2021

Weekly Real Estate Monitor

Residential and Commercial Markets

November 01-04

National Association of REALTORS® Research Group

NATIONAL ASSOCIATION OF REALTORS®

Weekly Real Estate Monitor

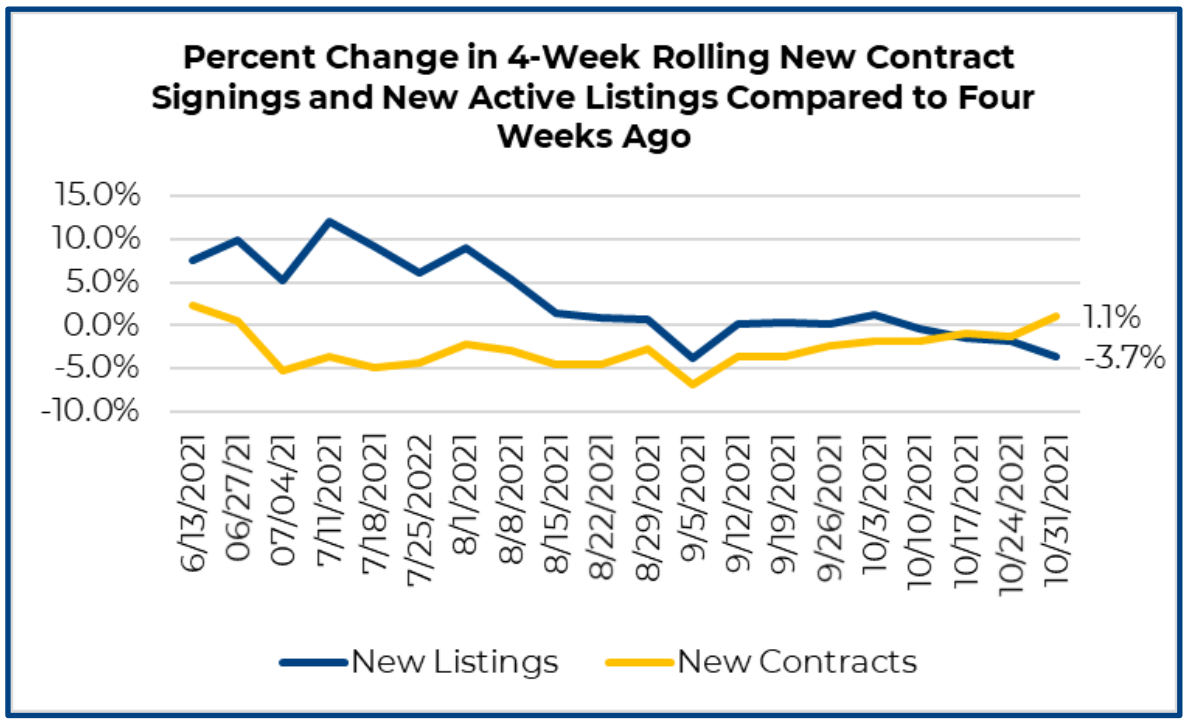
Uptick in Contract Signings

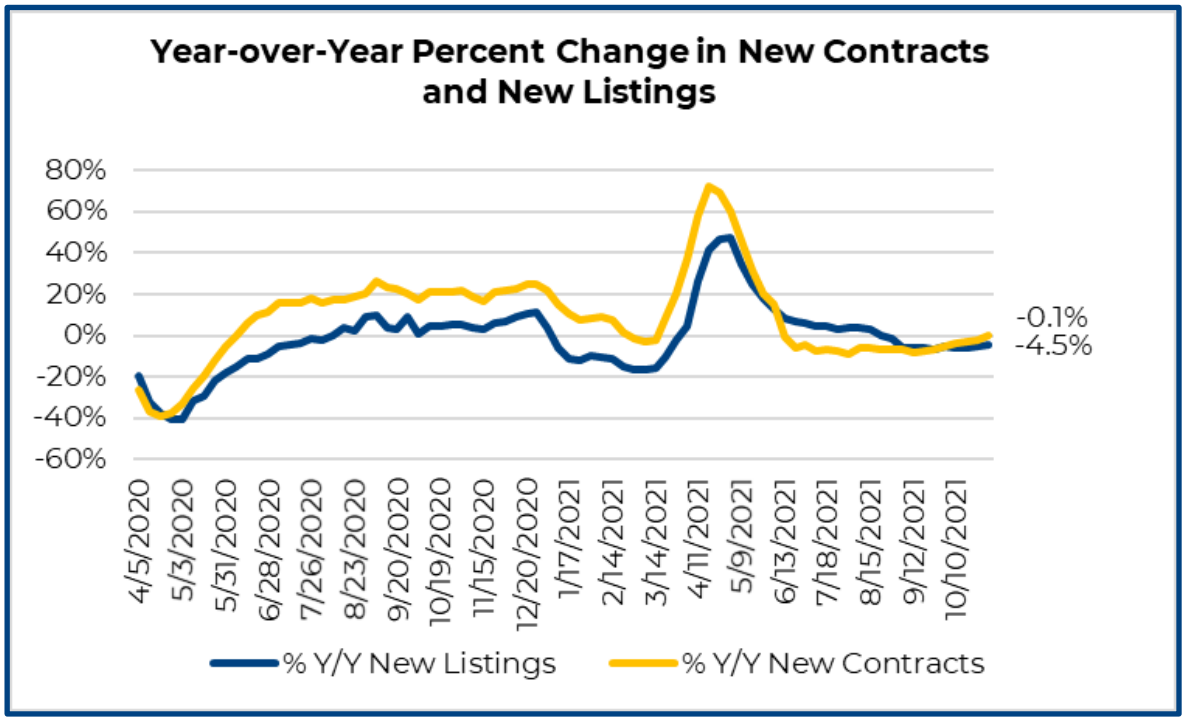
Preliminary data indicates that contracts signings (pending sales) rose 1.1% compared to the rolling 4-week level of contract signings four weeks ago (prior month).* The uptick in pending sales in October when sales are usually slower due to seasonal effects could be due to buyers trying to beat the further increase in mortgage rates.

However, new listings fell 3.7% compared to the rolling 4-week level four weeks ago (prior month).

Compared to one year ago, both pending sales and new listings were lower, with bigger declines in new listings (-4.5%) compared to pending sales (-0.1%). Pending sales were abnormally high last year as the pandemic shifted market activity in the second half of the year.

The inventory (stock) of pending listings was down 4% year-over-year while the inventory (stock) of active listings was down 19%.





*The 4-week rolling period in the current month won't exactly end on the same day one month ago.

