The Pulse of US Real Estate 2024

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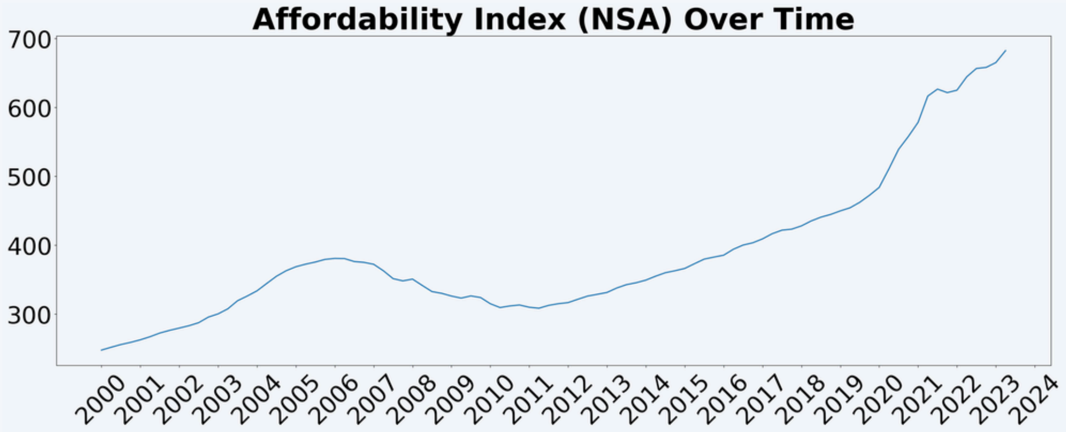
The U.S. housing market has experienced significant shifts since the onset of the COVID-19 pandemic. After an initial period of uncertainty, the market witnessed an unprecedented boom, with median sale prices rising sharply from $317,100 in Q2 2020 to $412,300 in Q2 2024, representing a 30% increase in just four years. This price surge, driven by low mortgage rates, government stimulus, and a shift in consumer preferences, has led to concerns about affordability, which is now at record lows.



Source: Federal Housing Finance Agency. Graph Created by Azendia Group

At the start of the pandemic, there were fears that the housing market would crash due to declining incomes and widespread economic uncertainty. However, the opposite occurred, largely due to the limited supply of homes relative to demand. Although home prices surged, recent months have seen a slow deceleration, as shown by a 5.7% annual appreciation rate in Q2 2024, marking the third consecutive quarter of slowing growth.

Affordability challenges persist, but relief may come either through a sharp decline in home prices or a reduction in interest rates, which directly affect mortgage rates and we have recently seen, the federal reserve cut rates by half a point in September and analysts expected two more in 2024.

While current conditions favor homeowners, market sentiment has shifted as investors are increasingly cautious. Investors are closely monitoring key indicators such as inflation, mortgage rates, and housing inventory levels. Despite remarkable resilience since 2020, uncertainty about the future trajectory of home prices and affordability continues to weigh on the minds of both investors and potential homeowners.

This report will provide an in-depth analysis of these trends, along with regional insights, macroeconomic factors, and key indicators that will help shape expectations for the U.S. housing market.

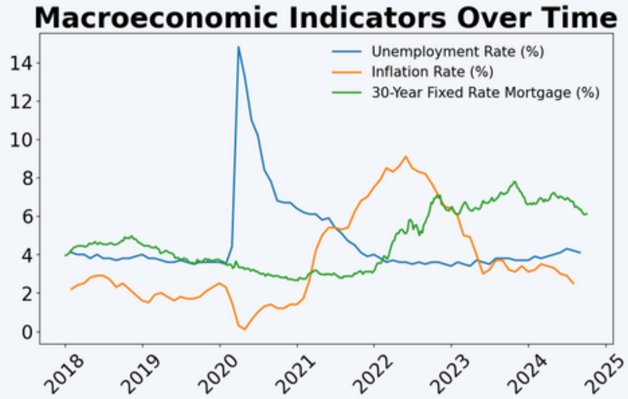
Macroeconomic factors play a crucial role in shaping the U.S. housing market. Key elements like mortgage rates, inflation, and unemployment have a direct impact on housing demand, affordability, and overall market stability. These factors provide essential context for understanding the current state and future outlook of the housing market.

