A cooling housing market could slow even further in coming months

Further slowdown in home prices is possible when effects of the Fed's rate hike kicks in: Black Knight

June saw both record-low home price appreciation and the largest single-month increase of for-sale inventory in 12 years, resulting in a cool down in the housing market. And the housing market would likely slow further in the coming months if mortgage rates remain persistently high.

The annual home price growth fell by nearly two percentage points to 17.3% in June from the previous month, according to **Black Knight**'s monthly mortgage monitor report. June marked three consecutive months of decelerating home price growth. To compare, the largest single-month drop in appreciation was 1.2 percentage points in the housing downturn of 2006, Black Knight said.

While home price growth would have to slow down for six more months at this record-breaking rate to realize a 5% annual home price appreciation rate, there is likelihood of a further slowdown with the effects of the Fed's rate hike kicking in.

"Given it takes about five months for interest rate impacts to be fully reflected in traditional home price indexes, we're likely not yet seeing the full effect of recent rate spikes, with the potential for even stronger slowing in coming months," said Ben Graboske, data and analytics president at Black Knight.

All 50 top metropolitan markets saw growth slow in June. San Jose, California topped the list of markets seeing home prices pull back from recent peaks with the average price down 5.1% to $1.49 million in June from $1.56 million in April. Seattle, Washington (-3.8%), San Francisco, California (-2.8%) and San Diego, California (-2%) followed.

Black Knight noted about 10% of mortgaged properties were purchased over the past year, meaning price pullback could affect a "meaningful number of folks who bought at or near the top of the market."

About 114,000 more homes were listed for sale in June, a 22% increase on a seasonally adjusted basis over the past two months, Black Knight said.

While rising inventory is a welcome sight, the number of homes for sale still remains 54% below levels from 2017 to 2019, according to the report. For inventory levels to be normalized, the increase of homes for sale would need to grow at this record-breaking pace for more than a year, Graboske added.

Despite a slight increase in delinquencies, mortgage performance remained historically strong.

The national mortgage delinquency rate rose nine basis points to 2.84% in June, rebounding after hitting record lows in each of the previous three months. The delinquency rate is 35% lower than the same period in 2021 and remains 30% below pre-pandemic levels, according to Black Knight.

Foreclosure starts were also up 27% to 23,800 in June, representing the highest share of serious delinquency at 4% since March 2020. The rise in foreclosure starts are attributed to a modest rise in the share of serious delinquencies being referred to foreclosure," according to Andy Walden, vice president of enterprise research and strategy at Black Knight.

While foreclosure starts were up in June and far above the near standstill of activity in 2020 and 2021, they still remain well below pre-pandemic levels.

Prepayment activity fell by 7% in June from May with prepays now down 64% from the same time last year as rising rates put downward pressure on both purchase and refinance lending.