Are Home Prices Leveling Off? Maybe!

November 5, 2018 - Anyone looking for a house to purchase over the past several years knows what a frustrating experience it can be. Real estate markets in many cities across the country have been on fire. Not enough homes on the market for the number of buyers. Multiple offers for virtually every home that is on the market. And nose-bleed prices. In the Los Angeles market alone, it's been common for homes to sell for well over $100,000 over asking price. But there are indications that the market is starting to change and buyers & sellers alike are having to change their strategies to adjust to current market conditions.

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For the first time in the past four years, the average home in Seattle is selling for less than the asking price. In Manhattan, there is a glut of available real estate. And in Los Angeles, we're actually beginning to see houses sit on the market for longer periods of time even in highly desirable areas. Many homes are going through price reductions and it is no longer uncommon for buyer to not have to compete with other offers in order the get their offer accepted. That's a huge change from just three months ago.

There are a lot of factors driving this change, but the largest two are probably the new federal tax law and mortgage interest rates.

The new tax law is certainly having an impact on buyers. Washington, California and New York - all mentioned above - are high tax states. That means that buyers there are faced with the prospect of not being able to write off their income and property taxes in their entirety. But high interest rates have probably had more impact on housing than anything else. Borrowers are finding that the amount of money that banks will lend them is less than it was three months ago, and the cost of new loans to borrowers is going up.

Whether or not this is good news to you depends upon your perspective. If you are a first time buyer, you may be able to get into a house for less than you thought but you'll certainly make up for that over the course of your 30 year mortgage by paying a higher interest rate. If you selling your house so that you can purchase another home, the change may not matter too much to you because while you will probably have to sell your home for less than you would have a few months ago, your new house should also cost you less.

The people who will be hurt the most by the new market are likely to be those planning on cashing out of their house entirely. Maybe you're thinking of selling to hit the road for your retirement. The new market reality means that you might not have as much money as you thought you would. On the other hand, those who may benefit the most from the new market are cash buyers. All of a sudden housing costs have dropped so you're now able to buy the house you want, for less than you thought you'd spend.

All of this being said, the market appears to be moving towards some normalcy. For several years now, the hottest markets in the country have had double digit price gains every year. That's not sustainable. But there are no signs of a panic in this market either. Buyers are still there, and properly priced homes are still selling quickly. All of that is good. And over the long term, buying a house is still one of the best decisions that people can make when looking for long term financial stability. Just don't use your house like a piggy bank and you should do fine over the next decade.
byJim Malmberg
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