2021

Weekly Real Estate Monitor

Residential and Commercial Markets

October 11-14

National Association of REALTORS® Research Group

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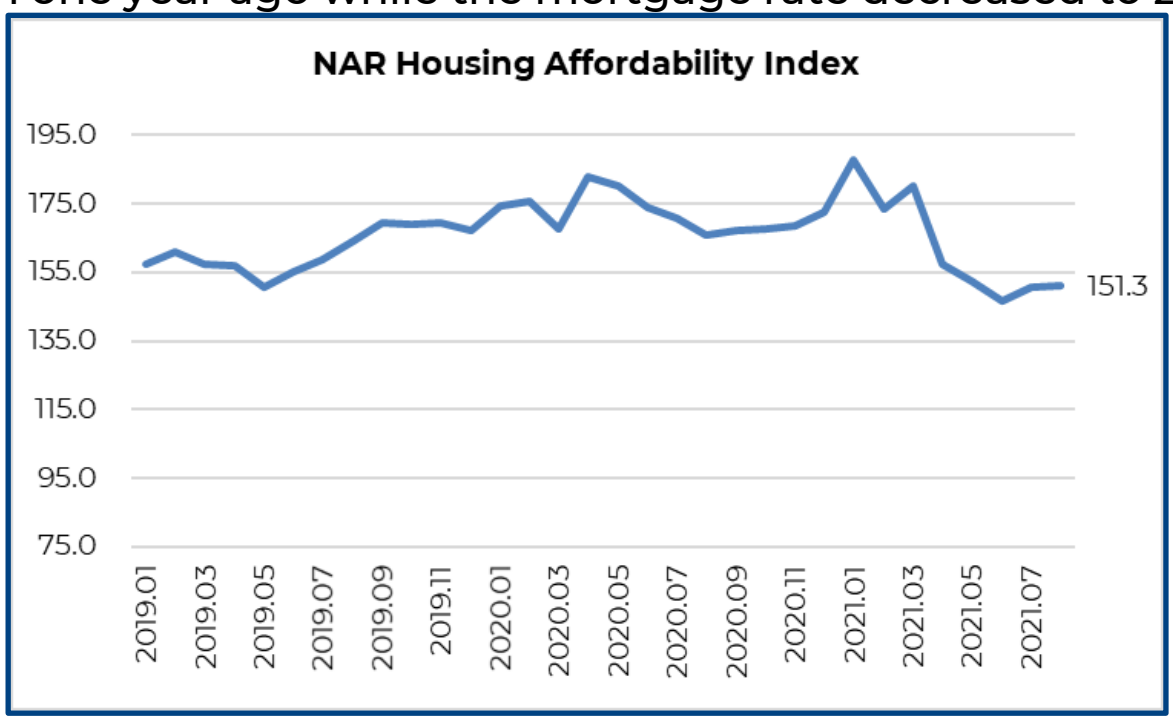
Weekly Real Estate Monitor

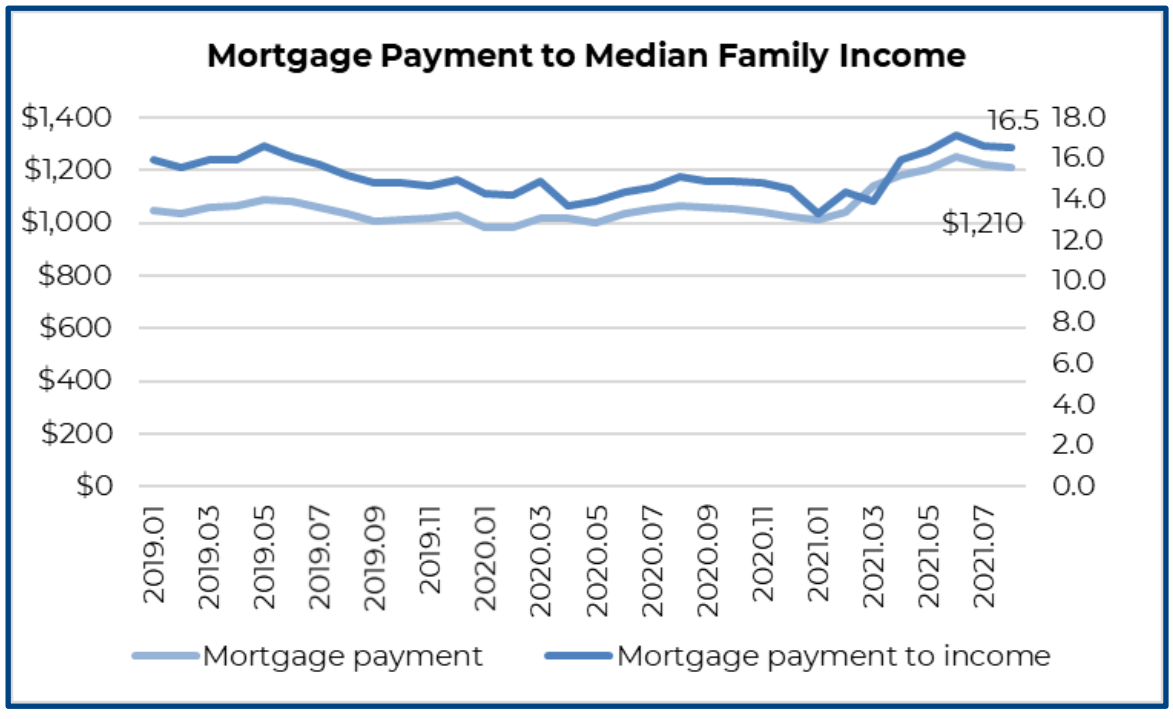
Affordability Slightly Improves in August from Prior Month but Worsens from One Year Ago

Home affordability slightly nudged up in August from the prior month but worsened from one year ago based on the NAR Home Affordability Index. The index inched up to 151.3 (150.6 in July; 165.8 in August 2020). The index compares the median family income to the family that is needed to afford a home, with an index above 100 indicating that a family can afford to pay the mortgage on an existing single-family home.

In August, the typical monthly mortgage payment on a 30-year on an existing single-family home purchased at $363,800 with a 20% down payment and a mortgage rate of 2.89% decreased to $1,210. Based on this mortgage payment, a family needed $58,080 of income so that it spent 25% of income on mortgage. This is lower than the estimated median family income of $87,865.

Mortgage payment to income slightly decreased to 16.5% from July (16.6%) but was higher from one year ago (15.1%) as the median existing single-family home sales price up 15.6% from one year ago while the mortgage rate decreased to 2.89% (3% one year ago).





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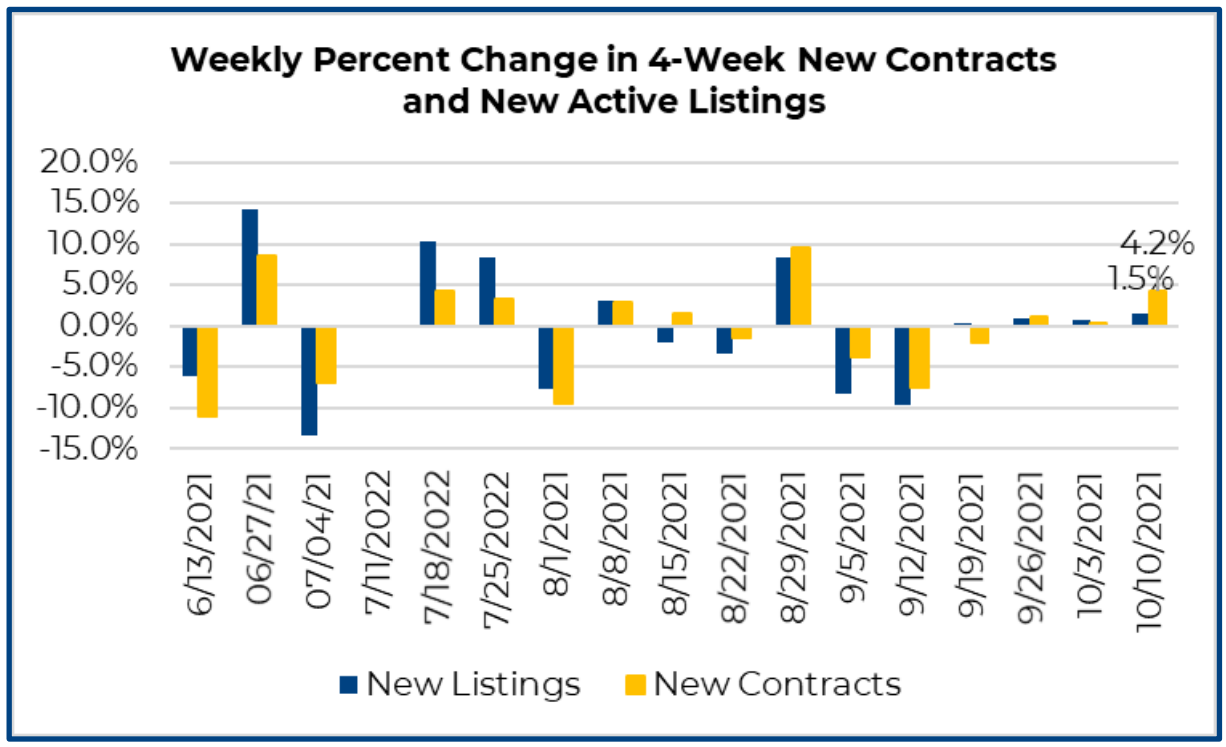
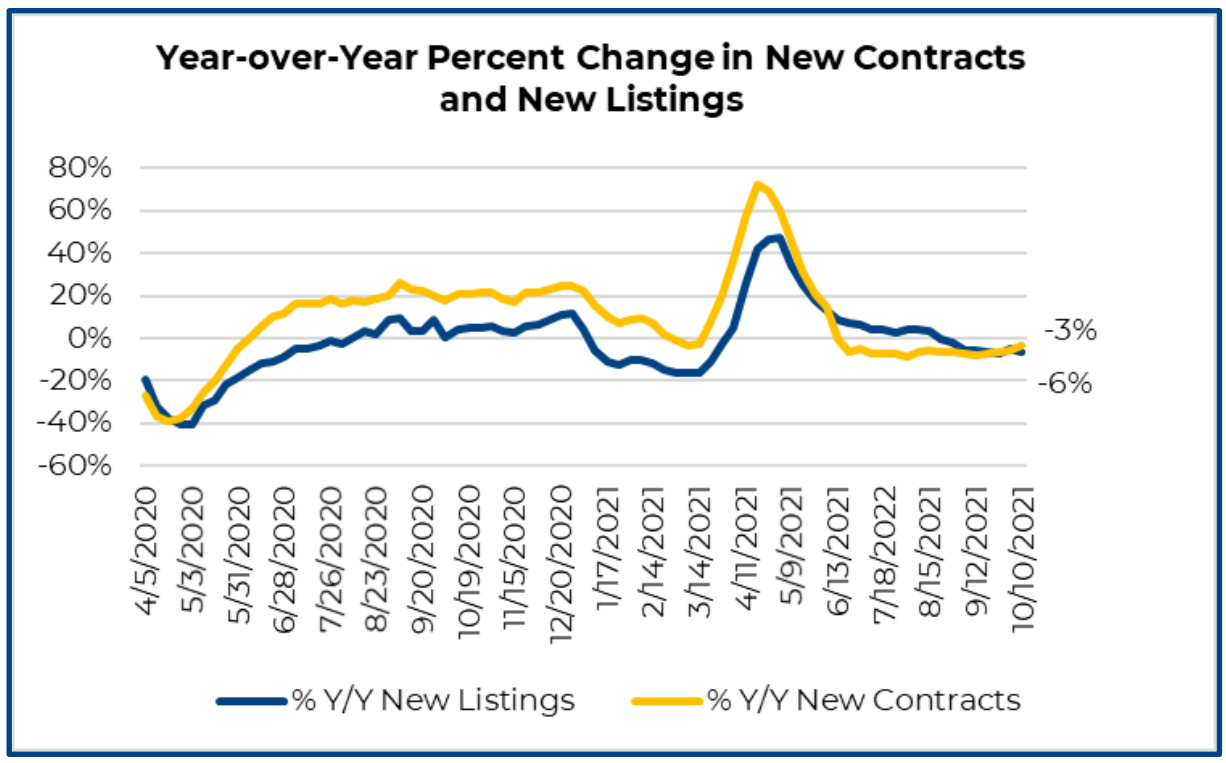
New Contract Signings in Past Four Weeks are Up 4.2% from Prior Week

