2021

Weekly Real Estate Monitor

Residential and Commercial Markets

December 13-16

National Association of REALTORS® Research Group

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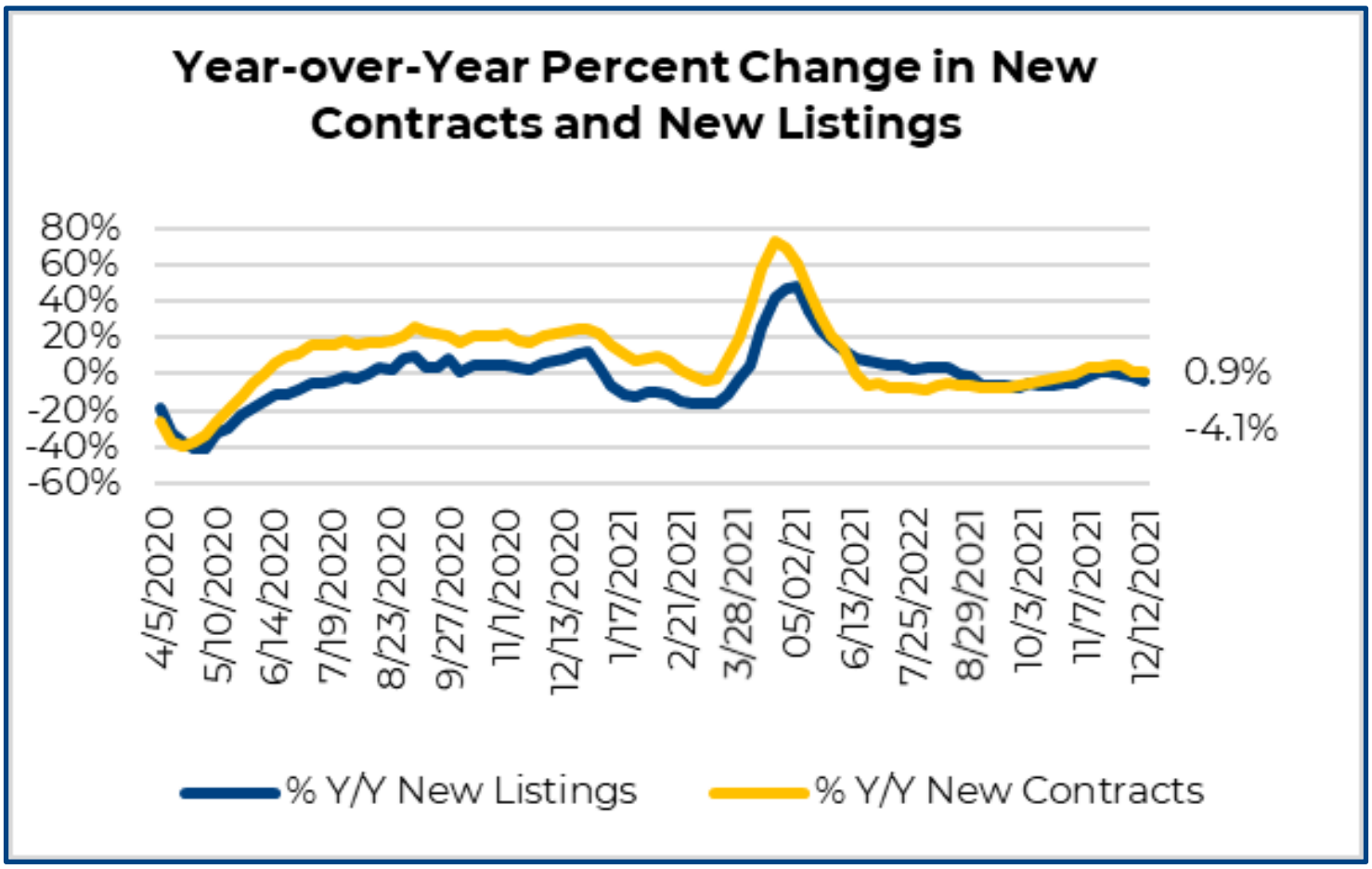
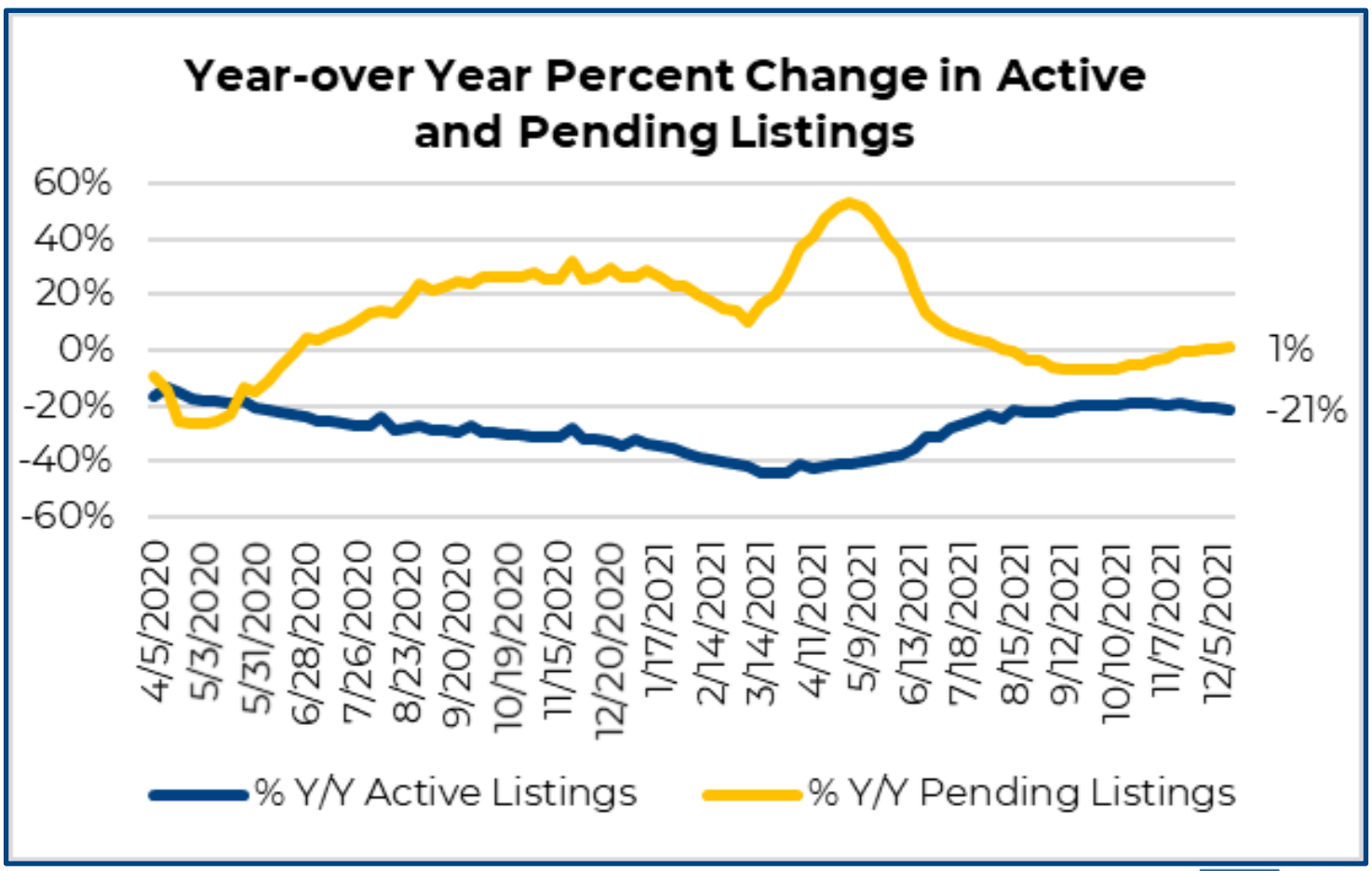
Weekly Real Estate Monitor

Contract Signings Increased Nearly 1%

Housing demand is ramping up faster than the supply of homes for sale, perhaps as buyers try to lock in with the anticipated rise in mortgage rates. Based on preliminary data, contracts signed (pending sales) were slightly up 0.9% compared to the rolling 4-week level one year ago while new listings during the same period fell 4.1%.

