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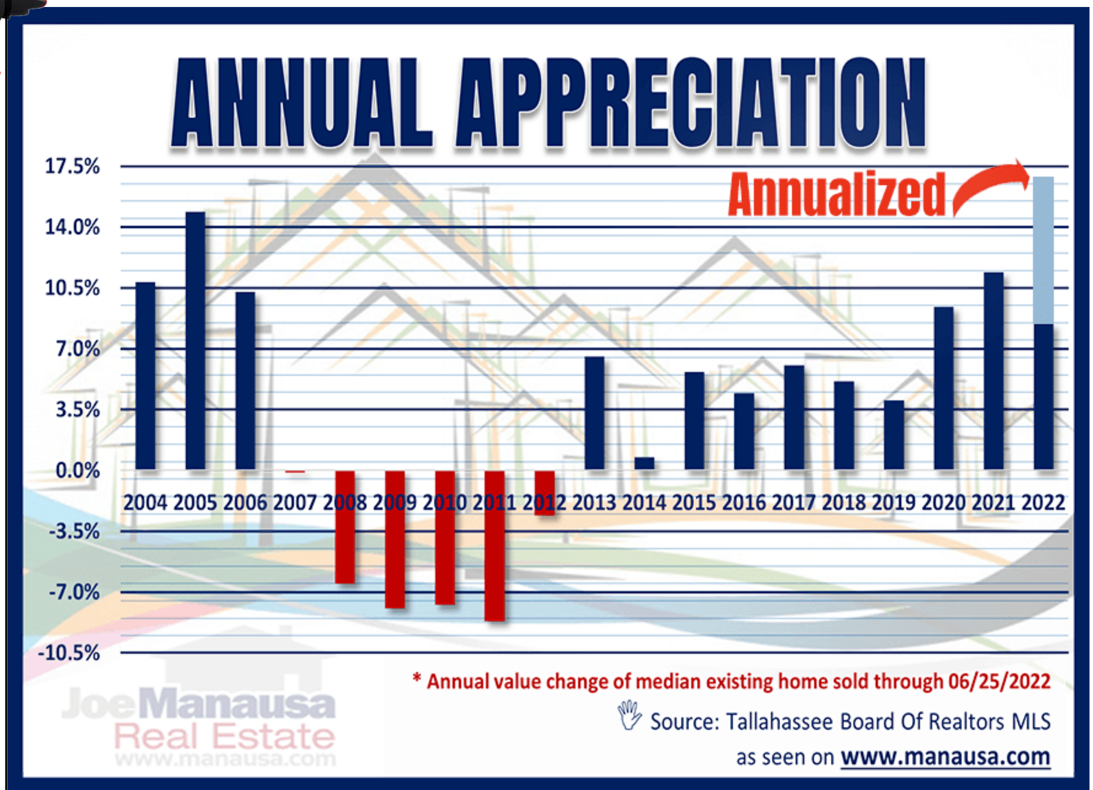
Will Appreciation Hit 20% In 2022?



One great method for measuring appreciation in the housing market is to evaluate the change in the median home value (price per square foot of the median home over time).

This graph plots the median home value each year and reveals the impact that the diminished inventory of homes for sale is having on home values. The market has been undersupplied since the end of 2016, so home values continue to move higher at an alarming and accelerating rate.

Prior to 2021, I forecast double-digit appreciation, and regrettably, the market met my expectation. The demand for homes has declined due to the rise in mortgage interest rates since the start of the year, but demand is still far stronger than the supply of homes can serve.

The light-blue bar in the graph above shows where this year's median home value is tracking if the rest of the year moves similar to the first half of the year. That's an annualized appreciation rate of roughly 17%, pushing home affordability to a new all-time low.

Unfortunately, the number of new construction homes being built remains far lower today than what the market has consumed so the supply of homes continues to trail demand. The lack of inventory will continue to increase the pressure on home values.

If you think buyers will move to the rental market in order to save money, you haven't been paying attention to rents. Rental rates are up nearly the same as home prices, meaning it is no more affordable to rent than it is to own.

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