

Your Broker:



Rob Cassam

December 2022

Real Estate

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How Much More Could Housing Prices Drop?



With soaring interest rates, homebuilder confidence continues to plunge. The National Association of Home

Builders recently said that prices could be on the brink of collapsing. Builder confidence dropped to 38 in the most recent data, which represented a decline of eight points. It's at half of where it was six months ago, and it's at the lowest level since 2012, not including the plunge at the start of the pandemic in 2020, which was historic.

The National Association of Home Builders said the continued collapse in confidence is evidence that rising interest rates, bottlenecks for building materials, and elevated home prices are weakening the housing market. Possible buyers' traffic has decreased to the lowest level in a decade, and sales outlooks are getting worse.

High prices worldwide have led central banks to have to reverse some of their pandemic policies put in place to shore up markets. The Federal Reserve's interest rate hikes have been aggressive and incredibly impactful to the booming housing market during the pandemic.

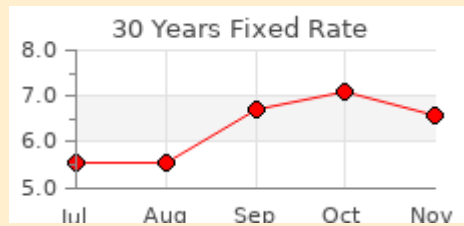
This summer, new home sales went down to a six-year low, and the significant drops in mortgage applications indicate the collapse will deepen and worsen.

Jerome Powell, the Fed Chair, has repeatedly indicated that home prices are going to cool as rates normalize after historic lows during the pandemic.

We don't know exactly how much more home prices have to go down, but it's possible they're just starting a steep decline.

Mortgage Rates U.S. averages as of December 2022:

30 yr. fixed: 6.58%
15 yr. fixed: 5.9%
5/1 yr. adj: 5.51%



Preparing to Sell? Is a Remodel or Renovation Best?



Pros of Remodeling:

Outdated styles or bold accent colors in a home can turn people away.

Removing these elements and replacing them with something more neutral can improve your chances of a faster sale — and for a higher price.

Cons of Remodeling: Unfortunately, there are few remodeling projects for which you'll recoup your entire investment. Plus, remodeling is a huge inconvenience. Your home could be torn apart for weeks and you'll have workmen tromping through your house all day.

Pros of Renovating: A newly renovated home can fetch a higher price. Necessary repairs can substantially lower the price buyers are willing to pay for your home. Plus, homes that sit on the market for longer tend to sell for less.

Cons of Renovating: There is a better ROI for renovations than for remodels. However, depending on what is necessary, it can still get expensive. If you don't have the cash on hand for renovations, it may be better to take a lower sale price and skip the expense of renovating.

Paint Colors that Help You Sell Your House



The color potential begins before a buyer ever steps inside a home. "Greige" exteriors — a mixture of gray and beige — sold for \$1,526 more than homes painted white. While it may be tempting to bulk buy paint for your home's interior, a Zillow study found that buyers may prefer variety from room to room.

Kitchen: While the on-trend kitchen wall color varies from year to year, one constant has been in cabinet colors. Tuxedo cabinets gave sellers the most bang for their buck. By pairing light upper cabinets with dark lower cabinets and kitchen islands, homeowners saw an average of \$1,547 more in their home sale.

Bathroom: Buyers are looking for a relaxing oasis in their bathrooms. On average, Zillow found that homes with a gray-blue tint, frequently called periwinkle blue, sold for an average of \$2,786 more than a white bathroom. Think of an early morning ocean view at a luxurious day spa for your bathroom walls.

Bedroom: Prospective buyers are looking for peace and serenity. Blue is a calming color, and homes with blue-tinted bedrooms sold for \$1,856 more on average. Look for a matte soft cerulean blue accented by white baseboards or light natural wood to create the ultimate Zen setting that will send the homeowners off to a restful dreamworld.

Living Room: Branch out in your living room with a light taupe color on your walls. Taupe living rooms netted an average of \$2,793 more than white walls. Go for a warm tan with pink or peach undertones. If you want an accent, pick a darker, complementary shade.

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Appraisal Reviews Explained By David Reed

In most cases in today's mortgage market, property values are derived with what is known as the appraisal. On occasion, when a lender receives a loan application, the applicant will typically list what the potential borrower thinks the house is worth. With a purchase, the qualifying value will typically be the sales contract. A mortgage company will use what is entered on the contract, but on some occasions, a second opinion is needed. This second opinion is an appraisal review. What does an appraisal review look for?

Lenders will first determine that the current market of the property is in line with similar, recently closed homes. Most often this isn't an issue, but sometimes the lender will have a couple more questions. This is done by a review used with a computer or mobile device. The value is provided and the lender looks at other homes in the area, most often no more than 12 months. The newer 'comparable' sale will carry the most recent weight. This is referred to as a 'desk review.'

For example, let's say a home has a contract on it that states the property is worth \$300,000 but surrounding homes that have recently sold are at \$200,000. The lender will definitely want some more information. An appraisal review also makes sure the appraiser followed proper guidelines when completing the review.

