Apr. 02, 2018

The years of historically affordable mortgage rates look to be ending as rates have steadily increased in recent months and show no signs of turning back.

Since the beginning of the year, mortgage rates have increased nearly 50 basis points. Historically low mortgage rates have been the silver lining in today's competitive housing market, keeping monthly payments relatively affordable even as home prices reached new peaks.

At the end of 2017, mortgage payments on the typical U.S. home required 15.7 percent

increased from 36 percent historically to 46.1 percent at the end of 2017. Combined with record-high home prices, housing affordability is already suffering in these markets and will only worsen as rates climb.

An additional side effect of higher mortgage rates will be felt in housing inventory, as some homeowners with lower mortgage rates may hesitate to sell their homes and take out a new home loan with a higher rate. Most home shoppers can absorb modest increases in mortgage rates, but once rates begin to approach their historic levels, they will eat into housing affordability for buyers and could limit the number of homes for sale as well. Inventory has fallen on an annual basis for 36 consecutive months, so any factors that further limit inventory will be a strain on the market.

“For nearly a decade now, homebuyers have been buoyed by historically low mortgage rates that made buying a home more affordable than it was for prior generations, but tomorrow’s buyers may not be so lucky,” said Zillow Senior Economist Aaron Terrazas. “Rates are showing a clear upward trend, bringing an end to an era of historically affordable mortgage payments. Bigger life considerations typically take precedence in the decision to move, but some homeowners who locked in a lower mortgage rate may look to alternatives like renovating their current home instead of becoming a buyer in a stressful, competitive market when higher rates would limit their buying power below what it was when they bought their current home.”

Renting doesn’t provide much relief as an alternative to home buying. The typical U.S. rental payment requires 28.9 percent of the median income. In 14 large U.S. metros, rent takes up more than 30 percent of the median income, widely considered the standard for unaffordable housing costs.

Metropolitan Area	% Income Spent On	Historic Income	Forecast % Income	Forecast % Income	For % I

	Mortgage	Spent On	Spent On	Spent On	Spe
Los Angeles-Long Beach-Anaheim, CA	41.6%	33.2%	43.0%	48.4%	54.
Chicago, IL	14.3%	22.8%	14.7%	16.5%	18.4
Dallas-Fort Worth, TX	15.1%	20.4%	15.9%	17.9%	20.
Philadelphia, PA	14.8%	20.0%	15.4%	17.3%	19.3
Houston, TX	13.4%	15.3%	14.0%	15.7%	17.6
Washington, DC	17.8%	22.3%	18.0%	20.2%	22.6
Miami-Fort Lauderdale, FL	22.7%	20.0%	22.9%	25.7%	28.
Atlanta, GA	13.2%	19.1%	13.9%	15.6%	17.4
Boston, MA	23.5%	26.2%	24.4%	27.5%	30.
San Francisco, CA	40.6%	38.3%	42.9%	48.3%	53.
Detroit, MI	11.3%	16.6%	11.7%	13.2%	14.7
Riverside, CA	25.6%	26.5%	27.0%	30.4%	33.
Phoenix, AZ	18.5%	21.3%	19.0%	21.4%	23.
Seattle, WA	24.9%	25.2%	26.3%	29.6%	33.1
Minneapolis-St Paul, MN	15.1%	18.4%	15.6%	17.6%	19.6
San Diego, CA	34.7%	34.1%	36.2%	40.7%	45.
St. Louis, MO	11.1%	16.1%	11.5%	12.9%	14.4

Tampa, FL	16.7%	18.7%	17.3%	19.4%	21.7

Sacramento, CA	26.0%	28.6%	27.2%	30.6%	34.2
San Antonio, TX	13.2%	17.7%	13.8%	15.5%	17.3
Orlando, FL	18.1%	20.4%	19.0%	21.4%	23.9
Cincinnati, OH	11.4%	19.3%	11.8%	13.3%	14.9
Cleveland, OH	11.6%	20.0%	12.0%	13.4%	15.0
Kansas City, MO	11.9%	20.1%	12.4%	13.9%	15.6
Las Vegas, NV	19.9%	25.9%	21.2%	23.8%	26.6
Columbus, OH	12.5%	20.0%	13.0%	14.6%	16.3
Indianapolis, IN	11.0%	20.8%	11.5%	12.9%	14.4
San Jose, CA	46.1%	36.0%	50.4%	56.7%	63.3
Austin, TX	17.2%	18.9%	17.9%	20.1%	22.5

Small Business