Professional Realty News

Consumer-Oriented Information & Advice to Save Money and Time
• Mortgage • Real Estate • Personal Credit & Finance • Home Improvement

“From My Home To Yours”

Real Estate: (610)436-5397
Website: www.prc-pa.net
Lic. by PA Real Estate Commission
Lic. #RB065819 & #RM423485

Mortgage: (610)436-0689
Website: www.pmc-pa.com
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NMLS ID#111211 & #135687

20th edition - Winter, 2023

HAPPY NEW YEAR!

I hope you’ve enjoyed the holiday season and that this newsletter finds you and your family healthy, happy, and prosperous.

I hope you find my articles to be “News That You Can Use,” or at least find interesting. I also include your 2023 magnetic calendar and kitchen conversion chart (last page). I use that chart plenty each year!

For me, 2022 was a difficult year, navigating macro-trends, in both the real estate and mortgage markets. This brings me to the theme of this newsletter: What Comes Around, Goes Around. I’ve been in this business now for 35 years and 2022 represents a “been there, done that moment.”

Many mortgage companies have closed (not many refinances now and slower sales), many more have been acquired in a mass consolidation phase. There are a ton of mortgage originators who entered into the profession in the past few years who are now exiting.

Despite this dire macro-trend, 2022 was still a good year for me, now completing my 32nd year in business on my own. I’m proud to report that my 100% referral rate and 100% mortgage approval rate are still intact.

Personally, 2022 was also rewarding and fun. My fig tree, just planted 3 years ago, produced voluminous quantities of figs. On one day, I picked 76. It took me a while, but I’ve gotten pretty good at making fig jam (yummy with blue cheese on cracker). I also had a fun jaunt up to Maine this summer, catching up with long-time college friends and sight-seeing.

As always, feel free to call me with any questions – there is never a charge nor obligation. And I hope that if you were satisfied with my service and pricing, you will present me with the best compliment I could receive: a referral to assist a family member, friend, or co-worker.

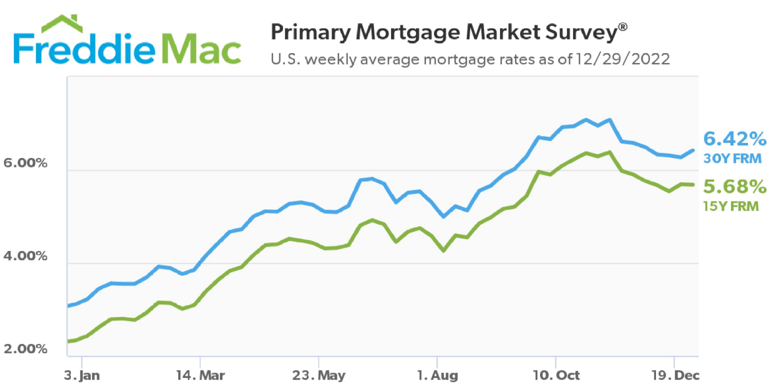
Best wishes and enjoy the rest of the winter!

Thank You! Laurence

2022 MORTGAGE RATE RECAP

2022 mortgage rate trends were very much tied to the market interpretations of the Federal Reserve’s position points and policy changes. Rates started rising early in year, with the Fed pivoting regarding its perception about inflation. No, it wasn’t “transitory,” and their “dovish” positioning quickly turned “hawkish,” meaning rate hikes and Quantitative Tightening, in an attempt to reduce inflation pressures.

We started the year with rates near all-time lows, then they moved up with each Fed rate increase and Fed Governor speech. The clear, consensual diatribe: “We’re not messing around: We’ll keep rates “higher for longer,” or whatever it takes to drive down inflation to meet our target of 2.0%.” See chart.



Bottom line: The 30 and 15-year fixed rates more than doubled in 2022. Actually, rates are even higher than depicted here, in that FreddieMac changed its methodology in November. Rather than polling lenders regarding their offered rates pegged to something close to 0 points, now they are taking actual rates from the application. This rate takes into consideration the points an applicant is paying. So, in other words, the chart should be illustrating ~ 0.375% higher for something comparable to 0 points. Like the “old days,” it’s actually better to pay points now – more on this later, see page 3.

