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Low rates help push home prices higher

By Thomas A. Fogarty, USA TODAY

For home buyers, it's the dark side of today's ultralow mortgage interest rates: They're fueling the rapid run-up in home prices.

Mortgage interest rates are low and dropping. Investor Freddie Mac's average interest rate for a 30-year fixed-rate mortgage plummeted this week to a record 5.45% from 5.62% a week ago. The 15-year rate slid to 4.84% from 4.97% last week.

Freddie Mac chief economist Robert Van Order attributes the slide to deflation jitters, a troubling economic topic that has caused bond investors to modify their normal hedge against future inflation. Economic sluggishness has also contributed, says Van Order.

Meanwhile, the National Association of Realtors this week said the median sales price nationally during the January-March quarter was \$161,500, up 7% from the year-ago period.

The increase defies economists' predictions for more moderate price growth. A week ago, NAR chief economist David Lereah again revised his forecast upward.

Since October, when he forecast a 4.1% price increase this year, he's ratcheted it up consistently. He now forecasts a 5.1% increase this year vs. last year.

The low cost of financing allows home sellers to demand higher prices and get them.

Home buyers Karen and Larry Beach saw it up close. The Beaches, who are moving to the Washington area from Iowa, bid the asking price for a \$360,000 house in Alexandria, Va., a day after it hit the market. Over three days, they fended off two competitors by dropping their demand for an inspection, and ultimately, raising their original bid by \$10,000.

The price is far higher than they thought they should have to pay for the 1950s-era house, but Karen Beach says financing terms made it bearable: 3.88% fixed for the first five years of a 30-year mortgage.

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Also propping up prices: Cheap mortgages make modest houses affordable to more people.

"It's bringing guys who never thought they could be homeowners into the market," says Michael Sklarz, chief valuation officer for FNIS in Santa Barbara, Calif.

Sklarz and Freddie Mac's Van Order still expect widespread moderation in price growth, just later than they had anticipated.



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