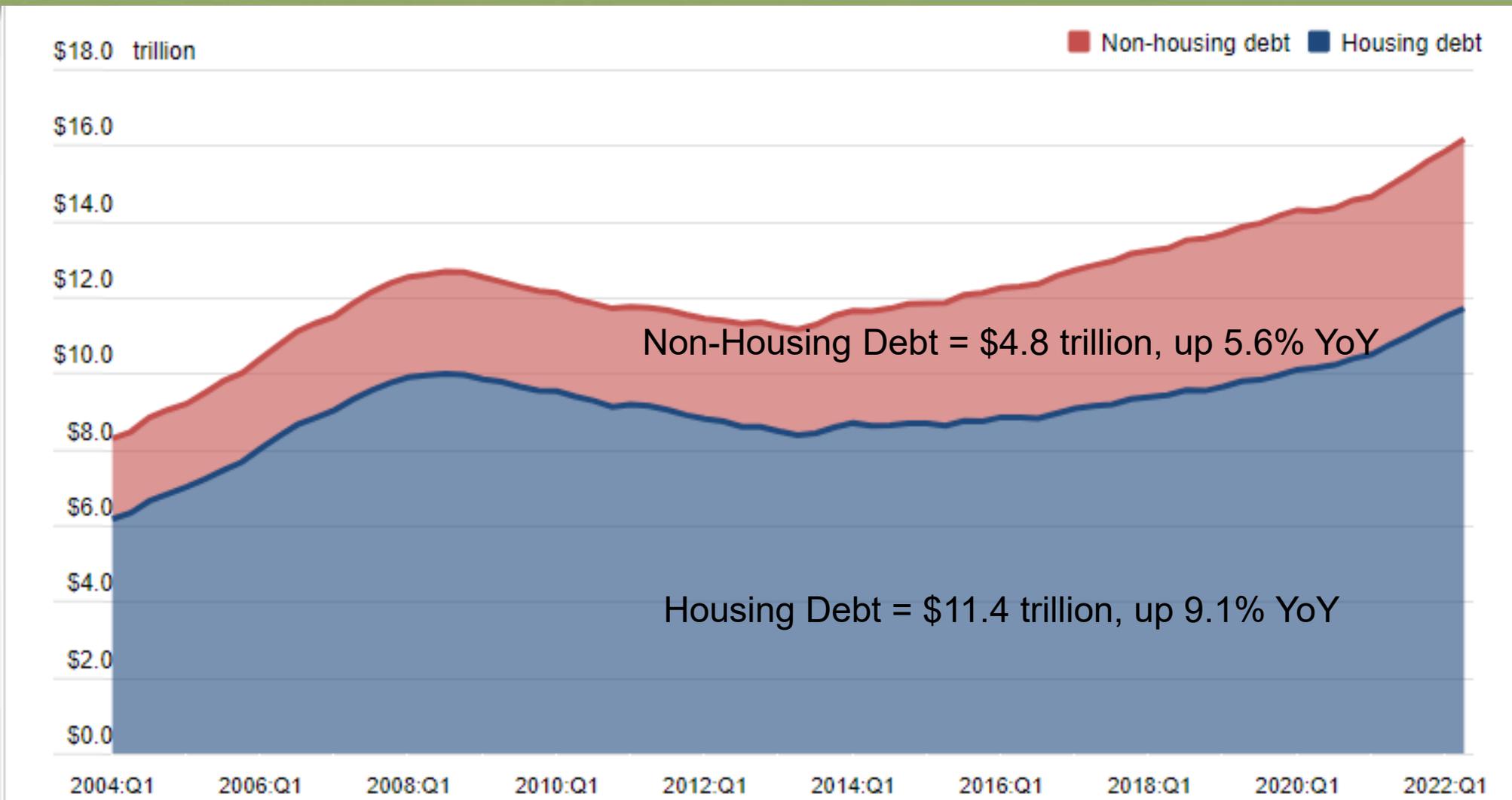
# Credit Quality



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