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SCOTTS VALLEY STATE OF THE MARKET

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BUYING AND SELLING GUIDE TO REAL ESTATE IN SCOTTS VALLEY

As a top-producing local real estate team, we're committed to giving you excellent, personalized service. This guide offers a timely analysis of the single-family home market for Scotts Valley, CA that will answer your questions and help you develop a winning buying or selling strategy.

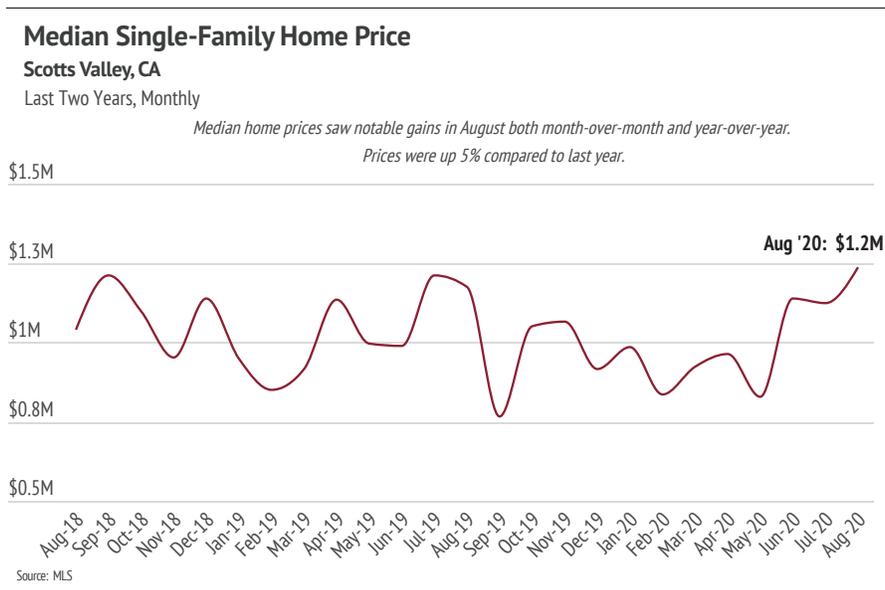
As we write this guide, we're still navigating through the COVID-19 pandemic. It impacts the real estate market in several key ways, which we'll discuss in the first section below. In addition to the effects of the pandemic, interest rates are historically low and will likely remain so for the foreseeable future. Lower interest rates are important because they encourage potential buyers to take advantage of low interest financing, make real estate investments a safer risk compared to other assets like stocks, offer a higher return than government bonds, and offset many of the pandemic's negative economic effects.

While the fundamentals of developing a winning buying and selling strategy remain the same, you should take into account the current housing market indicators in the local market as well. With that in mind, this guide will cover the following topics:

- Housing Market Behavior During the Pandemic
- Scotts Valley Housing Trends for Single-Family Homes
- Key Housing Market Indicators for Scotts Valley (95066 Zip Code)
- The Importance of Listing a Home at the Right Price

HOUSING MARKET BEHAVIOR DURING THE PANDEMIC

Overall, the housing market held up well during the pandemic. In fact, Scotts Valley's median home prices in August were up 5% compared to August of last year. After an initial decline during the early months of the pandemic, prices have increased through the summer.

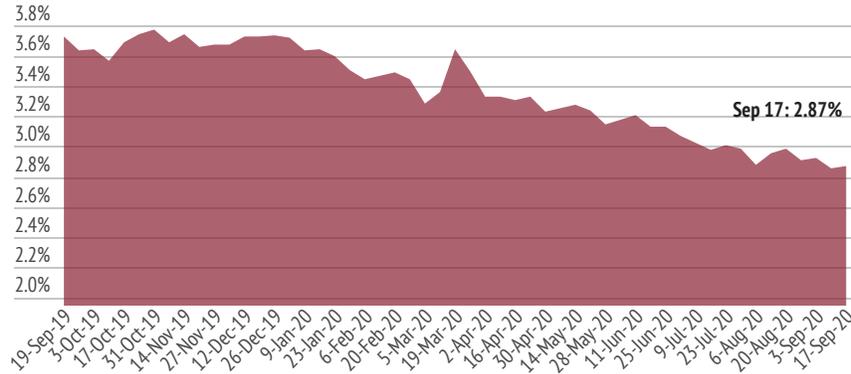


Supply and mortgage rates have largely driven the price increase while national demand has stayed the same or—in some cases—even risen. The Mortgage Bankers Association, for instance, reports a 33% year-over-year increase in new home applications nationwide. Locally, Scotts Valley is, coincidentally, experiencing a 150% increase in homes under contract year-over-year. At the same time, mortgage rates are still near record lows—under 3%—making houses potentially more affordable even though their prices are increasing.

30-Year Fixed Interest Rate

TTM, Weekly

The 30-year mortgage interest rate has dropped steadily since the stay-at-home order began.



