Much of the attention paid to the booming real estate market has been on first-time buyers looking to get on the property ladder, with rising prices and highly competitive buying environments making it increasingly difficult to purchase a first home.

But the booming market has also created new pressures for established homeowners looking to purchase a new primary or secondary home, particularly as they near retirement and see their now-adult children find homes of their own. These buyers are re-entering a market in the midst of unprecedented growth and competitiveness, making it tougher than expected to buy their next home.

What’s driving the market in 2021?
There’s no question that the explosion in home-buying has hit New England. A combination of historically low interest rates and a lack of housing supply has meant Massachusetts has seen its median sales price for single-family homes rise by over 15% every month in Q1 2021. While inventory has increased, new listings are still at record lows according to the Massachusetts Association of Realtors.

But the home-buying boom has had an even greater impact on the second home market. Nationally, the number of buyers who locked in mortgage rates for second homes shot up a record 128% year over year in March, compared to 34% for primary residences.

We’re seeing that trend impact popular vacation home markets such as the Cape & Islands, where all transactions that closed in March of 2021 closed above their asking price, compared to 11% in March 2019. Towns such as Barnstable have seen their median sales price for single-family homes rise by nearly 50% year over year, with little sign of a cool down on the horizon.

It’s also unlikely that the Federal Reserve will take steps to cool the market any time soon: the Federal Reserve indicated that historically low interest rates are here to stay for the next three years. New tax policies are also expected to drive many would-be buyers to take advantage of current tax deductions on mortgage interest.

Is cash the answer for established buyers?
Existing homeowners and higher net worth individuals may look to sell some of their assets to improve their competitiveness with an all-cash offer. These offers are increasingly common, accounting for 36 percent of all sales in 2020 and climbing the most (up 3 percent) in the Northeast, according to Realtor.com.

But selling off portions of a portfolio can put the buyer at a disadvantage: not only does it deplete those assets, but the capital gains also increase the tax burden on the buyer. And with a rise in capital gains tax considered inevitable under the new administration, this burden is likely to increase.

Strategies to Leverage Assets in a Hot Housing Market

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Securing a mortgage or a line of credit against existing assets, including investment portfolios, puts the buyer in a strong position to succeed in their real estate purchase. This approach gives buyers the best of both worlds in a competitive housing market: they can still leverage their assets to improve their offer value without depleting those assets as liquid cash. The tax burden is significantly lightened, not only from the reduction in capital gains but also potentially benefiting from an interest rate deduction on $750,000 of home mortgage indebtedness for primary and second homes.

Unlocking this strategy often means working with an institution that can not only manage the buyer’s portfolio, but also provide the counsel of experienced lenders. The buyer can then get a complete picture on the best strategies available to not only win the bidding war, but also to gain the best tax advantages and preserve their wealth at the same time.

This combination also brings the advantage of speed, as the team can move quicker than a traditional mortgage broker to set up that line of credit. That puts the buyer in a position to be both fast and competitive in a multiple offer scenario.

### Improve your competitiveness without unnecessary risk

Buyers have traditionally been at a disadvantage in a hot real estate market, and this is bearing out more than ever in 2021. Most have turned to tactics that increase their risk: offering over their planned budget, waiving contingencies, and even buying sight unseen.

This approach offers a new way to succeed without taking on unnecessary risk, and can improve their offers by showing sellers that they can close quickly and reliably. That means finding and purchasing the home they want, while keeping their nest eggs secure for a comfortable retirement.

That’s why it’s important for buyers to have a well-rounded and integrated financial team behind them, looking at their assets, their mortgage and credit options, to design the most successful and beneficial homebuying strategy.

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*This article is for informational purposes only and should not be construed as investment or legal advice.*

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1 Massachusetts Association of Realtors, March 2021
2 Redfin, March 2021
3 Cape Cod & Islands Association of Realtors, April 2021