

Home Buyers Redo Plans After Losing Hope on Rates --- Housing market affordability isn't getting any better, with inflation keeping mortgage costs high

The Wall Street Journal

Rachel Wolfe and Imani Moise

15 April 2024

1042 words

English

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A12

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Prospective home buyers are giving up hope that interest rates will come down soon. They are changing their life plans accordingly.

An engaged couple that had sold stocks to fund a down payment now expects to rent for another five years. A family that was looking to trade up is considering building an extra room instead. An investor plowing ahead on a purchase is scaling back his profit projections.

Persistent hope of lower rates and therefore lower monthly mortgage payments has consistently failed to bear out. It wasn't helped on Wednesday after a government report showed stubbornly high inflation, dashing hopes that rates were about to trend lower. Many prospective buyers, already facing high housing prices and a shortage of homes, are now planning to sit out.

When Annie and Tyler Dartt moved into their three-bedroom rental with their three children in 2021, their plan was to only stay a year. Each time their Ashville, Ohio, lease has come up for renewal, however, they determined that they still can't afford to buy.

Her sister Courtney Johnson lives down the street and is stuck in a home she bought in 2014. After spending quarantine in the 1,800-square-foot house and having a third baby, she and her husband, Brandon Johnson, were motivated to find a new place. The cost deterred them. Instead, they refinanced their basement to make enough space for now.

"We thought the situation would have improved by now," says Annie Dartt, a 30-year-old nurse. "Interest rates were predicted to go down, but they haven't."

A median-income household could afford to buy a house for no more than \$416,000 in March, assuming a 20% down payment and a mortgage at going rates whose payments take up a third of pretax income. Three years earlier, that household could afford a price of up to \$561,000, according to First American Financial.

A January survey of 2,000 U.S. renters by property management firm Entrata found that 20% don't expect to ever own a home, a 33% increase from 2021. Roughly half of the 2,092 U.S. renters surveyed by Opendoor brokerage in February said they would wait until interest rates were under 5% before considering buying.

A potential drop in rates would benefit many buyers, but it could be years before they get some relief from builders expanding supply of more-affordable options, according to Daryl Fairweather, chief economist at real-estate company Redfin.

Most of the house shoppers in the market are buying because they need to, said David Schlichter, a real-estate broker in Denver. He said he is busy finding new homes for clients looking to move after new babies, new jobs or divorces. People in those situations can only wait so long for rates to fall.

"The longer that they stay at this level, the more life events will happen that will cause people to move by necessity," Schlichter says.

The prolonged high rates mean home buyers are learning what economists have long grappled with: It is near impossible to time the market.

It can pay to buy a home when it is least popular to do so, said Michelle Maldonado, a real-estate broker in the Nashville, Tenn., area. When rates fell early in the pandemic, fierce competition pressured some buyers to make impulsive choices.

Marcus Knox, a 38-year-old natural-gas product manager in Colorado, is moving forward with his plan to buy his first investment property in Memphis, Tenn., this year. He initially expected rate cuts this fall, so he wanted to close on a home before the summer to beat other investors to the market.

He still thinks the investment will be profitable long-term, especially if he refinances in a few years.

"If the first three years are kind of rocky, that's not really the end of the world," he said. "Uncle Jerome is making it really complicated right now," he added, referring to Federal Reserve Chair Jerome Powell.

Patrick Waring and Emily Allen had gotten preapproved for a \$1 million mortgage, and he sold some of his stock investments to fund a down payment.

Now, they don't think they will buy before 2029 unless rates fall. The engaged couple recently re-signed their New York City lease.

After two years of holding out for lower interest rates and home prices, Waring said he is leaning into what he can control: his attitude toward renting. The couple says the \$4,125 they pay for their one-bedroom in the Financial District is considerably less than what they would be spending to own the same property.

They are no longer convinced owning real estate with a typical mortgage in the era of high rates will pay off in the long-term.

"This is not the baby boomer life plan," says Waring, a 33-year-old product director at a consulting firm.

The rent vs. buy calculation often comes down to where you live, says Richard Green, an economics professor and director of the University of Southern California's Lusk Center for Real Estate. The faster rents rise, the more quickly buying pays off.

Many still can't make the math work. Emily Ferrell had to withdraw an offer on a house in Erie, Colo., last week after the final rate from her lender changed to 8.9% from the 7.5% she was quoted earlier in the week. The new rate would mean paying an extra \$1,000 a month.

Her house hunt is on pause until at least January, she said. For now, she and her husband are staying in the 1,600-square-foot home they purchased in 2018. They both work from home and commute two hours daily to take their 2-year-old daughter to daycare.

Trying to buy -- and holding off buying -- have both been stressful, she said. "I think about how we're missing out on that lifestyle we could have right now," she said.

Joe Pinsker contributed to this article.

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