

Rates Are Lower. Where Are the Buyers?



Mortgage rates have dropped significantly since last fall, from a 20-year high of 7.79% in October 2023 to 6.35% in August 2024. This 1.5-point decrease gives buyers nearly 10% more purchasing power. That means a household earning \$100,000 annually can now afford homes priced between \$288,000 and \$317,000. So, with this boost in affordability, why aren't sales skyrocketing?

Sure, we're seeing more activity in homes priced under \$300,000, especially from first-time buyers more sensitive to rate changes. But overall, sales haven't budged much year-over-year despite the rate drop and increased available inventory. What's going on?

Factor #1: Most homeowners have mortgages with rates far below today's 6.35%.

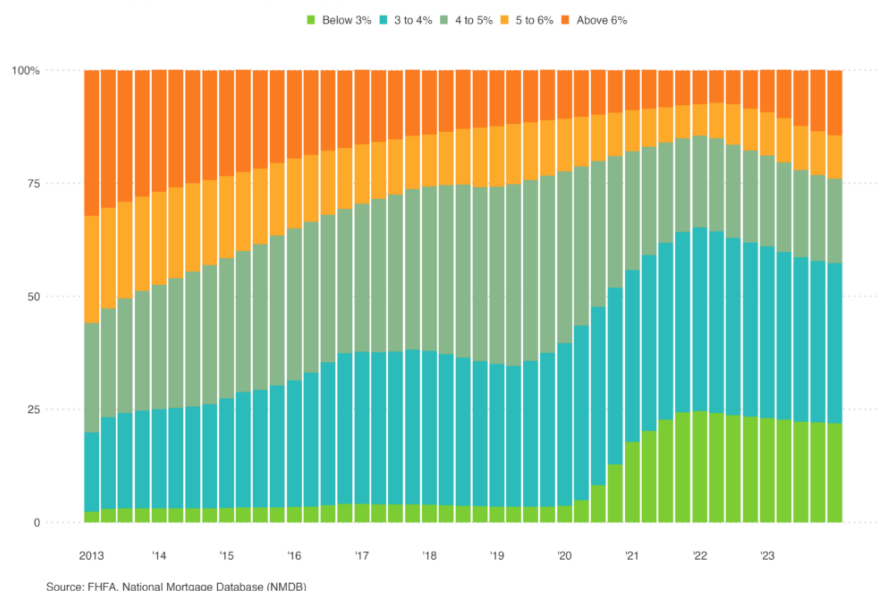
According to Redfin, as of the first quarter of 2024:

- 86% of U.S. mortgage holders have rates under 6%
- 76% have rates under 5%
- 57% have rates under 4%
- 22% have rates under 3%

For homeowners with a mortgage rate under 4%, upgrading to a new home at today's rate would result in a significant drop in purchasing power—around 17% for repeat buyers and 18% for first-time buyers. A repeat buyer looking to upgrade to a median-

priced home around \$450,000 would see their monthly mortgage payment jump from \$3,031 at 4% to \$3,553 at 6.35%. That extra \$522 a month adds up fast!

Nearly 9 in 10 U.S. Mortgage Holders Have a Rate Below 6%
Share of mortgage loans outstanding by mortgage rate



Factor #2: Home prices are declining but still unattainable for many buyers.

And it's not just the rates that are causing sticker shock. Home prices in the Austin-Round Rock-San Marcos area are still high, further chipping away at affordability. For instance, an existing homeowner who bought in 2019 at the median price of \$315,000, with a rate of 3.5%, has a monthly payment of about \$2,050. At today's rates, that payment would soar to nearly \$2,500. Combining higher home prices and mortgage rates, the monthly payment on the median-priced home has ballooned by \$1,500 since 2019.

This is part of why we're seeing more sales activity in homes priced under \$300,000. Buyers can't afford the hefty jump in monthly payments due to higher home prices and rates.

Changes in Purchasing Power for Repeat Buyers		
Mortgage Rate	Relative to 7.79%	Relative to 6.35%
3%	38%	26%
4%	29%	17%
5%	20%	9%
6%	12%	2%
6.35%	10%	-
7%	5%	-4%
7.79%	-	-9%

Looking Ahead: What's Next?

While the Federal Reserve may start cutting rates in September, don't expect a meaningful decline in mortgage rates. Even if rates drop to 6%, it would only provide a modest 2% boost in buyer purchasing power. In today's market, a moderation of home prices—rather than interest rates—is what will drive sales.

Changes in Purchasing Power for First-Time Buyers		
Mortgage Rate	Relative to 7.79%	Relative to 6.35%
3%	40%	27%
4%	30%	18%
5%	21%	10%
6%	13%	2%
6.35%	10%	-
7%	5%	-4%
7.79%	-	-9%



Dr. Clare Knapp, Housing Economist

Dr. Knapp unpacks complex data and keeps Unlock MLS subscribers current on the latest trends in the Central Texas housing market and the broader economy. She's passionate about empowering REALTORS® to better understand current market conditions and optimize business practices accordingly.