Mortgage Rates

Mortgage rates have been steadily declining. 30 year fixed mortgage rates lowered to 6.12%, from 7.49% in the past year. This helped boost demand for both home purchases and refinancing. Although mortgage rates are not solely tied to Federal Reserve actions, the recent Fed rate cut—the first in over four years—is expected to influence the housing market. The anticipation of this rate cut has already led to a drop in mortgage rates, and further declines are likely, making homeownership more affordable and potentially stimulating housing market activity.

Inflation

The U.S. inflation rate has dropped to 2.5% over the past 12 months, its lowest level since 2021. Moreover, inflation has dropped 6.6% since its peak in June 2022. This signals a stabilization in the broader economy, which can improve housing affordability for consumers. Lower inflation reduces pressure on interest rates, including mortgage rates, making borrowing costs more manageable and stimulating housing demand. However, for homeowners, low inflation could slow home price appreciation, tempering property value growth.



Sources: FreddieMac, U.S. Bureau of Labor Statistics. Graph Created by Azendia Group

Unemployment

As of September 2024, the unemployment rate stands at 4.1%, showing a consecutive decline of 0.1 percentage points in the past two months, however, it is still 0.3% higher than last year. Rising unemployment may dampen housing demand, as job insecurity makes it harder for individuals to afford home purchases. This could slow price growth or even cause declines in some markets, while increasing competition in the rental market and driving up rental prices. However, with recent interest rate cuts, unemployment is expected to decrease, potentially reversing these trends, which has been seen happening since July.

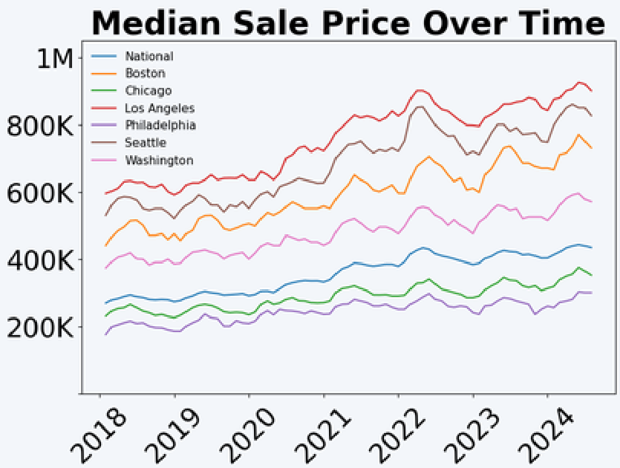
This section can be into three subsections to better understand market trends. The first is a comprehensive housing market analysis, focusing on price metrics, supply dynamics, and demand dynamics, both on a national and metro-area level. The second subsection is Real Estate Investment Funds (REITs), analysing REITs offers a comprehensive and accurate view of the U.S. housing market by revealing key insights such as price trends, market sentiment, and the overall health of the sector. The last subsection will focus on foreign demand as it reflects the market's global attractive and it offers insights into international trends and investors sentiment, serving as another metric to gauge performance.

Housing Dynamics

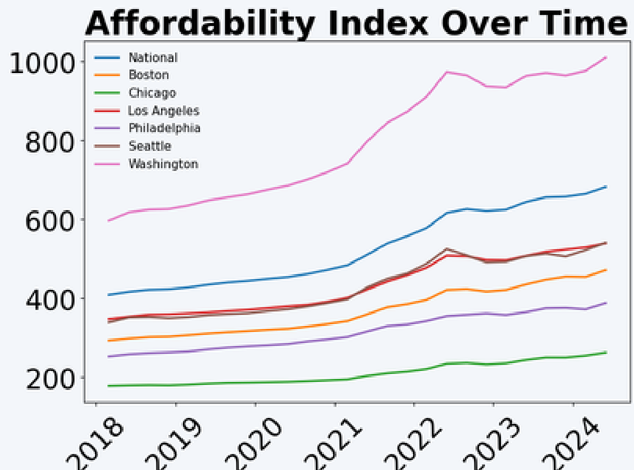
Focusing on main metro areas like Boston, Chicago, and Los Angeles provides a more specific, relevant, and actionable data than broader regional analysis as they are economic hotspots. Metro-level analysis allows us to capture unique market dynamics, reflecting key economic and demographic shifts, and focus on the most active housing markets. When combined with national data, it offers a more detailed and precise view of housing market trends, making our findings more meaningful and applicable.

