

REAL ESTATE ANALYSIS



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INTERNATIONAL REALTY

STATE OF THE MARKET

Fall 2021

Photo by Jesper Hilts | JesperHiltsCreative@gmail.com

A LETTER FROM BRIAN LADD



FALL 2021 UPDATE AND OUTLOOK

Roughly 18 months have passed since the pandemic took hold in America, and just over one year since the migration explosion became clear in real estate markets. Something we have been saying throughout the frenzied activity is that the pandemic has essentially accelerated what we had been seeing in terms of migration and buying patterns. For quite some time, people have been drawn to having more space and access to the outdoors and the pandemic has no doubt increased this trend.

The results from the 2020 Census were just released, showing Oregon as 13th on the list with a 10% increase in population over the past decade. Utah and Idaho topped the list with 18% and 17% growth, respectively. With Texas, North Dakota and Nevada rounding out the top five, it is increasingly clear that states offering a little space have been high on the priority list for some time. These numbers don't consider the moves taken place last year, but it shows that the migration trends we have seen, although accelerated in 2020/2021, were not artificially created by the pandemic and have been a trend for some time.

We have confidence in this trend continuing in the years to come and believe Central Oregon is well situated to offer the continued commerce, retail and employment opportunities of a bigger urban area, while offering the recreation and open space people crave. Let's take a few moments to explore the trends and data further.

Overall Economy, Stock Market, and Unemployment

At the start of the pandemic, and ensuing recession, we pointed out that there is often an incorrect belief that the housing market and the economy are directly linked (see previous editions for a discussion on recessions and housing prices). 2021 has certainly seen improved economic and housing numbers, however, we would caution against continuing the belief that as one segment of the market grows or suffers, that all others will follow suit.

We think it is valuable to look at what the economy, stock market and unemployment situation have done, as that does often affect consumer confidence and buying power. Real GDP has increased at an annual rate of 6.5% for the second quarter of 2021 and has now shown positive and increasing growth for four consecutive quarters. The stock market has also shown substantial growth in the last 12 months with 38% appreciation in the S&P 500 index. Meanwhile, the unemployment rate in the Bend/Redmond area has steadily dropped since spiking in Q2 2020, and as of the June 2021 report, sat at 5.2%.

With this overall economic snapshot in mind, let's talk about housing.

HOUSING PRICES

Let's start our discussion on housing with a snapshot of the price movement we have seen in recent months and then dive into what has led to it, and what factors are potentially going to be at play. In the last 12 months, Deschutes County has seen some startling price appreciation, with the average home price being 29% higher than where it was this time last year (Chart 1). Looking at Bend and Redmond individually since the start of the year, we see Redmond outpacing Bend with a 20% increase in the median price, while Bend saw 11%. Part of this is no doubt because of the affordability issue in Bend, causing people to flock to other areas that are more affordable.

At the other end of the spectrum is the luxury market (above \$1 million), which has seen an explosion as well. The average historic sale price in this category (Chart 2) has always had a small data set, so could be sporadic. However, the number of transactions taking place at these luxury levels hit an all-time high in June 2021 when 94 single-family homes sold for more than \$1 million. For a little perspective, the previous high was 73 set in August 2020, and prior to that was 34 in August 2019. Last, if we look at the ultra-luxury market of \$2 million and higher, the summer of 2021 had two consecutive months with 16 single family sales. Prior to the pandemic starting, the monthly high had only been four.



For further details on factors affecting our market, check out our webinars at <https://www.bendpropertysource.com/ladd-group-webinars-and-events/>



SUPPLY AND DEMAND

Ultimately, the discussion of housing prices comes down to a supply and demand issue. For some time now, the number of homes and new listings coming to market has not kept pace with the people's demand for new homes. Let's discuss why this is.

Supply Issue # 1 - Lack of New Construction - During the mid-2000 boom, new construction was growing at a record pace and set records for four straight years. However, this led to an oversupply of housing. When the market turned, many builders were stuck with homes (and vacant lots) they couldn't sell, leading to a much slower pace for new construction over the last decade. We are now in our 13th consecutive year below the 50 year average for new construction starts, resulting in a severe shortage of new homes for sale (Chart 3). Builders have been trying to catch up, but with rising construction costs, limited raw land, and supply chain issues, they have been unable to keep pace with buyer demand.

