

Debt Costs Stymie Buyer Demand, Yet Limited Listings Preserve Seller Leverage

Home sales fall again as interest rates tick back up. After climbing to a five-month high during February, the pace of home sales regressed in March as the latest Federal Reserve rate hike helped push borrowing costs upward. The average 30-year fixed-rate mortgage had settled to 6.3 percent across the opening two months of 2023, prompting more prospective homebuyers to pursue listings. However, the mean borrowing rate ticked back above 6.5 percent in March as the Fed lifted the overnight rate for the ninth time in 12 months. This movement discouraged buyers from exploring listings and further disincentivized owners locked into lower rates from putting homes on the market. As a result, the pace of purchases fell 21 percent year-over-year, while the number of houses for sale dropped to an 11-month low. The scarcity of listings is offsetting weaker buyer demand and keeping prices firmly elevated. In March, the median sale price of an existing home rose to \$385,900, up about 1 percent from the onset of this year.

Comparative affordability of renting is compelling. During the first quarter of 2023, the difference between an average rent obligation and a mean mortgage payment on a median priced home in the U.S. remained above \$1,000 per month. As household budgets continue to be strained by inflationary pressures, the cost-saving benefits of renting are particularly compelling. This comparative affordability, alongside the lack of a down payment or long-term debt during a period of career uncertainty, will continue to direct residents to apartments. While multifamily has been challenged by soft household creation over the past few quarters, these dynamics position the sector for longer-term strength.

Multifamily demand is improving. From January through March 2023, net apartment absorption registered positive for the first time since the same quarter of last year. While the number of newly-occupied rentals still trailed supply additions, maintaining upward vacancy pressure and stalling rent growth, this serves as a positive sign. The sector should continue to generate momentum as the year progresses, with pent-up young adult household creation accumulating and immigration levels rising.

Developing Trends

Demand for new homes not translating to entry-level listings. In March, the pace of newly-built home purchases surged to the highest mark since the same month of last year. This typically implies that homeowners are moving up the quality stack and listing their lower-priced houses on the market, but that does not seem to be the case, given the lack of existing homes becoming available for purchase. Rather, there may be a cohort of households that have been sitting on the sidelines for several years amid a competitive single-family market, saving up. A small share of financially sturdy residents could be entering first-time homeownership via a newly-built dwelling, as the quality, location and availability of existing homes relative to pricing in their market is uninviting.

Homebuilder confidence strengthens. Taking note of greater demand for newly-built homes and softer material price growth, homebuilder sentiment is rising. The Housing Market Index, which surveys builders' forward-looking expectations, improved to a six-month high in March. This correlated with single-family groundbreakings increasing for the second straight month.

-2.7% *Month-Over-Month Change in Existing Homes For Sale*

+30 bps *Month-Over-Month Change in the Average 30-Year Fixed-Rate Mortgage Rate*

Buyer Activity Sensitive to Rate Movement