Price Metrics

Price metrics offer a clear indicator of the housing market's overall health and direction, reflecting changes in buyer and seller behavior.



Sources: Redfin. Graph Created by Azendia Group



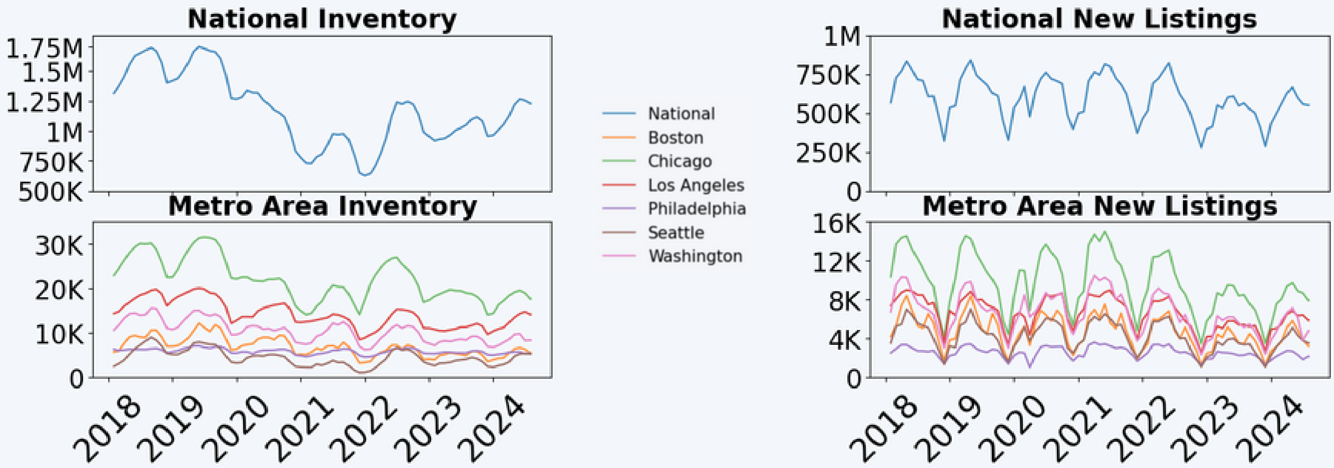
Source: Federal Housing Finance Agency. Graph Created by Azendia Group

In the recent year, there has been more price stability on a national level, with the median sales price increase by $13,563 compared to $165,158 in the past 5 years, further suggesting the housing market is starting to cool down. This is likely a result of rising mortgage rates as they curbed the price increase of the previous years, forcing buyers out of the market. However, cities such as Los Angeles and Seattle followed a similar trend but with increased volatility, with the average median sale price increase by $34,525 in the past year.

The affordability index has worsened, reflecting decreasing affordability across the U.S., indicating that affordability in the US is going down. The level at which affordability is decreasing is approaching pre-pandemic levels, with just a 5.91% increase in the past year, compared to 31.53% increase from 2021 to 2023. The two main factors that contributed to the decreasing affordability are rising mortgage rates and stagnating incomes while home prices continue to slowly increase. However, with recent mortgage rate cuts, housing affordability is expected to increase. Metro areas in the U.S. follow a similar trend to the national level, with affordability worsening, but the severity of the decrease varies between regions.

Supply Dynamics

Understanding supply dynamics is critical for identifying potential housing shortages or surpluses. These factors directly influence home prices, as limited supply can drive prices higher, while increased inventory can moderate price growth.



