



Mid Valley Financial

Mortgage Banker, Since 1985
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15-Year High For New Home Sales, But Prices Are Flat. Here's Why

This week's New Home Sales report (for the month of March) stole the show, coming in over 1 million for the first time since 2006.



But although sales are up 66% year-over-year, prices have **fallen** in recent months and are now basically **unchanged** from last year. What's up with that?

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

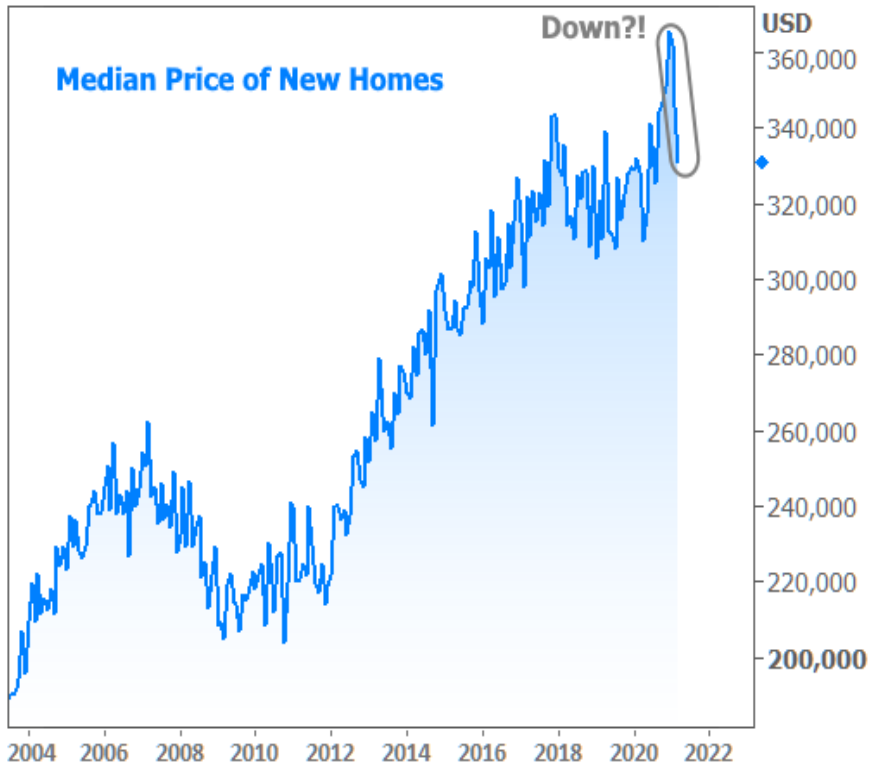
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2267	-0.0112
30 YR Treasury	4.4342	-0.0126

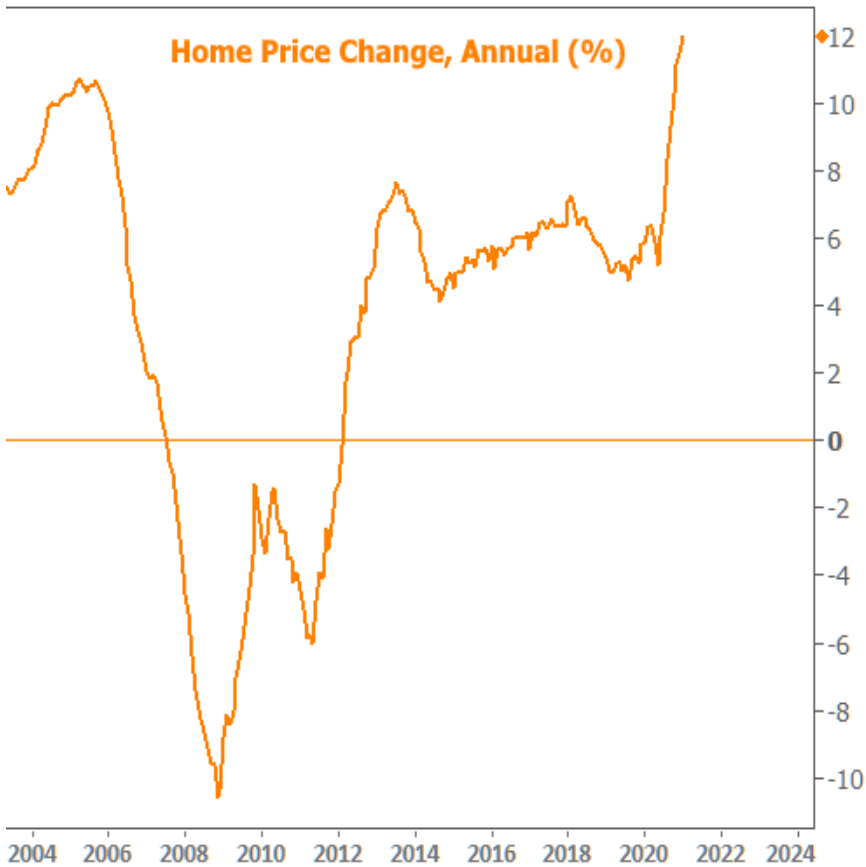
Pricing as of: 7/22 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



