US Real Estate 2015:
Can the Housing Recovery Extend for One More Year?

We're in the fourth solid year of the housing recovery. Can we make it to five before running out of steam?

July 29, 2014

Executive Summary

- Home Prices as of July 29, 2014 are up 9% year over year, well into the fourth consecutive year of housing market recovery. Altos Research forecasts slight slowing through the end of the year to end at 8.6% home price appreciation for the full year 2014.
- Inventory, up 10% year over year, is still low compared to historical norms.
- Consumer demand, despite low mortgage application rates remains intact as move up sellers are again in positive-equity and as employment and household formation continue to grow.
- Altos Research forecasts home price increases of 7% in 2015 based on the proprietary basket of Altos Research Leading Indicators metrics.
- Housing inventory should climb another 10% versus 2014, resulting in greater transaction volume but not hitting a too-much-supply threshold.

Bearish Headlines, Bullish Reality

In terms of home prices, the US real estate hit the absolute bottom on January 4, 2011. Home prices are 39% higher since then. Yet every day we see media headlines declaring "weakness" and "disappointment." As recently as June 2015 housing, apparently, remains a chief concern for Fed chief Janet Yellen, who uses phrases like "much slower pace than expected" and "slowdown."

In our view, these attitudes reflect a myopic view of actual market conditions and conflate concerns over the mortgage industry, the otherwise-constrained new construction market, and more broadly, the long-term financial stability of the US consumer with specific current housing market supply and demand dynamics. While these are valid long run concerns, the variables impacting home prices have proven to be driven by low available supply and growing household formation.

The real-time data paints a much more robust environment than the headlines would indicate. Demand remains high, transactions happen very quickly. Home prices are up another 9% year over year as of July, 2014. We've had a strong run and the American consumer is anxious to again buy real estate.

It should be noted that the US housing recovery has been broad across all geographies and all price points, and deep with prices up 39% from the nadir. Local conditions obviously drive the precise magnitude and timing of the recovery, but it is very difficult to find a local market where home prices have not rebounded significantly since 2011.

Housing demand tapers off after June 30 each year. In 2014 we see normal seasonal retreat, we do not see any evidence of aggressive housing demand pullback, nor do we see the extra-seasonal strength of the last two years. After four years of recovery, the housing market has settled into healthy growth and price stability.

2015 US Housing Market Forecast

Based on the Altos Research dataset and methodology explained more fully below, we are forecasting US home prices to rise 7% in 2015. This appreciation rate is slightly lower than that of the preceding four years, but still a reasonably robust market.

In addition, expect inventory to climb another 10% versus 2014 levels. As inventory and transactions rise along with pricing, participants in the housing market stand to benefit broadly.
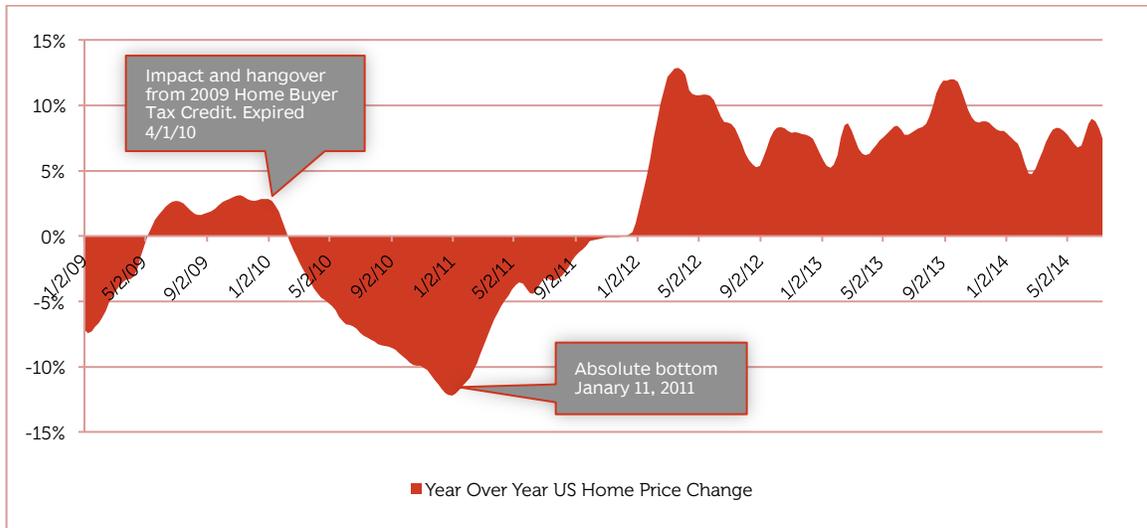
Figure 1: Year over year home price changes. Single Family Residential Units, Altos Research 20-City Composite

