



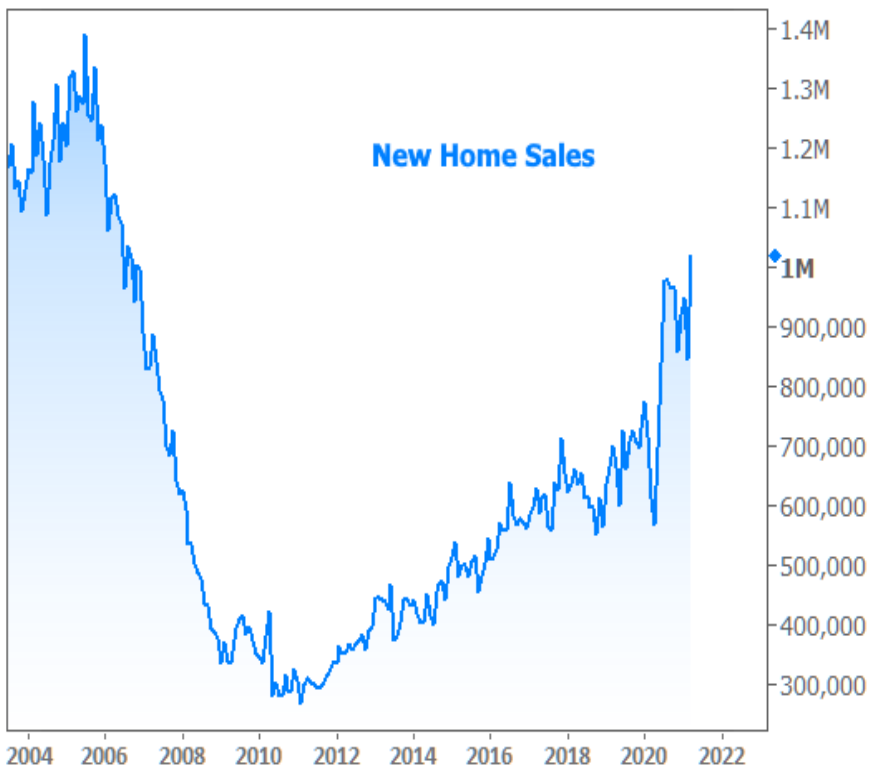
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15-Year High For New Home Sales, But Prices Are Flat. Here's Why

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	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

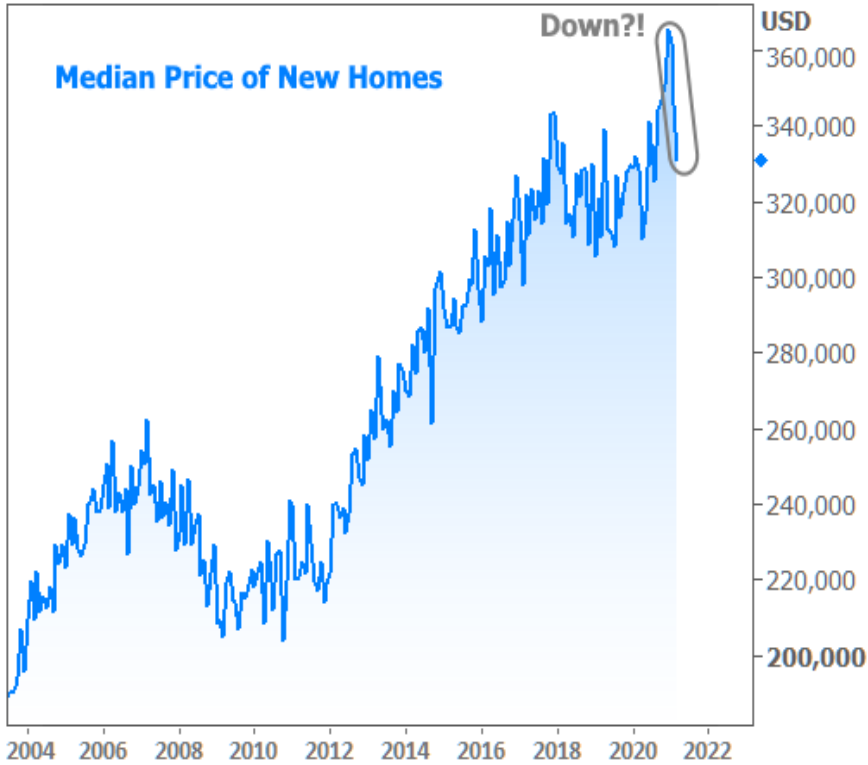
Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3902	-0.0078
30 YR Treasury	4.5583	-0.0057