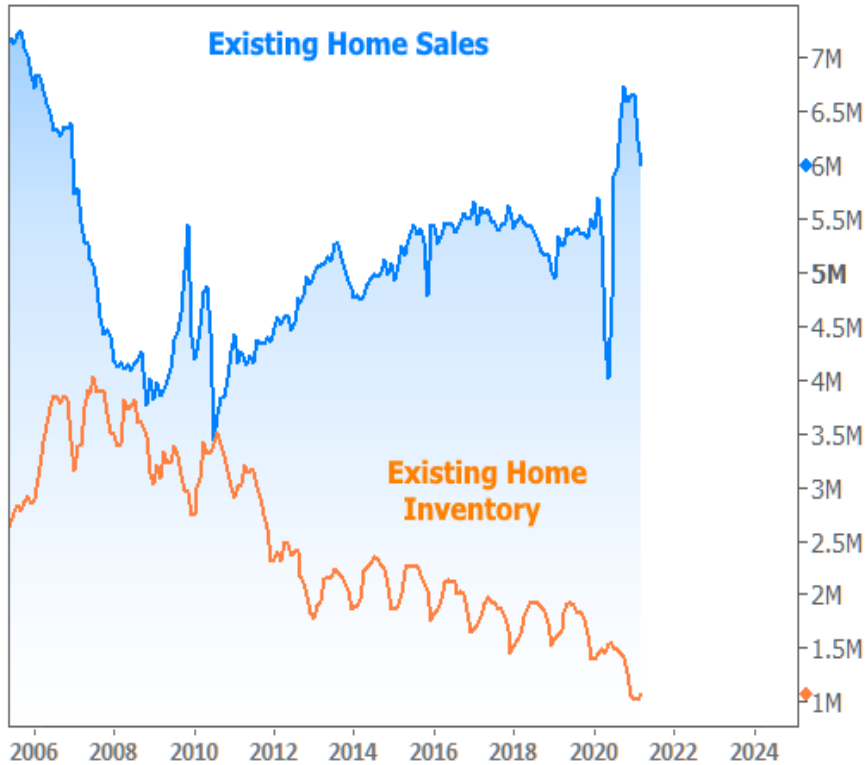
Making this all the more puzzling (at first glance, anyway) is the fact that home price appreciation has been **breaking records** according to some reports. Here's the widely-followed FHFA House Price Index:



