Reports on HOUSING
Your Local Real Estate Snapshot

THE ORANGE COUNTY HOUSING REPORT

VALUES WILL **NOT** PLUNGE

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MANY BELIEVE THAT THE RAPIDLY SLOWING HOUSING MARKET WILL LEAD TO CRASHING HOME VALUES, YET THE FACTS DO NOT SUPPORT THIS THEORY.

NO CRASH AROUND THE CORNER

HOUSING DATA ILLUSTRATES THAT THERE IS NOT A HOUSING CRASH ON THE HORIZON.

According to researchers at Penn State University, only 8% of the things that people worry about come true. From finances to job security to relationships to health, worry is everywhere. The collective mind seems to almost always jump to the worst-case scenario. It seems as if nobody is immune to worry.

With strong inflation numbers, Wall Street volatility, and soaring interest rates, panic and worry is in the air. So many are jumping to the immediate conclusion that as housing slows, values will eventually plunge like they did during the Great Recession. They recall how home values surged from 2000 to 2006, only to plummet after the subprime meltdown in March 2007. Everyone remembers the deep scars from the worst recession since the Great Depression.

Even though so many are anticipating and reporting that a housing crash is eminent, it simply is not going to occur, not now and not in the foreseeable future. Why not? Collectively, homeowners across the country were sitting in a much different position prior to the Great Recession compared to where they stand today. To best understand the differences let us take a closer look and compare the two.

First, the direction of housing has everything to do with supply and demand. Prior to the Great Recession, the inventory climbed to over five times where it stands today. There was a glut of homes on the market. Like today, demand was muted, but was due to the deterioration of lending standards. When low demand was pit against a glut of available homes, the market lined up heavily in favor of buyers and prices sank. Back then there were low or no down payments, fraudulent lending practices, and loose lending standards and programs, allowing anyone to get a loan and purchase a home. The average buyer FICO score was 681. Today, buyers are purchasing with higher down payments, tight qualification and lending standards, and the average FICO score for buyers is 745. Cash-out refinances accumulated for years leading up to the Great Recession. Yet, today, pulling cash out has been plunging as rates have climbed. There is plenty of tappable equity and there are far more homeowners who own their homes free and clear.

Great Recession Housing	Today's Housing
✗ Glut of Homes on the Market	✓ Very limited Inventory
✗ Low Demand	✓ Low Demand
✗ Way Too Much Supply Verus Low Demand, Heavily Favoring Buyers	✓ Low Supply and Low Demand Create Balance
✗ Low or No Down Payments Were Common	✓ Large Down Payments
✗ Subrime Loans, Pick-a-Payment Plans, Teaser Rate Adjustable Mortgages, Fraudulent Lending	✓ Tight Qualifications and Strict Lending Standards
✗ Average Buyer FICO Score = 681 (2006)	✓ Average Buyer FICO Score = 745
✗ Flood of Cash-Out Refinances - Homes Used as ATM's	✓ With Higher Rates, Cash-Out Refinance Activity is Plunging
✗ National Delinquency Rate for June Prior to the Great Recession (2000 to 2005) was at 4.7%	✓ The Current National Delinquency Rate is at 2.8% and is the Lowest Level Since Tracking
✗ $5 Trillion of Tappable Equity (Amount of $ That Can Be Refinanced and Still Have 20% Equity)	✓ $11 Trillion of Tappable Equity
✗ 31% of All Homeowners Had No Mortgage (2006)	✓ 37% of All Homeowners Have No Mortgage

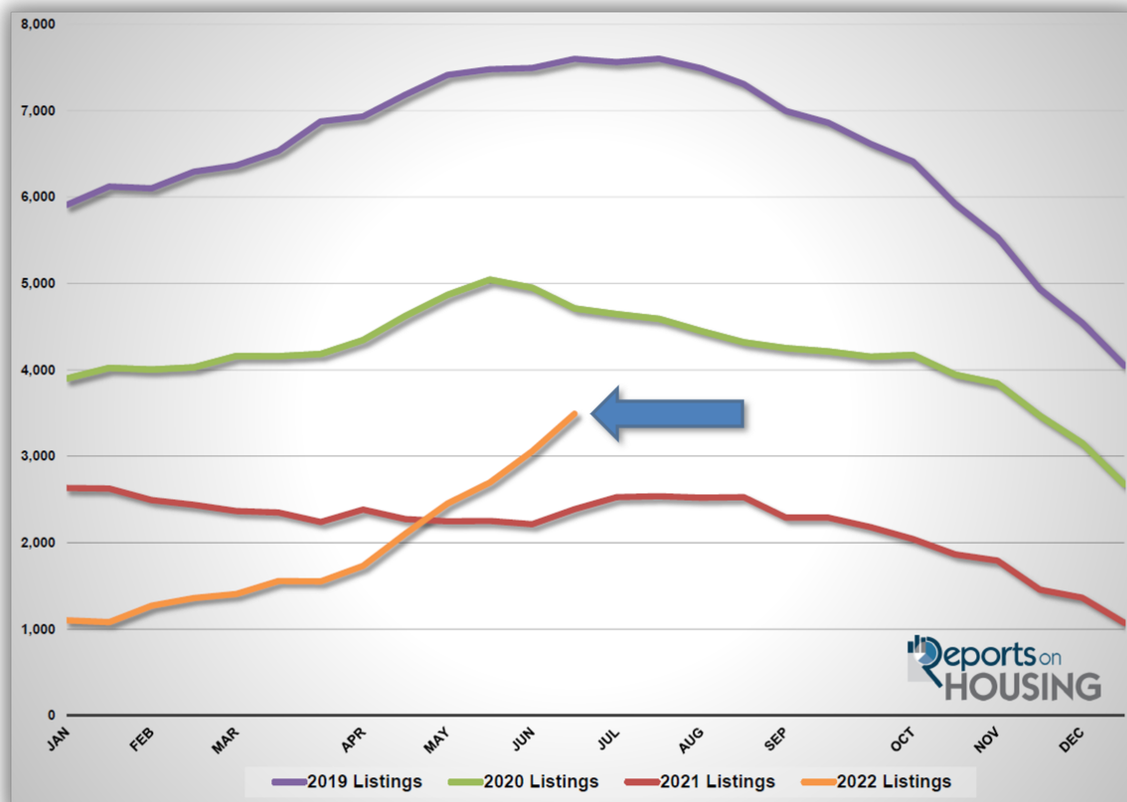
In 2007, homeowners were upside down, owing more than their homes were worth. Banks were in control of the housing market as there was a wave of foreclosures and short sales that lasted years because of enduring poor lending standards. Today, the delinquency rate is at its lowest level since tracking, much lower than the average from 2000 to 2005.

