CALIFORNIA ASSOCIATION OF REALTORS®

2019 Economic & Market Forecast

IMAGINE! RE

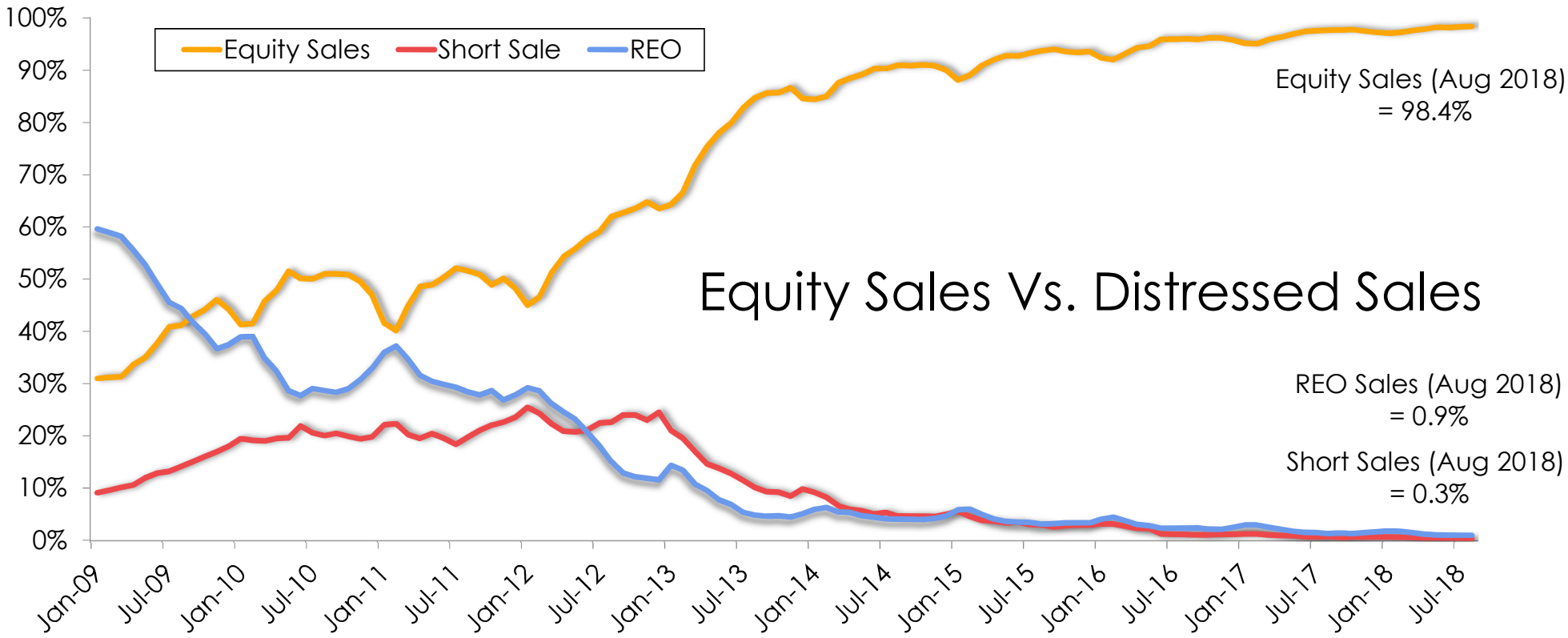
REImagine

October 11, 2018

Leslie Appleton-Young

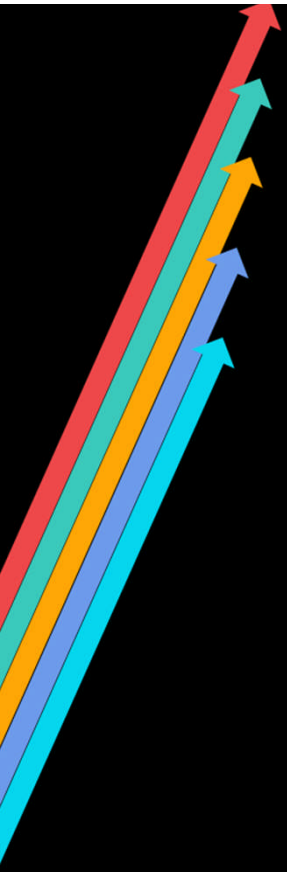
SVP & Chief Economist

The CA Housing Market Recovery

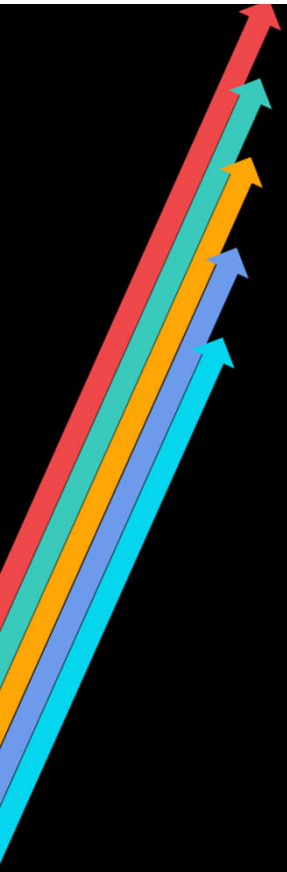


Note: Not including transactions in foreclosure.

SERIES: Distressed Sales, Not Seasonally Adjusted
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



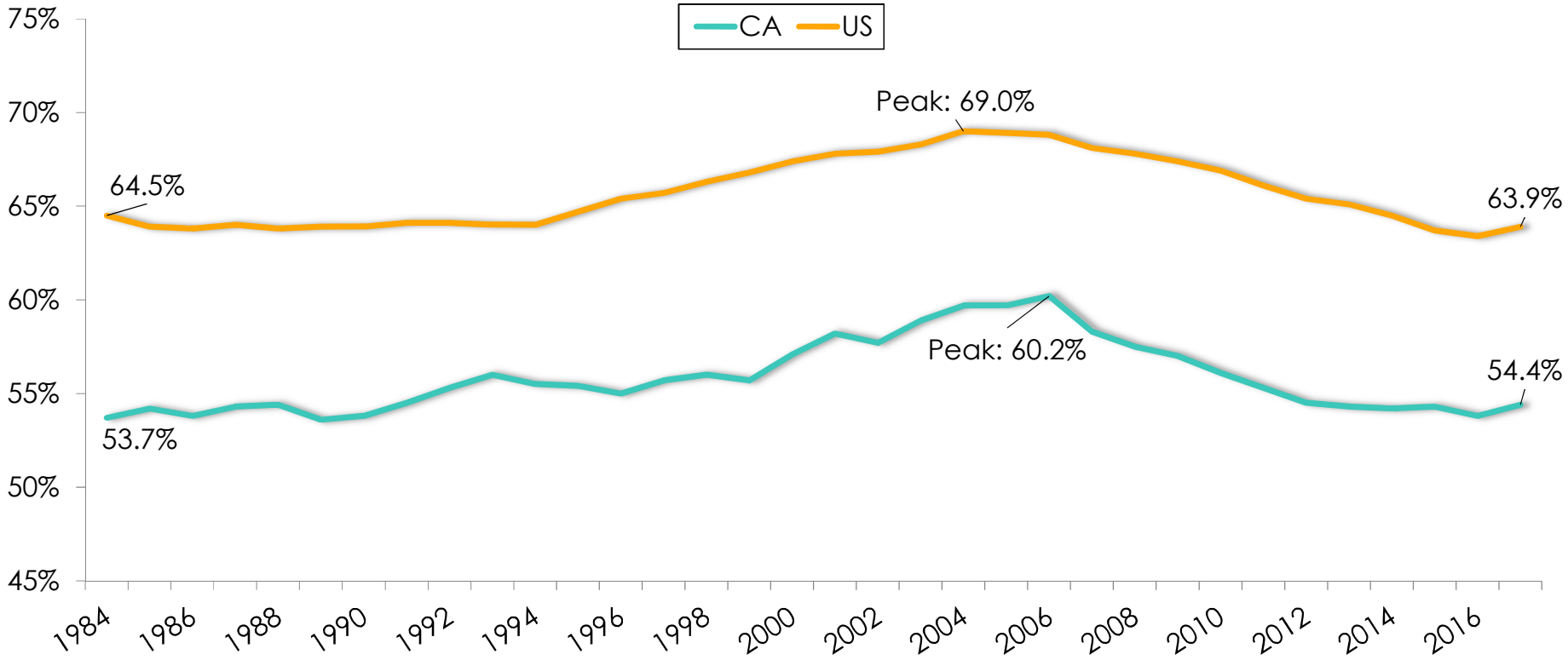
2018



Assault on Homeownership

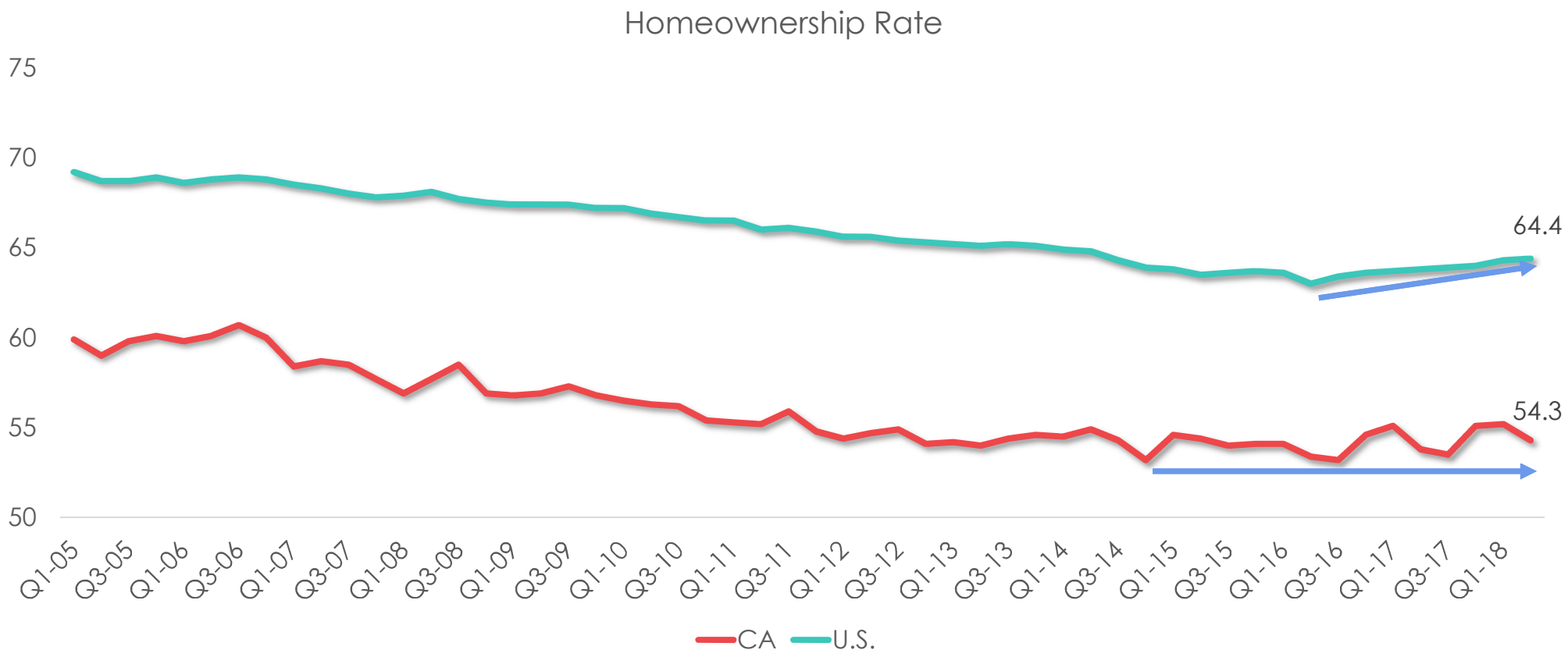
Homeownership Rates

California Vs. U.S. – 9.5% gap in 2017



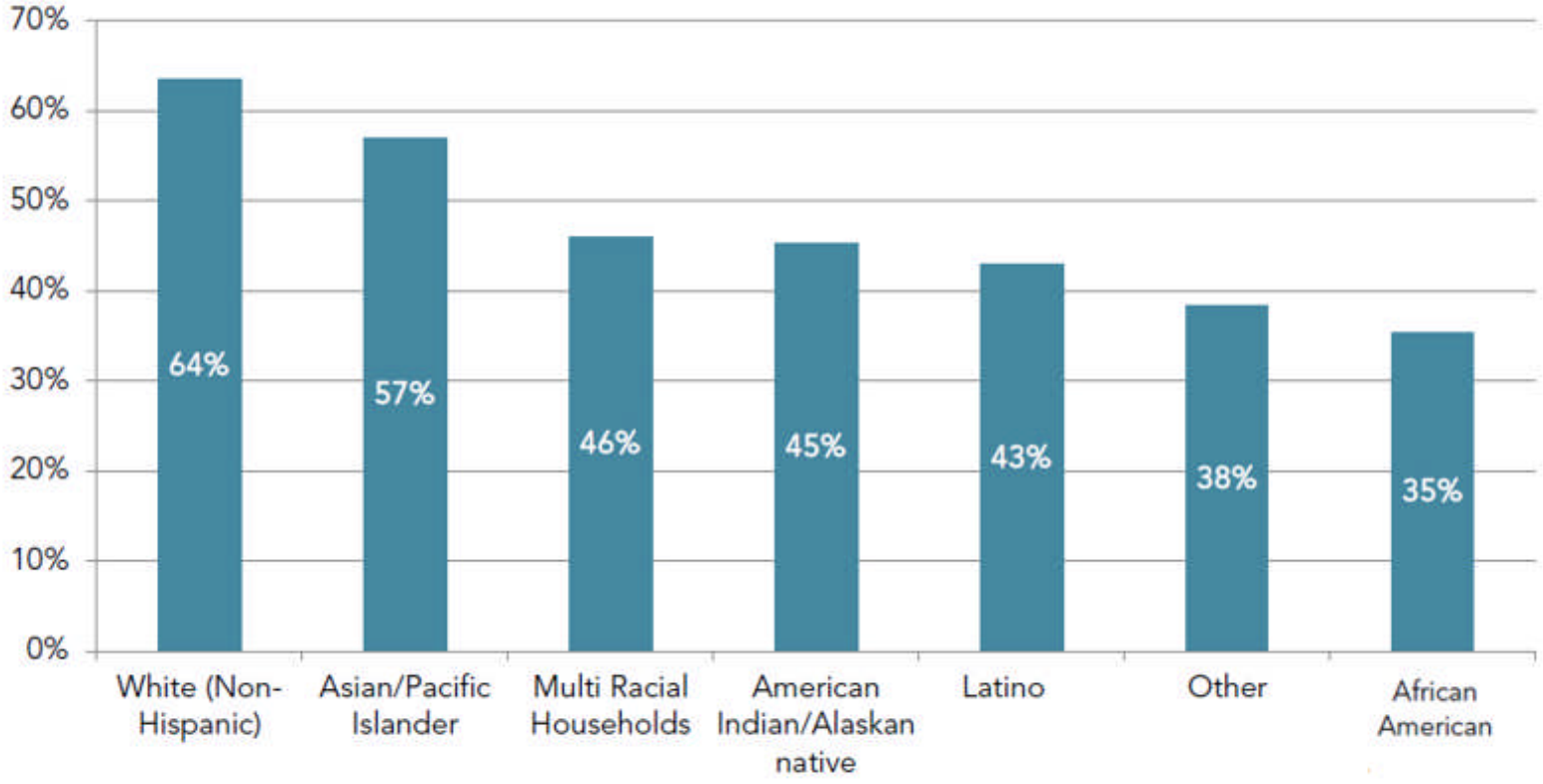
SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau

CA: Ownership Rebound?



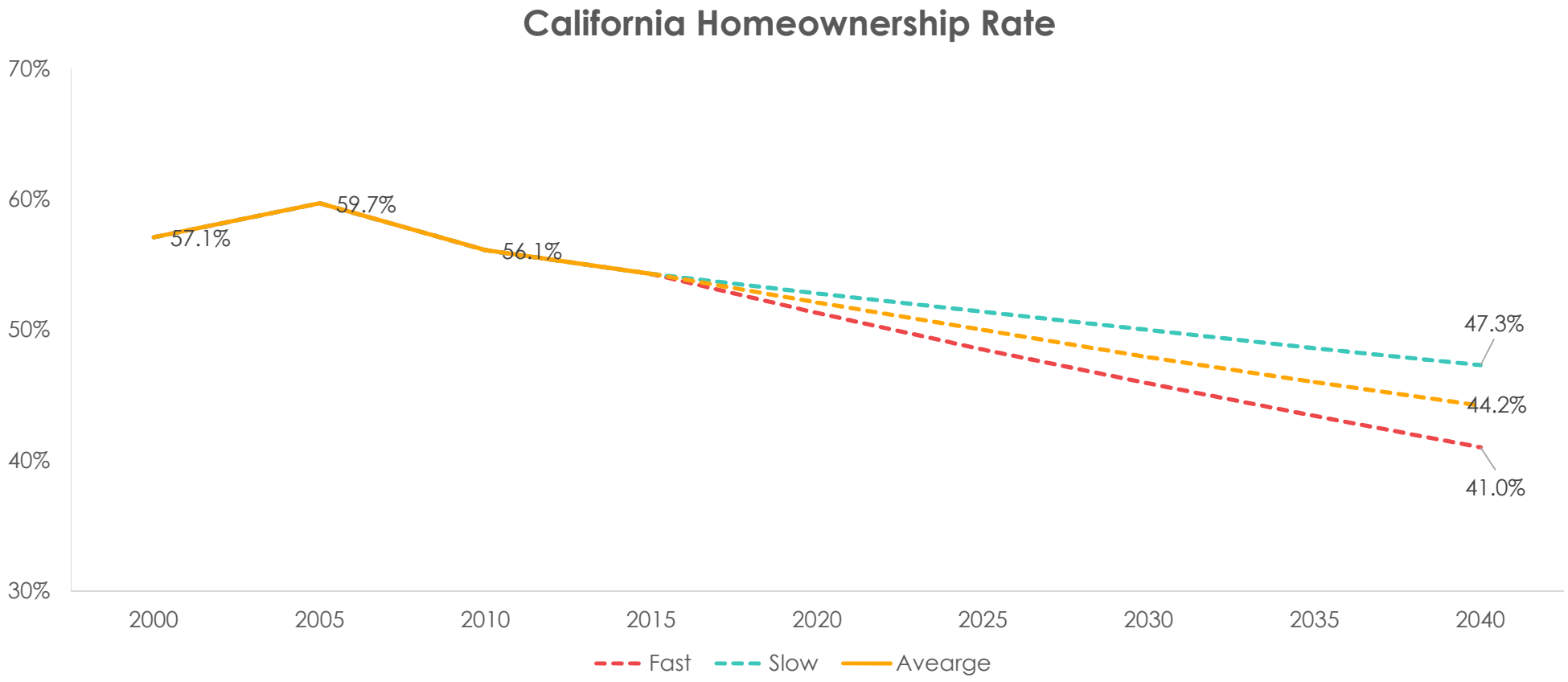
… Homeownership Varies Sharply by Ethnicity

California Homeownership Rates by Race and Ethnicity (2010-2014 Average)



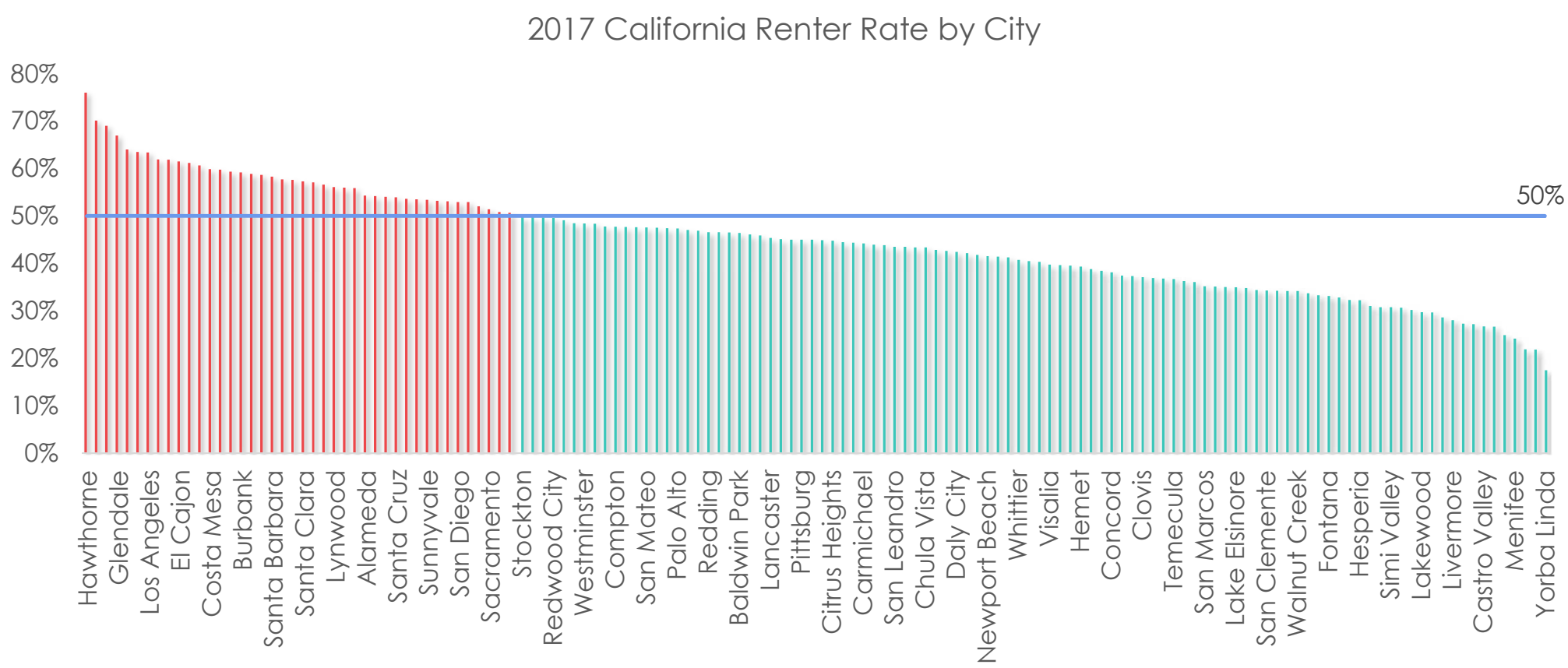
SERIES: Homeownership rate by ethnicity
SOURCE: CA HCD, PolicyLink, USC Program for Environmental and Regional Equity

