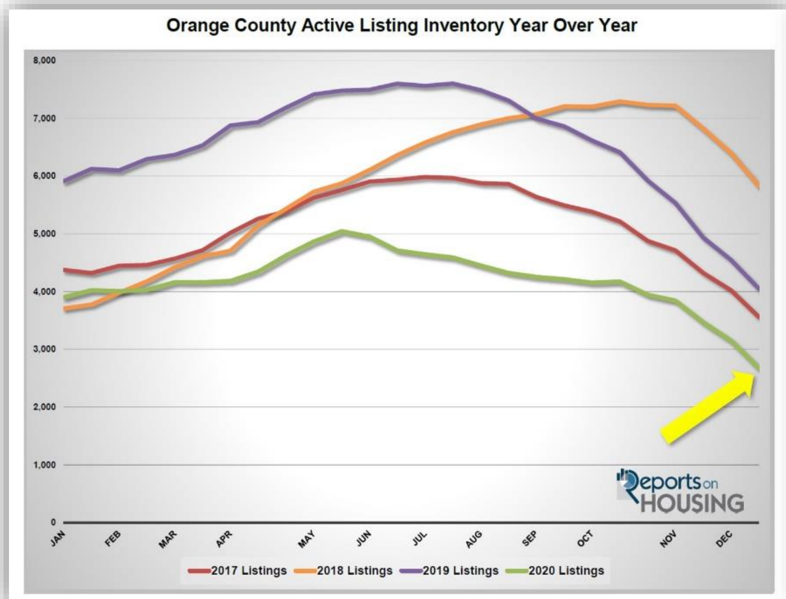
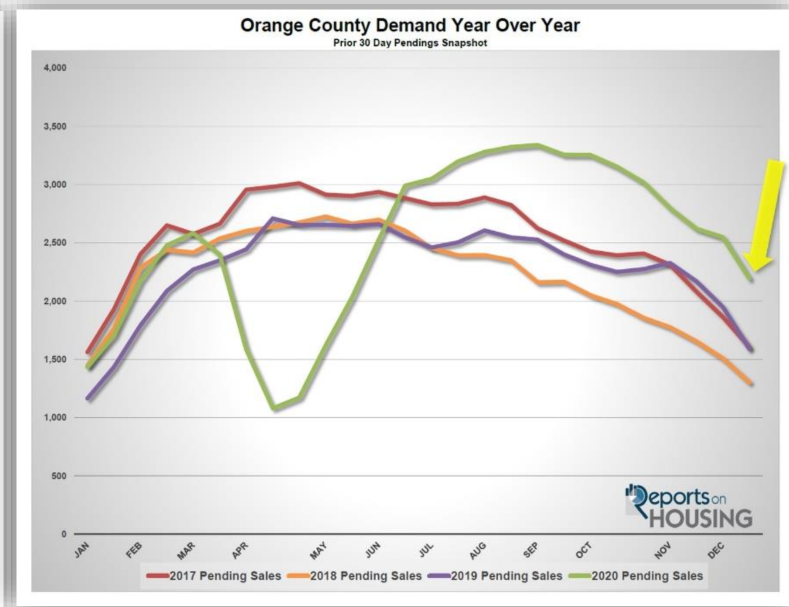
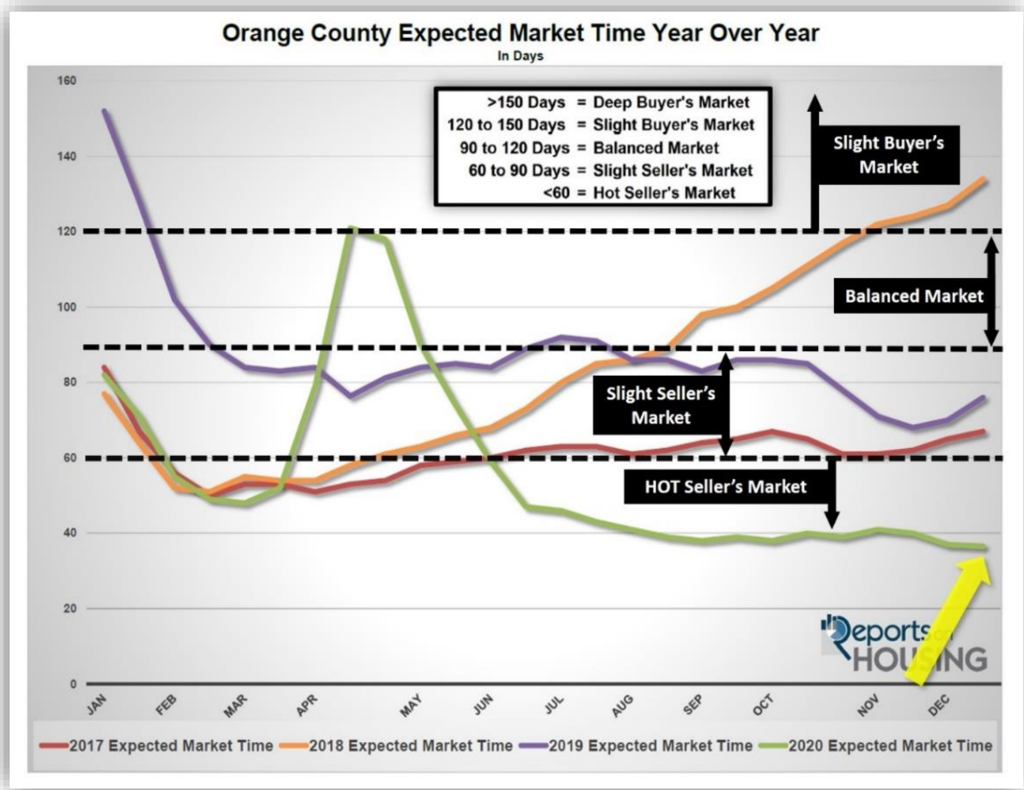
Orange County Housing Report: A 2021 Forecast

