

REAL ESTATE ANALYSIS



Cascade
Sotheby's
INTERNATIONAL REALTY

STATE OF THE MARKET

Spring 2021

A LETTER FROM BRIAN LADD



SPRING 2021 UPDATE AND OUTLOOK

When we last published our State of the Market, we were seeing the beginning stages of a mass migration to Bend and to similar towns as people began to reassess their needs and desires. For many, home changed from a place to eat, sleep, and relax, to a workplace and school as well. Never has home taken such a central role to so many. The past 12 months have also reminded people how fragile life can be, spurring them to rethink where they want to live and how they want to spend their time.

While the first half of 2020 felt the impact of fear and uncertainty from the spread of the coronavirus, the second half of the year saw record sales. We found that the combination of low interest rates, changes in buyers' needs, and record low inventory levels from late 2020 into early 2021 have led to robust sales and appreciating values.

For years, Central Oregon has been a strong and growing market. We believe that the pandemic has not artificially created strength in Bend and its surrounding areas, but rather has accelerated an already established trend.

Overall Economy, Stock Market, and Unemployment

Some believe incorrectly that the housing market and the overall economy are tightly correlated. However, when you look at home prices during each of the last six recessions (present recession included), you can see that home prices have actually risen 66% of the time [Chart 7]. The reason for this is that housing prices are generally driven by forces of supply and demand and not necessarily by economic output.

The first half of 2020 saw national unemployment rates jump from record lows near 4% to 14.7% and a stock market correction of about 30%. This caused a wave of fear and dramatically affected buyer demand. However, the stock market has fully recovered and the unemployment rate, although slower to recover, has seen a gradual and steady decline. Many of the remaining lost jobs are in the hospitality and service industry, and with the rollout of vaccines and more outdoor activity, we are hopeful that many of these jobs will return.

As with many of the metrics we follow, the country's gross domestic product (GDP) has recovered substantially, with Q3 and Q4 2020 showing rising GDP levels compared to the prior quarter. We will continue to track all of these numbers throughout 2021 to help paint a complete picture of the current economic situation.



For further detail on our findings during the pandemic, check out our webinars at [bendpropertysource.com/ladd-group-webinars-and-events/](https://www.bendpropertysource.com/ladd-group-webinars-and-events/)

Supply

You often hear people in the housing industry discuss "inventory" or "months of supply" and in its most basic sense, it will tell you how long it will take to sell existing homes if no new homes came to the market.

In the last year, however, we have seen some pretty astonishing drops in the number of homes coming to market, while at the same time experiencing higher than normal monthly sales numbers. This combination has led to a scenario where for certain areas and home types, there is roughly 80% less inventory than there was 12 months ago—and we're forced to measure inventory levels in weeks, not months.

Given this, we are seeing some sellers—who otherwise would like to take advantage of rising prices—hold off on selling because they don't have a replacement home lined up, which further exacerbates the inventory crisis. However, the good news is that Spring has historically been a time for increased listings, often peaking in June.

Another factor that will help offset the inventory crisis is the addition of new construction into the market. Builders have sensed this and are submitting an increasing number of permits, working hard to get new homes in the ground and listing them early in the build process. However, supply chain issues (many COVID-related) are causing delays or increased costs for much of the new construction across town. Despite this, we believe that the addition of new homes across Central Oregon will be an important part of the inventory solution.

Demand and Demographics

Although there is no doubt that net migration into Bend has increased in recent months, it is our belief that there will be some return of "in-office" work in the coming months and years. Although working from home will continue to be a viable option for many, we expect that some workers (some of whom have already moved) will either be forced to return or choose to seek new employment. This is a factor that could lead to softening demand.

There are other factors working to keep demand high, and two worth noting are interest rates (see Lenders Corner) and the demographics of individuals entering the housing market. Millennials, composed of people aged 25-40, represent the largest generation and are currently in what is considered prime home-buying years. Given that they have waited longer for a home of their own, trends have shown that they desire more space and a place where they can stay for a long time. What makes Central Oregon particularly attractive to this group is that according to a Zillow survey, "almost half of Millennial homeowners—47%—prefer to live in the suburbs as opposed to the big city."

