

Your REALTOR:



Dennis Kutty

July 2021

REAL ESTATE Update



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How Are Soaring Materials Costs Affecting Real Estate?



There was a lumber shortage triggered by the pandemic.

According to the

National Association of Home Builders, lumber prices have gone up more than 200% since April 2020. Experts in the lumber industry don't know when the prices might come down. For example, representatives from Capital Economics recently said they think lumber prices will fall over the next 18 months. The demand for lumber should hold for a while, but the supply should, according to their analysis, go up, and prices should go down by the end of 2022.

The rise in lumber prices has now added almost \$36,000 to the price of the average single-family home. It's added nearly \$13,000 to the market value of a new construction multi-family home. Lumber isn't just used in the framing of a home. It's also used to make doors, flooring, windows, and cabinets, meaning that the shortage and high prices affect almost every aspect of home construction and, by extension, the real estate market.

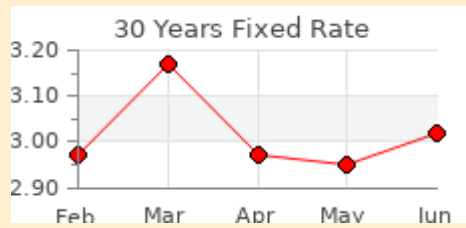
Along with lumber, the price of gypsum is up almost 7% from last year, which is drywall. Steel prices are up 18% year-over-year, which is used for beams and wiring. Copper is up 27%, which is used for wiring. Then there's the price of land.

To buy a single lot is 11% higher this year compared to last. New lot supply has gone down 20% from last year. There's a huge land grab as builders are trying to keep up with demand.

What all of this means is that buyers are going to continue to see extraordinarily high prices for at least the foreseeable future unless there's a major shift.

Mortgage Rates U.S. averages as of July 2021:

30 yr. fixed: 3.02%
15 yr. fixed: 2.34%
5/1 yr. adj: 2.53%



Tying the Knot? How's Their Credit?



From a purely technical perspective, it's good to know the credit profile of someone you're soon to marry. You're probably very aware of where your own personal credit stands. Yet when you get married, while each person keeps individual credit lines, there will soon come a time to open a joint account.

When applying for credit individually and the three scores are reported, lenders will use the middle score, not the highest or lowest. If someone sees three scores of 750, 781 and 755, the lender would then use 755 as the qualifying score. When a couple applies for new credit, lenders use the lowest of the two middle scores. If your qualifying scorer is 755 and the spouse's scores report in at 620, 616 and 640, the individual's qualifying score is 620. When combining both on the same mortgage application, the two middle scores are 755 and 620. Lenders would then use 620 as the qualifying score. This could mean a larger down payment or a slightly higher rate. That's kinda getting in the weeds a bit but it's how mortgage lenders use scores when qualifying those applying for a mortgage together. That's why it's important to get a handle on your future spouse's credit profile.

How Long Should A House Stay on the Market?



It's a seller's market right now, especially since inventory is low and building materials are incredibly expensive. While the time on the market has, on average, gone down, there are a lot of individual factors that play a role in how long it takes to sell a house.

The DOM Metric

DOM stands for "days on the market," and it's a relevant metric. The National Association of Realtors says days on the market or DOM is the number of days from the date when a property is listed on the MLS to the date when there's a signed contract for the property's sale. The more those days tick upward, the staler your listing gets.

How Long Is Too Long?

You have to look at local conditions in your market to figure how long is too long, but right now, if you're in a pretty popular area, if your home has been on the market for more than a couple of months, it might be time to rethink things.

If you aren't sure, talk to your agent about the average time other homes in your neighborhood are staying on the market. You don't want to reduce your price too soon, which is why it's key to have a good idea of what's happening with houses around yours.

Better than trying to work against the market is getting your pricing right before you list your home the first time, which is why you need an experienced realtor. You also need to listen to their advice on things like staging and preparing your home to go on the market, because otherwise, a couple of months out you may find your home isn't seeing much action, and you'll have to do these things



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What's Going On with Home Prices Right Now?

By Ashley Sutphin

The housing market is currently what many analysts are describing as overheated. Demand continues to grow more quickly than supply can keep up with, meaning home prices keep reaching record highs.

Rising Prices

According to data gathered by Redfin, two years ago, before the start of the COVID-19 pandemic, only around ¼ of properties were selling above asking. Now, the most recent data shows that home prices in March rose at the fastest pace in over seven years.

The S&P CoreLogic Case-Shiller 20-city home price index went up 13.3% in March compared to a year before, making it the biggest jump since December 2013. That follows a 12% year-over-year increase in February. Many homeowners aren't willing to sell, and that's leading to bidding wars. As of the end of April, there were 1.6 million homes for sale in the U.S. That's a 20.5% decline from the previous year.

