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# RCFE Resource

MOST ACCURATE RCFE HOME AND BUSINESS VALUATIONS



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## RCFE MARKET REPORT:

# Values Will NOT Plunge

**Many believe that the rapidly slowing housing market will lead to crashing care home values, yet the facts do not support this theory.**


**NO CRASH AROUND THE CORNER**

*Housing data illustrates that there is not a housing crash on the horizon.*

According to researchers at Penn State University, only 8% of the things that people worry about come true. From finances to job security to relationships to health, worry is everywhere. The collective mind seems to almost always jump to the worst-case scenario. It seems as if nobody is immune to worry.

With strong inflation numbers, Wall Street volatility, and soaring interest rates, panic and worry is in the air. So many are jumping to the immediate conclusion that as housing slows, values will eventually plunge like they did during the Great Recession. They recall how home values surged from 2000 to 2006, only to plummet after the subprime meltdown in March 2007. Everyone remembers the deep scars from the worst recession since the Great Depression.

Even though so many are anticipating and reporting that a housing crash is imminent, it simply is not going to occur, not now and not in the foreseeable future. Why not? Collectively, homeowners across the country were sitting in a much different position prior to the Great Recession compared to where they stand today. To best understand the differences let us take a closer look and compare the two.

First, the direction of housing has everything to do with supply and demand. Prior to the Great Recession, the inventory climbed to over five times where it stands today. There was a glut of homes on the market. The same is true for care homes. Like today, demand had muted a bit, but was due to the deterioration of lending standards. When low demand was pitted against a glut of available homes, the market lined up heavily in favor of buyers, and prices sank. Back then there were low or no down payments, fraudulent lending practices, and loose lending standards and programs, allowing anyone to get a loan and purchase a home. The average buyer FICO score was 681. Today, buyers are purchasing with higher down payments, tight qualification and lending standards, and the average FICO score for buyers is 745. Cash-out refinances accumulated for years leading up to the Great Recession. Yet, today, pulling cash out has been plunging as rates have climbed. There is plenty of tappable equity and there are far more RCFE homeowners who own their care homes free and clear.

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# NEW STUDY LINKS SARCOPENIC OBESITY TO DEMENTIA; EXPERTS CALL FOR PREVENTIVE ACTION

Sarcopenic obesity — obesity with decreased muscle mass and function — is associated with a high risk of dementia, according to findings from Japan. Obesity often coexists with muscle mass decline, and is linked to cognitive impairment, the researchers said. In their new study, they sought to reveal whether dementia is likewise tied to this condition, opening the door to new preventive therapies.

The 1,615 study subjects were aged 65 to 84 years and were participating in a long-term population health study. They were divided into four health status groups based on whether they had obesity, sarcopenia, sarcopenic obesity or none of these conditions. Sarcopenic obesity was diagnosed using body mass index and hand grip strength measures.

When the researchers analyzed the link between various mental processes, sarcopenia and obesity status, the results showed that the sarcopenic obesity group had the greatest rate of mild cognitive impairment and dementia. Sarcopenia alone was also significantly associated with dementia, but only in women, not men. Obesity and then the control group followed those groups in prevalence of MCI and dementia.

"[S]ince we now know that there is a strong correlation between sarcopenic obesity and dementia, we may develop new treatment methods to manage the condition, thereby even reducing the prevalence of dementia," Yoshifumi Tamura, M.D., of Juntendo University, said.

In the current study, poor muscle strength was measured as handgrip strength of less than 28 kg in men and 18 kg in women. Obesity status was defined as a BMI greater than 25 kg/m. The combined condition affected about 4.7% of the study subjects, with many more affected by sarcopenia (15%) or obesity (21%) alone.

In general, the prevalence of sarcopenic obesity has been estimated to be as high as 20% in older adults.

*Full findings were published in the journal Clinical Nutrition.*

## Ask The Broker

### ECONOMIC SLOWDOWN

**Q:** What does an economic slowdown mean for the housing market?

**A:** According to Mortgage Specialists: "Throughout history, during a recessionary period, interest rates go up at the beginning of the recession. But in order to come out of a recession, interest rates are lowered to stimulate the economy moving forward."

Here's the data to back that up. If you examine each recession going all the way to the early 1980s, here's what happened to mortgage rates during those times (see chart below)

**Mortgage Rates & Recessions**

| Name | Period Range | Duration (months) | Mortgage Rates |
|---|---|---|---|
| 1980 Recession | Jan 1980 – July 1980 | 6 months | 16% to 11.8% ↓ |
| 1981–1982 Recession | July 1981 – Nov 1982 | 1 year 4 months | 18% to 13% ↓ |
| Early 1990s Recession | July 1990 – Mar 1991 | 8 months | 11% to 8.8% ↓ |
| Early 2000s Recession | Mar 2001 – Nov 2001 | 8 months | 7.4% to 6.8% ↓ |
| Great Recession | Dec 2007 – June 2009 | 1 year 6 months | 6% to 4.9% ↓ |
| COVID-19 Recession | Feb 2020 – April 2020 | 2 months | 3.8% to 2.8% ↓ |

As the chart shows, historically, each time the economy slowed down, mortgage rates decreased. Fortune.com helps explain the trend like this:

*"Over the past five recessions, mortgage rates have fallen an average of 1.8 percentage points from the peak seen during the recession to the trough. And in many cases, they continued to fall after the fact as it takes some time to turn things around even when the recession is technically over."*

And while history doesn't always repeat itself, we can learn from it. While an economic slowdown needs to happen to help taper inflation, it hasn't always been a bad thing for the housing market. Typically, it has meant that the cost to finance a home has gone down, and that's a good thing.

