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Growing Concern about a New Housing Bubble

Home prices are reaching new highs and forcing some potential buyers into fierce bidding wars, raising concerns that the housing market could be in a bubble. For roughly a year, the COVID-19 pandemic has fueled a housing frenzy, with low mortgage rates, federal stimulus, lockdowns, and remote working.

At the same time, COVID-19 has exacerbated an existing housing shortage caused by significant delays in new home construction. The housing shortage has also sidelined sellers concerned about letting strangers in to view their homes during a pandemic.

The median home price rose 20 percent in April year over year to \$347,500. The average home also spent just 20 days on the market before being sold, according to data from Redfin. In February, home prices rose 12 percent year over year, marking the fastest rate since 1996, according to the S&P CoreLogic Case-Shiller home price index.

Buyers with equity in their homes or savings have added to the demand. Offers well above the asking price are commonplace. Those who are unable to offer more have been waiving inspection requirements to get an edge with sellers.

Experts say the home buying frenzy is not likely to cool off anytime soon as the same signals that foreshadowed the collapse of the housing market in 2006 are not present in today's market.

While mortgage rates remain low, lending standards have tightened considerably

since the Great Recession. The 2010 Dodd-Frank reform law helped to establish stricter lending standards. Today banks lend to only the safest buyers due to uncertainty created by the pandemic.

"A lot of the people who are buying today ... are among the most creditworthy in the history of mortgage lending," said Reggie Edwards, an economist at Redfin.

These buyers have more savings and have significant equity immediately because they put cash up front, added Edwards. He does not believe there will be any concerns about people being unable to afford their homes, unlike in 2006. Back then, lenders were pushing families to buy homes they could not afford due to an oversupply.

Federal Reserve Chairman Jerome Powell said the Fed has not seen any signs of financial instability or increasing risks. However, he is concerned about how potential first-time homebuyers could miss out on a chance to buy a home after the COVID-19 crisis, which would dramatically increase wealth inequality.

Housing construction has also increased in recent months. Loosening restrictions in urban areas could lead to urban buyers opting to stay put instead.

However, experts are concerned the intense demand due to the housing supply



shortage could push a growing number of Americans out of homeownership entirely. This could impact the market for many years, especially for Black and Hispanic Americans, who have experienced discrimination in the housing market over the years. These sectors have less family wealth than White Americans.

All of the down payment savings mean virtually nothing if housing prices continue to rise, said Lawrence Yun, chief economist for the National Association of Realtors. More supply would mean a better chance for millennials and minorities to become homeowners, he added.



Biden Administration to Reinstate Obama Fair-Housing Policies



The Biden administration has started to roll back key changes to fair-housing policies that were made during the Trump administration. The Department of Housing and Urban Development (HUD) submitted newly-drafted versions of the fair-housing rules for review to the Office of Management and Budget.

Although HUD officials are not permitted to comment on rules while under review, one of the policies that has been submitted is related to the Affirmatively Furthering Fair Housing rule that was established by the Obama administration in 2015. The rule was intended to comport with the 1968 Fair Housing Act, which sought to make local governments nationwide desegregate neighborhoods. It would require localities that receive HUD funding to perform regular assessments of their efforts to ensure fair housing availability.

The Biden administration also intends to revive the disparate-impact rule, which would make it easier to file lawsuits against housing providers, such as mortgage lenders and landlords, when their practices are perceived to be discriminatory. Proponents of the disparate-impact rule claim the changes made under HUD Secretary Ben Carson made it “virtually impossible” to initiate a disparate-impact claim. Fair housing advocates point out that the Carson rule changes made it too difficult to prove discriminatory policies were intentionally created with the goal of exclusion.

Builders Add Escalation Clauses to Offset Lumber Prices



To help protect themselves against the potential impacts of ongoing price increases in the lumber market, some home builders are adding escalation clauses to their sales or construction contracts.

The price of lumber continues to in-

crease and has become more volatile in recent months, nearly doubling and continues to rise exponentially. The price and availability of building materials pose some of the biggest challenges facing home builders at a time when there is record-low inventory in many markets across the U.S.

Forty-seven percent of homebuilders said they planned to include price escalation clauses in their sales contracts, according to the most recent National Association of Home Builders and Wells Fargo Housing Market Index survey. Roughly 10 percent of homebuilders are using both shared price clauses and tying the final house price to the price of building materials in their contracts.

