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The Dual Impact of Lower Mortgage Rates on Affordability and Availability of Homes

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Introduction

Affordability is far from a novel concern. It has consistently been a challenge, deteriorating over the past decade with only a few years as exceptions. Fast-rising home prices, driven by the mismatch between housing demand and housing supply, contributed significantly to increasing borrowing costs and, subsequently, diminishing the purchasing power of home buyers.

However, affordability has been aggravated even further in the last couple of years, sinking to new record lows. This was largely a result of rising mortgage rates, driven by the Federal Reserve's monetary policy of higher interest rates. Specifically, with a 10% down payment, home buyers now face a monthly mortgage payment of $2,330 for a $400,000 home, compared to $1,880 before the pandemic when mortgage rates were about 2 percentage points and home prices lower than now.

Meanwhile, affordability is interconnected with the availability of homes. Lower affordability also results in fewer affordable options, particularly for lower- and middle-income buyers. For example, currently, there are about 37% of the listings that home buyers earning $100,000 can afford to buy, a stark contrast to the higher percentage of over 60% that they could afford before the pandemic (62% in February 2019). This decrease in affordable options stems not only from a decreased supply of homes but also from the fact that these buyers can now afford to buy less housing. The nexus between affordability and home availability illustrates a critical challenge in the housing market, highlighting the need for policies and strategies that increase supply and affordability.

Nevertheless, mortgage rates are expected to drop later this year. As inflation decreases, moving closer to the 2% target, the Federal Reserve has already announced that it is likely appropriate to start cutting interest rates. Although this is not the rate that consumers pay, a lower rate for banks eventually makes borrowing less expensive for consumers as well.

Will these lower rates help the housing market? There has already been much skepticism regarding the impact of reduced mortgage rates, especially since they are not anticipated to return to the near 3% levels seen in 2021.

The current report examines how changes in mortgage rates affect the affordability and availability of affordable homes. While affordability is determined by the buyers' income, the analysis explores the implications for each income group in detail.

In summary, the analysis indicates that lower mortgage rates will create more affordable options for home buyers in every income group. Across income groups, buyers with an income of $125,000 stand to gain the most. Specifically, **there will be about 43,000 additional listings that these buyers (earning $125,000) will afford to purchase if rates drop to 6.0%.** Respectively, **middle-income buyers (earning $75,000) will be able to afford about 33,100 additional listings.**

In the meantime, the gains from lower mortgage rates could be even larger as expected reductions in rates could encourage more homeowners to sell, thereby increasing the overall housing inventory available on the market.

Impact of mortgage rates versus home prices on mortgage payment

Before analyzing the impact of lower mortgage rates, it's essential to understand how both home prices and mortgage rates can change the monthly payment. Home prices and mortgage rates are the two main components that define a mortgage payment. The home price determines the principal amount borrowed, while the mortgage rate affects the interest paid on that principal. Thus, any changes in either of these factors substantially affect the overall monthly mortgage payment.

However, data suggests that between these two factors – home prices and mortgage rates - decreasing mortgage rates can more swiftly improve the affordability of homes compared to lowering house prices. With all other factors remaining constant, a one percentage point decrease in mortgage rates can reduce the monthly mortgage payment by $226 for the median-priced home. Conversely, the value of the median-price home would need to fall by 10 percent to achieve a comparable reduction in the monthly mortgage payment. Specifically, in current values, the price of the typical home would need to decrease by $39,000 to reach $345,500.

With the Federal Reserve lowering its interest rates, mortgage rates could fall below 6 percent by the end of 2025. Nevertheless, home prices continue to increase due to limited inventory despite a slowdown in demand prompted by elevated mortgage rates. In the meantime, historically, it's worth noting that declines in home price growth to such levels have only been observed following the Great Recession - during 2009.