Supply Issue # 2 - Lack of New Listings - Spring is historically the time for most new listings to come to market. Often the peak for the year in new home inventory is in May, June, and July. For the three years prior to the pandemic, the high had been 600-700 new home listings during these months. For 2020 and 2021, the high was closer to 500, which meant hundreds of fewer new listings over the course of the last 18 months (Chart 4). This shortage has led to many buyers competing for the same homes. According to the Nat'l Association of Realtors, the first part of 2021 saw an average of four offers on every home. Locally, this is seen by 13 consecutive months of average sale price exceeding list price.

Demand Issue # 1 - Buyer Needs Have Changed - This has been documented previously, and so we won't spend a lot of time on it here, but it is worth pointing out that buyers have re-prioritized what is important to them. Whether it be a migrational trend as mentioned in the introduction, or the re-evaluation of needs (home office, gym, multigenerational), buyers are out in numbers searching to fulfill their new desires for home.

Demand Issue # 2 - Buyer Demographics Have Changed - We have mentioned that Millennials were one group that entered the market in droves in the last 12 months. This trend has continued and we have also seen the number of Gen Z buyers (age 25 and younger) follow suit, jumping into the market for the first time as well. According to a CoreLogic report, millennials made up more than half of all buyers in 2020. As for Gen Z, preliminary reports from online mortgage service provider Better.com show that the number of Gen Z applications increased 57% from January to March, and was up 124% year-over-year from March 2020.

Demand Issue # 3 - Cash Availability - When you look at a stock market that is up 38% in the last year and saw roughly a 30% decline in the Spring of 2020, it is no surprise that buyers would look to diversify their holdings into real estate. Also, with contingent offers so rare, we are seeing sellers taking the step of selling their house first, asking for an extended occupancy after closing, and then shopping with cash. According to an analysis by Redfin, 30% of U.S. home purchases in Q1 2021 were all cash, which is 5% higher than the same period in 2020.

LOOKING AHEAD

Predicting the future is clearly difficult, and with so many external variables at play, it is not something that we can expect to do with any certainty. It is our goal to outline some of the ongoing factors we are watching to offer insight into potential market movement.

Forbearance - In Spring 2020, nearly five million homeowners had entered into forbearance with their lender. This meant they could not make their monthly payment and had the option of pausing and readjusting their payments. As of August, there were just under two million still in forbearance. Of these, about 17% had not worked out some type of payment plan and are at risk of default. This could have an impact and increase inventory if some of those buyers remain in default and potentially lose their home. Roughly 80% of homeowners have over 10% equity in their home, giving most owners currently in default the ability to sell and avoid foreclosure, limiting the downside impacts of this shadow inventory.

Eviction Moratorium - The extensions to the moratorium on evictions have either expired or are nearing expiration, so there will be some landlords who, after months of not receiving rent, will choose to sell their property. This is a potential increase in inventory that could help offset the demand, however this may further shrink the amount of properties available for renters.

Work from Home Changes - Companies nationwide have allowed remote work as an ongoing option to their employees. The big question is if and how long this will continue. If companies pull this option back and require more in-

person office time, this will affect the number of people willing and able to move to places like Central Oregon. The other factor that we have seen is companies offering to let their employees continue to work remotely, but cutting their salaries accordingly. We think both factors have the potential to remove some demand and even increase inventory if some of these remote workers already purchased and now need to sell.

Signs of a Shift - We cover this more in the “Buyers and Sellers Corner” sections, but it is worth addressing that we are seeing some factors that point to a shifting and more balanced market. In Bend, according to a local appraisal report, the inventory for single-family homes under one acre has increased to about one month of inventory, levels not seen since summer 2020. Concurrently, the average days on market have crept slightly higher. Lastly, the number of price changes seen in the market has crept higher each month for the last three months. Be careful in assuming that this means correcting prices, as it is likely a combination

of sellers thinking their property is worth more than it is, seasonal factors at play, and the re-emergence of buyer patience.