At the same time, if the property comes in at a value much higher than recently sold homes, there will also likely be a review.

In many cases where the borrower is well-qualified along with a decent down payment, a full appraisal will be waived completely with the lender using data grabbed from the local multiple listing service, or MLS.

Full appraisals these days are relatively rare, but when they do occur, it's because the lender wants to feel a little more comfortable about making the loan. A full appraisal means the appraiser physically visits the home, and takes photos of both the inside and outside of the home.

All appraisals are reviewed, it's just the level of scrutiny that makes the difference. When someone makes an offer on a home, it's their agent that helps determine that asking price based upon what has recently sold in the area. The closer the 'comps' are to the subject property, lenders use this proximity to provide greater weight to the nearest comp.

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Should You Go Solar at Home? By Ashley Sutphin

Installing roof solar panels has become an increasingly popular option among homeowners in the United States. Solar panels will convert sunlight into energy, and then you can use that energy to power your home.

While the cost of solar panels has gone down over the years, and increasingly people are installing them, it's still a significant investment. There's a lot to consider and both pros and cons to weigh.

Is Your Home a Good Fit for Solar Panels?

Solar panels can work in any climate, but your roof may not be suitable for installation. Tree coverage or age could be two factors making your roof unsuitable. For example, if trees shade your roof too much, rooftop panels may not be optimal. In most cases, solar panels work best on south-facing roofs, with a slope up to 40 degrees.

If your roof is old and nearing the time for replacement, this may also make your home unsuitable for solar. There are alternatives if your roof doesn't make you a viable candidate for solar panels, including ground-mounted panels or a community solar garden.

When Do You Plan to Move?

If you plan to move in the near-term, solar panels are probably not a good investment. First, since they are an investment, it can take time to see a return. It usually takes around seven to eight years to pay off the cost of solar panels. If you're going to move any time soon, not only will this investment not yet have paid itself off, but you may limit your pool of interested buyers when you hit the market. When your solar system is installed, it is almost impossible to move it to a new location.

How Much Do You Pay for Electricity?

If you don't pay a lot for electricity each month, then you're not going to save much with solar panels. Residents of some states pay more than others for electricity and therefore may find solar panels have more financial benefits for them.

What's the Weather Like Where You Live?

Weather and, in particular, the sun are the most important things with solar panels. If you live somewhere where there's a lot of cloudy weather or rain, you're not going to get as many benefits from going solar. If you have long or harsh winters, your solar system is also going to be less productive.

Will You Qualify For Financing?

There are flexible options to help consumers afford the initial, upfront costs of solar panels. There are financing options, and there are also state and federal tax credits and incentives available. You should explore what you qualify for. Otherwise, you're going to pay a lot out-of-pocket upfront and you may not have the cash sitting aside to do that. Many of the solar financing programs are state-based loans. There are also power purchase agreements and leases available.

Are There Quality Installers Where You Live?

If you live in a bigger city or near a metro, finding solar panel installation professionals may not be a challenge. However, finding a reputable company can be more challenging in certain parts of the country. You'll have to do the research and find a company with a strong background, and also one that's not going to try pushy sales tactics to lock you into a long-term contract that you might not want.

The Benefits of Solar Panels

While the above are questions to ask yourself, there are benefits of solar panels including:

- Reduced electric bills are one of the biggest reasons homeowners opt to install solar panels. Over 20 years, you could save anywhere from \$10,000 to \$30,000, depending on where you live and the size of your home.
- Solar panels allow you to be energy independent.
- You can reduce your carbon footprint when you go solar.
- Solar panels are almost entirely maintenance-free.

Solar panels certainly have pros and cons. While they don't work for every family or home, they can have big advantages in some cases, making them a worthwhile consideration.

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Renovation Tips For A Classic, Not Trendy, Home By Jaymi Naciri

Here's the dilemma. You're getting ready to redo your kitchen and you want it to be stylish and modern but not trendy. After all, this is the only kitchen renovation you ever plan to do and you don't want it to be outdated before you are even finished with the final touches.

If you're paralyzed because you're afraid of making the wrong decision, we get it. So how do you know how to choose? First, it depends on what your goals are. If you're just looking to update and then sell your house, choosing materials that are trending now may be a good call. If you're thinking, "I want to love this and have it still look good in 10 years," that's another story.

"You've probably taken on a renovation project because you want to update the style. While you'd like to give your home a modern look, choosing a short-lived style or personal design is a major fail," said HomeAdvisor. "While a trendy design is sure to make your home stand out, it's also going to quickly go out of style. This is a big problem if you want to resell your home in the future. Modernize the look of your kitchen or bathroom, but avoid bold styles that only appeal to those with specific tastes."

Go neutral

Yes, neutral can be boring. It's true. (It can also be super chic when done right.) Making a bold choice with your kitchen countertops might feel like the right way to go right now, but you may turn around in a couple years and regret that choice, especially if you're going to try to sell your home. You can always bring in pops of color with accessories or items that are easier to replace or redo.