Monthly mortgage payment

for the median-price home

Home Price	30-year fixed mortgage rate	Down Payment	Payment
Currently			
$384,500	6.80%	10.0%	$ 2,256
Scenario 1: Mortgage rates fall 1%, same price			
$384,500	**5.80%**	10.0%	**$ 2,030**
Scenario 2: Home prices fall 10%, same rate			
$345,500	6.80%	10.0%	**$ 2,030**

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Lower mortgage rates; additional affordable listings by income group

Nationwide

In the current report, Realtor.com®, in collaboration with the National Association of REALTORS®, quantifies the effect of expected lower mortgage rates. To do that, after computing the maximum affordable price, they estimated the number of listings that are affordable for each income group when rates are 6.8% (currently) versus a 6.0% rate.

This decrease in mortgage rates – 80 basis points – allows for a considerable increase in the purchasing power of home buyers for each income group since they can afford to purchase more expensive homes. For instance, buyers earning $100,000 can afford to purchase a home valued at up to $327,460 at a 6.8% rate. Nevertheless, if the rate were to decrease to 6.0%, the same buyer could afford a home priced up to $348,070 (6.3% more expensive).

Here is a breakdown of the key findings:

- Data shows that buyers at all income levels will be able to afford a greater number of listings, thereby expanding their choices.
- The impact is more pronounced at certain income levels, particularly in the middle and upper-middle income brackets ($75,000-$150,000). For higher income levels ($150,000 and over), the percentage increase in affordability is smaller because they already have access to a majority of the housing market. In addition, higher income levels are usually less sensitive to rate changes.
- For the lowest income groups ($15,000-$50,000), the increase in affordability is marginal. This suggests that even with lower rates, these buyers will have limited access to the market.
- Across each income group, buyers with an annual income of $125,000 will see the greatest advantage from this decrease in mortgage rates. These buyers can afford to purchase homes valued up to $435,090 when rates are at 6.0%, as opposed to a maximum home value of $409,330 at a rate of 6.8%.
- Buyers earning $125,000 will afford to buy 42,650 additional listings at a 6% rate.
- Middle-income buyers – earning $75,000 – will afford to buy 33,050 additional listings at a 6% rate.
- Even with lower mortgage rates, the market still lacks a significant number of affordable listings. In a balanced market, buyers earning $125,000 should be able to afford 72% of the listings. However, even with 6% rates, these buyers can afford only 55% of the listings.

Income	6.8% mortgage rate		6.0% mortgage rate		Number additional affordable listings (if rates drop from 6.8% to 6.0%)	Balanced Market	
	Share of listings that households can afford to buy	Number of affordable listings	Share of listings that households can afford to buy	Number of affordable listings		Share of listings that households can afford to buy	Number of affordable listings
Less than $15,000	1.0%	10,662	1.2%	12,794	**2,132**	8.7%	92,425
$25,000	2.7%	28,786	3.0%	31,985	**3,198**	15.7%	166,971
$35,000	4.6%	49,043	5.4%	57,572	**8,529**	22.9%	244,238
$50,000	9.6%	102,351	10.8%	115,145	**12,794**	33.7%	359,619
$75,000	21.2%	226,025	24.3%	259,076	**33,051**	49.6%	528,397
$100,000	36.6%	390,213	40.1%	427,529	**37,315**	62.1%	662,370
$125,000	51.3%	546,938	55.3%	589,584	**42,646**	72.1%	768,196
$150,000	62.1%	662,083	65.1%	694,068	**31,985**	79.5%	847,047
$200,000	75.9%	809,212	77.9%	830,536	**21,323**	88.0%	937,639
$250,000	83.3%	888,108	84.9%	905,166	**17,058**	92.3%	983,775
$500,000	93.8%	1,000,054	94.3%	1,005,385	**5,331**	97.1%	1,034,745
$500,000+	100.0%	1,066,156	100.0%	1,066,156	**0**	100.0%	1,066,156

Top areas to benefit from lower mortgage rates

Housing costs, inventory, and income levels vary significantly by area due to various factors, including local economic conditions, demand and supply dynamics, regulatory environments, and geographical constraints. While these variations affect the affordability and availability of housing, it's essential to examine local conditions to understand how buyers will benefit from lower mortgage rates at the local level.

