

Hot Housing Market Spills Over Into Multifamily Rentals

Pandemic heightens changes in lifestyle. The leading edge of the 72 million millennial cohort began to age into the homebuying stage of life during the global financial crisis. Deterred by the housing crisis that followed, many delayed purchasing. Although millennial homebuying had picked up before the health crisis began, it was sped up dramatically as companies sent employees home to work. No longer tethered to the office and confronted with economic uncertainty, priorities and lifestyles shifted and homeownership became more important. Buyers, however, were confronted with an already-low supply of for-sale options throughout the nation, which pushed prices higher.

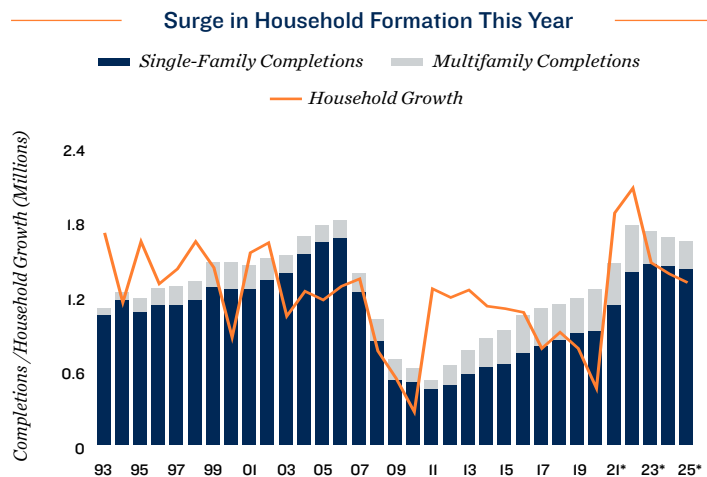
Construction hasn't kept up with household formation. Housing completions have been subdued since 2011 and have fallen well below household formation over the past several years. The for-sale inventory is tightened further by baby boomers living to an older age and remaining in their homes longer, and more homeowners locked in at a modest interest rate. The low rate provides less incentive for owners to move, especially if another house is hard to find. During 2021, the high cost of building materials and labor, along with supply-chain disruptions for housing supplies, will restrict the pace of home construction, exacerbating the shortage. This disconnect is expected to last through 2022, after which household formation is forecast to taper from a peak of 2.1 million in 2022 and many of these temporary issues are resolved.

Pace of sales loses steam as fewer residences available. Existing home sales fell 44.5 percent during May, translating to a year-over-year decline of 22.8 percent. Meanwhile, the number of new homes sold dropped 9.2 percent over the past 12 months. The modest supply of existing residences on the market contributed to the decrease. Home prices are also rising, restricting the number of houses that are affordable for renters seeking to transition to homeownership. As a result, more households will stay in the renter pool longer, which should generate interest in the 335,000 apartments due in the nation's major markets this year. The growing demand for apartments will push rents higher. The average effective rent in the U.S. is expected to jump 2.8 percent in 2021 to \$1,451 per month.

Developing Trends

Price of lumber retreats. The cost of 1,000 board feet of lumber fell to \$600 in the third week of June, down roughly 50 percent from a record high in May. The drop may allow more developers to stockpile inventory, stabilizing one aspect of the rising cost of home construction. As a result, builders could break ground on more homes as the summer progresses.

Tight supply pushes prices higher. Although more existing homes were listed for sale in May compared with the prior month, the limited availability amid robust demand is keeping prices elevated. The median sales price of an existing home soared 24 percent since May of last year to \$344,000. The median price of a new home jumped 18 percent annually, setting a high of \$383,100 in May. Rising prices are allowing fewer renters to qualify for a home purchase.



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