FINAL THOUGHTS

It is our goal to provide you with the most current information available to keep you “in the know” of housing trends. This report and our newsletters help summarize the data that we are tracking on a monthly, weekly, and daily basis. Even the most current data is usually a lagging indicator and represents past data. Where our experience as the top producing group in Bend can provide added value is by sharing with you what we are seeing every day on the ground with buyers and sellers. This is where our experience and a personalized approach are essential to creating a plan that allows you to achieve your real estate goals.

Real estate decisions are some of the most difficult and financially impactful moments in our clients’ lives. We are acutely aware of our responsibility and we look forward to serving them, and you, with knowledge, experience and integrity.

THE TIPPING POINT

PRICING YOUR HOME IN AN ONGOING PANDEMIC

Evaluating a marketable price for your home from an objective stance can be difficult even in the most steady of markets. There is much to extrapolate beyond price per square foot, including setting, layout, finishes, condition, curb appeal, and a bevy of “intangibles.” It is a skill that takes careful assessment, deep investigation, and a little instinct to arrive at a pricing range that will be well absorbed in the market. Even so, the market and the seller might not always agree.

As we entered the Spring of 2021, there was a great deal of emotion driving a buying frenzy around Central Oregon and beyond. This emotion, coupled with tight inventory, led to multiple offers - which was cause for an extrapolation of pricing over and above list price (and often over and above the comparables in the community).

Headlines abound with statistics citing the fast-paced, high price, sellers’ market with home prices up 8-23% nationally (cite Ramsey article). The Fannie Mae consumer confidence index for July 2021 indicates that buyers and sellers have taken this to heart: 75% of respondents said it is a good time to sell a home, which is down just slightly from 77% in June.

Our current challenge is that the headlines keep coming based on past data, but the market is shifting based on current trends. As summer supply increases, and subsequent demand is fulfilled, the pricing pressure is released and today’s sellers are left with a slightly slower market than they had expected. We have hit a tipping point.

Days on market are a lagging indicator of this - currently at an average of 42 days in Deschutes County, which is just starting to grow in the context of the current trend. A better leading indicator is price reductions for current listings. This graph from Altos research firm reveals an uptick in price decreases - 41% of listed properties on the market for two weeks or longer as a 7-day average in Bend zip codes, after an all-time low in spring 2021.

What are the driving factors behind this tipping point? How can sellers ensure success as this subtle shift occurs? Here, we share a few of the key social, logistical, and economic market characteristics that play a part:

AFFORDABILITY

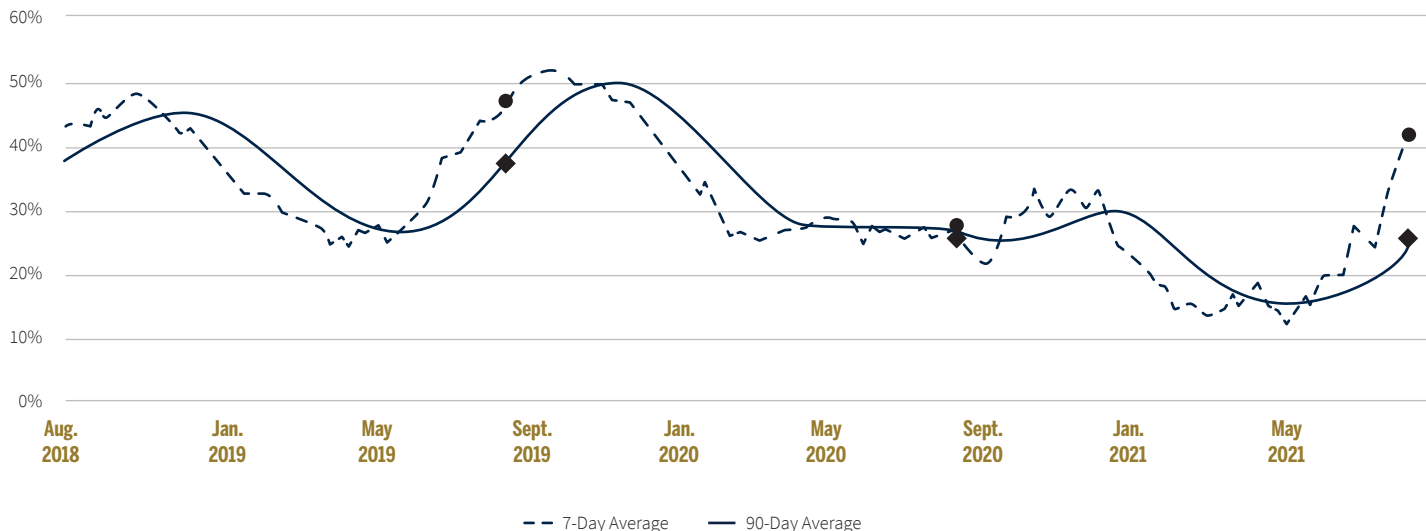
Homebuyers have lost considerable spending power as prices increase and rates fluctuate. For context, the national median homebuyer loses \$23,250 in spending power with a half point mortgage rate change (a 3.25% versus 2.75% rate in this case). Low mortgage rates last year, combined with low supply and high demand for housing, lit a furious fire under home prices. Ultimately, this eventually resulted in reduced buying power for all. This also requires that a seller recognize the demographics of the new buyer: A starter home in Bend could be in the \$400,000 range, which could require a six figure income and as much as an \$80,000 down payment.

