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IS THE INVENTORY DAM ABOUT TO BURST?

Given the soaring costs we're seeing in almost every aspect of our lives, the end of forbearance programs and rent moratoriums, coupled with the age of boomers who own 42% of the inventory, the inventory dam has definitely started leaking.

As you probably know, prices for wood, steel, copper, and other building materials are soaring. On May 12, the annual rate of inflation jumped from 0.8 percent in March to 4.2 percent in April. Couple these facts with the end of COVID-19 mortgage forbearance, the end of the eviction ban, plus the oldest baby boomers turning 75 this year, inventory increases may occur much sooner than anyone anticipates.

For years, existing-home sales have held steady at about 5 million to 5.5 million per year. In 2020, despite the pandemic, existing-home sales reached 6.76 million. As of March 2021, the National Association of Realtors (NAR) puts the current pace of existing-home sales at 6,010,000. Other experts project the rate may be as high as 7.1 million.

The high demand is being driven by three primary forces: COVID-19-pandemic-motivated moves, millennials being at the prime age for buying their first home, plus the uptick in the number of investors including flippers and Ibuyers. To understand what may be coming, it's important to consider how each of these major trends will impact residential sales.

WILL 2022 BE THE YEAR OF FORECLOSURES?

The Consumer Financial Protection Bureau (CFCB) has proposed modifying its lending rules to prepare for an unprecedented number of homeowners exiting forbearance programs later in 2021.

As this firsttuesday Journal article put it: "The proposed set of rules from the CFPB are part of the effort to slow the opening floodgates of foreclosures that have built up. As of January 2021, more than 2.1 million homeowners who were enrolled in forbearance programs were seriously delinquent (90 days or more behind) on their mortgage payments. Without a clear path to reinstatement, these delinquent homeowners will be headed for foreclosure upon exiting forbearance."

"Expect the year of foreclosures to take shape in 2022," Amy Perry wrote in the article. Although it is unclear what the new rules will be, the moratorium on lenders filing Notices of Default (NOD) should be in place at least through Dec. 31, 2021.

IMPACT OF 2.1M HOMES IN FORBEARANCE GOING INTO DEFAULT

The foreclosure process can take months or even years to complete depending on where you live. Consequently, don't expect an immediate surge in real estate owned (REOs), or properties taken back by the lender.

Because lenders will be unable to file NODs until 2022, these 2.1 million at-risk homeowners have a window in 2021 where they can sell in today's heated market, retain most of their equity and also protect their credit.

For agents who know how to counsel homeowners who are in default, there is a huge opportunity to get these properties listed now. Either way, many of these properties should be coming on the market in the next 12 to 24 months.

JUDGE STRIKES DOWN EVICTION MORATORIUM

On May 5, 2021, a federal judge struck down the national eviction moratorium. On May 14, 2021, the judge stayed her decision while it is being reviewed by a higher court. It remains to be seen whether the review will result in reinstating the moratorium or leave the present ruling in place.

The eviction moratorium has hit mom-and-pop owners of single-family residences especially hard. It's almost impossible to sell a rental property when you have no way to evict a tenant who is not paying rent.

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IMPACT ON THE INVENTORY

When the eviction moratorium ends, owners who have been struggling with ongoing expenses and significantly reduced cash flows will finally be able to sell to their properties. This in turn should further ease the inventory shortage.

