# RENT WHILE THE MARKET IS HOT

*Citywide Marin, Property Management and Luxury Home Concierge*

- San Francisco has seen a 15-20% exodus of its residents.
- Meanwhile, Tiburon and Belvedere's top realtors have nearly doubled their annual sales volume.
- Mortgage rates are at an all time low, making housing more expensive.
- How long will these lofty prices last? We discuss that in this newsletter, and why now may be a good time to acquire a long term tenant with an inflation adjusted lease.

## HOUSING TRENDS FOR 2021

*Written by **Liam Cosgrove** DRE #02027794*

The pandemic and subsequent lockdowns ushered many SF urbanites into the comparatively calmer, more spacious suburbs of Marin County. A survey reported at least 1 in 5 residents stated they already moved out or plan to. If the pandemic wasn't incentive enough, how about a 30-year fixed rate mortgage well below 3%? It turns out that both of these incentives worked in tandem, and the numbers don't lie. An all time record of $4.04 trillion in mortgages were originated in 2020, compared to $2.06 trillion in 2019, almost a 100% increase! Many of Marin's top realtors nearly doubled their sales volume as well.

So how did mortgages get to such lucrative rates? Well, the Federal Reserve was breaking a few records of its own. We'll discuss this on the following page, along with some potential outcomes for the housing market, and how to hedge yourself wisely in the wake of uncertainty.

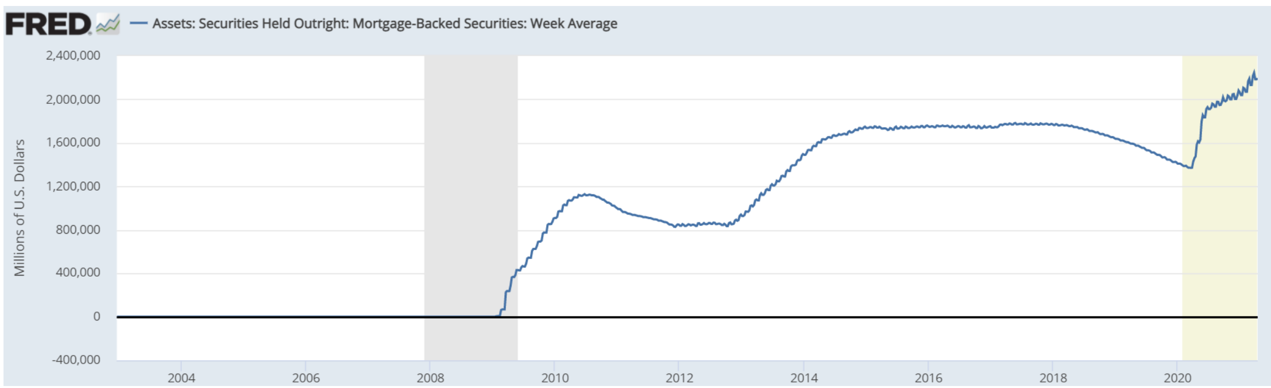
## *The Pandemic and The Fed*

According to the USPS, there were approx. 124,000 change of address requests filed in San Francisco between March and November 2020. About 90,000 of these were changing to an address outside of San Francisco (greater than 10% of the county's population). This dwarfs the 2018 net outward migration of 14,014, according to US Census.

Trends such as these are undeniably COVID related, and were very positive for Marin property values. According to Compass, Marin's median house price appreciated by roughly 20% in the latter quarters of 2020 compared to those of 2019. It's important to take into account the atmosphere that allowed for such appreciation: the suburb migration, the uncertainty of the virus, and social unrest.

While these factors were a major tailwind for Marin property values, there are many signs that we'll see a gradual reversal throughout 2021. The US is doing surprisingly well on the vaccine front, ranking top 5 globally. Roughly 30% of our population has already gotten the first vaccine dose. The San Francisco branch of Citywide Property Management has seen a 250% increase in newly signed leases in February/March 2021 (compared to our monthly average Mar-Dec 2020). Indoor dining has resumed as of March 3, paving a path to reopening.

According to a small SF Chronicle survey, more than half of former SF residents who were leaving expressed intent to return once the pandemic is over. While this return will not happen overnight, Citywide does anticipate a gradual migration back to San Francisco, and this will put downward pressure on Marin property values. Now, let's briefly discuss the other major influencer of home prices: the Federal Reserve.




The chart above shows the total value of mortgage-backed securities held by the Federal Reserve. As you can see they've added about $1 trillion to their balance sheet since the start of the pandemic. They continue to purchase these assets at around $40 billion per month, at pace with the latter half of 2020. This is the primary driver behind the current all time lows in mortgage rates, and an important factor in the current housing prices. Biden has also proposed a $15,000 credit for first time home buyers.

As long as these trends continue, it's good news for housing. However, in a recent statement, chairman Jerome Powell stated, "the housing sector has more than fully recovered from the downturn." While the Fed has promised to remain accommodative with the funds rate until 2024, they've made no such promise regarding MBS purchases.

This being said, if we see further economic troubles or a new virus strain becomes a threat, it's entirely possible the Fed actually increases its MBS purchase program, along with the US Treasury issuing more stimulus. These developments would be a tailwind for house prices, AND for consumer prices. For this reason, it is wise to hedge your fixed income against inflation.

We cannot predict the future, but one thing is clear for the moment: the housing market is hot! Given the headwinds it may face in the future, now is an opportunity to lock in a long term lease that reflects your property's value. Bearing in mind the possibility of continuing federal support, the best way to hedge against both outcomes is to include an inflation adjustment provision. Given the sporadic nature of the 2020 housing purchases, it's probably safe to assume that some of you may be looking to transition that impulsive COVID buy into a passive income investment. If this is the case, Citywide Marin would be happy to help!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Please reach out to Liam Cosgrove at (415) 300-6595 or Lcosgrove@citywidesf.com to inquire about our services.