

## MONTHLY MARKET COMMENTARY

Supply and demand drive market prices, and the US housing market is no exception. The Case-Shiller 20-City Composite Home Price Index increased 18.6% year-on-year in June of 2022. The largest increases were reported in Tampa (35%), Miami (33%), and Dallas (28%). Home prices declined 0.77% from June to July, marking the first monthly decline in three years and largest single month decline since 2011. Some markets which have seen a tremendous amount of appreciation over the last decade – San Jose, Seattle, San Francisco, and Denver – saw much larger declines in home prices. Demand for housing is primarily driven by mortgage rates, which are now approaching 6% for the popular 30-year fixed-rate structure. The chart here shows the rapid rise in average sales price of houses sold in the US. Given the substantial increase to housing prices and mortgage rates, homeowners and market specialists have become concerned about the possibility of another housing market collapse as we saw during the financial crisis of 2008.



We don't believe that's in the cards this time around. The supply-side driver of market prices is much stronger than declining demand coming from interest rate hikes. Home prices have been driven up by massive and growing undersupply of homes over the last decade. (See chart on right.)

Homes Built	Quantity (mm)
1980s	13.9
1990s	13.7
2000s	15.4
2010s	9.9

The National Association of Realtors estimates the country is "short" about 5 million homes. We are currently building 1.7 million homes annually in this country. Population growth and teardowns/replacements generate an organic demand of 1.6 million homes annually. That suggests we are catching up by about 100,000 homes a year. On this trend, we will be back to equilibrium in 50 years. Furthermore, supply chain shortages in labor and material are hindering production increases.

Yes – the market has seen a substantial recent run-up in prices – and yes – we do believe the market will soften and prices will come down. But will this lead to the destruction of the US housing market? Don't bet on it.

As always, please reach out to your financial advisor with any questions or concerns.

**-The Seventy2 Capital Team**

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