The inventory (stock) of pending listings which represent signed contracts was 1% higher from one year ago while the inventory (stock) of active listings was down 21%.





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

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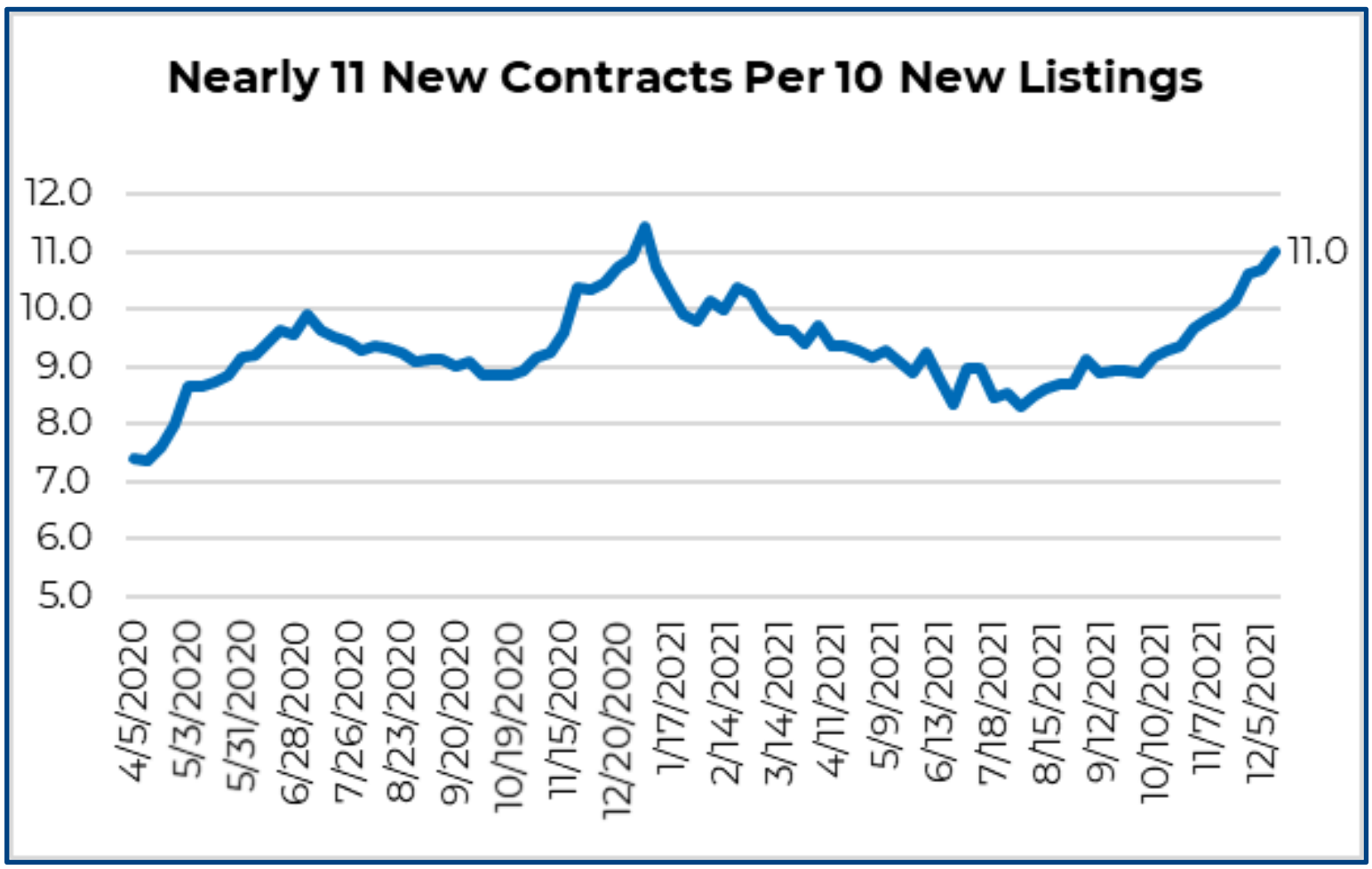
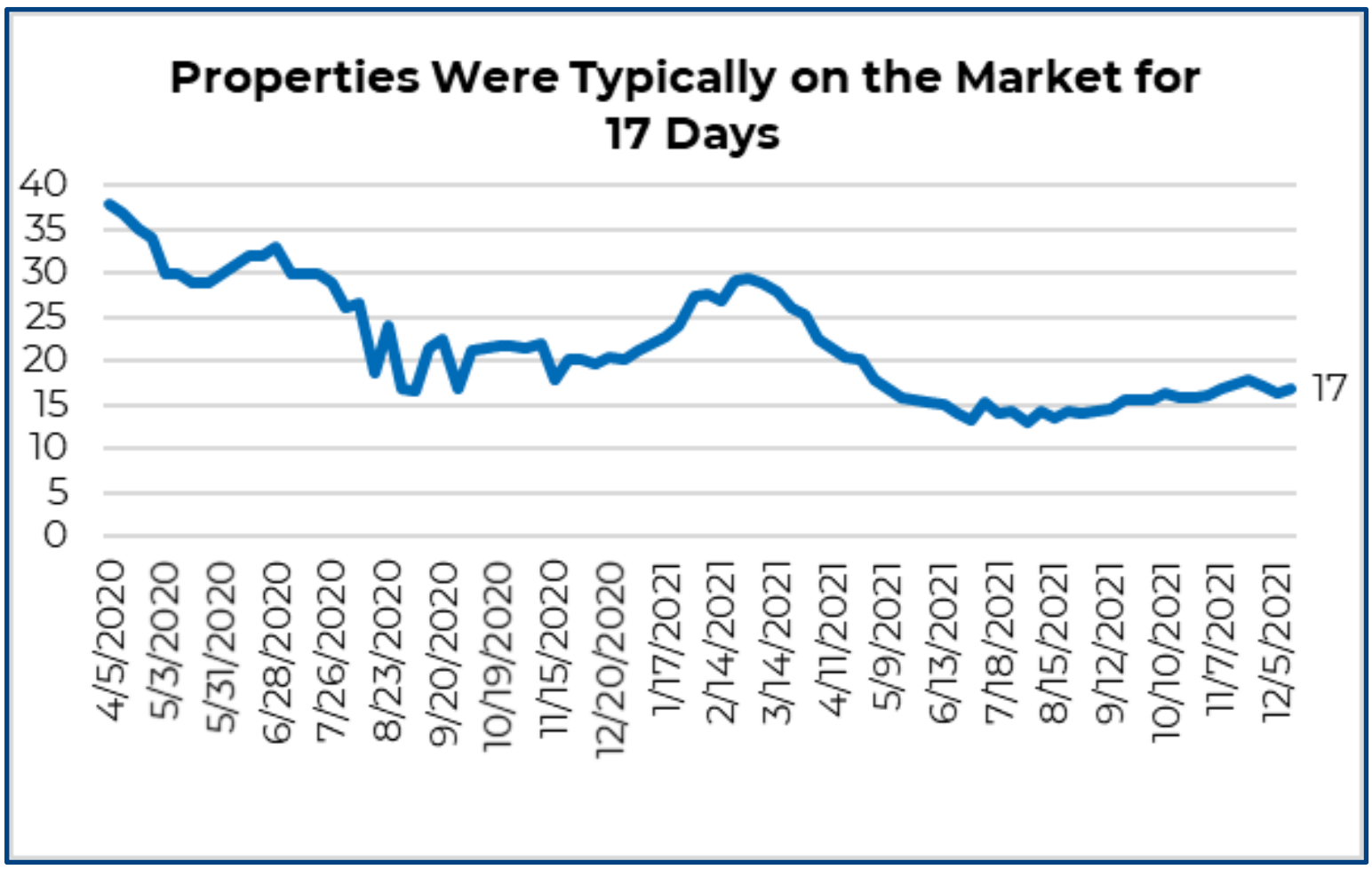
Properties Typically on the Market for 17 Days

With demand outpacing supply, there were about 11 new pending sales for every 10 new listings, up from about 8 new sales per 10 new listings in June-July 2021.