SHORTAGES COUPLED WITH SKYROCKETING COMMODITY PRICES

If you haven't been following what's happening in the commodities market, perhaps the most startling statistics are how much the costs of wood, copper, and steel have increased:

- *The cost of plywood has increased approximately 250 percent, and wood sheathing is up 287 percent, largely due to the shutdown of wood mills and other production cuts due to COVID-19.*
- *For the first time in 10 years, copper hit a high of $10,000 per metric ton in early May 2021. Bank of America expects copper to spike to $13,000 per metric ton in the upcoming years with potential price swings as high as $20,000 per metric ton.*
- *Bank of America also warns steel prices are in a bubble that may pop soon. In 2020, steel prices bottomed out at $460 a ton. Currently, they're at approximately $1,500 per ton, a 326 percent increase.*
- *Making matters worse, a truck driver shortage and increasing gasoline prices are also adding to the skyrocketing prices.*

HOW SOARING MATERIALS COSTS AND OTHER SHORTAGES IMPACT THE INVENTORY

Increased housing costs are the most obvious impact of soaring building material costs. In addition, the construction industry is experiencing a huge shortfall in the number of construction workers.

What no one seems to be addressing, however, is how soaring material costs will impact remodeling, flipping, and iBuying. These groups will be negatively impacted in the following ways:

- *Their original budget for the project will be inadequate to complete the project as planned. This means either cutting back the size of the project or finding additional financial resources to complete it.*
- *Projects will take much longer to complete. This translates to increased holding costs, a huge issue for iBuyers and those who hope to flip and sell. To illustrate this point, if a flipper plans to take four months to prepare a house for resale and it actually takes eight months, that doubles the amount of their holding costs. This in turn can quickly eat up potential profits and even turn the project into a loss.*

The impact of fewer iBuyers and flippers being able to make a profit should also contribute to easing the easing of the inventory crisis.

BABY BOOMERS: THE ULTIMATE WEDGE THAT BREAKS THE INVENTORY DAM?

The baby boom generation, ages 55 to 75, comprise 22 percent of the U.S. population but account for nearly 42 percent of homeowners nationwide. Although 76 percent would prefer to remain in their current home rather than moving in with family, to a nursing home, or into an assisted living center, there's one hard fact that no one is discussing: life expectancy rates.

The current life expectancy for males in the U.S. is 76.1 and for women, 81.1. These statistics have three interesting implications for the inventory currently held by boomers.

- *For the first wave of male baby boomers, approximately 50 percent of all males born in 1946 will have died by the end of 2022. (Please keep in mind this is the cumulative number that includes accidents, illnesses, war fatalities, etc., that happen from birth forward.) That 50 percent number will remain a constant as those men born in 1947 and later hit the 76.1 life expectancy number.*
- *Over and beyond the death rate, boomers are now at the age where most face issues with their health. To illustrate this point, mobility issues are one of the most common reasons boomers sell. For those who own multistory homes, damaged knees, hip replacements and other types of illness often result in homeowners having to locate single-level residences or move into a property with an elevator. Heart and lung issues due to smoking, cancer, and chronic obstructive pulmonary disease (COPD) also impact mobility as well as the ability of homeowners to live independently.*
- *The five-year difference in male versus female life expectancy is significant. Historically, when women lose their spouses, they are often unable both physically and financially to afford the upkeep of their current home.*

What's particularly challenging are the soaring prices noted above. This is especially problematic when these increases outpace inflation and cost-of-living adjustments, increases in social security, and/or employer-provided retirement benefits.

In states where property taxes increase with current market valuations, this can often force a senior to sell no matter how much they would like to stay in their current home.

IMPACT OF BABY BOOMER AGE ON THE INVENTORY

Given that boomers control 42 percent of the single-family home inventory, a huge proportion of these homes will be coming on the market in the next few years.

In fact, compared to when I moved into the 55-plus community where I currently live, the amount of turnover has increased significantly from just two years ago. Given that a substantial proportion of our residents are over the age of 70, that trend will only continue to climb over the coming years.

Given the soaring costs we're seeing in almost every aspect of our lives, the end of forbearance programs and rent moratoriums, coupled with the age of boomers who own 42 percent of the inventory, the inventory dam has definitely started leaking. That leak may very well break the dam and finally, bring an end to the current inventory shortage.

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1430 W BUSCH BLVD. SUITE
D TAMPA, FL 33612.
(813) 876-4373

@ARETSIFL