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# SEATTLE FORECAST:

Buy or Rent in 2020



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# WITH HIGH RENT IN SEATTLE, IS A FIXED-RATE MORTGAGE THE ANSWER?

With high Seattle rent in 2020, a lot of renters in the area are now eyeing homeownership as a possible alternative.

And here's an important point to consider: Home buyers who use fixed-rate mortgage loans to buy a house can enjoy a **monthly payment that never goes up**. The same cannot be said for renting a house or apartment.

Would you be better off buying a home in Seattle with a fixed-rate loan, or continuing to rent? Here's some information to help you decide.

## Seattle Rents High

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Seattle-area rents are still very high, even though they have been fluctuating up and down over the past couple of years. According to recent data, Seattle rents currently average \$2,630 as of January 2020.

And it's not just in Seattle proper. High rents are a common trend across the entire metro area. In January of 2020, Zillow showed that the Seattle-Tacoma-Bellevue Metro area had an average rent of \$2,327. Both rent levels are very high relative to other parts of the state of Washington and the country.

New construction should bring additional rental units onto the market over the coming months and into 2021, but probably not enough to calm rents in the Seattle area.

It's a market reality: Rental prices will likely continue to remain high and even rise, on a year-over-basis, for the foreseeable future.

High rents have prompted many Seattle-area renters to explore the possibility of homeownership. There are a lot of variables to look at when considering whether you should rent or buy a home. Monthly costs are one of the most obvious factors.

But here's something a lot of renters don't consider. When you buy a home using a mortgage loan, you have the ability to "fix" your monthly housing payments so that they stay the same. This can be done by using a fixed-rate mortgage loan.

## Fixed-Rate Loans Allow You to 'Lock' Your Monthly Payments

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A fixed-rate mortgage loan is exactly what it sounds like. It is a home loan with an interest rate that remains fixed — or unchanging — for as long as you keep it. For example, the 30-year fixed mortgage carries the same interest rate for the full 30-year repayment and amortization period. Unless, of course, the homeowner sells or refinances the home before then, in which case the original loan is replaced with a new one.

## Consider the difference:

- Seattle rents have been fluctuating over the past couple of years, but they still remain high. We don't really know what they'll do in the coming months, so there's a lot of uncertainty.
- A person who buys a home in Seattle using a fixed-rate mortgage loan will have the same monthly payments for as long as he or she keeps the loan. There are no surprises down the road. In terms of cost, it's a more stable and predictable housing situation.

A distinction should be made here: Some home loans have an interest rate that can change over time, usually once per year. These are known as adjustable-rate mortgages, or ARMs. But a fixed mortgage lives up to its name, keeping the same interest rate for the full repayment term.

Of course, there are pros and cons to all types of home loans. But if you'd like to combine the joys of homeownership with a monthly housing payment that stays the same, consider using a long-term fixed-rate mortgage.



# SEATTLE HOUSING FORECAST THROUGH SPRING 2021: MARKET WILL START HEATING UP

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Recent housing market trends and forecasts for Seattle suggest that the market will heat up into the spring of 2021. Home prices have dipped from mid-2018 to mid-2019, but prices are now back on the upswing. Buyers who get in early can avoid paying more for a home in the near future if this price appreciation trend continues.

## Inventory Very Tight in Seattle

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Seattle has one of the tightest housing markets in the country as far as inventory is concerned. According to a recent Redfin report, Seattle is one of the “most inventory-constrained metro [areas], as measured by months of supply.”

As of March 2020, Seattle's housing market has barely a 1-month supply of available homes for sale to meet demand. And the case is similar across the entire King County.

Projections indicate that inventory will continue to be a prominent factor in the Seattle housing market in future years, making homebuying in Seattle very competitive for buyers.

## Healthier Seattle Housing Market Forecast for 2021

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Despite the dip in home prices in Seattle over the recent past, the market is showing signs of heating up and prices are back on the upswing. It appears that the Seattle area is projected to see an increase in median home values into 2021. For instance, according to projections from Zillow, median home values in Seattle are estimated to increase by 3.7% over the next 12 months. This prediction was made in March 2020 and extends into the spring of 2021.

By comparison, the company projected a **4.1% increase** in home values nationwide during that same period.

Due to the high level of competition in the Seattle housing market, local real estate agents are advising home buyers to be open-minded and realistic. Home buyers might not be able to check all of the boxes on their wish lists, particularly at the lower end of the pricing spectrum where competition is highest.

Instead, buyers in Seattle would be wise to focus on one or two criteria that are most important to them — like the commute time, or the number of bedrooms — and be willing to compromise on everything else.



# WHY SEATTLE MILLENNIALS ARE TURNING TO FHA LOANS IN 2020

Millennials in Seattle and across the U.S. are accounting for an ever-increasing share of the mortgage market, and many of them are using FHA-insured home loans to buy a house. This is based on a recent report from Ellie Mae, a mortgage industry software company.

According to a recent Ellie Mae Millennial Tracker™ report, millennials showed a marked preference for conventional loans. Conventional loans accounted for 74% of all loans closed by this demographic.