"Millennials Drive the Housing Market, and More Surprises from new Zillow Research," Zillow.com

"There's been an influx of millennial home buyers as older Millennials have had some time to grow in their careers and pay off student loan debt... expect more disruption in the next five years as millennial home buying accelerates,"

- Stuart Eisenberg, National Director BDO USA

Governmental Policy and Interest Rates

It is a little outside the scope of this piece to dissect all the potential implications of stimulus packages, federal interest rates, and other government or tax policies, but it is worth noting that there are a lot of factors at play that could have impacts on the overall economy moving forward. Of course it is the goal of the Federal Reserve to adjust their monetary policy in a way to foster growth while also keeping things like inflation at reasonable levels (generally around 2%). In addition, the Fed has been a big player in the mortgage market through their purchases of billions of dollars worth of consumer mortgages, which is one of the reasons mortgage rates remained so low. We have seen some slight upticks in the first part of 2021, as well as changes to the rates charged on second homes and investment properties, but time will tell where rates will head throughout the year.

Housing Prices

The effects of low supply and high demand can be clearly seen in appreciating home prices in Bend over the last 12 months. The median home price in Bend is up 25% from where it was at this time last year and is 19% higher year over year in Redmond. This is a number that will give many people pause and have them wondering about the future of affordable housing. We are in an environment in which the lack of available homes coupled with the number of people looking to move is making affordable housing a real challenge for many. However, the expected uptick in listings (both resale and new construction) and the possibility that fewer people will be able to work 100% remotely, combined with City of Bend's efforts to keep affordable housing an option in various areas, has us hopeful for the future. It is essential that all income categories have affordable options in Bend. We are looking forward to returning to a more sustainable balance of supply and demand, more stable price appreciation, and a more balanced market.

LOOKING AHEAD

If you follow our newsletter and have read previous editions of this State of the Market, you will know that predicting the future (and in particular the next few months) is extremely difficult. As with most markets, picking a "top" to sell or waiting for a "bottom" to buy is almost impossible.

This pandemic year has made it clear that people make housing decisions for more than just financial reasons and they are prioritizing what is important to them. Although we will stop short of predicting where prices will be in a year, we do have a strong belief in the strength and stability of Central Oregon. We feel that if your long term goal is to live here in 10 years, you will be very happy 10 years from now looking back on your decision to buy. If your plans are calling you somewhere else, it is nice to be able to capitalize on a good return and get started on the next chapter of your life.

There is not a one-size-fits-all solution. Our goal is to provide you with the data, help you interpret that information in a way that makes sense to you, and you get you where you want to go. We take this very seriously and will continue to try to serve you at the highest level.

LENDERS CORNER

FINANCING A HOME IN A RISING RATE/LOW INVENTORY ENVIRONMENT

BY GIANCARLO GATTO

With housing inventory at an all-time low and interest rates rising, the mortgage financing process requires more preparation and communication than ever. The heavy demand on the few homes available means that buyers **must**:

- Be secure in their ability to qualify for a loan
- Understand the impact of escalating prices on their monthly payment
- Be in clear communication with their lender to discuss how terms of their offer may affect their financing

By most accounts, mortgage interest rates are expected to rise through the year, though most experts fortunately project rates to remain in the low-mid 3% range. This is great news for homebuyers as it keeps affordability high, even as home prices rise.

MORTGAGE RATES FORECAST NEXT 90 DAYS

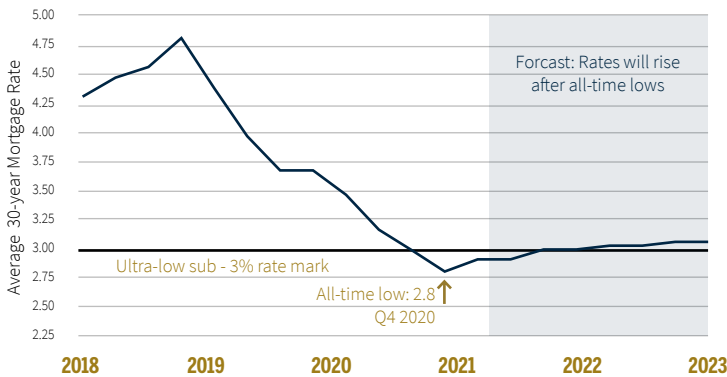


CHART 2

“Rates will be volatile throughout 2021, moving lower on signs of economic weakness and higher on signs of vaccination progress in a return to normalcy. Mortgage rates will hopscotch back and forth around the 3 percent threshold but end the year slightly above that mark at 3.1 percent.”

Greg McBride, CFA, Chief Financial Analyst for Bankrate.