New contracts signed (pending sales) in the 4-week period were up 4% from the prior week as new listings rose 1.5%. The pickup in demand is due to the seasonal uptick in October when sales are usually up 5% compared to the average month's sales during the year.

New contracts signed (pending sales) in the 4-week period were down 3% from one year ago while new listings were down 6%. Year-over-year changes are distorted by the surge in market activity in the second half of last year as the economy started to recover from the pandemic.

The inventory of pending sales was down 7% year-over-year while the inventory of pending listings was down 20%.





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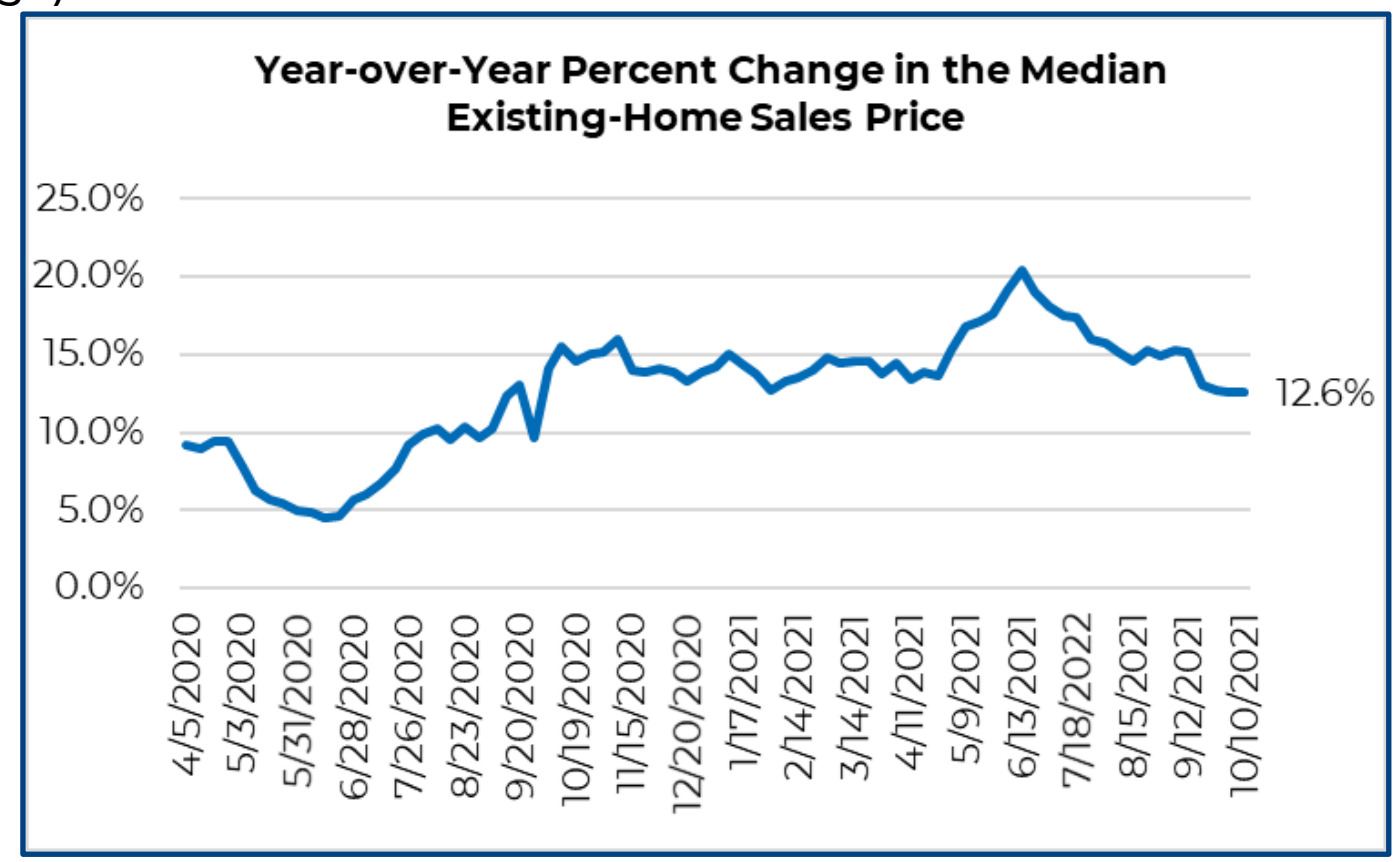
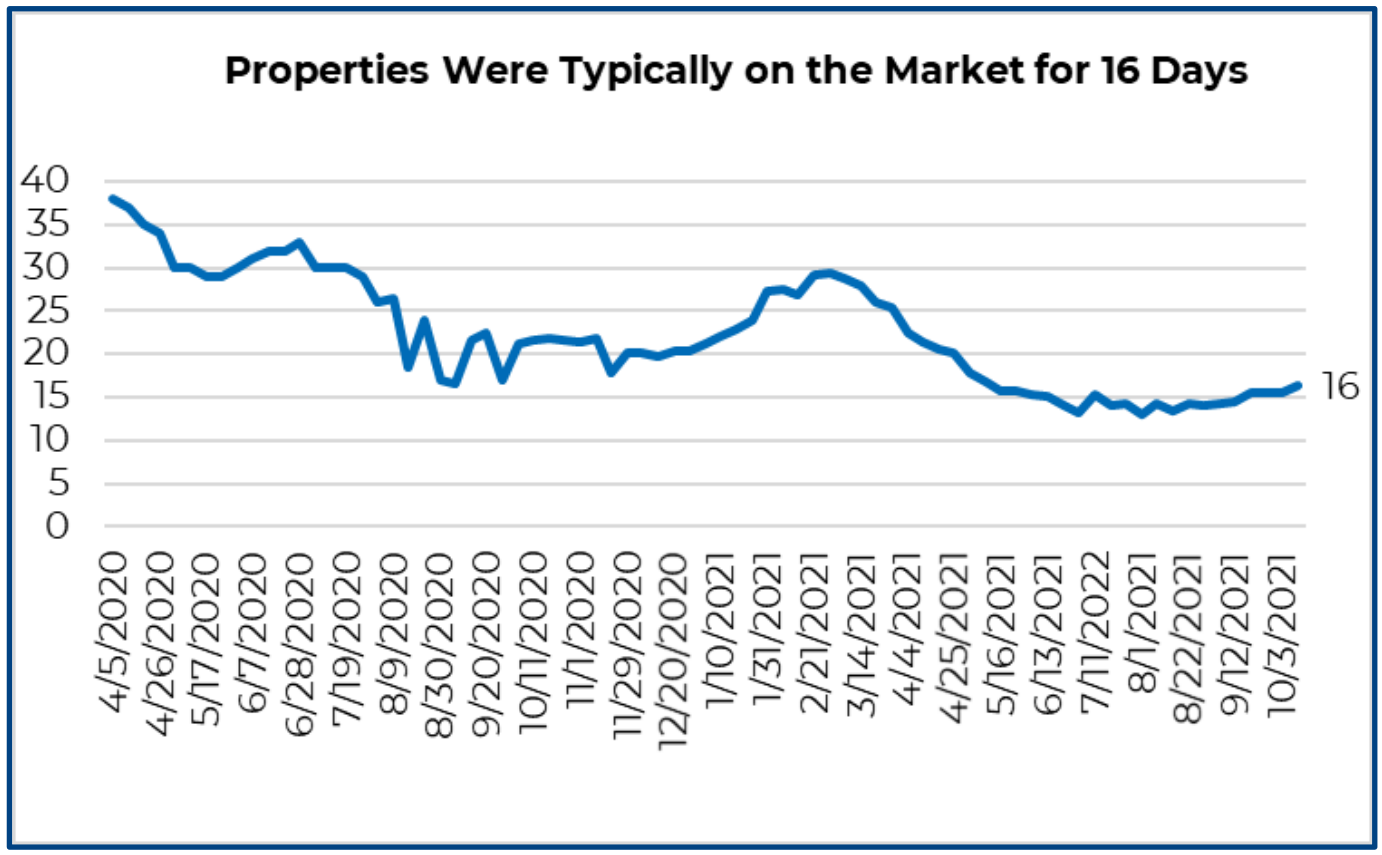
Median Home Sales Price Up 12.6% and Properties Typically Sold in 16 Days

During the past four weeks, the median existing-home sales price rose 12.6% year-over-year. Prices are rising at a slower pace as supply continues to improve and as demand softens.

The sales price to list price ratio decreased to 98.4% (99.3% one month ago; 97.1% one year ago).

Properties typically sold faster than one year ago, with the median at 16 days (22 days one year ago).





