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COLORADO REAL ESTATE

Market freezing out homebuyers

High mortgage rates, house prices prompt fears of 'cold winter'

Translate



Nicole Rueth, senior vice president and wealth expert, at The Rueth Team offices on Monday in Englewood. Rueth doesn't expect a meaningful improvement in housing activity until around the end of 2027. RJ Sangosti — The Denver Post

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Mortgage rates on 30-year loans were rising slowly this summer before they jumped rapidly this fall to 7.5%, shocking consumers and putting a deep chill on housing markets across the state.

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"October feels like a total disaster," lamented Patrick Muldoon, president of Muldoon Associates in Colorado Springs. "All the Realtors are feeling it. The pivot is real."

Buyers are feeling it even more.

Higher rates might not matter as much if home prices were lower. But artificially low interest rates and stimulus money pumped home prices far beyond what the typical consumer could afford earlier this decade, he said.

Colorado now has some of the highest home prices outside coastal states, and residents already carry some of the highest debt burdens in the country. Like the air, the margin for financial errors is thinner.

About 7 out of 10 consumers who want to buy a home have waited 13 months, and they were holding out for a mortgage rate closer to 5%, according to a survey Neighbors Bank conducted this summer.Those hopes were dashed when rates on a 30-year loan rose from less than 6.5% to 7.5%, a move that likely will sideline even more buyers, predicts Cooper Thayer, a Realtor with the Thayer Group in Castle Rock.

"It is going to be a cold winter in the real estate market, " Thayer said. "We will have a dormant market."

The median U.S. household now earns three-quarters of what is required to afford the median-priced home, and the recent rise in rates has put homeownership out of reach for an additional 5 million households, estimated Nancy Vanden Houten, the lead U.S. economist at Oxford Economics, in a recent update.

Real estate agents, normally an optimistic lot, can't help noticing. Things weren't that robust to begin with, and now they are slowing even more.

How slow? The average number of single-family home showings per listing in Boulder County this month was one, said Kelly Moye, a Realtor with Compass Real Estate.

That isn't one offer or one closing. It is only one showing, Moye said. Even curious neighbors wanting to take a peek and munch on the free cookies aren't biting.

The monthly mortgage payments that buyers face are the second-highest on record, according to Redfin, the Seattle brokerage. Pending sales, a measure of future activity, are down sharply over the past two weeks.

In metro Denver, there were 9,842 buyers active for every 16,529 sellers active in September, according to Redfin. Thayer said in the late 2010s, the number of active buyers averaged between 15,000 and 20,000 in Denver.

Sellers outnumber buyers by 68% in Denver, which is slightly higher than the 63% gap nationally. And the U.S. market hasn't seen so few buyers active since 2013, when the country was recovering from the last housing downturn, according to Redfin.

"A lot of these sideline buyers are going to remain that way for the time being until the economy sorts itself out," Thayer said.

Jared Reimer, a Realtor with Elevations Real Estate in Fort Collins, said the impact of mortgage rates above 7% probably won't be fully felt for eight to 10 weeks.

A rate-induced slowdown risks aligning with the normal seasonal slowdown seen around the holidays.

"Sellers are doing the best that they can to incentivize buyers with price reductions or helping to buy down rates, but it can only go so far," he said.

Buyers are more selective now than ever, and a deal has to be perfect for them to pull the trigger, he said. Increasingly, they aren't pulling the trigger. They aren't even hunting for a home.

How did the market get here?

Forecasts at the start of the year had called for 30-year mortgage rates to dip below 6%, and in February, ever so briefly, they did.

"We saw a pickup of business. We did see buyers able to get their arms around it," said Nicole Rueth, senior vice president with CrossCountry Mortgage in Englewood.

But that embrace was broken when the war with Iran started Feb. 28. Oil prices spiked, pushing inflation higher. Bond investors wanted a higher yield to compensate, including for mortgages.

But the upward pressure on interest rates goes beyond the conflict in the Middle East and higher oil prices, meaning it could prove more sustained.

