

FEBRUARY 2024

# *Palisades Perspectives*

*To Rent or Buy*

**PALISADES**



**Haseeb Rahman**  
**Portfolio Manager**

Mr. Rahman is a Portfolio Manager at Palisades and is involved in all facets of portfolio management, risk management, trading, and analytics. Mr. Rahman has over 9 years of experience in mortgage loan trading and investment management. Prior to Palisades, Mr. Rahman was in the Investment Banking Division at Raymond James where he was responsible for execution of transactions in the Financial Institutions Group. Mr. Rahman earned his BA in Applied Mathematics from Washington University in St. Louis.

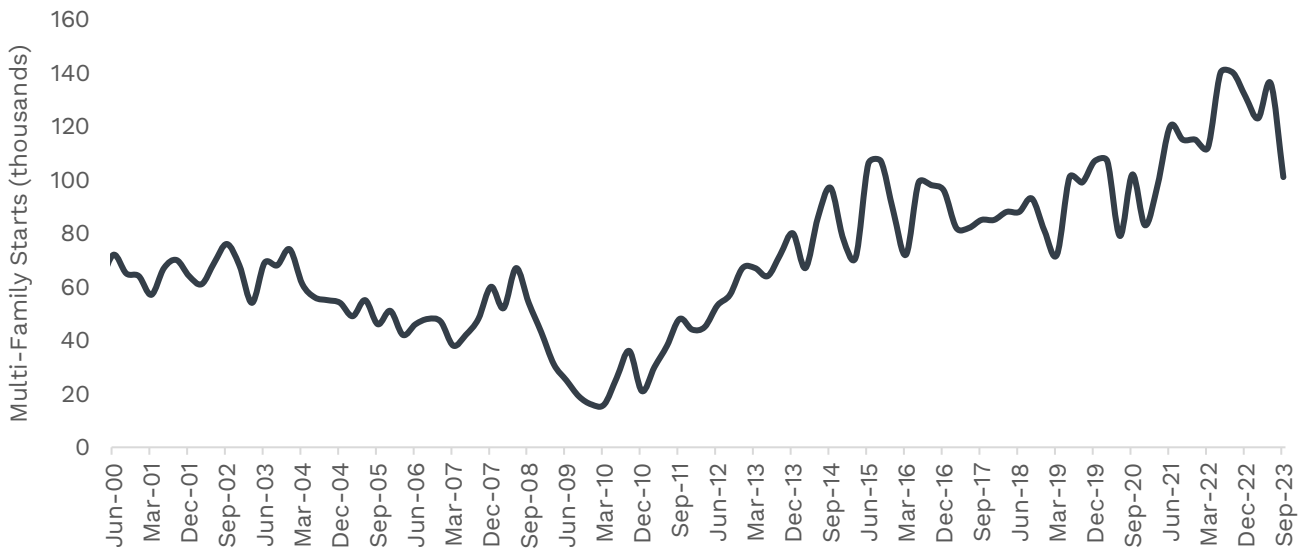
**TO RENT OR BUY**

The gap between renting and buying a home has reached unprecedented levels in the United States. Recent data from Redfin reports the average monthly mortgage payment is 52% higher than the average rent payment. This is the largest variance since the pre-2008 era, painting a concerning picture for those would-be homebuyers.

The primary factors creating the mortgage versus rent payment disparity include (i) high interest rates and home values, placing upward pressure on mortgage payments, and (ii) a surge in multifamily construction that has added supply and dampened lease escalations in the rental market. Zillow reported a 3.3% increase in its rental index for 2023, a more normalized level relative to the 15.3% and 7.6% reported in 2021 and 2022, respectively.

