

UNEXPECTED SLUMP IN DEMAND

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HIGHER 30-YEAR MORTGAGE RATES ARE HAVING A MAJOR IMPACT ON ORANGE COUNTY DEMAND, NOW AT LEVELS FAR BELOW TYPICAL SPRING AVERAGES.



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DEMAND SLUMPING

OVER THE PAST MONTH, DEMAND DROPPED BY 6% WHEN IT NORMALLY RISES BY 4%.

In 2002, the Los Angeles Angels won the World Series for the first time in franchise history. The next year they missed the playoffs completely with a losing record. After hoisting the Commissioner's Trophy the year before as champions of the world, they missed post season play due to a slump in wins to close out the year from July through September. The Orange County housing market is amid a similar slump in the middle of the Spring Market following the best year for local real estate since 2005.

According to Mortgage News Daily, 30-year mortgage rates have risen from 3.27% on December 31st to 5.55% today, a climb of more than 2.25%. Rapidly rising rates eat into affordability significantly. For example, the monthly mortgage payment for a \$1.1 million purchase with 10% down has risen from \$4,319 on December 31st, when rates were at 3.27%, to \$5,652 per month today at 5.55%. That is a \$1,333 per month rise, or nearly \$16,000 per year. The significant change occurred in just four short months.

Payment on a \$1,100,000 Home*			
3.27%	5.55%	Monthly Increase	Annual Increase
12/31/2021	5/2/2022		
\$4,319	\$5,652	\$1,333	\$15,996

*Mortgage Payment is Principal & Interest Only & 10% Down Payment



California Association of REALTORS® reported that the median detached home in Orange County rose to \$1,305,000 in March, up 27% in contrast to last year's \$1,025,000 median. At these levels, rising mortgage rates significantly impact payments.

In response rising rates, demand has slowed considerably. Demand, the prior 30-days of pending sale activity, has been on the decline after peaking on March 31st, shedding 6%, or 132 pending sales, since. Usually demand peaks from the end of April to the end of May. This year, with rapidly rising rates, many buyers backed off purchasing, the peak occurred early, and not everything is selling instantly.

Today's demand readings are muted compared to last year, 2,154 versus 3,081. That is down 30%, or 927 pending sales. Keep in mind that last year was the best year for Orange County housing since 2005. Yet, the 3-year average for demand prior to COVID (2017 to 2019) was 2,780. Today's demand is down 23%, or 626 pending sales, compared to the average.

Demand (Last 30 Days Pendings)	Demand Last Year	Year Over Year %	Year Over Year #	Demand (Last 30 Days Pendings)	Demand 3-Year Average	Today vs. 3-Year Average %	Today vs. 3-Year Average #
4/28/2022	4/29/2021	%	#	4/28/2022	(2017 to 2019)	%	#
2,154	3,081	-30%	-927	2,154	2,780	-23%	-626



Demand has stalled this spring. During the Spring Market, demand normally is on the rise along with the active listing inventory. More homes come on the market during the spring than any other time of the year. There is cyclically more escrow activity because that is when families desire to open escrow in hopes of closing and moving at the end of spring or during the summer when the kids are out of school. The housing market cyclically revolves around families and the school year. Spring is when there is the most activity, followed by summer. Then housing decelerates during the autumn after the kids go back to school. It then downshifts further during the holidays, the slowest time of the year.

This year is a bit different. Housing is experiencing substantially less activity. Low mortgage rates fueled the explosion in demand in 2020 and 2021. Today's considerably higher mortgage rate environment has cooled demand. As a result, the active inventory has grown by 552 homes in the past month, up 36%, and the Expected Market Time (the time between pounding in the FOR-SALE sign to opening escrow) has risen from 20 to 29 days. The market is still an insanely Hot Seller's Market, and the inventory is at unprecedented low levels, but the market is currently evolving fast. The market will continue to cool, demand will drop, the inventory will surge higher, and the Expected Market Time will rise.

Housing is moving away from everything selling in an instant. Instead, carefully arriving at the asking price will swiftly become the fundamental initial step in successfully selling. The housing inventory will grow on the backs of homes that will not sell. Homes in inferior locations, like backing to a busy street, need to be priced according to their inferior location. Homes that are in poor condition and need a lot of work must adjust their prices appropriately. Sellers who **OVERPRICE** their homes will sit on the market until they adjust to their **Fair Market Value**. Housing will no longer absorb overpriced homes, or homes in poor condition or a poor location.

Demand is slumping. Along with slumping demand comes a paradigm shift, a change in the way buyers and sellers will approach the market to achieve their real estate goals.