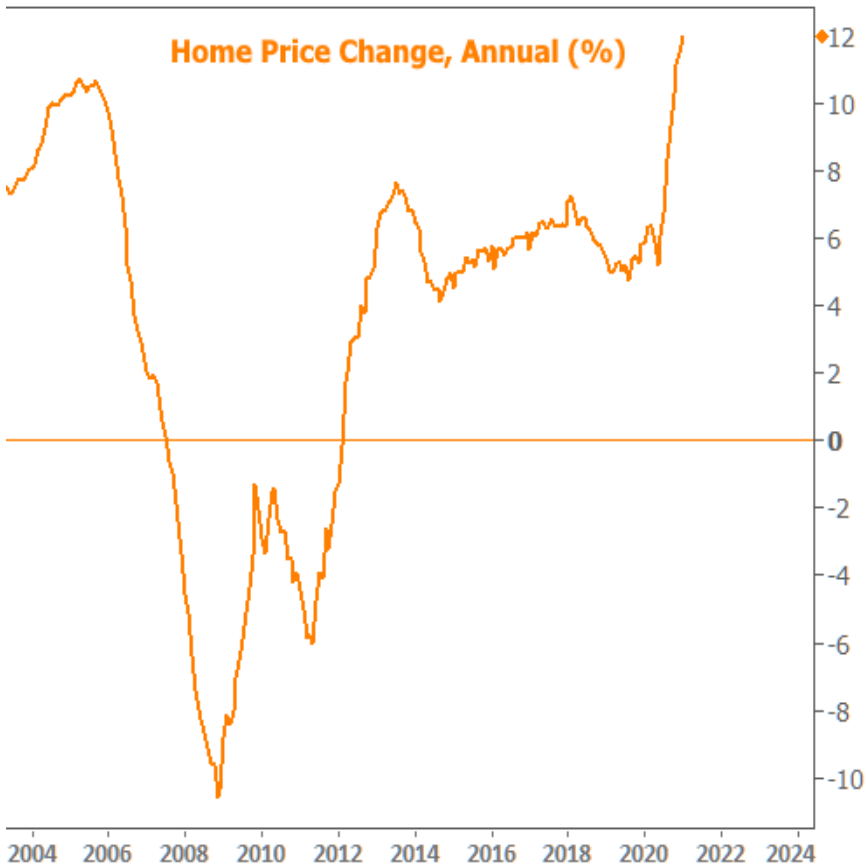
Pricing as of: 6/30 10:49PM EST

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%



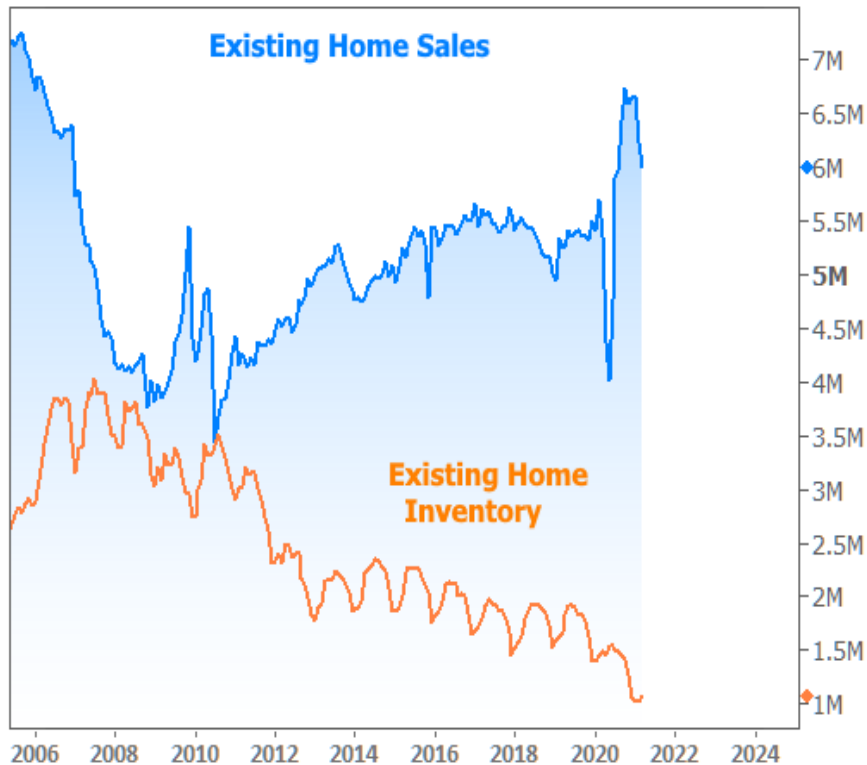
Making this all the more puzzling (at first glance, anyway) is the fact that home price appreciation has been **breaking records** according to some reports. Here's the widely-followed FHFA House Price Index:



