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REAL ESTATE

Second-home boom is dwindling: Redfin

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The second-home market is looking bleak. Image credit: Redfin

By LUXURY DAILY NEWS SERVICE

The pandemic-induced surge in vacation home purchases is starting to slow significantly, as buyers are holding off on second homes amid rising mortgage rates and loan fees.

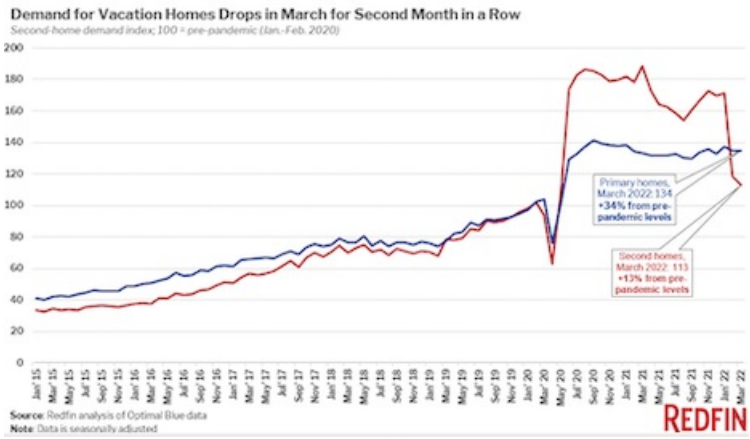
According to real estate brokerage Redfin, demand for vacation homes fell drastically over the last two months as mortgage rates hit 4.67 percent by the end of March and people began returning to offices. Despite the decline, however, demand remains 13 percent above pre-pandemic levels and is expected to stay elevated as remote work models appear permanent for many homeowners.

"The pandemic-driven surge in sales of vacation homes is coming to an end as mortgage rates rise at their fastest pace in history, causing some second-home buyers to back off," said Taylor Marr, deputy chief economist at Redfin, in a statement.

"When rates and prices shoot up so much that a vacation home starts to look more like a burden than a good investment and a fun place to bring your family on the weekends, a lot of prospective buyers have second thoughts."

Rethinking vacation homes

The slowdown in demand for vacation properties is the latest indication that the historically fast rise in mortgage rates and record-high home prices are pricing out home buyers.



Redfin reports that mortgage rates hit 4.67 percent by the end of March 2022. Image credit: Redfin

Even in mid-2021, Redfin started seeing a dip in second-home purchasing as price drops passed 4 percent for the first time since September 2020. Pending sales were up 11 percent year-over-year, but down 11 percent from the 2021 peak.

Additionally, mortgage-rate locks for second homes fell 11 percent year-over-year in June 2021 after a year of double- and triple-digit growth (see story).

Now, the rising demand for primary residences is outpacing that of second homes for the second month in a row, with mortgage-rate locks for primary homes up 34 percent from pre-COVID levels.

A mortgage-rate lock is an agreement between a homebuyer and a lender that allows the homebuyer to lock in an interest rate on a mortgage for a certain period of time, offering protection against future interest-rate hikes. Roughly 80 percent of mortgage-rate locks result in actual home purchases.

Demand for primary residences has remained at roughly the same level since mid-2020.

Redfin's analysis of mortgage-rate lock data comes from real estate analytics firm Optimal Blue. Redfin created a seasonally adjusted index of Optimal Blue's data to adjust for typical seasonal patterns and allow for simple comparisons of second-home demand during and before the pandemic.