

EPISODE 1697

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FT: So Money episode 1697. Are we in a real estate bubble? My conversation with Daryl Fairweather, Chief Economist at Redfin, about housing trends, her forecast for real estate, and advice for buyers.

***DF:** If you're trying to wait it out for prices to fall, that's probably not going to happen. I think mortgage rates actually will come down between now and the end of the year. But what will happen is that when mortgage rates fall, everyone will rush into the market and bid up prices."*

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. Our guest today calls the current housing market frozen; a lack of housing supply, rising interest rates, rising prices. Is there any silver lining to the current real estate market, and where will things go in the fall when our guest, Daryl Fairweather, Chief Economist at Redfin, predicts interest rates will fall. But is that good news or bad news for buyers?

Daryl is a trusted source in the real estate market. She's a woman, a woman of color, a millennial. So she is not your typical economist. She brings a fresh perspective to housing topics and economics. She beautifully breaks down a lot of complex issues going on in housing right now to inform us, anyone in the audience who's interested in either buying or selling today or next year. If you're thinking of renting, we also talk about the narrative around renting, how that's changing, how to think about renting as a strategy ahead of purchasing a home. All your real estate questions in 30 minutes. Here's Daryl Fairweather.

[INTERVIEW]

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FT: Daryl Fairweather, welcome to So Money to talk about probably our most desired topic. You've been busy, of course, the Chief Economist at Redfin. If you were writing a chapter for where we are currently in the housing market, nationally, what's the title? In other words, how would you summarize what the heck is going on? I feel for a lot of people who want. They want to buy. They want a piece of the American dream, and it's just so out of reach. Tell us what is going on from your perch.

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DF: The housing market is frozen right now. It's moving at a glacial pace ever since the pandemic. During the pandemic, mortgage rates dropped to three percent for a 30-year fixed rate mortgage, which was a record low. Basically, anybody who's a homeowner took advantage of that and locked in really low mortgage payments. Existing homeowners don't want to move, which means there really isn't much for sale.

At the same time, mortgage rates have gone up to around seven percent now for a 30-year fixed rate mortgage. It came down a little bit recently but still quite high. Buyers are having to spend thousands of dollars more each month for the exact same home that they could have bought during the pandemic. First-time homebuyers are having a really tough go of it as well, especially compared to the deals that people were able to get when the economy was really in the dumps during the pandemic.

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FT: We don't want to ever say like time the market. I hate that expression. But this is a pretty bad time to be buying because you just can't get as much as you could maybe even before the pandemic. Forget the pandemic. The pandemic was such a fluke in terms of where interest rates fell. I remind a lot of people. They are waiting for that three percent rate again. I'm like, "We may not get there in our lifetime, so just kind of don't – just ignore that."

Prices have gone up, have not come down, right, even though rates have gone up. Usually, there's some silver lining. Relatively speaking, is it a "good time" to be buying right now, even if you do find a home that makes sense?

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DF: It's a really tough time out there, but I don't think it's going to get better anytime soon, unfortunately. If you're trying to wait it out for prices to fall, that's probably not going to happen. I think mortgage rates actually will come down between now and the end of the year. But what will happen is that when mortgage rates fall, everyone will rush into the market and bid up prices. If you're really quick and you find a home that you love right away and you move on it, yes, you can take advantage of timing.

I think most people are looking for their dream home, and they don't want to just take whatever is available when mortgage rates happen to drop. You can refinance later, which does take away some of the risk of getting a high rate when rates drop later on. But, yes, timing the market for when rates drop to buy I don't think is really achievable for most people.

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FT: I want to talk about renters in a moment because you've done some studies, and you really looked at sort of what's also happening in the rental market. But you say you don't see rate – you don't see things really changing between now and the end of the year or the foreseeable near future. Why is that? What's going on so that we are in this perpetual stuckness?

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DF: Well, the fundamental problem is the lack of supply. The reason that prices go up anytime rates come down is because there isn't new supply or not enough new supply being added to the market when new demand is created from those lower mortgage rates. The reason that we don't have enough supply is largely because of local opposition to building new housing.

In places like Los Angeles, San Francisco, Boston, DC, really all around the country, people who already have homes show up at local council meetings and say they don't want new housing development. They don't want affordable housing development. They don't want apartment buildings. Usually, the only things that they approve are single-family homes out on the fringes of town where they're not literally in their backyard. That's why they're called NIMBYs. Those single-family homes tend to be the most expensive, especially when they're new construction, which is why you don't see prices coming down when you're a first-time homebuyer.

