8 reasons sellers aren't selling (and how to get them off the fence)

Interest rates, insurance premiums, tax concerns and more are keeping sellers from putting their homes on the market and forcing them to defer their dreams

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We all get to live once. In spite of market conditions that are effectively locking sellers in their homes, we are encouraging them to go after their dreams. Rather than live with regrets of what might have been, we are working with them to not let the current market rob them of their potential future.

It is no secret we are suffering through an unprecedented shortage of homes for sale. It’s affecting every segment of the market, and, at a time when rising interest rates should be pushing home prices down to ease inflation, the reverse is happening. It is a market unlike any other: it is stretching the bounds of home affordability, frustrating buyers and sellers alike and undermining the careers of real estate agents across the country.

The big question is, “Why?” Succinctly put, it is an unprecedented nationwide refusal of homeowners to put their homes on the market.

Here are 8 fundamental reasons homeowners are choosing to not sell

1. Fear they will not be able to find a replacement home

With the current low inventory in our market, we are seeing multiple offers on almost every property. This means that most sellers, if their current home is properly priced, could sell almost immediately.

Unfortunately, the prospects of finding a replacement property are not as good. Faced with the prospects of having to compete to secure a replacement home and afraid of ending up on the street, sellers are choosing to sit tight for now.

In any given market, move-up sellers account for a significant percentage of available homes for sale. If that segment of the market is effectively removed, as it is currently, the remaining available homes are the result of deaths, divorces, retirements or job relocations, all of which constitute a much smaller percentage of the potential market.

Couple this with the ongoing shortage of new homes, and we see sellers unwilling to take the risk of selling their current digs. Additionally, due to the shortages, most sellers are not willing to entertain sales contingent on a buyer selling their existing property.

One possible solution is to buy a replacement home before selling the current property. While potentially easier in parts of the country with relatively low home prices, it can be extremely unrealistic in regions where average home prices are over a million dollars.

While there are companies out there that will help you buy your new home with cash and then sell your existing home, they do not cover every state and, in some cases, mandate a lower selling price or fee structures that sellers are unwilling to entertain.

2. Unwillingness to lose their current low-interest rate

Known as "golden handcuffs," the record low-interest rates obtained by homeowners prevalent before May 2022, either from a purchase or refinance of existing mortgages, are effectively locking sellers in their homes. This survey by Realtor.com explains:

Since 2022, the mortgage lock-in effect has been the primary financial reason that prevents homeowners from putting their homes on the market. In February 2023, 14.7 percent of homeowners who were gathering information online but had no plans to sell said it was due to their existing low mortgage rates on current residences.

The rationale is simple: Why give up a once-in-a-lifetime supremely low-interest rate and replace it with one substantially higher? As an example, a mortgage of $400,000.00 at 2.75 percent would have a monthly payment of $1,632.96. At 7.35 percent, that same mortgage

payment would have soared to $2,755.89, an increase of $1,122.93 or 68.77 percent.

If rates continue upwards to 8 percent, as some pundits predict, the monthly payment would increase further to $2,935.06. Put another way, potential sellers are very reluctant to pay substantially more for similar value.

When you factor in the other costs of homeownership, such as taxes, insurance and ongoing maintenance, you begin to see numbers that are stretching the boundaries of affordability. It is also important to remember that wages across the country are not rising at the same rate, further diminishing affordability. When is the last time you heard of someone getting a 68.77 percent wage hike?

3. Concern over getting hit with a massive federal capital gains tax bill

To begin, here is the mandatory disclaimer: I am not an accountant and, therefore, do not presume to provide accurate taxation information. The numbers provided are for illustration purposes only.

Soaring home prices, especially in regions like the San Francisco Bay area, have introduced a new problem: Significant capital gains liability. As an example, we have encountered sellers who purchased their homes for under $100,000 but can now sell them significantly in excess of $1,000,000.
If a homeowner bought their home 35 years ago for $100,000 and sold in today's market for $1,100,000, this would produce a potential gain of $1,000,000. Assuming the home was being sold by a couple

who each qualified for the $250,000 tax exemption, their potential tax liability would be lowered to $500,000.

If they had improved their home over the years to the tune of approximately $200,000, this would bring their liability down to $300,000. Depending on how long they had lived in the home, they would be taxed on the remaining gain by the federal government. Additionally, depending on the state they lived in, their capital gains might also be taxed by the state.

Here is the bottom line: in some cases, these potential tax numbers can be large enough to discourage a potential seller from moving ahead with a sale. The problem here is that if they choose to wait, these tax numbers will only increase as their home's value continues to go up over time.

