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OPINION

Column: Higher mortgage rates and inflation cool the market and leave south suburban sellers with fewer options, brokers say

By Francine Knowles
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Home sellers have less power today than they did a year ago as higher mortgage rates and inflation are cooling the market and leaving sellers with fewer options, say real estate brokers.

Last year, many sellers "were getting multiple offers within a couple of hours" of homes hitting the market as bidding wars were breaking out, said Jermaine Coney, designated managing broker with Premier Midwest Realty Inc. in South Holland.

In some cases, even when there was a shortfall in a home's value after appraisals came back, buyers were offering to pay the inflated price, he said.

Coney and Andretta Robinson, Titan Group Team Broker Lead at Re/Max 10 in Oak Lawn, said they're seeing more sellers drop their prices. Last year "homes weren't staying on the market long enough to get a price change," said Coney.

"At open houses, we would have lines around the corner to get into see the homes," said Joni Bradley-Scott, a real estate broker with Keller Williams Preferred Realty in Orland Park. "Sellers previously could take their pick of who they were going to choose to sell to because they had a number of competitive offers on the table. Sellers are not necessarily having that multiple offer situation to the degree that they were."

High demand among buyers and insufficient inventory levels to meet that demand were factors driving bidding wars and prices, according to brokers.

This year, higher mortgage rates are driving would-be buyers out of the market primarily because the price of housing isn't going down enough to help compensate for the rise in interest rates, said Coney.

Payments are up $500 to $700 for the same property, compared to last year, he noted.

"People are being very conscience of their money ... looking at their options," said Bradley-Scott. "Some people are thinking that they are still able to participate and buy. Some are looking at different price points. That large number of buyers we had now is a smaller group."

The 30-year fixed mortgage rate

Joni Bradley-Scott (Joni Bradley-Scott)

averaged 5.54% as of July 21, according to Freddie Mac. That’s roughly double from 2.78%, a year earlier.

Meanwhile, inflation continued to rise across the board In June, the consumer price index increased 9.4% in the Chicago metropolitan area from a year earlier, according to the Labor Department. Energy prices soared 55% reflecting a 67.3% surge in gasoline prices. Piped gas rose 59.5%, electricity prices climbed 29% and food prices were up 11.2%. Consumers paid more for apparel, housing and transportation.

“People are having to watch their budgets more,” said Bradley-Scott, adding real estate agents and brokers are having more conversations with buyers about whether the mortgage payments they are considering are affordable in the long run and won’t negatively affect their quality of life.

Tiffini Trotter and her husband are looking to close in August on a home in Homewood. She said higher mortgage rates prompted them to make changes.

“We increased our down payment so we would have to finance less,” said Trotter.

She and her husband have observed the market from a buyer’s and seller’s standpoint over the past two years.

In May 2020, they put their three bedroom, two-and-a-half bath town house in Hazel Crest on the market.

“We got multiple offers within two days,” said Trotter.

They didn’t expect that and hadn’t purchased another house yet.

When the agreement with the prospective buyer fell through, she said they took the home off the market and decided to secure a new home before putting their current home on the market again.

She said last year they were outbid on several homes.

“It was disheartening,” she shared.

They are monitoring the market to help determine what price they will seek this year on their existing home.

Home sales in the Chicago metropolitan area fell 18.9% in June compared to June 2021, according to data from Illinois Realtors that included single family homes and condominiums and that reflected a 19.3% fall in detached home sales. The median price for single family homes and condominiums rose 6.6%.

The data showed a slowdown from a year ago. In June 2021, sales spiked 52.8% from June 2020, and the median price jumped 20.4%, according to Illinois Realtors.

Geoff Smith (Geoff Smith)

Sales held up better in the south suburbs compared to the Chicago metropolitan area, but still were flat edging up 0.3%. Inventory rose 25.3%. In the metropolitan area, inventory dropped 17.8%.

The median price in the south suburbs edged up 1% in June 2022 from a year earlier, lagging the metropolitan area, according to Illinois Realtors.

Still, prices are significantly higher than pre-pandemic levels in Cook County and including in the south suburbs, said Geoff Smith, executive director of the Institute for Housing Studies at DePaul University. For example, looking at south suburban submarkets the institute tracks, he noted in the Chicago

Heights/Park Forest submarket, which includes several municipalities, prices through the first quarter of this year are up by over 47%, he said. In the Calumet City/Harvey submarket, prices increased by almost 52%.

But prices still lag in the Cook County suburbs as a whole, where the median price was about $300,000 in 2021, he said. The price was about $140,000 in the Calumet City/Harvey submarket and about $172,000 in the Chicago Heights/Park Forest submarket.

It's unclear what the ultimate impact of rising interest rates will be on the housing market, but Smith doesn't expect prices to collapse, particularly given data that shows there is still more demand than supply.

"That should bolster and stabilize prices," he said.

Ezekiel Morris (Ezekiel Morris)

Ezekiel Morris, president of Illinois Realtors and designated managing broker of Exit Strategy Realty/EMA Management on the South Side of Chicago, expects rising mortgage rates will likely show more of an affect on the market in the third quarter. But he said it's still a good time to buy a home, particularly given the fact that rental rates are rising at a faster pace.

He said the strongest price points in the housing market are homes in the $150,000 to $250,000 range.

His advice to buyers: "Number 1, determine what they're purchasing power is and look at that from a sustainability perspective."

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"Buyers should know their budget and know what their must haves, their non negotiables are," said Bradley-Scott. "Have an open mind about what the marketplace presents."

She said buyers are in a better position to ask for certain considerations compared to a year ago if, for example, you need to sell your home before you can close on a purchase.

"Do your homework," said Robinson. "Research the area. Research the Realtor."

Her advice to sellers is recognize the market is shifting. She said she is educating sellers that they should "no longer anticipate three, four, five offers within five minutes of putting the house on the market."

They may need to provide closing cost credits, repair credits and lower their selling price, she and others said.

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