December 28, 2020

2021 Should be a Hot Year for Housing







The 2021 Forecast: A hot year for housing

The year 2020 was going to be one of the hottest years on record for the U.S. economy. That all came to an abrupt halt in March due to the pandemic. With a national emergency and stay-at-home orders across the country, the U.S. was thrown into a recession. Yet, recessions are typically caused by one sector of the economy dramatically turning negative, which pulls down the entire country to negative territory. This time it was a forced shutdown of the economy to save lives from a once-in-a-lifetime pandemic. Every economic chart was impacted, from consumption to unemployment to equities. The Federal Reserve mitigated the damage, and Washington D.C. provided relief packages to aid the unemployed and small business. The GDP had its worst quarter over quarter reading in the history of the U.S. during the second quarter, followed by the best quarter over quarter reading during the third quarter. The economy has improved, but there is still a long way to go. It will take a bit more time due to the slow rollout of the recently approved vaccines. The low rate environment will continue and will be a tailwind that will not only aid the recovery to the economy, but it will also continue to fuel the incredible run in 2021. As a result, the local housing market is going to be HOT in 2021. Here is the forecast:

- **Active Inventory** – the year will begin with around 2,500 homes, the lowest start by far since tracking began in 2004. It will be 21% less than the 3,161 start to 2013. With very few available homes to purchase, housing will be extremely hot on January 1. The theme for 2021 will be not enough homes for buyers to purchase. Instead, they will all be in escrow. Expect the active inventory to peak around August between 5,000 to 5,500 homes.
- **Demand** – with an anemic inventory and record low mortgage rates, buyer demand will be extremely strong from the start of the year through summer. With so much competition, buyers will be willing to stretch in price from to the most recent sale; so, expect appreciation around 6 to 8% for the year. Demand will be at its strongest, and most appreciation will occur from January through July, then will downshift in Autumn and Holiday Markets.
- **Housing Cycle** - the housing market will follow a normal housing cycle. The strongest demand coupled with plenty of fresh inventory will occur during the Spring Market. This will be followed by slightly less demand and a continued new supply of homes in the Summer Market. From there, demand will drop further along with fewer homes entering the fray in the Autumn Market. Finally, all the distractions of the Holiday Market will be punctuated with the lowest demand of the year and few homeowners opting to sell.
- **Closed Sales** - the number of successful, closed sales will increase 4 to 8% compared to 2020 with around 31,500 (2020 was up 3% compared to 2019).
- **Luxury Market** – luxury sales will continue to improve /and surpass 2020's unbelievable record level by nearly 5%. The Spring Market will be the strongest for luxury and will become a bit more sluggish from about August on.
- **Interest Rates** – look for mortgage rates to continue to remain at record low levels until the current Coronavirus wave diminishes. Expect rates to rise from the record low levels with positive vaccine and COVID-19 news, congressional relief and stimulus packages, and positive job reports and economic news. Long term rates are driven by economic fundamentals and headline risks. Negative economic headlines drive rates lower and positive economic headlines drive them higher. The year 2020 was filled with more than its fair share of negative news. Mortgage rates will rise in 2021, climbing from their current low of 2.66% to 3.5% by year's end.
- **Distressed Inventory** – in 2020, distressed sales only accounted for 0.6% of all sales, 170 total. There will be more distressed sales in 2021 due to forbearance. Yet, 90% of all homeowners in forbearance have more than 10% equity, enough equity to sell and avert going the distressed route. There are 2.7 million homeowners who are currently in in Forbearance across the U.S. Since 90% have enough equity to sell, that leaves 270,000 (10%) vulnerable to becoming either a foreclosure or short sale. Yet, many will still be able to make their payments. The bottom line: while there will be an increase in the distressed inventory, it will be more of a ripple, rising to levels last seen in 2017 when there were 614 distressed sales. That pales in comparison to 2009's 13,403.

The bottom line: 2021 will continue where the second half of 2020 left off, HOT. It will be a Hot Seller's Market from the start of the year through the Summer Market. Multiple offers and bidding wars will be the norm for homes priced below $1.25 million. Once again, the market will heavily favor sellers and buyers will have to pack their patience to isolate their piece of the American Dream and take advantage of record low mortgage rates. From mid-August on, the beginning of the Autumn Market, housing will evolve into a slight Seller's Market, where sellers still get to call more of the shots, but home values do not change as much. Buyers will be willing to stretch prices from January through July, if sellers do not overprice, but cautiously pricing will be even more important during the second half of the year.