

REAL ESTATE

Economic uncertainty over Russia-Ukraine conflict extends to housing market

March 1, 2022



Russian buyers flocked to South Florida during the Trump administration. Image credit: Trump Organization

By SARAH RAMIREZ

As Russia's invasion of Ukraine continues, economic volatility is impacting the housing market stateside.

Subscribe to **Luxury Daily**
Plus: Just released
State of Luxury 2019 **Save \$246 ▶**

According to [Redfin](#), amid the weakened global economy, different forces are applying pressure to mortgage rates. The war could also diminish homebuyer demand, for both U.S. and foreign buyers.

Dueling trends

With inflation accelerating, the Federal Reserve has pushed interest and mortgage rates up. Meanwhile, financial uncertainty is dragging down rates.

For the week ended Feb. 24, the average 30-year fixed mortgage rate in the United States was 3.89 percent, per [Freddie Mac](#). The week prior, the average rate was 3.92 percent marking the peak rate from the last 12 months.



Home price growth is expected to slow. Image credit: Redfin

Despite the small dip, mortgage rates are up a full percent since September 2021 and up about 0.8 percent since the new year.

Globally, the Russian central bank raised its key interest rate to 20 percent and mortgage rates are also expected to climb in the United Kingdom, according to [Knight Frank](#).

The rollercoaster on Wall Street can also impact U.S. homebuyers' ability to make down payments.

Many prospective buyers sell stocks or tap into their 401(k) for their down payments, but these assets have taken a hit in recent days. This is especially concerning as competitive housing markets with climbing prices has driven up the amount of cash needed for down payments.

Oil and energy prices, which have contributed to inflation rates, have also surged. At press time, oil is trading at more than \$100 a barrel, and is expected to climb steadily.

This trend can prolong inflation, even as the Federal Reserve attempts to slow increasing prices with higher rates. As a result, the Fed may be tempted to further increase interest rates which can make a home purchase less appealing.

Typically, higher gas prices can also mean a hit to consumer confidence and declining demand for homes in commuter exurbs. It remains to be seen, however, if those markets will be impacted the same way during the remote work era.

A fall in consumer confidence may also discourage U.S. homebuyers, especially given housing price increases and limited inventory.



Historically, gas prices have influenced the housing market. Image credit: Unsplash

Inflation rates are already having an impact on the housing market.

During the fourth quarter of 2021, the three U.S. metro areas with the highest inflation rates were also the among the top 10 migration destinations. Migration patterns are one contributor to climbing costs for consumer goods and services ([see story](#)).

Impact on Russian homebuyers

The uncertainty in the U.S. economy, however, pales in comparison to the recent struggles of the Russian economy. Since the start of the invasion on Feb. 24, Russian stocks and the ruble have seen dramatic dips in value.

Like their international counterparts, wealthy eastern Europeans, including Russians, have long invested in real estate particularly in the U.S. and the U.K.

According to a 2017 report from the National Association of Realtors, Russian interest in luxury real estate in the U.S. increased by 35 percent since the election of then-President Donald Trump. The highest real estate purchase from a Russian buyer in Miami was a home that sold for \$47 million.

Russian consumers are likely interested in Miami properties due to the stability of the U.S. dollar, offering confidence regarding those real estate investments ([see story](#)).

In 2019, Russians accounted for 4 percent of all foreign buyers in the prime central London residential market drawn by the weakened pound during Brexit negotiations ([see story](#)).

Rate increases will likely impact these overseas transactions by Russian buyers. Additionally, as Knight Frank notes, the war may lead some to pause plans for a second home purchases while it might spur other high-net-worth individuals to action.

Luxury Daily is published each business day. Thank you for reading us. Your **feedback** is welcome.