Residential price surge slowing? - by Shaun Fitzgerald

October 08, 2021 - Appraisal & Consulting

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Is the residential home price surge slowing? It looks like it. While an appraiser is not required to predict the future, none of us want to get caught overvaluing a property. So it might be wise to look at some of the indicators that precede price declines. Things to watch for are rising inventory, longer days on market, price reductions, greater demand for due diligence (home inspections, appraisals, financing contingencies), an increase in seller concessions, and an indication of where the prices are rising fastest.

Rising incomes and low mortgage rates have always motivated home buyers; increasing incomes and declining mortgage interest rates have been with us for a number of years. However, the Wall Street Journal reported this month that new figures show Americans' incomes fell in 2020 as the economic fallout of the Covid-19 pandemic weighed on median household income. Later in the month, they reported that the Federal Reserve Bank has communicated – more forcefully than is typical – that interest rates are likely to rise as they change their tactics on debt repurchases. China is now dealing with the collapse of one of its largest real estate owners. While the Chinese government is likely to deal with this somewhat harshly, there is concern that too harsh a response will have global consequences.

Bidding wars are in steep decline. Last year, ten bids on a home were common; this year, we are likely to see three or less – when they occur at all! According to a survey of 850 consumers from iBuying giant Opendoor, the five most common reasons for people putting their home search on hold: uncertainty with COVID-19 (39%), the market is intimidating (35%), there aren't enough homes on the market (24%), I haven't decided where I want to live after I sell my home (24%), I've already lost out on a few homes because of the competitive market (22%). Consequently, nearly four in 10 Americans who are looking to purchase a home in the next year say they've halted their current search. That same survey reports that younger buyers are most concerned about finding major problems with a home they purchase and having to move quickly. This makes sense when we consider how many homes have recently been purchased with no home inspection, no appraisal and no apparent concern about the likelihood of obtaining a mortgage. According to that same survey by Opendoor, the top concern of millennials are: finding a home I love that's within my budget (41%), paying too much for my home (38%), finding a home in a neighborhood where I want to live (37%), interest rates increasing (30%), discovering major concerns after I've moved in (29%).

In August, about 59% of offers on homes written by Redfin agents faced competition, which is a record low for this year and the lowest level since 2020. That's down from a peak of 74% in April.

New listings rose 5.1% in the 50 largest metros. More listings mean more competition; more homes for sale improve the options for anxious home buyers who have faced fierce competition in the past.

The number of "days on market" is increasing. That suggests less competition for the new listings. As inventory increases, downward price adjustments are becoming more common. Price reductions at 17.3% of active inventory is the highest share in 21 months and close to more typical levels that were seen between 2016 to 2019. In the Boston–Cambridge–Newton market, the median list price is down 2.9% (small comfort, it is now $659,000). Some price adjustments are prior to listing, many after seeing a property fail to sell in 15 days.

My favorite thing to watch is what the smart money is doing. In the wealthier communities, we are seeing that median prices have already declined (slightly). In those communities, prices declined slightly in 2006 and 2007 before everyone else realized that the 2008 mortgage meltdown was depressing prices dramatically. In 2010, prices in those communities were increasing, while prices in poorer communities were crashing. Smart money doesn't overpay. They don't get excited. They aren't afraid of being priced out of the market. They know that real estate values always increase over the long term, but they do so gradually. After many years of significant real estate price appreciation, we can't expect it to keep going forever. Smart money doesn't overpay.

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