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FT: Right. Well, what do you think can or should or might happen at a policy level? I know there's resistance to multi-unit apartments and high-rises, but we have an election coming up. Being able to afford a home, buy a home, be a property owner, while it's a debate now, is it even worth it, is it really the true generator of wealth, it's still very much a part of the psyche's American dream. It's not the most important, the reason why people vote for a particular candidate. But I think it's interesting. What have you been hearing or seeing on the political front or at the federal level, the policy level that could bring some relief to prospective buyers?

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DF: Some of the most action has been at the state level. The State of California has essentially eliminated single-family zoning. You can now have two ADUs on any single-family lot, so you can turn a single-family home into a triplex, essentially. That's going to take a long time for those housing units to come up, and there still may be some local opposition that slows it down.

For the most part, California has done a lot to allow for more density and even apartment buildings as well. We're seeing that also in states like Montana, Florida. It's really all across the country that states are beginning to step up and pass laws that allow for more housing. If you are paying attention to this election, I would definitely look into whether your state legislature or your governor is pro-housing.

When it comes to presidents, President Biden does have a housing plan. It's pretty comprehensive, adding demand for or adding assistance on the demand side for first-time homebuyers, giving some credits for people who sell starter homes, so there are more affordable homes on the market. Also a lot of stuff to increase the supply, a lot of carrots and sticks for that, and also funding the Low-Income Housing Tax Credit which subsidizes the construction of affordable homes.

Trump has really been quiet about his policies when it comes to housing, and he's signaled that he is against dense housing in the suburbs. It's really about as much as he has said.

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FT: I wonder, too, if remote work has only made it more challenging for mobility, like in order for supply to come on the market, right? If you get a job but it's remote, it doesn't matter where you're living. While we may have seen in the past people moving because of their jobs, that's maybe less. Do you think that's weighing?

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DF: Well, on an individual level, having remote work opens up so many more housing opportunities. If you are living in Seattle and you have to commute into work every day, you're only going to live within an hour of Seattle. That is very expensive because anywhere within an hour of Seattle is going to cost around \$800,000 for a median-priced home. But if you have remote work, you can move to Eastern Washington. You can move to the Midwest like I actually did, and you have more affordable options to you.

I think what you're right about is when housing is remote, I think the problem becomes less pressing to corporations. Before remote work was as prevalent as it is, there were initiatives from tech companies to really solve the housing problem. There was stuff in San Jose about building affordable housing that would have been funded by Google. Microsoft had some similar plans. I think those plans aren't off the table, but I haven't seen any new initiatives saying that we really need more housing where people work. I haven't seen that from corporations specifically. If anything, it's been state governors and legislators.

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FT: My insider tip is whenever you see someone, and I live in a suburb of New Jersey, whenever you see a house put up a congratulations, Julie, on your high school graduation poster on their lawn, go knock on that door because that family is probably leaving this town. They're not wanting to pay the high taxes, now that their kids are out of public school. Also, if you see a house with a yard sale, a garage sale, an estate sale, that house might be downsizing, and you might want to find out why.

This is what you have to do. You can't just go to an open house and think this is it. There's already been four or five offers before that open house, and so I feel for my brother and his wife are in this camp. They are so frustrated, and they are renting, which I want to transition now to renters. Used to be, if you couldn't buy, you rented, and maybe you would rent as a way, as a strategy to save your money until it came time for you to buy when things were better. Conditions were better. You were in a better place.

Not the case. Renting is exorbitantly high, and you did a study that found that renters, just 39% of renters, are making enough to afford the median-priced apartment. How does that compare to historical figures?

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DF: Renter affordability has gotten much worse, and it's because of that same lack of supply and also the opposition to affordable rental housing like apartment buildings or townhomes, multi-family homes, things like that. There's a lot of opposition, especially in places that are the most desirable to live.

If you look – I'm just going to use Seattle as an example again. There are single-family homes incredibly close to the downtown Seattle that could potentially have been apartment buildings that house 60 people and 60 families, instead of just 1 family. That kind of land use contributes to this problem of there not being enough apartment buildings and rents rising because people

still want to live in these cities. That's where they work. That's where their support systems are. It really isn't an option for a lot of households to just move somewhere else.

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FT: You also found that most renters move within five years, but they're more likely to live in one home for the long haul than they were a decade ago. Is the narrative around renting really changing for the long term, where it used to be renting was just money down the drain? But what do you see is the new thesis or the new narrative around renting that could be actually a little bit more pro-renting?