Source: Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States

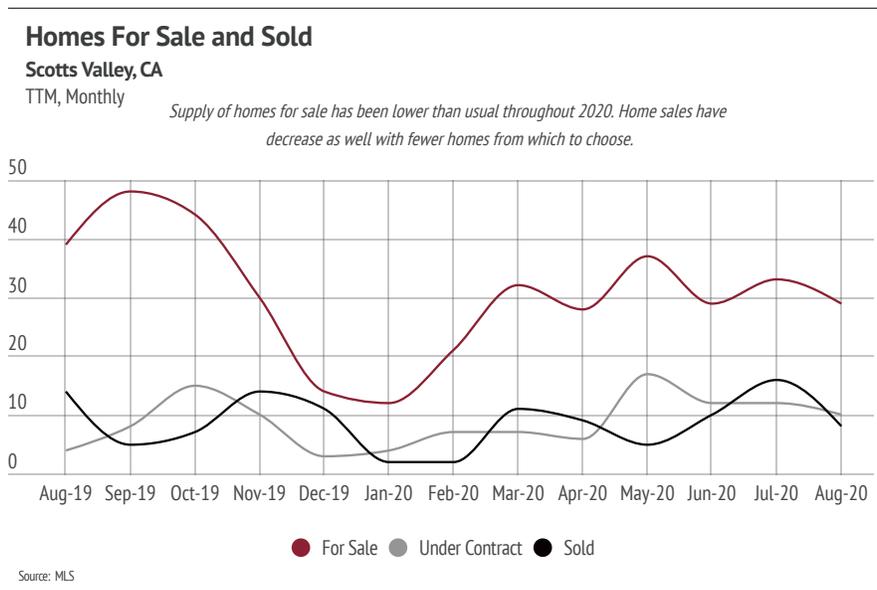
Due to the low interest rate environment, homeowners are using this time to refinance. If you bought a home over the last five years, your borrowing rate was likely around 4%, so refinancing would drop your rate by around 1%. In general, homeowners benefit from refinancing if they can lower their rates by at least 1%, which, for example, would save over \$500 per month on a \$1 million 30-year mortgage. Because of the speed at which mortgage rates dropped, the number of homeowners that would benefit from refinancing skyrocketed.

Another way refinancing saves homeowners money is by providing an opportunity to drop private mortgage insurance (PMI), which is the required insurance homeowners pay if they put less than 20% down. Homeowners currently paying for PMI might be able to eliminate the extra monthly payment as long as the value of their home has risen and they have enough equity in the home.

As the initial uncertainties over the pandemic's effects on the housing market subside, we expect demand to increase even more. Whether you're planning to buy, sell, or stay in your home, we can guide you through the options that best fit your needs.

SCOTTS VALLEY HOUSING TRENDS FOR SINGLE-FAMILY HOMES

The number of homes for sale and the number of homes under contract and sold show a break in the spring/summer seasonal norm. Supply typically decreases in the winter months and picks back up in the spring; however, the 2020 spring/summer selling season did not see its usual spike in homes for sale. The pandemic began right at the start of the spring season, causing sellers to delay entering the market. At the start of the summer, however, buyer demand increased but dropped again in August. Although homes under contract have decreased month-over-month, homes under contract are 150% higher than last August, showing demand is still high in the area.



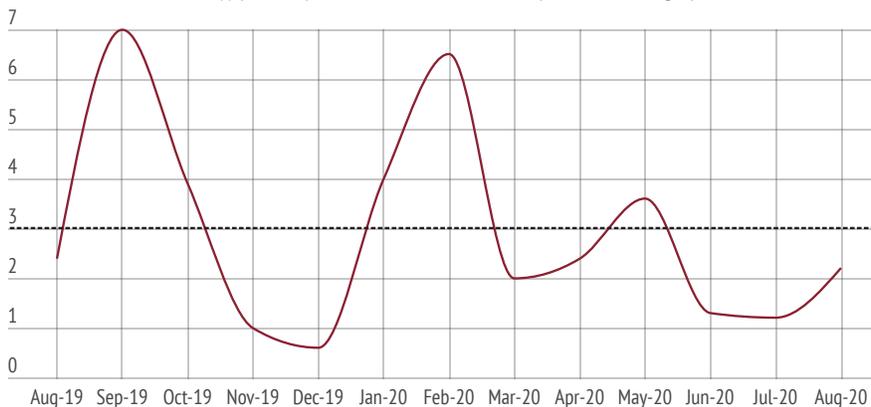
Months of Supply Inventory (MSI)—the measure of how many months it would take for all current homes for sale on the market to sell at the current rate of sales—remains below three months, indicating slight favor toward sellers. In California, MSI has an average of three months, which implies a balanced market that does not favor buyers or sellers. The MSI in Scotts Valley has ticked up in August as the pace of sales has slowed down.

Months of Supply Inventory

Scotts Valley, CA

TTM, Monthly

Months of Supply Inventory is often below three in Scotts Valley. The MSI of 2.2 slightly favors sellers.



