Residential Real Estate: A Sellers' Market, For Some

Despite COVID-19 and its continuing human and economic toll, housing markets have rebounded strongly, boosted by exceptionally low mortgage rates. But there are other factors at work.

The 30-year mortgage rate dropped below 3% in July, its lowest level ever.

With the COVID-19 pandemic raging, small businesses shuttering, and unemployment at its highest level since the great depression, you would think that the U.S. housing market would be in lockdown. Think again.

In fact, residential real estate is on a roll. Housing demand is outstripping supply in many areas of the country in the face of low inventories and record low mortgage rates. Bidding wars have become commonplace and many properties are selling above asking price. But the picture varies widely from market to market -- and from demographic to demographic.

Record Low Rates

The primary driver behind the dramatic housing recovery is the exceptionally low interest rate environment. As of July 30, the average rate on a conventional 30-year mortgage had dropped to 2.99%, and the average 15-year rate was 2.51% -- both all-time lows since Freddie Mac began tracking them in 1971. Compare those with rates just two years ago -- 4.52% and 4.00%, respectively, both about 1.5% above today's levels.[1] The difference in monthly payments on a one-and-a-half percent lower rate can be significant, making higher-priced properties much more affordable for many more prospective buyers.

Regional Disparities

As anyone who has bought or sold a property knows, house prices vary widely from region to region, neighborhood to neighborhood, and street to street. While properties in cities continue to fetch the highest prices, today's unusual circumstances are resulting in an exodus from some cities, such as New York, to the suburbs, affecting property demand and prices at both ends. Meanwhile, cities such as Seattle and San Francisco that have a large percentage of high-tech jobs and comparatively low unemployment rates, are seeing a strong recovery.

Haves and Have Nots

The strong rebound in residential real estate has also been concentrated in the higher end of the market. Higher-income consumers have been less affected by the pandemic. They typically work in jobs that can easily be done remotely, providing them with greater job security and confidence to make large purchases. They also are more likely to own stocks, which have fared well. In contrast, lower-income Americans have suffered the brunt of coronavirus job losses, especially those in service sectors like leisure and hospitality. They also may not qualify for the financing or low rates that people with higher incomes can. Accordingly, sales of higher-end homes have been strong, while sales of homes at the low-end, especially those in areas most impacted by layoffs and furloughs, have lagged.

If you are considering selling or buying, here are some points you may want to consider.

The economy. The near-term economic forecast is anything but rosy. Many economists expect the recession to last well into 2021, with or without a COVID-19 vaccine. That's important for would-be buyers, because recessions tend to drag down house prices. That was especially the case in and following the most recent recession brought on by the financial crisis, when the median home price tumbled over 20% between 2007 and 2011.

Stricter lending requirements. Although rates are down, many mortgage lenders have tightened their lending standards in the face of the global pandemic, which has brought about widespread unemployment and an uptick in requests for forbearance. If you have been furloughed or employed by hard-hit industries such as hospitality or travel, be prepared for tougher hurtles in securing a low-rate mortgage.

Cash is still king. If you face a bidding war for a property, be prepared to compete against other prospective buyers who are willing to pay all cash. Cash offers are simpler, involve no mortgage contingency, and usually close quicker, making them particularly attractive to sellers. Aggressive bidders may also waive the right to a property inspection.

Also keep in mind that the one certainty throughout the pandemic has been uncertainty. Uncertainty as to the spread and containment of the virus, uncertainty as to its long-term impact on jobs and the economy, and uncertainty as to consumers' and investors' reaction. Thus far stocks and residential real estate have demonstrated uncanny resiliency, but there is no assurance that will continue. So use caution and work with a real estate professional.

[1]Source: Freddie Mac, as of July 30, 2020.