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Why higher rates are good for the South Florida real estate market

Mortgage rates have risen quickly in 2022, from 3.4% on average for a 30-year fixed rate loan in January, to nearly 5% in early April. Mortgage rates, which tend to change alongside interest rates set by the Federal Reserve, could rise higher as the Fed has plans for more hikes this year.

While rising mortgage rates reduce affordability, especially for first-time buyers, the increasing rates are what's needed to cool things down in the red-hot South Florida real estate market. Higher rates are expected to slow demand and temper home prices.

Demand for South Florida real estate market is the highest it has ever been, and inventory is low. In this high

demand/low inventory market, prices only have one way to react and that's why we're seeing double-digit year-over-year price increases.

Higher mortgage interest rates will eventually slow housing price growth

With higher rates, sellers are less likely to ask for high prices if prospective buyers are facing higher monthly mortgage payments.

With higher rates, some buyers—particularly first-time buyers who have no existing equity—might exit the market. This slows down demand and helps to temper home prices.

Median home prices may not

decrease in the coming months, but even slowing down the percentage of price growth would be opportune for the market.

Historically, it takes six months for prices to start to decrease after mortgage rate hikes, but today's market is unlike any other with low inventory and high demand.

Higher mortgage rates should eventually lead to more days on the market

Higher mortgage rates also slow the pace at which homes get sold, meaning more homes stay on the market longer. More days on the market gives buyers more choices and cools bidding wars.

With demand cooling and prices leveling off, total inventory could begin to grow later this year.

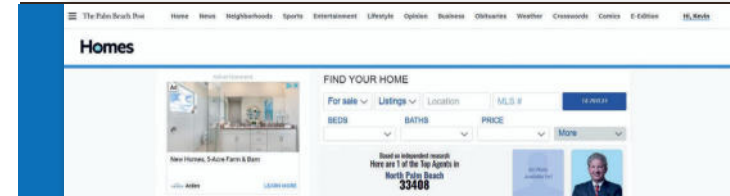
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