EPISODE 1384

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So many episode 1384, the pros and cons to buying a home in 2022.

> *"**AL:** A lot of people are short of saying it seems like this could be a throwback to the 2008 housing crisis. And there definitely are some signals that are flashing red that it could be. But houses have gone up so much that it's likely you still should retain the value in your house if you're in a very highly desirable market."*

[INTRO]

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FT: Buy now or later. That is the question many homebuyers are grappling with. Welcome to So Money, everybody. I'm Farnoosh Torabi. We are revisiting and taking a deep dive into the current real estate market. My guest is Alix Langone. She is my colleague at CNET, writes all about real estate for the site, and she has a new article, I have the link in our show notes, called Should You Buy a Home in 2022 or Wait? Factors to Consider.

So we talk about everything from rising interest rates to low inventory. Could prices cool enough where the cost of interest won't be that much of a hindrance? Pros to renting versus buying geo-arbitraging it so that you can maybe buy a home that's within your budget. Adjustable rate mortgages are getting a little bit of a spotlight these days? Are they worth it? What are the risks? We cover it all? Here is Alix Langone.

[INTERVIEW]

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FT: Alix Langone, welcome back to So Money, talking about real estate again, my favorite topic and yours.

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AL: Absolutely. Thanks, Farnoosh. It's great to be back.

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FT: We're addressing a concern that many Americans are facing, which is should I buy a house this year. These people who are asking this question, a lot of them, they started maybe at the beginning of the pandemic, trying to find a home to no avail. So you've written a piece for CNET, Should Buy a Home in 2022 or Wait? Three Factors to Consider. We'll put that link in the show notes.

I thought let's bring you on and just have you walk us through some of these considerations, who you've been talking to. You've been talking to prospective buyers and experts in the market, and sort of bring that all to the audience. What even sparked your interest in this? Were you just getting friends and family in this camp, you yourself? Was this a personal story?

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AL: I am nowhere near buying a house myself. I live in Los Angeles, which is, obviously, one of the most expensive areas in the country to buy a home. But, yeah, I have been seeing this happen with my friends and talking to local realtors and just talking to other people and some of your So Money podcast listeners about what they're going through. People, I think, feel really overwhelmed, and they're not sure what to do because of all the different economic factors going on right now and just kind of hearing a lot of different things.

But I think the main thing that people need to keep into consideration is that mortgage rates, of course, are going up, and experts only think that they're going to continue to go up this year. Another major issue is that there is a lack of inventory, and there's a shortage of available properties. So those are two of the main factors that are putting a lot of pressure on the housing market right now. Those are what's really going to play a role, I think, in deciding when you should buy or if you should hold off on buying.

The issue is sort of twofold, right? So home prices have appreciated more than 20% basically all across the country in the last two years, and that just makes everything really unaffordable for people. But up until this year, mortgage rates were historically low during the pandemic. So that allowed some people to still get into the market because interest rates were low enough that it sort of cancelled out paying a high price for a home. Now that mortgage rates are rising, it's making it almost impossible for an average buyer to get something in the same situation like if you don't have an all-cash offer or if you can't afford to waive contingencies.

Mortgage rates started around 3% this year, and now they're almost at 6%, right? So that is a really huge increase. If you're buying a home today, you're paying almost 50% more than if you would have bought a home last year. So that's, obviously, a really painful thing to think about for buyers. But the reality is that it's probably only going to get more expensive to buy a home. So I'd say if you're looking to buy a home, you might just want to buy now because mortgage rates are going to keep going up.

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FT: I mean, as you're talking, I'm hearing both sides of the argument. I'm hearing you should wait because you don't want to buy a house. So that's a stretch, right? Like you went in with a certain budget, and now you have to probably up that by 50%, just to buy the house that you were looking at in January. A similar house, let's say, to the house you're looking at in January.

But on the flip side of that, we're not seeing more inventory coming on the market, and interest rates, we know, are probably only going to get higher as the months progress. As inflation continues to be a problem, the Fed is probably going to raise rates, and that's going to have an impact, a trickle-down effect on mortgage rates. Typically, we see when rates go up, prices come down because, well, demand going down.

