Talk Smart!

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

Inventory is rising slowly. Inflation is still an economic concern. Mortgage rates, rose higher than 7 percent during the month but have fallen back into 6% territory, which is still historically low.

- The Charlotte region (16 county region) is seeing yet another month of year-over-year sales declines – making October, the 10th consecutive month of year-over-year declines. Sales contracted deeply in October, falling 30 percent year-over-year in the steepest decline in sales since May 2020. Year-to-date figures suggest the region is on track to finish the year with about 50,000 sales, which is in alignment with 2019 (closings = 50,800 units)

- **Pending sales**, declined by nearly 34 percent year-over-year and were down 12 percent when compared to the month of September. Buyers, already frustrated by rising rates, prices and tight inventory, were likely distracted by upcoming mid-term elections in early November, dismal economic news and the upcoming holiday season. Contract activity will likely continue to weaken in November and December.

- Interest rates are impacting buyers – but buyers, who are largely Millennials, should be educated regarding rates. Rates rose into 7 percent territory this month, but have settled back to 6% which is still historically low, given this was a popular rate in 2007 and 2008 boom years. This rate was also popular in the early 2000s. A look at rates over time, shows that the parents of Millennials, endured higher rates and their grandparents' generation, experienced double-digit interest rates – 10% plus or higher.

- A number of programs and strategies are available – like the 2-1 Buydowns, to help buyers with rates. There are several potential benefits for homebuyers with a 2-1 buydown. For one thing, it can help them afford a larger mortgage and a more expensive home than they might otherwise qualify for. For another, it buys them some time before their mortgage payments rise to the full amount, which can be helpful if their income is also rising from year to year.

- Sales activity is still prevalent in outlying counties – an indication that buyers are looking for affordability and are willing to commute, given current work-from-home and flex scenarios.

- **New listing activity** started increasing in the region as of May and June. Listing activity was down in August, September and this past October. Lower demand has created a less frantic buying environment for buyers still looking. But without new listing activity, inventory levels will stall and prices increases could continue as a result. Supply was 1.5 months in August and has inched up to 1.6 months at report time in September. October showed the region had 1.8 months of supply. However, supply will have to build over the next couple of years in order to move the market back into balance and cool prices.

The positive: Inventory and supply showed increases at report time, for a fifth consecutive month. Inventory, which totaled 7500 homes for sale has increased 42 percent compared to last year, pushing supply from 1.1 months in October 2021 to 1.8 months of supply this past October. 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.

Keep watching Orig. LP/SP ratio: The Original List Price to Sales price ratio continues to fall (It was 98.5% in August), and fell to 97.2 percent in September, and was 96.6 percent in October 2022. This could be a sign that sellers are beginning to lose their "hold" on the market, as price reductions – which have increased consistently since April, continue to show buyers gaining in bargaining power.

Though we're still in a seller's market, the days of receiving well over asking price are behind and sellers need to reset their expectations. Accurately priced homes spend less time on market and tend to attract more buyers.

Days on Market are slowly increasing. Homes not selling as fast as last year. Days on Market, though increasing little-by-little, still showed homes averaging 27 days on market in October, compared to 17 days this time last year. DOM averaged 22 days in September 2022.

- This tells us sellers are still driving the overall pace, giving buyers 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 were 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, 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 – particularly first time home buyers, which NAR announced in November, that the share of first time homebuyers has dropped, while the age of the first time buyer has gone up to 36.

- Sellers, like buyers, continue to be distracted by growing economic concerns, tensions, the negative election cycle and the upcoming holidays. 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.

- 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 but is started to trend up. October DOM was 27 days compared to 22 days on market in September. The Charlotte region's still 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) dropped (from September) a bit to $379,450. (It was $385,000 in July 2022 and $388, 000 in August 2022 and $385K in September).

- **Last month**, Canopy MLS reported that price reduction activity on listings throughout the Asheville and Charlotte MSA has started to increase. The Charlotte MSA saw a 126% year-over-year increase in price reductions in July, and in August, that increase was still significant, 157% year-over-year across the MSA. *In September price reductions increased 153% year-over-year. In October reduction soared 180% year-over-year to 3,900 price reductions on active listings across the MSA.*

  What this means: Markets are slowly changing. Buyers may have more bargaining power now than at any point during the pandemic. This is evident in the downward trend seen in the Original List Price to Sales Price ratio over much of the summer. Buyers are more measured and able to shop with less competition and more supply. Pricing the home right is key for sellers in a quickly changing market.

- 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.

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 rent,** which will make it even more challenging to save for future down payments.