Properties typically sold faster in 17 days compared to one year ago (20 days).





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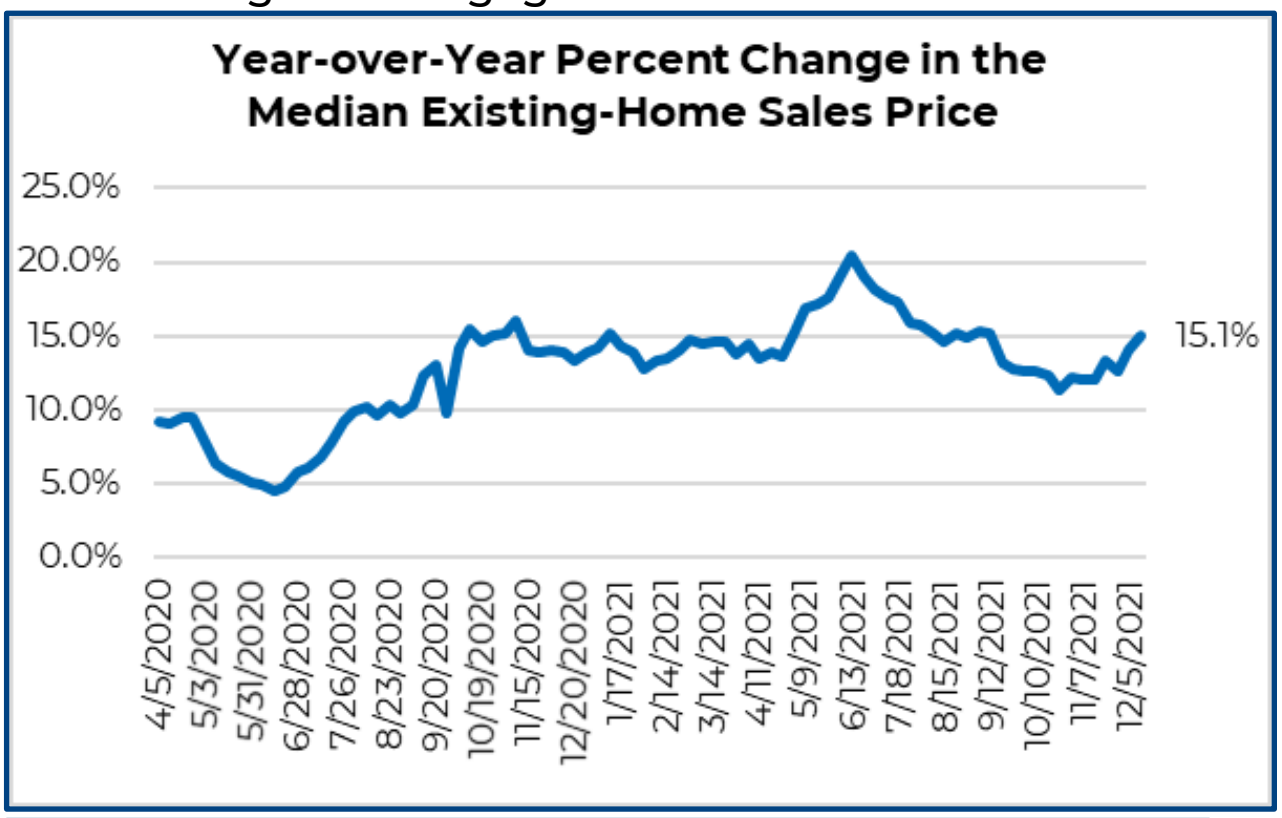
Home Price Appreciation Rises to 15%

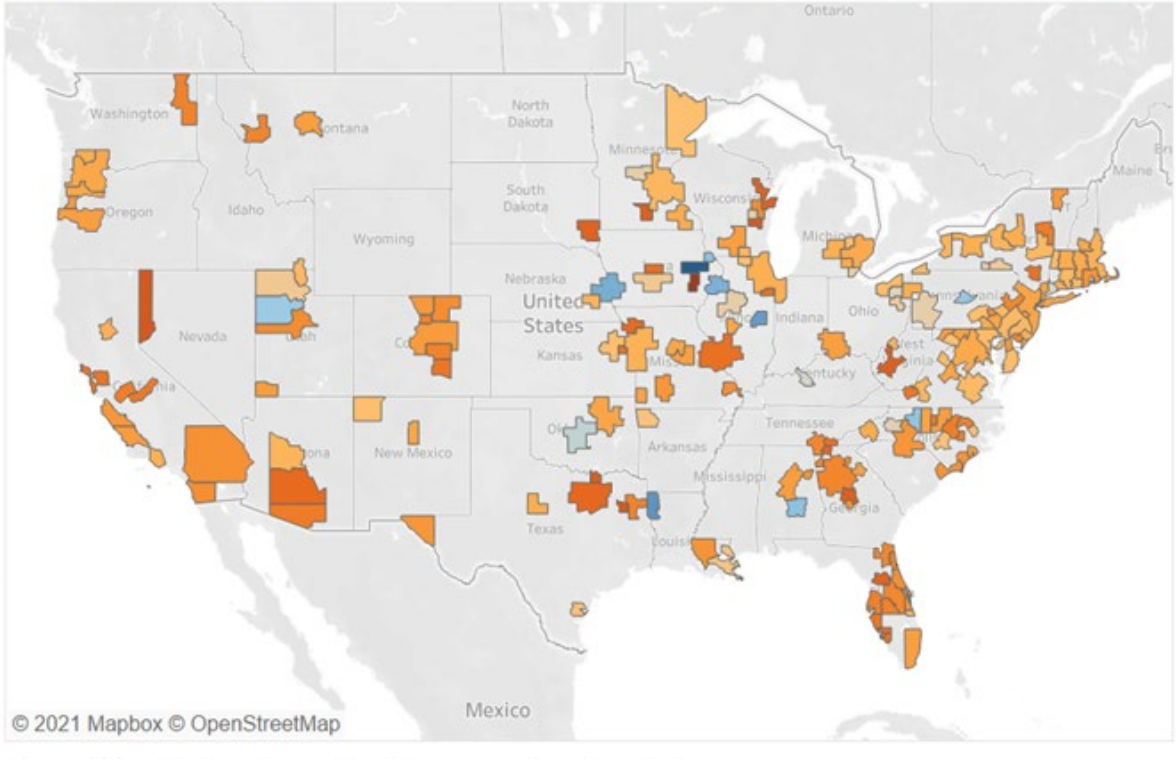
With demand rising faster than supply, prices are starting to rise at faster pace again. The median existing-home sales price increased at a higher pace of 15% year-over-year. Last week, the 4-week pace was 14% year-over-year.