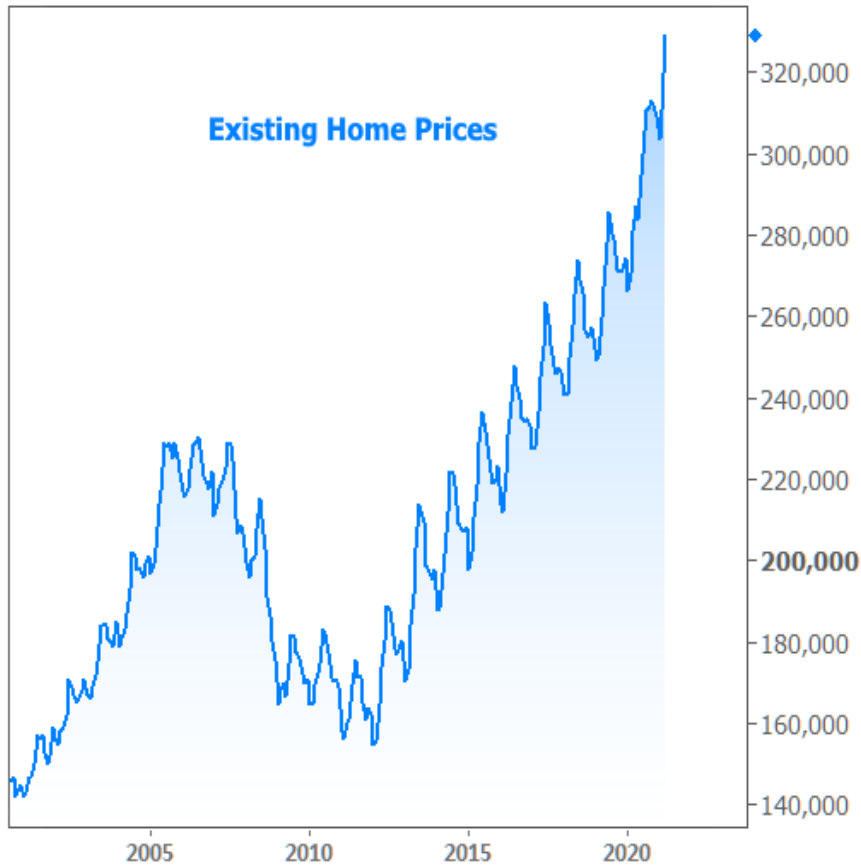
FHFA's data is for REPEAT sales and refinances. That means it **doesn't** capture **new** home prices at the time of construction despite thoroughly tracking home prices in general.

There's a separate home sales report for "existing" sales, and it does a better job tracking with FHFA's home price trends. Fortunately, that report also came out this week. In some ways, it caused the plot to thicken.

Unlike New Home Sales, **Existing Homes Sales fell** in March and are now noticeably below levels seen at the end of 2020. Record low inventory is the primary reason.

