

I'm not a robot



Help may not be on the way for first-time homebuyers frustrated by high mortgage rates and even higher home prices. Economists at Bank of America warned this week that the US housing market is "stuck and we are not convinced it will become unstuck" until 2026 — or later. The bank said home prices will stay high and go even higher. The housing shortage will persist. And mortgage rates may not fall much — even if the Federal Reserve finally delivers long-delayed interest rate cuts. "This will take many years to work itself out. There isn't a magic fix," Michael Gapen, head of US economics at Bank of America, told CNN in a phone interview. "The message for first-time homebuyers is one of patience and frustration." Housing affordability is a major problem in America. Home prices spiked during Covid-19 and then the Fed's war on inflation sent mortgage rates surging. The one-two punch has made it a historically unaffordable time to buy a home. "It's been a weird combination. Mortgage rates rose substantially but so did home prices. That typically doesn't happen," said Gapen. The supply of homes simply cannot keep up with demand. Prices have had nowhere to go but up. The median price of a previously owned home climbed in May for the 11th month in a row to a record \$419,300 — up 6% from a year earlier. Bank of America expects home prices will climb by 4.5% this year and then by another 5% in 2025 before eventually dipping by 0.5% in 2026. One major problem hurting supply is the "lock-in effect." People who already own their home are effectively locked into their property after refinancing or getting a mortgage during the pandemic when ultra-low rates were available. Buying now at current rates would require them to pay hundreds of dollars more per month on interest alone. Plus, home prices have gone up. For many, it just doesn't make sense to move. And because those homeowners are not moving, the supply of existing homes on the market is limited. "Why would I sell unless I have to?" said Gapen. "Prices have gone up and the mortgage rate is a lot higher. So, I'm content to stay where I am." Bank of America warns the lock-in effect could persist for another six to eight years, keeping a lid on supply during that time. That's because the mortgage rate of people who already own is historically low. And the rate for new buyers is elevated. Bank of America doesn't think that gap will shrink much for years. This problem helps explain why pending home sales fell in May to a record low, according to data released on Thursday. Pending sales, tracked by the National Association of Realtors since 2001, are a forward-looking gauge of home sales that measures contract signings. Dave Liniger, who co-founded real estate giant RE/MAX with his wife in 1973, said the lock-in effect means people who want to size up to a bigger home can't, and the next generation can't even get their foot in the door for a starter property. "The move-up market does not exist," Liniger told CNN. "Starter homes have doubled in value and the owners would like to move up but the problem is they can't take their mortgage rate with them." Liniger agrees that the housing market is stuck, for now at least. "We have to muddle our way through this for a period of time," he said. But Liniger urged first-time homebuyers to remain patient. "Don't give up the dream," he said. In theory, a flood of supply of new homes would help unstuck the market. However, Bank of America expects housing starts — which is a measure of newly constructed homes — to remain flat for the coming years. And housing starts have still not recovered from the bursting of the housing bubble in the mid-2000s. The forecast for a "stuck" housing market cuts both ways. The spike in home prices has padded the net worth of existing homeowners and given them additional financial flexibility. But there are many Americans who are on the outside looking in. They'd like to buy but can't afford to at these prices and these mortgage rates. The longer they are prevented from buying, the more time they miss out on wealth creation. In a recent Gallup poll, just 21% of Americans said it is a good time to buy a house, tied for the worst reading in Gallup history. An overwhelming majority — 76% — say it's a bad time to buy. Gapen, the Bank of America economist, said if the US economy achieves the soft landing that he expects, meaning that inflation cools without triggering a recession, there is a risk that home prices will rise even more than anticipated. On the other hand, if the durability of the recovery has been overestimated and a recession is on the way, home prices could tumble and affordability would ease. "But, obviously, you don't want to go through a recession to have better housing affordability," he said. Editorial Note: We earn a commission from partner links on Forbes Advisor. Commissions do not affect our editors' opinions or evaluations. The much-anticipated spring home-buying season has largely been dying on the vine as cautious consumers continue to navigate record-high home prices, elevated mortgage rates and a murky economic landscape. Even so, some green shoots have emerged, as various regions are seeing slower home price growth alongside rising inventory, which is subtly shifting the market in favor of buyers. Nonetheless, the high cost of buying a home will likely remain the