



MARKET MADNESS

Pent-up demand, inventory shortages and historically low interest rates have created the hottest housing market in 50 years

by Deborah R. Huso

Warren B. Boizot III, SRA, has seen some crazy housing markets in his 23 years in residential valuation. From 2006 to 2008, he was appraising homes in Las Vegas during the height of the housing bubble. And still, he says he's never seen anything like the current market conditions.

"Every single purchase transaction I do has a bidding war," says Boizot, now based in Denver and the owner of BLG Appraisal Group Inc. "It's not an anomaly, and it's covering all price points. Now even million-dollar-plus properties are selling over asking price, and I see appraisal

gap clauses on every single sales contract."

While Colorado's Front Range is one of the country's hotter housing markets, the frenzy of escalating home prices that Boizot is seeing is not unusual. The National Association of Realtors reports that 2021 is on record to be the hottest spring housing market in five decades.

The biggest reason for that is lack of inventory. "Nationally, housing inventory is hovering at just around 1.16 million as of April," says Gay Cororaton, director of housing and commercial research for NAR. "That's the lowest on record since 1968, when NAR first started tracking single-family home sales."



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April also set another record: the highest median sales price on existing homes since NAR first started tracking sales data in 1989, at \$341,600. That median sales price jumped nearly 20% when compared with last April.

A market like no other

An array of factors has pushed the housing market to this historic point, including pent-up demand, the coronavirus pandemic, low inventory and mortgage interest rates hovering around 3%, a 50-year low.

Dan Fries, SRA, of Daniel Fries and Associates in Cumming, Georgia, says a combination of economic uncertainty in the midst of COVID-19 and owners not wanting people in their homes resulted in fewer listings during the height of the pandemic. The nationwide lockdown also meant the real estate market lost its usual spring and early summer homebuying rush. “What’s saved us now is the undersupply,” Fries explains. “That has kept prices firm. Real estate is now like toilet paper was a year ago.”

The low inventory that’s driving prices upward is also partly due to homeowners being reluctant to sell. “Many homeowners would like to take advantage of the increase in their property value right now and sell their home, but they cannot ‘afford’ to sell it,” says Darwin Ernst, SRA, AI-RRS, with Homestreet Bank in Hamilton, Montana. “They have no affordable alternative housing to purchase as a replacement in the same market area.”

Ernst appraises properties in Boise, Idaho; Salt Lake City; and western Montana, where he says he’s seeing a major migration from high-density metropolitan areas. “Early retirement and remote work are driving a lot of that,” says Ernst. “Agents are listing homes at the highest price they think they can get, or they’re listing lower to try to spur bidding wars.”

The result, Ernst says, is that 26% of purchases in western Montana are all cash. And many who need financing to complete a purchase are putting down more than the usual 20%, particularly in cases where the sales price of the home is higher than its appraised value.

Nancy Phillips, SRA, of The Phillips Co. in Monterey, California, says buyers who need financing often can’t compete in a market with so many all-cash buyers. “Some sellers are accepting the highest cash price, which may be lower than offers with financing,” she notes. “A young couple in my area made offers on 26 homes before getting an acceptance.” To win a contract, many buyers have to agree to forgo home inspections and appraisals and opt for very short escrows.

It’s not surprising, then, that first-time homebuyers and those who need to use a low down payment option like a Federal Housing Administration or Veterans Administration loan are struggling to find available and affordable housing amid bidding wars and a record number of all-cash offers. Ernst’s experience in Montana is tracking with national data. According to NAR, 25% of purchases in April were all cash compared with 15% a year earlier.

What’s more, first-time buyers are having to settle for less at a higher price and often in less desirable locations. “When you get five offers on a house with a conventional loan and an appraisal waiver, a young family that wants a low down payment with closing costs paid by the seller is going to have to be willing to move to the way-out suburbs,” says Fries.

While Fries says the metro Atlanta market is still affordable compared with many areas around the country, he saw a 15% increase in median home sales price (from \$285,000 to \$339,000) between February and May, with the average listed home staying on the market only five days. In his market, there is slightly more than a month’s supply of housing inventory.

Sales are hot and bidding wars abound

Most of the 2,000 agents polled for NAR’s May Confidence Index Survey said they were receiving an average of five to six offers per property, and those properties were selling almost as soon as they hit the market. Cororaton reports that in May homes spent an average of only seven days on the market. A year ago, a home was on the market an average of 27 days; in 2019, it was 28 days.

Boizot says that in April he performed an appraisal for a 2,400-square-foot home in suburban Denver listed at \$370,000. The owners had 202 showings over four days. “By day four, they had 56 offers,” Boizot says. “Fifty-five of those were over asking price.”

It gets more astounding. The house sold for \$476,000, 22% over asking price and significantly higher than Boizot’s opinion of value for the property. The buyers used cash to cover the difference between the sales price and the appraised value.