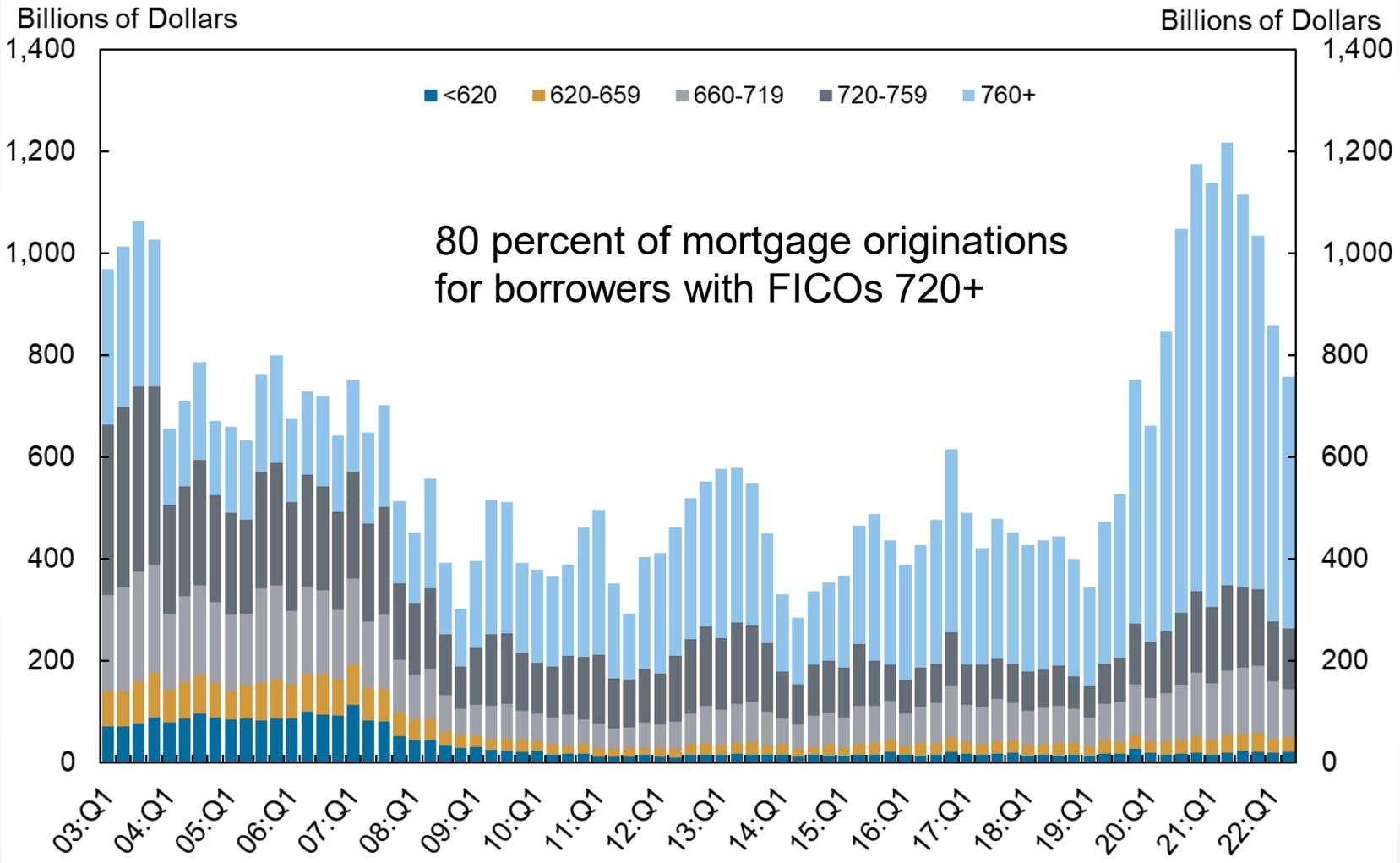
# Total US Household Debt Balance

