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Redfin Reports High Mortgage Rates Mean Smaller Homes For Many Buyers

Rising rates, combined with home prices that are still higher than they were a year ago, have cut more than 400 square feet out of homes affordable to a San Diego buyer on a \$3,000-per-month budget

SEATTLE--(BUSINESS WIRE)-- (NASDAQ: RDFN) — A San Diego homebuyer with a \$3,000 monthly budget can afford a 931-square-foot home at today's 6.7% mortgage rates, down from the 1,366-square-foot home the same buyer could have purchased a year ago, when rates were sitting near record lows at 3%. That's according to a [new report](#) from Redfin (www.redfin.com), the technology-powered real estate brokerage, which analyzed the median square footage of homes affordable on a \$3,000 monthly housing budget based on list prices, mortgage rates and the supply of homes for sale on September 29, 2022 versus September 30, 2021.

That 435-square-foot difference in San Diego is the biggest of the 50 most populous U.S. metros for buyers with a \$3,000 monthly budget. But the sharp increase in mortgage rates to their highest level in 15 years is cutting into homebuyer budgets across the country. High rates are making monthly housing payments significantly more expensive, especially because home-sale prices in most areas are still higher than they were a year ago.

"Soaring mortgage rates are throwing a wrench into prospective buyers' plans," said Redfin Senior Economist Sheharyar Bokhari. "Many would-be buyers are dropping out of the market because they can no longer afford the home they want, resulting in a dramatic dip in home sales. For buyers who need a home right now—and can still afford it—compromise is the name of the game. Some buyers will choose to sacrifice on location or move further away from the city center so they can get the space they want, while others will settle on a smaller home in their ideal location."

According to Redfin economists, rising mortgage rates should theoretically cause home prices to fall enough to compensate for the additional monthly interest cost, which would mean buyers could afford the same-sized home. But while home prices have fallen from their 2022 peak in most metros, they haven't fallen from a year ago anywhere except the Bay Area and a few other places. That's largely because of a lack of homes for sale.

In San Diego, for example, home prices were up 7% year over year in August, rising from a median of \$749,000 to \$800,000. Homebuyers' monthly housing payments would be more expensive even without higher mortgage rates, but with rates more than doubling, they're significantly more expensive. A San Diego buyer purchasing the median-priced home today would pay more than \$5,000 per month with a 6.7% rate, up from about \$3,500 for last year's median-priced home with a 3% rate. That means buyers need to search for cheaper homes, which typically translates to smaller ones.

Mortgage rate hikes have cut at least 100 square feet out of buyers' home searches in most metros

After San Diego, Newark, NJ has seen the biggest decline in the size of home buyers can afford. A Newark buyer on a \$3,000 monthly budget can afford a 1,726-square-foot home today, down from 2,156 square feet a year ago.

Nassau County, NY (1,300 square feet, down from 1,712), Denver (1,571, down from 1,933) and Portland, OR (1,504, down from 1,800) round out the top five.

Rising mortgage rates impact home sizes and affordability differently in different metros because prices and annual price growth both vary depending on location. The mix of homes available to buy also differs across different metro areas, and from one year to the next.

Mortgage rates more than doubling has cut at least 100 square feet out of the homes in would-be buyers' price range in 29 of the 50 metros in Redfin's analysis. Today, the typical home affordable on a \$3,000 budget is under 1,000 square feet in six of the metros in the analysis: San Diego, San Jose, Anaheim, CA, Oakland, CA, San Francisco and New York. A year ago, only San Francisco fell into that category.

To read the full report, including methodology and additional metro-level data, visit: <https://www.redfin.com/news/high-mortgage-rates-smaller-homes/>

About Redfin

Redfin (www.redfin.com) is a technology-powered real estate company. We help people find a place to live with brokerage, instant home-buying (iBuying), rentals, lending, title insurance, and renovations services. We sell homes for more money and charge half the fee. We also run the country's #1 real-estate brokerage site. Our home-buying customers see homes first with on-demand tours, and our lending and title services help them close quickly. Customers selling a home can take an instant cash offer from Redfin or have our renovations crew fix up their home to sell for top dollar. Our rentals business empowers millions nationwide to find apartments and houses for rent. Since launching in 2006, we've saved customers more than \$1 billion in commissions. We serve more than 100 markets across the U.S. and Canada and employ over 6,000 people.

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