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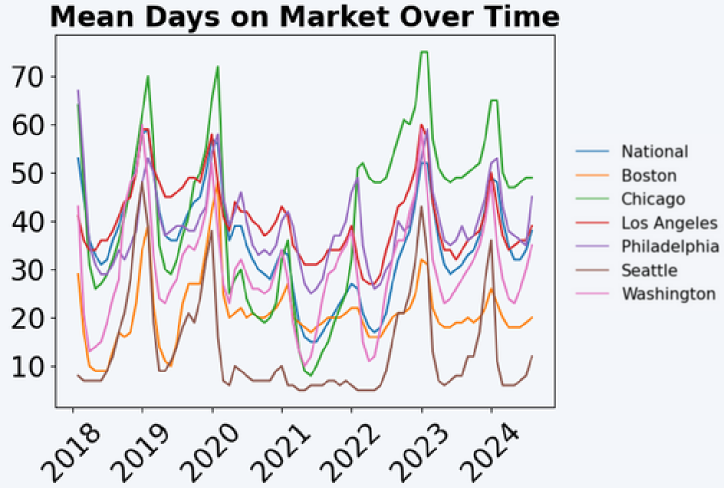
In 2024 we see an increasing amount of overall housing inventory but a slight decline in Q3, most likely due to market dynamics as there is a national decline towards the third and fourth quarter, however, a lowering affordability and houses staying on the market longer can also have an impact. Additionally, inventory appears to be pushing towards pre-pandemic levels on a national level. On a local level, trends appear to be following similar patterns but with varying magnitudes.

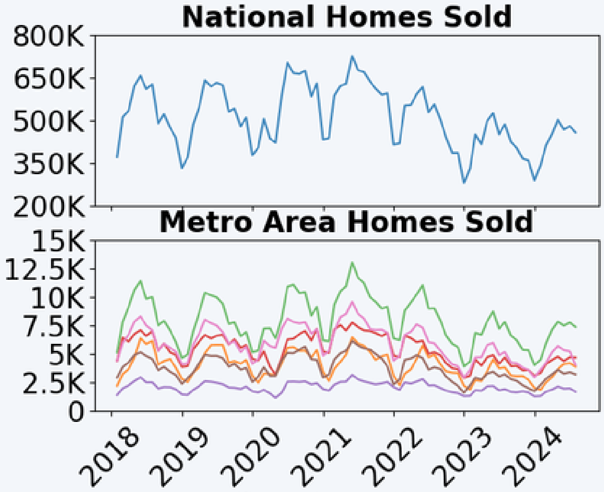
There has been a decline in new listings in the past months, following yearly trends, however, new listings remain rather low compared to previous years, with a yearly decline of almost 13,000 houses. This trend is similar on a local level, however, metro areas such as Chicago and Los Angeles have a negligible change of new listings in the past year. Nevertheless, the national trends suggest a shortage of houses, which can also be contributing to the low levels of affordability and increasing median sale price.

Demand Dynamics

Demand dynamics provide insights into buyer activity and the strength of market demand. These metrics are crucial for gauging buyer confidence and market competitiveness, helping to understand price trends and sales volumes.



Sources: Redfin. Graph Created by Azendia Group



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Despite high mortgage rates and low affordability throughout 2024, the mean days on the market follow similar patterns to pre-pandemic levels. The national mean as of August 2024 increased to 38 days on the market, almost 9% higher August 2023, suggesting a decreased level of demand in the market.

Nationally, home sales peaked around 2021, with a noticeable decline through 2024, potentially due to higher mortgage rates and reduced affordability, decreasing by almost 30,000 housing in the past year and 99,000 in the past two. In metro areas, Los Angeles and Chicago exhibit higher sales volumes, while cities like Seattle and Washington have lower volumes, though all follow similar seasonal patterns. This cooling trend contributes to a decreased level of demand and reflects broader challenges impacting both national and local markets.

