

# Market Outlook on Mortgage Rates & Housing Demand Post-Fed Rate Cut

By Jordan McKenzie, EVP, Finance and Portfolio Management & Raul Castro, Senior Marketing Manager



The Fed's interest rate cut cycle has finally begun, with a half-percentage point reduction announced during the September FOMC meeting. The FOMC lowered the target range of the federal funds rate by 50 basis points from 5.25% to 5.5% to 4.75% to 5%, a larger cut than the market anticipated. As the first rate cut in over four years, this move is expected to exert downward pressure on mortgage rates. However, much of this anticipated decline has likely been priced in by the financial markets ahead of the Fed's September meeting.

## Forecast for Mortgage Rates

Since late July, mortgage rates have steadily decreased, with a weekly average of 6.09% as of September 19 — representing a 68 basis point drop from the previous month. This decline likely reflects market expectations of the Fed's actions. Following the announcement, we observed a slight uptick in mortgage rates, driven by positive economic data in residential construction and employment sectors, alongside a rise in the 10-year Treasury yield, which closely influences mortgage rates.

Currently, mortgage rates are at their lowest since October 2023. We expect a continued downward trend, albeit at a slower pace. Anticipation of another 50 basis point cut, or two 25 basis point cuts, by year-end, along with expectations of further cuts into 2025, supports this outlook. If trends hold, mortgage rates could remain below 6% by Q2 2025 and potentially approach 5.5% by Q4 2025, enhancing consumer purchasing power.

## Differences Between 30-Year & 15-Year Mortgages

We do not expect significant differences between 30-year and 15-year mortgage rates. As of mid-September, the gap was just over 1%, with 30-year rates below 6.1% and 15-year rates under 5.2%. Both types of mortgages are likely to decrease at a slower rate moving forward, with the spread between them remaining under 1% into next year. Given ongoing affordability challenges, 30-year mortgages will continue to be the preferred option for many consumers, especially as the Fed progresses with interest rate reductions.

## Impact of Mortgage Rate Changes on the Housing Market

Lower mortgage rates are poised to positively influence the housing market, which has been hampered

by high home prices, limited inventory, and elevated borrowing costs. As mortgage rates gradually decline, consumer purchasing power and inventory levels are expected to improve, driving increased demand and home sales. Historically, a 100 basis point reduction in mortgage rates correlates with a 5% to 7% rise in home sales. While immediate sales increases may not be evident, we anticipate a return to pre-COVID sales levels by 2026.

Since spring, consumer purchasing power has begun to recover, with recent declines in mortgage rates allowing for an approximate \$50,000 increase in purchasing power for borrowers with a \$2,000 monthly mortgage payment, according to NAR.

Homebuilders are also benefiting from lower mortgage rates, with confidence in the newly built single-family home market rising for the first time since May 2024. New home construction remains a bright spot in the housing market, as potential buyers find it easier to enter the market amid a shortage of existing homes. Additionally, builders are offering incentives such as mortgage rate buydowns, contributions towards closing costs, and price reductions, further facilitating home purchases.

In conclusion, Walton remains confident in the resilience of the housing market and our role as a key land provider for homebuilders. As mortgage rates decline and consumer purchasing power improves, we believe that the housing sector will continue to thrive, driving sustained demand for new construction. Our commitment to supporting homebuilders positions us well to capitalize on these market trends and contribute to the ongoing recovery in the housing landscape.

Sources: Board of Governors of the Federal Reserve ([federalreserve.gov](https://www.federalreserve.gov)) | Freddie Mac | CNET | Fannie Mae | Wells Fargo | Mortgage Bankers Association | National Association of Realtors | National Association of Home Builders