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NAHB Reports Slight Uptick in Homebuyer Interest Survey finds that more are looking for new construction.

There was a slight increase in home purchasing in Q3, according to the National Association of Home Builders, which reported the share of adults planning a home purchase within a year rose from 13% in the first half of 2022 to 15%.

The marginal increase suggests that the prospect of higher mortgage rates in the near term may be leading a small segment of consumers to consider the purchase of a home sooner rather than later, according to the report.

Given that the inventory of new homes for sale is 25% higher than a year ago, while the supply of existing homes on the market is unchanged, could be making more shoppers think “new.”

After bottoming out at 19% in the first quarter of 2022, the share of buyers looking for new construction rose to 21% and 27% in the second and third quarters of the year, respectively, according to NAHB.

New Home Sales Drop Significantly in September

However, pending home sales dropped for the fourth straight month, down 10.2% from August, NAHB reported, and month-over-month, contract signings pulled back in all four major U.S. regions.

NAR Chief Economist Lawrence Yun said in prepared remarks that “persistent inflation has proven quite harmful to the housing market. The Federal Reserve has had to drastically raise interest rates to quell inflation, which has resulted in far fewer buyers and even fewer sellers. “The new normal for mortgage rates could be around 7% for a while longer.”

For example, on a \$300,000 loan, that translates to a typical monthly mortgage payment of nearly \$2,000, compared to \$1,265 just one year ago – a difference of more than \$700 per month.

“Only when inflation is tamed will mortgage rates retreat and boost home purchasing power for buyers,” Yun said.

Homebuyers: Rates Might Not Be Coming Down Anytime Soon

Ben Creamer, managing broker at Chicago-based Downtown Realty Company, tells GlobeSt.com that the rise in interest among homebuyers may be the result of more buyers realizing that mortgage rates are not coming down any time soon.

“Buyers are looking to lock in now rather than wait a few months,” Creamer said. “Another reason for the uptick is the overall market has finally tipped back in favor of buyers.

“After a prolonged and highly competitive sellers’ market, buyers today generally have a greater supply of homes from which to choose and are in a better position to find a property that actually fits their needs. Instead of facing multiple competing offers, buyers are finally back in position to negotiate concessions from sellers.

“If you are considering purchasing new construction within the next year, I would suggest starting sooner rather than waiting three or four months and risking higher rates. Although some construction costs have come down in recent months, such as the price of lumber, the cost of labor remains high and is unlikely to change.”

No One Rushing Out to Get 7% Interest

Michael J. Romer, Managing Partner of NYC law firm Romer Debbas, tells GlobeSt.com, “The marginal uptick we are seeing in homebuyer activity can be attributed to a slight increase in inventory which results in additional deals. But no one is rushing out now to obtain 7% mortgages. However, wealthy cash buyers are ready to pounce as prices continue to drop.”

“Home ownership needs to be incentivized and not penalized. Legislative efforts are needed to offset these runaway rate increases so that regular folks can afford to purchase homes.”

“Real estate is the American dream and backbone of this country. Double digit mortgage rates would be disastrous and would only hurt those who need a mortgage the most.”

Today’s Buyers Getting ‘More Home for their Money’

Lisa Lippman, broker, Brown Harris Stevens, tells GlobeSt.com, “There is an immediate shock with each rate increase; but as buyers evaluate the market, they see that when rates go up, prices tend to come down. These buyers benefit by receiving more home for their dollar now, all while knowing that they can take advantage of a future opportunity to refinance.”

Lincoln Park Desires Move-In-Ready Homes

David Bailey, designated managing broker of the Baird & Warner office in Chicago’s Lincoln Park, tells GlobeSt.com that homebuyers have a lower appetite for “project” homes in this market and a stronger preference for move-in ready options.

“This is primarily due to a shortage of available contractors, longer lead times for materials and unpredictable pricing.

“Though rates have increased, that change in monthly payment is at least a certainty, while the cost of most home renovations or projects is not.”

Additionally, Bailey said that the cost of those renovations is often cash out of pocket and not financeable.

“Despite higher rates, life changes are still occurring, and people need to buy and sell homes,” he said. “Buyers are willing to tolerate a higher interest rate since most believe that rates will decline at some point, and they can refinance.”

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