

# REAL ESTATE ANALYSIS



Cascade  
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INTERNATIONAL REALTY

## STATE OF THE MARKET

Late 2023 | 8<sup>th</sup> Edition

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# A LETTER FROM THE TEAM

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## FALL/WINTER 2023 UPDATE AND OUTLOOK

If you're like many of our clients, you have been inundated with scary headlines surrounding inflation, pending recessions, increasing interest rates, and a shifting real estate market. At times it can be overwhelming or just downright confusing, or both. The fact is that things have shifted, and will continue to do so. We are experiencing a normalization of the real estate market after the historically unprecedented forces of the pandemic, and part of this return to center involves dealing with the new realities of higher mortgage rates and limited housing inventory.

In the midst of change, it is important to stay informed, keep your goals in perspective and stay focused on what is really important. Our aim is to provide insight into the market and insight into our client experiences so you can make educated real estate decisions.

## ECONOMIC TRENDS

Inflation has arguably led the headlines. The fact is that a combination of factors hit at once and shot inflation to levels that hadn't been seen in about 40 years. As everyone knows, the Fed stepped in and got aggressive with their increases to the Fed Funds Rate. This made money more expensive to borrow with the objective of slowing consumer spending, therefore bringing prices back in check. In the spring edition of this report, we discussed how affordability had been a challenge since wage growth had been lagging price growth, but that it looked like things were turning. Without getting into the details or arguments about whether the Fed should have started sooner (or have stopped already), the good news is that the trend we identified in the spring has continued. Inflation has come way off its highs while wage growth, although slowing as well, is still strong (see **Chart 1**).

So what happens if things "go too far" and the economy slows too much and we head into a recession? This is actually a very common trend, and if history is any indication, it is quite possible. The fact is that in 8 of the last 10 recessions, there was a period of rising Fed Funds rates that immediately preceded the start of the recession. However, let's clarify a couple of things about recessions. It seems like when people hear recession, they equate this to a "crash". The dictionary defines a recession as "a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters." In previous editions of this report, we have discussed that housing prices often increase or remain relatively flat during recessions. If you are looking for something that typically drops during recessions, good news, the answer is mortgage rates (see **Chart 2**). As you can imagine, falling mortgage rates usually trigger buying activity which then causes prices to stay steady or head higher.

## HOMES FOR SALE

Analyzing inflation, mortgage rates, and other economic indicators can be helpful, but we should take a moment to look at what we are seeing on a local level. We would like to start by clarifying that we will be comparing what we are seeing today with what we saw in the years leading into the pandemic, not the pandemic years. This will give us a much better understanding of how we compare to more normal markets in Central Oregon. Let's start with the number of new listings coming to market and the number of homes currently for sale, which usually peaks in late spring/early summer. In Deschutes County, there were 30% fewer new listings in July of 2023 than in 2019. With fewer new listings coming to market, this has led to a lower amount of standing inventory for buyers, and in 2023, there were roughly 50% fewer current homes for sale than there were in the previous summers from 2013-2019 (see **Chart 3**). The primary reason for this is something we are calling the "Interest Rate Trap." This is where potential sellers

who have a low interest rate (often 2.5-4%) know that if they sell and purchase a new home, their new rate will be closer to 7%. Until interest rates drop to close this gap, many sellers are choosing to stay put which is causing historically low housing turnover.

## SALES

Given the fact that there are fewer choices, it should be no surprise that there would be fewer sales. If we compare the 383 homes that sold in July 2023 in Deschutes County to the 620 homes that sold in July 2019, that equates to a 38% decline, which is right in line with the numbers discussed above. However, if you compare the number of sales to the number of homes available, 2023 actually had a higher percentage of available homes selling than in 2019 (or 2018, 2017, etc). This tells us that although the overall number of homes being sold monthly is currently well below prior years, the ratio of buyers to sellers is actually higher now than it was pre-pandemic. That is a good sign that demand still remains, but for various reasons, buyers are being more selective and patient and we will dive into this more in the Buyer's Corner.

## LISTING TIME AND PRICES

If you strictly looked at these two metrics, it would tell you that the market is off to the races again, but we would caution you against jumping to that conclusion. Let us explain. In terms of days on market, we started the year with a median of 44 days on market and now stand closer to 14. In the same period of time, the average home price in Deschutes County has risen 14% (see **Chart 4**). As we mentioned above, there are many fewer transactions going on in the market, making the data set significantly smaller and thus more easily influenced by anomalies or shifts. So where has the shift taken place? The answer is that with interest rates at levels we have not seen in nearly 20 years, financed buyers have become increasingly selective or have sat on the sidelines in hopes of a rate correction (see **Chart 5**). At the same time, the stock market came significantly off the lows from last fall leading to more cash buyers stepping into the market. For example, in Bend, there were points this spring when 40% of the purchases were cash buyers (the norm is closer to 25%). With many of these cash purchases taking place on the upper end of the market, it has served to pull the averages up. With a really large data set like we had between 2013-2019, relatively small fluctuations in cash/financed buyers could be absorbed without shifting the trends too much. However, with a smaller number of sales to average this across, it leads to patterns that, if you don't look carefully, could make you jump to the wrong conclusion.