In 125 out of 177 markets (71%), the median existing-home sales price rose at a double-digit pace during the four weeks ended December 12 compared to the levels one year ago. Official figures are released quarterly.

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.



125 out of 177 markets (71%) have higher median existing-home sales prices in the four weeks ended December 12 compared to one year ago



Source: NAR preliminary figures. Final figures are released quarterly.

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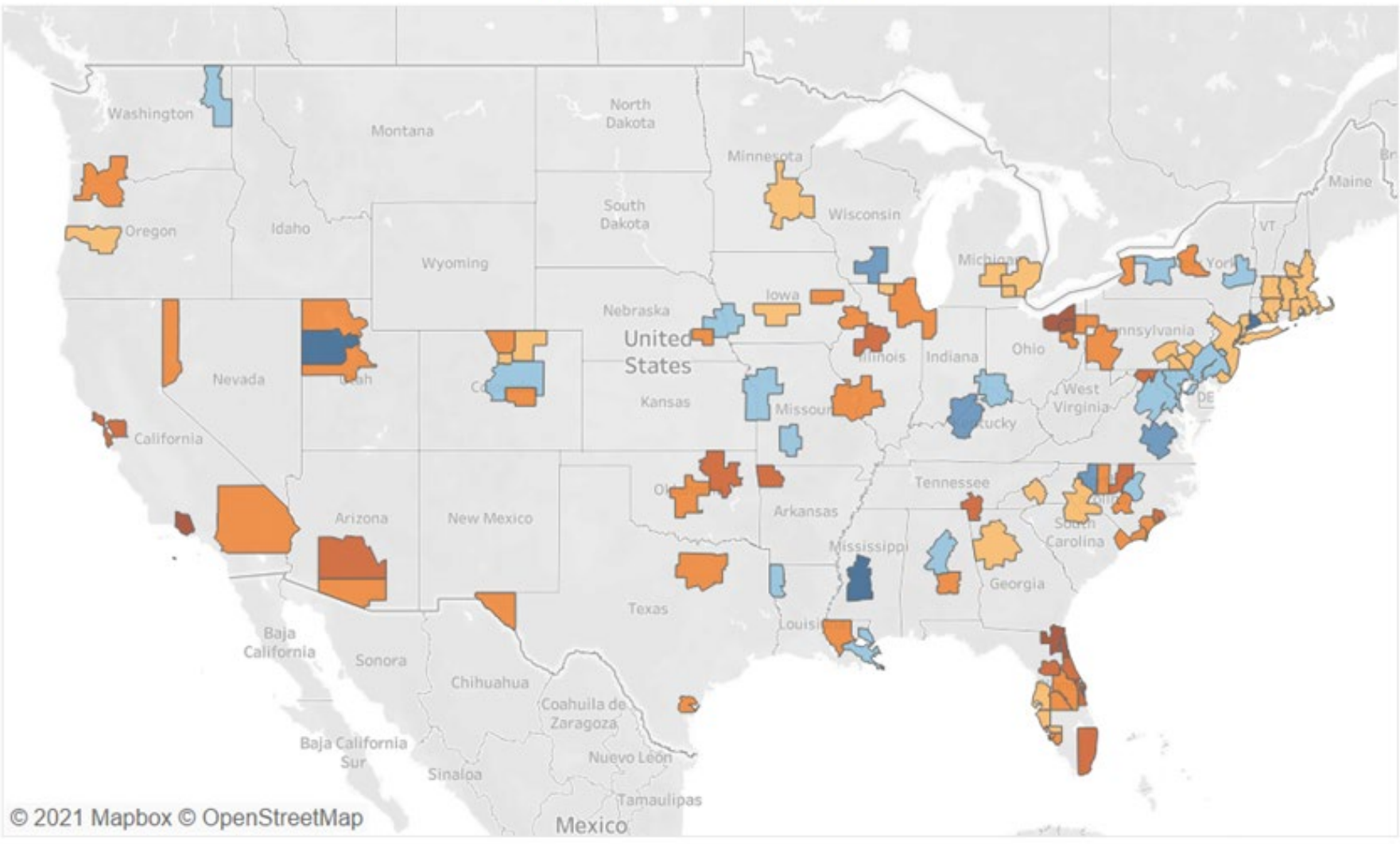
77% of 101 Tracked Metros Have "Stronger" Conditions Compared to One Year Ago

77% of 101 tracked markets had stronger conditions compared to one year ago (80% in the prior 4-week period) based on the NAR Metro Housing Market Index. With fewer markets having 'stronger' conditions compared to one year ago, the median value of the metro-level indices decreased to 57.1 (71.4 in the prior 4-week period).

Only four metro areas had an index of 100 which means all seven housing indicators were higher from one year ago: Cleveland-Elyria, Jacksonville (Florida), Oxnard-Thousand Oaks-Ventura, and Akron (Ohio).

Overall market conditions were weaker in the past four weeks compared to one year ago in 23% of markets, including Bridgeport, Salt Lake City, Louisville-Jefferson County, Madison (Wisconsin), Richmond (Virginia), and Winston-Salem.

NAR Metro Housing Market Index
Conditions during the 4-week period ended December 12 are stronger in 77% of 101 metro areas