FHA loans, however, still remain attractive to millennial borrowers. Home loans insured by the Federal Housing Administration accounted for 21% of all closed loans recently closed.

## Why Do Seattle Millennials Like FHA Loans?

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FHA loans certainly aren't the only financing option available to millennial home buyers in the Seattle area. But they are one of the most popular options. The report cited above is evidence of this. The FHA loan program has been around since the 1930s, and it offers several distinct benefits for borrowers.

## Here's what makes them popular among millennials:

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**Low down payment:** Seattle-area home buyers who use an FHA loan can make a down payment as low as 3.5% of the purchase price or appraised value, whichever is less. Conventional mortgage loans sometimes require larger down payments. This makes the FHA program appealing to Seattle millennials with limited funds saved for a down payment.

**Assumable:** Millennials tend to move and relocate more often than older Americans. As a result, these younger buyers are often concerned about resale potential. Having an FHA loan could actually work to your advantage down the road, if you decide to sell your home. These mortgage loans are assumable, which means the buyer can take over the homeowner's mortgage payments. This is a plus when trying to market and sell a home.

**Flexible criteria:** FHA loans can be a bit more “forgiving” when compared to other mortgage programs. Borrowers with relatively low credit scores and/or shorter credit histories tend to have an easier time getting approved for the FHA program. And it shows statistically: according to the Ellie Mae report cited above, the average FICO score for conventional loans was 732, for VA loans it was 707, and for FHA loans it was 651.\*

*\* Note: You don't necessarily need a credit score of 670 to qualify for an FHA loan. The numbers above are just averages across all closed loans. According to the Department of Housing and Urban Development, borrowers with a credit score of 580 or higher can qualify for the 3.5% down payment on an FHA loan.*



Joe Tyrrell, executive vice president of corporate strategy for Ellie Mae, pointed to some of these benefits in the company's recent report. "It is not surprising to see millennial borrowers leverage FHA loans," he said, "because they typically offer lower down payments and lower average FICO score requirements than conventional loans."

FHA loans are just one of many mortgage options available to Seattle home buyers. To learn more about this and other options, check out our [guide to the different loan types](#).



# SEATTLE FIRST-TIME HOME BUYER SURVIVAL GUIDE 2020

If you do plan to buy your first home in Seattle in 2020, you probably have a lot of questions about the real estate market, the home buying process, and related topics.

## 5 Tips for Seattle First-Time Home Buyers in 2020

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An entire book could be written on buying a first home in Seattle. In fact, we've written one. Today, however, we will keep it short and sweet. This guide delivers five of the most important tips for Seattle first-time home buyers in 2020. These are things you should know and do before you start shopping for a home.

### 1. Download Our Seattle Buyer's Guide

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- ✓ If you only follow one of the five steps in this survival guide, make it this one. Download our [2020 Seattle Home Buying Guide](#), and read it closely.
- ✓ This informative e-book starts with an updated look at the Seattle real estate market, followed by 60+ pages of home buying and mortgage information.
- ✓ It was written specifically for Seattle first-time home buyers in 2020. You won't find another guide like it anywhere else.

## 2. Get Ready for Some Competition

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Although median home values have seen small declines in recent months, the Seattle real estate market is still very competitive right now and prices are increasing. Multiple offers are common, and homes are selling faster than the national average. Seattle first-time buyers should be prepared for a high level of competition.

There's a lot of demand for housing, but a limited supply of homes by comparison. Right now, there is only a 1-month supply of homes available for sale in Seattle for interested buyers. This is forcing home buyers to compete fiercely, especially for desirable properties in popular areas. This is why market research is so important. By researching the Seattle real estate market and home price trends ahead of time, you'll be able to move quickly when the time comes to make an offer. More importantly, you'll avoid the kind of "low-ball" offer that could cost you the home. And that brings us to tip #3 in the Seattle first-time home buyer survival guide...

## 3. Analyze Home Prices in Your Target Area

How much are homes selling for in the neighborhood(s) you're considering? What's the most you're able to spend for a home? If you can't answer these questions, you have some homework to do.

Before entering the market, Seattle first-time home buyers should have a pretty good sense of how much house they can buy within their budgets. This is the key to efficient house hunting. And efficiency is vital in a competitive real estate market like Seattle.

The median home value within Seattle is \$755,600. The median for the broader metro area was around \$535,100. So there's a lot of variance, in terms of prices. If you buy a home within the city limits, you'll likely pay a premium for it. Expanding your search to outlying areas could increase your buying power dramatically.

Start by looking at recent sale prices on listing websites like Realtor.com, Trulia and Zillow. Zero in on the particular area(s where you'd like to buy a house.

Next, create a basic home-buying budget to determine how much you can afford to pay each month in housing costs. This kind of research will save you time and energy, by allowing you to focus on the homes and locations you can actually afford.

#### 4. Get Pre-Approved for a Mortgage Loan

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If you're planning to pay cash for a home, you can skip this part. But if you're like most first-time home buyers in Seattle — and you need a mortgage loan to finance your purchase — you should consider getting pre-approved for a loan.

