Southwest Washington

Realty

Today's 30-year fixed mortgage rates are holding near 3%, however an increase to 5% or more in the future is completely possible. In fact, it is almost a given that the economy will recover following the COVID19 pandemic and the Federal Reserve will need to raise the "Bond Rate" on Treasury Bonds in order to buy back the cash printed in the massive COVID spending relief programs. It's important for housing market participants to understand rising mortgage rates, and how they impact the buying and selling of a home.

Rising Interest Rates Vs Homebuyers

For example: If John Home Buyer qualifies for a 4% rate on a 30-year fixed mortgage on a home worth $400,000, his monthly mortgage payment would be $1,900. But if John now receives a 5% rate on a 30-year fixed mortgage, his monthly payment would rise to $2,138. That 1% increase in interest rate raises John's payment by $238, or roughly 13%. So, what does this mean for john the homebuyer?

From a home buyer's perspective, as mortgage rates increase, affordability decreases. If John Home Buyer qualifies for a $400,000 mortgage at 4% interest, at 5% interest lenders can only offer John a $355,000 loan based on his qualifications. That 1% increase in mortgage interest decreases Johnny's purchasing power by $45,000.

Rising Interest Rates Vs Sellers

Rising mortgage rates affect sellers as well, although differently. For example, if Tammy wants to sell her house for $400,000, she is more than welcome to list her home at that price. Due to rising interest rates, however, potential buyer John can only afford Tammy's home at $355,000. A 1% increase in mortgage rate effectively diminishes the market value of Tammy's home by about $45,000.

Interest Rates Vs Strong Economy

In the real estate market, it is a generalization that rising interest rates make buying or selling a home more difficult and decreasing interest rates make buying and selling easier. However, if the economy grows fast enough, rising mortgage rates will not have as great an effect on property value and housing prices. For example, if mortgage rates increase one percent, monthly payments increase in our example by $238. However, a strong economy allows employers to increase salaries enough to help compensate for the rising interest rate. As long as the economy continues to grow, and we would continue to see job growth and wage growth, a rise in interest rates in this case would not paralyze the housing market.

According to the National Association of Realtors (NAR)

Experts have predicted that the economy will bounce back post-pandemic. At the NAR's second annual Real Estate Forecast Summit, the leading economists predicted that job conditions will improve, home prices will increase, and stable interest rates will permeate in 2021**:**

Gross Domestic Product growth of 3.5% in 2021 and 3.0% in 2022. 2) An annual unemployment rate of 6.2% next year with a decline to 5.0% in 2022 3) Annual median home prices to increase by 8.0% in 2021 and by 5.5% in 2022 4) Housing starts of 1.50 million next year and 1.59 million in 2022 So, with the Gross Domestic Product decreasing, the increase in home prices decreasing, followed my more houses entering the market, one can conclude that at best if interest rates remain low housing prices will slow into the near future. If interest rates increase, then we could be set up for a drop in home prices in 2022. However they will cost the Buyer more in interest payments. Sellers will be on the losing end of this scenario. Buyers will not see any real bargains as inflation starts to rear its ugly head.

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