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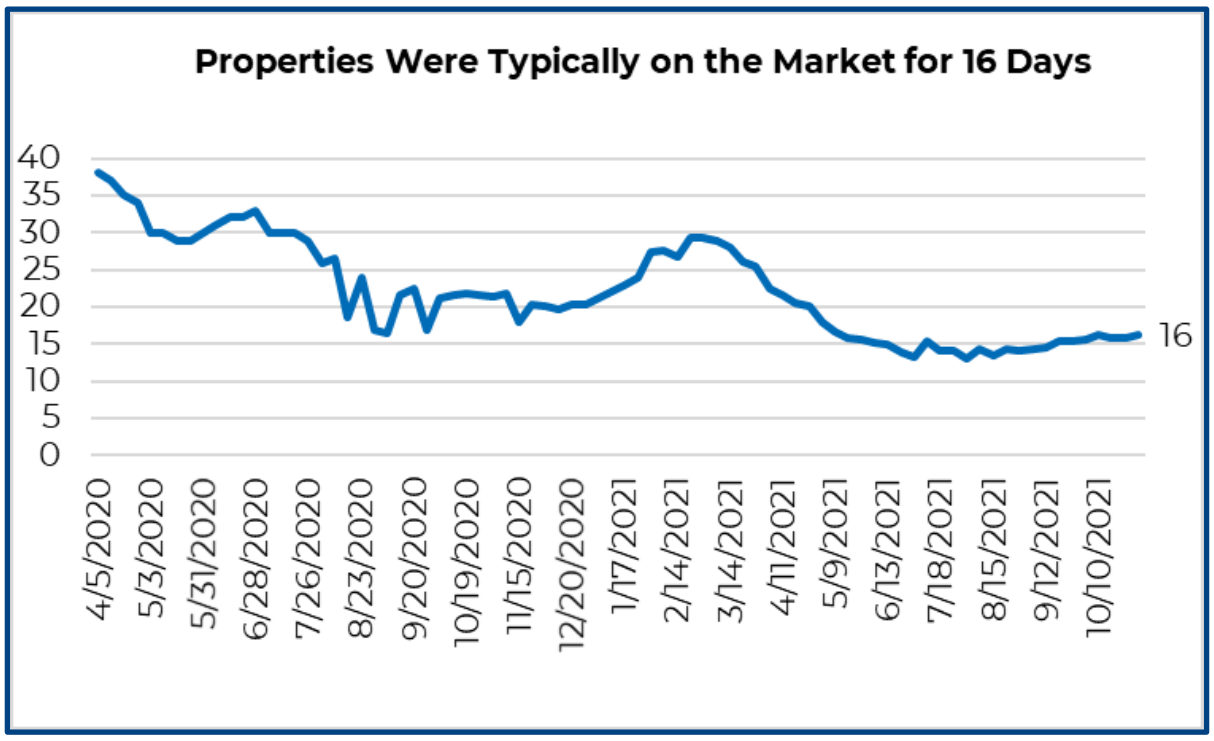
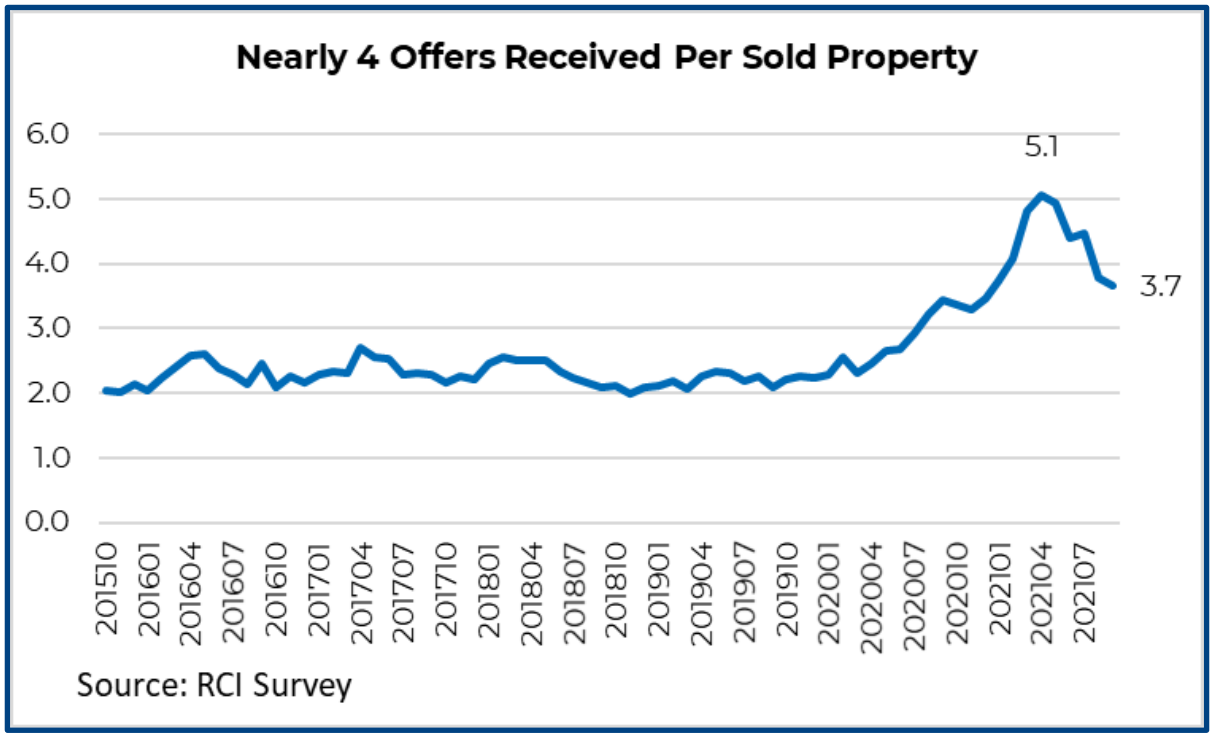
Properties Continue to Sell Quickly Amid Tight Inventory Conditions

Preliminary data indicates that contracts signings (pending sales) in the 4-week period ended October 24 were down 1.2% compared to the rolling 4-week level of contract signings four weeks ago (prior month). *

New listings in the past 4-week period were also down about 2% compared to the prior month and lower by 5% from one year ago. The decline in pending sales reflects the seasonal decline in the fall months compared to the summer months and the normalization of sales from the surge in sales in the second half of 2020 that followed a pandemic-induced slump in April-June (home sales in October are 2% higher than the 12-month average compared to about 20% in July).

The inventory (stock) of pending listings was down 7% year-over-year while the inventory (stock) of active listings was down 19%.





