

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.

Amir Rezaee
415-777-7387
ARezaee@sfchronicle.com
K. Cathey: Coordinator
Jordan Guinn: Staff Writer

How to reach The Chronicle and Sentinel Media Services

Mail:
Real Estate Section
San Francisco Chronicle
901 Mission St.,
San Francisco, CA 94103
Email: realestate@sfchronicle.com

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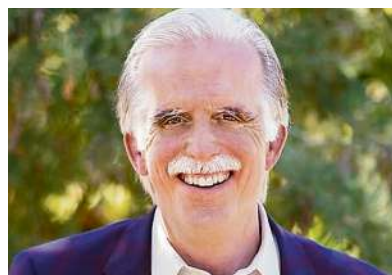
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SOUND OFF

What's the reason for the recent decline in mortgage applications?



Average mortgage rates rise; 30-year loan breaches 4%

ASSOCIATED PRESS

WASHINGTON — Average long-term U.S. mortgage rates rose this week as the key 30-year loan vaulted over 4% for the first time since May 2019.

The increase came amid expectations that with inflation at a four-decade high, the Federal Reserve would raise its benchmark short-term interest rate at its policy meeting this week to cool the economy. That action came Wednesday, as the Fed increased the key rate — which it had kept near zero since the pandemic recession struck two years ago — by a quarter point. And the central bank signaled potentially up to seven additional rate hikes this year.

The increases mean that mortgage rates likely will continue to rise over the year.

Mortgage buyer Fred-

die Mac reported Thursday that the average rate on the 30-year loan this week jumped to 4.16% from 3.85% last week. That's a sharp contrast from last year's record-low mortgage rates of under 3%.

The average rate on 15-year, fixed-rate mortgages, popular among those refinancing their homes, climbed to 3.39% from 3.09% last week.

Home prices are up about 15% over the past year and as much as 30% in some cities. Homes available for sale have been in short supply even before the pandemic started two years ago. Now higher prices and rising loan rates will make it even harder for would-be buyers heading into the spring home buying season.

The government reported Tuesday that wholesale inflation in the U.S. shot up 10% last month from a year earlier.

A: Part of the reason for the decline in mortgage applications is that those figures group in all applications together, for refinances and for purchases. So those numbers can be misleading. Of course mortgage rates have gone up, and so the number of refi applications has declined.

One of my best lenders, Stephanie Hartsell at Guaranteed Rate Affinity, indicated that for right now with purchase pre-approval applications, she is buried with homeowners getting ready to make offers on properties. It's a bit counterintuitive, but when mortgage rates go up, it causes a greater sense of urgency for home buyers to get into a home before rates go up further.

In my real estate practice on the San Mateo Peninsula, I'm not seeing any signs at this point of a softening of demand for housing. Demand remains very strong while we continue to have a lack of supply of homes available for sale.

Home prices are still spiking with multiple offers being the norm and sale prices often landing \$500,000 over asking price.

In fact, for the month of February in San Mateo County, according to data from MLS Listings Inc., the median home price for a single family dwelling at \$2.1 million showed an increase of 10.5% over February of 2021 when it was at \$1.9 million.

Jeff LaMont, Coldwell Banker Realty, 650-740-8808, jeff@jefflamont.com.

A: We are all very aware that our current world situation is extremely volatile, which is reflected, to a certain extent, in our real estate markets. The “macro” affects the “micro.”

Mortgage applications have fallen recently, primarily in the refinance sector as the majority of homeowners seeking to refinance their existing home loans did so last year when rates were at an all-time low.

The demand for Purchase Money Mortgages remains strong, however, as buying a home remains a goal for many of those who can afford it, and interest rates are still historically low.

Would-be buyers realize that buying a house, and having a mortgage with a fixed interest rate, provides stability in their lives. Not only can they control their housing situation, but their monthly payments will not increase over the life of the loan.

Any drop in the volume of Purchase Money Mortgage applications can be attributed to the fact that inventory is even more limited so far this year than we have seen in the past couple of years, translating into fewer buyers needing financing.

Karen Starr, the Grubb Co., 510-414-6000, starr@grubbco.com; Brenda Schaefer, the Grubb Co., 510-453-2401, bschaefer@grubbco.com.

A: When mortgage rates drop, people are incentivized to refinance existing mortgages for lower rates and buyers are incentivized to borrow to purchase because access to cash is cheap.

Primary property is often the single most expensive thing a person or a family will purchase, and also the longest financial commitment.

To commit to such a purchase, buyers must believe that their financial future will be stable for the following years to come and that they are making a sound and confident financial decision.

First-time buyers are often referred to as “heroes” in our office, as very rarely is purchasing one's first home a comfortable scenario. It is a drastic lifestyle change and a milestone in their lives.

In a world where uncertainty is the normal — a roller coaster of a stock market, potential war, talks of multiple bubbles, double-digit appreciation of Bay Area housing, and seemingly uncapped inflation — buyers lack the confidence to purchase, and they are unsure about the future, and thus we get a drop in mortgage applications

Wallace Chane, Metis Real Estate, 650-924-2631, wallace@metisre.com.

Want to contribute to Sound Off?

Send an email to Jordan Guinn at Realestate@sfchronicle.com