

Residential Real Estate

Mortgage rates, housing inventory expected to see slight improvement in 2024



Image: Getty Images

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After a year marked by volatile – and frequently high – mortgage rates, little inventory and affordability issues that sidelined many buyers, the 2024 housing market outlook offers more of the same, albeit with some relief.

Housing economists vary somewhat on their assessments of what's to come in the for-sale market during the next 12 months, and predicting factors like where mortgage rates will end up can be difficult. Most, however, agree the conditions for housing will improve, even if only slightly, and that's expected to unlock inventory, moderate home-price appreciation and make transactions easier to achieve.

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Many groups that closely track the real estate industry are predicting a decline in mortgage rates, although not to the level seen during the depths of the Covid-19 pandemic. Redfin Corp., for example, anticipates the 30-year fixed-rate mortgage will fall to 6.6% next year, a prediction similar to that of the National Association of Realtors, which predicts an average mortgage rate of 6.3% in 2024. Next year's rates will close around 6.5%, according to Realtor.com, but most of 2024 is expected to see an average of 6.8%.

Most housing economists say the Federal Reserve's goal of taming inflation has proven to be successful. That could mean interest-rate cuts by mid-2024, though not everyone agrees that will occur. In fact, Ken Simonson, chief economist at the Associated General Contractors of America, said during an NAR forecast summit this week he thought the Fed wouldn't make any rate cuts next year and, in fact, might actually keep increasing rates because of its persistent concern about inflation.

The Consumer Price Index was at a 3.1% annual rate in November, a slight decline from the CPI annual rate of 3.2% in October and the latest evidence of tempering inflation. The Fed has a stated goal of 2% inflation.

Danielle Hale, chief economist at Realtor.com, said recent weeks have seen a sharp drop in mortgage rates, the latest example of the rate volatility that's been a hallmark of 2023. As the broader economy, specifically around inflation, begins to moderate, that should

push mortgage rates downward – although slowly – and rates are likely to move up and down less rapidly than they did this year, Hale said.

In many ways, the mortgage-rate environment for 2024 could be a return to what was normal in pre-pandemic days, albeit at higher rates, Hale added.

Inventory picture may improve

This year saw constrained inventory among existing homes, making whatever inventory did hit the market competitive and, ultimately, keeping prices high in many markets.

The NAR this week said existing-home sales are projected to be down 18% from last year, the second year in a row in which the existing-home market has seen a double-digit decline in sales from the previous year. Existing-home sales slid 4.1% in October, the latest month available, to a seasonally adjusted annual rate of 3.79 million.

About two-thirds of current homeowners have a mortgage rate of 4% or less, Hale said, creating what many have termed the mortgage lock-in effect. With mortgage rates much higher now, it's become more expensive to purchase a home, prompting many existing owners to stay in place.

Some economists are predicting a shift next year, with an expectation that more owners will put their homes on the market. That should boost existing-home inventory, even if only by a modest amount.

Daryl Fairweather, chief economist at Redfin, said she believes the mortgage lock-in effect will start to fade next year, especially for people who would've preferred to sell their home this year. A life event, such as a marriage, a divorce or a birth, may prompt those households to finally make a move in 2024, she said.

The NAR also is predicting home sales to increase next year, about 13% in the existing-home market and 17% in the new-construction market.

Orphe Divounguy, senior economist at Zillow Group Inc., said people are less likely to make a big purchase or life decision, including buying or selling a house, when there's uncertainty. The mortgage-rate roller-coaster ride in 2023 and threat of a recession made a lot of households unwilling to make a big move.

"If mortgage rates and the broader economic outlook become more certain in 2024, that could then propel more activity in the housing market," he said.

There's evidence that inventory already has begun to increase. New listings bottomed out in April at almost 35% below pre-pandemic norms, according to Zillow. As of November, that shortfall had been reduced to 14%.

While the existing-home market this year has been challenging, the new-construction market has seen a rebound. Single-family housing starts in October, the latest month for which data was available, rose 0.2% to a seasonally adjusted annual rate of 970,000 units, according to U.S. Census data.

In fact, 2023 is on track to be the third- or fourth-best year for new single-family home construction since 2008, said Lawrence Yun, chief economist at the NAR, during its forecast summit. Many homebuilders [have leveraged a competitive advantage](#) over the existing-home market this year, with the ability to offer concessions like rate buydowns.

The National Association of Home Builders is forecasting 950,000 single-family housing starts next year. That's not quite the estimated 1.5 million housing units the association believes is missing in the market, although there also are about 1 million apartments underway nationally right now.

Divounguy said a lot of builders are focused on finishing their current home construction – bringing that to market and selling it. The NAHB/Wells Fargo Housing Market Index, which measures builder confidence, has been slipping on a monthly basis since July.

"Builders are cautiously optimistic," Divounguy said. "We still have population growth, new families moving from abroad, older homes that need to be torn down or fixed up. That all means new construction can't sit idly by on the sidelines."

Affordability still expected to be a challenge

If mortgage rates do moderate next year, and more inventory hits the market, does that mean the housing market will become more affordable in 2024?

Yes, albeit not by a significant margin, most housing economists say.

Realtor.com is predicting home prices will decline 1.7% in 2024 after a projected 0.2% growth in 2023 and a whopping 10.3% in 2022. A lack of home-price declines in many markets, paired with a higher mortgage rate, has locked out a significant pool of buyers.

In October, purchasing a typical for-sale home at a 30-year fixed mortgage rate would've required 39% of the typical household income, according to Realtor.com. That share is expected to average 36.7% for 2023, much higher than the historical average of 21%.

Because of the more expensive housing market, 40% of first-time homebuyers are making a down payment of 5% or less, according to NAR data.

Still, with a more optimistic mortgage-rate outlook and a greater amount of inventory, combined with strong wage growth in 2023, it's possible buyers will have an easier time next year.

"It's not going to completely reverse the trend in affordability – homes are still going to be pretty expensive – but it will be a baby step in the right direction for buyers, to start to bring home prices closer in line to incomes," Hale said.

Migration trends and moves to more affordable metro areas are still having an influence on the broader housing market, too, although perhaps not at the levels observed during the Covid-19 pandemic.

Fairweather said she expects there will continue to be less migration than there was during the pandemic, adding the share of people moving to a new metro has leveled off. She said prices have corrected significantly in West Coast cities like Los Angeles and the San Francisco Bay Area, and there could be a boomerang effect for those markets.

That's something Realtor.com also is predicting may happen in 2024, with southern California identified as a region to watch in 2024.

"Southern California has had a really difficult 2023, but we think sales will start to bounce back" there, Hale said during the NAR forecast event.

The markets Realtor.com is predicting will have the biggest home price and sales activity in 2024 are affordable Midwestern and Northeastern markets, including Toledo, Ohio, and Rochester, New York. Other economists also are bullish on Ohio, chiefly for that state's affordability compared to other parts of the country – although Sun Belt superstar cities like Nashville, Tennessee, and Austin, Texas, will continue to see population migration, Divounguy said.

"Austin is building a ton of housing, and I wish we saw more of that across the country," he said. "I think people are going to continue to move to where there's a larger mix of affordable-housing options, and that's probably going to be states that are building a lot, where you're getting ... a different mix of housing options."