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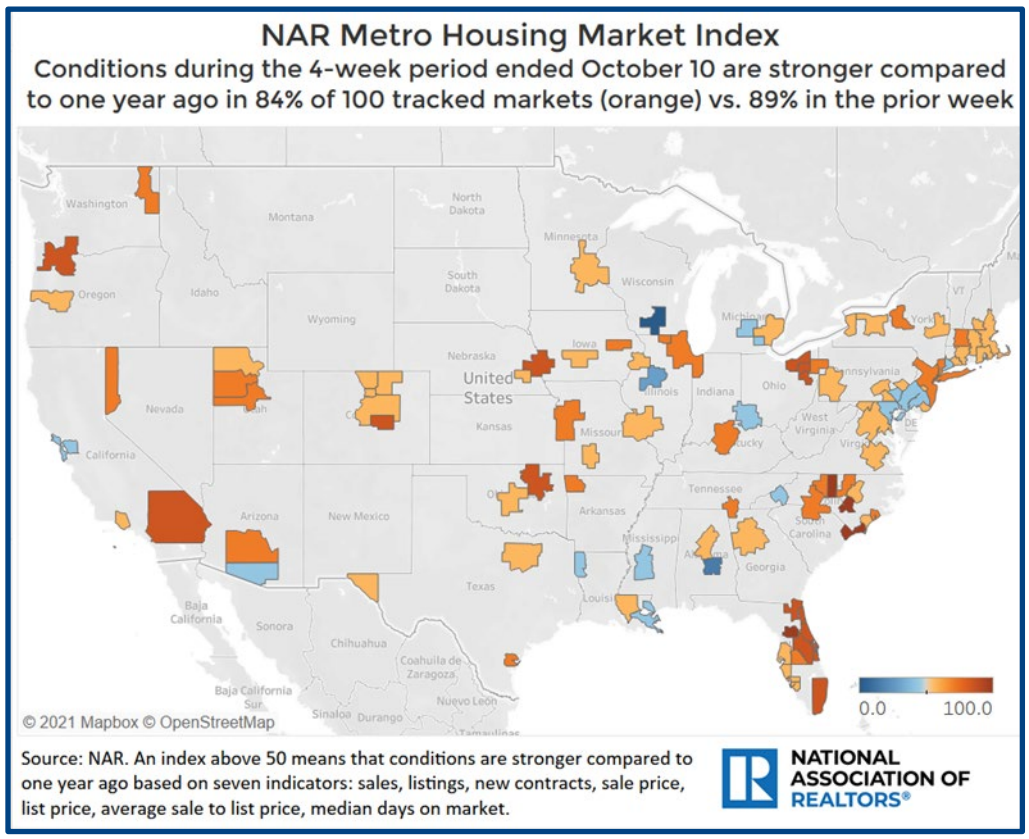
84% of Metros Have "Stronger" Conditions Compared to One Year Ago

84% of 101 tracked markets had stronger conditions compared to one year ago, a lower fraction compared to 89% in the prior 4-week period.

Sixteen markets had weaker conditions compared to one year ago (blue areas) that included San Francisco, CA; Tucson, AZ; New Orleans, LA; Montgomery, AL; Asheville, NC; Madison, WI; Cincinnati, OH; Baltimore, MD; Philadelphia, PA; and Bridgeport, CT. Hurricane Ida badly hit Alabama and Louisiana in August.

The Metro Housing Market index compiled from 101 tracked markets held at 57.1. An index above 50 means more markets with "stronger" conditions compared to one year ago than markets with "weaker" conditions.



Source: NAR. An index above 50 means that conditions are stronger compared to one year ago based on seven indicators: sales, listings, new contracts, sale price, list price, average sale to list price, median days on market.

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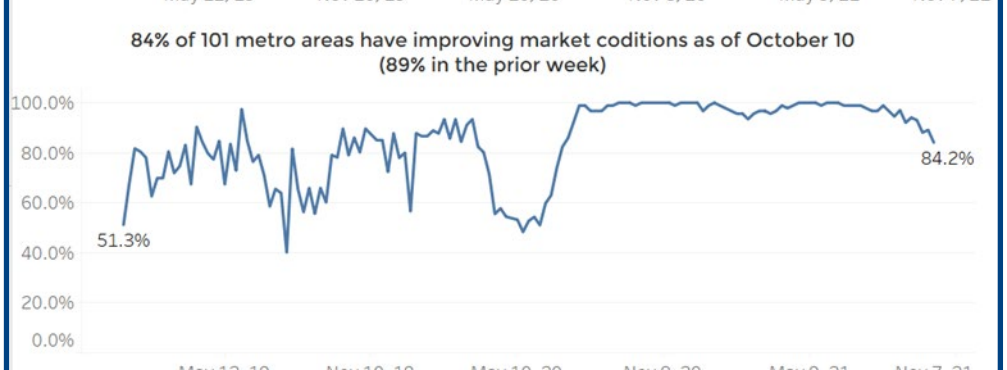

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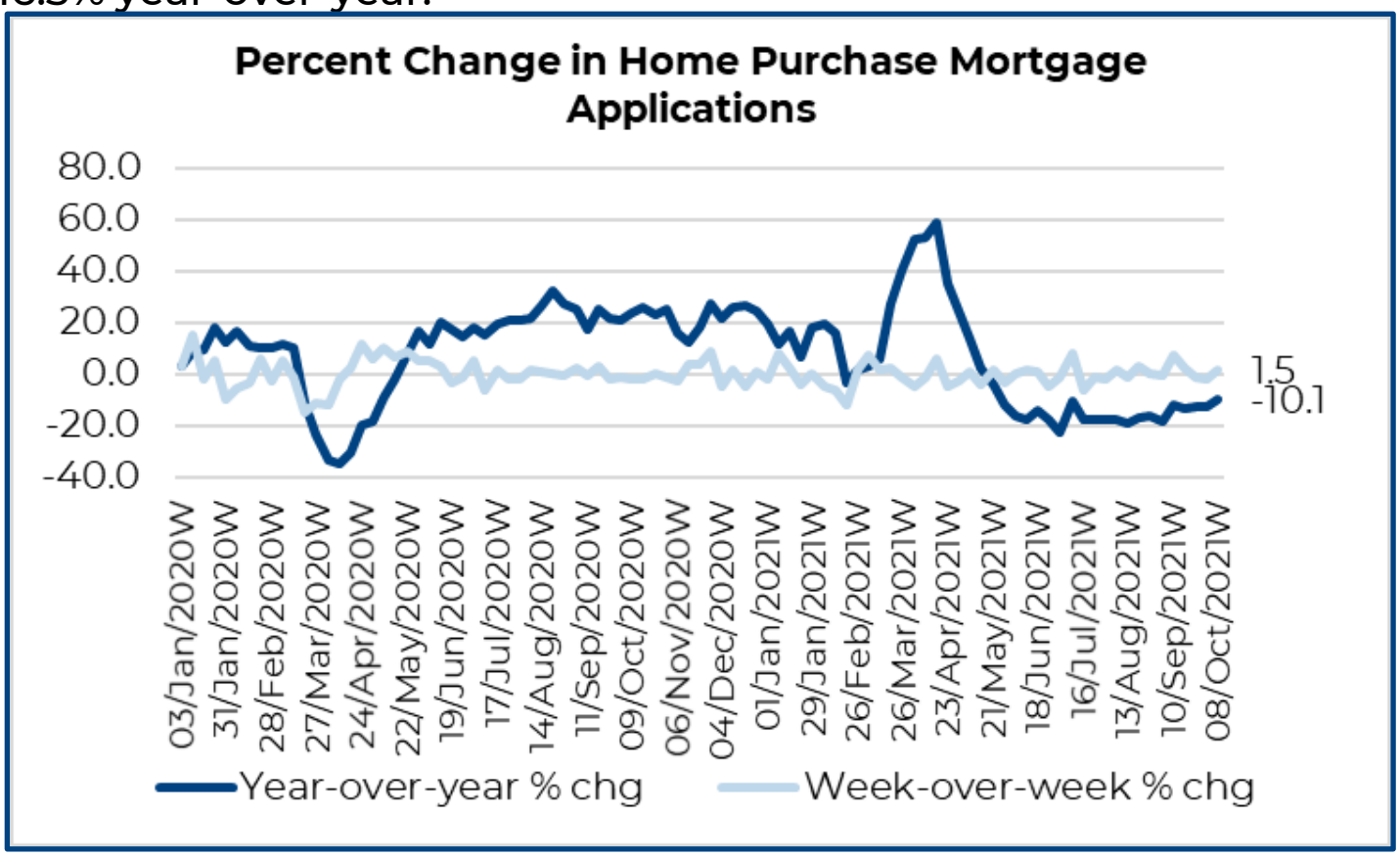
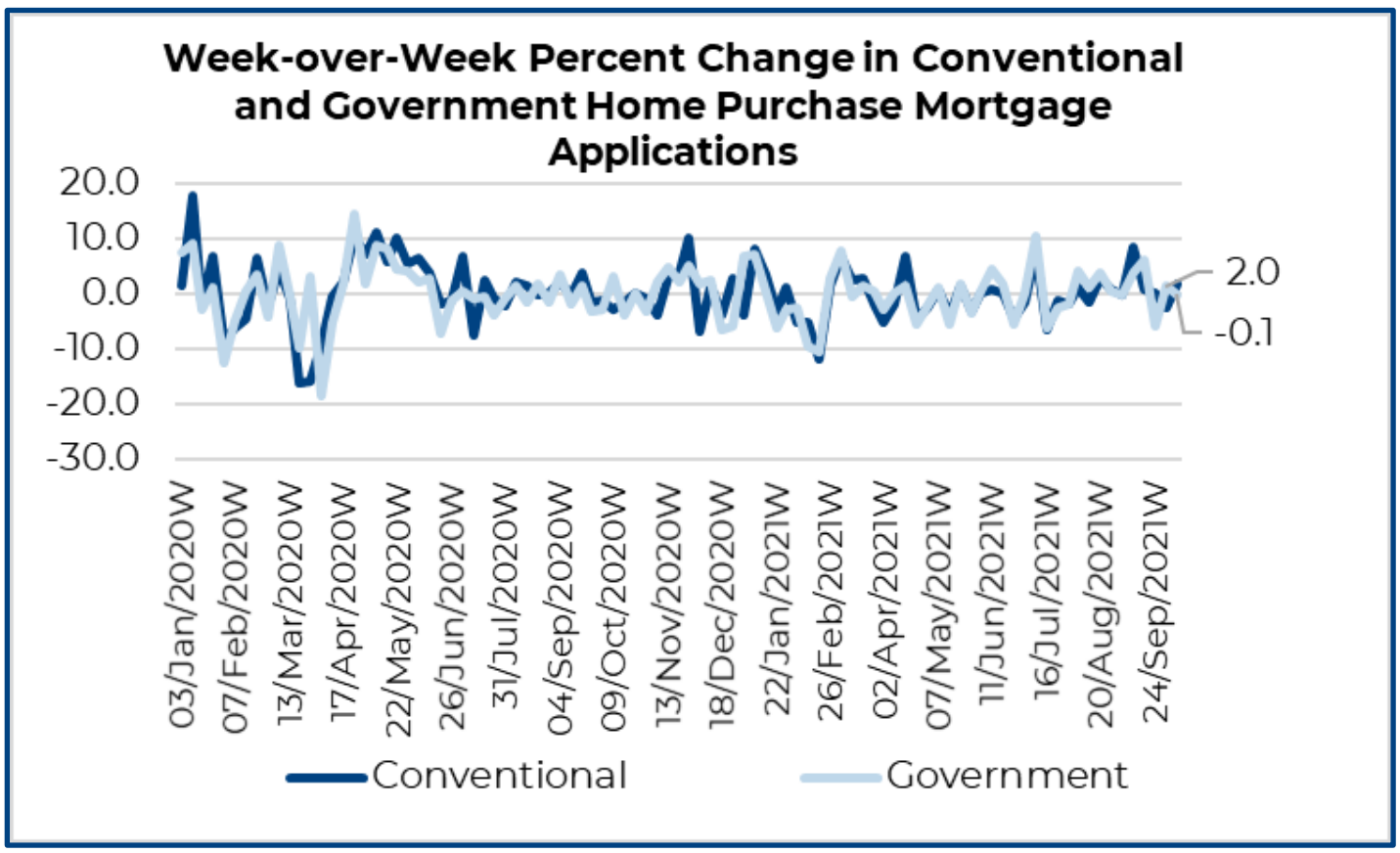
Mortgage Applications Increase

