

Higher mortgage rates set stage for lower home sales

By **ALEX VEIGA**
The Associated Press

LOS ANGELES — Low mortgage rates have helped juice the housing market over the past decade, easing the way for borrowers to finance ever-higher home prices.

A run-up in rates in recent weeks is threatening to undo that dynamic, setting the stage for a slowdown in home sales this year as the increased borrowing costs reduce would-be buyers' purchasing power.

The average weekly rate on the benchmark 30-year mortgage has risen swiftly since the first week of this year, when it stood at 3.2%. Earlier this month, it climbed to 5% for the first time in more than a decade. This week it rose to 5.11%, a 12-year high, according to mortgage buyer Freddie Mac. A year ago, it was 2.97%.

Mortgage rates' rise follows a sharp move up in 10-year Treasury yields, reflecting ex-



MATT ROURKE | AP file photo
Construction workers build new homes in Philadelphia, April 5. Low mortgage rates have helped juice the housing market over the past decade, easing the way for borrowers to finance ever-higher home prices. A run-up in rates in recent weeks is threatening to undo that dynamic, setting the stage for a slowdown in home sales this year as the increased borrowing costs reduce would-be buyers' purchasing power.

pectations of higher interest rates overall as the Federal Reserve hikes short-term rates in order to combat surging inflation.

While higher rates could translate into less frenzied competition for homes, most homeowners with a mortgage have locked in ultra-low rates over the years and will have less financial incentive to sell, which could lead to fewer homes up for sale, economists say.

Consider, out of the roughly 62% of U.S. homes that have a mortgage, some 92% of them have home loan rates at or below 5%, according to CoreLogic. And 57% of those homes have mortgages with rates at or below 3.5%.

"We're already in record-low inventory," said Molly Boesel, principal economist at CoreLogic. "So that could make the crunch even bigger."

Mortgage rates been declining for decades, from 18% in the early 1980s to below

3% last year. That trend added a financial incentive for homeowners, who after a few years could refinance their mortgage or sell their home and lock in a lower rate.

But the low rates over the past decade have given homeowners a financial incentive to hang on to their homes longer as rates rise.

"That was a tailwind in the housing market that generally drove turnover," said Mark Fleming, chief economist at First American. "That tailwind now turns into a headwind."

Looking at past periods when mortgage rates increased, Boesel estimates that higher rates could lead to 125,000 fewer homes sold this year.

Sales of previously occupied U.S. homes slowed last month to the lowest pace in nearly two years, the National Association of Realtors said Wednesday. Lawrence Yun, the NAR's chief economist, said sales could easily fall 10% this year.

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