Ken White

From William & Mary in Williamsburg, Virginia, this is Leadership & Business, the podcast that brings you the latest and best thinking from today's business leaders from across the world. We share the strategies, tactics, and information that help make you a more effective leader, communicator, and professional. I'm your host, Ken White. Thanks for listening. Of the many sectors and industries affected by the pandemic, one, in particular, has caught the attention of consumers, buyers, sellers, and investors. The U.S. housing market. Mortgage rates, prices, labor supply, demand, they've all changed over the past few months, making the housing market one of the most interesting to follow. Saying the market is hot in some areas is a major understatement. Houses are selling quickly in many regions, often for well above the listing price. In some cases, buyers are doing whatever it takes to secure the property, like forgoing home inspections and making all-cash offers. But while we hear about the hot markets in many parts of the country, that's not the case in every region and city. Mike Seiler is a professor of real estate and finance at William & Mary's School of Business. He joins us today to talk about the U.S. housing market, how it differs from region to region, and where things might end up in the months ahead. Here's our conversation with Professor Mike Seiler.

Ken White

Well, Mike, thanks very much for joining us. It's nice to see you. Hope you had a good, good Memorial Day weekend.

Mike Seiler

Yeah, we sure did. Enjoying the recovery of the weather. It's really good to see you. I can’t wait to see you in person.
Ken White

Yeah, how about it? How about it? You know, I thought of you immediately when I keep hearing about the real estate market now, it seems to be exciting and interesting. And right now, when you look at the residential real estate market in the U.S., what are you seeing? I mean, how do you describe it?

Mike Seiler

Well, as you know, it’s super hot, right? I mean, we have the fewest number of homes on record that are out there on the market. So you just can’t find anything. And I haven't heard a stat they said that there are fewer homes out there available, that you have agents represent them. So any time you have more agents in a market than you do homes, you know, you have a restrictive supply. So that's just pushing home prices way, way high.

Ken White

Wow. Well, you know, one of the downsides is people think, yes, I'll sell, I'll make money. But you need another place to live. If you buy, that'll be expensive.

Mike Seiler

Yeah. In fact, it might be the other way around. Let's say that you live in a home, and you just want to be there for a super long period of time. Well, in most states, that's just going to cause your taxes to go up. Your property taxes are going up because your home value went up. So if you're in a state like Virginia where they just say, well, every year your taxes are going to be based on market value, then that's not good for you. You actually want home prices to go down for all of the years that you're going to live there and then go right back up again, and then you sell. That's what you want. So, yes, this means higher property taxes for us owners who are more thinking in terms of staying in place.

Ken White

Yeah, great point. When you look at today's market, does it remind you of any other period of time in the last generation or so?
Mike Seiler

Well, the home appreciation aspect of it reminds me of two thousand four. But thankfully, we are not in a two thousand four environment. You know, two thousand four. We had home prices going up and then this fear of missing out to where you think, oh, well, if I don't buy now, I'm never going to be able to afford to buy. And then you go to your lender, and your lender says, oh, sure, we'll do these ninja loans. No job, no income, no assets. Sure, that's fine. We'll lend to you for no reason at all. People also pulled their money out in the form of treating their house like an ATM. And so a lot of problems back then. But while I see home prices going up, I think it's a lot of it is pandemic related. So it's not really as big a risk of a crash as it was in two thousand four. I say that now. Please don't replay this podcast in five years if I'm wrong. But, you know, the warning signs are not there now. That said, don't forget the Kahrizak brought about this mortgage forbearance, but we have a lot more equity in our home right now. So I understand that the market can pull back, and I think it will do that. But I don’t see us with a massive void of equity. Back then, we had home prices dropping, and every time they went up, people followed that loan to value ratio by getting a second lien, pulling money out of the home. And we're not really seeing people do that now. And thank goodness, because that just sets you up for failure when that loan balance just trails the price of your home. So when the price of your home comes down, your loan balances high, and now you're underwater. We're not seeing that this time. So I am much less fearful of a crash.

Ken White

What are you seeing from the pandemic? What is it doing to the home prices in the market right now?

