Talk Smart!

A closer look at August 2022 sales throughout the Charlotte region.
All data is according to Canopy MLS.
Underlying messages:

Inventory, Inflation and Interest rates continue to be the main impact to the housing market.

- The Charlotte region (16 county region) is seeing yet another month of year-over-year sales declines – making August, the 8th consecutive month of year-over-year declines, during a time when homebuying is typically strong.

- **Pending sales**, which tend to be a good indicator of future sales and buyer demand, are sales that are under contract or in the pipeline, because they typically close within 40-60 days (or sooner based on more recent days on market stats) – were down 18 percent year-over-year in August, which means that sales will continue to be down in the coming months.

- In August, contract the only areas in the Charlotte region experiencing year-over-year increases in buyer activity this month were: Stanly, Lincoln, Iredell, Cabarrus, Anson and Alexander Counties. In July activity was focused in: Chester (+52%) and Chesterfield County in South Carolina (+18.2%) and Stanly County (17.4%) as well as Uptown Charlotte (+5.6%) and Denver, NC (10.8%) where showing and contract activity continue to show buyer interest relatively strong.

- **New listing activity** during the first half of 2022 – has actually started to tell a different story – as of May and June -with new listing activity increasing year-over-year. Listing activity was down in August as it was in July but the activity over the last couple of months has helped to lift supply. Supply in August was 1.5 months compared to one month of supply a year ago.

The positive: Inventory and supply showed increases at report time, for a third consecutive month. Inventory, which totaled 6,700 homes for sale has increased 26 percent compared to last year, pushing supply from 1.1 months in August 2021 to 1.5 months of supply this past August. The subtle but steady changes in supply will help to cool rapid price appreciation over time.

- Sales activity has been largely impacted by increased lack of affordability. Also, the median sales price has risen in large part due to the higher price point of homes that are currently selling.

Surprises this month: The Original List Price to Sales price ratio continues to fall (It was 98.5% in August), which signals sellers beginning to lose their "hold" on the market, as price reductions – which have increased more than 157% since last August, continue to show buyers gaining in bargaining power. However, Days on Market are still fast, with homes selling in 15 days.

- ***For the Charlotte Region, the original list price to sales price ratio topped 102.8% in April and 102.9%*** *in May 2022. However, it decreased a bit (-0.1%) to 101.9 percent in June. And in July*

2022 it was 100.3%. August reports show this metric at 98.5%. This still shows sellers in the market receiving over list price for their homes in August, but the continued decline could mean that the few buyers that are still shopping, are really scrutinizing price. This is a metric we will watch closely over the next few months.

- **Days on Market continues to cycle lower.** DOM averaged 15 days in August 2022, this is unchanged compared to July 2022 and compared to last June.

- This tells us sellers are still driving the overall pace, giving buyers in the summer market little time to negotiate. Conversely, sellers should work with their Realtor® to plan for how quickly the home could sell.

The last two years of phenomenal sales activity was as a result of several things:

- The low mortgage rate environment that carried over from 2019,
- The pandemic and lockdowns over the first half of 2020, that caused pent-up buyer and seller activity to be pushed into 2021
- Consumers making significant lifestyle changes, i.e., remote work creating the ability to work anywhere, increased demand for larger homes and second homes.

- Buyers are increasingly frustrated by rising rates, rising prices, tight inventory and economic concerns. Even the National Association of Realtors® acknowledged that growing economic concerns would stall buyer activity.

- Sellers like buyers continue to be distracted by growing economic concerns and tensions in the country and abroad (in the EU). This month-over-month growth in new listings will do little to help the inventory situation in the short term, as homes are still being purchased as quickly as they're listed.

- However, long term, with buyer activity slowing because of rising rates and prices, should sellers continue to list, inventory will slowly increase and prices should also start to moderate.

- Buyers looking now are much more measured about their financial limits, though many are also pressed to act due to the rising rates. Rising rents are also a factor, as rent continues to outpace monthly mortgage payments.

- Buyers interested in the market, should start preparing now to determine their lending options and financial position, and they need to be flexible in terms of location and amenities, while also being mindful of how quickly the market is moving.

- A fast-paced market means buyers have less time for negotiation, as multiple offers in highly sought-after areas, will cause homes to close quickly. They should connect with a Realtor® to navigate the complexities of the market.

- Sellers also have to be mindful that homes have to be priced for the very local market – down to the neighborhood level to ensure that the home sales quickly and for the best market value.

Other Indicators

- Buyers, particularly work from home buyers, are seeking larger homes with dedicated offices and outdoor living spaces in suburban and rural settings, which means buyer interest should continue in the region's surrounding counties. Steady contract and closed sales activity throughout a number of outlying counties and areas continue to support this trend.

- Inventory/supply and rising rates will continue to impact prices this year, especially given the increased competition among buyers, pressed by rising rates. Inadequate housing stock is going to be the main issue that holds the market back in the coming year.

- Sellers who are ready to list have the opportunity to receive high visibility for their listings and spend less time on market. Days on market (DOM) continues to break records as it trends lower. Properties averaged 14 days on market in June. The Charlotte region's extremely tight inventory situation will continue to impact prices.

- The **median sales price**, which is the best measure of price over time (since it factors out extreme highs & lows of the market) was $385,000 in July and reflects a year-over-year increase of nearly 16 percent.

Price growth overall will continue, with some areas seeing increased volatility due to rapidly dwindling supply. Supply chain issues and rising prices continue to impact builders and the new construction market and how quickly inventory is developed.

With buyer demand cooling, and fewer contracts in the sales pipeline, we expect to see further sales declines, especially given housing affordability challenges due to rising rates.

The silver lining to the slower sales environment is that inventory is starting to increase, and that will provide buyers, with more choice. With that said, we will still need to see supply levels rise substantially over time, in order to really cool home price appreciation.

We will continue to see increased affordability challenges for first time buyers and workforce buyers as buying and renting become unaffordable.

Outlook ahead and reasons for concern:
Renters paying near mortgage prices monthly, run the risk of not being able to save for down payments. According to the National Association of Realtors® approximately 3 million renter households aged 25-40 years old, already **spend 50 percent of their income on rents,** which will make it even more challenging to save for future down payments.

The affordability issues our market is facing does not point to a housing bubble or market collapse.
Real estate bubbles occur when speculation overtakes a market and prices rise, not because demand is increasing, but because buyers believe prices will continue to rise in the future, increasing the value of their investment and the potential to "flip" homes.

That type of speculation is not what is driving housing demand or the price increases our market is experiencing. Historically, there has not been enough housing built in Charlotte to keep up with the unprecedented demand that we've seen over the past few years.