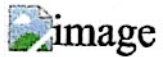


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## Rise in Rates Derails Housing Recovery

BY NICOLE FRIEDMAN AND GINA HEEB

The U.S. housing market is stuck.

The real-estate industry hoped 2024 would be a recovery year in which mortgage rates fell and home sales climbed. Mortgage rates dipped over the summer and hit a two-year low in September as they moved toward 6%.

But buyers continued to hold back. They have been spooked by expensive home prices and low inventory. Even at two-year lows, rates were still too high for many buyers, and now they have rebounded to their highest level in nearly three months. \*

Now, sales of existing homes are on track for their worst year since 1995 for the second year in a row, according to the National Association of Realtors. Even if this year's sales slightly exceed last year's level, they are still on track for the worst two-year period since the mid-90s, when the country's population was considerably smaller.

Widespread frustration with the housing market has made it a campaign issue in the weeks leading up to the presidential election. Both --candidates are pledging to bring down housing costs.

The housing-market slowdown since early 2022 has helped the Federal Reserve achieve its goal of curbing inflation and cooling economic activity. A higher borrowing cost for homes is one of the most direct ways that Fed policy ripples through the economy.

The low level of home sales has hurt real-estate brokerages and mortgage lenders, as well as home-related industries like furniture stores.

"People are only moving if they have to," said Nicole Dudley, a real-estate agent in the Phoenix area. "We'll go a week without a showing, which is a long time compared to even last year."

The rise in mortgage rates since 2022 also exacerbated the shortage of existing homes for sale, because homeowners with low-rate mortgages were unwilling to move and take on a higher mortgage rate. That has kept home prices high.

Federal Reserve Chair Jerome Powell said in September that lower rates would help the market, but more construction also would be needed. Home-building activity plunged during the financial crisis, helping cause today's shortage of homes.

The industry is hoping for a turnaround in 2025. The Fed cut short-term rates in September and is expected to cut them again later this year. That could translate to improved affordability for home buyers.

\* "We still expect mortgage rates to continue to fall as the Fed cuts," said Ralph McLaughlin, senior economist at Realtor.com. But because rates stayed high in the first half of 2024, "everything got pushed back." *wrong!*

The outlook remains murky and any recovery in home sales could be gradual. The presidential election could play a role. Most economists think inflation and interest rates would be higher under former President Donald Trump's proposed policies.

Peter Estridge and Alexis Pool sold their Chicago duplex in early 2023 but negotiated a two-year agreement to rent one of the units, giving them time to search for a bigger house in the suburbs.

"My plan was thinking, 'Rates go up, prices go down,'" Estridge said.

Instead, he said, they have had to lower their budget as prices and mortgage rates have stayed high and their expectations for property tax and insurance costs have risen. There are few options in their price range, and many are old, small or in less desirable locations, he said. "I did not think we'd be here for two years" without finding a home to buy, he said.

The decline in rates last month sparked optimism among buyers and real-estate agents. New listings and pending sales rose in September from a year earlier, according to Realtor.com. (News Corp, parent of The Wall Street Journal, operates Realtor.com.)

But mortgage rates started climbing again this month. Mortgage rates tend to loosely move with the 10-year Treasury yield, which has risen above 4% after surprisingly robust economic data and amid concerns about the budget deficit.

That has sapped the momentum from the market. The average rate for a 30-year fixed mortgage recently rose above 6.5% for the first time since early August, according to Freddie Mac.

"We saw some signs that the buyer was ready to return at 6.2%," said Skylar Olsen, chief economist at Zillow Group. But "when they saw that mortgage rate [rise], at this time of year, they're saying, 'I might try my luck next year.'" One bright spot this year has been the market for newly built homes, because home builders are offering incentives that lower buyers' mortgage rates. New-home sales in the first nine months of the year rose 3.4% from the same period last year, according to Census Bureau data.

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