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MARKET WATCH

The Surprising Reasons Buyers Should Act Quickly

BY NATHAN JENNISON

Bleak real estate news floods the headlines right now, with many analysts projecting an impending drop of 20-30% in housing valuations nationwide. **There are understandable reasons for these alarm bells, and yet even stronger reasons to expect and plan for the opposite.**

Yes, interest rates have rocketed from a 3.27% average for a 30-year Conforming Loan to 6.97% since the 2nd quarter of 2020. Median home values increased 41% over the same time period. Higher home prices coupled with higher interest make housing less affordable. In September, the Fannie Mae Home Purchase Sentiment Index (HPSI) fell to its lowest level since October 2011, with only 19% of consumers believing it's a good time to buy a home. Buyers are reticent to act in this market and sellers are desperate to woo the few potential buyers who view their homes. These factors are combined and repeated to paint the same dire real estate picture.

Don't believe the doomsday hype. **In fact, now is the time to buy as much property as possible, with rentals being a particularly valuable acquisition.**

Why is that the case? Most of the dismal predictions about real estate rely on statistics comparing this year's market with the frenzied post-COVID market. 2020 and 2021 were anomalies, and don't make for a solid baseline for real estate.

The sharp increase in "market time" for new listings (the number of days it takes a new home listing to get under contract), is another common talking point used to support the doom and gloom perspective. However, market time **always** increases in the fall, hits its worst point in December, and then improves through spring and summer, peaking in July. The current uptick in market time is typical—just the normal seasonal ebb & flow we see every year.

SUPPLY + DEMAND

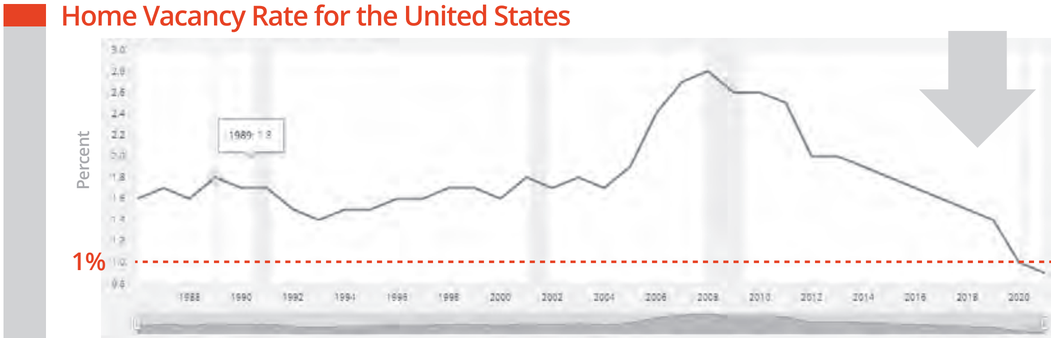
ARE THE HEART OF ANY VALUATION.

However, what we don't see every year is that 41% of current listings have a "Contract Pending" status. That's far higher than the average of 25% in prior years. Inventory (the number of homes available to purchase) looks normal, until all those Contract Pending listings are omitted. When removed, the market has **less than 2-months of supply available to new buyers.**

Supply and Demand are the heart of any valuation. Housing is no different.

The Home Vacancy Rate in the US gives us a much clearer picture of the real estate situation. **Housing vacancies have dropped under 1% and are continuing a steep decline.**

Home Vacancy Rate for the United States



Fred.StLouisFed.org

Many would-be home buyers can no longer afford to buy. They must rent or find other living arrangements with family or friends. This is why we have seen a startling rise in the cost of rent in recent years.

[1] 11-01-2022

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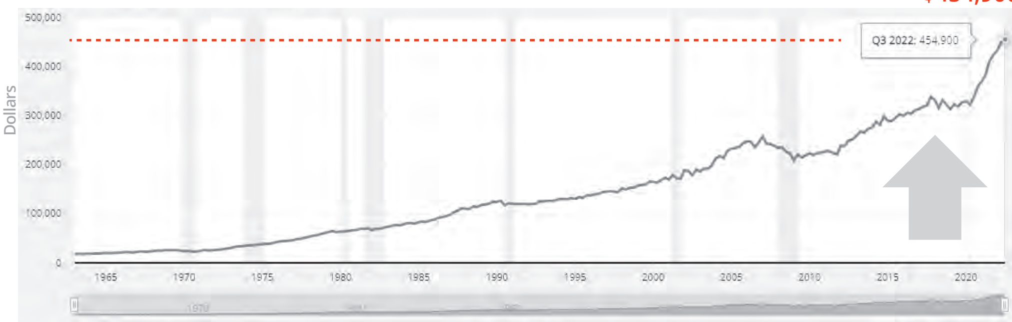
Median Sales Prices of houses are moving inversely to vacancies.

Median Sales Price of Houses Sold for the United States

$454,900



Shaded areas indicate U.S. recessions Sources: Census; H.U.D. Fred.StLouisFed.org

It makes perfect sense in relation to supply and demand. Basic housing is a necessity, and the general population will overcome obstacles to acquire it. We are likely to also see an increase in multigenerational housing as families afford housing by working together, especially as new families are created. These new families are another factor to examine as a forward indication of future supply and demand.

