2021

Weekly Real Estate Monitor

Residential and Commercial Markets

October 4-7

National Association of REALTORS® Research Group

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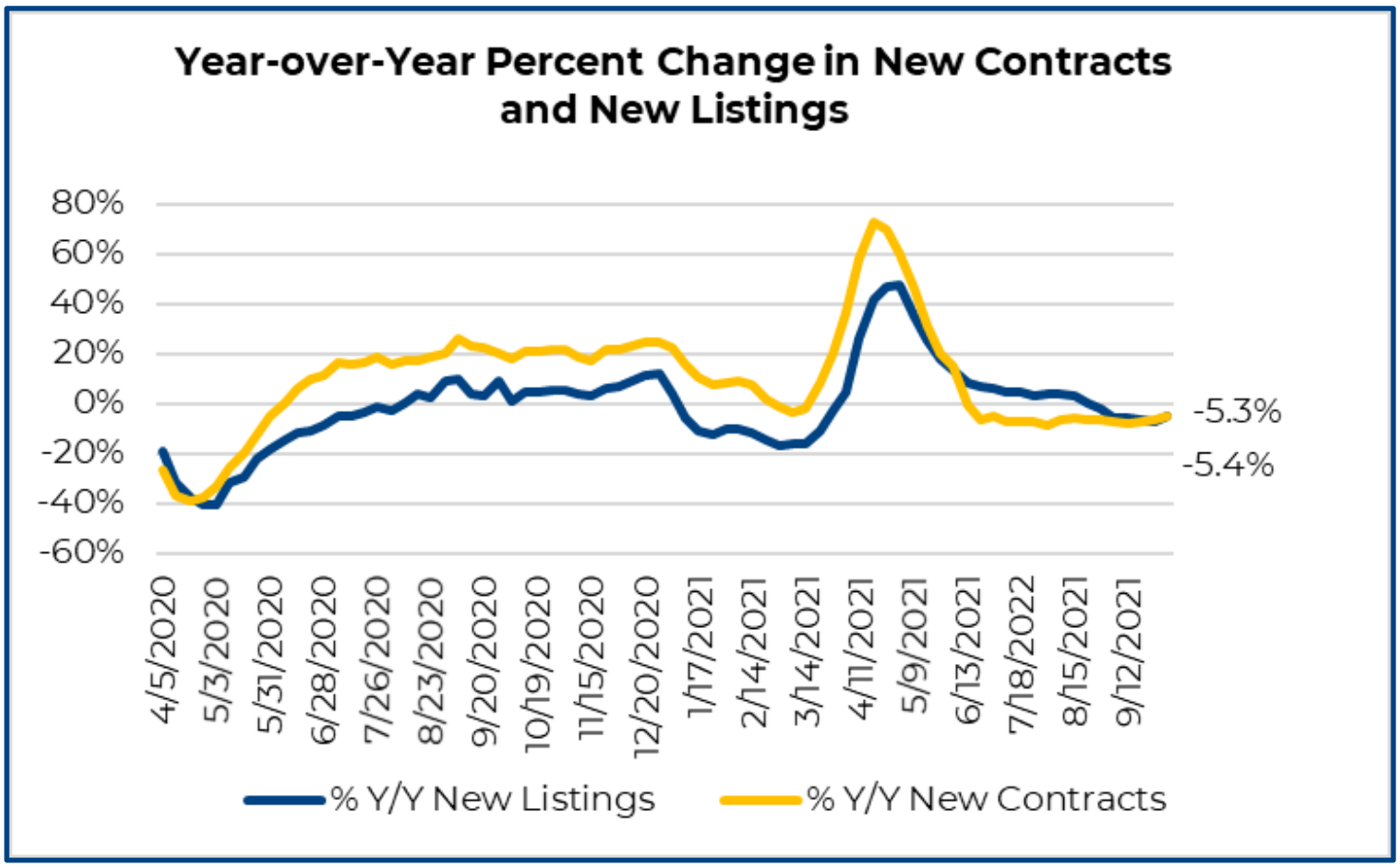
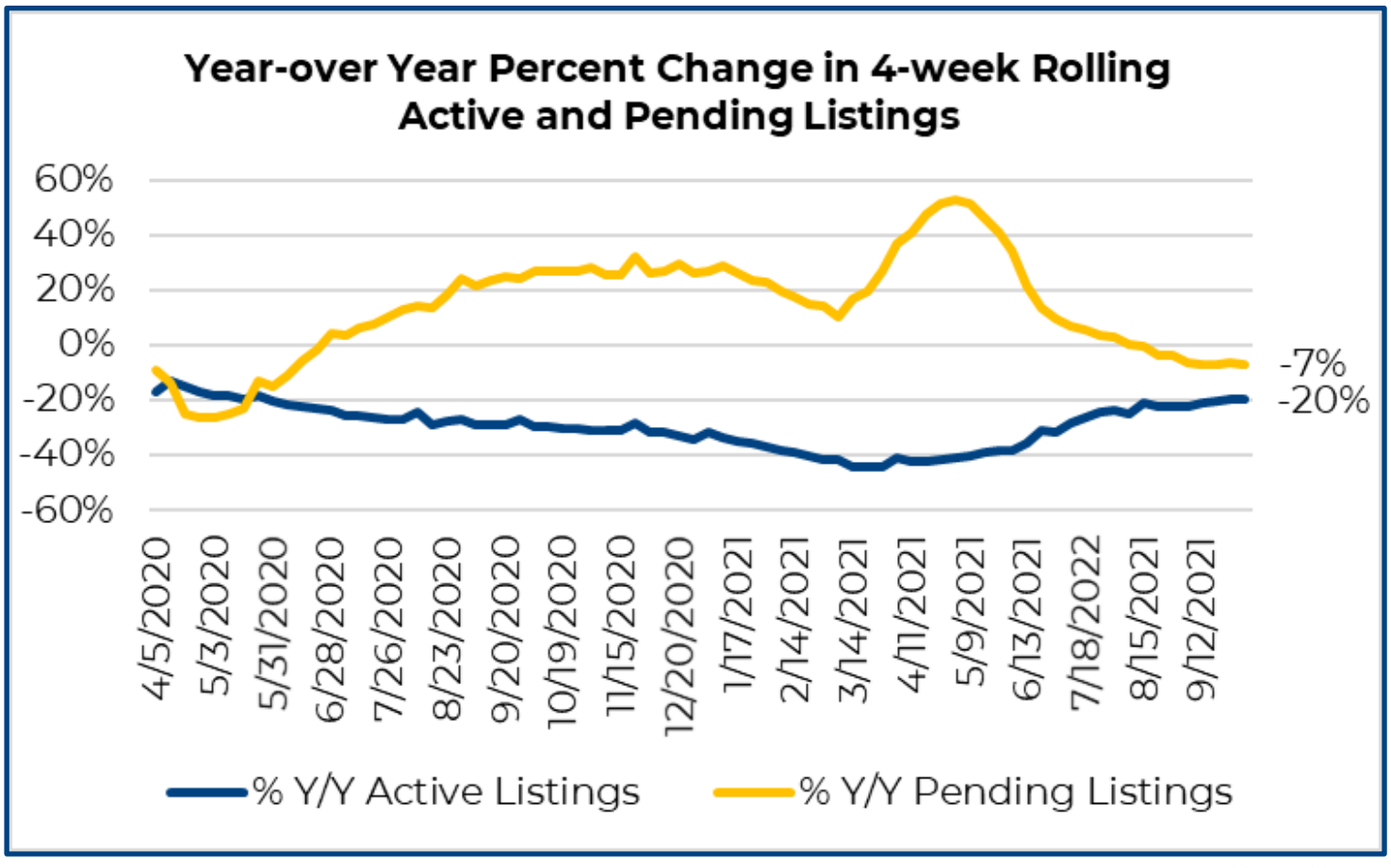
Preliminary Data: Pending Sales Fall 5.4% Year-over-Year

Preliminary data indicates that new contract signings (pending sales) fell 5.4% year-over-year while new active listings fell 5.3%.

