

THE FACTORS THAT COULD INFLUENCE RESIDENTIAL HOME PRICES

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OBJECTIVE:

To describe all the factors that could influence residential home prices across the United States over the next 10 years.

INTRODUCTION:

Owning a home is often referred to as the "American Dream." According to the Survey of Consumer Finances by the Federal Reserve, 65.1% of families in America owned their primary residence in 2019. [Bulletin Compilation (federalreserve.gov)]. Owning a residential house is a responsibility with certain risks. Taking such risks without proper planning costs an arm and a leg. In order to handle this risk, it is essential to understand the factors that affect real estate.

The factors that affect and influence residential home prices across the United States over the next 10 years are:

1. DEMOGRAPHICS
2. ECONOMY
3. INTEREST RATES
4. GOVERNMENT POLICIES

Let us look into each of these factors.

- **DEMOGRAPHICS:**

Demography is the statistical study of the population of human beings. Demographics are the data that describes the composition of a population, such as age, race, gender, income, population growth, crime rate, and migration patterns. These factors are often overlooked but have a significant effect on how real estate is priced and what types of properties are in demand. These factors influence another factor i.e. amenities of the residential homes. For example, the baby boomers born between 1945 - 1964 are an example of a demographic trend that can influence the real estate market. The retirement of

these baby boomers, which began back in 2010, is bound to be noticed in the residential home market for decades.

- **ECONOMY:**

The overall health of the economy is another important factor that affects the value of residential house prices. The indicators of the economy such as GDP, employment data, manufacturing growth, inflation. The growth of real estate is directly proportional to the health of the economy. The 2020 coronavirus pandemic has created widespread economic disruption. According to the Congressional Budget Office, real GDP has grown rapidly in the second half of 2020 and the first half of 2021. They also state that strong GDP growth will continue but at a slower pace. Similarly, after the pandemic, the employment rate, manufacturing pace are towards growth at a slow pace as well. The annual inflation rate in the United States spiked to 2.6% in March of 2021 from 1.7% in February. Inflation will also have strong growth but at a slower pace.

- **INTEREST RATES:**

Interest rates have a major impact on the real estate market. As the interest rate decreases, the cost to obtain a mortgage decrease. This decrease in mortgage increases the demand to obtain a residential house, which increases the price of the residential houses. In 2020, 30-year fixed-rate home loans were averaging 3.72% in the United States. The Mortgage Reports in October predicted 30-year rates would result in an average of 3.51% in 2021 under the Biden administration. According to Guy Baker, founder of Wealth Teams Alliance, this trend can eventually change and a slow uptrend will increase the mortgage in the upcoming years.

- **GOVERNMENT POLICIES:**

The Legislative policies also act as an essential factor that can have a sizable impact on property demand and prices. Tax credits, infrastructure, and subsidies are some of the ways the government can boost demand for real estate for as long as they are in place. Under the rule of Joe Biden, a plan worth an estimated \$640 billion, a 10- year plan that addresses everything from affordable housing to anti-discrimination policies are proposed. According to

the plan, the government plans to give a sweeping \$15,000 tax credit to help first-time homebuyers purchase a property. He also promised various infrastructure development programs that can have a huge impact on the country's economy which can have a positive effect on the real estate market as well.

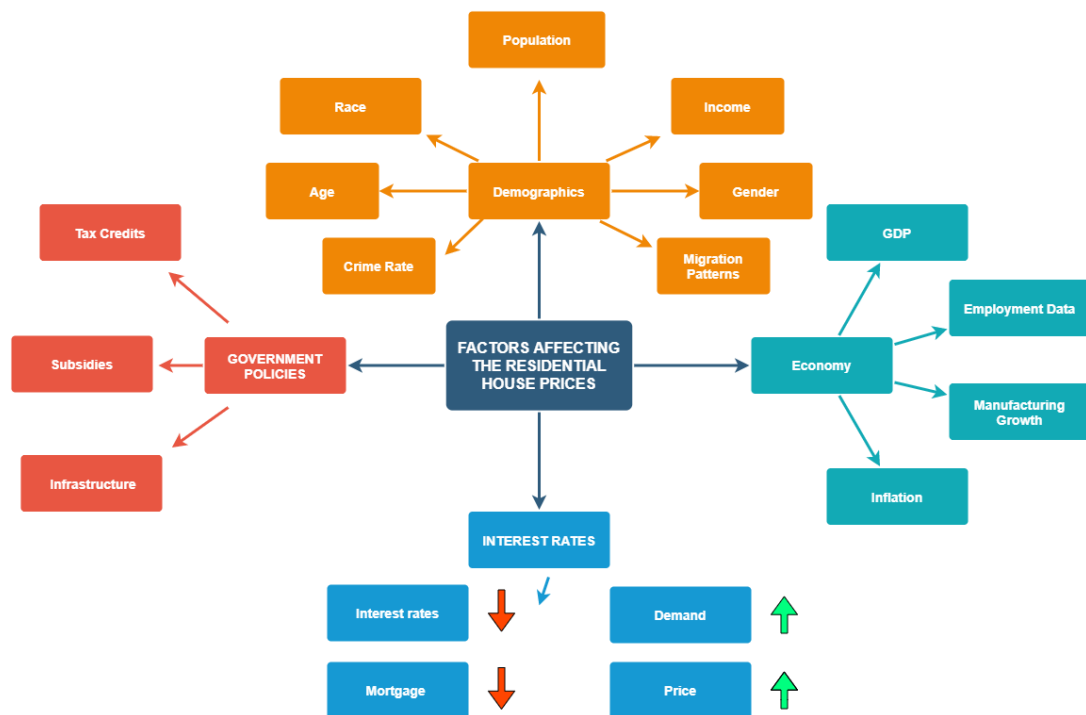


Fig: 1.1 Factors Affecting Residential House Prices

CONCLUSION:

The aforementioned factors play a significant role in moving the residential house market, but there are also more complex parts that come into action. Although all of these factors mentioned above suggest a clear-cut relationship between the factor and the market, the other complex factors are essentially a by-product of these key factors. So, understanding the key factors that drive the real estate market is essential to performing a comprehensive evaluation of a potential investment