Source: NAR. An index above 50 (orange areas) 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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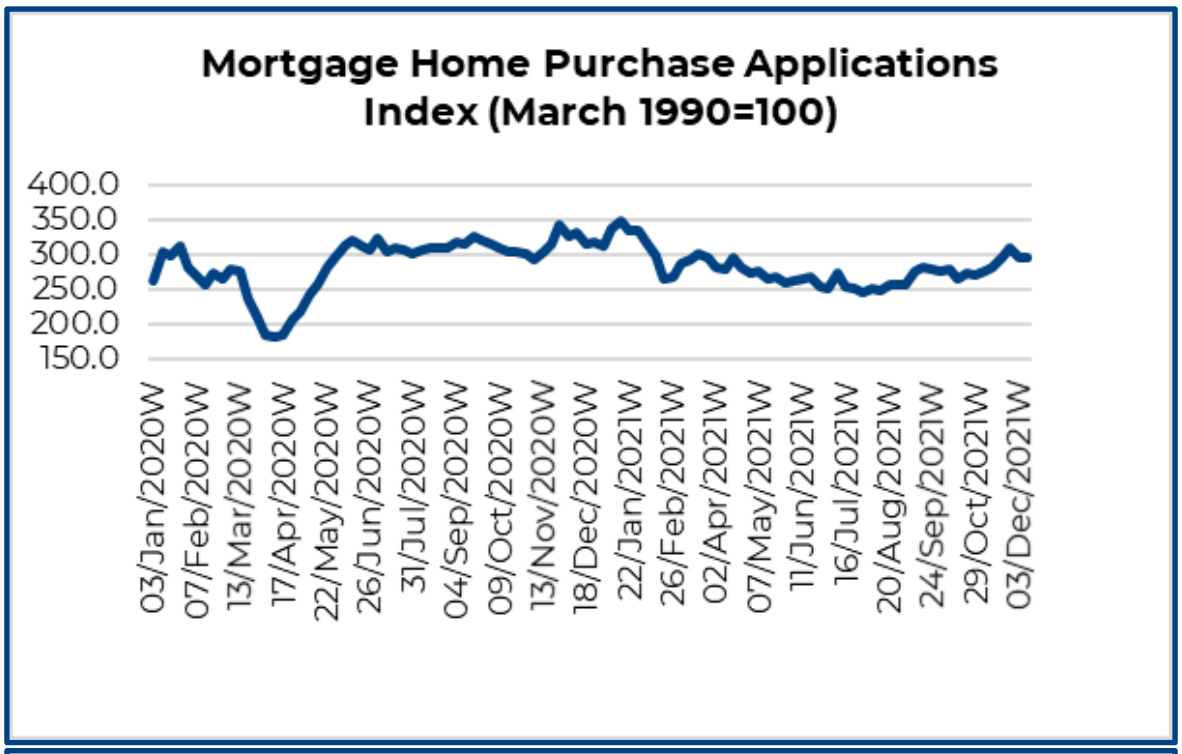
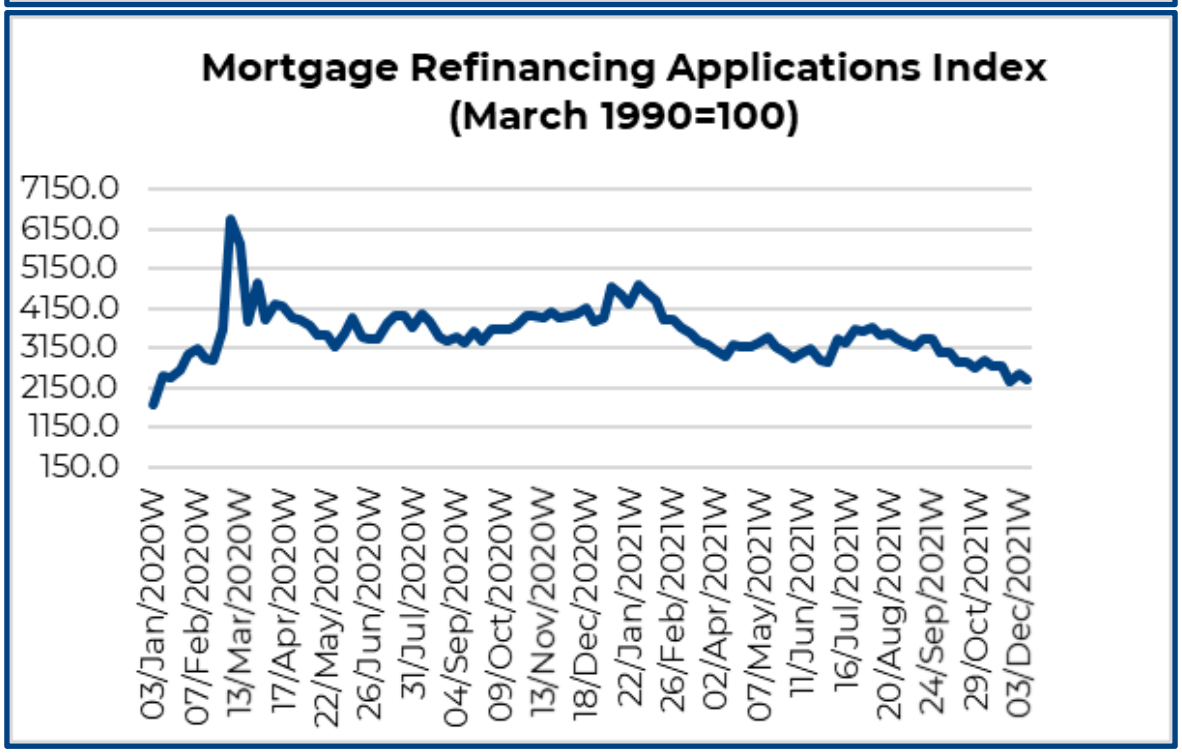
Mortgage Home Purchase Applications Increased but Refinancing Decreased

Mortgage applications for a home purchase increased decreased 0.7% from the prior week, according to the MBA Weekly Mortgage Applications Survey. Homebuyers are likely trying to lock in at the current low mortgage rates before rates rise even further to nearly 4% by the end of 2022.

Conventional financing (includes Fannie Mae/Freddie Mac conforming loans) purchase applications increased 1.4% from the prior week but government-insured financing (FHA, VA, USDA) decreased 1.6%.

Refinancing applications decreased 6.4% from the prior week. Refinancing applications have generally trended down since the second half of 2020 after an uptick in the first half. Expect a decline in refinancing activity for the most part in 2022 due to rising mortgage rates and with most homebuyers likely to have already refinanced given the low mortgage rates in the past year.





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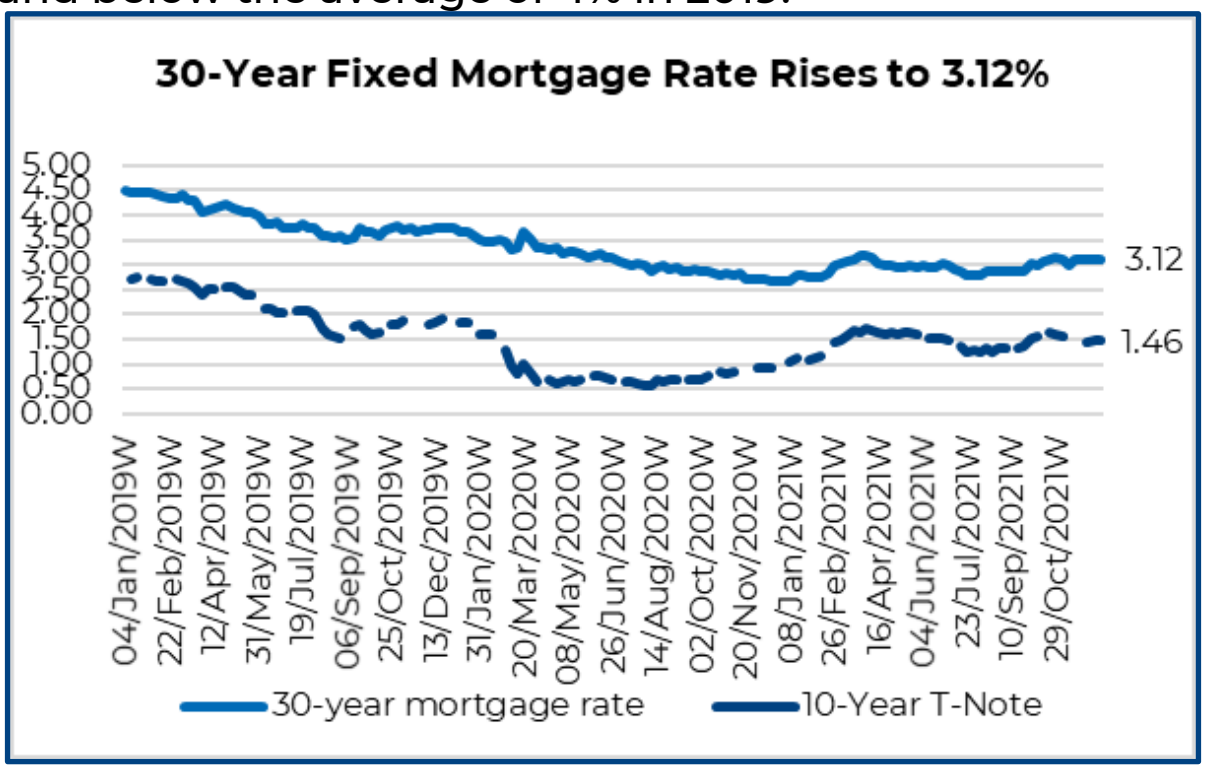
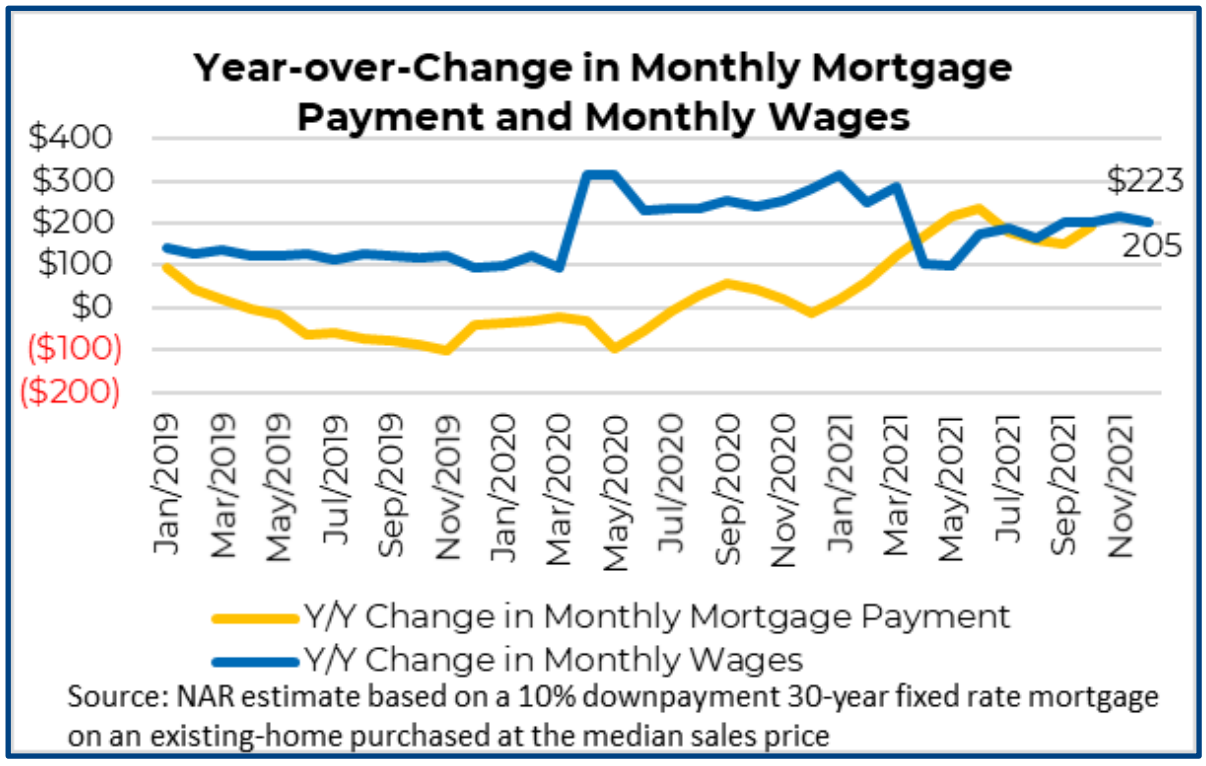
30-Year Mortgage Rate Rises to 3.12%; Fed Announces End of Asset Purchase Program and Potential Rate Hikes in 2022