The stock of pending listings fell 7% year-over-year while the stock of active listings was down 20%. The gap between the annual percent change in active and pending listings has narrowed compared to May 2021 when pending listings were up about 50% year-over-year while active listings were down about 40%.





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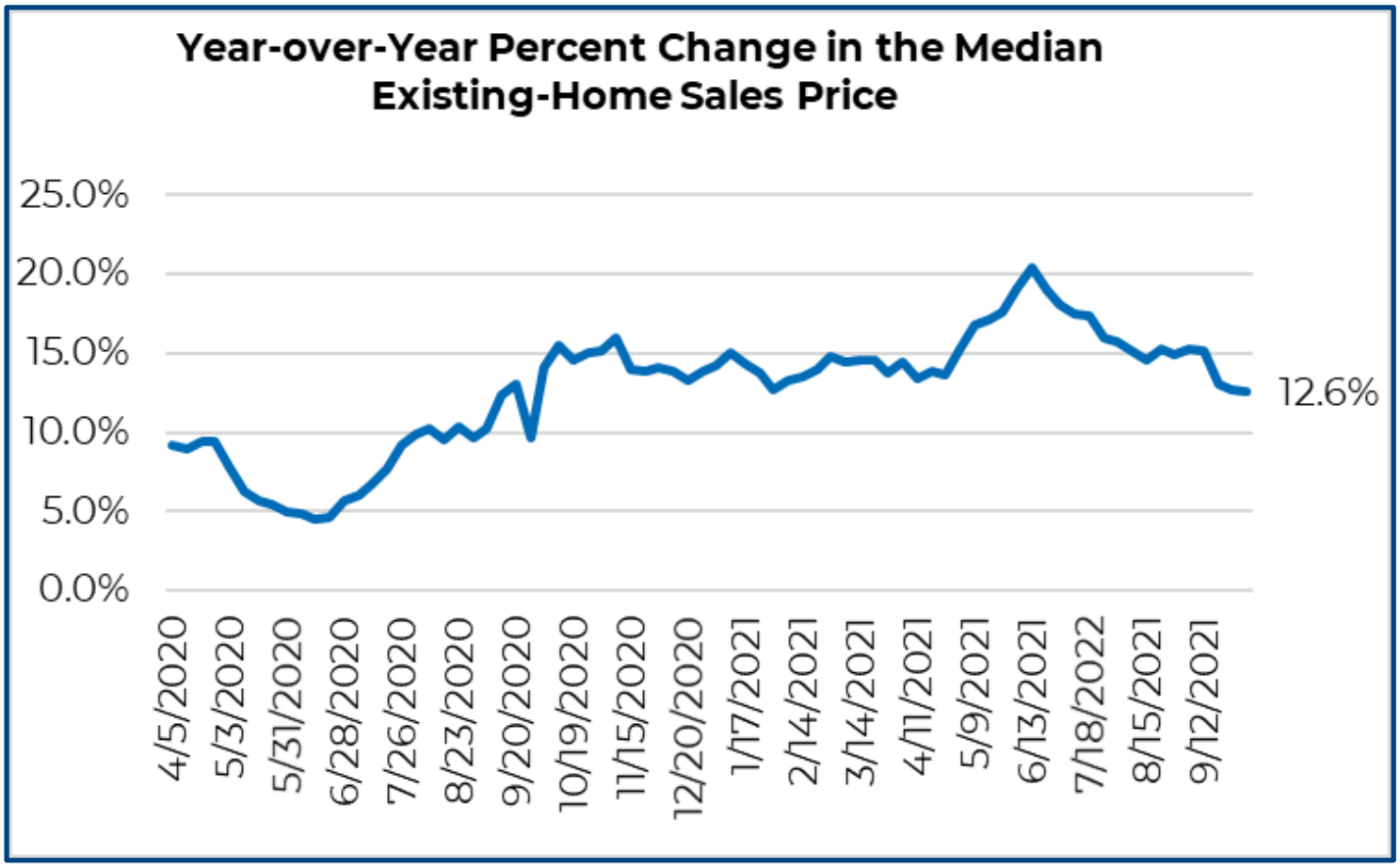
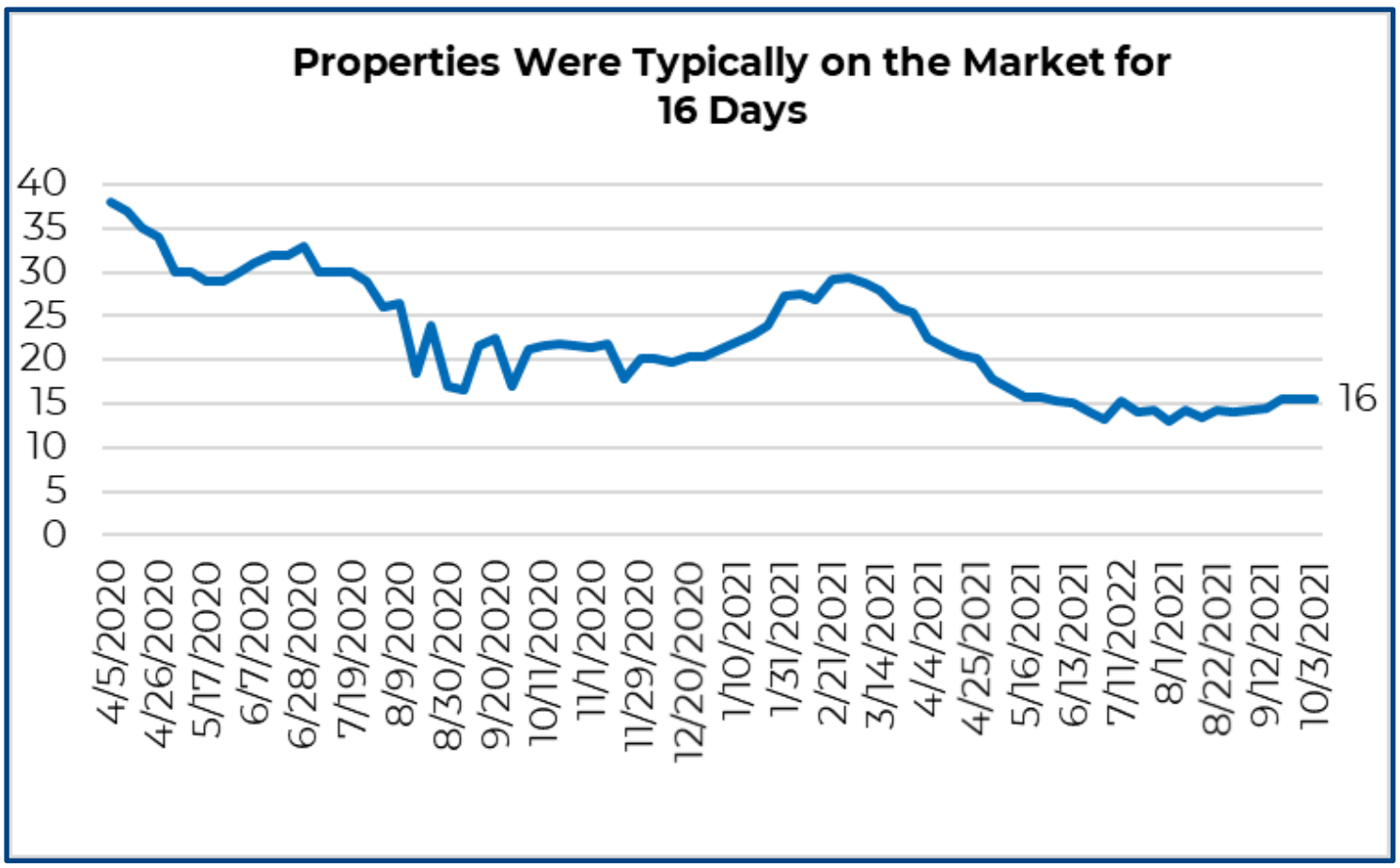
Preliminary Data: Median Home Sales Price Up 12.6% and Properties Typically Sold in 16 Days

Based on preliminary data, 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

Preliminary data shows that properties continue to sell faster than one year ago, with the median at 16 days.





