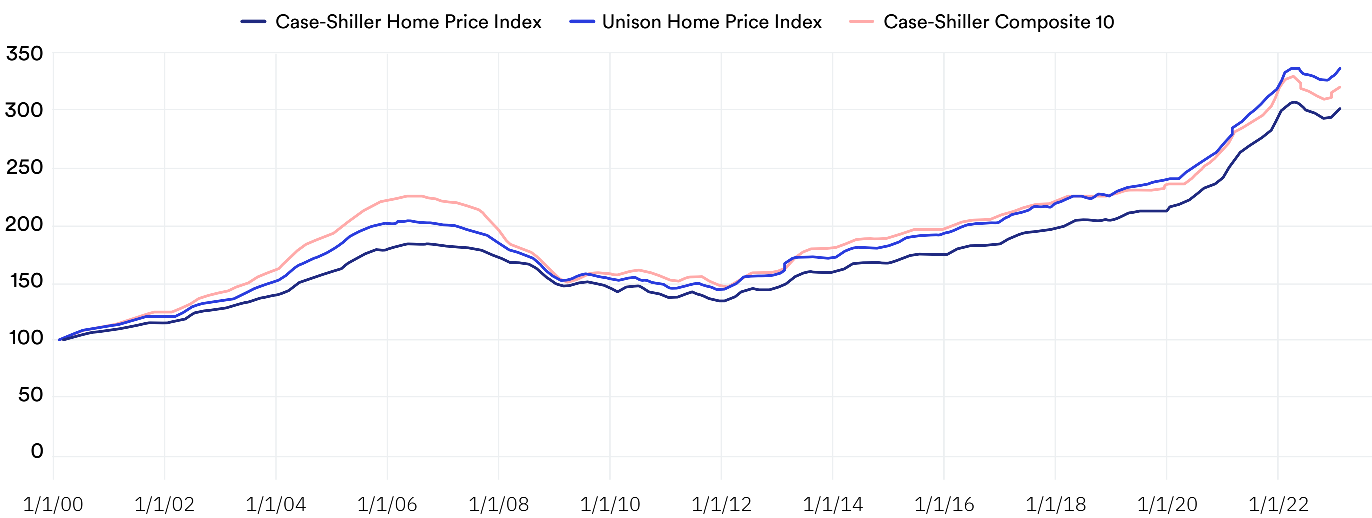
unison
Investment Management

Home Prices: Soft Landing with Rebound Incoming

Home Prices as measured by the Case-Shiller U.S. National Home Price Index ticked up for the third consecutive month, growing at 1.3% for the month of April. Home prices peaked in June of 2022 and suffered six straight months of declines until bottoming out in January 2023. Since January, prices have leveled off and have dramatically sprung to life. These gains have been concentrated among the larger metropolitan areas in the United States, with the Case-Shiller Composite 10 and 20 both growing at 1.7% in April. Prices are still down -0.2% from last year; however, that number is a result of the declines in the last six-to-nine months, rather than the current state of the market. The gains are well-distributed and positive across the top 20 metros in Case-Shiller Index, ranging from 0.7% in Phoenix (the most sluggish), to 2.9% in Boston fastest growing). Unison's Home Price Index, which offers a preview of how prices may evolve one month ahead using a similar methodology to Case-Shiller, has home prices increasing by 1.1% in May.

Home Prices Tick Up in April



While some experts were predicting a reversion similar to the 2008 housing crisis, Unison has continued to believe that a soft landing was the most likely course, because several fundamental factors were different. The first difference is that the housing supply was much quicker to react to the changing circumstances than in 2008. Specifically, the monthly supply of new houses pulled back almost simultaneously with the drop in prices, as noted in our most recent market commentary. Additionally, permit issuance and active listings fell quite precipitously. These factors acted as a strong backstop, which wasn't in place during the price free-fall we saw during the Great Financial Crisis (GFC).

At the start of the GFC, the Fed was actively lowering interest rates to combat the economic recession. In the current environment, the Fed has been actively hiking interest rates, causing mortgage rates to balloon. With so many homeowners previously locked into low-interest-rate mortgages, they decided not to sell their homes. A lack of advantageous financing options has kept supply low.

Moving forward, we expect home prices to continue to quickly recover to their historical trajectory of 4.7% annually. New research shows that the effects of rate hikes are relatively short-lived because they affect home prices through higher mortgages more immediately, rather than the one to two year horizon experts previously thought. While there are two more rate hikes priced into the Fed's own projections and the market itself, we believe the risk premium for mortgage rates (30-year mortgage minus 10-year treasury spread) will only fall over the next three-to-six months. Inflation, as measured by the CPI, is quickly moving towards the Fed's target and there is much less financial uncertainty in the near term than there has been over the last six months. We can expect credit spreads to contract and give a boost to the demand side of the housing market as a result.