RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET

JANUARY 2023

Muffled Home Market and Rental Demand Signal Household Creation Slack

Hushed activity across housing conveys hurdles. Single-family home sales declined for an 11th straight month during December 2022, down more than 30 percent annually. The rate of home purchasing has not been this slow since the tail-end of the global financial crisis in 2010. Persistent obstructions include still-high home prices and elevated borrowing costs, in addition to broad economic uncertainty that makes individuals hesitant to undertake major life moves. None of these hurdles are likely to abate in the near term. The Federal Reserve is intent on cooling inflation, sustaining pressure on interest rates. Meanwhile, the number of home listings sits about 33 percent below the past decade average, reinforcing prices. At the same time, the number of occupied apartment units fell by almost 200,000 nationwide from the first quarter of 2022 through the end of last year. Soft demand in both housing sectors implies household creation is ebbing.

Employment gains not translating to new households. The addition of jobs supplies residents with incomes and typically relays into the ability to form households. However, this has not been the case, even as 200,000-plus roles were added during each month spanning the past two years. Despite this labor market strength, household creation has weakened, resulting in low home sales and rental absorption. This is partially due to the nature of job growth, most of which has been recovered from pandemic losses, rather than created organically. Moving forward, a multifamily rebound may be comparatively easier, as interest rates and saving for a down payment are not considerations. Economic conditions and cost-of-living concerns, however, directly impact rental decisions.

Pent-up demand in young adult cohort is crucial for a rebound. High school and college graduations taking place during the first half of the year usually result in young adults joining the workforce and moving out on their own. Although, in 2023 reduced job prospects and price sensitivity could subdue this flow. The result may be continued pent-up demand. Last year, more than 23 million individuals in the 18- to 34-year-old cohort lived with their parents, which was roughly 3 million above the long-term average.

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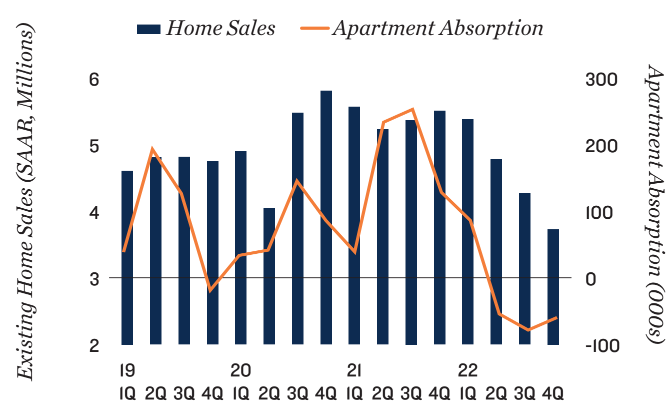
Home builder index improves for first time in over a year. During January 2023, the National Association of Home Builders and Wells Fargo index rose slightly, marking the only month-over-month increase since December 2021. Nonetheless, the metric remained well-below any point between 2013-2019. The marginally stronger sentiment is tied to a boost in future optimism rather than current conditions, as the survey asks respondents to evaluate both the present and a forward-looking six-month outlook. More progress is needed before home builders feel comfortable stepping on the gas, making mild construction totals a likely outcome over the medium term. This would not help resolve national housing shortages and the correlated affordability concerns.

Construction costs stabilize, rather than retreat. The index tracking building costs went up less than 1 percent across the past six months. However, downward pressure on prices is nonexistent, with the index rising in every interval since December 2021. Higher material costs and interest rates contributed to residential project permits falling 30 percent year-over-year to end 2022.

-33.5% *Year-Over-Year Change in Existing Home Sales*

-26.6% *Year-Over-Year Change in New Home Sales*

Sluggish Demand Evident Across Housing



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