Source: MLS

KEY HOUSING MARKET INDICATORS FOR SCOTTS VALLEY (95066 ZIP CODE)

In this section, we preview the local housing market in August 2020 across several key indicators in order to help you refine your winning buying and/or selling strategy. This guide specifically focuses on single-family homes in Scotts Valley. As the market conditions change in general and in response to the global pandemic, we can look at this data in real-time to make the best decisions.

Home Prices, Sales, and Inventory

95066 Zip Code, Single-Family Homes, August 2020



Source: MLS

In August, the median single-family home cost \$1,237,000; this is up 5% compared to the previous year. With lower inventory, buyers have had fewer options from which to choose, and sales have fallen as well.

Buyer's vs Seller's Market

95066 Zip Code, Single-Family Homes, August 2020



Source: MLS

In August, the Scotts Valley housing market favored sellers.

On average, MSI is typically balanced for the area (around three months) so an MSI of 2.2 slightly favors sellers. Because the environment favors sellers, we could see more inventory come to market as more potential sellers try to capitalize on the current market conditions. However, as we go into autumn and winter, we expect inventory and sales to slow down.

The current Days on Market (DOM) implies that sellers should expect offers to be accepted in 45 days. If it takes longer to receive offers, sellers should consider reducing their prices. Buyers should proceed with caution and consult with an experienced agent before making an offer on a home that has been on the market for longer than 45 days because the price may be too high or something may be wrong with the property.

Sale-to-list price ratio—a measure of the difference between the original list price of the home and the final sale price—reflects the negotiation power of home buyers and home sellers under current market conditions. In August, the median home sold for 98% of its original listing price, so buyers and sellers should expect to negotiate offers slightly below list price.

While the indicators above favor sellers, buyers can take advantage of the current low-rate environment that makes homes much more affordable.

THE IMPORTANCE OF LISTING A HOME AT THE RIGHT PRICE

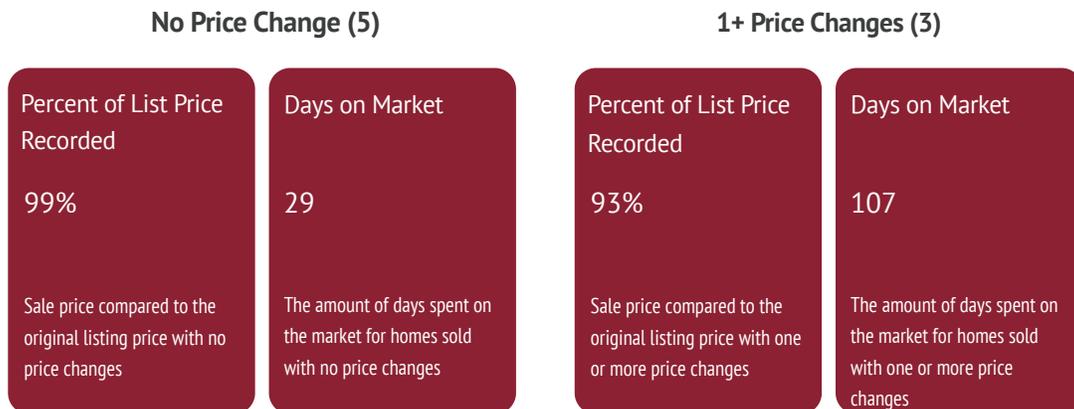
We can split homes sold into two categories: homes sold without price reductions and homes sold with one or more price reductions. Price reductions may indicate problems with the property that need to be fixed, poor marketing, and/or bad showings. More often, however, price reductions occur because the home was overpriced and misaligned with market data from the time it was first listed.

Overpricing a home can create a negative feedback loop: initial offers fail to materialize because the home is overpriced, the days on market surpasses the average, and new potential buyers assume there's something wrong with the property. More price reductions and low offers may follow as the home sits on the market, which causes the final selling price to come in below what the property could have garnered had it been priced correctly in the first place.

For an example of such a scenario, we can look at the market data for Scotts Valley in August.

Impact of Price Changes

95066 Zip Code, Single-Family Home, August 2020



Source: MLS

Five homes sold without price changes, recording 99% of their original listing prices and spending only 29 days on the market. In contrast, the three homes that sold with one or more price reductions recorded only 93% of their original listing prices and spent over three times as long (107 days) on the market. These numbers underscore the importance of a well-informed pricing strategy.

CONCLUSION

Moving forward, we anticipate more sellers and buyers coming to the market as the initial reticence caused by COVID-19 subsides. The housing market has shown its resilience through the pandemic and remains one of the safest asset classes. Whether you're buying or selling a home, it's still incredibly important to seek out the advice of real estate experts.

Our team is committed to serving all your real estate needs while incorporating safety protocols to protect your loved ones during the buying and selling process. Please don't hesitate to reach out to us with any questions or concerns. We're here to support you.