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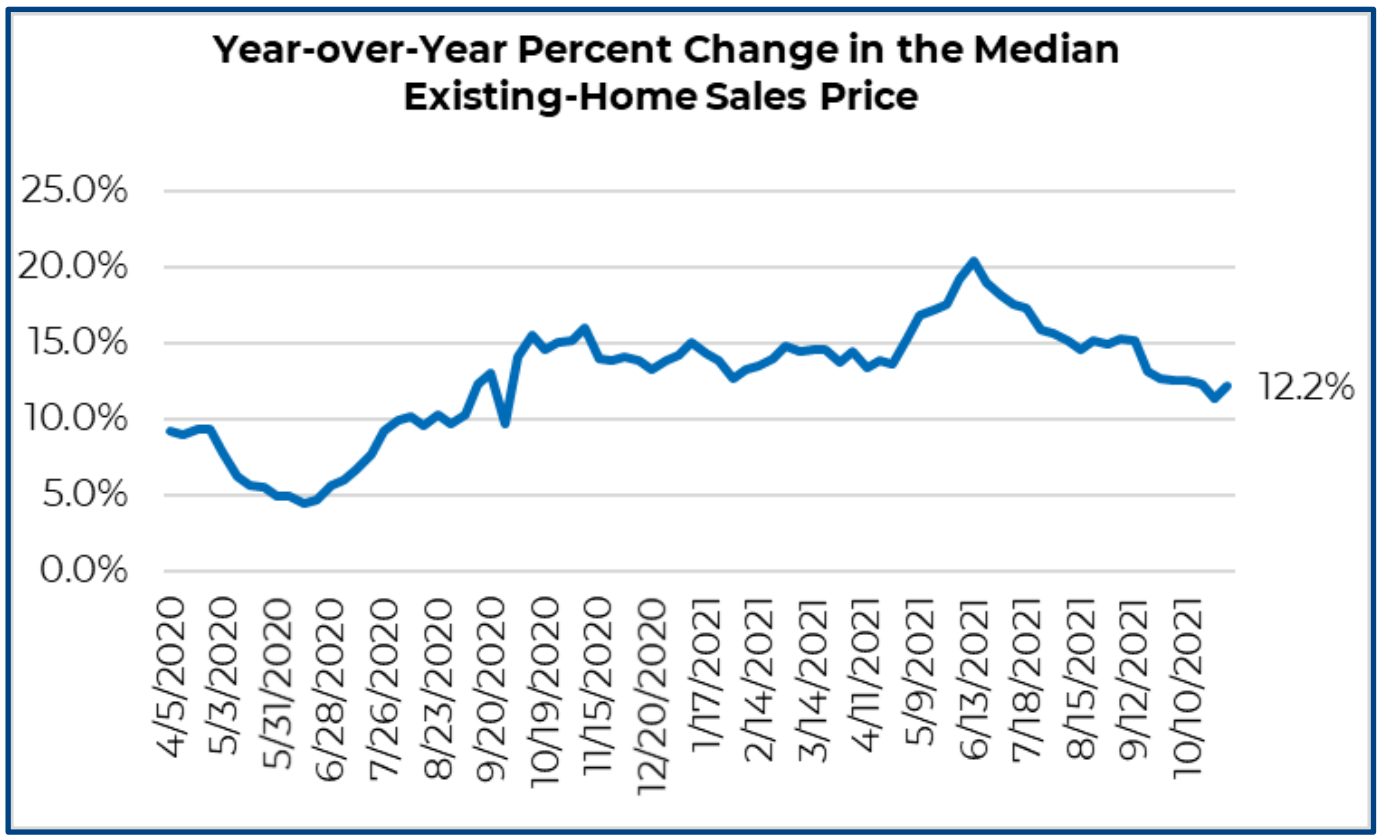
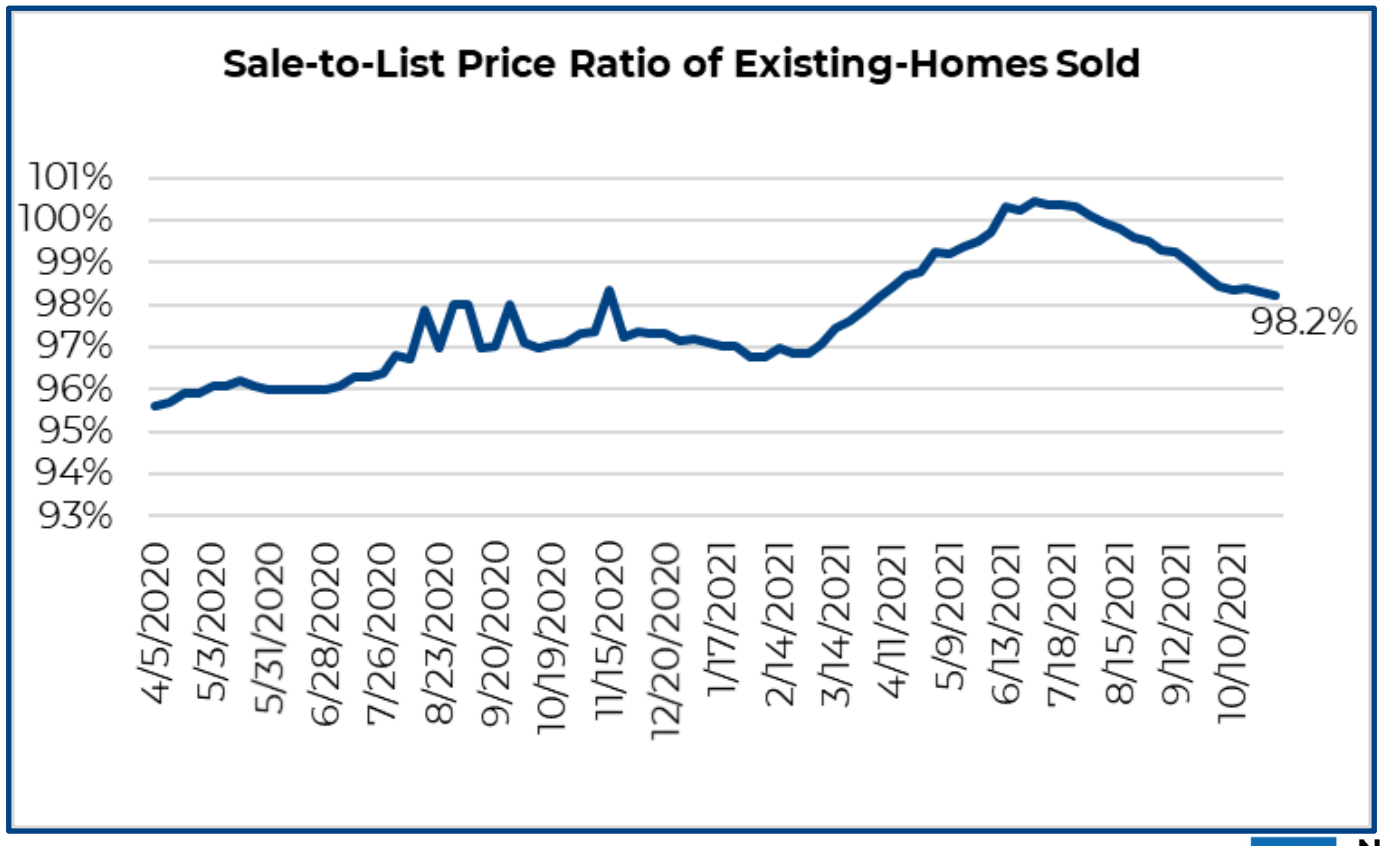
Median Existing-Home Sales Price Rose 12%

Preliminary data indicates that the median existing-home sales price rose 12% year-over-year. This is a slower pace compared to past months when the median existing-home sales price rose to a historic high of 23.6% in May 2021. In September, the median sales price rose 13.3%.

Buyers are starting to get some bargains, with the sales-to-list price ratio at 98.2% after trending at over 100% this summer.

NAR Chief Economist Lawrence Yun expects existing-home sales prices to rise at a slower pace of 2.8% in 2022 and new home sales price to increase 4.4% in 2022 as demand eases due to higher mortgage rates.





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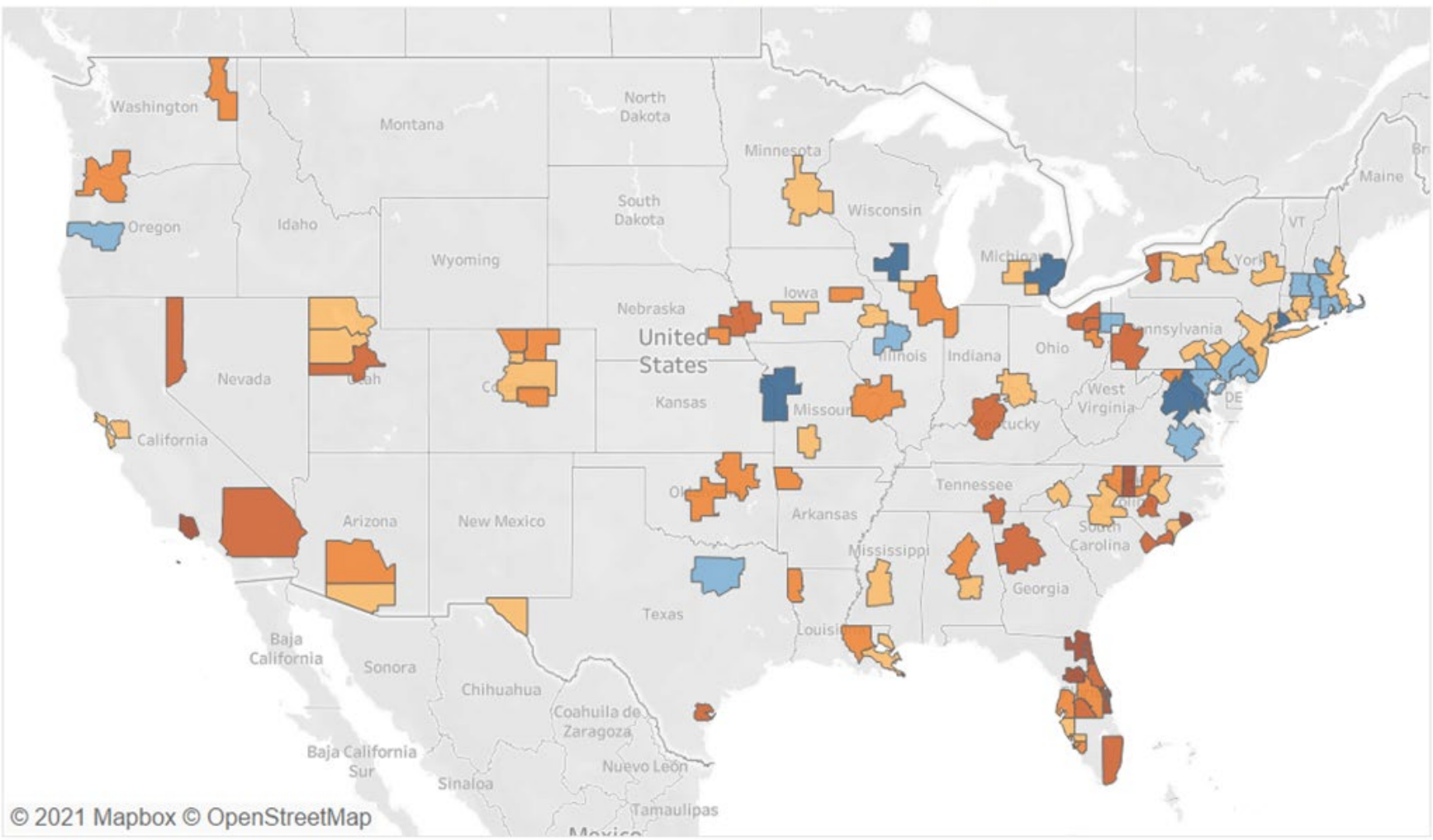
81% of 101 Tracked Metros Have "Stronger" Conditions Compared to One Year Ago

81% of 101 tracked markets had stronger conditions compared to one year ago (81% in the prior 4-week period) based on the NAR Metro Housing Market Index. Nineteen markets had an index less than 50. The median value of the metro-level indices was 57.1.
Six metro areas had an index of 100: Palm Bay-Melbourne-Titusville, Florida; Jacksonville, Florida; Ocala, Florida; Jacksonville; North Carolina; Greensboro-High Point, North Carolina; and Oxnard-Thousand Oaks-Ventura, California.