2022 HOUSING MARKET RECAP - National

"Tipping Point" would be an apt summary, starting around June. We shifted from a Super-Seller's Market to a Seller's Market, with prices continuing higher, albeit at a much slower pace. It simply was just a matter of time until we hit this tipping point: You can't just have prices skyrocket, for so long. Pricing is only so elastic in real estate; something had to give. Note the dramatic change at key time points in 2022.

<u>Median Price of Existing Home Sales</u>:
– January $354,300 – June $413,800 – Nov $370,700
<u>Existing Home Sales Median Price (Y-o-Y change)</u>:
– January +15.3% – June +12.8% – November +3.5%
<u>Existing Home Sales</u>:
– January 6.5M – July 4.8M – November 4.1M
<u>Existing Home Sales (Y-o-Y change)</u>:
– January -2.4% – June -14.4% – November -35.4%
<u>Mid-December Market Conditions (Y-o-Y change)</u>:
- Median Sales Price +4.8% – Homes Sold - 34.9%
– New Contracts - 36.1% – Sale To List Price 95.1%

Why did the market shift so dramatically in the June-July time period? Let's explore the fundamental components: Supply and Demand.

1) Supply, a.k.a <u>Inventory</u>:

Sellers are living in their homes longer. Why? For many reasons: Living longer, ability to "live in place," ability to finance home repairs and large improvements to better enjoy "living in place," enjoying an extremely low mortgage interest rate, thus making it possibly <u>more</u> expensive to move, and more recently, the ability to work from home.

Demographics. There are simply not enough new homes being built each year to match the growth in population and household formation each year. This has been a persistent problem for decades.

2) <u>Demand</u>:

As noted in previous newsletters, the demand has been huge, mainly stemming from the Millennial generation, which has come into home buying age. With the Supply/Demand imbalance continuing for so long, with sales prices going through the roof, with frustration from frenzied competition and losing so, so, many times, they had enough! The kicker was the impact of mortgage rates spiking (see page 4 article).

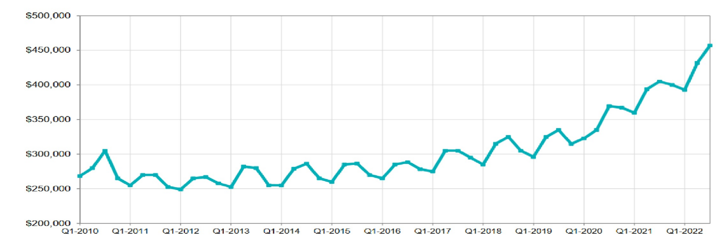
Demand has dramatically cooled since June/July.

2022 HOUSING MARKET REVIEW - Local

<u>Bucks County</u>

2022, 3rd Qtr (Y-o-Y): 1.2 months supply of inventory*, the median sales price increased 12.8% to $457,000, and 100.4% of original price received.
Local example – zip code 18944 (Perkasie area): The median sales price increased by 26.0% to $460,000 and 99.2% of original sales price received.

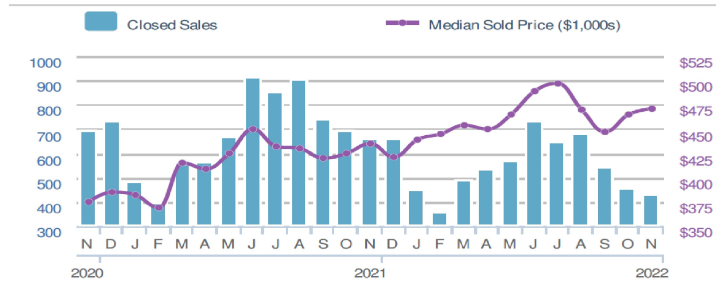
Historical Median Sales Price for Bucks County, PA



2022, November (Y-oY):
Pending Sales - 35.6% Median Days on Market 8
Sold to Listing Price 98.1% Inventory + 18.3%
Median Sales Price + 4.9%

