REAL ESTATE

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The Real Estate and Home Guide sections in the Sunday editions are produced by Sentinel Media Services, a content provider, specifically for The Chronicle.

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Average long-term mortgage rates rise; 30-year at 3.22%

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WASHINGTON — Average long-term U.S. mortgage rates rose in the past week to start the new year. They reached their highest level since May 2020, at the height of the coronavirus pandemic, yet remained historically low.

Mortgage buyer Freddie Mac reported Thursday that the average rate on the benchmark 30-year home loan increased to 3.22% this week from 3.11% last week. A year ago, the 30-year rate stood at 2.65%.

The average rate on 15-year, fixed-rate mortgages, popular among those refinancing their homes, rose to 2.43% from 2.33% last week.

Many economists expect mortgage rates to rise this year after the Federal Reserve announced last month that it would begin dialing back its monthly bond purchases — which are intended to lower long-term rates — to tamp down accelerating inflation. But even with the expected three rate increases in 2022, the Fed's benchmark rate would still sit below 1%.

In addition to stronger inflation, experts expect robust economic growth and the tight labor market to continue to push rates higher.

The government reported Thursday that the number of Americans applying for unemployment benefits rose last week but remained at historically low levels, suggesting that the job market remains strong. U.S. jobless claims rose by 7,000 last week to 207,000.

The highly transmissible omicron variant so far does not appear to have triggered significant layoffs.

SOUND OFF

What do you expect to happen with interest rates in 2022?

A: I called a few of my lender friends and asked for their thoughts. Hmmm, may I break out the crystal ball and search interest rates?

Historically low interest rates still persist in the loan world even with increases occurring. When I started in real estate, interest rates had just dropped down to under 20%. Most people cannot even begin to imagine what that might look like. Like anything else that is cyclical, rates have started a slow but steady increase these past few years.

If you're thinking of buying a home, now is the time, while you are able to qualify with a lower interest rate. When rates go up, there are always people who can no longer qualify for a loan, which in turn changes our supply and demand ratios. It's not so critical in the Bay Area markets, but in other parts of the country a rate increase can have a huge effect on the buyer's capabilities.

Markets expect the central bank to start hiking rates in either March or May, given it signaled that it's likely to raise rates three times in 2022. Another factor is that U.S. inflation is expected to remain elevated for much of 2022.

Personally, I think the rates will go up and may finish a point higher or more by the end of the year due to inflation and measures to keep it in check. My suggestion is to lock those rates now.

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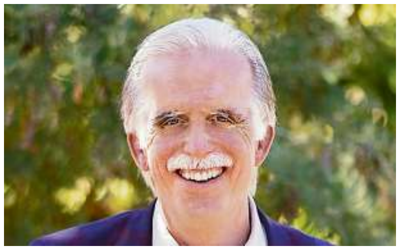

A: You can expect mortgage interest rates to rise in 2022. Mortgage interest rates are dictated to a large extent by Federal Reserve Board's monetary policy.

In recent years, the Fed has kept mortgage interest rates low, with a combination of a bond buying stimulus program and keeping the federal funds rate very low — currently at or below 0.25%. The federal funds rate is the rate the Fed charges banks to borrow short-term money from them.

That is about to change. At the most recent Federal Reserve Board meeting held in mid-December, 2021, board Chairman Jerome Powell indicated, "The economy has made enough progress to justify removing the stimulus that the central bank put in place early in the pandemic to prevent a major recession."

So, the bond buying stimulus program is going away.

Additionally, forecasts by Fed officials imply three quarter-percent increases to the federal funds rate this year, followed by three more in 2023 and two more in 2024.

Lawrence Yun, the chief economist for the National Association of Realtors, forecasts mortgage interest rates will be at 3.7% by the middle of this year. Still an attractive rate, although higher than current mortgage rates.

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A: This year started off with the setting of the new limit for "conforming" loans at $970,800, a significant increase, opening the door to loan availability for first-time home buyers — excellent news.

Interest rates are predicted to increase this year as the feds seek to manage an overheated inflation rate of 6%.

Their purchases of treasuries and mortgages dropped in November and December, signaling completion of their pandemic bond purchasing and paving the way for interest rate increases.

Three rate increases are anticipated for the year, eventually taking mortgage interest up from the low-3s to around 4%, still a historically low rate.

The job market remains strong with low unemployment and higher wages, which is good news, but the labor shortage persists. Factors like lower immigration rates, continuing COVID-19-related challenges and accelerated retirement have all contributed to the shortage, and unfortunately are expected to continue for the foreseeable future.

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