But that's really not happening, at least at the pace that you would think. Where are home prices now, and where do they think they're going to be going this year? Will they be going down enough, where it might offset the price of interest?

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AL: Right. That's a great question. Obviously, home prices have appreciated drastically. But one thing that does happen, like you said, when mortgage rates go up is that competition to buy homes actually decreases because it becomes so expensive. So a lot of people drop out of the prospective buyer market. If you are looking for a house now, that could be one benefit to you. You're not competing with as many people because mortgage rates are so high. But the thing to keep in mind is you probably are seeing headlines that say things like home prices or the increases are finally starting to decline this year, and that home prices are going to soften this year.

That is true since competition is decreasing. But problem is that since they appreciated almost 20% over the last two years, even if home values dropped a little, by 5 or 6%, they're still at this elevated level. So it might sound like that's a deal, but you're still paying a very high price in what's likely an inflated market. So that's kind of what you have to take into consideration. But you might be able to get a home that you want more, right? Like if you were looking in January, you might have been sacrificing and saying, “We'll get a two-bedroom and not a three-bedroom, or we'll get a smaller backyard.”

But now, those options might be more available to you. If you take your time, if you pay attention to inventory that's been languishing on the market a little or something like that, you may be able to find something that's in your price range that you want, more than something that you would have rushed to buy earlier this year.

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FT: Just to put this in financial context for people like the math, you had a stat in your piece. I just want to highlight that, which is that home buyers today are going to pay how much more for the same property compared with a year ago?

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AL: Yeah. 47%.

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FT: 47%. That's taking into the account that like maybe that prices have come down a little bit. But rates have skyrocketed much faster than prices have cooled. So you're still going to be paying a lot, lot more. At the end of the day, Alix, I always like to say it's always ideal to get in, I'm using air quotes, when all of the stars are aligned, when interest rates are low, and you feel like that you're getting in at a good price that it would appreciate. Over the years, you might look back on this purchase and see that it was a true ROI investment.

But buying a home, I think we've been sold this sort of false, what do you call it, reward in buying a home, which is that everyone who buys a home, it's an investment. It's going to build generational wealth. It doesn't always. In fact, the stock market has been a better way to invest over the long haul, generally speaking. So the most important thing, I think, and you were nice to quote me in your piece, is that monthly payment works for you and where you are in your career and your cash flow and your goals.

That's what's most important to you and the bank, frankly. They want to make sure you're making that payment. The fact that you can maybe make a profit in 5 years, in 10 years is really just going to be like icing on the cake but nothing to determine whether you buy now or later. You have to find a home that works for you now and in the event that maybe you lose your job because that's the other thing we should talk about. Part of the consideration is like where do you think your job is going to be in six months or even closing takes a few months.

Right now, things are so precarious in the job market. If you work in tech, I don't know. It'd be a sort of a weird time to be buying a home. If you do lose your job before closing, you could lose all that house.

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AL: Those are all very fair points. I think in a moment like this, when we're hearing talks of looming recessions and seeing headlines of layoffs, that is a very precious thing to consider. Yeah, I mean, it depends on your personal financial situation. Obviously, if you choose to hold off on buying a house and you decide to keep renting, that means that you are not having to save money for a down payment. So you can keep some savings or you can keep more money in the market. So that will help make you more liquid in the event that you do lose your job. Or if you do lose any income, that gives you sort of a cushion and a buffer because you still have that money in your bank account, as opposed to putting it into a house.

But one thing to think about is that homeownership is still one way to build wealth, and you are making an investment when you do make a monthly mortgage payment. In an environment like this when home prices have appreciated so much, even if your home value drops a little, if there is a recession, unless it drops drastically, you probably will still be above water, and you still will have appreciation in your home. I think you need to think about how long you're going to stay in the home.

Also, if you plan to sell the home in a few years, that's also a factor. A lot of people are sort of saying it seems like this could be a throwback to the 2008 housing crisis, and there definitely are some signals that are flashing red that it could be. But houses have gone up so much that it's likely you still should retain the value in your house, if you're in a very highly desirable market.