Homebuilders are being affected by high building materials costs, as well as soaring labor and land costs. New home construction dropped in April, after an earlier 15-year high. This is then paired with the 30-year fixed mortgage rate, which is around a 50-year low currently.

Analysts think there are a lot of factors that are pushing demand, including the continual effects of the pandemic. It's still seeming to be the case that homebuyers are looking to leave apartments and move to the suburbs.

There are also analysts that think what we're seeing is currently just acceleration in buying patterns that would have happened regardless, but perhaps just not all at once.

The median home price in May was up to \$341,600, according to the National Association of Realtors. Interestingly, there are also now more real estate agents than there are homes on the market.

Which Cities Are Seeing the Biggest Price Gains?

There are certain markets in the U.S. that are even hotter than others. Phoenix tops the list. The city saw a 20% year-over-year price increase. San Diego wasn't far behind, with a 19.1% price increase, and Seattle had prices that rose 18.3%. All 20 cities on the S&P CoreLogic index saw higher price increases in the year that ended in March as opposed to the one ending in February.

Will It Slow Down?

It's possible that this summer we might see somewhat of a slowdown in the housing market. One big reason is the rate of vaccinations that's occurring in the U.S. With more people getting vaccinated, they might be returning to old spending patterns, such as going on vacation or spending on entertainment. That could take some of the focus off homes and the real estate market.

In fact, the number of people who signed a contract to buy a new home went down in May, and there's been a decline in people applying for mortgages. New home sales dropped almost 6% in April.

For those people who hope to enter the market any time soon, the best they might be able to wish for is that there will be some stability in pricing. Home prices aren't likely to decline significantly any time soon, but they might even out somewhat.



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Interior Design Trends to Love Right Now By Ashley Sutphin

Even though vaccinations are widespread in the U.S. right now, many people are still spending a lot of time at home. Summer 2021 is likely going to bring some return to normalcy, but it's probably going to be a slow process. You still want your home to feel like an oasis, and with that goal in mind, the following are some of the biggest interior design trends right now.

Maxed Out Design

Minimalism had its time to shine in the design world, but now we're turning a corner into what you might want to call maximalism. This means that less is more isn't holding true, and instead, more is more is a better approach.

It's easy to see why over-the-top interior design style might be trending right now, following a pandemic. People want things that make them feel happy and uplifted, and that can come in the form of over-the-top interior design style. This could mean colors, silhouettes, and patterns are all very attention-grabbing.

Peel and Stick Wallpaper

You might have thought the days of wallpaper were never coming back, but it's here now in a big way. Peel and stick wallpaper is great because it gives you the chance to customize your space without the messy glue, and it doesn't take long to put up. You can even add it to your rental.

Grandma Chic

Grandma style is really just a reference to a love of vintage items right now. Maybe this means florals and antiques, but grandma chic is a style that works well when newer pieces are integrated as well. Other facets of grandma chic style to explore include the use of velvet, toile, and fine china.

There's a tendency, particularly among new home buyers to want to stop spending money on cheaper items and instead invest in fewer meaningful pieces that are high-quality or curated vintage.

Black Kitchens

White kitchens were a favorite among many homeowners for years, but now black is taking over. A black kitchen is bold but also functional. It's easier to keep clean, and every little thing isn't going to show like it does when you do an all-white kitchen.

Black cabinets look modern and sleek, and you have so many options as far as countertop colors and materials, your backsplash and hardware. Black kitchens can also create a separation between this space and your living area if your home is open concept.

Monochromatic Doors and Trim

It's a really seamless and beautiful look to make trim, including baseboards, window and door casings, and crown molding the same color as your walls. This could mean all white, or you can even do it with bolder colors. When a room is all one color it feels high-end and opulent.

Earth Tones

Earth tones tend to come and go as far as popularity in interior design, but they're certainly in right now. Earth tones include beautiful greens, oranges, and burgundy. They're rich and grounding, which are two terms you always want to associate with your home.

Quirky Bathrooms

Finally, bathrooms are a good place to make an impact. You can use a bold color palette or wallpaper, add funky lighting and go out of the ordinary with the vanity you choose. Powder rooms are an especially popular place to do some experimentation with the wilder side of your style.



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What Are the Pros and Cons of Buying a House in Cash? By Ashley Sutphin

If you ever watch real estate shows, you've probably heard the term "all-cash buyer." It's usually thrown out as a way to sweeten a deal, but what's the reality about buying a house in cash? The world isn't a TV show, and there are pros and cons to buying a house with cash as opposed to getting a mortgage.

