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The Interest Rate Upshot

By E.B Solomont | January 1st, 2016

New York City homebuyers have been hearing about a possible interest rate hike for several years now, but just how much different will the post-hike landscape be for the market here?

After seven years of holding the line, the Fed raised its benchmark interest rate by 0.25 percent on Dec. 16 and said it would increase rates by about 1 percentage point a year over the next three years.

Those projections would result in the fed funds rate, an overnight lending rate, hitting 3.25 percent in three years — a fact that Fed Chairwoman Janet Yellin said reflects "our confidence in the U.S. economy." The hike is expected to put gradual pressure on longer-term interest rates, including 30-year mortgage rates which as of November averaged 3.94 percent.

Some New York City brokers predict that buyers will get more aggressive now as they attempt to get into the market before rates go up again, while others say the higher rates won't pack much of a punch in this cash-dominated marketplace.

Either way, there seems to be a consensus among agents that it's too soon to gauge the true impact of the increase.

“Buyers have been hearing about the possibility of interest rate hikes for so long that they aren’t really reacting — not yet, anyway,” said Stacey Max, a sales manager at BOND New York’s Chelsea office.

Margo Mohr, an agent at Fox Residential Group, said the small jump “shouldn’t really make a difference.” She added: “Those people who want to finance a purchase have not lowered their purchase price limit, but it is somewhat early.”

Of course, in recent years cash buyers have had the upper hand when it comes to buying real estate in Manhattan and Brooklyn, thanks to extremely limited inventory and high demand. Those buyers are simply “unaffected” by the rate hike, pointed out Karla Saladino, managing partner at Mirador Real Estate, a boutique firm that works closely with developers and building owners.

In fact, more than half of Manhattan residential sales during the third quarter of 2015 were cash deals, up from 43 percent during 2014’s third quarter, according to real estate appraisal firm Miller Samuel. A whopping 61 percent of condos were bought with cash, compared with 42 percent of co-op sales. “There has been a lot of hyperventilating about whether the Federal Reserve would raise the Federal Funds rate,” wrote Miller Samuel founder Jonathan Miller in a weekly newsletter. “It’s been a long time coming,” he quipped, “but so was the last good ‘Star Wars’ movie.”

Still, William Raveis NYC agent Mike Loftus said, “Buyers could become a little more aggressive, knowing that rates are now going in the opposite direction.” But he noted that the small increase wouldn’t have a huge short-term impact on deals. “With rates as low as they are, it is a speed bump,” he said.

The Fed cut rates to near zero in December 2008 to boost the economy after the housing collapse. By comparison, the Federal Funds interest rate was 5.25 percent in 2007.

Danny Hedaya, president of Platinum Properties, said he’s hearing from buyers who want to purchase sooner rather than later because of the rate hike. “Many buyers are now looking to capitalize on the still-low rate before additional rate hikes take effect,” he said. For that reason, he predicted the market would pick up during the first two quarters of 2016.

Warburg Realty's Claire Groome said that even if the recent increase doesn't impact the market in a major way, subsequent rate hikes — and the fear associated with them — could. "There is a whole psychological component to rising rates and especially to the buyer shopping in the under-$2 million bracket," she said. "This will definitely affect their monthly costs more; that is where we may see some buying because of the rising of rates."

Groome said she had a seller who wanted to list earlier than planned to see if the hype of the higher rates would fetch a premium for the property.
Even as the market absorbs news of the interest-rate hike, buyers and tenants recognize that they have choices for the first time in years.

"The overheated resale market is moving at a slightly more manageable pace," said Douglas Wagner, BOND's director of brokerage services. "The luxury- and 'affordable luxury'-level market has slowed enough for sellers to get the feeling that there is a limit to what buyers will pay for an apartment."