Rising rates may not slow home sales

Potential existing-home sales decreased to a 6.26 million seasonally adjusted annualized rate (SAAR), a 0.3 percent month-over-month decrease, according to the November First American potential home sales model. That's a 79.5 percent increase from the market potential low point reached in February 1993.

The market potential for existing-home sales increased 7.2 percent year-over-year, a gain of 422,000 SAAR sales, outperforming its potential by 9.4 percent, or an estimated 586,000 SAAR sales.

"Demand for homes was strong prior to the pandemic, and then housing demand accelerated amid the pandemic as buyers wanted more space, enjoyed more geographic flexibility in where they could live, and benefitted from increased house-buying power driven by record-low mortgage rates," First American Chief Economist Mark Fleming said in a release. "While many of these factors will remain consistent in 2022, mortgage rates are widely expected to rise, so how will that impact home sales?"

Existing-homes sales don't always slow when rates rise, Fleming said. More often, they are affected by why the rates rose.

"Looking back over almost 30 years, there have been six significant rising-mortgage rate eras," he said. "Rising mortgage rates led to declining existing-home sales in two of the six rising-rate eras. The 2005-2006 rising-rate era preceding the 2008 housing crisis stands out because sales fell dramatically. Rising mortgage rates in that period were driven by the Federal Reserve's efforts to tame above-target inflation. The Fed's moves worked, as existing-home sales declined by more than 12 percent in approximately one year."

"Existing-home sales also decreased in the 1994 rising-rate era, as the Fed increased the federal funds rate to prevent strong economic growth from feeding inflation," he added.

But other than those two cases, existing-home sales have been resilient to rising mortgage rates, Fleming said.

"For example, mortgage rates spiked in the summer of 2013 when the Fed indicated it would taper its quantitative easing policy of buying Treasury bonds and mortgage-backed securities," Fleming said. "But this 'taper tantrum' had no negative impact on existing-home sales. Most recently, in 2017, it took almost a year of rising rates before the pace of existing-home sales declined below the pace of sales seen before rates started to rise.

"Context matters, and each rising-rate era is different. The housing market's response to rising rates depends on the reason why rates are rising."

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