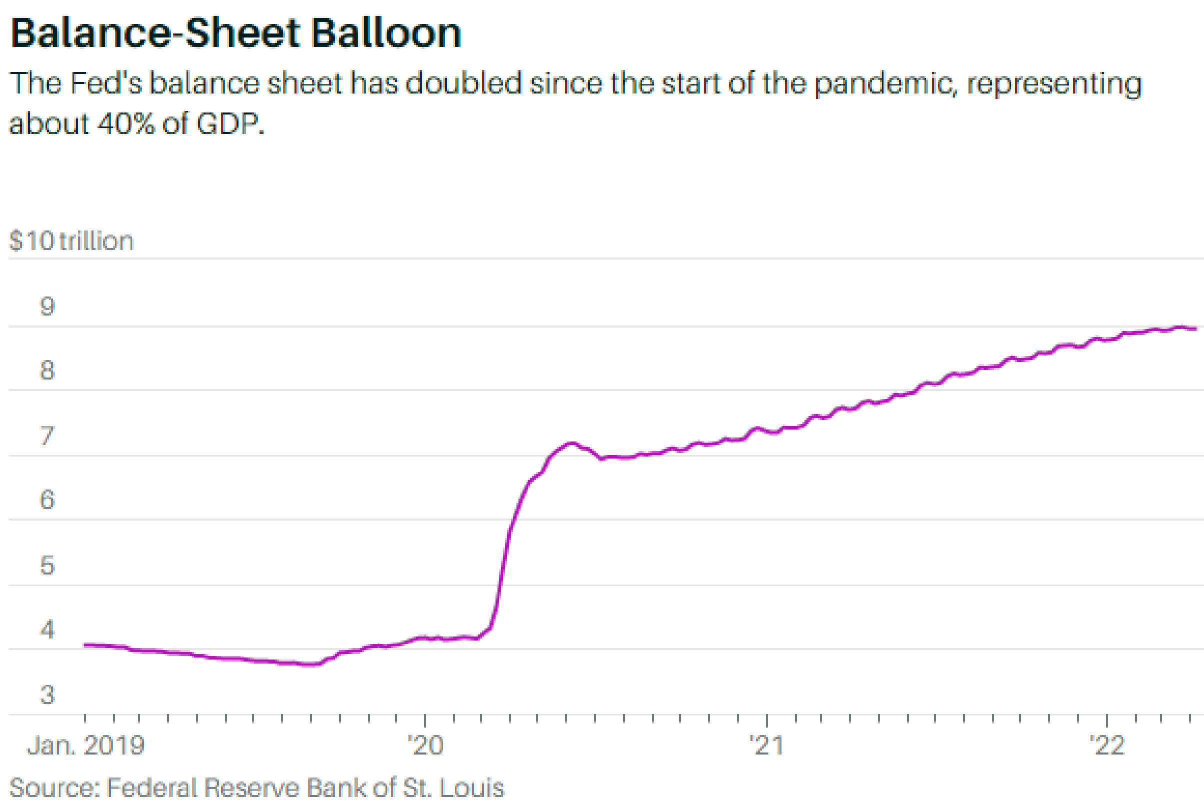
The Fed is Putting Out the Fire

May 8, 2022 / Chuck Lech

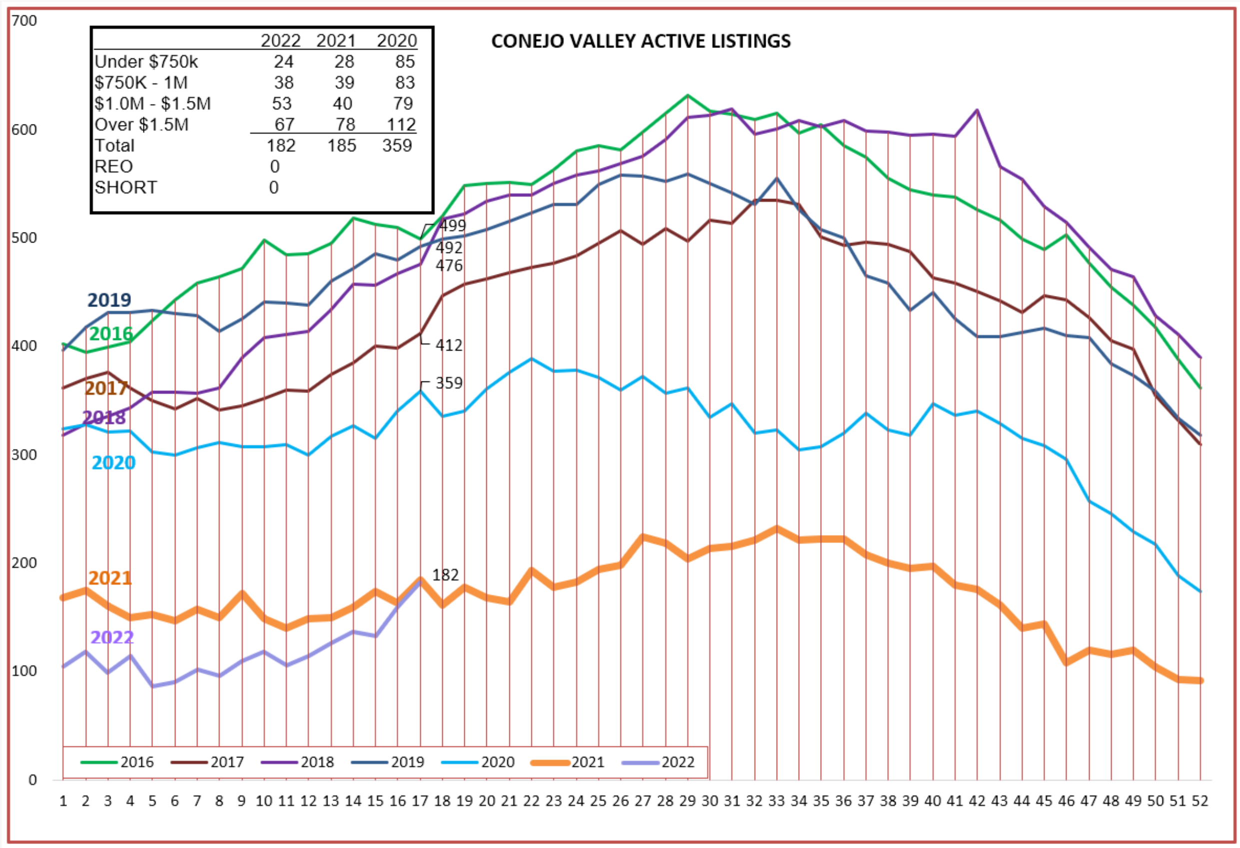
The FED had two ways to provide monetary stimulus to the housing market. One was to keep interest rates near zero. The other was to purchase mortgage-backed securities and keep them in their portfolio. The FED has now reversed course in both areas. This week's half point rise in interest rates was an indicator of more to come.