Realtor.com®, in collaboration with the National Association of REALTORS®, produces monthly the REALTORS® Affordability Distribution Curve and Score, which tracks affordability and availability of affordable listings since 2017 for the 100 largest metro areas and all the states (including the District of Columbia) across the United States. While this score lies between 0 and 2, the higher the score, the better the affordability. In addition, a score equal to 1 suggests that homes on the market are affordable to households in proportion to their income distribution. A score lower than 1 indicates low affordability, as there are not enough homes that people can afford to buy in this area.

To estimate how buyers in different areas will benefit from lower mortgage rates, this report calculates the increase in affordability scores by area if rates drop to 6%. At the national level, the score increases by 5.9 percentage points to 0.68 from 0.64.

Nevertheless, the data suggests that the following metro areas will see the most significant improvements in their affordability conditions, with over a 10% increase in their affordability score. This significant rise implies that a lower mortgage rate substantially enhances the share of affordable homes to buyers in these areas.

Top areas to benefit from lower mortgage rates

1. Spokane-Spokane Valley, WA,

11.4% increase in affordability

2. Lakeland-Winter Haven, FL

11.0% increase in affordability

3. Salt Lake City, UT

10.8% increase in affordability

4. Deltona-Daytona Beach, FL

10.4% increase in affordability

5. Fresno, CA

10.2% increase in affordability

Low affordability areas to benefit the most from lower mortgage rates

Based on the data, there is substantial variation in how much affordability improves from lower mortgage rates by area. However, it appears that lower mortgage rates could have a more significant impact in areas where affordability is already an issue. The average affordability score at a 6.8% rate for metro areas in the top quartile is approximately 0.47, compared to an average of 0.84 for those in the bottom quartile. Thus, the areas with the smallest benefit from lower mortgage rates are nearly twice as affordable as those that are poised to benefit the most.

For instance, affordability will increase more than 9 percentage points in areas where the affordability score is lower than 0.45, such as Spokane, WA (11.4%), Riverside, CA (10.0%), Cape Coral-Fort Myers, FL (9.8%), Nashville, TN (9.7%), San Diego, CA (9.5%) and Los Angeles, CA (9.0%). In contrast, in metro areas with an affordability score near 1, such as Youngstown, OH (4.7%), Akron, OH (4.5%), Toledo, OH (4.1%), and Detroit, MI (4.0%), affordability is expected to increase less than 5 percentage points.

An exception to this trend is seen in the San Francisco and San Jose metro areas, which, despite being among the most expensive, are expected to benefit the least from lower mortgage rates among the 100 largest metro areas, with less than a 4% increase in affordability. Limited supply - due to geographical constraints and zoning regulations - and less sensitivity to rate changes by high-income earners are both factors that contribute to reasons why these areas may not see benefits as significant as other comparably expensive regions. Higher down payments can also diminish the effects of lower mortgage rates in these expensive areas.

Areas in the top quartile:
Average affordability score: 0.47

	Score increase	Score 6.8% rate
Spokane-Spokane Valley, WA	11.4%	0.44
Lakeland-Winter Haven, FL	11.0%	0.47
Salt Lake City, UT	10.8%	0.48
Deltona-Daytona Beach et al, FL	10.4%	0.46
Fresno, CA	10.2%	0.47
Riverside et al, CA	10.0%	0.40
Cape Coral-Fort Myers, FL	9.8%	0.42
Phoenix-Mesa-Scottsdale, AZ	9.7%	0.46
Nashville-Davidson et al, TN	9.7%	0.44
Stockton-Lodi, CA	9.6%	0.50
San Diego-Carlsbad, CA	9.5%	0.30
Sacramento--Roseville et al, CA	9.5%	0.53
Portland-Vancouver et al, OR-WA	9.5%	0.48
Boise City, ID	9.2%	0.41
Charleston-North Charleston, SC	9.1%	0.50
Los Angeles-Long Beach et al, CA	9.0%	0.30
Tucson, AZ	8.8%	0.52
Tampa-St. Petersburg et al, FL	8.8%	0.53
Las Vegas-Henderson-Paradise, NV	8.8%	0.46
North Port-Sarasota et al, FL	8.7%	0.52
Orlando-Kissimmee-Sanford, FL	8.6%	0.52
Colorado Springs, CO	8.6%	0.54
San Antonio-New Braunfels, TX	8.3%	0.58
Palm Bay-Melbourne et al, FL	8.3%	0.54
Albuquerque, NM	8.3%	0.55

