RESEARCH BRIEF

HOUSING MARKET

MARCH 2023

Scarcity of Starter Homes is Keeping Prices Afloat and Sustaining Barriers

Mild mortgage rate relief brought buyers off the sidelines. Existing single-family home sales hit a 5-month high in February, correlating with a slight retreat in borrowing costs. Mortgage rates have been volatile in the opening portion of 2023, climbing after the Federal Reserve voiced a more aggressive stance, then falling again after Silicon Valley Bank's demise and the related banking sector turmoil. The average 30-year mortgage rate is nevertheless undercutting last year's 7 percent peak, hanging in the low- to mid-6 percent range in 2023. This reduction helped drive the recent advance in home purchases. Conversely, fewer people are listing houses on the market amid economic and career uncertainty, alongside the consideration that many owners do not want to trade out their lower rate mortgages. Stronger buying amid weak motivations to sell pushed the for-sale count nationwide to a 9-month low in February. In particular, a lack of entry-level homes on the market is propping up prices and sustaining challenges for prospective first-time buyers.

Predictions for a major price drop counteracted by low supply. While the median single-family home price has trended down from May 2022's historic peak above $400,000, expectations for a substantial collapse have been off target so far. The median price of an existing house increased since the end of 2022, measuring at roughly $384,000 during February of this year. Limited options for buyers are providing price stability. High costs and still-elevated borrowing rates will continue to encourage millennial households on the margin to remain renters for longer.

Early signs emerge of improving apartment demand. After rising consistently for half a year, the average duration that an apartment unit in the U.S. sat vacant became shorter during both January and February 2023. This corresponded with an increase in the number of leads per available unit, as well as a bump in renewal conversions during the opening two months of this year. While young adult household creation is expected to remain relatively soft amid economic and inflationary pressures, these positive indicators for the multifamily sector are promising trends.

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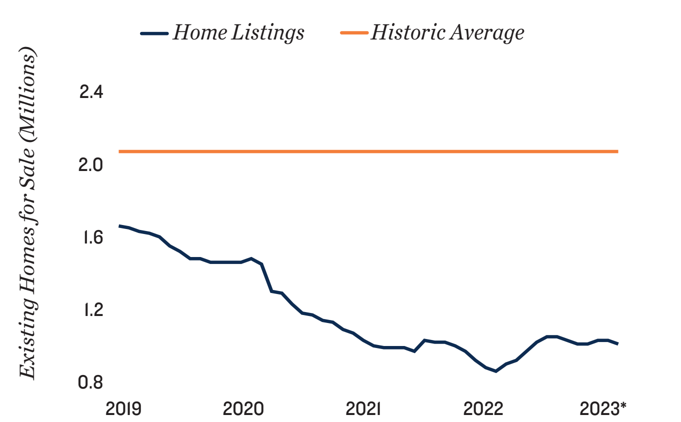
Developing Trends

Multifamily construction surge reflects confidence. Rising apartment vacancy and subsiding rent growth, alongside higher borrowing costs, have not constrained new groundbreakings. The pace of multifamily project starts during February 2023 jumped nearly 10 percent year-over-year to the second-highest monthly recording in three decades. Obstacles like attaining appliances amid persistent supply chain deficiencies are creating challenges to finalize these new units, however. This could extend delivery timelines and push some projects into future years. The increase in construction, nevertheless, showcases confidence in the sector. Builders are aware that the steep barriers to homeownership will expand the renter pool once economic conditions improve.

New homes are selling more frequently. After being on a steady descent for much of the past year, the rate of new home purchases rose to a 6-month high in February. This activity pushed the for-sale count to the lowest mark since April 2022. Shrinking supply amid stronger buying could encourage builders to ramp up, with single-family permits down more than 35 percent year-over-year.

-0.7%	*Year-Over-Year Change in the Median Sale Price of an Existing Home*	2.9	*Months' Supply of Existing Homes for Sale at the Current Rate*

Low Supply Amid Rise in Buying Reinforces Prices



** Through February; Historic average: Jan. 1984 - Feb. 2023*

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