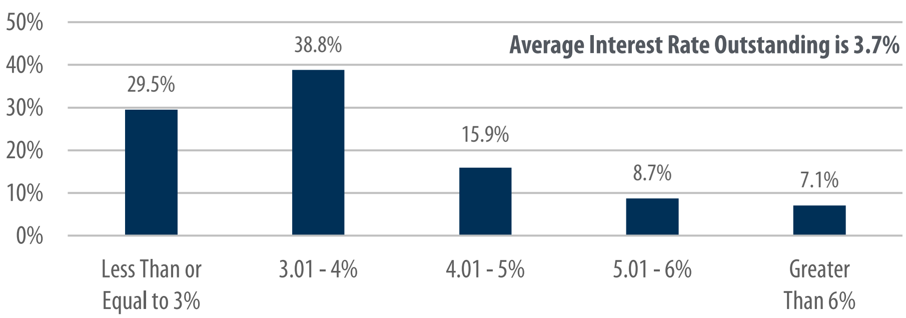
September 21, 2023

For our inaugural edition of Three on Thursday, let's take a closer look at the housing market. Housing prices are up significantly from early 2020 levels, while mortgage rates are now hovering near 7.5%, the highest in more than two decades. Does this mean we should brace ourselves for another 2000's-esque housing crisis? Our assessment of the data suggests otherwise. To help illustrate, below are three charts to provide a more detailed picture of the current housing environment. In short, we see no collapse looming.

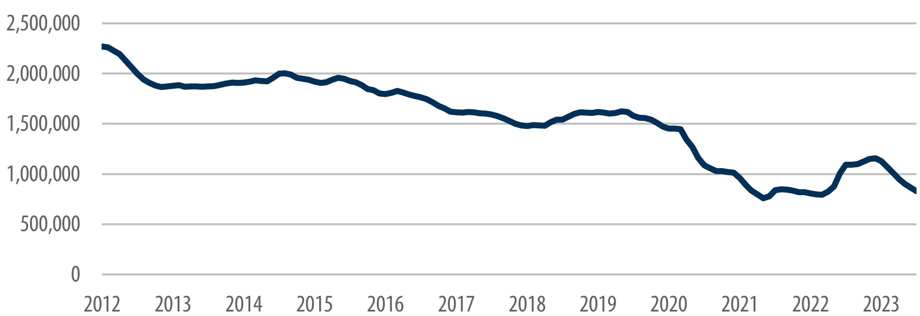
## Contract Interest Rate at Origination for Mortgages Outstanding




Source: Federal Housing Finance Agency, First Trust Advisors. Data as of 3/31/23.

As of the first quarter of 2023, a striking 95.2% of outstanding mortgages are fixed-rate loans, leaving a mere 4.8% comprising adjustable-rate mortgages (ARMs). Many homeowners purchased or refinanced their homes at much lower interest rates prior to 2022, thereby binding themselves to their existing mortgages creating a "mortgage lock-in" phenomenon and a reluctance to sell. In fact, when we examine the total dollar volume of mortgages outstanding, a staggering 70% or so of these loans are locked in at interest rates of 4% or lower. The average interest rate across all mortgages currently stands at a relatively low 3.7%. In today's market, where 30-year fixed mortgage rates are double the average interest rate held by current mortgage holders, the prospect of moving is considerably less enticing and more challenging.

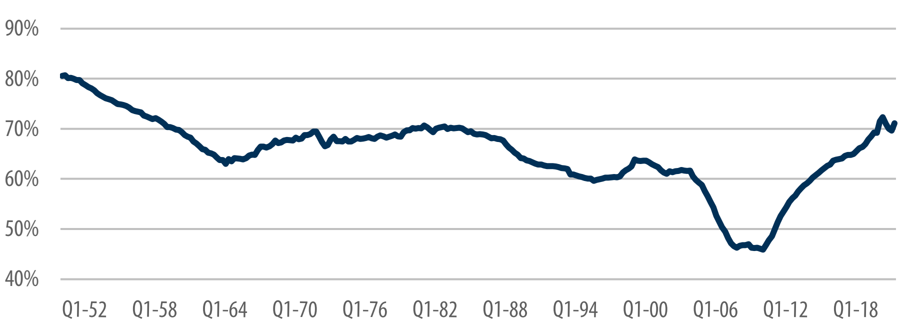
## Residential Inventory Unit Level | 2012 - 2023




Source: Redfin, First Trust Advisors.

Another pivotal distinction between our current housing market situation and the early 2000s is the scarcity of available inventory. This shortage of inventory is primarily attributed to a lack of sellers entering the market (for reasons noted above), a trend expected to persist for the foreseeable future. Examining the most recent data from July 2023 shows that inventories have plunged by 24% compared to the same period the previous year, and a staggering 47.5% since July 2019. Even though demand has dropped significantly with higher interest rates, inventories continue to remain close to rock bottom levels meaning supply and demand are not out of whack.

## Household Owners' Equity in Real Estate as a Share of Overall Household Real Estate




Source: Federal Reserve Board, First Trust Advisors. Data from 12/31/1952 to 3/31/2023.

The rapid appreciation in home values over the past few years, coupled with larger down payments and the sustained strength of the housing market throughout the past decade, has resulted in a remarkable milestone. Household owners' equity as a share of overall home asset values, has now reached an impressive 71.1%. This figure is the highest recorded since 1960, except for the past few quarters showing comparable levels of homeowners' equity.