Applications for a home purchase increased 1.5% from the prior week but was lower by 10.1% from one year ago, according to the MBA Weekly Mortgage Applications Survey.

Applications fell 0.1% from the prior week by for government-insured financing (FHA, VA, USDA) while conventional (includes Fannie Mae/Freddie Mac) financing marginally increased 2%. A high fraction of FHA financing goes to first-time buyers.

Compared to the prior week, refinancing applications also decreased by 0.5% and decreased 16.3% year-over-year.





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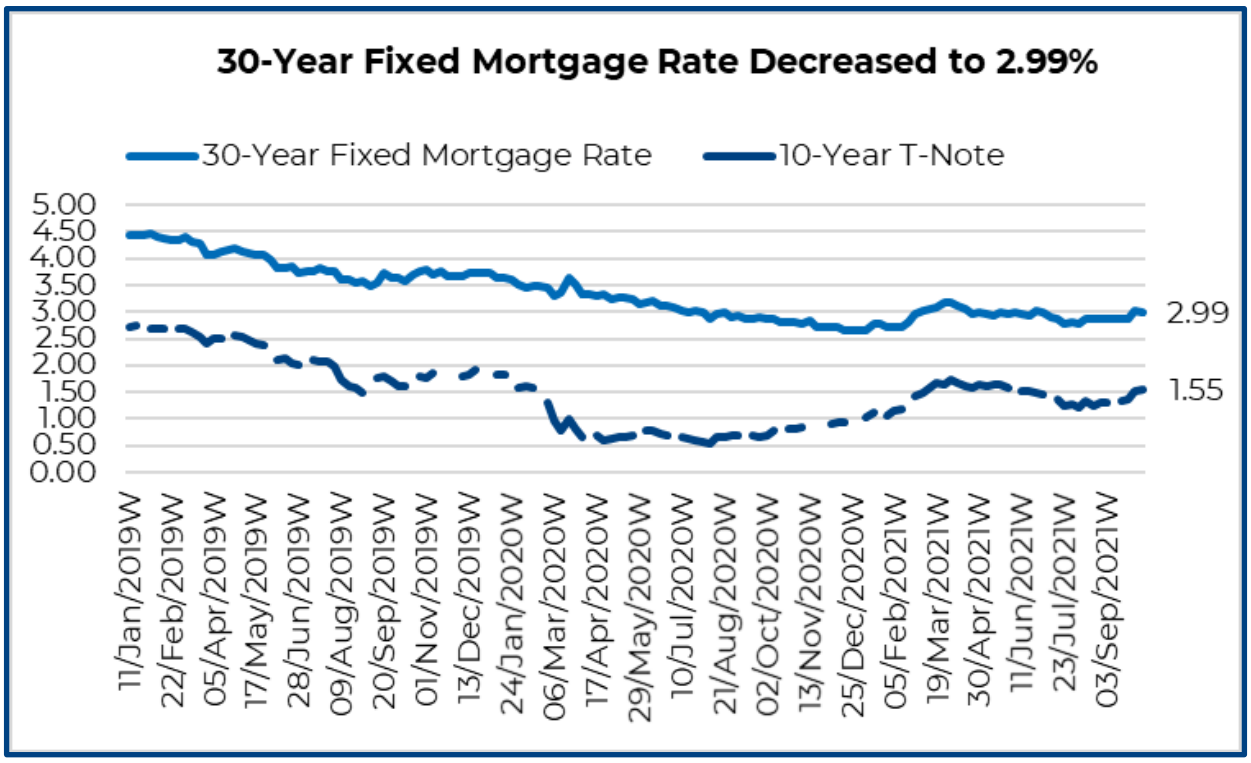
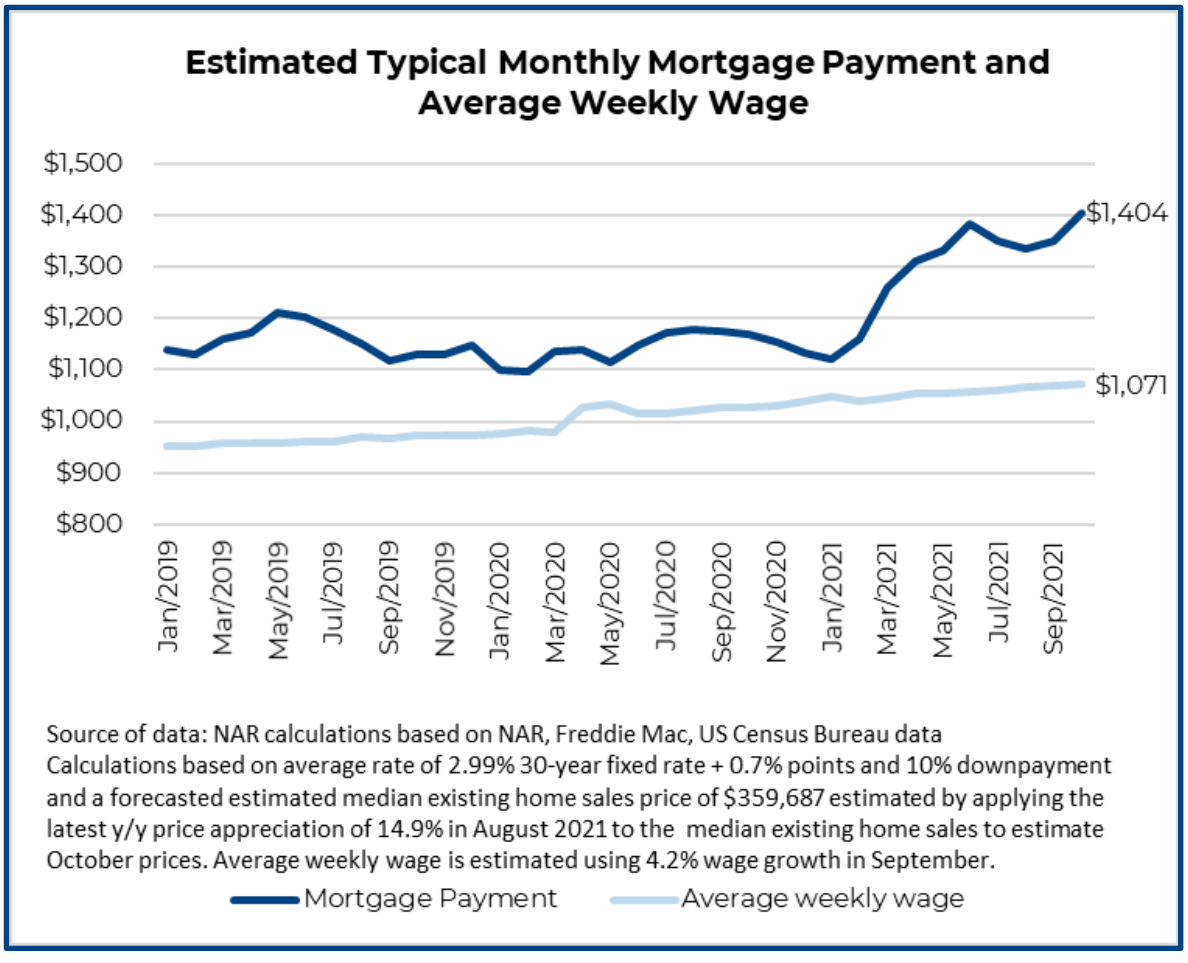
Mortgage Rates Dips Below 3%

The 30-year fixed mortgage rate decreased to 2.99%, after rising above 3% in the prior week. Rates have hovered at below 3% for most of 2021 due to relaxed monetary policy.

NAR Chief Economist Lawrence Yun expects the 30-year fixed mortgage rate to increase to 3.6% in 2022 as the Federal Reserve Boards reduces its purchases of mortgage-backed securities and increases the federal funds rate to keep inflation to the average target of 2%.

With higher mortgage rates and home prices, the monthly mortgage payment is estimated at $1,404 during the week of October 1 (+238 y/y) while the average monthly wage is estimated at $1,071 (+191 y/y).





