

HRRE Bread July 17, 2021

The purpose of Weekly Bread is to share with readers what Pete and I are seeing, thinking, and doing in today's real estate. We believe we are doing a lot of good, but only our clients and readers can decide that. We hope everyone will appreciate our website and reports enough to call us. Enough said, let's get to work!

Thoughts on the housing market as of July 19!

Real estate this year has been fast and furious, but now it's starting to slow down. In late February metro-Denver home sales really started heating up, and they exploded in March, April, and May. This happened as well across the nation and around the world – it was just one of those things resulting from Covid. Since then, home prices have skyrocketed, inventories depleted, and frustrated buyer and agents getting burned out. However, by June there were changes in the air.

In June you had to look hard to see the changes, but by July they were in plain sight – home inventories up but nothing too crazy; and fewer buyers not out-bidding others. The pace was slowing except for the occasional “undervalued” homes that would hit the market with buyers and agents swarming all over them. Its stories like that that make the headlines, but fewer homes are flying off the market in 3-4 days.

As a result of these changes, increasing numbers of home started lowering their prices within a week or two of not initially selling. It's not so much “coming down” as re-aligning with market changes. Statistical analysis is premature now, but observes and agents are seeing changes in marketing and offers. I'm seeing it in the areas that I digitally monitor such as Heather Ridge and about eight other key metro-Denver areas.

Slowing prices is good news to appraisers playing catch-up with market values. In June there were fewer “low-ball appraisals” than in the previous two months (about 9% vs. 29% for April, and May). Because appraisals are a “looking backward” analysis of present values based on closed sales, it takes time for appraisal methodology to catch up with the real world. I saw the same thing happen in the opposite direction during the Great Recession – prices were “heading south” quickly and buyers couldn't leave town quick enough. They were heading to greener pastures, wherever that might have been.

To put our real estate market in perspective, try this analogy: Our market normally runs 30-35 MPH with supply and demand mostly in balance. Metro-Denver's historic July inventory is about 16,000 homes (that's computed 1985-to-2020).

Home buyers speeded up buying because they had good and secure jobs, abundant cash (more savings, less debt, Stimulus funds), stable interest rates, and changing housing needs post-Covid. At the beginning of 2021, for sale inventory here was as about 5,000 homes; by March it was less than 2,000. Home prices were rising at 1.75%-2.2% a month. We were running at 100 MPH and almost out of control, which is unsustainable and “dangerous” to the economy.

By June, things started slowing down; and by late July the market was down to about 55-65 MPH – still too fast but heading in the right direction.

Let's talk about July and August, and the coming fall season:

As much as I think “buyer fatigue” is a factor, the real culprit for our slowing market is this year’s vacation season. During Covid 2020, almost no one took a vacation, and don’t confuse the mandated “quarantine in place” for a vacation. This year people couldn’t wait to vacation and get out of town. This may explain by June was the first month to slow down when it’s usually July followed by August.

It used to be that home buyers would hit the market in early to mid-August for the upcoming fall school season, but that’s not been the case for decades. So, what might we expect when August ends?

Pete and I believe we will return to a somewhat reduced but still energetic home selling market. None of the economic fundamentals have changed for metro Denver or the nation, so the fall market should be good except pending newer events like the Covid variant. If home supply continues to increase, however slightly, that’s good news and will soften housing pressures.

One of the more unusual and funny aspects of Colorado living is how the Broncos season affects home sales. As long as I’ve been in this business here, almost 47 years, the better they play and win the slower are fall home showings and sales. And in a bad season, Sunday showings and sales are stronger. It’s just a fact of life.

Nowadays, home sales are driven by two factors – disposal income and job growth. Denver’s economy used to be “counter-cyclical” to the nation’s, but not now. We are just as much influenced by national and world events as everyone else. However, what makes Denver unique is where it is located...Colorado. Our mountains, our lifestyle, and the good natured people who call it home makes Denver a great place to live. That’s why I moved here in 1974 after getting out of the Marines to start a family.

Thanks for reading this. Van