Mortgage interest rates are more closely related to the 10-year bond. With that bond currently exceeding 3%, mortgage rates are settling in two points higher, as usual, at more than 5%. In one year we have seen mortgage rates jump from 3% to 5%. They will continue to rise for a period of time.   Below is how the FED balance sheet has grown during the pandemic, because they were strongly supporting keeping mortgage rates low, both buying treasuries and mortgage backed securities.

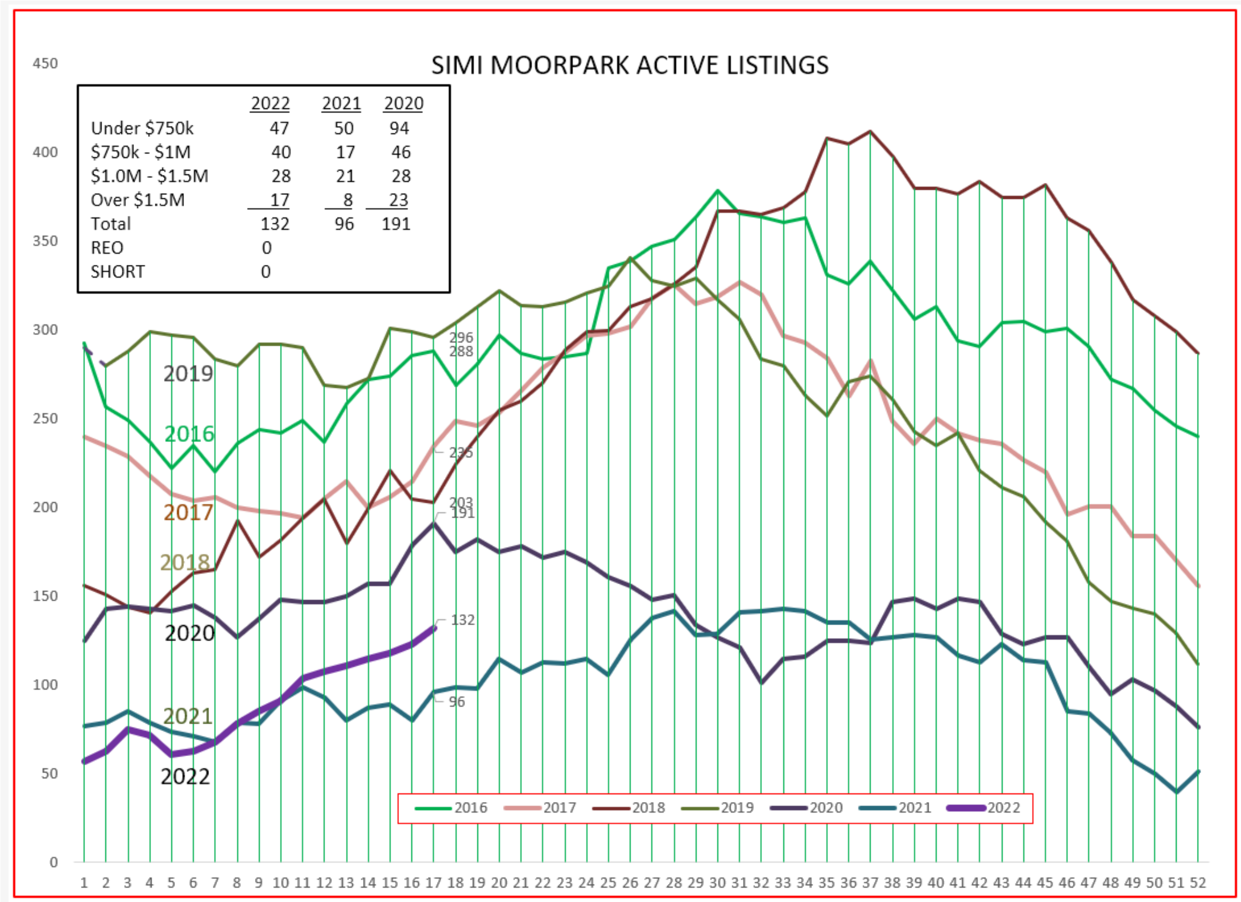


These purchases reduced interest rates for mortgages. The FED will now be dropping both treasuries and MBS from their inventory as each mature, and will not purchase new bonds. New mortgage backed securities will have to provide higher rates of return to be competitive, and mortgage interest rates will increase.

