RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET

FEBRUARY 2024

Home Prices Hit All-Time High, Leading Apartment Renters to Favor Long Leases

Window of stronger buyer demand lifted home prices. The median sale price of an existing single-family home surged to a record high of $405,600 in January 2024, after holding under $400,000 for the majority of the past two years. That month-over-month growth was the largest since May 2022, a price escalation that was primarily a result of relatively lower interest rates encouraging some prospective buyers to move off the sidelines. The average 30-year fixed-rate mortgage fell to 6.6 percent during January, representing an eight-month low and corresponding with the number of existing home sales strengthening to its highest point since August 2023. As of late February of this year, however, the average mortgage rate climbed back up to 6.9 percent amid the impact of stubborn inflation on long-term bond yields. The combination of all-time-high home prices and renewed upward movement in debt costs could stymie home purchases near term.

Already wide affordability gap extends further. Prior to January's home price swell and February's interest rate upswing, the difference between an average effective apartment rent and a typical monthly mortgage payment on a median-priced home in the U.S. was at a record high. That affordability gap stood at roughly $1,300 at the onset of 2024, more than tripling from just two years ago. Cost-saving benefits of renting continue to bolster the appeal of apartments. While the sector is finding balance amid historic supply pressure, net absorption from October through December of last year was positive 43,000 units. As the fourth quarter is typically a soft period for apartment demand, this increase in occupied rentals reflects recent momentum.

Home barriers and rental concessions influence behavior. The average new lease term at an apartment in the U.S. rose to 12.8 months in January 2024, the longest on record. The challenging single-family housing market is contributing to this, prompting households to prefer longer leases at apartments. A recent supply-induced increase in concessions may also be a factor. In January, roughly 12.2 percent of national apartments were offering concessions, compared to 7.9 percent in the same month of 2023.

Follow Us @MMReis

Developing Trends

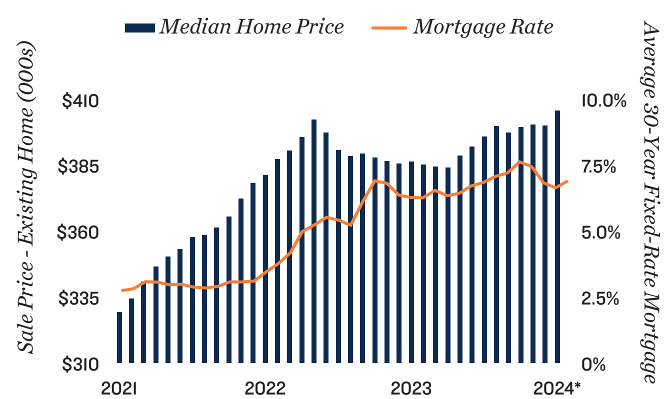
Multifamily construction set to decelerate. The 480,000 apartments expected to finalize in 2024 will mark an all-time high, but the rate of development should cool in the coming years. In January 2024, multifamily project starts fell 37 percent year-over-year, to the slowest annualized pace since May 2020. Starts will likely stay low for the near future as multifamily permit activity in January was also down 23 percent year-over-year. While the mass of apartments scheduled to finalize in 2024 will sustain vacancy pressure in certain areas and may produce greater concession activity near term as they enter lease-up, the sector seems to be moving past peak construction levels.

Homebuilders starting to ramp up activity. Single-family project starts in January were up 22 percent year-over-year, aided by softer material cost inflation and easing labor pressures. Greater home construction is warranted by the national housing shortage, but development will need to further elevate to make a meaningful difference. The total number of existing and new homes for sale in January trailed the long-term mean by about 37 percent.

5.0% *Year-Over-Year Change in the Median Sale Price of an Existing Home*

-1.4% *Year-Over-Year Change in Existing Home Sales*

Home Prices Surpass Prior Peak



** Home price as of January; Mortgage rate through Feb. 22*
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