

REAL ESTATE ANALYSIS



Cascade
Sotheby's
INTERNATIONAL REALTY

STATE OF THE MARKET

EARLY 2020

A LETTER FROM BRIAN LADD



MARCH 16, 2020 2019 STATE OF THE MARKET - 2020 OUTLOOK

I wrote the first version of this 2020 Housing Outlook in January, and am reassured that after I re-read it through the lens of the recent disruptions—coronavirus and the corresponding stock market correction—my analysis and outlook of the market still hold true. Wise real estate investments are made with a calm hand, over years, and as part of an overall life financial plan. These shorter-term crises do not impact my long-term belief in the strength and future of real estate in our amazing hometown.

It is my sincere goal that I can successfully interpret the economy and real estate market through the lens of my experience, all while providing impartial guidance that serves the long-term interests of our clients. Real estate done right provides a solid financial and emotional foundation for our lives, and I hope to be a guide on your journey.

2019 RECAP

It was an extremely interesting year in both the overall economy and the housing market. Most sectors of the economy over-performed expert expectations, and I will take a moment to discuss the factors that I believe most affect housing on a national scale and then try to relate it to our market here in Central Oregon.

Stock Market and Unemployment

While housing does not have a direct correlation with the overall economy (housing prices went up in 3 of the last 5 economic recessions [Chart 1]), the underpinnings of record-low unemployment of 3.5% and a stock market that had a banner year with a DOW gain of 23.5% have certainly increased demand and pricing pressure on housing. The recent stock market correction in March of 2020 will have some effect on housing demand, but that correlation primarily applies in the luxury and second housing sectors whose purchases often utilize funds pulled from the stock market. Here in Central Oregon, the growth in jobs has been remarkable with Bend leading the nation in job growth for small metro areas in 2017, 2018, and 2019. (Milken Institute)

Supply

Historically, housing corrections (price decreases) were driven by an over-supply of housing. Despite being at year 8 of upward momentum in pricing, we simply have a shortage of housing across the nation. Banking regulations and practices have changed, and the access to capital for builders and developers is constrained, resulting in a short supply of homes. In Bend, the limited access to enough readily developable land with available infrastructure (sewer, road, etc.) and zoning within our Urban Growth Country has provided constraints on development. At the start of 2019, lack of pricing affordability was slowing demand and housing inventory was growing in 2 of 3 markets across the nation. However, by year-end, only 1 in 10 markets were growing in inventory—a trend that has continued into 2020. This hit particularly hard here in Central Oregon, which has less than 4 months of housing currently on the market (Chart 4). Regardless of future economic trends, this extreme housing shortage will provide some resistance against future price corrections.

Demand

A low-rate environment, wage growth, rising rents, and the expanding housing needs of the millennial generation provided strong demand

on housing through 2019 and should continue into 2020. Interestingly enough, in 2020 millennials will account for 50% of all mortgage originations, more than Gen X and the Baby Boomers combined. It is worth noting that the last time one generation accounted for more than 50% of the home loan originations was Gen X in 2013. Here in Bend, we are witnessing millennials entering the housing market, often after moving here to fill the jobs being created through our robust expansion of our small and medium business ecosystem.

Monetary Policy and Interest Rates

In the start of 2019, the Federal Reserve was of the belief that our sustained economic growth would support at least two increases to the federal funds rate. By mid-year, however, economic concerns internationally changed the Fed's policy, resulting in three reductions in the Fed Fund rate with another decrease in March of 2020, bringing the effective Fed Funds target to 0-.25%. While the Federal Funds rate does not control home mortgage rates, it does influence them through indirect corrections of business funding, wage growth, and inflationary pressures. The extremely low mortgage rate environment is a large reason why housing demand has remained strong despite the high housing prices. Trends suggest that mortgage rates will remain stable under 4% through 2020, with a possibility of further reductions. If this holds true, this will help make purchases possible and provide support for more housing demand and upward pricing. (See our "Lender's Corner" for more details.)

