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REDFIN

Redfin Reports Demand for Second-Home Mortgages Falls to Eight-Year Low

Mortgage-rate locks for second homes have dropped 13% since last summer—more than twice as much as rate locks for primary homes

SEATTLE--(BUSINESS WIRE)-- (NASDAQ: RDFN) — Mortgage-rate locks for second homes fell 13.1% year over year in August to the lowest level since March 2016 on a seasonally adjusted basis, according to a new report from Redfin (redfin.com), the technology-powered real estate brokerage. By comparison, mortgage-rate locks for primary homes declined 5.2%. Rate locks for second homes were down 59.2% from pre-pandemic levels, compared with a 31.9% drop in rate locks for primary homes.

This is according to a Redfin analysis of Optimal Blue data. A mortgage-rate lock is an agreement between a homebuyer and a lender that allows the homebuyer to lock in an interest rate on a mortgage for a certain period of time; roughly 80% of rate locks result in purchases.

Mortgage demand is sluggish across the board due to high home prices and elevated interest rates, but mortgage demand for second homes is especially slow for several reasons:

- **Second-home buyers are more likely to have the funds to pay in cash** to escape the sting of elevated mortgage rates. While rates have ticked down in recent months, they're still more than double the all-time low hit during the pandemic. When mortgage rates are low, many second-home buyers will take out mortgages even though they can afford to pay cash so that they have more cash to invest elsewhere, like the stock market. But when rates are elevated, it's often more financially prudent to put that cash toward a home purchase to avoid large interest payments.
- **Second homes are more expensive, and aren't a necessity like primary homes.** That means when housing costs rise, many prospective second-home buyers back off. The typical home in a seasonal town—where a lot of second homes are located—sold for $589,162 in August, up 4.1% from a year earlier. That compares with $437,787 for homes in non-seasonal towns, up 4.7%. The government also raised loan fees for second homes in 2022, increasing the cost of buying one.
- **Employers are asking workers to return to the office**, meaning people have less time to spend in vacation homes.
- **Asking rents have stagnated below their record high,** so buying a second home to rent it out has become less attractive. Owners of short-term rentals on sites like Airbnb are generally earning less revenue, and many cities have imposed restrictions on short-term rentals.
- **Economic jitters:** The labor market is weakening and Americans are concerned about a recession, making them especially wary of moving forward with large purchases.

“Most of the homes that are sitting on the market right now are second homes—especially those in the $400,000 to $800,00 price range, which tend to be more stagnant,” said Shay Stein, a Redfin Premier real estate agent in Las Vegas.

The slowdown in the second-home market comes after a surge in demand during the pandemic. Mortgage-rate locks for second homes skyrocketed a record 96.2% above pre-pandemic levels in October 2020 as wealthy Americans took advantage of ultra-low mortgage rates at a time when many of them could work remotely from vacation towns.

To view the full report, including a chart and methodology, please visit: https://www.redfin.com/news/second-home-purchases-august-2024/

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