The NAR Metro Housing Market Index for each metro area is compiled from seven indicators: sales, listings, new contracts, sale price, list price, sale to list price, and median days on market. An index above 50 means a market has "stronger" conditions compared to one year ago.

NAR Metro Housing Market Index
Conditions during the 4-week period ended October 31 are stronger in 81 out of 101 metro areas (Median = 57.1)



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

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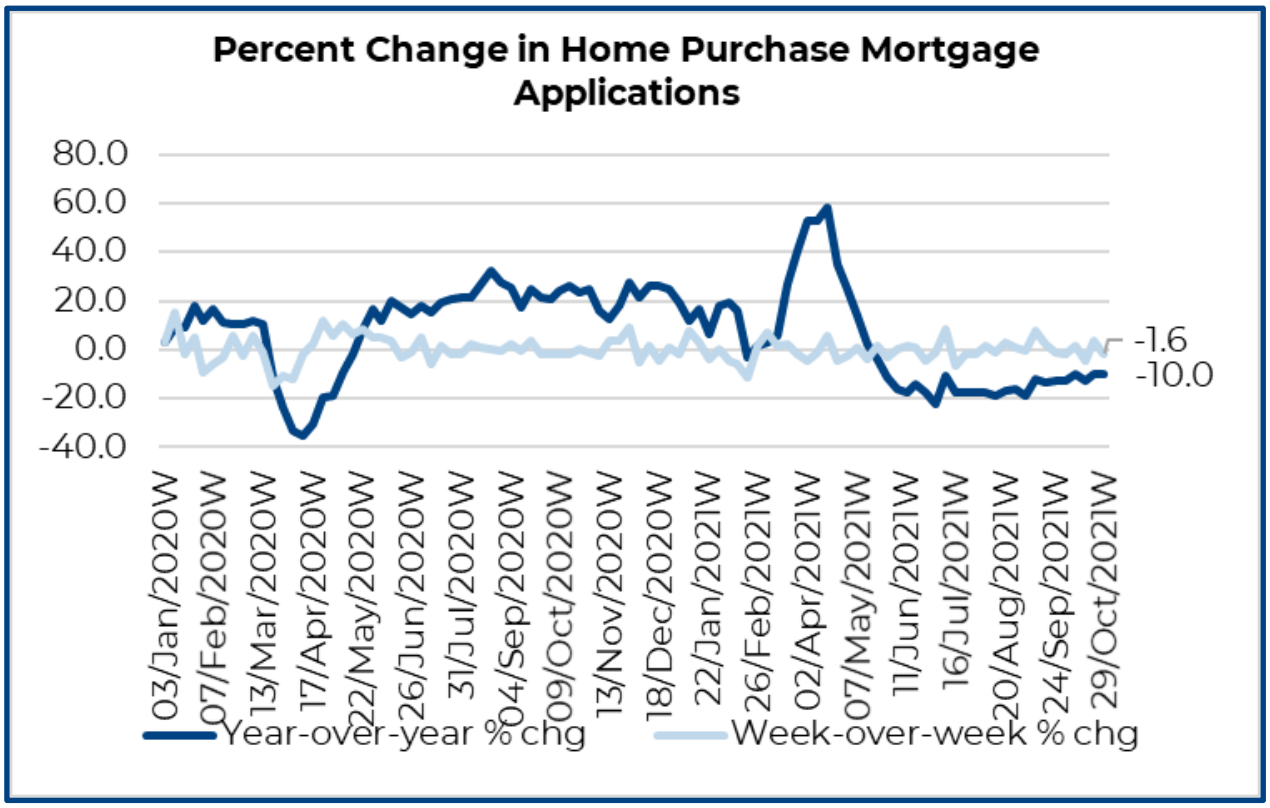
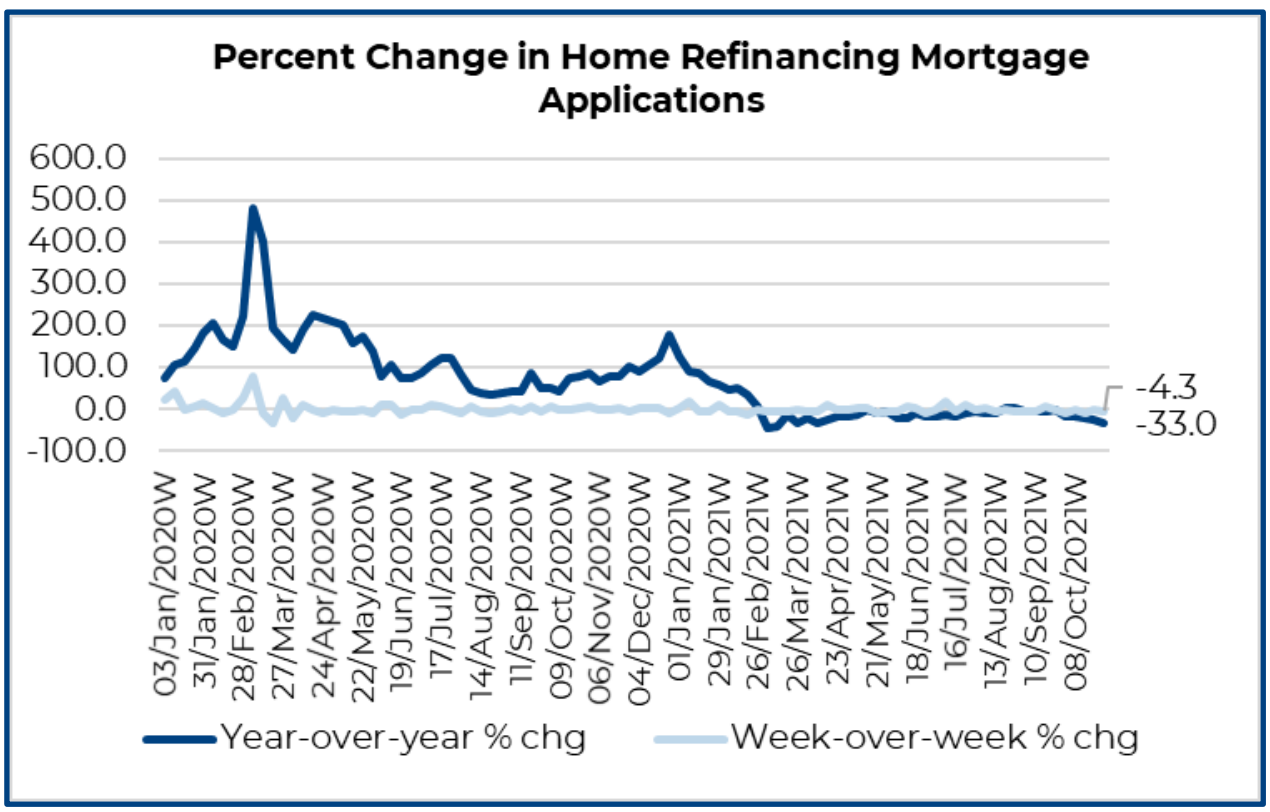
Mortgage Applications Decrease

Applications for a home purchase decreased 1.6% from the prior week and 10% from one year ago, according to the MBA Weekly Mortgage Applications Survey. Given the volatility of weekly mortgage applications data and the modest changes, mortgage applications are essentially unchanged from the prior week.