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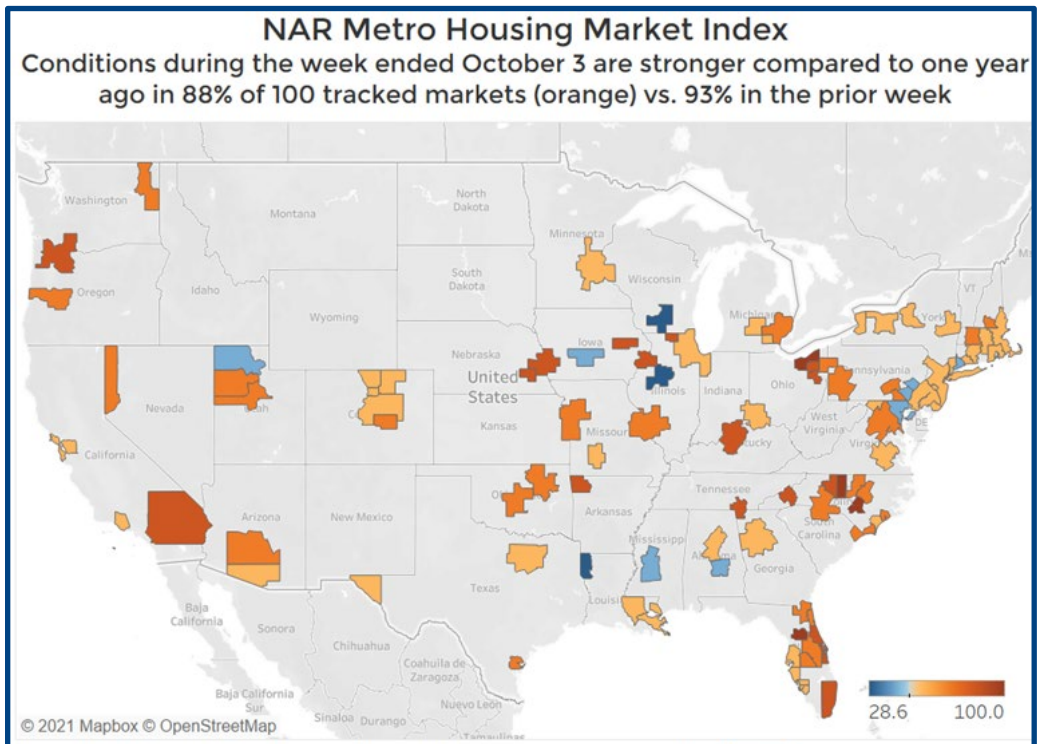
89% of Metros Still Have "Stronger" Conditions Compared to One Year Ago

The NAR Metro Housing Market index compiled from 101 tracked markets decreased to 57.1 from 71.4 in the prior week. An index above 50 means more markets with "stronger" conditions compared to one year ago than markets with "weaker" conditions.

Eighty-nine percent of 101 tracked markets have stronger conditions compared to one year ago.

Ten markets have weaker conditions compared to one year ago (blue areas): Ogden, UT; Madison, WI; De Moines, IA ; Peoria, IL; Shreveport, LA; Montgomery, AL; Jackson, MS; Baltimore, MD; Lancaster, PA; and Reading, PA.



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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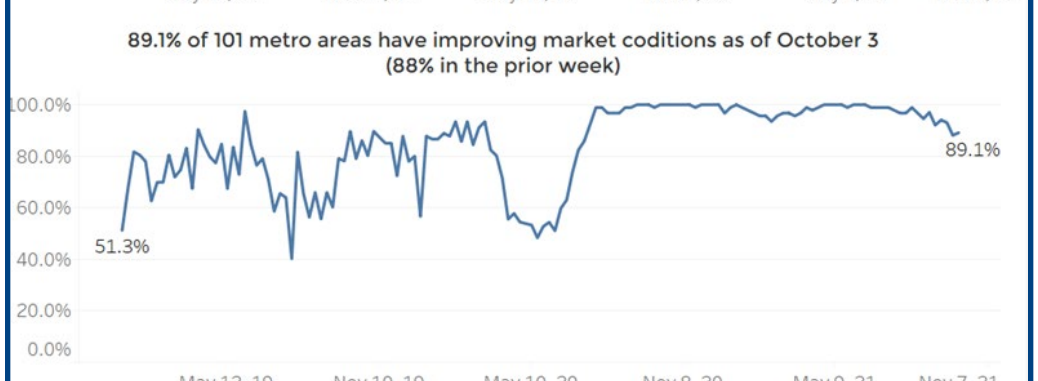