**US Multi-Family Units Started for Rent**

Source: U.S. Census Bureau  
Units in Thousands

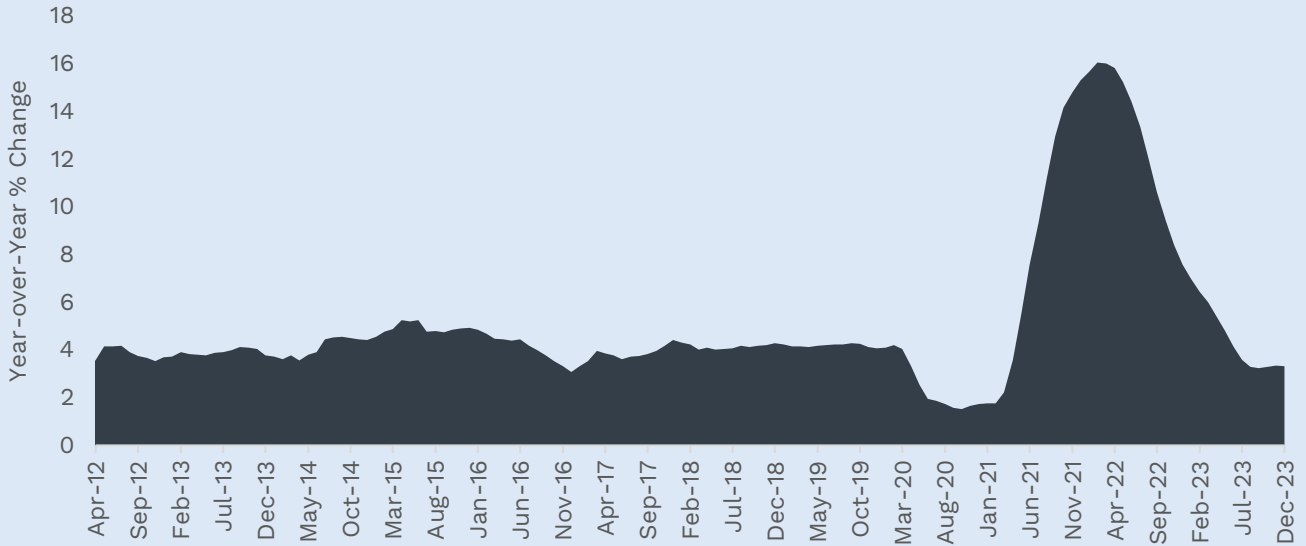




## Rent Index

Source: Zillow

Year-over-Year Change



Supply-demand parity has returned to the rental market, as seen by vacancy rates. While vacancies in the rental market have increased from near historic lows in 2021-2022, they remain within acceptable levels.