Has the hot housing market noticed what is going on in the mortgage realm? Not yet. But remember, closed sales happen 45 days after contracts are agreed to, so there is always a lag. We don't know what price a home sold for until it closes. If inventory goes up, that helps foretell the future. Let's see how inventory is reacting. Below, Conejo inventory is heading up, Although lower than 2021 for the first 2-3 months, it is now equal to 2021 and I estimate the uptick will continue.

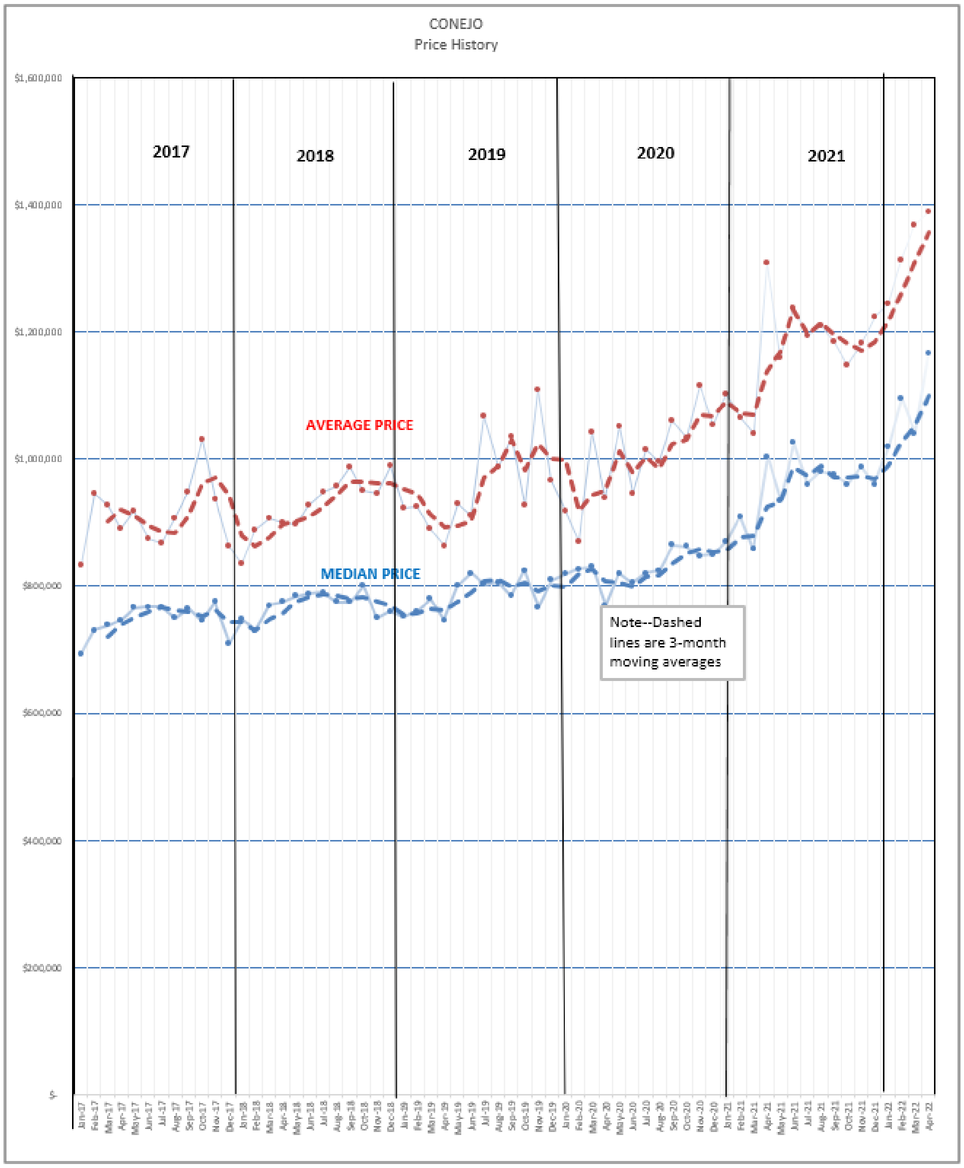


Simi Valley/Moorpark inventory has been extremely low for almost two years, but is now breaking out and rising quickly. This inventory growth will pressure price increases to moderate. Mortgage rate increases mean higher monthly payments, thereby reducing the number of buyers who can qualify for higher priced homes. Over the past two years, Supply and Demand has worked to increase prices significantly. It will now work to moderate prices significantly. How have prices been doing? Remember, these prices are based on contracts entered into 45-60 days ago, and were probably done with mortgage rates locked in at lower rates than those available today.



