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Even as home prices have risen steadily, buyers remain rate-sensitive.

Housing Market's New Test: The 7% Mortgage

Runup in rates is deterring buyers spooked by prices and economic stress

BY NICHOLAS G. MILLER

Mortgage rates are closing in on 7% for the first time since the beginning of last year, promising more pain for prospective home buyers already wincing at record-high home prices and an uncertain economy.

Last week, 30-year fixed rates averaged 6.76% according to Freddie Mac. But daily rates have jumped since then and already surpassed 7%, according to Mortgage News Daily, which uses a different methodology.

The milestone of 7%, while not itself significant in terms of affordability, will likely spook buyers even further, economists said, and add a disappointing punctuation mark to a year once expected to launch the housing market's recovery.

"A jump in rates like this will certainly cause [prospective home buyers] to pause," said Michael Fratantoni, chief economist at the Mortgage Bankers Association. "They may not go ahead and put in that contract or apply for the loan."

Mortgage rates as surveyed by Freddie Mac touched 7% in January 2025, but they haven't stayed above that level for an extended period since the second half of 2023. Before 2022, mortgage rates hadn't hit 7% since 2001.

The rate on a 30-year mortgage tends to follow the 10year Treasury yield, which on Tuesday rose as high as 5.04%, its highest level since 2007, before settling just below the 5% level.

The Federal Reserve is expected to raise its key rate on Wednesday for the first time in three years. A rate increase could lead to lower Treasury yields—and therefore mortgage rates—if the market believes that the Fed is taking inflation seriously. Or it could push yields higher if taken as a sign that the economy faces a real inflation problem.

This year's run-up in mortgage rates, driven primarily by President Trump's war in Iran, has kneecapped a housing market now well into its fourth year of stagnant sales.

The National Association of Realtors said last Thursday that sales of existing homes in August declined 2% from the previous month to its lowest seasonally adjusted annual rate since June of last year.

Zillow economists once projected 4.3% growth in home sales for 2026. Now they are forecasting sales to be up 1.3% for the year and down 3.5% for the fourth quarter.

"The math for the rest of the year is going to be very challenging," Zillow economist Kara Ng said.

A difference of a few percentage points on a mortgage can translate to hundreds of thousands of dollars in interest over a 30-year loan. Home buyers also won't have an opportunity to refinance—and thus lower their monthly payments— anytime soon with rates likely to stay elevated, economists said.

Even as home prices have been steadily rising, many buyers remain rate-sensitive, even during this extended housing slump. In February, rates that briefly dropped below 6% sparked a flurry of buyer interest and optimism that a rebound in sales was on the horizon.

But after the U.S. and Israel attacked Iran, rates surged and have risen significantly since then. They jumped further in recent weeks as a bond selloff driven by fears of sticky inflation and soaring government deficits drove up Treasury yields.

Regan Black has been trying to sell his condo in Charleston, S.C., for months but has gotten little interest. He listed it at $225,000 and cut the price by $10,000, but is leaning toward taking it off the market and renting it out.

"I would assume that higher rates are keeping them on the sidelines," he said.

More sellers are following Black's lead amid weak buyer demand, Ng said. Note

"The seller today is more willing to pack up and try again later," she said.

Real-estate agent Maria Bozza didn't have much to do at the open house she hosted on a sunny Saturday in Floral Park, N.Y., on Long Island. She sat on the windowsill, occasionally going over to peek out through the front door, but the big red flag advertising the showing wasn't drawing much attention.

The seller originally listed the house for $900,000 but dropped it to $850,000 because offers weren't coming in. At current rates, a buyer could have close to a $5,000 monthly mortgage payment on the house, an expense Bozza suggested buyers manage by renting out the second floor as an apartment.

The return to near-7% mortgage rates sparks flashbacks to the end of 2023, when a rapid surge in rates sent home sales plummeting.

Note

The economy and housing market are different now than they were then—and not necessarily for the better. For one, unemployment was at historic lows in 2023, and while inflation was high, so was wage growth. "You had a lot of young, potential firsttime home buyers in a really great situation, feeling great about their job prospects or their job situation and yet were running into this wall of getting outbid at every home that they were looking at," the MBA's Fratantoni said.

But now, an inscrutable economy—featuring low hiring rates and mediocre wage growth, combined with a volatile geopolitical environment— has left prospective home buyers hesitant to make a bigticket purchase.

"Wage growth is not that great. The job growth we're seeing is concentrated in just a few sectors," Fratantoni said. "I think that'll show up as less-than-robust demand on the housing side."

Note

The good news for buyers is that inventory is much higher than it was in 2023. Then, homeowners—many of whom had mortgage rates in the 2% and 3% range—refused to budge in order to keep their rates. A dearth of available homes contributed to cutthroat competition and soaring home prices.

Note

Now, inventory is near prepandemic levels because homeowners, getting impatient waiting for rates to fall, have decided to sell anyway. But 7% mortgage rates could hurt that progress.

Jonathan Pearl has kept his home in Marlborough, Mass., even though he moved out of state for a job opportunity. The house is worth close to $900,000 and has more than 3,000 square feet on 1½ acres of land, but his mortgage, with a rate of 2.875%, only requires he pay $2,300 a month.

He considered selling it, but he might return to the area and knows he won't be able to find anything comparable for so cheap. "It's not a strain on our finances. We can keep it for a few years and then figure it out," he said.