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Spiking mortgage rates shake up Colorado Springs' housing market

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Construction crews work last week on homes in the Wolf Ranch development on Colorado Springs' far northeast side. and resale sides of the local housing market; building permits issued for the construction of single-family, detached ho and October — a nearly 72% drop from the 1,952 permits issued during the same four-month period last year.

JERILEE BENNETT, THE GAZETTE

Home sales have fallen for five straight months. Hundreds of sellers have dropped their asking prices in recent weeks to entice buyers who suddenly have a much bigger selection of properties from which to choose. The pace of home construction has dropped sharply since the summer and prompted some builders to offer incentives for the first time in years.

Welcome to Colorado Springs' housing market six months after soaring mortgage rates began to chill the frenzied homebuying, selling, and building activity that dominated the area for the past several years.

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South Nevada Avenue's makeover has taken hold — but only on one side of the street

By Rich Laden rich.laden@gazette.com

Those higher mortgage rates haven't caused local housing to crash, but they've brought about a return to a more balanced market and traditional give-and-take between buyers and sellers, some local real estate experts say.

"We're doing a pivot with the real estate world, changing things up a little bit," said Joe Clement, broker-owner of Re/Max Properties in Colorado Springs. "It's just a different market than we got spoiled with, with people fighting over houses. We don't have that, with these interest rates."

Today's housing market is mostly a prisoner of those higher mortgage rates.

They've more than doubled since January and have hovered around 7% nationally for a 30-year, fixed-rate loan, though they dipped last week, according to mortgage buyer Freddie Mac. Higher rates mean monthly mortgage payments have spiked by several hundred dollars for many would-be buyers, who then are priced out of the market.

As a result, home sales on the resale side of the Springs-area market have dropped each month since June, while the inventory of listings over that stretch has climbed to its highest level in three years, local real estate industry figures show.

Though listings are up, buyers still might face competition for homes, depending on their condition and location. But now, that competition might only consist of a handful of buyers, instead of a couple dozen who submitted offers that typically exceeded a seller's asking price by thousands of dollars.

Even as home sales have fallen, prices have continued to rise over the past few months — but at a much slower, single-digit percentage rate instead of double-digit gains.

The new home industry, meanwhile, is going through its own slowdown; building permits issued for the construction of single-family homes have fallen each of the past four months.

"Whether it’s new homes or resales, we’ve seen a big shift from a seller's market to a buyer's market," said Chad Thurber, president of Vantage Homes and board president of the Housing & Building Association of Colorado Springs.

Here's a snapshot look at where Colorado Springs' housing market stands and what the turnaround in market conditions has meant for buyers, sellers and some industry members:

Mortgage rate effect

In late May 2019, long-term mortgage rates nationally dropped below 4%, and continued to drift downward until they fell below 3% in July 2020 and as low as 2.65% in early January 2021, Freddie Mac figures shows. Even as they inched back above 3% toward the end of last year, they remained at historically low and desirable levels until spring of this year.

Though they're not directly tied to interest rates set by the Federal Reserve, mortgage rates began to rise in April when the Fed began to hike borrowing costs to quell inflation. Mortgage rates hit 5% in April, 6% in mid-September and reached 7.08% in late October. They dipped to 6.96% on Nov. 3, climbed back to 7.08% on Nov. 10 before falling to 6.61% last week, according to Freddie Mac.

Those earlier rock-bottom mortgage rates fueled a furious demand for single-family housing. At the same time, the supply of new and existing homes failed to keep pace. The combination of a super-heated demand and shortage of homes sent prices skyrocketing.

In the Colorado Springs area, the monthly inventory of home listings fell to 996 in September 2020, the first time the local supply dropped below 1,000 in at least 25 years, based on Pikes Peak Association of Realtors figures and historical data maintained by The Gazette.

In January 2021, the area's supply of homes for sale plummeted to a record low of 460. Inventories rose slightly in the first half of last year, but dropped again by November 2021.

In concert with the strong demand and low inventories, local median home prices set several record highs in 2020, 2021 and through the first half of this year. In June, the area's median price reached $495,000. In October, the median stood at $465,000 — down from June's record, yet still higher on a year-over-year basis.

Now, as mortgage rates have soared and many buyers no longer can afford to purchase or qualify for a loan, the inventory of Colorado Springs-area homes for sale surpassed 2,100 in June for the first time in three years. The supply rose to 2,690 in September — a six-year high — and 2,645 in October, Pikes Peak Association of Realtors figures show.