norm over the coming months, propped up, in part, by the Trump Administration's trade wars, which are driving up construction costs and indirectly fueling mortgage rate volatility. U.S. home prices posted a 3.4% annual gain in March, down from the 4% growth released in February, according to the latest S&P CoreLogic Case-Shiller Home Price Index, which tracks single-family home values and is calculated monthly using a three-month moving average. This report reflects home sales from January through March, a period marked by expanding inventory and a dip in the average 30-year mortgage rate from the upper-6% to the mid-6% range. However, even mild mortgage rate relief is cold comfort for would-be buyers in a record-high home price environment. Despite the slowing year-over-year price appreciation, the index hit an all-time high. "Home price growth may be decelerating, but housing affordability is still at its worst point in history," said Robert Frick, corporate economist with Navy Federal Credit Union, in an emailed statement. "For home shoppers, relief won't come until prices drop along with mortgage rates. Both of those, at this point, look unlikely this year." Even so, regional differences remain, giving budget-conscious buyers options. For instance, those looking for more affordability can find homes under \$300,000 in Midwest metro areas such as Detroit, Cleveland and Dayton, Ohio, according to a recent Redfin report ranking the 10 cheapest places to buy a home out of the 91 most populous U.S. metro areas. The metros of Buffalo, New York, St. Louis and Baton Rouge, Louisiana, with median prices under \$300,000, also made the top 10. With record-high home prices still trending upward in many markets amid economic uncertainty, you may be concerned that we're in a bubble that's primed to pop, as it did in the 2008 financial crisis. However, the likelihood of a housing market crash (a rapid drop in unsustainably high home prices due to waning demand) remains low in 2025. Housing stock supply has risen substantially compared to last year, yet overall inventory is still well below pre-pandemic levels. "[T]he record low supply of houses on the market protects against a market crash," says Tom Hutchens, executive vice president of production at Angel Oak Mortgage Solutions, a nonqualified mortgage lender. Experts are also quick to point out that today's homeowners are on much more secure footing than those coming out of the 2008 financial crisis, with many having substantial home equity. What's more, a record number of homeowners today are mortgage-free. At a minimum, for a housing recovery to occur, two primary conditions must improve. "For the best possible outcome, we'd first need to see inventories of homes for sale turn considerably higher," Keith Gumbinger, vice president at online mortgage company HSH.com, tells Forbes Advisor. "This additional inventory, in turn, would ease the upward pressure on home prices, leveling them off or perhaps helping them to settle back somewhat from peak or near-peak levels." Additionally, mortgage rates need to decline to see a meaningful increase in housing market activity. However, with rates firmly stuck above 6.5% for over six months, hopes are dwindling for much improvement over the remainder of the year. If the Federal Reserve cuts its key interest rate further, this could indirectly cause mortgage rates to fall—at least to some degree. However, with so much economic uncertainty and volatility, what the Fed does next is difficult to predict. Even so, Gumbinger warns that rates cooling too quickly could create a surge in demand that would wipe away any inventory gains, causing home prices to surge. He adds that mortgage rates eventually returning to a more "normal" upper-4%-to-lower-5% range would be helpful to the housing market but predicts it could be a while before we return to those rates. The Forbes Advisor mortgage calculator makes it easy to estimate what a new homeowner will pay. For instance, a typical home in April 2025 cost roughly \$367,700, according to Zillow data. Buyers who put down 20% on a typical home and financed at a 6.81% mortgage rate—the average 30-year fixed mortgage rate the last week of April—have a monthly principal and interest payment of \$1,919. In contrast, homeowners who bought a typical home at the same time in 2024, when the typical price was around \$362,700 and the mortgage rate was 7.17%, are paying \$1,963 a month. New homeowners are not only paying \$44 less each month, but they could also save \$19,847 in mortgage interest over the life of the loan compared to buyers who purchased homes a year ago. Remember, in addition to principal and interest, you also pay monthly property taxes and insurance and potentially other costs such as homeowners association fees or additional homeowners insurance coverage. Pro Tip Use the Forbes Advisor mortgage calculator to see how different rates can impact your monthly payments. We're in peak home-buying season, yet it feels more like the dead of winter. Existing-home and pending sales are in a deep freeze, chilled by affordability challenges and economic fears. Only new home sales are showing signs of life. Here's a look at what's happening in the housing market. Existing-home sales, which include completed transactions of single-family homes, townhomes, condominiums and co-ops, receded for the second