

REAL ESTATE

Interest rates having stronger impact on housing prices: Zillow

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Realtors expect the Denver metro area to see a strong 2019. Image credit: Realtor.com

By SARAH RAMIREZ

Despite today's home values becoming more sensitive to changing mortgage interest rates, the homeownership rate is expected to climb above its long-term average in the next five years.

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According to Zillow's Q4 Home Price Expectations Survey, 49 percent of industry experts expect activity among repeat buyers will hold steady in 2019, while 41 percent expect first-time homebuyers to become more active. Diverse metro areas are expected to have a strong year as well.

"There are strong reasons to believe that the housing market is more responsive to changes in interest rates than in the past – accelerating when rates drop and slowing when rates rise," said Aaron Terrazas, senior economist at [Zillow](#), Seattle. "If they remain low during the early months of 2019, the housing market could see a modest reacceleration."

Zillow and Pulsenomics, LLC conduct a quarterly survey of more than 100 real estate economists and experts about their predictions for the U.S. housing market.

Market predictions

Fifty-eight percent of respondents believe that current home prices are somewhat or much more sensitive to fluctuations in mortgage rates. Only 14 percent believe that the housing market is less sensitive to mortgage rates.

The current fixed-rate for a 30-year mortgage is 4.51 percent. Historically, mortgage rates above 5.5 percent greatly impact purchasing power.

A majority, 88.2 percent, believe the homeownership rate will be higher in the next five years. The historic average is 65 percent, but the figure was down to 63 percent in 2016 — representing millions of homes lost during the Great Recession.



Luxury townhouse in Washington, D.C. Image credit: Coldwell Banker

In 2019, this growth will be propelled by first-time homebuyers. About half of the respondents, 49.5 percent, believe property purchases by individual investors will decline in the coming years.

Those surveyed also expect the Denver, CO and Washington, D.C. real estate markets to perform well in 2019.

Luxury homes in Denver and Boulder usually sold in less than 95 days in 2018, marking a turnaround in Colorado after its real estate market stagnated in early 2017 ([see story](#)).

Experts also expect home values in New York to continue to slow.

It was recently reported that luxury real estate sales in New York's Manhattan borough saw a 25 percent drop off in the fourth quarter of 2018 from their high in the fourth quarter of 2015 ([see story](#)).

Additional insights

With the Federal Reserve raising interest rates four times in 2018, most recently this December, it is too soon to know how much of an impact this will have on the luxury real estate market.

Raising rates is usually seen as sign of confidence in a strong economy, though many – including United States President Donald Trump – have argued that interest rates are increasing too quickly. There are also indications the Fed is planning at least two more rate hikes in 2019, further impacting affluents looking to purchase property ([see story](#)).

Taxes also have an impact on the housing market.

Prospective homebuyers residing in high-tax coastal markets in the United States are being drawn to more affordable metro areas.

Research from Redfin shows that 24 percent of home searchers were looking to move to another metro area in the second quarter of 2018, up 3 percent from the second quarter of 2017. People are looking to leave metro areas that have an average tax burden three times higher than the areas attracting new residents ([see story](#)).