Source: FRBNY Consumer Credit Panel / Equifax



# Mortgage Originations by Credit Score

Source: FRBNY Consumer Credit Panel / Equifax



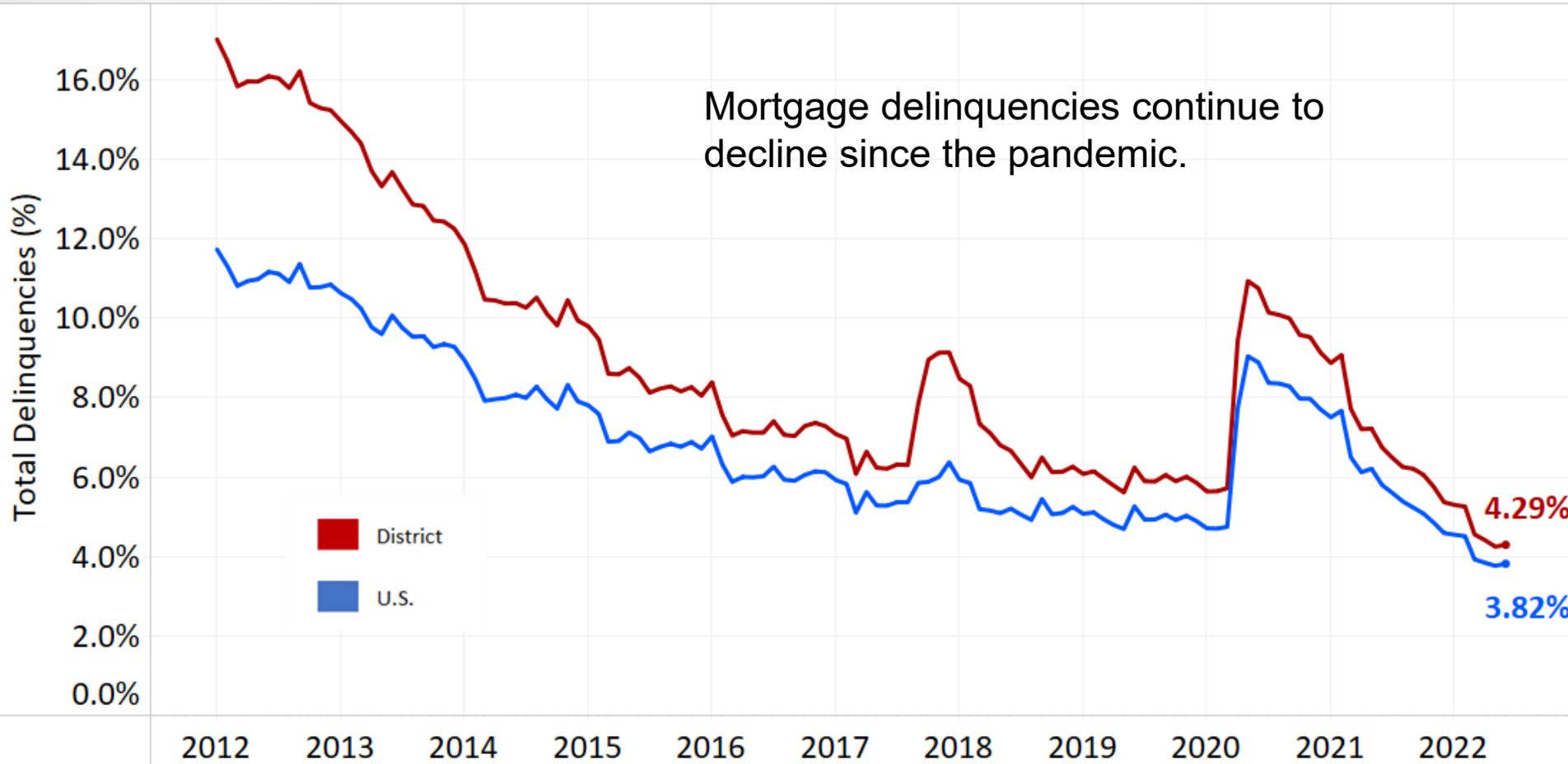
# Total Mortgage Loan Delinquencies

Source: Black Knight McDash Data; Federal Reserve Bank of Atlanta - Supervision, Regulation, and Credit Division



## Atlanta Fed District Mortgage Delinquency Rates

Mortgage delinquencies continue to decline since the pandemic.