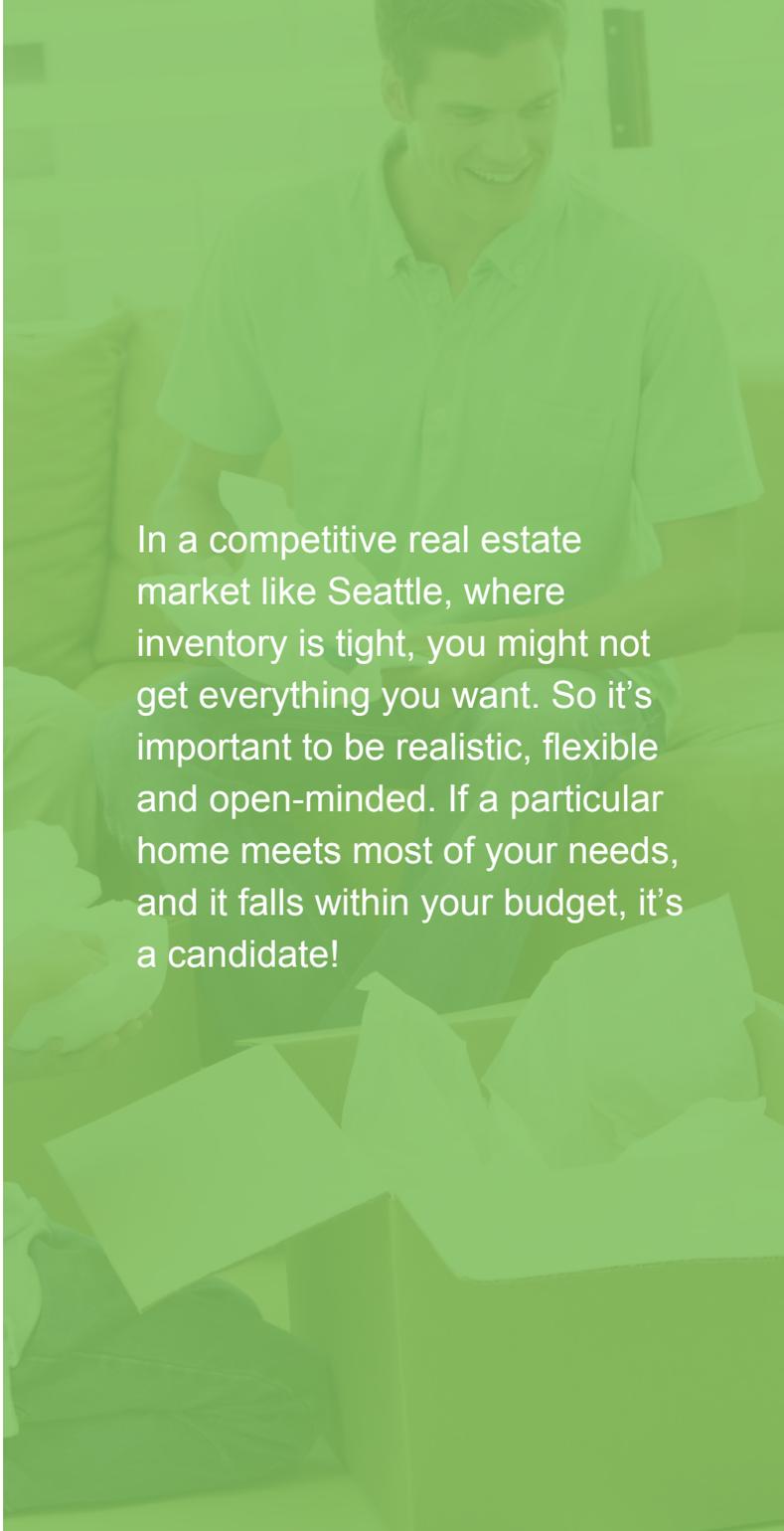
Pre-approval is when you work with a mortgage company before finding a home to determine how much you're able to borrow. This helps you in several ways. Once you've been pre-approved for a certain amount, you'll be able to focus your house-hunting efforts on that price range.

There's another benefit to pre-approval as it applies to first-time home buyers in Seattle. Sellers will be more inclined to accept your offer if you have a pre-approval letter in hand, because it shows you have your financing arranged.

## 5. Be Realistic With Your Expectations

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Seattle first-time home buyers often enter the market with a long wish list of property features and amenities. That's fine, if you have the budget to be picky. But more often than not, compromise is necessary.

A photograph of a man in a light-colored shirt smiling and looking down at a document. The image is overlaid with a semi-transparent green filter. The man is positioned in the upper right quadrant of the image, and the document he is holding is in the lower right quadrant.

In a competitive real estate market like Seattle, where inventory is tight, you might not get everything you want. So it's important to be realistic, flexible and open-minded. If a particular home meets most of your needs, and it falls within your budget, it's a candidate!

# IN CONCLUSION

With rent and housing prices very high in Seattle, and with mortgage rates very low right now, 2020 looks like a good time to invest in homeownership.

***Disclaimer:** This ebook contains real estate trends and housing predictions for Seattle, Washington, extending into 2021. These statements and projections were made by third parties not associated with our company. We have compiled them here as a service to our blog readers.*

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