

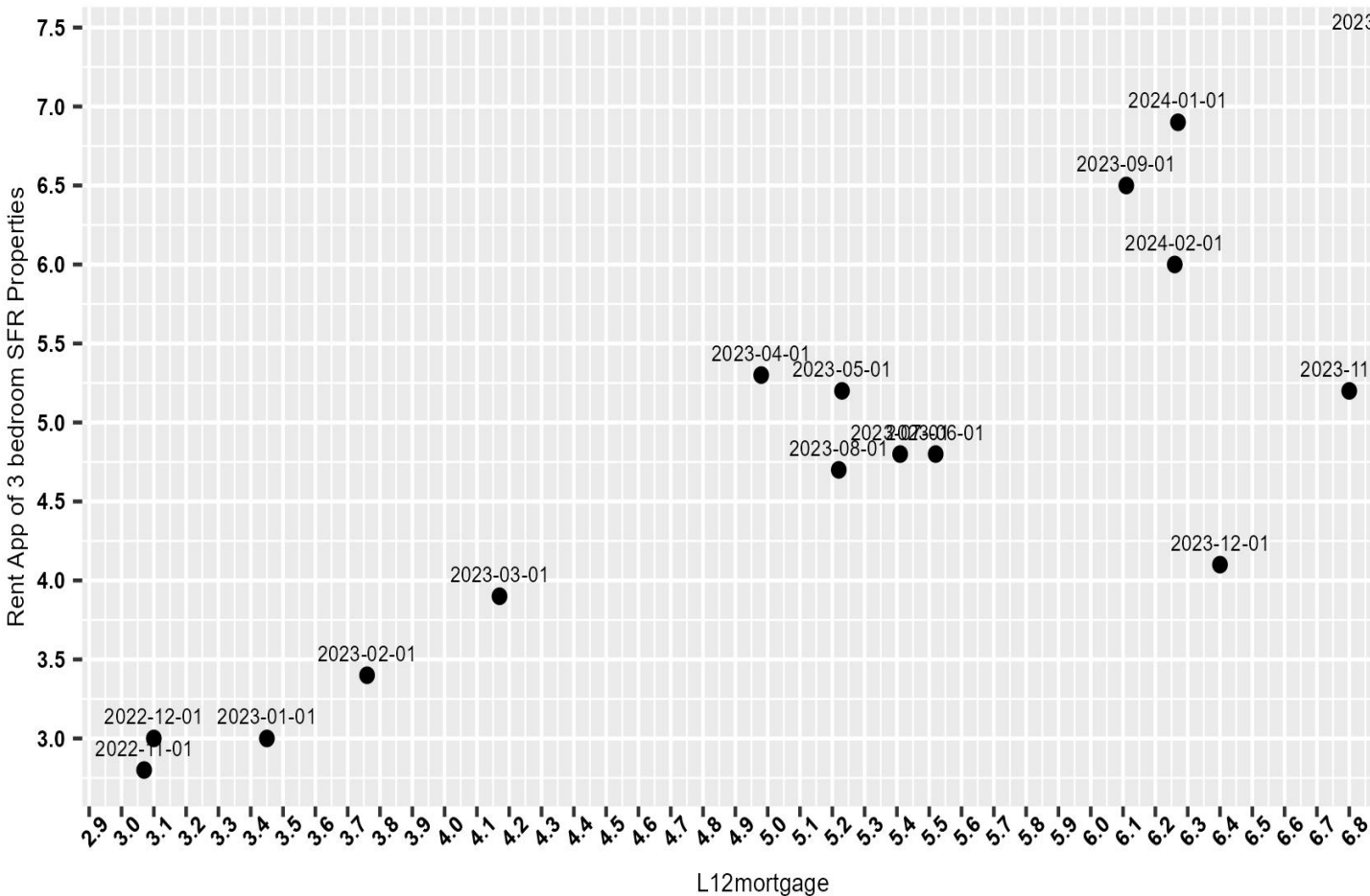
## **Can Higher Mortgage Rates Cause Rent Inflation? (Section I, Visual Inspection)**

In Sep-21 mortgage rates began increasing due to an increased demand to buy a home. Then in response to rising inflation, the Federal Reserve raised the federal funds rate by 25 bps on March 17, 2022. This took the benchmark rate from 25 bps to 50 bps. The federal funds rate currently is 5.50%. In June 2022, it began reducing its balance sheet gradually (known as quantitative tightening, or QT) by not reinvesting all the proceeds of maturing securities. Higher demand to own a home and this series of actions raised mortgage rates from 2.84% in Aug-21 to 6.78% by the end of Feb-24. What impact has higher mortgage rates had on year-over-year home price appreciation (HPA) and year-over-year rent appreciation for single family properties (RRA)?

In Chart 1, the x,y-observations for Feb-24 are rent appreciation on 3 bedroom single family properties in Washington, DC (RRA3bd SFR, 5.04%) and the 30-year fixed mortgage rate from Feb-23 (FRM, 6.26%). The FRM rate on Feb-24 was 6.78%, but this value would not show up on the chart because I am using the FRM from a year ago.