Rates are rising, but they are still incredibly low from a historical perspective. The chart below shows the 30-yr fixed rate mortgage trend from 1971. Even with rates projected to climb in 2021, we are still at all time lows for mortgage interest rates.

Bottom Line

When financing a home, be prepared. Check in with your lender prior to making an offer to ensure your financials are up to date and you have an accurate estimate on closing costs and payment based on current market rates. When most of us begin searching for a home, we naturally start by looking at the price. It's important, however, to closely consider what else impacts the purchase. It's not just the price of the house that matters, but the overall cost in the long run.

MORTGAGE RATES SINCE 1971 - FREDDIE MAC DATA



CHART 3

It's also important to consider which loan product is the right fit for you and which will offer the best terms. Different homes and increasing purchase prices may require different loan products. These changes can affect interest rate, closing timeline, and down payment requirements.

Let's connect to discuss how mortgage financing plays a role in our local market, and your long-term homeownership goals.



For lending questions, contact our local partner
GIANCARLO GATTO
 Mortgage Loan Officer | NMLS - 475357
 W: 541.604.4882

BUYER'S CORNER

AVERAGE PERCENT OF ORIGINAL LIST PRICE RECEIVED

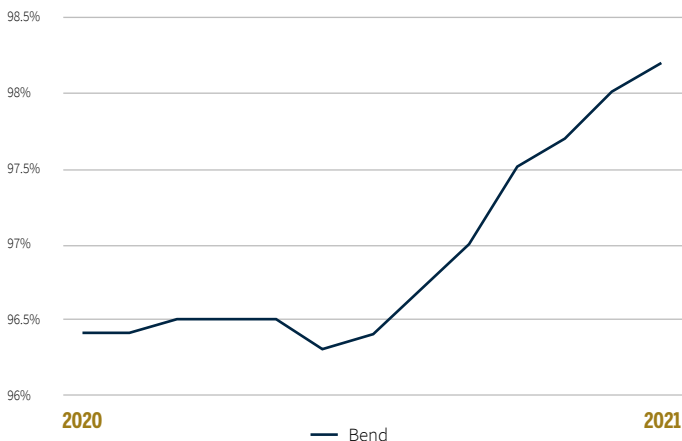


CHART 4

HOW TO COMPETE AND WIN IN MULTIPLE OFFERS

In this market competition is heavy and the likelihood of multiple offers is great. In order to help your offer stand out, there are several ways to help yours rise to the top. Contrary to what many buyers may believe, the highest offer is not always the most favorable one.

Here we offer a series of selective ways in which we coach our clients to improve terms, fortify their offers, and increase the possibility of acceptance. Note: please take caution and discuss in detail with a licensed Real Estate representative prior to implementing any of the scenarios proposed here.

Learn What Is Motivating to the Sellers

Would they like a quick closing or have a date in mind? Do they want to take their refrigerator? Are they COVID-sensitive and want to minimize site visits once in contract? The more you know, the easier it will be to avoid unexpected pitfalls.

Have the Lender Call the Listing Agent

The financing contingency is a major source of concern for most sellers, and an endorsement call from the lender can go a long way toward helping the sellers feel secure.

BUYER'S CORNER

Discuss an Escalation Clause

While an escalation clause is not right in every situation, it can be helpful to elevate your offer in specific scenarios, when (and if) your budget allows.

Shorten the Inspection Period

Reducing the number of days for the inspection contingency, typically (10 business days) can be appealing to a seller who is concerned about the security of the transaction and the likelihood of going back on the market at some point.

Consider Increasing the Earnest Money

Locally, the accepted standard for an escrow deposit is roughly 1-2 percent.

At times we advise clients to submit a higher escrow deposit, if they can, in order to show their serious interest in the home.

Ensure Organized Delivery of the Offer

The smooth professional delivery of a comprehensive document package goes a long way with the listing team. The sellers want to know that working with you will be as seamless as possible, and first impressions matter!

Your Dream Home Is Within Reach

When it comes to buying a home in this competitive market, preparation is the name of the game. Work with an experienced buyer's agent who can help you craft a strong offer and you will be well on your way to securing your dream home.

SELLER'S CORNER

DYNAMIC MARKETS DEMAND STRATEGY

Inventory is low, and it is a sellers' market—but this alone does not ensure the ideal sale that you are seeking. In fact, there are just as many pitfalls in today's dynamic market than ever before. Selling well takes finesse, skill, experience, and strategy.

