Ruthie Truscott

By Referral Only

36 Years of Real Estate Experience
Top 1% Nationwide

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NO DISTRESS AND NO CRASH IN HOUSING

OCTOBER 2023

Collectively, homeowners across the U.S. are healthier than ever before, which will prevent distressed sales and a housing crash..

With home affordability at record lows, as the economy cools or slips into a recession, it a come to pass that housing will collapse, and foreclosures will rise. *Isn't that how the Great Recession unfolded?*

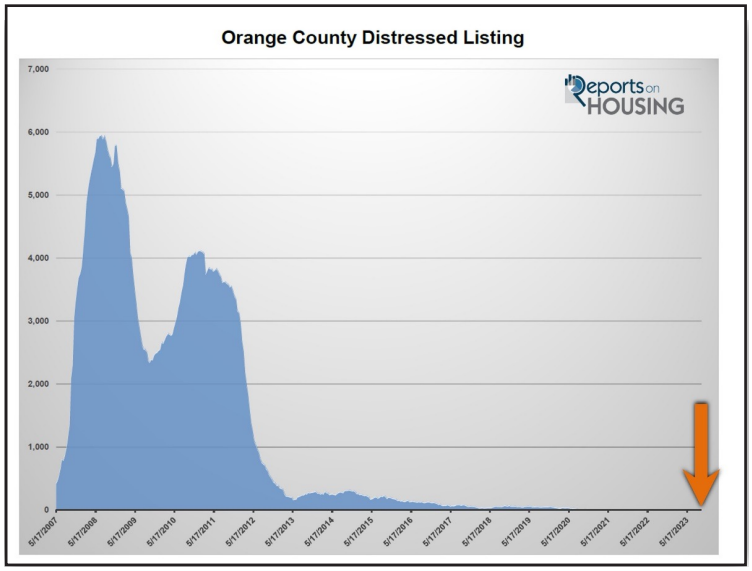
We often jumps to conclusions without looking at all the facts and trend lines. Think about our economy from 2008 through 2011. The economy ground to a halt, and unemployment grew to levels last seen at the beginning of the 1980s. Thus, everyone is jumping to the worst-case scenario in their collective minds: housing must suffer.

It is imperative to point out that just because mortgage rates have climbed towards 8% does not mean that values must go down, and that many homeowners will lose their homes due to foreclosures or short sales. The Great Recession was fueled by a credit bubble inflated by loose lending standards, including subprime mortgages, pick-a-payment plans, teaser adjustable rates, zero down, and plenty of fraud. These high risk borrowers were susceptible to any adjustments in their rates or changes to the economy. Hence, a wave of foreclosures followed.

Today, only four foreclosures and two short sales are available to purchase in Orange County; that is only six total distressed listings. Distress demand, the number of new pending sales over the prior month, is at one. Foreclosures and short sales represent only 0.3% of the active listing inventory and 0.07% of overall demand.

While two-thirds of demand was distressed, lenders were in control of the housing market through bank-owned listings, foreclosures, and short sales. Often, sellers had to price a home below the most recent closed sale. Consequently, home values plummeted.

The leadup to the Great Recession was characterized by an Orange County inventory that grew from 4,900 homes in March 2005 to over



16,000 homes in the summer of 2006, a glut of homes for sale. This year, the inventory climbed to 2,475 homes and will drop to around 1,500 by year's end, nearly a record low.

Before the Great Recession, the average buyer FICO score was 681 (2006), low or no-down-payment loans were common, and buyers tapped into subprime mortgages, pick-a-payment plans, and teaser adjustable-rate products. Adjustable-rate mortgages made up over a third of mortgage applications each year from 2004 to 2007.

Today's housing stock is entirely different. Buyers have purchased homes with higher down payments, tight qualification and lending standards, and an average FICO score of 746 (2022). Unemployment has remained at decade lows, below 4%. An incredible 96% of homeowners with a loan enjoy low fixed-rate mortgages. Unlike before and during the Great Recession, homeowners today are not vulnerable to rising payments. Nearly 50% of all homeowners across the county are considered "equity rich," meaning they have more than 50% equity in their homes.

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OC HOUSING SUMMARY

- The active listing inventory in the past couple of weeks decreased by 13 homes, down 1%, and now sits at 2,340, its lowest reading since the start of July. It is the second lowest mid-September reading since tracking began in 2004, with only 161 more homes than 2021, the lowest level by far. In September, 37% fewer homes came on the market compared to the 3-year average before COVID (2017 to 2019), 1,114 less. Last year, there were 3,646 homes on the market, 1,306 more homes, or 56% higher.
- Demand, the number of pending sales over the prior month, decreased by 60 pending sales in the past two weeks, down 4%, and now totals 1,414, the lowest end-of-September reading since 2007. Last year, there were 1,598 pending sales, 13% more than today.
- With demand falling faster than the supply, the Expected Market Time, the number of days to sell all Orange County listings at the current buying pace, increased from 48 to 50 days in the past couple of weeks, its highest level since the end of January. It was 68 days last year, slower than today.
- For homes priced below $750,000, the Expected Market Time increased from 30 to 33 days.
- For homes priced between $750,000 and $1 million, the Expected Market Time decreased from 33 to 31 days.
- For homes priced between $1 million and $1.25 million, the Expected Market Time increased from 35 to 36 days.
- For homes priced between $1.25 million and $1.5 million, the Expected Market Time increased from 40 to 47 days.
- For homes priced between $1.5 million and $2 million, the Expected Market Time increased from 55 to 59 days.
- For homes priced between $2 million and $4 million, the Expected Market Time in the past two weeks decreased from 98 to 92 days. For homes priced between $4 million and $6 million, the Expected Market Time decreased from 181 to 171 days. For homes priced above $6 million, the Expected Market Time increased from 247 to 260 days.
- The luxury end, all homes above $2 million, account for 33% of the inventory and 14% of demand.
- Distressed homes, both short sales and foreclosures combined, comprised only 0.3% of all listings and 0.1% of demand. Only four foreclosures and two short sales are available today in Orange County, with six total distressed homes on the active market, up two from two weeks ago.
- There were 1,979 closed residential resales in August, 9% less than August 2022's 2,168 closed sales. August marked an 11% rise compared to July 2023. The sales-to-list price ratio was 99.2% for all of Orange County. Foreclosures accounted for 0.2% of all closed sales, and short sales accounted for 0.2%. That means that 99.6% of all sales were good ol' fashioned sellers with equity.

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