The Real-Time Approach to Housing Analysis

Active Inventory vs. Transactions

Altos Research tracks and publishes analytics on 100 million properties in the US every week. Of those, about 1-2% are actively listed for sale at any given time. As of July 26, 2014 there were approximately 1.4 million homes (see end notes for details) on the market.

Traditional housing data focuses on the closed transaction "sales price", which is by definition a lagging indicator (these sales happened sometime in the last 1-6 months). Furthermore the active market is where we can measure the economic conditions of supply and demand, which are not visible in the traditional housing data set. Incidentally, transaction volume is not a reliable indicator of demand in a market whose defining characteristic is shortage of supply. In the four-year US housing recovery, we have as little as half the active inventory of more "normal" times.

The data in this report reflects, unless otherwise specified, single-family homes for sale in the Altos Research 20-City Composite set. The cities covered in the Composite are the same twenty cities used in the S&P Case Shiller national index and are a reasonably reliable proxy for a view of the national housing market as a whole. The asking prices of the Altos 20 are quite precisely correlated to the eventual transaction prices that make up the Case Shiller, and as a result the Altos 20 leads the Case Shiller by 90-120 days.

The active market housing data set is rich with leading indicators – predictive of future prices and transaction volumes, the two key axes of the housing market.

Supply, though climbing slightly, is very low. Demand, though perhaps tapered by massive price gains of the recovery, remains robust. Expect US home prices to climb generally through 2015, absent any economic shock.

June 30 Cycle Comparison

The housing market operates in a seasonal cycle conveniently tied to the quarterly calendar. Prices, inventory, and sales volume reach their peak at the end of June and trough in the first week of January. The spring selling season culminates at the end of June and the first price reductions initiate in July in preparation for the coming autumn and start of the school season. The opposite trend defines the inter holidays as the market resets for the coming year. Given the low volume at the end of December, we prefer to use June 30 as a measurement of a given year's performance. And since the year's price accomplishments are visible by June 30, we can say that as Q1 and Q2 go, so goes the calendar year.

June 30, YEAR	YTD Price Change	YOY Price Change	Appreciation from Low
2011	+10%	- 4%	+10%
2012	+18%	+9%	+18%
2013	+12%	+9%	+27%
2014	+13%	+9%	+39%
2015 Forecast		+7%	+46%

Figure 2: We're in the fourth strong year of housing recovery. Can we make it to five?

Leading Indicators for 2015 Home Prices

Because the active housing market can be measured for housing supply and demand, the data set is rich with signal about future transaction prices. Altos Research forecasting models use the most complete set, and longest history, of the US active housing market in existence. Each week the company's systems track the entire US housing market and revise the forecast for 12 months into the future.

Newly Listed Pricing

Each week the cohort of newly listed properties provides particularly strong leading signals. In a fabulous wisdom-of-the-crowds example, the Realtors in aggregate know precisely where to price homes for sale. Realtors each know their local demand and supply and price new properties accordingly. The pricing of the Newly Listed cohort reaches each seasonal inflection point about 30 days prior to the broader market. As a result, it is useful to observe each January local-low to track depth of seasonal trend, and forecast through the June 30 peak.

Figure 3: Price of newly listed properties shows continued pricing strength through the second half of 2014 and by extension, 2015 will start in a position of price strength.

