



Mike Baker

Head Interest Rate Shopper, The Rate Shop
 Individual NMLS: 259076 Company NMLS: 2554765 State
 23211 W 45th St Shawnee, KS 66226

Office: 913-213-3335
 Mobile: 913-213-3335
mike@rateshopkc.com
[View My Website](#)

New Home Prices Smash Record: Good or Bad?

As we learned roughly 10 years ago, relentless **home price appreciation** can be "too much of a good thing." While the mortgage meltdown was multifaceted to say the least, the sense of perpetually higher home values **didn't help** slow things down. Fortunately, current underwriting guidelines and compliance considerations simply won't allow for a repeat performance. Prices have been rising for more logical reasons this time around.

Two weeks ago, a Fannie Mae survey showed a **record number** of homeowners thought it was a good time to sell. Last week, the National Association of Realtors warned of a "**housing emergency**" on the horizon if supply/demand imbalances continue. All the while, rents have remained high, rates have remained low, and guidelines have made it somewhat easier for prospective buyers to qualify for a mortgage. Higher home prices are a logical result.

Until this week, the pace of home price appreciation was easily characterized as "stronger than expected." Unlike the 15-17% year-over-year gains seen in 2004-2006, the past 3 years have seen a **stable** range of 5-7%. Economists figured that range would be moving down into the 4's in 2017. As such, the most recent CoreLogic tally of 6.9% certainly classifies as "stronger than expected" without coming close to the exuberance of the pre-meltdown era.

Then a report like this week's [New Home Sales](#) comes along. It shows a **16.8% year-over-year advance in home prices**, not to mention a record high level of \$345,800. Is it time to freak out about too much of a good thing?

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00

Freddie Mac

30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

Market Data

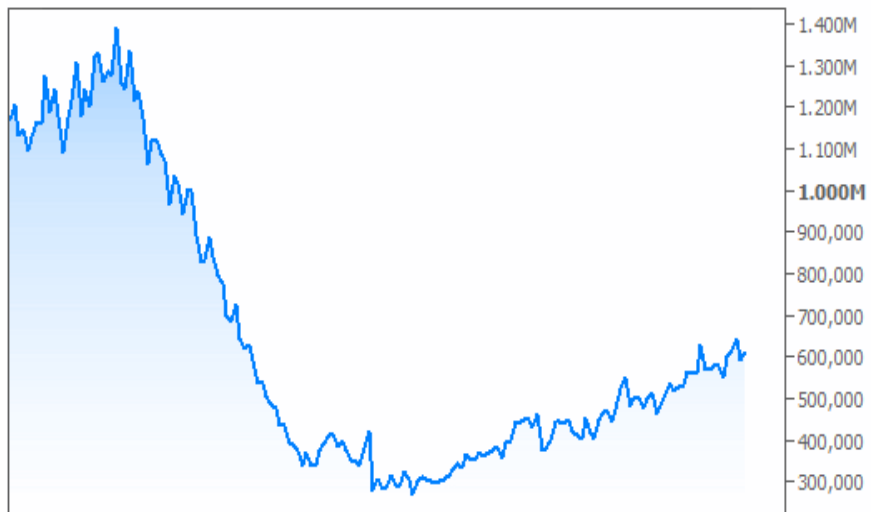
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4089	+0.0109
30 YR Treasury	4.5717	+0.0077

Pricing as of: 7/1 6:43AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
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%

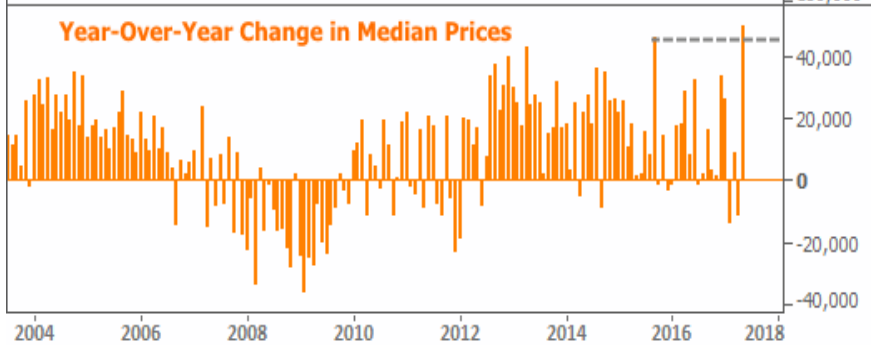
New Home Sales



Median Prices



Year-Over-Year Change in Median Prices



As the chart suggests, these sorts of spikes happen from time to time. Big, isolated spikes have also been more frequent in recent years compared to 2004-2006 or 2013-2014. This is largely due to **geographical** patterns.

