Factors Affecting House Prices in USA

By: Divyansh Tiwari

https://linkedin.com/in/dto3

https://github.com/DibyT-03

Divyansh tiwari@rocketmail.com

Factors Discussed in this Presentation are:

- Historical Sale prices
- Demographics
- Interest Rates
- The Economy
- Government Policies
- Neighborhood combs
- Location
- Home size and usable space
- Age and condition
- Updates and Upgrades
- The local market
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Historical sale prices

- One of the first things real estate agents, appraisers and prospective homebuyers look at is the <u>historical</u> sale price of the property.
- If the property has been sold three times in the past three years, for \$150,000, \$155,000 and \$153,000, it seems reasonable to start at a valuation around \$150,000, and make adjustments based on any new additions or changes to the property.
- Historical prices are also usually dependent on the other factors on this list.

Demographics

• <u>Demographics</u> are the data that describes the composition of a population, such as age, race, gender, income, migration patterns, and population growth. These statistics are an often overlooked but significant factor that affects how real estate is priced and what types of properties are in demand. Major shifts in the demographics of a nation can have a large impact on real estate trends for several decades.

Interest Rates

• Interest rates also have a major impact on the real estate markets. If you're considering buying a home with a mortgage it is beneficial to research interest rates using a mortgage calculator. Changes in interest rates can greatly influence a person's ability to purchase a residential property. That is because the lower interest rates go, the lower the cost to obtain a mortgage to buy a home will be, which creates a higher demand for real estate, which again pushes prices up.

The Economy

- Another key factor that affects the value of real estate is the overall health of the economy. This is generally measured by <u>economic</u> indicators such as the <u>GDP</u>, employment data, manufacturing activity, the prices of goods, etc. Broadly speaking, when the economy is sluggish, so is real estate.
- However, the cyclicality of the economy can have varying effects on different types of real estate.

Government Policies/Subsidies

• 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. Being aware of current government incentives can help you determine changes in supply and demand and identify potentially false trends.

Neighborhood comps

• One of the best indicators of your home's value is the sale prices of similar homes in your neighborhood that have sold recently. These comparable homes are often referred to as "comps". Whether it's a home appraisal, a comparative market analysis done by an agent, or an Opendoor evaluation, most real estate experts will rely on comps to estimate your home value.

Location

- Your current home may be the ideal location for you — close to your job or near your parent's house — but when appraisers determine how much value to assign based on the location of the house, they're looking at three primary indicators, according to <u>Inman</u>:
 - The quality of local schools
 - Employment opportunities
 - Proximity to shopping, entertainment, and recreational centers

Home size and usable space

• When estimating your home's market value, size is an important element to consider, since a bigger home can positively impact its valuation.

Age and Condition

• Typically, homes that are newer appraise at a higher value. The fact that critical parts of the house, like plumbing, electrical, the roof, and appliances are newer and therefore less likely to break down, can generate savings for a buyer. For example, if a roof has a 20-year warranty, that's money an owner will save over the next two decades, compared to an older home that may need a roof replaced in just a few years.

Upgrades and updates

• Updates and upgrades can add value to your home, especially in older homes that may have outdated features. However, not all home improvement projects are created equally.

The local market

• Even if your home is in excellent condition, in the best location, with premium upgrades, the number of other properties for sale in your area and the number of buyers in the market can impact your home value. If there are a lot of buyers competing for fewer homes it's a seller's market. Conversely, a market with few buyers but many homes on the market is referred to as a buyer's market.

Economic Growth

 Demand for housing is dependent upon income. With higher economic growth and rising incomes, people will be able to spend more on houses; this will increase demand and push up prices. In fact, demand for housing is often noted to be income elastic (luxury good); rising incomes leading to a bigger % of income being spent on houses. Similarly, in a recession, falling incomes will mean people can't afford to buy and those who lose their job may fall behind on their mortgage payments and end up with their home repossessed.

Unemployment

• Related to economic growth is unemployment. When unemployment is rising, fewer people will be able to afford a house. But, even the fear of unemployment may discourage people from entering the property market.

Consumer Confidence

• Confidence is important for determining whether people want to take the risk of taking out a mortgage. In particular expectations towards the housing market is important; if people fear house prices could fall, people will defer buying.

Mortgage availability

• Since the credit crunch of 2007, banks and building societies struggled to raise funds for lending on the money markets. Therefore, they have tightened their lending criteria requiring a bigger deposit to buy a house. This has reduced the availability of mortgages and demand fell.

