

Could Higher Interest Rates Save The Housing Market?



It's no secret that low interest rates over the past two years have been fueling the fire under the housing market. Low borrowing costs combined with the already low inventory levels have been driving up prices.

But rates are on the rise. The 30-year fixed mortgage rate topped 4% earlier this month for the first time since 2019.

While these higher rates will affect affordability for all who are looking to invest in real estate, they may actually be a good thing for home prices and the housing market in general.

High Rates May Discourage Investors

According to a recent report by Redfin, real estate investors bought a record 18.4% of the homes that were sold in the U.S. during the fourth quarter of 2021 – a 5.8% increase from the year before.

Redfin defines an investor as any institution or business that purchases residential real estate. They can be large corporations, local companies, or wealthy individuals. These investors are taking advantage of intense demand for rentals and increasing prices, lining their pockets with the high monthly rental payments they can command (up 14% in December).

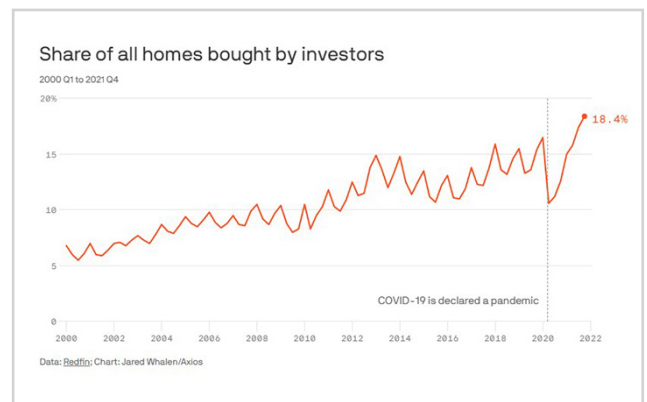
According to Redfin economist Sheharyar Bokhari,

***“While record-high home prices are problematic for individual homebuyers, they’re one reason why investor demand is stronger than ever.*”**

Investors are chasing rising prices because rental payments are also skyrocketing, incentivizing investors who plan to rent out the homes they buy. The supply shortage is also an advantage for landlords, as many people who can't find a home to buy are forced to rent instead. Plus, investors who 'flip' homes see potential to turn a big profit as home prices soar.”

The historic shortage of homes for sale has been pushing prices higher and resulting in multiple bids on many homes. This has given a huge advantage to investors who can afford to offer cash.

According to the Redfin report, just over 75% of investor home purchases were paid for with all cash in the fourth quarter of last year. This has been putting even more upward pressure on prices and resulting in a market where it is nearly impossible for the average homebuyer to get their home offer accepted.



An Incentive For Sellers

In addition to the supply that is being snatched up by investors with big wallets, existing home listings have been decreasing year after year.

More American homeowners are deciding they want to stay where they are. Whether that's due to new teleworking availability, lingering fears of COVID, or simply the inability to find a new home because of the short supply.

Also, as we've said many times before, homeowner equity is at an all-time high. Real estate is an asset that many Americans just aren't ready to gamble with right now. It's hard to give up an investment that is providing you with 15-30% annual returns just by paying your mortgage on time!

Are The Tides Changing?

If interest rates climb enough, demand could be reduced enough to slow down the out-of-control appreciation levels.

The investors who flooded the market thanks to the desirable returns may now be able to find better returns in other markets and release their stranglehold on real estate. It could also make those homeowners who have been stubbornly sitting on their mountains of equity more willing to make a move.

The Bottom Line

The lack of housing supply that leads to increased home prices and brutal bidding wars has been crushing the dreams of Americans who want to build wealth through homeownership for a long time.

Higher interest rates, while affecting home affordability for all, may be just what is needed to discourage investors, reduce biddings wars, and slow equity gains so more homeowners are willing to sell.

If you have been sitting on the sidelines waiting for a better time to enter the housing market, it might be time to start preparing. Be ready to find your dream home by scheduling a consultation with a NEO mortgage advisor. We can get you get fully pre-approved so you are prepared the second your new home pops up on the market.

Want to learn more? Please [schedule a call](#) today!

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