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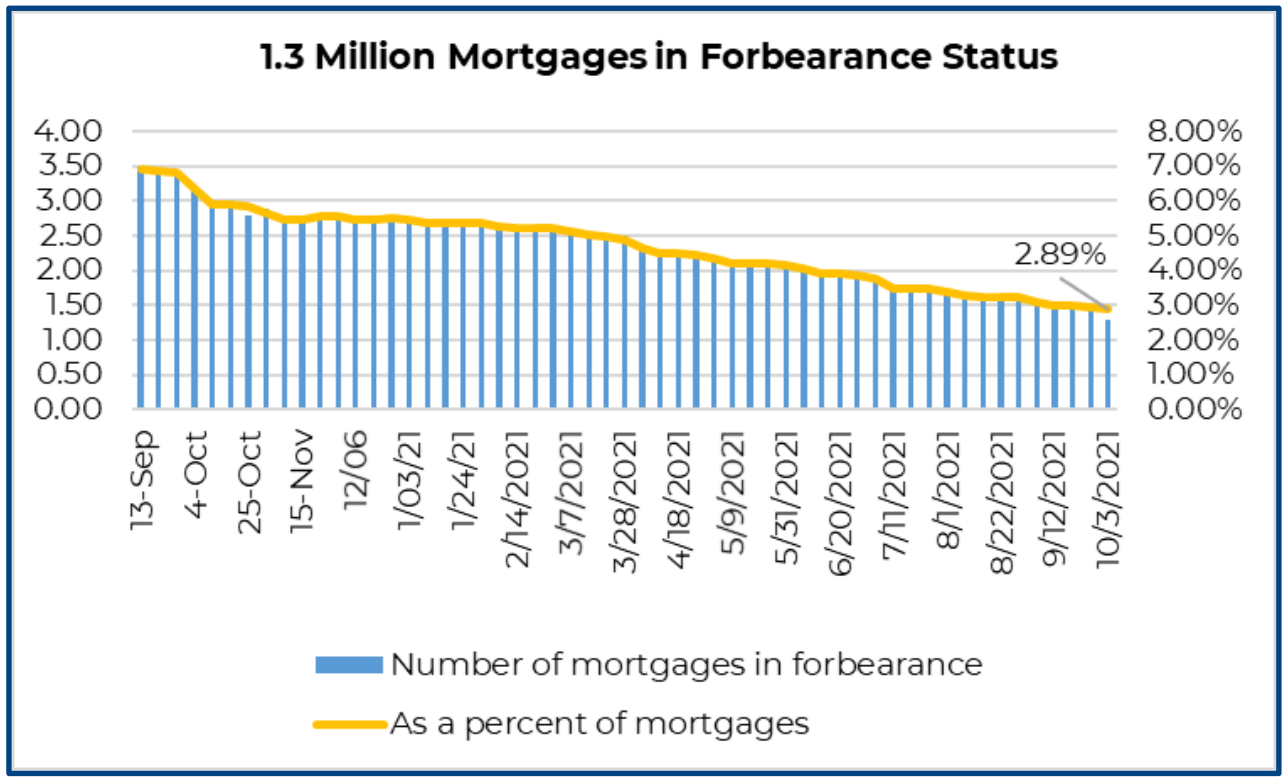
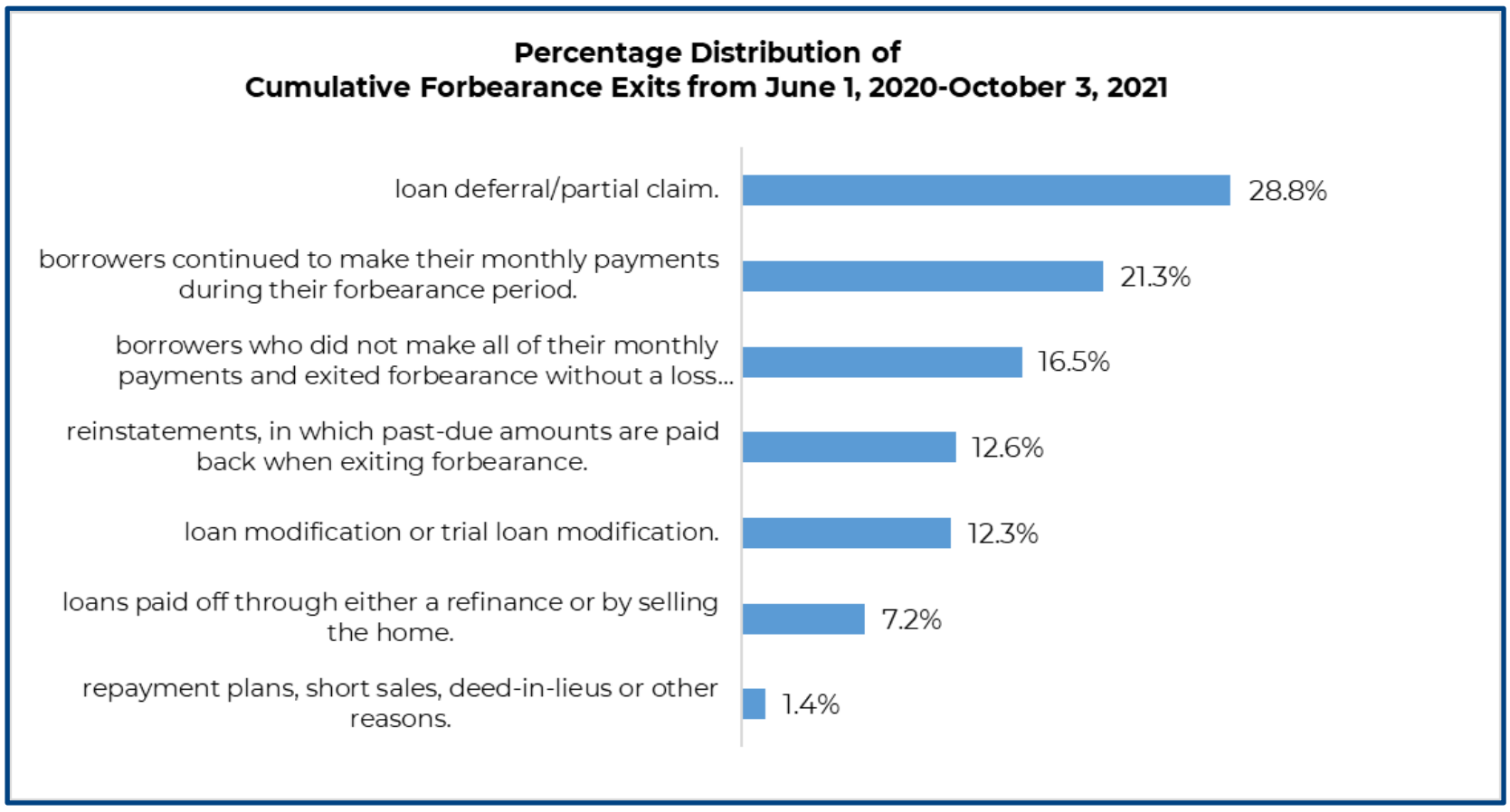
Loans in Forbearance Falls to 1.3 Million

Loans in forbearance decreased to 2.89% of mortgages which is equivalent to 1.3 million mortgages, according to the MBA.

Most distressed borrowers are working out payment options with lenders to keep their homes, with 75% of homeowners in forbearance having a loss mitigation plan. Of the homeowners who exited forbearance during June 1, 2020—October 3, 2021, 7.2% exited forbearance by refinancing their home or selling their home and 1.4% ended in a short sale or deed-in-lieu (and other reasons).

Eighty-five percent of homeowners who have exited forbearance are current on their payment.





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Office Occupancy Rises in 2021 Q3

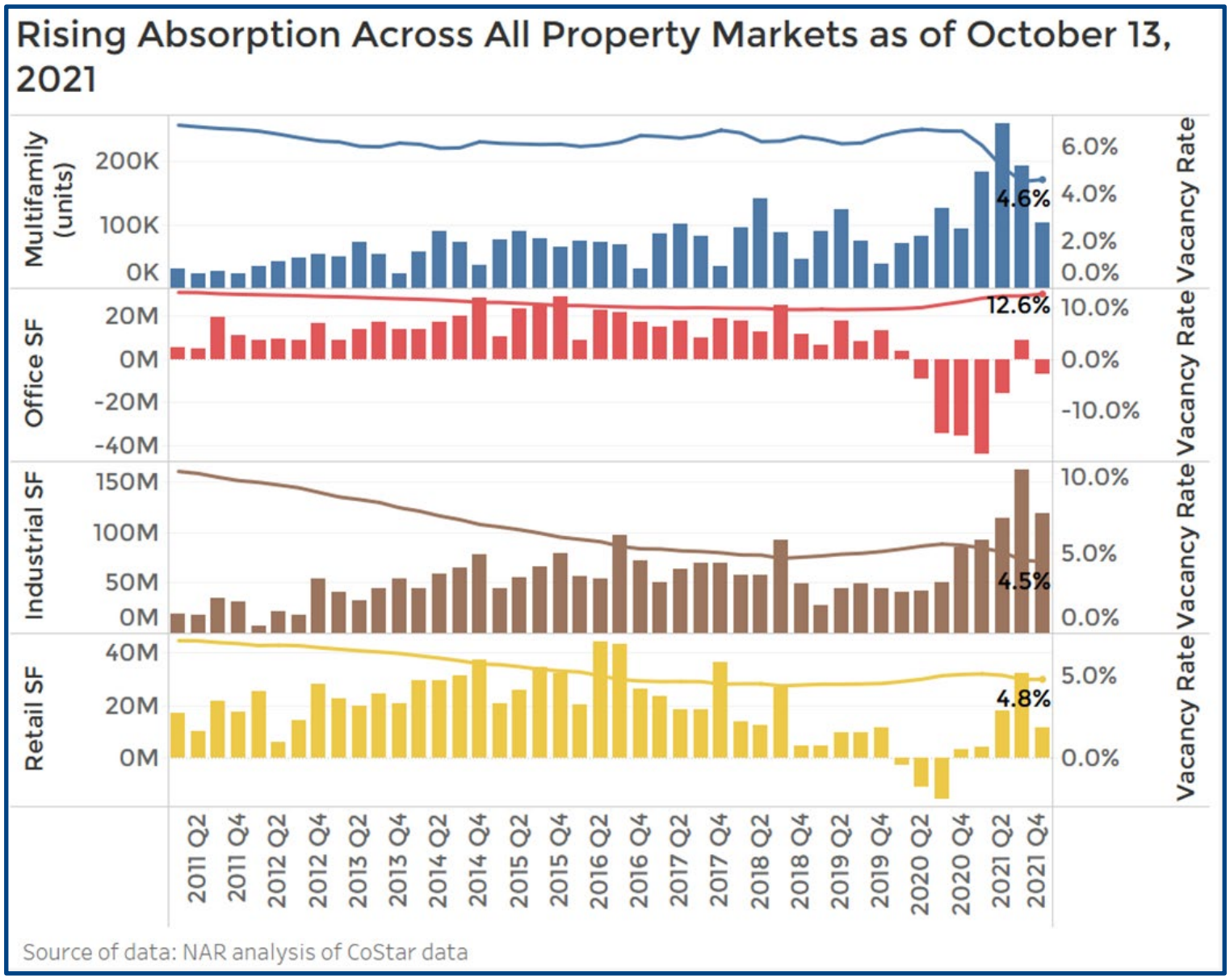
Office occupancy fell by 6.7 million square feet compared to 3 months ago, a dismaying trend after an increase in the third quarter. From 2020 Q2 to date, 136.1 million square feet of office space has become unoccupied. The vacancy rate is at 12.6% (9.8% in 2020 Q1).

In the multifamily market, occupancy increased by 103,705 units compared to three months ago, with a total increase in units occupied by 1.05 million units since 2020 Q2, a decade high 12-month absorption. The vacancy rate is at 4.6% (6.7% in 2020 Q1).