The 30-year fixed mortgage rate rose to 3.12%. Mortgage rates are now on course to rise even higher in 2022 given the announcement yesterday of Federal Reserve Board Chairman Powell to wind down the asset purchase program by March (currently at $120 billion a month) and to raise the federal funds rate (the rate at which it lends to banks) with three rate hikes.

Compared to one year ago, the monthly mortgage payment increased by $223 dollars which is slightly higher than the $205 increase in the average monthly wage.

NAR Chief Economist Lawrence Yun expects the 30-year fixed mortgage rate to increase to nearly 3.7% by the end of 2022 as the Fed tightens on the flow of money to the economy to control inflation which hit 6.8% in November 2021. Nonetheless, this is still a low level and below the average of 4% in 2019.





Source: NAR estimate based on a 10% downpayment 30-year fixed rate mortgage on an existing-home purchased at the median sales price

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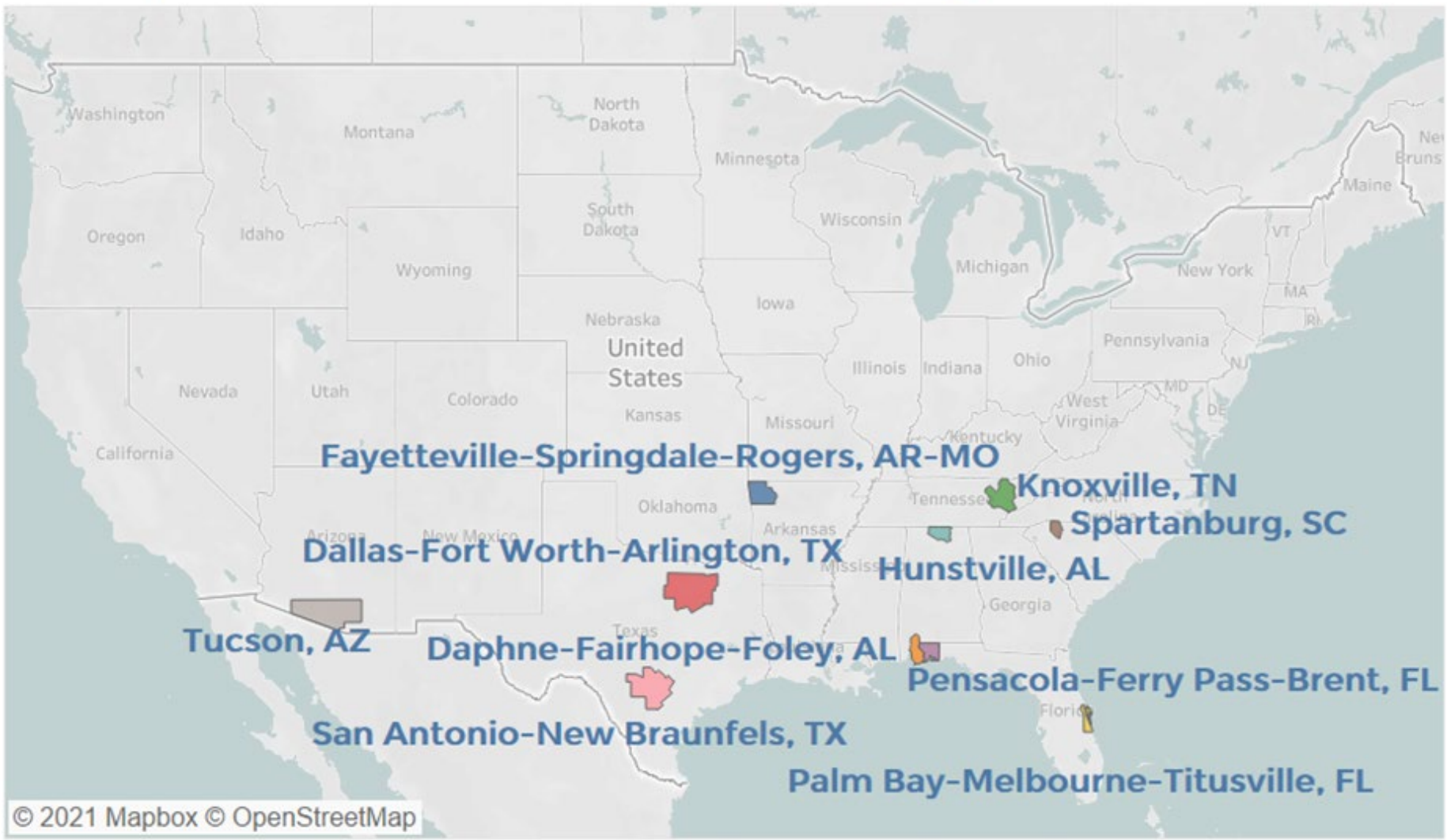
Top 10 Hidden Gems of the Housing Market in 2022

In its latest report, 2022 Housing Market Hidden Gems Report, the National Association of Realtors® identified top 10 markets with strong underlying housing market fundamentals but where home prices are still undervalued and relatively affordable. As such, these hidden gem markets are expected to experience stronger price appreciation in 2022.