Areas in the bottom quartile:
Average affordability score: 0.84

	Score increase	Score 6.8% rate
Birmingham-Hoover, AL	5.3%	0.85
Hartford-West Hartford et al, CT	5.2%	0.77
Milwaukee-Waukesha et al, WI	5.2%	0.73
McAllen-Edinburg-Mission, TX	5.2%	0.51
Little Rock et al, AR	5.2%	0.79
Baton Rouge, LA	5.2%	0.78
Scranton--Wilkes-Barre et al, PA	5.1%	0.90
Baltimore-Columbia-Towson, MD	4.9%	0.92
Philadelphia et al, PA-NJ-DE-MD	4.8%	0.81
Buffalo-Cheektowaga et al, NY	4.8%	0.82
Syracuse, NY	4.7%	0.88
Youngstown-Warren et al, OH-PA	4.7%	1.05
Jackson, MS	4.6%	0.80
St. Louis, MO-IL	4.6%	0.99
Akron, OH	4.5%	1.03
Bridgeport-Stamford-Norwalk, CT	4.5%	0.56
Dayton-Kettering, OH	4.4%	0.99
Rochester, NY	4.4%	0.91
Harrisburg-Carlisle, PA	4.2%	0.86
Cleveland-Elyria, OH	4.1%	0.99
Toledo, OH	4.1%	1.02
Detroit-Warren-Dearborn, MI	4.0%	0.99
San Francisco-Oakland et al, CA	3.7%	0.57
Pittsburgh, PA	3.6%	0.95
San Jose-Sunnyvale et al, CA	3.5%	0.53

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Areas with the most low-income buyers to benefit from lower mortgage rates

While lower mortgage rates benefit buyers across all income levels, the extent of these benefits varies by income group. Realtor.com® and the National Association of REALTORS® computed how much the share of affordable listings increases by income group if rates drop from 6.8% to 6.0% across the 100 largest metro areas.

At the national level, buyers in the lower income groups – those earning less than $50,000 - are expected to experience the smallest gains in affordable listings compared to other income groups. However, at the local level, some areas are about to see a greater increase in the share of affordable listings for these lower-income groups than for others.

Specifically, in both Youngstown and Akron in Ohio, buyers in the low-income levels will benefit more than the other income groups. Should mortgage rates fall to 6%, these areas could see approximately a 3% increase in available listings within their affordability range. This is in contrast to a mere 1% rise on average in affordable listings for other income groups, indicating a more significant benefit for lower-income buyers in these areas.

Thus, it's reasonable to anticipate that buyers in the low-income groups will discover more opportunities in areas already known for their affordability. This dynamic could lead to a range of consequences for these markets, including potential shifts in demographics. Such markets might attract a more varied demographic, encompassing first-time homebuyers, young families, and individuals relocating from pricier regions. Take Akron, OH, as a case in point: over the past five years, the median age of home buyers in this area has decreased from 41 to 39, indicating a trend toward younger buyers entering the market.

Top areas with the most low-income buyers (less than $50,000) to benefit from lower mortgage rates

1. Youngstown-Warren et al, OH-PA

2. Akron, OH

3. Dayton-Kettering, OH

4. Cleveland-Elyria, OH

5. Toledo, OH

Share of affordable listings for the Top 15 Areas with the strongest gains from lower rates for buyers in the lower income groups