The median price of $465,000 in October was still up 4.3% on a year-over-year basis. But it marked the fourth straight month that the percentage change in prices climbed by single digits after 24 consecutive months of double-digit increases.

Home sales, meanwhile, totaled 1,100 in October, down by one-third on a year-over-year basis and the biggest percentage decline in roughly 25 years, according to Gazette records. Year-over-year sales now have dropped for five straight months.

While real estate experts blame higher mortgage rates for the market slowdown, other factors are in play, too, said Patrick Muldoon, broker/owner and president of Colorado Springs real estate company Muldoon Associates.

Some buyers have pulled back on purchases because of high inflation, while consumers are saving less money and some large tech companies such as Twitter, Facebook and Amazon have laid off employees or plan to trim payrolls.

"There's just a lot of nervousness out there on the economy and I think that's also playing a role," Muldoon said.

Impacts on buyers and sellers

For more than two years, sellers weren't just in control; they were in command.

The shortage of homes meant they frequently fielded multiple offers — sometimes 20 or more — that were tens of thousands of dollars over their asking prices.

To have a chance at a home, desperate buyers and their real estate agents scrambled to submit offers within hours after a property went on the market and then engaged in bidding wars in which there was only one winner and many losers.

Even if buyers found a home and their offer was accepted, the fierce competition meant they might have to settle for properties in less-than-perfect condition. Sellers didn't need to add a fresh coat of paint, fix appliances, or spend money on other repairs because they had a lengthy list of frantic buyers willing to take a home in as-is condition.

"It could be something as simple as a cracked tank on a toilet that has a small amount of water that's leaking," said Dean Weissman, a real estate agent and part-owner of The Platinum Group Realtors in Colorado Springs. "You would have never gotten that done (repaired). They (the seller) would have said, 'take it or leave it.'"

Now, because of the shifting market trends, buyers and sellers are back on a more level playing field, and it's playing out in today's deals, real estate agents say.

To start with, buyers now have more time to make arguably the biggest financial decision of their lives. Instead of submitting bids in hours, they can take a few days — or even longer — to think about their decision. In October, homes spent an average of 32 days on the market before selling; a year ago, it was 12 days, according to the Pikes Peak Association of Realtors.

"Here's one luxury: you can probably sleep on it, and really think about it, if it's the move that you want to make," Weissman said. "It's not going to be, 'we need to pick this one house because it's so limited.'"

Some sellers still receive multiple offers for their homes and above their asking price, Muldoon said. Yet it's on a neighborhood-by-neighborhood basis, and some subdivisions have more inventory than others and more newly constructed homes, which puts buyers in a better position in those areas, he said.

"I just had multiple offers on a townhome — I got two," Muldoon said. "That wasn't 10 like we're used to. And it went seven grand above full price; that's not thirty grand above full price. So, it does feel like it's more neighborhood specific, but I'd say across the region, it's becoming much, much more balanced."

A year ago, if buyers and sellers reached a deal on a sale, but a property appraisal came in lower than the agreed-upon price, the buyer typically had to make up that difference with cash. Today, those appraisal gaps, as they were called, have largely disappeared, Weissman said.

Sellers also no longer can skate on home repairs, said Clement, of Re/Max Properties.

On the one hand, buyers can't necessarily expect sellers to make minor fixes, such as a screen repair on a door, he said. Yet, buyers can ask that a seller foot the bill for needed improvements, which typically had been a seller's responsibility before the housing market went crazy.

"They (buyers) may come in and say, 'the dishwasher needs to be replaced, because it's beyond its years and doesn't work properly or something's not working right,'" Clement said. "Now the seller's stuck with getting a new dishwasher, if he accepts the offer. There are nitpicking things that still aren't going to get done. But it's these other things that are dollars, which the buyer was going to have to spend."

Buyers and sellers also are negotiating financial concessions that had all but disappeared during the height of the housing market frenzy.

Temporary mortgage buydowns have emerged as one of the more popular financing tools.

A buyer agrees to make an upfront cash payment, funded by the seller, in order to reduce the buyer's mortgage rate for the first two or three years of the loan — depending on terms of the buydown. Buyers still must qualify with a lender to pay the full mortgage rate after the buydown years.

"Seller concessions are alive and well," Clement said.

Added Weissman: "Sellers seem to be a lot more open to what it's going to take to get the deal to the closing table. And I think that's a tremendous benefit to the buyer."

Perhaps the biggest concession of all: reduced prices.

