

***An Interview Assesement presentation on:.....***

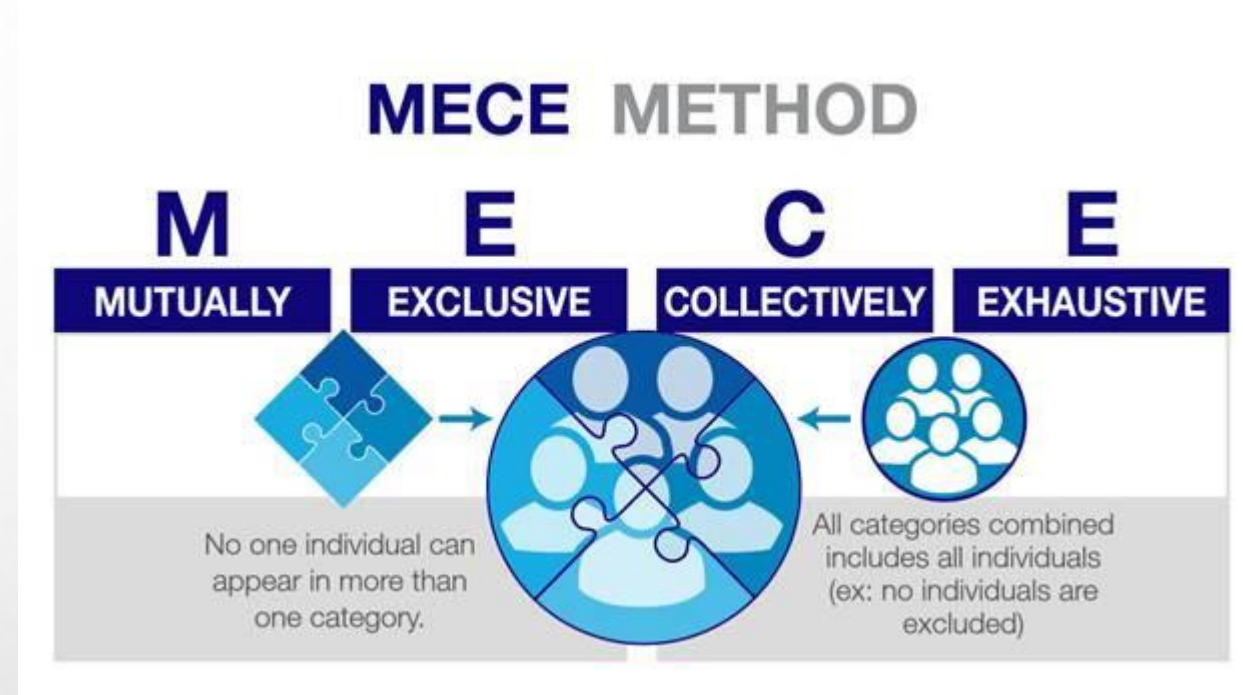
**The factors that could influence residential home prices across the United States over the next Decade**



