Paul Dart's Real Estate Report
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The Latest in Developing Trends

Paul Dart's
Real Estate Market Report

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The World is Shifting

Since the COVID-19 pandemic began to sweep the world, does the world seem a bit tilted, a little unstable and disorienting? Yes, all the things you did before, your work, your social life, all your comfortable patterns and habits, have been rudely interrupted. But have you also noticed things and events aren't necessarily following the neat predictable ways they did before? Who are these friends and coworkers I thought I knew, and why are they acting and reacting like that? Expectations based on lots of previous experience are no longer valid? Are you starting to question what is "normal?"

In a phase transition, chaotic and tumultuous events occur. It is not what it was, but it is not yet what it will become. Not ice, but not yet water— unstable, fluid and dynamic— seeking a new balanced state. In that interim period, things occur that are surprising, and even shocking. You catch yourself saying *"That doesn't make sense!"*, and yet, there it is. The trusty road map we knew we could depend on, that has always helped us to know what to expect, is in doubt. Everything is affected. Yes, even real estate.

From all the available evidence I can see, COVID-19 triggered such an event amid a soup of numerous underlying conditions and circumstances. My data partner, Mike Malec, who is also a real estate broker, and I have carefully tracked the market for years. Our goal is always to get as close to feeling the actual pulse of the market as we possibly can. Over the years Mike has produced a set of charts and graphs documenting the flow of the market through each of the predictable annual cycles, like the big spring rush, the following "summer slump" and "fall bump," and the winding down of activity from Thanksgiving through the New Year. You have seen these colorful graphs in my quarterly newsletters. While the cycles of the real estate market calendar were predictable, we watched closely for changes in the amplitude of those cycles, working to predict where the market might be heading. In short, we had a set of very detailed and well-documented maps of the past which could greatly assist us and our clients in gaining an understanding of the best way to plan for achieving our clients' goals. And then out of nowhere, the world tripped over a thing so small you have to use a powerful microscope to see it: COVID-19.

Metaphorically, if the local real estate market were a river, Mike and I knew every channel, every eddy, and every sandbar. We knew the differences in the seasonal flows and felt as comfortable as anyone could in the knowledge and understanding we had gained in years of observation. And then it all went over the COVID waterfall.

We began to see things we had never seen and things we would never have anticipated. Who would have predicted continuing strong buyer demand right through the Stay at Home mandate from our governor, when common sense dictated that everyone should have their heads down anticipating the worst? Many sellers did step back, and inventory has fallen to near historic lows. Buyers, however, were spurred by historically low mortgage interest rates and came rushing out when in-person showings of homes were again allowed. The numbers of under contract homes soared to near the peak boom levels of 2015-16 while the numbers of available homes plunged.

And in that great swell of activity strange things were happening. Properties we were certain would attract competing offers sat unsold while houses that had location and/or condition issues sold right away. Contrary to a seller's market, after getting a property under contract, many buyers are demanding sellers replace furnaces and A/C units that are older but still working as designed. Some are asking for large monetary credits to pay for their remodeling plans. Rattled by job losses, mortgage lenders began also qualifying a borrower's employer, looking for any signs of weakness that could lead layoffs *after* the closing. At the bottom of the waterfall our river was roiling, chaotic, and turbid; absolutely unreadable.

Mike and I soon realized all our past work would tell us nothing about what was happening, or what was to come. We were spectators witnessing a phase shift, both in the real estate market, and in the worlds we live in. We realized that until the water— the market— settled, until an new equilibrium was reached, all we could do was wait to begin to record a completely new flow with possibly very different influences and characteristics.

I'll keep you informed as we begin to sense any new patterns or trends. In the meantime, hold on to you wigs. It's going to be an interesting ride.

Paul Dart

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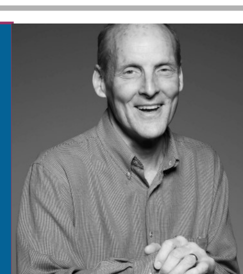

2020 FIVE STAR REAL ESTATE AGENT
Paul Dart
2010 • 2011 • 2012 • 2013 • 2014 • 2015 • 2017 • 2018 • 2019 • 2020

There's a New Buyer in Town

"Needs Too Much Work" That was the feedback from the agent who had shown my listing. And I had received the same 4 words for others who had shown this property. "Needs too much work." You would think a statement as simple as that would leave no doubt as to the intention of the communication. But it didn't make sense. This loved property was move-in ready.

Feedback from showing agents and their buyers, preferably some comments from each perspective, is really very critical in understanding how buyers are judging a property. It tells me how that property is stacking up in its location, condition, and price against others they have shown their clients. When I do my work to value a property, I am considering the specific location and condition of the property and comparing it against others that have sold in a close geographic area that also share similar qualities, like size, numbers of beds and baths. This gives me a very good idea of what buyers are doing and what will be competitive in the market.

Buyers drive the market. Sellers offer what they have, but by their choices and what they are willing to spend on them, buyers largely determine what qualities are more valuable than others. The evidence is plainly seen in the sold data. They bid up the prices of homes that back to open space for instance, but pay something less for those that front or back to busy streets, powerlines or commercial development.

Historically, there are four qualities that rise to the top of buyers' value lists. The first three are location (a little humor). The fourth quality is the condition of the property. While the importance of location remains primary, over time, what buyers value specifically in condition shifts with trends and fashions. Homes built into the 1960s were finished with solid wood floors, but as carpeting came into vogue, those lovely floors were covered in bright colors of shag. Formal living rooms were once the central living area of the home. Now they are seen as wasted space.

