

## Lean Supply Remains the Dominant Housing Story

The housing market has cooled a bit in recent months, but demand is still outpacing supply by a wide margin. Although new construction has picked up, the National Association of Realtors (NAR) recently indicated the U.S. remains 2 million single-family homes and about 3.5 million multifamily units short of equilibrium. Lumber costs have plunged from record highs in the spring, but ongoing shortages of labor and other materials continue to hinder builders' efforts to fill the gap.

This week brought a wealth of housing market numbers that were generally positive, but open for interpretation. Housing starts rose +3.9% in August to a 1.61 million unit annual pace, well above the 1.55 million median forecast but short of the 15-year high of 1.72 million logged in March. Census Bureau data shows August gains were concentrated in multi-family starts, which jumped +20.6% to an annualized pace of 539k. Single-family starts actually fell -2.8% to an annualized pace of 1.08 million. Over the last 12 months, multi-family starts are up +53%, while single family starts are up just over +5%. The huge difference reflects perceived need as outlined by the NAR and investor interest in multi-unit projects.

Residential construction appears to be moving forward at the fastest pace in 14 years, but the pipeline is clogged as the number of projects greenlighted but not started remains at the highest level in more than four decades. The lack of skilled labor is mostly to blame here, and shortages aren't going away anytime soon.

Building permits (which typically lead starts by several months) increased +6% in August to a 1.73 million unit annualized rate, topping the median forecast of 1.6 million. As was the case with the starts data, permit growth was concentrated in the multi-family space, which climbed +16% in August. Over the past year, multi-family permits are up over +40%, while single-family permits are essentially flat.

Existing home sales slipped -2.0% in August to a 5.88 million unit annualized pace, and are now down -1.5% year-over-year according to NAR data. This doesn't reflect waning demand so much as frustrated potential buyers retreating to the sidelines. They may be sidelined well into next year.

There were nearly 1.3 million existing homes listed for sale last month, -13.4% below the number from 12 months earlier, resulting in a 2.6 month supply, about half of what realtors would normally consider a tight market. Similar to the previous month, it took an average of just 17 days for properties to sell in August, while 87% of homes sold were on the market for less than a month. There were, however, signs of waning interest as the NAR reported an average of 3.8 offers per sale, down from 4.5 in July, while the median price for an existing home declined for the second straight month to \$356,700.

The percentage of first-time buyers slipped to 29% in August. This group has felt the brunt of skyrocketing home prices, and an expected increase in mortgage rates won't

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This morning, the Census Bureau reported new home sales had risen +1.5% to an above forecast 740k unit annualized pace in August. The number of new homes on the market at the end of last month was the highest since 2008 at 378k. This represented a 6.1 month supply, up from 3.8 when the year began. However, of the 740k annualized number of new homes sold last month, just 166k were completed, while 263k had yet to break ground. Of the 378k listed for sale, less than 10% have been completed. More than any other data series, this paints the clearest picture of the prevailing labor and materials shortages in the market.

The median price for a new home was essentially unchanged at a record \$391,900. Only 3% of new homes sold in the U.S. last month were under \$200,000, while 9% were over \$750,000. This suggests that prices have risen beyond the reach of the average buyer, reinforcing the need for multi-unit rentals.

Lean supply should keep pressure on home prices while incentivizing builders, but there's little indication that shortages will end anytime soon. This suggests prices are likely to climb further. As a result, the housing market will continue to be a blessing for investors and a curse for buyers on the margin.

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## Market Indications as of 2:19 P.M. Central Time

DOW	Up 29 to 34,794 (HIGH: 35,625)
NASDAQ	Down 20 to 15,032 (HIGH: 15,374)
S&P 500	Up 4 to 4,453 (HIGH: 4,537)
1-Yr T-bill	current yield 0.07%; opening yield 0.07%
2-Yr T-note	current yield 0.28%; opening yield 0.26%
3-Yr T-note	current yield 0.54%; opening yield 0.53%
5-Yr T-note	current yield 0.96%; opening yield 0.94%
10-Yr T-note	current yield 1.46%; opening yield 1.43%
30-Yr T-bond	current yield 1.99%; opening yield 1.94%

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