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FT: Very good points. If you think that now may be a better time to buy because you're not going to face things like bidding wars, that's still happening, right? Your sources tell you that while maybe it's not summer 2020 or even summer 2021, summer 2022 is still a very heated market, and people are still waving all the things, which I find that alone as a prospective buyer would be such a turn off.

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AL: Yeah. No, I think it is. It's a little scary, and people are definitely having to figure out how risk-averse they are, I think, when they're making decisions in this market. Yeah. I had a local realtor in LA tell me that last year was maybe like she was getting 25 offers on a house. Now, it's only like 10. But that's still a lot.

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FT: Only.

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AL: Exactly. That's still a lot of competition. So it's gone down but not in such a way that all of a sudden you're going to get some amazing deal on a house.

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FT: Let me remind everybody that while rates are hovering around 5% at the moment, and that's definitely more than where they were this time last year, even more than January, I bought my first piece of property when rates were like 6.5%. It was what it was, and we didn't have the 3% as an anchor to bum us out over that 6.5%. We didn't have that recency bias of like, "Wait a minute. Rates were just half that." So we were referring to when our parents bought a home in the '80s, and rates were in double-digit territory.

I think we also need to remember that numbers are relative. Rates are relative. Prices are relative. Again, going back to bottom line monthly math, if this house is one, of course, that you love and you plan to live in it for a long time and you can make that payment comfortably every month, that's what you need to be focused on and less so like, "Well, if I had just bought this earlier, maybe I should wait, and then we're going to go back to those really low rates at some point." We may not. We may not see those rates in our lifetime again.

Anyway, let's go into some of these key components that everybody should think about, rent. Can we just touch on this for a second? Rent is so high right now. It used to be like, "Well, if I don't buy, I'll just rent and wait it out." But renting is really expensive, too, which it makes it more painful, I think, for some folks who really want to be owners already.

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AL: Absolutely. That's definitely something that you have to take into consideration now. I mean, rents have gone up like I'd say about 15% on average across the country, which is very high. Not as high as home prices but still extremely high. It's something that you don't have control over and that your landlord could raise, again, even more. So you do have to sort of take that into consideration because if rents are going up, it does sort of make less sense potentially to rent if you are close to buying a home, and you can't save that money, which maybe you could have pre-pandemic.

The thing to consider I think too is that short of major catastrophic economic events, assets like homes tend to just go up, right? In the historical curve, they always continue going up. So even if there's a small drop, generally speaking, they're going to continue going up over time. That I think is something to keep in mind. If a rent payment and a mortgage payment are going to be pretty equivalent in your day-to-day budget, then you want to think long term about how long you're going to be in the house or if you will be able to refinance five or six years down the road.

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FT: Right. You bring up a really good point about refinancing as we talk about these higher than average rates or higher than normal rates, normal being like in the last two years. We can always refinance. If you're in this home purchasing game for the long haul, know that you can always wait for a refi opportunity, which is what I did. When I got in at 6.5%, I later refinanced. So there's always that potential.

We've sort of talked about mortgage rates and price trends as the first consideration, that the affordability of homeownership has become harder and harder as rates have gone up and as prices have not really gone down. So if you do want to buy now versus later, a plus is that mortgage rates will probably go up in the future, so you can get it in a lower rate. But the challenge is that you may have to think differently about what is your ideal home. Maybe it's a smaller home. Maybe it's in a different part of the town or a different state.

You talked to people who anecdotally we're kind of at this crossroads and those who were feeling this financial pinch and this affordability diminish. What were some of the conversations you're having with people about that?

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AL: Yeah. I mean, people, we're just sort of coming to the realization that they need to be flexible, and they need to act fast. I talked to one young woman, Maggie, in the DC area, who was – She's ready to buy a home, and so she contacted a realtor to work with. But there's such a low inventory in her budget that they realized that they had to go around and look at both rental properties and properties for purchase because it just wasn't realistic that she was going to be able to get a home.