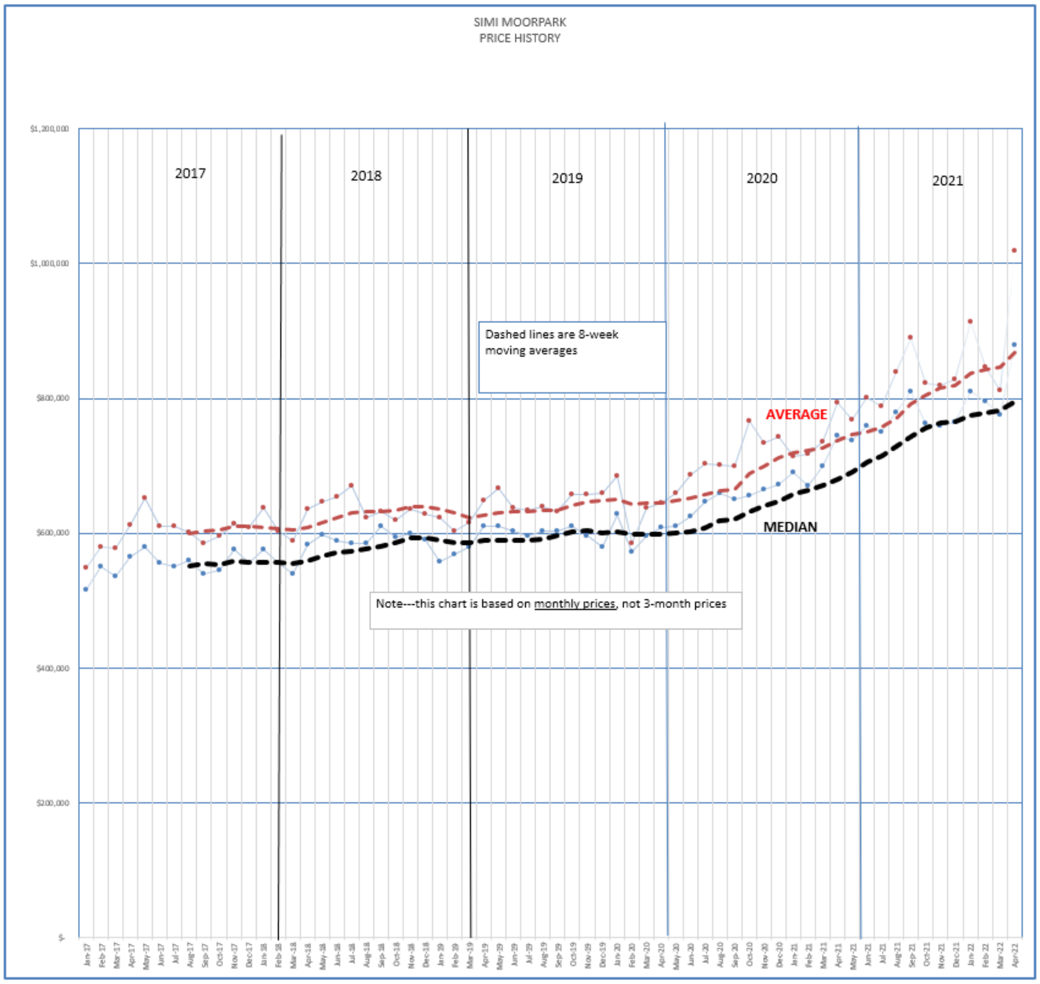
Conejo prices have been following a rocket-like trajectory. More inventory, meaning more sellers and more competition for available buyers, will moderate prices. And buyers, under pressure due to higher mortgage costs, will tighten their bidding belts. However, the median price in April 2022 vs April 2020 experienced and increase of 45% over that two-year period. It has been a great period for homeowners' main investment.

CONEJO VALLEY		
	MEDIAN	AVERAGE
Jan-17	$ 693,000	$ 833,505
Feb-17	$ 730,000	$ 944,801
Mar-17	$ 739,000	$ 926,804
Apr-17	$ 747,000	$ 890,111
May-17	$ 766,500	$ 917,196
Jun-17	$ 767,000	$ 875,586
Jul-17	$ 766,900	$ 867,574
Aug-17	$ 750,000	$ 907,669
Sep-17	$ 765,000	$ 949,097
Oct-17	$ 745,750	$ 1,029,891
Nov-17	$ 775,500	$ 936,479
Dec-17	$ 710,000	$ 862,565
Jan-18	$ 747,500	$ 835,575
Feb-18	$ 730,000	$ 888,357
Mar-18	$ 770,000	$ 906,240
Apr-18	$ 774,900	$ 900,068
May-18	$ 785,000	$ 898,481
Jun-18	$ 788,200	$ 926,918
Jul-18	$ 790,000	$ 947,440
Aug-18	$ 775,000	$ 957,017
Sep-18	$ 775,000	$ 988,026
Oct-18	$ 800,000	$ 949,696
Nov-18	$ 750,000	$ 945,902
Dec-18	$ 760,000	$ 990,409
Jan-19	$ 752,500	$ 922,295
Feb-19	$ 760,000	$ 924,258
Mar-19	$ 780,000	$ 891,026
Apr-19	$ 747,000	$ 862,369
May-19	$ 800,000	$ 930,176
Jun-19	$ 820,000	$ 912,404
Jul-19	$ 802,500	$ 1,067,988
Aug-19	$ 806,000	$ 986,789
Sep-19	$ 785,000	$ 1,034,622
Oct-19	$ 825,000	$ 927,955
Nov-19	$ 767,500	$ 1,108,783
Dec-19	$ 810,000	$ 965,586
Jan-20	$ 818,700	$ 917,906
Feb-20	$ 827,400	$ 870,226
Mar-20	$ 830,000	$ 1,042,890
Apr-20	$ 769,000	$ 938,795
May-20	$ 820,000	$ 1,051,872
Jun-20	$ 805,000	$ 945,644
Jul-20	$ 820,000	$ 1,014,336
Aug-20	$ 825,000	$ 995,356
Sep-20	$ 865,000	$ 1,060,749
Oct-20	$ 862,500	$ 1,033,982
Nov-20	$ 847,500	$ 1,115,324
Dec-20	$ 850,000	$ 1,052,577
Jan-21	$ 870,000	$ 1,101,123
Feb-21	$ 910,000	$ 1,064,590
Mar-21	$ 858,000	$ 1,039,843
Apr-21	$1,003,750	$ 1,308,864
May-21	$ 935,000	$ 1,158,744
Jun-21	$1,025,000	$ 1,238,194
Jul-21	$ 960,000	$ 1,192,702
Aug-21	$ 980,500	$ 1,210,621
Sep-21	$ 975,000	$ 1,183,644
Oct-21	$ 960,000	$ 1,148,478
Nov-21	$ 987,500	$ 1,181,805
Dec-21	$ 960,000	$ 1,222,485
Jan-22	$1,020,000	$ 1,243,839
Feb-22	$1,094,975	$ 1,313,957
Mar-22	$1,040,000	$ 1,368,892
Apr-22	$ 1,165,000	$ 1,388,774

