RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET

AUGUST 2024

Lower Mortgage Rates Nudge Up Buyer Demand While Potential Sellers Sit Tight

Modest borrowing cost relief inches up home sales. The average 30-year fixed-rate mortgage decreased from a 2024 peak of 7.1 percent in May to the mid-6 percent range by late August. That downshift brought some buyers off the sidelines in July, with existing home sales rising by 1.4 percent month-over-month. Still, the uptick in purchases was mild as sales velocity remained down by about 1.6 percent compared with the trailing-year average. As many homeowners have mortgages locked in well below the current market rate, the modest relief is having little impact on motivating sell-side activity. The number of existing homes for sale fell to an eight-month low in July, and that market tightness escalated prices. Nationwide, the median cost of an existing house rose by 4.2 percent year-over-year to an all-time high of $412,400, maintaining steep affordability constraints.

Looser labor market may further stunt mobility. Unemployment in the U.S. climbed by 80 basis points annually to an almost three-year high of 4.3 percent in July 2024. While that rate is low from a historic perspective, the substantial lift and weaker-than-expected job growth reflects a cooling employment market. A softer labor environment may dissuade potential home sellers from pursuing major life moves that result in listing a house, keeping inventory tight. At the same time, a weaker employment climate has garnered the attention of the Federal Reserve, making an interest rate cut in September a likely scenario. Lower borrowing costs may fuel rising homebuyer demand, but mild sell-side activity could reinforce prices and offset mortgage rate relief.

Homebuying barriers aid apartment renewals. The renewal conversion rate at luxury-tier rentals hit 52.0 percent in July — the highest level since the same month in 2022. Renters at Class A units are increasingly opting to stay put amid historic affordability barriers to becoming a first-time homeowner. Meanwhile, greater renewal velocity is supporting rent growth. Average rates for tenants extending their lease at luxury rentals elevated by 4.0 percent year-over-year in July. Metros with steep homebuying barriers like San Jose and Seattle-Tacoma exceeded 5.5 percent growth.

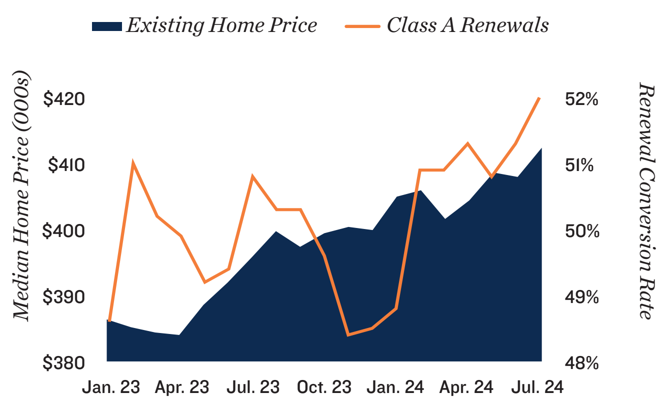
Developing Trends

Housing project starts fell to a 50-month low. Groundbreakings of both single- and multifamily developments shrunk by at least 14 percent year-over-year in July. Apartments recorded the more substantial reduction, down more than 18 percent annually. This construction slowdown will take several years to manifest, however, as a typical multifamily project takes 12 to 24 months to finalize, and the active pipeline remained near 1 million units underway nationwide in July. Longer term, a reduction in the pace of new supply should nevertheless help stabilize the sector following recent rent softeness. Meanwhile, decelerating single-family housing construction may sustain affordability barriers.

Multifamily permits plunge in recent hot spots. Apartment permit activity fell by 15 percent year-over-year in July 2024. Sun Belt locations that recorded strong in-migration and excelled during the pandemic are noting the most sizable drops, as many are facing near-term supply pressure. Atlanta, Dallas-Fort Worth, Houston, Jacksonville, Raleigh, San Antonio and West Palm Beach each rank near the top nationally for declines in permit demand.

-4.1%	*Month-Over-Month Change in Existing Homes for Sale*	1.4%	*Month-Over-Month Change in Existing Home Sales*

Luxury-Tier Renters are Extending Leases



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

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