RESEARCH BRIEF

Marcus & Millichap

HOUSING MARKET — **YEAR-END 2021**

Multifamily Developers to Plug Some Holes in the Housing Shortage in 2022

Swell in homebuying inflames shortfall. In late 2021, the single-family housing landscape mirrored the conditions witnessed earlier in the year. For-sale inventory of both existing homes and finalized new homes trailed historical averages. Meanwhile, the desire for residences remains very strong, which continues to reinforce the imbalance between supply and demand. In November, purchases of existing homes climbed to the highest level since January of 2021, but the buying activity compressed listed inventory of these dwellings to the lowest count in five months. This combination resulted in the the median sale price moving up for the eighteenth straight month, to $367,250.

More rentals are needed to ease the imbalance. Builders of single-family homes are trying to ramp up the construction pace to meet strong demand but face barriers amid inflated material costs and labor shortages. Multifamily developers grapple with the same challenges but have been more productive in bolstering the 2022 pipeline. In November, multifamily housing starts grew to the highest volume since February 2020 and were up 37 percent year over year, while single-family starts were roughly flat on an annual basis. This indicates that the multifamily segment will help fill some critical gaps in the housing shortage this year. The large pipeline will likely not retract from the very positive multifamily momentum witnessed in recent quarters.

Multifamily pipeline aligns with pockets of robust demand. Nationally, the U.S. is expected to add roughly 400,000 new rentals in 2022, a monumental number that is a record spanning back multiple decades. Digging deeper, about one-fourth of those deliveries will be in just six markets across the Sun Belt, where rapid in-migration supports the increase in new supply. Dallas-Fort Worth, Phoenix, Austin, Houston, Nashville and Atlanta are each expected to add more than 10,000 units in 2022. These six metros are also projected to add a combined 250,000 new households this year. The overall multifamily construction figure is lofty, but development correlates with demand and the new supply will play a key role in appeasing the housing shortage in 2022.

Developing Trends

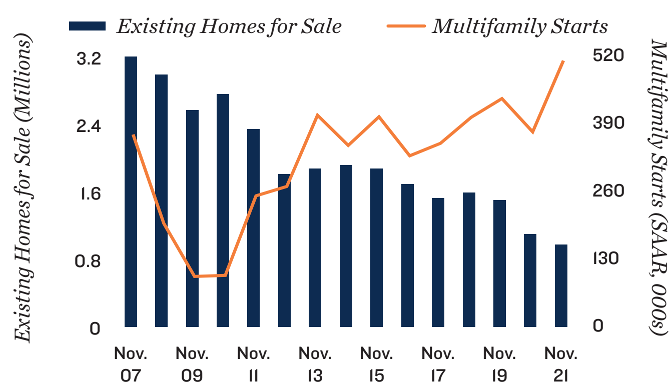
New-home sale stock climbs for eighth straight month. The number of newly built homes available for purchase surpassed 400,000 in November, rising in every month going back to April. Nevertheless, only 39,000 of those dwellings were fully completed when listed for sale while more than 25 percent had not yet started construction. These conditions are impacting buying activity as houses in building phases are less appealing to people with condensed move-in timelines. Sales of new homes were down 14 percent year over year in November despite 112,000 more of these houses on the market relative to the same month in 2020.

Mortgage rates momentarily hold firm. After the 30-year mortgage rate jumped 20 basis points in October, it was unchanged at 3.1 percent in November. Mortgage rates will likely face upward pressure in the months ahead, however, as record inflation is poised to edge up the 10-year treasury yield. Expectations for higher rates may have been a contributing factor behind the uptick in existing home sales in November, as buyers wanted to lock in favorable financing. Rising rates paired with elevated home prices could impact affordability, leading to more rental demand.

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

-0.3% *Y-O-Y Change in Single-Family Completions (SAAR)*

Rental Pipeline Grows to Address Shortage



Sources: Marcus & Millichap 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