consecutive month as mortgage rates rose and economic uncertainty loomed, prompting buyer caution. The National Association of Realtors (NAR) reported that monthly sales fell 0.5% in April, putting the seasonally adjusted annual sales rate at 4 million, down slightly from 4.02 million in March. Year-over-year sales slid 2%. As sales retreated, inventory expanded to the highest level in five years. Resale housing stock jumped 9.0% from the previous month and by a whopping 20.8% from a year ago. Existing unsold inventory stands at a 4.4-month supply at the current monthly sales pace. Most experts consider a balanced market to be between four and six months. Meanwhile, home price growth remains on an upward climb, though the pace is decelerating. The national median resale home price rose 1.8% from a year ago to \$414,000, marking the highest March on record and the 22nd straight month of year-over-year price growth. Despite the national gain, regional disparities remain pronounced. Namely, home prices in April rose in the Northeast and Midwest but declined in the South and West. Sales of newly-built homes are faring better than resale activity—at least for now. The latest U.S. Census Bureau and U.S. Department of Housing and Urban Development (HUD) data revealed that new home sales increased 10.9% between March and April, and 3.3% compared to last year. Only the Northeast saw a notable monthly and annualized sales decline, while the Midwest, South and West recorded increases. The solid sales pace reduced available inventory from a 9.1-month to an 8.1-month supply. Still, new housing stock remains above the 7.7-monthly supply recorded a year ago. The median new home sales price rose by a marginal 0.8% in April to \$407,200, according to the data. However, this price is 2% lower than a year ago and close to \$7,000 less than the median resale home price, a result of more affordable options than the resale space. "In the new home space, lower priced and Southern inventory continue to show steady growth, offering plenty of options to prospective buyers," said Jake Krimmel, senior economist at Realtor.com, in an emailed statement. Recent Home Sales Data Source: U.S. Census Bureau, HUD and NAR "Rounded to the nearest percent NAR's Pending Homes Sales Index sank 6.3% between March and April, with all four U.S. regions posting monthly declines, a clear sign that prospective buyers are in wait-and-see mode amid persistent economic uncertainty and elevated borrowing costs. By the end of April, the average 30-year fixed mortgage rate stood at 6.81%. Pending transactions were down 2.5% from a year ago. A pending home sale marks the point in the purchase transaction when the buyer and seller agree on price and terms and is considered a leading indicator of a closed existing home sale within the next one to two months. This drop—the largest since September 2022—follows a period when pending sales appeared to be on the upswing, sparking hope that the spring home-buying season would fully bloom. Instead, it seems to be wilting. "At this critical stage of the housing market, it is all about mortgage rates," said Yun. "Lower mortgage rates are essential to bring home buyers back into the housing market." After several years of record-low inventory, the supply of homes has risen notably over the past year. If the trend continues, buyers sidelined by affordability challenges may find themselves with more options—as long as they know where to look. Here are factors impacting the inventory landscape. Rick Sharga, founder and CEO of CJ Patrick Company, a market intelligence and business advisory firm, tells Forbes Advisor that inventory is up over 33% from 2024 and appears to be on track to hit pre-pandemic levels by the end of the year, or possibly earlier. There are multiple reasons for this improvement, one of which is the loosening of the "lock-in effect," a situation where homeowners with ultra-low rates—such as the high-2% to 4% rates seen during the pandemic years—are disincentivized to sell due to their rates being well below current levels. "Rate lock is still a legitimate concern, but becoming less of an issue over time," says Sharga. Indeed, according to real estate tech company Redfin, 73% of homeowners today have rates below 5% down from a high of 86% in the first quarter of 2022. However, there are still many homeowners sitting on a good rate who need a major life event reason to sell, such as a job transfer, job loss, marriage, divorce or death, says Sharga. The overall market still slightly favors sellers, as supply remains near the lower end of what's considered a balanced market. However, inventory levels vary widely by region. Markets like Austin and San Antonio, Texas, and Tampa, Florida, where prices surged during the pandemic, are seeing increased supply and slowing price growth. "[T]here are a number of states, particularly Florida and Texas, which already have more for sale inventory than they did prior to the pandemic, and where demand has weakened," says Sharga. "In those areas, the market is tilting in favor of buyers." On the flip side, areas in the Midwest and parts of the Northeast—such as Buffalo and Rochester, New York, Cleveland and Pittsburgh—that didn't experience skyrocketing price increases and a surge in newly-built homes have lower inventory and face increased competition among buyers. Given the pent-up