

## WSJ Print Edition

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Areas such as San Antonio, above, and New Orleans have large shares of underwater homes. BRONTE WITTPENN FOR WSJ

## More Homeowners Slip Underwater

BY VERONICA DAGHER

Homeowners who bought around the peak of the market are increasingly finding they owe more on their mortgages than their properties are worth.

The number of owners who are underwater is small but growing, and they have recently been concentrated in pandemic boomtowns such as Austin, Texas, and Cape Coral, Fla. A rapid rise in prices in these areas was followed by drops of nearly 20% in some of them. Those who bought at the top have seen value slip out of their homes since then.

Being underwater can have real consequences for, say, homeowners who want to sell. They might hold off if it also means writing a check for the remaining balance to the mortgage company. During the financial crisis of 2008, many owners walked away from their underwater homes, allowing the lender to foreclose, though there is little sign of it happening now. \*

Homeowners nationwide still have tens of trillions of dollars in equity overall. While some pockets of the U.S. housing market have softened, prices remain high overall, one reason that home sales are relatively sluggish. \*

A typical decade's worth of home-value growth was packed into just five years, starting in 2020, said Kara Ng, a senior economist at Zillow. Housing demand was driven by a perfect blend of low mortgage rates, high consumer savings and more people desiring larger spaces. Just about every major market experienced robust price growth, but the trend was turbocharged in some Sunbelt cities where remote workers flocked during the pandemic.



The record-fast growth cooled off around when mortgage rates began to rise in 2022 and affordability became stretched. A construction boom added supply to meet demand. There is now a more balanced market between buyers and sellers.

Today's sellers who bought recently are less likely to come out ahead compared with those who bought before the pandemic, according to a Redfin analysis.

Tim Hur, a real-estate agent in Atlanta, is seeing more people willing to sell at a loss because they are fearful their equity will turn negative.

One of his clients had bought a roughly 1,600 squarefoot, three-bedroom home for about \$400,000 around three years ago. The house is now on the market for around \$385,000. He isn't underwater yet. "He wants out now before prices drop further," said Hur.

A growing subset of homeowners is underwater, particularly if they bought after prices had already risen. In April, the number of such homeowners surpassed half a million, the highest April reading in five years, said Andy Walden, head of mortgage and housing market research at Intercontinental Exchange.

Areas such as San Antonio and New Orleans have some of the largest shares of underwater homes.

The net effect of being underwater for owners is that they can get effectively trapped in their homes, real-estate agents say. They are generally unable to sell their properties without bringing cash to the closing table to cover the difference between the sale price and their outstanding mortgage balance.

Lenders are also typically unwilling to refinance mort-gages when an owner is underwater. So even if mortgage rates go down later this year or next year, it likely won't help people who are underwater.

Still, negative equity largely has little impact on homeowners' daily financial lives as long as they can afford to stay in their homes and don't plan to sell in the near future. Assuming home prices bounce back in these areas, their equity could turn positive again.

A big problem leading up to 2008 is that lenders extended mortgages to buyers who couldn't afford the payments. That left less reason for them to hold on to their houses after values collapsed. These days, lending standards are much tighter.

Even people who find themselves underwater on their mortgages generally don't have a major cause for alarm, provided they can consistently make payments and keep their jobs, said Chen Zhao, an economist at Redfin.

Zhao expects a slight national home price drop of 1% by the end of the year, which might lead to more people being underwater. But she said that a surge in foreclosures was unlikely. The more stringent lending practices ensure that homeowners are typically able to handle financial fluctuations.

During the pandemic home--buying frenzy, many people made substantial down payments on their homes. They had a store of equity if home prices were to decline, especially compared with those who put down less money.

People who used low-downpayment loans, including those backed by the Federal Housing Administration and Department of Veterans Affairs, started with less equity, which made them more vulnerable to even slight dips in home prices, said Walden.

Such loans tend to be used by people of modest means, such as first-time buyers, and there are signs that more of them are stressed financially.

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