

Homebuyers Will Look for Cheaper Homes if Mortgage Rates Reach 5 Percent, Redfin Agents Report

Homebuyers haven't had it easy lately. Prices were up [nearly 8 percent](#) in November compared to last year. Inventory declined, again. Add rising mortgage rates to the mix and the outlook starts to appear pretty grim. But, despite rising rates and falling inventory, Redfin agents report homebuyers remain optimistic.

In a survey this month of more than 800 Redfin real estate agents across the country, we asked respondents to describe the general attitude of today's homebuyer in one word. More than one in three agents described buyers as being "hopeful," which outranked other choices such as "fatigued," "disappointed" and "rushed." When asked if now is a good time to buy, 44 percent responded that it is — the highest this sentiment has been of all four agent surveys Redfin has conducted this year and just one percentage point lower than in December of last year.

Will rising rates affect buyers? Perhaps — but the sky won't fall. We asked Redfin agents how they thought an increase in mortgage rates from 4 to 5 percent over the next year would affect the housing market and 49 percent said homebuyers would modify their searches and shop for less expensive homes. Nineteen percent said the rate hike will have no effect at all and 16 percent expressed concern that the market will slow dramatically. Some agents thought the rate hike would more likely affect supply than demand, as another 16 percent said prospective sellers locked into low mortgage rates would decide not to sell in order to hold onto their cheap mortgage.

These results corroborate those of a [recent survey of homebuyers](#), which revealed that a mere 2.6 percent would end their home search if mortgage rates were to rise above four percent.

In fact, many agents noted that any negative response to rising rates is likely to be short-lived. Rates remain at historic lows and an increase of even one percentage point is not going to have a dramatic effect on affordability.

Redfin clients—both buyers and sellers—have expressed concern and hesitation about increasing mortgage rates, said Redfin [Los Angeles real estate agent](#) Arto Poladian. “The rate hike has led to a conversation that I haven’t had in a long time: the ability to buy down your mortgage rate. It does mean having to pay more up front, but it is a powerful way to keep your monthly mortgage payment within the budget you set when rates were still below four percent. Now that rates are on an upward trend I expect more people will be exercising this option.”

Another way to ease the burden of higher mortgage rates is to pay less in real estate commissions and fees. Forty-four percent of the agents we surveyed said more agents representing the buyer or seller on the other side of their transactions offered either a discounted commission or a rebate of some kind to their client in 2016 than in the year prior. This corroborates what we heard from [recent homebuyers and sellers last summer](#) — change is taking shape in the industry as more options are becoming available to help people buy and sell homes in nontraditional ways.

Consumers are taking advantage of these new choices and agents and brokers are responding by adjusting their fees. Providing a higher level of service at a lower price has always been a key tenet of Redfin’s business model and we are pleased that more brokerages are finding ways to make it easier and less expensive to buy and sell homes. [We anticipate](#) that commissions will continue to fall in the coming year as the industry welcomes new innovations and as more people realize that if their friend saved money on real estate fees, they can too.

Despite some encouraging signs, persistently low housing supply remains a significant pain point in the market. Over half of the Redfin agents surveyed said that many prospective home sellers are continuing to live in their homes, despite expressing a desire to sell. In addition to a lack of homes

to choose from, a driving factor behind this decision is that many homeowners are locked into a sub-four-percent mortgage rate they don't want to let go of. [Redfin predicts](#) this will continue to affect inventory throughout 2017.

Another indicator of possible inventory woes to come is that 44 percent of agents reported many homeowners move anyway and choose to rent their home rather than sell it.

“For some homeowners looking to move, it can be a wise decision to take advantage of the combination of rising rents and low mortgage rates by renting their current homes,” said Redfin chief economist Nela Richardson. “For this reason, we have a group of move-up buyers that are not making their starter homes available to the next generation of homebuyers, which is historically how more affordable inventory is added to the market. Unfortunately this hits millennials the hardest. This is a double-whammy for the inventory crunch since not only are there fewer homes for sale but the ones that do get listed are mostly in a higher price range.”

About the Survey

Redfin's survey was conducted between Dec. 8 and Dec. 12, and includes responses from 827 real estate agents in 38 states and Washington, D.C.

The post [Homebuyers Will Look for Cheaper Homes if Mortgage Rates Reach 5 Percent, Redfin Agents Report](#) appeared first on [Redfin Real-Time](#).