***Submitted By:***  
**Sumit Kumar Sah**  
**M.Tech Data Science**

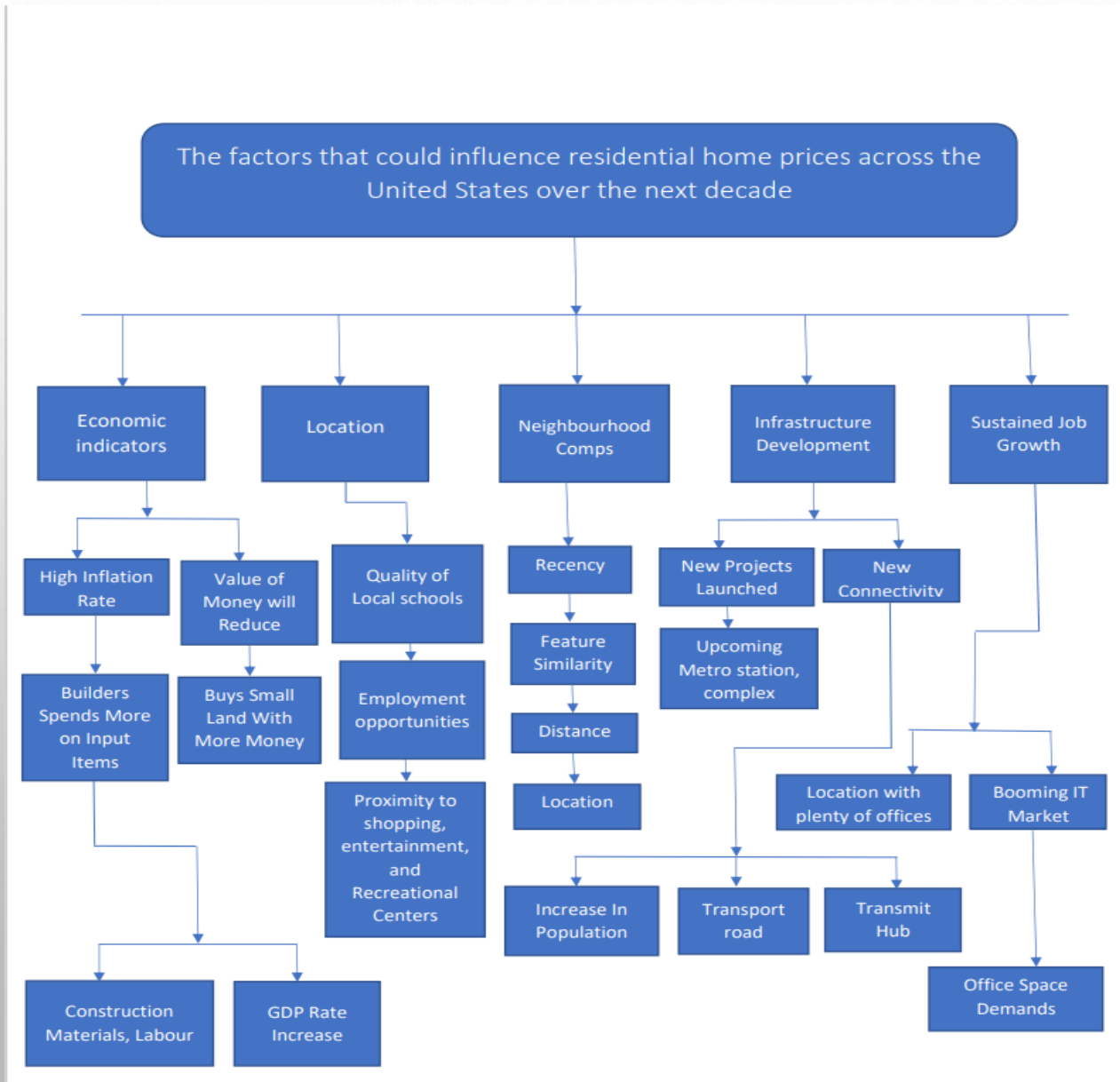
***Submitted To:***  
**Home.llc**

## So what is the MECE framework?



1. This framework is used by many management consulting firms (like **M**ckenzie, **B**CG, and **B**ain, also known as The MBB) to break down large problems for their clients.
2. As the name suggests, you break down the problem into options by sorting them into categories that are:
  - i) **Mutually Exclusive**- Items can only fit into one category at a time and
  - ii) **Collectively Exhaustive**- All items can fit into one of the categories.

*The factors that could influence residential home prices across the United States over the next Decade:*



**Some of the factors listed:**

1. Supply and Demand
2. The Economy
3. Interest Rates
4. Area Desirability
5. Political Forces
6. Bay Area Boom

## Supply and Demand

The housing market is subject to the same economic laws of supply and demand as every other industry. When there are more buyers than sellers, the supply of houses goes down and the demand goes up, making houses harder to buy and more expensive. It's not just the amount of houses available, but also how much money is available to buy them. It's rare for a new homeowner to plunk down cash when buying a home. Instead, buyers use debt in the form of a mortgage. As long as banks are willing to keep lending, sellers can ask high prices for their homes and get them. When banks start lending less, however, the price of the house will have to come down or it will sit on the market, unattainable to potential buyers who simply can't get the funding they need to make the purchase.

## The Economy

When the economy is going strong and unemployment goes down, housing prices tend to rise. In a strong economy, people feel more secure in their jobs and their ability to take on mortgage debt. They're also more likely to get approved for that mortgage. When the economy falters, however, more people find themselves laid off, having to live on unemployment compensation or accept much lower paying jobs. When this happens, fewer people are able to purchase houses, competition for them goes away and motivated sellers must lower their asking price to get a sale.

## **Interest Rates**

Changes in interest rates also impact housing prices. When interest rates are low, home prices tend to be high. One reason is that low interest rates encourage buyers, and the more buyers there are, the more competition there is for available homes. Low interest rates also make purchasing a more expensive home possible. A lower interest rate lets you borrow more without seeing a huge jump in your monthly mortgage payment. When the interest rate goes up, however, so does your monthly mortgage payment. When interest rates rise, houses become less affordable unless their prices come down.

## **Area Desirability**

While housing prices tend to rise and fall on a national level, you may live in a micro-climate that defies the norm. Even when housing prices fall across the nation, prices in your neighborhood may rise. This occurs due to desirability. If you live in an excellent school district or trendy area where people want to be, the price of houses in your area will likely go up. If a new manufacturing plant or large company brings jobs to your area, people may flock to the region, even if the population was small before. If new housing isn't built fast enough to accommodate the influx of people, housing prices in the area will rise. Even if the supply of housing does keep pace with the demand, your home's value may increase simply because people want to be where you are.



## Political Forces

The national and local political climate also impacts housing prices. One big way is through tariffs. Some of the materials required to build new homes get imported to the U.S. from other countries. If, for example, heavy tariffs get imposed on foreign steel or lumber, the cost of building new homes increases. Tax laws also impact housing prices. As of 2018, homeowners can still deduct mortgage interest on loans of up to \$750,000. If that were to change in the future, however, fewer people may have an incentive to buy, and home prices may go down. If more tax breaks are created for homeowners, ownership may rise and take home prices along with it.

Local political issues, too, can impact housing prices. San Francisco, for example, has a very specific vibe that many of its citizens want to protect. One way they do so is by limiting the number and type of new homes that builders may construct in certain parts of the city. As a result, the growing city is seeing a high demand for housing while abiding by limited building options. The result has been a drastic demand for housing with limited supply that has driven housing costs sky high.

## Bay Area Boom

Even with home prices rising across the nation between May of 2012 and 2018, the Bay Area has seen a much higher rise than average. In 2018, the median sale price of homes in San Francisco reached \$1.6 million. While local zoning laws and resistance to building have contributed, they aren't the only factors driving the 9.2 percent increase in housing costs the city experienced in 2017. Prices have also climbed due to an influx of wealth into the city. Area wages have grown rapidly and unemployment has gone down as more tech companies have moved into the area, bringing with them wealthy workers who can afford to compete for the area's limited space. As space decreased, area rents increased. These higher rents have made the tax benefits of home ownership even more appealing, tempting more people to buy in an already tight market.



**THANK YOU!!**