CA: Majority Renter State by 2025

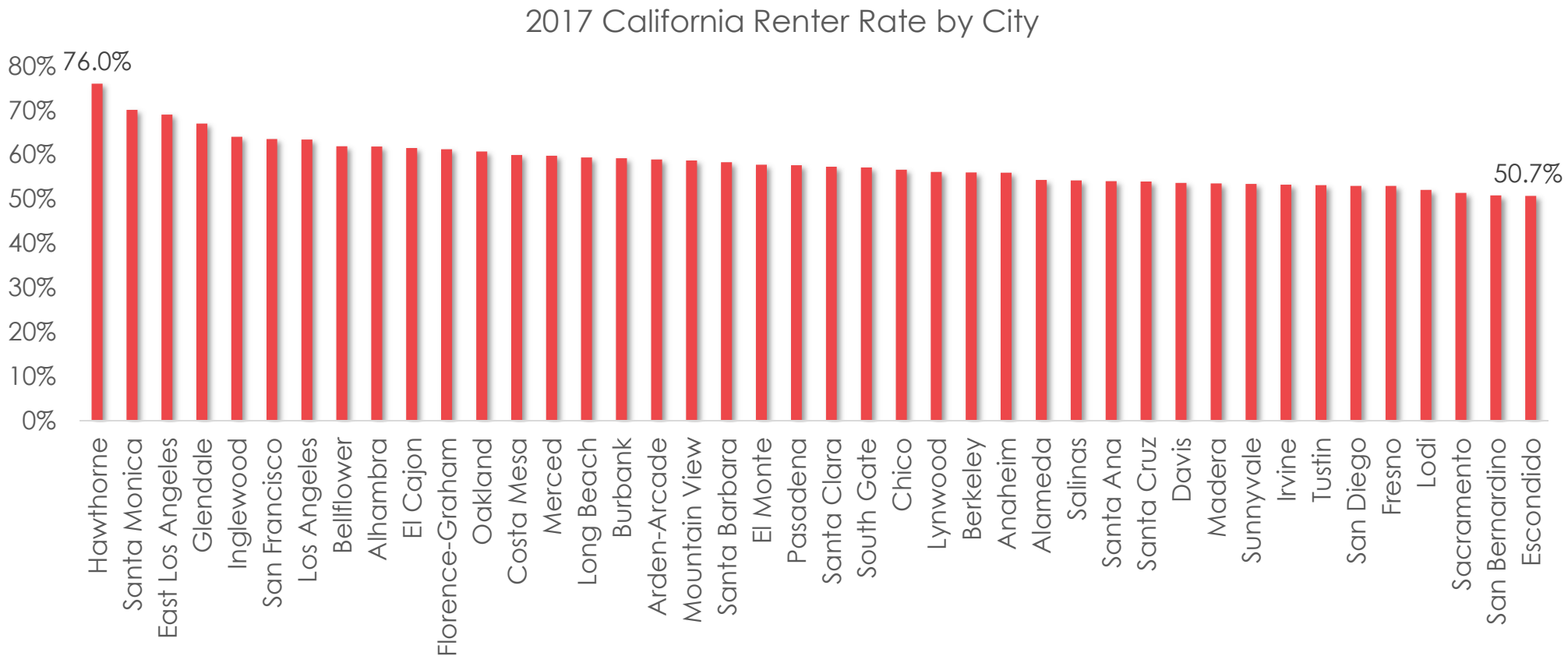


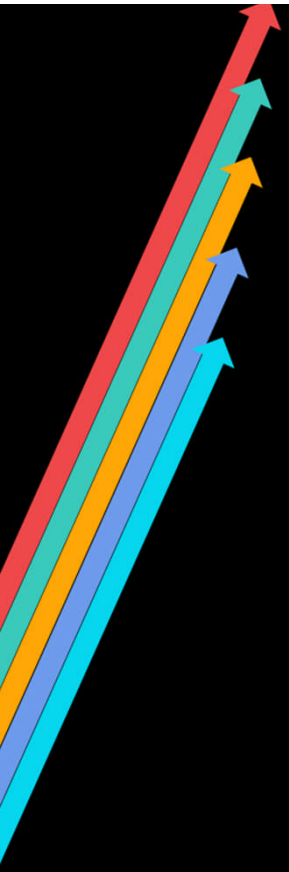
SERIES: Homeownership Rate
SOURCE: U.S. Census Bureau, American Community Survey, C.A.R. projection

42 of 142 Big Cities ALREADY Majority Renter



Majority Renter Cities





Where will our children live?

Izzy Come Back!

U.S. Economy Our Biggest Strength

4.2%

GDP 2018-Q2

3.8%

Consumption
2018-Q2

2.2%

Core CPI
August 2018

3.7%

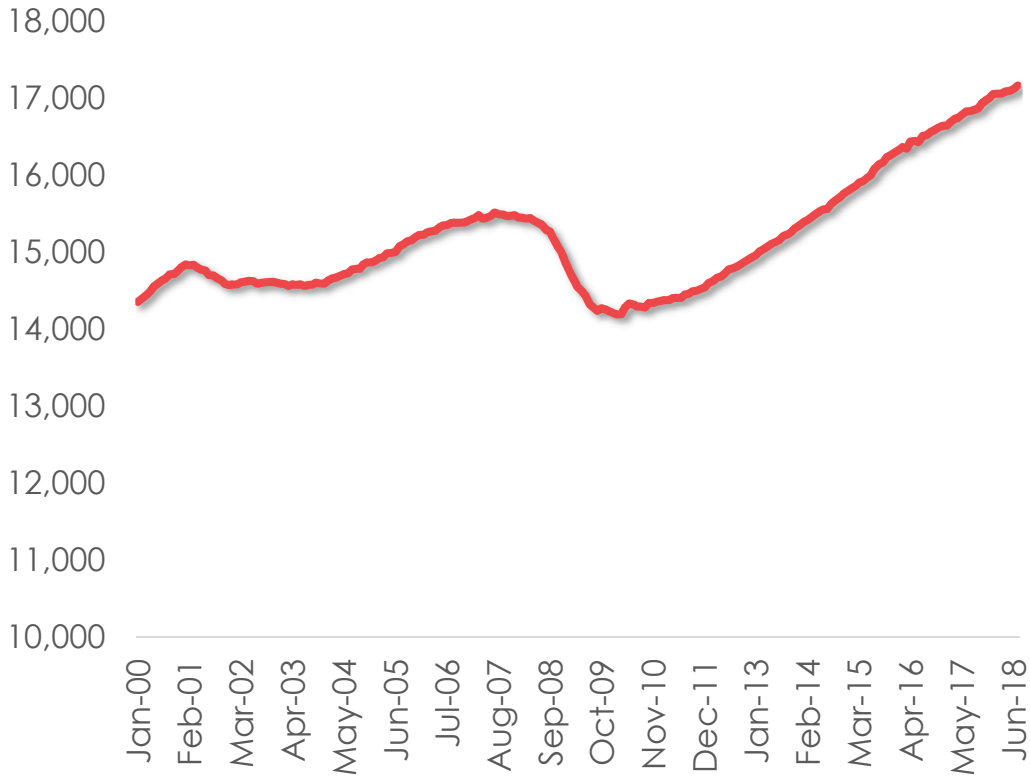
Unemployment
September 2018

1.7%

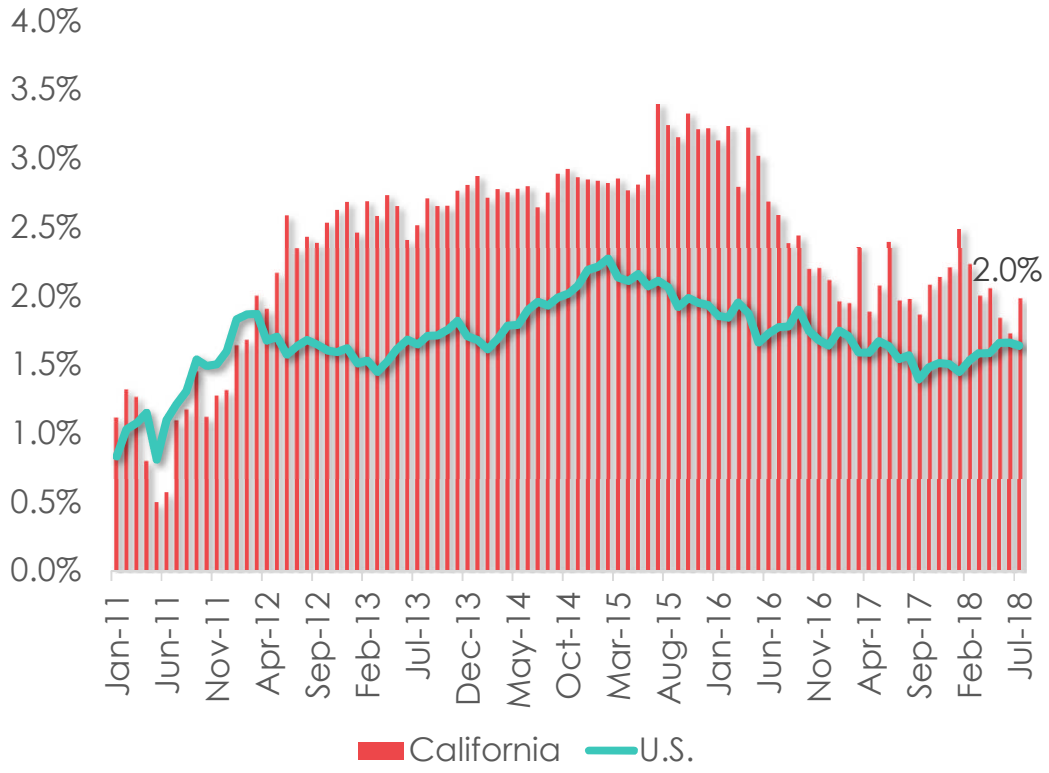
Job Growth
September 2018

Employment: All-Time High

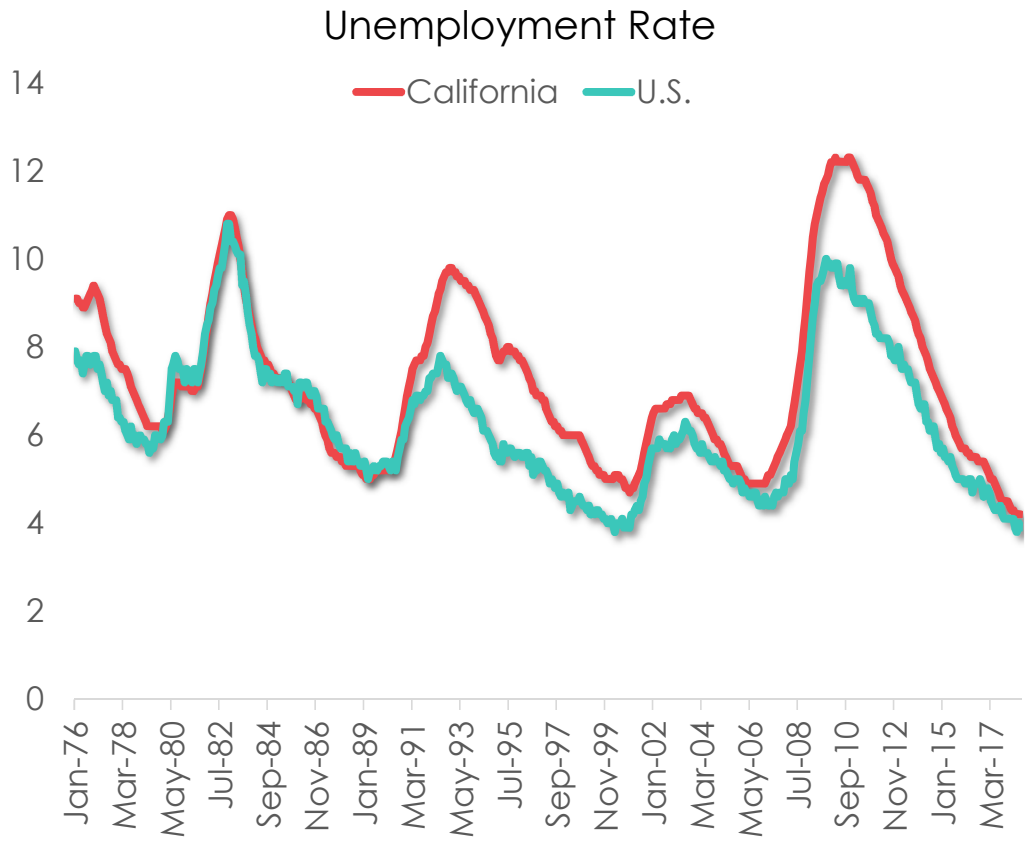
California Nonfarm Employment

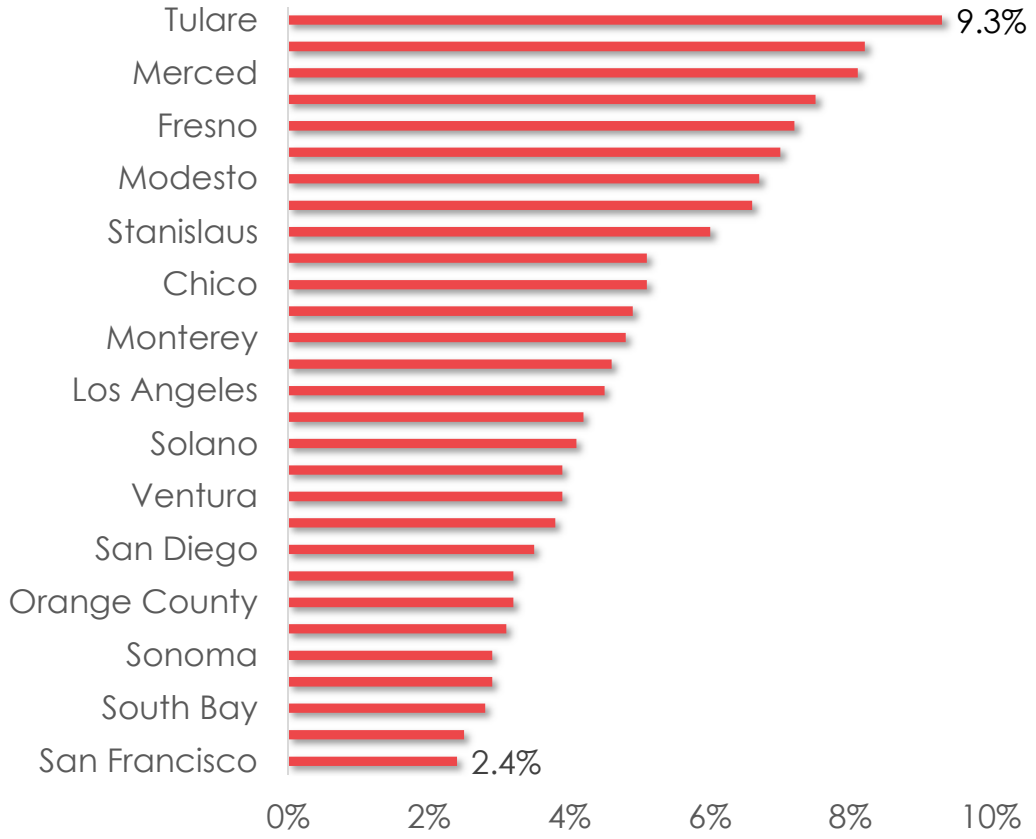


Nonfarm Employment Growth



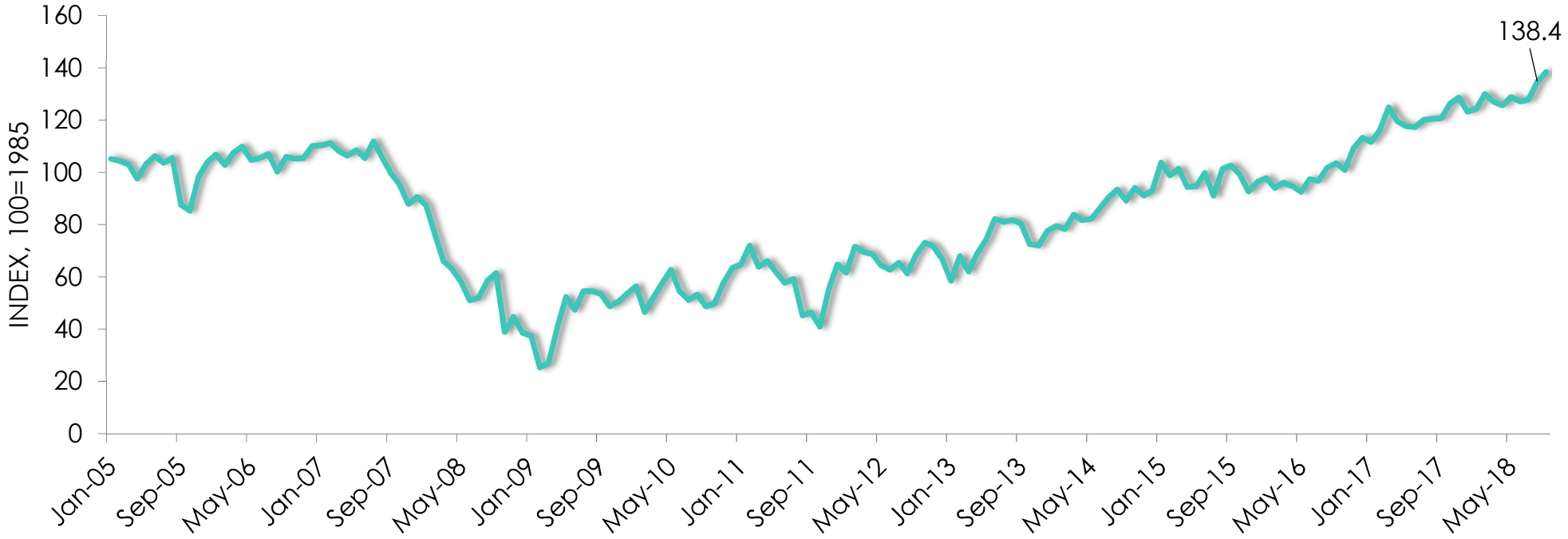
Unemployment Lowest in 40+ Years





Consumer Confidence Highest in 18 Years

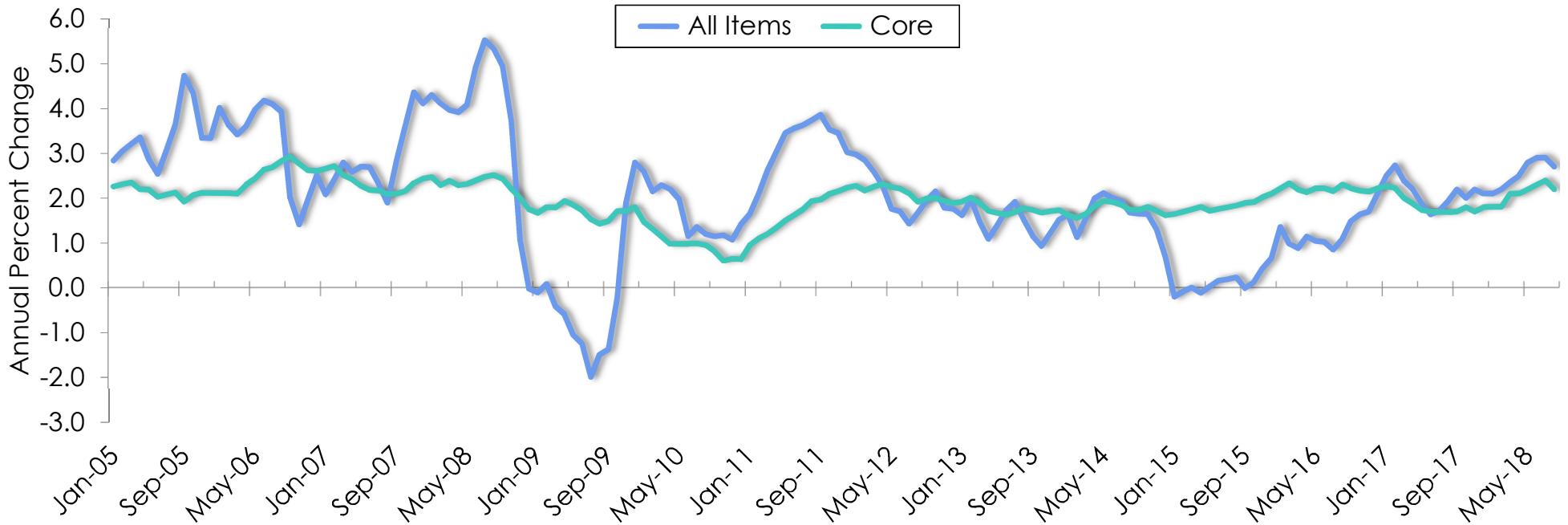
September 2018: 138.4



SERIES: Consumer Confidence
SOURCE: The Conference Board

Inflation Remains Low

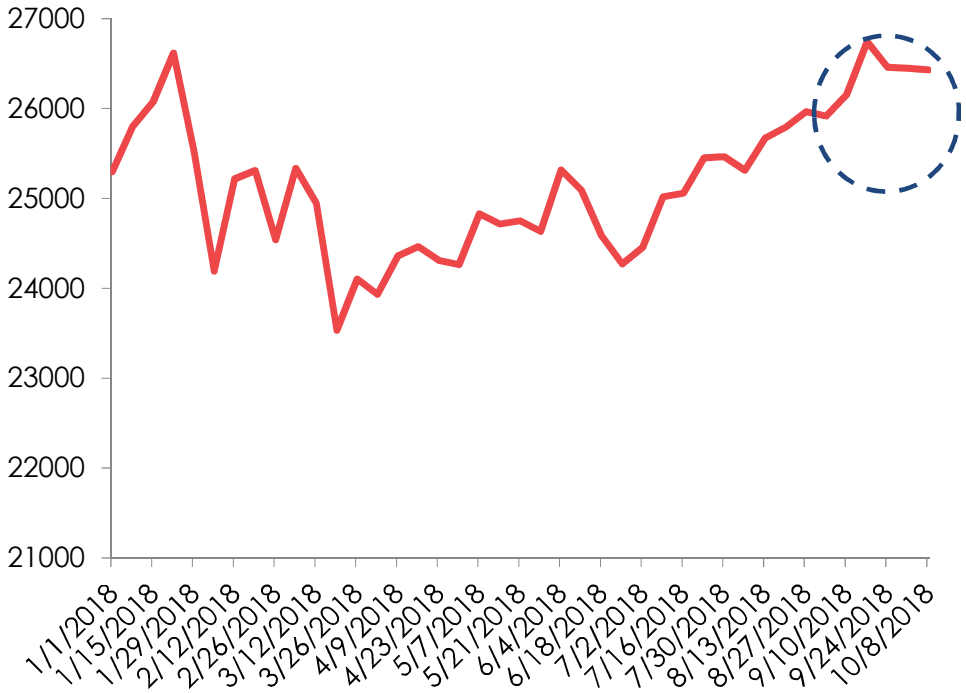
August 2018: All Items 2.7% YTY; Core +2.2% YTY



