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The housing market's key metric just took an ugly turn for homebuyers

BY **LANCE LAMBERT**

March 14, 2022 4:57 AM CDT

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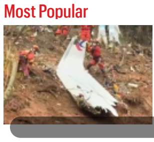

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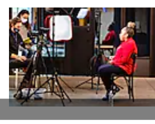

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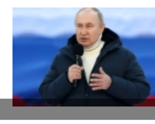

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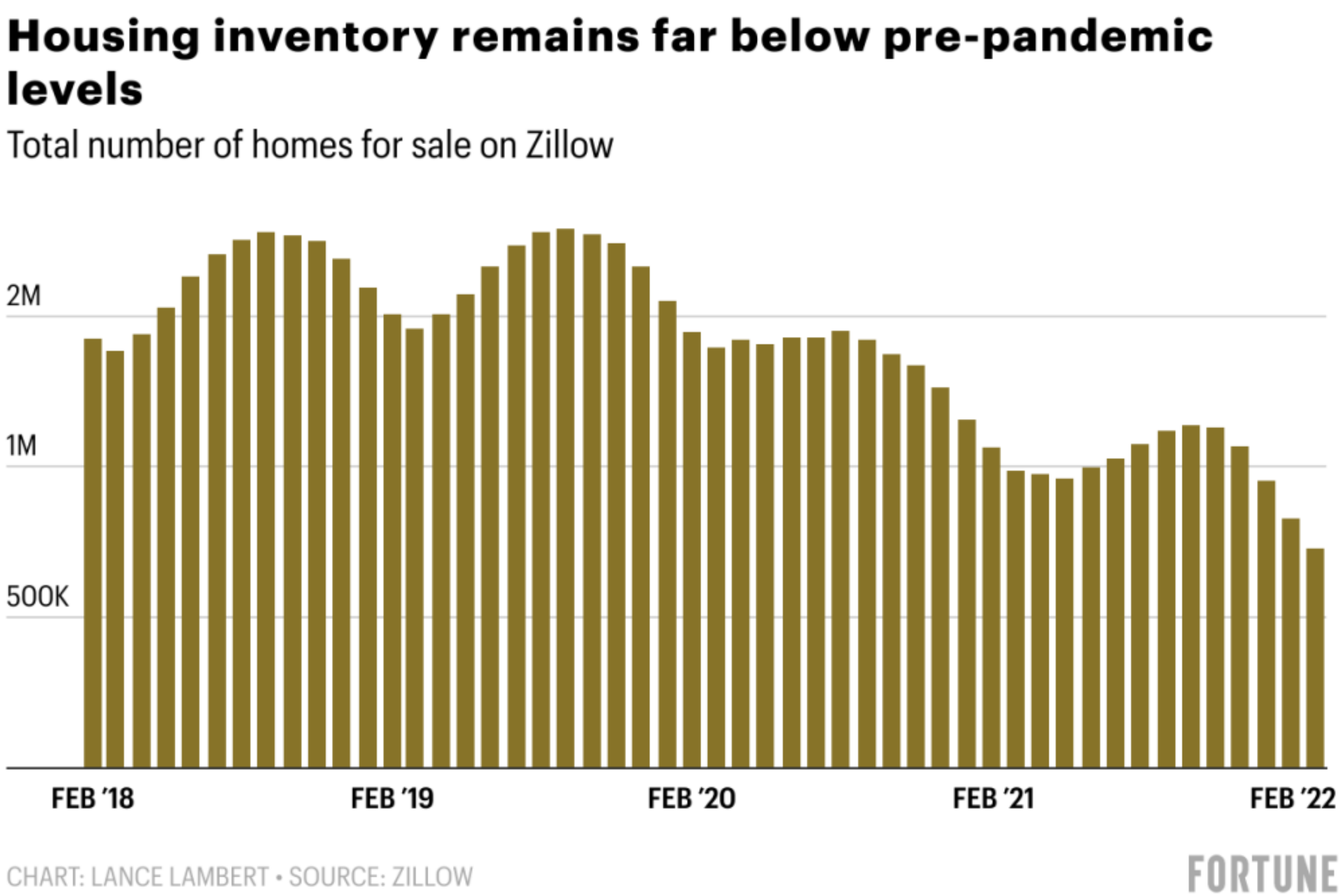
Enticed by record-low mortgage rates and employers allowing them to work from anywhere, home shoppers rushed into the housing market during the pandemic. That influx of buyers caused inventory—the number of homes for sale—to plummet. Of course, less supply in the face of higher demand is the perfect recipe for spiking home prices.

It was believed this inventory crisis would improve once the worst of the pandemic was in the rearview mirror. The thinking was that many elderly Americans, who weren't keen on selling and moving during a pandemic, would finally list their homes for sale once they were vaccinated. In addition, many real estate experts predicted last year's winding down of mortgage forbearance, a program created to protect homeowners during the pandemic, would see more homes come on the market. For a while it did. In April 2021, housing inventory on Zillow bottomed out at 960,000 listings. By September, it had risen to 1.1 million.

The bad news for homebuyers? Inventory levels are once again falling.

On Friday, Zillow reported that U.S. inventory sank to 729,000 home listings in February. That's down 25% from February 2021, and a decrease of 48% since February 2020. It also marks the fifth consecutive month of declining inventory.



As long as inventory levels remain near four-decade lows, Devyn Bachman, vice president of research at John Burns Real Estate Consulting, tells *Fortune* it will be hard for the housing market to return to a normalized level of growth. That sentiment is shared widely among housing economists, who point to inventory as the key metric for determining when the unprecedented housing boom will finally cool down.

The inventory crunch isn't just happening in high-priced markets like San Jose and New York. Indeed, among the 327 regional housing markets measured by Zillow, three in four have inventory figures that are at least 30% below pre-pandemic levels.

"We're sold out of homes, and sold out of patience. That's where we are in today's housing market," Bachman says.

Why is the inventory situation getting worse? It starts with demand, which isn't letting up. We're still amid the five-year window (between 2019 and 2023) when every millennial born in the generation's five largest birth years (between 1989 and 1993) will hit the all-important first-time homebuying age of 30. Homebuilders, who cut back on building after the 2008 financial crisis, simply weren't ready for this demographic wave that was looming even before the pandemic struck. To make matters worse, homebuilders are now struggling to even fulfill contracts on time as the overwhelmed global supply chain continues to create delays and shortages for everything from garage doors and windows to framing lumber.

There's another reason inventory is shrinking again: Spiking mortgage rates. Back in December, the average 30-year fixed mortgage rate was at 3.11%. As of Friday, that rate has spiked to 3.85%. In theory, higher rates should cool the market over time. However, this sudden move up in mortgage rates, Bachman says, has corresponded in a short-term uptick in "buyer urgency." Home shoppers, she says, are rushing to buy now before rates go even higher. Of course, that's only taking more inventory off the market.

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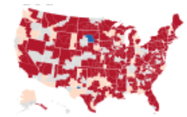

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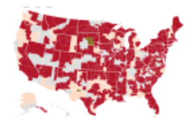

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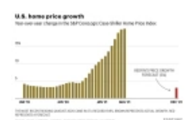

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