

### Home Prices and Borrowing Costs Climb, Further Constricting the Market

**Higher mortgage rates influence buyer and seller motivation.** The average 30-year fixed-rate mortgage climbed to a five-month high of 7.0 percent in April 2024, as the market responded to persistent inflationary pressures and Federal Reserve policy. Increasing borrowing costs, meanwhile, encouraged more prospective buyers to sit tight on the sidelines, reflected in existing home sales sliding to a three-month low in April. This reduction in purchase activity, however, coincided with a decline in home listings — which fell 1.4 percent month-over-month — implying that higher borrowing rates are also impacting sellers' willingness to trade out lower rate mortgages in the current climate. That combination of softer buyer demand and easing sell-side motivations, in turn, pushed the median home price to the second-highest figure on record at \$405,400 in April. A concoction of near all-time high home prices and elevated mortgage rates may keep the housing market exceptionally tight in the coming months.

**Sellers may struggle to adapt, keeping inventory low.** Based on a Freddie Mac calculation, it is estimated that more than 60 percent of current homeowners had interest rates below 4 percent at origination and roughly 85 percent had rates under 6 percent. As the average 30-year fixed-rate mortgage has now held near 7 percent through late May, those conditions may keep home listings muted for the foreseeable future. Life circumstances will dictate a natural level of home listings, but owners with the flexibility to sit tight may do so in the near term. In April 2024, the number of existing homes for sale was almost 370,000 houses shy of the trailing-decade average for that month, providing reinforcement for values.

**Homebuying barriers reflected in apartment indicators.** Luxury tier rentals are gaining appeal amid historically extreme cost-saving benefits relative to buying a house. As home prices and borrowing costs rose in April, the rate of signed renewals at Class A apartments improved to an eight-month high. Additionally, the average monthly income of a luxury tier renter hit the second-highest figure on record, reflecting an expanding tenant pool that includes more higher-earning households.

### Developing Trends

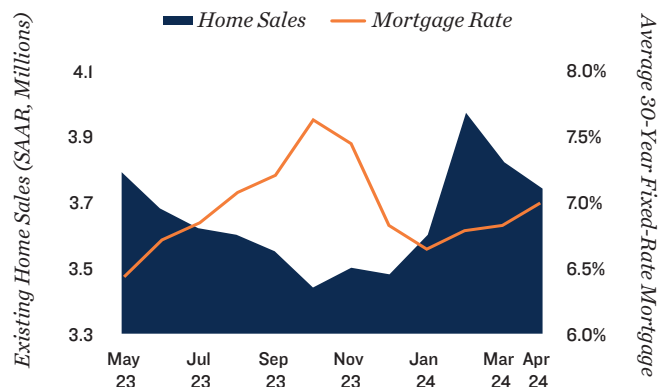
**Newly-built home inventory soars to a 16-year high.** Increasing by more than 12 percent year-over-year, the number of newly-built homes available for purchase in April stood at the highest mark since 2008. Amid a lingering home shortage nationally, this swell is necessary; however, the most pronounced shortfall is within the entry-level segment, which remains undersupplied. The process of owners moving up the quality stack into these newly-built homes should put more entry-level stock on the market, but recent mortgage rate escalation is disrupting that flow. In April, new home sales fell by nearly 8 percent year-over-year.

**Housing permit demand dips to a 16-month low.** Amid multifamily supply-side pressure, construction permits for apartments have been declining, down 22 percent year-over-year in April 2024. Recently, permits for single-family homes have been increasing, helping balance out the downshift. That trend hit roadblocks in April with single-family permits contracting to the smallest volume since August 2023. This aligned with the home-builder confidence index weakening to a four-month low.

**5.6%** Year-Over-Year Change in the Median Sale Price of an Existing Home

**-1.3%** Year-Over-Year Change in Existing Home Sales

### Rising Mortgage Rates Stifle Momentum



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