## FINAL THOUGHTS

While it is easy to over-simplify the housing market, the reality is that it is complicated. However, beginning with a firm understanding of your plan and goals over the long term, and then discussing current market forces with us, we are often able to offer clarity of direction - and decision. We have helped both buyers and sellers make wise decisions and successful moves in this dynamic market. Our old adage of "time in market, not market timing" is more salient than ever. Our hope is that this report gives us the chance to share with you what we are experiencing in the market, hopefully at a level deeper than the headlines. But what we do best is listen, and we would be honored to learn where you want to go.



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# STATISTICS

## WAGE GROWTH VS INFLATION

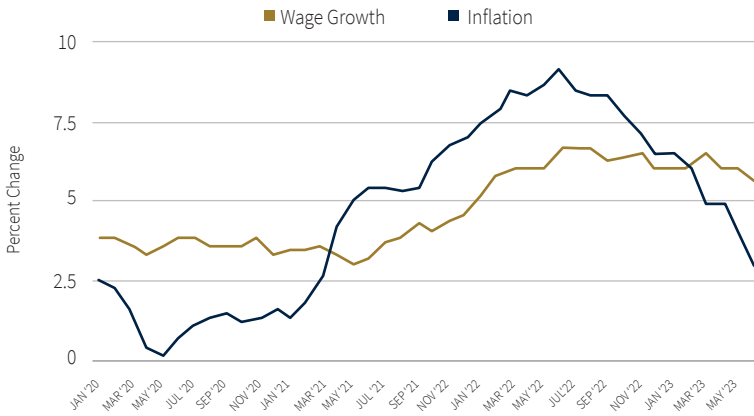


CHART 1

## RECESSIONS AND MORTGAGE RATES

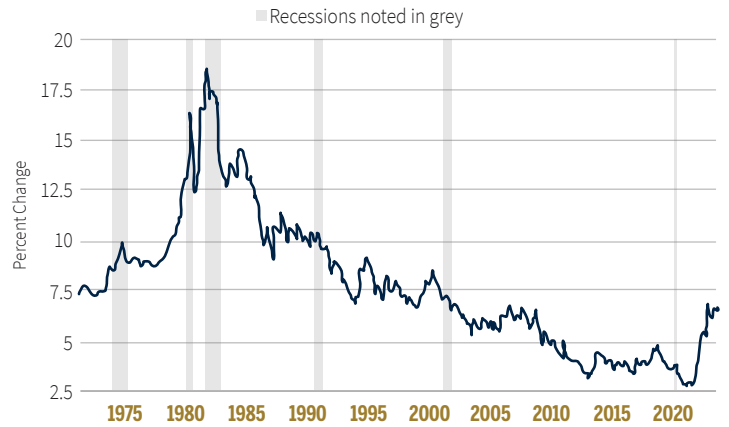


CHART 2

## DESCHUTES COUNTY INVENTORY OF HOMES

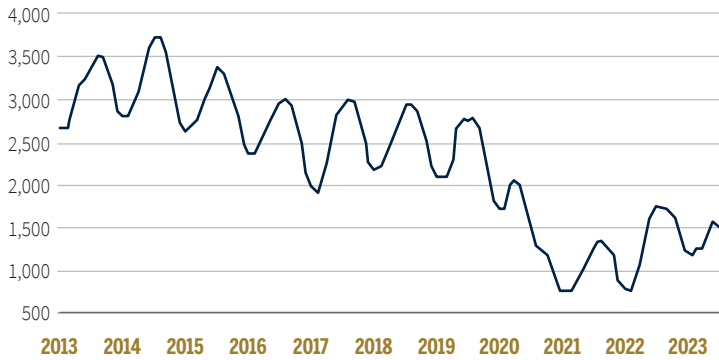


CHART 3

## DESCHUTES COUNTY AVERAGE PRICE

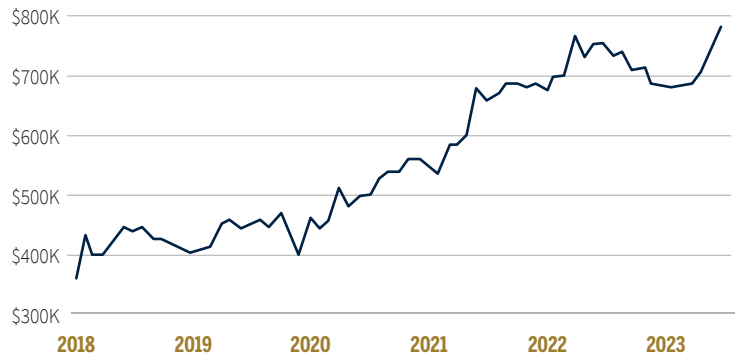


CHART 4

## MORTGAGE RATES

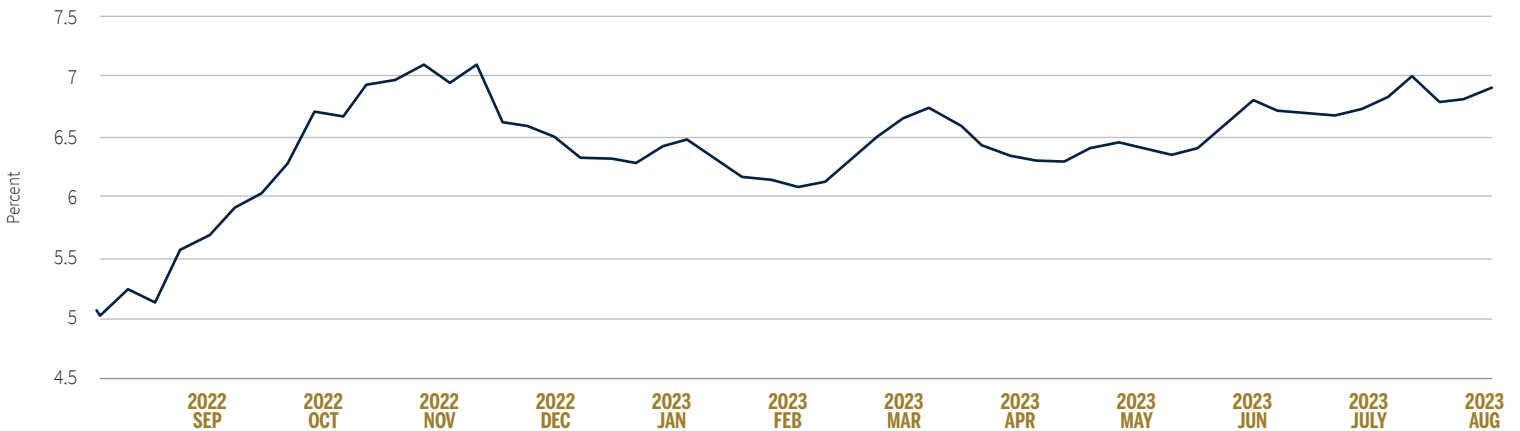


CHART 5

# RESOURCES

## THE DIFFERENCE IS EXCELLENCE

Working with us gives you a stress-free experience as we confidently guide you to a successful outcome.

