



By **Michele Lerner**
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8 Factors Shaping Today's Market

BY MICHELE LERNER

National news about "the" real estate market often has little to do with what's happening in each local and regional housing market and various sectors of commercial property. While inflation, inventory shortages and higher interest rates impact every real estate market across the country, real estate agents in New Jersey can identify exactly what those issues and others mean for their customers, their community, and their business.

While other issues may influence buyer and seller attitudes, the real estate market is truly all about demand and supply, said principal of the Fox and Stokes team at Compass in Ridgewood and Realtor® Max Stokes.

Among the factors affecting real estate now are:

1. Extreme Housing Shortage

The lack of inventory has reached crisis level in most New Jersey markets and most price ranges, said Eugene Cordano, president of Brown Harris Stevens New Jersey.

"We're seeing properties snatched up quickly and even bidding wars when anything comes on the market," said

Cordano. "Properties listed at \$2 million and up are selling for as much as \$800,000 over asking price."

A prime cause of the logjam created by the shortage of inventory is the extremely low interest rates most homeowners have, said Rob Norman, president of Coldwell Banker Realty in New Jersey.

"If they want to sell, they have to take on a mortgage rate that's double what they have now plus enter the buyer pool where homes are selling for above the listing price," said Norman.

Another factor keeping inventory low is high rents in New Jersey, said Diana Sutherlin, a Realtor® with Compass in Hoboken and Jersey City.

"Even if someone sells, they often keep their property as a rental to get that income," said Sutherlin.

2. Higher Mortgage Rates

Higher mortgage rates impact both buyers and sellers. The rapid rise in rates caused a brief slowdown in demand in spring 2022, but then buyers adjusted, and demand increased again starting in the fall, said Megan Gulick, a Realtor® with

Corcoran Sawyer Smith in Hudson County.

"Now lenders are getting creative helping people buy down their rate to keep mortgage payments down," said Gulick. "Some sellers are helping with closing cost credits, too."

According to Cordano, higher mortgage interest rates impact people at lower price points the most. "That reduced the number of buyers in that price range but it's still very competitive for buyers even for starter homes because there's so little inventory," said Cordano.

3. Velocity in the Rental Housing Market

The rental market is "even crazier" than the purchase market, said Cordano. That, too, is tied to higher mortgage rates. Demand for rentals is higher than usual because some people prefer not to buy when mortgage rates are high, and some can't afford to buy at a higher rate, said Cordano.

4. Banking Crisis and Macro Recession Fears

Concerns about a potential recession and the financial fallout from a banking crisis undermine people's

confidence and leads some to wait to see what happens next, said Cordano. Still, the New Jersey housing market remains active because buyers want the lifestyle there, he said.

"People always worry about whether the market will go down or whether there will be another crisis like in 2008," said Gulick. "But people learned from the past and know they can pivot if they need to. This market is resilient and offers proximity to Manhattan, so that offsets any worries about the economy for most buyers."

The banking crisis could lead to more regulation and to lenders reverting to even tougher standards, which could make borrowing more difficult, said Stokes. On the other hand, if a stronger recession hits, that could bring back more tax benefits for buyers, he said.

5. Affordability Issues

Buyers who are priced out of one area quickly move on to other locations, said Gulick. For example, those priced out of The Heights in Jersey City moved to West Bergen and to Lafayette, she said.

"In the long-term, despite affordability challenges, people in the Gen Z generation seem to understand the idea that real estate is a good way to build wealth," said Norman. "There's still an organic demand for real estate and a recognition that investing in real estate provides stability. Younger buyers are ready to buy something, even if it's not perfect, to build equity and then buy something else later."

6. Property Taxes

New Jersey had the highest effective real estate tax rate in the nation and the highest average annual taxes in 2021, according to a report by WalletHub. "Property taxes in Jersey City took a big jump last fall, but that didn't slow

down the luxury market there," said Sutherlin. "The impact was mostly felt by owners in the mid-level price range and impacts overall affordability."

7. Lead Paint Rules

Legislation passed in 2021 requires landlords to have a lead paint inspection before renting a unit, said Cordano. He expects this to primarily impact smaller rental housing built before 1978.

"NJ Realtors® and local Realtor® associations are providing guidance to agents about how to help their clients follow the law without being in a position of interpreting the law," said Cordano.

8. Bifurcated Commercial Sector

In the retail sector, small locations are in high demand, along with warehouse spaces, said Stokes.

"A lot of entrepreneurial people are opening small businesses, so small offices and shops are doing very well," said Stokes. "Contractors, landscapers and business owners also need a place to store equipment, supplies and products, so warehouses are in high demand."

Even small offices are in demand in New Jersey, said Stokes, because some businesses want satellite hubs in the suburbs where people can meet or work when they need to get away from their home office.

On the flip side, larger big box locations and large office spaces are less in demand, said Cordano.

"Retail and office demand is primarily coming from smaller medical offices, service businesses and restaurants," said Cordano.

For Realtors®, staying on top of local and regional trends is essential to a stable and growing business.

"Now more than ever, agents need to keep their foot on the gas," said Norman. "This is the time to talk to more people than ever, especially those who want to sell their homes but are afraid. You have to be a trusted advisor, the person with the information about communities where you can find a house and lenders who can help buyers with financing." ■

