

# 2024 California Economic & Housing Market Forecast

All Paths Lead to Consumers

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# Internal & external forces accelerating change

## Strengths

- Market Not Crashing: Prices Rising
- Economy Continues to Expand
- Homeownership Desired & Valuable

~~Threats~~

## Weaknesses

- Affordability & Homeownership Shrinks
- Population/Remote Work/Commercial
- Rates Expected to Remain Elevated

# Internal & external forces accelerating change

## Strengths

- Market Not Crashing: Prices Rising
- Economy Continues to Expand
- Homeownership Desired & Valuable

## Challenges

- Recession Not Ruled Out Yet
- Supply Remains Limiting Factor
- Real Estate Industry Changing

## Weaknesses

- Affordability & Homeownership Shrinks
- Population/Remote Work/Commercial
- Rates Expected to Remain Elevated

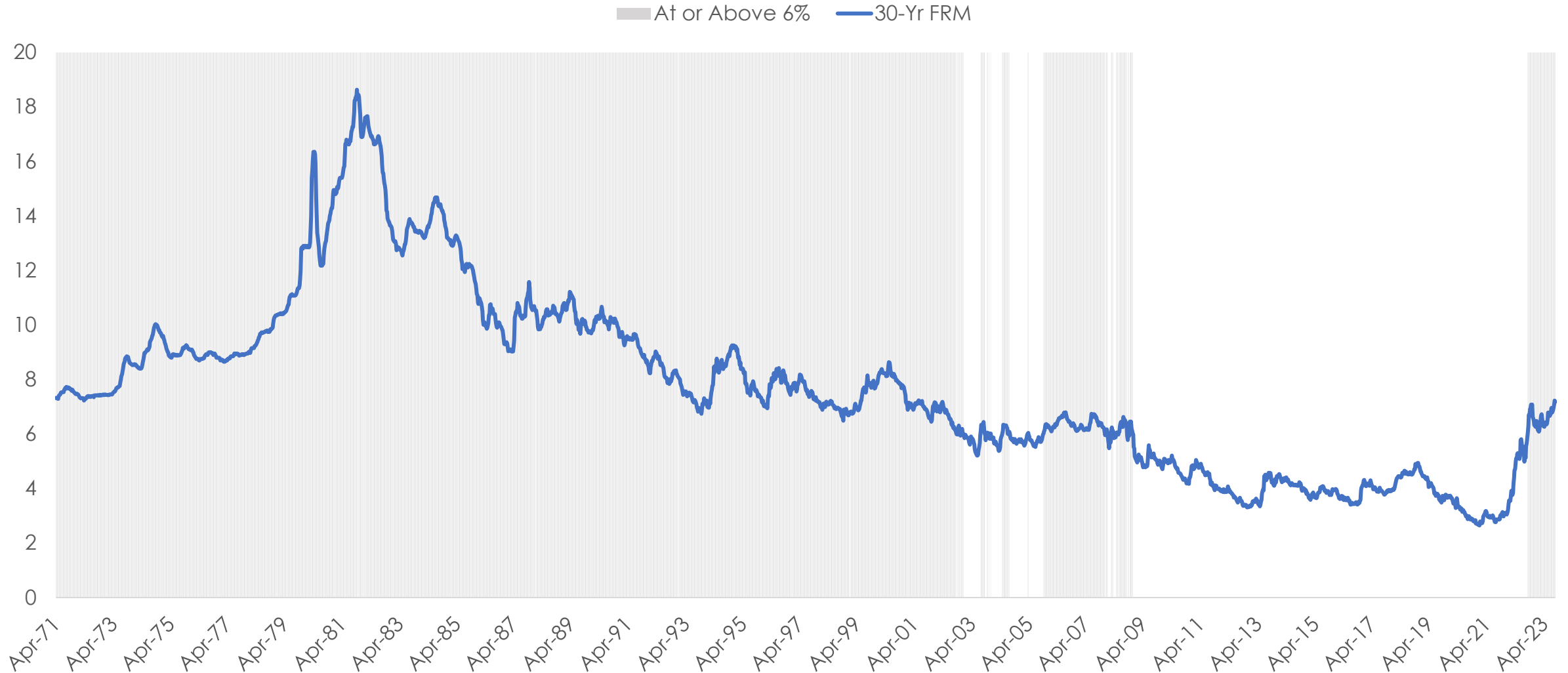
## Opportunities

- Policy Can/Could Help Significantly
- Consumers Really Need Us
- Still CA & Some Niches Counter-Cyclical