Housing Prices

Nationwide, housing prices went up by 4% in 2019, but the outlook for 2020 is a more modest 0.8%. This is largely driven by the projected 6% increase in housing starts. For Bend, prices went up by 5.8% in 2019 (Chart 2) and only 3% for the homes over \$1,000,000 market (Chart 3). This suggests that the lack of new entry-level homes is putting more price pressures on the median sales price (\$500,000) than the luxury market, which is inherently more discretionary and nuanced.

2020 OUTLOOK

I have been dedicated to this industry for long enough to know that a definitive projection of the future is a fool's errand. However, the data and inputs suggest that, even with our massive disruption of the coronavirus-induced stock market correction and possible recession, Bend has a year of continued growth in the housing market, with continued inventory challenges and upward price pressures, especially on housing at median prices and below. The "Current Trends" section in this report will help you interpret this through the lens of either a buyer or a seller, so I hope you find it useful.

Real estate done well is done methodically, well-informed, confidently, and with the right team.

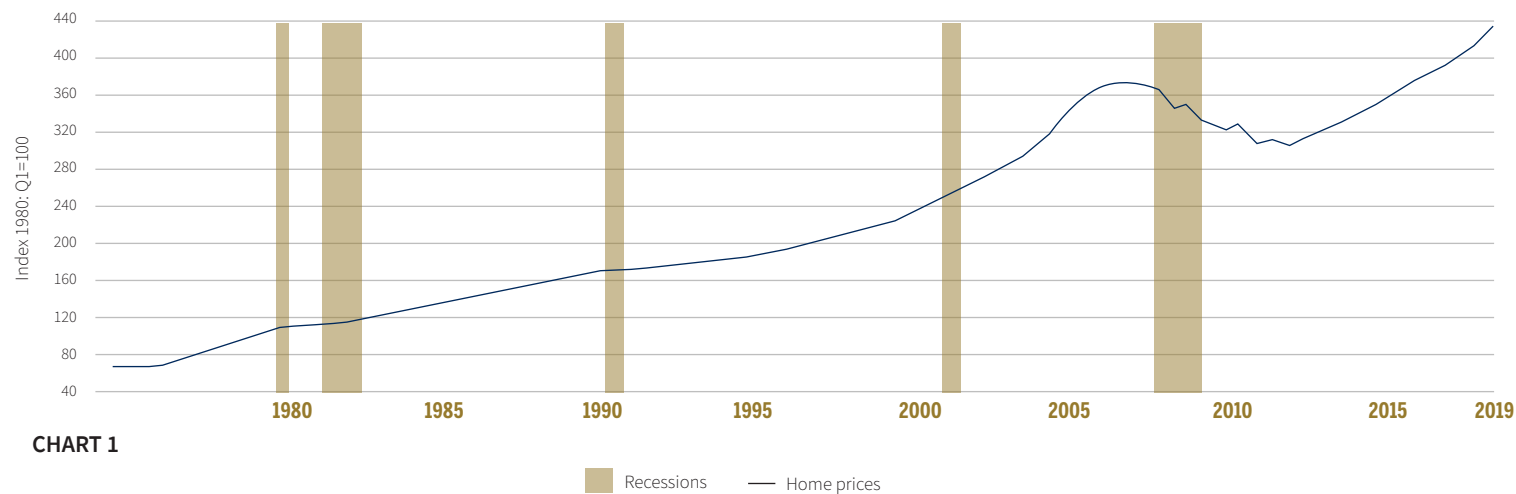
Sincerely,

Brian Ladd, Principal Broker
Ladd Group at Cascade Sotheby's
Bend's Leading Real Estate Agent and Team

