

# HOPE ON THE HORIZON

**Despite higher interest rates and an ongoing supply squeeze,  
the housing market stays strong**

*By Claire Fortier / Illustration by Adam Ewing*

A year ago, there weren't enough hours in the day for real estate agents to show houses to those who wanted a personal visit, even as the prices of homes in Virginia soared 42% in five years to the 11th highest in the country. Buyers were lined up, anxious to buy and often engaged in bidding wars. "It wasn't unusual to put a home on the market and get 35 offers," says Shana Bloom of Bloom Real Estate.

The push to purchase drove up prices, but higher prices did little to quell demand. "2020 was a record sales year. 2021 was another record year," says Laura Lafayette, CEO of the Richmond Association of Realtors and the Central Virginia Regional Multiple Listing Service. >

That changed last summer when the Federal Reserve began raising interest rates. Mortgage rates more than doubled, sending the local real estate market into a plunge worthy of a King's Dominion roller coaster. "That was the slowest I've seen in my 17-year career," says Jason Burke of the Burke Realty Group of Long & Foster. "If homeowners are looking at interest rates that were 2.5 to 3.5[%] last year and now are 6 to 7%, why are they going to move?"

"Historically, 6 to 6.5% isn't a bad interest rate," says Lafayette. "It's just, after 3 to 3.5%, it feels high. A lot of it is psychology."

Although rates ticked up another quarter of a percentage point in May, the Federal Reserve indicated that it could be the last increase for the year. And perhaps it's psychology, perhaps it's old-fashioned optimism, but as spring ushers in prime real estate season, phones are ringing again in local real estate offices — although, says Bloom, "It's certainly a different market than last year."

### GOOD NEWS?

There's no question it's still a seller's market. In March, there were 1,051 new listings of single-family homes in the Richmond metro area, which includes Chesterfield, Hanover and Henrico counties and the city of Richmond — down 26% from March 2022. "Buyer demand continues to outstrip supply. Right now, we have less than a month's supply," says Lafayette. A balanced market — where supply meets demand — is five to six months' supply of homes for sale. "I don't ever see that happening in this area. We would be lucky to get a three- or four-month supply," she says.

That said, the market has "decelerated since last July and August," according to Bloom. "Property is continuing to appreciate, but at a more normal rate. The prices started to taper a bit, but it is still a great time for the seller."

This year, though, there's better news for buyers, as well. In 2022-2023, the median house price climbed only 3.6%, not the dizzying 11% that marked the 2021-2022 real estate season, according to the Central Virginia Regional MLS report. In addition, the percentage sellers got for their homes dropped 3.8% to nearly 100% of the listing, which indicates fewer bidding wars. Houses are staying on the market a little longer, 27 days as opposed to last year's 16, giving buyers more time to see what's available.



EXPERT ADVICE  
FOR BUYERS

**Shana Bloom**  
*Bloom Real Estate*

Be ready in advance with a pre-approval letter from a reputable local lender or with a proof of funds letter from your bank for cash purchases. A local lender's pre-approval letter is typically stronger than an online or national bank, which deal in high volume.

"Richmond is in very good shape with good employment numbers," says Vernon McClure, president of Main Street Homes, the second-largest home builder in the Richmond area. "Our market, even though prices are still up so much, has been really good. Prices for houses around Richmond are not bad if you look at real estate to the north of us, or even across the country."

### THE SQUEEZE

While the regional real estate market is starting to normalize, there is still a significant squeeze on low- to mid-price housing. In Richmond, the median home price is \$365,000, according to Central Virginia Regional MLS, and the average sales price is \$414,225. "That's really impacting those looking for affordable housing," says Bloom.

One rule of thumb advises that a household should spend no more than 41% of its income on debt, including the mortgage. With interest rates at 6.5%, online mortgage calculators suggest a salary of \$112,000 would be needed to afford a \$365,000 home. According to the U.S. Bureau of Labor Statistics, the mean hourly wage in the Richmond region is about \$27, or \$54,000 per year.

