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New highs in housing prices

Based upon the June economic reports, the national house-buying frenzy is cooling down a bit, yet new records are still being notched. For example:

- existing home sales rose 1.4% in June compared to May, but were up 22.9% from June during the 2020 pandemic;
- the median existing-home price reached a record \$363,300, up 23.4% from the year-earlier June;
- June sales of homes for more than \$1 million were double the year-earlier figure;
- housing starts rose 6.3% in June compared to May.

Many factors have contributed to the increasing prices and occasional bidding wars for homes for sale. The most important is likely low current interest rates, which help to hold down monthly payments. Buyers may have a sense that they have to move now, before rates increase. Existing homeowners may want to use their increased equity to trade up to a larger house. After the pandemic, when millions successfully fulfilled their job requirements by working at home, many felt a need for different quarters to continue in that mode. Another crucial factor is a severe shortage of homes for sale. There were 1.25 million homes for sale at the end of June, which represents an 18.8% drop in inventory from a year earlier. Labor and materials shortages have hampered efforts by home builders to satisfy the pent-up demand with new houses.

Higher prices have drawn some homeowners to put their houses on the market, and as supply increases the frenzy should abate. There are signs of buyers worrying about overpaying in some markets.

The harder question is, what happens when the Federal Reserve raises interest rates? Will housing prices stabilize, or actually begin to fall? Is this a bubble that might burst?

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