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What's Driving the Real Estate Market and Is It Sustainable?

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The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

The housing market has been red hot this year, and the demand for homes has been robust in nearly every part of the country. We think there are several factors that are fueling today's strong real estate market.

With mortgage rates at historic lows, now may be the right time to buy for first-time homebuyers, particularly given that monthly rental rates also continue to rise at a record pace. Rental rates are a good indicator of home values: If they keep pace with home prices, then the market is usually properly priced. June saw the largest spike in rental rates since 2005 (CoreLogic). Some believe the bounce is primarily driven by the housing shortage. We think the housing shortage will continue, especially given ongoing supply chain issues, labor, and inflated costs.

Many members of Gen Y — 25-40 years old, also known as Millennials — are being priced out of the housing market and trapped in the rental market, thereby compounding the effect. Gen Y is now the largest living generation in the US at 73 million, having surpassed the Baby Boomers (57-75 years old) in 2019. Millennial homeownership currently trails previous generations and stands at nearly 48%, while Gen X (41-56 years old) homeownership rate is 69%, and the Baby Boomer generation is near 78%. However, we think Gen Y has pent-up demand that will fuel the home market values into the near future: Members of this generation are the fastest-growing segment of buyers today, according to the National Association of Realtors[1]

Yale Economics Professor Robert Shiller believes a psychological effect is driving the market as well. He noted that many people who have been forced to work and learn from home during the pandemic might be feeling frustrated, and buying a house is taking action to reassert control over their lives. "We want to do something," he said. "So that seems to be 'let's upgrade our house.' " Additionally, Shiller noted that FOMO — or fear of missing out — could be behind many decisions by homebuyers to jump into the market as they anxiously watch as prices accelerate. Shiller thinks that the prices will begin to decline in a few years as a result of this psychological effect.[2]

National housing prices were creeping up before the COVID-19 pandemic, so we believe the housing shortage combined with these other factors will keep housing prices where they are.

The federal eviction moratorium is set to expire on October 3, although some states and municipalities have extended the moratorium into 2022. The end of the eviction moratorium could be just the beginning of renters' troubles, as the nation's ongoing eviction crisis is set to have significant ripple effects across the broader housing market.

"Based on what we see with single-family rental homes, the various eviction moratoria over the past year have likely contributed to the supply challenges in the market," said David Howard, executive director of the National Rental Home Council a trade group that represents landlords who own single-family homes.

Currently, Zillow estimates there will be about 480,000 eviction filings once the moratorium ends, but only around 260,000 of those households are likely to be evicted.[3]

Essentially, we think the housing market is stabilizing and will hold these values within the foreseeable future. It may not be the best time to purchase investment property unless you can find a landlord who has an incentive to sell. You may be able to get a good deal from a landlord who has to unload the property due to cash flow issues from the moratorium. Vacation property purchases are more about personal use and utility, which usually ignores the market effect.

The market can withstand increasing 30-year fixed rates up to 4% before a noticeable difference in purchases. While we recognize that the current pace of building will eventually be greater than needed due to outside investors coming into this period and some builders indicating they have fulfilled their waitlists; and that Generation Y has been slow to form new households, we think this level of pricing will hold at least well into 2022. These home values far outpace the increase in the run-up in 2007, but other conditions are not the same, and lending practices are much tighter. Folks are still hunkering down in their homes, and we see that. Wherever your real estate plans take you, one thing is certain: It may be a rollercoaster ride.

For more information, please contact your advisor.

About the Author

Emily Mogen specializes in fiduciary property management, helping individuals, families, professionals, business owners, foundations, and executives navigate the complexities of Trust Real Estate. With more than 22 years of experience, she provides advice and services for real estate investments, sales, purchases, inspections, ADA compliance, environmental issues, rent collection, renovations, management of mineral, oil, and gas assets, and property management.

She attended the University of Akron, holds the Accredited Commercial Manager and Certified Property Manager designations from the Institute of Real Estate Management, and holds an Ohio real estate license.

Emily is Treasurer and past President of the Northern Ohio Chapter of the Institute of Real Estate Management (IREM), President of the National Trust Real Estate Association (NTREA), a Member of the Commercial Committee at the Akron Cleveland Association of Realtors® (ACAR), and a Member of the National Association of Realtors.

Sources:
1 - GlobeSt.com, "After 2020, More Millennials Doubt Homeownership," by Kelse Maree Borland
2 - Yahoo Finance, "Home prices may 'see big declines in coming years,' expert says," by Janna Herron
3 - MarketWatch, "The eventual end of the eviction moratorium will hurt renters -– and not in the way you expect," by Jacob Passy

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