Conventional financing (includes Fannie Mae/Freddie Mac conforming loans) purchase applications decreased 1.3% from the prior week and government-insured financing (FHA, VA, USDA) also decreased 2.8%.

With mortgage rates rising, refinancing applications decreased by 4.3% from the prior week. Due to lower volume of refinancing, mortgage originators could offer better mortgage rates to borrowers to increase their business as refinancing transactions decline.





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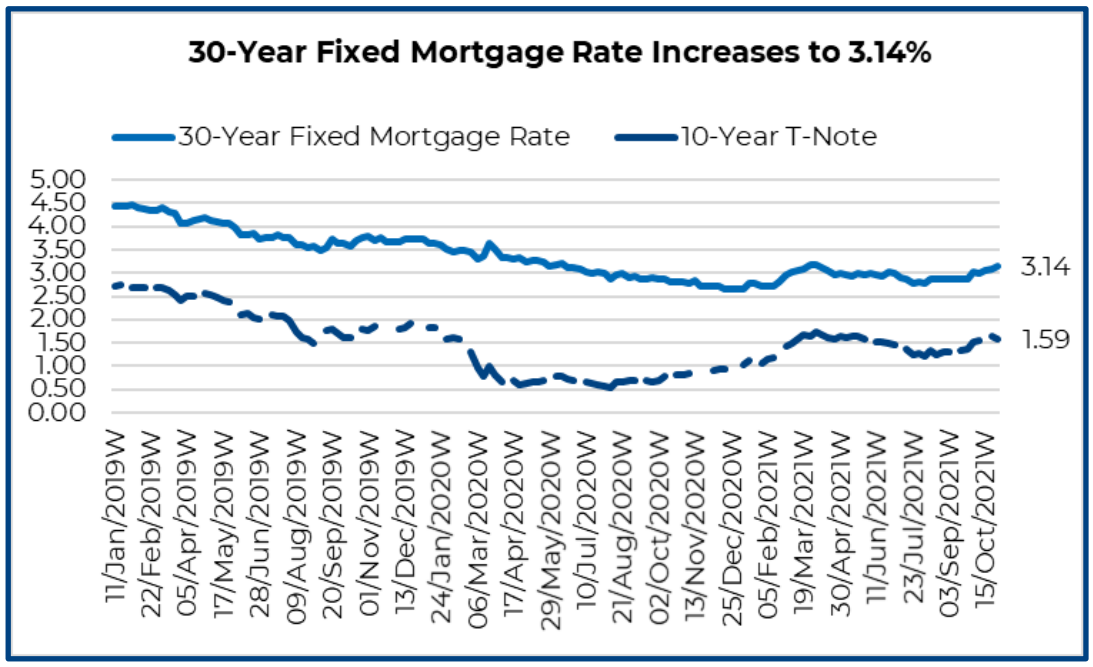
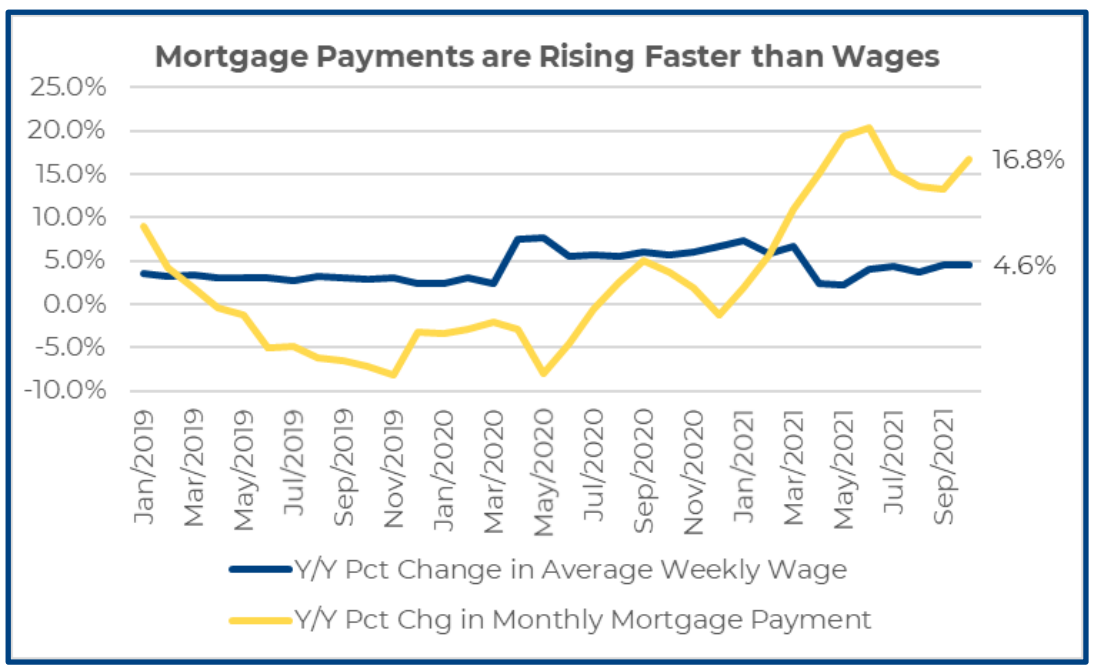
Mortgage Rate Rose to 3.14% with Mortgage Payment Outpacing Wage

The 30-year fixed mortgage rate further rose for the third straight week to 3.14% during the week of October 29, the highest rate since April 2020. Mortgage rates have been rising as investors continue to factor in October's 5.4% inflation rate and the Federal Reserve Board statement that it could start tapering its purchases of Treasuries and mortgage backed-securities in the fourth quarter of 2021. *

Mortgage payments have increased at a faster pace than wages, making a home purchase less affordable. The monthly mortgage payment on a 30-year fixed rate mortgage with 10% downpayment is estimated at $1,367 during the week of October 29, a year-over-year increase of 17% ($197 monthly). The average weekly wage is estimated to have increased to $1,074, a year-over-year increase of 4.6% ($204 monthly).

NAR Chief Economist Lawrence Yun expects the 30-year fixed mortgage rate to increase to 3.5% in 2022 as the Federal Reserve Boards reduces its purchases of mortgage-backed securities and increases the federal funds rate by 0.25 basis points to bring down inflation towards 2%.





*Minutes of the Federal Open Market Committee September 21-22, 2021; https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20210922.pdf

