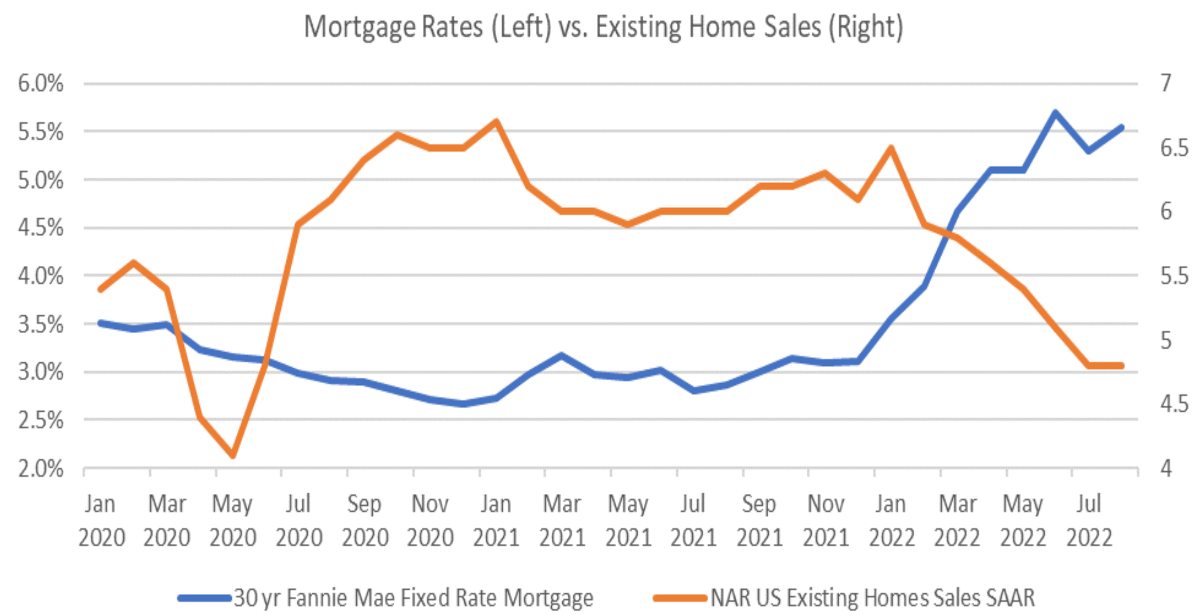
Real Estate

The Fed's interest rates have increased financing costs for residential and commercial real estate and investors must now consider the impacts to their real estate holdings in the new environment. In the residential sector, 30-year fixed rate mortgages ended the quarter at 6.7%, the highest level in 15 years. The effect has been a cooling in existing home sales as shown in the chart below leading investors and homeowners to now monitor potential price declines as buyer demand recedes from the Fed action.



As we discussed in our prior two quarterly commentaries, the slowing home sales velocity has begun to come through, with potential value declines on a year over year basis in certain submarkets as the next step. The sales volume decline has been a leading indicator for cooling demand, while another has been homebuilders canceling home construction and slashing jobs as the market has cooled down. According to a homebuilder survey by John Burns Real Estate Consulting, Texas has a 27% cancellation rate, compared to 12% last year; Northern California is up to 19% compared to 6% last year. As sellers and homebuilders look to find buyers for existing homes, price declines are expected in certain markets with high inventory, especially as increasing mortgage rates make home buying even more unaffordable.

With mortgage rates around 3% in early 2021, if you wanted to spend $2,500/month on a home you could buy a house that cost $750,000. Now, with mortgage rates more than double that, that same monthly payment would get you a house that costs $475,000.

As a result, people are sidelined, waiting for affordability to improve; many are continuing to rent until the market turns in their favor. As a result, multifamily investments are poised to continue their outperformance among real estate property types as the renting versus owning equation has evolved. August marked the first month since June 2020 with no month over month rent growth: according to Yardi Matrix's latest survey, US rent growth decelerated 170 basis points to 10.9% on a year over year basis. While investors have enjoyed an unprecedented post-covid catch-up of 15%+ year over year growth, the remainder of the year is expected to moderate as affordability becomes an issue in a cooling economy.

At RockCreek, we continue to look at affordable housing investments where there is the largest supply/demand mismatch, both in the regulated and market rate segments, where residents can maintain their ability to pay, despite rising inflation and a slowing job market.

Industrial real estate and digital real assets continue to exhibit positive fundamentals, and agriculture related real assets strategies show promise in an evolving geopolitical and environmental climate where, year-round, reliable food production is a necessity for an ever-growing population.