

Surging Home Sales and Prices Bolster Commercial Real Estate Outlook

Housing market signals dramatic suburban transformation.

Homebuying is being driven in large part by changing demographic trends that have been accelerated by the health crisis. The aging of the millennial generation into the homeownership phase of life and more households seeking larger spaces in lower-density areas as they work and attend school from home have driven housing demand in the suburbs. Home sales are also being fueled by historically low interest rates and a surge in savings during the pandemic that are helping more prospective homeowners afford the associated downpayment and mortgage. Lower land costs farther from metro cores are keeping many developers focused in suburban and exurban locales.

Housing shortage reiterates value of apartments. During March, the supply of both new and existing home sales remained near a historic low, resulting in many potential homeowners being repeatedly outbid as prices continue to soar. The median cost of an existing home jumped 3.0 percent in March alone to \$342,400, a new all-time high. Over the past 12 months, the price has surged 18.4 percent, which is the fastest pace of annual price growth since at least the 1960s. As a result, the monthly payment for a 30-year loan on a median-priced home, with a 10 percent downpayment and including taxes and insurance, rose to \$1,926. In contrast, the average effective rent on a Class A apartment is \$1,787 per month, underscoring the value of rentals. The tight supply and rising cost will delay many renters from transitioning to homeowners, providing a bright outlook for suburban rentals.

Suburban retail benefits from population shifts. The movement of households to the suburbs is generating demand for goods and services closer to the growing population. Additional grocery and drug stores as well as restaurants and bars will be needed. Businesses that cater to home improvement and home furnishings should also register improving sales as households remodel existing homes and furnish new residences. Building supply retailers have been a stand-out performer during the health crisis, with sales in March surpassing pre-pandemic levels by nearly 30 percent, double the growth rate of core retail sales.

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Developing Trends

Single-family rentals gain traction. Strong demand for single-family home rentals since the Great Recession and a lack of available homes to purchase for rentals have some investors constructing single-family communities for the purpose of renting. In recent years, the number of build-for-rent homes (BFR) accounted for 5 to 10 percent of the new homes constructed; however, the numbers are growing, especially in the Sunbelt metros with lower land prices, including Atlanta, Phoenix and Houston. These assets could increase competition for larger suburban apartments.

Strong demand activates developers; cost continue to rise. Housing completions surged 16.6 percent during March and single-family permitting jumped 4.7 percent. While permitting and construction activity are growing, rising production costs and a shortage of materials are delaying the groundbreaking on some homes. In the final week of April, the average cost of 1,000 board feet of lumber sat just under \$1,300, up 232 percent since the onset of the pandemic. The rising costs have some developers focusing on higher-end residences, where these costs can more easily be absorbed into the sales price.

\$342,400

Median price of existing single-family home in March 2021

2.2

Months of supply of existing homes for sale in March 2021

Months Supply at Current Sales Rate



* Through March
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