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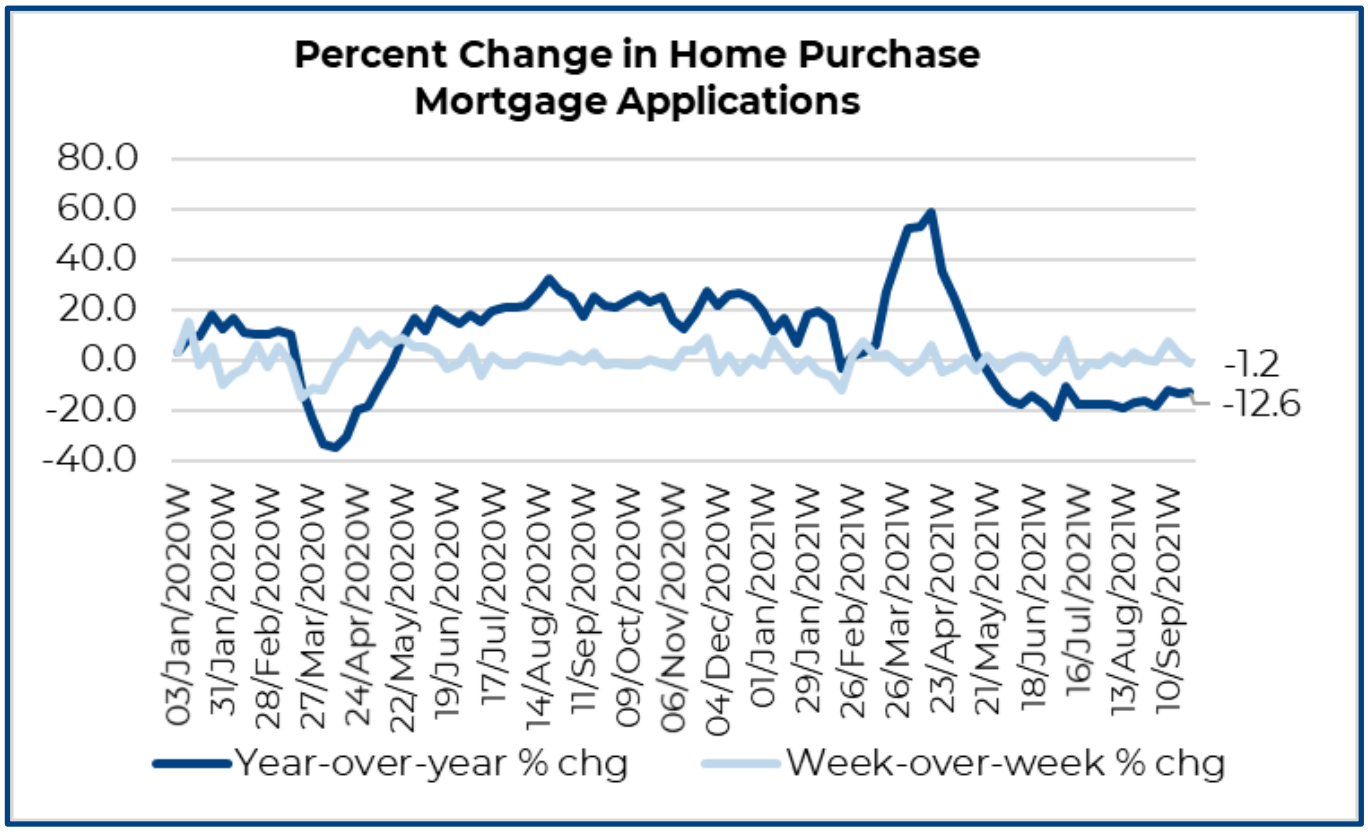
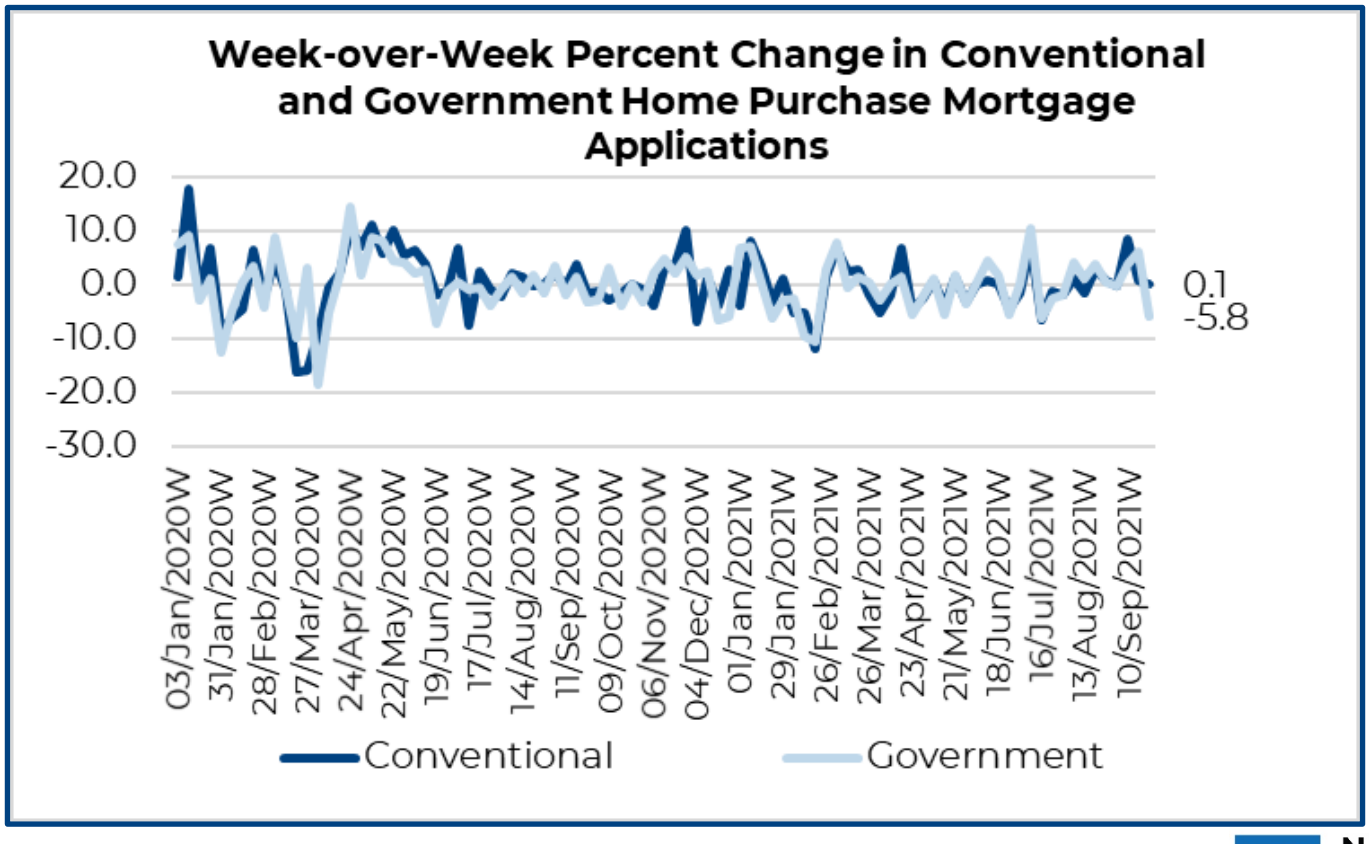
Mortgage Applications Decrease from the Prior Week

Applications for a home purchase decreased 1.2% from the prior week and decreased 13% from one year ago, according to the MBA Weekly Mortgage Applications Survey. Homebuyers could be taking advantage of low mortgage rates before they rise next year as the Fed starts reducing its purchases of securities backed by mortgages.

Applications significantly fell from the prior week by 5.8% for government-insured financing (FHA, VA, USDA) while conventional (includes Fannie Mae/Freddie Mac) financing marginally rose by 0.1%. A high fraction of FHA financing goes to first-time buyers.

Compared to the prior week, refinancing applications also decreased by 0.9%.