	Less than $15,000			$25,000			$35,000			$50,000		
	Increase	6.8% Rate	6.0% Rate	Increase	6.8% Rate	6.0% Rate	Increase	6.8% Rate	6.0% Rate	Increase	6.8% Rate	6.0% Rate
Youngstown-Warren et al, OH-PA	2.5%	7.0%	9.5%	2.4%	20.5%	22.9%	4.8%	31.4%	36.3%	2.7%	52.9%	55.5%
Akron, OH	0.9%	1.6%	2.5%	1.0%	9.6%	10.6%	3.0%	21.9%	24.9%	5.4%	39.0%	44.4%
Dayton-Kettering, OH	0.3%	2.2%	2.6%	1.2%	8.1%	9.3%	3.7%	16.7%	20.3%	3.7%	35.2%	39.0%
Cleveland-Elyria, OH	0.7%	3.1%	3.8%	1.1%	10.6%	11.7%	3.2%	18.2%	21.4%	3.7%	36.4%	40.1%
Toledo, OH	1.0%	8.5%	9.5%	1.7%	18.7%	20.4%	2.0%	28.3%	30.2%	3.8%	42.0%	45.8%
Detroit-Warren-Dearborn, MI	1.1%	4.9%	6.0%	1.2%	14.9%	16.1%	2.3%	21.8%	24.1%	2.3%	34.6%	36.9%
Scranton--Wilkes-Barre et al, PA	0.2%	1.4%	1.5%	1.2%	4.8%	6.0%	1.5%	11.6%	13.1%	3.3%	26.4%	29.7%
Syracuse, NY	0.4%	2.5%	2.8%	1.6%	8.0%	9.6%	0.6%	15.6%	16.2%	3.6%	25.7%	29.3%
Rochester, NY	0.3%	2.5%	2.8%	1.3%	9.4%	10.8%	1.0%	16.7%	17.7%	3.4%	28.0%	31.4%
St. Louis, MO-IL	1.0%	4.5%	5.5%	0.9%	11.7%	12.6%	1.5%	17.4%	18.9%	2.5%	29.0%	31.5%
Pittsburgh, PA	0.2%	5.5%	5.7%	1.5%	12.0%	13.5%	2.2%	19.1%	21.3%	1.7%	31.9%	33.6%
Indianapolis-Carmel-Anderson, IN	0.0%	0.6%	0.6%	0.9%	2.2%	3.1%	1.5%	5.8%	7.3%	3.3%	14.7%	17.9%
Little Rock et al, AR	0.6%	1.7%	2.3%	0.8%	5.9%	6.8%	1.8%	10.5%	12.3%	2.1%	21.5%	23.5%
Wichita, KS	0.1%	1.4%	1.5%	0.5%	3.6%	4.2%	1.9%	7.8%	9.7%	2.4%	20.4%	22.8%
Memphis, TN-MS-AR	0.3%	1.9%	2.1%	1.1%	5.8%	6.9%	1.6%	12.6%	14.2%	1.8%	22.6%	24.4%

Areas with the most middle and upper-middle income buyers to benefit

While buyers in the middle and upper-middle income groups – earning $75,000 to $150,000 - are set to experience the largest increase in affordable listings compared to any other income group, these gains are even more pronounced in some areas across the country. Supply constraints, demand dynamics, and local income levels are some of the factors that contribute to this.

Specifically, in the following five areas, the average increase in affordable listings for middle and upper-middle-income buyers is above 5%. For instance, in the Lakeland metro area in Florida, the share of affordable listings will rise 11.1% for buyers earning $100,000. This translates to about 654 additional listings that these buyers can afford to buy if rates drop to 6%.

Top areas with the most middle- and upper-middle-income buyers to benefit from lower mortgage rates

1. Lakeland-Winter Haven, FL

2. Fresno, CA

3. Spokane-Spokane Valley, WA

4. Bakersfield, CA

5. Deltona-Daytona Beach et al., FL

Share of affordable listings for the Top 15 Areas with the strongest gains from lower rates for buyers in the middle- and upper-middle income groups