CONDITIONING

We often hear from sellers that they are “patient,” or that it “only takes one buyer” as a way of legitimizing a reach price for their homes. While this can be true, buyers in today’s market are battle tested and tired. They may have lost a home or two, or at least have watched homes come and go quickly. Thus, they are too savvy to accept overpriced homes and also too conditioned to be near, at, or above asking price, to simply “make an offer” as these sellers will often say. A list price more than 2% above market value does not typically result in low-ball offers to “get the negotiations started,” but instead results in a listing that languishes on market.

In short, the best way to sell a home today is to recognize the subtleties of this shift and price precisely - neither high nor low - to ensure a smooth and timely sale. Rather than reach for that extra few percent, perspective is in order. The substantive increase in home values over the past 18 months have created an incredible new equity trajectory; now the onus is upon us not to overshoot this trajectory. Instead, let us all use temperance to select appropriate pricing in this new world in which we find ourselves.

PROPERTIES WITH PRICE DECREASE



BUYER'S CORNER

IS THIS A BUBBLE?

We've heard this million dollar question repeatedly over the last 12 months. The bottom line is that although the price increases make it feel reminiscent of the mid-2000s, the reasons for the increasing prices differ greatly from what they were 15 years ago.

These are the two biggest reasons we don't expect a market collapse.

- 1) Lending standards are very different now than they were back then. A good example of this is that there were \$376Billion in loan originations in 2006 that were for buyers with a FICO score of less than 620. In 2020, this number was \$74Billion.
- 2) Lack of supply accompanied and helped fuel the recent price appreciation, while home supply hit historic highs in 2008. When the buyers slowed, there were way too many homes available, pushing prices down further. In August 2008, we reached twenty-three months of supply compared to approximately one month of supply now (six months represents a balanced market).

TIMING THE MARKET

Given people's concern over rising prices, we have heard from many buyers that they will sit on the sidelines and wait for things to come down. Although this sounds great on paper, it is a risky proposition. There is no question that the run-up in pricing over the last 12 months has been historic, we do not expect that it will continue at this pace. We expect to see some price reductions from the sellers who were too ambitious and pushed prices too far. We expect price reductions from people who have already found their replacement property and just need to

finalize the sale of their current home. But timing it just right and waiting for an overall market pullback is often impossible to do. Moving forward, the analysts are expecting continued but slowed appreciation. A survey of various real estate groups including Fannie Mae, Freddie Mac, National Association of Realtors, among others, has the average expected national appreciation at approximately 8% for 2021, 5% for 2022, and about 3% by 2025. The other factor is the risk of interest rate changes. Although rates are expected to stay relatively low, increases in interest rates will diminish your buying power and, although the price may be lower, you may actually spend more money in the long run. Given this, being too selective and waiting for the absolute "perfect time" could have you watching a market continue to get further out of reach.

