



GlobeSt

December 1, 2022

With Case-Shiller Index, Consider Adjusting for Inflation

This swift decline in home price growth measures as the slowest since December 2020. But wait.

Home price appreciation continues to slow at a rapid pace and the Core Logic Case-Shiller Index for September showed that, posting a 10.6% year-over-year increase, down from a 13% gain in August.

It marked the sixth straight month of decelerating annual home price appreciation.

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But in nominal terms, as pointed out by Bill McBride in the Calculated Risk blog, the Case-Shiller National index and the Case-Shiller Composite 20 index are both just below all-time highs set in June.

Both indexes declined in September, with the national index off 2.2% from the recent peak, and the Composite 20 index off 3.3%.

Improved Mortgage Rates Provided a Slight Boost

September's slower monthly decline may reflect some improvements in mortgage rates in August that drew in homebuyers who jumped in following the June's surge in rates, according to CoreLogic economist Selma Hepp, interim lead of the office of chief economist.

"At this pace, and according CoreLogic's Home Price Index forecast, annual growth is expected to slow to 8% by December and 0% by the spring of 2023," Hepp writes.

"Some markets will see more notable price slowing and potential declines in 2023, though decreases are expected to remain regional and specific to metro areas that saw relatively more price growth during the pandemic, such as Las Vegas and Phoenix."

Based on CoreLogic's September Home Price Index, San Francisco was the only metro area to post an annual drop in home prices, down by 1% year over year.

Not Ideal Dynamics for Buyers or Sellers

Home buyers and sellers have had a sour run lately. Consumer confidence has fallen while the costs of owning a home have risen. Meanwhile, fears of price declines are holding back potential buyers.

Also, opinions suggesting price drops in 2023 are depressing consumer sentiment and have exacerbated the substantial slowing in housing market activity. In September, total home sales were down about 24% – the largest annual decline this year, with an even larger drop of 33% expected in October, according to Hepp.

Mortgage applications fell 41% year over year last month.

Home Prices Will Continue to Remain Stable

Michael J. Romer, managing partner of real estate law firm Romer Debbas, tells GlobeSt.com that mortgage rate increases have “absolutely” had a direct impact on price appreciation and the result has been a normalization of home prices.

“Given that we are still dealing with a national housing shortage, home prices will continue to remain stable,” Romer said. “However, a close eye should be kept on demand as many across the country feel priced out the housing market. If demand drops, home prices will certainly follow.”

Appreciation Could Turn into Depreciation

Scott Harris, real estate agent with Brown Harris Stevens, tells GlobeSt.com that decelerating price appreciation can be a way of saying that prices are going up more slowly, but in many markets, these are “lag measures” – measurements that are way late to the game.

“Closing prices are showing a slowdown, and I suspect that contract prices today would show an even more concerning slowdown,” Harris said.

“Decelerating price appreciation could easily turn into depreciation, which is what has happened already in many segments of the New York City housing market. Rising conforming limits by FHFA will only accelerate the depreciation.

“Buyers only need to look at softening prices to confirm their suspicions, which is that it’s a time to get better deals on their purchases.”

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