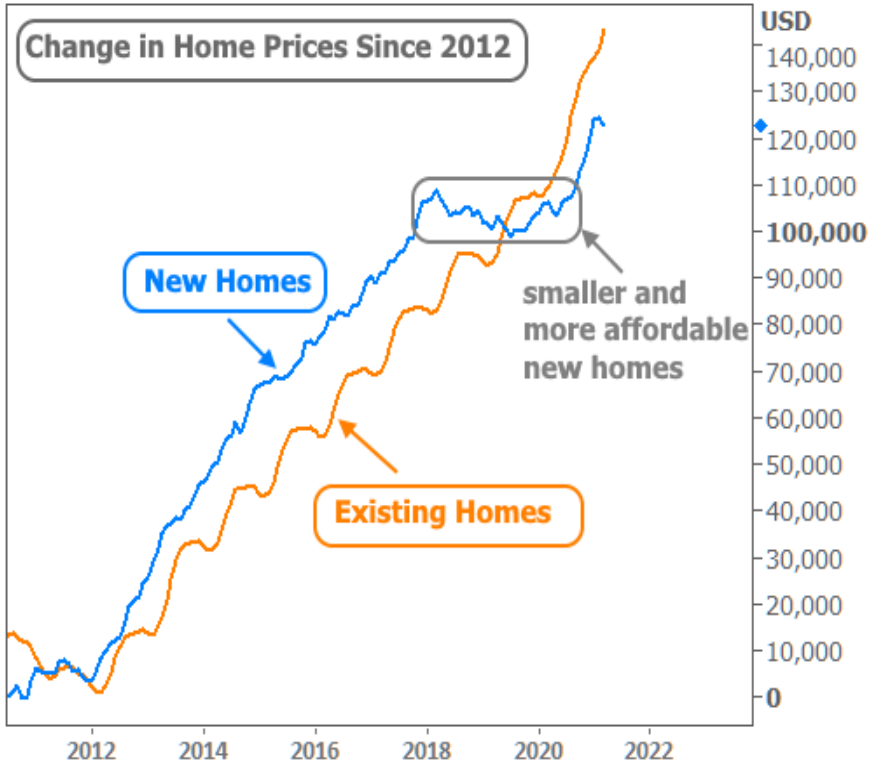


As you might expect, when home sales are falling due to inventory constraints, we shouldn't be seeing any downward pressure in prices. Indeed, existing home prices **easily smashed** their previous record (set last month).

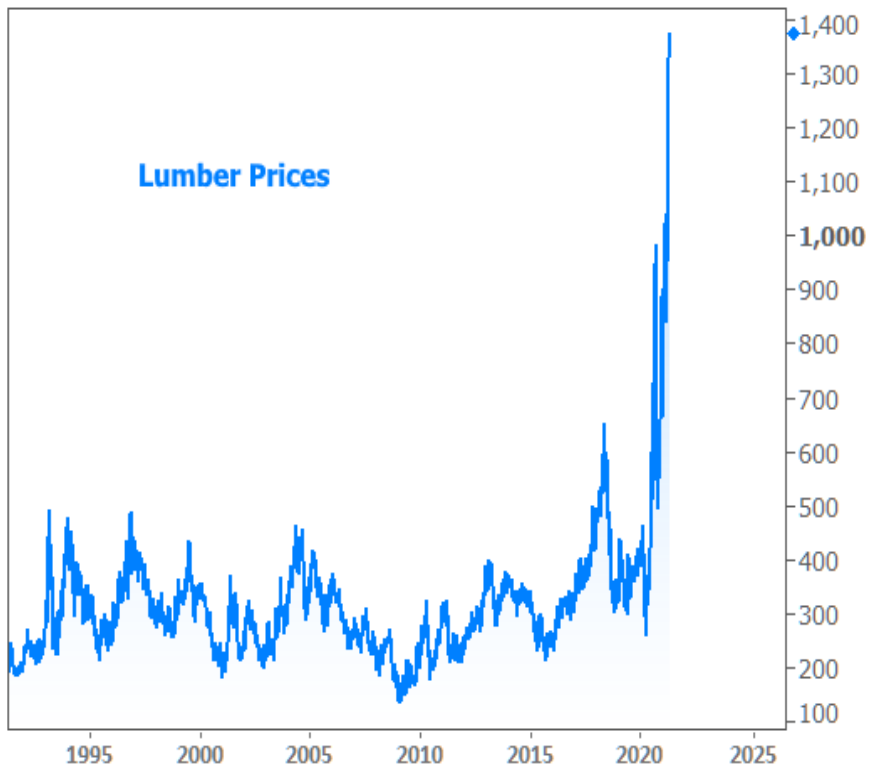


One can't help but notice the rhythmic regularity in the existing home price chart. This is another huge clue in solving our new home price mystery. It suggests that new home prices must be diverging from the broader trend for their own reasons (i.e. something specific to the new home market). Reason being: existing homes comprise a FAR larger portion of the housing market. And because existing homes already--well--exist, their price trend is significantly **less** affected by changes in buyer preferences or builder offerings.

At last we come to the answer. There is indeed something about new homes causing prices to fall. In a word: **SIZE**. The median home is almost 200 sq ft smaller than it was in 2017, and, as anyone who has shopped for a home recently knows, **lot sizes have shrunk** even faster. The net effect is an average new home that is smaller and more affordable.