For the last several years, grey has been the go-to color for homes. Prior to that, it was beige - a color that is currently seeing a resurgence even though grey is not gone - yet. Black and white is another currently hot option for color schemes, and, the bonus is, "black and white remains a classic combination," said HGTV. Certain colors will never go out of style - House Beautiful has 10 of them. But remember that no matter what color you choose, it's not permanent. Painting is one of the easiest ways to update your space and change the mood whenever you like.

Just keep in mind that high ceilings and other architectural features may make a DIY situation un-DIY-able and may make a redo more expensive because you have to hire someone. Key in on walls that don't soar to a pitched ceiling or that can act as a focal wall for high-impact that's easy to accomplish yourself.

Be smart about your kitchen

You may have a desired look cemented in your head for your kitchen, but are you making smart choices? Shaker cabinets, farmhouse sinks, and marble countertops are a few good options if you want something that looks modern but "will stand the test of time and still look as beautiful twenty years from now as it does today," said Apartment Therapy.

Go eclectic with your furniture

An entire house full of mid-century modern furniture can begin to look like a showroom, and when the trend is over, it can be painful to replace it all. Creating a more eclectic look with an eye toward classic pieces creates staying power. Adding in a vintage piece or two can add another important layer. "A design rule that's sure to remain true? Every room in your home needs a unique vintage piece," said HGTV. "Even in newly-decorated spaces, distressed or worn pieces create a collected, designer look."

Avoid hyper trends in larger items

Drapery, rugs, and bedding can be easily changed out to accommodate your fickle design taste. But when it comes to the larger pieces in the home - a couch or a set of chairs, perhaps, avoiding trends will give you longevity. "Timeless decor means fabrics that will stand up to years of changing trends! They transcend those changes," said Stone Gable. "Don't rush out and buy foundational furniture in the 'color of the year'! It's only the 'color of the year' for one year! Choose colors and patterns, especially when buying big ticket items, that will still look amazing when this year's trends have come and gone. Add layers of accent decor like lamps, art, tableware, pillows, bedding, etc. in more updated colors and styles. They can be changed out easily when they get tired or are out of style."

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How Interest Rates Affect Purchasing Power By Ashley Sutphin

It's difficult right now to avoid rising interest rates' effects on the economy, especially the real estate market. Since the beginning of the year, interest rates for mortgages have gone from record lows to more than 7% as the Fed tries to cool inflation. Typically, in a situation where interest rates are going up, home prices will drop so it can balance out affordability for homebuyers. We are not, however, in a typical situation right now. While the rate of growth is slowing somewhat, prices for homes are still at record highs.

Redfin Studies the Impact of Reduced Purchasing Power

Unfortunately, as interest rates are going up, a significant portion of homebuyers have lost up to \$165,000 in purchase power in the last year, according to a Redfin study.

The study was from the summer, and interest rates are significantly higher, so buyers have probably lost more than that study reflects.

When interest rates went from 3% to around 6%, it caused mortgage costs to see a median increase of 49%.

At the end of 2021, a theoretical homebuyer with a monthly budget of \$2,500 could afford a house worth up to \$517,500. In the period ending in mid-June 2022, the same homebuyer could afford a home worth up to only \$399,750.

If a homebuyer this summer had \$3,000, they would have lost \$141,250 in buying power, and for someone with a budget of \$3,500, the loss would be \$165,000.

As a result of eroded purchasing power, homebuyers are either leaving the market or choosing homes in cheaper neighborhoods. Some people are also having to continue renting as a result.

These changes affect sellers too—since homebuying budgets are smaller, sellers can't expect those bidding wars and top-dollar offers on their homes.

Raleigh, Salt Lake City, Austin, and Phoenix are most impacted by reducing buying power. In Raleigh, as of this summer, 33.2% of homes would be affordable with a 6% rate, down from 61.1% with a 3% rate.

The smallest impacts are seen in already-expensive markets. For example, in the Bay Area, there are hardly any homes that would be affordable on a \$2,500 budget, regardless of the interest rates.

Understanding the Cost of Higher Rates

Lenders will qualify a homebuyer on different factors, including the debt-to-income ratio or DTI. When you have a low DTI, in the eyes of a lender, it means your balance between your income and debt is healthy.

Most lenders will put a cap on what they'll allow for DTI at around 45% for a conventional loan.

Your monthly debt obligations used to calculate DTI include credit card minimum payments, car loans, student loans, alimony and child support, and projected house payments, including insurance and taxes. Those things are added together and divided by monthly gross income.

As rates go up, buying power goes down significantly. In fact, high or rising rates impact buying power more than home prices. If the interest rate increases by 1% in a year, it has the same effect as home prices rising by 10%.

Since borrowers qualify for less of a home as rates increase, they might explore different options. One is to make a larger down payment, and another would be choosing an adjustable-rate mortgage with lower rates and payments in the first few years.

If rates go up by 1%, most buyers would need to look at homes that cost around \$35,000 less, meaning the difference between a more desirable zip code or an extra bedroom.

Finally, as mortgage rates go up, the principal amount paid down every month also decreases. More of the money early on in the loan is going toward interest, making high interest rates even more challenging.

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