WHAT A MARKET

Southwest Florida is currently experiencing a historical market favoring property owners. For the first time ever, we only have two weeks of inventory on the market.

BUBBLE OR NO BUBBLE

For concrete, factual reasons, backed by irrefutable data, real estate and economic experts agree that this market is NOT A TYPICAL BUBBLE and will not "pop" and disappear like 2006.

WHAT'S AHEAD

Although no one has a crystal ball, the main economic indicators of real estate cycles forecast our market to remain for the foreseeable future.

© 2021 ARES Coaching, Inc. All rights reserved. The real estate market is fluid, changing daily. All data contained herein is deemed reliable but not guaranteed beyond the date it was written.

Ten Reasons This Is NOT the Bubble of 2006

Interest Rates Will Stay Low for a Longer Period of Time

Inventory Will Remain in Short-Supply for an Extended Time

Potential Home-Buyers Are Wealthier Post-Pandemic Than Before

Building Costs are Escalating

Domestic and Foreign Institutional Demand is Increasing

The Federal Reserve and Government are Protecting Home Ownership

There’s Demographic Tailwind Behind a Bolstering Real Estate Market

Credit is Tight and The Relaxed Lending Environment of 2002-2006 Does Not Exist

Household Debt as a Percentage of Disposable Income is Low

Potential Long-Term Capital Gains Tax Hikes in the Wings

NO BUBBLE – REASON 1 of 10

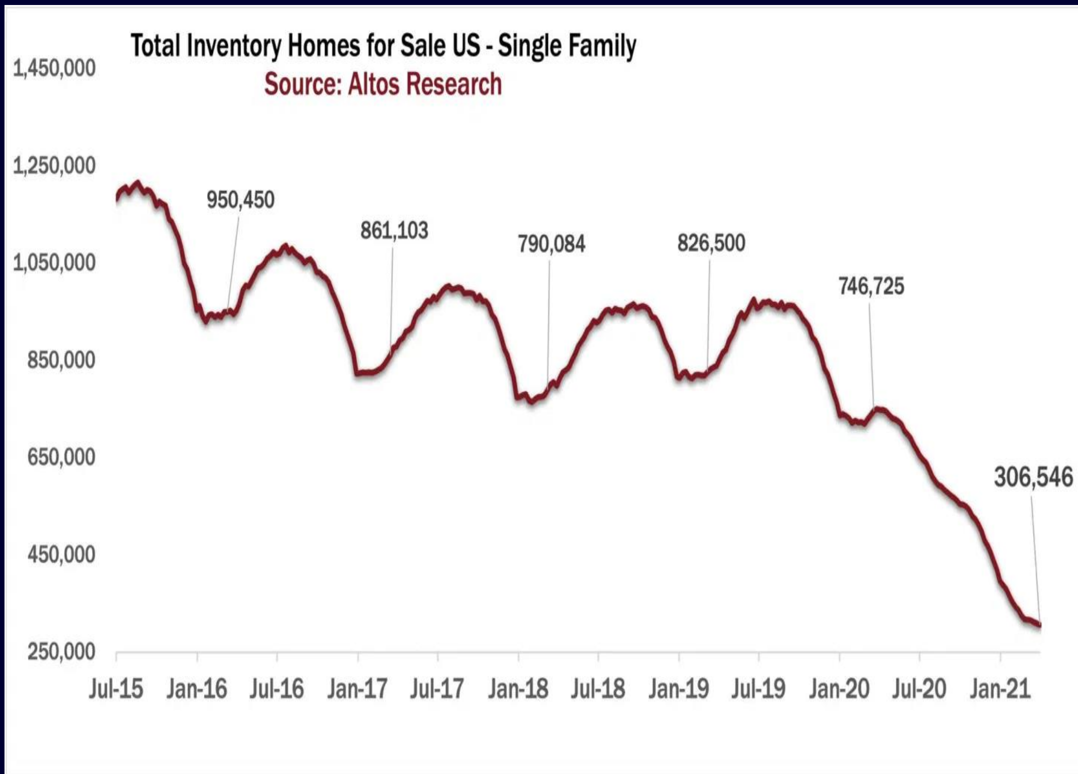
INTEREST RATES STAYING LOW

We all know that inflation is higher than what the government is reporting. Yet, despite record high prices in many asset classes, the 10-year bond yield still remains below 2%. That is an important figure because 2% is also the target inflation rate by the Federal Reserve. With low interest rates for longer, the potential affordability headwind of rising interest rates won't come to fruition. Low interest rates will carry the housing market to new highs. To bet that interest rates will suddenly surge to unaffordable levels after 40 years of decline is irrational.

Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

NO BUBBLE – REASON 2 of 10

INVENTORY REMAINS IN SHORT-SUPPLY



Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

COVID has permanently increased the intrinsic value of real estate. During perilous times, we hold onto what we treasure most. This is why real assets like homes held their value while stocks crashed 32% in March 2020. Unlike a home, you don't need stocks to survive. Given how much homes have given homeowners since the pandemic began, becoming our offices, gyms and schools - the tendency is to hold onto our homes longer. You don't get rid of things you love and use every day. You cherish them.

This is a fundamental LIFESTYLE change, not an investor-driven inflated market.

Homeowners also know that if they sell their home, they will have to compete against other homebuyers who want what they already have. Therefore, it is only logical to hold onto your home for longer. With lower inventory for longer, rising demand will continue to put upward pressure on home prices.

THE HOME-BUYING POPULATION IS WEALTHIER POST-COVID

HOMEOWNER BUYING POWER

The current potential homebuyer is likely much richer today than pre-COVID due to a rise in stocks. The S&P 500 and NASDAQ returned 16% & 43% in 2020, respectively. Practically every stock index went up in 2020. So far, 2021 continues to be another banner year for stocks.

Further, the current potential homebuyer likely held onto their job during the pandemic. As a result, there was little-to-no income disruption as millions of people worked from home or found ways to make money from home.

With more wealth from stocks and job income, the buying power of homeowners has increased. With stocks continuing to go up and unemployment levels continuing to go down, homeowner demand will continue to increase.

Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

NO BUBBLE – REASON 4 of 10

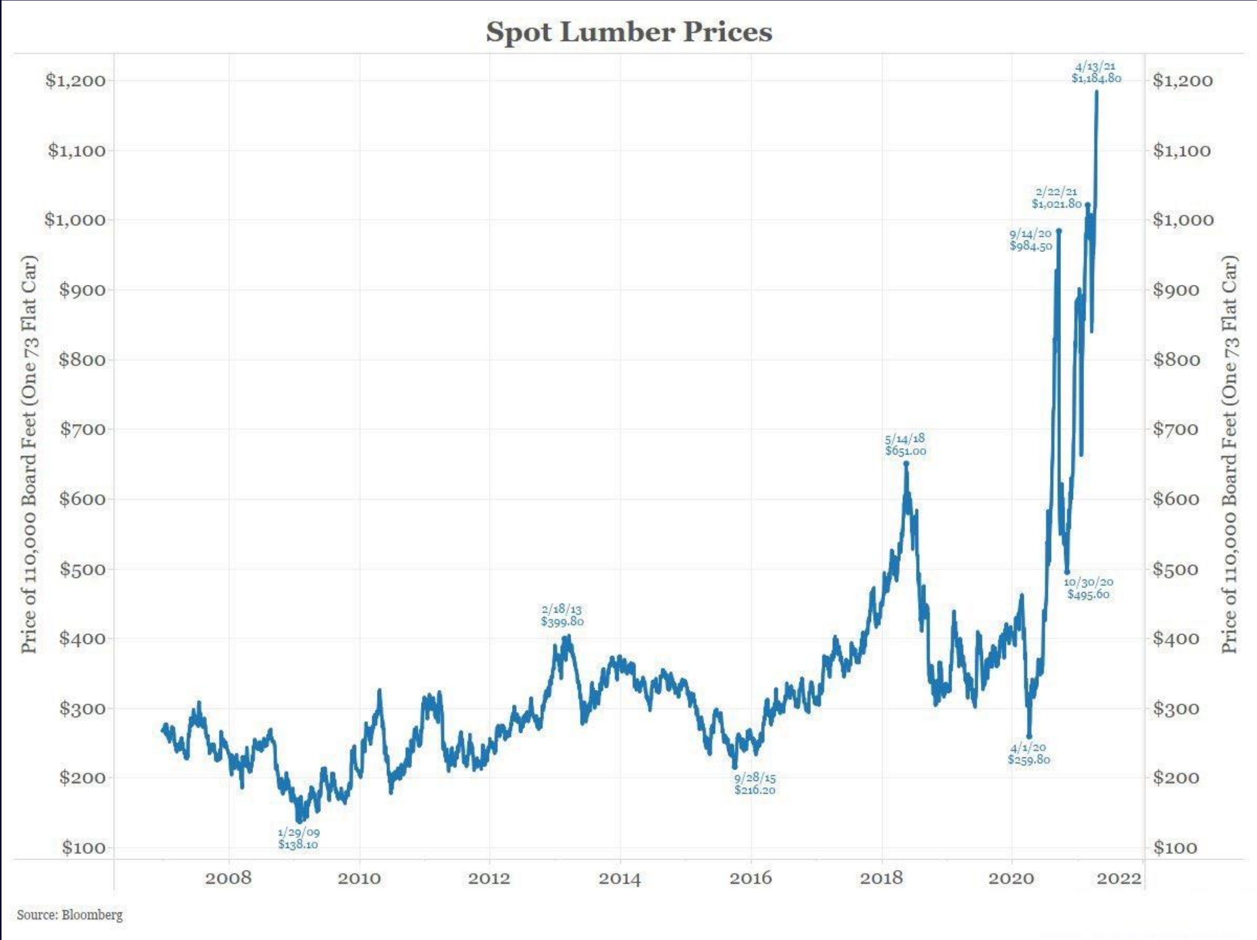
BUILDING COSTS ARE ESCALATING

Lumber prices are up 3X in one year as demand outstrips supply. Therefore, framing costs to build a house are up at least 2X, as lumber typically accounts for 70% of framing costs.

There are supply-chain shortages in many finished products as well. Further, we have a construction labor shortage causing wages to rise. Some contractors are paying their subs 50% – 100% more/hr. than 2015.

Finally, it is now tougher than ever to get a building permit in many cities due to the rise in home remodeling activity. Planning & Building departments are overwhelmed.

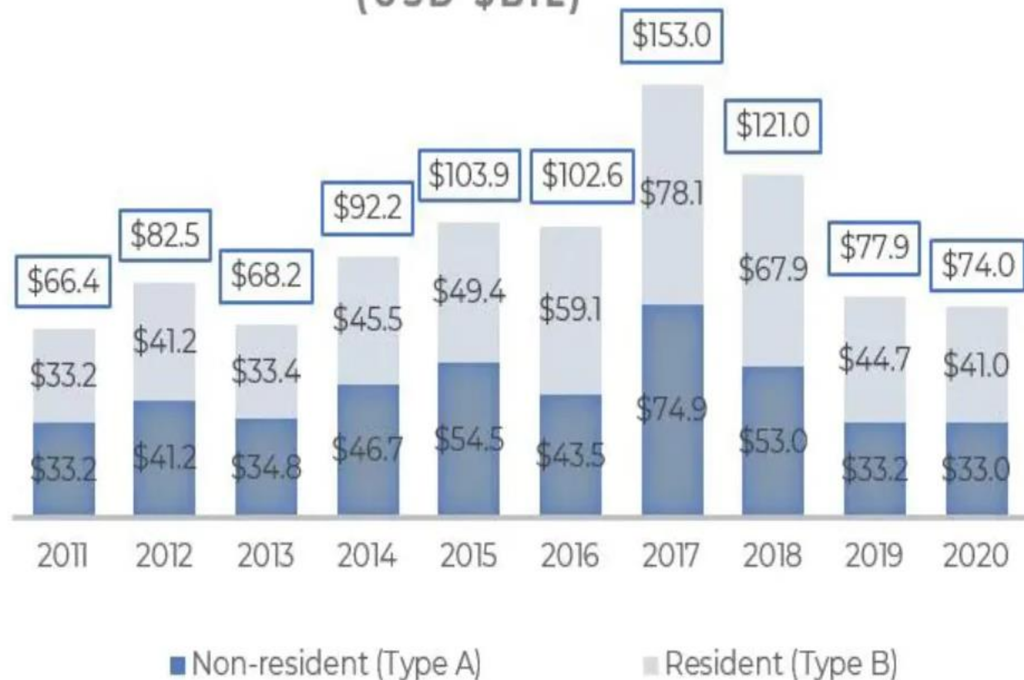
Added to the strain is the impending increase to the Canadian lumber tariff. Supply, distribution, permitting and labor are all affected by an overwhelming demand.



Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

NO BUBBLE – REASON 5 of 10

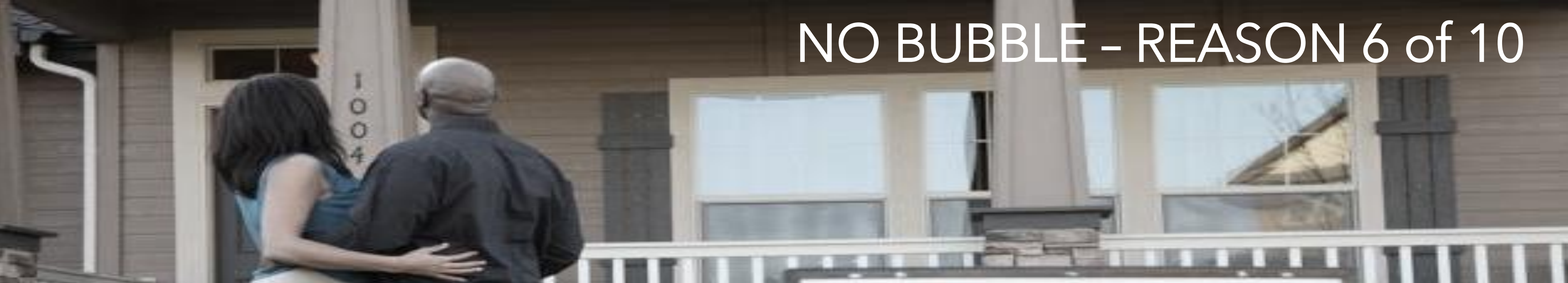
DOMESTIC & FOREIGN INSTITUTIONAL DEMAND IS INCREASING



There is a clear increase in demand from institutional real estate investors for rental properties. With a decline in interest rates, investors everywhere are looking for higher-yielding investments. Technology has also made real estate syndication deals much easier to form. Raising capital is more efficient. Doing research, signing documents and transferring funds online is easier. As a result, institutional real estate funds are only going to get bigger, not smaller. More capital brings more competition. The next uptick in demand will come from foreign institutional investors who buy up cheap American property. Foreign investors are hungry for yield. They have also experienced record-high stock prices while also amassing pent-up savings.

If Americans don't buy our own homes, foreign buyers will for decades to come. They will once again start buying up properties in international cities like San Fran, NYC, Los Angeles, Seattle & Boston. They are also getting more interested in heartland real estate as well.

Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.



NO BUBBLE – REASON 6 of 10

FED RESERVE & GOVERNMENT PROTECTING HOME OWNERSHIP

Given the Fed Reserve and the Government are pro-homeownership, it is only logical to invest in real estate. The Federal Reserve has already telegraphed it is willing to let inflation run hotter than its normal 2% CPI target to ensure the return of full employment. President Biden and Congress have clearly signaled their willingness to spend an endless amount of money on stimulus spending.

Most of the time, the people who are most vocal against real estate are the ones who cannot afford to buy property, sold property at the wrong time, or didn't buy property when they could have. We must change our beliefs as buyers to stay relevant, accept the market and obtain property.

Besides the implicit support from the Fed and the Government, we have favorable real estate laws in place:

- Mortgage interest deduction
- $250K/$500K tax-free profits
- Programs for first-time home buyers
- Mortgage moratoriums
- 1031 Exchange
- Historical bailouts of homeowners and big lenders

