DIVORCE REAL ESTATE
BULLETIN

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# A YEAR LATER:

## THE COVID EFFECT ON AMERICA'AS REAL ESTATE MARKET

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A year ago, we were told there would be "two weeks" of lockdown to contain a rapidly-spreading virus. And two became three, then four, and, well ... the rest is history.

The timing for real estate was like halting a roller coaster at the top of its peak: Spring Market. The height of the busiest season in real estate was getting ready to roll and the lockdowns left buyers, sellers, and real estate professionals hanging in limbo, waiting to see what their next move should be.

And for many of us who were around then, the PTSD of the 2008 market crash was making us all itch.

Turns out, the housing market outperformed any other year in history with home prices reaching an all-time historical high: $370,000 in March 2021, a whopping 15.6% increase over last year.

As with any dramatic pendulum swing, new challenges are unveiled and questions arise. Here, we will break down the most common ones.

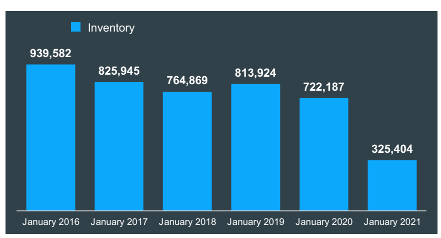
### HOW HIGH WILL PRICES GO?

This is the question. In order to answer it, we need to pay close attention to supply and demand, especially as it relates to affordability.

**Affordability is Healthy:** Nationally, 55% of households can afford a median priced home (C.A.R. Traditional Housing Affordability index). The danger zone for affordability is below 20%, so despite the record level pricing, we have a healthy affordability thanks to low interest rates.

**Supply & Demand:** Economics 101 taught us that the tighter the supply and greater the demand, the higher prices climb. The following chart illustrates the shocking reality of just how low our national inventory levels are—less than half the levels of last year and nearly 1/3 of the levels in 2016:

**Housing Inventory to Start Each Year**




Hence, prices skyrocketed. How much longer this can continue is also directly related to the supply chain of new housing.

There are two ways to solve an available housing shortage: build more homes or list more homes.

**Can we build our way out of this?** Many will argue that homes can't be built fast enough to have any kind of short-term impact on our supply problem. For those on the brink of construction and ready to hit the market later this year, the *cost of lumber* is putting a wrench in many builders' construction plans.

Why does lumber cost so much now? Due to a misread of the lumber market, many lumber dealers and mill operators panicked when COVID-19 hit and pulled back on production. Additionally, due to COVID restrictions, mills cannot operate at a full capacity in order to produce lumber. Couple that with the remodel boom brought on by the lockdowns, and we have a supply and demand crisis going on in materials—a whopping 188% increase in the costs of lumber since the beginning of the pandemic.

So what about listing more homes? The biggest reason why we aren't seeing more homes emerge on the market is because sellers have nowhere to go due to the high costs of housing.

Ironically, the very reason they are motivated to sell (high home value) is the same reason they don't. They fail to see how they'd be better off selling and trading up.

Many homeowners are also enjoying beautiful fixed rate mortgages, which means that as rates rise, they will need to trade in those 2-pointers for higher ones, and that could also lead to many homeowners staying put.

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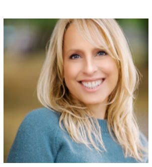

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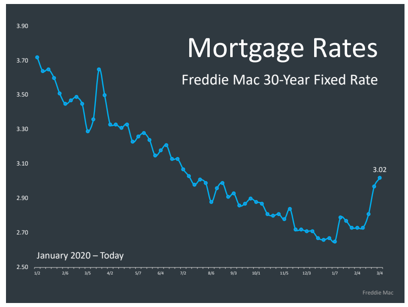
## HOW LONG WILL RATES REMAIN LOW?

Mortgage rates have started their uptick, hitting 3% in Q1 of this year. As the cost of borrowing money increases, the values of home prices will level off due to diminished buying power.

The immediate future of rates is best explained by Sam Shafter, Chief Economist at Freddie Mac: "The rise in mortgage rates over the next couple of months is likely to be more muted in comparison to the last few weeks, and we expect a strong spring sales season."




## IS THERE A HOUSING BUBBLE?

It's a fair question. After all, many characteristics of the formation of a bubble exist now: a buyer frenzy and an inordinate run-up of prices.

Looking back to the crash of 2008, there are stark differences between how the market performed then vs now. For one, there is equity in homes now. Remember, a hallmark of the home loans back then were the 100% loan-to-value products as well as the neg-am (negative amortization) payment options that caused loan balances to increase as time went on rather than decrease. Further, loose lending practices meant borrowers who really couldn't afford them were in the market and it all came home to roost.

Also, pricing is not behaving now like it did then. The demand we have now is real, based on supply and demand vs. unsustainable loan products in the early 2000s.

As for foreclosures, equity is playing a vastly different role now. During the last housing crisis, values plummeted which left filled-to-the-brim borrowers upside down in no time, so foreclosure or short selling was their only option to get rid of their unsustainable mortgage payments.  Simply put, if someone can't afford their house payments, they now have the option to sell their house and cash out in 6-8 weeks rather than lose it to foreclosure.

Looking ahead, the average of major home price forecasts show a 5-6% increase in home prices in 2021.

"Home sales continue to ascend in the first month of the year, as buyers quickly snatched up virtually every new listing coming on the market ... Sales easily could have been 20% higher if there had been more inventory and more choices," according to Lawrence Yun, Chief Economist of N.A.R..

### What is a CDRE?

A CDRE handles the sale of real property in family law cases as a neutral expert. A CDRE has knowledge and special skills to handle the effects of the family law process on divorce listings.

### Complimentary Services:

- Title Documents
- Property Profiles
- Chain of Title
- Expert Advice to Attorneys with Solutions to Real Property Issues

# RAISING THE BAR

Raising the Bar is a monthly CLE program, dedicated to providing relevant and timely topics to family law attorneys.

To see the next Raising the Bar class, go to **rthebar.com**.

Contact me if you'd like a complimentary pass to attend as my guest. We also have recordings of past sessions available (without CLE credit).

## OUR SPRING SCHEDULE

**April 28, 2021**
**12:00-1:15pm PT**
***David Ruegg***
For Whose Benefit: Military Retirement Programs and Divorce

**May 26, 2021**
**12:00-1:15pm PT**
***Darryl Freeman***
How Culture Affects Cases, Orders, and Settlements

**June 23, 2021**
**12:00-1:15 PST**
***Frank Napolitano***
Winning the Battle But Losing the War: The Hidden Impact of Financial Decisions in Divorce