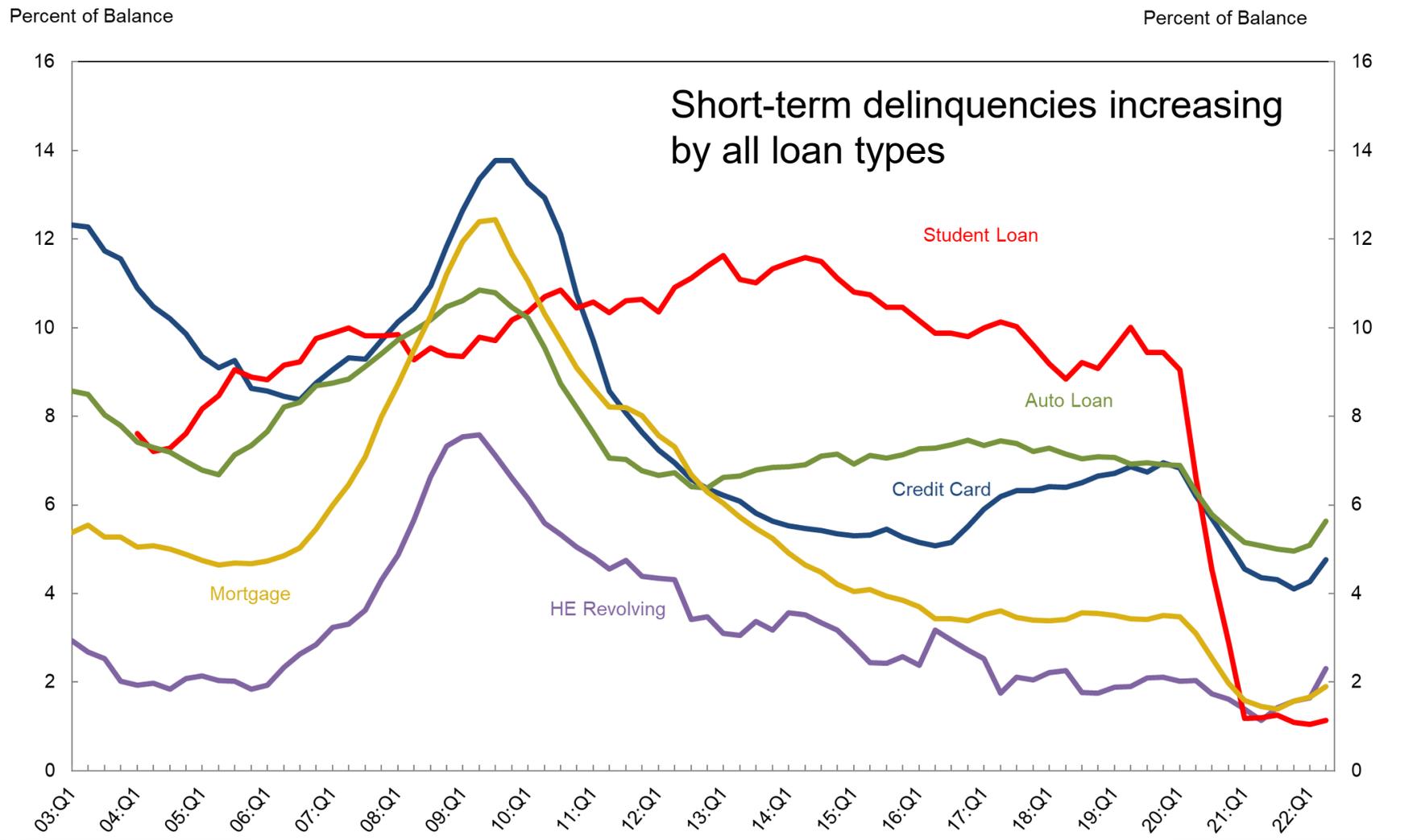
FRB District

- Atlanta
- Boston
- Chicago
- Cleveland
- Dallas
- Kansas City
- Minneapolis
- New York
- Philadelphia
- Richmond
- San Francisco
- St. Louis

# Transition into Delinquency (30+) by Loan Type



Source: FRBNY Consumer Credit Panel / Equifax



# RRE Conclusions

- ❑ Decline in buyer sentiment, mortgage applications, and sales point to weaker housing demand ahead.
- ❑ As demand weakens, low supply levels will likely keep prices from contracting sharply. However, it is possible some markets may see price declines.
- ❑ Stronger credit quality for new originations creates a lower risk of rising delinquencies and foreclosures overall. Still, a significant economic slowdown may create increased financial stress on homeowners.



