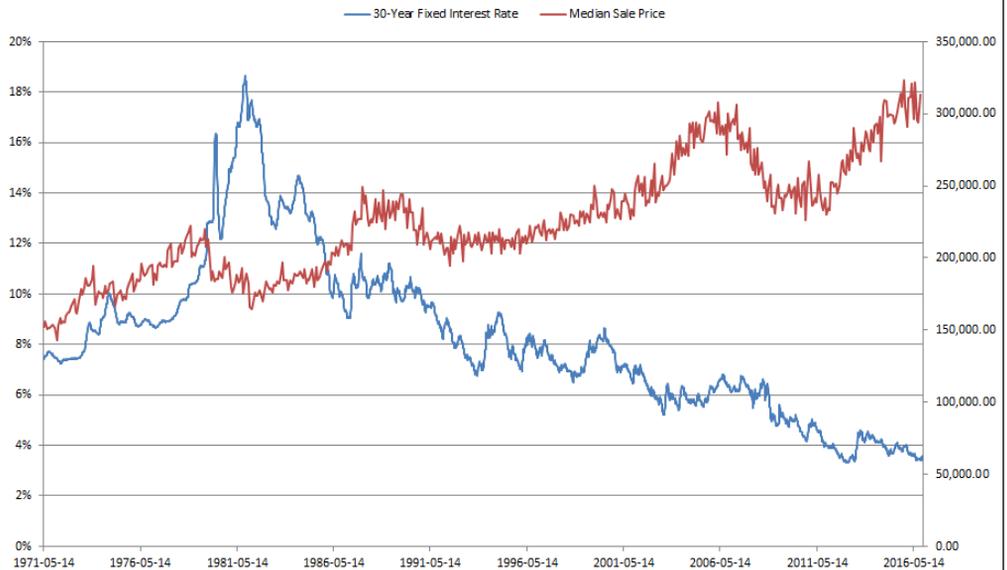




The Impact of Interest Rates on Residential Real Estate

Inflation Adjusted Median Sale Price VS 30-Year Fixed Interest Rate



So what happens to prices when interest rates rise? It's one of the most common questions surrounding the housing market today and is particularly timely given the steep rise in rates over the past month. The answer depends on which segment of the market you analyze.

The graph above illustrates a 45 year relationship between 30-year mortgage interest rates and the national median home price. For

purposes of comparison, we've inflation adjusted the median home price to reflect 2016 purchasing power all the way back to 1971. What's important is not so much the individual data points but the overall relationship of prices to rates over the past 45 years.

As you can see, the brutal interest rates of the early 1980's had a visible impact on pricing. The same price sensitivity can be seen around 2004-2005 and over the past few years. The impact is substantiated further when you

observe that the interest rate change is the leading indicator in this relationship. But, of course, these are national figures. How does this dynamic play out locally?

The two MSA's that cover the majority of Lee and Collier Counties have been among the national leaders in cash sales over the past 7 years (54% of sales for Lee and 53% for Collier). That would make our market more insulated from changes in interest rates. But over the past two years, our market is starting to balance

out with more financed sales. That recent change will actually make our market more sensitive to changes in rates. However, we have a diverse housing stock in Southwest Florida and not all housing reacts to interest rate changes in the same manner.

Expect the higher end of the market (more cash oriented) to be less impacted by changes in rates. Meanwhile, our bedroom communities like Cape Coral, Lehigh Acres, and Golden Gate Estates (where financing is the predominate purchase type), will face pricing pressure as potential buyers lose buying power with each marginal rate increase.



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