It is widely anticipated that the Fed will raise interest rates come September, the first increase since 2006. The San Francisco Fed recently published an Economic Letter analyzing the effects of Fed rate hikes on housing prices. The Letter asserts that rate increases correlate directly to a slowdown in housing prices. However, it also states that the initial impact of a rate hike is minimal, and that only by the fourth year following an increase will there be a significant impact. Specifically, the Letter provides a scenario in which a one-percent rate increase translates into a 4.4% decline in housing prices by the fourth year. The Letter further states that “Slowing down a boom in house prices is likely to require a considerable increase in interest rates, probably by an amount that would be widely at odds with the (Fed’s) dual mandate of full employment and price stability.” Therefore, the prospect of a rate hike having a significant impact on housing prices is unlikely in the near term, and less practical in the long term.

Source: SFAR MLS, FRBSF; Data from 2/1/2015 - 7/31/2015 was used for neighborhood values. BMR and senior housing units have been excluded from statistics. All information is deemed reliable, but not guaranteed for accuracy. ©2015 Vanguard Properties. All rights reserved.