<u>Chester County</u>

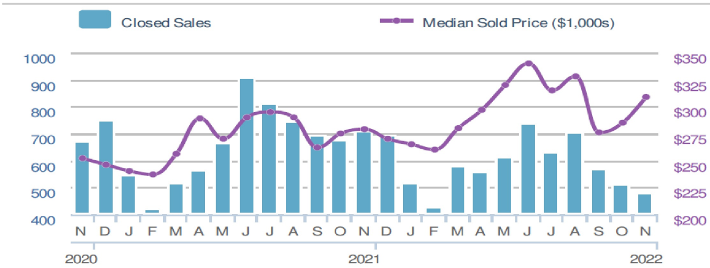
2022, 3rd Qtr (Y-o-Y): 1.2 months supply of inventory*and the median sales price increased 10.5% to $475,000. 101.9% of original price received.
Local example – zip code 19335 (Downingtown area): The median sales price increased by 8.3% to $468,215 and 101.4% of original sales price received.



2022, November (Y-oY):
Pending Sales - 35.9% Median Days on Market 7
Sold to Listing Price 99.8% Inventory - 0.9%
Median Sales Price + 8.5%

<u>Delaware County</u>

2022, 3rd Qtr (Y-o-Y): 1.1 months supply of inventory*, the median sales price increased 8.2% to $303,000, and 100.9% of original price received.
Local example, zip code 19342 (Glen Mills area): The median sales price increased by 18.5% to $601,000 and 100.9% of original price received.

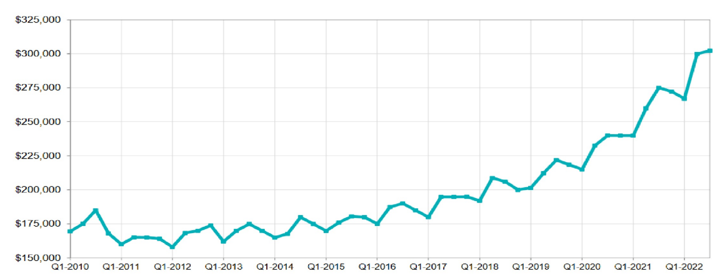


2022, November (Y-o-Y):
Pending Sales - 38.1% Median Days on Market 8
Sold to Listing Price 98.9% Inventory - 3.4%
Median Sales Price + 10.7%

Lancaster County

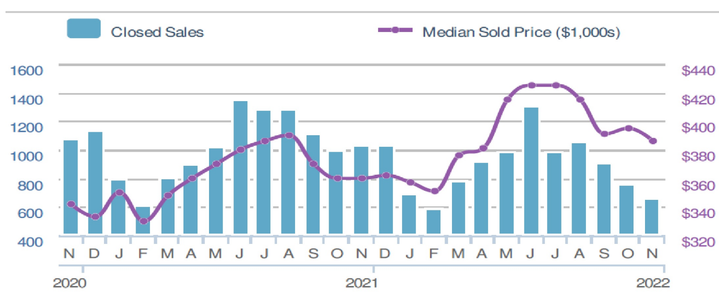
2022, 3rd Qtr (Y-o-Y): 1.0 months supply of inventory*, the median sales price increased 9.9% to $302,300, and 102.8% of original price received. *Local example, zip code 17579 (Strasburg area): The median sales price increased by 45.8% to $401,000 and 103.6% of original sales price received.*

Historical Median Sales Price for Lancaster County, PA



Montgomery County

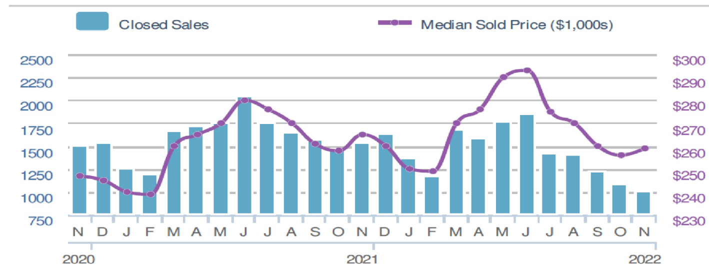
2022, 3rd Qtr (Y-o-Y): 1.2 months supply of inventory*, the median sales price increased 7.9% to $410,000, and 101.0% of original price received. *Local example, zip code 19426 (Collegeville area): The median sales price increased by 12.5% to $535,000 and 102.6% of original sales price received*



