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Pressure is Building for Potential Home Buyers: Why Now May Be the Best Time to Buy

Let's Talk Home Financing

By Jim Smith Realtor®

Roughly 6.5 million homebuyers have taken advantage of ridiculously low interest rates since the beginning of 2021. Low interest rates have allowed them to become first-time homebuyers, to move up to their dream home or to downsize.

Many would-be home purchasers have watched this 'boom' from the sidelines and decided that now may not be the best time to buy. Bidding wars and the need to make split second buying decisions over the last few months have reduced their appetite for home buying. It might be time to reconsider that decision.

I asked **Jaxzann Riggs** about the wisdom of "waiting" to make a move, and the following is based on our conversation.

Rental rates fell in 2020, but nothing could be further from the truth in 2021. While accounts vary, some leasing agents (according to ApartmentList.com) report that rental rates could increase as much as 32.4% in the next 12 months and stats indicate that they are up a shocking 16.5% in the first eight months of 2021.

As rental prices spike, potential homeowners should do a little mortgage math.

A potential homeowner who is paying $2,600 per month for rent, would be able to own a home valued at around $475,000. With a 3% down payment of around $14,279, this renter could turn into a homeowner, allowing them to enjoy the associated tax benefits and the opportunity for appreciation on their new property

Housing inventory is increasing and with the threat posed by rising rental rates, and rising interest rates, there is no better time than today to explore home buying options.

During the Covid-19 pandemic, the Federal Reserve supported lending to households, consumers, and small businesses to stimulate the economy. The Federal Reserve recently signaled that it plans to begin reducing the support it has been providing to the U.S. economy. Long term fixed mortgage rates are driven by the overall economy and inflation, but they are directly influenced by Fed policy.

Once the Federal Reserve starts to slow the pace of bond purchases, mortgage rates ***will*** move up. Fed officials indicated that they would begin "tapering" the asset-buying activities that it began last year as early as November. After the announcement, mortgage rates did in fact, show a rising trend. For someone with a $500,000 home loan, a 4-basis point jump will cost them $115 more per month and $41,400.44 more over the life of the loan on a 30-year, fixed-rate mortgage.

Mortgage rates are hovering near 3% and demand remains strong but higher rates are clearly on the horizon. Remember our potential renter? As rates rise, a monthly rent of $2,600 would instead result in a $410,000 house (vs. $475,000), if interest rates move from 3% to 4.5%

Even more incentive to potential homeowners is housing inventory. The inventory of active listings on the market rose by a record monthly amount (according to Denver Metro Association of Realtors). Some potential homebuyers that I am working with report they are waiting for prices to cool off to make offers, but even if that does occur, they are unlikely to see lower monthly house payments because any potential savings in purchase price will be lost to rising interest rates.

Future home buyers are not the only ones affected by higher interest rates. For homeowners who have been procrastinating with their refinance application, now is the time to call a lender. Jaxzann Riggs and I are standing by to make the process as simple as possible."

If you have lending questions, you can reach Jaxzann, who is the owner of The Mortgage Network, at **(303) 990-2992**.