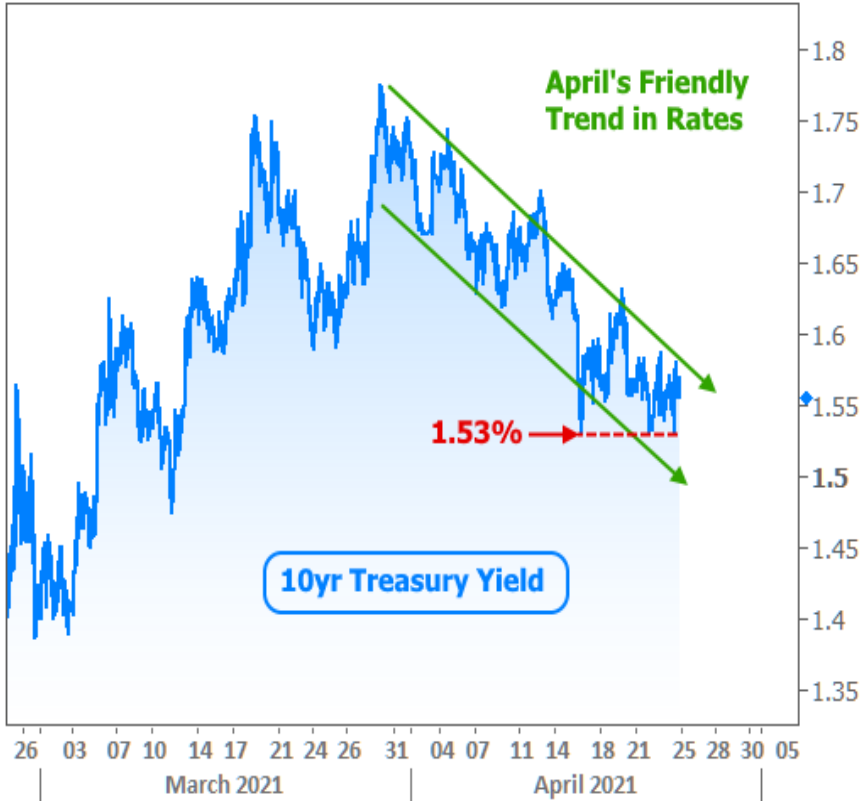


The price chart above would show an **even bigger** contrast were it not for material prices. Lumber is in the **insanity zone**, up more than 300% since the start of the pandemic. Experts disagree on when the madness will end and what sort of recovery we may see.



Persistently low interest rates continue to help offset high material prices. They also benefit existing and new home prices equally. 2021 **had** been an unpleasant year for interest rates up until April. And it wasn't until last week that rates really distanced themselves from recent highs seen at the end of March.

This week was **another good one for rates**, with the average lender back down to the lowest levels in almost 2 months. 10yr Treasury Yields (the most widely-followed benchmark for longer-term rates like mortgages), have been well-behaved in their move lower. The next milestone would be a break below 1.53%--a level that served as a floor both this week and last.

