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Residential Real Estate

The 'lock-in' effect is hitting homebuyers. It may get worse.



Americans have a pessimistic view of mortgage rates, which can further hurt an already supply-starved housing market.

JAYK7



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Americans expect high mortgage rates to rise even more in the coming years, a perspective that could further dampen the housing market.

[The Federal Reserve Bank of New York's SCE Housing Survey](#) found Americans expect mortgage rates to climb from just under the 7% they are now to 8.7% a year from now and 9.7% in three years – the highest recorded since the agency started asking Americans that question in 2014.

The pessimism around mortgage rates comes as the Federal Reserve has held off on cutting interest rates after spending much of 2022 raising them to curb inflation. [Some officials have said the likelihood of the Fed raising rates again](#) is low, and the housing industry is holding its breath on what future interest rates look like.

While consumer expectations won't impact when the Fed lowers rates, they can impact the housing market as consumers make decisions about whether to sell or buy, said Marty Green, a principal at law firm Polunsky Beitel Green.

"It would make little sense to start a house search if you believe interest rates will be unacceptably high and you won't be able to afford the home," Green said in an email. "However, if one truly believes mortgage rates will be 2-3% points higher in a year or two, that could make current rates look much more attractive and could weigh favorably on one's buying decision in the short term."

But Green said the perceptions of higher mortgage rates might further "lock in" homeowners who might've sold their homes if not for the low interest rate they secured on their current home.

"The bigger the delta between the anticipated interest rate on a prospective new home and the interest rate on the current home, the greater the outside motivation has to be to move. Otherwise, the economics are too strong to stay put," Green said.

Even while some life decisions trump low mortgages, such as moving for a new job or for family, it will end up limiting the number of homes on the market, he added.

Tight inventory leads to soaring housing costs

Recent data from Redfin Corp. (Nasdaq: RDFN) shows housing supply is, indeed, still limited.

While new listings in cities Redfin serves are up 10% over 2023, they are still far below 2022 and 2021. That has pushed the median sale price for new listings nearly 6% above what it was at the same time last year. The median sale price hit a record \$383,725 during the four weeks ending April 21, up more than 5% from a year earlier, [according to newly available data from Redfin](#).

That's double what the median price was 10 years ago and up about 50% over the past five years, according to Redfin. The combination of high interest rates and high prices has helped push the median monthly housing payment to a record \$2,843, up 13% over the same time last year.

About 90% of U.S. metro areas posted home-price gains in the first quarter of 2024, and 30% showed double-digit gains.

"In the current market, rising prices are the direct result of insufficient housing supply not meeting the full demand," Lawrence Yun, chief economist at the National Association of Realtors, said in a news release.

Soaring prices and limited supply have dampened many Americans' hopes for owning a home of their own, too, according to the New York Fed survey.

About 40.1% of renters put the odds of them ever owning a home in the future at 40.1%, down from 44.4% a year ago and the lowest recorded since 2014. Those renters also expect rents to go up by about 9.7% in the next year, higher than the 8.2% predicted last year.

And 38% of homeowners said they don't believe they could afford to buy their own home if they were purchasing it today, [according to separate research from Redfin](#).

Baby boomers, millennials, Gen Z are in a housing market tug-of-war

A [report from Redfin earlier this year](#) found the length of time people stay in their homes has more or less doubled since 2006. In that year, the median homeowner spent about 6.5 years in a home. That number peaked at 13.4 years in 2020, then dipped to 11.9 years in 2023.

About 56% of baby boomers have lived in their home for at least 10 years, according to the study, while 35% of Gen Xers have lived in their home for at least a decade. Just 7% of millennials have stayed in their home for 10 years or longer.

The homes older Americans own also tend to be larger. [A separate Redfin analysis](#) found empty-nester baby boomers own twice as many three-bedroom-plus homes as do millennials with kids.

The houses that do come up for sale are increasingly in need of renovations. [A report from home-improvement company Leaf Home and Morning Consult](#) found 73% of baby boomers have been in their current homes for 11 years or more, and over half own homes built in 1980 or earlier that have never been renovated. A majority say they have no plans to do so, either.