While the price escalation clauses can help protect builders, they could lose sales if customers are unable to afford the escalated housing prices. The survey also found that in addition to price escalation clauses, homebuilders are also addressing high prices by pre-ordering lumber (29 percent), obtaining price guarantees from suppliers (22 percent), delaying starts (19 percent), laying the foundation before pausing prior to constructing the framing (10 percent), and more.

Congress Introduces \$15,000 First Time Homebuyer Tax Credit



Answering President Joe Biden’s call for a first-time homebuyer tax credit of \$15,000, United States Rep.

Earl Blumenauer (D-OR) and Rep. Jimmy Panetta (D-CA) have introduced the “First-Time Homebuyer Act,” which provides a tax credit for up to 10 percent of the purchase price of a home or \$15,000, whichever is less.

“This legislation is just one element of the big, bold housing agenda we are promoting to combat the housing affordability crisis and address centuries of overtly racist and discriminatory housing policies that have left massive wealth, homeownership, and opportunity gaps between white communities and communities of color,” said Blumenauer.

To become eligible for the full tax credit, the buyer must not have previously owned or

purchased a home in the last three years prior to claiming the tax credit. The program is specifically targeted at low- and middle-income earners. Participants are disqualified if they earn more than 160 percent of the median income for the area where they purchase a home. The purchase price must also be no more than 110 percent of the area’s median home purchase price. Borrowers may claim the credit on primary residences purchased after December 31, 2020.

Borrowers are also required to use their home as a primary residence for at least four years.

How Homeowners Can Get an Advantage in a Difficult Housing Market



Homebuyers are facing a tough reality: their bargaining power is at an all-time low.

Despite the current market conditions, some buyers are able to make deals. Here is how homeowners are getting ahead in a seller’s market.

Look at listings that have gone stale.

In today’s market, it’s assumed if a home takes more than a week to sell, it must be a bad one. However, smart agents say this is not true and these homes could be excellent opportunities.

Be ready to offer more than the asking price. Homebuyers should be prepared to offer more for a home than its list price. The list price has become more of a starting bid in today’s housing market, like an auction; so, offering the exact list price isn’t likely to win the property.

Bring cash. Roughly 23 percent of homes were bought without a loan, up from 19 percent from one year ago. Sellers weighing the merits of cash vs. contingent-on-finance offers will go with the cash offer almost every time. Make sure to also have cash on hand to make up the appraisal gap.

Be patient. For buyers, patience is paramount. Expect to feel burned out competing and losing multiple times. However, homebuyers should be patient and be ready to submit their next offer when the right deal comes along.

Housing Market Now as Hot as Before the 2008 Crash



Home price growth has reached a high not seen since 2006, the peak of the housing bubble. Despite the fact that home prices are continuing to rise, experts say today’s market and the market 15 years ago are very different.

Another economic bubble like the one 15 years ago would be dire news, as the 2008 financial crisis caused turmoil across the globe. However, while today’s price inflation is similar to 2008, the drivers behind the current real estate market are vastly different.

As of February 2021, U.S. home prices rose 12 percent year-over-year, the fastest pace since 2006, according to the S&P CoreLogic Case-Shiller Index. All 20 cities tracked in the index saw prices grow well above their respective median levels.

CoreLogic’s own home-price index also recorded the largest annual gain in home prices since 2006 in February. This index tracks home prices across the country while the S&P’s index measures the home price changes in 20 metro areas across the country.

While lending and market optimism drove the last housing bubble, today’s housing conditions are largely driven by a nationwide supply shortage. The monthly supply of homes is at a record low of about 2 months, which means sellers are demanding increasingly large sums of money for their properties. In 2009, there was more than 12 months of supply.

Soaring Lumber Prices Add \$36K Premium to New Home Costs



Buyers who want to purchase newly constructed homes are now paying more not only because of competition from other buyers but also skyrocketing lumber prices.

The increase in lumber prices has resulted in a \$35,872 price for the average new single-family home and \$12,966 to the price of an average new multifamily home. The additional cost of a multifamily home means that renters

pay an additional \$119 in rent for apartments, according to housing data from the National Association of Home Builders.

Some builders are addressing the lumber price hike by slowing down production. Despite this, single-family housing starts have spiked 41 percent in March compared to one year earlier, according to data from the U.S. Census Bureau.

Over 25 percent of single-family homes on the market in the first quarter 2021 were new construction, which was the highest level ever recorded, according to data from Redfin.

For a new home, lumber is typically used for the framing, cabinets, doors, windows, flooring, and outdoor decks. Builders are also facing cost increases on other materials, as well. Drywall is up 7 percent year over year, 27 percent for copper, and 11 percent for land prices. Single lot prices have jumped this year due to high demand from buyers and low supply.