I think it's literally changing week by week in some circumstances for people. She said that she was showing up at open houses with her realtor, and there would already be like 10 applications in just for an apartment, not even for a house. So she's someone who is waiting. She feels like, "I don't want to buy something that I don't love and own a home that I'm not totally in love with." So she feels more comfortable waiting to find the right thing and has kind of just accepted that rent is going to be expensive, and she has budgeted for that.

I talked to another couple who's also in the DC area, but they ultimately know that they want to move back to Philly to be around their family. When I first talked to them, they had decided to wait. They were like, "This is crazy." Like, "We're never going to get what we want." Then they decided. They talked to their parents and their families, and they came to the realization. It does not seem like mortgage rates are going to go down, and it does seem very likely they're going to go up. So we would just prefer to buy now, and we want to lock in a lower rate. That's what they did. They were able to find a house within two weeks in the neighborhood that they wanted after making that decision.

So, yeah, I think you really have to do what's right for you and your family and your personal financial situation. Also, it really depends on the market you're in. Every local market is different, and that's why you really also want to work with a realtor that you trust and that knows the market really well. That's what will make the difference when you're looking.

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FT: Right. That couple that ended up buying, you said they were planning to move closer to family in another state later.

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AL: Yeah. They decided that it wouldn't make sense for them to own a house for less than six years and in Maryland where they were. So they decided just to go earlier to move back to Philly and to buy there. So that did change a little right. It was different markets. Once they made the decision, they were able to find a house.

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FT: That's an interesting point. I have a good friend who sold in DC, bought in Philadelphia. First of all, the prices are so much lower in Philadelphia than they are in DC. You didn't have as many options, I think, in DC as you do in Philadelphia and this idea of geo-arbitraging it because that's really – Sometimes, that's it. People will stop where they are. I'd like to move. I like to sell, but where do I go? The answer to that usually I say is like you go far away. You don't go down the street. You have to you have to consider getting outside of your comfort zone.

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AL: Yeah. I mean, it's not just the coastal cities that are affected. It's happening all across the country in every region. But I think that is also something to consider, right? If you are deciding to open up your geographical range, the markets that are starting to soften the fastest are places like Austin, Texas, or Boise, Idaho, where they experienced big booms at the beginning of the pandemic because people wanted to get out of cities and move somewhere cheaper and have more space.

But now that things are starting to slow and life is getting back to normal, those are not as hot markets. So those are areas where you do want to save to yourself if there is a recession or if the home value does decline. Is this mortgage payment still worth it? Is this investment still worth it? If you're looking in those type of markets, I think you should really consider how much you think that the home is going to appreciate because they fluctuate more than other more established places.

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FT: All right. So the first factor you've just gone over is mortgage rates and price trends. We've touched on this idea number two of financial and personal goals. So these anecdotes that you gave sounds like those buyers ultimately took into consideration not just the financial implications of waiting and having to face higher rates but also personally what they were trying to achieve in their lives and whether they – Like for that last couple that bought earlier in PA because they just said, “Let's just get in on that goal a little bit sooner.”

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AL: I think that you're going to have to compromise in this market, no matter where you live or what your decision is. But in the end, buying a house really will sometimes come down to timing and what is going on in your life. I think you'd like to say that. When you're talking about money, you're really talking about life. When you're talking about your home, you're really talking about life too. It's the place that you're going to live. It's the place that your entire life is going to unfold. You have to do what is right for you in the end.

You can't plan the right time to buy a house sort of when people say to you maybe there's no right time to have a child or there’s no right time to get a new job. In the end, you’re going to have the timing of your life that will probably take precedence. So that's why being aware of all of these different factors and the role that they play in pricing and appreciation can help you make the best decision.

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FT: Sidebar, adjustable rate mortgages have been coming up a little bit more frequently. I think there's an argument that maybe they're kind of attractive right now because of where rates are. You can get in at an adjustable rate for less than a fixed rate. But then, of course, you run the risk that it will adjust higher and in an environment where rates are going up. I mean, I've always been against them, and like very rarely can I see you in a circumstance where it would really be wise for, especially, a first time buyer. But you do bring it up in your piece, and I just wondered what's your thought on when this makes sense for buyers and borrowers?

