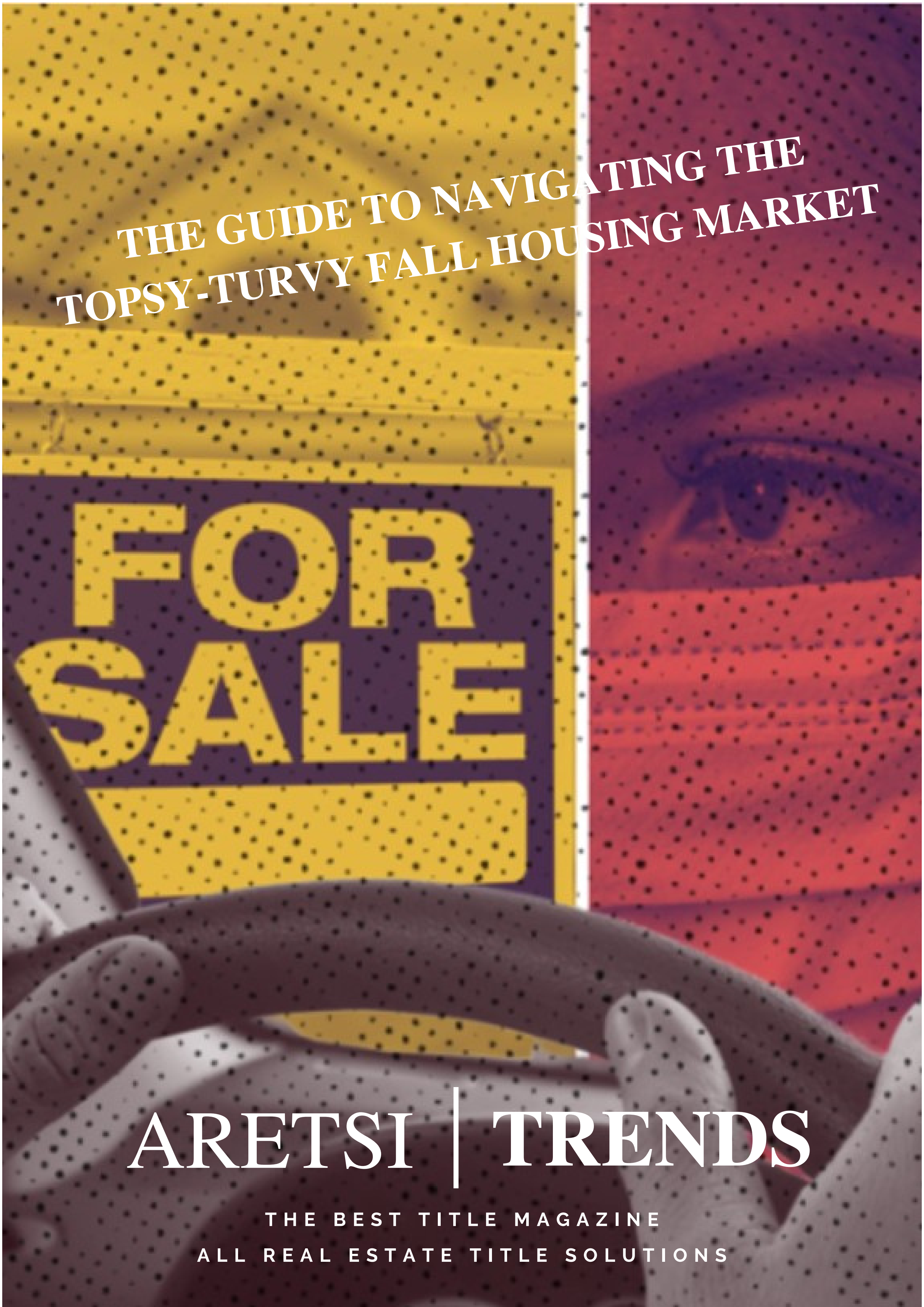
THE GUIDE TO NAVIGATING THE TOPSY-TURVY FALL HOUSING MARKET



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THE ULTIMATE GUIDE TO NAVIGATING THE TOPSY-TURVY FALL HOUSING MARKET

Buyers and sellers face a new reality where bidding wars will be rare, days on market stretch out and markets go from boom to bust (and bust to boom).

