THE Orange County HOUSING REPORT

REPORTS ON HOUSING

Orange County Housing Report:

Boiling Over

January 25, 2021

Fierce demand, throngs of buyer tours, bidding wars, rapid appreciation, and limited available homes to purchase are all due to historically low rates.

Insatiable Demand

With a record low supply of homes available to purchase and staggering demand, the market is extremely hot.

In heading to Baskin Robbins on the 31st of any month with 31 days, there are lines out the door. Normally a scoop of ice cream is $2.79, but not on the 31st. On those seven days of the year, a scoop drops to $1.70, a 40% savings. For a large family with a bunch of kids, this is the day to make the pilgrimage to Baskin Robbins. And that is precisely what families do. As a result, there are long lines, and a long wait, to get that discounted scoop of deliciousness.

When a commodity drops to a price that is too good to pass up, everybody flocks to purchase. That is precisely what is occurring in housing. It is not that home values have plunged by 40%; instead, it is historically low mortgage rates that are the catalyst to surging demand. As a result, buyers are coming out in droves to purchase. It is too good to pass up. For a $700,000 mortgage at last year's 3.6% fixed rate, the payment would have been $3,183 per month. With today's 2.77% rate, the payment drops to $2,865, a $318 per month savings, essentially a 10% discount. Comparing today to November 2018 when rates nearly hit 5%, the savings jumps to $893 per month, a 24% savings. It is not a one-time savings either. This savings is every single month for 30-years.

	1-Yr Ago 3.6%	Today 2.77%	Monthly Savings	Annual Savings
$700,000 Mortgage	$3,183	$2,865	$318	$3,816

	Nov 2018 5%	Today 2.77%	Monthly Savings	Annual Savings
$700,000 Mortgage	$3,758	$2,865	$893	$10,716

With record low mortgage rates, there is almost too much demand. It is like a pot of spaghetti that is boiling over. A quick fix would be to turn down the temperature. That is not that easy in housing. The only way to turn down the heat is for rates to rise. Buyers may be rooting for an easier market with less competition, fewer competing offers, and a gentler rise in values, but that would come at the expense of higher rates and higher monthly payments.

It is the very thing that buyers are eager to take advantage of that is causing all their frustrations, record low mortgage rates below 3%. It seems that everyone wants to cash in on these incredible savings at the same time. At lower rates, homes become a lot more affordable, even for Southern California's high dollar value housing stock. It improves a buyer's purchasing power as well, allowing a family on a budget to afford a lot more home.

For a buyer desiring a mortgage and interest payment of $3,000 per month, last year that buyer would have been looking at purchasing an $825,000 home. Today, it would be a $916,250 home. The current rate has boosted that buyer's purchasing power by $91,250. The extra purchasing power in comparing today's rate to November 2018 at 5% is mind blowing, an additional $217,500. Searching for a $916,250 home is much different than a $698,750 home. The difference is night and day in Orange County.

Price of Home Able to Afford

	1-Yr Ago 3.6%	Today 2.77%	Extra Purchasing Power
$3,000 a Month Desired Mortgage Payment	$825,000	$916,250	$91,250

	Nov 2018 5%	Today 2.77%	Extra Purchasing Power
$3,000 a Month Desired Mortgage Payment	$698,750	$916,250	$217,500

*Mortgage Payment is Principal & Interest Only & 20% Down Payment

Because of these low rates, demand is off the charts and everything that comes on the market is gobbled up almost immediately. Today's demand (a snapshot of the prior 30-days of pending sales activity) is at 2,055 pending sales compared to 1,702 last year, 21% higher. The current active inventory (the number of available homes to purchase) is at 2,627 compared to 4,023 last year. There were 53% more homes available to purchase only one year ago. With rock solid demand and an exceptionally low supply, the market is unbelievably hot and lines up heavily in the seller's favor. The Expected Market Time (the number of months to sell all Orange County listings at the current buying pace) is at 38 days. Last year it was at 71 days, and in November 2018 it was at 122 days. The bottom line: As rates climb, the market cools, homes take a lot longer to sell, and demand drops. The tradeoff is higher mortgage payments and a steep drop in a buyer's purchasing power.