	$75,000			$100,000			$125,000			$150,000		
	Increase	6.8% Rate	6.0% Rate	Increase	6.8% Rate	6.0% Rate	Increase	6.8% Rate	6.0% Rate	Increase	6.8% Rate	6.0% Rate
Lakeland-Winter Haven, FL	2.6%	9.3%	11.8%	11.1%	32.5%	43.6%	6.9%	66.2%	73.0%	2.7%	81.9%	84.6%
Fresno, CA	2.2%	6.8%	9.0%	6.6%	21.0%	27.6%	7.5%	43.8%	51.2%	5.2%	63.9%	69.2%
Spokane-Spokane Valley, WA	1.7%	6.7%	8.4%	5.4%	19.4%	24.9%	8.9%	38.4%	47.3%	4.6%	57.6%	62.3%
Bakersfield, CA	3.7%	13.5%	17.2%	6.4%	35.5%	41.9%	6.1%	60.1%	66.2%	4.3%	77.0%	81.3%
Deltona-Daytona Beach et al, FL	2.2%	11.7%	13.8%	8.5%	30.3%	38.7%	5.4%	55.0%	60.4%	4.0%	69.0%	73.1%
Tucson, AZ	3.7%	9.8%	13.5%	7.8%	33.8%	41.6%	4.2%	58.6%	62.8%	4.1%	71.2%	75.3%
Salt Lake City, UT	0.6%	1.6%	2.2%	5.9%	9.1%	15.1%	6.9%	27.1%	34.0%	5.9%	48.1%	54.0%
Albuquerque, NM	3.9%	10.0%	13.9%	7.2%	34.7%	41.9%	4.8%	59.0%	63.8%	3.2%	74.2%	77.5%
Raleigh, NC	2.7%	4.3%	7.1%	6.1%	26.5%	32.6%	6.1%	50.7%	56.8%	4.1%	65.3%	69.5%
Sacramento--Roseville et al, CA	1.4%	3.9%	5.3%	4.0%	12.1%	16.2%	6.4%	27.6%	33.9%	7.3%	46.5%	53.8%
Orlando-Kissimmee-Sanford, FL	2.5%	11.7%	14.2%	5.4%	25.7%	31.1%	6.0%	47.2%	53.2%	4.9%	64.0%	68.9%
San Antonio-New Braunfels, TX	3.7%	11.6%	15.3%	7.4%	35.8%	43.2%	4.2%	57.6%	61.8%	3.3%	70.1%	73.4%
Richmond, VA	2.8%	14.8%	17.6%	6.7%	32.3%	38.9%	5.2%	53.1%	58.3%	3.8%	67.6%	71.5%
Springfield, MA	6.6%	18.4%	25.1%	4.7%	48.3%	53.0%	2.8%	65.4%	68.1%	4.3%	74.2%	78.5%
Tampa-St. Petersburg et al, FL	3.1%	14.4%	17.4%	6.4%	31.7%	38.1%	4.7%	50.9%	55.6%	4.2%	64.1%	68.4%

Conclusion

The relationship between affordability and home availability is one of the housing market's main concerns, illustrating the delicate balance needed to ensure a healthy and accessible market.

The analysis suggests that lower mortgage rates could benefit the housing market by increasing the number of affordable homes available to buyers across all income levels. Specifically, based on the findings, buyers in the middle- and upper-middle-income groups are expected to benefit the most from the anticipated drop in mortgage rates later this year. In some specific areas, these buyers will experience even more pronounced gains in the number of additional listings that will fall into their price range with lower mortgage rates.

In addition, from homebuilders' aspect, lower mortgage rates tend to create optimism among homebuilders, developing a favorable environment for home construction. At first, this is because increased purchasing power enables more people to afford homes, thereby stimulating market activity. Additionally, lower rates can improve the overall economic outlook, making financing easier to obtain and reducing costs, further incentivizing construction activity.

However, simply reducing mortgage rates is insufficient to fully address the acute housing shortage that the current market faces. While lower mortgage rates can indeed make homes more affordable and consequently increase the pool of homes that buyers can purchase, they cannot address the root causes of low supply, such as zoning regulations and high construction costs.

Looking Ahead

Solving the persistent housing shortage across our country requires a multifaceted approach that involves stakeholders at all levels, including governments, developers, and communities. The goal is to create a balanced and sustainable housing market that meets the demand needs of people at any income level, particularly those most in need of affordable options. Key components of this challenge include reforming local land use and zoning regulations to foster more development, expanding vocational training programs to ensure adequate labor supply, and actively promoting these initiatives.

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