Mike Seiler

Well, the home prices, of course, they continue to go up. And let me say this right off the bat. Real estate is local. So if I tell you one thing, if you’re in a part of the country and you say, well, I don’t know if that feels as true here, someone else in a different city might say, well, he's understating how this works. Have a super hot market, and the prices have gotten so high that I don’t think I’ll ever be able to buy a house. So real estate is very, very local. I think a lot of what we're experiencing is pandemic-driven. So, for example, you might wonder why are home prices are going up, what's happening here. And some of the reasons are what they were before low-interest rates. But interest rates have been low for a while. So that's not really a sufficient or complete reason why home prices are going up. And we talked about restricted
supply. And you might ask, why is supply restricted? Well, think about the pandemic. When it first rolled out, we had an immediate shutdown. You were afraid to physically be in proximity to other people. You certainly don’t want those other people walking through your house. So we just don’t see that supply of homes on the market. And spring is coming. The pandemic, we hope, knock on wood is ending or at least nearing an end. And so I think you'll see that supply of homes come back onto the market and maybe that equilibrium price will be reached.

Ken White

Bidding wars, we read a lot in certain markets. It's amazing what buyers are offering, not just the listed price, but even more foregoing inspections and so forth. Are these bidding wars good for for real estate?

Mike Seiler

Well, they're good for sellers of real estate, right? They're not great for buyers. A bidding war that's in the eye of the beholder. So let's go back to your home inspection. The home inspection is typically done just to find anything that's hidden in the house because a buyer may maybe you're a surgeon and you're a genius and so forth, but you don't necessarily know how to crawl under a house, and you don't know what to look for. So you hire a home inspector, maybe you pay five hundred dollars. They will go through all the nooks and crannies of the place. But the point of the home inspection is not necessarily to kill the deal. The point of the home inspection is to find out what might be wrong with the house so that you can negotiate a more accurate price. But if you have a market that is super hot and you've got a line wrapped around the corner, a potential buyer, a seller does not want to hear what the problems are. The seller might think, well, if you don’t like the house because you perceive there to be a problem, then just jump out of line. I'll talk to the person right behind you who is either not going to take the time to require a home inspection or might just kind of look past it and think, I'll just do that work myself in my downtime, whatever. So, yeah, home inspections right now, always a good idea. But in this market, if you're looking to buy, be really careful. That might cause you to get bumped out of line.

Ken White

Wow, and that's a tough spot. That's a tough spot for buyers to be in. What about new home construction? What's happening there in terms of how is it affecting the
price of existing homes at this point?

Mike Seiler

So, of course, when you're out there to buy a house, you can buy existing or new. And so they are competing goods. One of the factors I hear often is, yeah, but if I want a new home, it's not like there's a new home everywhere. So maybe a historic neighborhood, you only have existing homes. That's all true. But still, these two compete with each other. Now let's talk about the cost of a new home. There's a great meme going around on the Internet, and it's about a lady who's very well dressed. And she says to her husband, she says, take me somewhere expensive. And then, the next part of the meme shows that they are in the lumber aisle at Home Depot at a table waiting for them. But it's not just lumber. A lumber prices have gone crazy high, but it's everything that you put into construction. And I'm not even just talking about the building materials. I mean, remember, it wasn't that long ago that ships were parked out in the Pacific Ocean waiting to come to port because there was just no room they couldn't unload. Their 20-foot containers and 40-foot containers has been resolved for the most part. We still saw crates being shipped back to Asia empty. So imagine you're a taxi driver, right? You take someone to the airport. And logically, what you would do is you would think, well, I'm at the airport, I'm just going to get in the taxi line. But now that things two miles long, you're like, forget it. I'm going back in the city taking someone else to the airport. That's what was happening, taking goods from Asia to North America. They got here. They had to wait. They finally unloaded them. They would send them back empty. Those are signs when you're willing to traverse the largest ocean on that globe with an empty amount of freight that is telling you something is very much wrong. So logistical issues are causing prices of actual materials to go up. You also see in your homes that are being built where the people cannot get appliances for there. So you might have the home completed, but your kitchen doesn't have a refrigerator and a stove and a dishwasher that's not ready to go. It's not turnkey at that point. All kinds of problems there. And then let's talk about labor real quick. You're only as good as the people who put their hands on that home. So if you're trying to hire skilled labor and these folks are during the PPP money, you would have, let's say, five people on a construction team, maybe a construction team. They knew the work had to be cut back originally. And so they thought, well, what I'm going to do is I can either have all five of my workers have fewer hours, which is not really going to work for anybody, or I can pick three of them, the same amount of money they were earning and put two of them on unemployment. And that's what a lot of people were doing. So as we're coming back
into the workforce, you're trying to get people to do work on your home, or your builders are trying to get new people to construct the home. And the skilled labor that they need is not always there. And so, again, your construction quality is a lot harder to do it with new people. I just had a company I won't name, but they were doing some foundation work in my house. I was not at all pleased with it. And they said, oh, we're just training a whole bunch of new people. And so even that name recognition, you think all of this going to a reputable company with a great name and sound history of work, that's not even enough these days. So this is really tough as a developer to do what they had been doing in the past because of a labor shortage as well.

