RESEARCH BRIEF

Marcus & Millichap

HOUSING

AUGUST 2020

Changing Lifestyle Preferences Shift Housing Demand to Suburbs

Pandemic alters housing choices. After being sequestered for months, with many people working from home and doing their shopping and schooling online, households are reevaluating their current accommodations. Larger residences with spaces appropriate for home offices and online learning that also have outdoor space to enhance social distancing are gaining favor. The ability to work remotely has diminished the value of a short commute in the home-search equation, making lower-cost suburban locations more favorable. This preference was already emerging as more millennials start families and reevaluate their urban lifestyles. With 60 percent of millennials now in the 30s, many are considering children and the importance of public schools is an emerging factor in homebuying decisions. These trends also bode well for Class A garden-style suburban rentals with larger square footage and ample outdoor space.

As stay-at-home orders lifted, households were on the move. Once states eased restrictions, residents began to search for more suitable options. Pent-up demand, a reprioritizing of housing needs and record-low interest rates bolstered home sales. The purchasing of existing homes soared 24.7 percent in July, the highest rate in more than 13 years and 8.7 percent above last July's level, while new-home sales soared 13.9 percent. More renters with a stable employment outlook are considering homeownership; however, available supply dropped to the lowest point since 1982 in July. A lack of inventory coupled with elevated prices will limit the number of renters able to make a transition.

Strong sales amid tight supply boost construction. Single-family deliveries jumped 8.2 percent monthly in July as strong sales bolster homebuilder confidence. During the same period, despite delays due to the pandemic, multifamily starts soared past expectations, up 58.4 percent, even though apartment vacancy rates have ticked up and rents softened in recent months. The increase in construction is largely due to a greater number of projects that had been delayed because of the pandemic getting underway. Average monthly multifamily housing starts since the health crisis are 30 percent below the prior four-month period, however.

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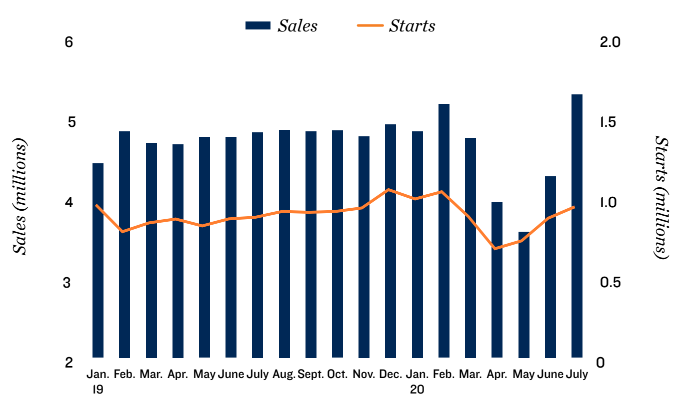
Developing Trends

Dispersed workforces buoy apartment demand. Although some companies have announced permanent work-from-home situations, most of the large tech firms are reluctant to commit. Google, Intel and others have indicated that employees will not return to offices until at least next summer. This enables their employees to sign full-year leases in other markets. Until a remote-work plan by these companies is cemented, these high-paid employees are unlikely to commit to purchasing a home regardless of ability.

Mortgage fees set to increase in September. Fannie Mae and Freddie Mac will add an Adverse Market Refinance Fee to mortgages on Sept. 1 to offset the uncertain expenses and risks due to the pandemic. It is not known how much of the increase lenders will pass on to borrowers; however, Fannie and Freddie estimate the additional fee will cost consumers roughly $100 per $100,000 borrowed.

$304,100	*Median price of existing single-family home in July 2020*	22	*Days to close in July 2020*

Boost in Single-Family Sales Prompts Construction



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