BUYING FOR THE LONG RUN

Although a home is likely the largest investment many people will make in their life, for most, it should not be treated as just any other investment. Home provides a place to raise kids, enjoy retirement, work, relax, entertain, etc. In the last year, what a home can provide has become even more significant, and is giving homeowners more than just a return on their investment. Some of the price appreciation from the last year was because of the urgency of people wanting to enjoy their home and surroundings immediately and they were willing to pay a premium to do it. Although paying a premium to have something now doesn't make sense for most people, being discerning and looking at the future benefits of ownership in conjunction with price is a wise decision. Most people are in their homes for an average of eight years, and so slight differences in the sale price now seem more inconsequential as the years go on. Work with your broker on weighing

SELLER'S CORNER

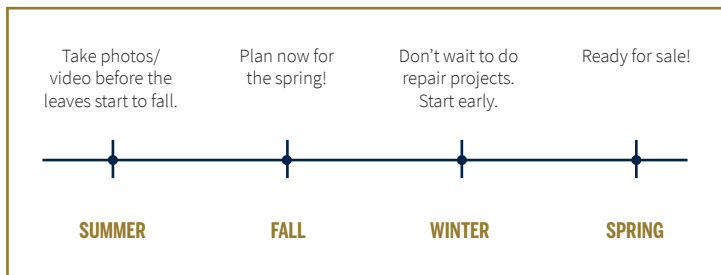
SEASONAL SELLING CYCLES

The Spring and Summer markets have come and gone, but does that mean that you need to wait until next year to sell? Absolutely not. Although May, June and July typically represent the peak months for sellers' homes to be exposed to the largest number of buyers, that is not to say there won't be opportunities to sell before the end of the year. In general, we see a bit of a lull in August as buyers are out and about enjoying summer activities, with then a bump in activity in September/October before declining again in November and December. Although there are fewer buyers in the market in the fall months, the ones that are out are real and typically want to be in their homes by the holiday season and before winter sets in.

PENDING SALES



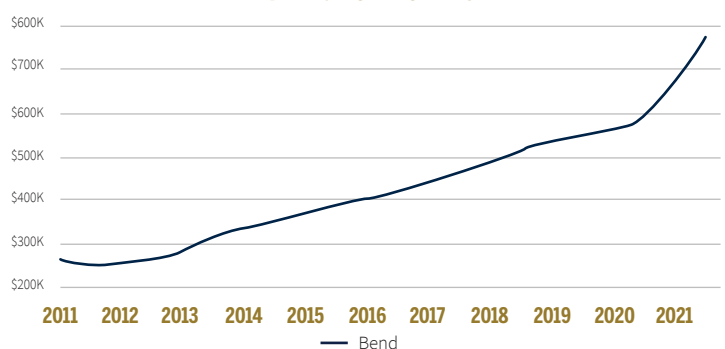
Thinking of Selling in the Spring, Plan Now



If selling later this year is not in the cards and you think Spring may be a better time, we would suggest planning now. If winter weather is mild, new listings and new sales activity pick up earlier in the year. The problem with waiting until the

new year to prepare for a sale is that your home may not be ready for listing when you want it to be. Get started on those repair projects now. Does the exterior need a coat of paint, does the deck need staining, are there any lingering things that need to be done outside? You won't be able to get people out mid winter for these things, so planning ahead will pay off. Also, keep in mind that although your house may be ready for sale in January/February, this is typically not the best time of year for photos and video. We would suggest considering having this done before leaves fall so that you can time the sale on your terms and maximize your return. 2020 reminded us we can't predict the future, but what we can do is prepare in advance so you can be ready when the opportunity is right.