What's unique about the Ladd Group is that our team is built around making sure you achieve your goals in a seamless and effortless manner. Our team covers it all, with in-house experts in marketing, videography, transaction management, operations, and sales.



Your Home



Operations Manager



Transaction Coordinator



Marketing Director



Results

### OUR WHY

is to help smart people meet their personal and financial goals through strategic real estate investment.

### OUR PROCESS

is to streamline home buying and selling by supporting clients at every stage with a dedicated team of experts.

### OUR RESULTS

comprise a proven history of selling homes faster and for more money, and guiding buyers through successful purchases.

## RESOURCES

Visit our digital resources for more information on trending real estate topics and up-to-date market statistics and data.



YouTube Videos



Stats & Data



Results

REFERENCES:

<https://coar.stats.10kresearch.com/infoserv/s-v1/UCbj-5PO>  
<https://finance.yahoo.com/news/barbara-corcoran-says-housing-prices-110050018.html?guccounter=1>  
<https://coar.stats.10kresearch.com/infoserv/s-v1/UmUJ-2U9>

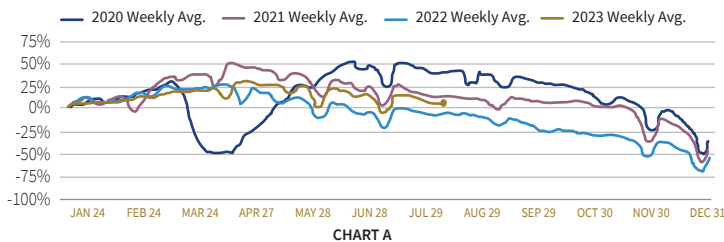
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## BUYER'S CORNER

As discussed earlier in this report, buying activity has slowed dramatically. But is this the result of buyer demand disappearing completely or just the result of buyers sitting on the sidelines and waiting for the right opportunity? We would argue that it is the latter.