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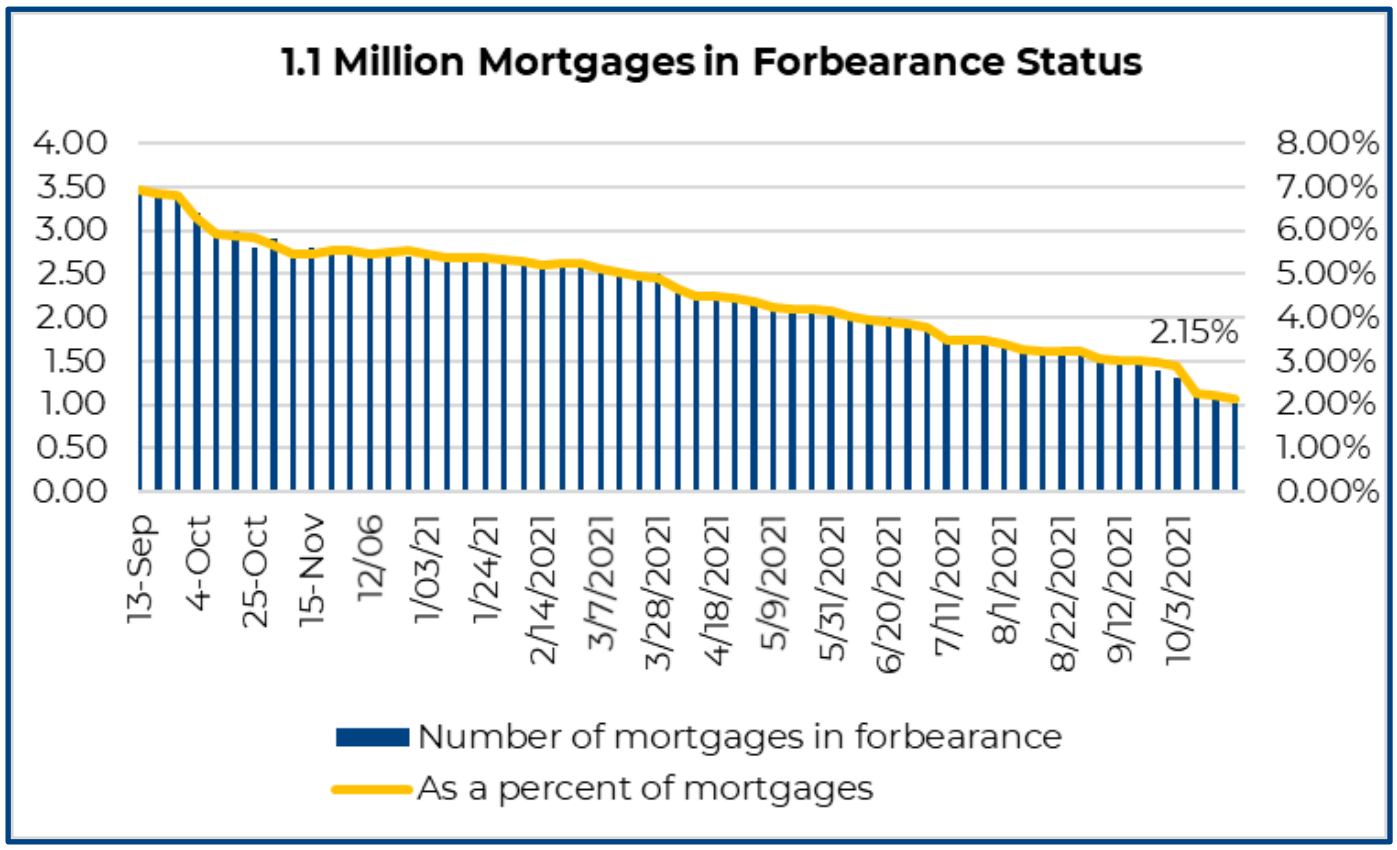
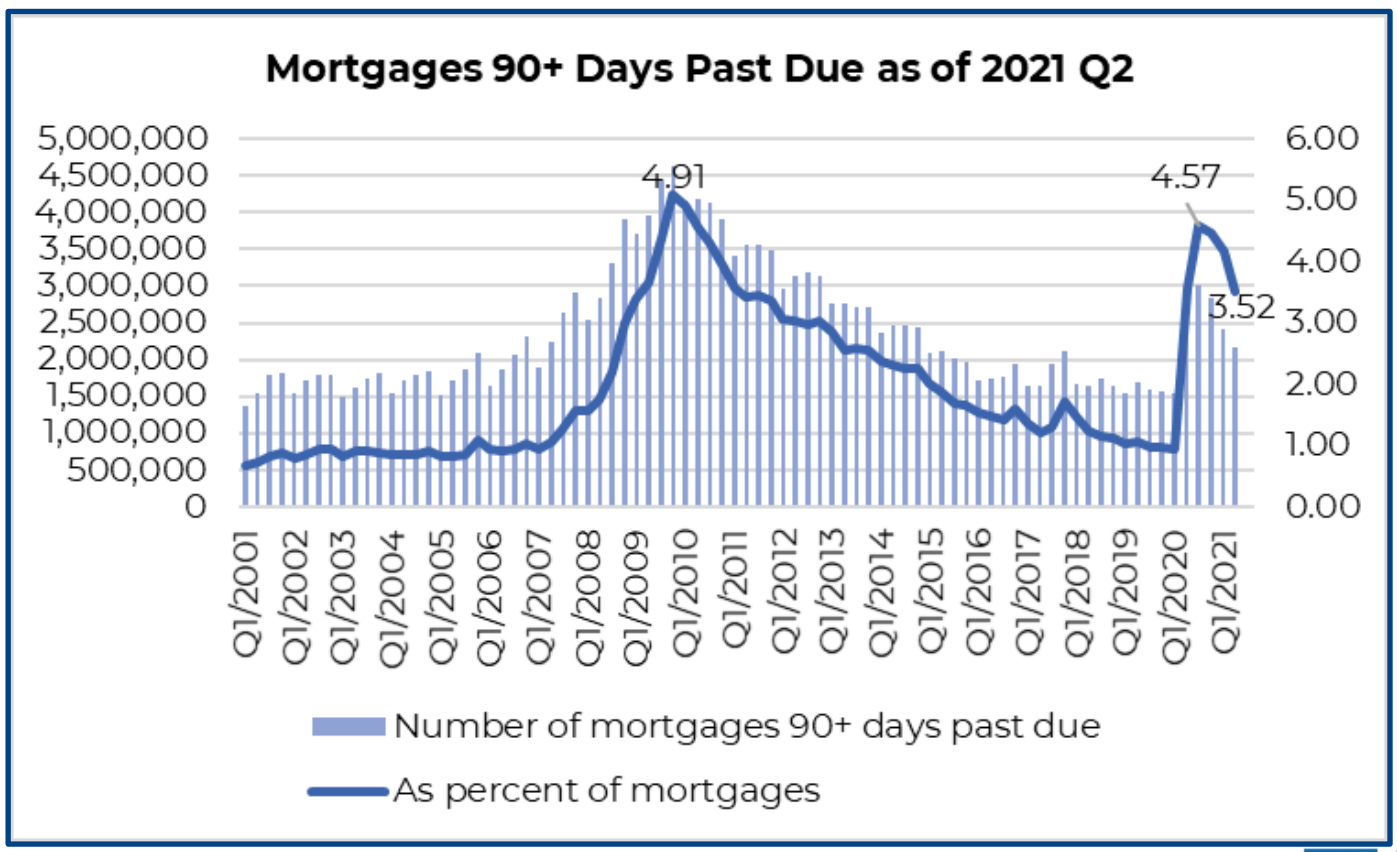
Percent of Loans in Forbearance Declines to 2.15%

Loans in forbearance decreased to 2.15% of mortgages which is equivalent to 1.1 million mortgages, according to the MBA.

Most distressed borrowers are working out payment options with lenders to keep their homes, with 74.9% of homeowners in forbearance having a loss mitigation plan and only 8.3% selling their home.

Mortgages that are past due are also declining. As of the second quarter of 2021, 3.5% of mortgages are over 90 days past due (2.18 million), down from 4.57% one year ago. The peak rate was during the Great Recession when over 90 days past due rose to 4.91% of mortgages outstanding.





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Occupancy Increases Across Commercial Real Estate Markets

The commercial real estate market continues to recover, marked by rising occupancy across all core commercial property markets.