2022, November (Y-oY):
Pending Sales - 31.9% Median Days on Market 9
Sold to Listing Price 99.3% Inventory + 11.7%
Median Sales Price + 7.4%

Philadelphia County:

2022, 3rd Qtr (Y-o-Y): 3.4 months supply of inventory*, the median sales price decreased 0.4% to $269,000, and 95.7% of original price received *Local example, zip code 19130 (Fairmount/Art Museum/ Francisville areas): The median sales price decreased by 6.4% to $421,000 and 96.3% of original sales price received.*



2022, November (Y-oY):
Pending Sales - 42.7% Median Days on Market 24
Sold to Listing Price 93.9% Inventory + 23.3%
Median Sales Price - 1.9%

** A "balanced market" (not a seller's nor buyer's market) is a 4-6 months supply of housing*

Want to know the statistics in your particular municipality? Feel free to shoot me an email or call.

NEW AREA CODE FOR SOUTHEASTERN PA

In 2021, the PA Public Utility Commission approved the plan filed by the North American Numbering Plan Administrator (NANPA) to allocate 835 as a new area code to service Berks, Delaware, Chester, Lehigh, and Northampton counties along with a portion of Montgomery County.

Area code 835 was rolled out in September, when the 610 and 484 codes became exhausted..

COST-OF-LIVING ADJUSTMENTS FOR 2023

For those of you receiving, or for those of you who know people receiving, Social Security and Supplemental Security Income (70M Americans), good news! Benefits will be increasing 8.7% in 2023. Due to the inflationary conditions in 2022, this will be the largest increase in the "COLA" since 1981.

PA – A GOOD PLACE TO RETIRE

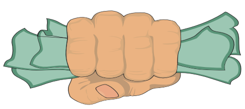
According to the U.S. News and World Report, there were several Pennsylvania areas which ranked very high, nationwide.

- Ranked #1: Lancaster
- Ranked #2: Harrisburg
- Ranked #5: York
- Ranked #9: Allentown
- Ranked #10: Reading

Why? Happy local residents, housing affordability, affordable tax rates, and high health care quality.

WATER & SEWAGE BILLS SET TO SKYROCKET

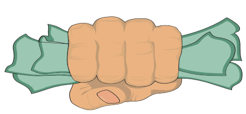
Do you, or someone you know, have service with Pennsylvania American, PA's largest utility? If so, your water rates are increasing 14.5% for water use and 39.1% for sewage use, effective January 28, 2023.



MORE TAXES

County Property Taxes: The good news is that for 2023, the millage (multiplier to "assessment") will remain the same for Philadelphia, Bucks, Delaware, and Chester Count owners. However, Montgomery County owners will see an 8.0% increase.

Gasoline Taxes: Starting in 2023 for PA, there will be an additional 3.5 cents added to the already 3rd highest level in the country. At a whopping 61.1 cents per gallon, PA has now the 2nd highest tax.



BURNING BUSH BAN

As an avid, amateur gardener, I found this interesting. Beginning in 2023, it will be illegal to sell or plant a burning bush (Euonymus alatus) in Pennsylvania. The plant is considered an invasive species that is not native to the region and spreads when birds carry berries into the woodland where it crowds out native species.

MORTGAGE INTEREST RATE SPIKE – EFFECT ON DEMAND --

As noted in the 2022 mortgage interest rate chart on page 1, rates have skyrocketed – the largest increase in over 40 years! For a 30-year fixed rate mortgage, we started the year ~ 3.0%; we ended near ~ 7.0%.

It's no surprise that many mortgage companies either closed in 2022 or initiated mass layoffs, given the effect of higher rates and the speed of the change. Not only did this dry up refinancing business, it helped create the June/July "tipping point" of reduced buyer demand. From that juncture, mortgage application activity kept reaching new lows – the latest at a 26-year low.