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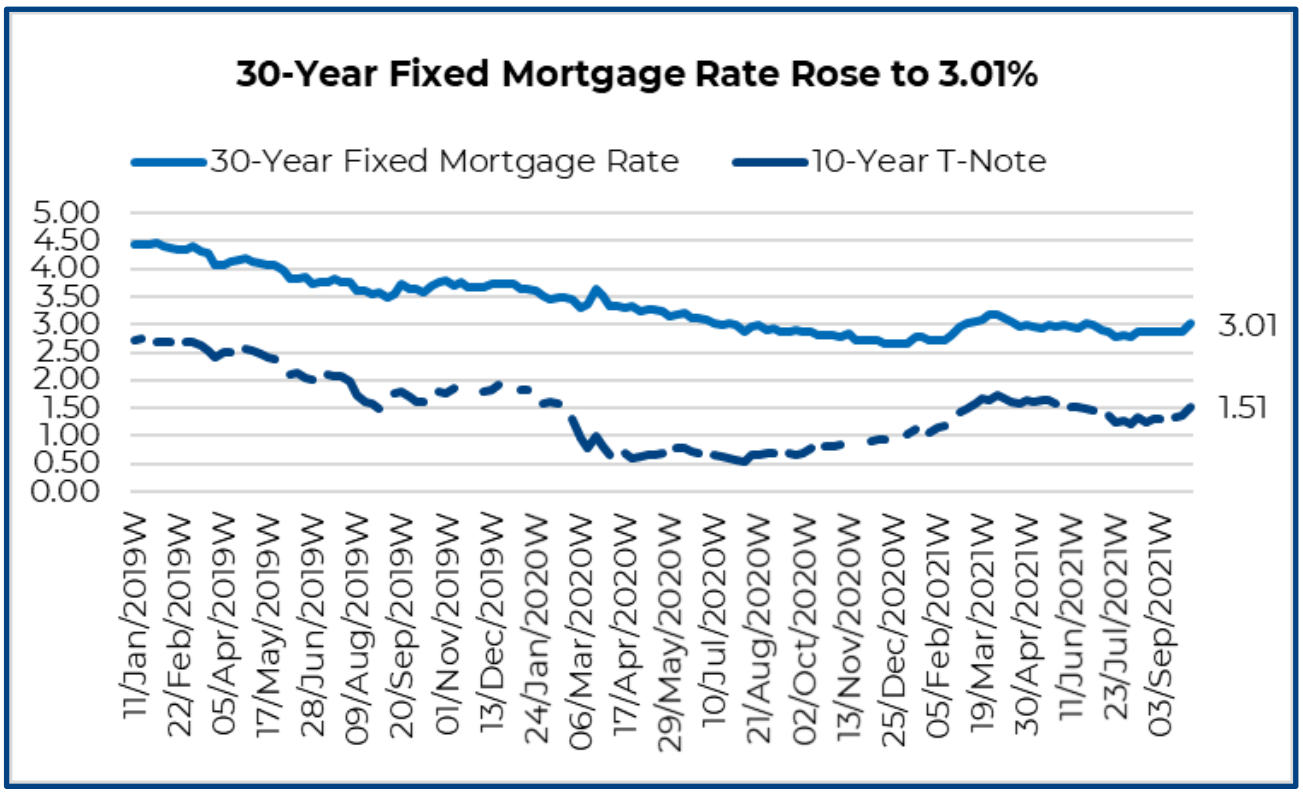
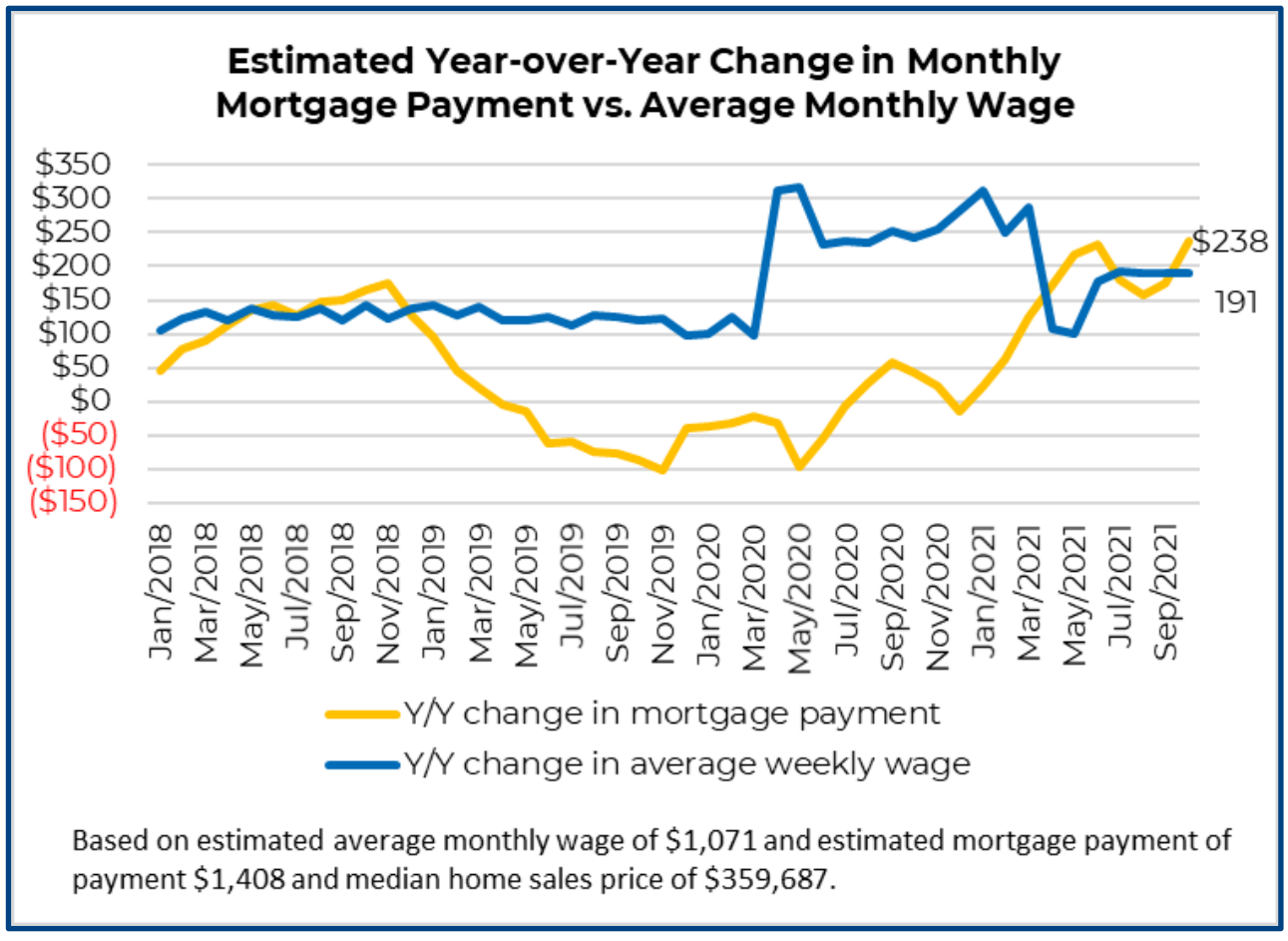
Mortgage Payment Outpace Wage Gains

The 30-year fixed mortgage rate breached the 3% mark again with the rate at 3.01%, following the rise in 10-year T-note to 1.51%.

With higher mortgage rate and home prices, the monthly mortgage payment is estimated at $1,408 (+238 y/y) while the average monthly wage is estimated at $1,071 (+191 y/y).

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%.





Based on estimated average monthly wage of $1,071 and estimated mortgage payment of payment $1,408 and median home sales price of $359,687.

