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Fewer people can qualify for a mortgage these days. TAMIR KALIFA FOR THE WALL STREET JOURNAL

Stubborn Sellers Prop Up Home Prices

Mortgage rates above 7% might not be enough to crack home values if owners hold the line

Many of the ingredients needed to cause a fall in U.S. home prices are in place, except for the one that really matters: owners who are desperate to sell.

Mortgage rates have climbed to 7.4% for the first time since November 2023. This should be bad news for home values, especially as there is much more supply on the market than there was three years ago.

A wide gap has opened up between the number of sellers and buyers in the housing market. In September, 1.5 million Americans were trying to sell their homes, based on the number of active listings. Only 929,000 people were buying, according to Redfin estimates. The surplus of sellers, nearly 600,000, is the largest in Redfin's records going back to 2013.

Now look at the dynamics in the housing market in November 2023. Back then, there were 1.15 million sellers and 1.05 million buyers. A slight surplus of 100,000 sellers meant the market only marginally favored buyers.

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Inventory is climbing because the lock-in effect caused by old, ultracheap mortgages is fading. Today, more than a third of outstanding home loans have a rate above 5%, compared with a fifth in 2023, data from Intercontinental Exchange shows.

Some low-rate mortgages paid off. Other owners had to give up their favorable loans to move for a new job or a divorce. The result is that more people are able to sell their homes today without having to sacrifice a cheap mortgage.

Meanwhile, borrowers are in difficulty. Mortgage rates are back at highs seen three years ago, and housing has become more expensive since then. The median U.S. home price was $417,500 in September, an increase of 8% since November 2023, data from the National Association of Realtors shows. Fewer people can qualify for a mortgage these days, so the number of buyers in the market has fallen by 11% compared with levels seen in late 2023.

Buyers have gained bargaining power lately. In the four weeks through Sept. 20, a fifth of sellers dropped their asking price, Redfin data shows. And nearly half of sellers are giving concessions to buyers to get deals done, such as offering to cover closing costs or giving money for repairs.

But owners are unlikely to make the kind of price cuts that would really make housing affordable again. "A metric that I would love to have is how motivated those sellers are," says Jim Egan, U.S. housing strategist at Morgan Stanley. For now, owners aren't behaving like they are under pressure to sell. That could be because the job market is stable and delinquency rates on conventional mortgages are low.

People who don't want to slash prices are delisting their homes in record numbers. In September, 6.1% of sellers pulled their property off the market after failing to get an acceptable offer. Delisting activity was especially high in Chicago, where 18% of homes were pulled last month. Sellers can also rent out their homes if they don't get a tempting offer.

There are pockets of distress in the market, especially in the Sunbelt where there is too much supply and the pandemic rally left home values out of sync with local incomes. In Austin, Texas, home values are down 27% from their 2022 peaks, Zillow data shows.

Foreclosure rates have been climbing since the Trump administration tightened the rules about how often troubled Federal Housing Administration mortgage borrowers can apply for help with payment arrears. However, the share of distressed selling is tiny.

The longer-term question is what happens to U.S. home values if mortgage rates stay at their current levels. The rate on a 30year fixed rate mortgage has averaged 7.7% since the early 1970s. Although current rates seem high by recent standards, they are just back to historical norms.

A recession that causes job losses would flush out more sellers. But Americans have record equity in their homes, so there is a big cushion if things go wrong with the economy. Owners' equity is worth 72% of the total value of U.S. housing, compared with 55% in the fourth quarter of 2007, right before the last major housing crash. One factor that drove home prices down back then was that some homeowners had so little equity in their homes that they were willing to hand back the keys to their lenders.

And while the lock-in effect is easing, nearly half of outstanding mortgages still have a rate below 4%. This hasn't been a feature in past downturns and should help to keep a floor under home prices.

With sellers unwilling to drop to prices that would bring home hunters off the sidelines in big numbers, the best that buyers can hope for is that their incomes grow faster than home values. That will be a slow and frustrating grind back to affordable housing.