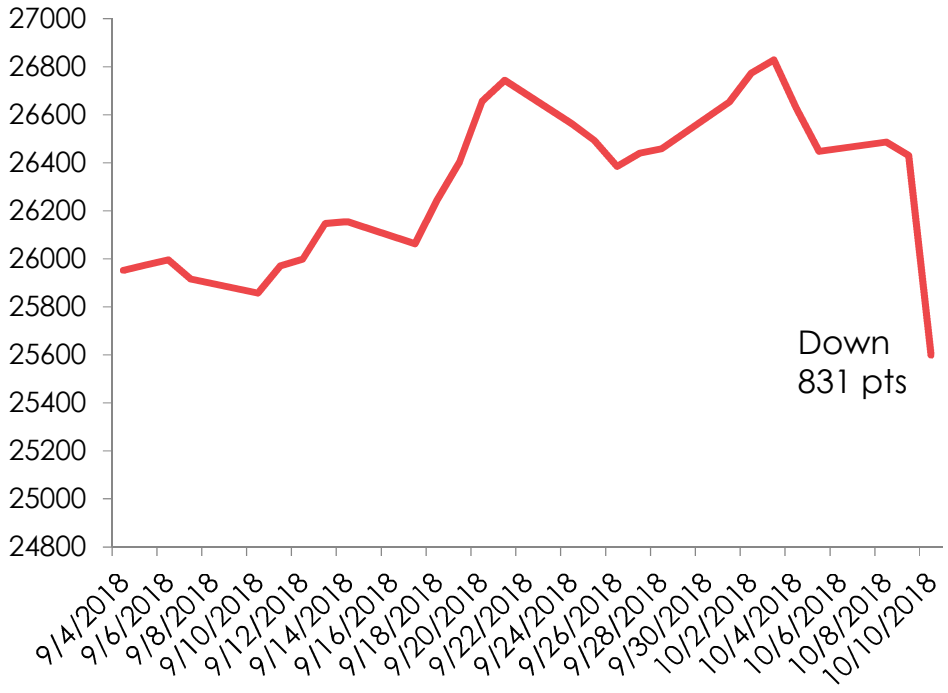
SERIES: Consumer Price Index
SOURCE: US Bureau of Labor Statistics

Wild Card – Financial Markets

(Jan 2018 – Oct 2018)



(9/1/18 – 10/10/18)



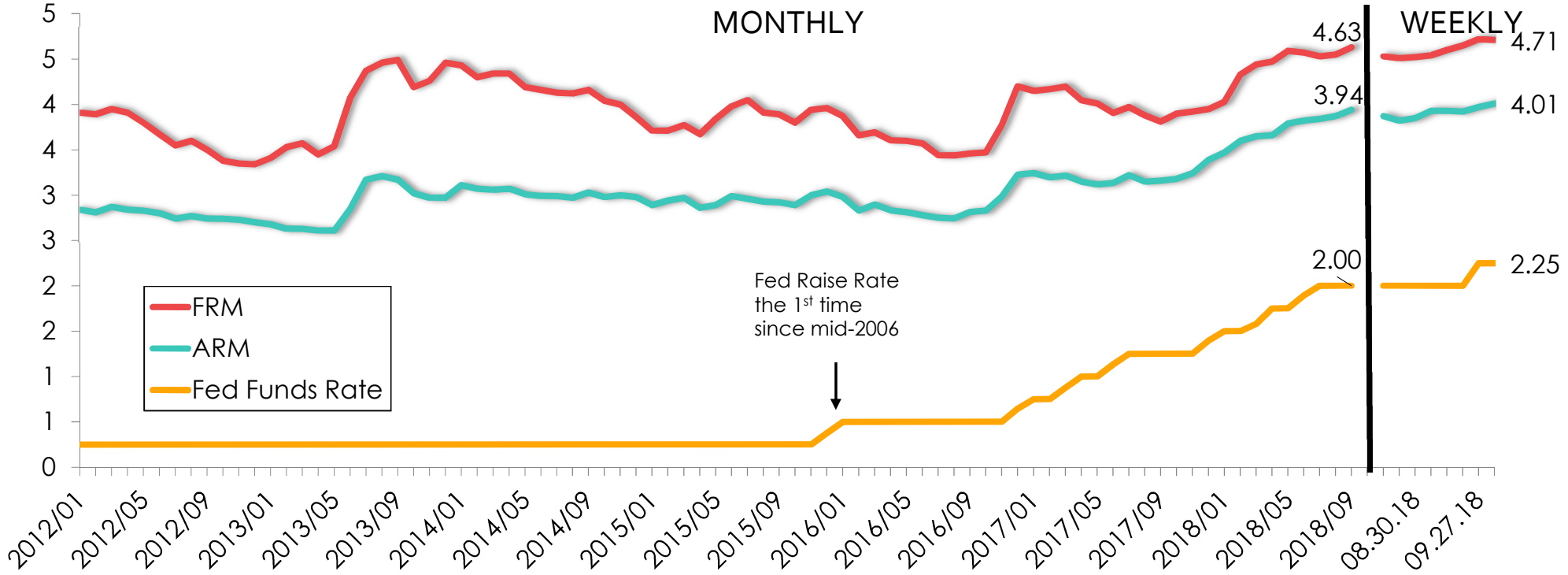
SERIES: Dow 30
SOURCE: Yahoo Finance

30 Yr. FRM Hit 5%, 1st Time since Early 2011

SERIES: Average 30 Yr. Fixed Mortgage Rates
SOURCE: Mortgage News Daily

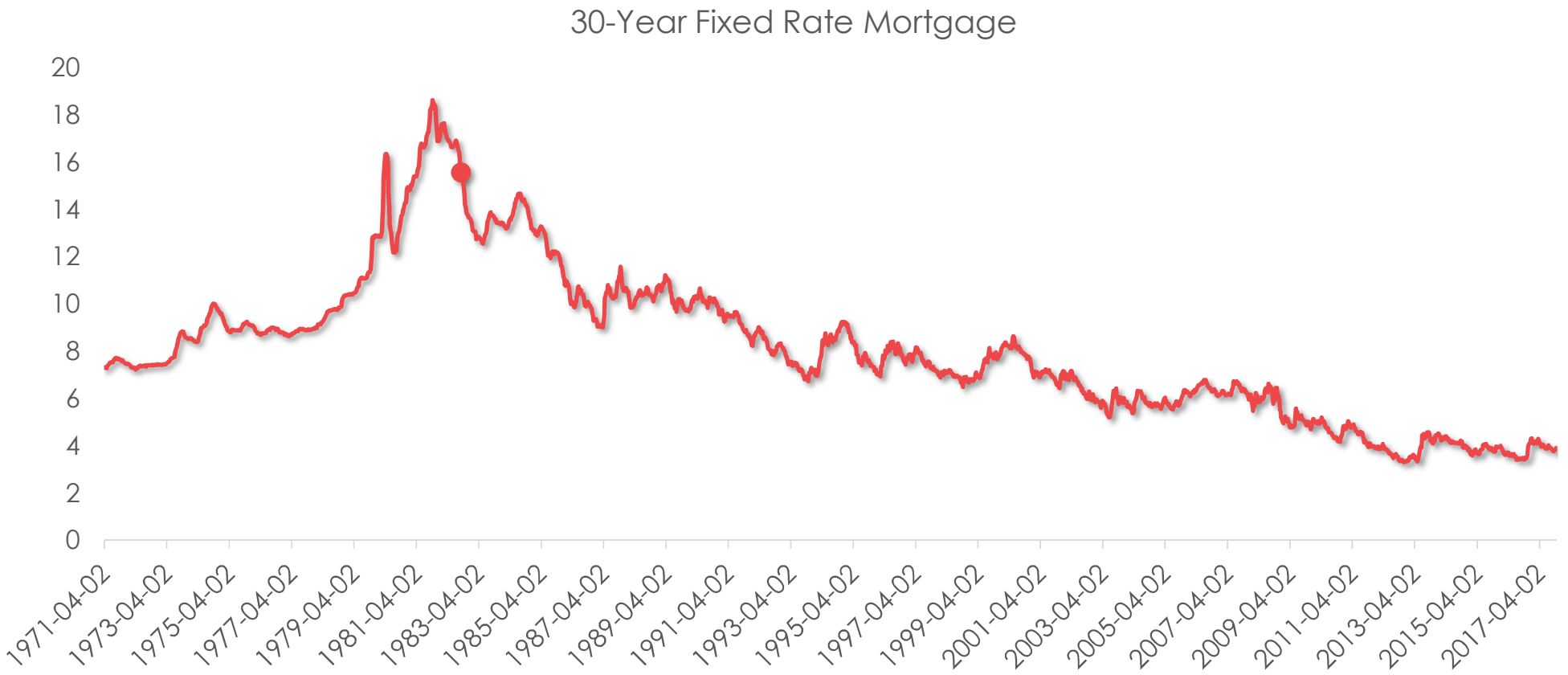
Fed Has Raised rates 8x Since Dec 2015

January 2012 – October 2018



SERIES: 30Yr FRM, 5Yr ARM, Fed Funds Rate (Target Rate)
SOURCE: Freddie Mac, St. Louis Fed

Rates Rising Recently, but Keep Perspective

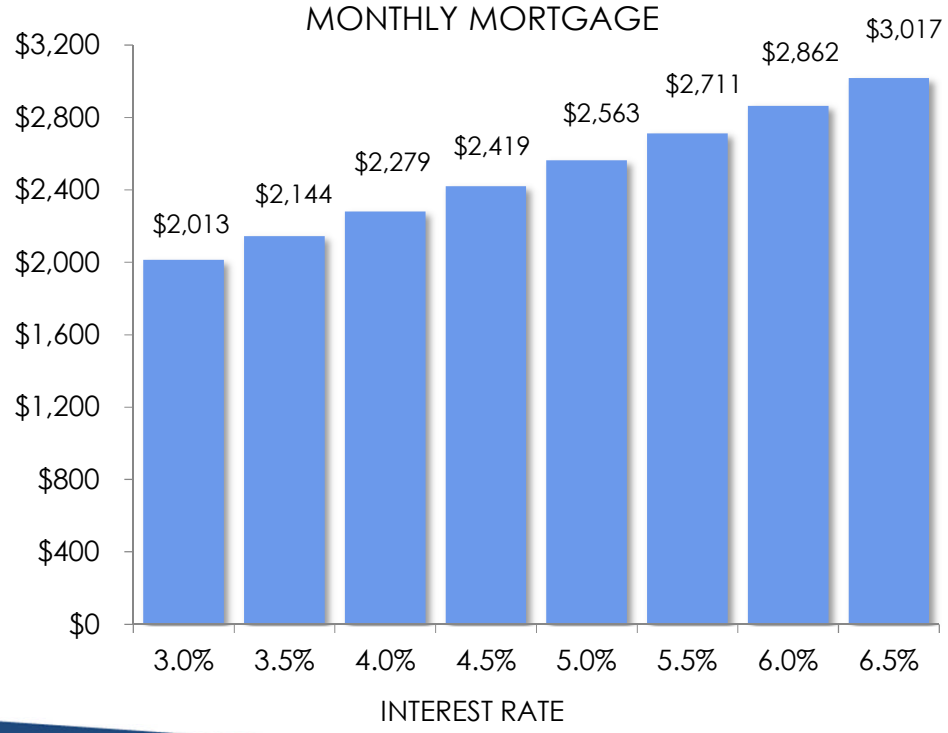


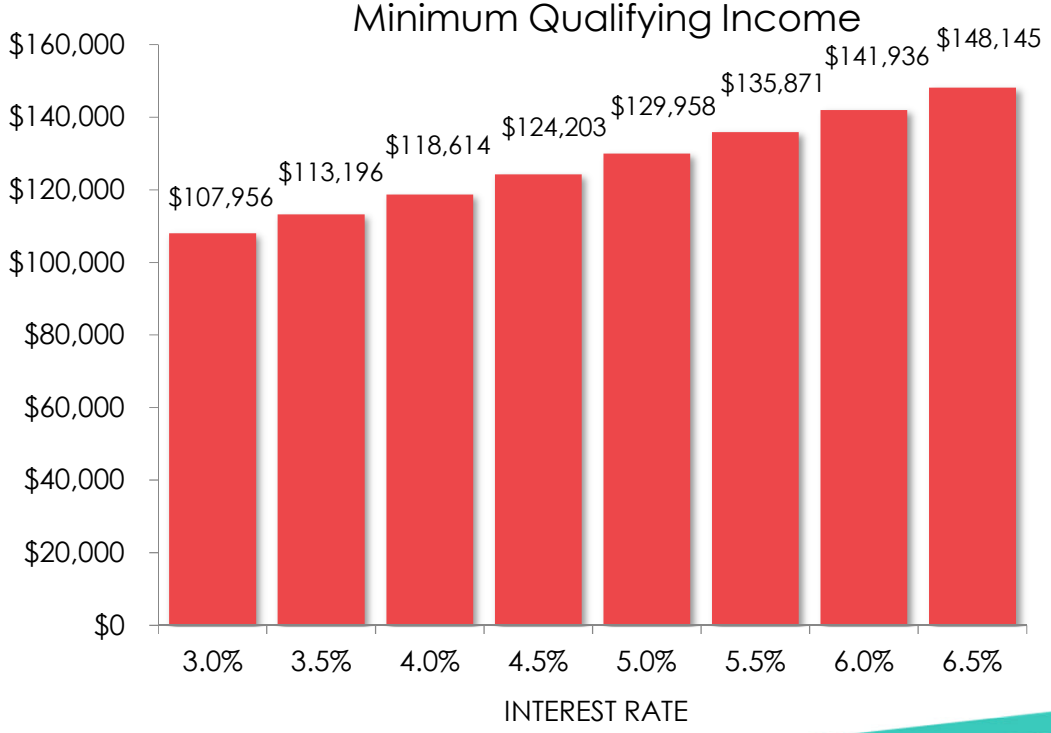
SERIES: 30Yr FRM, 5Yr ARM
SOURCE: Freddie Mac

Higher Rates Hurt Affordabiity

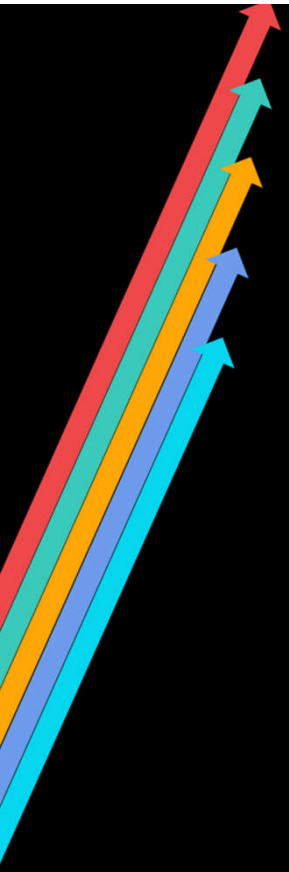
Q2-2018 Median Price $596,730

20% Down-payment





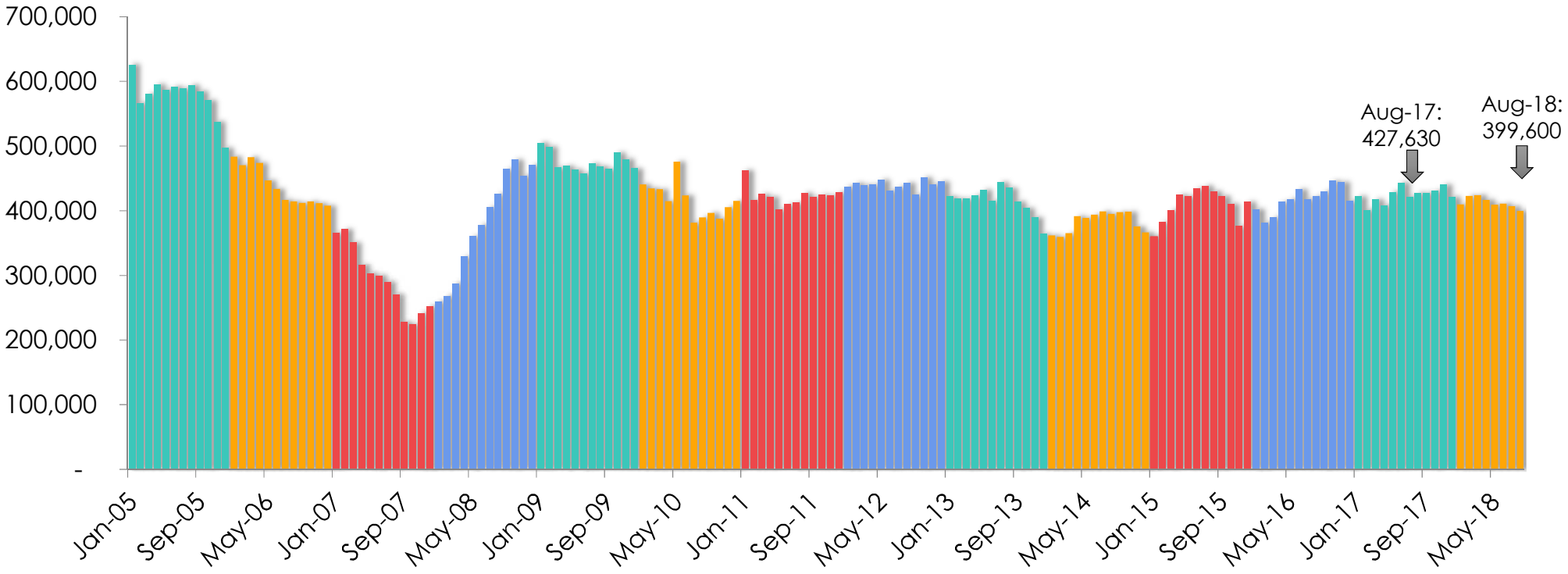
SERIES: Housing Affordability Index
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



II. California Housing Market

Market Off 2.1% YTD – 4 Months of YTY Declines

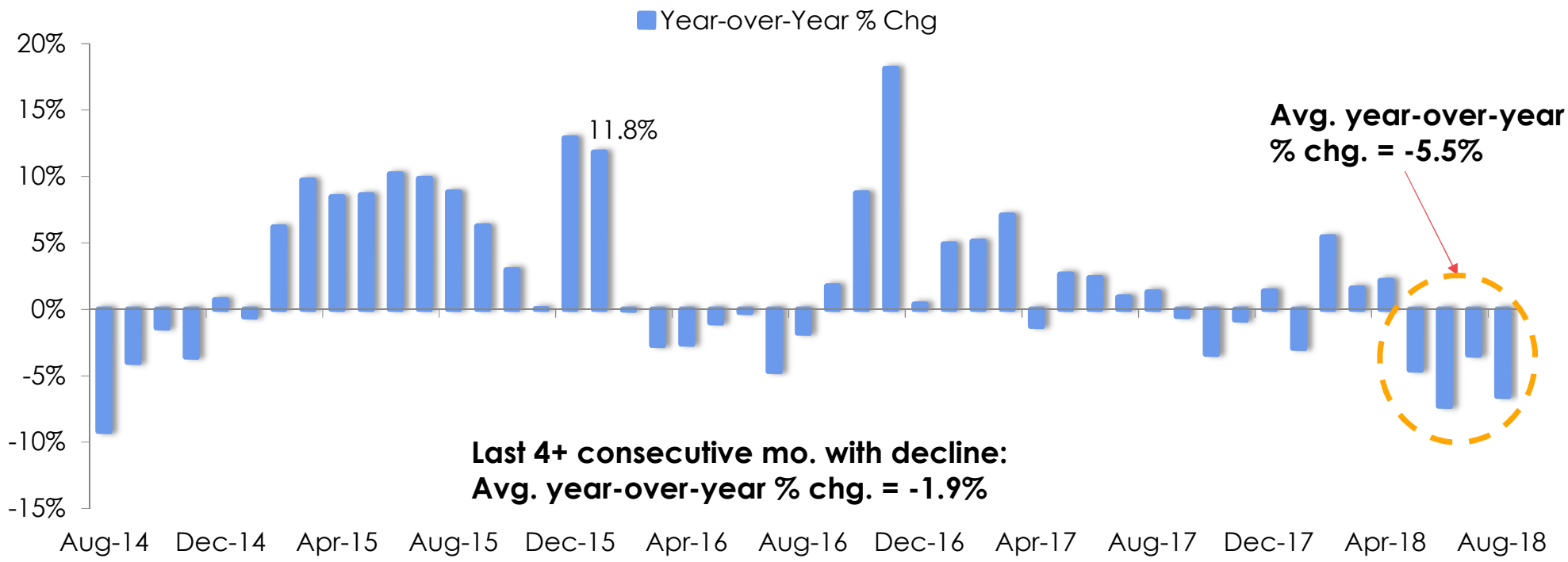
California, August 2018 Sales: 399,600 Units, -2.1% YTD, -6.6% YTY



SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized

Statewide Home Sales Off 5.5% YOY

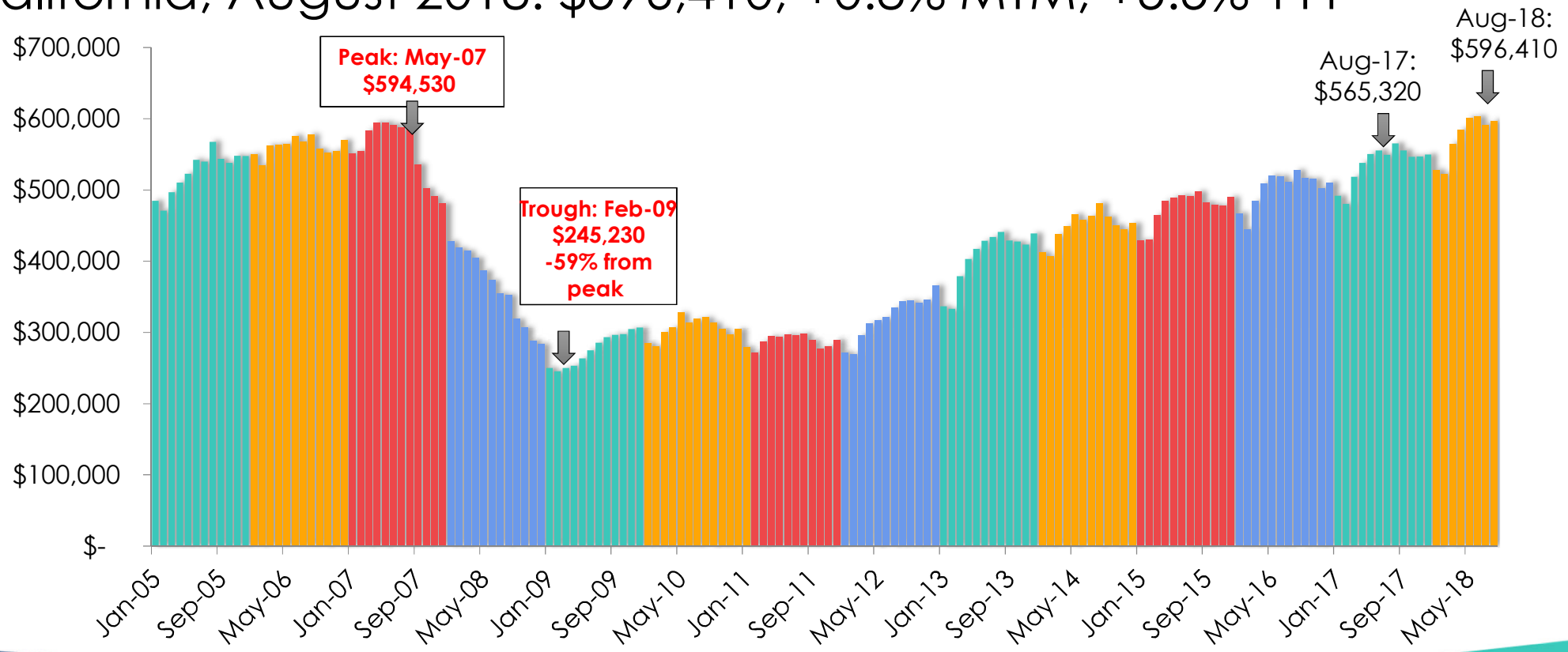


*Sales are seasonally adjusted and annualized

SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

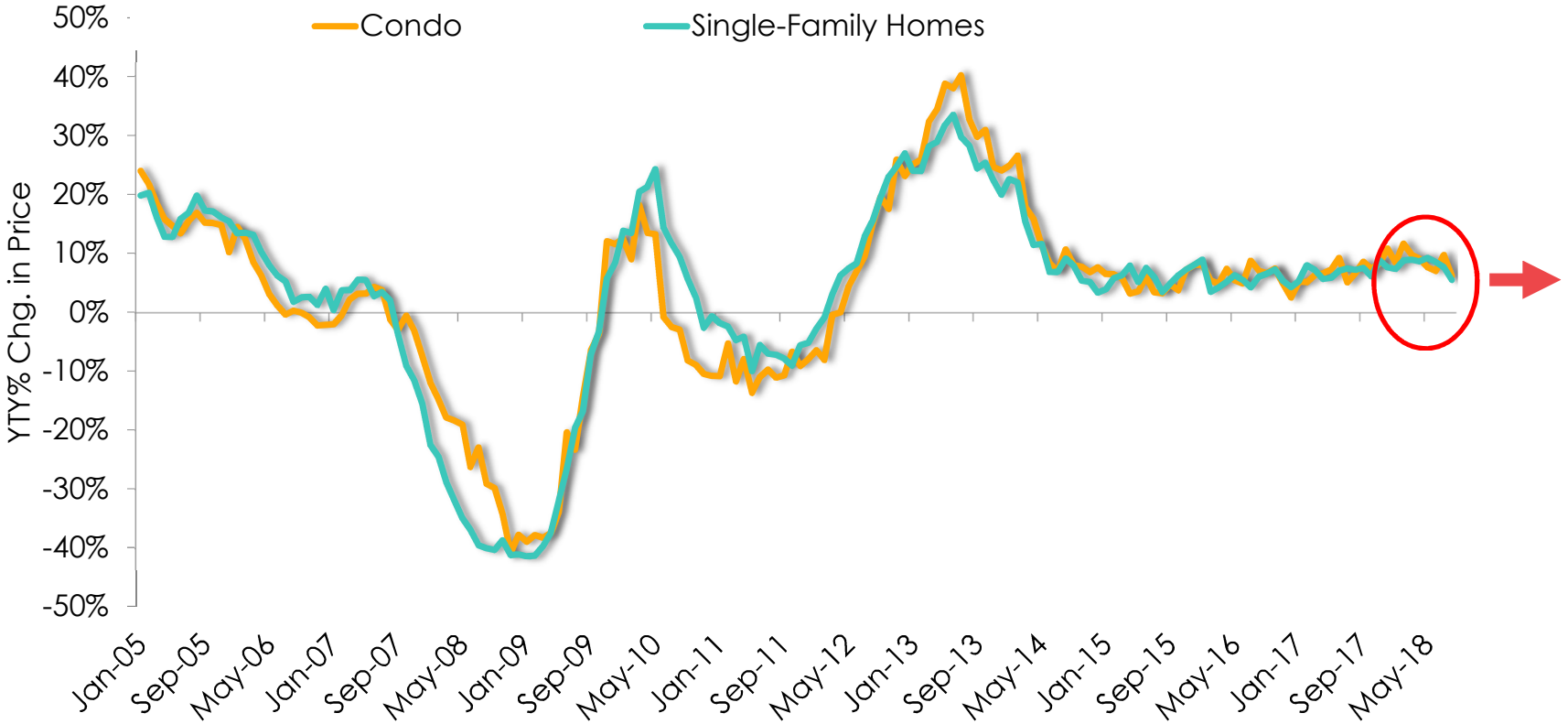
Price Growth Also Slowing Down

California, August 2018: $596,410, +0.8% MTM, +5.5% YTY



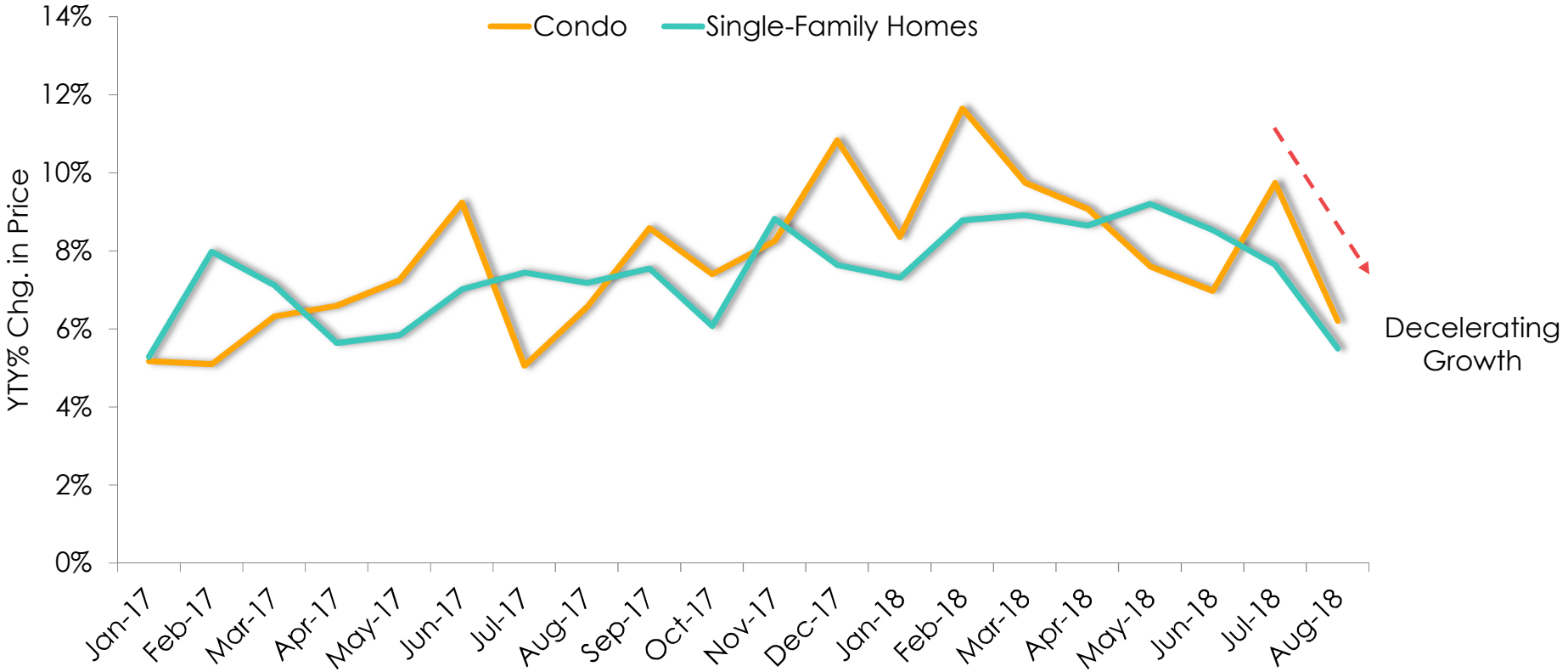
SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Price Gains Slowing Across the State



SERIES: Median Price of Existing Condo/Townhomes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Price Gains Slowing Across the State



SERIES: Median Price of Existing Condo/Townhomes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

So Cal: Orange & SD Above Prior Peak

Region	Peak Month	Peak Price	Aug-18	%Chg Fr Peak
Orange	Jun-07	$775,420	$838,500	8.1%
San Diego	May-06	$622,380	$660,000	6.0%
Los Angeles	Sep-07	$625,812	$607,490	-2.9%
So CA	**Jun-07**	**$589,710**	**$555,000**	**-5.9%**
Ventura	Aug-06	$710,910	$660,000	-7.2%
Riverside	Jun-06	$431,710	$400,750	-7.2%
San Bernardino	Aug-06	$350,290	$290,000	-17.2%

SERIES: Median Price of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Central Coast: SC & SLO

Region	Peak Month	Peak Price	Aug-18	%Chg Fr Peak
Santa Cruz	Oct-07	$865,000	$917,500	6.1%
San Luis Obispo	Oct-05	$619,950	$630,000	1.6%
Monterey	Aug-07	$777,000	$599,000	-22.9%
Santa Barbara	Jul-07	$878,120	$572,500	-34.8%

SERIES: Median Price of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Central Valley: All Below Prior Peak

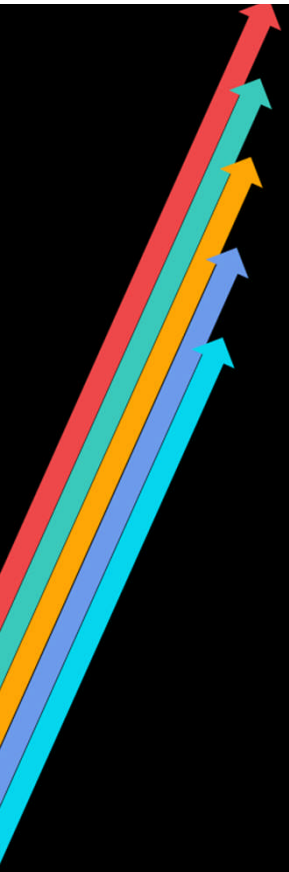
Region	Peak Month	Peak Price	Aug-18	%Chg Fr Peak
Sacramento County	Aug-05	$394,450	$369,950	-6.2%
Madera County	Feb-08	$275,000	$254,900	-7.3%
Placer County	Aug-05	$527,990	$475,000	-10.0%
Fresno County	Jun-06	$313,500	$280,000	-10.7%
San Joaquin County	Jun-06	$426,830	$380,000	-11.0%
Tulare County	Dec-05	$269,710	$239,000	-11.4%
Stanislaus County	Sep-05	$370,100	$319,900	-13.6%
San Benito County	May-05	$671,190	$575,000	-14.3%
Kings County	Mar-06	$268,050	$227,750	-15.0%
Merced County	Oct-05	$344,610	$288,396	-16.3%
Kern County	Jun-06	$299,920	$247,000	-17.6%
Glenn County	Feb-07	$312,500	$225,500	-27.8%

SERIES: Median Price of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Bay Area: All But Contra Costa & Solano

Region	Peak Month	Peak Price	Aug-18	%Chg Fr Peak
San Francisco	May-07	$972,010	$1,550,000	59.5%
Santa Clara	Oct-07	$865,000	$1,295,000	49.7%
San Mateo	Oct-07	$1,020,000	$1,500,000	47.1%
Alameda	May-07	$709,420	$960,000	35.3%
Bay Area	**May-07**	**$789,250**	**$935,000**	**18.5%**
Marin	Jun-07	$1,149,390	$1,222,500	6.4%
Napa	Jun-07	$729,170	$752,500	3.2%
Sonoma	Jan-06	$650,330	$670,000	3.0%
Contra Costa	May-07	$698,420	$650,000	-6.9%
Solano	Jun-07	$492,800	$455,000	-7.7%

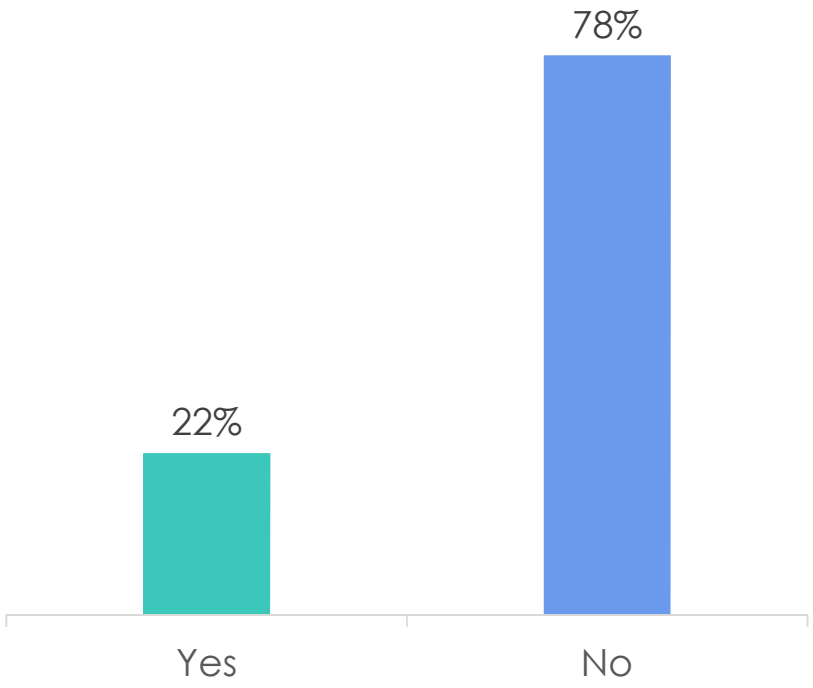
SERIES: Median Price of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



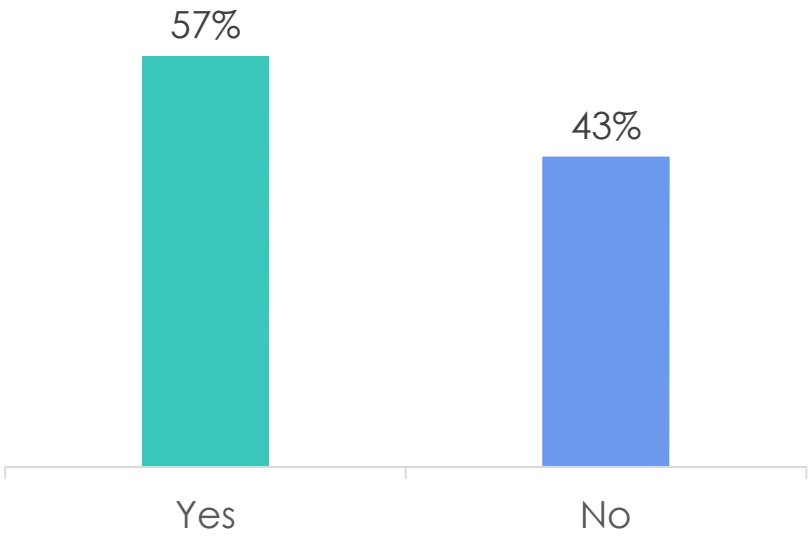
III. Shift

CA Consumer Poll: Sept 2018

Do you think it's a good time to **buy** a home in California?



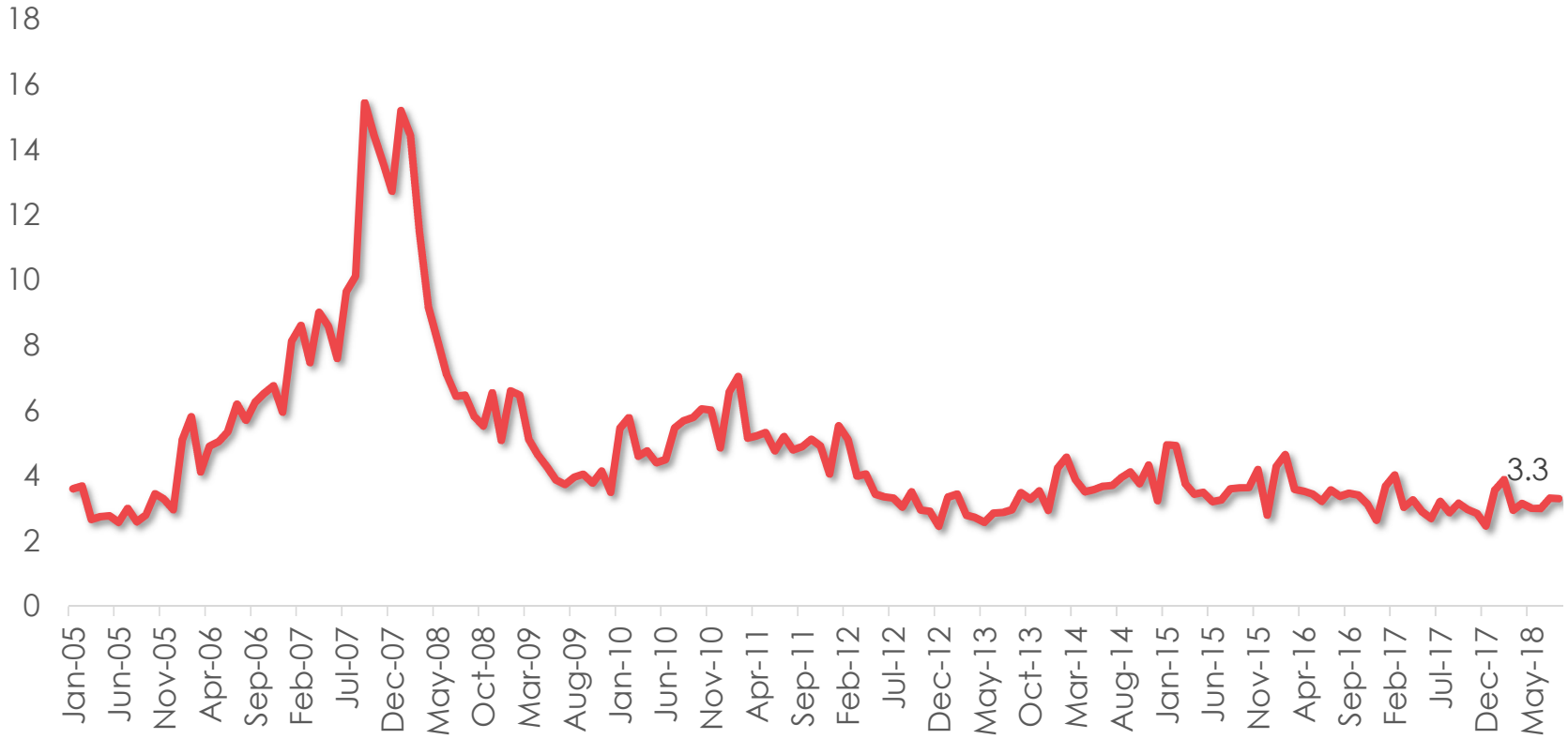
Do you think it's a good time to **sell** a home in California?