Here we provide a list of a few potential challenges that today's sellers may encounter, and some advice for how to best navigate through them.

Even with today's very low 2-4 months of inventory, buyers and their brokers can easily spot a grossly overreaching price. What's more, these overpriced homes sit on the market longer than their well-priced counterparts, forcing them to reduce price over time. When these price reductions occur, buyers sense weakness and often believe that more adjustments are likely, which ultimately leads to a further discounted offer.

In truth, the market is punishing over-priced homes while rewarding well-priced ones with multiple offers. Don't let your home become the "brown banana" on the shelf.

AVERAGE SALES PRICE

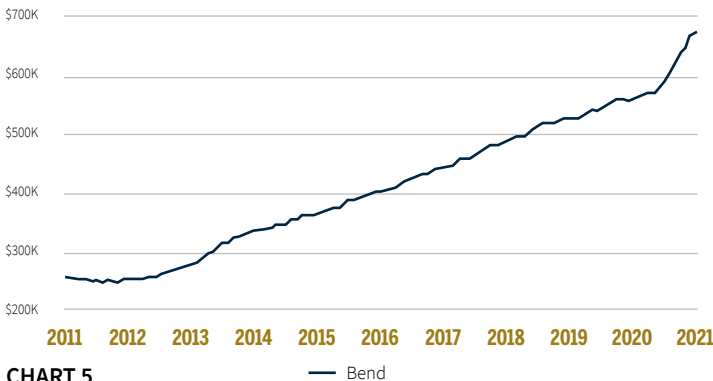


CHART 5

— Bend

Price Wisely

While many sellers believe that limited inventory allows them to list at an exorbitant price, this is a strategic mistake. We often hear from sellers that they would like to "test the market" at a very high price even when advised not to. Sellers may have the misguided belief that they will be rewarded for being "patient," or that "it only takes one" interested buyer to get the home sold. This is totally inaccurate.

Launch Cohesively

Many brokers have a misconception that their role is to simply take photos, list a home on MLS, and then let showings happen until an offer arrives. At the Ladd Group we firmly disagree. Instead, we believe in creating energy—and synergy—through a comprehensive rollout strategy.

When listing a home, exposure is a key element in driving momentum toward an offer. In order to create such momentum, we use a detailed marketing campaign that includes digital (video, social, email), print (mailers, flyers), events, and more. Through this exposure, our clients are able to confidently field offers with the assurance that their property achieved peak visibility to as many relevant buyers as possible.

Beware the Buyer Who Just Wants to "Win"

In this tough market, buyers are stressed. Desperate. Excitable. After losing a home or two to multiple offers, buyers will often look to avoid the sting of this experience by making fast, aggressive offers immediately after a home hits the market. Many times they will do so sight unseen, without any emotional connection to the property.

Then, when the dust has settled and the other offers are filed away in "back up" or "rejection" positions, the buyer will use a series of embedded contingencies to take their time reviewing and assessing whether the home is right for them—FREE OF RISK. The challenge here is that it creates a precarious scenario for the seller—one that cannot always be avoided, but certainly should be discussed. At the Ladd Group, we coach our clients to look deeper than big numbers and desperate "Hail Mary" offers to focus on the substance of the terms.

Consider Negotiating to Stay after Closing

Given the many layers of contingencies that a buyer may employ as part of a standard Sales Agreement, it makes sense to consider requesting an Agreement to Occupy after closing for up to 90 days following the closing date. Unlike a lease, this short-term "rent back" of the home allows sellers to confidently pack and move after the closing has completely funded and the deed has been recorded under the new owner.

In many cases, when the proceeds of the sale of a home are needed to purchase a new home, this is even more ideal as it allows the seller to confidently "go shopping" for a new home with liquid and available funds in hand.

In short, selling a home is about so much more than price. Ask yourself: Is your listing agent talking to you about security of the deal and the logistics of buyer financing, and avoiding a re-negotiation when it comes to repairs? How you sell, when you sell, and with whom you partner to sell your home matters. Now, more than ever, take the time to hire a professional you trust to navigate the nuances of today's dynamic market.