***Please text your questions to: Michelle J. London at 949-397-4506. Your inquiry may be featured in an upcoming edition of this newsletter.***

## Current Listings

To view our current listings visit our website at

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## CURRENT LISTINGS

**Fresno** – PORTFOLIO - 3 RCFES FOR SALE
- Wonderful Homes and Businesses
- Located close to one another
- All homes have 7+ BDR
- Spacious dwellings – 3,000+ s.f.
- Must be sold as a package
- Portfolio $2.40M

**Lake Forest** – RCFE FOR SALE
- Beautiful Home and Business
- 5 BDR/3 BA
- Large backyard
- Gated front porch
- Home: $1.199M; Business: $120K

## COMING SOON

(please call for details)

**Perris** – RCFE FOR SALE
- 7 BDR/4 BA, 3,200 s.f.
- Home and business for sale
- Lovely neighborhood

**Lake Elsinore** – RCFE FOR SALE
- Home and business
- Two story home
- 5 BDR/4 BA, 2,350 s.f.
- Owner's rooms upstairs
- Charming home

**Winchester** – RCFE FOR SALE
- Home and Business
- Two story home
- 5 BDR/4 BA, 2,500 s.f.
- Owner's rooms upstairs

**Carlsbad** – RCFE FOR SALE
- Home and Business
- 6 BDR/4 BA, 2,900 s.f.
- Gorgeous home

# RCFE MARKET REPORT: VALUES WILL NOT PLUNGE

*Continued from Page 1...*

### THE OVERALL HOUSING MARKET

| Great Recession Housing | Today's Housing |
|---|---|
| ✗ Glut of Homes on the Market | ✓ Very limited Inventory (care homes higher) |
| ✗ Low Demand | ✓ Low Demand |
| ✗ Way Too Much Supply Verus Low Demand, Heavily Favoring Buyers | ✓ Low Supply and Low Demand Create Balance |
| ✗ Low or No Down Payments Were Common | ✓ Large Down Payments |
| ✗ Subrime Loans, Pick-a-Payment Plans, Teaser Rate Adjustable Mortgages, Fraudulent Lending | ✓ Tight Qualifications and Strict Lending Standards |
| ✗ Average Buyer FICO Score = 681 (2006) | ✓ Average Buyer FICO Score = 745 |
| ✗ Flood of Cash-Out Refinances - Homes Used as ATM's | ✓ With Higher Rates, Cash-Out Refinance Activity is Plunging |
| ✗ National Delinquency Rate for June Prior to the Great Recession (2000 to 2005) was at 4.7% | ✓ The Current National Delinquency Rate is at 2.8% and is the Lowest Level Since Tracking |
| ✗ $5 Trillion of Tappable Equity (Amount of $ That Can Be Refinanced and Still Have 20% Equity) | ✓ $11 Trillion of Tappable Equity |
| ✗ 31% of All Homeowners Had No Mortgage (2006) | ✓ 37% of All Homeowners Have No Mortgage |

In 2007, homeowners were upside down, owing more than their homes were worth. Banks were in control of the housing market as there was a wave of foreclosures and short sales that lasted years because of enduring poor lending standards. Today, the delinquency rate is at its lowest level since tracking, much lower than the average from 2000 to 2005.

Looking at now versus then side by side it is easy to understand why the two time periods are completely different. Since the Great Recession, home buyers have been stronger. With the vast majority of homes sold over the last couple of years procuring multiple offers, Darwinism has taken place, survival of the fittest. Only the strongest buyers have been winning: strong credit, money in the bank, good jobs.

Yes, supply is rising. However, demand for RCFEs is still substantial. The number of offers received is dropping. The number of offers over the asking price is falling. The number of price reductions has been steadily climbing. The pace of housing, the Expected Market Time (the amount of time between signing the listing agreement to opening escrow) has slipped from an Insane Seller's Market in March into a less manic market today at the middle of July. Later this year it will transition to a more Balanced Market, with equal supply and demand, a market that does not favor buyers or sellers. And, if mortgage rates remain elevated above 5.5% with duration, it may even become a Slight Buyer's Market by year's end. Yet, in 2007, the Expected Market Time soared and home values sank.

Even if housing were to slip into a Slight Buyer's Market, it would have to be at those levels for months before prices start to decline. And any declines would be small. There is a real stickiness to home values. Very few sellers really "have to" sell. And apart from the housing market in general, RCFE homeowners are generally in a good position, with significant equity, low mortgage rates, high credit scores, and money in the bank. There will be no reason to panic. Values will not plunge.

# RCFE Resource

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## OUR FEATURED LISTINGS

# JUST **LISTED**

**FRESNO: MAGNIFICENT PORTFOLIO OF 3 RCFES!!!**

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