Specifically, prices in the Southern region have been growing faster than the Midwestern region. A 24% year-over-year **decrease** in Midwestern sales versus an **increase** of 15% in the South, goes a long way toward driving the general advance in median prices.

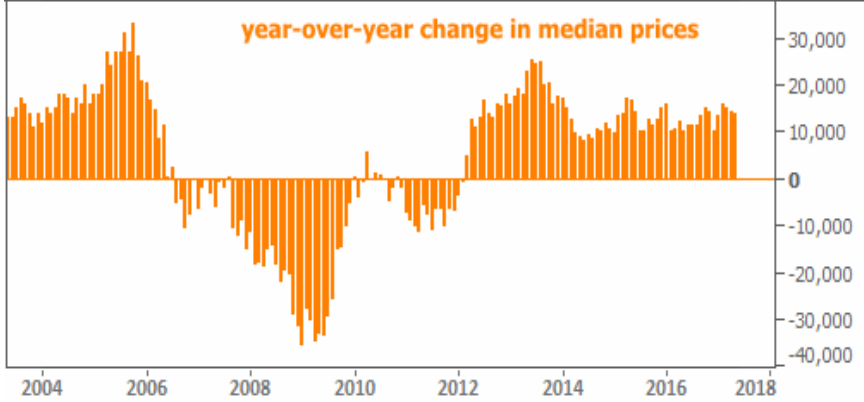
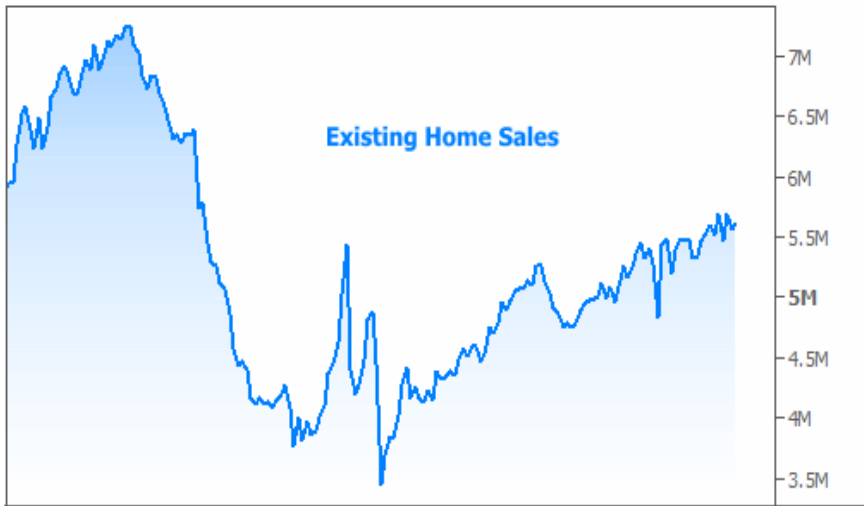
The Western region explains the rest--**especially** the isolated spikes. Sales are up more than 14% year-over-year in the West, and prices have been rising rapidly. The West's median home price (\$370,100 in Q1) is also **well above** the national median, and has been over \$340k since Q2 2014.

Given that the Western sales rose **13.3%** month-over-month versus the next closest region (South) at 6.2%, and that the Midwest **fell by 25.7%** month-over-month, it's no surprise to see the national median dragged quickly higher in the current Census Bureau data.

Does this really mean that home prices are up 16.8% year-over-year? The Census Bureau will be the first to tell you about the **margin of error** in this data (± 21.9 percent year-over-year). Revisions notwithstanding, there's also a good chance this month's numbers will simply be an outlier.

On a final note, it's always good to remember just how small a proportion of home sales are accounted for by new construction. May's tally of 610k (annual pace) pales in comparison to the [Existing Home Sales numbers](#) of 5.62 million reported this week. Additionally, NAR's non-seasonally-adjusted prices paint a **much more linear** picture, as seen in the following chart.

Existing Home Sales



Bottom line: prices are certainly rising, but take the Census Bureau headlines with a grain of salt.

