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Home builders are shifting their focus toward luxury homes, which generate far wider margins than entry-level homes. DAVID PAUL MORRIS/ BLOOMBERG NEWS

Cash Is King for the New Housing Market

Affluent buyers pay lavishly, but higher mortgage rates send others to sidelines

BY NICHOLAS G. MILLER

America's home-buying market is a house divided.

On one side, near-record home prices and the recent surge in mortgage rates above 7% have relegated buyers to the sidelines. In many cities, sales are stagnant and sellers are cutting prices for lowerend and entry-level homes to lure back buyers.

On the other is a robust luxury market, where wealthier home shoppers swerve around high rates with jumbo down payments or all-cash purchases. The top third of the market is still buying, and spending enough to push up home prices nationally by more than 4% over the past two years.

This dichotomy is playing out across the country. In 33 of the top 50 metro areas, luxury home prices are rising faster or falling slower than starter home prices, according to data from First American Data and Analytics, a real-estate data and economics firm.

In the greater San Francisco area, home prices have surged as the AI boom has brought tech employees new wealth. But just about all of that price growth has come from the luxury market, where prices are up 4.6% year over year, compared with a 1.7%

decline for the starter tier and a 0.6% decline for the middle tier, according to First American.

Around Tampa, Fla., where a surge in new construction after the pandemic raised inventory, home prices in the bottom third of the market—below \$305,000—were down 4.1% in August. The luxury-market homes—priced above \$471,833—have been able to hold steady at 0.4% growth.

The trend in the housing market reflects a growing divergence in the fortunes of the country's economic classes. Wealth has surged for Americans with steady, high-paying jobs or businesses and stock investments. At the same time, middle- and working-class Americans are locked out of that level of prosperity and struggle to keep up with rising costs on nearly every front.

The same trends are shaping the new-home market. Home builders are shifting their focus toward luxury homes, which generate far wider margins than entry-level homes. Many builders have struggled to unload built-up inventories of entry-level homes, compelling them to offer significant incentives in the form of mortgage rate buydowns.

Entry-level builder **Lennar**

recorded an average selling price of \$372,000 in the third quarter, down from \$383,000 the year prior. At **Toll Brothers**, a luxury home builder, the third-quarter average selling price was \$996,000, up from \$974,000 the year before.

All-cash buying is a big part of it. Toll Brothers said on its August earnings call that 25% of the company's buyers are paying in cash. "Demand from luxury buyers remained relatively resilient," said Executive Chairman Douglas Yearley.

Travis Glenn-Rhodes, who works at the port of Tampa Bay, and wife Kate Glenn-Rhodes, who works as a dog boarder, are hoping to buy a home in the Tampa area but the rise in mortgage rates has dramatically weakened their budget.

The couple, in their mid-30s, put their home search on pause as rates approached 7.5%.

"We stopped looking right at that point," he said. "We said, 'We can't do this.'" The couple were looking for a house around 2,000 square feet, and had a budget of \$350,000 to \$400,000. After this latest run-up in rates, the Glenn-Rhodeses would have to put down an additional \$40,000 to land the monthly payment that they had been expecting. To do so, they would have to tap in to savings that Glenn-Rhodes felt wouldn't leave them enough in case of an emergency.

"So either the price of the house has to come down or we have to wait another year," he said.

For some, the weakening of demand for entry-level homes presents an opportunity. Alan Feruglio, a 34-year-old procurement and compliance manager, has wanted to buy ever since he moved to Tampa four years ago, but surging home prices kept his search casual. Now that prices in Tampa have eased, he has begun to look more actively.

"Prices overall are starting to become a little more reasonable," he said, adding that he is looking at houses priced at most around \$350,000. "I've definitely become more aggressive now that there are properties that are showing deep cuts, you know, \$20,000 off asking price."

Move-up buyers who bought their previous home before the rapid run-up in home prices in the wake of the pandemic are armed with hundreds of thousands of dollars in home equity that they can use toward their new home.

Marten Sjoquist bought a house in Oak Island, N.C., in 2021, which has almost doubled in value over the past five years. "We bought it in April '21, kind of at the very beginning of the Covid spike," he said. Over the summer, they sold the house for \$1.55 million and are now using the proceeds to buy a new house in Maine for around \$725,000, paying in cash.

"With the rates, we felt like it was a good setup to be able to buy something with cash," he said.

The higher and lower end of the markets aren't diverging in every metro area. In more-affordable cities, where housing demand has surged as first-time buyers search for less expensive housing, starter-level home prices have outpaced luxury prices.

In the Cleveland metro area, starter-level prices in August were up 5.5%, while luxury prices had risen 4.3%. In Pittsburgh, starter prices had jumped 5%, beating the upper end of the market's 2.6% growth.

But for many housing markets that were once some of the hottest in the country during the buying frenzy after the pandemic, sales activity has stalled most abruptly in the entry-level market.

In both Austin, Texas, and Dallas, prices for entry-level homes have fallen at least 5% year-over-year.

Don Wessel, an agent in Greenville, S.C., said that his local market is typically red-hot, but with the rise in rates, activity has ground to a halt. It "is an extremely popular area," he said. "I can't even tell you how many people are coming. So when you see it impacting an area like this, you know it's something going on."

Higher mortgage rates are particularly putting off firsttime buyers, even as cash buyers are undeterred, he said. The only buyers who have remained are the people that don't have any choice because of a change in job or family situation "and the people where money doesn't really matter," he said.

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