

# CONSTRAINED 2023 INVENTORY

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THE HIGH MORTGAGE RATE ENVIRONMENT HAS PREVENTED MANY HOMEOWNERS FROM SELLING THEIR HOMES, AND THE TREND HAS ONLY DEEPEDED THIS YEAR.

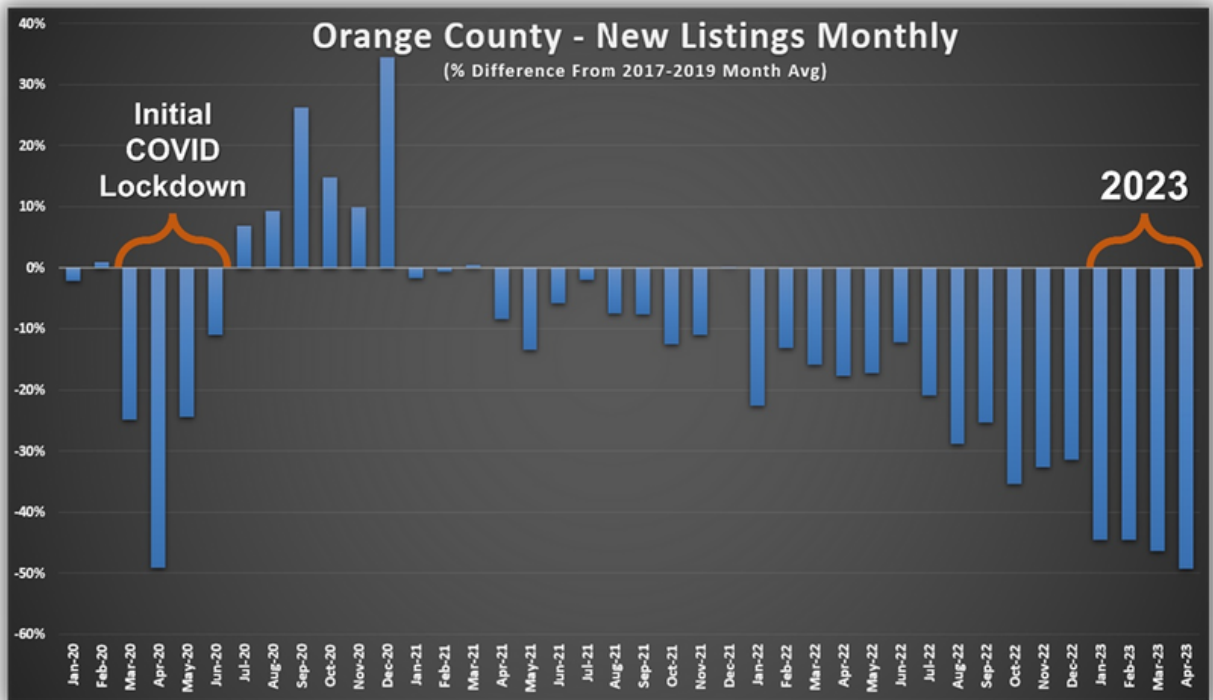


# LACK OF SELLERS

FROM JANUARY THROUGH APRIL, THERE WERE 46% FEWER SELLERS THAN THE AVERAGE BEFORE COVID, MORE THAN 6,500 MISSING FOR-SALE SIGNS.

In the spring of 2020, life changed for everyone. Public schools, private schools, daycare, universities, dine-in restaurants, sporting events, organized sports, concerts, movie theaters, trips to the mall, amusement parks, public pools, beaches, neighborhood parks, and travel were all put on hold. The COVID “stay at home” order affected nearly every aspect of daily life, including real estate.

