The Lock-In Effect: Will It Ever Let Go of the Housing Market?

Since 2022, many homeowners have been reluctant to sell and move because they would have to finance their next homes at much higher rates than they pay on their current mortgages. According to a federal analysis, this widespread conundrum — known as the *lock-in effect* — has contributed to a nationwide housing shortage and a steep rise in home prices. Geographies with high home values, and affluent borrowers with larger mortgages, appear to be more sensitive to the lock-in effect.[1]

In the second quarter of 2024, the average mortgage had a fixed rate that was 2.54 percentage points lower than the current market rate for similar loans. This was below the peak of 3.06 percentage points reached near the end of 2023 but still much greater than the 0.86 percentage-point difference in Q2 2022.[2]

Here's a look at several market trends that may influence the decisions of homeowners and buyers in the coming months.

Home prices

In 2024, the median price of an existing single-family home increased 6.0%, mainly because the supply of homes for sale was below normal levels.[3] Home prices have risen more than 35% nationwide since the beginning of 2021.[4]

Mortgage rates

The Federal Reserve began to cut the benchmark federal funds rate in September 2024, a long-awaited shift that many people hoped would usher in lower mortgage rates. But the rates for 30-year fixed mortgages (which tend to track the yield on the 10-year Treasury note) are influenced by a mix of complex factors that includes Fed policies, longer-term inflation expectations, and government bond market dynamics, so they could stay elevated for some time. The average rate for a 30-year fixed mortgage was still hovering above 6.5% in February 2025.[5]

Supply shift

Housing inventory is still tight in many markets, but October 2024 marked the 12th straight month of growth. In December 2024, the supply of homes for sale was up 16.2% from a year earlier.[6] If this trend continues in 2025, qualified borrowers and downsizing or move-up buyers with plenty of cash may find more desirable options to choose from in their target price range and in some cases may wield more negotiating power.

The lock-in effect has already begun to ease because some households want or need to sell regardless of current rates. Although the lock-in effect may linger to some degree for years to come, it could fade more quickly if mortgage rates fall significantly.

1–2) Federal Housing Finance Agency, 2024; 3, 6) National Association of Realtors, 2025; 4) Dow Jones Indices, 2025; 5) Freddie Mac, February 2025