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DF: Well, I think that there are different kinds of renters. There are renters who are paying more than 30% of their income towards their rental cost, which is what we would call housing burdened, and that means that they are falling behind financially. They're not saving enough for emergency savings. They're not saving enough for long-term savings goals like becoming a homeowner themselves. They're more trapped in renting. It's not really a choice for them.

Then you have affluent renters who really are doing it for the lifestyle. They don't want to be bogged down. They don't want to feel like they're stuck in place. It can be beneficial to your career to move to a new city for a new job that's paying more. If you own your home, that's more difficult to do or more costly to do. I think for some people, they just want the freedom. Maybe they want to travel. Maybe they just don't want to commit to a place for more than a year. Or if they do want to commit long-term, they don't want to deal with the maintenance. They don't want to deal with the hassle of owning a home.

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FT: Yes. That's an important distinction. Your studies have also looked at and have examined the racial disparities in housing. I think it's important to talk about how affordability, while across the board it's very difficult generally, but even more difficult for the typical black family, where

starter homes are, you say, affordable to the typical black family in just 10 major US metro areas. What are these areas and thoughts?

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DF: It really comes down to the incomes that black families earn compared to white families and the fact that housing has gotten less and less affordable. It means that the income you need to afford a home in any metro has been going up. There are a couple of exceptions, a lot of them being in the Rust Belt. The Rust Belt has not seen prices rise as quickly as on the coast or even in the south, so that's one of the reasons that black households there can still afford the homes.

It also has to do with historical reasons. Black families historically have been discriminated against when it comes to housing, and you're much more likely to be a homeowner if your parents were homeowners and even if your grandparents were homeowners. The historical inequities definitely carry into today, and it's one reason black households have less wealth. They have to enter the housing market as first-generational housing homebuyers, instead of this intergenerational homebuyer family you might see with their white counterparts.

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FT: You're right, and I've done reports on discrimination within housing, whether it's the appraisal level, interest rates. Credit score models are also fraught. They're imperfect, and they have bias. Wow, San Francisco, which is – I mean, come on. Who can live in San Francisco right now? Black family earning the local median income would have to spend 104% of their earnings on a starter home.

I'm just wondering. When we look back on all of these challenges across the board, any way you slice it, it's like you're hitting a roadblock. What is the imprint of this historically, like when we look back in five years? Because this is not just a blip on the radar I don't think. I think this is – like you said, it's a freeze, and it's stagnating. This is going to have residual impact on so many things, and I wonder if you've modeled this out to go, okay, here's where we're going to – this is why we're going to land where we're going to land in the next two years because what we're

going through now is so difficult, and it is setting people back financially. What are your predictions going forward?

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DF: I'm more optimistic for a couple of reasons. One is that the problems of restricted supply are really concentrated in cities along the coast. But because of remote work, people are able to move to more places, and we're seeing smaller cities becoming more popular. I don't think it's that doom and gloom, but I do think that cities and metros that have neglected building affordable housing are going to economically suffer because they're losing their middle class.

If you can't afford to buy a home and you're struggling so much to afford your rent, you're going to feel like you're constantly on the economic edge. You could move somewhere else. You could move from Los Angeles to, say, Riverside or Bakersfield where you can afford a housing and can actually feel like have your head above water and are in the middle class. But that's not really possible in these coastal expensive cities. I think that means that the economic growth of those cities is going to be limited.

What you have happened is that you either have to be incredibly rich or poor to the point that you're getting social assistance to live in those places, and then the middle class just empties out. You have a lot of economic inequality, and that can lead to social problems, too, if there isn't – if it's just wealthy people and poor people, and there's no middle class, and that can be bad for social cohesion as well.

I think we're already starting – we've already seen this to a certain extent in these cities. That's why they are having these crises with housing, homelessness crises, and also just cost of living crises. I think that they're going to continue that, unless they do serious change when it comes to building housing.

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FT: I mean, just generationally, you think about who's in these homes for all these years. Who have been in these homes let say? I mean, Boomers. They hold a lot of the wealth in this

country, a lot of the equity in real estate in this country. They've benefited the most from all of this than probably their children and their grandchildren. There will be a day when they will pass on, and then the homes will be either inherited or on the market.

I wonder if you've taken that into consideration as you project. It's sort of – don't have to be doom and gloom, but this generation – the Boomers need to pass on for some of this supply to reappear in the market. I mean, how long is that going to take?

