

The Real Estate Guru: Answering Housing Market Questions #4

By Phil Immel

Question: Why are there so many conflicting articles about the housing market locally and nationally? We just want to buy a house.

Answer: The media is infamous for selling headlines. What better time of year to “spook” people than October?

As a student of the business for more than four decades and an avid reader, it is perplexing, to say the least. Don't just read the headlines; read the entire column. Many times, it contradicts itself.

What's happening nationally is also happening locally, with a few nuances. The housing market is hyper-local, even in Orange County. For example, what's happening in Yorba Linda could be different in Dana Point and coastal cities.

As a homeowner or potential homeowner, focus your research on the facts of your geographic area. Some trends are nationally driven, like mortgage rates. Supply and demand of homes should be looked at by zip code.

If you are very serious about research, you can subscribe to my favorite sites, which I believe are credible and factual: reportsonhousing.com and altosresearch.com.

Other sites often quoted by the media are CaseShiller Index, Redfin, Zillow and realtor.com. I believe these are highly inaccurate (e.g., Zillow Zestimate of home value) and confusing to the consumer.

Alternatively, an educated realtor in your market area can help decipher fact from fiction.

Question: With the stock market off more than 20% this year, isn't it likely that home values will drop equivalently?

Answer: Although logically, it would seem that there is a direct correlation, it isn't true. Some economists and consumers think home values will drop 20-30% this year. Generally, the largest assets that consumers have are their home and stock portfolio.

Interesting that potential homebuyers have already lost more than 20% in their stock portfolios, yet their home value hasn't dropped in coastal areas. Why? Supply and demand, Economics 101. Sellers do not have to sell.

According to reportsonhousing.com, 72% of homeowners have loans that are 4% or lower. Their motivation to buy with interest rates pushing toward 7% is unlikely.

Additionally, their property taxes may double or triple. The primary motivation for sellers coming to market would be divorce, death, or moving out of state for tax reasons.

A certain percentage of homeowners that do buy a more expensive home are likely to keep their existing home with a 3% mortgage and rent it out, as rental rates have escalated significantly. Thus, another reason inventory will be very tight over the next one to two years.

Post-pandemic inventory is 50% less than it was prior to the pandemic.

In conclusion, prices should remain firm, and appreciation will decelerate from 20% a year to perhaps 5% to 10% a year over the foreseeable future, compared to the stock market that has already dropped 20% or more.

Buyers who believe home prices will drop dramatically may want to reconsider the factual data and the opinions of others.

Have a real estate question? Email Phil Immel at phil@realestateguru.com. Visit realestateguru.com. The Guru has more than four decades of experience listing and selling homes in South Orange County. As a licensed real estate broker, Phil majored in Real Estate at San Diego State University and is also an expert in mortgage, title, escrow, appraisal and negotiations.