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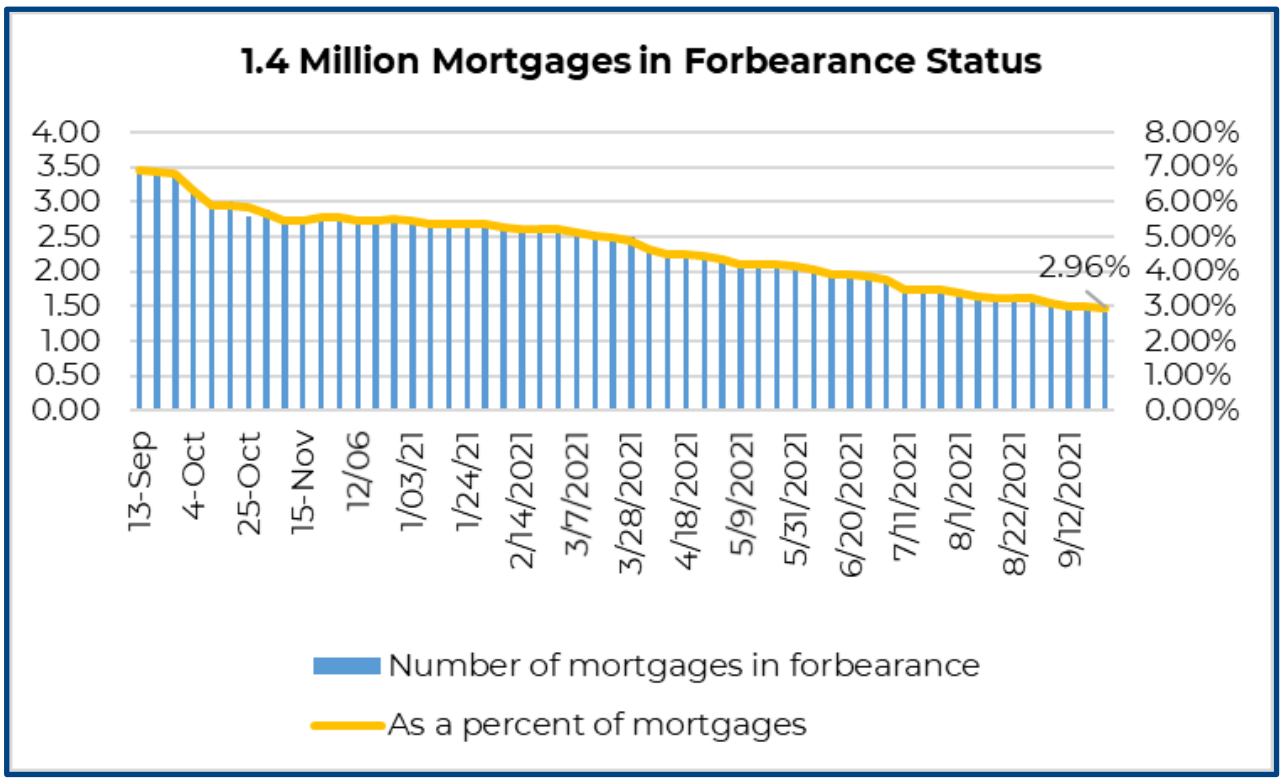
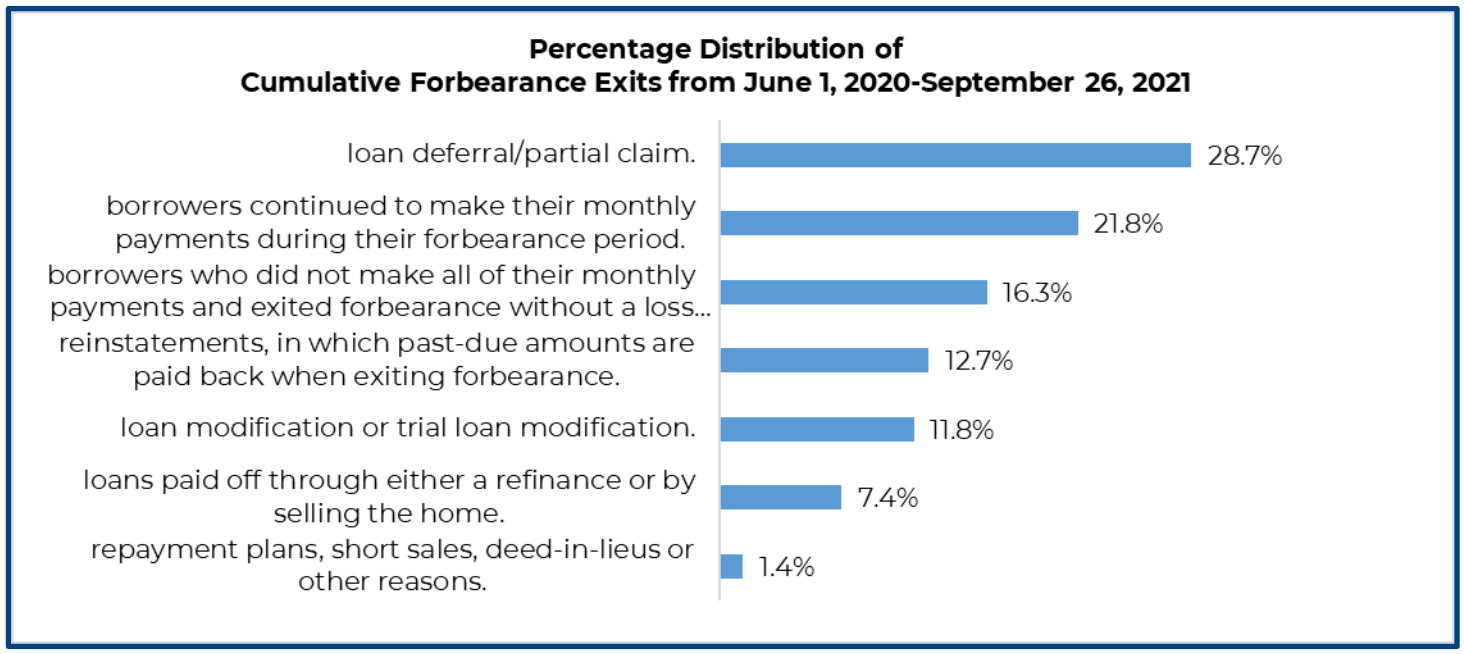
Loans in Forbearance Falls to 2.96% of Mortgages

Loans in forbearance decreased to 2.96% of mortgages which is equivalent to 1.4 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—September 12, 2021, 7.4% 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). With an average of 2.37 million loans in forbearance during September 2020—September 19, 2021, that has added about 175,000 homes for sale during this 12-month period.

However, 16.3% of borrowers have exited forbearance without a loss mitigation in place, which can put these borrowers in distress later on. The mortgages associated with these borrowers is equivalent to one month of the current pace of existing home sales (490,000) which, when sold, will help ease the supply constraint.





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Office Occupancy Rises in 2021 Q3

For the first time, absorption of office space rose in the third quarter of 2021 compared to the prior quarter, with 9 million square feet of net new occupancy. However, since 2020 Q1, 129 million square feet of office space has been given back to the market. The vacancy rate has increased to 12.2% (9.8% in 2020 Q1).

In the multifamily market, the net increase in occupancy was of 932,910, a decade high level. The vacancy rate has fallen to 4.5% (6.7% in 2020 Q1).

In the industrial market, 547.9 million square feet of industrial space absorbed since 2020 Q2. The vacancy rate has declined to 4.6% (5.3% in 2020 Q1).

In the retail property market, 32 million square feet of office space has been absorbed since 2020 Q2. The vacancy rate has declined to 4.7% (4.6% in 2020 Q1) after a slight uptick to 5.1% in 2021 Q1.