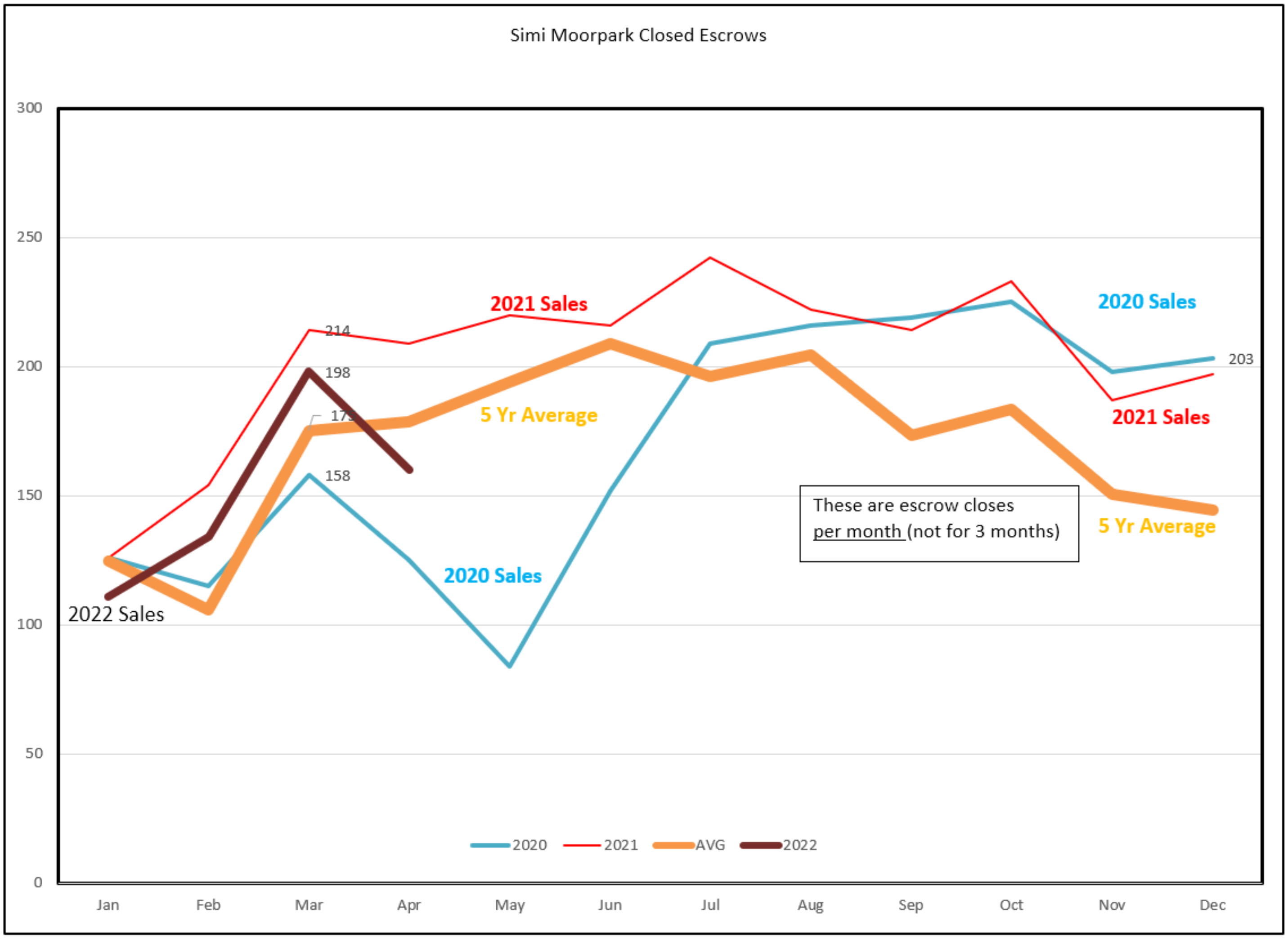


Simi Valley/Moorpark has experienced similar rocket-like increases in prices. April 2020 versus April 2022 measures an increase in prices of 45% over the two year span. People today are complaining about inflation, but homeowners have been very pleased with their home investment.

