REAL ESTATE

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INSIDE

Average long-term mortgage rate surges to 7.57%

By Alex Veiga
AP BUSINESS WRITER

LOS ANGELES — Home loan borrowing costs rose for the fifth straight week, keeping the average long-term U.S. mortgage rate at its highest level in more than two decades and taking another bite out of prospective homebuyers' purchasing power.

The average rate on the benchmark 30-year home loan rose to 7.57% from 7.49% last week, mortgage buyer Freddie Mac said Thursday. A year ago, the rate averaged 6.92%.

Borrowing costs on 15-year fixed-rate mortgages, popular with homeowners refinancing their home loan, also increased. The average rate rose to 6.89% from 6.78% last week. A year ago, it averaged 6.09%, Freddie Mac said.

High rates can add hundreds of dollars a month in costs for borrowers, limiting how much they can afford in a market already out of reach for many Americans. They also discourage homeowners who locked in rock-bottom rates two years ago from selling. The average rate on a 30-year mortgage is now more than double what it was two years ago, when it was just 3.05%.

The average rate on a 30-year home loan climbed above 6% in September 2022 and has remained above that threshold since. This marks the first 12-month period that the benchmark mortgage rate has been at 6% or higher since the early 2000s. It's now at the highest level since Dec. 1, 2000, when it averaged 7.65%.

The elevated rates combined with a near-historic low level of homes for sale nationally has worsened homebuyers' affordability crunch by keeping home prices near all-time highs.

SOUND OFF

How are rising interest rates affecting the homebuying market in the Bay Area?

A: Interest rates have risen at a dizzying pace over the past 12 months, leaving many buyers unable to afford the mortgage or house that they want, and needing to get creative in terms of what they can actually do to move forward.

The major labor market data released last week was significantly stronger than expected (363,000 new jobs added in September). As a result, mortgage rates continued to rise (0.25%), reaching levels not seen in more than 20 years.

This coupled with our ongoing supply/demand challenges (too little inventory to meet continuing demand), has created a market in which we see the most desirable homes selling over asking, with lesser properties selling more slowly, ultimately at asking or slightly below.

Buyers have options, nevertheless. They can move forward if they qualify for their loan at the current rates, and refinance when interest rates go down.

If that is not possible, then they can take the necessary steps to ensure that they will be ready when rates do decline: Check their current credit scores and address any issues that appear. Pay down credit card debt. Save as much money as possible for their down payment, and get pre-approved for their financing prior to restarting their housing search. Create a "plan of action" to employ when interest rates drop and stronger competition returns.

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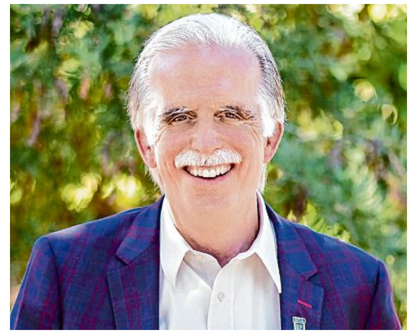

A: Current mortgage interest rates have pushed up above 7%, which is more than double that of the interest rate available in back in early 2022 — but at the same time, not high by historical standards. According to Jordan Levin, chief economist for the California Association of Realtors, inventory (a.k.a. "supply") is the limiting factor when it comes to our housing market, not demand.

A desire for homeownership remains strong. According to a 2023 consumer survey done by C.A.R., 81% of those surveyed who were asked, "Do you want to own a home at some point in the future?" answered, "Yes." Additionally, our economy continues to expand as we see good job growth.

At the same time, we have a lack of supply of homes for sale here in the Bay Area. Some of that lack of supply can be attributed to the fact that not as many move-up buyers are entering the marketplace, as they don't want to lose the low 3% mortgage rate they have on their existing homes.

This lack of balance between supply and demand has continued to push prices up despite the higher interest rates. The September median home in San Mateo County, where my real estate practice is based, was $1.96 million, which was 6% higher than a year ago and even with last month.

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A: In the course of their intermittent rate increases, the Fed stated their objective: To bring more balance between supply and demand in the housing market and correct for its previously overheated state.

The result? A pendulum swing that has left buyers bewildered by decreased purchasing power and inventory at new lows. Sellers aren't immune, either. Homes are lingering on the market and sellers can't say goodbye to the low rates they currently enjoy.

Our team's currently active buyers and sellers aren't casually dipping their toe into the market; instead they are responding to significant life and job milestones. In short, they need to buy and sell regardless of the rates. Now may be a great time for rate-tolerant buyers and cash-heavy investors to take advantage of the price decreases and higher days on market, particularly with condos.

Call your preferred lender and agent and see what's possible.

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WANT TO CONTRIBUTE TO ASK A REALTOR?

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