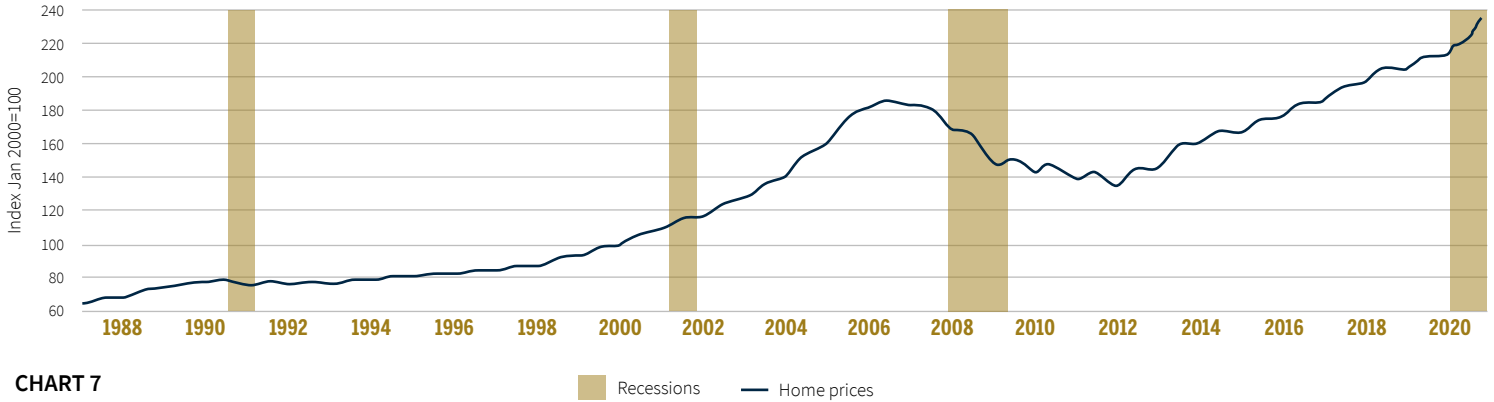


CHART 6

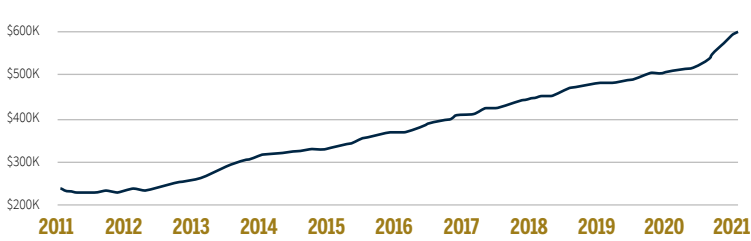
STATISTICS

HOUSING PRICE INDEX AND RECESSIONS

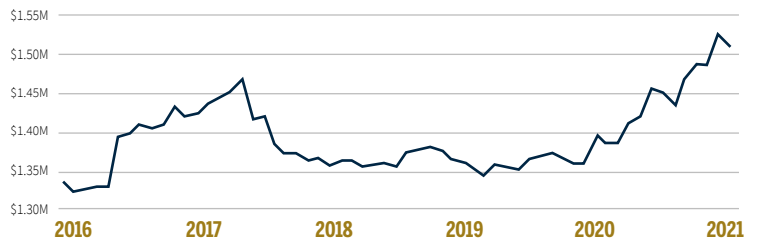
As evidenced in the chart below, the common belief that home prices generally fall during a recession is simply not true. The chart below shows the last 30+ years of home prices, with the corresponding recessions shaded for clarity. If we were to go back even further, we would see that home prices have actually risen in 4 of the last 6 recessions (including the recent one that began in the depths of the pandemic). Although the recession and housing crisis of the late 00's were clearly tied together, it should be noted that in most cases, housing is often one of the factors that helps bring economies out of recessions—not the other way around.