Do you think it's a good time to **buy** a home in California? (n=300)
Do you think it's a good time to **sell** a home in California? (n=300)

SERIES: 2018 Google Consumer Poll
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

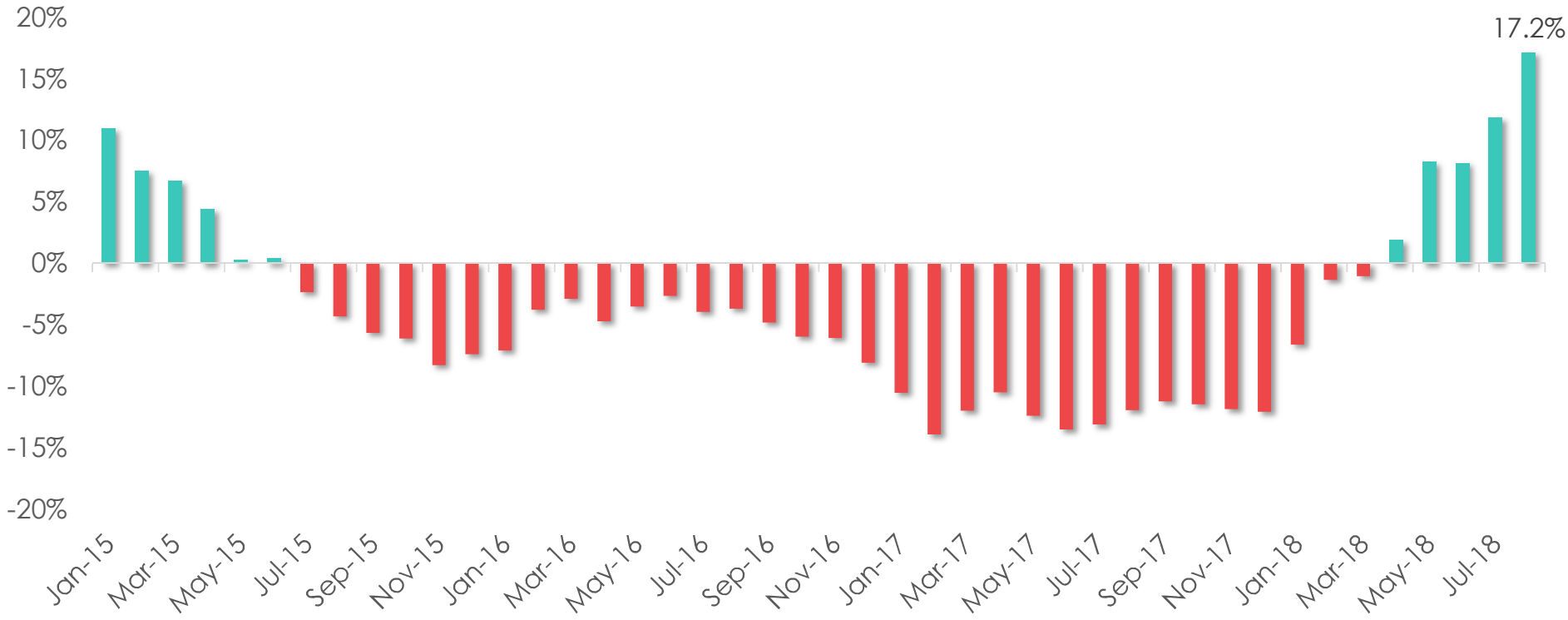
Inventory is Growing



SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

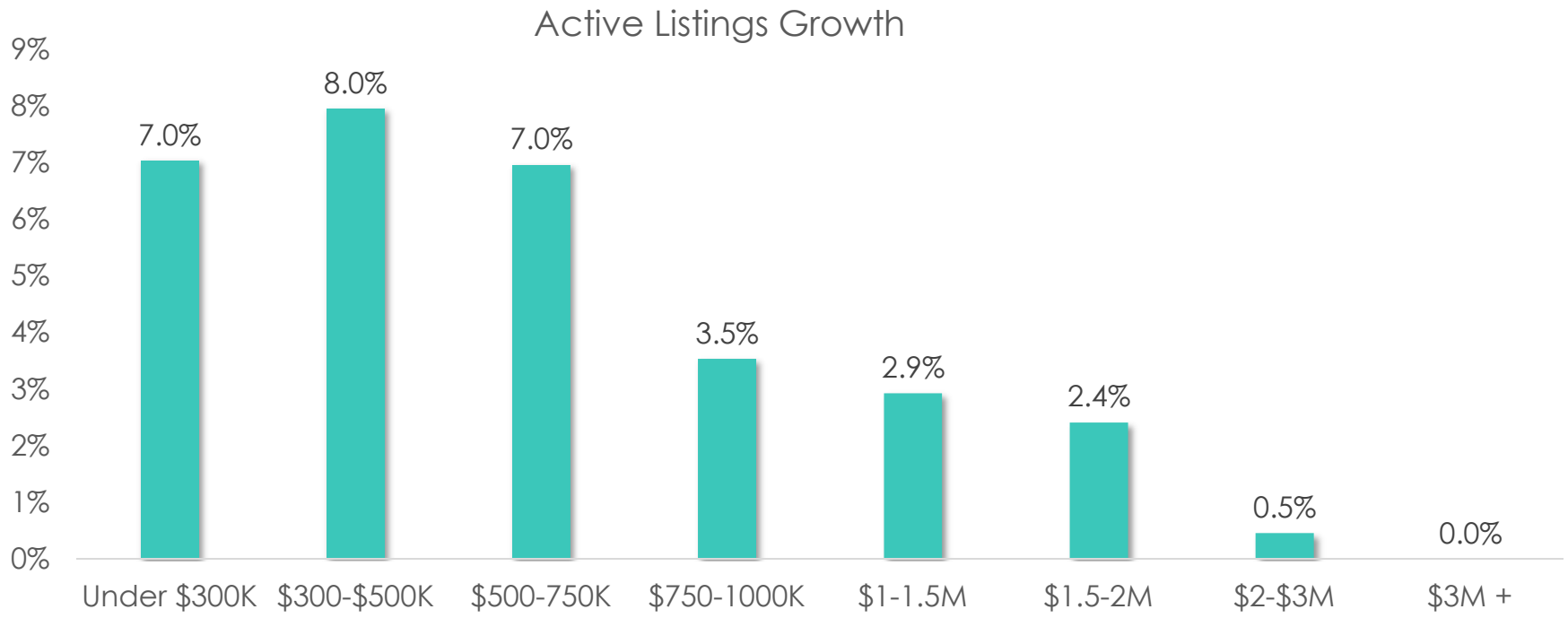
Shift Started in January 2018; Tipped in April

+ 17.2 % Active Listings in August



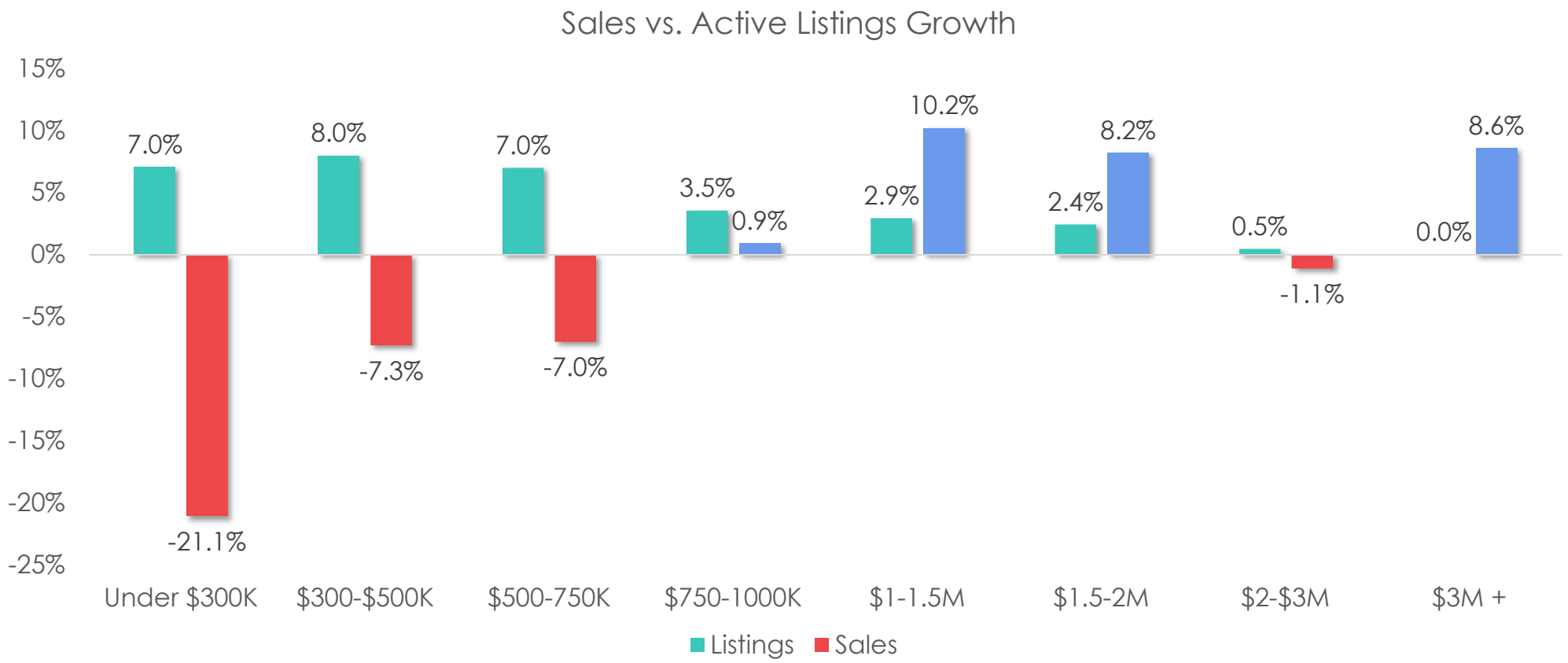
SERIES: Growth in Active Listings
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Biggest Gains At Low End

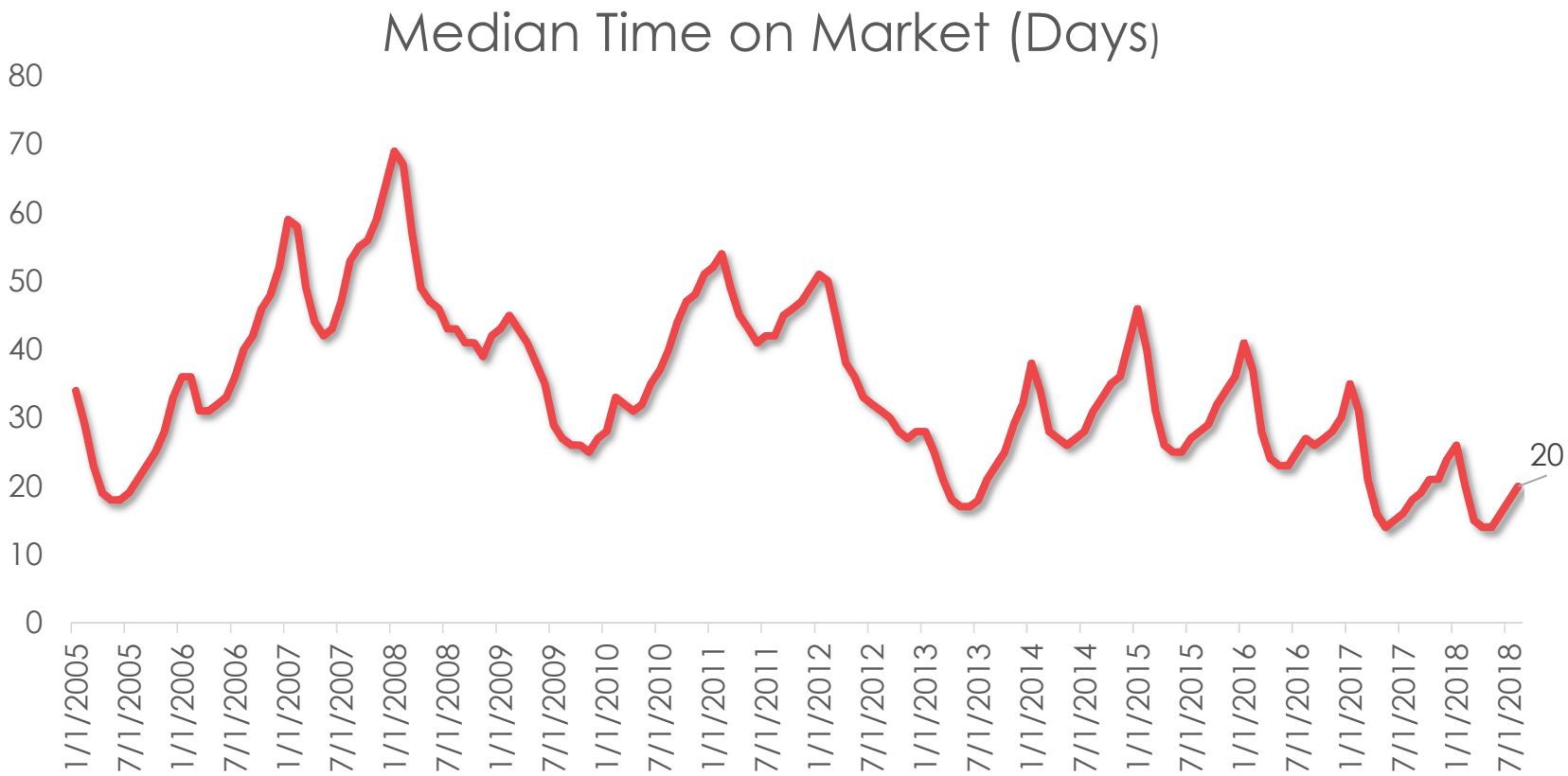


SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Discrepancies Point to Weaker Demand
Where did the buyers go?

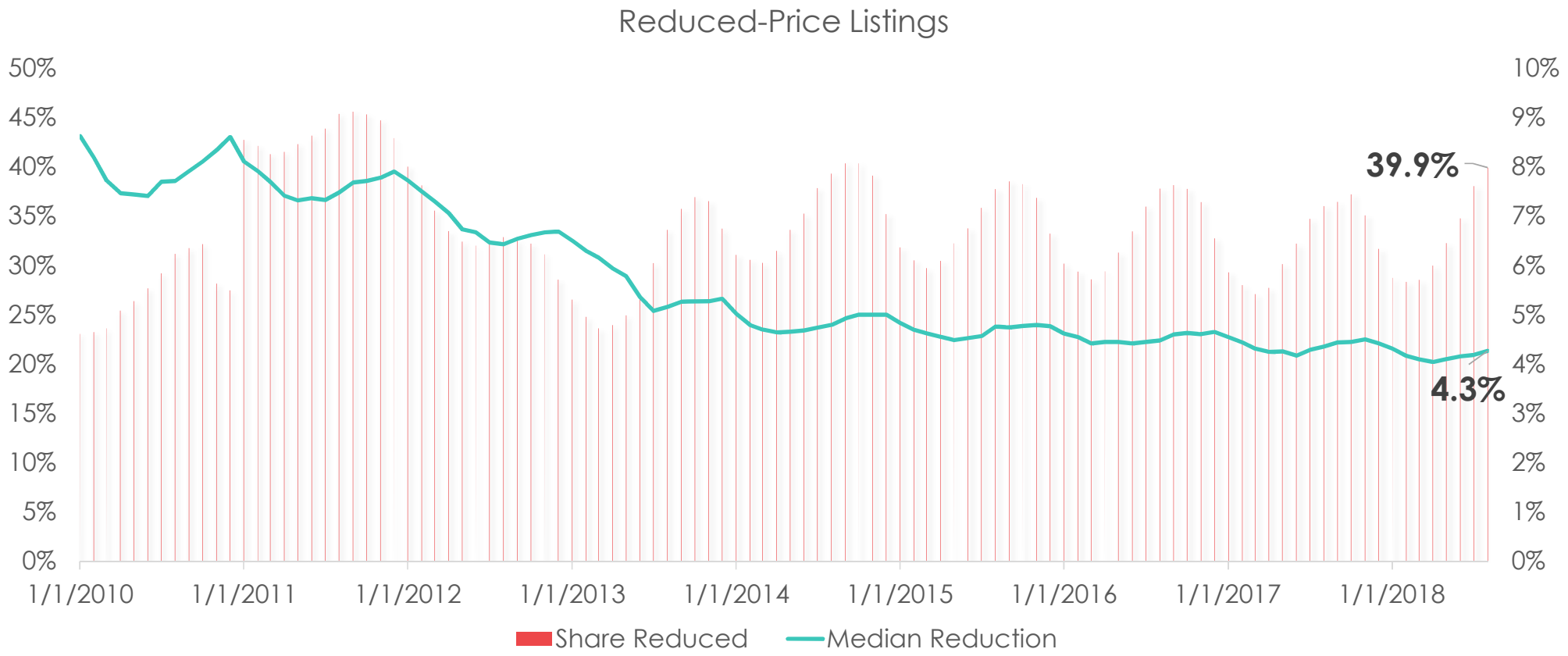


Listings Taking Longer to Sell



SERIES: Median Time of Market of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

More Listings With Price Reductions



SERIES: Listing Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Listing & Sale Prices Dropping > $1M

California $1M Homes: Sales vs. List Price Growth
Typically 4-6 month lag

SERIES: Median Price of Existing Condo/Townhomes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

State of the Housing Market - Study of Housing: Insight, Forecast, Trends (S.H.I.F.T)

Methodology

- C.A.R. has conducted the Annual Housing Market Survey since 1981.
- E-mailed to a random sample of 30,355 REALTORS® throughout CA
- Asked about their most recent transaction (Q2 2018).
- 1,492 valid survey responses, 4.9 percent response rate.
- The margin of error +/- 2.5 percent at a 95 percent confidence level.

Case Study: First-Time Buyer in San Francisco

Buyer's Profile

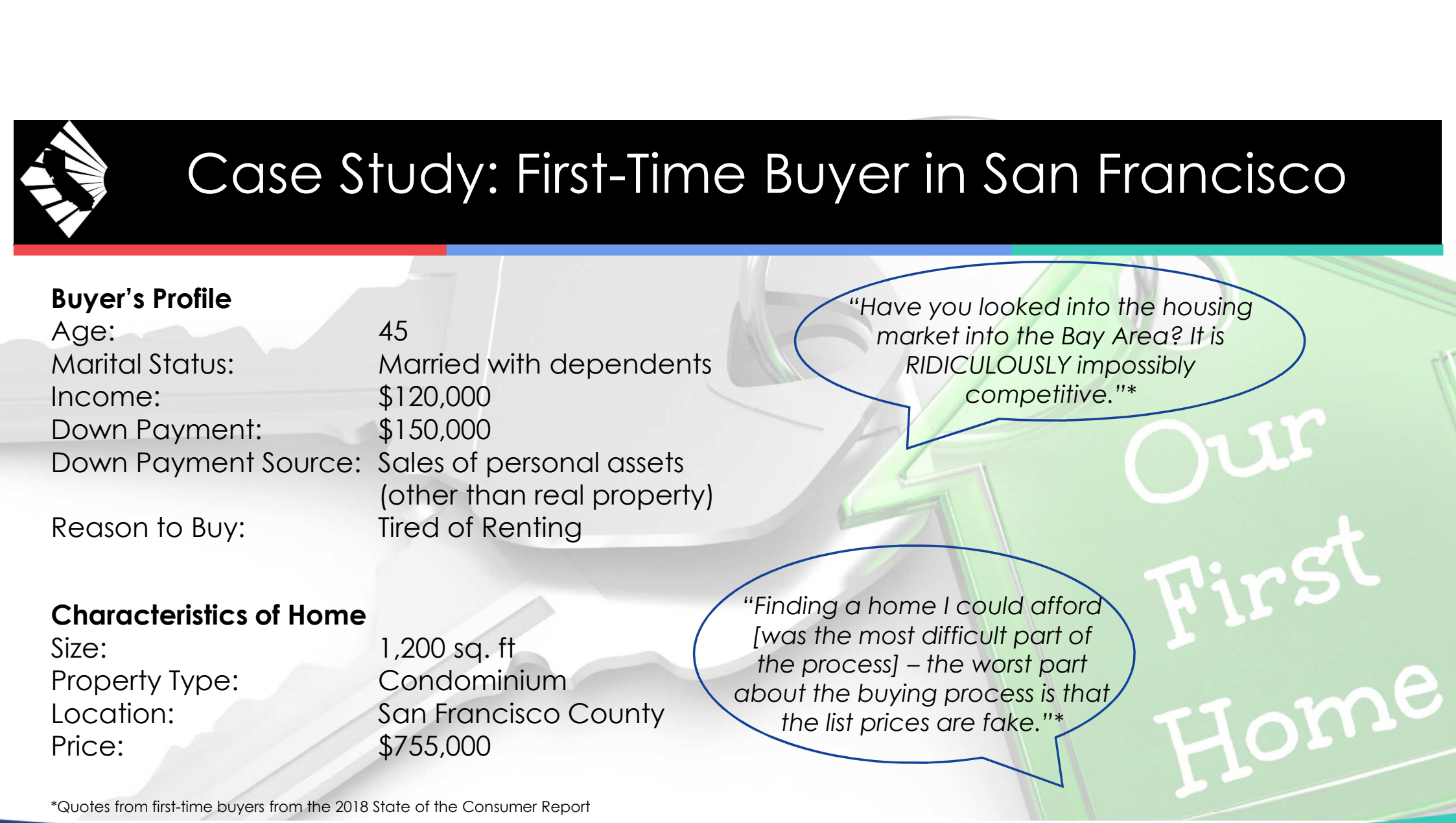
Age:	45
Marital Status:	Married with dependents
Income:	$120,000
Down Payment:	$150,000
Down Payment Source:	Sales of personal assets (other than real property)
Reason to Buy:	Tired of Renting

Characteristics of Home

Size:	1,200 sq. ft
Property Type:	Condominium
Location:	San Francisco County
Price:	$755,000

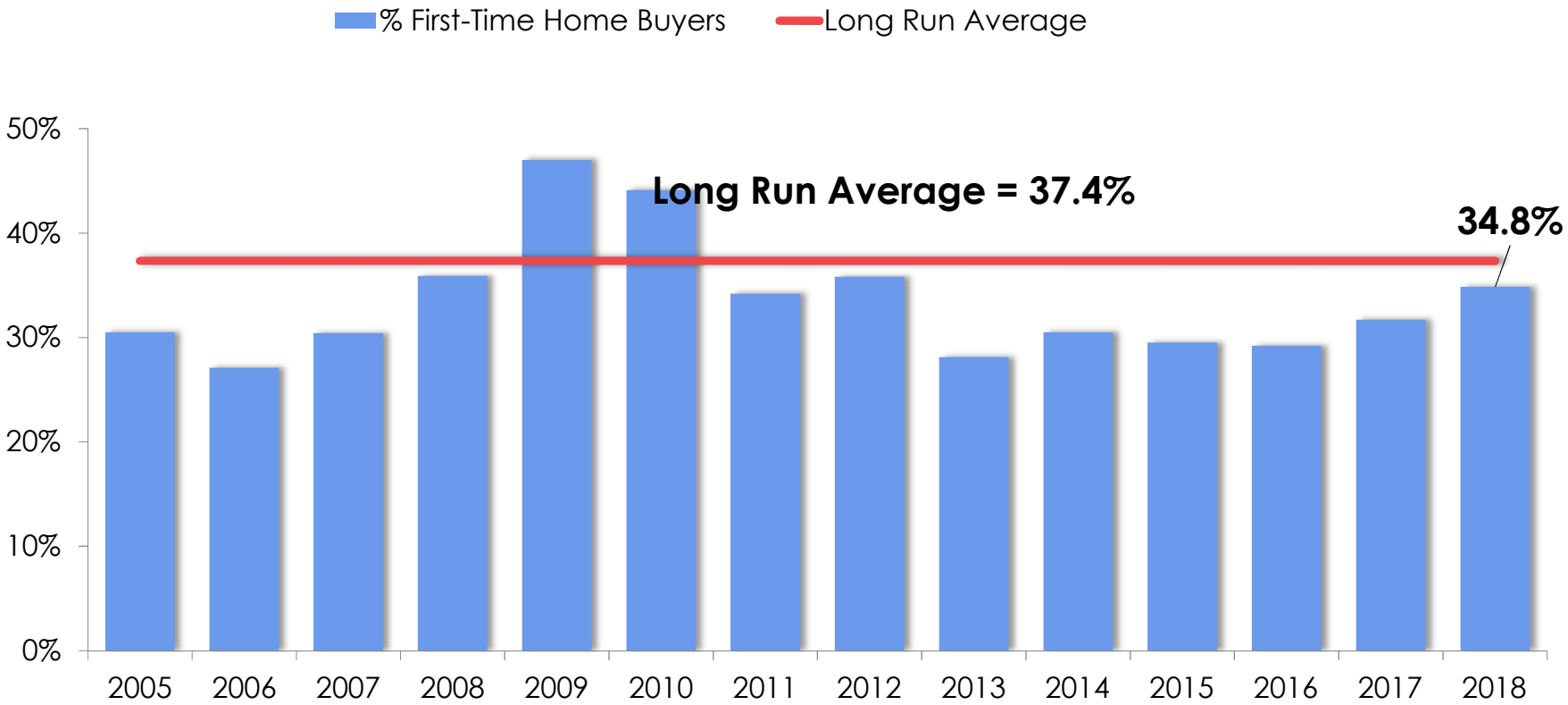
*"Have you looked into the housing market into the Bay Area? It is RIDICULOUSLY impossibly competitive."**

*"Finding a home I could afford [was the most difficult part of the process] – the worst part about the buying process is that the list prices are fake."**



