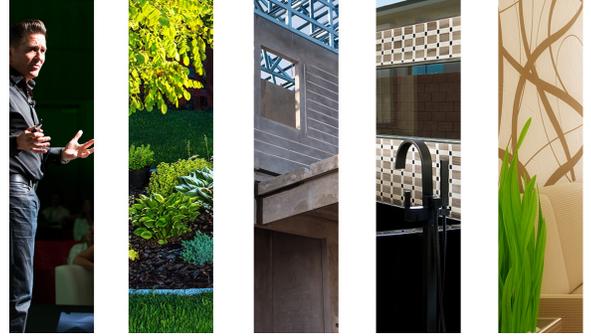




The Art, Science +  
Business of Housing

**JUNE 27-28, 2018**

San Francisco, Moscone Center



# Rising Rates Unlikely to Ruin Housing's Recovery

Mortgage rates have risen 1.0% or more ten times in the last 43 years, with little impact on home sales and prices when the economy was also strong. Here is the paper we shared with our clients a few years ago exploring this exact topic. Historically, rising confidence, solid job growth, and higher wages have more than offset reduced demand for housing resulting from higher mortgage rates. When rates rise during a weak economy, home sales and prices get crushed.

**The good news is that today's economic backdrop clearly supports strong home buying demand, particularly new homes given the severe shortage of resale homes.**

Confidence among consumers and businesses continues to hit multiyear highs. In addition, job and wage growth remains solid, with an increasing number of workers rejoining the workforce.



## Home builders agree with our findings.

In fact, in our January 2018 survey of 300+ home builders, roughly one-third of home builders said they'd see no impact on sales if rates rose all the way to 5.0%. In addition, 56% of builders said sales would be just 1% to 10% lower than if rates held unchanged, with 29% (generally luxury and active adult builders whose buyers are quite affluent) indicating sales wouldn't fall at all if rates hit 5%.

Builder stocks typically overreact very strongly to rising and falling rates, so don't follow builder stock prices to assume what will happen to new home sales and pricing.

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**For perspective,** mortgages rates have increased from 3.78% in September 2017 to 4.45% through March, equating to an 8.4% increase in one's mortgage payment.

However, rates rose even more during the spring selling season of 2017, jumping from 3.41% in July 2016 to 4.30% in March 2017 (11.5% spike in mortgage payment). Despite rising rates, housing had its best spring since 2013 last year, with a strengthening economic backdrop more than offsetting reduced demand from higher rates. All signals point to a similar scenario for builders in 2018, with rising rates unlikely to ruin housing's recovery.



**Rick Palacios, Jr.**  
Director of Research,  
John Burns  
Real Estate Consulting

Join Rick at PCBC 2018  
for his session,  
**Wednesday, June 17 at 3pm**  
Next Generation Leaders –  
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