

Good news for prospective homebuyers: National economist predicts mortgage rates will fall in months to come

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There's some good news coming for prospective homebuyers:

Mortgage interest rates are predicted to fall in the months to come as the Federal Reserve is expected to cut rates twice this year and likely twice more in 2026.

That's the forecast from Robert Dietz, the chief economist for the National Association of Home Builders, who was in Sacramento this month to speak to members of the North State Building Industry Association.

Dietz said mortgage rates had fallen to around 6.5%, the lowest they've been in months, and in the

months to come he expects them to fall just under 6%.

"I think just about every economist in the housing industry sort of agrees while there's no magic number when it comes to mortgage rates, there's a lot of buyers who are on the sidelines that if they see a rate close to 6%, they're going to come back in. So, we do think that housing demand is going to improve as we move forward," he said.

He also pointed out that the economy is still doing reasonably well, that a recession remains unlikely and that builders and developers will be able to borrow for construction at a somewhat lower cost than today.

Unfortunately, Dietz also discussed some ongoing

headwinds for new housing, both in California and nationally.

One reason mortgage rates remain higher than in recent years (although at normal levels historically) is that that federal spending shot up by 48% since Covid and because of that the national debt is now \$30 trillion, about the size of the economy as a whole. That forces the Treasury to increase interest rates on government bonds that finance the debt, and mortgage rates are closely linked to treasury bond rates. Dietz said easing the rate of increase in spending to below the growth of the economy would lead to lower interest rates and inflation rates as well.

Housing affordability also remains a huge

problem and has been caused by several factors, including rising construction costs. Many key components such as concrete, drywall, and electrical transformers have climbed by 35% to 71% since the pandemic. And while 40% of builders surveyed haven't seen significant impacts from tariffs, the 60% who have experienced higher costs for materials estimate the net cost is about \$11,000 for a single-family home.

Home prices in Sacramento have risen by 41% since Covid, Dietz said, which is actually below the state's average of 45% and the national average of 55% – and significantly less than the 70% price increase seen in Florida. But he doesn't see a Great Recession-like drop in

housing values.

"In our pricing forecasts, we have most markets in the country experiencing 2% to 3% price declines over the next 12 months. It's not a collapse. It's kind of a breather," he said.

Higher prices for all types of housing have particularly affected younger adults. Nationally, the share of young adults 25-34 years old living with their parents has effectively doubled, from one in 10 to one in five. California, not surprisingly, leads the way with 26.5% of these younger adults living with their parents.

And as California builders know all too well, a huge part of the problem is government fees and requirements, which nationally average nearly \$94,000 per home – 24% of the

home's price. In the Golden State, these costs are even higher.

These factors have resulted in a drop in housing starts, nationally, statewide and in our region. Dietz said, however, that he expects production to improve next year.

"Permits were up in the region by 8% last year and down 9% for the first half of this year. But I expect a rebound in 2026, once we get the benefits of the Fed's rate cuts and things like federal tax cuts that will provide some additional housing demand," he said.

Dietz closed with some potential good news: He expects the federal government to issue a regulatory package aimed at reducing

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North State BIA photo

Robert Dietz, chief economist for the National Association of Home Builders, tells Sacramento-area builders that he predicts mortgage rates will continue to trend downward in the months to come.

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some of the barriers to housing production.

"I think the Trump administration in the next couple weeks is going to issue a regulatory package," Dietz said. We've been working with staff people for months on this.

It's not going to be everything we ask for, but I think we're going to see at least some bully pulpit efforts for the federal government to encourage state and local governments to get rid of inefficient rules and speed-

up permitting processes, and there's going to be items for other parts of the housing sector as well."

Murphy is President & CEO of the North State Building Industry Association, which represents builders, developers, subcontractors, suppliers and related professionals dedicated to providing new housing opportunities in the Greater Sacramento region.