Even before the rate surge, buyers were frustrated with skyrocketing sales prices, very intense competition, and waiving contingencies.

To better understand the impact of this surge in interest rates, let me illustrate with some examples. Here is the monthly Principal & Interest (P&I) payment with various mortgage sizes and rates.

	$200k	$300k	$400k	$500k
3.0%	$843.21	$1,264.81	$1,686.42	$2,108.02
4.0%	$954.88	$1,432.25	$1,909.66	$2,387.08
5.0%	$1,073.64	$1,610.46	$2,147.29	$2,684.11
6.0%	$1,199.10	$1,798.65	$2,398.21	$2,997.75
7.0%	$1,330.60	$1,995.91	$2,661.21	$3,326.51

Ouch! That's a 58% increase, in one year! Those payment increases translate to either 1) buyer now doesn't feel comfortable with mortgage payment, especially when adding in property taxes, homeowner's insurance, possibly HOA fees, and possible mortgage insurance or 2) buyer now doesn't qualify for the mortgage.

Who can blame these buyers for their disgust and current disinterest in buying? They are going to instead rent, live with mom and dad or with grandmom and grandpa or relatives/friends or other alternatives, and save more, pay down student loan/misc. debt, and simply make themselves financially stronger until rates and home sales prices come back down – at least that's the hope.

MORTGAGE PROGRAMS & PROCESS UPDATE

Mortgage lending standards changed course this year and became a bit tougher around the margins. Pricing became worse for cash-out refinance borrowers, per revised risk-based modeling.

Technology and the back-office logistics of verifying employment, income, and even assets has made the process easier for borrowers. If a borrower works for a major employer and has all assets in a major bank, I might not need a shred of paperwork from them. We're not there yet, but there was a major push this past year in this direction.

Conforming loan limits increased to $726,200 for 2023 (11% increase from 2022). Thus, more buyers will be able to secure better rates & terms versus a "Jumbo" loan (amount over that limit).

A new mortgage application form will become mandatory in March. The applicant will be required to answer some questions pertaining to "Homeownership Education and Housing Counseling" and to note their "Language Preference."

1st-Time Homebuyers will benefit from 2 major changes: The income limitations reverted back to 100% AMI (area median income) from 80%. For most of our geographic area, this translates to an income limit of $105,400. Also, there's better pricing for 1st-time homebuyers, relative to other buyer classifications and risk criteria (down payment, credit score, etc.)

Condo and HOA Standards Tougher: Requirements for association budgetary reserves and insurance coverages increased. Keep in mind, for a buyer to be approved, not only does the buyer need to qualify, not only does the particular unit and value need to qualify, but the association itself needs to qualify.

2022 HOME BUYERS & SELLERS PROFILE

Characteristics of Home Buyers

- 26% (lowest ever) were first-time buyers (34% in '21, 50% in '10)
- 36 (highest ever) was typical first-time buyer age (33 in 2021 & 29 in 1981).
- 18% of first-time home buyers were unmarried couples (all-time high)
- 59 was typical age of repeat buyer (all-time high)
- 14% purchased a multi-generational home
- 61% married, 17% single women, 9% single men, and 10% unmarried couples (all-time high)
- 88% White/Caucasian (up 6% from 2021), 3% Black (down 3% from 2021), 2% Asian/Pacific Islander (down 6% from 2021 and lowest level since data collection in 1997)

Characteristics of Homes Purchased

- "Typical Home:" 1,800 square feet, built in 1993, had 3 bedrooms and 2 baths
- 12% new construction (15% in 2021, 29% in 1986)
- 79% purchased a detached single family home
- 50 miles – median distance between residences. It was 15 miles between 2018 - 2021. {COVID impact, need to find more affordable housing farther away, being closer to family}
- 48% homes purchased in small towns and rural areas ('32% in '21 & all-time high)
- 39% homes purchased in suburbs (51% in '21)
- 10% homes purchased in urban (13% in '21)

