


## Rising Homeownership Barriers Bolster Rental Housing Demand

**Rising costs restrain prospective homebuyers.** Strong interest among buyers for a limited supply of homes for sale drove the median price of an existing single-family home up 14.8 percent year over year to \$325,300 in January. Interest remains robust, especially among those searching in the price range below \$300,000, as more millennials age into the traditional homeownership stage of life. First-time buyers accounted for 33 percent of existing home purchases in January, up from 31 percent one month earlier. The high cost of homes is being further accentuated by rising mortgage rates, which reached a five-month high of 3.08 percent during the week of February 19. Although the rate is still historically low, the tick up contributed to mortgage applications for a home purchase dropping 11.4 percent during the same period. If mortgage rates continue to rise in the months ahead, the increase will likely suppress future sales.

**Higher construction costs limit inventory.** The supply of existing homes for sale in January was down nearly 30 percent year over year. The inventory sat at a record low of 2.0 months of supply. A lack of existing homes available has more people in search of newly built homes. Lumber prices, however, jumped to a record high of over \$1,000 per 1,000 board feet in the third week of February, and the costs of land, labor and other building materials are also climbing. These factors are placing further pressure on home prices. The median price of a new home in January sat at \$345,600, up 4.9 percent from last year. Rising costs and weather delays pushed the percent of pre-sold homes that have not yet started construction to the highest level since 1973.

**Rental housing favored as home prices rise.** Fewer households are able to qualify for a mortgage or are outbid on home offers, further delaying the transition out of the rental market. Despite the unprecedented upheaval caused by the health crisis, multifamily vacancy nationwide rested at 4.4 percent at the beginning of 2021, just 20 basis points above the 19-year low reached in 2019. The average effective rent dipped less than 1 percent from the prior year to \$1,410 per month.

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## Developing Trends

**Demographics favor homebuying demand.** There are about 46 million people who are between the ages of 25 and 34, representing 14 percent of the total U.S. population. As some members of this age cohort begin to start families, more will consider purchasing a residence. The need for space to work and school from home during the pandemic has sped up the trend that was already underway. Rising home prices, meanwhile, are moving more households to the suburbs and smaller metros where housing prices are lower.

**Permitting surge bodes well for spring construction starts.** During January, housing permits jumped for the third consecutive month, climbing 10.7 percent to 1.9 million annualized units, the highest level since 2006. Single-family permits ticked up 3.8 percent while multifamily soared 28.1 percent. These figures coupled with a rise in homebuilder confidence point to a promising outlook for residential construction activity this spring.

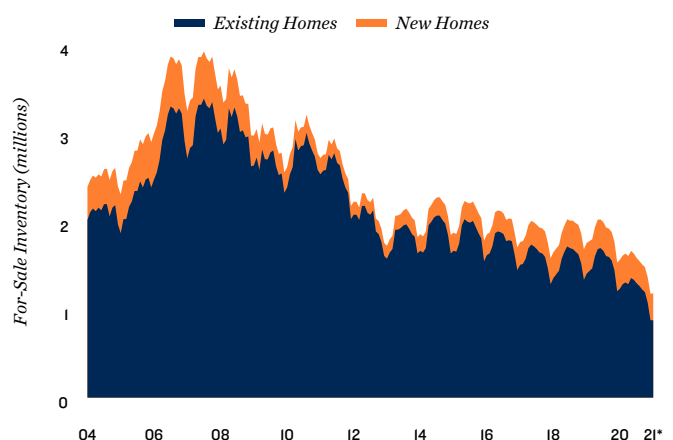
\$325,300

Median price of existing single-family home in January 2021

2.0

Months supply of existing homes for sale January 2021

### For-Sale Inventory Tightens



\* Through January

Sources: Marcus & Millichap Research Services; Capital Economics; Moody's Analytics; Mortgage Bankers Association; National Association of Realtors; National Association of Home Builders; RealPage, Inc.; U.S. Census Bureau; Wells Fargo