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### January Home Sales: New Home Sales Spring Forward – In January . . .

- New home sales rose to an annualized rate of 437,000 units in January, from 378,000 units in December (originally 369,000).
- Existing home sales rose to an annualized rate of 4.920 million units in January, from a sales pace of 4.900 million units in December.
- Year-over-year, the median existing home price rose by 12.3 percent, while the median new home price rose by 2.1 percent.

**New Home Sales:** January's annualized sales rate of 437,000 units marks the highest sales rate since July 2008. Inventories of new homes remain exceptionally low and when scaled to the current sales rate, there is a 4.1 months supply of new homes for sale, the lowest reading since March 2005. The median new home price rose just 2.1 percent on a year-over-year basis in January, ending a five-month string of double-digit increases. There was a change in the mix of sales in January, with a higher share of new home sales at prices below \$200,000 and fewer sales at prices in excess of \$300,000.

We continue to hold that with buying conditions remaining favorable inventories are the big story in the new home market. Inventories of new homes for sale are slightly off of the historical lows they have been bumping along for the past several months, but are still likely low enough to be acting as an impediment to faster sales. This may seem to be at odds with what has been a sharp increase in single family starts over recent months, but there are two factors that need to be accounted for. First, accounting for the normal single family construction times means it will be at least another month or two before we start to see sustained increases in inventories of completed new homes for sale. Second, and this is the point missed by those analysts fretting that new home starts are running ahead of sales, not all newly built homes are intended for sale – only about two-thirds of all single family starts over recent years have been intended for the sales market, and completions of new homes intended for sale continue to run behind sales.

As such, while January's sales pace may not be sustained over coming months, we nonetheless expect to see continued improvement in new home sales over the course of 2013. Until there is a more meaningful increase of new homes intended for sale, builders will continue to enjoy a high degree of pricing power, but this is unlikely to become an impediment to sales given the competition from existing homes.

**Existing Home Sales:** Existing home sales rose slightly to an annualized rate of 4.920 million units in January, with higher sales in the Midwest, Northeast, and South regions offsetting lower sales in the West. Perhaps more significant than the headline sales number is the further decline in inventories of existing homes for sale. At 1.740 million units, inventories of homes for sale now stand at their lowest level since December 1999. Scaled to the current sales rate – a more useful measure of inventory – there is at present a 4.2 months supply of homes available for sale, the lowest level for that metric since April 2005.

According to the NAR, distress sales accounted for 23 percent of all sales in January. It bears noting that this share has been falling over the past several months – in early 2012 distress sales were still accounting for about one-third of all sales. The decline in distress sales is consistent with data from the Mortgage Bankers Association showing a declining foreclosure inventory and falling foreclosure starts. Lower inventories and a falling share of distress sales are helping drive the double-digit gains being seen in median sales prices – in January the median existing home sales price was up 12.3 percent relative to January 2012.

The NAR's press release declared a "seller's market" was developing. We would not go quite that far – it is likely there is a good deal of pent-up supply (i.e., prospective sellers waiting for more favorable pricing) yet to hit the market, while other prospective sellers may still be underwater and thus unable to list their homes. Continued rising prices could, therefore, lead to meaningful increases in sales listings. Still, we think it significant that sales to conventional buyers are not only rising – which we had pointed to as a necessary condition of a continuing recovery in the housing market – but are doing so at a fairly rapid clip. What is likely is that over coming months sales will continue to rise steadily but rising inventories will take some of the spark out of reported rates of price appreciation, which is a healthy combination.

