May 2022

Stimulus money, pandemic-related supply chain issues, and an economic term I am coining: “people don’t want to work crappy jobs any more”, have caused inflation to spike for the first time since I was born in 1982.

Here’s the upshot to housing:

1) house prices, like burgers, haircuts, and everything else, are going up in price… steeply

2) due to inflation, mortgage rates are climbing very quickly (see graph)

3) combining #1 and #2 above means housing COSTS are exploding

It’s like this. Say, last year your friend bought a 2bed/1bath house for $600k and got a 3% interest rate. This year, you bought the identical house across the street. You paid $700k and have a 5% interest rate. His mortgage: ~$2000/month. Yours: ~$3000/month. You are paying 50% more than him! Silver lining: at least you live across the street from your friend.

Now, the moment you’ve been waiting for! [Lucas flings away a veil, revealing his crystal ball]. Mortgage rates will keep rising the rest of the year. Once inflation gets going, it can’t be switched off easily. Prices of houses won’t fall, but the housing market will slow way down. Sellers won’t want to discount houses. Buyers won’t be able to afford as much as rate hikes decrease their buying power.

My advice: do what you were planning to do 😊 - If you want to sell, waiting this out won’t help. If you want to buy, waiting this out won’t help.


FRED
30-Year Fixed Rate Mortgage Average in the United States
Percent
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2021-05
2021-06
2021-07
2021-08
2021-09
2021-10
2021-11
2021-12
2022-01
2022-02
2022-03
2022-04
Shaded areas indicate U.S. recessions.
Source: Freddie Mac
fred.stlouisfed.org