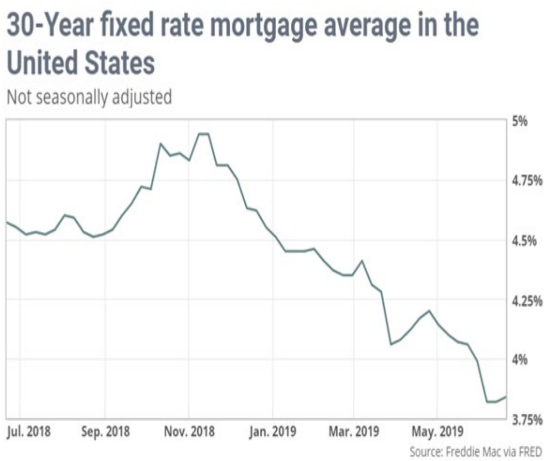
BLOG POST

Interest Rates and Housing

July 23, 2019

We've discussed at length the impact interest rates have on housing. We're mentioning the topic again this month because interest rates have taken a significant move lower as the 10-year yield is currently hovering just above 2%, which is far lower than most forecasts from just a year ago. Likewise, the Fed is expected to lower its target rate at its next meeting in July. So, what does this backdrop potentially mean for the housing market? As the chart below indicates, the 30-year fixed mortgage has dropped below 4% after trading near 5% just last November. This suggests that, in theory, housing has become more affordable and demand should strengthen going forward.



- While lower interest rates certainly help, it doesn't necessarily translate into a stronger housing market. At this point, potential buyers might simply wait under the assumption that rates will continue to drop. In other words, there may be no immediate impact on housing overall.

- In addition, there are still inventory issues to consider. A limited supply of homes tends to push prices higher, which could more or less offset the affordability gains resulting from lower interest rates. So in popular markets, particularly on the coasts, affordability might remain out of reach for many buyers.