Throughout 2024, the U.S. housing market has cooled, with median prices stabilizing or slightly declining, while affordability has worsened due to high mortgage rates. Inventory has grown modestly as homes take longer to sell, but new listings remain limited, and therefore supply, contributing to a sharp decline in home sales. Overall, the market is transitioning, with reduced buyer demand and rising costs reshaping housing dynamics.

Real Estate Investment Trusts (REITs)

The performance of Real Estate Investment Trusts (REITs) can be analyzed through the S&P United States REIT Index, as it provides an accurate and comprehensive view of the U.S. market. A REIT owns or finances income-generating real estate, giving investors a way to access the market without owning property. REITs are important to monitor as they reflect real estate trends and overall market health.

The S&P United States REIT Index had a strong year with a 34.24% annual return, with most of the growth occurring from June to September. The overall trend shows resilience and robust recovery after initial dips, with the second half of the year displaying accelerated growth. This suggests that the U.S. REIT sector has been performing well, likely driven by rising housing prices. The general trend implies that REITs are starting to recover to pre-COVID levels, and investor sentiment is strong. However, the strong performance of the S&P United States REIT Index contrasts with the findings in the previous subsection, underscoring the nuanced and complex dynamics within the U.S. housing market.

Foreign Demand

Foreign buyers purchased $42 billion worth of U.S. existing homes between April 2023 and March 2024, marking a 21.2% decline from the prior year. The number of properties purchased by international buyers fell 36% to 54,300, the lowest since 2009. Rising home prices and limited supply were key factors in this decline. Foreign buyers residing in the U.S. bought $22.6 billion in homes, while those living abroad spent $19.4 billion, a 35% drop. Foreign buyers accounted for 2% of total U.S. existing-home sales during the period. Home prices for international buyers reached record highs, with an average price of $780,300.

The significant reduction in foreign investment in U.S. real estate signals a decrease in demand on a global level. The disparity between foreign buyers residing in the U.S. and those abroad suggests that U.S.-based international buyers may still see long-term value in real estate, even as overseas buyers pull back. This trend could indicate reduced foreign demand for U.S. real estate in the near future, potentially affecting property values.

Takeaways

The U.S. housing market in 2024 shows signs of cooling, with price growth stabilizing and affordability is expected to increase due mortgage rate cuts. Supply is limited as fewer homes are being listed on the market, limiting overall inventory growth. Buyer demand has also softened, with a noticeable decrease in home sales, indicating a transition towards a slower-paced market impacted by rising costs and reduced affordability.

Government policies have been a driving force in shaping the US real estate market in 2024, impacting both housing affordability and foreign investment. The Federal Reserve's prolonged high interest rates have raised mortgage costs, pushing homeownership further out of reach for many, while also increasing demand for rental units. Meanwhile, heightened scrutiny from the Committee on Foreign Investment in the United States (CFIUS) has curbed foreign investment, especially from countries like China, redirecting capital flows towards less regulated commercial properties.

Fed and Housing Affordability

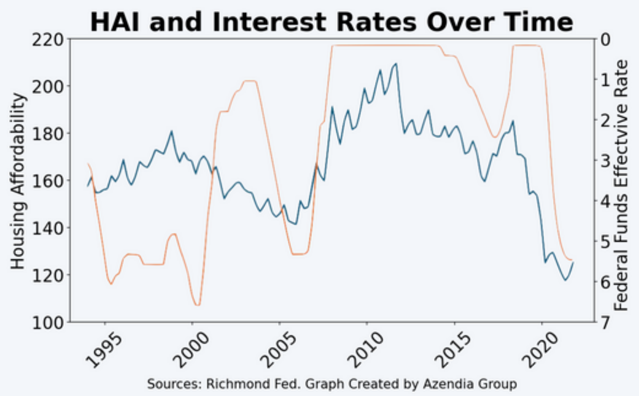
The Federal Reserve's policies play a critical role in determining housing affordability across the United States. In this section, we delve into how recent rate changes and policy decisions have influenced affordability over the past three quarters, focusing on the interplay between interest rates, mortgage costs, and housing prices.