Available Housing Supply

As of July 14, 2014, there were just over 1,400,000 residential properties on the market in the US. This number is substantially lower than the common wisdom and bears explanation. To arrive at this number, Altos Research simply measures every property in the US. Typical media coverage uses data from NAR (who uses a survey and extrapolation methodology to estimate inventory) or consumer Internet companies (who have a vested interest in inflating the perceived number of properties on their websites.) See endnotes for further methodology details.
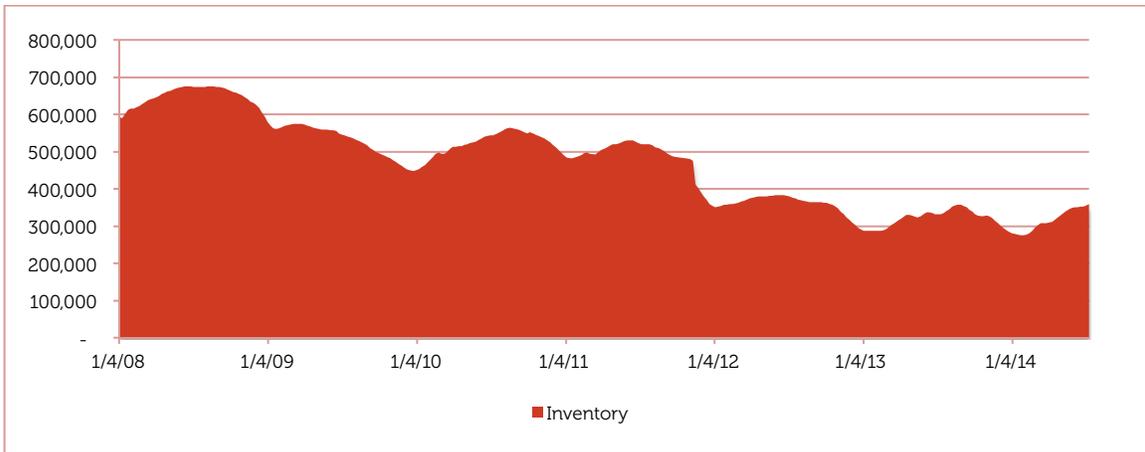
Figure 4: Count of single-family homes for sale, Altos 20 City Composite. Weekly tracking.

For-sale housing inventory is up slightly over last 2013, the defining characteristic of the 2012-2014 housing market has inventory shortage and is finally easing in most of the country. For 2015, expect another climb of 10% more active inventory, or about 1.6 million active for sale properties at the peak in July 2015.

Real-Time Housing Demand

Unlike supply, measuring housing demand requires indirect methods. Transaction volume is not an indicator of demand in supply-constrained markets, such as the one we're in now. Furthermore, traditional views of housing demand, such as mortgage application rates are not meaningful when a significant portion of transactions is all-cash. Fortunately, the active housing market contains a rich set of demand indicators that we can track. We'll focus on two of those indicators here: Days on Market and Percent of Homes with Price Reductions.

Figure 5: Mean Days on Market for active properties. Altos 20-City Composite.

