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REAL ESTATE

Housing's New Wealth Effect

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By Jonathan J. Miller

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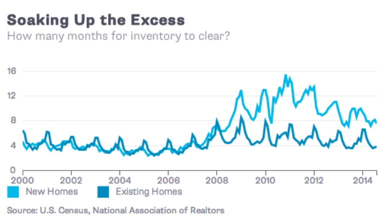
It was a busy week for housing market reports. The U.S. Census published its new home-sales results for August, showing an 18 percent gain from the prior month and a 33 percent increase from August 2013. News headlines relied on words such as “surged” and “soared” to describe the results.

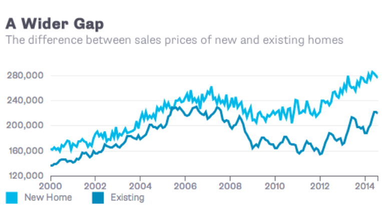
Only a few days earlier, the National Association of Realtors released its existing home-sales report for August, which showed month-over-month sales falling for the first time in four months. The inventory of unsold properties was 4.5 percent higher than a year earlier. I recently addressed the market slowdown in "Understanding Housing’s Dog Days."

Yet these two data points offer a one-dimensional view of the market. The better metric is the monthly absorption rate, which measures of the number of months needed to sell all inventory at the current sales pace.



Before the financial crisis, the absorption rates of new and existing homes were in sync. Since then, it has taken a good deal longer for the inventory of new homes to clear. This seems to suggest that tight credit had a disproportionately greater effect on the construction and sales of new homes than on the existing housing stock.

But it isn't that simple. Although new home-sale prices have been higher than existing-home prices for decades, the gap widened a lot in the past six years. This gap is the result of a shift in the mix toward larger properties, not rising premiums for new homes. This reflects the difficulties many middle-income borrowers have had getting mortgages, driving more builders to develop higher-priced properties aimed at affluent buyers with better credit.



In other words, it's getting crowded at the top.

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