The Home Search Process

- 47% – first step was looking online at properties
- 86% – real estate agents viewed as very or somewhat useful information source (down from 91% in 2021)
- 10 weeks searched and viewed a median of 5 homes + 4 homes online. (12 weeks and 12 homes in 2009 through 2013)
- 40% conducted online search on desktop or laptop computer; 60% did so via mobile device

Financing the Home Purchase

- 78% used financing (87% in 2021, 93% in 2003)
- 6% median down payment for first-time buyers
- 17% median down payment for repeat buyers
- Source of down payment (overall): 47% savings (61% in 2021)
- Source of down payment (first-time buyers): 22% from gift or loan from family and/or friends

Characteristics of Home Sellers

- Typical seller lived in home 10 years (8 yrs in 2021)
- 89% were assisted by a real estate agent
- Typical seller was 60 years old (56 in 2021)
- 2 weeks – median time on market before sale
- 9% not satisfied with their recent selling experience
- 100% final sales price to original ask price ratio (highest since 2002)
- 41% traded up to larger homes, 32% same, 27% less

** data source: National Association of Realtors®*

PURCHASE STRATEGIES
IN A HIGHER RATE ENVIRONMENT

Like I mentioned before, "What comes around, goes around." Adjustable Rate Mortgages (ARMs), paying "points," and the "Buy-Down" concept, are all now back in vogue.

ARMS: This new generation, while still offering 1,3,5,7, and 10-year fixed portions before the interest rate can vary with market conditions and adjust, the future adjustment period is every 6 months versus every 12 months in the prior iterations of these products. Also, the index is new – now SOFR (Secured Overnight Financing Rate, a newly constructed measure of the cost of borrowing cash overnight collateralized by Treasury securities). The prior iteration of ARMS used LIBOR (London Inter-Bank Offer Rate). Also, the "caps" have changed – now higher initial rate change limits (5% vs. 2% previously), although the lifetime caps are less (5% vs. 6% previously).

Bottom line on ARMs: They are not priced well and this strategy, in my opinion, is over-hyped. For the past ~ 6 months, there's been a rare condition whereby an "inversion" has existed in the yield curve, meaning shorter-term T-Bills paying more than longer term T-Bonds. It's bizarre! Would you buy a CD for a longer time commitment if it paid less? Of course not. For the ARMs, it's the same logic but in reverse, as you would be the user of the money, not the investor.

Paying Points: For most of you reading this, you received a crash course education about this from me when I originated your mortgage(s). A better informed customer makes better decisions. Nonethe-less, here's a quickie refresher.

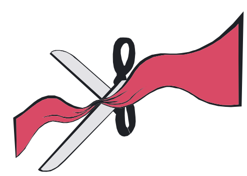
A "discount point" is a prepaid interest charge, in terms of a percentage of the mortgage amount. So 1 point equals 1% of the loan amount. This voluntary payment of money upfront, buys you a lower interest rate for the duration of your term. Pay more now, but benefit later OR pay less now, but pay more later. Which is better? Everyone's circumstances are different and the rate/point cost/benefit equations change with market conditions.

Bottom line on paying points: Market conditions have changed and for the past ~ 6 months, it has been better to pay some points for a lower interest rate.

"**Buy-Downs**:" The concept is that a borrower can pay extra money upfront to temporarily reduce the interest rate and thus payment. There's a 1-0, 1-1, 2-1, and 3-1 option available. These figures represent how long the "Note Rate" will be temporarily bought down. So, as an example, the "2-1" means that in year 1 of the loan, the rate paid will be temporarily 2% below the note rate (real rate for the duration of the loan) and in year 2, the rate paid will be temporarily 1 % below the note rate. In year 3 and throughout the term, the rate will revert back to the note rate.

Bottom line on buy-downs: This is a viable strategy for those customers who are cash heavy, but initially income stressed. Sometimes, this cash contribution can come from the seller based upon negotiations. As the real estate market is becoming more balanced, this strategy is becoming more popular, negotiating that the seller pay the appropriate buy-down fee, based upon the buy-down option selected.

These strategies once again remind me about the importance of prequalification prior to searching for a new home. For this, and many, many other reasons, the mortgage prequalification should come first, before the home search process.