demand for homes, a decline in mortgage rates—especially a sharp one—could quickly shrink housing supply. "We're in an incredibly rate-sensitive environment today, and every time we've seen mortgage rates drop into the low-to-mid 6% range, we've seen an influx of buyers hit the market," says Sharga. Sharga adds that rates dropping to 6% would likely motivate more homeowners to sell. Even so, he says many buyers will still be shut out of the market due to other rising home-related costs. "[H]ome prices have gone up almost 50% over the past five years, property taxes have risen along with them, and homeowner's insurance premiums rose by 24% between 2020-2024," says Sharga. "So even though there's definitely some pent-up demand, a one-point dip in mortgage rates probably wouldn't bring so many buyers to market that it would overwhelm the supply and cause another huge spike in home prices." And speaking of home prices, here's what the latest home values look like around the country. Builder sentiment took a nosedive, and new home-building faltered, as economic uncertainty and tariffs drove cost concerns, putting the brakes on construction activity. According to the latest National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI), the bottom fell out of builder confidence—at least for now. The index plummeted from 40 to 34 in May, thanks to persistent economic and trade policy uncertainty. A reading of 50 or above means more builders see good conditions ahead for new construction. The last time a reading was above 50 was April 2024. Builder confidence began descending in January as uncertainties surrounding potential tariffs and stalled inflation rattled builder outlook. "[T]he overall actions on tariffs in recent weeks have had a negative impact on builders, as 78% reported difficulties pricing their homes recently due to uncertainty around material prices," said Robert Dietz, chief economist at NAHB, in a press statement. Despite the grim outlook, builders are holding out hope that trade policies will stabilize. Indeed, progress in tariff negotiations with the United Kingdom and China occurred after the May HMI survey, which could impact the June reading. "Builders expect future trade negotiations and progress on tax policy will help stabilize the economic outlook and strengthen housing demand," said Buddy Hughes, chairman at NAHB. Meanwhile, builders estimate the typical cost effect from recent tariff actions at \$10,900 per home. As builder confidence wanes, a slowdown in new construction activity is underway. Single-family housing starts rose 1.6% in April from the previous month but dipped 1.7% from a year ago, according to the latest U.S. Census Bureau and HUD data. Meanwhile, single-family new home completions sagged 5.3% between March and April, and at a 12.3% annualized rate. "The trade war is bad for housing, and we have already seen it subdue buyers by causing anxiety about job loss and personal financial situations," said Joel Berner, senior economist at Realtor.com, in an emailed statement. "What we're seeing now are the more concrete supply-side effects: fewer and less affordable newly-built homes under construction." Lenders began foreclosures on 25,265 properties nationwide in April, up 0.8% from the previous month and 16.1% from last year, according to real estate data firm Attom. Completed foreclosure data from Attom. Completed foreclosure data were mixed, with real estate-owned properties, or REOs, dropping 2.9% compared to the previous month but surging 23.3% from a year ago. REOs are homes that didn't sell at foreclosure auctions, with mortgage lenders ultimately taking possession. With foreclosure starts and REOs trending upward in recent months, real estate analysts remain on alert, keeping a close eye on multiple economic variables that could introduce stress in the housing market. "April's foreclosure activity continued its gradual climb, with both starts and completions up annually," said Rob Barber, CEO at Attom, in the report. "While volumes remain below historical norms, the year-over-year increases may suggest that some homeowners are beginning to feel the effects of persistent economic pressures." For context, Attom data shows 2024 foreclosure activity at 35% below 2019 levels, before the Covid-19 pandemic emerged and upended the housing market. 2024 foreclosure filings were down close to 90% compared to 2010, when they peaked at nearly 2.9 million. Despite recent spikes in activity, home equity positions remain strong, serving as a buffer against a pronounced escalation of delinquencies. Sharga explains that a significant factor contributing to today's comparatively low levels of foreclosure activity is that homeowners—including those in foreclosure—possess an unprecedented amount of home equity. Indeed, homeowner equity grew by approximately \$2.8 trillion between the fourth quarters of 2023 and 2024, according to data from the Federal Reserve Bank of St. Louis. As a result, total homeowner equity now stands at over \$34.7 trillion—the third-highest value in record. Elevated home equity levels continue to perpetuate a high percentage of equity-rich mortgages (when an outstanding mortgage balance is at or below 50% of a home's estimated market value). Over 46% of mortgaged homes were equity-rich during the first quarter of 2025, according to Attom's latest U.S. Home Equity and