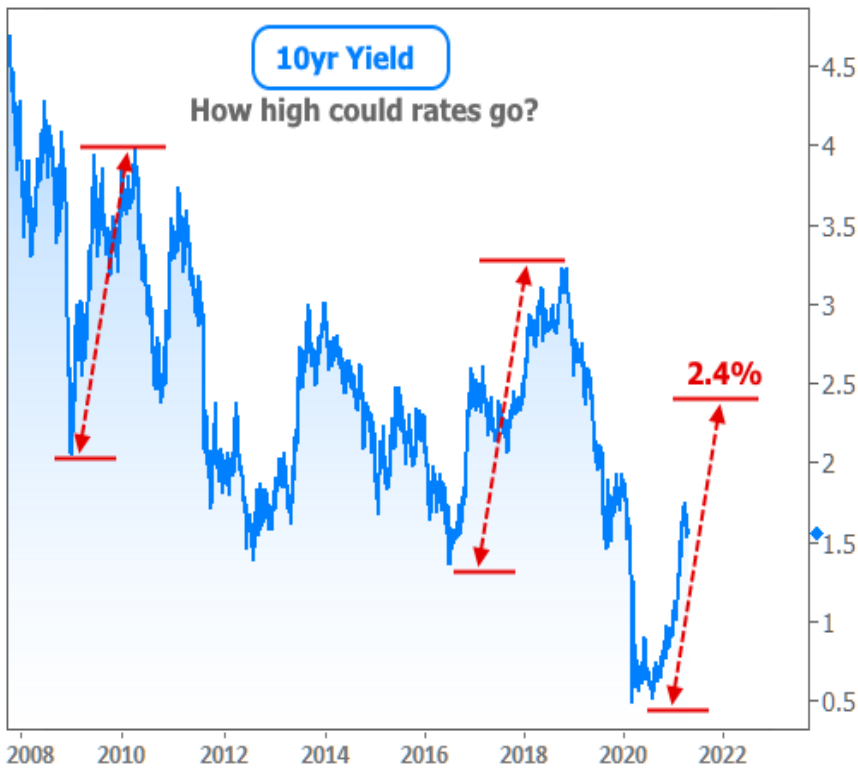


The continuation of this friendly trend depends on several factors. While everyone loves a good prediction, they're tricky business--especially when they pertain to the future. Even if someone is right about rates going lower, they might not be right about the timing or magnitude of the move.

What we **can** know is that over the longer run, rate levels will be determined by the health of the economy, the state of the pandemic, inflation, and the level of new debt issuance (used to pay for things like covid relief and infrastructure). Since we don't really know how everything will shake out, we have to assume there are several potential outcomes ranging from "moderately lower" to "significantly higher."



Granted, if rates move significantly higher, it **wouldn't** be overnight, but it's important to understand lessons from history. They provide 2 clear, recent examples of how long a "rising rate environment" can last, and how much ground it can cover.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Apr 21				
7:00AM	w/e MBA Purchase Index	295.5		279.5
7:00AM	w/e MBA Refi Index	3219.9		2916.7
Thursday, Apr 22				
8:30AM	w/e Continued Claims (ml)	3.674	3.667	3.731
8:30AM	w/e Jobless Claims (k)	547	617	576
8:30AM	Lagarde / ECB Press Conference			
10:00AM	Mar Leading index chg mm (%)	1.3	1.0	0.2
10:00AM	Mar Existing home sales (ml)	6.01	6.19	6.22
10:00AM	Mar Exist. home sales % chg (%)	-3.7	0.8	-6.6
Friday, Apr 23				
9:45AM	Apr PMI-Composite (source:Markit)	62.2		59.7
10:00AM	Mar New Home Sales (%) (%)	20.7	12.8	-18.2
10:00AM	Mar New Home Sales (ml)	1.021	0.886	0.775
Monday, Apr 26				
8:30AM	Mar Durable goods (%)	0.5	2.3	-1.2
8:30AM	Mar Core CapEx (%)	0.9	1.5	-0.9
1:00PM	5-Yr Note Auction (bl)	61		
Tuesday, Apr 27				
9:00AM	Feb CaseShiller 20 yy (%)	+11.9	11.7	11.1
9:00AM	Feb Monthly Home Price yy (%)	+12.2		12.0
10:00AM	Apr Consumer confidence	121.7	113.0	109.7
1:00PM	7-Yr Note Auction (bl)	62		
Wednesday, Apr 28				
7:00AM	w/e MBA Purchase Index	281.4		295.5
7:00AM	w/e MBA Refi Index	3185.3		3219.9
2:00PM	N/A FOMC rate decision (%)	0.000 - 0.250	0.125	0.125
Thursday, Apr 29				
8:30AM	Q1 GDP Advance (%)	6.4	6.1	4.3
10:00AM	Mar Pending Sales Index	111.3		110.3
10:00AM	Mar Pending Home Sales (%)	+1.9	5.0	-10.6
Friday, Apr 30				
8:30AM	Q1 Employment costs (%)	0.9	0.7	0.7
8:30AM	Mar Core PCE Inflation (y/y) (%)	1.8	1.8	1.4
9:45AM	Apr Chicago PMI	72.1	65.3	66.3
10:00AM	Apr Sentiment: 1y Inflation (%)	3.4		3.7
10:00AM	Apr Consumer Sentiment (ip)	88.3	87.4	86.5

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Apr Sentiment: 5y Inflation (%)	2.7		2.7

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley's premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

****Why Choose Us:****

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

****Our Approach:****

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

****Unlocking Possibilities:****

As one of California's leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

****Your Journey with Us:****

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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