*Quotes from first-time buyers from the 2018 State of the Consumer Report

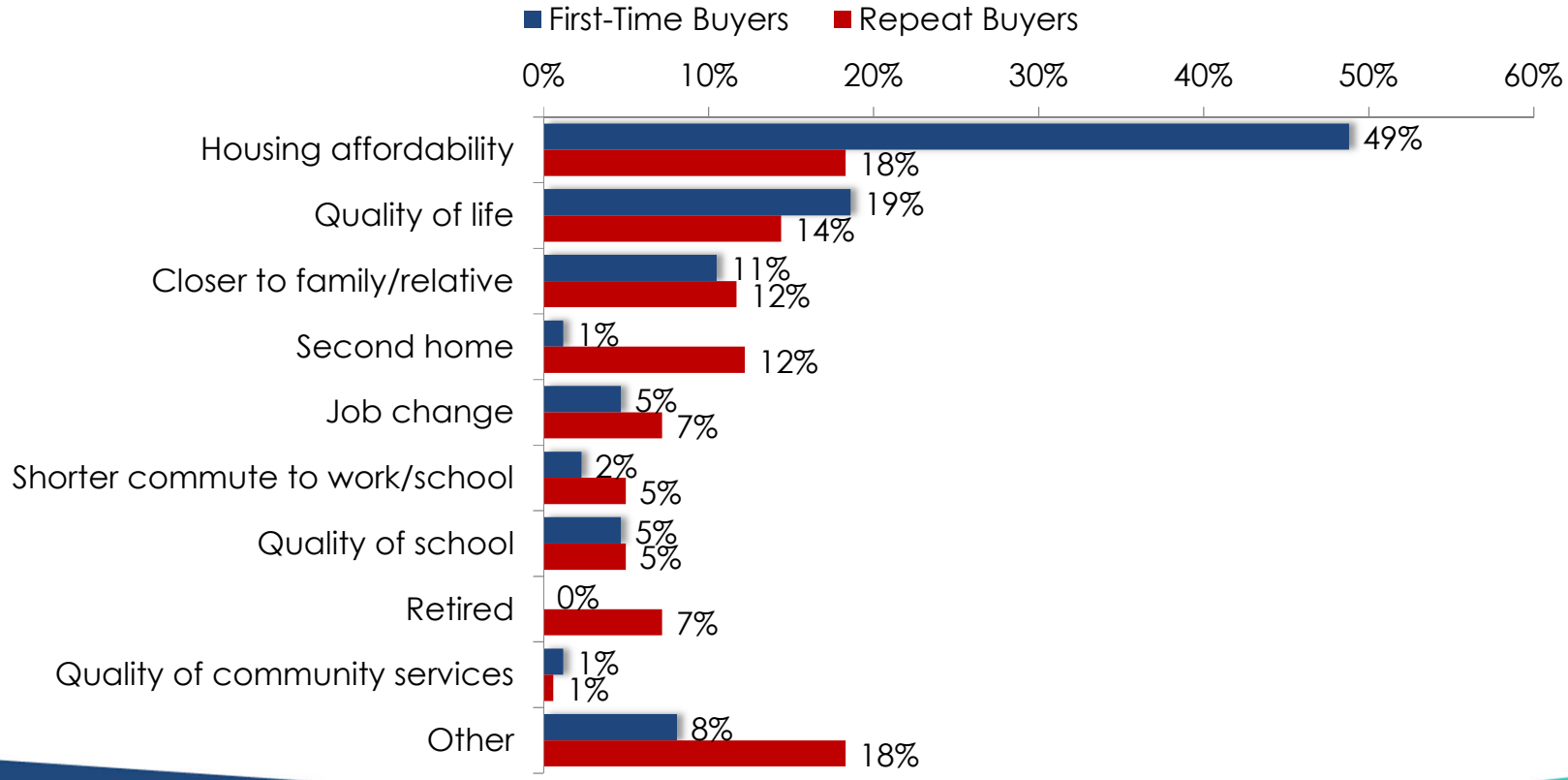
First Time Buyers: Below LT Trend



SERIES: 2018 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Affordability: Big Problem for First-Time Buyers

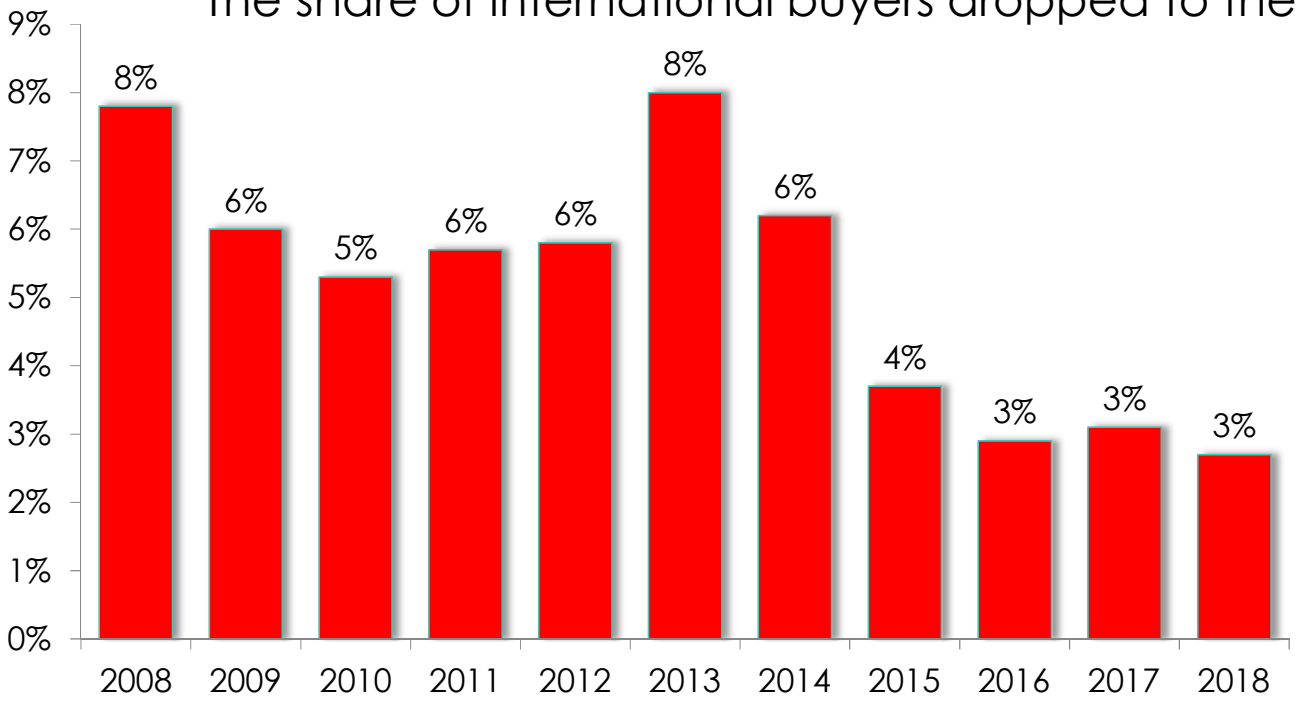
Q: Primary reason for changing county?



SERIES: 2018 Annual Housing Market Survey
SOURCE: California Association of REALTORS®

International Buyers: Flat for 3 Years

The share of international buyers dropped to the lowest level in at least ten years



Q. Was the buyer an international buyer – a person who was a citizen of another country who wished to purchase residential real estate in the U.S.?

SERIES: 2018 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Case Study: Seller Leaving California

Seller's Profile

Age:	56
Marital Status:	Married Couple with Dependents
Income:	$200,000
Yrs. Owned:	25
Net cash gain:	$1,050,000
Reason for selling:	Desired larger home
State moving to:	Utah

*"We doubled the size of our house and lowered our mortgage payment."**

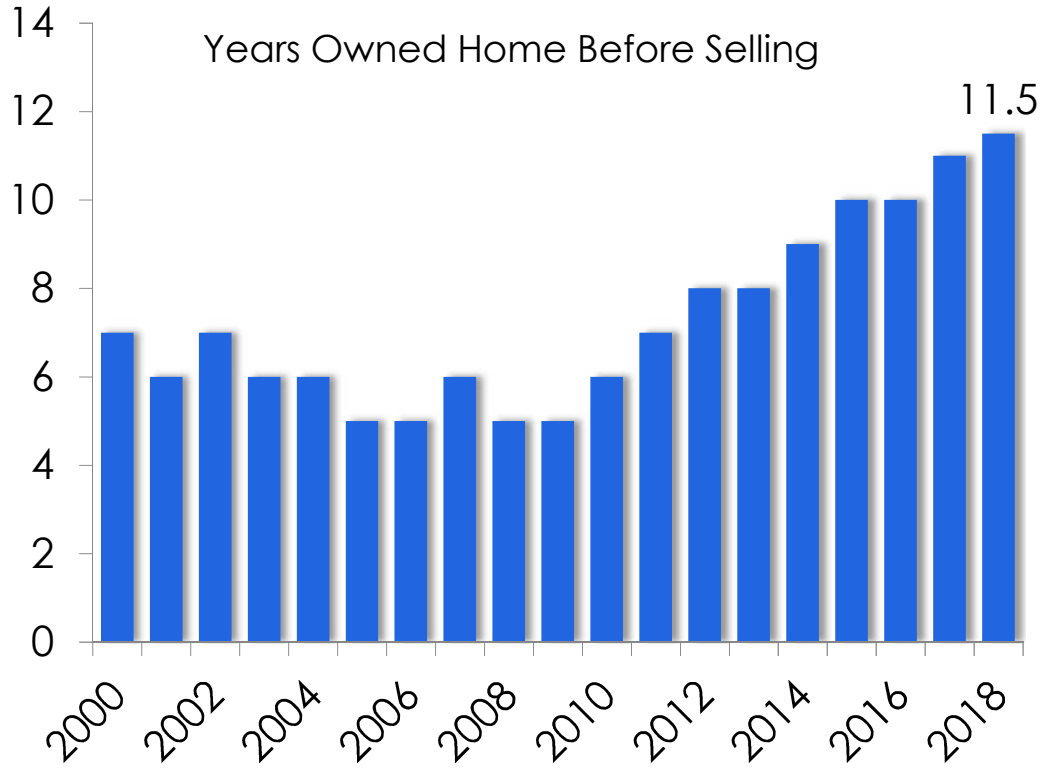
Characteristics of Home

Size:	1,948 sq. ft
Property Type:	Single-Family Home
Location:	Los Angeles County
Price:	$1,175,000

*"L.A would have been my first choice, and I didn't want to have to leave California. I couldn't afford to stay there"**

*Lopez, S. (2017) 'They're leaving California for Las Vegas for find middle-class life that eluded them'. Los Angles Times, 3 December

Sellers Aren't Not Moving



Long-Time Homeowners are not moving as in the past because:

- Low rate on current mortgage
- Low property taxes
- Capital gains hit
- Where can I afford to go?
- Why not remodel and stay?

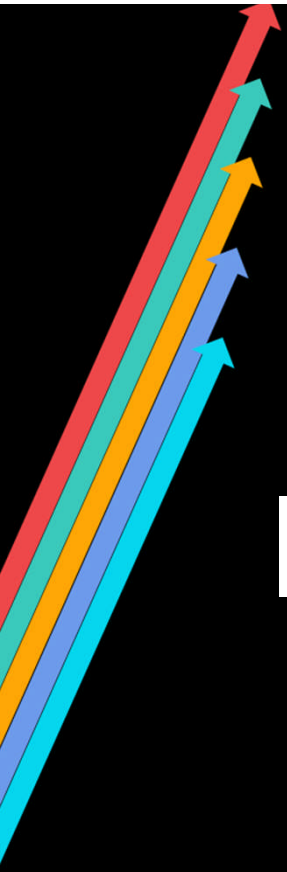
SERIES: 2018 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

29% Of Sellers Moving Out of California Up 10% from 2013

Location of Seller's New Home

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Within the same county	38%	41%	37%	45%	47%	42%	49%	49%	46%	44%	44%	40%	38%	36%
In another county in California	23%	18%	24%	17%	21%	21%	19%	18%	20%	21%	20%	21%	20%	21%
In another state	31%	28%	29%	27%	19%	20%	20%	22%	19%	22%	22%	25%	28%	29%
Out of US	1%	2%	1%	1%	2%	1%	1%	1%	0%	1%	1%	1%	1%	1%
Don't Know/Not sure	7%	11%	9%	10%	12%	16%	10%	10%	15%	13%	13%	13%	14%	13%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

SERIES: 2018 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

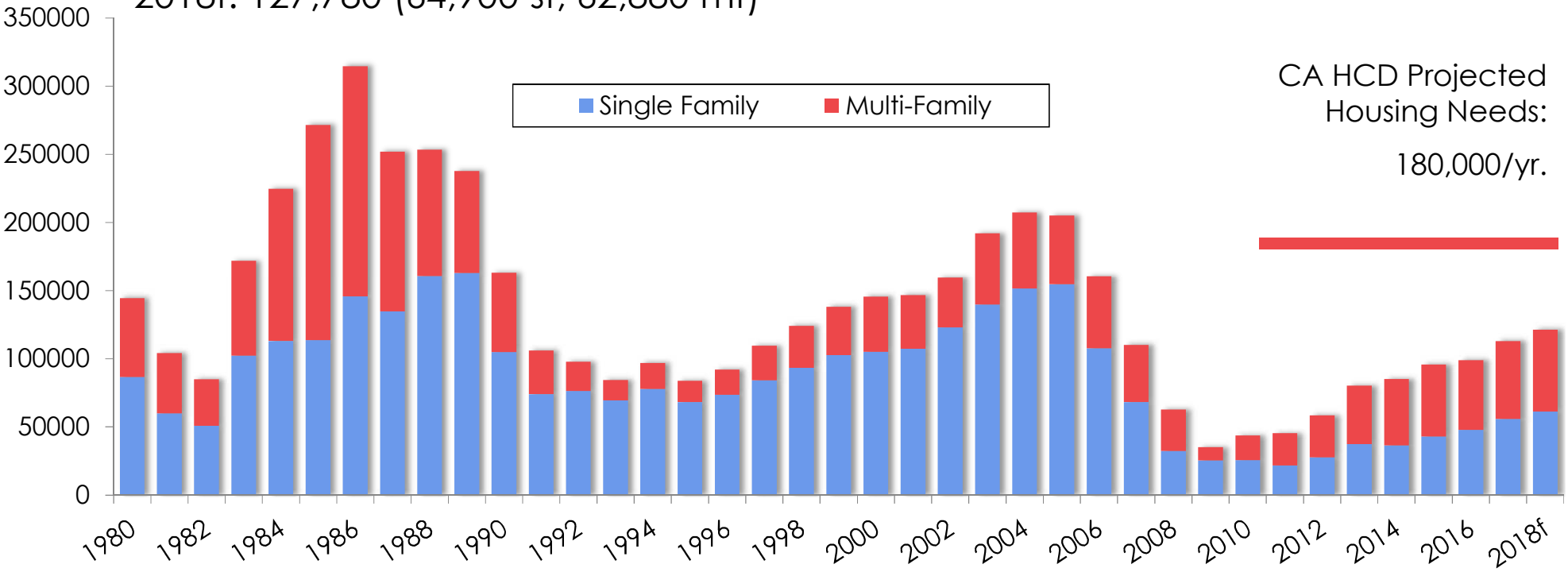


IV. New Housing Supply

Permits: CA Not Building Enough

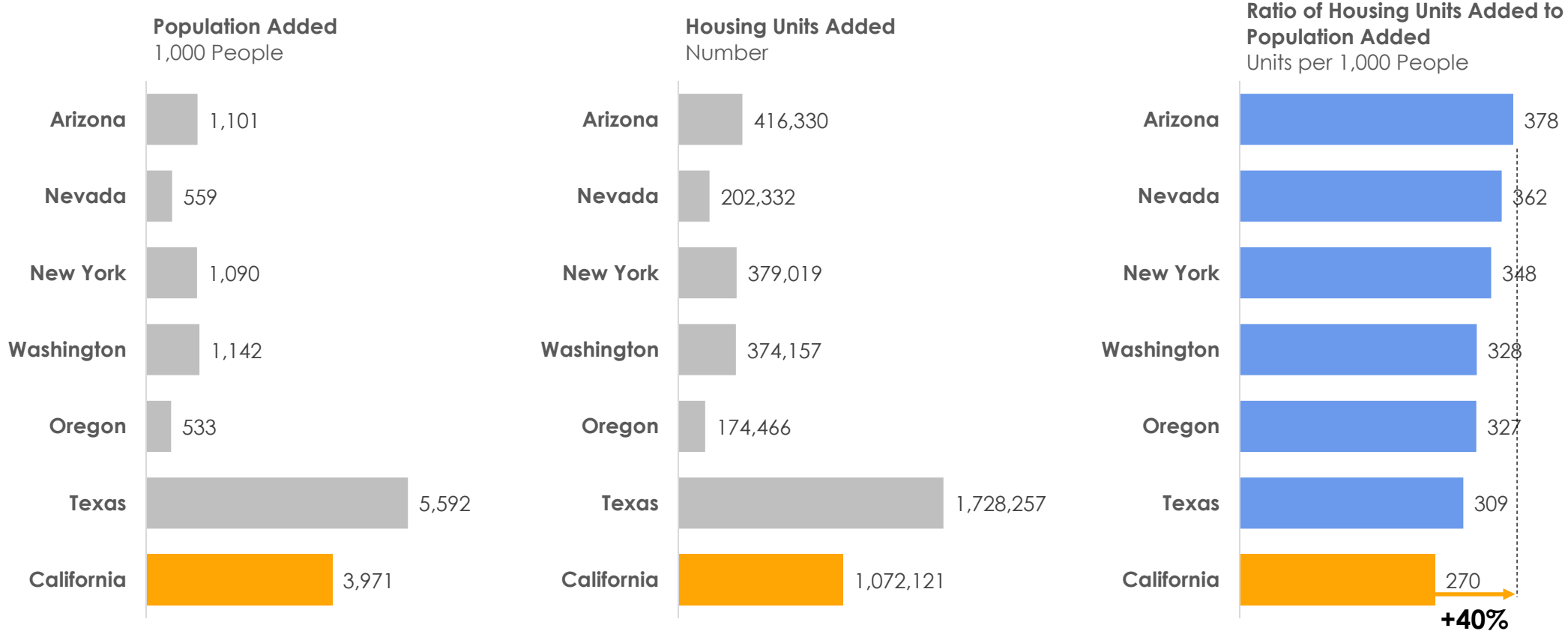
2017: 112,886 (55,779 sf, 57,107 mf)

2018f: 127,780 (64,900 sf, 62,880 mf)

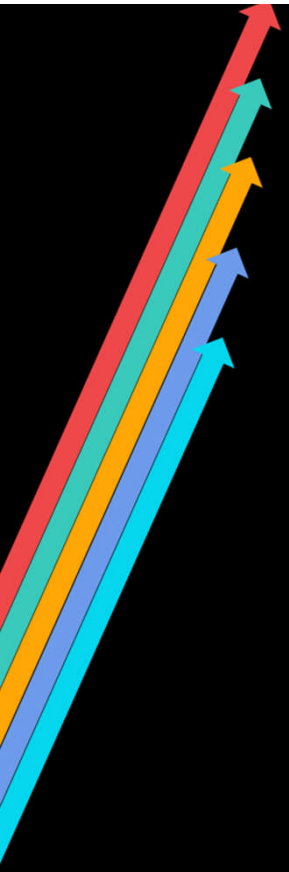


SERIES: California New Housing Permits
SOURCE: Construction Industry Research Board

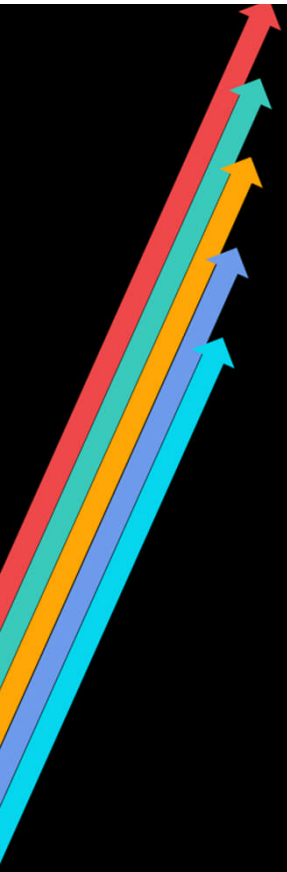
CA: Less new housing per capita than other states (2005 – 2016)



SOURCE: U.S. Census Bureau, C.A.R.



