

RESEARCH BRIEF: HOUSING SECTOR

Homeownership Rate Sets Record Low Despite Surging New Home Sales

- Existing single-family home prices marked moderate gains in July, moving back into alignment with the pre-recession peak. Though home prices ticked up, existing home sales dipped for the first time since November 2015 as limited available inventory weighed on further progression, keeping many households in apartments. Steady job creation over the last six years has supported apartment demand, pushing occupied units to an all-time high in the second quarter. Newly formed households have favored renting rather than homeownership throughout the growth cycle, reflecting lifestyle changes and barriers to homeownership. Although the housing market remains very active, first-time homebuyers and millennials have yet to enter the housing market en masse, and the homeownership rate matched a record-low 62.9 percent in the second quarter while apartment occupancy hit a 10-year peak.
- Existing single-family for-sale inventory remained near a decade low, reaching 4.4 months in July, while a fifth consecutive month of double-digit gains in sales of new homes compressed inventory to 4.3 months, well-below the six-month mark regarded as equilibrium. Shrinking inventory levels among both existing and newly constructed residences are keeping prices elevated, reaching \$229,600 and \$298,200, respectively, in July. Since the housing crisis, homebuilders have been focused on higher-end home construction, leading to a shortage of listings for typical first-time homebuyers and funneling demand into apartments as millennials and other young professionals create new households.
- First-time homebuyers represented 32 percent of home sales during July, down from 33 percent in June and remaining well below the long-run average of 40 percent. The inability to save for downpayment requirements, more stringent credit terms, and steadily increasing home prices continue to create hurdles for would-be buyers. These factors, among delays in life changes and scarce inventory, have kept many from transitioning into homeownership, stirring additional demand for rentals and keeping the homeownership rate at historically low levels.
- The limited for-sale housing options have benefited the nation's multifamily sector, and in the second quarter, apartment vacancy fell to 3.8 percent, equaling the 10-year low. Rent has risen steadily for the past six years, increasing 5.3 percent from last June while the absorption of 123,000 units was one of the highest levels since 2009.
- The nation's baby boomer generation is nearing retirement, and the 65-plus age segment is set to rise by more than 20 million over the next 10 years. As a result, seniors housing development is robust with more than 50,000 independent and assisted living units underway. As this generation moves closer to retirement and desires the services provided by senior communities, some current retirees are taking advantage of rebounded home prices and monetizing their equity to redeploy into smaller, age-restricted housing.