The National Association of Realtors has recognized this problem and is endorsing a bill that would double the capital gains exclusion for sellers. Introduced on Oct. 1, 2022, this bill would lower the capital gains tax obligation and could conceivably get more homes on the market.
Like all bills, however, this may take quite a while to be approved, if at all. In contrast, we have also heard sentiment that removing the tax credit altogether would be in the country's best interest. Time will tell what actually happens.

4. Potential increases in property tax payments

Property tax laws vary from state to state and may or may not affect the sale of a home. In states like California, property taxes are based on the purchase price and are locked in at the time of the sale. This

means that homes purchased years ago have extremely low property taxes, while comparable homes literally next door, purchased at a later date with a higher price, have significantly higher property taxes.

As an example, a home purchased years ago for $400,000 would have yearly property taxes of $5,000.00 ($416.67/month). If the seller, wanting to downsize, chooses to sell the home at today's values — let's say $1,600,000 — and then buy a smaller home at $1,200,000, their property taxes would jump up on the replacement home to approximately $15,000 a year ($1,250.00/month).
If the goal of downsizing is to reduce monthly costs, California property tax laws actually work against the sellers. If you factor in capital gains taxes on the sale of the existing home, this double whammy is keeping many potential sellers sequestered behind locked doors. While California has some benefits for those over 55 years of age, for those who are younger, the full impact of the property taxes applies and can dramatically affect the ability to move up because of a growing family.

5. Frustration over missing the peak in the previous market

The market peaked in most regions across the country between April and June of 2022. Once interest rates began rising in May, 2022, home sales slowed to a trickle. Due to the sudden departure of buyers, prices began to slide through December 2022. As we entered 2023, many sellers, frustrated that they had lost a significant amount of equity, pulled their homes off the market and vowed to sit tight until prices came back up. Unfortunately, they may be in for a long wait. While prices have rebounded since January 2023, as buyers realized the higher rates were here to stay and reentered the market en masse, prices have still not returned to the levels seen in early 2022.

Given that rates are projected to increase even higher over the next few months, it is anticipated that we may be in for a chilly fall and winter season.

6. The high costs of improving homes for sale

Beginning with the supply chain shortages brought on by our global pandemic, prices for construction materials rose dramatically. While some prices have eased in recent months, materials such as lumber have been affected by other factors such as wildfires. Projects that might have been doable prior to COVID-19 have become too expensive for many and so, rather than fix up their homes for sale, they are sitting tight.

7. Potentially higher insurance premiums on the new home

As more and more insurance companies are abandoning certain states and no longer writing new policies, the cost of securing insurance for a new purchase can put a damper on things. If a homeowner has a current policy with a specific company and chooses to sell, there is no guarantee they will be able to obtain an insurance policy on their new purchase from the same company.

This lack of competition, coupled with the losses insurance companies have sustained through a growing number of natural disasters, is almost a guarantee that the new policy will be substantially higher than the previous policy.

8. Seniors choosing to age in place

The attitude of many seniors since the pandemic has been to avoid care facilities. Additionally, rapidly rising costs for those looking to move to retirement communities has quashed other plans.

Consequently, many are choosing to age in place and are reconfiguring their homes to accommodate the transition. This effectively means that one more segment of homes that would normally hit the market has been steadily declining. In reality, those homes are being pushed out to the future until the occupants are deceased.

While any one of these issues might not be a deal killer on their own, when you start adding them together, the cumulative effect can have a substantial impact. Add higher mortgage payments to higher taxes and insurance costs and you are suddenly faced with a dramatically higher monthly payment.
Since wage increases are not keeping pace with housing costs, many sellers are putting their moving plans on hold and waiting for some indeterminant date in the future when they hope circumstances will have improved enough to warrant selling.

So how do real estate professionals respond?

We are learning to establish meaningful relationships with homeowners now so that as changes occur, we will be top of mind. Additionally, we are engaging potential sellers in conversations about their dreams. Whether the desire is to move up, downsize, relocate into better school districts, move to get closer to grandkids, live in a community more conducive to political views, live closer to amenities for recreation … we are asking homeowners to vocalize their dreams in order to keep them alive.

Since we know that we are in a new reality that is going to last quite a while, we are asking potential sellers a very simple question: “Are you

going to allow the current market conditions to rob you of your dreams?"

The truth is, life is moving forward and we do not have the ability to go back. There will be a time when dreams – if put off indefinitely – will no longer be possible.

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