Looking at now versus then side by side it is easy to understand why the two time periods are completely different. Since the Great Recession, home buyers have been stronger. With the vast majority of homes sold over the last couple of years procuring multiple offers, Darwinism has taken place, survival of the fittest. Only the strongest buyers have been winning: strong credit, money in the bank, good jobs.

It will be impossible to build an inventory that resembled the glut of homes available from 2006 through 2011. Today's 3,491 home level is 80% less than the height reached in 2007 of nearly 18,000 homes. The inventory right now in Orange County is 47% less than the 3-year average of 6,633 between 2017 and 2019, when things were normal prior to COVID. And, back then, home values were methodically climbing each year.

ORANGE COUNTY ACTIVE LISTING INVENTORY

YEAR-OVER-YEAR (2019-2022)



Yes, supply is rising. Demand is muted. The housing market is slowing. The number of offers received is dropping. The number of offers over the asking price is falling. Sales are down. The number of price reductions has been steadily climbing. The pace of housing, the Expected Market Time (the amount of time between hammering in the FOR-SALE sign to opening escrow) has slipped from an Insane Seller's Market (less than 40 days) in March when it was at 19 days to a Hot Seller's Market (between 40 and 60 days) today at 56 days. It is about to slip into a Slight Seller's Market (from 60 to 90 days). Later this year it will decelerate to a Balanced Market (between 90 and 120 days), a market that does not favor buyers or sellers. And, if mortgage rates remain elevated above 5.5% with duration, it will most likely become a Slight Buyer's Market (between 120 and 150 days) by year's end. Yet, in 2007, the Expected Market Time surpassed 400 days in Orange County, a Deep Buyer's Market (over 150 days), when home values sank.

Even if housing were to slip into a Slight Buyer's Market, it would have to be at those levels for months before prices start to decline. And any declines would be small. There is a real stickiness to home values. Very few sellers really "have to" sell. Homeowners are in a very strong position with plenty of equity, low mortgage rates, high credit scores, good jobs, and money in the bank. There will be no reason to panic. Values will not plunge.

ACTIVE LISTINGS

THE CURRENT ACTIVE INVENTORY SURGED HIGHER BY 14%.

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The active listing inventory soared higher, adding 432 homes in the past couple of weeks, up 14%, and now sits at 3,491, its highest level since November 2020. As demand continues to decline, the inventory rises have been gaining steam. It was the largest two week rise since April 2018. Warmer, longer days mean summer distractions are here. That is when demand falls due to all of summer's extracurricular activities, vacations, and family time, and the inventory methodically rises until it peaks between mid-July and August. But, due to the shift in the market, many sellers will come on the market overpriced, expecting housing to behave like it did from July 2020 through March of this year. Instead, these overpriced properties will accumulate without success and will ultimately lead to a delayed peak between October and Thanksgiving. Price reductions are becoming more common with 31% of all available homes reducing their asking prices. This will continue to grow and gain steam over the coming months.

Last year, the inventory was at 2,388, **32% lower, or 1,103 fewer.**

The new trend that developed this year is a sharp decrease in the number of homes coming on the market. For the month of May, there were 3,511 new FOR-SALE signs in Orange County, 654 fewer than the 3-year average prior to COVID (2017 to 2019), 16% less. Missing signs counter the potential rise in the inventory.

DEMAND

DEMAND DROPPED BY 8% IN THE PAST COUPLE OF WEEKS.

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Demand, a snapshot of the number of new escrows over the prior month, decreased from 2,020 to 1,861 in the past couple of weeks, plunging 8%, the largest drop of the year. It is at its lowest level for an end to June since tracking began in 2004, very close to 2007 when it was at 1,894. With the recent spike in mortgage rates a few weeks ago, the marketplace has been digesting this new higher rate environment; thus, the recent large drop in demand. From here, expect demand to continue to slowly fall throughout the summer months.