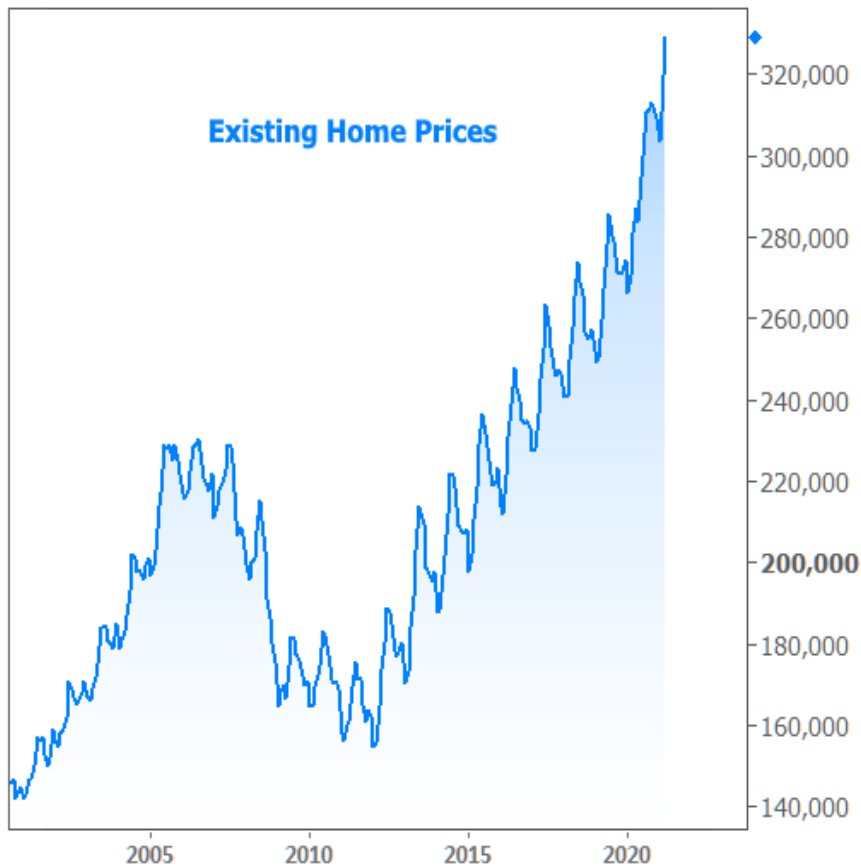
FHFA's data is for REPEAT sales and refinances. That means it **doesn't** capture **new** home prices at the time of construction despite thoroughly tracking home prices in general.

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.