The self-proclaimed king of market shifts Gary Keller started Keller Williams' August Mega Camp by proclaiming the first quarters of 2022 "the most confusing I've ever seen."

At the beginning of September, the industry's eternal optimist Glenn Kelman told CNBC homebuying is "a tough comp right now," as Seattle-based Redfin prepares for "years, not months, of slower home sales."

Even Compass CEO Robert Reffkin, who's famous (or infamous) for his constant bullish outlook on the market, used his company's second-quarter earnings to speak on the "enormous amount of uncertainty for the rest of the year."

In short — the next four months are poised to whiplash homebuyers and home-sellers into a new reality where bidding wars become rarities, days on market lengthen, markets go from boom to bust (and bust to boom), and a dicey economic landscape keeps them white-knuckling their way to the closing table.

Here's what top economists and leading real estate agents have to say about the changing market and successfully navigating roadblocks and detours, even if you experience a few dings along the way.

RISING MORTGAGE RATES CREATE A 'MIXED PICTURE' FOR BUYERS

The first months of the pandemic were grim for the real estate industry, as coronavirus protocols turned once-bustling cities into ghost towns.

However, the market got a jumpstart in mid-spring when leaders relaxed social distancing measures, declared agents as essential workers, and delivered the first of three stimulus checks. The final spark was the Federal Reserve's decision to lower interest rates to a once-in-a-lifetime 2.65 percent — all of which ushered in the strongest sellers' market the nation has ever seen.

For two years, homebuyers put it all on the line with contingency waivers and bids five to six figures above sellers' already inflated asking prices.

To put it plainly, sellers had it really good.

Matthew Bizzarro

In March, New York City-based broker Matthew Bizzarro shared a bullish outlook on home sales as eager buyers were expected to push through market headwinds as the Big Apple's post-lockdown rejuvenation continued.

"Inventory has finally caught up with the rest of the country," Bizzarro excitedly said in the first part of Inman's Spring Madness series published in March. "And it's going to be absorbed very quickly this spring."

However, inflation and the ensuing rise in mortgage rates quickly threw a wrench in the market's stride. The average rates for 30-year mortgages began their ascent in September 2021 and steadily made their way up the ladder, reaching nearly six percent in July.

Bizzarro's clients found the mortgage hike too much to bear as their purchasing power went from being a top-of-the-line GT500 Shelby Mustang to a run-of-the-mill Ford Focus.

"We saw a very busy spring up until the interest rates doubled. It caused a lot of people to pull back," he said. "Especially in New York, the difference of going from 3.5 percent to 6 percent is a huge chunk of purchasing power."

"The first-time homebuyers were the largest segment that got hit the hardest," he added. "Those trying to buy the entry-level apartment or home, simply just saw hundreds of thousands of dollars in what they can afford go away. So that causes a decent slowdown."

Bizzarro said the slowdown continued well into August but started to reverse last week as well-prepared homebuyers finally made peace with higher rates and started to see the hidden benefit of rising rates: lessened competition.

"We have seen a huge uptick in our organization with inquiries and people raising their hand saying, 'I want to buy,'" he said. "I mean, we've seen, at minimum, a doubling of inquiries of people. I think a lot of people are starting to come back, I do anticipate the fall is going to be very busy."

Danielle Hale

Echoing insights from Realtor.com's latest 'Best Time to Buy' report, Realtor.com Chief Economist Danielle Hale said mortgage rates will be the primary factor continuing to shape buyers' and sellers' decisions.

"Between higher home prices and higher mortgage rates, that means bigger budget challenges for home shoppers," Hale said. "But at the same time, they have some opportunities."

