

Ramblings of a Title Man

Description

Flash-back to 1994

A title agent asked me: “How should we think of the market in 2022?” My answer was: “Like it’s 1994.” What happened in 1994 can be extremely telling to how we plan for the rest of this year.

In 1994, economic conditions were becoming difficult. Inflation had grown from nearly nothing in the prior two years to over 2.5%. Gross Domestic Product growth from 1993 to 1994 was 4% and the title industry was coming off a two-year period where interest rates were low and refinancing activity was extremely high. Unemployment in 1994 was relatively low at 5.5%. To battle against an over-heating economy and inflation, the Federal Reserve raised interest rates, in 1994, a total of 300 basis points (or 3%). Workers for construction jobs were fueling a shortage nationwide of available housing in 1994 and the median home price was \$154,500.00. 1994 was a classic pivot from a refinance dominated market to a purchase market. And interest rate hikes were the tell tale sign.

Now let’s look at 2022. There are some very interesting similarities. Inflation so far in 2022 is above 8%. Drivers of inflation include the post-pandemic recovery, supply chain issues and the war in Ukraine. The Federal Reserve has already raised interest rates a total of 75 basis points and has signaled more rises in rates are forthcoming. New home construction is on a 20-year downward cycle in 2022. By some estimates we have under-built for demand by as many as 5.5 million homes. Unemployment in 2022 is at a 50-year record low of 3.6%. Low numbers of available homes for sale have created a seller’s market with many homes only staying on the market for a couple of days. Energy prices are driving much uncertainty in the economy in 2022. The median home price so far in 2022 is \$429,000.00.

But 1994 and 2022 are different in some very interesting ways. Unemployment is lower today than 1994. The Federal Reserve is forecasting two more 50 basis points to interest rates for a total for the year of 175 basis points. This is just over half of the rise experienced in 1994. Inflation is much higher today than 1994. Housing today is a completely different market than in 1994, specifically with a low inventory problem not seen since the 1950s.

What should we take away from this short comparison to 1994 and now? First of all, I remember 1994, and we did a lot of closings that year. People were buying houses even with 9% interest rates. If you could qualify for a loan and buy a house – you bought one. I think that is how the rest of this year is going to be in 2022. Anyone that wants to buy a house, and can get a loan, is going to look until they find one. It may take some time due to inventory levels, but willing buyers will eventually find a willing seller.

Second, market shifts will create business opportunities. New lenders will bring new loan products to market, new real estate offices will be formed and new title agents will launch businesses. If you are in the title business, you can count on new players in your market and new customers to work with this year. Finally, if 1994 taught us anything it is that rising interest rates may severely reduce refinance

activity, but that activity shifts to other types of title transactions. Would people who want to cash out refinance shift to taking out 2nd mortgages and Home Equity Line of Credits instead? New construction will rise as some would-be home buyers can't find the perfect house for sale and resort to building instead. Flips will make a comeback as real estate agents connect distressed properties to investors, who in turn rehab those properties and sell them quickly for a profit. All of these areas of business are poised to grow as they did in 1994.

Should we panic from all the change that is coming our way? If we look to 1994 for our answer, we most certainly should say, no.

• Study the past if you would define the future. •

Confucius, 551-479 BCE, Chinese philosopher and politician.

Labor rates • United States Bureau of Labor Statistics www.bls.gov

Housing rates • National Association of Realtors www.realtor.org

Homebuilding numbers • • Housing is Critical Infrastructure: Social and Economic Benefits of Building More Housing • • www.nar.realtor



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