# Chart 1: Washington, DC: 3 Bdr Properties, RRA & L12mortgage

## A higher mortgage rate 12 mos earlier raises SFR rent appreciation



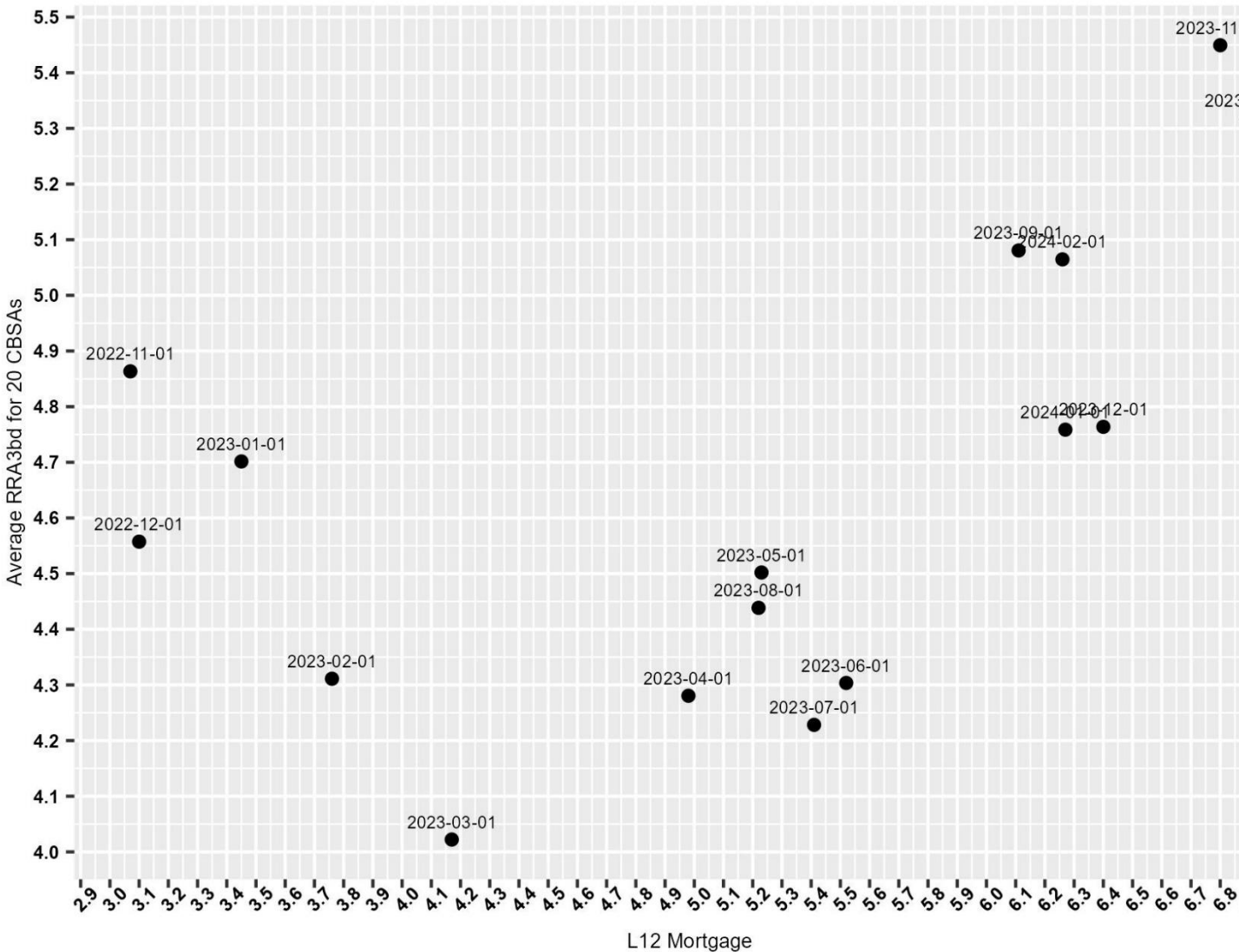
Sources: Freddie Mac, Altisource.com, CHTR, Nov-22 to F

In this exercise, I am using median rents on only three bedroom properties from Altisource.com. The year-over-year rent appreciation (RRA) is thus labelled RRA3bd in the charts.

We do the same exercise for a 20-CBSA average in Chart 2. In Chart 2, the x,y-observations for Feb-24 are the average rent appreciation on 3 bedroom single family properties for 20 CBSAs in Feb-24 (RRA3bd, 5.06%) and the same 30-year fixed mortgage rate from Feb-23 (FRM, 6.26%).

## Chart 2: Average Rent Appreciation for 20 CBSA & L12mortgage

Higher mortgage rates 12 months earlier cause rent appreciation to increase



Sources: Freddie Mac, Altisource.com, CHTR, Nov-22 to F

In both charts, we see that the higher mortgage rates that followed the efforts that began in early 2022 to slow inflation have led to rental rates increasing at a faster pace 12 months later. The quickened pace of RRA3bd, however, feeds into OER which accounts for 29% of core CPI. This suggests that higher mortgage rates are actually causing a very large portion of core inflation to quicken.