A market is a hidden gem if the price to income ratio is still relatively low compared to the underlying market fundamentals: job growth, wage, population growth, migration, share of population 25 to 44 years old, fraction of population with broadband service, the population to housing permits.

In alphabetical order, the hidden gem markets are *Dallas-Fort Worth, Texas; Daphne-Fairhope-Farley, Alabama; Fayetteville-Springdale-Rogers, Arkansas-Missouri; Huntsville, Alabama; Knoxville, Tennessee; Palm Bay-Melbourne-Titusville, Florida; Pensacola-Ferry Pass-Brent, Florida; San Antonio-New Braunfels, Texas; Spartanburg, South Carolina, and Tucson, Arizona.*



Source: National Association of REALTORS®. A market is undervalued if its median home price-to-median family income ratio is at the lower end of the distribution of 378 markets relative to the distribution of its combined set of market fundamentals, namely, job growth, wage growth, population growth, population to housing permits, net domestic migration to population, share of population ages 25 to 44 years old, and fraction of households with broadband services.

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Rising Occupancy Except in Office Real Estate

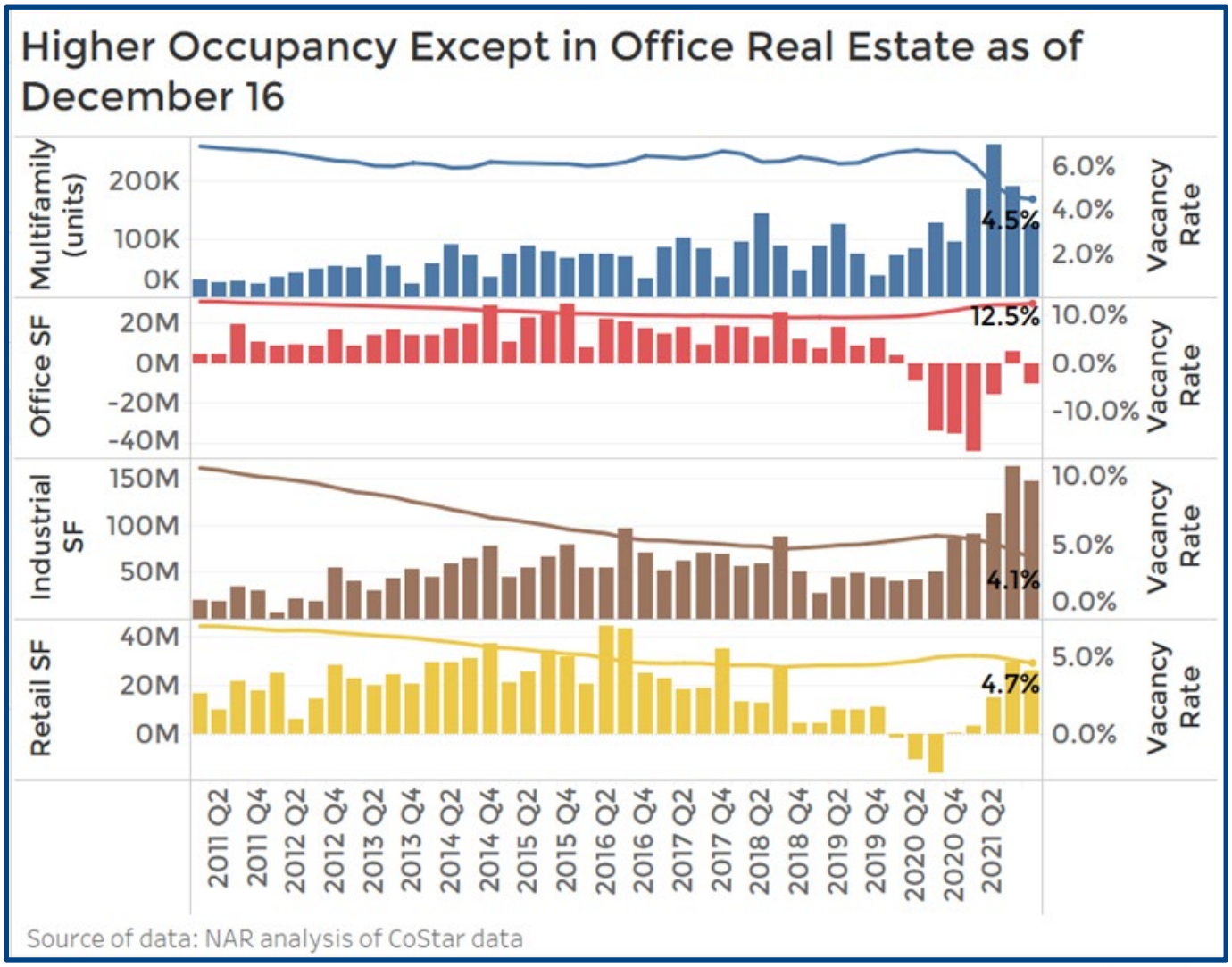
Occupancy rose across the multifamily, industrial, and retail trade sector, but fell in the office real estate market, based on data reported by CoStar®.

Office occupancy fell 10.6 million square feet in the past three months after occupancy rose in the third quarter. Since 2020 Q2, 143 million square feet of office space has been given back. The vacancy rate has increased to 12.5% from 9.8% in 2020 Q1.
In the apartment market, nearly 125,000 apartment units were absorbed in the past three months. Absorption remains positive although the pace appears to be decelerating. Since 2020 Q2, occupancy has increased on a net basis by 1.07 million apartment units and the vacancy rate has declined to 4.5% from 6.7% in 2020 Q1.

In the industrial market, 148 million square feet of office space was absorbed, with 695 million square feet of space absorbed from 2020 Q2. This industrial property market has the lowest vacancy rate among the core property markets, at 4.1%, from 5.3% in 2020 Q1.

In the retail property market, occupancy rose 26 million square feet in the past three months, with a net increase of 48 million square feet since 2020 Q2. The vacancy rate is at just slightly up at 4.7% from 4.6% in 2020 Q1.

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



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Rising Rents in All Markets

Multifamily asking rents continue to increase at a double-digit pace of 11% year-over-year as of December 16. Prior to the pandemic in 2020 Q1, the average asking rent growth was just 1.6%. The strong demand for rentals is likely associated with rising home prices.

In the office market, the average asking rent rose 0.1% after declining 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 a record high of 8.4%. Prior to the pandemic, rents rose at an average of 5.1%. 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 2.8%, which is higher than the 2.3% pre-pandemic rent growth.

