

New-Home Sales Lag as Shrinking Housing Pipeline Sets Up Multifamily Tailwind

Wage growth outpaces flattening existing home sales prices. First-time buyers accounted for 35 percent of existing home transactions in May, up from 30 percent a year earlier. This helped drive a 3.3 percent year-over-year increase in seasonally adjusted existing home sales for the month. Looking ahead, improving affordability could support continued momentum, as U.S. wages rose 3.8 percent year-over-year in the first quarter, exceeding the post-2000 average of 2.7 percent. Meanwhile, the median existing home sale price of around \$420,000 has remained largely unchanged since the start of 2025. This has allowed household incomes to gradually close some of the gap with housing costs, despite elevated mortgage rates.

Months' supply climbs to multi-year high. Conditions were less favorable in the new-home segment. The inventory of homes for sale increased for a second straight month, while seasonally adjusted new-home sales fell to 580,000 in May, the second-lowest reading of the past three years. As a result, the supply at the current sales pace climbed to 10.3 months, the highest level since mid-2022. However, a growing share of incoming inventory appears to be stalling, as the share of homes listed for sale but not yet started rose substantially during the month, reaching a record high. This suggests builders are maintaining a more cautious, build-to-order strategy, preserving flexibility until buyer demand improves.

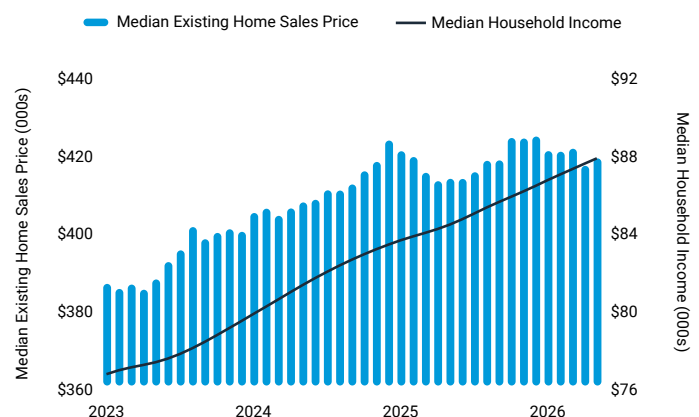
Residential starts fall to lowest level since 2020. Overall housing construction continues to soften. Seasonally adjusted single-family completions fell to their lowest level since mid-2020 in May, down 16.8 percent year-over-year, roughly twice the annual decline for multifamily completions. Forward-looking construction indicators also weakened, as total residential starts fell to 1.18 million units on an annualized basis, the lowest monthly reading since April 2020. Combined, these trends point to continually declining supply pressure through at least 2027, likely supporting lease up for existing apartments. With the nationwide average apartment rent concession holding near a trailing decade high of roughly 11 percent in May, improving operating conditions should give owners room to scale back discounts, setting the stage for stronger rent growth ahead.

Developing Trends

Potentially cooling inflation may stave off rate hikes. Recent inflationary pressures largely stemmed from the oil price shock tied to the war in Iran. However, the recent memorandum of understanding and partial reopening of the Strait of Hormuz helped push crude oil prices back below \$80 per barrel in late June. If sustained, lower energy prices could help restrain headline inflation in the coming months and reduce the need for the Federal Reserve to tighten monetary policy. With less pressure on the Fed to tighten, long-term Treasury yields and mortgage rates could stabilize, with the 10-year Treasury in the mid-4 percent range and the 30-year fixed mortgage rate holding near 6.5 percent in late June.

Fed's decisions create varying scenarios. A more predictable rate environment may improve borrowing-cost visibility, allowing home buyers and commercial real estate investors to adjust to the current cost of capital. That clarity could boost transaction activity across multifamily assets. However, if inflation proves sticky and rate hikes materialize, borrowing costs could elevate further. Rising rates would weigh on home sales and keep underwriting conditions for multifamily properties tighter, particularly in markets where operating margins are already facing pressure from elevated new supply or weaker rent growth.

INCOME GROWTH CLOSING GAP IN HOUSING COSTS



Sources: IPA Research Services; Moody's Analytics; National Association of Realtors; RealPage, Inc.; Freddie Mac; Mortgage Bankers Association; National Association of Home Builders; U.S. Census Bureau