VI. What Are the Consequences?



1. CA is NOT Affordable

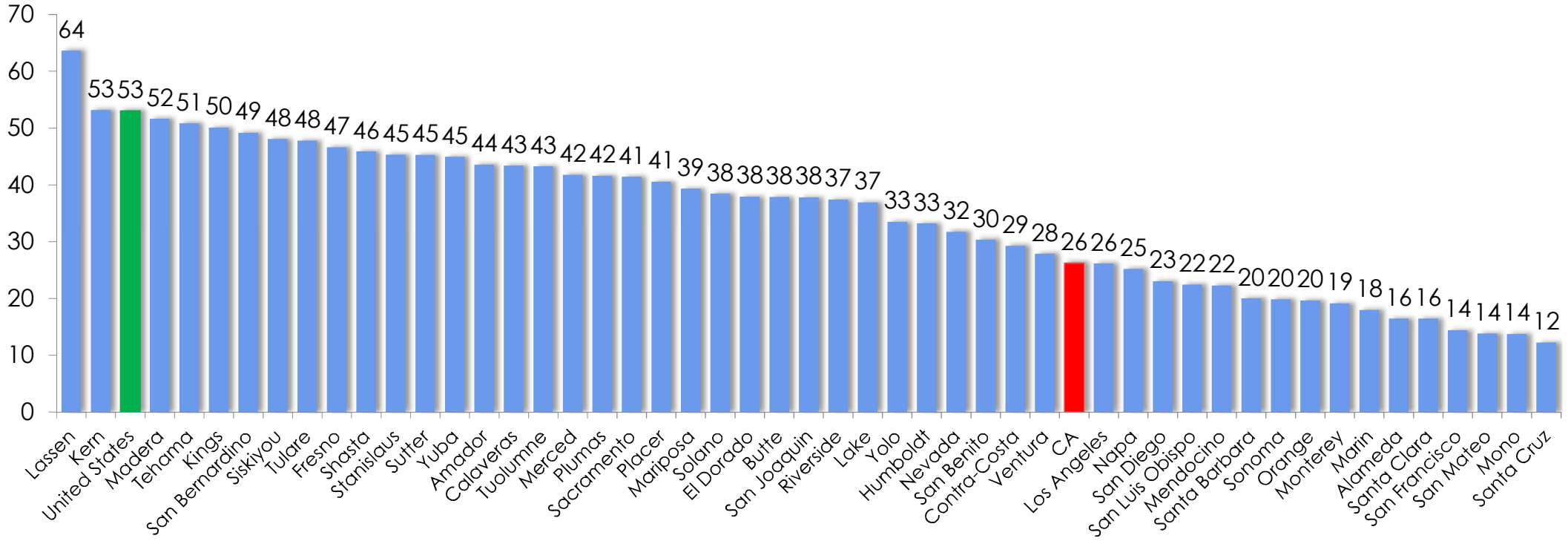
Housing Affordability is Off Sharply

California, 1984-2018

SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Only Lassen County Beats US Affordability

2018-Q2: % able to purchase median-priced home

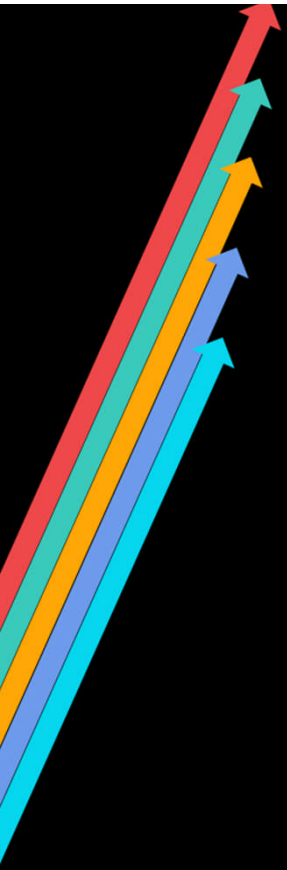


SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Least Affordable Metros are in CA

- *Los Angeles*
- *San Diego*
- *San Jose*
- *Oxnard*
- *San Francisco*

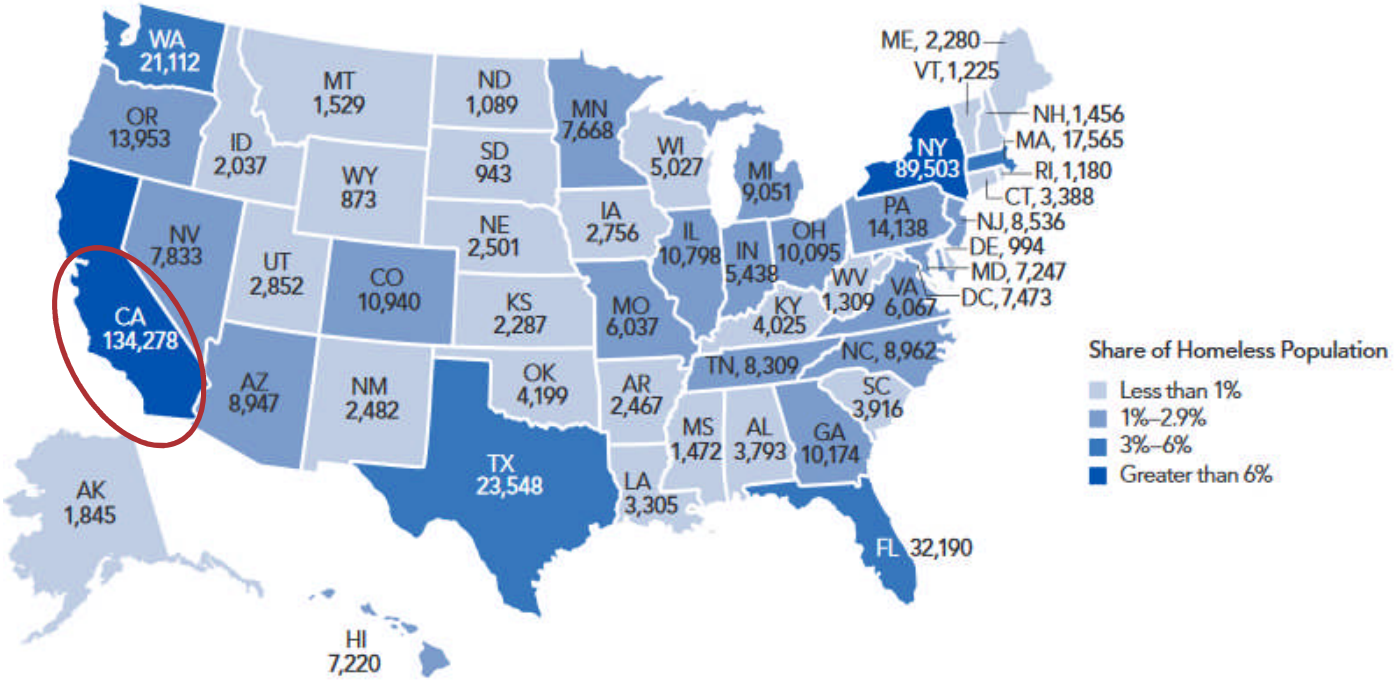
Realtor.com 4/18/2018



2. CA is Home to Record Number of Homeless

#2: Largest Number of Homelessness

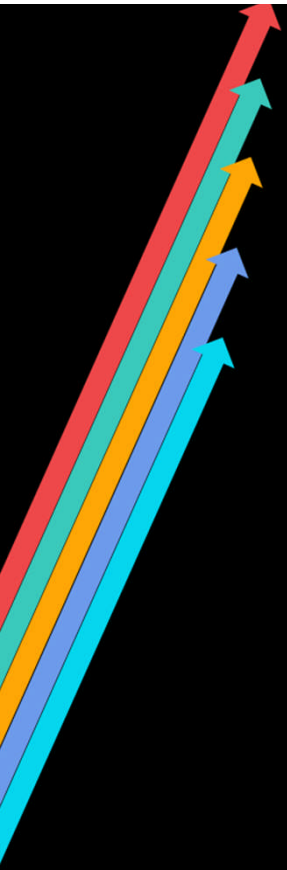
Estimates of Homeless People – By State, 2017



Top 5 State with Largest Increases (2016 – 2017)

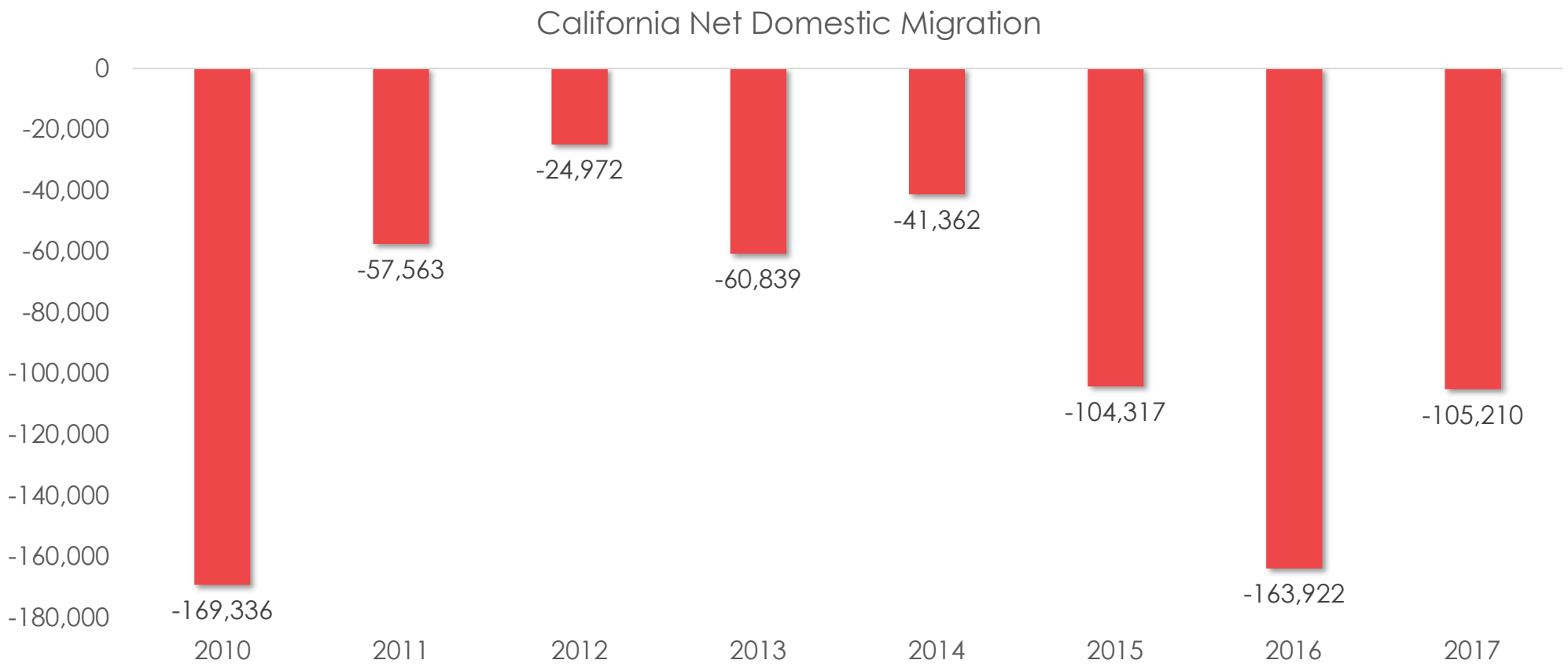
• **California**	**16,136/13.7%**
• **New York**	**3,151/3.6%**
• **Oregon**	**715/5.4%**
• **Nevada**	**435/5.9%**
• **Texas**	**426/1.8%**

SERIES: Estimates of Homeless People in January 2017
SOURCE: The U.S. Department of Housing & Urban Development

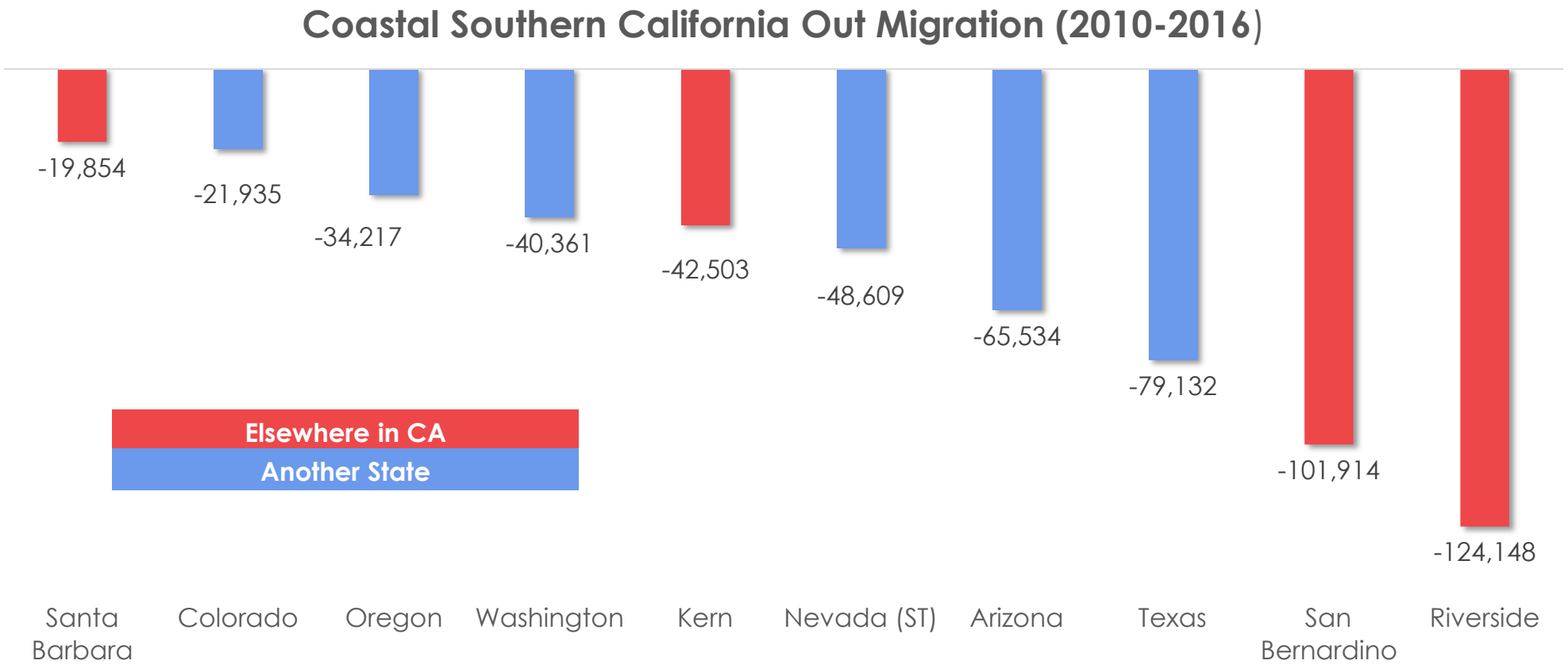


3. CA is Losing Workers to More Affordable States: Two Step

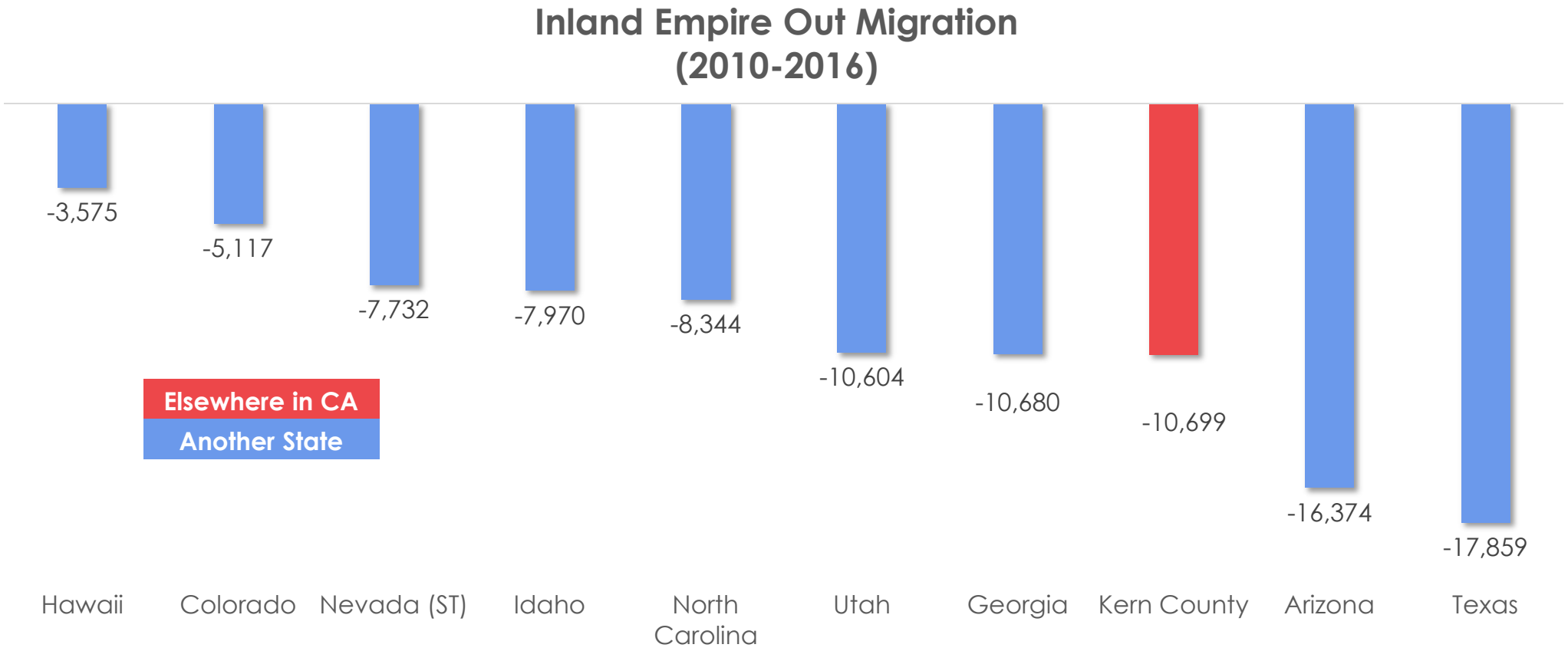
~750K People Have Left Since 2010

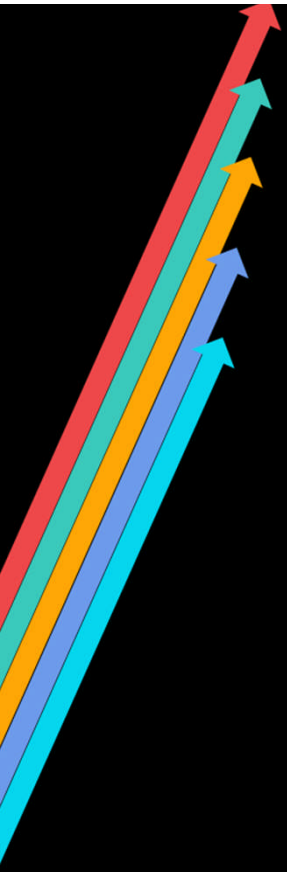


Step 1: Coastal to Cheaper Markets



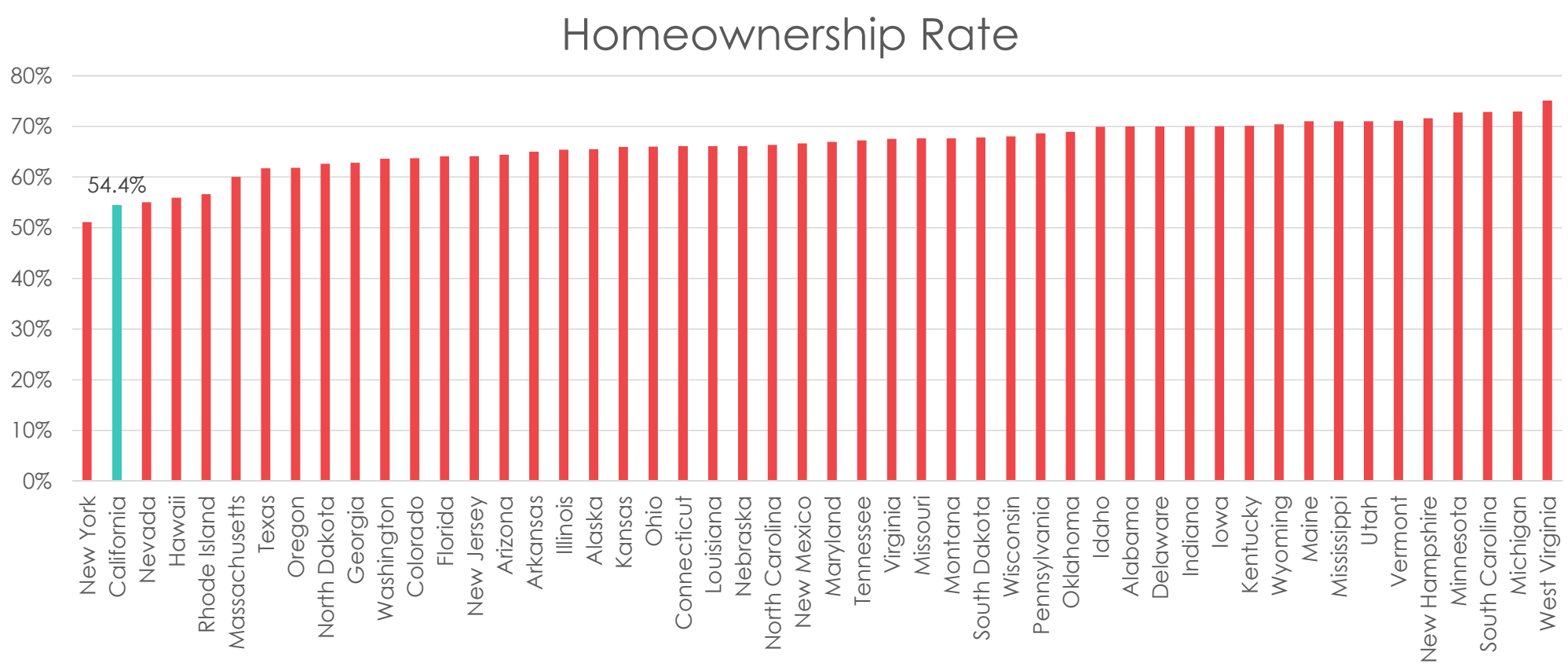
Step 2: Pricing Prior Residents Out of State



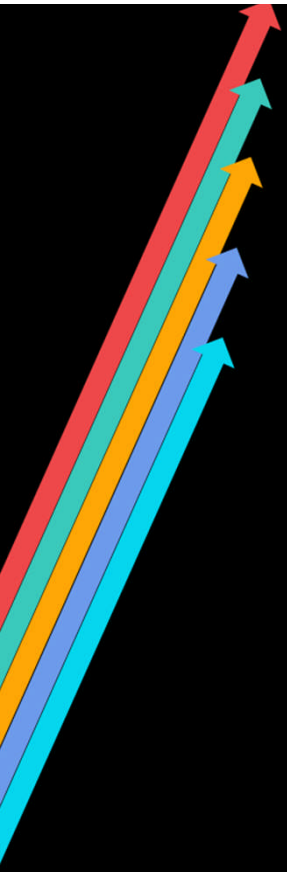


4. CA soon to be a majority renter state

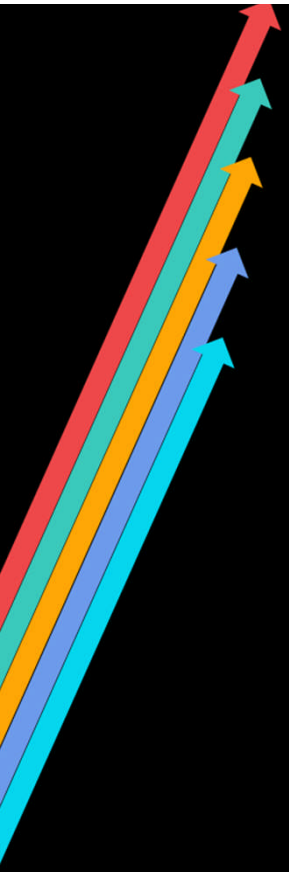
California: 2nd lowest in nation



SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau (Current Population Survey)



5. CA is pricing itself out of its future



Q: What needs to be done?