In the industrial market, occupancy increased by 119 million square feet compared to three months ago, with a total of 665.9 million square feet of industrial space absorbed since 2020 Q2. The vacancy rate is at 4.5% (5.3% in 2020 Q1), the lowest rate among the core commercial markets.

In the retail property market, 11.8 million square feet became occupied as of October 13 compared to three months ago, with total net absorption of 43.6 million square feet absorbed since 2020 Q2. The vacancy rate is at 4.8% (4.6% in 2020 Q1).

Download the September Commercial Market Insights Report and Commercial Metro Market Reports.



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Occupancy Slips Again in the Office Sector

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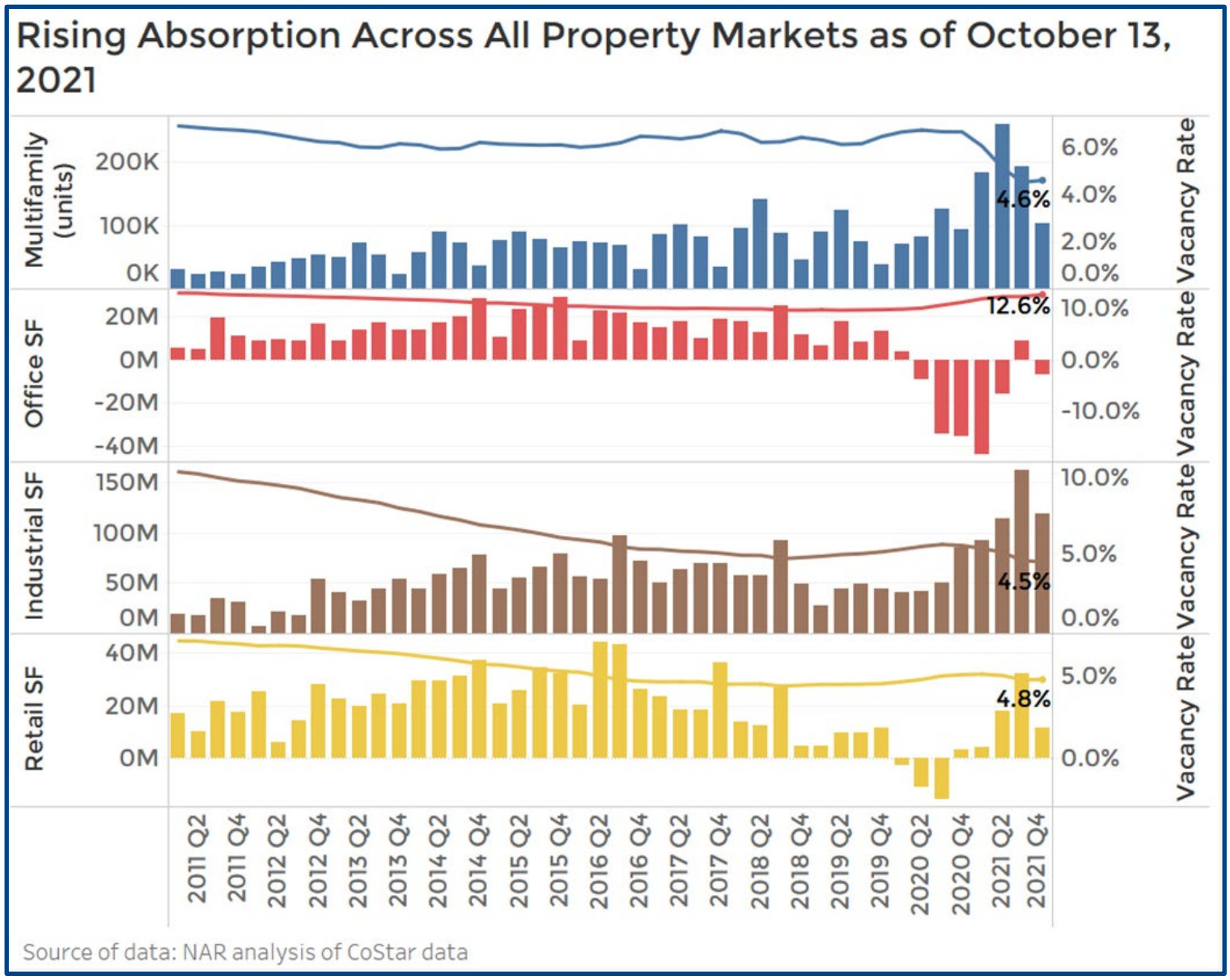

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Multifamily Rent Growth Soars to 11.2%

Multifamily asking rents continue to soar, rising to 11.2% year-over-year, a new high for rent growth. Prior to the pandemic in 2020 Q1, the average asking rent growth was just 1.6%. Higher demand due to rising home prices and lower construction activity have pushed up rent growth.

In the industrial property market, the average asking rent per square foot rose to 7.2%, also higher than the 5% rent growth prior to the pandemic. The acceleration of e-commerce sales is bolstering the demand for industrial warehouses and distribution centers.

In the retail property market, the average asking rent also rose to 2.5%, which is higher than the 2.2% pre-pandemic rent growth.

With rising vacancy rate, only the office market continues to post declining rents, with the average asking rent down by 0.7% , a further decline from 0.4% in 2021 Q3 and from the 2.8% rent growth prior to the pandemic.

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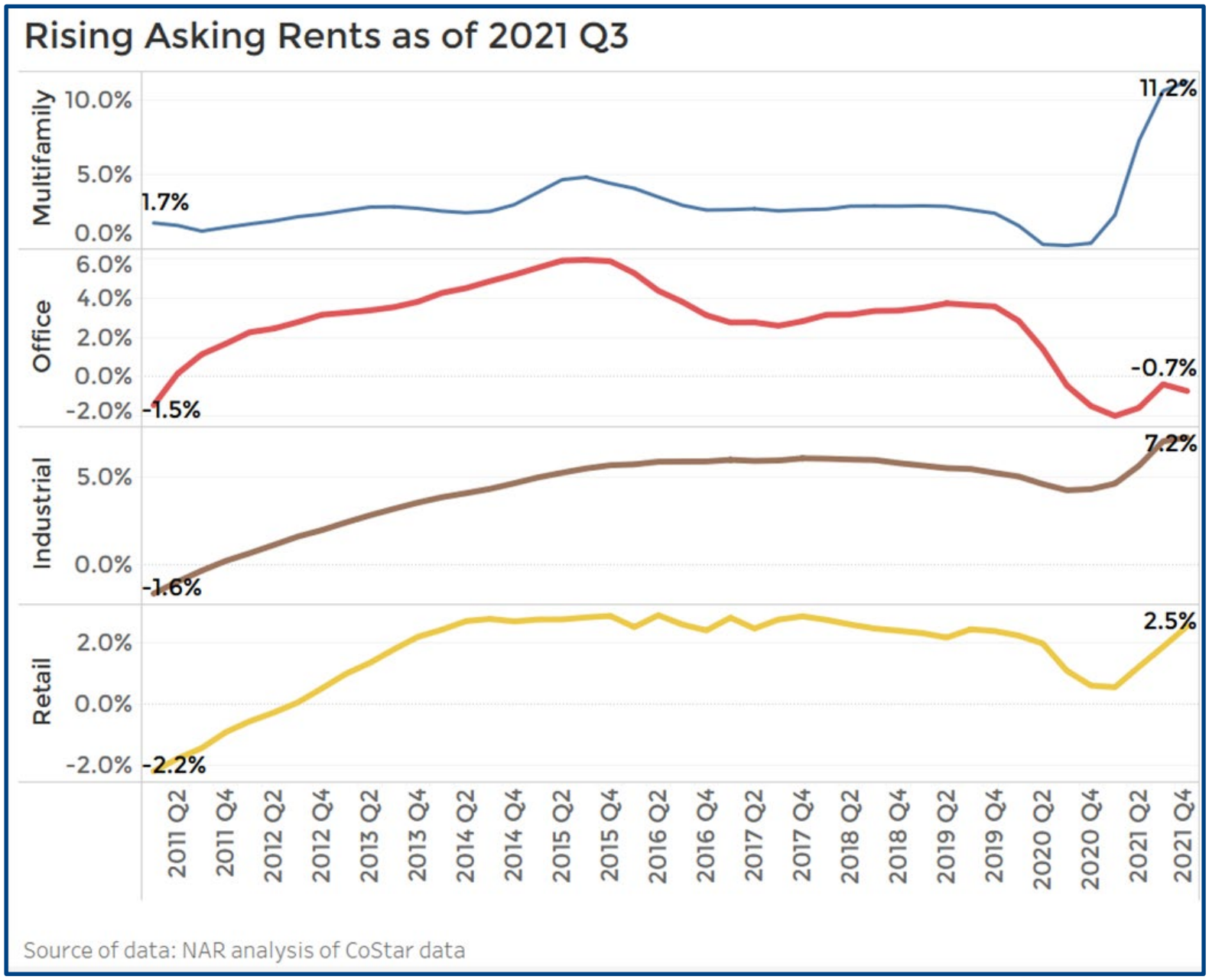

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Industrial Market Posts Strongest Under Construction Activity as of 2021 Q3

As of 2021 Q3, there were 644,690 apartment units under construction, equivalent to 3.6% of the current inventory of apartment units. However, the level of units under construction is down from 719,272 units in 2020 Q1 (pre-pandemic).

In the office sector, 139.8 million sq. ft. is under construction, equivalent to 1.7% of the current office inventory. Some of the ongoing construction will add to vacant space so expect vacancy rates to remain over 10% in 2022.

In the industrial sector, 449.5 million sq. ft. is under construction, equivalent to 2.6% of current inventory, the only property sector to see higher under construction activity compared to pre-pandemic level (344 MSF in 2020 Q1). The increase in construction activity will help meet the strong demand for industrial space.

In the retail sector, 50.1 million sq. ft. is under construction, down from 60.8 million in 2020 Q1. This is just 0.4% of the inventory of retail space.