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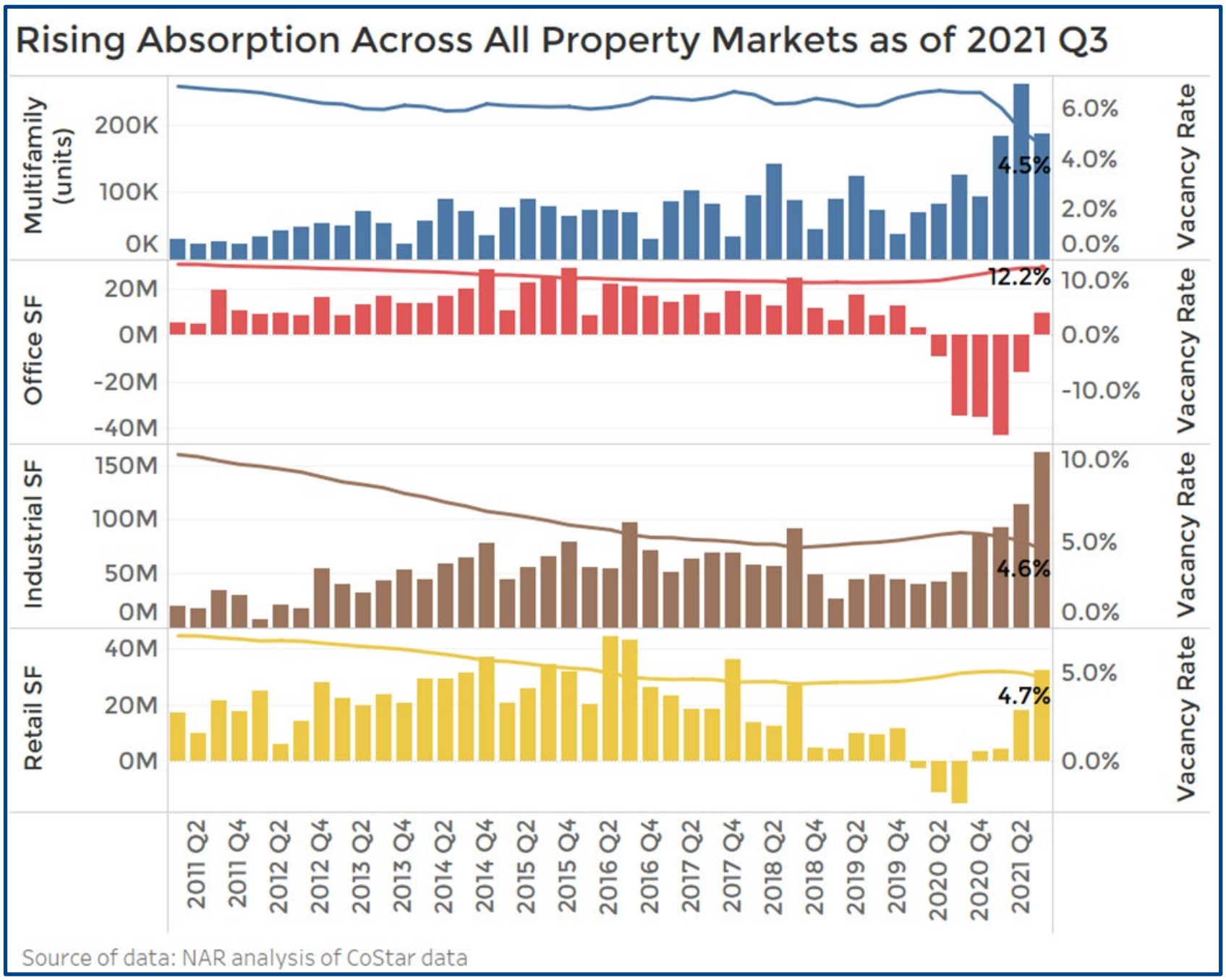

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Strongest Rent Growth in Multifamily Market as of 2021 Q3

With falling vacancy rates, asking rents have increased at the strongest pace in the multifamily market, with the average asking rent per unit up 10.5% from one year ago as of 2021 Q3. 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 was up 1.9%, just a tad lower 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 0.4% compared to the 2.8% rent growth prior to the pandemic.

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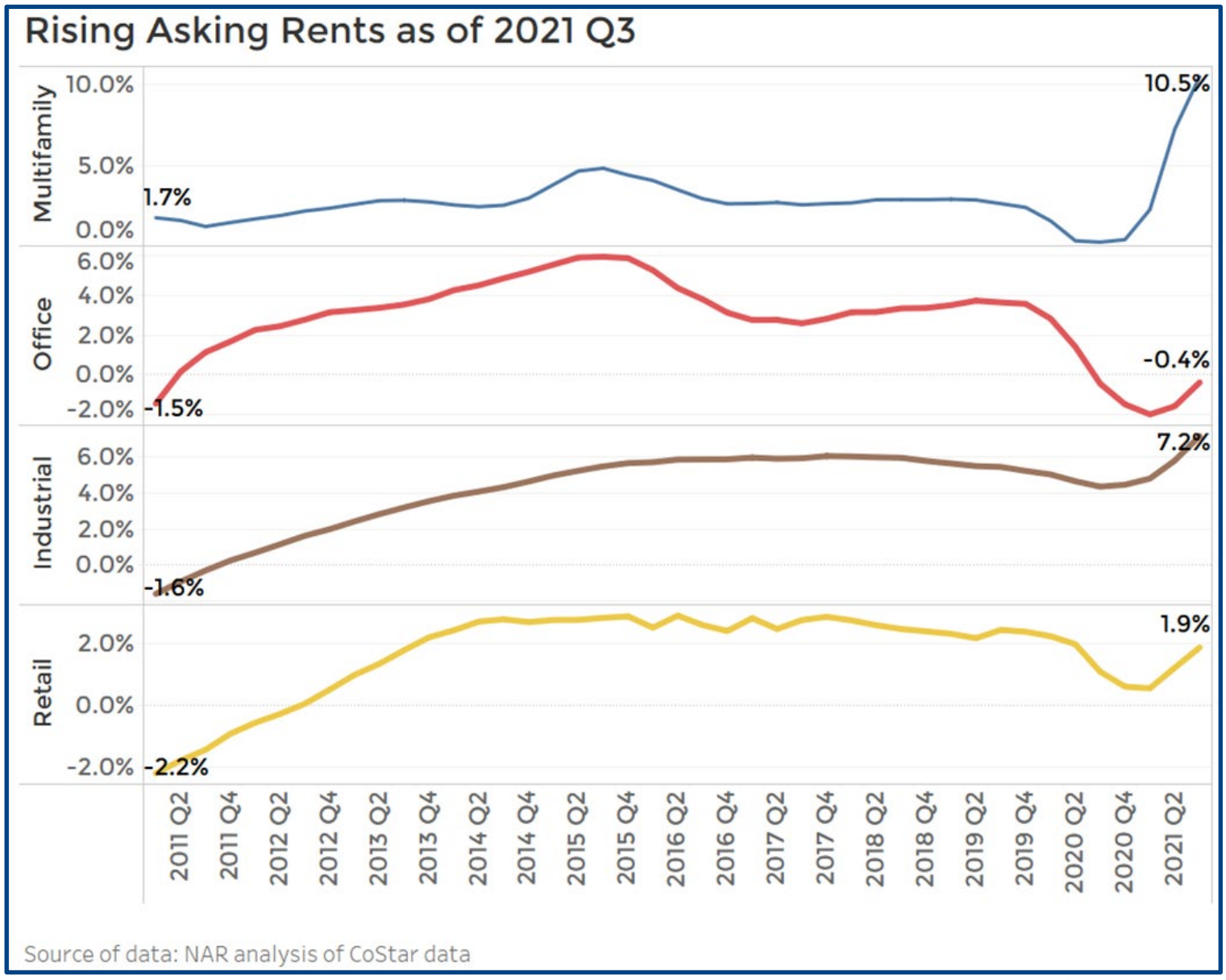

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Industrial Market Posts Strongest Under Construction Activity as of 2021 Q3