Sellers are slashing asking asking prices on hundreds of homes for sale in neighborhoods throughout the Pikes Peak region, according to Realtor.com and other online real estate sites. Price reductions of thousands and even tens of thousands of dollars are common, Realtor.com's website shows.

In many cases, however, reducing the asking price of a home for sale doesn't mean sellers will lose money.

In fact, sellers who've owned their homes for several years and built up equity probably could sell their property for 25% to 30% more than what they paid for it, depending on its condition and location, Weissman said.

That's still a healthy return — just not the astronomical profit that sellers would have realized if they had sold in 2021 or even during the first few months of this year, Weissman said.

"You may look at somebody and say, gosh, my neighbor sold for $680,000, I should be able to get $680,000," he said. "In the height of the market you would have, but you probably are now going to get $650,000. But if you look at year-over-year, it still appreciated. It's still tremendous appreciation. What's gone is the fluff money."

Keep in mind, however: Owners of well-maintained, strategically priced homes in desirable locations near shopping, parks or other amenities still might have the upper hand, Weissman said.

"This is not all about the buyers 100% getting their way," he said. "In some cases, the sellers still do have the power, based on fair pricing and conditions."

Homebuilding, rental industries feel effects

Building permits issued for the construction of single-family, detached homes in El Paso County totaled just 547 from July through October — a nearly 72% plunge from the 1,952 permits issued during the same four-month period last year, Pikes Peak Regional Building Department figures show.

"To me, it's a slowdown and a reset," said Tom Hennessy, president of Springs builder Challenger Homes. "It's slowed down from the perspective of permits, it's slowed home sales. This is both nationally and locally. It's a reset to kind of the realities of the interest rate market at this time."

The slowdown began when long-term mortgage rates began to approach 5%, he said.

"When the market was used to 3%, even 5% was a shock," Hennessy said.

New homes still are being built and sold, though some buyers have brought more cash to the table to lower their mortgage rates or taken advantage of mortgage buydown programs that Challenger and other builders offer, he said.

Challenger expects about 500 closings — completed sales — in 2022, just slightly below its original estimate of 520, Hennessy said. Next year, the builder expects closings to drop further, he added.

To spur buyer interest, builders have started to roll out a host of incentives.

Skechers putting another foot forward with Colorado Springs expansion

Challenger, for example, might cut several thousand dollars off a premium-priced lot because of its larger size or location on a cul-de-sac, Hennessy said. Or the builder might reduce the price of upgraded flooring installed in a home. Those incentives, however, are considered on a case-by-case basis and limited to speculative homes that already have been constructed as part of Challenger's inventory, he said.

Thurber, of Vantage Homes, said the builder has focused on mortgage buydowns or a program that locks in a buyer's mortgage rate with a company lender for as long as six to 12 months on certain types of loans, instead of a traditional 30 to 60 days. Locking in a rate ensures a buyer won't pay more if borrowing costs continue to climb.

"We haven't had the need to reach for this type of tool for several years," Thurber said.

But it's difficult for builders to cut home prices, Hennessy and Thurber said.

Labor and building material costs remain high; lumber has fallen, Hennessy said, though not enough to offset the rising costs of concrete, drywall, piping and other commodities. Soaring diesel prices, meanwhile, have driven up transportation costs for builders to get their materials delivered.

"There just hasn't been pressure to reduce prices," Hennessy said.

Because of the slowdown, Vantage laid off employees about a month ago, including office, sales and construction personnel, Thurber said. He declined to say how many jobs were lost, but said it was the first time employees were laid off since the Great Recession. Challenger has avoided layoffs so far, Hennessy said.

"We don't take those decisions lightly," Thurber said. "That's one of the most unfortunate signs of a correction in the market, right?"

Still, Colorado Springs' market fundamentals remain sound, he said. The area's population continues to grow, its quality of life remains attractive and the new home market isn't overbuilt.

Higher mortgage rates also have had a big impact on the rental market.

Some homeowners who need to sell quickly, yet still have mortgages to pay, have turned to renting their properties until they're sold.

As a result, the rental market is being flooded with homes, which has forced many longtime investors to reduce their asking rents just as sellers have cut their asking prices, said Alex Yoder, a partner and residential management director for Dorman Real Estate Management, based in Colorado Springs and Woodland Park. The company manages about 800 properties, about three-fourths of which are owned by small investors with just a single home for rent and who earn a few hundred dollars a month, if that, in income, he said.