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AL: Sure, absolutely. Adjustable-rate mortgages are also called ARMs, and it just means that you have a lower introductory interest rate, but you have to be careful because your monthly payments will start to go up as interest rates go up. That is what happened to a lot of people in the 2008 financial crisis. Their mortgage payments surged, and then they defaulted on their mortgages, and they weren't able to pay their mortgage. An ARM is probably a good idea, only if you have flexibility in your budget and your budget could take a larger hit. You need to budget for that.

Also, usually, it's a good idea or it’s a good product to use as a mortgage if you don't plan to stay in your home for that long, if you were usually available in like 5, 7, and 10-year terms. So if you plan to stay in your house less than seven years, right? Like say this couple who was in Maryland, if they had said, “Actually, we do want to buy our first house in Maryland, and then we want to sell it and move to Philly in six years,” that would be an example of when it might be useful to do an ARM mortgage because you know that you're going to leave the home before your payments really start going up and before interest rates start going up.

But if you plan to stay in a home for 30 years and ARM mortgage probably won't benefit you because it's generally likely that the payments will start to get higher.

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FT: Yes. FYI, I just looked this up, the average duration of homeownership in the US, meaning how long somebody exists in that home, is 13 years. I remember when we were looking to buy the current home that I have. A mortgage broker, a friend, we weren't working together. We were just having a conversation. He was really insisting on a 10-year ARM. Rates were like 3%, and I was like, “Listen. So maybe I'll get a 2.5%. But 3% fixed and then I don't have to worry at all about what will my payment be in a year or two or three?” I got where he was coming from. He's like, “Are you going to even be in the house for more than 10 years?” I was like, “Hold on a minute. For 20 years.”

So it wasn't for me, like I wasn't the profile. One, because I wanted to live in the house, my goal was live in the house, my forever house. I want to sell it when my kids maybe are done with college but then maybe not. Then the other thing was my risk tolerance is not such where I want to take that chance. Practically speaking, a fixed rate of 3% is dynamite. Yeah, there might be a shinier object out there, but like let's just be practical, and that's good. Like can we just call it a day at that point and get and lock it in? Just because you can doesn't mean you should. It's another good money philosophy. Anyway, thanks for sidebaring there with me.

Okay. Future housing trends and recession risks, this is your third consideration in your article. We've sort of touched on the forecasts for homes in terms of where rates are going to go, and pricing will probably come down a little bit, but it's not like we're going to see a crash like we saw in 2009. I do believe that as well. But recession risks, where did your experts fall on that prediction in terms of will we have a recession? Then even if we do, what will that mean for the housing market?

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AL: A lot of people I think kind of have mixed feelings about whether there will be a recession. Some people feel like we're already in kind of like a housing market correction. Obviously, we recently had a stock market correction. Inflation is still super high, and we know that the Federal Reserve is probably going to raise interest rates. It seems pretty reasonable to say that there is a high likelihood that a recession could happen.

However, trying to time the market is never a good idea. No matter how much you read or no matter how much of an expert you are, you can really never predict the future. You can make educated guesses based on what's happening now, but it's pretty much impossible to time something like that correctly, and you shouldn't make any future plans for a huge life purchase like a home, based on the idea that a recession might happen. Like we were talking about before, it comes down to still your day-to-day budget and making sure that you are financially comfortable the way you're living your everyday life. That's not going to change whether we're in flush times or whether we're in stormy economic times.

I wouldn't say now, “Oh, let's hold off because something bad might happen to the economy.” Even if that happens, interest rates will still be really high, so you really might not save any money. You want to think about your own personal financial fundamentals when you make a decision like this, not what might happen in the overall market.

