

# 5 Factors That Reveal Where The Real Estate Market Is Really Headed

It's the old supply-and-demand predicament: U.S. home sales continue at a rapid pace, but the number of listings remains limited. Amid historically low mortgage rates, buyers keep shopping, reducing inventory and sparking a rise in home prices.

Meanwhile, homebuilders are coping with an increase in material costs and a shortage of labor. These issues come during an ongoing housing shortage. A National Association of Realtors study shows the U.S. has a deficit of about 2 million single-family homes and 3.5 million other housing units.<sup>1</sup>

Follow along to learn the five factors that illustrate where the U.S. housing market is today and is heading tomorrow.



## ROCK-BOTTOM MORTGAGE RATES TO GRADUALLY RISE

Low interest rates continue to fuel demand from homebuyers. Some experts believe mortgage rates will creep up later this year, but they expect rates to remain near historic lows.<sup>2</sup> In June, the Mortgage Bankers Association reported that 2020 closed with the average rate for a 30-year, fixed-rate mortgage at 2.8%. But the association anticipates the average rate climbing

to 3.5% at the end of 2021 and 4.2% by the end of 2022.<sup>3</sup>

### ***What does it mean for you?***

When mortgage rates are at or near historic lows (as they are today), you should seriously consider taking advantage of those rates to borrow money for a home purchase or to refinance your existing mortgage.

## HOME PRICES EXPECTED TO KEEP CLIMBING

In June, the national median list price for a home reached an all-time high of \$385,000, up 12.7% on a year-over-year basis.<sup>4</sup> And according to the Home Buying Institute, various reports and forecasts indicate home prices will keep climbing throughout 2021 and into 2022.<sup>5</sup> While this may be welcome news for homeowners, high prices are pushing homeownership out of reach for a growing number of first-time buyers.

### *What does it mean for you?*

If you're a buyer waiting on the sidelines for prices to drop, you may want to reconsider. While the pace of appreciation should taper off, home prices are expected to continue climbing. And rising mortgage rates will make a home purchase even more costly.

## SINGLE-FAMILY HOME SALES REMAIN ROBUST

Single-family home sales are down from their peak in October 2020 yet are still above the overall level last year. In May 2021, 5.8 million existing single-family homes were sold in the U.S. That's a 45% increase over the 4 million homes sold in May 2020.<sup>6</sup>

However, home sales saw a 0.9% dip in May 2021 compared with the previous month, the National Association of Realtors says. That was the fourth straight month for a decline in home sales. The number of home sales has slid recently because of rising prices and a lack of inventory, but Fannie Mae expects total home sales to tick up slightly in the fourth quarter and finish the year up 3.8% over last year.<sup>6,7</sup>

### *What does it mean for you?*

The market for single-family home sales remains quite active. As a result, if you're a homeowner, you may want to ponder whether to sell now, even if you hadn't necessarily been thinking about it. With demand high and inventory low, your home could fetch an eye-popping price.

## LACK OF INVENTORY STILL CONSTRAINS THE HOME MARKET

According to the National Association of Realtors, in May there were 1.23 million previously owned homes on the market, down 20.6% from the same time last year.<sup>6</sup> This translates to a 2.5-month supply of homes, which is well below the 6 months of inventory typical in a balanced market.<sup>6,8</sup> According to the Realtors group, the lack of inventory translates into tougher searches for buyers and contributes to a rise in prices.<sup>6</sup>

### *What does it mean for you?*

If you're thinking of selling your home, now may be the right time to do it. Across the country, it's a seller's market, meaning demand is outpacing supply. That supply-and-demand imbalance puts sellers in a great position to sell their homes at a premium price. The May 2021 Realtors Confidence Index from the National Association of Realtors found the average home that was sold attracted five offers, and the association says nearly half of homes are selling above list price.<sup>9,10</sup>

## CONSTRUCTION OF SINGLE-FAMILY HOMES SEES SLIGHT UPTICK

Frustrated buyers may soon find some relief from an increase in new construction. Economists forecast that 1.1 million new houses will be started in 2021, compared with a predicted 940,000 units just six months ago, with 1.2 million new starts predicted for 2022 and 2023, according to the Urban Land Institute.<sup>11</sup>

### *What does it mean for you?*

Given the issues affecting the new-home market, it may make sense to widen your home search to include both new and existing homes. Your brand-new dream home may not be available, but you might be able to find an existing home that lives up to your vision. Keep in mind that we can help you find either a new or existing home and can advocate for you to ensure you get the best deal possible.

Sources: 1. Wall Street Journal 2. Time 3. Mortgage Bankers Association 4. Realtor.com 5. Home Buying Institute 6. National Association of Realtors 7. Fannie Mae 8. Real Estate Center at Texas A&M University 9. National Association of Realtors 10. Realtor magazine 11. Urban Land Magazine

## ARE YOU THINKING OF BUYING OR SELLING?

If you're in the market for a home, you're ready to sell your house or you've simply been wondering whether you should sell, you could benefit from an expert to help you navigate the hot real estate market. Let's set up a free consultation to discuss your situation. We can review your options and come up with a plan to capitalize on the value of your current property or to find your ideal next home.

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