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, 140.3 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, 452 million sq. ft. is under construction, equivalent to 3% 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, 49 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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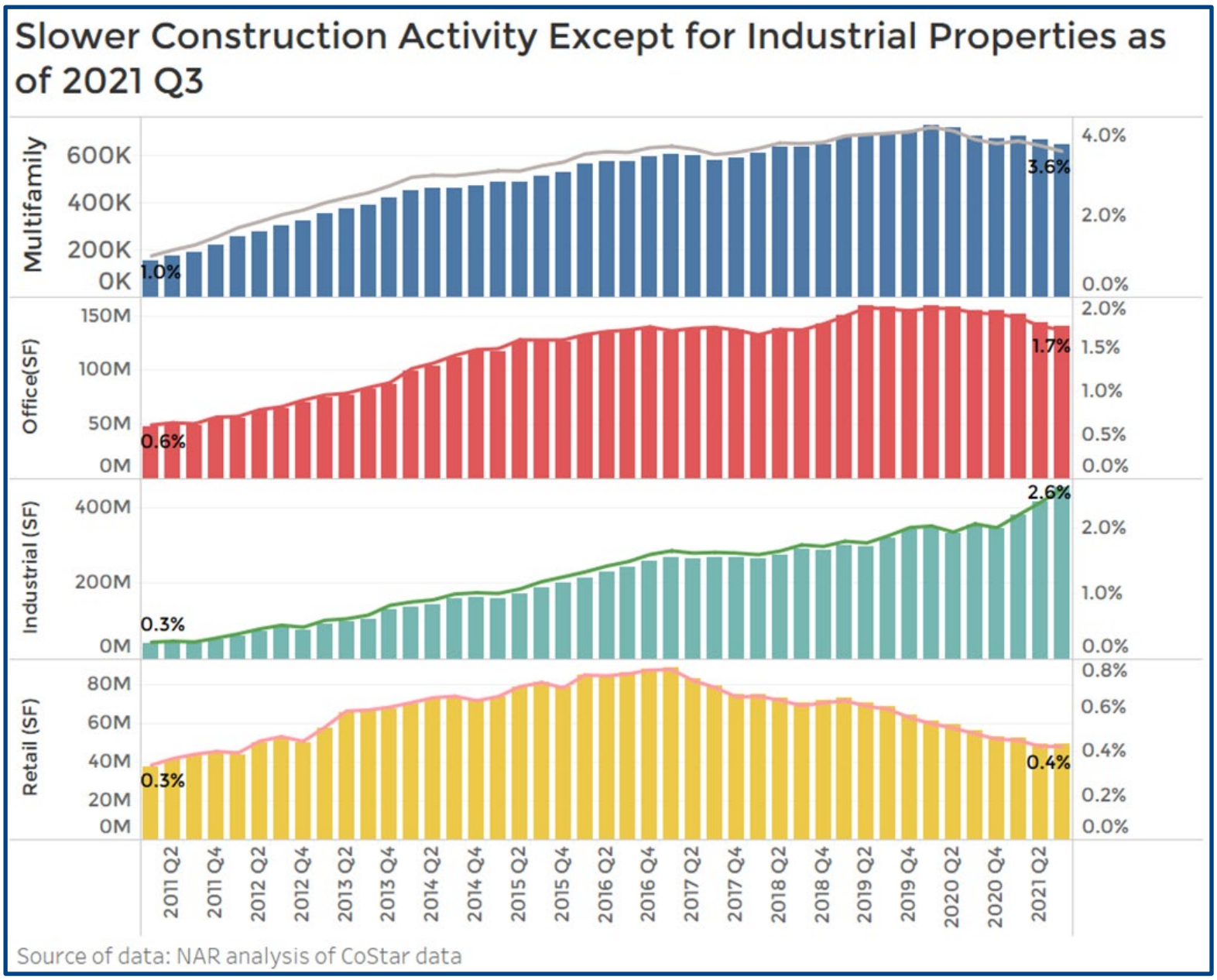

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Commercial Cap Rates Trend Downwards as of 2021 Q3

Cap rates have trended downwards following the decline in 10-year T-note yields as well as due to property market fundamentals.

In the apartment market, cap rates decreased to an average of 5.4% as of 2021 Q3 (5.9% in 2020 Q1).

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

In the industrial market, cap rates have dropped to 6.4%, the largest decline compared to the pre-pandemic level (7.1% in 2020 Q1).

In the retail market, cap rates are down to 6.4% (6.7% in 2020 Q1).

NAR expects the 10-year T-note to rise to rise by 0.5 percentage points in 2022.

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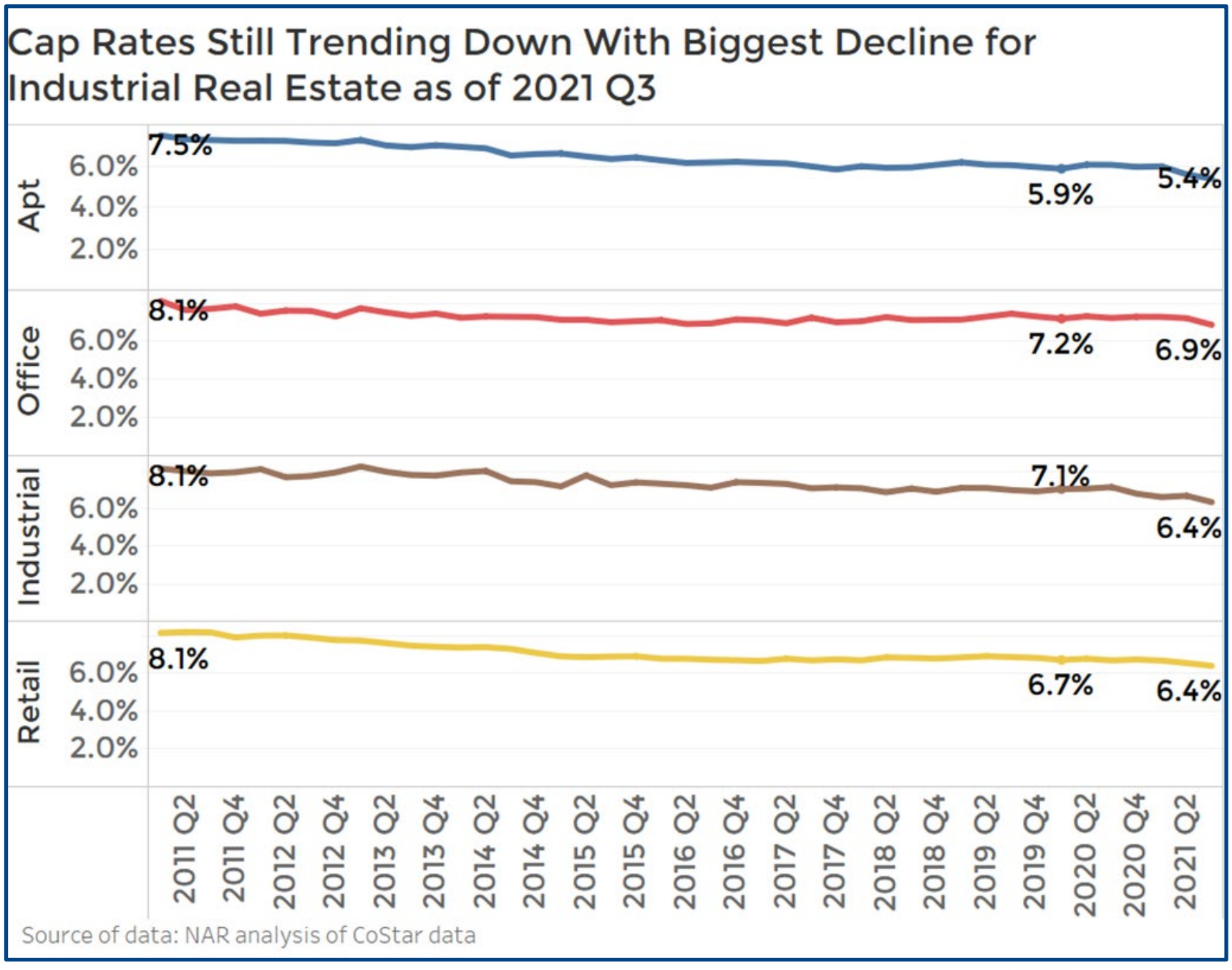

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