RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET

MAY 2022

Home Purchases Continue to Slide, But Prices Keep Rising

Drop in home sales reflects a new mortgage rate climate. Home buying has cooled off significantly, with the overall sales volume shrinking by 15 percent between January and April 2022, directly correlated to the recent mortgage rate surge. Higher borrowing costs are weighing on buying activity, supporting an increase in available inventory. From July 2021 through February of this year, when financing was extremely favorable, the number of homes ready for purchase steadily declined. Now in April 2022, the for-sale count of existing homes rose for the second straight month. The inventory is still low by historical measures, requiring the addition of 650,000 more homes to match the availability level of 2019. The historically small for-sale pipeline is sustaining the swift price growth trajectory, even as buying activity wanes.

Building costs still rising, but development ticks up. The construction cost index rose in May for the fifth straight month, as supply chain headwinds and labor shortages continue to put upward pressure on the price of materials. Concrete, gypsum, copper and steel costs are each up more than 10 percent annually, while shortages of appliances and furnishings also exacerbate building expenses. Nevertheless, total residential project starts were up 15 percent year-over-year in April, buoyed by a 40 percent lift in multifamily groundbreakings. New supply is imperative to take the first step toward addressing the national housing shortage.

After a two-year price swell, the White House takes notice. The 1.8 percent lift in the median cost of an existing home between March and April extended a streak of monthly rises dating back to July 2020. The median price of a house reached $396,000 in the most recent period, up nearly 40 percent since the onset of the pandemic. This has played a part in the record-high inflation figures and garnered the attention of the White House. A recently announced Housing Supply Action Plan from the Biden administration laid out a proposal to stymie inflation by enhancing housing inventory, in an attempt to bring down costs. The plan focuses largely on construction of affordable dwellings like manufactured housing, and reevaluating zoning rules to permit greater density.

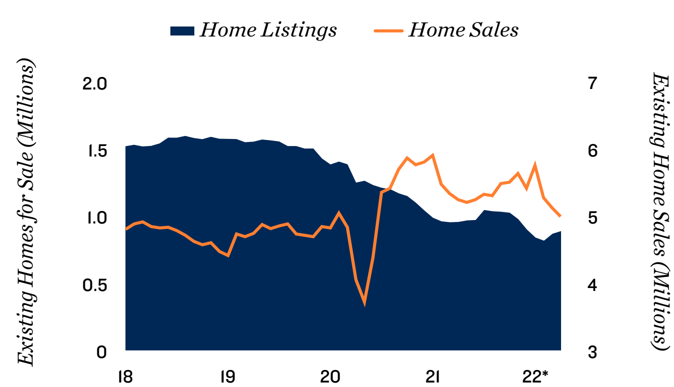
Developing Trends

Manufactured homes and workforce rentals remain very tight. Higher levels of manufactured housing and affordable rental construction could provide some relief, as occupancy rates across residential segments are historically high. Entering the second quarter, Class C apartment vacancy stood at just 2.0 percent, halving the pre-pandemic equivalent. Meanwhile, manufactured housing availability declined between 2019 and 2021 in 99 of 143 metros, bringing the national rate down to 6.1 percent last year. Greater development will likely not hinder metrics, but rather help alleviate the backlog of demand.

Mortgage rate surge weighs on new home sales. In April, purchases of newly built single-family homes dropped to a two-year low, despite 37 percent more listings on the market relative to the same month in 2020. There are several underlying drivers behind this trend, including the fact that less than 9 percent of these for-sale homes were actually completed when listed. Additionally, higher mortgage rates are compounding the near-20 percent annual rise in the median sale price to $460,000 in April.

5.3%	*Average Rate for a 30-Year Mortgage, Week Ending May 19, 2022*	3.0%	*Average Rate for a 30-Year Mortgage, Week Ending May 20, 2021*

Home Listings Slowly Climbing as Sales Ease



** Through April*
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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