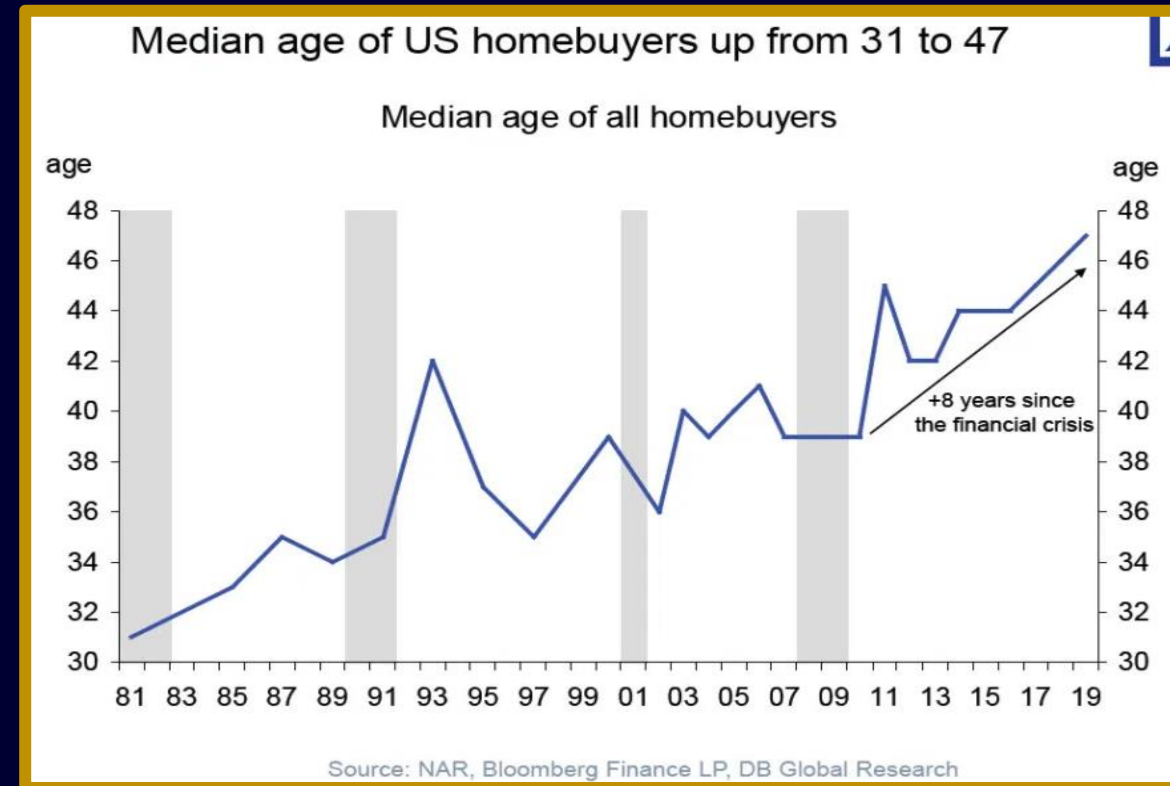
Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

DEMOGRAPHICS FAVOR THIS BOLSTERING MARKET

Fannie Mae estimates there are 88 million people in the millennial generation, the highest number reported of people born between 1980-1999. The millennial definition seems to be getting larger, so there's a huge population of 22 to 41-year-olds in their prime home-buying years. All the previous talk of the millennial generation renting for life is turning out to be inaccurate.

Although late to the home-buying trend, millennials have been the largest percentage of buyers in the last 5 years. This trend will likely continue for another 10+ years.

As an investor, it's generally been a good idea to invest in long-term trends. Positive demographics are a long-term trend worth riding. Once you invest in a positive trend, you don't have to worry as much about the minutiae. You just need proper facts and exposure.



Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

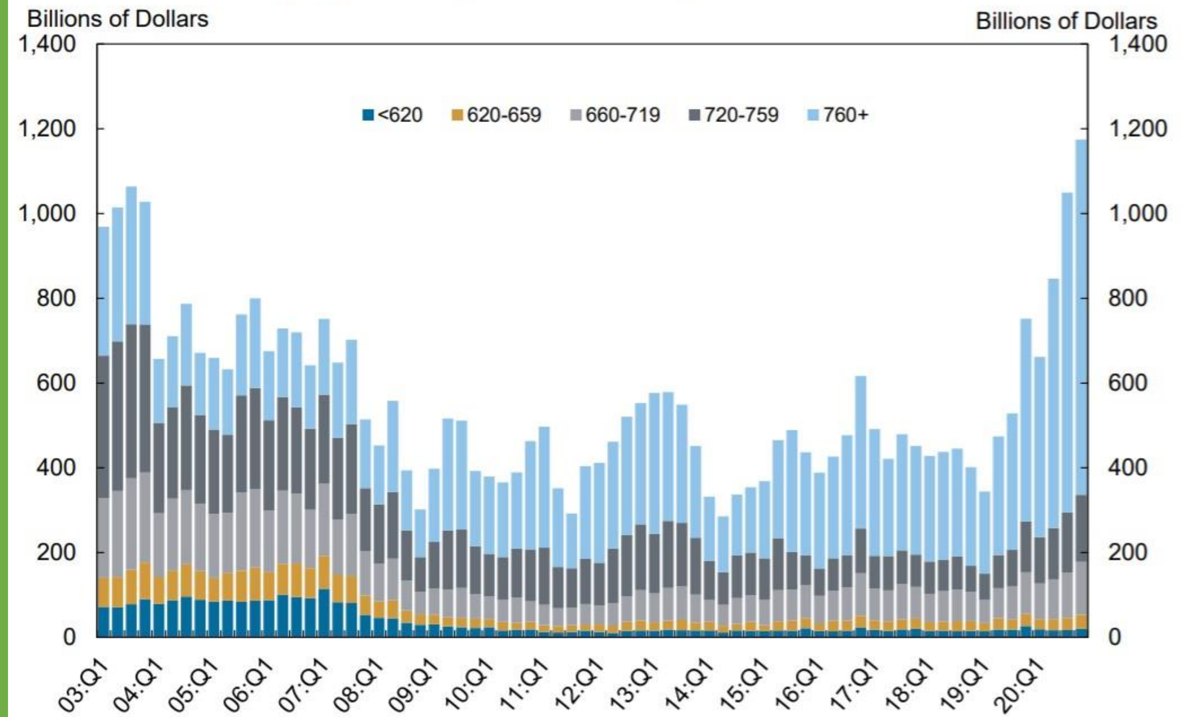
NO BUBBLE – REASON 8 of 10

LENDING ENVIRONMENT MARKEDLY DIFFERENT THAN 2005-2006

When the dotcom bubble burst in 2000, real estate began to outperform until about 2006. That is when the euphoria hit its peak as banks lent to anybody with a pulse. Thankfully, lenders were forced to raise their tier 1 capital ratios and lend much more prudently since the 2008-2009 Global Financial Crisis. Now, only buyers with high credit scores and solid financials can get a mortgage. During the 2020 crunch, the mortgage industry was very tight. There was a point where HELOCs and jumbo loan refinances were restricted, even to existing customers. Further, going through the underwriting process took a month longer than average.

Take a look at the mortgage originations by credit score chart here. Notice how anybody with under a 660 credit score has essentially been shut out from getting a mortgage or refinancing a mortgage since the GFC. Further, the percentage of borrowers with a 760+ credit score has increased.

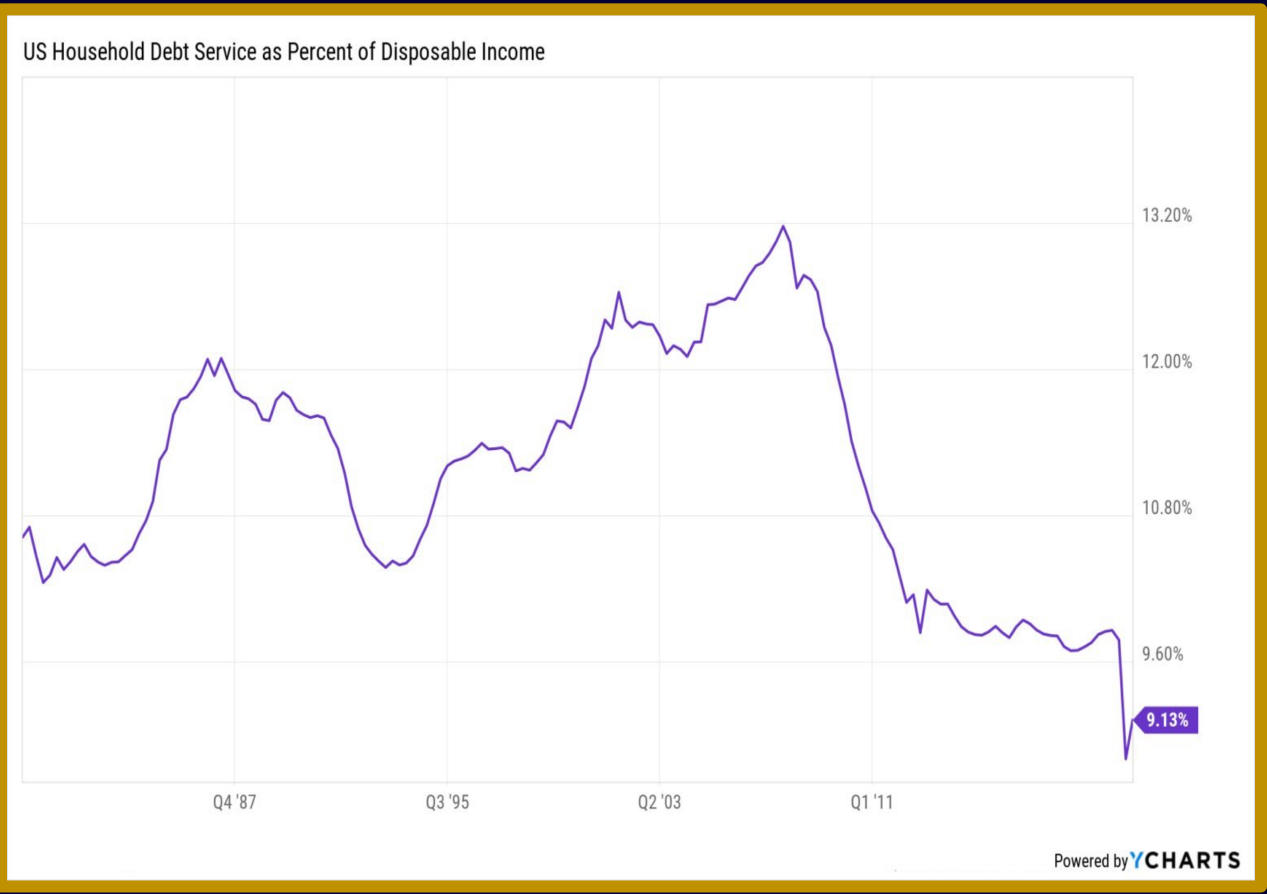
It's hard to see the housing market crash when predominantly high credit score borrowers with huge homeowner's equity have been buying since 2008. Just look at the 1Q2009 blue bar compared to the latest blue bar. We're talking a 5-6X difference here!



Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

NO BUBBLE – REASON 9 of 10

HOUSEHOLD DEBT RATIOS ARE LOW



Today, we find ourselves in a scenario where U.S. household debt service as a percent of disposable income is at its lowest level for over 50 years. Part of the decline most certainly has to do with a continued drop in interest rates.

For example, when a buyer refinanced their old primary residence in 2019, their mortgage payment dropped to about $2,850 compared to $6,500 back in 2005.

Millions of homeowners are now much wealthier since 2009, yet are paying less to service their debt.

Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

NO BUBBLE – REASON 10 of 10

The current Administration wants to raise the long-term capital gains tax rate from 20% to 39.6% for households who make over $1 million. If you are a long-time homeowner sitting on more than $1 million in capital gains beyond the $250K/$500K tax-free profit exclusion, then you may end up holding onto your home for longer. As a result, home inventory should decline.

It's already difficult enough to move out of a home you've lived in for 40+ years. Why would you then sell it to pay a 43.4% capital gains tax (includes the 3.8% Net Investment Income Tax)? Instead, it's best to hold onto your gold mine forever and pass it down to your children when you die.

With lower housing inventory due to a higher capital gains tax rate, housing prices should continue to stay elevated.

CAPITAL GAINS TAX HIKES AHEAD

Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.

WHAT'S A FLORIDA BUYER TO DO IN THIS MARKET

- Get in the market as soon as you can afford to and be ready for an auction-type bidding process.
- Tie up multiple properties if possible as you decide – tie up the property first, then do additional due diligence.
- Listen to your Realtor® and provide personal letters and strong offers to set yourself apart from other bids.
- Know that if you can pay cash, but are simply taking advantage of the interest rates, you do not have to make your contract contingent upon a mortgage – therefore, it can be written as a cash contract. Sellers are taking lower offers - cash is king.
- Consider listening less to your financial advisor who may traditionally share the negatives of owning real estate. There's a reason why the net worth of the average homeowner is more than 40X the net worth of the average renter. Just the forced savings each month alone keeps a homeowner disciplined.
- Rental markets are also increasing – carrying rental property as cash flow is currently a very smart decision.

What If There Is A Housing Crash?

If the housing market does crash one day, you will probably make out just fine if you bought a good product and keep paying your mortgage, if any. Real estate is not like stocks. With stocks, you may go through daily heart attacks as their value disintegrates during a bear market. Housing market changes are easier to forecast and longer to arrive. We're in a market that all indicators predict – is here to stay much longer than the typical real estate cycle.

Source: June 2021 NAR; financialsamauri/whyhousingmarketwontcrash/fedresapr edited by ARES, Inc. ©2021 ARES, Inc.