Because there can be a vast value difference based solely on the condition, it is critically important that all the elements of a property's condition are considered and factored into my value analysis. If there were two homes of identical floor plan sitting side-by-side in the same location, their respective condition would determine their relative market value. Historically, the vast majority of buyers look for a home that does not require much if anything to be spent after the closing. That includes catching up on deferred maintenance and replacing obsolete furnaces, air conditioning units, water heaters, roofs, windows, and worn flooring. Most buyers are devoting all of their hard-saved funds towards their down payment and closing costs and simply don't have additional money to address these items right away. So, any home in their price range that does not have these needs will be attractive to them.

Updating the important rooms in the home is a further plus. Best, though, is significant remodeling. Updating is addressing things like replacing the worn laminate countertops with new laminate, painting or refacing kitchen cabinets, replacing old plumbing and lighting fixtures with something a bit more modern, and putting a fresh coat of paint on the inside and outside walls. Remodeling includes major changes to the home, like gutting the kitchen and bathrooms and installing stylish cabinets, quartz or granite counters, attractive sinks and vanities, custom tile in backsplashes and in bathroom showers and baths, pretty plumbing and lighting fixtures, and new flooring throughout— all reflecting the latest styles and trends. A further step would be opening a kitchen wall to the living room, a very hot trend. And let us not forget the all-important stainless-steel kitchen jewelry: the oven/stove, fridge and dishwasher.

It is these remodeled homes that command the most attention from buyers, and thus the highest values. A home at the opposite end of the spectrum would be one in original, as-built condition, worn, and needing everything. Former rentals are in this category.

Somewhere in the middle are those homes that, over the years, have been very well cared for, including the replacement of the previously mentioned expensive infrastructure, and have also received some updating. They aren't flashy, but they are as solid as you can hope for.

Interestingly, very few homes come to market that offer both the replacement of the old critical infrastructure of a home and a full remodel. The sellers have devoted their money to the features and fixtures in the latest trends and fashions, always with the aforementioned kitchen jewelry. Property flippers carefully craft their projects to appeal to a buyer's desires. Splashy and studded with eye candy, these homes are designed to attract attention and inflame desire, however they largely ignore expensive infrastructure.

I recently listed two of those solid, loved properties in the middle category. There were both in the $530,00 range in Lafayette. Both sellers reviewed my analyses and decided to list their homes at the then-indicated market values. There were both lovely homes within a very short walk to a beautiful lake park— a very desirable quality. One gleamed with care, and the other felt a little plain as the sellers chose not to stage their home. In either home a buyer would not need to spend a dime. Both were move-in ready. But instead of the phone ringing with agents with interested buyers, the words "Needs too much work" appeared in almost every feedback message. It did not make sense. As we all know, since COVID, a lot of things don't seem to make sense.

I had a detailed talk with one of those showing agents, who also works in our office, and called several other agents to get their take on buyers in the current market. It's becoming clear that the buyers attracted to this price range in any area have a significantly different set of values and priorities in judging properties. Other agents are seeing the same thing, and that starts to look like a trend.

In a nutshell, these buyers are making good incomes and are likely in the tech industry, the only sector of the economy not negatively affected by COVID. They are placing a higher value on the interior condition than on the location, reversing the historical value standard. One agent recounted that her clients didn't understand why one of these Lafayette properties could be at the same price as a similar size home in Erie built in 2013. They liked Lafayette and the lake park, but did not recognize the value of a closer-in location or the park. The strong preference of these buyers is for homes that have all the style and fashion in place so they don't have to do anything. At the same time they are not so focused on the significant infrastructure elements. If they are willing to take on a remodel project, they expect the sellers to drop the price by the cost of what it will take to fit their desires-- tens of thousands of dollars. *"Needs too much work"* from these buyers means *"This home would have to be remodeled before I could live here."*

As home values increase in starter-home neighborhoods, the demographics of buyers shifts. These new buyers don't feel lucky just to get a solid home as earlier generations of buyers did. They expect something totally remodeled. If these are the majority of new buyers — and there is every reason to believe this may be true— price gap between homes that have been significantly remodeled and those that may have all the significant infrastructure in place but have only been updated will increase.

It is highly unusual that in a market with very few available homes for sale, the spread in price would increase between remodeled homes and those homes in the middle. The Law of Supply and Demand says it should decrease, or compress. Another effect of the virus?

We'll be watching this and other developing trends very carefully as our market, and world at large, try to find a new balance point in a world where something so small can alter almost everything we know.

Paul

A Recent Zillow Review about Paul Dart

"I just sold my first house with the excellent help of Paul Dart. He came to the house a year or so before we put it on the market and offered invaluable, free advice on how to get the house ready for market. He is personable, authentic, impeccable in his knowledge of the local area, and I believe rare in his patience and willingness to be available for emotional support during the entire process of staging, showing, selling, and closing. I never felt ashamed of not knowing more about the selling process. When Paul laid out his extremely detailed statistical analysis of the market and my home valuation in relation to his findings, I immediately trusted that Paul had both a technical and an acute intuitive knowledge of the market. My home went under contract in 24 hours after the 2nd showing, prior to going on the MLS, for more than my asking price. The closing was seamless, even during this crazy pandemic time. I feel blessed to have had Paul at my side during this huge transition!" C. Ray 840 Delphi Dr.