2018-2020

HOUSING STOCK DECREASED

52%

12.3 million American households were created from January 2012 through June 2021[2]. Only 7 million new single-family homes were built during that time. Single-family home construction has been running at its slowest pace since 1995 as homebuilders pulled back after the last housing crash. Freddie Mac estimated that "as of the 4th quarter of 2020 the U.S. had a housing supply deficit of 3.8 million units... **Between 2018 and 2020, the housing stock deficit increased by approximately 52%."**

The U.S. is now estimated to be short 5.24 million homes.[3]

Freddie Mac cites the key issue as the lack of available construction labor, with 81% of construction firms also citing this same challenge.[4] The average age of tradespeople in the U.S. is now 55, and for every three tradesman who retire there is only one entering the trade.[5] With Baby Boomers retiring in record numbers, we are facing a labor crisis that will further drain builders' abilities to close the shortfall of needed housing. Trade/labor cost is rising dramatically, along with materials cost, which also limits the building of much-needed starter homes. **The reality is that we are only at the beginning of a national housing crisis.**

The Coming Housing Crisis

Over time, we have seen a drop in the numbers of people per household, adding to the rise of household formations. The consistent trend is a need of more houses for smaller families within a growing population, complicating an already complex issue.

THE U.S. IS NOW SHORT **5.24 MILLION HOMES**

Further, the number of first-time home buyers are dramatically increasing as many are reaching the 30-39 age demographic when most people purchase their first home. **We are currently in the steep run-up of this age group which will continue to show significant growth through 2030.**[6]

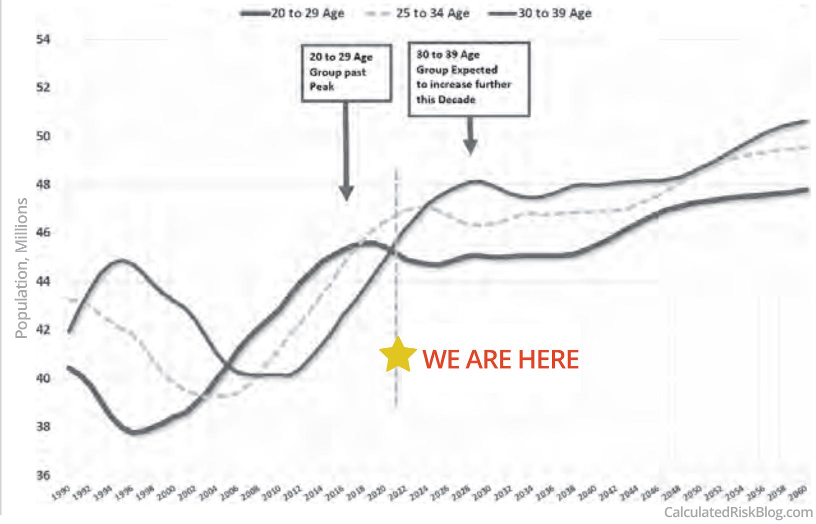
Prior low interest rates are also supporting current conditions, as many would-be sellers who might otherwise try to time markets by selling at the peak will now be unwilling to leave their 2-3% interest rates and will instead make do as long as possible in their current homes.

The main trends are crystal clear: fewer people per household, increased housing formations, long-term decline in new housing completions, labor crisis and drastic rise in material cost. All of these factors will steady and propel housing valuations nation-wide in the near and long-term forecast.

[2] U.S. Census Data [3] www.realtor.com [4] Associated General Contractors of America, 2020 [5] Bureau of Labor & Statistics [6] Calculated Risk, Bill McBride

EQUAL HOUSING OPPORTUNITY

U.S. Population for Selected Age Groups, BLS Actual & Projections



Of course, market location still matters. Some specific metro markets that have seen above-average growth may very well experience some turbulence in housing valuations. But there is a marked difference between “listing price reductions” and actual property depreciation. Many sellers overpriced their homes based on the buying action of 2021 and 2022 spring markets when houses were selling fast and well over listing prices. However, with far fewer buyers in the market, they have been forced to recalibrate to more authentic valuations, and most of the US. is seeing stable or slight gains in appreciation.

Now Is The Ideal Time For Buyers

Buyers are able to land exceptional deals right now as many Sellers are currently willing to negotiate terms creatively and extensively. Some of our realtors are **routinely landing $10,000 – $15,000 in seller concessions** that can be applied to loans costs, title fees, and even buying down rate, all reducing the amount of funds the Buyer needs to be able to close on their new home.

Many Buyers are finding their low ball offers countered or outright accepted as Sellers are afraid to lose the opportunity to exit their home position before the perceived fall out of housing valuations.

Buyers who can lock in savings on real estate purchases now, even at high-interest rates, will be able to take advantage of this unique situation to optimum advantage. When the general population becomes confident in the stabilization of the housing market, buyers will again scramble to capture the limited supply of housing. With interest rates likely to fall as they have in every recent recession, far more houses will likely see multiple offers and again sell above listing prices.

CLEAR TRENDS

- ✔ Fewer People Per Household
- ✔ Increased Housing Formations
- ✔ Housing Completion Decline
- ✔ Labor Crisis + Material Cost Increase

Even with the most recent existing home sales report, the National Association of Realtors Chief Economist Lawrence Yun reported, **"Despite weaker sales, multiple offers are still occurring with more than a quarter of homes selling above list price due to limited inventory," Yun added. "The current lack of supply underscores the vast contrast with the previous major market downturn from 2008 to 2010, when inventory levels were four times higher than they are today."**

Buyers looking to best position themselves should contact Nathan Mortgage or another Independent Mortgage Broker that has the ability to lock their interest rate even pre-contract, otherwise known as a “TBD Lock and Shop” program. This can give them a more comfortable time window in which to find the right home and still get under contract with that locked rate, enjoying a protected place in a volatile interest rate environment. These programs can vary greatly though, look for one that has no obligation or upfront costs.

Waiting until rates fall could be a critical mistake. Get out ahead of the mainstream buyers who will flood the housing market at that point and again create high demand against weak inventory. Position yourself through real estate purchasing to ride the coming wave to its logical conclusion and your ultimate benefit. ■

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