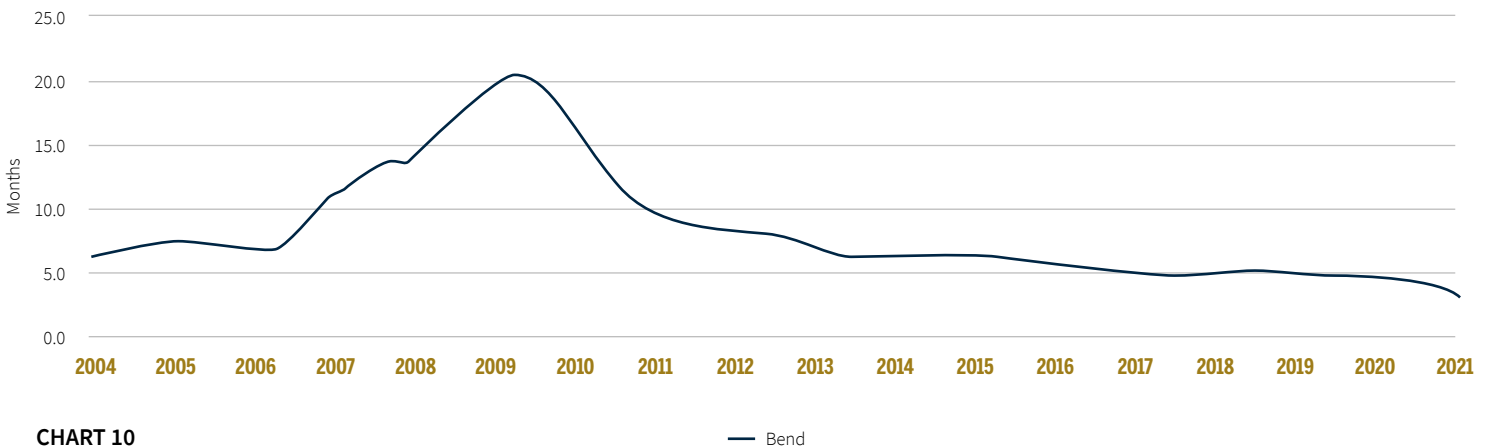
AVERAGE SALES PRICE DESCHUTES COUNTY



AVERAGE SALES PRICE \$999K AND UP DESCHUTES COUNTY



BEND INVENTORY - MONTHS OF SUPPLY



REFERENCES:

National Association of Realtors and Central Oregon Association of Realtors
<https://fred.stlouisfed.org/series/CSUSHPINSA>
<https://www.pittsburghstagedhomes.com/wp-content/uploads/2017/03/graph-DOM-price.png>
<http://www.freddiemac.com/research/forecast/index.page>



Cascade
Sotheby's
INTERNATIONAL REALTY



The Ladd Group
650 SW Bond Street Suite 100
Bend, Oregon 97702

2020 - CASCADE SOTHEBY'S
MARKET SHARE VS COMPETITORS

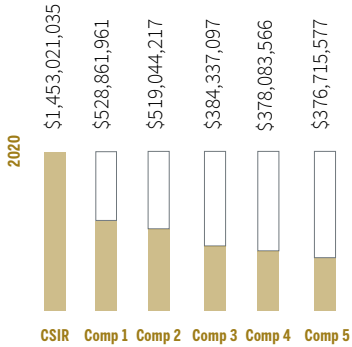


CHART 11

2020- LADD GROUP VS OTHER
AGENTS CENTRAL OREGON

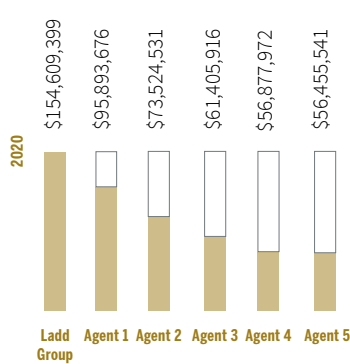


CHART 12

Volume numbers are Year to Date 2020

TEXT LADD35 TO 88000 BENDPROPERTYSOURCE.COM
OFFICE 541-633-4569, CELL 541-213-9480

We feel so fortunate that Steve and his team were recommended to us and we would highly recommend them to anyone. They **made our move into Bend so much smoother** and helped us navigate our new landscape with ease. True professionals.

Bryan Hilts and his associates were incredibly professional and **navigated a challenging environment** to land a very special property for me. I can easily recommend and would happily work with the team there again.

Stephanie Higgins is an exceptional advocate and listing agent! Stephanie **brought a level of creativity, tech savvy and willingness to try new approaches** that we had not experienced before.

Don't take our word for it....

I've worked with Erin on a number of transactions. She **made the process simple and seamless** in handling all the details. I stayed informed at each stage of the process but Erin handled everything taking any stress load off my shoulders.

Jaclyn Oakland went above and beyond to represent us when we were in the process of selling our home, and purchasing another one. She is extremely knowledgeable about the real estate market, great at negotiations, and **extremely responsive at all times.**

It's obviously a really tough housing market right now and Alice gave us great advice at every turn.... It was so **hassle-free and a complete pleasure,** unusual when buying a house. Cannot recommend enough.