Ken White
We'll continue our discussion with Professor Mike Seiler in just a minute. Our podcast is brought to you by the William & Mary School of Business. Our post-COVID World will require new skills and new approaches. And those skills and approaches are taught in the William & Mary MBA program. We offer four different formats, including the full-time, the part-time, the online, and the executive, all taught by our top-ranked MBA faculty, the William & Mary MBA, will prepare you to succeed and lead in our new world. Check out the MBA program at William & Mary. Now back to our conversation with Professor Mike Seiler.

Ken White
The Wall Street Journal recently reported about one-fifth of all homes are sold that are sold are purchased by investors. How does that affect the market?

Mike Seiler
Well, what's so interesting about that is we should think about that number being very different. So in some places, you're going to have a lot more investors that are institutional. In other places, not so much. And I'll just give an example. We've got a really interesting paper on ibuyers, and these ibuyers are going in, and they're making a cash offer for your home. Now, initially, you might think, well, how are they going to do that? And the process is they have something called the AVM or automated valuation model. So they use machine learning and deep learning techniques to figure out how much people's homes are worth over a very, very large area. It's like a mass appraisal concept but done on a much greater scale. And then they'll make a cash offer too, let's say, five hundred thousand dollars. And you say, well, my home is
worth five-sixty and say, well, Ken, the reason why I'm offering you a little bit below market value is because there's going to be no sales commission paid. Right? You're not going to pay that to me, certainly. I'm going to buy it directly. I'm going to write you a check, and then I'm going to take that home, and I'm going to make some very simple improvements. And then I'm going to turn around and sell maybe within three to four months. And that's where I'll make my money on kind of that low-hanging fruit. Let's do those high ROI projects, if you will. To a person, you might say, well, why would I be willing to accept less money? Okay, fine. There's going to be no or less commission. I get that. But what about the rest of the money? And I ask you. We have a tremendous MBA program. Let's say someone graduates, and they get a job in Seattle, but they own a home in Williamsburg, and they're concerned about that delay. I don't want to afford a mortgage in Williamsburg and then go to Seattle and pay another mortgage or rent in Seattle. I can't afford to do that. So these ibuyers are more of a kind of a grease in the system. They're providing liquidity to a market to allow labor mobility to go to its highest and best use. So in a way, they make the market more efficient. But just in terms of price, what we found in our study is that they will cause the prices of markets to go up by about two point eight percent. And it's because they're demanding these homes. So there's greater demand. Basic Econ 101 push up the price. The interesting thing is they're not just pushing up the price in that local market. It's happened what we call spillover effects in the neighboring communities. So it makes not just that community a little bit more expensive, but it makes affordability go down in the neighborhoods that are right. Sharing those borders.

Ken White

Wow. Interesting. And I got the peek at the abstract of the paper. It looks so interesting when you're discussing ibuyers'. You also talk about another segment, buy to rent. What's that all about?

