

Q .Describe and explain **all the factors that could influence residential home prices across the United States over the next 10 years, and how.**

Solution:

Here is list of factors that shape and develop the **residential home prices across the United States**. I hope you find this a convincing read.

1. Supply and Demand
2. Demographics
3. Home Size and its Condition
4. Location
5. Interest Rates on Loans and Property
6. Government Policies/ Subsidies
7. The Economy

1. Supply and Demand:

Housing prices are affected by supply and demand in the same way that goods and services are. Since every housing transaction has a buyer and a seller, a low or high supply of homes can drive prices up or down. When the supply is low and demand is high, this would be considered a seller's market. In this instance, **bidding wars** are very common. But there never will be enough houses for people to live. The demand for the house will go on increasing in future and the supply is way lesser than that cause we have limited earth to build our houses upn. So it is always going to be a sellers market.

Example, In covid crisis, people left big cities and went to their home town and thus the demand decreased for the houses. And today in 2022, as the markets and offices are opening, people are coming back to cities and thus the demand is increasing and the prices are going high again.

2. Demographics:

The definition of demographics is:

"The number and characteristics of people who live in a particular area or form a particular group, especially in relation to their age, how much money they have, and what they spend it on."

There are certain categories in demographic data that may have a direct effect on the real estate residential house market. For example, the age group, race, gender, **income**, migration patterns, and population growth and socioeconomic status of the general population.

If the people are earning well and they belong to the middle class, upper-middle-class, and elite class, they will have a positive effect on the real estate market of the country.

The reason behind this positive trend is because these socioeconomic classes have high purchasing power which means high sales for the real estate market. This factor associates with the potential buyer category and according to income of certain generation, we are more likely to observe their interest in buying the house for various purposes may it be primary home or a secondary or vacation home or just for real estate investment buyer.

For example, the baby boomers who were born between 1945 and 1964 (represents 21.19% of the population of the United States of America, as of 2019 figures) are an example of a demographic trend with the potential to significantly influence the real estate market. The transition of these baby boomers to retirement is one of the more interesting generational trends in the last century, and the retirement of these baby boomers, which began back in 2010, is bound to be noticed in the market for decades to come and by the generations that will follow. This factor is often overlooked but I feel it influences the market strongly.

3. Home Size and its Condition:

- **Size:** People buy homes that are most similar to theirs in terms of features like type of home (two-story vs. ranch), number of bedrooms, bathrooms, and square footage of the home (whereas the usable/carpet area and living space) — the bigger the carpet area, the higher price.
- **Year Built :** Homes that are new easily sold—the more recent, the higher price.
- **Upgrades and updates:** Updates and upgrades can add value to your home, especially in older homes that may have outdated features. The impact of a project or upgrade varies based on the market you're in, and you're existing home value. For example, based on data, a finished basement in Portland is 5x more valuable than finishing a basement in Atlanta, a roughly 13% increase on the median home value versus 2.5% respectively. Additionally, some projects like adding a pool or wood floors tend to have bigger increases for more expensive homes, while projects like a kitchen remodel or adding a full bathroom tend to have a bigger increase for less expensive homes.

4. Location:

People most times tend to choose homes in the same subdivision as their previous homes for the sake of convenience according to known neighbourhood. Often, buyers new to certain area look for better facilities than the previous ones.

There are three primary indicators for a good locality:

- i. The quality of local schools,
- ii. Employment opportunities,
- iii. Proximity to shopping, entertainment, and recreational centers.

These factors can influence why some neighborhoods command steep prices, and others that are a few miles away don't e.g. big cities vs. rural villages, etc. The more the employment ability of the location, the higher the price.

In addition, a location's proximity to highways, utility lines, water supply regularity and public transit can all impact a home's overall value. When it comes to calculating a home's value, location can be more important than even the size and condition of the house.

5. Interest Rates on Loans and Property:

With that said, changes in interest rates can impact the price of homes and a homebuyer's ability to purchase one. This is because the lower interest rates fall, the lower the cost of a mortgage will be, thus increasing the housing demand and pushing asking prices up. Simply put, low mortgage rates encourage homebuyers to take out home loans, which is ideal for home sellers. The opposite can happen when interest rates rise. In this scenario, your monthly mortgage payment will increase and cause homes to become less affordable. Long-term rates are influenced by Department of the Treasury yields, investor sentiment, and inflation rates, among many other factors.

Similarly, if the banks of the country are giving out loans on easy terms and conditions, people will get loans and invest in real estate. US is one of those countries that have a huge list of banks providing home loans, but until now the high-interest rates have made the situation very challenging for a salaried person looking for a mortgage.

6. Government Policies and Subsidies:

Government Policies and Subsidies can boost or hinder demand for real estate. Legislation is also another factor that can have a sizable impact on property demand and prices. Tax credits, deductions, and subsidies are some of the ways the government can temporarily boost demand for real estate for as long as they are in place.

For example, in 2009, the U.S. government introduced a first-time homebuyer's tax credit to homeowners in an attempt to jump-start home sales in a sluggish economy (only those who purchased homes between 2008-2010 were eligible). According to the Government Accountability Office, 2.3 million people took advantage of the tax incentive. This was quite a sizable increase, although temporary, and without knowing the increase was a result of the tax incentive, we may have ended up concluding that the demand for housing was going up based on other factors.

7. The Economy:

The last key factor that affects the value of real estate is the overall health of the economy. This is generally measured by economic indicators such as the GDP, employment data, manufacturing activity, the prices of goods, etc. Broadly speaking, when the economy is sluggish, so is real estate.

For example, However, home prices tend to drop when there is a downturn in the economy. Falling incomes or job loss will mean the general population can't afford, or simply aren't financially confident enough, to buy houses they once could in a strong economy. As a result, housing demand declines, which causes motivated sellers to lower their asking price to get a sale — also known as a homebuyer's dream! One of the most notable examples of price depreciation in the United States was during the 2008 housing bubble, largely due to the economic recession.

Another example, Manufacturing of steel, bricks, concrete or wood availability are depending on the buyers demand. As the GDP rises, that means people are working and buying goods and properties, this demand also goes up and thus prices of these goods goes up.

There are a couple of notable ways government forces can impact home prices. First is through mortgage interest tax deductions. Currently, homeowners can deduct mortgage interest on loans less than \$750,000. Tax breaks such as this one can incentivize more

homebuyers, thus creating the potential of a rise in home prices. Another governmental influence is through tariffs. Housing materials like steel, aluminium, and lumber are sometimes imported from other countries. And imposing tariffs on these foreign supplies can increase the cost of building new homes — swaying housing prices as a whole.

The Bottom Line

This article introduced some of the higher-level factors that play a significant role in moving the real estate residential home prices, but there are also more complex parts that come in to play. And although some of these aforementioned factors suggest a clear-cut relationship between the factor and the market, in practice, the results can be very different. However, understanding the key factors that drive the residential house market is essential to performing a comprehensive evaluation of all this data through computers and evaluating the best prices according to these crucial factors.

References:

1. Some Friends and family members from US whom I talked to get this solution

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