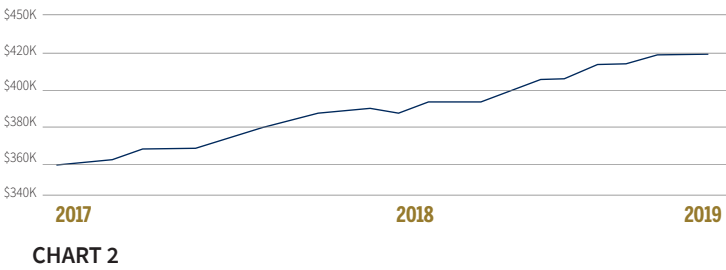
STATISTICS

HOME PRICES AND RECESSIONS

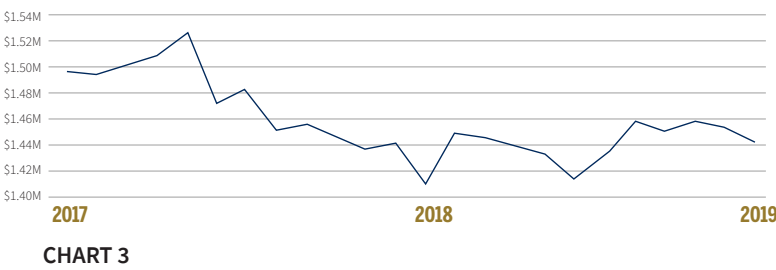
In the last 40 years, recessions have always accompanied an increase in the real estate price index. The exception is the most recent recession, which was partially driven by sub-prime lending and overrun speculation on mortgage-backed securities, both of which are not prevalent today.



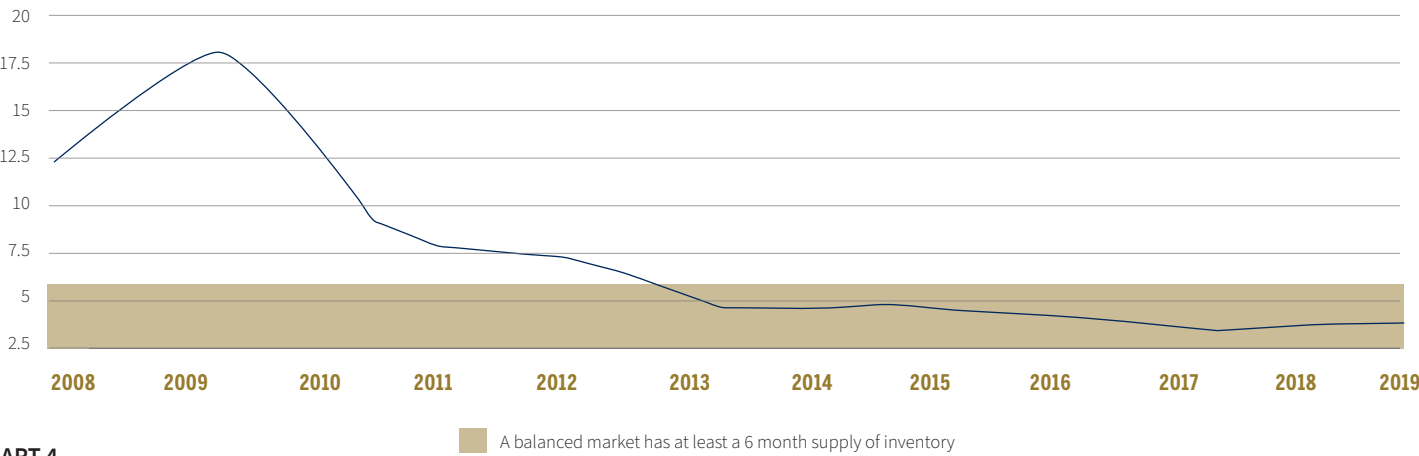
AVERAGE SALES PRICE DESCHUTES COUNTY



AVERAGE SALES PRICE \$999K AND UP - DESCHUTES COUNTY



BEND INVENTORY - MONTHS OF SUPPLY



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LENDERS CORNER

A new decade has begun and like most people, I too am interested in what will be the things that we look back on, when remembering this year that lies ahead. 2020 is setting up to be an interesting one. We are currently in the longest economic expansion on record and on the surface, it seems like there is no end in sight. However, when you look a little deeper, there are signs of change on the horizon. The Federal Reserve has been giving the stock market a boost with a quiet, but renewed interest in Quantitative Easing (QE) while manufacturing and shipping numbers are on the decline, possibly eluding to an economic slowdown starting to build.

The most influential factors looking to play a role in how our economy behaves in 2020, will be the Presidential Election, Global Yields and the domestic Unemployment Rate. Our money markets will likely react to whom is voted in as President and on how “business friendly” they determine the incumbent to be and the push and pull of Global Yields and our domestic



Unemployment Rates will likely play a game of tug-a-war with our Mortgage Rates.

