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Mortgage-Rate Fall Leaves Other Hurdles

Near-record home prices, weakening jobs market confront would-be buyers Note

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Mortgage rates fell this week to their lowest level in nearly a year due to widespread expectations that the Federal Reserve will cut rates next week, offering the beleaguered housing market some relief.

The average 30-year fixed mortgage rate fell to 6.35%. That is the lowest level since October and a notable drop from January, when rates were above 7%, according to Freddie Mac.

That could entice more home buyers to jump into the market, especially if rates keep declining and fall below 6%, which some real-estate agents and bankers say is a key psychological threshold.

Buyers have already gained purchasing power compared with the start of the year. A home shopper with a $3,000 monthly housing budget can afford to buy a $466,000 home at a 6.35% mortgage rate, assuming a 20% down payment, according to real-estate brokerage Redfin. At a 7% rate, that buyer's maximum price would be $442,500.

"I expect we'll be able to get some people off the sidelines," said Neil Bader, na-tional director of retail mort --gage lending at the Federal Savings Bank.

Note

But even with lower rates, the market is still far from affordable. Near-record home prices and other ballooning costs are keeping many potential home buyers at bay.

Note

"There's no mortgage rate in the foreseeable future that would change the affordability scenario significantly," said Mark Fleming, chief economist at First American Financial, a title insurance company.

Some buyers are charging ahead. Mortgage purchase applications in the week ended Sept. 5 were up 22% from a year earlier to the highest seasonally adjusted level since July, according to the Mortgage Bankers Association.

Lower rates are also a major boon to existing homeowners who bought in recent years and have been waiting to refinance.

Buyers are still cowed by home prices that have climbed more than 50% since 2019. Rising home-insurance and property-tax costs are also making purchases less affordable.

The housing market is in its third straight year of dismal sales. Note

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About 13% of U.S. renter households could afford to buy a median-priced home in the second quarter of this year, down from 17% in 2019, according to real-estate brokerage CBRE.

A weakening job market also poses a headwind for home sales, because would-be buyers are unlikely to make a big purchase if they are nervous about keeping their jobs. U.S. job growth continued to slow in August.

"If you start losing jobs, that's really detrimental for housing demand," said Selma Hepp, chief economist at realestate data provider Cotality.

Huntington Bancshares Chief Financial Officer Zach Wasserman said he doesn't expect any "significant wave" of activity soon. Lower rates will help stimulate an incremental pickup in the market, he said, but there are still major challenges such as tight supply in many parts of the country.

Mortgage rates have slid in recent weeks as expectations have grown for a Fed rate cut next week. The Fed could also project additional cuts later this year.

Note

Mortgage rates aren't directly tied to those moves, but tend to loosely track the yield on the 10-year Treasury note, which briefly dipped below 4% on Thursday for the first time since April.

Mortgage rates "will need to go a lot lower, I think, to really make a sizable impact" on housing demand, said Todd Luong, a real-estate agent in Frisco, Texas. "It's going to have to start with a 5 at least."

Buyers are more comfortable with a mortgage rate below 6%, according to a March survey by John Burns Re-search & Consulting. Almost half of consumers said they would accept a mortgage rate between 5% and 5.49%, while 22% were willing to accept one between 6% and 6.49%.

Affordability is improving in some regions, especially the South, where home prices are falling and the inventory of homes for sale has ballooned. But many markets in the Midwest and Northeast are continuing to post year-over-year price gains.

Matthew Ryder, who is looking to buy a condo in Detroit this fall, said he is more concerned about home prices than mortgage rates. He said he gets frequent emails about price cuts for properties he's interested in. Note

"Every month they're coming down five to 10 grand," he said. "I'm saying to myself, 'Hey, I can wait a little bit…and possibly negotiate a deal.'" Economists say the likeliest scenario is that national housing affordability improves gradually, as household incomes grow faster than home prices and mortgage rates move lower. Note

That could take a long time, and many would-be buyers could continue to be priced out for years. If mortgage rates fell to 5.5%, median household incomes grew by 3.9% a year and home prices held flat, U.S. housing affordability would return to mid-2018 levels by 2029, according to Redfin.

One major question is whether mortgage rates will keep declining. ?

Note

Last year, they slid in anticipation of a Fed rate cut in September—but after the Fed cut as expected, mortgage rates rose because at the time, investors forecast continued economic growth and inflation.

Note

The MBA said in August it expected mortgage rates to be at 6.7% by the end of the year and fall to 6.5% by the end of 2026. That was slightly higher than its previous forecast, in part because volatility has widened the so-called spread between mortgage rates and Treasury yields.

The recent drop in rates is attracting buyers who worry that if rates fall more, the subsequent jump in demand would cause a return to bidding wars and fast-rising prices. Note

Braydon and Breanna Wirth have been looking to buy their first home in the Dallas suburbs for about a year. They want to buy a newly built home, because home builders are offering incentives to buyers including lower mortgage rates.

A builder is now advertising a 4.99% mortgage rate for some homes in their area, Braydon Wirth said.

"4.99% sounds good to me," he said. "We want to catch it before rates drop too much and the home costs, I think, will start going up quite a bit again."

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