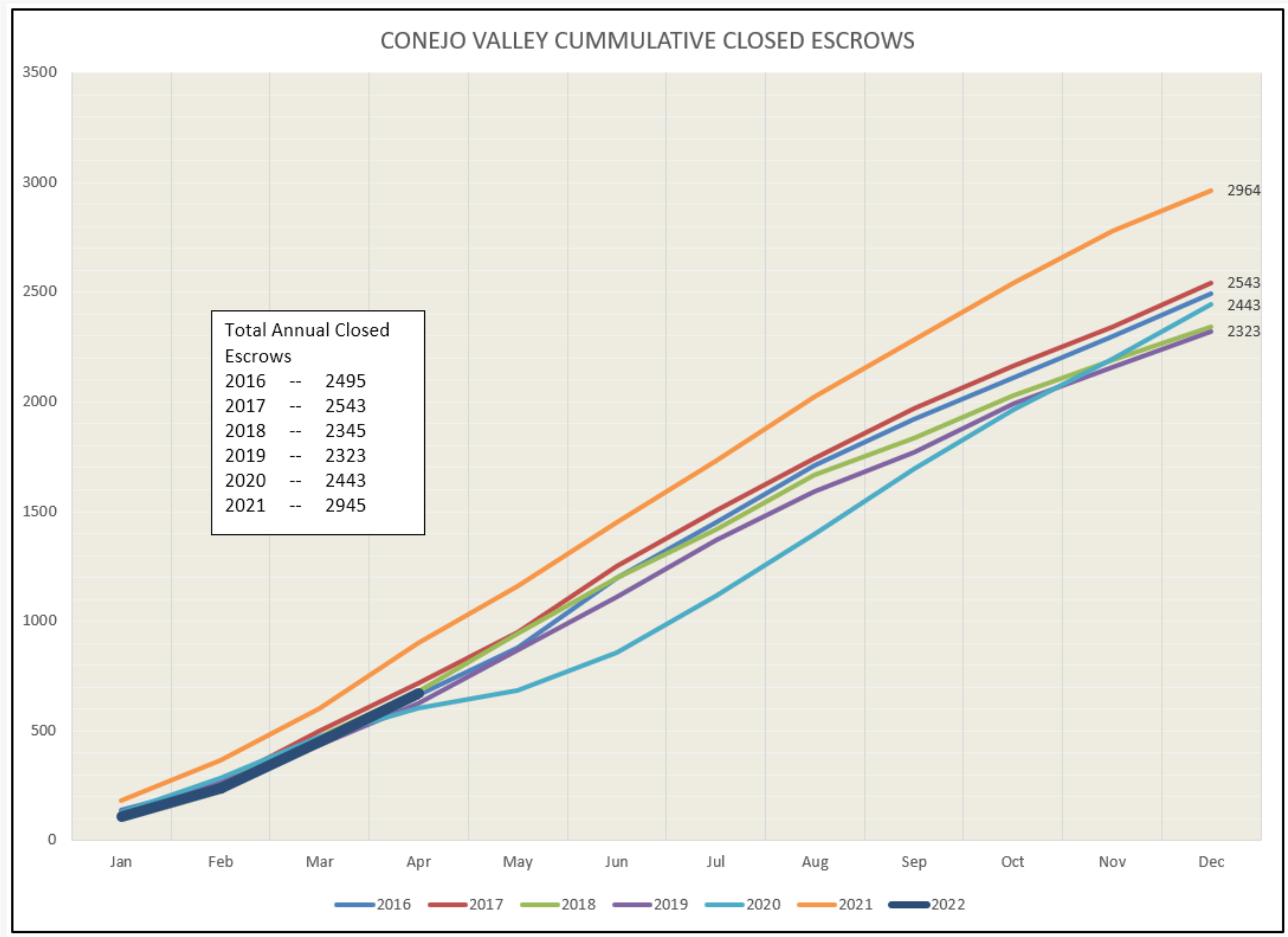
SIMI/MOORPARK		
	MEDIAN	AVERAGE
Jan-17	$ 515,000	$ 549,361
Feb-17	$ 550,000	$ 579,449
Mar-17	$ 535,000	$ 578,049
Apr-17	$ 565,000	$ 611,896
May-17	$ 579,950	$ 651,621
Jun-17	$ 555,000	$ 610,839
Jul-17	$ 550,000	$ 609,521
Aug-17	$ 560,000	$ 600,525
Sep-17	$ 538,500	$ 585,616
Oct-17	$ 545,000	$ 596,587
Nov-17	$ 575,250	$ 614,067
Dec-17	$ 556,500	$ 607,912
Jan-18	$ 575,000	$ 636,968
Feb-18	$ 555,000	$ 602,919
Mar-18	$ 539,000	$ 589,222
Apr-18	$ 582,500	$ 635,306
May-18	$ 597,000	$ 646,954
Jun-18	$ 588,000	$ 653,952
Jul-18	$ 585,000	$ 670,386
Aug-18	$ 585,000	$ 623,610
Sep-18	$ 610,000	$ 632,187
Oct-18	$ 593,750	$ 620,047
Nov-18	$ 600,000	$ 635,252
Dec-18	$ 590,000	$ 628,393
Jan-19	$ 557,538	$ 623,387
Feb-19	$ 568,250	$ 602,159
Mar-19	$ 579,450	$ 615,764
Apr-19	$ 609,990	$ 649,177
May-19	$ 610,000	$ 666,010
Jun-19	$ 602,500	$ 638,214
Jul-19	$ 594,950	$ 634,267
Aug-19	$ 602,625	$ 638,864
Sep-19	$ 603,000	$ 632,155
Oct-19	$ 610,000	$ 658,002
Nov-19	$ 595,000	$ 657,806
Dec-19	$ 580,000	$ 658,715
Jan-20	$ 627,500	$ 685,494
Feb-20	$ 572,000	$ 584,992
Mar-20	$ 595,000	$ 638,210
Apr-20	$ 609,000	$ 645,457
May-20	$ 610,000	$ 659,376
Jun-20	$ 625,000	$ 686,950
Jul-20	$ 647,000	$ 702,500
Aug-20	$ 658,750	$ 700,640
Sep-20	$ 650,000	$ 699,845
Oct-20	$ 656,000	$ 767,301
Nov-20	$ 665,000	$ 734,048
Dec-20	$ 672,000	$ 743,228
Jan-21	$ 690,000	$ 713,852
Feb-21	$ 670,000	$ 716,670
Mar-21	$ 700,000	$ 736,423
Apr-21	$ 745,000	$ 793,945
May-21	$ 737,500	$ 768,061
Jun-21	$ 760,000	$ 801,057
Jul-21	$ 750,000	$ 787,708
Aug-21	$ 780,000	$ 839,154
Sep-21	$ 810,000	$ 890,600
Oct-21	$ 763,125	$ 822,497
Nov-21	$ 759,000	$ 819,558
Dec-21	$ 764,000	$ 828,508
Jan-22	$ 810,000	$ 913,119
Feb-22	$ 795,500	$ 846,199
Mar-22	$ 775,000	$ 811,634
Apr-22	$ 879,750	$ 1,018,855