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DF: Well, I think even before that happens, this generation is going to have problems related to housing. I think it's actually going to come to bite Boomers because when they age, they're going to need assistance. They're going to need elder care workers look after them. They're going to need facilities for that, and they need people to work in those places. If cost of living has gotten so high, then you end up spending your whole retirement nest egg on that end-of-life care because that end-of-life care has gotten so expensive. I mean, it kind of depends on how things play out, what the life expectancy is for that generation, how much are they going to spend.

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FT: Right. People want to live forever. I'm like, "No, we can't live forever because then we have nowhere to live."

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DF: Also, how much of what they would have passed on is just going to go towards end of life healthcare costs. Yes, I think those homes will start to come on the market because whether they're selling them to go move somewhere else or they pass on, they will come on the market. They're going to be older homes. It's better if we keep building newer homes that are more resilient to our changing climate and more energy-efficient and all of that. I don't think it's necessarily going to be the solution to our problems that those houses are passed on.

I think there will need to be still investments to make those homes livable for the next generation. They may need to be modified because a single-family home that's right next to a transit stop, like a bus line or a subway stop, should probably be denser housing because that's just the most efficient way to design a city is to have people living close to transit. That's also going to be part of our climate solution. I don't think it's going to be an easy pass on. I think there's going to be some new investments that need to get made.

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FT: What do you think of the word bubble right now? I mean, I don't know. Home prices, they continue to go up, and that's partly driven or if not all driven by supply. Some people, they call a bubble. What are the signs of a bubble, and are we in a bubble?

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DF: I don't think we're going to get a national bubble the way that we got in 2008. In order to get a national bubble in housing, there needs to be a national cause. During the foreclosure crisis, it was subprime mortgages and mortgage rates changing because of the Fed. There were reasons why it was hitting the entire country.

I think now I would pay more attention to local bubbles. We saw that happen in Austin, and we saw it in Boise. There was a lot of demand over a short period of time, and people extrapolated that out into the future. Home values went up really quickly and then came down really quickly. I think the bubble's already burst and is on a normal trajectory now in Austin and Boise. But that could be happening in other parts of the country where home prices just overshot their true value, and there needs to be a correction. I guess it's more of a correction than a catastrophic bubble bursting.

If you're worried about that, I would pay attention to places that have already gotten really expensive, and it's just untenable for people to keep paying those high prices, given other alternatives they might have. I'm kind of thinking of Florida where insurance costs have gone up, HOA costs have gone up, general cost of living has gone up, and home prices have gone

up. Now, we're starting to see a correction there because at a certain point, it's not worth it for people to move in or to keep buying homes.

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FT: Right. I always think it's important to put whatever's happening in the economy in perspective, right? I want context, especially for the newer buyers who are first time on the market, and they're overwhelmed, and they think, "Oh, my God. This is the worst it's ever been. Woe is me. I have no luck." Again, I empathize because any way you look at it, it's like everything's out of reach; interest rates, prices. There's no supply.

My brother, and I'll bring him up again because we laugh about this, but he's like, "I can't believe these rates, 6.5%." I'm like, "Do you remember when Mom and Dad bought a house in the eighties or nineties or whatever it was, and it was hyperinflation, and we had double-digit interest rates?" He's like, "Yes, but the cost of the home relative to their income was much more affordable," which he's right about.

That being said, I would love if you wouldn't mind just giving us a little bit of historical context to say relative to what other generations went through, how "bad" is it right now. On the flip side, what are the some of the silver linings? Or what are some of things to look forward to?

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DF: I'm trying to think how far back to go because we've said that this is the least affordable time to buy a home on record. Our data starts around 2012. If you go back, I mean, there might be some parts where maybe it was a little bit less affordable if you do the math on like incomes relative to mortgage payments with interest rates. But at least in modern history, since the Great Recession, housing has never been as unaffordable as it is now.

I think the optimistic part is, though, that unemployment is super low. The economy is growing. I think people have more economic opportunities now than they've arguably ever had before, so you can make your way in the economy to a point where you are a homeowner. It just – I think that you have to focus more on earning more money because I don't think the housing is going

to get more affordable. If you're going to live in one of these high-cost-of-living areas, then you have to earn even more money.

If you are more willing to live in a low-cost-of-living area, maybe you have a remote work job, or you have the type of job that can be done from anywhere, I feel like now those are the kind of people who are finding their way in this housing market the best.

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FT: Good news, there are jobs. Bad news, it's not helping convince the Fed that they can lower rates, which then –

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DF: I think that's changing. I think that will change.

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FT: You think so? I would love to get your thoughts on that. Who can predict? Maybe you because you're the smart one in the room. Tell us what you see happening maybe even just in the fall. Although that's not prime buying season, will it impact the spring buying season 2025 looking ahead?

