PULSE INSIGHTS

U.S. Housing Market

Converging Forces Still Pose Challenges to Relocating Homebuyers and Sellers

As we enter the second half of the year, the U.S. housing market remains a challenging one for several reasons:

1 High Interest and Mortgage Rates

Interest rate hikes to cool inflation brought an extremely fast rise in mortgage rates, too. Average 30-year-fixed rates went from 2.96 percent in 2021 to 6.81 in 2023 and have been hovering around 6.5 to 7 percent this year. Industry indicators like the Mortgage Bankers Association (MBA) and National Association of REALTORS® (NAR) forecast rates between 6.1 and 6.8 percent for the rest of the year.

2 Low Inventory

Higher borrowing costs exacerbate a shortage of inventory, with few people willing or able to trade in their historically low rates for today's averages. New construction lagged significantly behind demand, driven by pandemic-era supply chain issues and the high cost of materials. It has since started to catch back up, but the shortage of housing will likely continue for several years.

3 Record Home Prices

Home prices rose more than 40 percent nationally between the end of 2019 and mid-2021, according to the S&P CoreLogic Case-Shiller price index. They've been rising more slowly since, but still have not seen a level of cooling that might be expected with the increasing interest and mortgage rates. The median price of a previously owned home climbed for the eleventh consecutive month in May, up 5.8 percent from last year, and at the highest number ever recorded by NAR.

4 High Rental Costs

The rental market has been hit by high costs and rising rates, too. Average rents jumped 30.4 percent between 2019 and 2023 nationwide, while wages only grew about 20 percent during the same period, according to analysis from Zillow and StreetEasy

As the saying goes, all real estate is local. Some areas will recover faster than others, and homeowners in many parts of the country continue to face skyrocketing insurance costs. No single indicator tells the whole story, but it's safe to say this is a very unusual and highly unaffordable housing market.

KEY TAKEAWAYS FOR MOBILITY

- **Increased Reluctance to Relocate: Converging market conditions are making it harder to move, possibly leading to more employees being unwilling or unable to relocate.**
- **Affordability Solutions: To maximize acceptance rates, relocation policies should offer solutions like rate buy-downs, mortgage differentials, home sale support, renter subsidies, and cost-of-living adjustments.**
- **Broker Commission Changes: Employers need to educate employees on the necessity of a written buyer agency agreement and be prepared to address additional costs if sellers don't cover buyer broker fees.**

Buyer Agency Market Trends

Beyond the economic and inventory factors shaping the current market, there is also the question of how buyer agency representation and broker commission models will continue to evolve following the March NAR settlement with various related lawsuits. There are several helpful resources with detailed information, including articles by industry trade association WERC, and NAR's own comprehensive list of FAQs.

Two of the biggest changes include:

- **A requirement for buyers to sign written agreements outlining their broker's commission before touring a property, in person or virtually (several states have already adopted written agreements into law).**
- **The prohibition of broker compensation listings from the Multiple Listing Service (MLS). Offers of compensation can continue to be negotiated off-MLS.**

What you need to know

It remains to be seen how this will reshape the way agents, buyers and sellers engage in the market, but one of the biggest impacts is the decoupling of the commission, upending the traditional model of sellers covering both. There will likely be impacts on budgeting and costs, employee willingness to relocate and compensation models for buyer brokers and relocation management company (RMC) referral fees.

For now, seller-paid buyer agency remains the norm in most markets. If the seller opts not to pay, buyers can include agency compensation in the purchasing price, subject to appraisal.

In anticipation of these changes, employers should:

- Decide whether to cover the expense on behalf of their purchasing transferees if not paid by the seller
- If yes, decide whether that will be treated as other taxable benefits, and grossed up

Given the complexities of this evolving landscape, a case-by-case review is warranted right now. Consider the urgency of the move, purchase location, and company policy parameters, culture and budget. Now is the time to stay informed as new compensation models are adopted, and proactively plan for significant real estate industry changes in process and pricing.

Need help ensuring your policy is ready to meet the challenges? Schedule a Review with Us

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