Changes in the mortgage industry to note for the new year include: the Conforming Loan Limit has increased to \$510,400; VA loans will no longer have a loan limit on 100% financing; Appraisal Waivers have increased considerably, helping to improve the speed and ease of closing a home loan.

All in all, I expect 2020 to be a great year for buyers and sellers alike and I am looking forward to seeing how it all plays out. I expect to continue to see a low interest rate environment that will lend itself well to supporting home sales, as our prime sales season approaches. I would love to have the opportunity to speak to you this year and help structure a custom mortgage loan, designed just for you.



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GETTING AHEAD: THE TIME TO LIST IS NOW

It's no secret that spring is the ideal time to list a home, for reasons that range from the practical (school cycles), to the emotive (studies show that spring is a psychological trigger for change), to the aesthetic (homes show nicely when things are green and blooming), and beyond. Whatever the reason, year after year, home sales spike sharply in May, June and July throughout Central Oregon and beyond.

Sellers intuitively understand that listing at the right time is likely to deliver a faster sale and higher sale value. But agents pushing sellers to list homes in May and June are forgetting the second part of the sales equation: available inventory also rises significantly during those months, meaning more homes are available for a similar pool of prospective buyers.

Statistically, a seller is more likely to sell a home when sales are increasing, but before inventory is at its highest. The sweet spot – when there are more buyers than homes on the market – hits in January, February and March. Assuming clients don't want to be preparing a home for sale during the holidays, it's often ideal spend a month or two preparing, then list by February or early March.

However, by waiting to list until June, a seller may be on the back side of that curve, with far more homes on the market than buyers.

Getting Ready to Sell Your Home – What You Need to Know

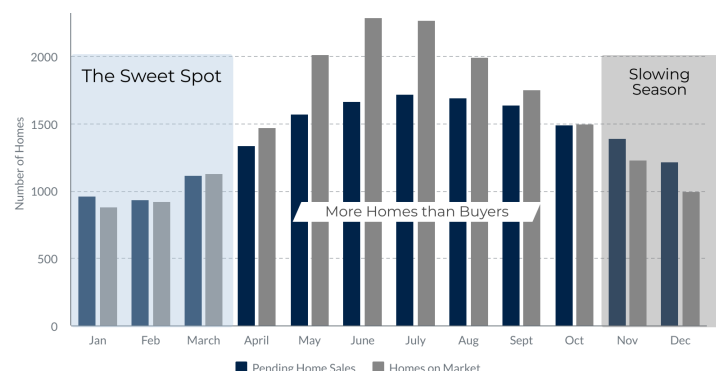
Timing a listing is not an exact science, and each season varies slightly due to shifting weather, political climates, stock market, and beyond. Here are a few keys to leveraging the sales cycle to best serve you:

1. Find the peak sales time. In Central Oregon, the highest home sale season is in late May and early June. This means if you're not ready to list until June, you've already missed the peak time to sell – every day after, fewer sales are happening and less inventory is coming off the market. You'll have to compete with more homes to sell your listing. Goal: Sell in June.

2. Determine average time on the market. Sure, listing a home just before peak sales may mean you sell slightly faster. But just because you list in June doesn't mean your home will sell instantly – you're likely still looking at waiting on the market close to the average amount of time. If that average is 60-90 days, by the time the right buyer comes along, you agree on a price and have a contract in hand, June (and the sales peak) will be long gone. If you list in March instead, your home will be ready to go when the peak hits. Goal: Show up on the MLS in early March.

3. Don't forget prep time. If you're listing in March to sell in June, you'll need to do everything possible to get the home ready in February. That means partnering with a Realtor, scheduling a handyman, hiring cleaners and consider having the home staged for photos, all about 120 days before you're hoping to sell. Goal: Prepare in February.

You may feel like you're over-preparing for a June sale by getting the house ready in February and listing in March, but don't underestimate the time it takes for a successful home sale. You should expect about 165 days to elapse between the preparation stage to the closing date. Underestimating that timeline means you're listing too late – and you may be leaving money on the line.



