With the Housing Market Facing an 'Especially Cold Winter,' Can Homebuyers Gain the Upper Hand?

Though normally cooler in the fall and winter, experts predict an even colder housing market this year, thanks to high mortgage rates and supply issues.

Jon Reed
Sept. 15, 2022 3:30 a.m. PT

5 min read

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The white-hot US housing market of the past two years has cooled off, and it could get even colder, experts say.

High mortgage rates – rising from 3% to 6% in less than a year – will likely keep making it harder for buyers to afford a home, continuing to crush home sales numbers. At the same time, a lack of supply caused by a decade of builders not keeping up with demand could get worse as construction slows even more in the wake of softer demand.

That simultaneous weakening of both supply and demand means home prices might not fall far from their all-time highs – the median existing home sold for $403,800 in July, up 10.8% from last year, according to the National Association of Realtors.

"It is going to be a challenging time for home shoppers. However, there are some opportunities," said Danielle Hale, chief economist for Realtor.com.

If you're looking to buy a home, here's what experts are expecting, how supply issues and inflation tie into the forecast and a few tips to help you navigate the home buying process in this turbulent market.

Where experts predict the housing market is headed

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High mortgage rates will worsen the usual seasonal slowdown.

"I think that demand will continue to weaken into the winter. That usually happens every year, but I think this will be an especially cold winter for the housing market because of these higher mortgage rates." - Daryl Fairweather, chief economist, Redfin

High rates and prices will slow the market down even more.

"We definitely expect home sales to continue to remain below what we've seen over the past couple of years. Housing demand has really pulled back as buyers grapple with reduced affordability from higher home prices and higher mortgage rates." - Danielle Hale, chief economist, Realtor.com

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Both supply and demand are struggling.

"It's frankly uncertain how this will all play out. You have lower supply, there should be upward pressure on pricing, but the demand is also being suppressed because of rising rates. How that all evens out remains to be seen." - Rob Cook, CMO, Discover Home Loans

Supply issues will dictate prices, in the long term.

"Median prices could come down when homebuilders and those that are selling are selling those smaller starter homes." - Jeffrey Roach, chief economist, LPL Financial

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Housing supply will not catch up

Prices are starting to fall on a month-to-month basis, but they're still up significantly from where they were a year ago – and way above where they were before the pandemic. One thing keeping prices up despite the drop in demand is that there still aren't enough homes for sale.

"In the longer term we still have the same problems. Those have not been solved. There still are not enough homes for everybody who wants to buy a home," said Daryl Fairweather, chief economist at Redfin. "Inventory is already starting to pile up but it's kind of like an illusion."

Supply still can't keep up with current demand in part because not enough homes have been built in the decade since the Great Recession, said Jeffrey Roach, chief economist at LPL Financial, a national broker-dealer. Builders particularly haven't built enough homes suitable for first-time buyers.

"The big story will be how do homebuilders respond to the slowdown and is it possible ... that homebuilders as a business realize we need to start spending more effort and time building starter homes rather than homes that cater to folks that want larger square footage," said Roach.

Inflation will dictate mortgage rates

Inflation has been the main culprit behind the major changes in mortgage rates this year. That also entails the Federal Reserve's efforts to tamp down inflation. If overall prices remain high, the Fed will have to keep raising its interest rate, increasing costs for banks and lenders and driving mortgage rates higher.

"Anyone's forecast is only as good as the next inflation report," said Rob Cook, vice president for marketing, digital and analytics for Discover Home Loans. "If the next inflation report comes out and it shows inflation spiking up again, the Fed's going to take more aggressive action and you would expect rates to rise."

The Fed's rate changes don't directly cause mortgage rates to change, and the mortgage market has already factored in a lot of the expected Fed rate hikes for the rest of the year, experts say. That means mortgage rates could start to drop sooner than other interest rates if economic conditions change.

"There's a very murky picture out there, and that murkiness means we're probably in store for some volatility. The level of mortgage rates really depends more on the mood of the market than what's actually going on in the market because what's going on in the market is so unclear," Fairweather said. "I think they're going to stay about the same level, but they're probably going to bounce up and down a lot even week to week."

How buyers can handle this difficult market

Home prices might be softening a bit, but they're still way higher than they were in 2019. Mortgage rates are also higher than they've been in over a decade. Both of these reasons make it a particularly tough time to buy a home. Here's what experts say you can do to make it a little easier.

Rate-proof your monthly payment

It's obvious from any perusal of home listings that prices are up, but mortgage rates have made those prices even harder to afford. Monthly payments are up by 30% to 40% for comparable homes compared to last year.

Don't just shop based on the price. Use a mortgage calculator to determine the monthly payment and get one you can manage for the long term. "Really do the math, look at your finances and understand how much home you can truly afford," Cook says.

With mortgage rates changing daily and often rising dramatically, make sure you've got room for your payment to go up during the homebuying process. "It's worth considering in advance what a change in mortgage rates would mean for monthly costs," Hale says.

Get multiple quotes on the same day

Always get quotes from multiple lenders for a mortgage. Rates and other costs can vary widely from one lender to another. With mortgage rates changing rapidly because of big-picture economic issues, Hale advises you compare quotes from different lenders on the same day.

"You need to compare lenders on the same day, because there's so much volatility in mortgage rates right now that if you're not comparing on the same day, you're really making an apples-and-oranges comparison," Hale said.

Start negotiating again

With fewer people shopping for homes right now, sellers are finally starting to make some concessions after years of buyers needing to up their bids and waive inspections or appraisals. If you're trying to buy, you can use that change to your advantage. Buyers are more able now to offer less than the seller is asking, or to offer that the seller fix some things or pay for mortgage points – which lower those high mortgage rates.

"That is something that we didn't see during the past couple of COVID years, but we are likely to see this year," Hale said.

More home buying advice

- CNET Mortgage Calculator: How Much House Can I Afford?
- Should You Buy a Home in 2022? Here's What You Need to Know
- First-Time Homebuyer Tips: Everything to Know About Buying Your First Home