The Denver housing market is especially remarkable given it was running hot before the traditional spring selling season even began in May. “I think it’s only going to get crazier,” predicts Boizot. He says he doesn’t believe it’s an issue related to inventory shortage, however.



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“This is not a situation where fewer people are selling — it’s just that the houses are going faster,” he says.

Leah Lasley Shell, SRA, of Lasley Appraisal and Valuation in Little Rock, Arkansas, says homes sell the fastest in neighborhoods that appeal to first-time homebuyers. She says that parts of central Arkansas have less than a third of a month’s supply of housing inventory.

Shell has also seen neighborhoods where home values that previously showed very little price appreciation suddenly appreciate very quickly. “We have no idea the problems that people are going to see when they’ve paid \$10,000 to \$15,000 over list price and then go to sell that home later,” she says.

When it comes to new construction, Fries says he’s now seeing bidding wars and sales over list price. “It’s selling right out of the ground! I’ve never seen that in 38 years of appraising. Even if you’ve got a dog of a house, somebody will buy it,” he says.

New construction was once considered a haven for buyers seeking more affordable homes, but it’s not just eager buyers pushing up the sales price. Rising materials costs — especially lumber — are a contributing factor. “This has put builders in a unique situation as well,” says Ernst.

With prices for lumber sky-high, construction costs can rise 10% in just the three months it takes to build a conventional tract home. Builders in the market where Ernst works are now waiting until houses are closer to completion

before putting them on the market so they know what their actual costs are. Materials prices fluctuate, however, and now appear to be dropping.

Second homes in higher demand than ever

It’s not just the primary housing market that’s on fire. There’s an increase in the number of buyers snapping up vacation properties, too. Cororaton notes that 8% of home sales in April were for vacation residences compared with the usual 6%, and 61% of those buyers paid in cash. The increased interest in vacation homes is due to increasing wealth among Americans and a growing number of people able to work remotely, which ballooned during the coronavirus pandemic.

Fries reports that luxury homes in the north Georgia mountains that once sold for \$4 million are now topping \$5 million. This is no surprise for Cororaton, who says, “For people who can afford it, they want a place out of the cities. If you’re able to work from home full or part time, you get to enjoy your second home more.”

Of course, that also means that owners of second homes (who have been using those vacation properties more than ever during the past year) aren’t eager to sell, leading to inventory shortages in popular vacation markets like Cape Cod, the Jersey Shore and the big ski areas of central Idaho like Sun Valley.

In the future, Cororaton predicts that sales of second homes will be driven more by the new work-from-home environment than by



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the pandemic. “About 20% of the workforce is still working from home,” she says.

Appraisers scramble to keep up

Quickly rising prices have forced appraisers to readjust their thinking. Lasley now asks two critical questions when clients come to her for appraisals: How many offers has the property had, and how many offers were above list price?

“Appraisers are concentrating on how property values are increasing over time by looking at both closed sales and pending sales, and adjusting those sales prices to today’s market values,” Ernst says. “We are becoming more aware of the need to make time adjustments.”

“You really have to pay attention to how you’re deriving a time adjustment,” cautions Boizot. “It’s not so easy to use a sale from January anymore.” He says before he accepts a job, he now looks for an appraisal gap clause in the sales contract. “I’m not going to be the one who gets yelled at because the appraisal comes in \$100,000 short,” he adds.

In today’s market, however, the pending sales contract is “a key part of determining the current value of the home,” says Ernst. “Is there a willing buyer and seller? If so, that’s the most pertinent information you can get.”

Remote work a critical factor in the future

While many appraisers expect the hot market to persist through the summer, they also anticipate a market correction this fall. “We are in the height of our selling season,” says Fries. “I expect the summer will allow for some people to add to housing inventory, and once school starts, we’ll most likely see things level off.”

However, Fries thinks the housing market will continue to be strong through the fall as long as mortgage interest rates stay low — and they could for a good while longer. While inflation is on the rise, unemployment stands at 5.8% and the Federal Reserve is unlikely to significantly raise rates until the employment outlook is stronger.

Ernst believes the escalating prices likely will create affordability issues for a while. “People who want to become homeowners have very few options right now,” he says. “It’s going to be interesting to see if we can come up with a solution for that.” He believes the increase in remote work options means more affluent buyers will continue to relocate to areas where housing has historically been more affordable and drive up prices there. “The pajama workers are driving a migration,” he notes.

Phillips agrees: “Quality of life is a driving factor resulting in much of the relocation that is taking place.” She explains that housing preferences have shifted not only to lower-density residential communities but also toward housing that meets very specific occupant needs, given that buyers are now often working from home. “As long as people can work remotely, they are going to seek homes in vacation areas for full-time use,” she says.

She doesn’t see any indication of slowing demand on California’s Central Coast. And she expects the housing market to remain strong at least through year’s end and possibly beyond, given that it will take awhile to replenish housing inventory even once the market slows. ◀

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