### HOW DO WE KNOW THE DEMAND IS STILL THERE?

One of the best ways to determine if buyers have headed for exits or if they are patiently sitting on the fringes would be to look at showing activity over a couple of years (see **Chart A**). Looking at the chart below, you can see that showing activity in 2023 has been extremely consistent with the patterns of previous years. In fact, showing activity in 2023 is actually higher than it was in 2022 and just shy of the levels from 2021. We would expect that if the buyers have decided to hold off on moving, they wouldn't be scheduling appointments to see homes in person. These are not people browsing online for homes in their pajamas, but rather people who are scheduling to have their broker meet them at a home to visit in person.



Also, another solid indicator that buyers are present (albeit patient) would be to look at how quickly homes sell. In the main article we discussed how long homes sit on the market, but what we didn't discuss is what portion of the homes go pending quickly. We started tracking this metric late last year when right around 25% of the homes that were going pending in Bend, did so within 7 days. Since then, we have seen a fairly steady range with 30-40% of homes in any given month going pending in less than a week. This has not fluctuated based on interest rate or stock market movements and has been consistent throughout 2023. This would indicate that buyers are educated, have been shopping, and when they see an opportunity, they act.

So what exactly will it take for buyers to re-engage and step back into the market? We think there are 3 primary triggers.

1. If interest rates drop, that will undoubtedly get those rate-sensitive buyers off the fence and back into the market. We have heard analysts predict that with every downtick in rates, we can expect an uptick in prices. Whether or not this is accurate, it helps hammer home the expectation that demand and activity will pick up when buyers see a little relief in sight. There is also an argument to be made that a rise in rates could also spark buyer activity. People have been sitting and hoping rates will fall, but if buyers see that they are about to push higher, they may opt to jump in before they get too high. This is exactly what happened in the spring of 2022.
2. For cash buyers, upward movements in the stock market usually have people feeling more anxious to make a move. When the stock market was down like it was at this time last year, nobody wanted to liquidate their holdings at a loss. However, when you take into account that the stock market is now about 20% higher than it was just last fall, this has buyers feeling more confident and eager to redeploy that cash into a historically much safer investment (real estate).
3. Whether you are a cash buyer or a financed buyer, no one wants to feel like they missed out. Lately, buyers have seen some more options on the market and unless the home is perfect, have not felt compelled to jump. Rather they sit on the sidelines watching to see if the seller lowers price and if not, wait to see if anything else comes on or goes pending. However, when something sells, it often serves as the first domino to fall with other competitive homes going pending quickly afterward as buyers try to avoid missing out completely.

We recently heard someone describe the buyer situation like this. Consider what happens when there is a big snowstorm. All brick-and mortar businesses experience a slowdown and drop in sales. When the snow clears, restaurants don't have pent-up demand with people rushing back out to spend what they wanted to the week before. However, the situation is different for those looking to buy new phones or technology but couldn't during the storm. They won't skip buying the iPads and phones, they just delay the purchase until the snow clears. The current housing situation feels a lot like that and we expect the buyers to continue to head back out and purchase as their situation allows.

## SELLER'S CORNER

We are now about one year into the tangible shift in the "balance of power" between buyers and sellers in the local Bend market, and data is starting to show how this shift translates across pertinent metrics for sellers. Especially among them are the main metrics of "time" and "money," which can be represented by "days on market," and the "sale-to-list price" ratio. Here, we share a little more about what these metrics are indicating, as well as what this means for our sellers in the coming months.

### MONEY

As we mentioned above, average sale price can be misleading as forces such as stock market and interest rates are driving more sales in the luxury sector. This, coupled with fewer sales overall, can \*appear\* to indicate an increase in the overall market, which begets confusing headlines. From a seller's perspective, a more illuminating metric can be how the final sale price compares to the original list price for a given home. From this, we can get a feel for both the price drops that are conducted prior to an offer, and also just how much the price is negotiated with the offer that does finally lead to the closing of the home.

As shown in **Chart B** below, we can see this "sale-to-list price" ratio as an average for the past 10 years, beginning at roughly 94% in 2013, increasing to over 100% of the asking price during the pandemic when multiple offers were prevalent, and coming back around to roughly 95% today. This means that during the time between its first day on market to its final closing date, the average difference is roughly 5% less than the

seller's original asking price. It is useful to see here that even the fairly healthy market from 2014 to 2019 maintained a "closing price to original price" ratio of 96%-98%, while homes continued to steadily appreciate during that time. In short, sellers should plan for some negotiation in any market but should expect greater negotiation today than in recent years.