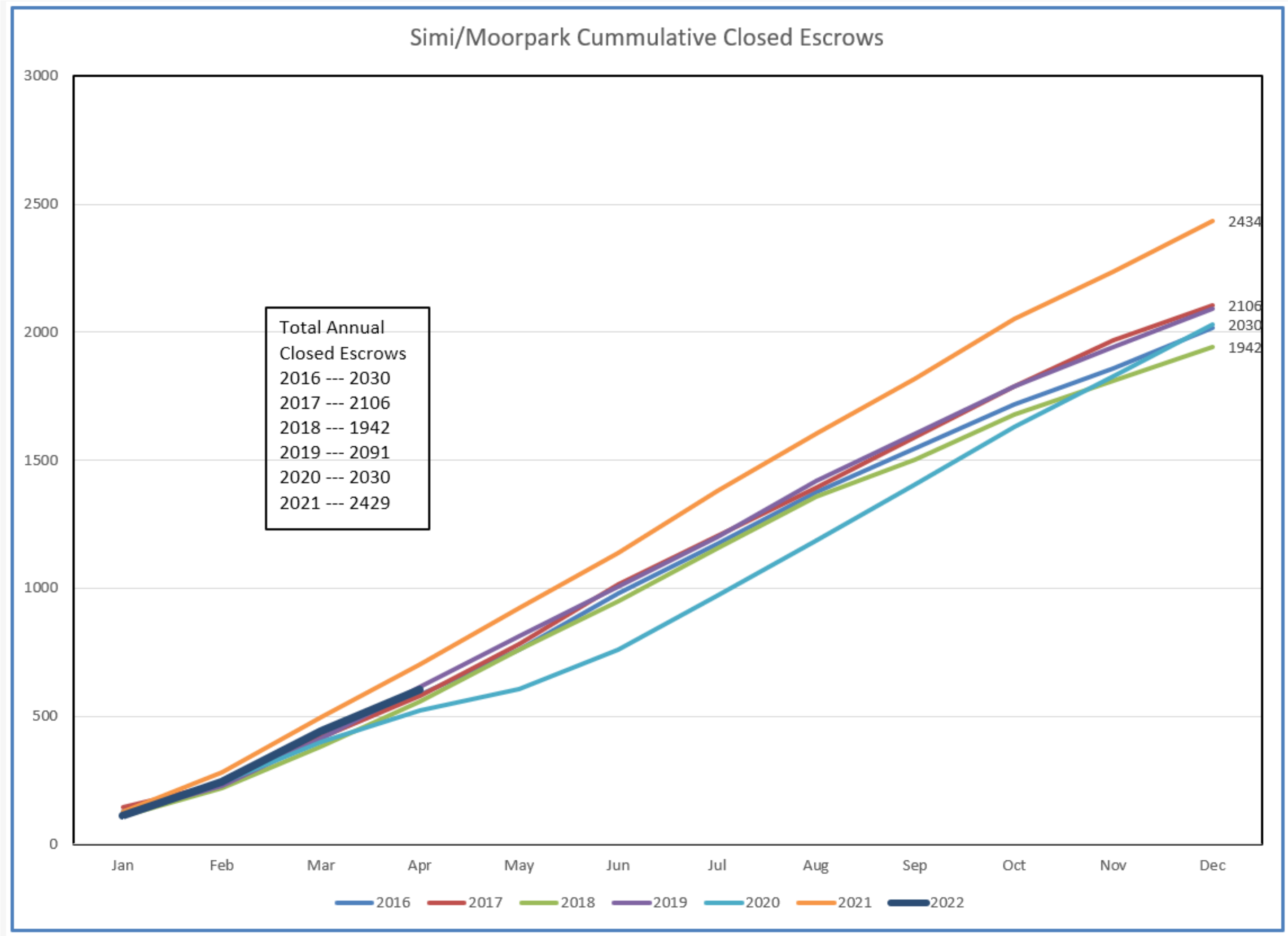


The pandemic was at first expected to stifle home sales. With real estate agents working from homes, open houses forbidden, virtual showings, contacts made with texts and emails, and contracts written electronically, we at first expected real estate to stop dead in its tracks. Instead, it surged due to working at home, removing the influence of long commutes, and a shortage of housing. A perfect storm. This chart displays the relatively consistent number of homes sold as the year progressed during the normal (orange line) years of 2015-2019. 2020 (blue line) started out normal, was clobbered by Covid in April, then reversed drastically and shot upwards the second half of the year. 2021 (red line) was an outstanding sales year, with each month beating the average. 2022 sales are closely following the pattern for normal years. However, look for that line to begin to fade.