Mike Seiler

Sure. So the ibuyers are companies, and they get institutional money. They could be hedge fund, private equity. And the same is true for these buy to rent. The difference is that the buy to rent are not just providing a liquidity mechanism. They are typically going after these distressed properties, which means they can buy them for a much lower price in real estate. They say you make money on the buy, so they're following that that and they say, well, we're going to go in, we're going to buy these homes that are distressed. Then we're going to hold them for a longer period of time, so
we're not as worried about market fluctuations in a way. We're going to be a property manager. We're going to buy them now at a cheap rate because of the maybe it's in foreclosure. We're going to own them for many, many years and rent them out. And then when the market goes even higher price than we could sell it for a profit. So we'll make money on both the cash flow and ideally, of course, in a cap or game situation.

Ken White
Yeah, no, no question. Yeah. You mentioned something that I thought before we started to record that that really just sounded so interesting. 3D printed homes. Tell us about that.

Mike Seiler
3D printed homes is what I consider to be one of the next hot things. It's a it's a proptech. So you've heard of fintech financial technology proptech just for property. And this proptech idea is something that has been really burgeoning. I know there have been some of these type homes in the past, but now we're talking about the ability to get a blueprint and really have a house built. And I'm talking about the frame of it all. Of course, you have to have someone go in and do all the appliances, the wiring separately. But as far as pouring the actual concrete of the house, imagine a very large 3D printer. So you have these rails on the perimeter of the house and then a large machine over above. It looks like maybe a cake decorator and it just kind of gently pours out concrete into whatever shape you want. The interesting thing about this is you're not just talking about a box design. So that's what you think of as a home. But you start putting two by fours next to each other in the air escapes to the vent. And so people in construction, they know about how inefficient some of these homes are. But with a 3D printing, there's no reason why you have to have right angles all the time. You know, imagine decorating a cake, you don't have to make right angles with your arm. Your arm can move freely in any way that you want it to. So think of very different designs that might be very appealing from an architectural standpoint to your eye. But also think of energy efficiency. Think of these homes as being produced much, much faster. So your wood is not being exposed to the elements for months on end during rainstorms and all that kind of stuff. And think also about the strength of it. So there are people who use ICF these hurricane-proof walls, and they form 11 inches thick and so forth. They're very nice because they can withstand very strong weather conditions. So imagine you're using kind of a commercial real estate grade material in a residential house that is going to withstand the weather. You would hope that that would translate to better efficiency because
people want to escape through those thicker walls but also lower insurance rates. So don’t just think of when I buy a house, what is my mortgage? It’s not just principal and interest. It’s also taxes and insurance. Right. And it’s also repairing that house. You would imagine that the house would last a lot longer. So when you’re thinking about putting money aside for roof repairs and anything with wall repair and so forth, that fund should be a little bit smaller. If you have a, you know, kind of the three wolves kind of thing, you know, the big bad wolf mentality. So a stronger home should be cheaper in the long run as well, not just more energy efficient. So those are some of the exciting things that are happening in the world of construction.

Ken White
So we’ll put you on the spot. If you had your crystal ball a year from now, where do you think the market, the residential home market, might look like?

Mike Seiler
I imagine that here’s my opinion on COVID. I think we obviously are winning the battle. If I imagine COVID being a really bad person. We have our boot on the throat of COVID, but we need to finish it off. And I don’t know that COVID is going to be a thing may be where we have it, and then we don’t. It’s not like we’re never going to see an outbreak again. For that reason. I don’t think that we just snap our fingers, and we’re done with COVID. So I don’t see its effect on real estate is going away immediately. But I also, in my mind, to have this visualization of a snake that had swallowed a big pig, we need to get that pig digested, and then probably smaller animals will be consumed after that by the python. But I can see home prices continuing to go up, but far more gently. I don’t think there’s going to be a crash. I don’t even know that they’ll be necessarily a soft landing. But I definitely think that the escalated home prices cannot last forever. I mean, think about Newton’s law. What goes up must come down. You don’t want home prices going up too fast because then they have to come back down. It’s the same type of stability that you look at in any part of the economy, of the economy. You don’t want the economy to grow super fast because then it’s going to end up contracting. What you want is a nice, predictable, steady stream of growth. Right now, we’re in kind of a hyper normal growth in real estate. And I would like to see and think we’re going to see it come down somewhat.
Ken White

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