RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET

MARCH 2022

Mortgage Rate Swell Has Yet to Extinguish Hot Home Prices

Owners display a preference to stay put. The number of existing homes for sale continued to abate in January, reaching just 850,000 houses, compared to an average of 1.7 million listed homes during the same month from 2015-2019. There are several factors driving this trend, affecting both buyers and sellers. Very strong buyer demand for larger living options like single-family houses, to assist with at-home work and learning, has squeezed for-sale inventory and driven up prices. The rapid appreciation has made it difficult for owners to move up the quality stack and concurrently free up their entry-level homes. Also, the typical generational swap, where older residents downsize or enter age-restricted communities, has been temporarily stalled, as virus concerns make the older cohort hesitant to live among others.

Extended renter cycle a longer-term trend. Home prices are not expected to drastically decline in the foreseeable future, as buyer demand sustains upward pressure. As such, the majority of younger millennials, along with Gen Z, will likely rent longer into their lives than the previous generations, due to the difficult transition to ownership, as well as a fondness for the flexibility and lifestyle that apartments can provide. This will keep multifamily vacancy tight and could also benefit self-storage. People accumulate items as they age and start families, and they may require more storage space than apartments can offer, especially in dense urban areas.

Rapid rate climb has little impact on prices so far. The 30-year mortgage rate approached 3.9 percent in February, up 80 basis points from the start of 2022. Nonetheless, the median sale price of new and existing homes remained on a swift upward ascent, fueled by buyer appetite. Historically, higher mortgage rates suppress buying activity as financing becomes more expensive, moderating the pace of price growth amid less competition. Indications of upward rate movement and the corresponding deceleration of price gains typically coax homeowners that had been holding on to homes amid fast appreciation to list; this pattern, however, does not match the current climate. Prices continue to skyrocket, incentivizing owners to sit tight until growth wanes.

Developing Trends

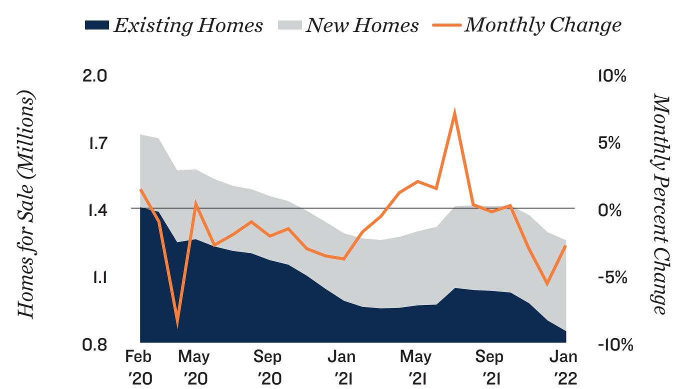
Construction costs soar above the previous high. In February, the index tracking construction costs jumped to a new record, following a two-month retraction from the prior peak set in November 2021. The index is now up more than 11 percent relative to when the pandemic began, and the impacts are being felt across all echelons of real estate. Commercial real estate developers in various property types are factoring in higher costs when planning projects. Single-family construction starts also fell 2.4 percent year-over-year in January, despite an imperative need for additional homes to be built in order to meet demand.

More new homes on the market, but fewer being sold. The 406,000 newly-built homes for sale in January was the highest monthly total since mid-2008; the number of new homes sold, however, fell 19.3 percent year-over-year. There are several reasons for this divergence, most notably the underlying characteristics of the listings. Only 9 percent of new homes were fully completed when listed on the market, while the remaining dwellings were either still under construction or not yet built. High material costs and labor shortages could sustain these conditions.

1.8 *Months Supply of Existing Homes for Sale at the Current Sales Rate*

16% *Year-over-Year Change in the Median Sale Price of an Existing Home*

Low Inventory Becoming the New Normal



Sources: Marcus & Millichap Research Services; Capital Economics; Freddie Mac; Moody's Analytics; Mortgage Bankers Association; National Association of Home Builders; National Association of Realtors; RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau; Wells Fargo