

Housing Affordability Series 1 of 2: Rising Mortgage Rates Deter New Buyers - Housing Overview

The 30-year conforming mortgage rate has a profound effect on the prices of homes and the rate at which interest is collected on mortgages. This rate is increasing, which has an inverted effect on home prices, causing them to drop for the first time in over a decade.

Between July and June of 2022, home prices experienced their first monthly drop since March of 2012. This ended a decade-long surge of rising home prices by falling to -0.44% from June to July of 2022. The cause of this is high mortgage rates.

Mortgage rates, as of late September 2022, have reached 6.7%. This is the highest they have been in over 16 years and have not reached this level since July 2006. When mortgage rates are at such high levels, they can deter new homebuyers, as potential buyers do not want to purchase a home on which they have to pay such high interest. Thus, sellers are forced to drop their home prices to look more favorable to buyers, but such high mortgage rates still end up making most houses more expensive than they were months ago when home sale prices were relatively higher.

Currently, 66% of Americans are homeowners, which is down from 2004 highs of nearly 70% but still on the rise from 2016 lows of 63%. However, these mortgage rates are expected to drop the homeownership rate yet again as an increasing amount of potential buyers are dissuaded from purchasing a home now and instead look to rent and wait until mortgage rates drop.

Sources: U.S Census Bureau, S&P Dow Jones Indices, Freddie Mac, Federal Reserve Bank of St. Louis

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