RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET

JULY 2023

Single-Family Housing Market is Deadlocked as Owners with Lower Rates Sit Tight

Home listings plunge to the third-lowest mark on record. The average 30-year fixed-rate mortgage nudged closer to 7 percent at the turn of the second quarter, rising almost 70 basis points from the low point of that period. Debt costs are set to remain heightened in wake of the Federal Reserve's most recent 25-basis-point benchmark policy rate hike enacted in July as well. This continues to disincentivize homeowners from listing and trading out lower rate mortgages. Exemplifying this, Federal Housing Finance Agency data suggests that less than 10 percent of existing home mortgages were taken out with rates above 6 percent, while more than half of homeowners are locked into sub-4 percent rates. As a result, the number of existing homes on the market in June fell to the smallest count in 16 months, and the third-lowest figure since the 1980s. Even as buyer demand cools in response to higher debt costs, the lack of listings is proving to be a more powerful force, as the median home price rose for a fourth straight month in June.

Supply scarcity boomerangs prices to a 12-month high. Single-family home purchases in June were down nearly 20 percent year-over-year. This dynamic would traditionally encourage home listers to recalibrate prices to better align with softer buyer demand; however, the current climate is providing unique support for sellers. For only the fifth time on record — all of which occurred in the past 18 months — the number of existing homes for-sale fell below 900,000 nationwide in June. The lack of supply is allowing sellers to recoup upward price momentum, erasing declines recorded earlier this year. In June, the median home price surpassed $393,000 for the first time since the same month of last year, now up about 3 percent from the December 2022 trough.

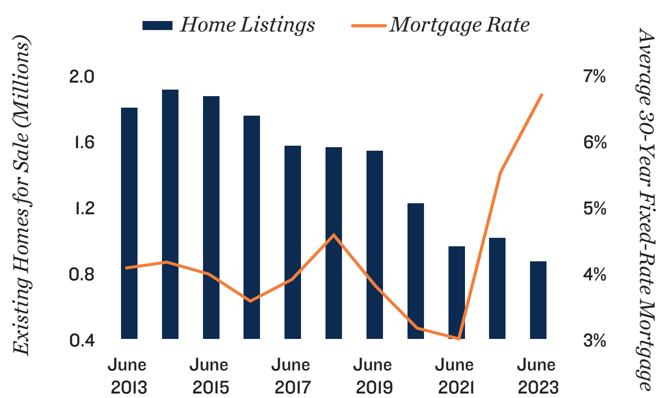
Cost-saving benefits of luxury rentals expand. While home prices and debt costs have continued to elevate this year, the pace of apartment rent growth has tapered after historic gains in 2021-2022. That recent divergence increased the relative affordability of renting. In the second quarter of 2023, the difference between an average Class A rental obligation and a typical payment on a median priced home in the U.S. widened to about $660 per month.

Resumption of student loan payments to exacerbate hurdles. According to Apartment List's 2022 annual survey of millennial renters, more than half of respondents cited saving for a down payment as the biggest obstacle to becoming a first-time homeowner. That same survey reflected that about 85 percent of millennial renters who plan to buy a home one day had less than $10,000 saved for a down payment. This hurdle is set to become more challenging once student loan obligations resume in October. Estimates have shown that nearly 15 million 25- to 34-year-olds have student debt, totaling more than $500 billion owed.

Millennial living preferences shifting. Even prior to the home price and debt cost increases that occurred during 2023's first half, young adults were increasingly backing away from homeownership. Apartment List's 2022 survey found that about one-fourth of millennial renter households do not plan to buy a home one day, up from 15 percent in 2019. This is providing demand reinforcement for Class A rentals. Luxury tier vacancy rose by a smaller margin than Class B and C across the first half of 2023.

-13.5% *Year-Over-Year Change in Existing Homes for Sale in June 2023*	-3.6% *Year-Over-Year Change in Newly-Built Homes for Sale in June 2023*

High Rates May Subdue Listings Longer Term



Sources: Marcus & Millichap Research Services; Annual Apartment List Survey; Capital Economics; Federal Housing Finance Agency; 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