RESEARCH BRIEF
HOUSING MARKET

IPA INSTITUTIONAL PROPERTY ADVISORS

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Housing Market Responds to Fed Rate Cut With Takeaways for Multifamily

Recent interest rate changes carry implications for housing. While the 25-basis-point cut to the overnight rate in September was the Federal Reserve's first reduction since 2024, longer-term interest rates had already started to dip in anticipation. Between July 31 and Sept. 4, the average 30-year fixed rate mortgage fell from a weekly mean of 6.72 percent to 6.50 percent. This decline may have helped more prospective homeowners sign contracts. The number of new homes sold last month jumped to a seasonally adjusted annualized total of 800,000 — a four-year high reminiscent of pre-2007 volumes. This momentum may carry forward too, as the 30-year mortgage rate continued to fall through much of September. The average dropped to 6.26 percent the same week as the Fed rate cut before inching up to 6.30 percent by Sept. 25.

Sales of in-place homes remain sluggish. The benefit of modestly lower mortgage rates has been less apparent with existing homes. While the number of listings for single-family houses climbed 11.6 percent in August from a year prior, actual sales only rose 2.5 percent over the same span. Closings stay below the norm for most years outside of the global financial crisis amid elevated home prices. The median price on an existing single-family home increased 1.9 percent year over year in August. Additional listings could place some downward pressure on pricing. Still, mortgage rates above 6 percent are likely to keep overall liquidity at today's generally constrained level.

Multifamily demand and supply poised to shift down together. The tight housing market continues to serve as a tailwind for the rental sector, although other headwinds are forming. The reason the Fed cut rates — slowing job creation — could also prompt more people to stay in their current living situation, tempering new demand. The share of renters renewing leases vs. moving out has been rising since January. These renewals are in turn driving rent growth. Although the average effective rent was up 2.1 percent year over year at the end of the second quarter, that improvement came entirely from renewing tenants. For new leases, rents are resetting at a lower effective level — a trend that has been generally true for the past two years. Nevertheless, new supply pressure is also easing, which may allow for demand and supply to stay in general balance even if household formation eases.

Construction Trends

Select Midwest markets see permitting rise. While annualized multifamily permitting volume was down nationally 7.3 percent year over year in August, trends differ by market. For Columbus, Detroit and Milwaukee, permitting has been trending up or holding near recent peaks so far this year. This suggests that completions could pick up here in 2027 or 2028. Columbus in particular may encounter supply pressure. Permits pulled in the second quarter equated to more than 4 percent of existing inventory, leading all other major markets.

Mortgage rate changes also influencing development. On Oct. 1, the Department of Housing and Urban Development will reduce multifamily mortgage insurance premiums to 25 basis points — a reduction of up to 70 basis points, depending on the property. This may help encourage development, notably in smaller markets where private capital may be less available. From the single-family front, home builder confidence remained generally low in August, reflected in a steeping drop off in permits pulled. That said, if sales pick up amid lower mortgage rates, it could lead to additional construction.

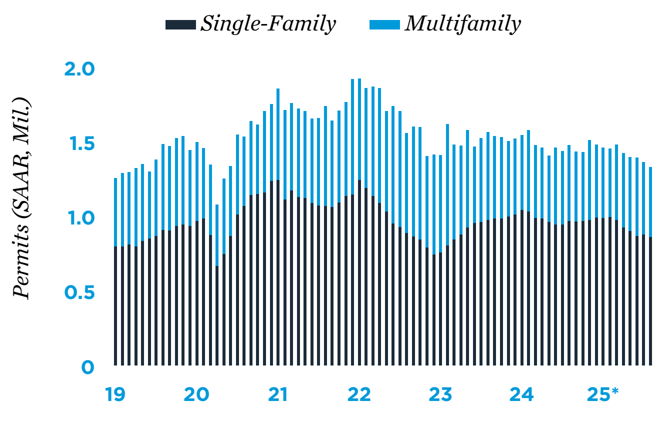
2.5%

Increase in existing homes sales year over year in August

15.4%

Increase in new homes sales year over year in August

Permitting Activity Trending Down



** As of August*
Sources: IPA Research Services; Freddie Mac; Moody's Analytics; National Association of Realtors; RealPage, Inc.

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