Carol Ryan

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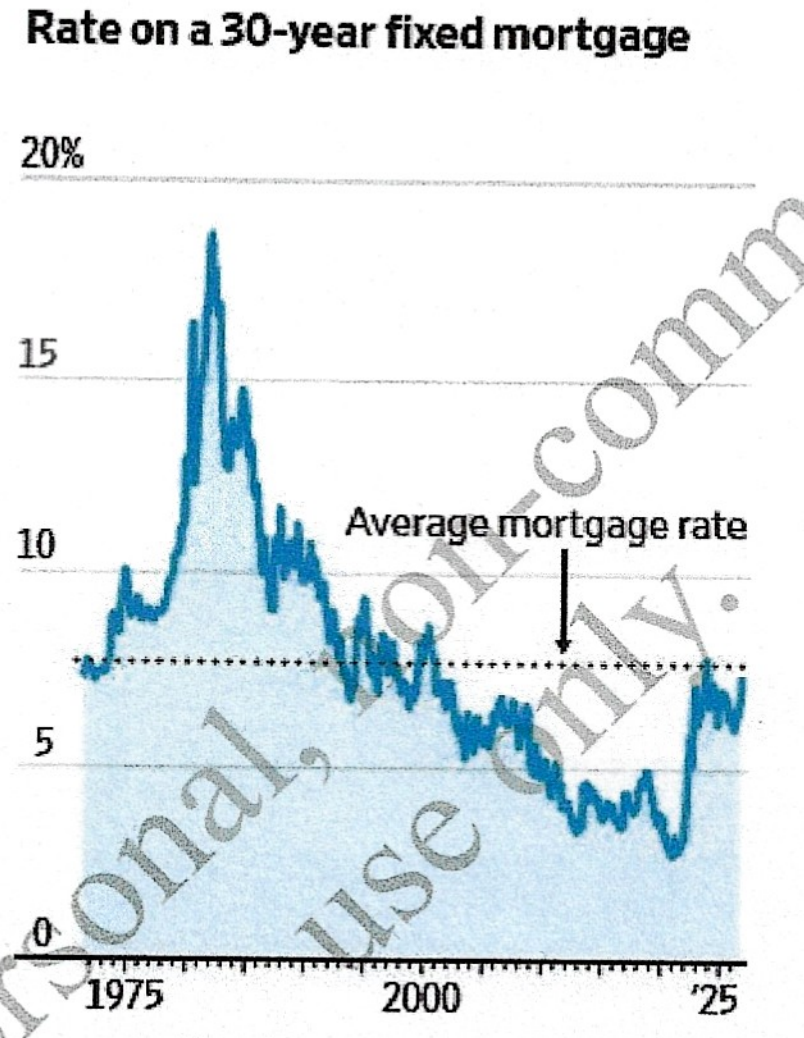

Sources: Freddie Mac (mortgage); Redfin (buyers and sellers)

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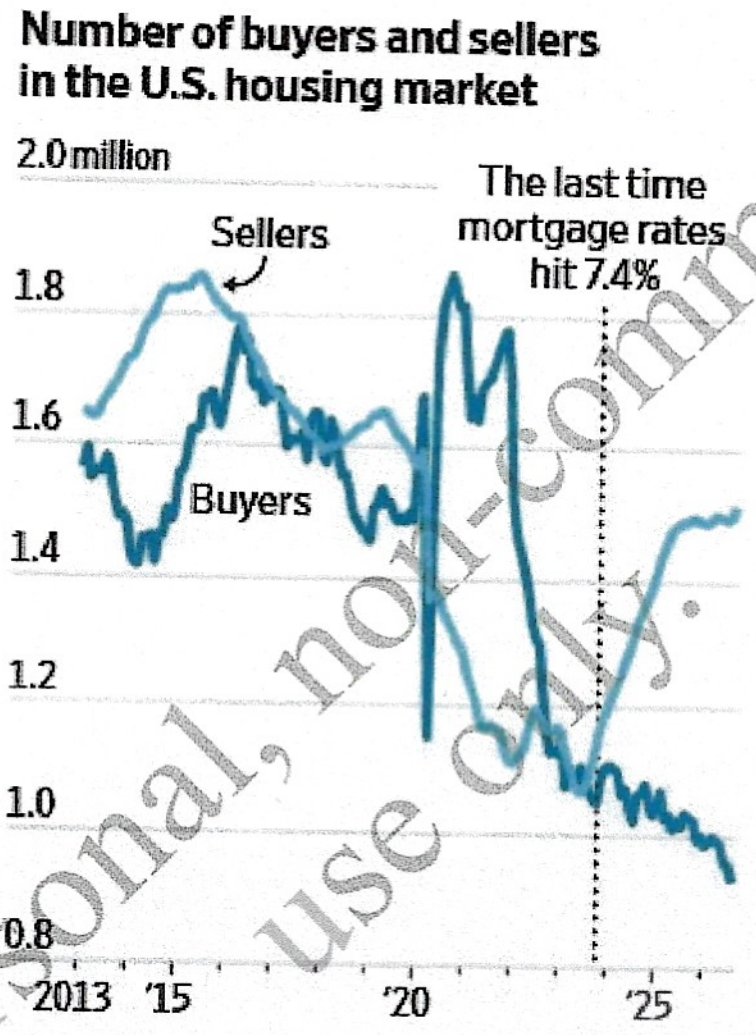

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