"The biggest factor that impacts rental rates is the available inventory," said Yoder, who's also president of the Colorado Landlord Legislative Coalition, a nonprofit that represents mom-and-pop landlords on legislative issues. "A lot of owners can't sell their properties for what they need to get. And so their only other option is to rent out their homes."

On a recent Friday, Yoder said he spoke to three or four homeowners who had listed their properties for sale, but were taking them off the market because they weren't getting enough interest.

"Now they're wanting to rent them out," he said. "You're seeing a lot of owners putting their homes up for rent, which is spiking the inventory and that has had a downward impact on rental rates."

A check of some online real estate companies show home rental prices that run the gamut; rents that top $2,000 a month are common, depending on a home's size and location. Rental homes were especially in demand last year, which helped drive up rents, Yoder said.

Now, signs of the increased inventory's impact are everywhere, Yoder said.

Typically, renters move during the summer months when the weather is nicer, which triggers a reduced number of days that homes spend on the market before they're rented, he said. By the colder fall and winter months, homes stay on the market longer until tenants are found.

By September, however, homes already were averaging about 30 days on the market before being rented, a figure not usually seen until later in the year, Yoder said.

Asking rents, meanwhile, are falling by 10% to 20% — which translate to reductions of hundreds of dollars — compared with last year, and overall rents could be headed back to levels last seen from 2017 to 2019, Yoder estimates.

"Now, instead of getting $2,500 a month, I may get $2,300 or $2,200 or $2,100," Yoder said. "I may get $200, $300, $400 less per month now than I would have last year."

Just as homebuyers are on a more level playing field with sellers, tenants might be in a better position and landlords might have to work harder to attract them, Yoder said.

Landlords, for example, might waive upfront, lump-sum security deposits that can run a few thousand dollars and instead charge renters a smaller monthly fee through an alternative security deposit program, he said. Such programs already were becoming popular because of affordability issues, but these days are even more prevalent because of shifts in the rental market, Yoder said.

"For a long time, us landlords were spoiled because we didn't really have to do much to get tenants," Yoder said. "They were just flooding in. We were very spoiled. We never had a shortage of tenants ... Those days are at least, for now, a little bit behind us and now we're going to be competing over getting tenants."

What's ahead?

Weissman, of The Platinum Group Realtors, remains optimistic for the future.

The demand for housing remains strong and buyers have more opportunities. Sellers still have the chance to get a healthy return on their investments, he said. And property owners who wanted to sell, but held onto their homes for fear they couldn't find another to buy, finally will have a chance to negotiate deals.

"There's a lot more opportunity in the marketplace today than what we saw six months ago," Weissman said. "It is not all about the money, it's about just getting deals done much easier."

Even as some sellers have reduced their asking prices, Weissman said he doesn't expect actual home values to fall.

"We are not going to see depreciation," he said. "We're going to see a slower rate of appreciation. You can, and there's going to be certain market segments, you're still going to see prices rise. You're still going to have buyer opportunities to get into those properties at a much fairer rate, just based on the fact that you don't have this frenzy to overbid it."

If long-term, fixed-rate mortgage slip by a percentage point or more, Weissman said, many buyers will jump back into the market, housing supplies could drop and buying and selling could resume its breakneck pace.

"It could happen that fast the other way," Weissman said. "If rates get into the 4s again, I don't think we'll see the 3s for a long time, but you get something where it dips to 4.75% or you get something where you get a spike where it goes low, you could have inventory gobbled up very quickly."

Muldoon, however, isn't so confident.

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Colorado Springs apartment rents zoom to another record high
By Rich Laden rich.laden@gazette.com

Lagging consumer sentiment, job losses and inflation, combined with Colorado Springs median wages failing to keep pace with housing costs, could contribute to a genuine market downturn and home prices that could slide to at least 2019 levels, he said.

Large institutional investors who've purchased hundreds of Colorado Springs-area homes are another potential housing-market landmine, Muldoon said.

Those companies and their hedge fund owners snapped up single-family homes for the purpose of renting them. In many cases, they paid top dollar in order to beat all offers, which helped drive up prices across the market, Muldoon said.

If they determine they're not getting enough of a return on their investments because rental prices are falling, institutional buyers might cash out and begin to dump properties, he said. That would boost inventories and exacerbate a housing swoon, Muldoon said.

"We've got economic issues out there that we really need to be following closely," Muldoon said. "Sure, maybe it's not a subprime mortgage crisis (which helped trigger the Great Recession), but when you're running debt that we've never seen, you're running inflation that we haven't had, you're running sentiment that we haven't seen since then, those are canaries in the mine for me, as a person going back to 2008."

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