## Rental Occupied Vacancy Rate (%)

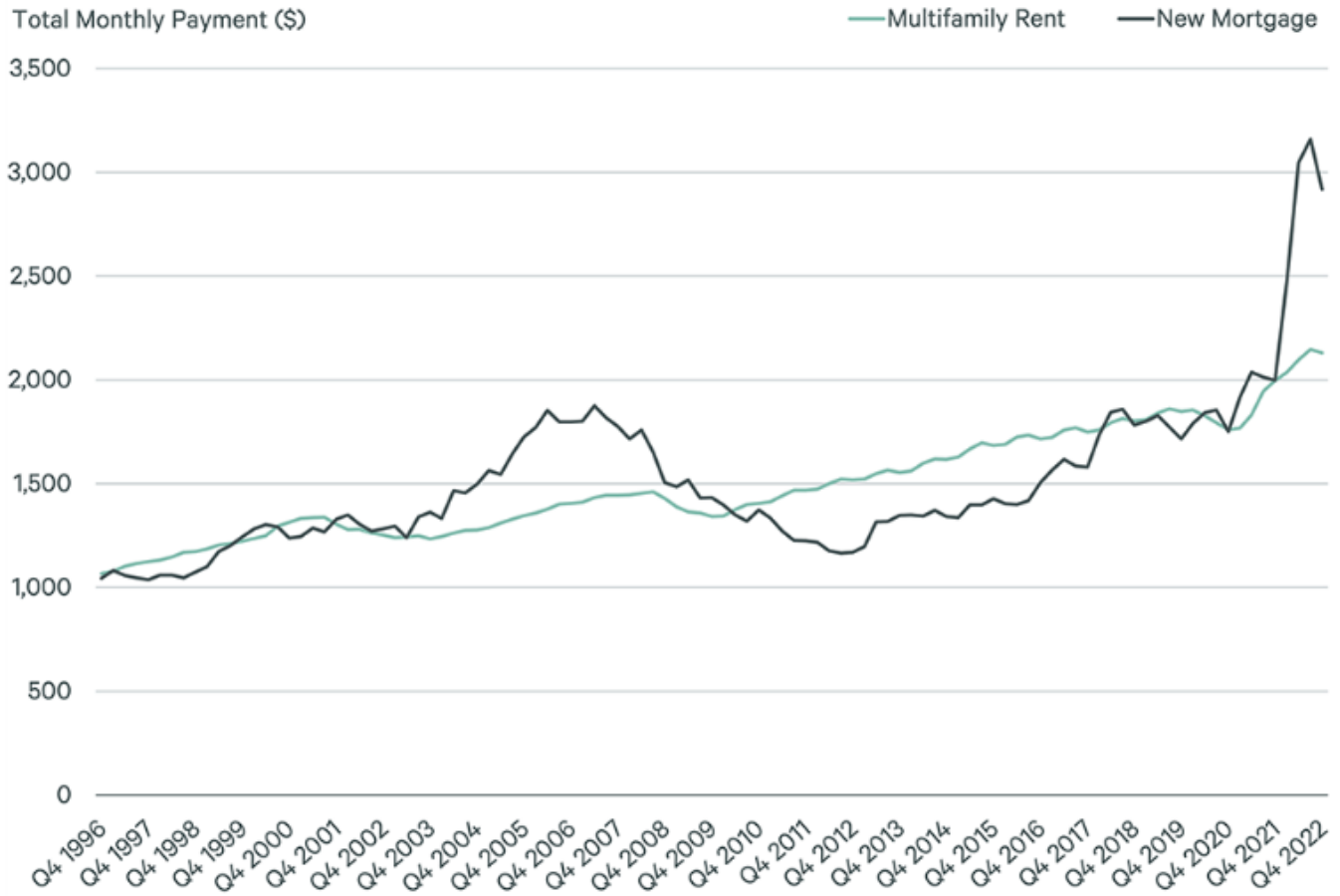
Source: U.S. Census Bureau





According to CBRE Research, monthly mortgage payments have historically been closely correlated with rent payments, and the current variance is expected to converge over time. Many market participants expect rent growth to continue stabilizing, as multifamily completions add to inventory while absorption metrics remain positive (i.e. supply-demand parity).

### Average Multifamily Rent versus New Mortgage Payment



Sources: CBRE Research, CBRE Econometric Advisors, Freddie Mac, U.S. Census Bureau, Realtor.com, Federal Housing Financing Agency

Note: Does not include estimates for homeowner's or renter's insurance. Assumed down payment of 10% with prevailing interest rates



The most likely catalyst for recalibration is the expectation of lower interest rates, as the Fed seeks to ease restrictive monetary policy. The market is currently projecting 5 to 6 Fed rate cuts, with Fannie Mae projecting mortgage rates below 6% by the end of 2024.

**It is unlikely that rent-vs-buy parity results from a retracement in housing prices.** The current housing market is characterized by record levels of home equity, exceptional credit fundamentals, and historically low inventory relative to demand, creating a mosaic that is supportive of home values over the near term.

The longer the disparity in rent and mortgage payments persists, the more likely we are to see a change in the psychological allure of owning a home. Homeownership has been advertised as the American dream and a path toward wealth creation, but it also requires a large upfront

investment, restricts mobility, and often comes with unforeseen maintenance costs that renters avoid.

The traditional notion of homeownership as the ultimate aspiration could gradually give way to a more pragmatic assessment of housing options. But one thing will likely remain: family formation tends to increase the demand for single family detached homes (whether through homeownership or tenancy) located in areas with good schools.

As we navigate these changes, policymakers, industry stakeholders, and individuals alike should pay heed to these shifting tides. Perhaps it's time for a broader dialogue on housing affordability and zoning laws, while embracing institutional property owners and reimagining the American Dream beyond just owning a home.



# PALISADES

Unless otherwise noted, information included herein is presented as of the dates indicated. The Palisades Group, LLC. (together with its subsidiaries, “Palisades”) makes no representation or warranty, expressed or implied, with respect to the accuracy, reasonableness, or completeness of any of the information contained herein, including, but not limited to, information obtained from third parties. Opinions, estimates, and projections constitute the current judgment of the author as of the date indicated and are subject to change at any time without notice. Palisades does not have any responsibility to update the information to account for such changes. Hyperlinks to third-party websites in these materials are provided for reader convenience only. There can be no assurance that any trends discussed herein will continue.

The information contained herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice and does not constitute an investment recommendation or investment advice. Investors should make an independent investigation of the information contained herein, including consulting their tax, legal, accounting, or other advisors about such information.

Certain information contained herein may be “forward-looking” in nature. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking information. As such, undue reliance should not be placed on such information. Forward-looking statements may be identified by the use of terminology including, but not limited to, “may”, “will”, “should”, “expect”, “anticipate”, “target”, “project”, “estimate”, “intend”, “continue” or “believe” or the negatives thereof or other variations thereon or comparable terminology.