The time required to sell a home reached it's peak in 2010, after the expiration of the Home Buyer Tax Credit. Faster time to sell indicates stronger demand and leads home price changes. Days on Market remains at it's lowest level since before the housing bubble and indicates seller's market conditions. This is a bullish signal for the next 12 months of housing transactions.
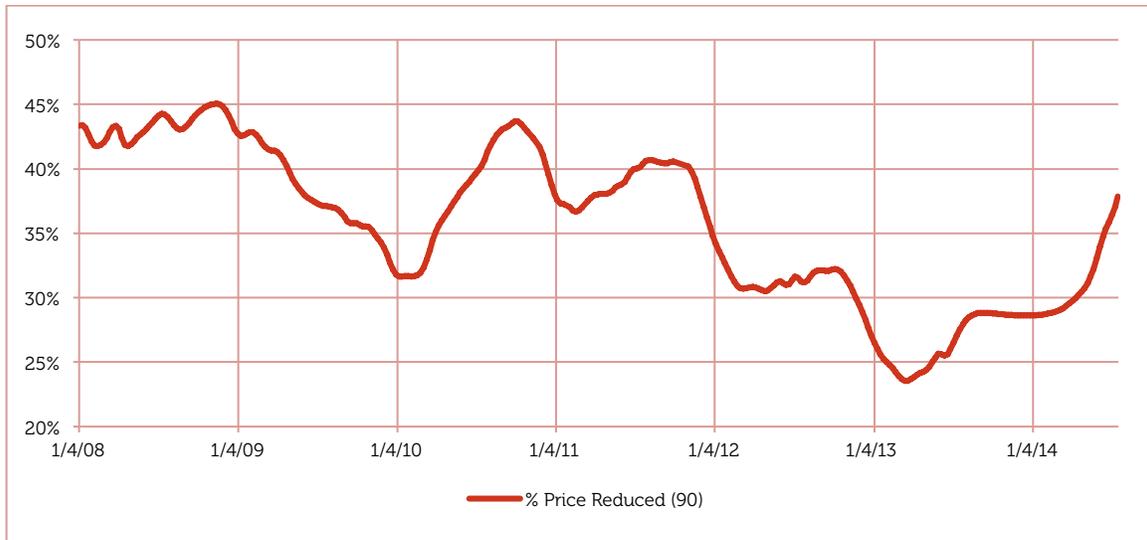
Figure 6: Percentage of properties with price reductions

A more nuanced view of the future of home prices lives in the study of price changes per property. In aggregate, about 35% of properties are over-priced at initial listing and take a price cut before they reach their selling price. Sometimes this approach is an intentional sales strategy to maximize price; sometimes it is accidental. In either case, when demand is hot (see 2012 and 2013 above), fewer properties need price reductions. Competition for homes increases, pricing of future listings responds accordingly. When demand weakens, price reductions climb.

The trend and slope of the price reductions curve for July 2014 tempers the Altos Research forecasting models to be less bullish than other parts of the data would indicate, subtracting approximately 2% from projected 2015 price growth. Demand is not unhealthily weak, but notably lighter than the past two years.

Conclusion

Home prices across the US are poised for a fifth consecutive year of recovery. The market is still faced with low inventory and demand, buoyed by an expanding economy, among other factors, remains healthy. Both supply and demand conditions are moving from extreme bullish conditions to healthy condition. Our forecast for home price appreciation in 2015 is 7% price growth.

Appendix I: Report Methodology Notes

1. Altos Research tracks approximately 100 million residential housing units weekly. This data covers essentially the entire population of country, with the exception of some rural farmland areas. Of those, between 1 and 2 million are actively listed for sale in a given week.
2. As of July 16, 2014 Altos Research tracked 1,402,359 homes on the market. This set focuses on all single-family detached properties, plus condominium, townhomes, and similar multi-unit properties
3. Often conflated in inventory counts are undeveloped land, pre-construction properties, mobile homes, and various multi-unit dwellings. In general these properties are outside the Altos data set. Also outside the set are non-arms-length transactions whose data is not publicly available.
4. All data in this report is calculated and charted weekly.
5. Charts employ a real-time smoothing mechanism to eliminate occasional measurement noise
6. Pricing referenced in this report is the composite median of properties in the underlying metro markets for the publicly disclosed asking price as of Friday of the given week.
7. Chart data in this report is for single family detached properties unless otherwise noted
8. Data is as of July 18, 2014 unless otherwise specified.

Appendix II: Data Availability

The entire seven-year data sets used for this report are available to be licensed to clients of Altos Research. Contact sales@altosresearch.com for details.

For media inquiries, contact Michael Simonsen, CEO. 415-302-1573 mike@altosresearch.com

About Altos Research

Altos Research is the premier resource for real-time US real estate analytics. Founded in 2006 by CEO Michael Simonsen, the company tracks every home for sale, for rent, and sold in the country. Altos Research housing market analytics are used every day by the world's largest financial institutions and thousands of real estate professionals.