"There are more homes available for sale now than there were one year ago, and we expect that to continue as we move into the fall," she added. "It's a mixed picture."

Realtor.com expects active listings to reach 780,000 by the beginning of October — a 46 percent increase from Q1 2022. And despite the turning tide against sellers, the portal expects a 4.2 percent increase in new listings compared to the average week.

"For sellers, it's still a decent market they're sitting on," she said. "But, there's less competitiveness in the market and sellers are going to have to price appropriately and be mindful of the competition in ways that they haven't over the last couple of years."

She added, "It's still very possible to sell a home. Sellers hold many of the cards, but not all of the cards they've had for the last couple of years."

SELLERS AND BUYERS ENTER TUG-O-WAR ON SALES PRICES

As sellers' grip on the market weakens, agents and economists said homebuyers this fall are more likely to push back on list prices and do some expert negotiating to get the best deal, especially if the home has been on the market for more than a couple of weeks.

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Daryl Fairweather

"The pandemic was a strange time for the economy and the housing market," Redfin Chief Economist Daryl Fairweather said of the abnormal boom in home sales and prices. "But we're now emerging from that fog. The prices that were set during the pandemic are not the prices that are available right now."

Fairweather said the market began slowing at the end of Q1, but the alarms didn't start blaring until July when home sales slipped 19 percent year-over-year. Unsurprisingly, home price growth also tumbled from a pandemic average of 15 percent year-over-year to 8 percent year-over-year.

"I think we should expect a recalibration and we're still in the process of that recalibration," she said. "But that initial slowdown seems to be at its end."

Although home prices are still six percent above last year, Fairweather said the slowdown has skewed home sellers' perceptions. "I mean, the market is still better, in terms of price, than it was this time last year," she said. "I think it's more psychological, like people always index to like the highest point and feel like anything less than that as a loss."

Jeff Checko

Nashville RE/MAX agent Jeff Checko said he's had to temper his sellers' expectations and guide them away from overpricing their home, as buyers are more willing to walk away and circle back a few weeks later after the seller makes a price reduction.

"We had 10 offers on a house three months ago, we don't have [activity] like that anymore," Checko said. "Unless it's a fantastic home in a highly sought-after area, or somebody has a truly special and unique property, you're just not going to see that multiple offer situation anymore."

In June, Realtor.com said 1 in 7 listings experienced a price reduction, with sellers in larger, more expensive markets like Sacramento, Atlanta, and Phoenix more willing to strike a deal. Fast forward to September, the portal is projecting a greater share of home sellers — six percent more than the average week — will slash prices.

“Adjusting for this year’s trends, buyers shopping during the best week could save close to $20,000 compared to the year’s peak,” Realtor.com explained. “And in several of the largest housing markets around the country, home prices during the best week can dip over 10 percent lower than their peak price earlier in the year, potentially saving buyers tens of thousands of dollars.”

Nicole Bachaud

Although an extra $20,000 in the bank is nothing to sneeze at, Fairweather, Hale, and Zillow Senior Economist Nicole Bachaud said stories about price cuts could lull homebuyers into thinking that homes are more affordable on the whole.

NAR’s latest existing-home price report revealed home prices are still on the rise, with the median home price in July reaching $403,800 — still a hefty price tag for a household making the national median income of $67,251.

“If you look at a market like Phoenix, Phoenix has seen some of the biggest decreases in home values in the past two months,” Bachaud said. “Homes are cheaper in Phoenix than they were at the beginning of the summer; however, when you look at how much those homes have appreciated since 2018, you’re still looking at them being 60 percent more expensive than three years ago, even if they’ve dropped, you know, a few thousand.”

Jessica LaMar

Bizzarro and Sacramento-based agent Jessica LaMar said the market shift has required her to do more education and hand-holding with buyers and sellers who come to the table with a host of expectations — some reasonable and some not.

