

Rental Demand Elevated in 2Q; Home Refinancing Intensifies as Rates Fall

Mortgage rates falling but home sales still soft. Though mortgage rates have declined 80 basis points since they peaked last November, single-family home sales remain sluggish. An increased preference for rentals, the limited number of entry-level homes for sale and caution surrounding the economic outlook are restraining buyers. Move-up homebuyers are less active in the market than in previous cycles, while renters are choosing to remain in apartments. Rentals are also attracting some baby boomers who favor urban locations and amenity packages. This has weighed on the single-family housing market as a broad spectrum of households are showing signs of a transitional shift toward rental housing.

Low borrowing rates spark surge in refinancing. With the 30-year mortgage rate well below 4 percent, many owners are refinancing their loans. Refinances are up roughly 90 percent on an annual basis, while purchase originations are down 3.5 percent. With fewer people buying homes, apartment demand has remained strong, compressing vacancy 40 basis points year over year to 4.2 percent through the second quarter.

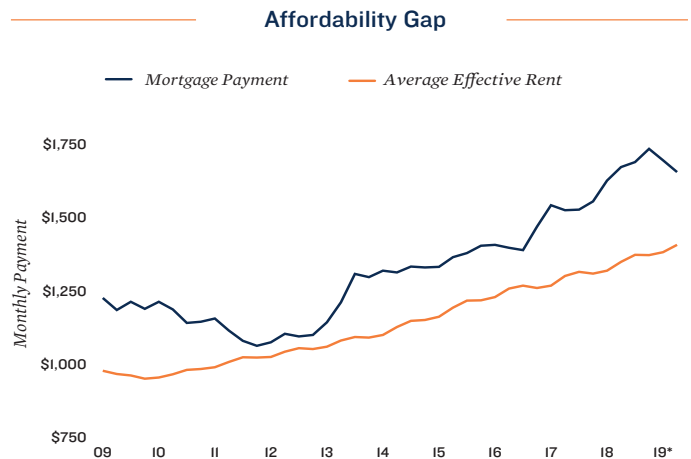
Consumer preferences support ongoing apartment performance trends. The ownership rate for people 35 and younger dropped 110 basis points to 35.4 percent during the first quarter as lifestyle changes and evolving preferences steered housing demand toward multifamily rentals. Strong job growth and tight unemployment have bolstered household creation, enabling more people to move out on their own. Robust demand and the slowing pace of inventory growth will support rent increases while keeping apartment vacancy low. At the end of the second quarter, the average effective rent increased 3 percent on an annual basis to \$1,390 per month.

Developing Trends

Young people choose to start families later in life. The median age for marriage is nearing 30 years old, approximately three years older than the median age in 2000. This delay is impacting single-family home sales as first home purchases are commonly aligned with a transition to family life.

Home-related retail supported by refinancing activity. Homeowners are electing to stay put rather than swapping out for upgraded homes. Instead, owners are refinancing at low mortgage rates and are dedicating some of the savings to enhance their current homes.

Affordability gap highlights cost benefits of renting. While falling interest rates have decreased the mortgage payment of a median priced home, there is still a \$248 difference between that and the average effective rent. This disparity paired with the limited flexibility of homeownership has many would-be buyers choosing to rent.



* Through 2Q
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; RealPage Inc; National Association of Home Builders; National Association of Realtors; U.S. Census Bureau