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FT: Very good advice. Yeah. That latter piece of kind of whatever happens, recession or not, what matters most is your own personal financial viability. I will just add this. If you are worried about a recession and how it may impact your individual life in terms of like your job security because maybe you work in a more vulnerable industry, or you're looking at the world and where it's headed, the economics of the world but also maybe the politics of the world and the socio issues of the world, and you're thinking, “I want to change industries. I want to do something different with my life.” That's kind of what happened, Alix. A lot of us had these epiphanies like, “What am I doing with my life?”

I don't think that existential question has disappeared or evaporated. I think, if anything, it's gotten more top of mind. So if you are looking at the future and wanting to make a change, that's also important because as we know, banks don't like unpredictability, and they don't want borrowers who present as not stable or in transition, let's just say. So if you are even voluntarily leaving your job because that's what many people are doing still, as we had the great resignation last year and that's continuing into the 2022.

If you're in that camp, maybe not also want to do that and buy a house at the same time. Not just because it's overwhelming but because banks are going to want to see full-time employment or tax returns that show consistent income, I'm talking to entrepreneurs out there, for a number of years.

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AL: Yeah, absolutely. I think that that's also why it's important to do your research and talk to realtors and talk to mortgage lenders before you commit to a decision because there's little things that I think a lot of people don't know, which is that banks usually want to see that you have been employed for at least two years. So if you quit your job or if you start a new job, and you've only been in a job for eight months, the lender or the bank may not consider you a particularly stable candidate, compared to someone that has been at a job for six or seven years.

So you want to put yourself kind of in the best possible situation to be an attractive candidate to sellers and to mortgage lenders because, like we said, even though prices are slowly softening, there's still a lot of competition. So someone who has stable employment is probably going to get home over you if you have recently quit your job.

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FT: I guess last but not least, parting advice, even if you've listened to us and you've considered all the factors and you're like, “I'm going to wait till next year,” which is totally fine, don't stop looking. Like the person you interviewed, I think you said in one phone call, they said, “We're not going to buy.” Then two weeks later or whatever, they bought because something really exciting came on the market, and they could make it work.

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AL: That's good advice because the situation is changing on almost like a weekly to monthly basis. If you're keeping your eye out, and you know what you're looking for, and it's giving you a good idea of kind of comps and what things cost everywhere, you're just going to be that much more prepared to make a decision when you're ready or when you are financially ready. Inventory really is increasing. Houses are starting to stay on the market a little bit longer, and more homes are starting to come up for sale. So don't be discouraged if you can't buy this year because it's possible it can work out in your favor.

Like we said, you can't time the market. You don't know what's going to happen. You could end up with your dream home next year if you wait because there will be more inventory available, even if you do pay a higher interest rate. You have to make sure your financial fundamentals are secure so that you are ready to jump on a house when you find it.

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FT: I forgot to ask this, Alix, but what about home builders? What's happening on that front? Do you have any insights as far as – Well, because of the supply chain issues and inflation, if you're looking for a new home, is that something we should maybe not be so attached to that idea?

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AL: Yeah. So there definitely are differences in versus new homes on the market and older homes. But sales of new homes did have also started to decrease. So that is a potential benefit that sales are falling. However, that discourages builders and contractors from wanting to build more, especially as they are dealing with headwinds from labor shortages and supply chain issues. So, yeah, you may have to compromise on buying a new house if that's what you had your heart set on because builders just may not be building them.

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FT: Well, thanks, Alix, for dealing with me. I had so many questions, and I kind of zigzagged my way through this interview. I had so many questions pop up along the way. Thank you for always being a great source for us and your fantastic work. I'm going to, again, mention that you have this great article. Everyone should go check it out. It's on CNET now. It just came out a couple of days ago. Should You Buy a Home in 2022 or Wait? I have the link in the show notes. Alix, I'm sure we'll talk again.

[00:31:57]

AL: Yeah, absolutely. There's a lot happening, and I can't wait to stay on top of it. Thanks, Farnoosh.

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FT: Thank you.

[END OF INTERVIEW]

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FT: Thanks so much to Alix for joining us. Again, the article that she wrote for CNET is called Should You Buy a Home in 2022 or Wait? We'll see you back here on Wednesday, and I hope your day is So Money.

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