



Innovations in Home-Buying Process May be Fueling Pricing Frenzy

A noted housing researcher has analyzed the current frenzy of home buying and the rapidly escalating prices since the country **emerged from its short-lived spring pandemic shutdown**. Issi Romem, Senior Director of Housing & Urban Economics at Zillow, and a fellow at the Turner Center for Housing Innovation at the University of California, Berkley, explains his different take in an article in the *New York Times*.

Romem looks beyond the usual suspects, reasons commonly cited for the superheated market, not totally dismissing them, but finding a few new ones to credit, or blame, for what is going on. He also says some of the explanations given for increased market activity are **playing far less of a role than presumed**.

For example, he asks why the perceived motivation of consumers to acquire more space to work and play safely which seems to translate in a flight from urban to suburban and rural locations. This should disturb the market balance and drive up prices. Instead, he says, should contribute to both supply and demand.

Then there are the **record setting low mortgage rates** which increase buying power and help to fuel price growth. This can provide only a partial explanation. Rates began declining in late 2018 and did so gradually "whereas the current frenzy began in late spring with a jolt." Then there are the inventories, now at record lows, and the pandemic-generated second-home splurge as well as an influx of first-time buyers into the market.

That last category may not be getting enough attention. Romem says that that the market typically has 55 percent to 70 percent of American home buyers who are selling one home and buying another, with the remainder buying a home for the first time. Since spring, the share of first-time borrowers has risen from 31 percent in 2018 and 2019 to 34 percent and those buyers are affecting only one side of the equation. (Bear in mind when evaluating the foregoing that, while his numbers don't discount the importance of second home and investment buyers in the equation, his narrative appears to do so.)

Romem says all these the factors have played a role in market activity, but "perhaps the **most important factor is the sheer rise in volume of buyers**." Adding more buyers and sellers can generate frenzy even without altering the balance between them. First, buyers aren't drawn to all homes equally. They converge on the most attractive ones and when overall traffic increases, this subset of homes draws far more buyers than before. This creates an experience of heightened competition around those homes and when that leads to higher sales prices, those sales become "comps," that is examples used by sellers and real estate agents to set prices on subsequent listings. This drives prices higher and does so more quickly.

But Romem says there is another explanation for the sales activity and growing prices. The housing market, because of innovation, is operating at a faster pace and this has served to increase the imbalances between buyer and seller.

He explains that, in a situation where, for every two sellers there are three buyers a hot sellers' market would already exist. But, if the timeline over which a seller finds a buyer and both exit the market is shortened there more quickly becomes two buyers for every one seller, theoretically creating increased competition for every home. This would be true in a buyers' market as well, with each match increasing the competition for buyers.



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Innovations in the home buying process are speeding up this matching process, reducing the for-sale inventory, and shortening the marketing time for available homes. Many of these innovations, like technology for remote work, have been available for years. It is the pandemic that have brought both into wider use.

The author cites substitutes for in-person visits like 3-D home tours and drone photography; phone-based entry into homes which eliminate the need for appointments, even remote notary services which streamline the closing process. These innovations are likely to make home buying faster.

Romem notes that all the factors, including the ones frequently cited by others, are helping to fuel the market craziness, but some will last longer than others. The low interest rate environment is likely to be around for a while as will pursuit of open spaces because of health fears, but neither is likely to be permanent. If the desire for private space is driven by the need for workspace at home, it may last even longer. He concludes, however, "To the extent that innovations accelerating the home sale process are the culprit for a more extreme supply and demand imbalance, well, there's no turning back the clock on that."