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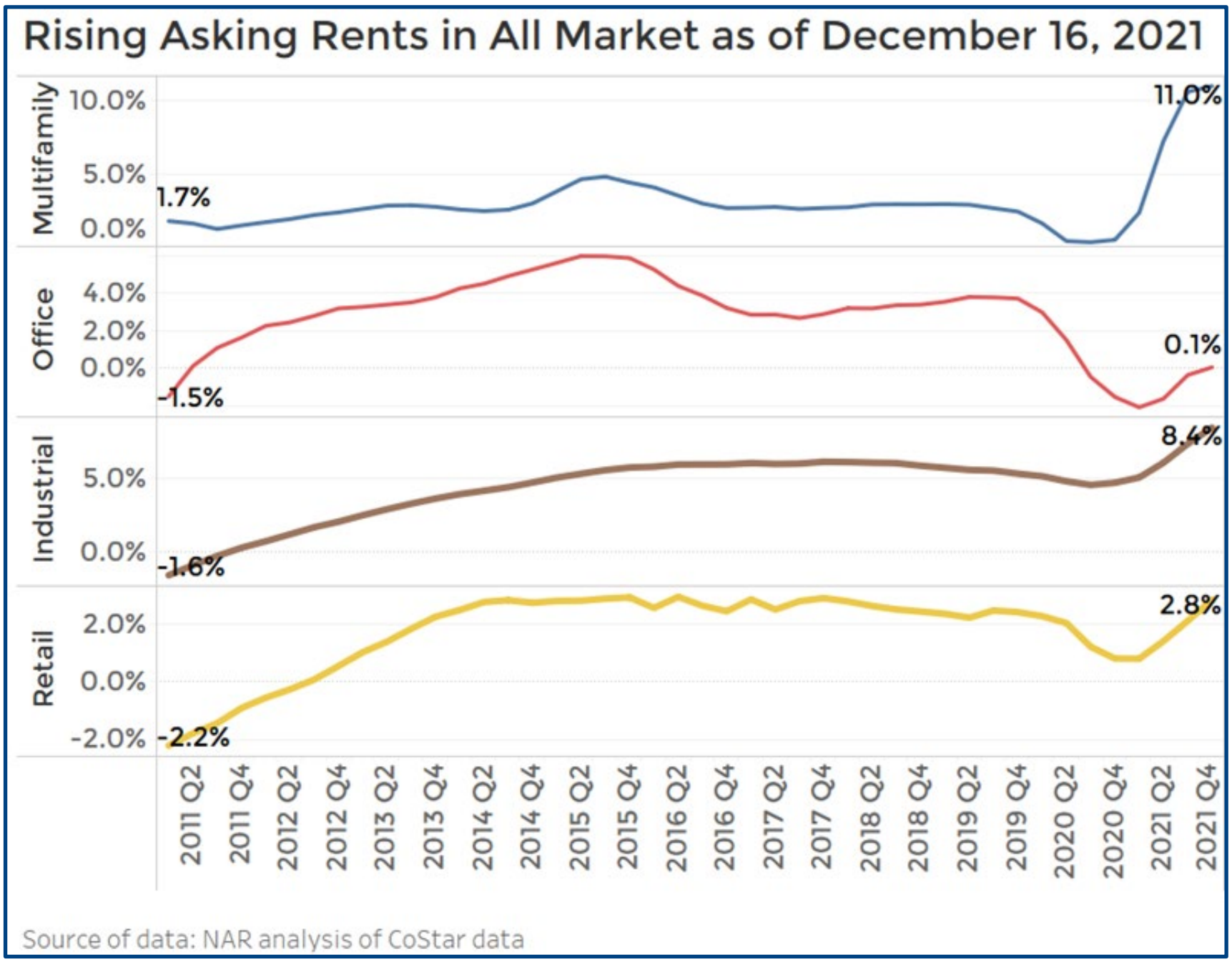

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Commercial Cap Rates

Cap rents continued to trend downwards relative to pre-pandemic levels even as the 10-year Treasury notes has been trending upwards during the year (1.08% in January, 1.5% as of December 16).

The multifamily market has the lowest cap rate among the core property markets, with a median cap rate in the past three months ended December 3 at 4.9% (5.7% in 2020 Q1). Even as mortgage rates rise, the strong demand for rental housing (as mortgage rates rise) means could press down cap rates further in the multifamily market in 2022.

The office market has the highest median cap rate at 6.9% (7.3% in 2020 Q1). In the industrial market, the median cap rate was 6.1% (7.1% in 2020 Q1). In the retail market, the median cap rate was 6.1% (6.6% in 2020 Q1).

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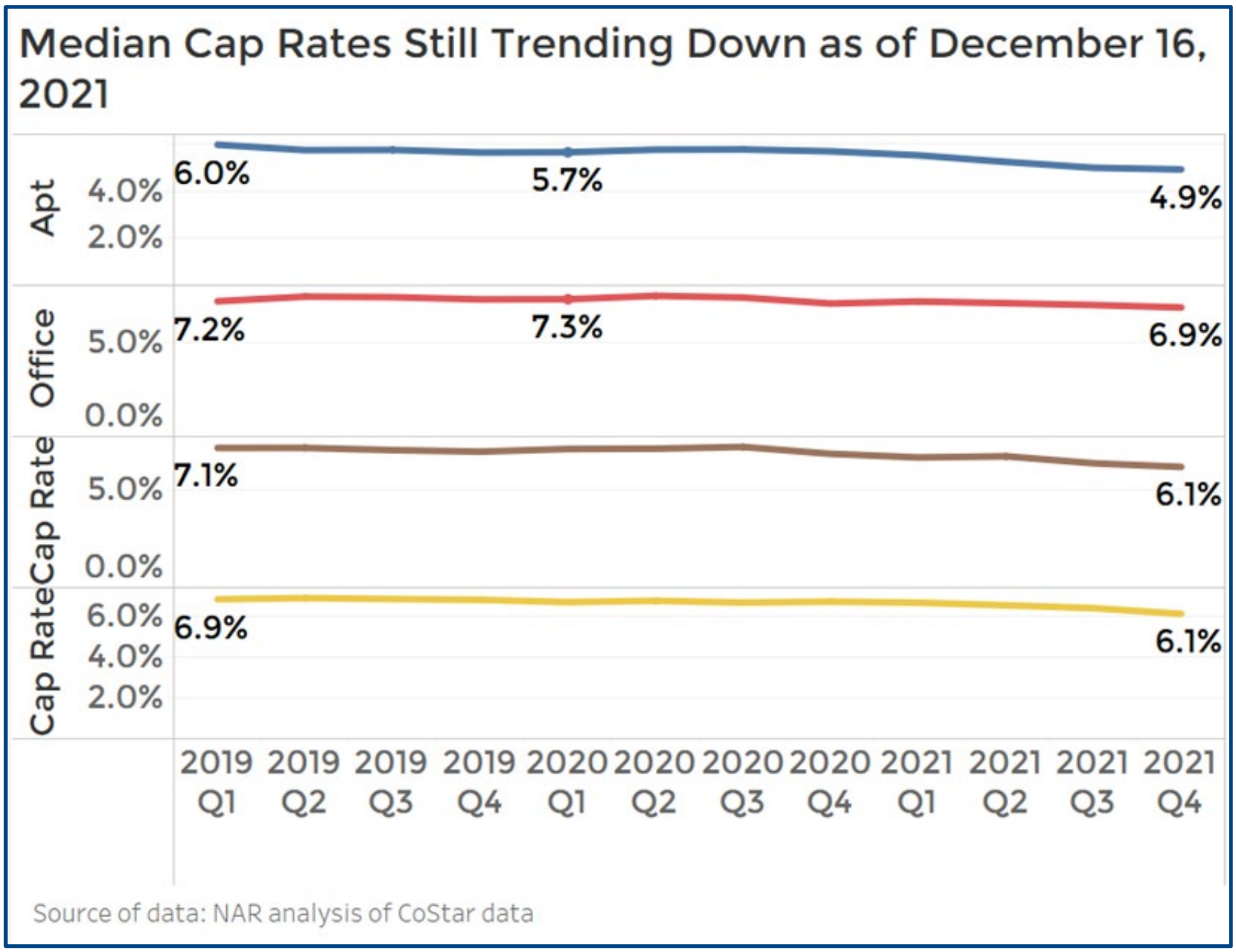

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More of the Latest from NAR Research

If you missed the Real Estate Forecast Summit on December 15, you can watch the entire summit here (click the link).

Presentation slides and other information are also available.

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