High prices, interest rates clog market

REAL ESTATE

Authorities offer look at local residential, commercial trends at Rotary meeting

CHAD UMBLE

CUMBLE@LNPNEWS.COM

With Lancaster County home prices near record levels, interest rates surging and some offices emptying out, the residential and commercial real estate markets are in upheaval.

A rapid increase in interest rates meant to combat inflation has raised borrowing costs for homebuyers even as work-from-home arrangements have injected new uncertainty into the normally staid business of owning and leasing office space.

During a meeting of the Rotary Club of Lancaster on Wednesday, Rod Messick, CEO of Berkshire Hathaway Homesale Realty, and Mark Fitzgerald, president and chief operating officer of High Real Estate Group, of-

---

Real estate: *Market*

3

fered insight on the current and possible future states of the residential and commercial real estate markets.

Here are four takeaways from the hourlong session at the Farm and Home Center in Lancaster city.

'Affordability crunch' for homeowners Just over four years ago in June 2019, the average sale price for a home in Lancaster County was $240,000 and average mortgage interest rates were under 4%, levels that led to an average monthly mortgage payment around $1,200, Messick said. Such a payment could be supported with an annual income of $43,000, he said.

But with the average sale price in June 2023 having risen to $356,000 and interest rates now topping 7%, the monthly payment needed to support an "average" home in Lancaster County is now around $2,600, requiring an annual income of $95,000, Messick said.

"We're definitely seeing an affordability crisis for the average person trying to buy a home," Messick said.

Demographics, few homes, pent-up demand keeping prices high Although prices remain high and home loans have gotten much more expensive, few available homes mean there have been plenty of buyers, which helps keep prices high, Messick said.

Younger people with growing families want to buy homes even when prices are high while older people who are putting off downsizing have limited the usual churn of homes, he said.

Some current homeowners are reluctant to sell and buy a different home since it means they may have to trade in a low mortgage rate for a much higher one, Messick said.

"We've got this logjam in the residential real estate market where we have a cap on the top end and pressure on the bottom end, and it's just kind of clogged," Messick said.

Apartment building boom could ease rental prices The current vacancy rate for apartment buildings in Lancaster County is around 2%, a low level that has helped push rents higher, Fitzgerald said. But in the last two years, some 20 apartment buildings with a total of 3,500 new units have been proposed. While some of those projects have been put on hold because of high construction and borrowing costs, some of them are now being built.

For developers, Fitzgerald says those new units would have "a significant negative impact on the value of rental rates in Lancaster." While it might be bad news for developers, the new units could be good news for renters since monthly rental prices could ease.

Messick said new apartment buildings could relieve some of the pressure on the housing market since some people could opt to rent instead of contributing to bidding wars for new homes. Nevertheless, Messick said there is enough built-up demand for new homes that a collapse in prices is unlikely, although prices are unlikely to go up as fast as they have in the last couple years.

Offices emptying out Before the pandemic, Fitzgerald said the national vacancy rate for office buildings stood around 8% but has now risen to 18%. Actual utilization rates — the percentage of time offices are actually occupied — are around 40% to 50%. Companies maintaining work-from-home policies implemented during the pandemic are driving the trend of emptier offices.

Lancaster County bucks that trend somewhat, with Fitzgerald saying the vacancy rate for High Real Estate Group's Class A office space is around 5% and utilization rates are near 80%.

Yet as leases signed before the pandemic come up for renewal, Fitzgerald says many companies will likely decide they need less office space, adding more pressure on the market as more space becomes available. Nevertheless, Fitzgerald says he thinks offices will eventually fill up again, although not right away.

"I think it will come back slowly, but it will take time," he said.

We're definitely seeing an affordability crisis for the average person trying to buy a home.

— Rod Messick,

CEO, Berkshire Hathaway Homesale Realty