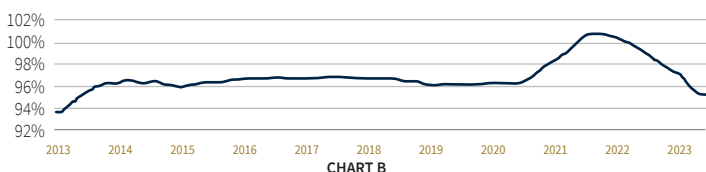
### TIME

Another important factor in selling a home is to consider how long it will take, both to allow for future planning and next steps. In the main article we touched briefly on the current median days on market, but here, we think it is valuable to provide some perspective. Looking back a decade, we see an average of 90+ days on market for Bend homes in 2013, before decreasing to roughly 70 where it remained during the healthy and steadily appreciating market - until the pandemic, where we see a drastic dip to just 27 days! Today, the average home takes 44 days. Keep in mind that those are the homes that actually sell. This number could easily rise overall if some of the active, languishing listings sell and get factored into this data point.

### TODAY'S OUTLOOK

Yes, it is true that for a seller to achieve a quick and efficient sale today, the home must stand out. This means it must be well-priced, beautifully presented, expertly marketed, and dynamically represented. It must compel engagement digitally, and deliver on that promise once buyers are on-site.

For some of our clients, this means that our team may counsel them to reconsider selling for now. But the good news remains that even with a decrease in demand, greater negotiation, and a growing number of days on market, homes in Bend have still appreciated 20%-40% in recent years, which is well above pre-pandemic trajectories. For many of our clients, this means an exceptional return on investment above all.

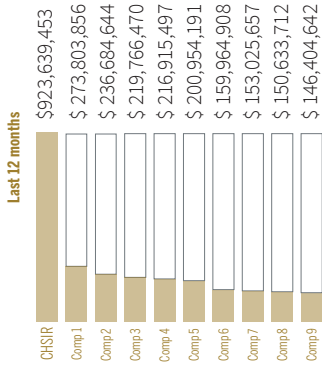


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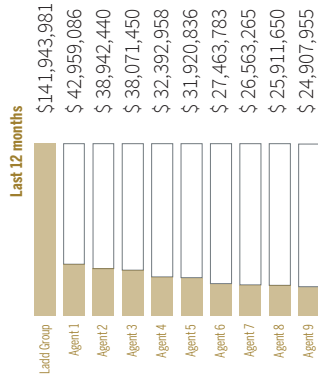


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Alice Fairbairn is AMAZING! Thankfully she came into my life at just the right time, not only did she step in and guide me through the overwhelming process of buying my new home, she was always there to fix any and all issues that arose along the way and made the entire process a smooth transition for me in closing on my new home

Super easy to give Erin Martin and her team at Ladd Group a 5-Star review. They were very proactive in the management and sale of my property in a particularly challenging and uncertain economic time period. They really care about their clients - top-notch advocates. Their data-driven reporting on a regular basis is 2nd to none. Erin instilled confidence in their strategy which resulted in an exceptional outcome.

Steve was a massive help to us during our house searching and buying process. We moved to Central Oregon from out of state. Steve visited some properties and walked us through virtually. We also met for a weekend of house hunting, where he showed us quality homes. We would absolutely recommend Steve and the Ladd Group for your home-buying needs. We closed on our new home at the beginning of April, and the process could not have been easier.



The Ladd Group is honored to be recognized as Cascade Hasson Sotheby's #1 mid-size team in Oregon.

Jaclyn Oakland @ the Ladd Group is amazing!!! She was absolutely clutch in our home-buying journey. Not only did she totally suggest the perfect neighborhood for us, but she was able to masterfully negotiate a very tough offer we made on our dream property. I'm still not sure how she pulled that off, but we sure are glad she did. We love our new house

The Ladd Group and agent Bryan Hilts helped us sell our home quickly and with great service. They are a group of true professionals and we felt taken care of every step of the way. I would recommend them for buying or selling, you'll be in good hands!

Erik Chapin did a wonderful job spending the time to reacquaint my daughter and me with Bend in our home state. Even knowing that we were considering a home in either Bend or Utah he gave us his full attention in showing us homes. He worked hard to get to know us and understand our needs and expectations. Erik was professional, honest, very knowledgeable and knew the neighborhoods well. We enjoyed working with Erik and the Ladd Group team in finding our new home in Bend.