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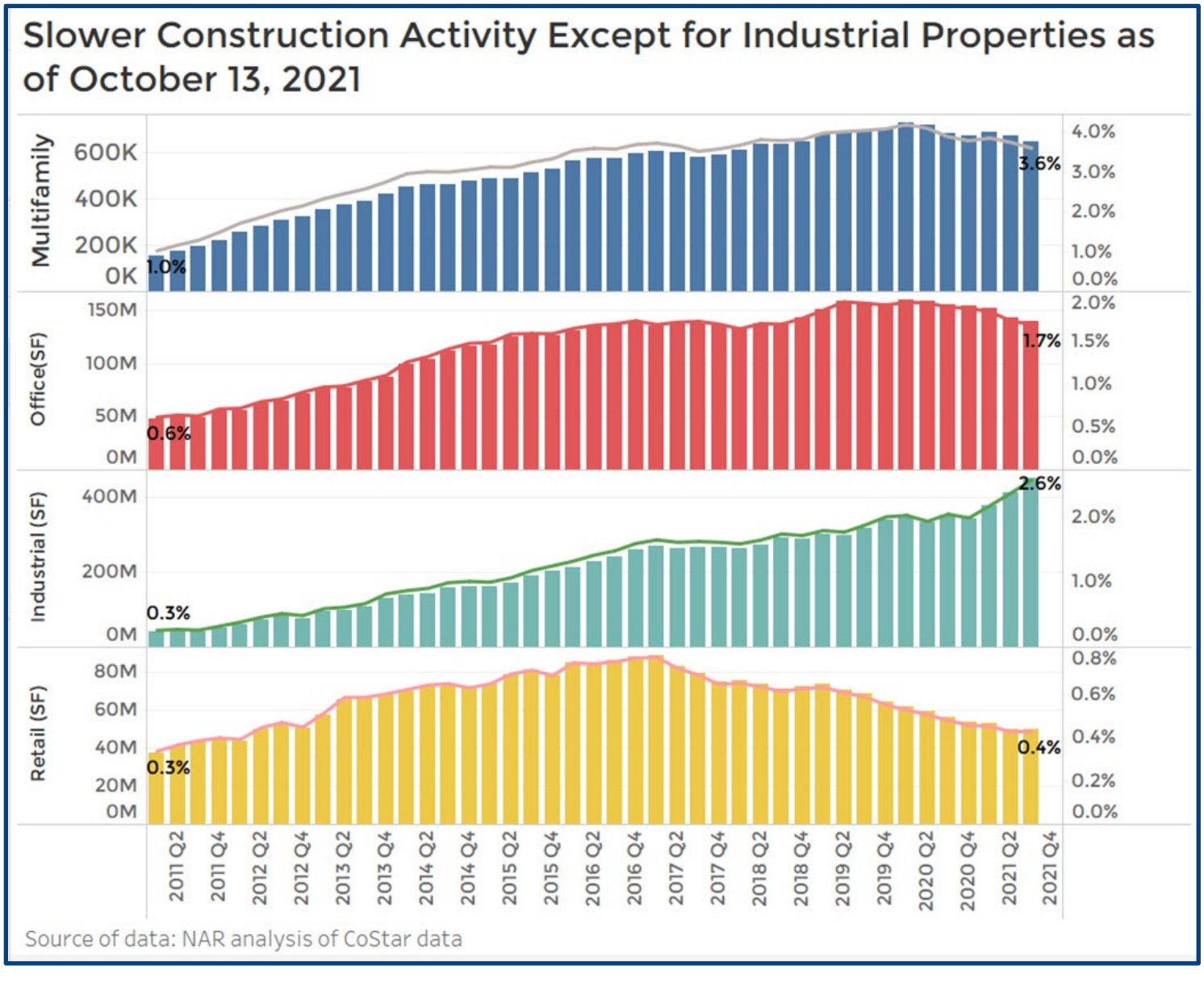

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Commercial Cap Rates as October 13

In the multifamily market, cap rates are now 5.4% (5.9% in 2020 Q1).

In the office market, cap rates decreased to 6.9% (7.2% in 2020 Q1).

In the industrial market, cap rates have dropped to 6.0% (7.1% in 2020 Q1).

In the retail market, cap rates are down to 6.0% (6.7% in 2020 Q1).

Cap rates tend to move in line with the risk-free 10-year T-note. NAR Chief Economist Lawrence Yun forecasts the cap rate to increase to 2% in 2022 from 1.5% in 2021. In 2019, cap rates averaged 0.9%.

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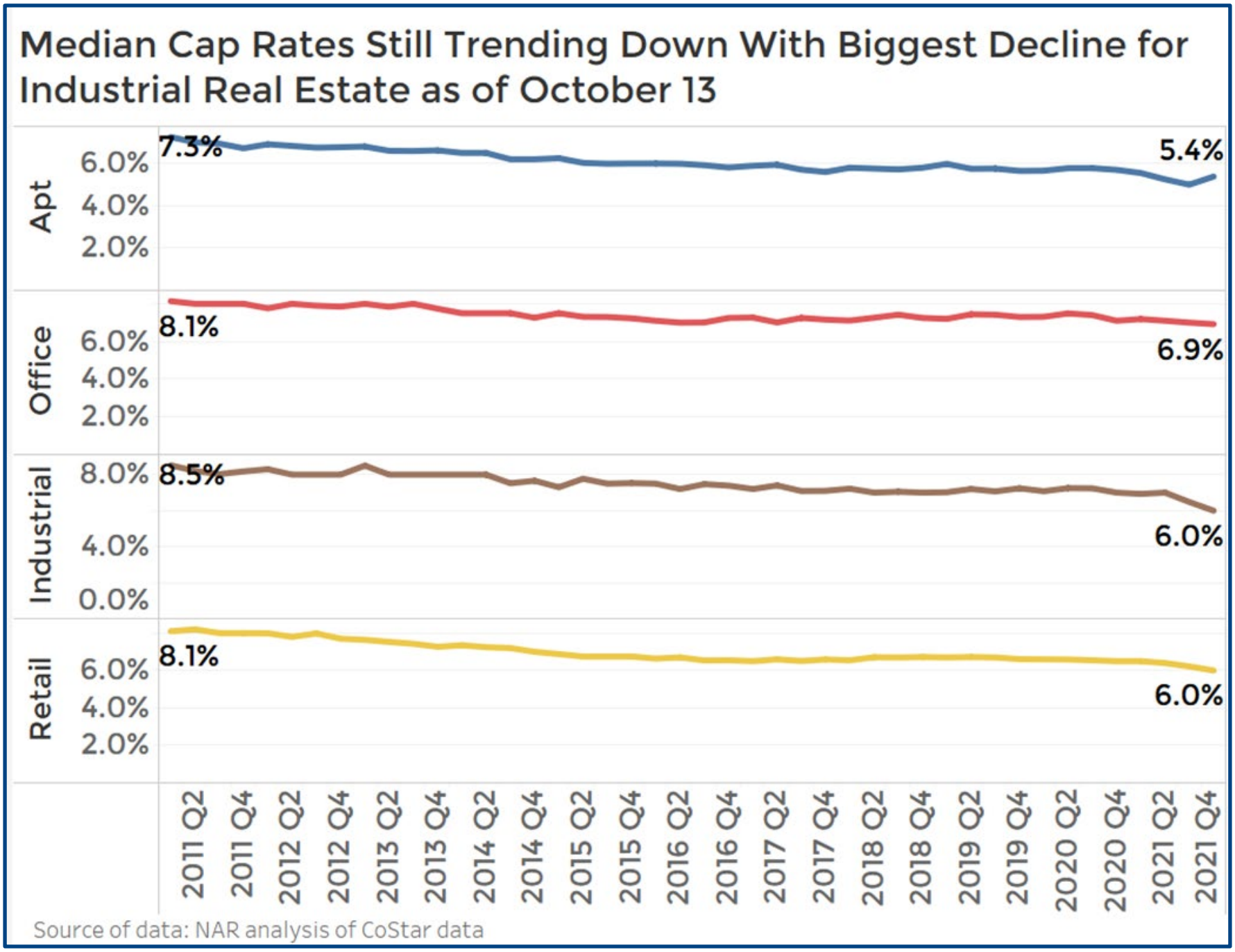

