

Orange County Housing Report:

Why Do Some Homes Sit?



July 13, 2020

Good evening!

The housing market may be hot, yet many homeowners are not having any success.

THE *Orange County* HOUSING REPORT

REPORTS ON HOUSING

Sitting on the Market

36% of the active listing inventory has been on the market for more than two months.

The ink is still wet. A homeowner has just signed the contracts that will allow the FOR-SALE sign to be hammered into the front yard. There is excitement in the air. This is the initial step in the goal of moving and ultimately finding a new home, a new beginning. With eager anticipation, their home is cleaned from top to bottom, new flowers and a fresh layer of mulch accent the landscape, every light is turned on, scented candles are lit. They are ready for potential buyers to come explore their personal residence. After a buyer tours the home, the sellers return and wonder whether the buyer liked it enough to bring an offer. After all, the market is incredibly hot, right? Yet, there is no offer. Showing after showing, day after day, week after week, there are no offers. Moreover, the number of showings has trickled down to only a couple per week after three months of market exposure. What is going on?

The market is currently sizzling hot with an overall Expected Market Time (the time between the signed listing contract to opening escrow) of 46 days, the hottest market since 2013. Yet, many sellers are not finding success. Incredibly, 36% of all currently active listings have been exposed to the market for more than two months. Sitting on the market for over 60 days is to be expected in the luxury ranges, yet there are plenty of sellers having trouble selling in the lower ranges as well. Between 25% to 35% of all homes priced below \$1 million have been listed FOR SALE for more than two months and are still waiting for the right buyer to bring an acceptable offer to purchase. For homes priced above \$1.5 million, nearly 50% of all listings have been marketed for over 60 days.

	Sitting on the Market			Expected Market Time
	Current Actives	Days On Market Over 60	Percentage 60 Days Plus	
O.C. \$0-\$500k	692	239	35%	41 Days
O.C. \$500k-\$750k	895	221	25%	28 Days
O.C. \$750k-\$1m	821	205	25%	33 Days
O.C. \$1m-\$1.25m	478	162	34%	49 Days
O.C. \$1.25m-\$1.5m	365	133	36%	60 Days
O.C. \$1.5m-\$2m	369	180	49%	71 Days
O.C. \$2m-\$4m	651	344	53%	113 Days
O.C. \$4m+	374	205	55%	249 Days
All of O.C.	4,645	1,689	36%	46 Days

*July 9, 2020

If the market is so hot, how come so many homes are just sitting without success? The logical conclusion must be price. Price a home too high and it simply does not sell. In most cases, that is only part of the problem.

There has been an evolution in home buying. Back in the 1970's, 1980's, and 1990's, buyers were able to visualize the potential in a home and were willing to apply a bit of "elbow grease" to fix and update a residence if necessary. That is just not the case anymore. Chip and Joann Gaines' popular television show "Fixer Upper" revolutionized the real estate industry, along with the countless other real estate shows from flipping to fixing. As a result, there is an expectation and desire for buyers to purchase a home that looks like a model.

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There is a definite allure to anything that is brand new, and homes are no different. Brand new homes have all the latest bells and whistles, the latest trends, the “new car smell.” Buyers gravitate to anything that has a model home look and feel. Homes that have been totally redone are very appealing. As long as the price is right, the closer a home looks to model perfect, the faster the home will fly off the market. Unfortunately, not every home shows like a model.

So many homes are dated and need cosmetic repairs. From scuffed walls, scratched floors, carpet stains, popcorn ceilings, original door and bathroom hardware, outdated light fixtures, ceramic tile kitchens, etcetera, all contributes to a home that feels used and worn out. Even a 10-year old remodel may have a lot of wear and tear. Throw in a pet with all of its odors, hair, and damage, and is no wonder that many sellers are sitting on the market and having a hard time selling.

When a home does not have the look and feel of a model home, it must be reflected in arriving at the **Fair Market Value**. A home's **Fair Market Value** is determined by its location, age, condition, and improvements. Homeowners can do nothing to change the location and age of a home, that's a given; however, they can address the condition and amenities. To fetch top dollar, a homeowner who has lived in their house for years must be willing to make an investment in their home. Updating and taking care of deferred maintenance will afford buyers the ability to visualize moving in right away. They will not have to address cosmetic issues after closing. Buyers are willing to pay a premium for homes that are turnkey and have that model feel. The sellers will net more money by addressing the deferred maintenance and their home will sell more quickly.

