MORTGAGE RATE SENSITIVITY

REPORTS ON HOUSING

ECONOMICS EXPLAINED

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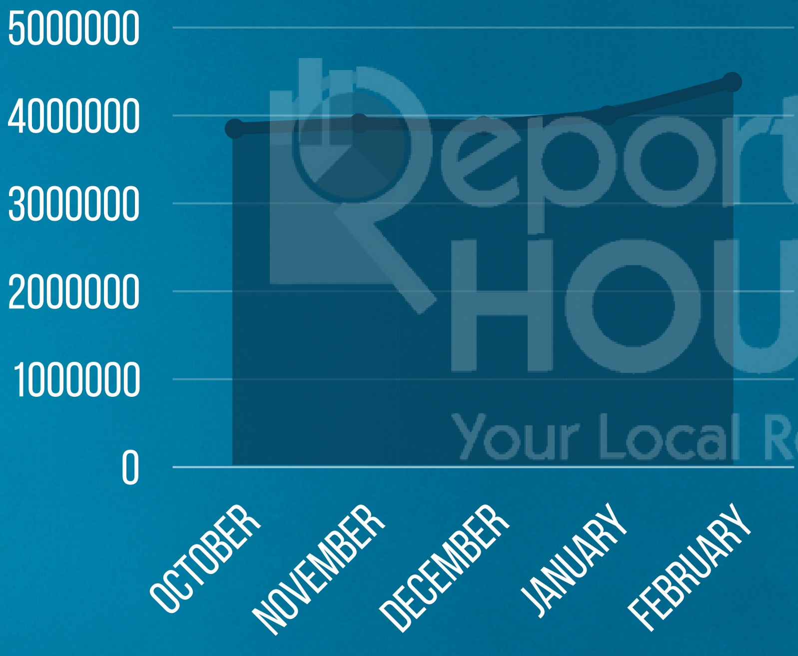
THE GREAT 7% RATE BARRIER...

During the COVID-19 lockdown, interest rates were the story to follow. At a time in the world when everything froze still, the Federal Reserve combated the lack of consumption and activity in the economy by dropping the target federal funds rates to near zero. The Fed also took it upon itself to follow quantitative easing by purchasing Treasury securities and mortgage-backed securities. By doing this, home sales only took an initial decline but quickly rebounded. Mortgage rates dropped to record lows. With such low interest rates, far too many people were searching for homes, creating pent-up demand and lines of people to see a single open house. Mortgage payments were far more affordable than today. In 2020, low supply and high demand were the name of the game, but today, it's low supply and muted demand.

In 2022, according to Freddie Mac's Primary Mortgage Market Survey, the 30-year fixed mortgage started at 3.22% in January and ended at 6.42% in December. That's a difference of 3.20%, or 99.4%, roughly double. A change in mortgage rates that swiftly was bound to strongly impact the real estate industry.

Since March 2023, the 30-year fixed mortgage rate in the United States has consistently exceeded 6%, often remaining around or above 7%. There was, and still is, a prevailing belief that a 5% rate would incentivize existing homeowners to sell their homes and encourage a floo prospective buyers to enter the market. However, with a consistently higher level of mortgage rates, time has passed, and patience for those eager to participate in the housing market is starting to run thin.



US NATIONAL EXISTING HOME SALES

FREDDIE MAC 30 YR. FIXED MORTGAGE

When 30-year fixed rates eclipsed 8% in October 2023, the idea of a sub-7 % rate seemed nearly impossible. Many people were calling for a housing crash, even comparing the times to the Great Recession or the 1980s. Unfortunately for the doomsayers, there isn't a point in history we can turn to for direct correlation. We are in "**uncharted waters**," as Steven Thomas says. A new market psychology has developed in the current mortgage rate environment: the 7% barrier.

There are so many reasons that people want to move, such as divorce, birth, death, equity, aging, retirement, upsizing, downsizing, etcetera. However, higher rates have swiftly halted demand, causing fewer people to move. Instead, a sea of people sits on the sidelines and plays the waiting game. Once rates surpassed the 8% threshold, a mortgage rate in the 6's seemed far more attractive. In 2022, 6% rates slowed down demand, but 2024 is a much more attractive rate. Far more people are eager to capitalize on today's market now that rates are in the 6s.

For January and February 2023, rates were well below the 7's, primarily hovering around 6.5%. Southern California residential closed sales reached record low levels. In January and February 2024, rates were hovering closer to 7%. However, with a new mentality towards the housing market and mortgages and far less patience, there are more homeowners opting to sell and and an increase in closed sales. Closed sales for January and February were up 5% and 8%, respectively, compared to 2023 figures. For new listings, from the start of 2024 through February, there are 16% more Southern California new sellers compared to 2023. With sticky higher rates, everyone's mentality has shifted. From here, once the Federal Reserve begins reducing its target rate, expect a much hotter market with lower rates. For now, taking the market day by day and utilizing the power of data will remain a key to a successful year.