“If they have the expectation they’re going to come in and offer 20, 30 or 40 percent less than asking price, that they’re not living in reality,” Bizzarro said. “That doesn’t bode well for their negotiation, right? We want to enter into a good faith negotiation with a seller, but if you upset the seller, they’re not going to negotiate at all, and you’re closing that door and essentially shooting yourself in the foot.”

Added LaMar, “Ultimately you want both parties to feel like they’re winning. That’s the ultimate goal of any transaction, right?”

BETWEEN INFLATION AND A HARD PLACE

Beyond rising mortgage rates and what Fairweather called "contradicting signals" about home price trends, consumers still have to contend with an economic juggernaut: inflation.

The U.S. Bureau of Labor Statistics' latest Consumer Price Index Survey revealed overall inflation stalled at 8.3 percent from July to August. However, core categories — minus food and energy — and the cost of owning a primary residence both experienced monthly increases of 0.6 percent and 0.7 percent, respectively.

On an annual basis, it's 6.3 percent more expensive to own a primary residence now compared to August 2021.

"Consumer prices are still rising too aggressively and will force the Federal Reserve to take an even more hawkish stance to fight them," NAR Chief Economist Yun told Inman in a previous article.

Bill Gassett

Hopkinton, Massachusetts-based RE/MAX agent Bill Gassett said consumers in his market are worried about inflation, which is only compounded by the fact that unlike the rest of the country, bidding wars are still commonplace.

"People are worried right now. It's just the mentality of what's happening between inflation, mortgage rates, and the stock market tanking — there's a lot of fear out there," he said. "A lot of people have put their plans on hold because they don't know what's going to happen."

Although inflation is worrisome, First American Chief Economist Mark Fleming said recency bias and a lack of awareness about other economies make the current environment feel worse than it is.

Mark Fleming

"The economy seems to be handling itself, even though the Fed is trying to wring inflation out by raising rates, quite actually much better than most other economies in the world," he said partially about Argentina's recent decision to hike rates 550 basis points for 100 percent inflation.

Overall, Fleming said the average American household is in solid financial shape as unemployment remains near historic lows and a competitive jobs market pushes employers to retain workers with pay raises.

A series of stimulus checks also bolstered many Americans' savings accounts, and the Biden Administration's decision to cancel up to $20,000 in student loan debt for individual borrowers making less than $125,000 annually ($250,000 for joint households) will also help put future buyers in a better place to purchase.

"I think the consumer reality is they look around, they say, 'Well, I watch the news and all these pundits are talking about recession, but I don't see that in my life. I see myself getting pay raises, I see myself being able to get another job if I want to because the unemployment rates are so low, I can quit and find another job somewhere else at a higher pay if I wanted to, I have a relatively healthy household balance sheet, [and] I've got lots of savings,'" Fleming said. "'My personal experiences as an American household are pretty good right now. So yeah, like, Let's go buy a home."

Fleming also said recency bias is obscuring consumers — and some agents — ability to properly contextualize the current market. Yes, things are fraught, but they've been much worse, he said.

"I'm always fascinated by the human bias of recency bias, we remember the recent past and think of it as normal, right?" he said. "So 2020 was the best year in a decade, [and] 2021 was even better than 2020. So that was probably the best year ever [for the housing market] in history or recent history to be sure. Now we're not doing as well as last year."

"Well, you can't break records every year," he added. "Even today, a mortgage rate of six percent is not a particularly onerous mortgage rate. But it is if you're plagued by recency bias. Remember, the anomaly was last two years."

Looking forward, agents and economists expect the market to keep twisting and turning, with some areas even making the shift into a full-fledged buyer's market. But no matter how the dust settles, all agreed home buying and selling will remain a necessity — leaving plenty of opportunities for agents and consumers to succeed.

"The world is crazy," Bizzarro said. "But people still need a place to live."

***By** Marian McPherson*
***Source:** https://www.inman.com/*

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D TAMPA, FL 33612.
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