NEWSLETTER

06 JULY, 2023 WWW.INVESTEGCAPITAL.COM

A DECLINING FOR-SALE MARKET MAY BOOST RENTAL HOUSING

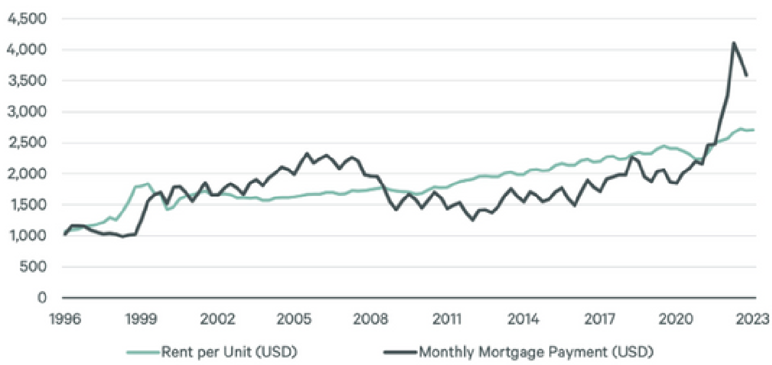
With record home prices and rising loan rates, an increasing number of people are opting to rent, particularly in high-cost regions such as Boston.

Because of the fast swings in interest rates, the cost of purchasing a home has historically been more variable than the cost of renting.

The last time renting was cheaper than buying was in the years preceding the 2007 housing meltdown, when capital flooded the for-sale market. This was followed by a decade of relatively low ownership expenses as a result of historically low interest rates and substantially tougher lending conditions, which reduced the pool of potential purchasers. The scenario has now shifted. The home market is grappling with the fallout from high house demand in 2020-2022, as well as rising mortgage rates.

IS IT CONCEIVABLE FOR FOR-SALE PRICES TO FALL WHILE RENTS CONTINUE TO RISE IF WE BELIEVE THAT THE COSTS TO BUY AND RENT MOVE IN LOCKSTEP OVER TIME?

Figure 1: Rent per Unit Versus the Average Monthly Mortgage Payment, Boston Metro Area



Source: CBRE Econometric Advisors, National Association of Realtors, Freddie Mac.

Mortgage rates are expected to fall in the coming quarters, bringing some respite to homebuyers. However, supply-constrained markets like Boston are unlikely to gain from more for-sale development activity. While the rental market will experience macroeconomic headwinds in the coming year, as mentioned last week, persistently high for-sale expenses will be a tailwind for rentals in the medium-to-long term.