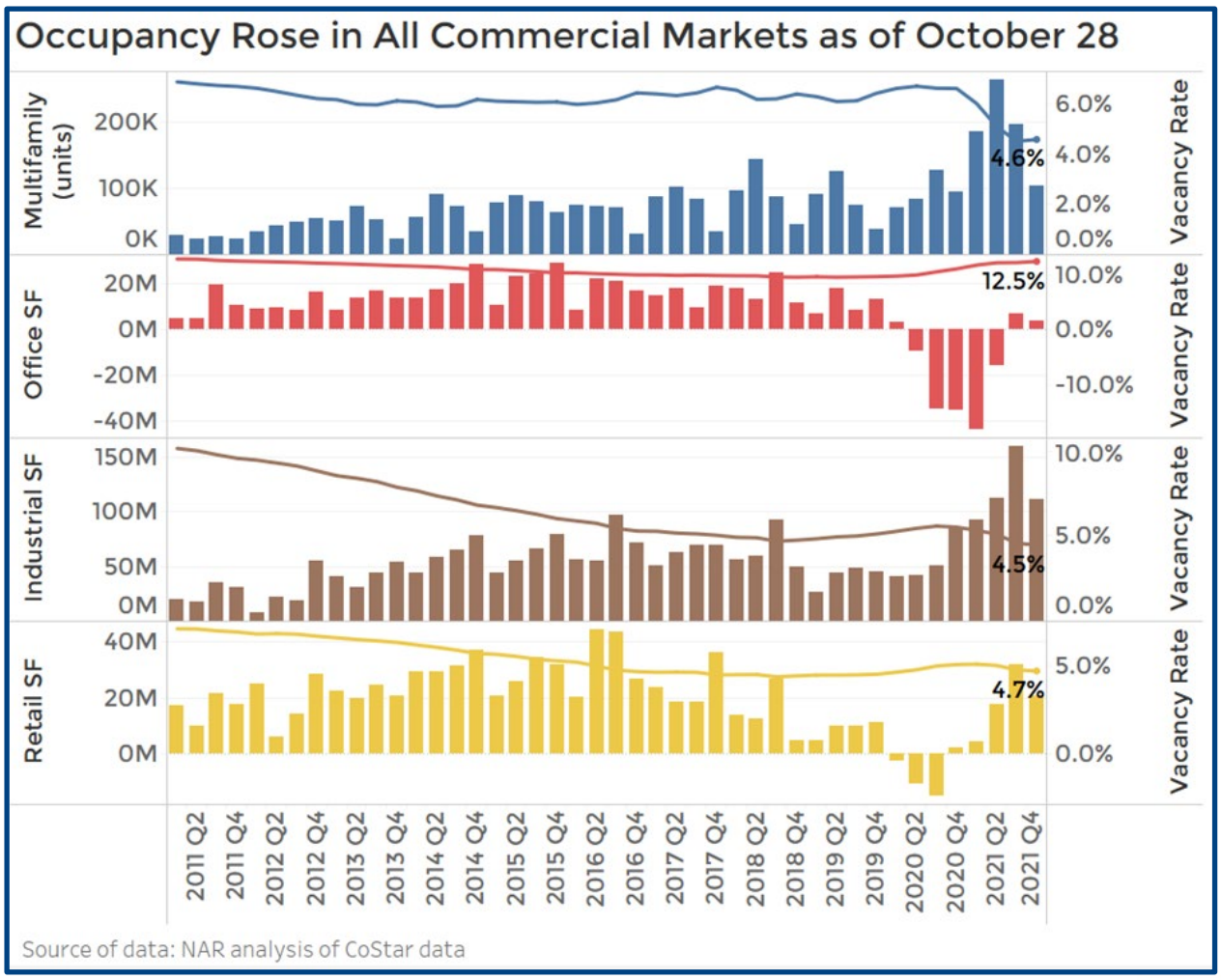
In the multifamily market, occupancy increased by 102,596 units as of October 28 compared to three months ago, with a total increase in units occupied by 1.05 million units since 2020 Q2. The vacancy rate is at 4.6% (6.7% in 2020 Q1).

Office occupancy increased by 3.8 million square feet as of October 28 compared to three months ago after a quarterly increase of 7 million square feet in the third quarter. However, compared to the pre-pandemic level, 127 million square feet has been given up (negative absorption) from 2020 Q2 through October 28. The vacancy rate is at 12.5% (9.8% in 2020 Q1).

In the industrial market, occupancy increased by 111.4 million square feet as of October 28 compared to three months ago, with a total of 654 million square feet of industrial space absorbed since 2020 Q2. The vacancy rate has fallen to 4.5% (5.3% in 2020 Q1), the lowest rate among the core commercial markets.

In the retail property market, 20.6 million square feet became occupied as of October 28 compared to three months ago, with 51.2 million square feet absorbed since 2020 Q2. The vacancy rate is at 4.7% (4.6% in 2020 Q1).

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



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Multifamily Rent Growth Up 11.2%

Multifamily asking rents continue to increase at a double-digit pace of 11.2% year-over-year. Prior to the pandemic in 2020 Q1, the average asking rent growth was just 1.6%. Higher demand due to rising mortgage rates and lower construction activity will likely keep rents elevated in 2022, according to a Commercial Weekly analysis for this market.

In the office market, rent growth finally turned flat after rents declined in 2020 Q3. In 2020 Q1, rents rose 2.9% on a year-over-year basis.

In the industrial property market, the average asking rent per square foot rose to 7.6%, also higher than the 5.1% 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 2.7%, which is higher than the 2.3% pre-pandemic rent growth.

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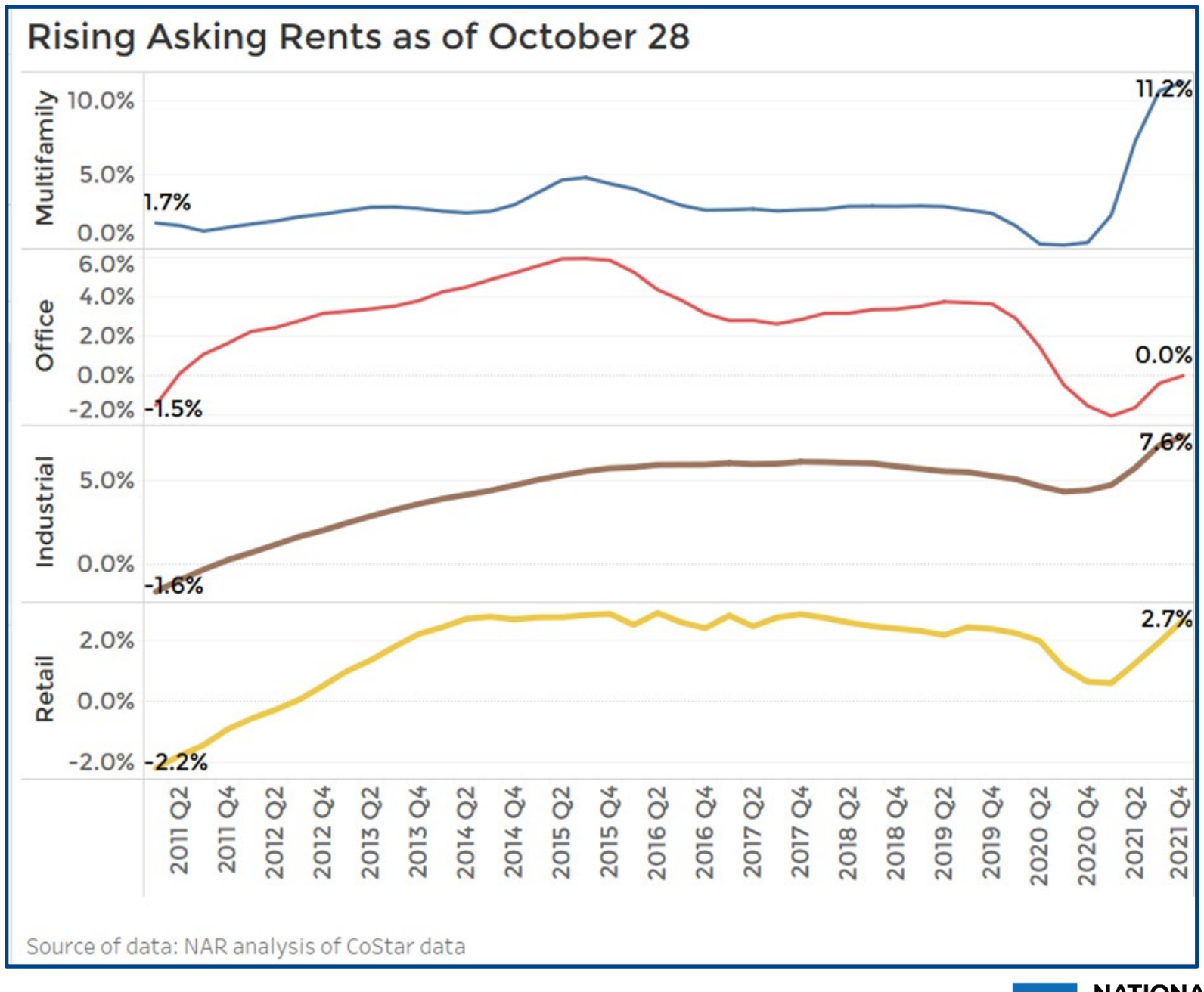

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Median Commercial Cap Rates Decline

Median cap rates (net operating income/price) declined or stayed stable across commercial markets despite rising 10-year T-note yields. Lower cap rates mean higher price valuations for the property.
In the multifamily market, the median cap rate in the past months of October 28 slightly fell to 5% (5.9% in 2020 Q1).

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

In the industrial market, the median cap rate held at 6.5% (7.1% in 2020 Q1).

In the retail market, the median cap rate held at 6.0% (6.7% in 2020 Q1).

The median cap rates have trended downwards even as the 10-year T-note has been trending up since January 2021 (1.65% as of October 22 from 1.03% as of January 3), which indicates that investors are buying quality assets and that commercial sales transactions prices are rising.