In the usual real estate cycle, young adults purchase a starter home, move to a family home when they have children and then downsize later in life. However, the cycle has been disrupted, creating a dearth of houses priced under \$300,000. "If I have a 3% mortgage on my \$300,000 home and I want to upgrade, I'm now looking at a \$600,000 or \$700,000 home and a 6 or 7% mortgage rate. That has a lot of people holding steady where they are," says Mark Cipolletti of Keller Williams Richmond West.

Adding to the problem are empty nesters who aren't leaving their nests, because a smaller house or a unit in a 55+ community can be as expensive as the family home they would be selling. In Britlynn, a 55+ community in Glen Allen built in the last five years, the least expensive unit is \$520,000. Even communities that started at lower price points have appreciated beyond many budgets. "In Cross Ridge (a 55+ community in Glen Allen), a unit going for \$350,000 five years ago is now \$500,000," says Burke.

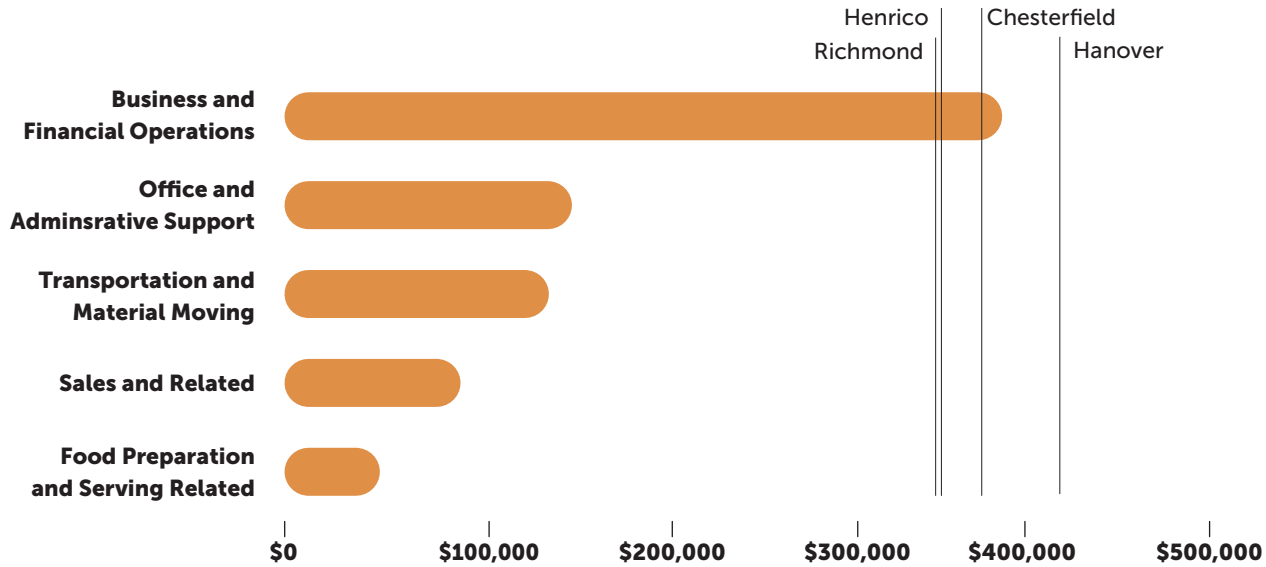
### ONE SOLUTION

Condominiums or townhouses may be a solution for some. They seem to be springing up all over the metro area and, in fact, new listings are up more than 77%, with 1.4 months' supply of inventory available. At \$337,482, the average price of a condo or townhouse is both lower and growing more slowly (0.1%) than that of a single-family home.

"We have had the best start of the season ever," says McClure. "I think we are going to continue to see denser development. There is a real demand for smaller homes. People are having fewer kids and having them later in life."

