March 21, 2020

COVID-19 Real Estate Market Report

Co-authored by:

Jonathan Tease

Lora Mwaniki - Lyman

KELLERWILLIAMS. REALTY PHOENIX

Introduction: A reminder to stay calm

While venturing through the city in search of my normal grocery items this week, which unfortunately included toilet paper, I was able to witness first hand the hysteria that's sweeping the valley over the coronavirus. Grocery stores' shelves are empty. Cleaning and medical supplies are scarce. And your favorite foods are hard to come by. We are witnessing the laws of supply and demand play out before our very eyes.

During this time I spoke with several cashiers and grocery store employees who are urging the population to be kind and treat each other with respect. Many have reported incidents of extreme hoarding and fistfights breaking out over staple items such as chicken breast.

These violent outbursts illustrate just how unpredictable humans can be, especially in the face of uncertainty. However, let's blow the dust off our old Economics textbooks and revisit a similar scenario.

Let's rewind the clock to December 31, 1999. Do you remember the Y2K Bug? It caused a sweeping sense of anxiety over the nation due to concerns about our computer systems and their ability to handle the switch to the new millennium.

This "bug" created genuine concerns about what would happen to financial markets, and to society at large. As a result, we began hoarding supplies, fortifying our storm shelters, and preparing for the impending doom to come.

If you weren't around then or just want a reminder of why it's important to remain calm during chaotic situations, search for "Sportscenter - This is Y2K" on YouTube to see ESPN's slightly exaggerated depiction of the situation.

Play commercial

Then the clocks struck midnight on the new millennium and nothing happened. The lights didn't even flicker. We looked at each other somewhat baffled, laughed, and haven't thought of it since.

The Y2K bug illustrates how worked up we can get over things. That does not mean we should take the coronavirus lightly. This is much different. It is a real disease with over to 13,000 confirmed cases in the US forcing policymakers to implement new regulations that restrict travel and affect businesses' operating procedures.

How will the market respond to the COVID-19 outbreak?

The truth is, we don't know. These are unprecedented circumstances and will undoubtedly impact the market, especially tourism sensitive industries. However, the erratic behavior it is causing is something we've seen before.

In fact, as a popular meme suggests, since the year 2000 we have faced some sort of massive scare that has shaken consumer confidence and threatened to "kill us all." Yet after every instance, even in 2008 when things seemed to be at their worse, the market has

1999/2000: Y2K is gonna kill us all.
2001: Anthrax is gonna kill us all.
2002: West Nile Virus is gonna kill us all.
2003: SARS is gonna kill us all.
2005: Bird Flu is gonna kill us all.
2006: E.Coli is gonna kill us all.
2008: The bad economy is gonna kill us all.
2009: Swine Flu is gonna kill us all.
2010: BP Oil is gonna kill us all.
2011: Obamacare is gonna kill us all.
2012: Mayan "End of the world" is gonna kill us all.
2013: North Korea is gonna kill us all.
2014: Ebola is gonna kill us all.
2015: Disney Measles AND ISIS are gonna kill us all.
2016: Zika is gonna kill us all.
2017: Fake news is gonna kill us all.
2018: Migrant Caravans are gonna kill us all.
2019: Measles is gonna kill us all.
2020: Coronavirus is gonna kill us all.

Dow Jones Industrial Average from March 21, 1980 to present

"The market will fix itself. This one just feels a little closer to home because they're shutting things down. Whereas in the past, it was like 'oh the swine flu is overseas.' recalls Jennifer Patel, a mortgage officer and sales manager at Team Green Home Loans with 20-years of lending experience.

"We'll definitely course correct. It's just a question of what happens in the meantime," she adds.

Jennifer Patel, Sales Manager
Team Green Home Loans

What is the government doing to help the economy?

On Monday, the Federal Reserve, or the Fed for short, cut the Fed Fund rates to 0% - 0.25% which impacts the rate banks charge each other for overnight loans. You would assume this should make it easier to get a loan for things like buying a car and funding a business.

Unfortunately, the sharp and quick deterioration of the financial market, fears of a credit crunch and high volume of refinances resulted in the unexpected increase in mortgage rates earlier this week. Central banks are throwing every weapon in their arsenal to stop the decline in financial markets and support their economies.

In addition, Pres. Trump signed a stimulus bill that would inject $100 Billion into the American economy which included resources to pay for coronavirus testing and paid sick leave. Congress recently unveiled another stimulus bill with $1 Trillion worth of emergency funds in response to the pandemic.

How will this affect mortgage rates?

