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Market Fluctuations: What's Causing Them?

By MAX MARGULEAS
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The housing market is constantly transitioning through roller-coaster phases, with productivity on the rise one day and down the next.

How different, however, is the market across the past few decades? Buying a house today is more expensive than it was last year, but it is necessary to look further back in time to properly assess trends.

Inflation is inevitable in the housing market, meaning that it is not unsurprising for the cost of houses to appreciate over time. Still, one must recognize that the price of a home is only one part that contributes to the monthly cost of the home and is separate from the mortgage rate.

In order to assess whether or not houses are less affordable now than what they were in previous decades, it is important to look at mortgage amount, mortgage rate, principal and interest on the loan, and converting these numbers to the equivalent of dollars in 2021.

Then, one can conclude that in the past 45 years, houses were less expensive than they are today only twice: in 2020 and in 2010. Last year, prices experienced appreciation while mortgage rates plateaued, resulting in lessened affordability.

In 2010, the value of homes declined after the housing crash of 2006. Over 30% of all housing sales were either foreclosures or short sales and were sold at large discounts. In every other year for the past 45 years, it was pricier to buy a home than it is today.

Photo courtesy of Amalfi Estates

To evaluate why this occurs, one must understand several concepts: supply and demand, the economy, interest rates, area desirability, and political forces. When more buyers exist than sellers, the supply of houses decreases and demand increases, resulting in more expensive housing prices.

Supply and demand is even more nuanced than this, however. The number of houses not only goes down but so does the amount of money that is available to purchase them.

Housing prices typically rise when the economy is strong and unemployment is low. This is because people likely feel comfortable in their job positions when the economy is strong, making them more likely to be OK with acquiring mortgage debt. In an unstable economy, though, less people have the capacity to buy homes, resulting in lower competition for homes and sellers being forced to lower their asking prices.

Fluctuation in interest rates also affect housing prices as low interest rates contribute to higher home prices. Low interest rates can lead to more buyers and more competition in the housing market. High interest rates, on the other hand, often cause higher monthly mortgage payments, leading to less affordable homes.

Although housing prices can follow a trend across the nation, this can differ from neighborhood to neighborhood based upon how desirable the location is. Factors such as school districts, restaurants and entertainment outlets can contribute to area desirability.

Politics can also play a role in the housing market, especially when it comes to tariffs. If the materials needed to build homes are internationally imported into the U.S. and if tariffs are imposed on these foreign tools, the cost to build a home goes up. Tax laws also come into play, as this can change the ways that homeowners discount mortgage interest on loans.

In general, it is unlikely that fluctuations in the housing market will end anytime soon. The cost of homes will continue to be impacted by external factors; when one recognizes which factors to watch out for, however, they can become more well-versed in the way the market operates.

Max Marguleas is a sales partner with Amalfi Estates, which has sold $1.4 billion in properties and was selected by the WSJ *as one of the top 60 agents in the country out of one million agents. If you are thinking of buying a home or selling your own, Contact Max Marguleas at 310-383-6141 or max@amalfiestates.com.*