Next let's view this information differently, as monthly sales add to the previous year to date total. Look for the dip to become apparent in the next two months. Currently we are experiencing a normal market year.


CONEJO VALLEY CUMMULATIVE CLOSED ESCROWS
3500
3000
2500
2000
1500
1000
500
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2964
2543
2443
2323
Total Annual Closed Escrows
2016 -- 2495
2017 -- 2543
2018 -- 2345
2019 -- 2323
2020 -- 2443
2021 -- 2945
2016
2017
2018
2019
2020
2021
2022



Let's finish with our statistics chart, comparing the current three months with the same months last year. In the Conejo Valley, inventory is now the same as 2021. But remember in the inventory chart above, 2022 inventory began the year much below 2021, and has now caught up and will likely continue to increase. Year to year prices are up 18%. Homes sold quickly, between 2-3 weeks on the MLS. But the number of sales is down 21% from the same 3-month period a year ago. With sales down and inventory the same, the months-worth-of-inventory computation has increased. It takes longer to sell the same number of houses in inventory. This describes a slowing market. The bottom of the chart indicates that the slowdown is occurring in all sections of the market. Much of the reason for increased percentages in the top two price tranches is due to price increases from year to year, putting more sales into higher categories> Sales in these categories has also slowed.

STATS CONEJO VALLEY	5/7/2022		
	2022	2021	
3-month Period	2/1/2022 - 4/30/2022	2/1/2021 - 4/30/2021	Versus Same Period Last Yr.
Total Active Residential Listings	182	185	Down 2%
Median Sold Price	$ 1,100,500	$ 925,000	Up 19%
Average Sold Price	$ 1,362,653	$ 1,156,360	Up 18%
Average Days On MLS	17	25	3 weeks to sell
Number of sales	564	713	Down 21%
Total Dollar Value of Solds	$ 768,536,292	$ 824,484,680	Down 7%
Months of Inventory	1.0	0.8	Sales -22%, inventory -2%
Listings under $750,000	24		
Avg Monthly Sales under $750,000	32		
Months of under $750,000 Inventory	**0.76**		VERY TIGHT INVENTORY
Bracket Sales for Last 3-Month Period	**2022**	**2021**	
Total Number of Sales	564	713	Down 21%
Under $750,000	90	201	Down 55%
$750,000 - $1,000,000	139	220	Down 37%
$1,000,000 - $1,500,000	196	170	Up 15%
Over $1,500,000	139	122	Up 14%

Simi Valley/Moorpark shows a dramatic percentage increase in listings of 38%, and a dramatic percentage decrease in sales of 13%. Prices year over year increased 16-18%. The available inventory is taking longer to sell.

STATS SIMI MOORPARK	5/7/2022		
	2022	**2021**	
	2/1/2022-4/30/2022	**2/1/2021-4/30/2021**	Versus Same Period Last Year
Total Active Residential Listings	132	96	Up 38%
Median Sold Price	$ 810,000	$ 700,000	Up 16%
Average Sold Price	$ 887,251	$ 749,131	Up 18%
Average Days On MLS	15	22	2 weeks to sell
Number of sales	505	578	Down 13%
Total Dollar Value of Solds	$ 448,061,755	$ 432,997,718	Up 3%
Months of Inventory	0.8	0.5	Sales -13%, Inventory +38%
Listings under $750,000	47		
Avg Monthly Sales under $750,000	63		
Months of under $750,000 Inventory	**0.75**		VERY TIGHT INVENTORY
Bracket Sales for Last 3-Month Period	2022	2021	
Total Number of Sales	505	578	Down 13%
Under $750,000	183	348	Down 47%
$750,000 - $1,000,000	201	165	Up 22%
$1,000,000 - $1,500,000	101	53	Up 91%
Over $1,500,000	20	12	Up 67%

No, the market is not crashing. But it is changing. These kind of price increases can't last forever, particularly in the face of dramatically increasing mortgage costs. Everything is pointing to a slowdown. A soft landing is what we hope for. I teach a negotiation class, and for the past two years it has seemed irrelevant. Why study negotiation when cash buyers are winning with extreme overbids? A return to normal is healthy for the market. An overheated market can cause that fearsome bubble. There will be some settling out of prices, quality homes will be in demand, homes needing a lot of work will see fewer offers and experience some price declines.

As an example in another market, used car prices have risen ridiculously in recent times. In February, USA today reported an increase of 40% from the previous year. But cars can be manufactured quickly, supplies of new cars can increase, the chip shortage is coming to an end. Homes are much more stable. There won't be a tremendous increase in building in our area, lots are not available. Supply and Demand fundamentals are different for homes then they are for cars. Don't look for home prices to come down quickly. But look for them to stabilize, look for multiple offers to lessen, and look for quality homes to still be much sought after in our market.

Stay safe. IT is still out there. Covid is no longer the killer it once was, but there is still a need for caution and carefulness. And remember to return to the basics. Keep in contact with your sphere of influence. Let them know what is going on. Make sure you are their primary source of good real estate information.

Chuck