AEI Housing Center

Housing Market Indicators for the Nation:
Update for 2018:Q4

The table below summarizes the most important housing market indicators for the nation in 2018:Q4. These indicators are described in further detail below.

Snapshot for 2018:Q4	Nation
House price appreciation (HPA) from a year ago	3.9%
Cumulative HPA (from 2012:Q1 onwards)	39%
Months' supply	3.4
AEI Mortgage Risk Index	11.1%
Entry-level loan share	55%
New construction contribution to existing housing stock	2.2%
New construction share of sales	11.2%
Avg. entry-level sale price	$197,000
Avg. move-up sale price	$489,000

Definitions:

House price appreciation (HPA) from a year ago measures how much more – or less – the same houses would sell for today than if they had sold a year ago.

Cumulative HPA (from 2012:Q1 onward) measures how much more – or less – the same houses would sell for today compared to what they would have sold for in the first quarter of 2012.

Months' supply measures the number of months that it would take for the existing housing inventory to be sold at the current sales pace.

AEI Mortgage Risk Index measures the riskiness of mortgages originated today. A higher mortgage risk index implies easier access to credit, but also indicates greater likelihood of default.

Entry-level loan share measures the share of loans of any type that go to entry-level buyers. We define entry-level as all sales below the 80^{th} FHA price percentile in a metro. (For more detail, see methodology section.) All sales with prices above this point are in the move-up segment.

New construction contribution to existing housing stock measures the share that homes newly constructed between 2013 and 2018 now constitute of the total single-family housing stock.

New construction share of sales measures the share of new construction sales as a percentage of all home sales.

Avg. entry-level/move-up sale price measures the average sale price for homes sold using financing in the entry-level or move-up segment.

Market Segments:

The AEI Housing Center tracks housing activity both for the entire market and for entry-level and move-up buyer segments. This segmentation is important because housing policies, new construction activity, and access to leverage vary by market segment. These can create very different home price appreciation (HPA) trends depending on the segment.

Across the nation, the entry-level segment consists largely of first-time buyers, while the move-up segment consists mostly of repeat buyers. The cut-off point between the entry and move-up segment are set at the metro level and changes every quarter based on home price and demand changes. Of all homes sold during the 4th quarter of 2018, 55% were in the entry-level segment and 45% were in the move-up segment. The average house sold for $197,000 in the entry-level segment and for $489,000 in the move-up segment.

House Price Appreciation:
Nationally, house prices in the 4th quarter of 2018 increased 3.9% compared to the same quarter a year ago.

There was a moderate difference in the rate of house price appreciation across market segments. In the entry-level segment, house prices in the 4th quarter of 2018 increased 4.5% compared to the same quarter a year ago. In the move-up tier, they increased 3.1%.

For the nation, house prices since 2012 have increased 39% overall, 43% in the entry-level segment, and 34% in the move-up segment. Had house prices for the entry-level segment risen at the same rate as the move-up segment over this period, the average entry-level buyer would be spending $13,100 less for a home today.

Market conditions:
AEI measures market conditions by comparing the availability of supply to demand, applying the commonly used metric of months' supply. Months' supply is the number of months that it would take for the existing housing inventory to be sold at the current sales pace. These data come from Zillow.

We distinguish two types of markets: one that favors buyers, and one that favors sellers. In a seller's market, house prices tend to rise as the relative lack of supply leads to greater competition between buyers for the limited amount of homes for sale. In a buyer's market, house prices tend fall as the more plentiful supply forces sellers to lower prices to attract buyers.

Across an entire market, a value of six months' supply is generally considered the demarcation between a buyer's and a seller's market. The lower the months' supply, the stronger the seller's market, while the higher the months' supply, the stronger the buyer's market.

The nation had a strong seller's market in the 4th quarter of 2018. Months' supply stood at 3.4 months, which was up from a year ago when months' supply stood at 2.6 months.

Broken out by market segment, there were strong differences in the nation. For the entry level segment, months' supply stood at 2.3 months. For the move-up level, it stood at 5.2 months. On a market segment basis, entry-level markets tend to have a somewhat lower demarcation point between a buyer's and seller's market (estimated around 5 months) and move-up markets tend to have a somewhat higher demarcation point between a buyer's and seller's market (estimated around 7 months). This is because even in a balanced market, the less expensive entry-level homes usually sell more quickly than move-up homes. Lower levels of months' inventory tend to lead to upward price pressures. This is especially common in the entry-level market, where supply has been most constrained since 2012 and which has led to reduced affordability.

Mortgage Risk:
AEI measures the level of mortgage risk present in a metro. Higher mortgage risk implies greater access to credit, but also indicates greater likelihood of default. While at first glance, greater access may seem like a positive, especially for first-time buyers trying to enter the market, when market conditions are tight, it actually works to their detriment. During a seller's market, greater access to credit is capitalized into higher house prices, which then generally results in home prices rising faster than, for example, incomes or rents.

Nationally, the mortgage risk index for the 3rd quarter of 2018 stood at 11.1%, which is unchanged from a year ago. Mortgage risk varied substantially by market segment. The risk index for entry-level buyers was 15.1%, but only 7.5% for move-up buyers. Higher levels of mortgage risk for entry-level buyers during seller's markets tend to exacerbate the upward pressure on house prices in this segment.

New Construction Activity:
Between 2013 and 2018, new construction has added 2.2% to the nation's housing stock.

Additions to the existing housing stock over this period varied substantially by market segment. While 1.1% was added to the entry-level segment stock, 3.9% was added to the move-up segment stock. Lower levels of additions to the entry-level housing stock tend to exacerbate the upward price pressures on a market segment during a seller's market.

New construction sales accounted for 11.2% of all sales in the 4th quarter of 2018. In the entry-level segment, the new construction share was 6.2%. In the move-up segment that share was 19.6%.

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