Buying a House with Cash Is Increasingly Uncommon

If you're in a position where you could buy a house with cash, you're in the minority. With the median home sales price in the mid-300,000s, it's not realistic for most people. Around 87% of home buyers finance according to the National Association of Realtors' 2020 Profile of Home Buyers and Sellers.

If you do have enough saved to buy a home outright, that doesn't mean you're necessarily showing up with a suitcase full of cash. What it does mean is that you're not getting a loan. You might have savings, you may sell another property, or you could have investments you're going to use.

The Upsides of Paying Cash

If you can pay cash for a home, there are undoubtedly some benefits, including:

- You're a more attractive buyer to sellers. This is a big one right now. There is a huge amount of demand for homes in many parts of the country and a limited inventory. This means bidding wars. One way to be more competitive when you make an offer is to pay cash. That's preferable to sellers because then they don't have to worry about what happens if your mortgage financing falls through. A cash-only transaction is also usually faster, so you can get to the closing quicker, which sellers tend to like.
- When you buy a house in cash, you don't have to worry about a mortgage payment of course, but you're also not going to be paying the interest and fees that come with a home loan.
- Cash buyers have lower closing costs because you're not paying the fees associated with a mortgage like lender fees and loan origination fees.
- A faster closing isn't just a benefit for the seller. It's advantageous for the buyer as well. You might be able to close on a home within a week of your offer being accepted. If you buy with a mortgage, it can take a month or more.
- Once you close, the home really is yours. You don't have the fear of not being able to make the payments and subsequently losing your home.

The Downsides of Paying Cash

There are a few cons of paying cash for a home that you do have to think about as well.

- Your money isn't liquid. If you're using all of your cash to pay for a house, it's not going to be easy to access it when you need it.
- You could make better returns by putting your money into another type of investment as opposed to putting it all into a house.
- You won't be able to take advantage of mortgage tax deductions. With itemized deductions, you can deduct the interest paid on the first \$750,000 of your mortgage, so your taxable income goes down.

If you're weighing whether or not to buy a house in cash, it can be a good idea to talk to a financial professional first. They can go over all the different scenarios and how that choice could affect you for better or worse.

Of course, if you'd still have money in savings or investments after buying a house with cash, then it might make the decision easier.



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Higher Rates Causing Concern for Buyers? Take a Closer Look By David Reed

Potential homeowners keep an eye on interest rate moves. And so do lenders. Higher rates mean borrowing power is diminished. Some become more serious 'rate watchers' than others. Others less so. But just reading the headlines of recent rate moves need to be looked at with a little more scrutiny. Recent Federal Reserve moves, or the lack of them, indicate inflation isn't a problem. As a matter of fact, the 'Fed' would like this rate to move up from where it is today.

The Federal Funds rate is the interest rate that banks charge one another so the borrowing bank can meet federal reserve requirements. If a bank sees its reserves falling below a certain level, the bank needs to borrow money...fast. It's the Fed Funds rate that is charged for the transaction.

What is the Fed Funds rate now? 0.25%. It's also interesting to note the Fed would actually like to see this rate closer to 2.00%. Historically, 2.00% is not enough to cause inflation but strong enough to indicate a healthy economy.

Now let's return to the headlines. The Mortgage Banker's Association collects and reports mortgage loan activity. An increase or decrease in the number of applications submitted can be a key indicator on the health of the economy. These applications can be either for a purchase or a refinance. If purchase loan activity is on the rise, the housing market is doing pretty well. If purchase loan activity falls, it can be a sign the economy is a little soft, or soon could be. But without looking at the details, potential borrowers might make a decision they shouldn't have...either to wait to buy and finance a home or put off refinancing.

Various news outlets reported earlier this mortgage refinance applications dropped by 20% as the average mortgage rate hits a 10-month high. If one just read the headlines, they're not getting the full story.

What is the full story? Part of that story is that yes, while refinance applications fell, there's a pretty good reason for it...most everyone who could have benefitted from a refinance has already been down that path. Essentially, the refinance bucket of applications is now empty. There are fewer people that could benefit with a refinance. That would then mean fewer people would apply for a new refinance. And for those who have decided to temporarily put on hold a purchase because of this news, they're making a mistake.

Yes, refinance demand dropped but we all know why. But it's not because rates moved to a 10-month high. Potential buyers? The details are less staggering. The average 30-year fixed rate rose to 3.36%. But from where you might ask? 3.33%. That's right, the rate increase making headlines is the result of a jump in rate of 0.03%. Let me put that in dollars for you. With a \$300,000 mortgage, the increase is a paltry 5 bucks. 5 bucks led to the recent headlines.

I certainly get that reporters have to report stuff or otherwise they wouldn't be reporters. But all you need to do is visit financial websites and you'll see articles pointing to rate increases. However, unless you look at the details, you'll find these rate moves aren't all that impressive after all.



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