Cities Where Employees Are Likely to Return to Work



Workers forced to shift to working remotely are starting to return to the office roughly a year after the start of the COVID-19 pandemic. Still, the return to normal work life has been slow as companies weigh the pros and cons of coming back to the office.

According to a study by the Kastle Systems, as of the week ending April 21, the number of employees working in offices rather than at home was up compared to the week ending March 3, 2020 by:

- ✳ Dallas, Texas: 41.2 percent
- ✳ Houston, Texas: 39.3 percent
- ✳ Austin, Texas: 38.8 percent
- ✳ Philadelphia, Penn.: 26.6 percent
- ✳ Los Angeles, Calif.: 23.6 percent
- ✳ Washington, D.C.: 22.4 percent
- ✳ Chicago, Ill.: 21.2 percent
- ✳ San Jose, Calif.: 17.4 percent
- ✳ New York, N.Y.: 15.8 percent
- ✳ San Francisco, Calif.: 14.2 percent

Even as more Americans get vaccinated, employees have been slow to return to working in offices. Sixty-six percent of employers expect to implement some kind of hybrid work model to allow workers to work remotely at least part-time.

However, 44 percent of corporate leaders said they will still expect employees to work from the office for the majority of the workweek, according to a survey conducted by Vocon.

Best Value-Add Home Improvements Under \$10K



Renovations can get pricey, but there are many inexpensive upgrades that can add significant value to a home. Here are the best value-add home improvements for under \$10,000.

Kitchen Remodeling: Potential buyers list a modern kitchen as one of their top preferred amenities. Consider refinishing the cabinets or replacing the countertops to update the kitchen on a budget.

Update the Bathroom: Bathrooms in many homes are outdated and worn. Painting, updating poor lighting, and deep cleaning areas such as sink, toilet, and tub, can easily transform an outdated bathroom.

Walk-in Closets for Additional Storage: Many homes lack sufficient storage which means it is easy for clutter to build up. Adding a walk-in closet by adding custom shelving or turning an entire room into a closet can make a home seem more spacious.

Other top ideas for upgrading a home for less than \$10,000 include switching out old carpet, changing part of the home into an open floor plan, updating the interior or exterior paint, and replacing windows or cooling/heating.

How to Help Your Clients Achieve a Fast Closing



Today’s buyers and sellers want a fast escrow closing. However the typical escrow closing takes roughly 30 to 60 days to com-

plete and the process can be difficult and filled with delays. Steps, such as lender approval, property inspections, title issues, and contingencies written into the sales agreement, could mean things take longer than expected.

While the average buyer will likely get frustrated with the back and forth process of providing documentation, there are several things you can do to make the process less taxing for your clients. Here are a few tips on how to help your clients achieve a fast closing.

Working with Sellers

If you are working with a seller, make sure to ask your client upfront if they prefer a fast closing. By doing so, you may be able to negotiate a higher commission. If the seller agrees, make sure to advise them to get inspections done before they plan to list their property.

Your goal is to sell the property to prospective buyers and do the hard work for them. Work with the seller to anticipate questions buyers may ask so you can have the answers in hand with backup documentation available if required.

Working with Buyers

If you are working with a buyer in a state

where dual agency representation is permitted, offer to represent the buyer as their agent for both selling their existing property and buying their new property. Dual agents are permitted in all states except Alaska, Colorado, Florida, Kansas, Maryland, Oklahoma, Texas and Vermont.

As with sellers, you should ask your client upfront if they want a fast closing, such as within 10 days. Use a title and escrow company that has a track record for fast closings and is experienced in dealing with problems during the escrow process if they may arise.

You can also suggest that your client offer an all-cash no financing contingency purchase or a larger down payment as a means of

expediting the closing process. You can also suggest the buyer waive any contingencies or other clauses that will result in further negotiation with the seller. However, take care to avoid creating conditions that would make the seller favor another buyer's offer.

Finally, keep your clients updated. The closing process will seem longer and more frustrating to your clients if they are not sensing progress. As an expert Realtor, you can save buyers and sellers valuable time by providing them with everything they need to complete the closing process, which ultimately means more deals closed and commissions for you.



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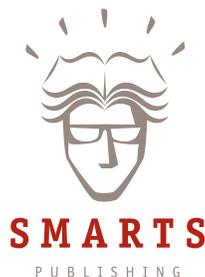
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