Supply

• A shortage of supply pushes up prices. Excess supply will cause prices to fall. For example, in the Irish property boom of 1996-2006, an estimated 700,000 new houses were built. When the property market collapsed, the market was left with a fundamental oversupply. Vacancy rates reached 15%, and with supply greater than demand, prices fell. (Irish house prices fall 50%)

Geographical factors

• Many housing markets are highly geographical. For example, national house prices may be falling, but some areas (e.g. London, Oxford) may still see rising prices. Desirable areas can buck market trends as demand is high, and supply limited. For example, houses near good schools or a good rail link may have a significant premium to other areas.

Time Delays in Building House

• When house prices are rising, builders want to increase supply. However, from planning to completion can take up to 2 years. Therefore, if builders start building at peak of boom, when prices are falling, new houses are still coming onto the market. Therefore, the increase in supply, magnifies the falling prices (particularly a problem in the US at the moment). At the start of the boom, an inelastic supply squeezes prices upwards, even with relatively moderate demand. (this is the case in the UK)

Effectiveness/House Income Rates

• The price-to-earnings ratio impacts demand. For house prices rising about wages, you would expect fewer people to afford. For example, the house price-to-income ratio increased to 5 in 2007. Homes were relatively expensive at this level, and we saw a correction with the drop in house prices.

Home Sales Economy Mirror

 Home sales are usually directly related to the stability of an economy and economic growth and decrease. When the economic growth slowdown, cash supplies get limited thoroughly. Because capital is difficult to buy, the housing market will be less available to home buyers. Housing inventories increase and take longer to sell, as stringent credit standards make fewer buyers available. A higher consumer supply combined with lower demand usually leads to lower prices.

Sales of Household Cash Supply

• The supply of money is vital to its overall health, and in general, for the sustainability of the housing market. The availability of funds in an economy that too when money is hard to receive, sales of home will dry up. Once cash is also easy to buy, too many investors enter the housing market and price rises for some time until the inevitable market correction or even crash happens. Home buildings and home sales should ideally align with economic activities, but this is not the case sometimes. Also read about the real estate portals.

Closing Reflects a Market Crash

• Across different economies, housing markets operate differently. The housing market is usually healthy during a strong economy. Then fewer people buy as interest rates rise. There may be an increase in foreclosures when people default on their loans, which usually happens with adjustable mortgages when the prices rise.

Home Sales Financial Slowdown

• After an economy slows, the housing markets can be impacted. Slowdowns in the economy impact housing markets as housing-related activity decreases and overall economic demand slows. When economic reforms start and housing prices reflect the willingness of consumers to pay, the economic cycle breaks down.

Advance

• All property values are generated by predicting the potential benefits of the land. The value of land is now getting increased day by day. If you buy a home now, after many years you will have a good value to that home. The physical, political, economic and social changes all have an impact on the value of the land. Environmental changes such as climate or pollution may include physical factors. Financial problems can alter job rates in a given area. Social factors such as baby boomers' aging were problems. Any or all of these and others may affect property values.

Balance

• A balance can be found in any given area between land value and building value. When the balance is retained, gross property values and constructor income are maximized in new homes. In most cases, for instance, a house that costs ₹ 71,30,650.00 in a settled land costing ₹ 3,56,53,750.00 will never be built. The balance must generally be similar to the balance in the area.

Compliance

• Value is developed and maintained in similar situations. You don't want to build an office building across the street from your house because you live in a neighborhood that includes single-family homes. Your house's value would likely be affected negatively by this inconsistent land use.

Change

All of which affect property value are physical, political, financial, and social changes.
 Environmental changes such as weather or pollution can involve physical factors. Economic problems can change job rates in a region. Social factors such as baby boomers aging were problems. Everyone or everyone else can have an impact on property values.

Competition

• Competition shows that the supply side is trying to meet the demand side on the real estate until demand is met. A developer may see the need in a specific location for a new office building.

Extinct

• Real estate is affected by all that happens around it as it stays in a fixed location. The gas station on the street, school quality, factory closing in town, mortgage interest rates, etc. has an impact on the value of homes.

Return Increases and Decreases

• Increasing and decreasing returns are associated with the addition of improvements in a property. Increasing returns arise when an upgrade gives the property more value than its price. You get more than one dollar back from spent cent. Returns decrease when the cost is increasing by an increase.

Surplus Productivity

• The main difference between cost and sale price is excess productivity after the contractor assembles property, workforce, resources, and teamwork required to create and then sell the house. This term is used by economists to mean money.

Nearby Features

- Finally, you'll want to think about where the property is located, in relation to other accommodations and features.
- For example, homes that are close to shopping locations, and ones with easy access to major highways, tend to sell for more than ones far away from everything.