

Upside down economically': Here's why the housing market probably won't get more

affordable if the Fed cuts rates

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• 7h •

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- The Fed cutting rates is unlikely to give prospective homebuyers relief, Peter Boockvar says.
- The investment chief says Fed rate cuts are more likely to impact short-term rates in the economy.
- Rate cuts also don't change the fact that the market is in dire need of new supply, he said.

Don't expect the Fed to rescue the housing market. *Note*

Markets have their eye on the Fed's likely interest rate cut in September, but Peter Boockvar, the CIO of One Point BFG Wealth Partners, has a two-part thesis as to why housing will stay expensive, even if the Fed trims its benchmark rate.

It's a tough time for prospective buyers. The 30-year fixed mortgage rate, the most popular home loan in the US, is hovering around 6.5%. That's down slightly from highs above 7% this year, but still well-above levels seen in the period of 15 years that followed the financial crisis.

Here's why affordability might not improve even if the Fed loosens monetary policy, in Boockvar's view:

1. Fed rate cuts won't pull down long-term rates

When the Fed cuts rates, it most directly impacts short-term interest rates in the economy. That's unlikely to have a sizable influence over the longer-term rates, Boockvar said, speaking to CNBC on Tuesday. That's important to note because longer-term rates, like the 10-year Treasury yield, are the primary drivers of long-term borrowing costs for consumers.

The 10-year bond yield is elevated compared to levels at the start of this year, and it could remain high as investors grow hesitant to pile into long-term government bonds amid mounting deficits and heavy government borrowing. *Note*

"I think there's a global aversion to taking on long-duration. And long-term interest rates are higher across the world," Boockvar said. "So I think those looking to buy a home should not necessarily bet they're going to get rate relief with the cut in short-term interest rates." *Note*

2. Fed rate cuts won't fix the supply problem

What's really holding back the market from becoming easier for buyers is supply.

The housing market is in dire need of more homes to help bring prices down. Even if mortgage rates edge lower, hotter demand could send prices higher unless the market gets an increase in available supply, Boockvar said.

"To really be big picture here, you really need baby boomers to downsize. That is where most of the existing home supply needs to come from," he said.

But getting more Americans to move is a challenge. Many homeowners are staying put for two reasons:

- **Mortgage rates are too high**. More than 90% of US homeowners with a mortgage have financed at a rate below 6%, according to a 2023 Redfin analysis.
- **Home prices are too high**. The median existing home price rose to a record \$435,300 in June, according to the National Association of Realtors.

But, if home prices were to drop, that would hit homebuilder profits, Boockvar said, suggesting it could potentially limit new housing supply hitting the market.

"It's sort of a catch-22 with this industry right now, that's sort of upside down economically," Boockvar added.

Forecasters generally aren't very optimistic when it comes to the outlook for housing affordability.

Redfin economists expect the median US home sale price to dip 1% by the end of the year, the real estate listings site said in May. Zillow, meanwhile, said in July it expected home values to post a 2% decline by the end of the year.

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