NAR Chief Economist Lawrence Yun expects the 10-year T-note to increase by 0.5 percentage points from 1.5% in 2021 to 2.0% in 2022.

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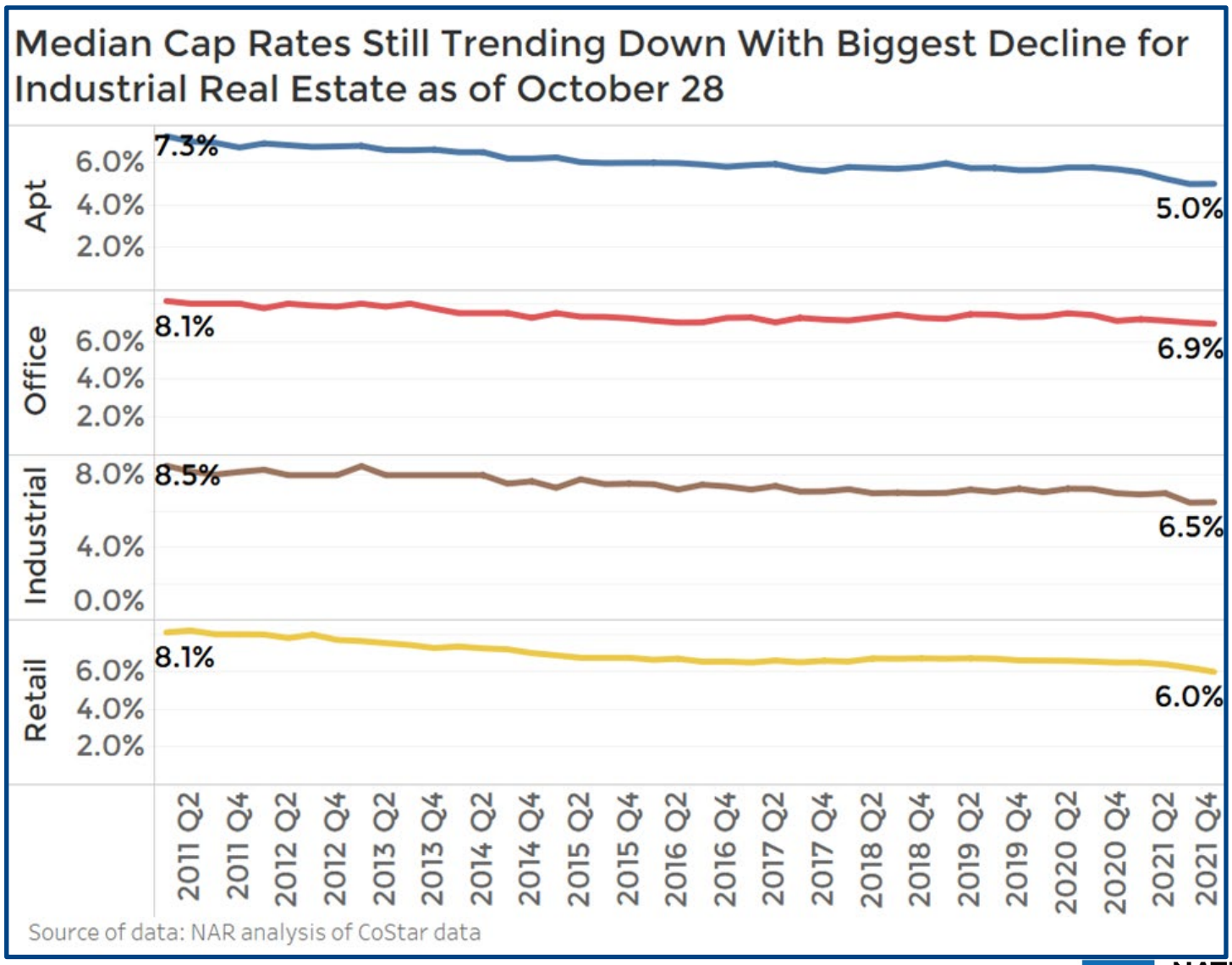

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Commercial Sales Transactions Falter in 2021 Q3

While market fundamentals (rising absorption, rising rents, rising valuations) are improving, investors surprisingly retreated in the third quarter of 2021 with the four-quarter dollar volume of sales transactions declining in 2021 Q3 compared to 2021 Q2 in all markets.

In the office market, investors could be concerned about the long-run effect of rising Delta variant cases on working from home and the demand for office space.

Sales deals are likely to pick up in the coming quarters due to strong market fundamentals across all markets.

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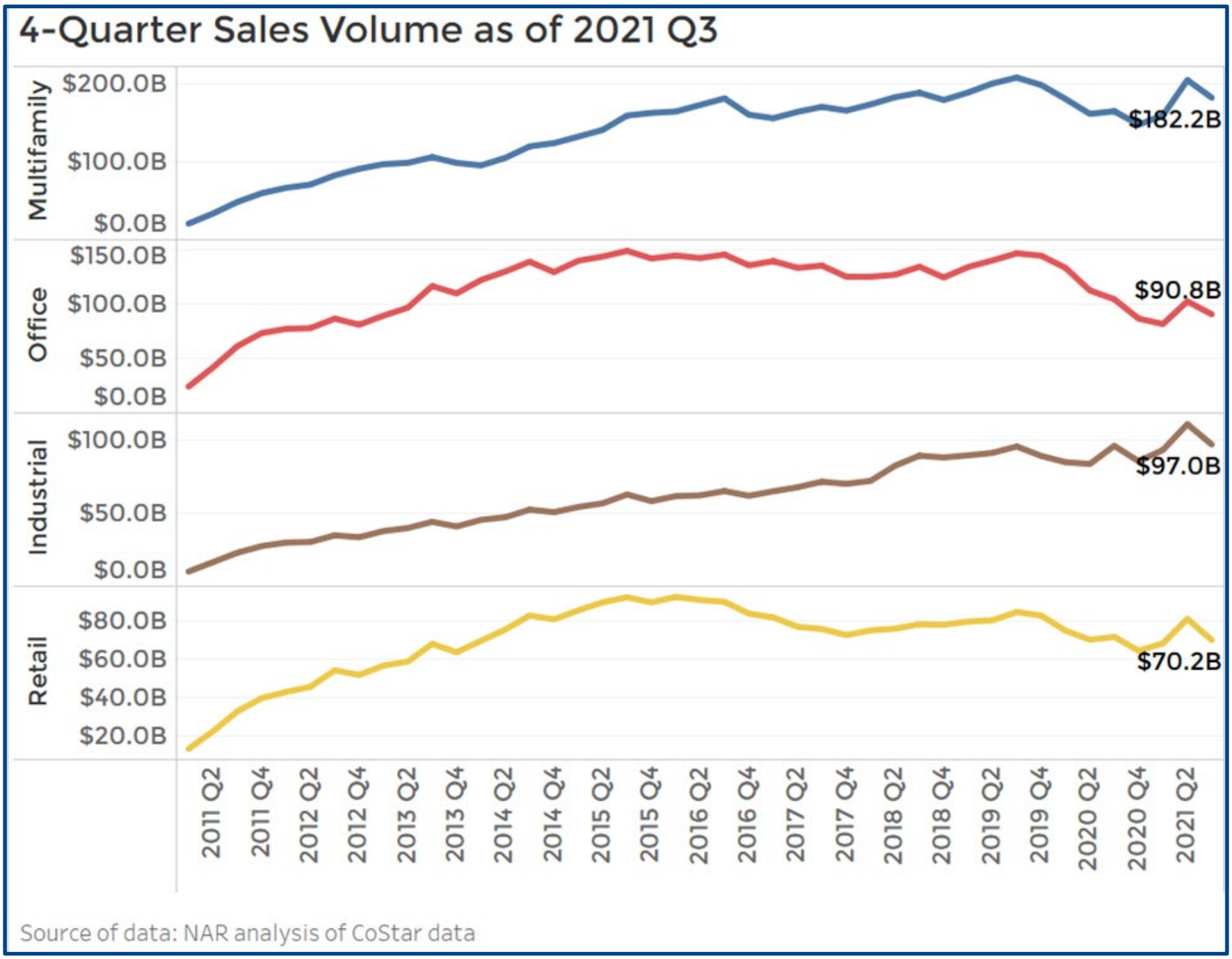

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