Wealth | Real Estate

Real Estate Market Is Broken for Everyone Except the Ultra Rich

- Share of all-cash luxury home sales is at a record level
- On other end "people are just getting by": Nationwide's Ayers

This Florida home sold for $7.75 million just 72 hours after being listed. *Photographer: Source: Coastal Home Photography*

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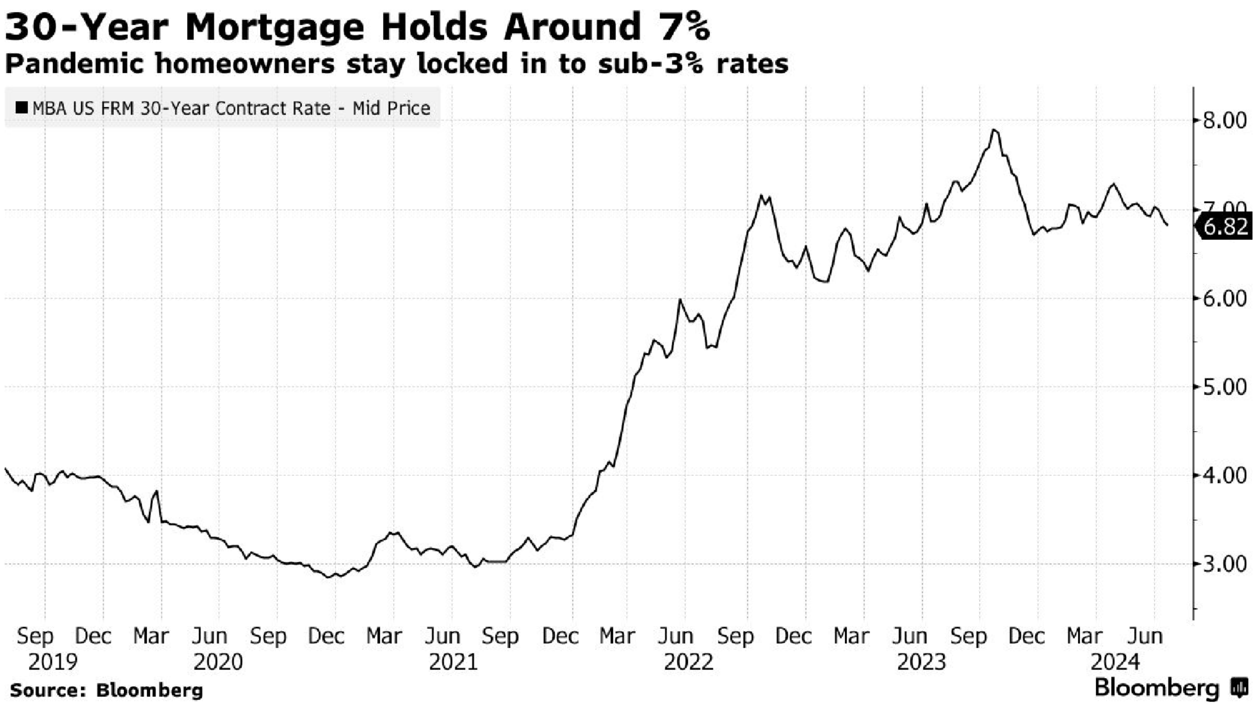
One of the least affordable US housing markets in decades is freezing residential real estate sales and shutting out a generation of aspiring homeowners. But one group remains unfazed by the crisis: the wealthy.

Overall, it's been a troubling key selling season in the US. New home sales were down slightly in June and well below expectations after May's 15%

decline, while transactions for previously owned properties dropped for a fourth straight month.

The lone bright spot in the market is luxury, with homes worth over $1 million the only price category to see sales rise in June, according to the National Association of Realtors. It's not hard to understand why. With the 30-year fixed mortgage rate hovering around 6.8% after sitting around 3% from late 2019 to early 2022, anyone who has to borrow is paying a significantly steeper price for the same house than they would have just a couple of years ago.



But deep-pocketed buyers don't have that concern because they can use cash.

"I can't remember the last time I heard a buyer talk about financing," said Lisa Rooks Morris, a Sarasota, Florida-based luxury real estate agent at Douglas Elliman. "They all come in with cash."

Play the game

The result is a high-end real estate boom that's sending the stock market's biggest US luxury homebuilder to new heights. Toll Brothers Inc. posted stronger-than-expected orders in its fiscal second quarter earnings report in May and ratcheted up its full-year deliveries guidance. The company's shares are trading near a record after a roughly 160% rise since the start of 2023, making them the sixth biggest gainers in the S&P Midcap 400 Index over that time and making the company the second-best performing publicly traded US builder in the past six months.

Toll Brothers Shares Jump as Sales Increase

Stock attempts rebound toward record high

Source: Bloomberg Bloomberg

"Historically, higher priced homes are the first to feel the hit when interest rates rise," said Ali Wolf, chief economist for Zonda. "We aren't seeing that today. High home equity and the strong stock market have acted as a buffer against interest rates for wealthier Americans."

As of the end of the first quarter, 45% of US high-end homebuyers used all cash, the largest share in at least a decade, according to data from Redfin. Well-padded stock portfolios, sales of long-term holdings in commercial real estate properties and newly inherited generational wealth are all popular sources of funding.

By contrast, entry level buyers depend on their personal savings and incomes, which haven't kept up with inflation. And for lower-income borrowers the problem goes beyond rising mortgage rates to simply getting approved for a loan, as delinquencies on credit cards and auto loans climb.

"The bifurcation we're seeing in the housing market is emblematic of the wider bifurcation we're seeing in the economy," Nationwide senior economist Ben Ayers said. Asset values in the US are surging, and "while many folks are cashing in on that, on the other end of the spectrum, people are just getting by."

Well-heeled buyers are returning to the pandemic boomtown Black Diamond more than 30 miles south of Seattle, Washington. At The Regency at Ten Trails, a Toll Brothers' active adult community in the former coal mining town, prices start at $600,000, but the most popular models go for more than $1 million and have about 2,000 square feet (186 square meters). More than half of the buyers are paying cash, according to Toll Brothers, and sales agent Kristi Brewer says she's noticed the uptick in demand in the past few months.

Across the country in Florida, Morris sold a $7.75 million newly-constructed home earlier this year just 72 hours after listing it. The difference between now and the Covid frenzy, she said, is an excess of quality inventory.

"Now you have the time to actually contemplate, shop and negotiate," Morris said, which many buyers weren't able to do during the pandemic bidding wars.

The need for lower cost housing isn't lost on the homebuilding industry. The challenge is how to do it in an environment where the cost of just about everything that goes into constructing a house is higher than it was.

For example, the active-adult segment is growing quickly for Houston-based David Weekley Homes, one of the nation's largest privately held builders. But the company is having a hard time producing homes it can sell for less than $400,000 due to the rising cost of land, labor and materials, according to president Chris Weekley.

"Every builder is trying their own push into more attainable homes," Weekley said. "But the risk, as we do that, is that the one way to get cheaper land is to go further out. And that's a riskier bet."

Meanwhile, the pool of potential buyers with money in their pockets is deep – 39% of homes in the US didn't have a mortgage as of 2022.

"Higher-end buyers are doing this with cash," Zonda's Wolf said.
– With assistance from Molly Smith

(Updates throughout for market close.)