Marcus & Millichap

Research Brief

HOUSING

September 2018

Affordability Concerns Rise as Demand Exceeds Housing Construction

Monthly housing payments surged this year for homebuyers as mortgage rate increases and rising home prices lifted the cost of homeownership. The monthly payment on a median-priced home now stands $130 higher than at the beginning of the year, driven by a 70-basis-point interest rate increase. Fixed-rate mortgages now average about 4.5 percent, their highest level since 2011, and this has increased the gap between the monthly mortgage payment on a median-priced home and the average monthly apartment rent to $320.

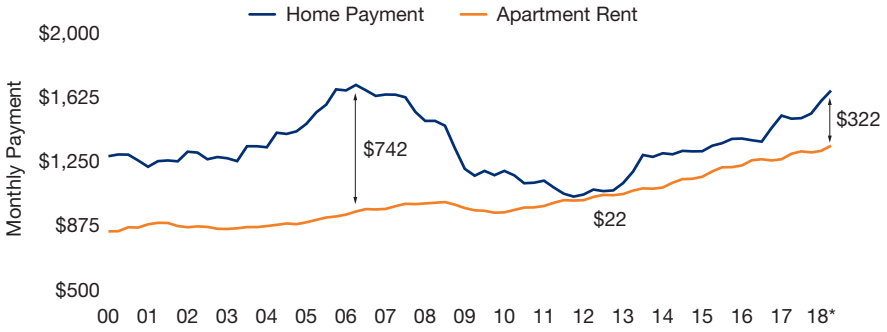
The shortage of entry-level homes for sale has been amplified by the rapid interest-rate increases. Move-up buyers have become more reluctant to sell their existing home because many homeowners locked in rates as low as 2 percent. With interest rates now as much as 250 basis points higher, purchasing power and affordability have been impacted. This is slowing activity in the mid to upper price ranges and restraining new home sales. Builders have been unable to construct homes at the entry-level price point because of elevated construction and land costs. Home sales activity has flattened as a result.

Risk of a housing shortage could rise as residential building flattens. Multifamily developers have been setting a record pace over the past five years, but single-family home construction has remained less than half of levels prior to the Great Recession. With the strong economy and tight labor market boosting household formation, residential deliveries will likely fall short of demand. Though pockets of overdevelopment may emerge, the broad-based shortfall of housing supply could expand the affordability gap and prompt renters to extend their apartment stay.

$272,300 Median price of existing single-family home in July 2018

4.0 Months of supply at current sales pace in July 2018

National Apartment Rent and Home Payment Trends



* Through 2Q
Mortgage payments based on quarterly median home price for a 30-year fixed rate mortgage, 90 percent LTV, taxes, insurance, and PMI.
Sources: Marcus & Millichap Research Services, RealPage, Inc., Freddie Mac, National Association of Realtors, U.S. Census Bureau

Developing Trends

- **The rising cost of homeownership** has decelerated existing home sales activity to the slowest pace in more than two years. Sales declined for a fourth straight month in July and were down 1.4 percent from one year ago.
- **New home sales continue to** be driven by trades of higher-priced homes with the median new home price rising 1.8 percent annually to $328,700. Approximately 60 percent of all new home sales were priced above $300,000 during July.
- **Apartment vacancy fell to 4.6 percent** in the second quarter, down 10 basis points year over year amid strong demand. Despite thousands of Class A units completed in recent quarters, vacancy for this class remains tight at 5.1 percent. The average effective rent for Class A units is approximately $100 more than the monthly mortgage payment on a median-priced home, solidifying the shift in preference for renting versus homeownership.

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