CURRENT TRENDS



BUYER'S CORNER

For buyers, I think 2020 has conflicting signals but wise purchases can still be made. Inventory of housing remains a challenge and it is often at uncomfortably high prices for buyers. Buyer's need to be prepared when house shopping and be pre-qualified with a lender, have the right real estate agent guiding them, and be ready to make an offer when the right home hits the market. Casual buyers will not be successful in this market.

While housing prices may seem high, trying to time the housing market is about as wise as trying to time the stock market. (Hint-It doesn't work.) The long-term trends on our market are on a solid-footing and real estate purchases should never be made with a short-term outlook.

Perhaps the brightest light for buyers are the extremely affordable interest rates on mortgages. The impact of this on your monthly mortgage payment is huge and should not be overlooked. A 1% increase in mortgage rates is equivalent to a 20% increase on a house price when it comes to your monthly payment. Don't miss this opportunity to tie up long-term (15, 30 year) loans that provide housing and financial security.

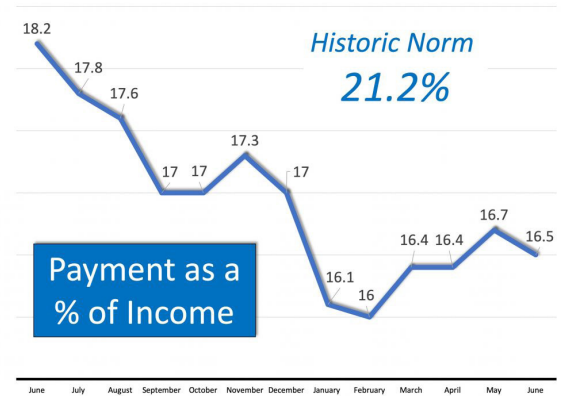


SELLER'S CORNER

For Sellers, the picture is a little different. Values have been climbing steadily for 8 years and now is a good time to exit if your life plans or investment needs are changing. While inventory is tight and competition is lower, avoid the temptation to get greedy. There are still plenty of examples of over-priced homes languishing on the market and failing to sell. Price fairly, have the home prepared to shine in its best light, and find the right real estate team to market and negotiate the sale of the home. Overpriced homes often have a series of price drops and sell below market price. The right real estate team is worth their weight in gold when it comes to maximizing a sale price through a methodical and intentional process.

TAKEAWAYS:

- Housing inventory will remain tight so be ready. Have your budget, loan, agent and research completed ahead of time.
- Interest rates are at historical lows. Take advantage of this for long-term financial peace-of-mind.
- Think long-term. Real estate is a winner over the long-run. Don't try to time the market.



TAKEAWAYS:

- After years of price increases, it is a great time to divest and diversify.
- Don't allow greed to overwhelm your decision making. Over-priced homes do not sell and they become stigmatized.
- It is a nuanced market. Every area, neighborhood, and housing type is performing differently and make sure to have a carefully-crafted sales strategy in mind.



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2019 - CASCADE SOTHEBY'S
MARKET SHARE VS COMPETITORS

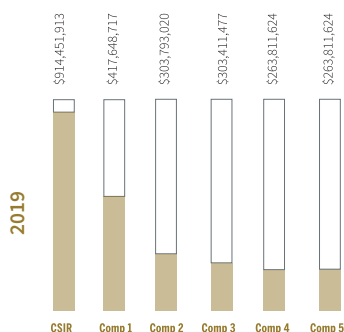


CHART 5

LADD GROUP 2019 VS OTHER AGENTS
CENTRAL OREGON
12 MONTH SALES VOLUME

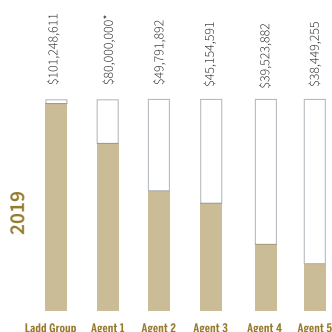


CHART 6

*2 transactions at \$40,000,000 each

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It's Damn. Hard. Work.

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