

### Easing Lumber Prices Allow Projects to Push Forward; Seller Activity Increases

**Completions climb to a three-month high.** Builders finalized more single-family and multifamily housing units combined in July than in either of the previous two months. Deliveries will likely trend higher in the coming quarters as well. The moderation in the cost of a few key materials, most notably lumber, has boosted permit activity and is helping the pipeline of stalled residential developments move toward the finish line. In July, apartment permit filings lifted by 10 percent month over month as the lumber price index fell by 23 percent from the peak in May. Despite the more positive construction outlook, though, it will be difficult to meet demand as job gains and the economic recovery are accelerating household creation.

**Inadequate supply pace sustains tight apartment vacancy.** Nearly 1.4 million new households are projected to form in the U.S. this year as a result of both the aging millennial cohort and a broad-based economic improvement. Total residential completions are expected to trail that trajectory despite finalizations and permits elevating in July. Deficits of labor, lots and appliances as well as still-high material costs remain hurdles for builders to ramp up their pace. This will aggravate the housing shortage and sustain historically low multifamily availability as the lack of affordable single-family homes for sale leads many households to keep flexible apartment leases. Tight rental unit availability should promote rent growth in most markets across the nation.

**More homes being sold a boon for some property types.** Existing home sales jumped for the second straight month in July, while listings surpassed the 1 million threshold for the first time this year. High pricing may be prompting more owners to sell, as the median cost of an existing house eclipsed \$350,000 for the first time on record. For buyers, low mortgage rates and greater economic clarity may be moving the needle. Self-storage will get a boost as more homes change ownership and people relocate, as this is one of the main demand drivers for the property type. Retail should also benefit as it is estimated that a home sale generates an additional \$5,200 in consumer spending.

### Developing Trends

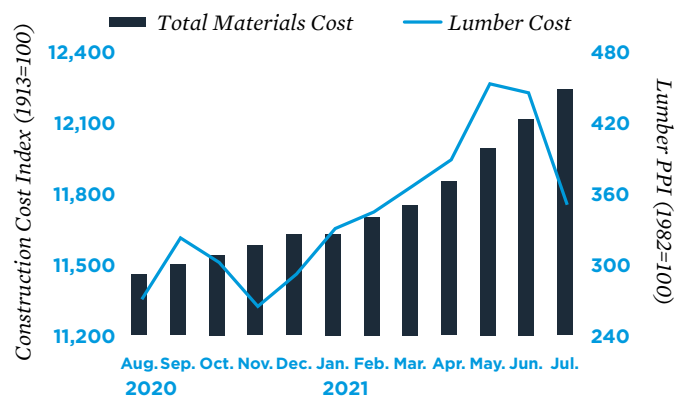
**Widening disconnect between listings and the buyer pool.** The number of new homes available for purchase, more than 90 percent of which are not yet built, rose for the fourth straight month in July to up 26 percent year over year. Purchasing behavior has relaxed after exceptionally strong activity in the early stages of the pandemic, though. Prospective buyer traffic in July was closer to the pre-health-crisis level, with new home sales down 27 percent year over year. Still, the market for new homes remains tight even with buying trends normalizing. As homebuilders work through the backlog in the coming months, prices are expected to remain elevated, prompting many to opt for rentals.

**Revived trade may start to lessen material costs.** More border openings and greater efficiencies in global trade are starting to resolve the backlog of building materials that resulted in rapid cost appreciation. Lumber was the first key material to decline substantially in terms of pricing this summer. Others may follow suit in the second half, though costs were still up for most materials in July. When expenses wane it may allow builders across commercial real estate segments to push developments forward.

**18.6%** Y-O-Y Change in Median Sale Price of an Existing Home

**2.4** Months' Supply of Existing Homes at the Current Sales Rate

#### Price of Lumber the First to Retreat



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