U.S. home prices increased at a record pace in 2021, Fannie Mae said.

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Home-price gains in 2021 are on pace to smash last year's all-time high after record-low mortgage rates fueled bidding wars across the U.S., Fannie Mae said in a forecast on Friday.

Home prices probably will surge 17% this year, beating the record gain of 11% set in 2020 that surpassed the prior peak of 10% seen at the height of the real estate boom that petered out in mid-2006, the largest U.S. mortgage securitizer said.

Prices for homes began spiking last year after the Federal Reserve stepped into the bond markets in March 2020 to purchase Treasuries and mortgage-backed securities to support the economy during the pandemic and prevent the type of credit crunch that crashed the U.S. financial system in 2008.

Both type of asset purchases — Treasuries and mortgage bonds — put downward pressure on rates because home-financing costs tend to track long-term Treasury yields. When the Fed became the 800-pound gorilla in the bond markets it boosted competition for the fixed assets, which resulted in investors having to accept smaller yields.

“We believe strong price appreciation is likely to continue in coming months,” Fannie Mae economists said in commentary released on Friday with the forecast. “When compared to this past spring, housing market activity has cooled, as indicated by measures such as the number of homes with multiple bids, average days on the market, and sales prices relative to asking prices. However, these indicators all remain well above the historical norm and point to a continued tight market.”

The U.S. real estate market struggled with low inventory prior to the start of the pandemic because of years of underbuilding after the 2008 financial crisis put hundreds of construction companies out of business.

Following an initial lull in the housing market during the first months of the pandemic, demand for real estate began to accelerate as Americans working from home, and often schooling their children at the kitchen table, became dissatisfied with their existing digs.

The average U.S. rate for a 30-year fixed mortgage dipped below 3% for the first time ever in July 2020, four months after the Fed started buying bonds, and went on to set new records a dozen more times in 2020. The current all-time low is the 2.65% set in the first week of 2021, as measured by a Freddie Mac data series that goes back to 1971.

Lower rates typically mean buyers qualify for bigger mortgages because lenders use a formula that compares the monthly bill of the new loan, with its cheaper financing costs, against income and other debts. That sparked bidding wars for property that drove up home prices.

The rate seen in 2021's first week is likely to stand in the record books as the bottom, Fannie Mae said. The Fed is set to begin tapering those bond purchases in November of December, according to the minutes of last month's meeting released last week.

The average 30-year fixed rate next year probably will be 3.3%, compared with 2.9% in 2021, the mortgage giant said.

Next year, home-price appreciation is expected to slow but not fall of a cliff, according to the Fannie Mae forecast. The sale price of U.S. homes probably will gain 7.4% in 2022, Fannie Mae said.

That would beat the 3.3% average annual appreciation seen in the decade before the start of the pandemic, according to data from the Federal Housing Finance Agency.

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Source: **U.S. Home-Price Gains Are On Pace To Smash Record In 2021**