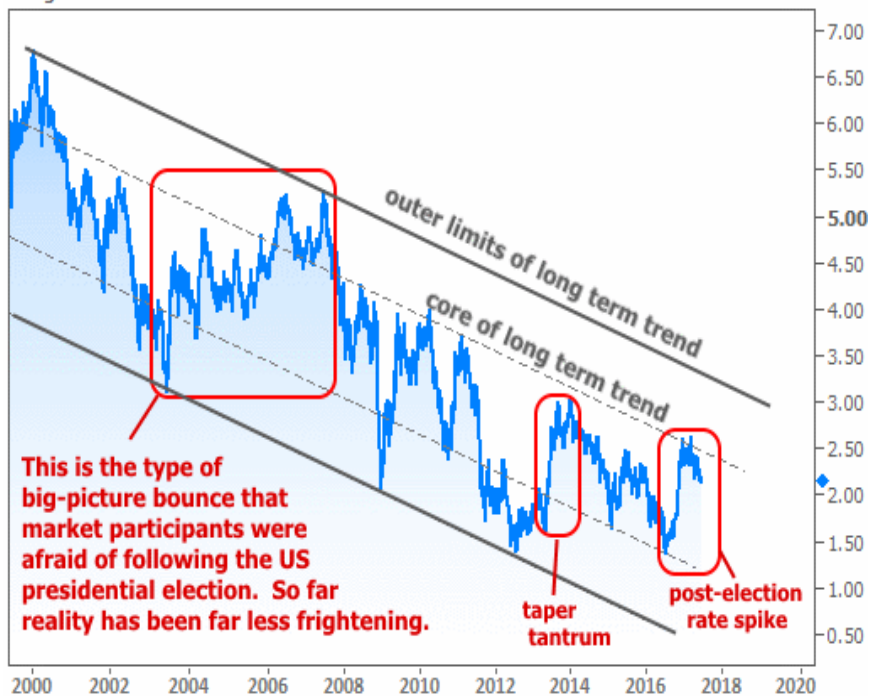
Rates and Markets

While there's typically a fair amount to discuss each week regarding interest rate movement, the current week was **exceptionally quiet**. There weren't many market movers on tap in the first place. Beyond that, we're entering a traditionally quieter time of year for financial markets where rates are less inclined to move unless given a good reason (like the taper tantrum in 2013 or Brexit in 2016).

Following last week's volatility (due to economic data and the Fed on Wednesday), every subsequent trading day has seen rates hold inside a much narrower range. While it's not great for excitement, it's a **great time to be flat** considering rates are near their best levels in more than 8 months.

The bigger picture is starting to look more and more **promising** as well. Whereas the consensus among economists was for sea change in rates following the US presidential election, we've instead seen a spike that looks more similar to the 2013 taper tantrum than the **truly threatening** trend seen from 2003-2008.

Long Term Rates



Next week should see some volatility **return** to rates markets thanks to several higher tier economic reports as well as the month/quarter-end trading environment (which creates a significant amount of compulsory trading needs for money managers).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Jun 21				
10:00AM	May Exist. home sales % chg (%)	+1.1	-0.5	-2.3
10:00AM	May Existing home sales (ml)	5.62	5.55	5.57
Thursday, Jun 22				
8:30AM	w/e Initial Jobless Claims (k)	241	240	237
8:30AM	w/e Continued jobless claims (ml)	1.944	1.940	1.935
9:00AM	Apr Monthly Home Price yy (%)	6.8		6.2
9:00AM	Apr Monthly Home Price mm (%)	0.7		0.6
Friday, Jun 23				

Event Importance:

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	May New home sales-units mm (ml)	0.610	0.597	0.569
10:00AM	May New home sales chg mm (%)	+2.9	5.4	-11.4
Monday, Jun 26				
8:30AM	May Durable goods (%)	-1.1	-0.6	-0.8
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Jun 27				
9:00AM	Apr CaseShiller 20 yy (%)	+5.7	5.9	5.9
10:00AM	Jun Consumer confidence	118.9	116.0	117.9
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Jun 28				
7:00AM	w/e Mortgage Market Index	417.4		445.2
10:00AM	May Pending sales change mm (%)	-0.8	0.8	-1.3
10:00AM	May Pending homes index	108.5		109.8
10:30AM	w/e Crude Oil Inventory (ml)	0.118	-2.585	-2.451
1:00PM	7-Yr Note Auction (bl)	28		
Thursday, Jun 29				
8:30AM	Q1 GDP Final (%)	+1.4	1.2	1.2
Friday, Jun 30				
8:30AM	May Consumption, adjusted mm (%)	+0.1	0.1	0.4
8:30AM	May Personal income mm (%)	+0.4	0.3	0.4
8:30AM	May PCE price index mm (%)	-0.1		0.2
8:30AM	May Core PCE price index yy (%)	+1.4		1.5
9:45AM	Jun Chicago PMI	65.7	58.0	59.4
10:00AM	Jun U Mich Sentiment Final (ip)	95.1	94.5	94.5

Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

Mike Baker