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**View HOAM Tool @**  
**[www.atlantafed.org/center-for-housing-and-policy](http://www.atlantafed.org/center-for-housing-and-policy)**



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# Save the Date: October 4<sup>th</sup> – SRC Webinar

9am – 12 EST



## Sixth District Community Bank Holding Company (BHC) & Applications Supervisory Perspectives

Who should attend?

- Bank Holding Company and Community Bank C-Suite officers
- Banking Trade Associations
- Banking Attorneys
- State Banking and Other Regulators
- Other banking professionals interested in Federal Reserve Bank Holding Company supervision

Questions? Please email us at [supervision@atl.frb.org](mailto:supervision@atl.frb.org)

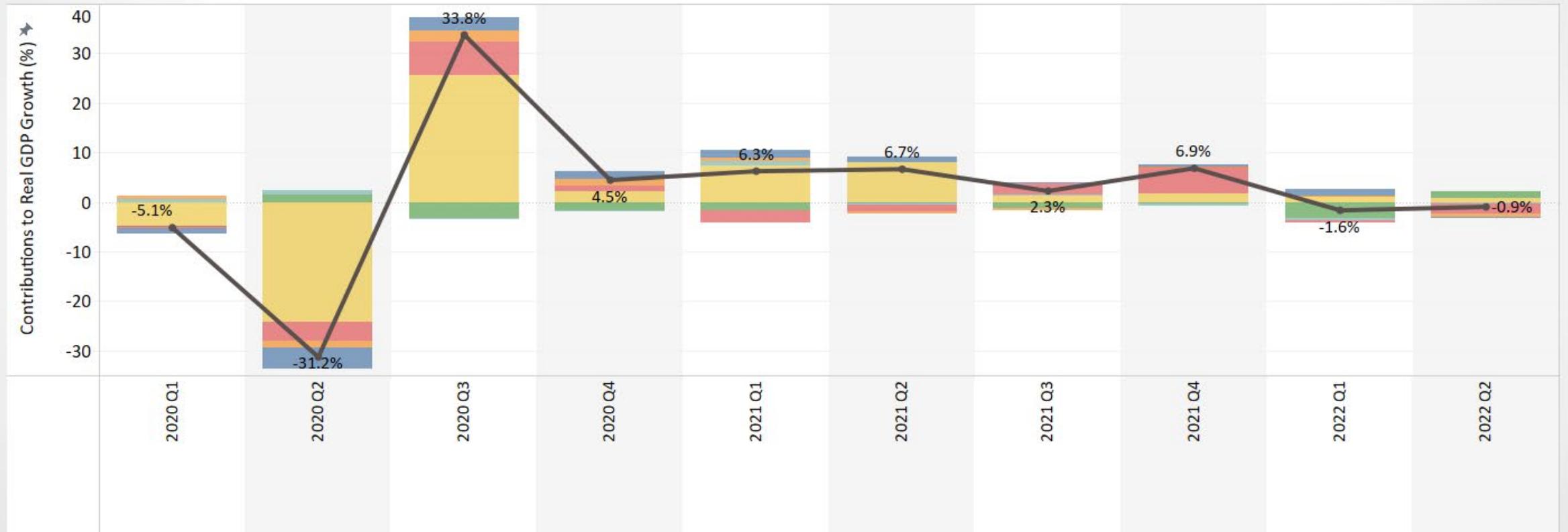
# Appendix



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# Contributions to Real GDP Growth

Source: Bureau of Economic Analysis; SRC - Risk Analysis Unit



# Title

Source:



# Months Supply by Metro (June 2022)

Source: Redfin