PA REAL ESTATE PRESS

– Per Wallet Hub: In a study of cities with populations between 25,000 and 100,000 residences, Lancaster was ranked the area with the lowest crime rate and 10th overall for the quality of life.
– Per the U.S. World News and Report, Lancaster was named one of the best places to live and the 5th best place to retire.
– Per CBRE (commercial real estate firm), almost a quarter of the vast Pennsylvania suburban office market is vacant. Since early 2020, 3 million square feet became vacant.
– Per National Association of Realtors®, the median sales price was $216,386 in November, up 13.7% Y-o-Y, but not the all time high of $219,154 reached in July.

CREDIT CORNER

In November, the Consumer Financial Protection Bureau (CFPB) issued a “Circular” to regulated credit providers and furnishers, reminding them of their obligations and liabilities under the Fair Credit Reporting Act (FCRA).

This circular was in response to the seven-fold increase in consumer complaints between 2019 and 2021 relating to the inaccuracies contained in their credit reports and the obstacles encountered going through the “dispute” process.

They make it quite clear: “Consumer reporting agencies and furnishers cannot avoid the obligation to conduct a reasonable investigation of disputes by making consumers satisfy demands other than those specified by statute or regulation.” Enforcers may consider bringing an action under the FCRA when furnishers and consumer reporting agencies require consumers to provide documentation or proof documents, other than as described in the statute or regulation, as a precondition to investigation.

For disputes received directly from a consumer, a reporting agency or furnisher must reasonably investigate the dispute unless they have reasonably determined that the dispute is frivolous or irrelevant. “If such a determination is made, the reporting agency or furnisher must notify the consumer of such determination within five business days of the determination and identify the additional information needed from the consumer to investigate the dispute.” Furnishers are not permitted to deem disputes as frivolous or irrelevant if the dispute has been provided to the furnisher from a reporting agency. Furthermore, furnishers must investigate, even if the dispute does not include the entity’s preferred format, preferred intake forms, or preferred documentation or forms.

Additionally, reporting agencies must provide to the furnisher all relevant information regarding the dispute that it received from the consumer.

I recently re-worked the whole “Credit Information” section of my website. For more complete information about the dispute process and understanding your rights under FCRA, please reference the resources I have provided in the **PMC** website. As always, feel free to call me if you have any problems or questions relating to credit.

IS YOUR PROPERTY ASSESSMENT ACCURATE?

Ideally, homes are assessed at 100% of their market values, which occurs after a county-wide reassessment. But this reassessment doesn’t happen often, while property values continue to increase.

Thus, the PA Dept of Revenue sets a “Common Level Ratio” (CLR) factor for each county every July, in attempt to be fair and keep old assessments in line with new assessments.

Multiply the CLR with the stated assessed value (found on your property tax bills or check public records) and you derive what the county thinks is your home value.

Here are the CLRs for our areas for 2022-2023:

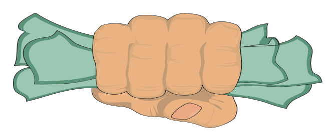
– Bucks County: 7.3 (last assessment - 1972)

– Chester County: 39.5 (last assessment - 1998)

– Delaware County: 72.8 (last assessment - 2021)

– Montgomery County: 39.6 (last assessment - 1996)

– Philadelphia County: 92.6 (assessments ongoing)



VISIT MY IMPROVED WEB SITES
- FOR MORE NEWS YOU CAN USE -

Under “**Market Outlook**” (all updated monthly)
- NAR’s Realtor® Confidence Index
- NAR’s Housing Affordability Index
- Fannie Mae’s Home Purchase Sentiment Index
- Home Price Analysis for Philadelphia region
- MLS Market History

Under **“Helpful Links”**

- Township re-sale code requirements & tax info
- Public & Private school rankings & info
- 2022 Remodeling Impact Report (Cost vs. Benefit)
- 2022 NAR® Profile of Home Buyers & Sellers
- Home, Radon, Wood Destroying Insects, Mold, Stucco, Well, Septic and more inspection info

INSIDE THIS ISSUE

THANKING YOU FOR YOUR SUPPORT & TRUST FOR 32 YEARS !