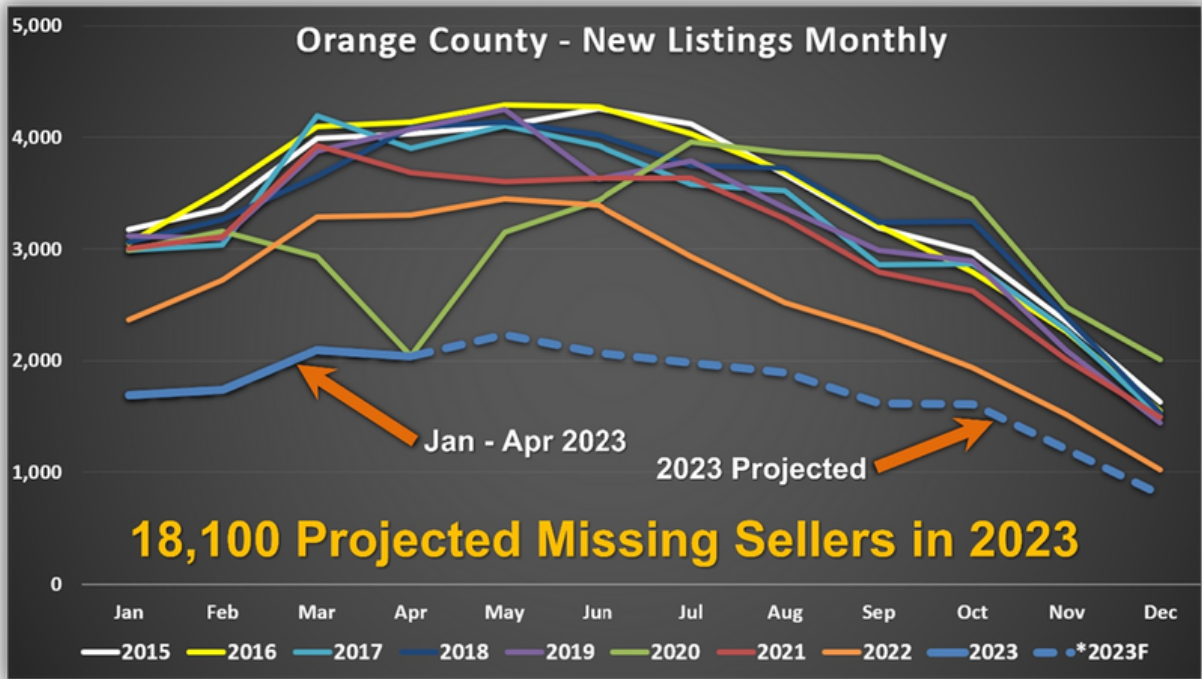
The California governor ordered the lockdown on March 19th. The initial shock of a worldwide pandemic not only deterred buyers from purchasing but also inhibited plenty of homeowners from selling their homes as well. In March, there were 25% fewer sellers than the 3-year average before the pandemic (2017 to 2019) in Orange County. In April, it rose to 49%. It then dropped to 24% fewer in May and 11% less in June. By July, more sellers came on the market than the 3-year average. There were 4,389 missing sellers from March through June, 28% less.



Overall, in 2020, there were 1,795 missing sellers compared to the 3-year average, down by only 5%. In 2021, it was down by 6% or 2,297 sellers. In 2022, everything changed. COVID no longer had a grip on the country, yet the number of homeowners that decided to sell dropped substantially. An astonishing 22% fewer homeowners opted to sell, or 8,460 missing FOR-SALE signs.

The swift, unprecedented rise in long-term mortgage rates in 2022 prevented homeowners from selling. They climbed from 3.25% in January to 4% in February, 5% in April, 6% in June, and eclipsed 7% in October. By year's end, they settled at 6.5%. Many homeowners elected not to sell. They were locked into incredibly low fixed mortgage rates. According to the Federal Housing Finance Agency's National Mortgage Database, 89% of Californians with a mortgage have a rate of 5% or lower, 71% have a rate of 4% or lower, and 29% have a rate of 3% or lower. Comparing monthly payments at 7.37% (the high water mark on October 20, 2022, according to Mortgage News Daily) to 3.25% at the start of 2020 is enlightening. The principal and interest payment on a \$700,000 mortgage shot up from \$3,050 in January to over \$4,800 by the end of October, an additional \$1,750 per month or \$21,000 per year.

If a homeowner sold and decided to purchase a replacement property, they would have had a much higher payment and, most likely, much higher property taxes. Thus, they had been staying put. The “hunkering down” trend that started in 2022 only deepened in 2023. In January, there were 45% fewer sellers, or 1,362 missing FOR-SALE signs. In February, there were another 984 missing signs, off by 45%. In March, it rose to 1,810 absent signs, or 46% less. And, in April, it grew to 1,983 fewer sellers, down by 49%, similar to April 2020, the month with the most missing sellers during the initial COVID lockdown. From January through April, there has been an extraordinary 6,551 fewer sellers compared to the 3-year average before the pandemic, 46% less.



Based on the first four months of 2023, it is projected that there will be 18,100 missing sellers. Many homeowners would like to move for various reasons yet are staying put and enjoying their low fixed monthly payments. Their home may not be exactly what they desire, but they love their current loan.

Many ask when more sellers will opt to place their homes on the market and finally sell. That will occur when mortgage rates drop to 5.5% or lower. The gap between many homeowners' prevailing underlying fixed rates will eventually narrow enough to entice many to list their homes for sale. That is when the need to move will kick in. The need for a growing family to purchase a larger home. The need for empty nesters to downsize. The need to move closer to the kids. While many are already selling today, lower rates will bridge the gap, and the number of sellers will grow. Until then, the 2023 inventory will continue to be constrained.