RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET

SEPTEMBER 2023

Home Prices Hit an All-Time High, but Appreciation not Enticing Seller Activity

Dearth of listings allow home prices to surpass 2022 peak. By the early months of this year, the median home price had dropped more than 4 percent from the May 2022 highpoint, stoking some concerns of a potentially steep market correction after a robust pandemic-era run-up. Instead, prices have increased since that point, hushing these fears. In August 2023, the median home price accelerated by its fastest month-over-month pace since March 2021 to reach $403,600, marking a new all-time high. This momentum is powered by a lack of options on the market, with the number of existing homes for sale in August down 15 percent year-over-year and 40 percent, or roughly 585,000 houses, below the trailing-decade average. Meanwhile, the recent upswing in home valuations has done little to encourage potential home sellers to exit the sidelines, as an unwillingness to trade out lower rate mortgages offsets the benefits of appreciation. This is keeping listing counts very low and fueling renewed price growth.

Mortgage rates hold steady at an elevated level. Similar to home prices, the average 30-year mortgage rate had softened during the early months of 2023 and was resting below the 2022 peak. That relief for potential homebuyers was also short-lived, however, as the average rate has now exceeded 7 percent for six consecutive weeks through late September, up about 100 basis points from the February 2023 low point. Prospective first-time homebuyers who expected barriers to subside after an extremely competitive market during the pandemic now face both all-time high prices and consistent 7-plus percent mortgage rates. These dynamics are forming a long-term backbone for high-end apartment demand.

Recent apartment metrics reflect homebuying challenges. Preliminary third quarter data indicates that Class A apartment demand is growing. Lease renewals in the segment trended up, while the amount of time that a rental sat vacant declined. Competition from new supply is counterbalancing this and holding vacancy steady, but the pool of high-end renters is poised to continue expanding. Barriers to homeownership are extreme, while Class A rentals offer cost saving benefits and lifestyle advantages.

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Developing Trends

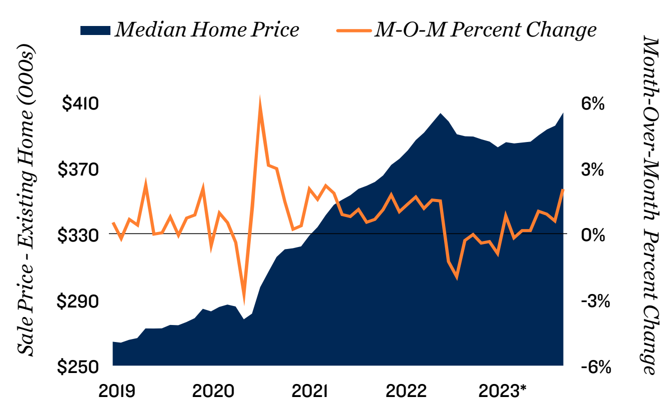
Multifamily developers move to the sidelines in waves. Elevated borrowing costs, alongside persistent labor pressures and substantial insurance cost hikes, have notably impacted apartment construction. In August, multifamily project starts plunged to a 39-month low, down roughly 42 percent year-over-year. While the active pipeline remains sizable and the reduction will take some time to manifest, a medium-term slowdown in development would further bolster high-end apartment fundamentals.

Strength in new home sector hit roadblock. Contrary to the trend in the existing single-family home market, newly built houses were selling more frequently in recent months. In July, new home purchases were up 36 percent year-over-year, coinciding with the median price dipping 9 percent annually. Those dynamics recalibrated in August, however, as the pace of sales reverted to a five-month low, while the median price surged to its highest mark since March. This reflects the broader single-family housing market, seemingly stuck in gear with no end in sight as existing owners sit tight rather than move into higher-quality options.

3.7% *Year-Over-Year Change in Median Sale Price of an Existing Home*

-15.3% *Year-Over-Year Change in Existing Home Sales*

Home Price Reduction was Short-Lived



** As of August*
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