Marcus & Millichap

Research Brief

HOUSING

August 2017

Millennial Homeownership Edging Higher, Young Adults Still Favor Apartment Lifestyle

Developing Trends

- **Apartment construction appears likely** to peak this year as more than 370,000 units are slated for delivery, up from 290,000 apartments in 2016. The majority of new supply is concentrated in luxury, Class A properties, and some markets could experience softening vacancy as these units come online and are stabilized. The construction pipeline is beginning to thin in many metros, and strong housing demand should return balance.
- **First-time homebuyers slipped from** 33 percent of sales in May to 32 percent of sales in June, staying well below the long-term average of 39.3 percent.
- **With apartment absorption in the second** quarter at a 30-year high and vacancy hovering below 4.0 percent, apartment rent growth strengthened. The release of pent-up housing demand to fill the thousands of new units coming online is supporting a healthy pace of rent gains, with the average rising 4.3 percent annually in June.

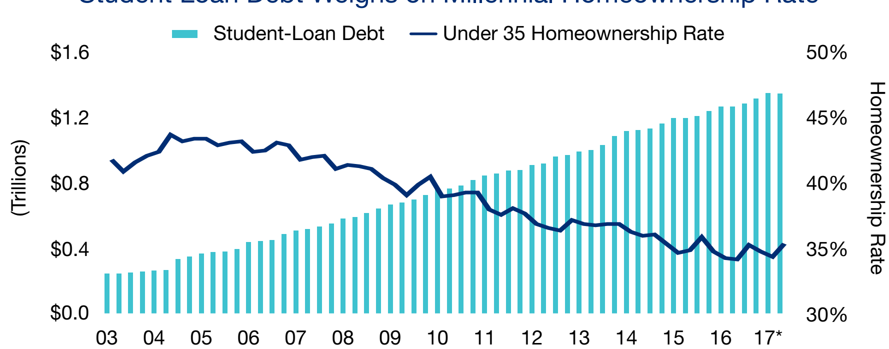
After falling to a five-decade low in the second quarter of last year, the homeownership rate is up almost a full percentage point to 63.7 percent in June. The increase was driven by a rise in homeownership among millennials, among which the rate advanced 120 basis points year over year to 35.3 percent. Though rising, the rate remains below the peak of 43.6 percent achieved in mid-2004. As the pendulum begins to swing back toward homeownership, limited for-sale inventory and a lack of new-home construction, especially in the entry-level home segment, will continue to plague overall sales activity. Lifestyle changes and low savings rates as many millennials are burdened with high student-loan debt will also contribute to the largest share of those under age 35 remaining renters. These factors will keep demand for apartments healthy and steadily push up effective rents.

Existing single-family home listings fell to one of the lowest levels since 1999 during June, and existing home sales have hovered in the same span for the past nine months. Homeowners who have outgrown current residences are restrained by a lack of inventory to trade into, pushing higher-income households into the new-home segment. This has supported an elevated median as new homes priced above $300,000 make up the largest share of sales. Rising construction costs and high land prices are keeping many entry-level home projects from penciling, constraining activity in properties below this threshold. While single-family construction starts are on the rise, the pace of household formation is accelerating more rapidly, and demand will likely outstrip the combined single- and multifamily supply additions by nearly 100,000 units.

$246,480 Median price of existing single-family home in June 2017

4.3 Months of supply at current sales pace in June 2017

Student Loan Debt Weighs on Millennial Homeownership Rate



* Through 2Q17

Sources: Marcus & Millichap Research Services; U.S. Census Bureau; MPF Research; National Association of Realtors; National Association of Home Builders; New York Fed Consumer Credit Panel/Equifax

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