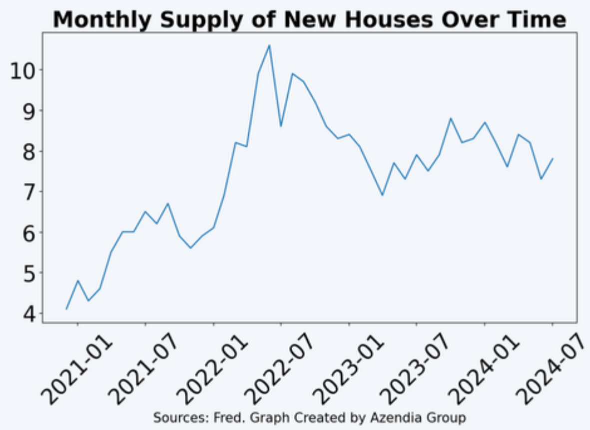
FED's Interest Rate Adjustments

The Federal Reserve's interest rate hikes have a direct impact on housing affordability by influencing mortgage rates. Since 2022, the average rate on a 30-year fixed mortgage has surged from around 3% to nearly 7%, which has significantly increased monthly mortgage payments and reduced affordability. The Richmond Fed's analysis reveals that housing affordability, as measured by the Housing Affordability Index (HAI), has dropped to levels last seen in the late 1990.

Housing Supply Constraints

Lower interest rates are expected to improve housing affordability, but this relationship is more complex in practice. While lower rates increase buyer demand, they also drive up home prices, negating affordability gains. This dynamic has been evident throughout 2024, as the expectation of rate cuts led to a surge in demand, pushing home prices higher in many regions due to tight housing supply. Additionally, the issue has been compounded by "lock-in" behavior, where homeowners with low-rate mortgages are reluctant to sell.





Government Policies Aimed At Increasing Affordability

In the last quarter, the Biden administration and congress have implemented policies aimed at making housing more affordable by increasing supply and limiting price.

President Biden is calling on corporate landlords to limit rent increases to 5% and expanding access to public lands for affordable housing, including initiatives in Nevada and workforce housing on Forest Service land. Additionally, the Federal Housing Finance Agency (FHFA) is implementing renter protections for properties financed by Fannie Mae and Freddie Mac.

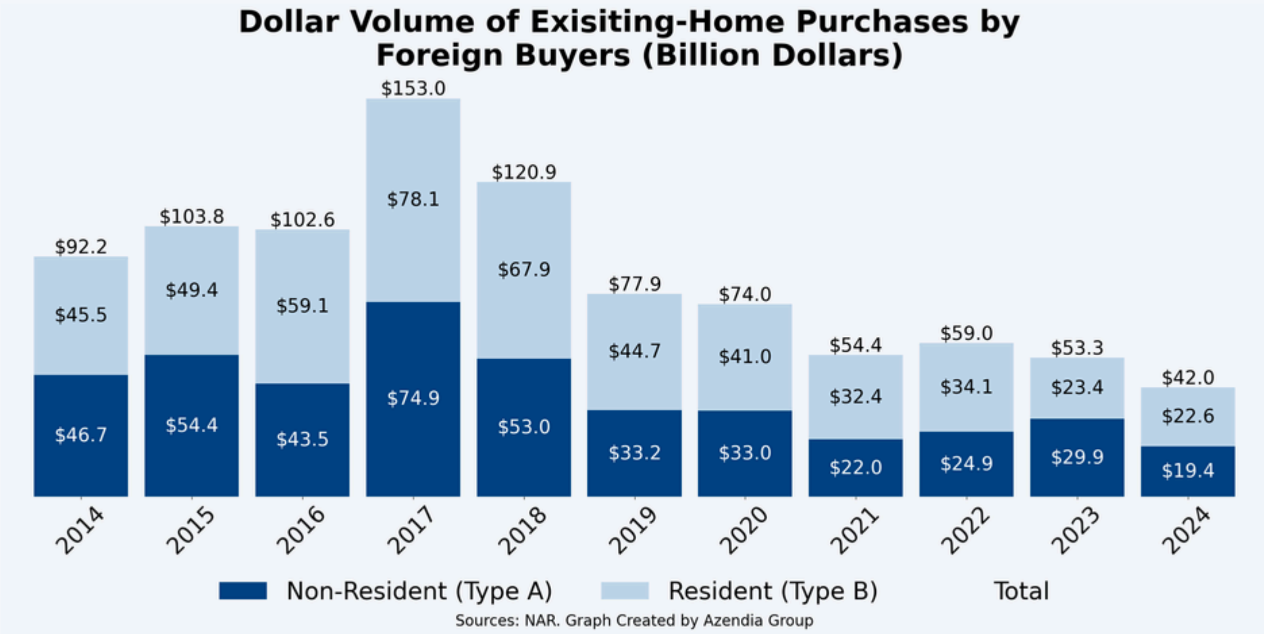
The Biden Administration is also increasing housing supply by repurposing underutilized public lands, including efforts like the U.S. Forest Service leasing land for workforce housing and USPS converting surplus facilities for housing in high-need areas. New federal rules and guidance enable developers to access underused federal land for housing, including transit-oriented projects. HUD and USDOT provide technical support to help counties repurpose land, with HUD also awarding $325 million in grants to revitalize distressed neighborhoods.

