

Apartment Demand Mounts Amid Unrelenting Single-Family Barriers

Housing market remains in a state of disruption. Existing home sales slid to a six-month low in June 2024 as the median price eased by just 0.2 percent from May's all-time high and the average 30-year fixed-rate mortgage held near 7 percent. Softer purchase activity signals that buyers should gain leverage in the current climate, although a lack of entry-level homes on the market is a blockade for meaningful relief. The number of existing houses for sale fell for a third straight month and remained almost 50 percent under the June average across the prior two decades.

Affordability gap swells. The difference between a typical monthly mortgage payment on a median-priced house in the U.S. compared to an average apartment rent grew by almost \$70 during the second quarter of 2024. That gap expanded to roughly \$1,290 per month, which is just 3 percent off the record high set in the fourth quarter of 2023 and more than twice as wide as the trailing five-year average. The increased affordability advantage is encouraging higher-earning households to remain in the renter pool. Preliminary estimates show that the average monthly income of an apartment tenant reached an all-time high in the second quarter of 2024, rising by nearly 4 percent annually and more than 30 percent from five years ago. That trend is expanding the renter pool and driving occupied stock to new heights.

Multifamily net absorption escalates. From April through June 2024, the number of occupied apartments nationwide surged by over 160,000 rentals, the strongest quarter for net absorption in nearly three years. Combined with a robust opening three months of this year, that first-half absorption volume surpassed the entirety of 2023 by almost 35,000 units. Stronger demand rejuvenated rent growth, with the average effective rate hitting an all-time high of \$1,828 per month. Second-quarter gains were most pronounced in the Class A and B segments, which have renter pools more aligned with the challenging transition to homeownership. Higher-earning tenants are opting to stay for longer amid barriers to purchase a house, while easing inflation relative to wage growth is allowing some Class C renters to move up the quality stack.

Developing Trends

Newly built home dynamics indicate headwinds. In June 2024, the number of newly built homes for sale reached a post-global financial crisis high as purchases of these dwellings fell by more than 7 percent year-over-year. Several factors are contributing to this trend. A substantial share of newly built houses are listed on the market before construction is complete. In June, finalized homes accounted for just over 21 percent of the newly built houses available for purchase, compared to a long-term average of about 26 percent. Additionally, the median sale price climbed by more than 3 percent month-over-month in June.

Single-family permits plunge as developers react. Easing buyer demand for newly built homes and the resulting swell in inventory is impacting construction plans. Single-family housing permits fell to a 13-month low in June 2024, aligning with the home-builder confidence index weakening to the softest measure since December of last year. Conversely, strong apartment absorption supported multifamily permits rising for the first time in four months in June yet remaining down 6 percent year-over-year.

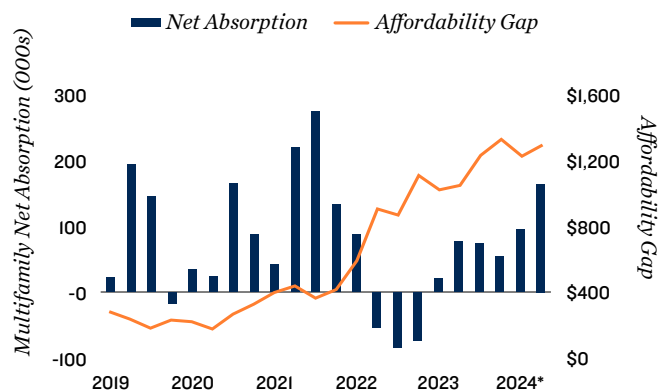
4.0%

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

-4.3%

Year-Over-Year Change in Existing Home Sales

Multifamily Affordability Reignites Demand



* Through June

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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