But, he adds: "Affordability is a real challenge right now. We are building more townhouses, and they are priced in the

## MAXIMUM HOME PRICE BY MEDIAN OCCUPATION WAGE VS. MEDIAN SALES PRICE



Sources: U.S. Bureau of Labor Statistics, Occupational Employment and Wage Statistics; CVR MLS.

\$370,000 to \$500,000 market. It's crazy that that's now affordable housing, but such is the way things are."

McClure says his company, Main Street Homes, is offering loan options like buydowns, where the seller pays to reduce the interest rate for a prospective buyer. "We pay between \$10,000 to \$14,000 to buy down about three quarters of a percentage point on a loan. It can be a big help to new homebuyers," he says.

### BUILDING THE MARKET

Lack of inventory has been a chronic problem for the Richmond area. "We have underbuilt for so long," says Lafayette. But, she cautions, "we are not going to build our way out of this."

When the housing market crashed in 2008, building halted. In Richmond, several developers who had purchased swaths of land simply didn't build. "A lot of these had the zoning approval but the economics didn't pan out from 2008 to 2012," says McClure. In addition, "a lot of developers left the marketplace and haven't come back," says Bloom.

Then COVID-19 hit, supply chain problems ensued and the cost of building soared. "During the third quarter of 2021 into 2022, construction materials got so high that builders had to charge more," says Thomas Tyler, director of Integra Realty Resources. Lumber prices have come down since then, says Bloom, "but there are a lot of other things in the supply chain that are still impacting building."

Even when materials are available, building takes time. "It takes three to four years from a land purchase to lots on the ground," says McClure. "Everything is taking a lot longer to do. It's hard to get the zoning done, particularly in an election year.

No one wants controversy."

Finding large tracts of land suitable for building single-family homes is pushing development farther out from Richmond. "There hasn't been enough raw land, particularly in the suburban areas, for developers to develop what they could have," says Tyler. "Developers are running out of land in western Henrico and Chesterfield. New Kent is a lot more active."

The good news, Tyler says, is that a number of properties purchased prior to the COVID-19 pandemic are either under development or ready to open. Many of them "are townhouses or condos, or include multifamily developments in the project."

Tyler speculates that home prices may start to drop. "It feels like the prices are at a point now that there is going to be some resistance to further increases."

To those still on the fence about buying, McClure says, "If you want to buy a house with inflation the way it is, buy now. Interest rates will come down and you can refinance." ■



**EXPERT ADVICE  
FOR BUYERS**

**Jason Burke**  
*Burke Realty Firm*  
— Long & Foster

You could wait this market out, but who knows how long that will take. The downside to waiting is that prices could go even higher over the next couple years and price you out of the market totally. Yes, prices could come down too, but our market hasn't shown any signs of that happening.

## EXPERT ADVICE

Local real estate agents share their top tips for negotiating the modern market — whether you're a buyer or a seller.

### ADVICE FOR BUYERS AND SELLERS



**Tonya Leeper**  
*TL Realty at Keller  
Williams West*

My suggestion for buying or selling in this market is work with a real estate professional whom you trust and who understands the market. You need a Realtor who can teach you ways to strategize and who can be a great negotiator on your behalf.

### ADVICE FOR SELLERS



**Alicia Kim Soekawa**  
*The Collaborative*

You cannot use comparatives from last summer because interest rates have doubled. Pricing has become more normal now. You need to use the last two or three months. Price is the biggest driver, but if you want top dollar, you need to show your house in top condition.



**John Daylor**  
*The John Daylor Team —  
Joyner Fine Properties*

Proper preparation and a concise pricing strategy will be the difference between getting a good price for your home and a great price. Homes that have done some basic preparation and price attractively in the market are still generating multiple offer scenarios, with sales prices well above the list price and very advantageous terms to the seller.

### ADVICE FOR BUYERS



**Elizabeth Hagen**  
*Joyner Fine Properties*

My advice for home buyers in this current market is not to fall in love with a property until the keys are in your hand. Many times, buyers have to submit offers on multiple properties in order to get under contract, so having a thick skin during the process allows your agent to better negotiate on your behalf.



