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How the Housing Market's 'Triple Whammy' Benches Buyers

Buyers can't catch a break — prices are still pretty crazy, listings are scarce and mortgage rates have more than doubled

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Carlos Ortiz recently renewed a one-year lease for his Boston apartment after deciding to put his dream of owning a house on hold.

He and his fiancée want a big backyard for their kids to play in, but with mortgage rates near a 21-year high and listings as pricey as they are, the only homes they can afford are either too small or in neighborhoods that are too far from work or aren't safe.

"I'm not giving up," said Ortiz, a 35-year-old dental assistant who's looked at dozens of homes in the greater Boston area over the past 10 months. "I'm going to continue saving for another year and see where the market is."

Prospective homebuyers like Ortiz are between a rock and a hard place: Mortgage rates have more than doubled in just a year and a half, but even as those higher borrowing costs tamp down overall demand, sale prices are still near record highs — propped up by a severe shortage of houses for sale.

Some simple math shows just how unaffordable things are. Let's say a buyer can afford a \$2,000 monthly mortgage payment. In early 2021, when the average 30-year mortgage rate was at an all-time low of 2.65%, that buyer could have afforded a \$620,000 home, assuming they had 20% to put down. Now, the same buyer would have to settle for a \$388,000 home because the average 30-year rate was 6.69% as of June 15.

To make matters worse, the median price for a single-family home in the U.S. has barely budged from its peak. Data from April, the most recent, shows the median was [\\$393,300](#) — only \$8,400 less than it was in April 2022 (the record high for any April), but still \$42,000 higher than in April 2021 and \$104,600 pricier than in April 2020, according to the National Association of Realtors.

"It's a triple whammy: It's rates, it's prices and there's no inventory. So even if you can pay the high rates and the high prices, you can't find a home to buy," said Mark Zandi, chief economist at Moody's Analytics. "There isn't a market in modern history as difficult for a buyer as the current one. It's unprecedented."

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Indeed, the country is still experiencing the after-effects of a bizarre pandemic period in which an urgency for additional living space was fueled by a federal government trying to cushion people's economic hardships with lower borrowing costs.

For much of 2020 and 2021, the average [30-year mortgage rate was under 3%](#), and the fever to buy sent prices roaring higher. The national median price jumped 34% between 2020 and 2022 after rising an average of 5.6% a year between 2015 and 2019, NAR data shows.

It wasn't until February of this year that the median price fell at all compared with the same month a year earlier — the first such decline since 2012. It's dipped for three months now, though by very small percentages. (Year-over-year comparisons remove seasonal differences, which have a heavy influence on the real estate market.)

Once inflation took hold, the Federal Reserve reversed course on its campaign to lower interest rates, and it quickly became a lot more expensive to borrow. The average 30-year rate is still hovering in the high 6% range after reaching 7.08% last fall, the highest it had been since 2002.

While home prices generally go up, the pace tends to decelerate after a spike in mortgage rates because buying a home is less affordable and therefore less competitive. That's bearing out in today's market, though the shortage of available homes is holding up prices more than some economists had expected. Prices are also so much higher than a few years ago that even the normal pace of softening leaves them pretty inflated, economists said.

"I thought we'd see a bigger drop in home prices after mortgage rates doubled — perhaps as much as a 5% or 10% correction, depending on how much the economy slowed down," said Chris Low, chief economist at FHN Financial in New York. "But that didn't happen because the inventory of homes is very low and the economy hasn't slowed down much at all."

The country was short of available homes well before the pandemic because of years of under-building following the 2008 financial crisis, according to Lawrence Yun, NAR's chief economist. But it got worse after COVID-19 lockdowns created a frenetic demand for more room to work and attend school from home. Inventory reached a record low of 740,000 homes last year, less than a third of what it averaged in the 2000s.

Most recently, people wearing so-called "golden handcuffs" are driving the shortage. They bought homes or refinanced their mortgages in 2020 and 2021 and are reluctant to move and give up those great rates.

“Homeowners loving their 3 percent mortgage rates don’t want to give that up. They’re unwilling to list their properties,” Yun said.

Given everything, buyers are facing the least affordable market in decades, according to NAR’s [Housing Affordability Index](#). The monthly gauge shows that for most of the past year, a family with the median U.S. income didn’t earn enough to purchase a median-priced home at prevailing mortgage rates.

The last time that was true for a stretch this long was in the late 1980s. Back then the average 30-year mortgage rate was 9% or 10% but there was an average of 2.4 million homes for sale each month — almost triple the 910,000 on the market in April.

A Dire Situation

A family earning the median U.S. income hasn’t been able to afford a typical home for most of the last year, the first such period since the 1980s.



An index reading of under 100 indicates the typical home isn't affordable. The index reflects NAR's median price for single-family homes, Freddie Mac's effective 30-year mortgage rate, and a 20% down payment. Data is as of April.

Chart: Anna Deen/The Messenger • Source: National Association of Realtors • [Get the data](#) • Created with [Datawrapper](#)

The market’s wild ride during the pandemic was a boon to existing homeowners who saw their property values skyrocket. While many are staying put to keep their low mortgage rates, when they do decide to buy their next homes, at least they can cash in the equity they gained and use it toward the purchase, Yun said.

The people facing the biggest headwinds are those hoping to buy their first homes. They have to come up with a bigger down payment because of the price gains and still face stiff competition from other buyers.

“It’s tough for first-time buyers because of this strange market where we have lower sales but also lower inventory, which can still lead to multiple offers, especially on entry-level properties,” Yun said.

Plus, buyers who have no choice but to borrow are increasingly facing competition from those who can pay cash, often investors who plan to either renovate and resell the homes or rent them to people who have given up on owning, like Ortiz. All-cash sales accounted for 28% of transactions in April, up from 27% in March and 26% a

year earlier, according to NAR. In the two years prior to the pandemic, the all-cash share averaged 21%.

Lt. Jack Roccato, a Navy helicopter pilot who is getting married in September, found something to buy despite all the challenges, including the determined investors he and his fiancé learned often wore logoed polo shirts at open houses.

The couple is buying a small house in San Diego they got for \$10,000 over the asking price after getting outbid on several properties. Their purchase won't leave them with extra money for fancy vacations or dining out, but they plan to put "sweat equity" into the house and build up its value, Roccato said.

"It's essentially a shoebox with two bathrooms," said the 29-year-old. "We figure we can roll all the equity we build in this house into the next house."

Taking the plunge now means Roccato and his fiancé should benefit when home prices are on the rise again. And if mortgage rates track slowing inflation rates, that could be as soon as next year, according to forecasters [including NAR](#).

In the meantime, wannabe homeowners like Boston's Ortiz feel forced to stay on the sidelines.

"I've never seen any market where you have unemployment as low as it is, people have jobs, yet they can't afford to buy a home," said Moody's Zandi.

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