It won't. At least not directly. The Fed's rate cut does not directly correlate to mortgage rates. So seeing a 0% Fed funds rate doesn't mean that mortgage rates will also be close to 0%.

The only other time the Federal Reserve cut rates this low was after the 2008 market crash and was part of the 7-year economic recovery process. It may take some time to feel the effects of this move on the mortgage industry.

Should I refinance or get a mortgage right now?

We're Here To Help

Reggie Green, Branch Manager
Team Green Home Loans

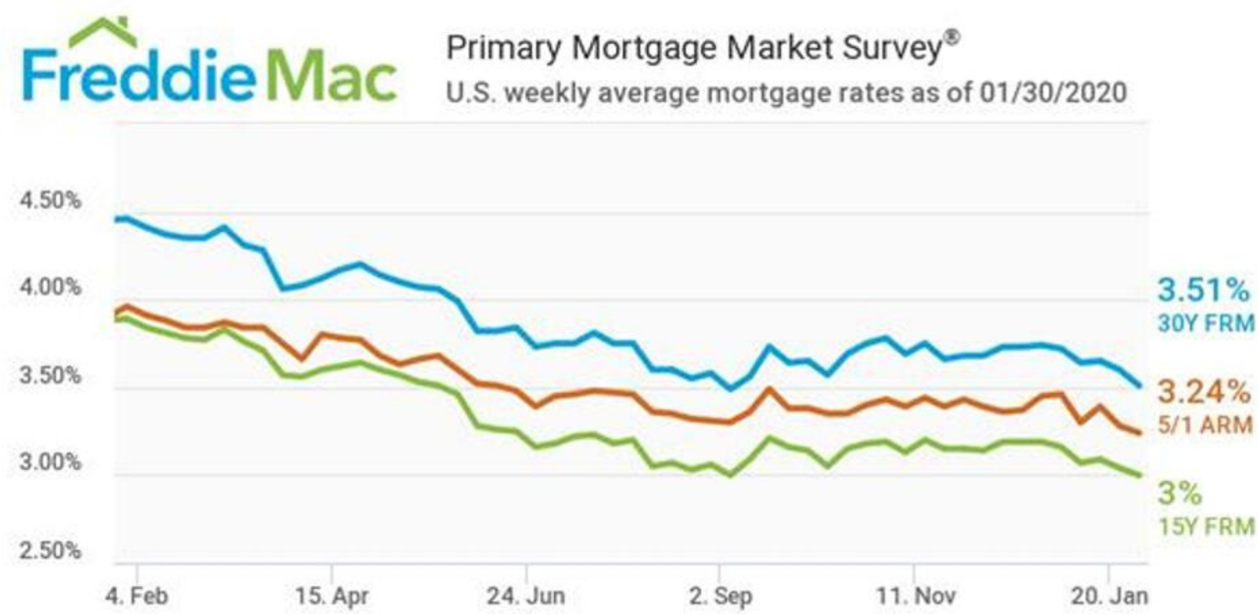
"We are in a time of extreme volatility. Rates hit their lowest levels ever on Monday, March 9th. Since then it's been a roller coaster ride," mentioned Reggie Green, branch manager of Team Green Home Loans, in a written statement.

"Rates went down about .25% on Monday then went up close to .5% days later. These shifts are much larger than we see in a normal market. Rates are still great – just a bit higher than the all-time lows we were seeing a few weeks ago," He would go on to say.

As a part of the approved stimulus package mentioned above, the Fed announced they would be purchasing $200 Billion worth of mortgage-backed securities which is a much better indicator of where mortgage rates are headed. Historically, when one goes up, so does the other.

This was done to offset the number of people who are pulling their funds out of the market, emptying their savings, and stashing their money under the mattress. When consumers do this, they leave financial institutions without money to lend so this will help with any 'liquidity issues' and stabilize mortgage rates.

"The challenge for mortgage companies right now is our ability to lock in rates because things are changing so quickly. My advice to those actively shopping is to heed the advice of your mortgage officer. They are watching rates the same way a day trader is watching stocks," says Green.



This chart shows the trajectory of mortgage rates over the last year.
COURTESY OF FREDDIE MAC

Should I wait until the market gets better to purchase?

Given the unprecedented financial free fall and the unpredictable severity this may have on the economy, it is best to hit a pause where necessary and let the dust settle. We have observed just this month a precipitous drop in financial markets and deterioration in economic activities due to the prescribed and necessary lockdowns nationwide and flight to quality by players in the financial market.