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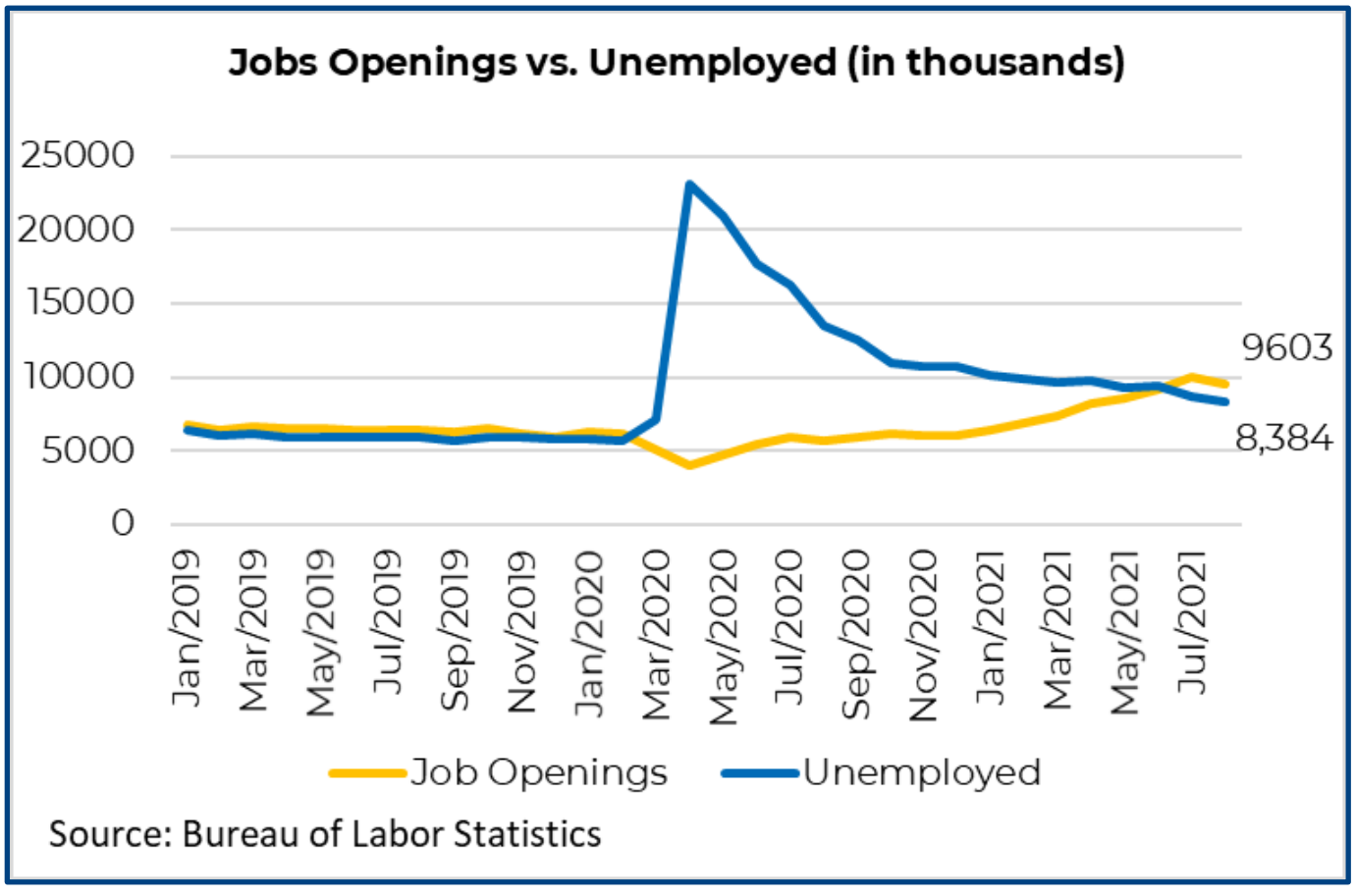
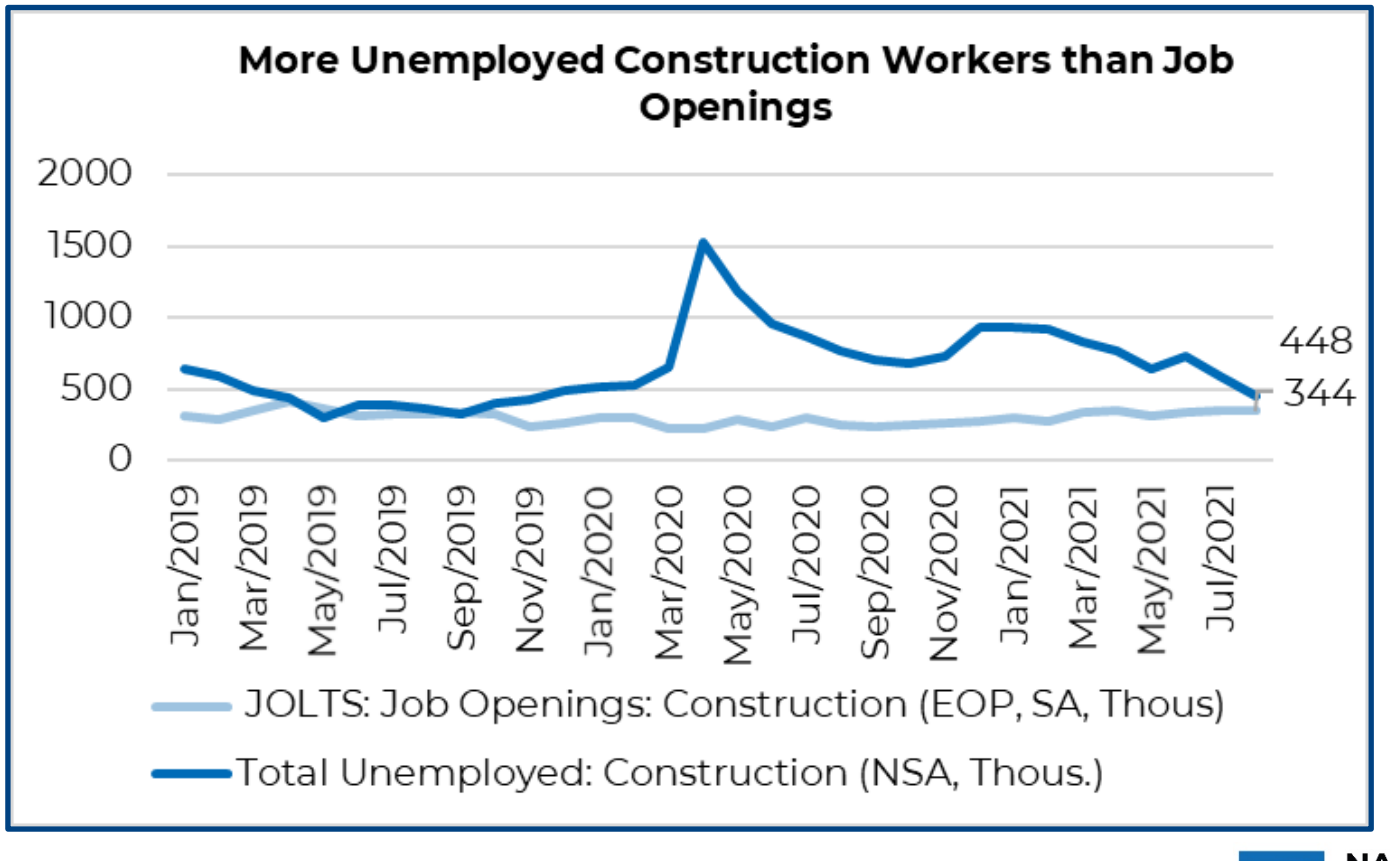
Job Openings of 9.6M Outpace Unemployment of 8.3M

The number of job openings as of the end of August totaled 9.6 million on a seasonally adjusted basis, outpacing the number of workers seeking jobs of 8.4 million. More job openings than unemployed will tend to push wages up which is good for housing affordability but which can raise inflationary pressures and mortgage rates.

However, in the construction industry, there are more unemployed workers than job openings. Construction activity is still lower than during the pre-pandemic level due to high vacancy rates in the office sector.





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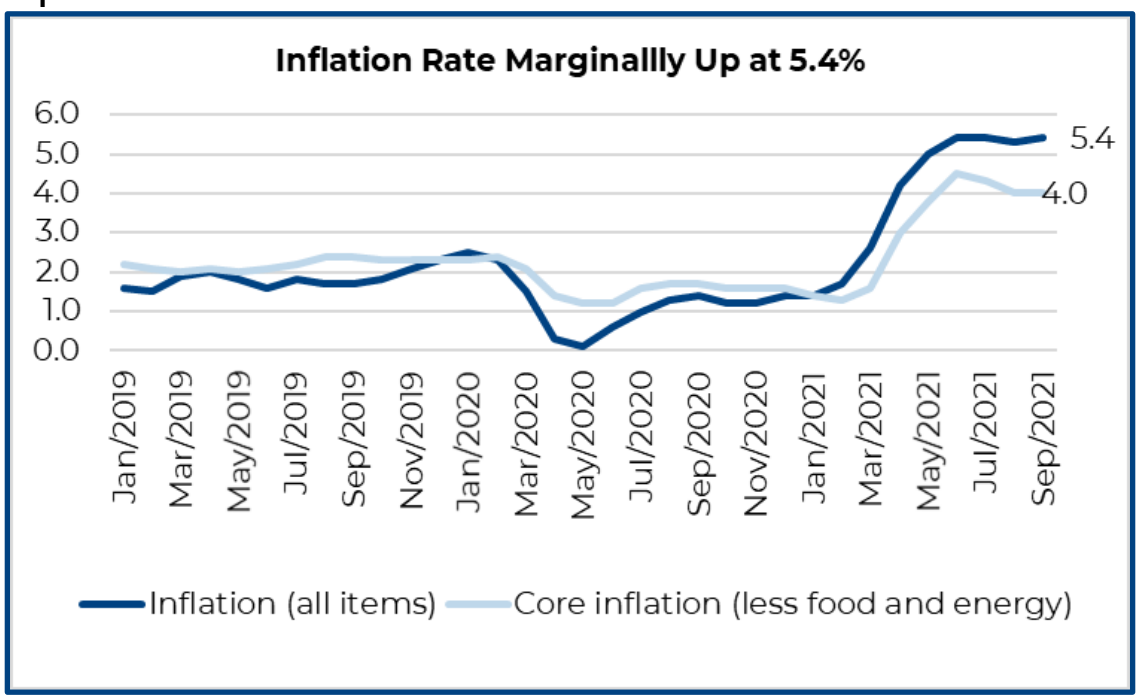
Inflation Marginally Rises to 5.4%

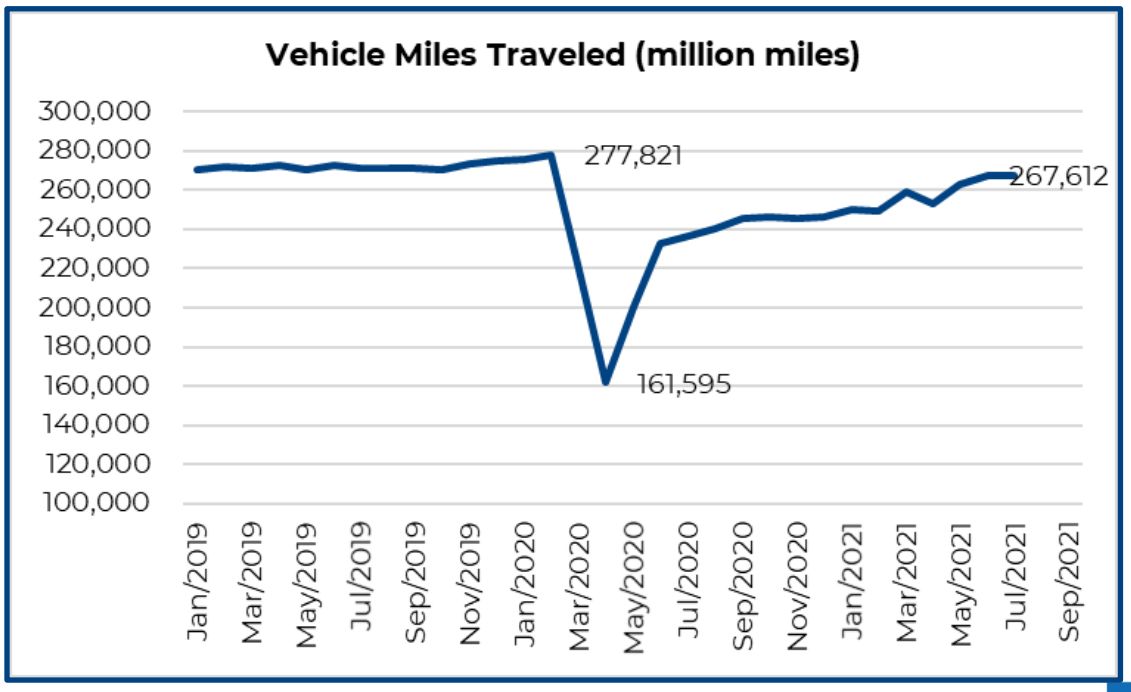
In September, the price of consumer goods marginally rose 5.4% from one year ago. Inflation has essentially remained stable at this rate since inflation rose to over 5% starting in June on account of the huge uptick in prices of energy goods and services , with the price of crude oil (West Texas Intermediate) up 81% from one year ago and the producer price index for final demand items up 8.3% in August. The cost of oil has increased with global economic growth picking up.

The cost of transportation rose 24.8%, which tilts the preference towards working at home to save on transportation spending.

The cost of shelter, which accounts for both what renters pay and what homeowners will be willing to receive as rent of on their home, rose 4.6%. This is more modest compared to the rent growth from proprietary data sources like CoStar that reported rent growth of 11% as of October 2021.

NAR Chief Economist Lawrence Yun forecasts the inflation rate to slow to 3.5% in 2022 as prices for transportation services stabilize in 2022.





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