The American Housing and Economic Mobility Act was reintroduced with the goal of building nearly 3 million affordable housing units and reducing rents by 10%, funded through estate tax reforms. It provides down payment assistance to first-time, first-generation homebuyers, incentivizes zoning reforms, and limits the role of private equity in housing. The bill also enhances protections against housing discrimination and expands access to credit for underserved communities.

The Homes Act of 2024, introduced by Rep. Alexandria Ocasio-Cortez and Sen. Tina Smith, proposes creating a new HUD housing authority to build and maintain affordable housing with a budget of $30 billion annually. Key provisions include setting aside 70% of housing for low- and extremely low-income households, capping rent at 25% of a household’s adjusted gross income, and allowing shared equity homeownership. The bill also seeks to repeal the Faircloth Amendment to increase public housing units and integrate climate resilience, though it faces challenges in gaining bipartisan support in an election year.

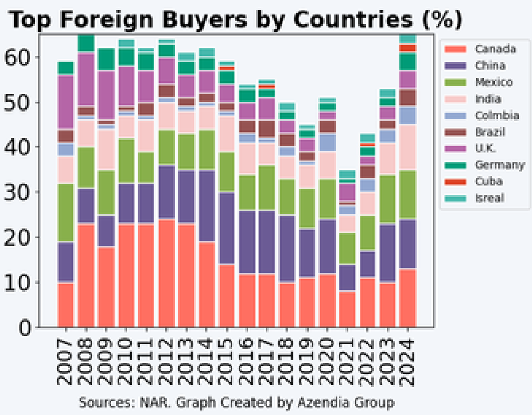
These policies suggest a significant federal effort to reshape the housing market by directly targeting affordability and supply issues. If successful, this could boost the housing market and greatly increasing affordability. However, the ambitious scope of these initiatives, including limitations on rent increases and repurposing federal lands for housing, indicates a shift towards greater regulatory intervention, which could also impact private sector investment and long-term market dynamics.

In 2024, foreign investment in US real estate has faced considerable setbacks due to worsening market conditions and tighter regulatory oversight. High borrowing costs, have made large-scale investments less feasible, while increased scrutiny from agencies like CFIUS has further discouraged foreign buyers, particularly from China and Russia. Additionally, geopolitical tensions and stringent capital control policies have led to a sharp decline in investments from major international markets, redirecting capital away from high-cost urban centers.



Key countries such as Canada and China continue to lead investments in US real estate, but regulatory restrictions have made these investments more selective. Canada has emerged as the top source of foreign investment, representing 13% of total foreign buyers and contributing $5.9bn in capital flows. Meanwhile, Chinese investors, who have historically played a dominant role, now account for 11% of foreign purchases, amounting to $7.5bn. The steady decline in Chinese investments since 2018 can be attributed in part to the heightened scrutiny by the CFIUS, which targets investments in sensitive locations and industries.

