RESEARCH BRIEF
HOUSING MARKET

INSTITUTIONAL PROPERTY ADVISORS

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Lower Mortgage Rates Nudge Up Buyer Demand While Potential Sellers Sit Tight

Modest borrowing cost relief inches up home sales. The average 30-year fixed-rate mortgage decreased from a 2024 peak of 7.1 percent in May to the mid-6 percent range by late August. That downshift brought some buyers off the sidelines in July, with existing home sales rising by 1.4 percent month-over-month. Still, the uptick in purchases was mild as sales velocity remained down by about 1.6 percent compared with the trailing-year average. As many homeowners have mortgages locked in well below the current market rate, the modest relief is having little impact on motivating sell-side activity. The number of existing homes for sale fell to an eight-month low in July, and that market tightness escalated prices. Nationwide, the median cost of an existing house rose by 4.2 percent year-over-year to an all-time high of $412,400, maintaining steep affordability constraints.

Looser labor market may further stunt mobility. Unemployment in the U.S. climbed by 80 basis points annually to an almost three-year high of 4.3 percent in July 2024. While that rate is low from a historic perspective, the substantial lift and weaker-than-expected job growth reflects a cooling employment market. A softer labor environment may dissuade potential home sellers from pursuing major life moves that result in listing a house, keeping inventory tight. At the same time, a weaker employment climate has garnered the attention of the Federal Reserve, making an interest rate cut in September a likely scenario. Lower borrowing costs may fuel rising homebuyer demand, but mild sell-side activity could reinforce prices and offset mortgage rate relief.

Homebuying barriers aid apartment renewals. The renewal conversion rate at luxury-tier rentals hit 52.0 percent in July — the highest level since the same month in 2022. Renters at Class A units are increasingly opting to stay put amid historic affordability challenges to becoming a first-time homeowner. Meanwhile, greater renewal velocity is supporting rent growth. Average rates for tenants extending their lease at luxury rentals elevated by 4.0 percent annually in July. Metros with steep homebuying barriers like San Jose and Seattle-Tacoma exceeded 5.5 percent growth.

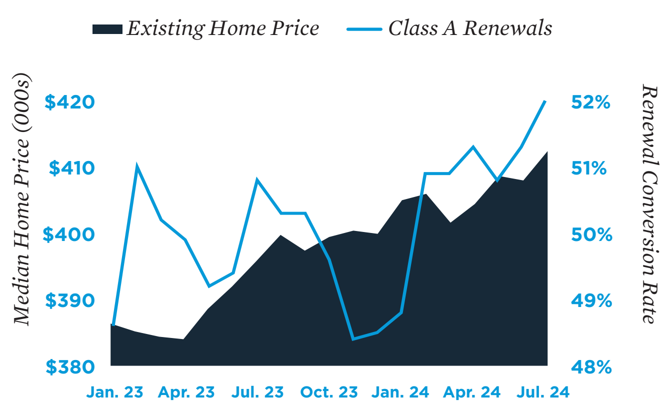
Developing Trends

Housing project starts fell to a 50-month low. Groundbreakings of both single- and multifamily developments shrunk by at least 14 percent year-over-year in July. Apartments had the more substantial reduction, down more than 18 percent annually. This construction slowdown will take several years to manifest, however, as a typical multifamily project takes 12 to 24 months to finalize, and the active pipeline remained near 1 million units underway nationwide in July. Longer term, a reduction in the pace of new supply should nevertheless help stabilize the sector following recent rent softeness. Meanwhile, decelerating single-family housing construction may sustain affordability barriers.

Multifamily permits plunge in recent hot spots. Apartment permit activity fell by 15 percent year-over-year in July 2024. Sun Belt locations that had strong in-migration and excelled during the pandemic are noting the most sizable drops, as many are facing near-term supply pressure. Atlanta, Dallas-Fort Worth, Houston, Jacksonville, Raleigh, San Antonio and West Palm Beach each rank near the top nationally for declines in permit demand.

-4.1%	1.4%
Month-Over-Month Change in Existing Homes for Sale	*Month-Over-Month Change in Existing Home Sales*

Luxury-Tier Renters are Extending Leases



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