Underwater Report. Although this percentage is below the 49.2% peak recorded in the second quarter of 2024 and 47.7% in the last quarter of 2024, the figure is still nearly double the 26.5% level posted in the first quarter of 2020, per Attom data. "For a homeowner in the early stage of foreclosure, that equity helps them avoid a foreclosure sale, either by leveraging the equity to pay down past due mortgage bills, or by selling their property in order to protect the equity they'd otherwise lose at the auction," Sharga says. Buying a house—in any market—is a highly personal decision. Because homes represent the largest single purchase most people will make in their lifetime, it's crucial to be in a solid financial position before diving in. Use a mortgage calculator to estimate your monthly housing costs based on your down payment. But if you're trying to predict what might happen in 2025, experts say this is probably not the best home-buying strategy. "The housing market—like so many other markets—is almost impossible to time," Orphe Divounguy, senior macroeconomist at Zillow Home Loans, says. "The best time for prospective buyers is when they find a home that they like, that meets their family's current and foreseeable needs and that they can afford." Gumbinger agrees it's hard to tell would-be homeowners to wait for better conditions. "More often, it seems the case that home prices generally keep rising, so the goalposts for amassing a down payment keep moving, and there's no guarantee that tomorrow's conditions will be all that much better in the aggregate than today's." Divounguy says "getting on the housing ladder" is worthwhile to begin building equity and net worth. Here are some expert tips to increase your chances for an optimal outcome in this tight housing market. Hannah Jones, a senior economic research analyst at Realtor.com, offers this expert advice to aspiring buyers: Know your budget. Instead of focusing on price, figure out how much you can afford as a monthly payment. Your monthly housing payment is influenced by the price of the home, your down payment, mortgage rate, loan term, home insurance and property taxes. Be flexible about home size and location. Perhaps your budget is sufficient for a small home in your perfect neighborhood or a larger, newer home further out. Understanding your priorities and having some flexibility can help you move quickly when a suitable home enters the market. Keep an eye on the market where you hope to buy. Determine the area's available inventory and price levels. Also, pay attention to how quickly homes sell. Not only will you be tuned in when something great hits the market, you can feel more confident moving forward with purchasing a well-priced home. A real estate agent can help with this. Don't be discouraged. Purchasing a home is one of the largest financial decisions you'll ever make. Approaching the market confidently, armed with good information and grounded expectations will take you far. Don't let the hustle of the market convince you to buy something that's not in your budget, or not right for your lifestyle. ...Always get pre-approved with a strong and reputable lender as soon as possible. Getting pre-approved will give you a much clearer understanding of your budget and what you can afford, it shows sellers that you're a qualified buyer and it strengthens your offers. — Scott Bridges, senior managing director at Pennymac and Forbes Advisor advisory board member Gary Ashton, founder of The Ashton Real Estate Group of RE/MAX Advantage, has this expert advice for sellers: Research comparable home prices in your area. Sellers need to have the most up-to-date pricing intel on comparable homes selling in their market. Know the market competition and price the home competitively. In addition, understand that in some price points it's a buyer's market—you'll need to be prepared to make some concessions. Make sure your home is in top-notch shape. Homes need to be in great condition to compete and create a strong "online curb appeal." Well-maintained homes and attractive front yards are major features that buyers look for. Work with a local real estate agent. A real estate agent or team with a strong local marketing presence and access to major real estate portals can offer significant value and help you land a great deal. Don't put off issues that require attention. Prepare the home by making any repairs or improvements. Removing any objections that buyers may see helps focus the buyer on the positive attributes of the home. Frequently Asked Questions (FAQs) Declining mortgage rates will likely incentivize would-be buyers anxious to own a home to jump into the market. Expect this increased demand amid today's tight housing supply to put upward pressure on home prices. Most experts do not expect a housing market crash in 2025 since many homeowners have built up significant home equity. The issue is primarily an affordability crisis. High interest rates and inflated home values have made purchasing a home challenging for first-time home buyers. If you're in a financial position to buy a home you plan to live in for the long term, it won't matter when you buy it because you will live in it through economic highs and lows. However, if you are looking to buy real estate as a short-term investment, it will come with more risk if you buy at the height before a recession.