WisdomTree MINDS ON THE MARKETS

Jeff Weniger, CFA: Head of Equity Strategy

Kevin Flanagan: Head of Fixed Income Strategy

October 3, 2022

We are fascinated by the buyer versus seller game theory in U.S. housing. It's all about interest rates.

When COVID-19 first hit in February and March 2020, investors did what came naturally: they bought bonds. With yields tumbling in 2020's first half, some Americans stocked up on toilet paper…while others got on the phone with their mortgage broker.

Many Americans refinanced at 3% or even lower. The window of time for low rates wasn't fleeting either; a year ago, the average 30-year mortgage was written at 2.9%. Last week, it hit 6.7%, a one-year move that came so rapidly it exceeds all other spikes since 1981 by order of magnitude.

One of the theories making the rounds: with sellers locked in at 3% on their current dwelling, they will be reluctant to list it if it means the next place will have to be financed at nearly 7%. That would offset the exact same calculus of the move-up buyer, who will also have to stay put, lest their payment double or triple just to have one more bedroom. Voila! A housing market in stasis, with prices unable to drift down.

Housing bulls also point out that, unlike the housing bubble of a generation ago, this one was characterized by an abundance of cash buyers. For those of us who remember the "no income, no job, no problem" stories, this market really was backed by conservative underwriting and sophisticated institutional owners. It's a reasonable enough argument. But there's just one thing: this cycle's cash buyer was willing to landlord because cap rates offered a yawning gap over the 0%–1% that was on offer in bonds. Those days are over; 10-Year Treasuries are bouncing around 4%.

Suddenly, landlording doesn't look like such a great business.

Beyond the mortgaged buyer and the institutional investor, another large cohort of potential buyers is the first-time player, a renter. We have a question: why would some surfeit of renters jump at the chance to buy a house for 95 cents on the dollar at a 6.7% cost of debt when they didn't take the plunge when rates were 3%? We think many will type their numbers into a mortgage calculator, throw their hands up in frustration and keep renting. The ownership math simply does not work at the current prices.

That leaves one major group who can act: those who own their house free and clear. This is the cohort least affected by the mortgage arithmetic. We suspect most people are unaware that 39% of all owner-occupied homes are mortgage-free. It amounts to 32 million houses and apartments.

Two in three of these owners are over age 60. One bullish theory has it that they will observe the paucity of buyers and choose to hold off on listing their house, restricting supply. The opposite tack, which is the one bouncing around in our minds, is that some will view home prices just a few percentage points off all-time highs and choose to list now, lest they get stuck selling for even lower prices when reality grips their neighbors. Then there is the other route: they simply list their homes at a normal pace, owing to a steady rate of divorce, downsizing, death or a move-in with their adult children.

But who will buy? It would seem, as far as we can tell, that we have a total collapse in potential buyers right on down the list of financial profiles. The mortgaged buyer, the cash buyer and the renter have all had their math upended. We suspect many sellers will be surprised to find their family home sitting on the MLS for longer than expected.

For more information, contact your WisdomTree representative or visit WisdomTree.com.

Glossary:

Bullish: A position that benefits when asset prices rise.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473, or visit WisdomTree.com to view or download a prospectus online. Read the prospectus carefully before you invest.

Past performance does not guarantee future results.

Important Risk Information:

There are risks associated with investing, including the possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country and/or sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Emerging markets, real estate, currency, fixed income and alternative investments include additional risks. Please see the prospectus for a discussion of risks.

This material contains the opinions of the authors, which are subject to change, and should not be considered or interpreted as a recommendation to participate in any particular trading strategy or deemed to be an offer or sale of any investment product, and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein.

Kevin Flanagan and Jeff Weniger are Registered Representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S.

WisdomTree®