# Mortgage Borrowers Lose Ground to Cash Buyers

*Scott McIntyre, CFA*
*HilltopSecurities Asset Management*
*Senior Portfolio Manager*
*Managing Director*
*512.481.2009*
*scott.mcintyre@hilltopsecurities.com*

*Greg Warner, CTP*
*HilltopSecurities Asset Management*
*Senior Portfolio Manager*
*Director*
*512.481.2012*
*greg.warner@hilltopsecurities.com*

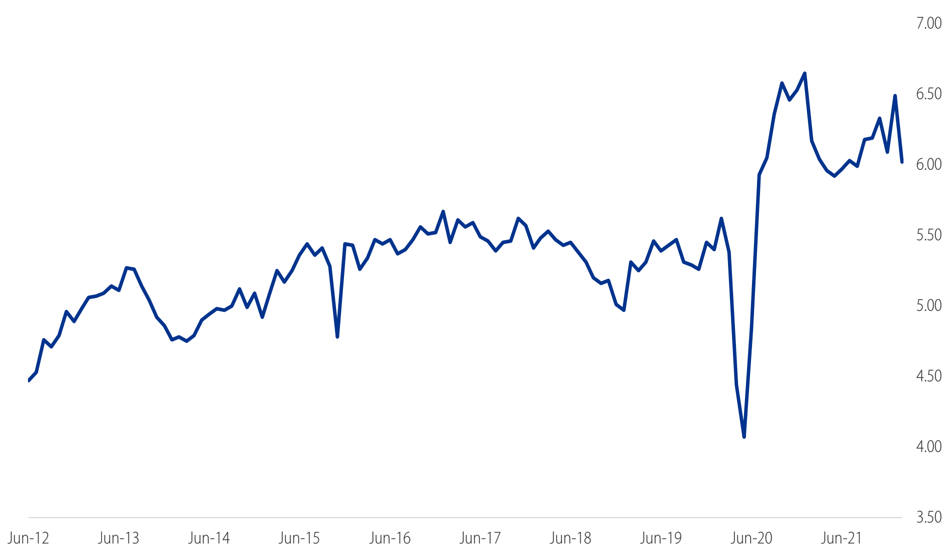
This morning, total mortgage applications dropped for the 10th time in the last 11 weeks as fast rising mortgage rates increasingly push non-cash buyers aside. The MBA mortgage applications index for the week ending April 15th fell by -5.0% to the lowest level in three years. Applications for *new purchases* were down -3.0%, while *refinancing* applications dropped -7.7%. The Freddie Mac average 30-year mortgage rate topped 5.0% last week for the first time since late 2019, and is up a staggering 189 basis points since the year began. Rates are likely to climb further this week.

While rising loan rates and sky-rocketing home prices relegate many prospective home owners to the sidelines, rental costs are heating up. According to Zillow, rent for new tenants has increased +16.8% over the last 12 months. This hasn't fully filtered through to the consumer price index yet, but is likely to keep headline inflation uncomfortably warm for much of the year.

*While rising loan rates and sky-rocketing home prices relegate many prospective home owners to the sidelines, rental costs are heating up.*

Also this morning, the National Association of Realtors (NAR) reported existing home sales for March slipped by -2.7% to the lowest level in 21 months. On a year-over-year basis, sales are down -9.5%, but it's hard to see the decline as weakness. The median sales price climbed to a record $375,300 last month, while available supply at the current sales pace was just *two months*. In normal times, a five-month supply would be considered "tight."

## US Existing Home Sales (Seasonally adjusted annnual rate, millions)




Source: National Association of Realtors

*All this construction activity is obviously positive, but the factors restraining the housing market from reaching essential balance are still very much in place.*

Yesterday, the Commerce Department announced U.S. housing starts rose by +0.3% in March to a 1.79 million unit annual rate, the fifth increase in the last six months and the fastest annual pace since 2006. The March increase was attributed entirely to multi-family starts, which were up +4.6% for the month and +26.2% year-over-year. Single-family starts actually fell -1.7% and are down -4.4% over the past 12 months.

### U.S. Housing Starts and Building Permits (Seasonally adjusted annual rate, thousands)


Source: U.S. Census Bureau

*Cash buyers represented 28% of existing home purchases last month, the highest since 2014.*

Building permits told a similar story with a +0.4% increase in March to a 1.87 million unit pace. Multifamily permits were up +10.0% for the month and +15.3% on an annual basis, while single family permits fell -4.8% in March and are essentially flat on the year. Clearly, builders are focusing their attention on the rental space.

*Fed tightening will eventually dampen housing demand, but the next few months promise more of the same.*

All this construction activity is obviously positive, but the factors restraining the housing market from reaching essential balance are still very much in place. Shortages of labor and materials are causing unprecedented delays. The number of homes under construction remains at a 49-year high, while the backlog of green-lighted projects that have not broken ground is at a record high.

Cash buyers represented 28% of existing home purchases last month, the highest since 2014. Affordability for non-cash buyers is becoming a problem, but with overall housing demand continuing to overwhelm supply, there's little relief on the horizon. According to the NAR, 40% of annual home sales take place from March through June. Fed tightening will eventually dampen housing demand, but the next few months promise more of the same.

## Market Indications as of 9:41 A.M. Central Time

| | |
|---|---|
| DOW | Up 315 to 35,226 (HIGH: 36,800) |
| NASDAQ | Down -61 to 13,558 (HIGH: 16,057) |
| S&P 500 | Up 4 to 4,466 (HIGH: 4,797) |
| 1-Yr T-bill | current yield 1.94%; opening yield 1.91% |
| 2-Yr T-note | current yield 2.59%; opening yield 2.61% |
| 3-Yr T-note | current yield 2.80%; opening yield 2.84% |
| 5-Yr T-note | current yield 2.88%; opening yield 2.93% |
| 10-Yr T-note | current yield 2.88%; opening yield 2.96% |
| 30-Yr T-bond | current yield 2.94%; opening yield 3.01% |