The U.S. government carries $40 trillion in debt, and interest payments on that debt are topping $1 trillion a year. Some investors, especially abroad, are stepping away. Those remaining want a higher return to compensate for the added risk.

Barring a big drop in home prices, which carries its own set of problems, higher mortgage rates will boost the income required to buy a home. And they limit who can qualify in the first place.

Assuming a buyer tried to get a midpoint or median-priced home in Denver costing $569,900, they would need an income of $159,133 a year, estimates Varun Attri, editor of Coinscribed, a personal finance website.

In February, when the 30-year rate dipped briefly below 6%, the required income was $142,340. That represents an 11.8% difference. Pay raises won't come to the rescue. Employers are budgeting for a 3.5% pay raise on average this year.

"Across 50 metros, the average increase since February is 11.8%, at the same asking prices. The rate did all of it," Attri said in an email.

First-time buyers who don't have equity to bring to the closing table are especially sensitive to higher rates. And higher rates sap the motivation of homeowners who locked in rates in the 3% range during the pandemic. There isn't a motivation to sell unless they absolutely have to.

Most vulnerable are the buyers who stretched to get into a home, making offers above list price just to win a deal in the frenzied period between 2020 and 2022. Some took out adjustable-rate mortgages to make the math work as interest rates rose.

A common saying in that market was to "date the rate and marry the home." But rates didn't fall as anticipated, and the clock is running out on the initially lower rates that the ARMS offered.

That doesn't mean interest rates couldn't reverse as they did in 2023. Rates are getting whipsawed by fears that AI and tech spending may be getting ahead of itself and could reverse.

Mortgage buyer Freddie Mac said Thursday the average rate on a 30-year loan went from 7.32% to 7.24% last week, its lowest level in a month. But if rates do take a big dip, something even darker likely would be at play.

"If the AI bubble really bursts, it would affect the economy and jobs. It would throw us into a recession," Rueth said.

The loss of wealth from a market swoon could deter sales in the luxury home segment of the market, which has proven more resilient. And a tech downturn could put the incomes of many higher-earning households, the ones who are now best able to absorb higher financing costs, at risk.

Concerns of a "higher-for-longer" rate environment are expected to dampen demand for mortgages this year and into next.

"The latest rise in mortgage rates, together with our view that rates will stay higher for longer, has led us to revise down our forecasts for housing starts, home sales and home price growth," Vanden Houten said.

She doesn't expect a meaningful improvement in housing activity until around the end of 2027. Rueth also thinks conditions could remain unfavorable the rest of this year and through next year.

The Trump administration has stated it might attack Iran after the midterm elections, which could usher in even higher oil prices. If things don't go as planned, that could set the stage for mortgage rates to push into the 8% range, Rueth said.

Traps to watch for

As home sales have slowed, Muldoon has seen his property management business pick up.

Sellers who expected last year to achieve a sale this year are finally conceding the market is not in their favor, usually after several failed attempts to find a buyer. He is seeing a big rise in involuntary landlords in El Paso and Pueblo counties.

Historically, an investor could expect to earn 1.5 to 3 percentage points above the risk-free return or what a 10-year U.S. Treasury paid. But now, the yields are on par, and the upside in appreciation that rentals once offered isn't there.

They are paying for the "privilege" of getting the midnight call to fix a toilet if they are self-managing their properties.

For many of the involuntary landlords, a missed payment or two by a tenant are enough to push them into a distressed sale, he said.

Institutional investors have been net sellers of homes this year, in part because the Road to Housing Act limits the number of homes they can own. Small investors have been stepping into the gap, according to Realtor.com. But small investors tend to be more reliant on borrowed money, and higher interest rates could dampen the returns they earn.

Higher rates also increase the risk for buyers who have purchased a new home in a community and can't hold for the long term.

Builders learned their lessons in the housing crash of 2008 about undercutting their previous buyers and have resisted price cuts, Muldoon said. Now the discounts are coming in concessions, most significantly in interest rate buydowns.

Buyers in a new housing development sometimes fail to realize they will be competing with the builder until that last home is built and sold, he said. And as home sales slow, that wait stretches out.