AVERAGE SALES PRICE



BE REALISTIC IN PRICING

After a year of multiple offers being the norm, sellers need to understand that the dynamics are changing. For some time now, buyers have been partially driven by the emotion of wanting an immediate change to their situation. This has led to a more frenzied market and, in many cases, above market closing prices. However, we would caution sellers away from just extrapolating from a recent sale and adding 3-5% to that number. Buyers are being more patient and methodical with their purchases and have a wealth of data at their fingertips. When they see a price that can't be justified, they are becoming less and less likely to act, forcing sellers to lower prices. The problem for sellers is that when educated and patient buyers see price adjustments, they sense opportunities and often try to get even more of a discount. More times than not, this aggressive pricing followed by rounds of reductions ends up driving prices lower than what originally could have been achieved had the price been in line with the market to begin with. Look at the market conditions, time of year, and work with a professional to collectively craft a selling strategy that will lead you to the result you want.

STATISTICS

MEDIAN SALES PRICE DESCHUTES COUNTY

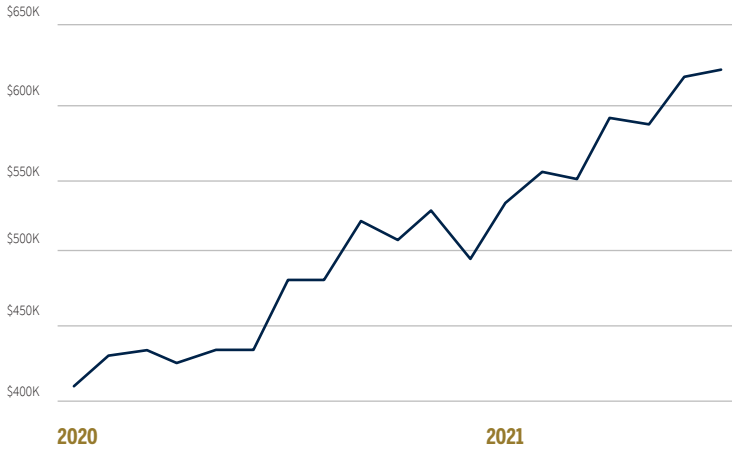


CHART 1

AVERAGE SALES PRICE DESCHUTES COUNTY

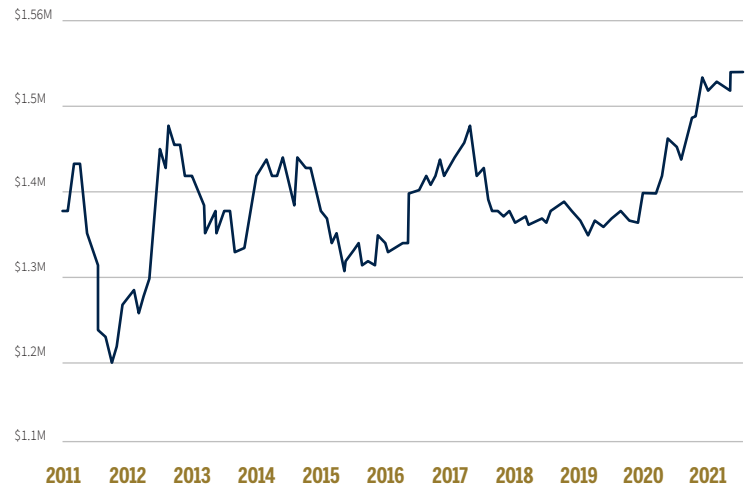


CHART 2

SINGLE-FAMILY HOUSING UNITS COMPLETED

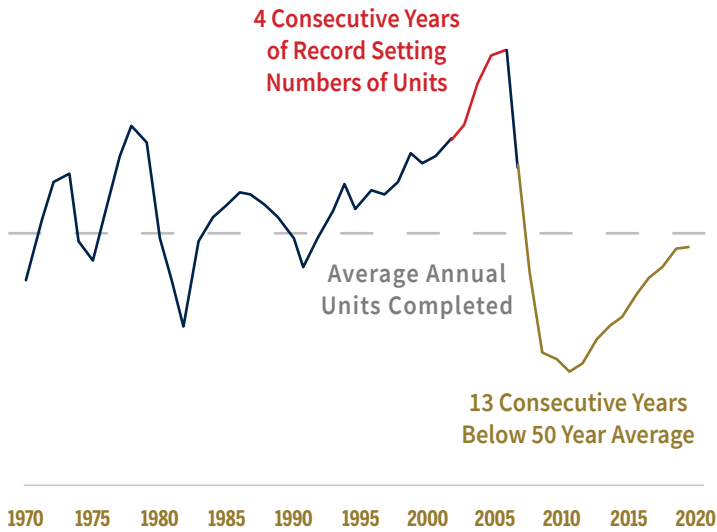


CHART 3

NEW LISTINGS DESCHUTES COUNTY

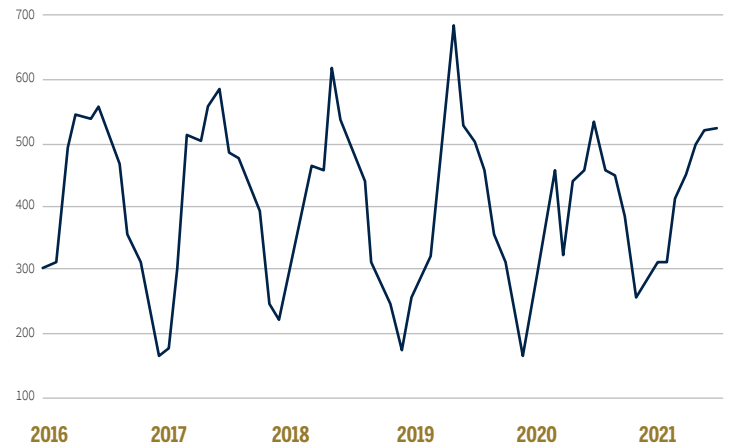


CHART 4

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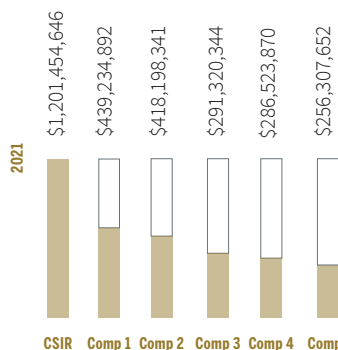
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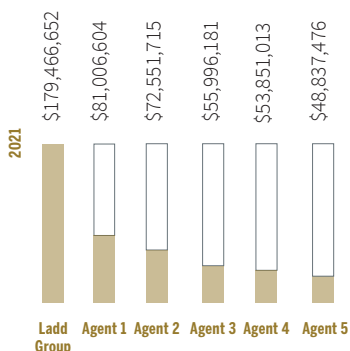
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**2021 - CASCADE SOTHEBY'S
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**2021- LADD GROUP VS OTHER
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Volume numbers are Year to Date 2021

