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Residential Real Estate

Homeowner equity continues to rise despite housing-market challenges



Homeowners' recent equity gains are impacting the nation's overall housing market.

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By **Ashley Fahey** – Editor, The National Observer: Real Estate Edition, The Business Journals
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American homeowners continue to build significant equity even as the housing market has slowed and home prices aren't rising as rapidly as they did in recent years.

U.S. homeowners with a mortgage pulled in \$28,000 in equity gains on average year over year in the first quarter, the highest amount since late 2022, according to CoreLogic Inc. That average year-over-year increase of 9.6% translates to a collective gain of \$1.5 trillion and means net homeowner equity totaled more than \$17 trillion at the end of Q1.

The implications behind homeowners' gains in home equity are varying, but the gains seen since the Covid-19 pandemic ultimately mean homeowners are gaining wealth, said Selma Hepp, chief economist at CoreLogic.

"For a lot of people out there, the equity in their home is the only source of their wealth," she said. "Just having equity helps protect many homeowners in case they lose their job and they have to sell their home. ... They don't have to sell at a discount; they would potentially walk away with cash. It's, in many ways, a big protection for homeowners."

Hepp added that as people gain equity and wealth, there's sometimes a correlated perception of greater spending power.

Americans' net worth relative to disposable personal income has increased rapidly since the second quarter of 2020, according to Federal Reserve data. The ratio peaked in Q1 2022, when U.S. household wealth was 8.3 times its disposable income. That number has since moderated, coming in at 7.8 times in Q1 of this year – but that's still higher than the 7x wealth-income ratio recorded in Q1 2019.

Those gains in wealth may be buoying consumers' ability or willingness to spend, something that has remained generally strong since the pandemic despite inflation.

States where homeowner equity gains are the greatest

Although homeowners across the U.S. are seeing stepped-up equity, some states are seeing outpaced gains, including California. Homeowners there saw the largest year-

over-year average equity gain in the country, at \$64,000. Homeowners in the Los Angeles metro area netted \$72,000 year over year.

Other higher-cost housing markets, such as in the Northeast, saw more substantial annual gains, too. In New Jersey, for example, homeowners gained an average of \$59,000 year over year, CoreLogic found.

A lot has been made about [the lock-in effect being experienced in the U.S. housing market](#), in which homeowners who secured a sub-3% mortgage rate during the pandemic now are reticent to move out or up at a much higher mortgage rate.

It's possible the gains in equity homeowners have experienced in the past four years are locking in some homeowners, too, Hepp said. That's especially the case in places like California, where home-equity gains have been particularly substantial.

"If they sell and their equity is over the capital-gains limit for selling a primary residence, they have to pay capital gains [and] people are not big fans of that," she said.

On the flip side, gains in equity have prompted some Americans to sell their homes and relocate from an expensive market to one deemed more affordable. That sales activity has fueled substantial home-price appreciation in once-affordable metros.

"Cash buyers aren't as sensitive to interest rates," Hepp said. "I think the [migration patterns](#) we've seen over the past few years ... are because people had that equity and, hence, more cash to purchase with."

[Baby boomers](#) have most of the housing equity in the current market because they've [lived in their homes the longest](#) of any other generation. If they decide to move to a retirement market, that will have a ripple effect on those places.

After pandemic-era [double-digit home-price increases](#), the housing market has slowed in more-recent years – which means home-equity gains for owners will likely start to slow as well. In the pre-pandemic years of 2018 and 2019, equity gains averaged between \$5,000 to \$12,000 on a year-over-year basis, Hepp said.