Other significant contributors include Mexico, representing 11% of foreign buyers with $2.8bn in investments, followed by India at 10% ($4.1bn), and Colombia at 4% ($0.7bn). These figures demonstrate the continued appeal of the US market despite regulatory challenges.



Economic Risks & Opportunities

The US real estate market in 2024 is navigating a complex economic environment marked by both positive developments and persistent risks. The Federal Reserve has already cut interest rates by 50bps from their peak earlier this year, and further reductions are expected as inflation continues to decline towards the 2% target. Despite these rate cuts, affordability remains a concern as the cost of financing, while lower, is still higher than pre-2022 levels. However, the labor market has shown unexpected resilience, maintaining robust employment figures and wage growth, which has helped stabilize consumer confidence and prevented a deeper slowdown in housing demand.

As rates gradually decrease, opportunities are emerging for investors to re-enter the market, particularly in multifamily units and commercial properties. Lower financing costs combined with stable labor conditions suggest that capital is likely to flow back into the real estate market as borrowing becomes more affordable. Additionally, sectors that benefit from resilient consumer spending, such as retail and logistics, are poised to see increased investment activity

Election Outcomes

The 2024 US elections are set to be a pivotal moment for the real estate market, as potential shifts in policy could significantly alter the investment landscape. Policies on housing affordability, tax incentives for development, and foreign investment regulations are all subject to change depending on the election results. If the elections lead to a more business-friendly environment, we could see increased incentives for housing construction and relaxed foreign investment regulations. Conversely, if the political climate becomes more restrictive, it could dampen investment sentiment and lead to a more conservative approach from both buyers and developers, stalling new projects and reducing transaction volumes.

Geopolitical Conflicts

Geopolitical tensions remain a significant risk for the US real estate market. Ongoing trade disputes with China and the war in Ukraine have disrupted capital flows and heightened uncertainty among investors. The recent escalation of conflicts in the Middle East, has added further instability, leading to a surge in oil prices and concerns over supply chain disruptions. Rising energy costs and volatility in commodity markets have a direct impact on the real estate sector, elevating construction and operational expenses, thereby squeezing profit margins and making new projects less feasible. This has created a challenging environment, as increased costs are not always easily passed on to buyers or tenants, potentially reducing returns on investment.

Shifting Market Dynamics Unveil New Investment Opportunities

As we look ahead to the future of the US real estate market, Azendia remains focused on key trends and developments that will shape investment opportunities. Our forward-looking view is grounded in a careful analysis of the economic landscape, market dynamics, and potential risks. Below, we outline four critical factors that will influence the market in the coming months, providing guidance to help investors navigate and capitalize on emerging opportunities.

1. Economic Outlook and Interest Rates

With the FED signaling continued rate cuts in 2024-2025, we expect borrowing costs to decrease gradually, offering some relief to developers and buyers. However, interest rates will likely remain above pre-2022 levels, maintaining some pressure on affordability. If healthy economic figures and labor market resilience continue, demand in sectors like multifamily housing and commercial real estate is expected to hold steady.

2. Housing Supply and Affordability

Housing supply remains tight, driven by homeowners holding onto low mortgage rates and a slow increase in new construction. This supply-demand imbalance will likely keep prices elevated in the near term, particularly in high-demand regions. However, increased focus on multifamily development is expected to alleviate some of the pressure on the rental market.

3. Geopolitical and Commodity Risks

Geopolitical tensions, especially in the Middle East, have led to supply chain disruptions, increasing construction and operational costs. While these pressures may persist, stabilization or resolution of conflicts could ease cost burdens and improve market conditions. Investors should remain cautious about rising commodity costs but look for cost-efficient opportunities in less exposed markets.

4. Policy Shifts and Regulatory Environment

The outcome of the 2024 US elections will play a pivotal role in shaping real estate investment opportunities, with potential changes to housing policy, tax incentives, and foreign investment regulations. Pro-business outcomes could result in increased development incentives and a more favorable regulatory environment, while more restrictive policies may require a more conservative investment approach.

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