

NOVEMBER 2021

### Homebuyers Still Endure Considerable Barriers Despite a Jump in New Inventory

**New home listings elevate, but dynamics tell a different story.** In the month of October, the number of new homes available for purchase soared to a height last witnessed in late 2008 as the market adjusted to the housing bubble. Nonetheless, the for-sale count is enlarged by houses still in planning phases, masking the nature of the current environment. The underlying metrics paint a clearer picture of the state of the marketplace and reveal a divide between buyers desiring move-in-ready homes and a lack of listings meeting that criteria. In October, less than 10 percent of new homes for-sale were completed upon being listed, while only 25 percent of new homes sold during that month were fully built.

**Shortfall of move-in-ready homes has a ripple.** As the majority of new homes on the market are still under construction or not yet started, the rise in inventory is not meeting strong demand. Many buyers prefer homes that can be moved into quickly, contrasting the bulk of what comprises the market. Builders' inability to speed up delivery timelines is capping sales of new homes. Meanwhile, the months' supply of existing homes for sale remains about half of the level registered from 2017-2019. Owners of existing homes, who are more likely to have the equity to support the purchase of a newly built home, are hesitant to make the switch amid a lack of move-in-ready options. As they hold on to existing homes, people who wish to become first-time buyers may opt to rent, keeping apartment vacancy at record lows amid the housing shortage.

**Rising mortgage rates add another hurdle for first-time buyers.** The 30-year mortgage rate exceeded 3 percent in October, which had not occurred in the previous five months. It was also the first increase on an annual basis since early 2019. Higher mortgage rates are largely a result of inflation, which is applying upward pressure to the 10-year treasury yield. If mortgage rates remain on an upward trajectory going forward it will be very difficult for first-time homebuyers to meet the requirements amid elevated pricing. This will push demand toward the rental segment as many millennials on the margin will favor apartments as they offer lower living costs, greater flexibility and attractive amenities.

### Developing Trends

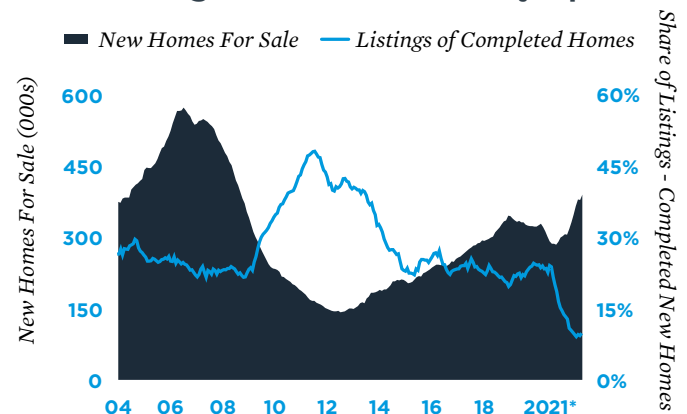
**Building materials get more expensive after a flattening.** The construction cost index jumped in the month of November, a significant change following a three-month period of stability from August through October. The cost index is now up more than 9 percent year over year, creating some headwinds for developers of both single-family houses and various sectors of commercial real estate. Inflation and supply chain disturbances are the leading causes of the rise and are unlikely to resolve in short order.

**Single-family starts taper but may rise in the coming months.** Residential construction starts in the month of October declined 12 percent relative to the March peak, including an even larger drop within the single-family segment. Permit activity also fell relative to the first half of 2021 as supply chain disruptions, labor shortages and limited lot availability are weighing on development plans. The reduction in single-family construction activity may be temporary, however, as homebuilder sentiment rose for the third straight month in November. Confidence is being boosted by recent improvements in sales activity and buyer traffic, which in turn could support higher levels of construction in 2022.

**-9.2%** Y-O-Y Change in Existing Homes for Sale

**-10.2%** Y-O-Y Change in Single-Family Starts (SAAR)

### New Listings Lack Move-In-Ready Options



\* Through October

Sources: IPA 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



Follow Us on Twitter @IPA\_USA