There’s a big shift happening in the housing market

fortune.com/2021/08/05/us-real-estate-housing-market-home-sales-inventory/amp

Breakneck. That’s the best way to describe the pace of the 2021 housing market. The bidding wars got so intense this year that home price growth set an all-time record.

But the tide is turning.

The rush of buyers into the housing market during the pandemic absolutely crushed housing inventory—the number of homes on the market—with that figure falling for 12 consecutive months. By April, housing inventory was down a staggering 53% from a year earlier. However, the trajectory has flipped: For two straight months the number of homes for sale has gone up. Homes listing on realtor.com rose 3% in May, then again by 9% in June. That’s not all: We learned last week that new home sales are falling—their pace in June was the slowest since the onset of the pandemic. Every indication is that the market is shifting a bit in buyers’ favor.

Why the sudden cooling? Home shoppers are finally showing some reluctance to pay top dollar.

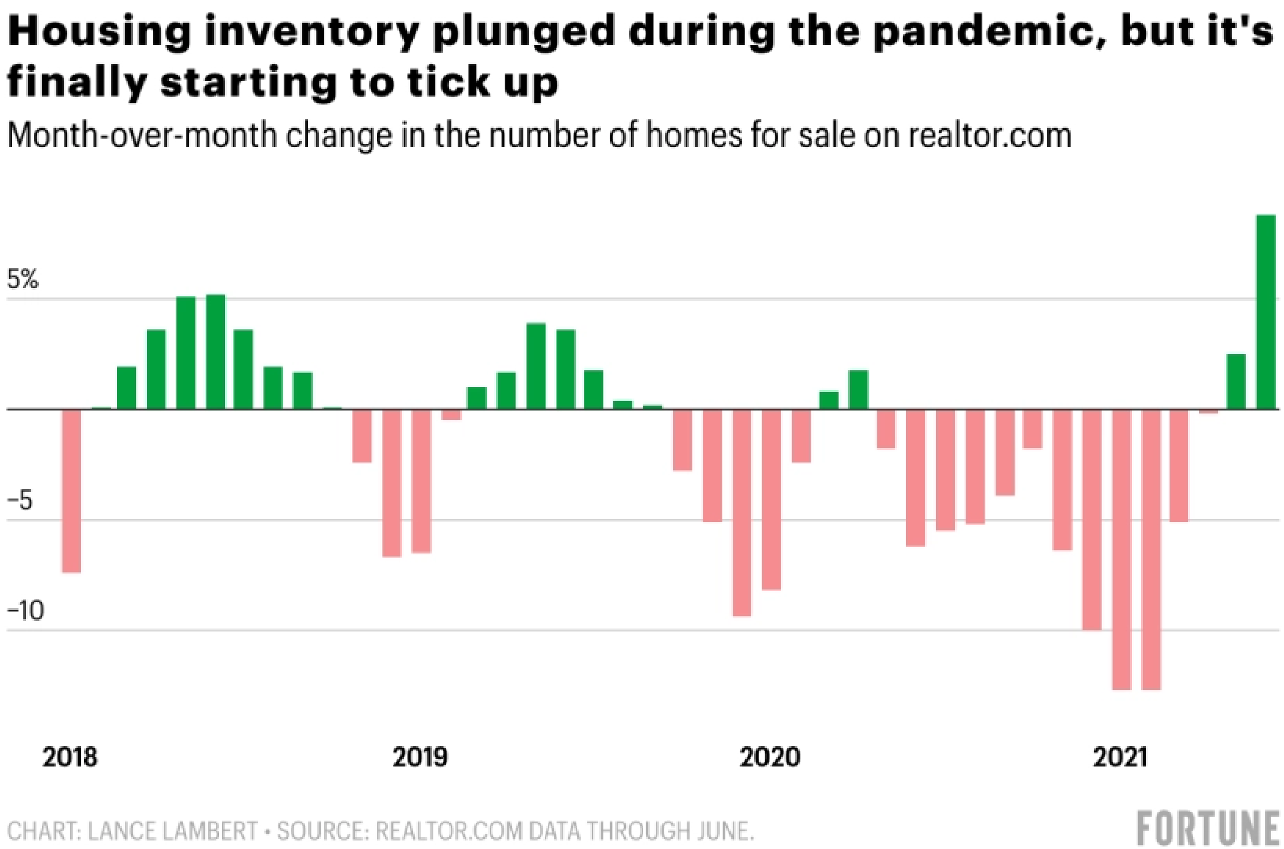
“The housing market was too hot for its own good over the past year, and we’ve seen some buyers bump up against an invisible price ceiling,” Ali Wolf, chief economist at Zonda, a housing market research firm, tells *Fortune*. A Zonda survey of homebuilders last month finds that 61% of builders are seeing more resistance from homebuyers.

This buyer hesitation was expected. After all, home prices can’t continue to grow at a 17% year-over-year rate indefinitely. At the end of the day, household budgets can stretch only so far.

And more cooling could be on the way. As *Fortune* reported last week, the pace of real estate sales might slow as the last of the stimulus protections begin to lapse. The foreclosure moratorium, which prevented foreclosures on federally backed mortgages, came to an end on July 31. Next up will be the mortgage forbearance program, which allows some borrowers to pause their payments; it lapses on Sept. 30. That forbearance program still protects 1.75 million borrowers, or 3.5% of U.S. mortgages. Homeowners still hurting financially could opt to sell their home rather than restart their mortgage payments. Of course, if that happens, housing inventory would rise further.

But cooling doesn’t mean home prices will fall. In fact, the research firm CoreLogic forecasts home prices will climb another 3.2% by June 2022. Make no mistake: This is still a seller’s market.

“It’s important to note that many homes are still selling almost as quickly as they hit the



market," Wolf says. "The difference today is that there's been ever so slight softening in the number of homes undergoing a bidding war or selling above the ask price...some homes are now selling below ask price."

The reason that research firms like CoreLogic think prices can go higher boils down to demographics. We're in the middle of the five-year period when the largest tranche of millennials, those born between 1989 and 1993, are hitting their thirties—the age when first-time homebuying really kicks into gear. That's something homebuilders haven't been preparing for: During the 2010s, homebuilding tanked as builders struggled with the financial scars of the 2008 housing bubble and subsequent foreclosure crisis. Not to mention, the housing market is still benefiting from the perfect storm created by the pandemic: recession-induced low mortgage rates, coupled with remote workers who are willing to uproot in pursuit of affordable real estate.