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DF: Yes. I take your point about the economy being good but not necessarily good for everybody because unemployment is low, but it's still high in, say, the housing sector or in the tech sector. There are still definitely industries that are hurting. To the Fed, given the most recent economic data on jobs and inflation, I think they're going to cut in September and start a course of cutting.

Interest rates might not come down. I mean, they're – I don't think they're going to come down to pandemic levels. That would be absurd. I don't even know if they're going to come down to pre-

pandemic levels, but we'll get some relief. That should make a difference for people when they're borrowing to buy a home.

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FT: Yes. As far as supply, though, one of the things that's limiting supply, people are not moving because if they sell, even if they're going to get a good price, they're worried about affordability on the on the flip side and the rates they're going to pay, and of course, the higher prices that are attached to the homes. But with rates coming down, do you think there are any homeowners, they would move because they know that while they're giving up maybe a three percent mortgage, four and a half or five isn't a deal breaker, and they can move? Then that opens up some inventory.

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DF: Yes. There's a – a lot of people own their homes cash outright. They've paid off their mortgage or they bought in cash.

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FT: True.

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DF: That tends to be more true for cheaper homes. For those people, the mortgage rate doesn't make a difference. Those mortgage rates did bottom out in 2021, and people are starting to pay off their equity. I think people are going to start to become tempted to take out home equity loans that would bring their average rate up a bit. But you're right. I think the difference between where rates are and what most people have is too large for them to move.

A lot of people literally couldn't afford to buy the exact same home that they're in at the prevailing rates. Even if they were to sell their home and buy a home across town for the same price, it's too expensive for them, given how high rates are right now. Rates coming down a bit

isn't going to make a difference for them. It would make a big difference for a first-time homebuyer who is just looking at their mortgage payment and will take whatever relief they get on that mortgage payment. But for somebody who's giving up a mortgage, it's psychologically different.

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FT: Yes. That's a good point. Well, before you go, I just wanted to ask about, and I don't know if you have looked into this, so feel free to pass on this question, but the headlines around broker commissions, right? Typically, a seller pays at closing anywhere from five to six percent of the sale price to both agents, both. They split it. Theoretically, the buyer's agent, seller's agent split that commission.

But there's a new law now where that's not necessarily going to be the case, which makes me wonder. Will that help unlock some supply on the market if selling is a little bit more lucrative for the seller because they don't have that six percent necessarily that they will be paying an agent and also other ramifications of that, right? Just the whole process of selling could transform with this law and also other things like the advance of technology. I'm thinking in 20 years or whenever I go to sell. Will I even need an agent, and how is that going to change the formula for what I price the home and all the other stuff that goes into the transaction?

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DF: Yes. Anytime the transaction costs of selling a home go down, I would expect there to be more sales. That's a possible outcome. I don't know if the cost of transactions are actually going to go down quickly. I think it's going to be a slow-moving change for the industry, just because the industry, from what I've experienced, moves really slow. I think agents are going to advise their clients to stick to the old way of doing things as closely as they can within the law is probably how it's going to start moving.

I think that when rates come down and the housing market starts to heat up, some buyers might start getting more creative about how to win an offer, and they might start offering more money to the seller without an agent to make their deal a little sweeter. It'll be interesting to see how

things play out, but I don't think it's going to be an overnight change once the law goes into effect.

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FT: Yes. I guess like everything, we will wait and see, and we'd love to have you back as more things progress. You're awesome. I'm just curious, Daryl. What is your housing situation?

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DF: I own a home in Wisconsin. I work remotely. I was living in Seattle. But during the pandemic, I did the full remote thing and moved out here. Yes, I've been enjoying being a homeowner, although it is a lot of work. I feel like now, since I've been here for four years, all the maintenance is starting to pile up. I can't really ignore it anymore, and that is a real cost. It's not there in your mortgage payment, but it's real.

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FT: That's what I want to remind my brother. You need to paint the house every few – whatever how many years. Need a new roof. That's not stuff that you have to do as a renter, so just keep open mind when you're buying. Daryl Fairweather, thank you so much. Appreciate you, and we'll have you back soon.

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DF: Great. Thank you.

[END OF INTERVIEW]

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FT: Thanks for tuning in, everyone. I'll see you back here on Friday for a fresh episode of Ask Farnoosh. Send in your questions. You can DM me on Instagram. You can email me,

farnoosh@somoneypodcast.com. You can also go to the somoneypodcast.com website and click on Ask Farnoosh and send me your questions there. It's not too late. I hope your day is So Money.

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