RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET

JUNE 2023

Higher-Wage Households Renting as Home Prices Get a Summer Sizzle

Sellers retain leverage amid deficient supply. Homebuyers have yet to see the market turn in their favor as of mid-2023, despite predictions offered earlier by some prognosticators. Many anticipated that higher interest rates would stymie purchases and prompt sellers to drop prices. While part of this has come to fruition — heightened debt costs did cool buyer appetite — major valuation adjustments have yet to transpire. In fact, the median sale price of an existing home rose for a third straight month in May to $389,400, the highest measure since July 2022. Upward price momentum is fueled by a dearth of homes coming to the market, sustaining a level of buyer competition amid a shortage of alternatives in most metros. The number of existing homes for sale in May was down about 7 percent year-over-year, and more than 40 percent below the trailing-decade average for that month.

Path toward increasing inventory unclear. Going back to the 1980s, the number of existing homes for sale had never fallen below 1 million, until the pandemic. Now, listings have failed to reach that benchmark in 18 of the last 28 months, creating a major obstruction to a healthy-functioning housing market. The avenues to resolve the shortage are uncertain. Many homeowners are content with their lower-rate mortgage locked in prior to higher borrowing costs, disincentivizing selling a house, barring a major life move. While new development could lift supply, in an environment of elevated debt, material and labor costs, the price points of newly-built homes can make them impractical options. Prospective first-time buyers facing inadequate lower-cost, single-family choices are instead opting to stay in the renter pool.

Incomes of renters at an all-time high. The transition to first-time homeownership is historically challenging amid a lack of options, high debt costs and elevated prices. For that reason, well-compensated residents are choosing to rent. The median income of a renter household in the U.S. climbed to a record-high of about $47,600 in the second quarter of 2023. That trend bodes well for the absorption of newly-constructed rentals, which also offer amenities and flexibility not attainable via ownership.

Developing Trends

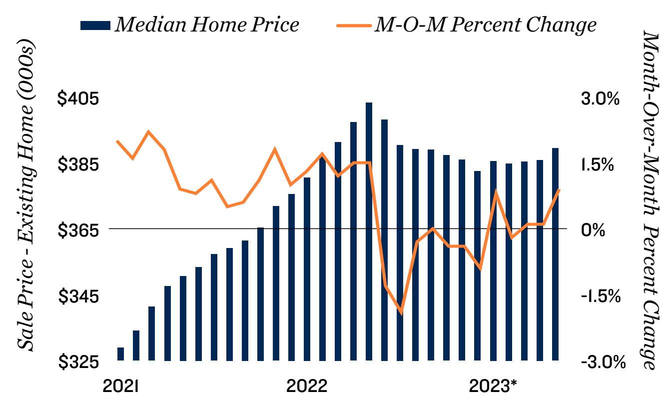
Tides are shifting for apartments. The past few quarters have featured headwinds for multifamily operators, as vacancy rates rose and rent growth flattened. Preliminary data from the second quarter of 2023, however, signals that the multifamily sector could be turning a corner. In May, the average length of time that a rental unit sat vacant fell to 26 days, the shortest duration since August 2022. Concurrently, the number of new lease applications per unit ticked up in April and May to mirror the volume of those same months in 2022. The velocity of lease renewals per unit also grew to a nine-month high in May. These improved near-term indicators, paired with the longer-term tailwinds of an uninviting home market, should boost sector sentiment.

Material prices are climbing again. The construction cost index heated back up in April and May. Spanning those two months, the index jumped 0.9 percent, compared to a 0.1 percent uptick from July 2022 through March 2023. Concrete and steel have been the driving force; although, the rise has not been detrimental to home builder confidence, which reached a 10-month high in May.

-20.0% *Year-Over-Year Change in Existing Home Sales in May*

6.7% *Average 30-Year Fixed-Rate Mortgage Week Ending June 22*

Home Prices Heating Back Up



** As of May*

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

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