**Elizabeth Ford**  
*Shaheen, Ruth,  
Martin and Fonville*

Not too long ago, first-time homebuyers had the luxury of viewing multiple homes — then had time to weigh out the pros and cons for each property. Those days are long gone. Knowing what you really need vs. what you want becomes crucial, especially if you must decide on a home very quickly. ■

# MARKET SNAPSHOT

## NEW HOME CLOSINGS AND AVERAGE SALES PRICES BY LOCALITY

JURISDICTION	2021		2022		CHANGE IN CLOSINGS		CHANGE IN AVG. PRICE	
	CLOSINGS	AVG. PRICE	CLOSINGS	AVG. PRICE	NUMERIC	PERCENT	NUMERIC	PERCENT
Caroline	195	\$342, 638	188	\$389, 006	-7	-4%	\$46, 367	14%
Chesterfield	2,111	\$430, 753	1,855	\$489, 391	-256	-12%	\$58, 638	14%
Goochland	244	\$536, 518	262	\$622, 931	18	7%	\$86, 413	16%
Hanover	602	\$472, 616	607	\$574, 100	5	1%	\$101, 484	21%
Henrico	845	\$438, 279	842	\$440, 710	-3	0%	\$2, 430	1%
New Kent	309	\$378, 067	379	\$422, 304	70	23%	\$44, 237	12%
Powhatan	128	\$479, 535	107	\$564, 611	-21	-16%	\$85, 077	18%
Richmond	304	\$373, 641	299	\$443, 067	-5	-2%	\$69, 426	19%
Total	4,738	\$433, 452	4,539	\$488, 359	-199	-4%	\$54, 907	13%

Source: Intega Realty Resources-Richmond

## TOP 10 SUBDIVISIONS IN CENTRAL VIRGINIA RANKED BY NEW HOME CLOSINGS DURING 2022

RANK	SUBDIVISION	JURISDICTION	NEW HOMES CLOSINGS	AVG. NEW HOME PRICE	PERMITS ISSUED
1	Magnolia Green	Chesterfield	186	\$618, 540	158
2	Rountrey	Chesterfield	179	\$638, 736	69
3	Giles Farm	Hanover	137	\$548, 084	86
4	Wescott	Chesterfield	133	\$316, 120	129
5	Harper's Mill	Chesterfield	132	\$592, 633	155
6	Retreat at One	Henrico	121	\$358, 185	154
7	Foxcreek	Chesterfield	107	\$445, 691	103
8	The Groves at New Kent	New Kent	107	\$337, 964	112
9	Mosaic at West Creek	Goochland	97	\$569, 600	111
10	New Kent Vineyards	New Kent	85	\$471, 882	54

Source: Intega Realty Resources-Richmond

### SINGLE-FAMILY HOMES

Average sales price: \$414,225 (+4.3%)  
 Median sales price: \$362,750 (+3.6%)

Percentage of original list price received: 100.2% (-3.9%)  
 Inventory of homes for sale in March: 881 (+4.4% over March 2022)

Days on the market until sale: Now: 27 Then: 16  
 Months' supply of inventory in March: 0.9 (+28.6% over March 2022)

Change in closed sales: -23.6%

### CONDOS & TOWNHOUSES

Average sales price: \$337,482 (+0.1%)  
 Median sales price: \$330,225 (+2.2%)

Percentage of original list price received: 99.7% (-3.1%)  
 Inventory of homes for sale in March: 302 (+77.6% over March 2022)

Days on the market until sale: Now: 27 Then: 30  
 Months' supply of inventory in March: 1.4 (+100% over March 2022)

Change in closed sales: -9.2%

Unless otherwise notes, all figures are year-to-date averages for the Richmond Metro area, which includes Chesterfield, Hanover and Henrico counties and the city of Richmond, and were sourced from the March 2023 Central Virginia Regional MLS Report dated April 10. Comparisons reference the year-to-date figures from March 2022.