If a seller does not address any deferred maintenance, then the price must be adjusted accordingly. Buyers subtract a lot more than it costs to take care of the deferred maintenance. It is very inconvenient and time consuming for buyers to tackle repairs after the close of escrow. It makes sense that a seller with deferred maintenance ultimately net less money in the sale of their home.

WARNING TO SELLERS: price is the most important factor in successfully selling. Overprice a home in a sizzling hot seller's market, and sellers will not find success. Instead, they will simply sit and waste valuable market time.

Active Listings

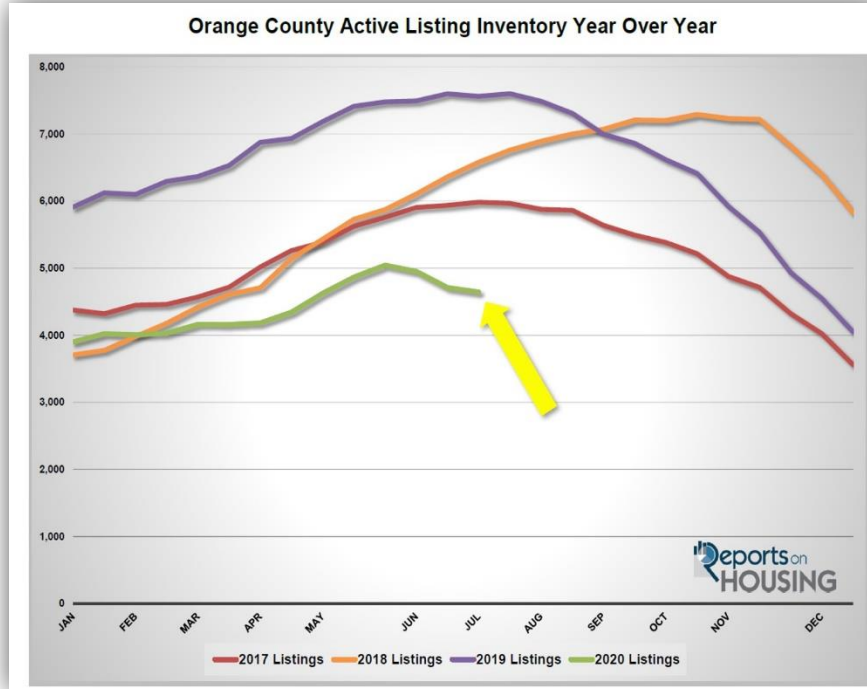
The current active inventory decreased by 1% in the last two weeks.

The active listing inventory shed 65 homes in the past two-weeks, down 1%, and now sits at 4,645, the lowest level for a July since tracking began in 2004. From the end of May to today, the inventory has dropped by 399 homes, or 8%. In the past 5-years, it has **increased** on average of 7%. The drop is due to strong demand and the fact that COVID-19 is suppressing homeowners from selling their homes. In the past four weeks, 12% fewer homes were placed on the market compared to the 5-year average. At the end of April, there were 54% fewer compared to the 5-year average; thus, more and more homeowners are warming to the idea of selling their homes. COVID-19's grip on the active listing inventory is weakening.

Last year at this time, there were 7,561 homes on the market, 2,916 more than today, a 63% difference. There were a lot more choices for buyers last year.

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Demand

The surge in demand is diminishing with a 3% rise in the past two weeks.

Demand, the number of new pending sales over the prior month, increased from 2,975 to 3,050, an additional 58 pending sales, up 3% in two weeks. This is the highest demand reading since June 2015, and the highest July level since 2012. It also is the smallest two-week gain since demand turned around at the end of April. Demand is reaching a height for 2020 and will level off soon. Expect demand to remain strong through August when school resumes and housing transitions into the Autumn Market. Housing will still be robust, fueled by record low mortgage rates, just not as strong as today.