Stock valuations dropped more than one-third this month alone with tourism sensitive sectors hit the hardest by the movement restriction due to the corona virus and the financial fallout. The impact of this could range from a recession with a slow-paced recovery, depending on how fast the spread of the virus is curbed, to a drawn-out contraction in the economy as businesses shut down and massive job losses occur.

The decision to purchase a home in this environment would probably be driven by a necessity, and best be done with a large down payment. in any case, interest rates while still volatile remain at historical lows.

When business activities slow down and consumers don't have money to spend, the economy contracts which may cause a deflationary effect on prices. In the short-term, Prices start to drop because people either can't spend due to the lockdown and job losses or choose not to because they are waiting for prices and markets to bottom. Fortunately, the fiscal and monetary policies being implemented should prevent this.

It would be naïve not to expected the current events to affect the housing market. The Phoenix housing market has been driven by investors and population in-migration from states like California where our home prices are relatively cheaper or from cold-weather locations like Mid-west and Northern States in the U.S. and Canada.

According to the U.S. Census Bureau, Maricopa County was the fastest growing three years in a row last April. However, the CDC prescribed social distancing, the recent lockdowns in New York, U.K and California, the 3rd largest economy in the world and the movement restrictions both domestic and international make the logistics of buying a house a challenge.

First time home buyers will likely be impacted the most as mortgage rates continue to fluctuate, and job losses occur. Additionally, many Arizona Down Payment Assistance Programs have removed their larger grants and also have raised interest rates significantly. A large portion of first time home buyers rely on these programs to help them offset the upfront costs of buying a home, but now they will have to bring more money to the table than before if they choose to purchase in this market.

Ultimately, consumer confidence and herd behavior is going to determine how people and small businesses behave in this economy. We are seeing consumers hold off on non-essential purchases with pre-qualified buyers saying, 'well, we're gonna wait to see what's happening to the housing market especially since it has been a tight seller's market year-to-date. This sentiment does present an opportunity, however, for cash buyers and investors to face less competition when they find a deal they want to move on.

How should I invest my cash on hand?

One option to consider is to buy real estate. It's relatively safe, property values have traditionally increased over time, and real estate can also yield tremendous tax advantages and cash flow opportunities via traditional renting or short-term rentals such as Airbnb.

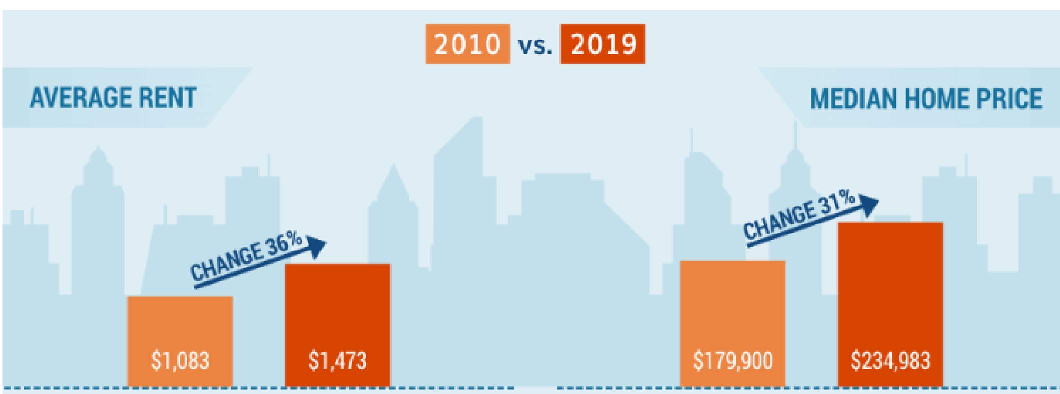
Phoenix, in particular, is a great market to consider owning rental property because it was named the fastest growing city in 2019 by Forbes. Phoenix is also the 5th most populated city in the country. The weather, economic development, quality standard of living and major universities in the area all equate to its growth. And where there is an increase in growth, there usually are increases in rental property needs.

According to Fidelity National Title Agency, Prior to the COVID-19 outbreak, the total number of active listings is down 30% from this time last year while the total number of sales is up 18% during the same timeframe. This means the total number of properties available to purchase is decreasing. Many agents have uttered the phrase, "they can't build them fast enough," and the numbers are there to support the statement.

What happens to real estate prices if the market crashes?

Just as we are seeing when with groceries and cleaning supplies, the basic economic principles of supply and demand are always in play. Even in the real estate market. Therefore, the best advice one can give is to always get what you need based on what you can afford.