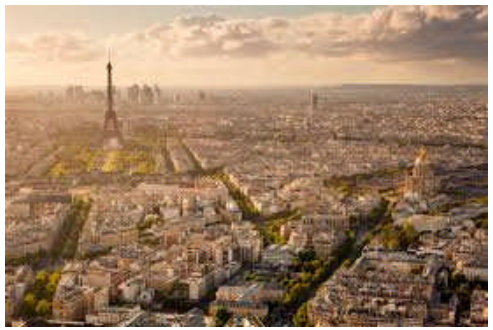
A: Build More Housing

Lakewood CA 1950

Global Capitals Do Density

#10 Shanghai

#43 London



#69 Paris

#35 Rio de Janerio

#27 Mexico City

Source: citymayors.com

U.S. Cities Ranked by Density

#90 Los Angeles

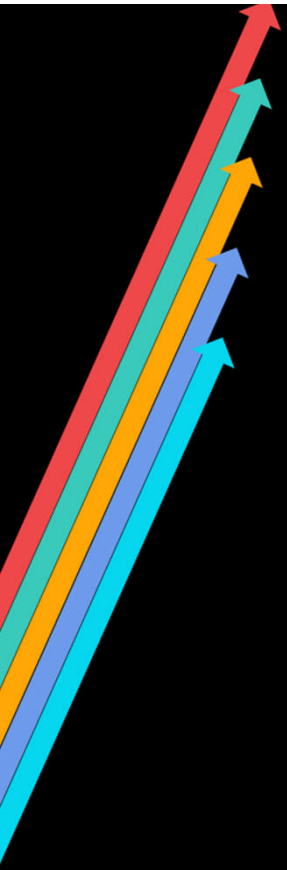
#104 San Francisco/Oakland

#107 San Jose

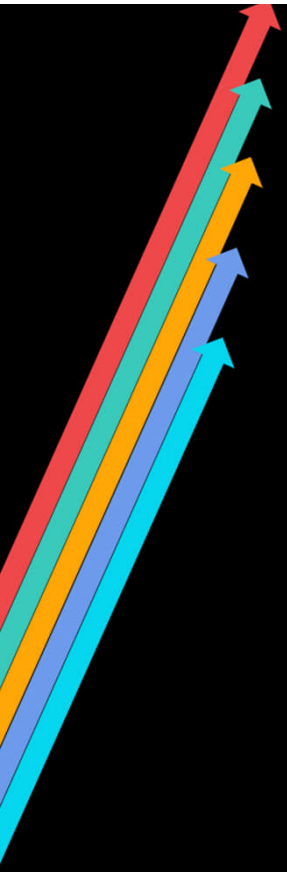
#119 Honolulu

#120 Las Vegas

#121 Miami



The Forecast

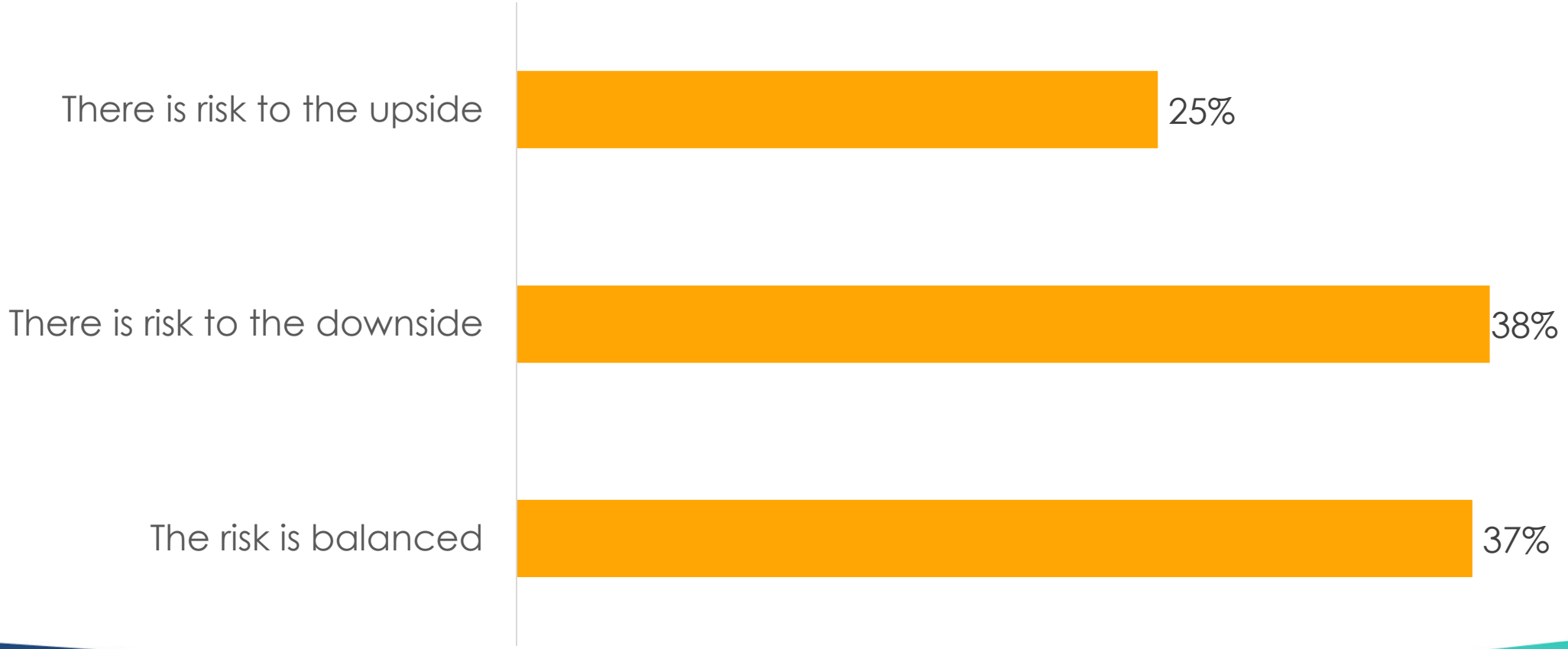


What do YOU think?

Methodology

- E-mail survey to 866 members of the Board of Directors.
- There were 451 survey responses, equivalent to a response rate of 52.1%.
- The margin of error for this survey was ±3.2% at a 95% confidence level.
- Field dates: October 1- 8, 2018

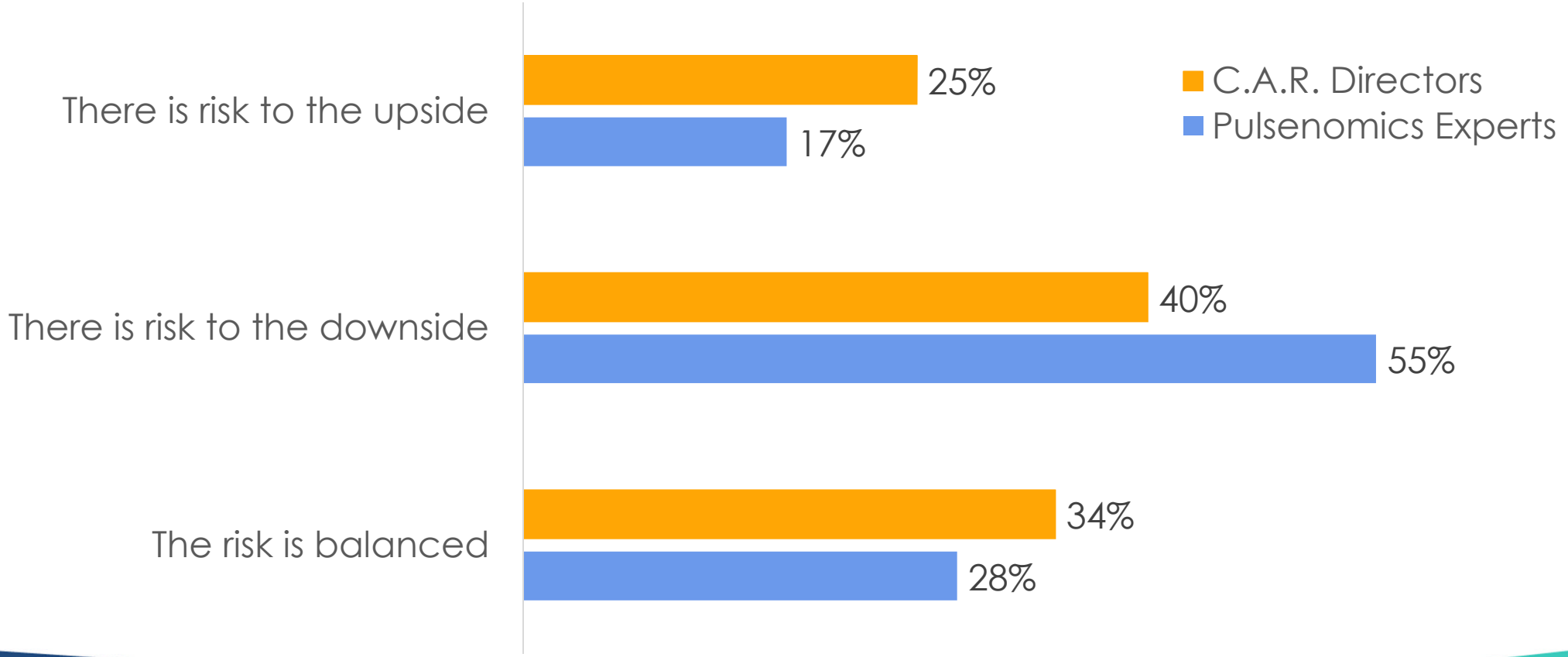
One-Year Outlook



Which choice best applies to your **one-year** outlook for California home values? (n=441)

SERIES: 2018 Director's Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

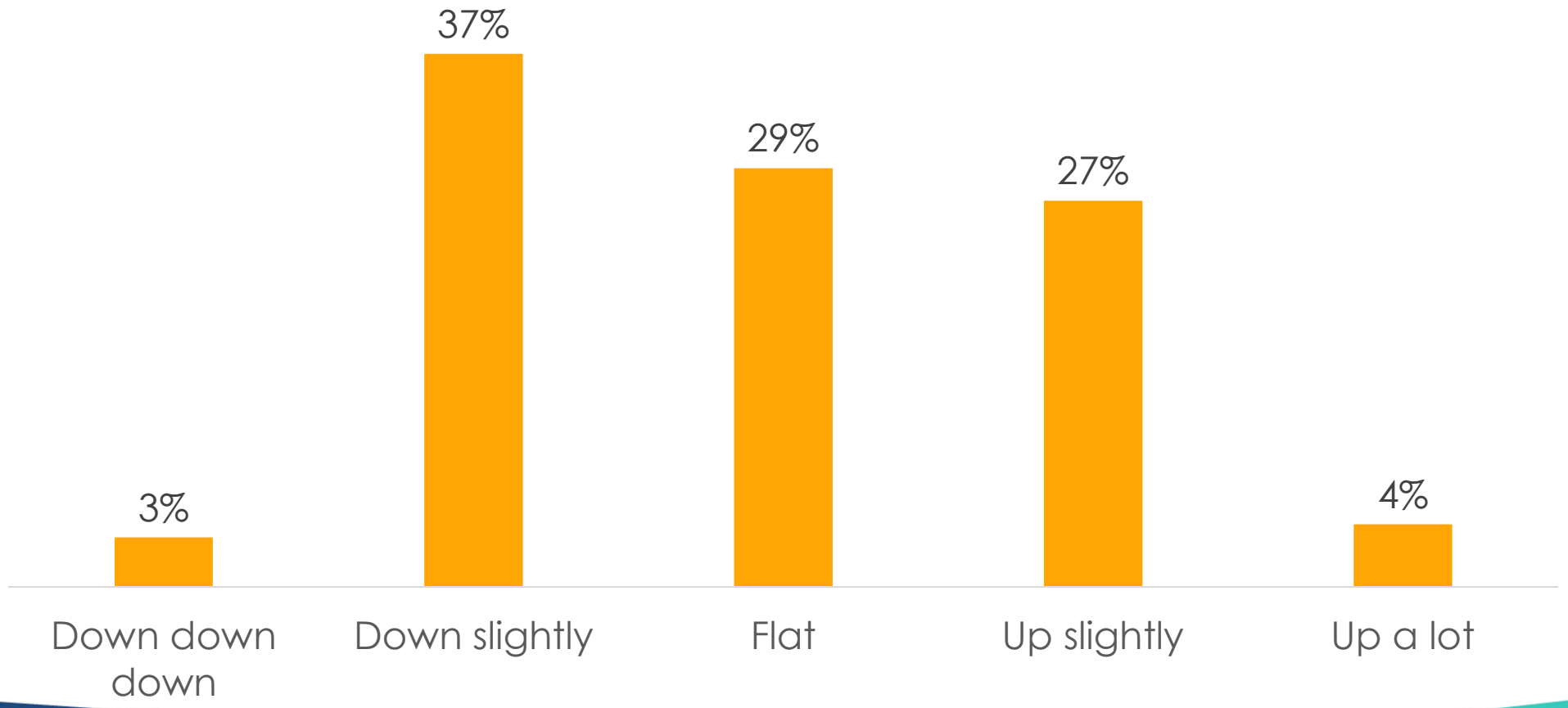
5-Year Outlook: Directors more optimistic



Which choice best applies to your **five-year** outlook for California home values? (C.A.R. n=437, Pulsenomics n=112)

SERIES: 2018 Director's Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

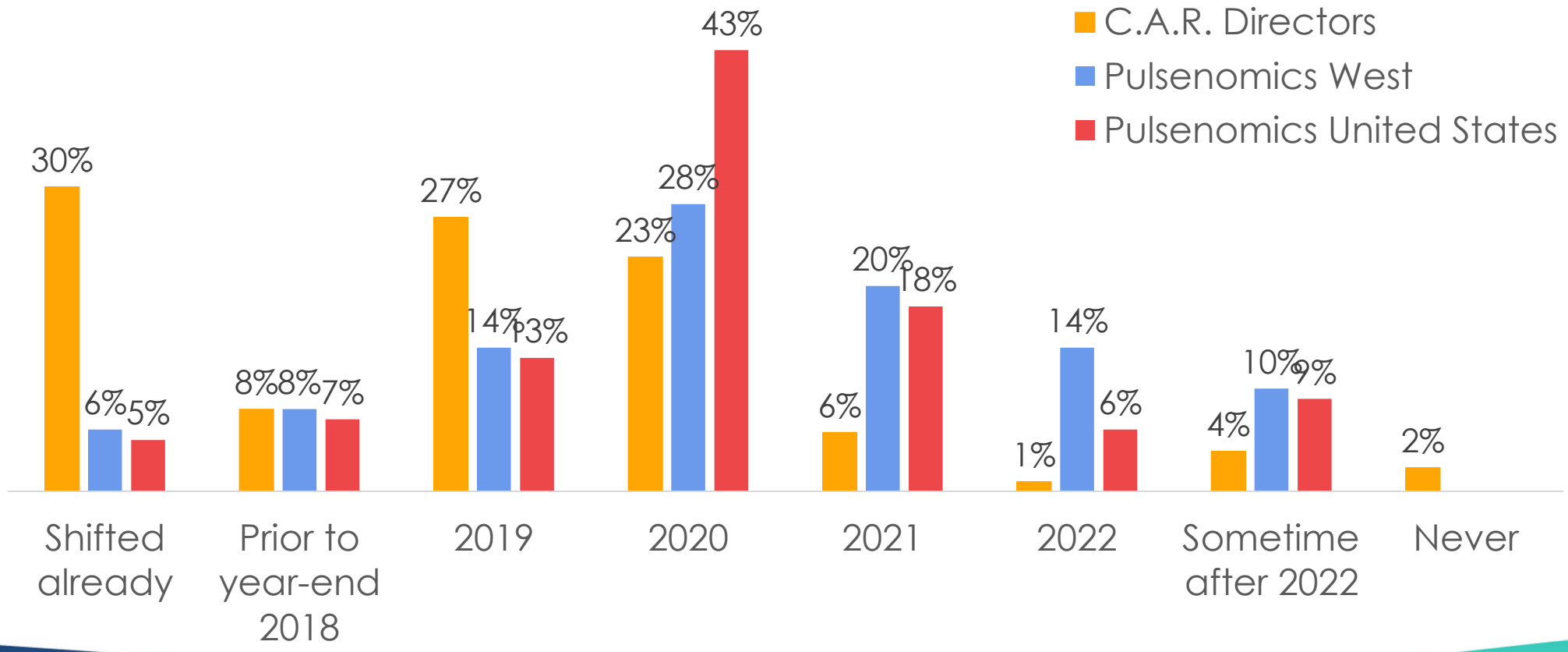
2019 Sales Forecast?



What's your outlook for the number of transactions in California next year? (n=443)

SERIES: 2018 Director's Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

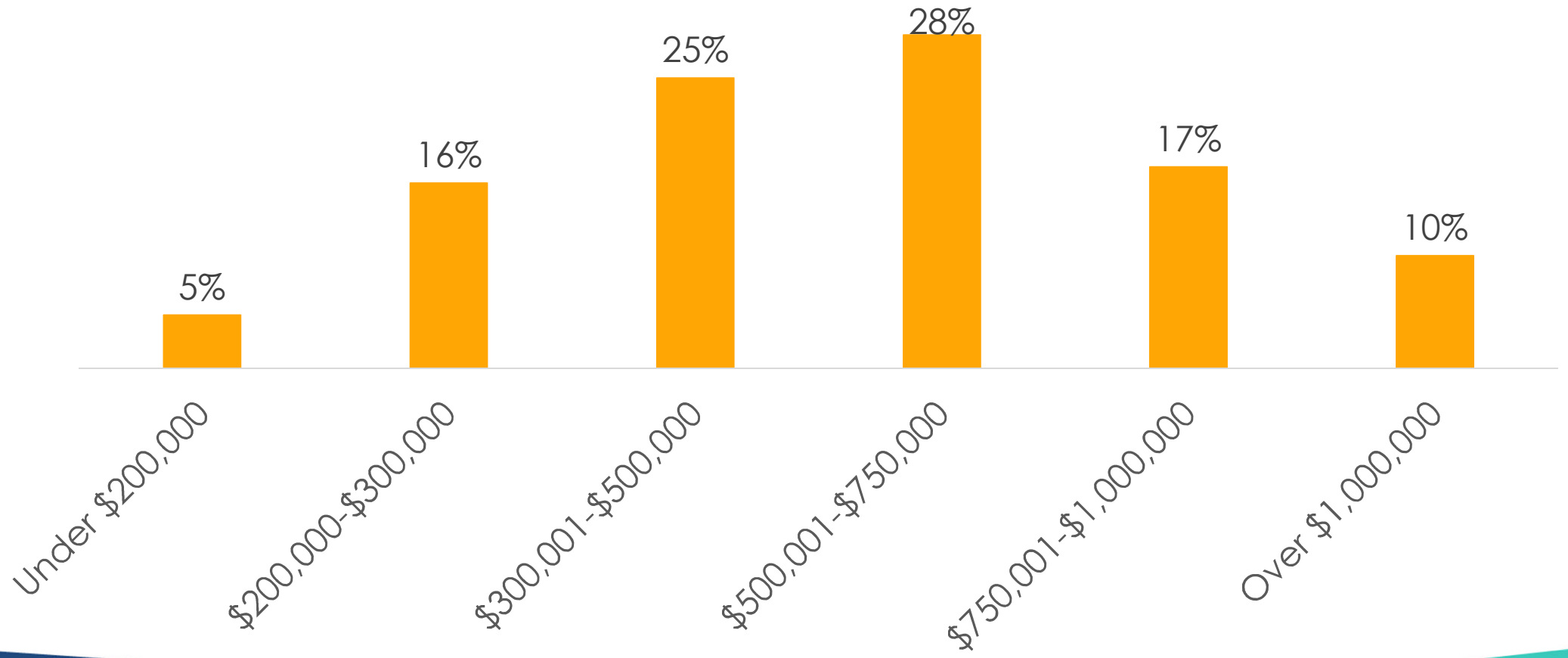
When Will Market Conditions Shift?



When do you expect California housing market conditions to shift decidedly in favor of home buyers? (C.A.R. n=438, Pulsenomics US n= 98, West n=91)

SERIES: 2018 Director's Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Entry Level Home Price



What is the price of an entry-level home in your market? (n=438)

SERIES: 2018 Director's Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Expected Rate for a 30-Year FRM

1 year:

C.A.R. Directors: 5.25%

Pulsenomics Experts: 5.00%

At cycle peak:

C.A.R. Directors: 6.00%

Pulsenomics Experts: 5.25%

The prevailing rate for a 30-year fixed rate mortgage is 4.75. What do you expect it to be One year from now? (C.A.R. n=425, Pulsenomics n=100)
At the time you expect the current business cycle will reach its peak?(C.A.R. n=374, Pulsenomics n=94)

SERIES: 2018 Director's Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

U.S. Economic Outlook

	2013	2014	2015	2016	2017	2018p	2019f
US GDP	1.7%	2.4%	2.6%	1.6%	2.3%	3.0%	2.4%
Nonfarm Job Growth	1.7%	1.9%	2.1%	1.8%	1.4%	1.6%	1.3%
Unemployment	7.4%	6.2%	5.3%	4.9%	4.4%	3.9%	3.7%
CPI	1.5%	1.6%	0.1%	1.4%	2.0%	2.5%	2.4%
Real Disposable Income, % Change	-1.4%	2.7%	3.4%	2.7%	2.1%	2.8%	2.6%
30-Yr FRM	4.0%	4.2%	3.9%	3.6%	4.0%	4.7%	5.2%

SERIES: U.S. Economic Outlook
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

California Economic Outlook

	2013	2014	2015	2016	2017	2018p	2019f
Nonfarm Job Growth	3.0%	2.2%	2.7%	2.3%	1.6%	2.0%	1.4%
Unemployment	8.9%	7.5%	6.2%	5.5%	4.8%	4.3%	4.3%
CA Population (Million)	38.4	38.7	39.1	39.4	39.6	39.9	40.2
Population Growth	0.9%	1.0%	0.8%	0.6%	0.8%	0.7%	0.7%
Real Disposable Income, % Change	-2.1%	5.6%	3.9%	1.6%	1.6%	2.4%	3.0%

SERIES: CA Economic Outlook
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

California Housing Market Outlook

	2013	2014	2015	2016	2017	2018p	2019f
SFH Resales (000s)	414.9	382.7	409.4	417.7	424.1	410.5	396.8
% Change	-5.9%	-7.8%	7.0%	2.0%	1.5%	-3.2%	-3.3%
Median Price ($000s)	$407.2	$446.9	$476.3	$502.3	$538.0	$575.8	$593.4
% Change	27.5%	9.8%	6.6%	5.4%	7.2%	7.0%	3.1%
Housing Affordability Index	36%	30%	31%	31%	29%	28%	25%
30-Yr FRM	4.0%	4.2%	3.9%	3.6%	4.0%	4.7%	5.2%

SERIES: CA Housing Market Outlook
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Opportunities

- Listings are up & prices are favorable for sellers
- Call frustrated potential buyers and tell them the good news
- Rates are rising – don't wait
- Provide sellers a teachable moment
- Know where people are moving and why and work your referral network
- Get involved in the political process – this is your future

Read This: California's Housing Future

Gracias
Merci
Спасибо
Thank you
Danke
Merci
Danke
Спасибо
Gracias
谢谢
謝謝
Dziękuję
Gracias
Obrigado