

Lower Rates Boost Home Sales; Multifamily Approaching a Transition

Home sales pick up amid lower rates. The number of existing homes sold climbed 4.5 percent year over year in September, the fastest pace so far in 2025. This increase was correlated with a drop in the 30-year mortgage rate to 6.35 percent, the lowest monthly average in a year. Since then, the measure has trended down even further to a weekly mark under 6.20 percent, aligning with a decline in the benchmark 10-year Treasury, which fell below 4.0 percent in late October. Further contraction is not guaranteed, however, especially if inflation stays in the 3 percent zone and U.S. government debt issuance increases. Without a more substantial downshift in mortgage rates, home sales may remain subdued.

Clearer signs of pullback in residential development emerge. The lack of incentive for long-time homeowners to trade up at the cost of a higher mortgage rate continues to constrain activity. The months supply of homes at the current sales rate has held at 4.0 since July, down from a recent peak of 4.3 in April. Construction would be one avenue to partially relieve this pressure, but single-family home-building may be poised for a drop-off. The number of single-family construction permits pulled in the third quarter was at a decade low. Permitting activity for multifamily housing has also fallen from 2022 highs. As such, residential development is poised to take a step back from current levels over the next two years, exacerbating the nation's macro housing shortfall.

Robust renter demand momentum begins to cool. Less multifamily construction would be well-timed for apartment owners. While the overall U.S. vacancy rate fell 140 basis points year over year to 4.4 percent in June amid a record 770,000 units absorbed, the number of occupied apartments only increased by 57,000 in the third quarter. Completions over the same span were nearly twice as much, resulting in a 20-basis-point pickup in vacancy. The softening labor market and tighter immigration policies are likely weighing on household formation and new renter demand. Upward vacancy pressure going forward is constrained, however, thanks to the slowing development pace. Approximately 30 percent fewer rentals will open this year compared to last, with deliveries set to taper more in 2026. Demand growth may, therefore, cool in tandem with new supply, preserving operations.

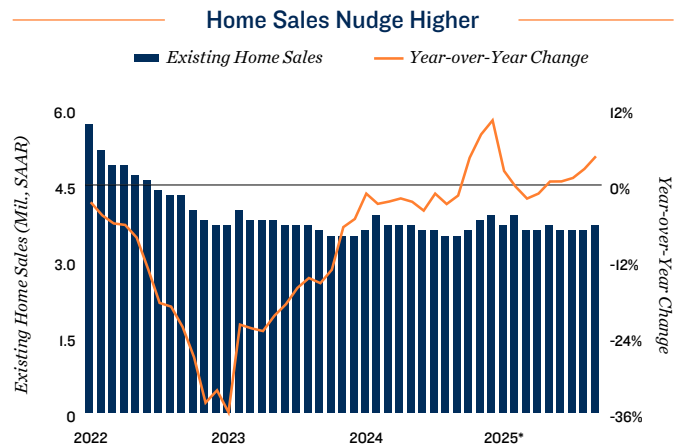
Regional Trends

Southeastern U.S. leads in sales improvement. Over the past year, sales of existing single-family homes increased the most across the southeastern U.S., followed by the Northeast and the Midwest. Sales were flat in the West. Overall, purchasing relative to the 2019 mean has slowed the least in the Southeast and the most in the West. The latter area also noted the smallest gain in the median home price over the year ended September at 0.9 percent, while the Midwest and the Northeast led with gains over 4 percent. Migration trends are a driver.

Shifting migration patterns shed light on housing. From 2021-2024, the Southeast recorded the most net in-migration of the four main Census regions. The number of individuals moving there on net in that span was also nearly double the total from the four years before the pandemic. In the West, meanwhile, the metric fell by about a third, while both the Midwest and Northeast recorded net in-migration from 2021-2024 after observing net outflows from 2016-2019. Overall, it appears that migration west has slowed while picking up in all other parts of the country, contributing to shifting housing dynamics.

4.5% Increase in existing homes sales year over year in September

2.3% Increase in median sale price year over year in September



* As of September

Sources: Marcus & Millichap Research Services; Federal Reserve; Freddie Mac; Moody's Analytics; National Association of Realtors; RealPage, Inc.; U.S. Census Bureau