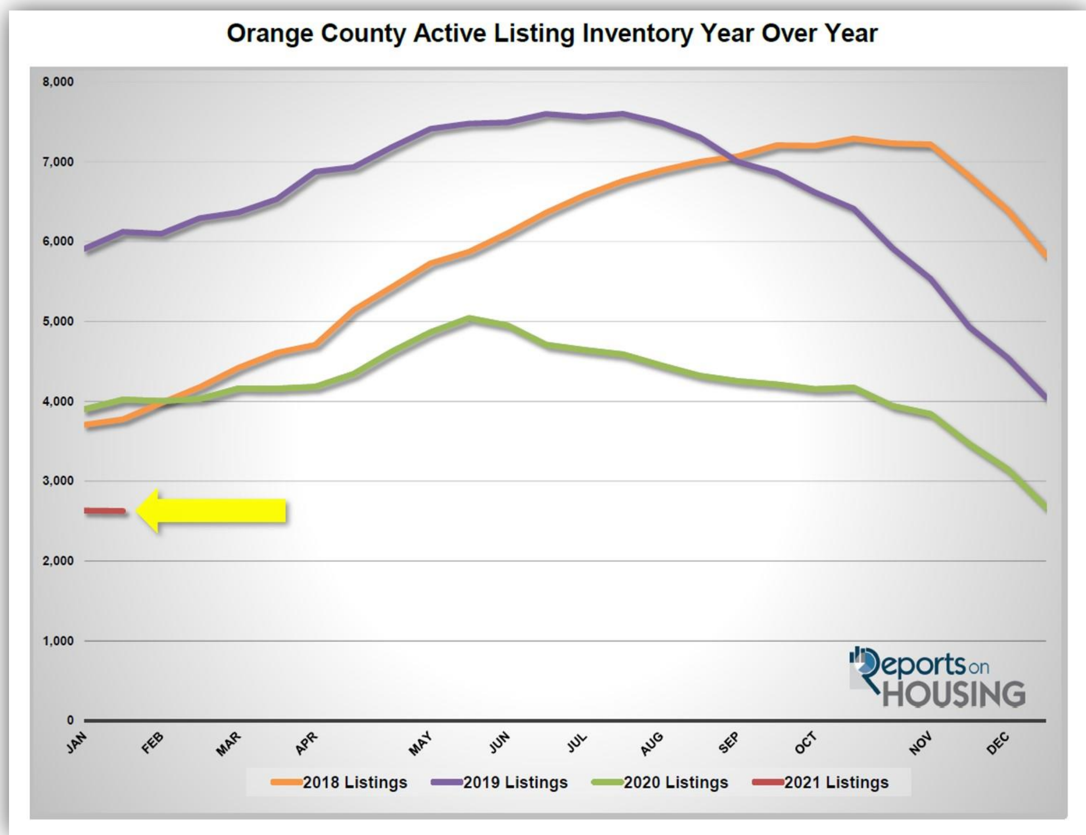
While today's housing market may be boiling over on the backs of record low mortgage rates, buyers should keep the pedal to the metal and not give up. Home values are on the rise and mortgage rates are slated to increase to the mid-3's by year's end. Waiting is quite simply not the answer.

Active Listings

The current active inventory was unchanged in the past two weeks.

The active listing inventory shed 6 homes in the past two-weeks, nearly unchanged, and now sits at 2,627, its lowest January level since tracking began in 2004. Many homeowners wait until the spring to place their homes on the market. Spring does not start until the end of March. Yet, demand is already firing on all cylinders. As a result, homes are being placed into escrow as fast as they are coming on. Basically, there are not enough homes coming on the market to satisfy the disproportionate number of buyers lining up to purchase. The unprecedented low supply of homes available to purchase will remain low until the end of March, the beginning of spring. Only then will the supply finally start to rise.

Last year at this time, there were 4,023 homes on the market, 1,396 additional homes, or 53% more. There were a lot more choices for buyers last year.



Demand

Demand climbed by 8% in the past two weeks.

Demand, a snapshot of the number of new pending sales over the prior month, climbed from 1,895 to 2,055 in the past couple of weeks, adding 160 pending sales, up 8%. Due to record low mortgage rates, demand is currently limited by the number of homes coming on the market. If there were more homes available, demand would rise from where it is at today. The issue is there are not a tremendous number of homeowners interested in selling during the winter months. It is not until the Spring Market, beginning in March, when a lot more homes come on the market, allowing demand to rise. Rates are so low today that the only real limit on demand is the supply. As rates rise later in the year, projected to increase to the mid-3's by year's end, demand will eventually slow a bit. Yet, the market will remain a Hot Seller's Market throughout 2021.

Last year, demand was at 1,702, that is 353 fewer pending sales compared to today, or 17% less.

In the past two-weeks the Expected Market Time dropped from 42 to 38 days, its lowest January level since tracking began in 2004, and is a Hot Seller's Market (less than 60 days) where there are a ton of showing, sellers get to call the shots during the negotiating process, multiple offers is the norm, and home values are on the rise. Last year the Expected Market Time was at 71 days, much slower than today.