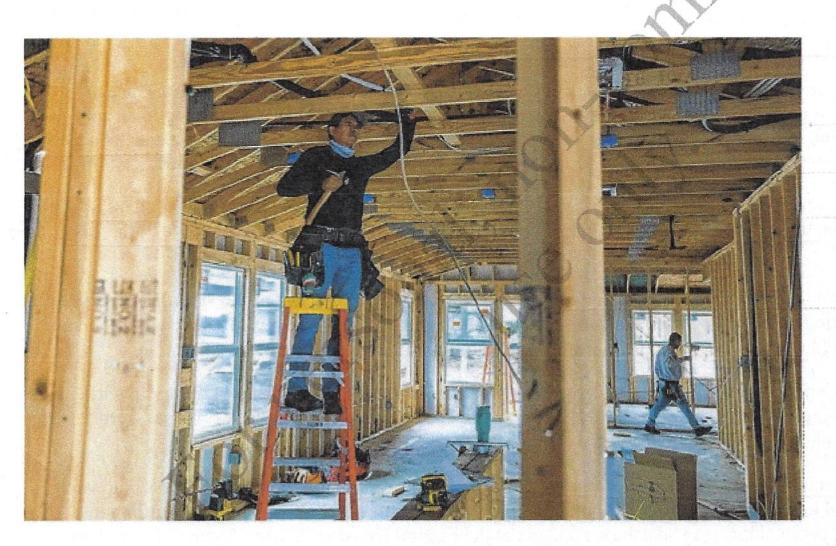
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Low supply of existing homes for sale is fueling the strange price dynamics between brand new and old properties. JORDAN VONDERHAAR/ BLOOMBERG NEWS

Best Home Deals Are on Builders' Lots

The premium that buyers usually have to pay for a brand-new house is disappearing

In sad news for romantics, the economics of buying a charming old home and fixing it up look terrible at the moment. If it is possible to find value for money in today's red-hot housing market, it is most likely to be down on the builder's lot.

A newly built house normally costs more than an old one, but the higher upfront cost is offset by lower maintenance bills in the early years of ownership. The roof is new, the decking is freshly laid and the appliances are all at the start of their useful lifespan. Many builders offer a warranty to fix structural problems that arise in the first year or two. Cons of buying a new home are that they tend to be less centrally located and their cookie-cutter looks.

The new-home premium bounces around but has been 16% on average since 1968, based on data from UBS housing analyst John Lovallo. It has withered away since the pandemic-era housing boom. This year through October, buyers paid a 3% premium on average for a new home. The last time the figure was so low was in the early 1980s, when housing also was very unaffordable.

Prices are converging because new homes are getting smaller and simpler. To keep them affordable, builders are swapping out touches such as marble countertops for less fancy materials and shrinking the floor size. New single-family homes were 2,384 square feet on average in the third quarter of 2024, based on data from the U.S. Census Bureau, 6% smaller than three years ago.

Home builders are more pragmatic about prices than existing owners, who tend to hold out for what their neighbors got. Many large builders want homes sold within around two years of breaking ground to minimize the cost of holding them on their books, so they will offer discounts.

Low supply of existing homes for sale, with many homeowners reluctant to give up their low-rate mortgages, is fueling the strange price dynamics between brand new and old properties. In October, there were 4.2 months of existing-home inventory, which is below historic norms. By comparison, the supply of newly built homes in October was 9.5 months. Normally, home builders would bring construction to an abrupt halt at these levels, but they are continuing to build to fill the void in the resale market. This steady flow of new homes is putting some pressure on prices.

But buyers may be so desperate to move that they no longer consider the cost of fixing up an older home. Once a property reaches 25 years of age, major components and systems are likely to need replacing. According to an analysis by the Federal Reserve Bank of Philadelphia, homeowners in properties built between 1970 and 1999 spend 26% more on annual maintenance than homes built after 2000. The costs to maintain a pre-1970 property are higher.

Repair costs are especially relevant because America's housing stock is older than ever. As construction collapsed after the 2008-09 financial crisis, the average age of U.S. homes crept up to 41 years from 32 years on the eve of the 2008 crash.

Granted, there was a renovation boom during the pandemic, when people used excess savings and stimulus checks to fix up their homes. But the aging housing stock needs a lot of investment. High interest rates slowed repair activity; major projects are usually financed with home-equity loans, which are prohibitively expensive now.

Add to this the fact that existing homes tend to be more expensive to keep warm and to insure. Old electrical wiring can increase fire risk and building techniques may no longer meet modern standards designed to protect homes from extreme weather events such as hail and storms.

In a healthy housing market, properties tend to lose value as they age if they aren't renovated. This process, known as downward filtering, helped lower-income buyers get on the property ladder between 2005 and 2013, according to a study by Jonathan Spader, national mortgage database manager at the Federal Housing Finance Agency. The process was disrupted over the past decade when rock-bottom interest rates and tight supply made all housing costlier. Today, buyers have the worst of both worlds: America's aging housing stock needs patching up but is commanding record prices.

Buying a home off a builder's assembly line isn't as exciting as hunting down a dream fixer upper, but it has rarely looked as smart financially.

—Carol Ryan

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