Whether renting or buying, you will always need a place to stay. Over the past decade, however, rental prices have risen by 36%, so for about the same monthly rent payment, you could be paying your mortgage and building equity.



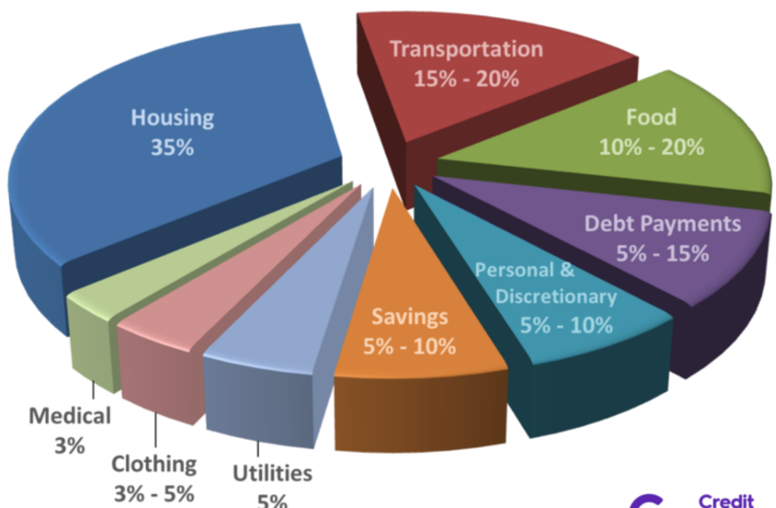
On the other hand, considering buying a home with so much uncertainty surrounding the coronavirus is scary a thought. We've already seen job losses in the restaurant and tourism industries due to slow downs in production caused by the virus. Will the trend continue? That remains to be seen.

Most of us are reminded of the economic downturn that affected so many in 2008 which caused an increase in foreclosures. Fortunately, the US Department of Housing and Urban Development, also known as the HUD, is suspending all foreclosures and evictions through April to help curtail some of those fears.

"How the virus affects the market in Phoenix will be very fragmented. In 2008, we were one of the first regions to be hit hard because of the housing crisis," Lora shares. "One of our main economic drivers is the housing market. But we're still a very young city and people love to come here. That's why we're seeing affordability becoming a big deal because we're having a lot of people move here that can afford to buy. Even with our rising price points."

What's the best thing I can do in the midst of all this turmoil?

The most important thing to do right now is to live within your means. Keep an emergency fund in the event of a crisis and manage your debt. That's the best you can do in any economic situation.



Budgeting Guidelines suggested by Credit Counseling Society

www.nomoredebts.org/budgeting-guidelines

Credit Counselling Society

For more information about the coronavirus and how it is impacting the real estate market specifically, send an email to Jonathan@TheExperTease.com and I'll be happy to assist you.

Disclaimer: This report is not meant to be mistaken for financial advice, but rather to illustrate the cyclical nature of the market. Investing is risky. Consult a financial professional before making an investment of any kind.

Additional Resources:

https://www.cnbc.com/2020/03/18/weekly-mortgage-applications-drop-over-8percent-as-interest-rates-jump.html

https://www.worldometers.info/coronavirus/#countries

https://www.nytimes.com/2020/03/17/opinion/coronavirus-social-distancing-effect.html

https://azbigmedia.com/real-estate/multifamily/heres-how-the-number-of-phoenix-renters-has-skyrocketed/

https://www.deptofnumbers.com/rent/arizona/phoenix/#renter_fraction

https://www.mashvisor.com/blog/phoenix-real-estate-market-hottest-market-2020/

https://www.cnbc.com/2020/03/15/consumer-companies-call-on-white-house-to-defend-against-supply-chain-disruptions.html?__twitter_impression=true&recirc=taboolainternal

https://www.cnn.com/2020/03/16/success/mortgage-rate-fed-cut/index.html

https://www.cnn.com/2020/03/16/economy/federal-reserve-interest-rates-coronavirus/index.htm

https://www.cnn.com/2020/03/19/politics/coronavirus-economic-stimulus-senate-republicans/index.html

https://www.project-syndicate.org/commentary/covid19-dollar-debt-crisis-by-philip-turner-2020-03

https://www.azmag.gov/Newsroom/MAG-News/ArticleId/91/three-years-in-a-row-maricopa-county-fastest-growing-in-nation

https://www.forbes.com/sites/alyyale/2020/01/30/mortgage-rates-near-3-year-low-94-million-homeowners-could-save-272-per-month/#4bdaf58f6164