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We worked with Julie and Erin to sell and purchase a home in Bend in one of the hottest markets in history for this city. They expertly navigated us through various strategic decisions, kept us updated regularly, and reached out to support us throughout the process. We'd recommend both Erin and Julie, and the entire Ladd Group, to anyone looking to sell or buy in Bend!

We had a great experience working with Stephanie Higgins on the purchase of our new home in Bend. She worked hard with us, was very responsive and attentive to all our questions and needs, and promptly replied when contacted. I would highly recommend Stephanie and the Ladd Group!

I would highly recommend Steve LaCrosse as your agent if you are looking to purchase a home here in the Bend area. Steve was very responsive, provided good feedback, listened and understood our needs. He is very professional and kept us informed along the entire process. Steve has also helped us with referrals for other work we were looking to do on our new home.

Bryan Hilts was on top of it. I highly recommend the Ladd Group. It was a good experience from beginning to the end.

Alice Fairbairn is an outstanding realtor. I would highly recommend her to anyone looking for a home in the Bend area. Alice was able to educate us about the various Bend neighborhoods and matched her showings with our needs, which saved us time. She constantly exuded optimism and positivity which buoyed our spirits when we needed it. Alice is a great person who really cares about her clients. If you want to make your home goals a reality, call Alice!

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

We worked with Jaclyn Oakland during what seemed to be the height of a seller's market in Bend. She was an amazing agent - went above and beyond. She worked tirelessly at finding the right property and fine tuning our offer. She's the best and a pleasure to work with!