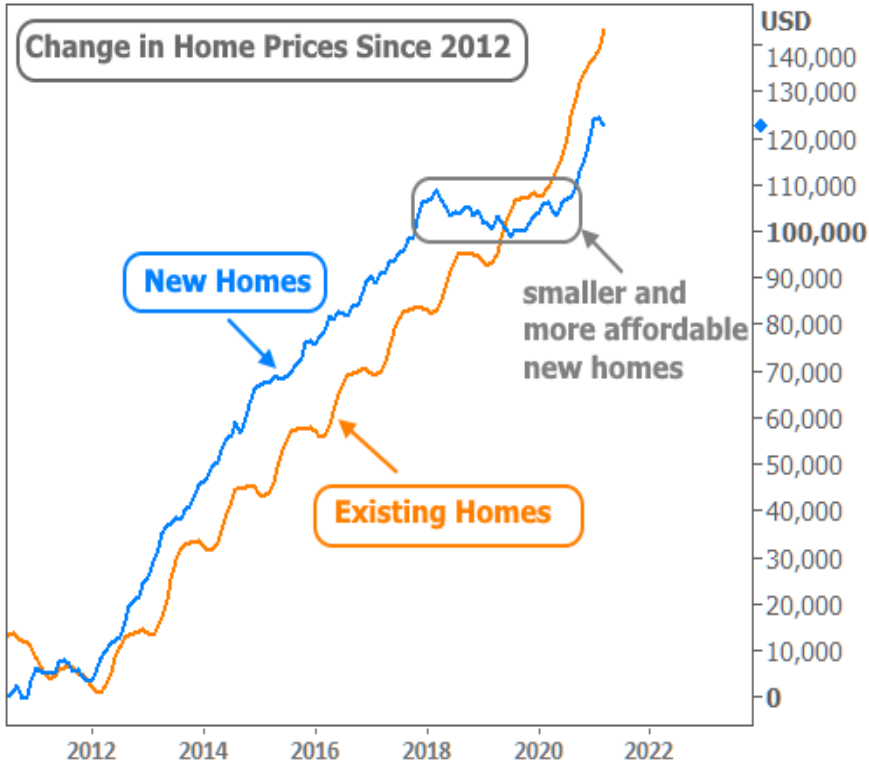


As you might expect, when home sales are falling due to inventory constraints, we shouldn't be seeing any downward pressure in prices. Indeed, existing home prices **easily smashed** their previous record (set last month).



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.

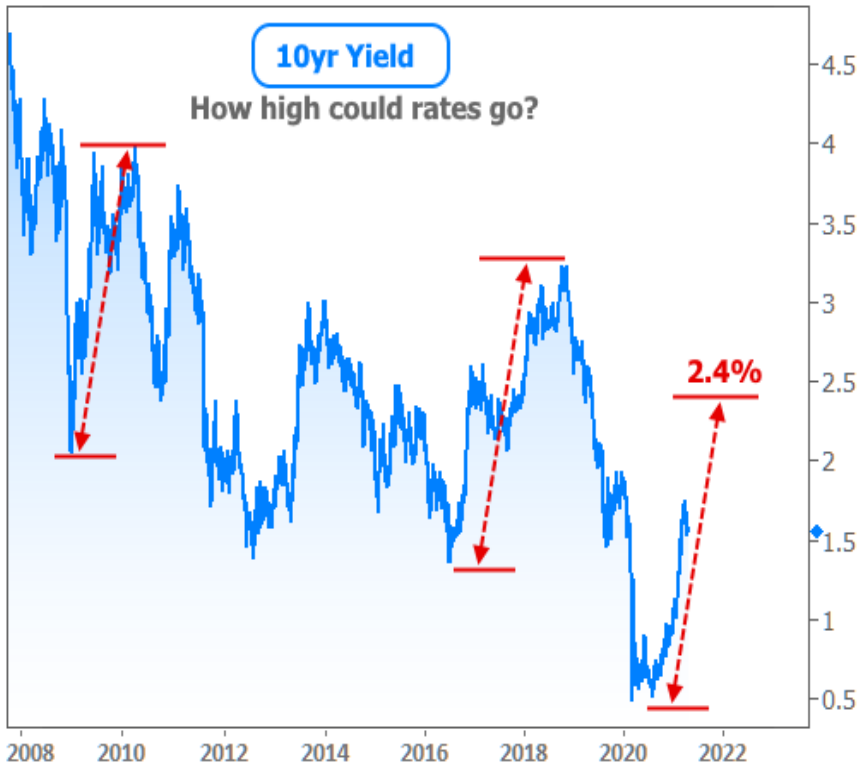


The continuation of this friendly trend depends on several factors. While everyone loves a good prediction, they're tricky business--especially when they pertain to the future. Even if someone is right about rates going lower, they might not be right about the timing or magnitude of the move.

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

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

