


Lack of Supply and Rising Costs Impede Path to Homeownership

Supply of homes on market tightens. The number of existing houses listed for sale retreated 32.6 percent year over year in February, the largest annual drop ever recorded, pushing inventory to an all-time low. The few listings that come to market are snatched up quickly, cutting the average days on the market to a new low of 20 days. The availability of residences affordable to most renters, those under \$250,000, is particularly challenging, keeping many in rentals longer. Economic uncertainty due to the pandemic has reduced the number of homes being listed for sale as more households are delaying decisions to upsize or downsize and fewer people are relocating for employment. In addition, more homeowners have refinanced during the low interest rate climate and are hesitant to move. The lack of supply contributed to the monthly sales of both existing and new homes falling 6.6 percent and 18.2 percent, respectively, and pushing prices to a new high.

Cost to purchase a home continues to escalate. Beyond the extremely low supply of available houses, potential homeowners are also confronted with rising home prices and the increasing cost of financing. The median price of an existing residence jumped 16.2 percent year over year in February to \$334,500. New homes are also becoming more expensive as the median price climbed 5.5 percent to \$347,200. In addition, the cost of financing is heading higher. The 30-year mortgage rate climbed above 3.1 percent in recent weeks, up 40 basis points from the beginning of 2021. Escalating costs are putting increased pressure on housing affordability and pricing more potential homeowners out of the market, keeping them in rentals.

Winter storms hamper housing construction. Inclement weather across a large swath of the nation contributed to a 10.3 percent drop in residential starts in February. Single-family fell 8.5 percent while multifamily was down 15.0 percent. On an annual basis, starts have fallen 9.3 percent, also driven by a severe cut in the multifamily segment. Permitting activity fell in February, reversing most of January's gain. This is a weather-related hiccup that will exacerbate the for-sale inventory shortage in the near term, but the long-term construction trend will continue up. Annually, permits are up nearly 20 percent.

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Developing Trends

Elevated costs dim builder confidence. In March, homebuilder confidence dipped two points to 82, the lowest rate since August of 2020. Strong buyer demand is offset by rising labor and material prices. The cost of lumber soared more than 180 percent since last March. According to the National Association of Home Builders, since April 2020 higher lumber prices have added an estimated \$24,000 to the cost of a new home.

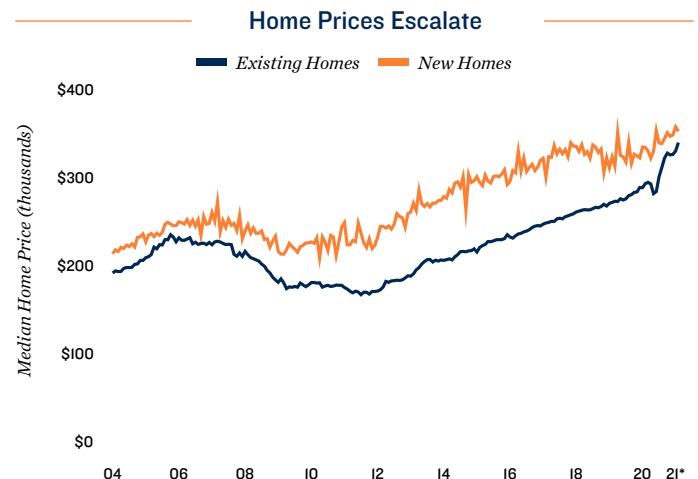
Demographic trends underpin increased housing demand. Although the number of households contracted during the pandemic, people who doubled up will begin to seek housing on their own as vaccines become widespread and more workers are hired. In addition, more of the millennial cohort is aging into their 30s, the age when many households consider a home purchase. Over the next five years, the number of 30-year-olds is expected to rise by nearly 2 million people, underpinning the demand for housing. The rising costs of homeownership and the short supply of for-sale housing, however, will keep demand for rentals elevated.

\$334,500

Median price of existing single-family home in February 2021

2.1

Months of supply of existing homes for sale in February 2021



* Through February

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