# Reasons to be optimistic

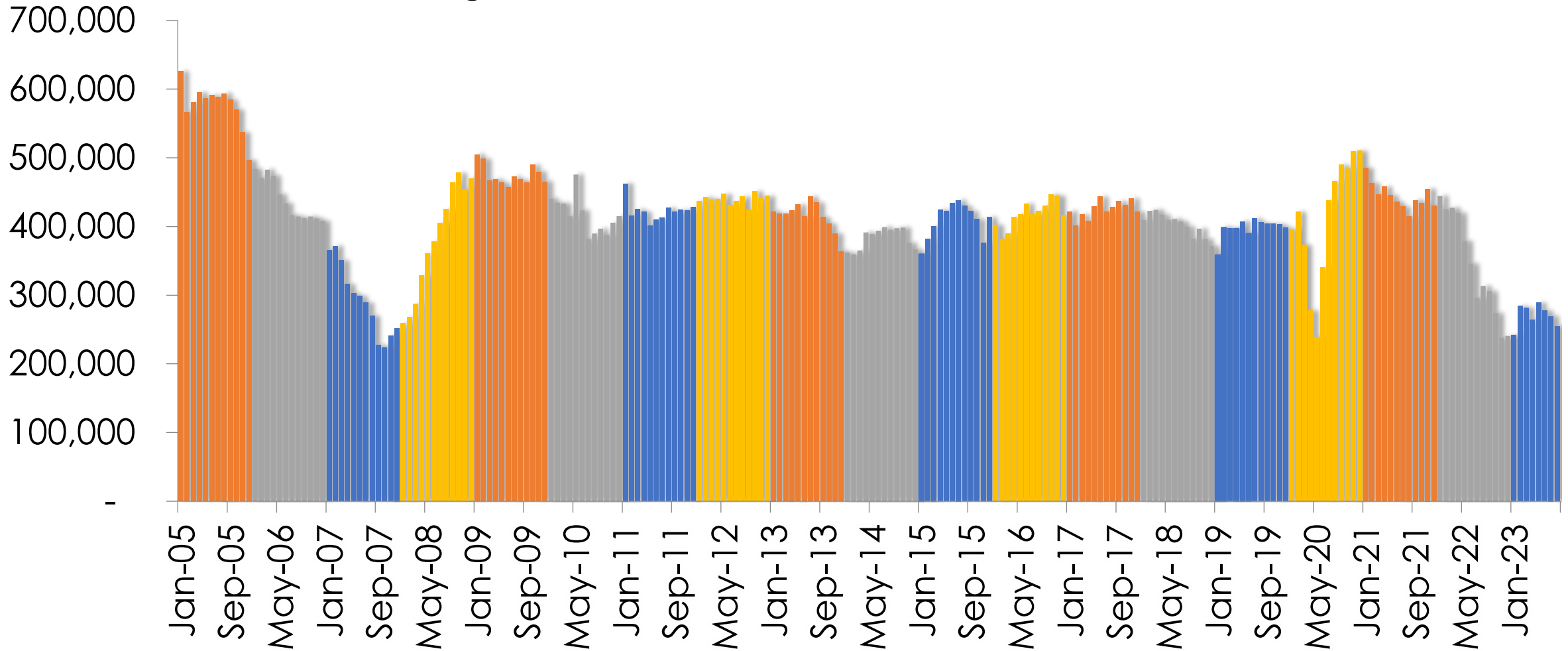
# Rates not high by historical standards, but prices are...


Average 30-Year Fixed Rate Mortgage Interest Rate



# Despite it all, sales haven't returned to winter lows

California, August 2023 Sales: 254,740 Units, **-18.9%** YTY, **-5.3%** MTM





While it may still be the case, as suggested by the *simulation studies*, that under the right condition's renters would come out ahead of owners, **in practice we do not observe these outcomes.**

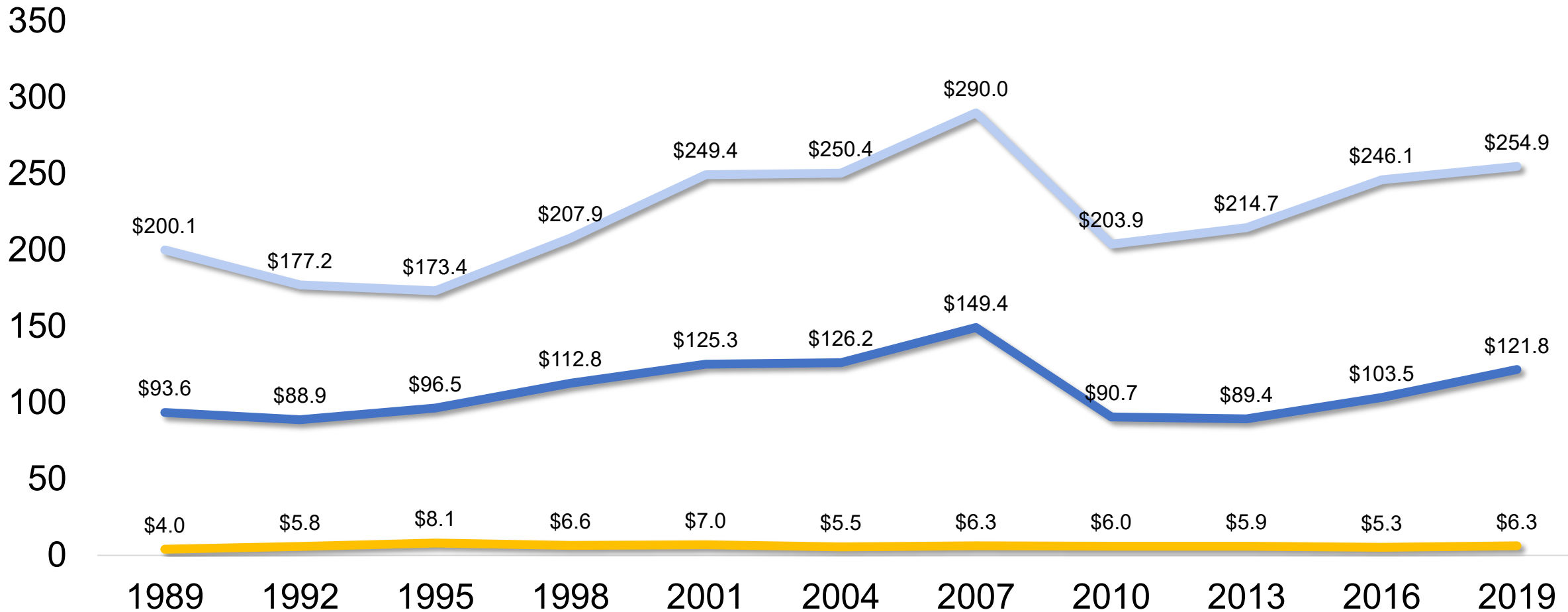
Harvard Joint Center for Housing Studies, 2013

Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?)

# The benefits of homeownership are well documented

## Real Household Net Worth Per Capita

— All families — Owner — Renter or other

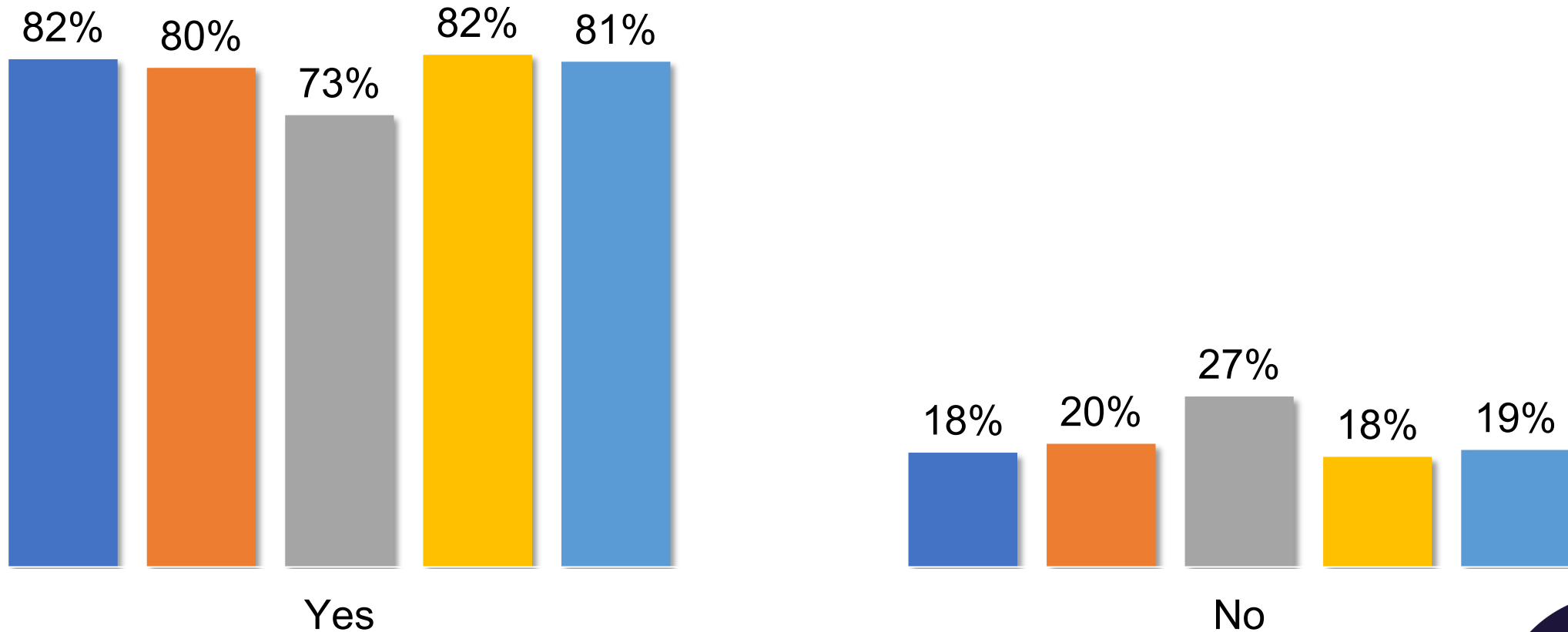




# And desire for homeownership remains undiminished!

Do you want to own at some point in the future?

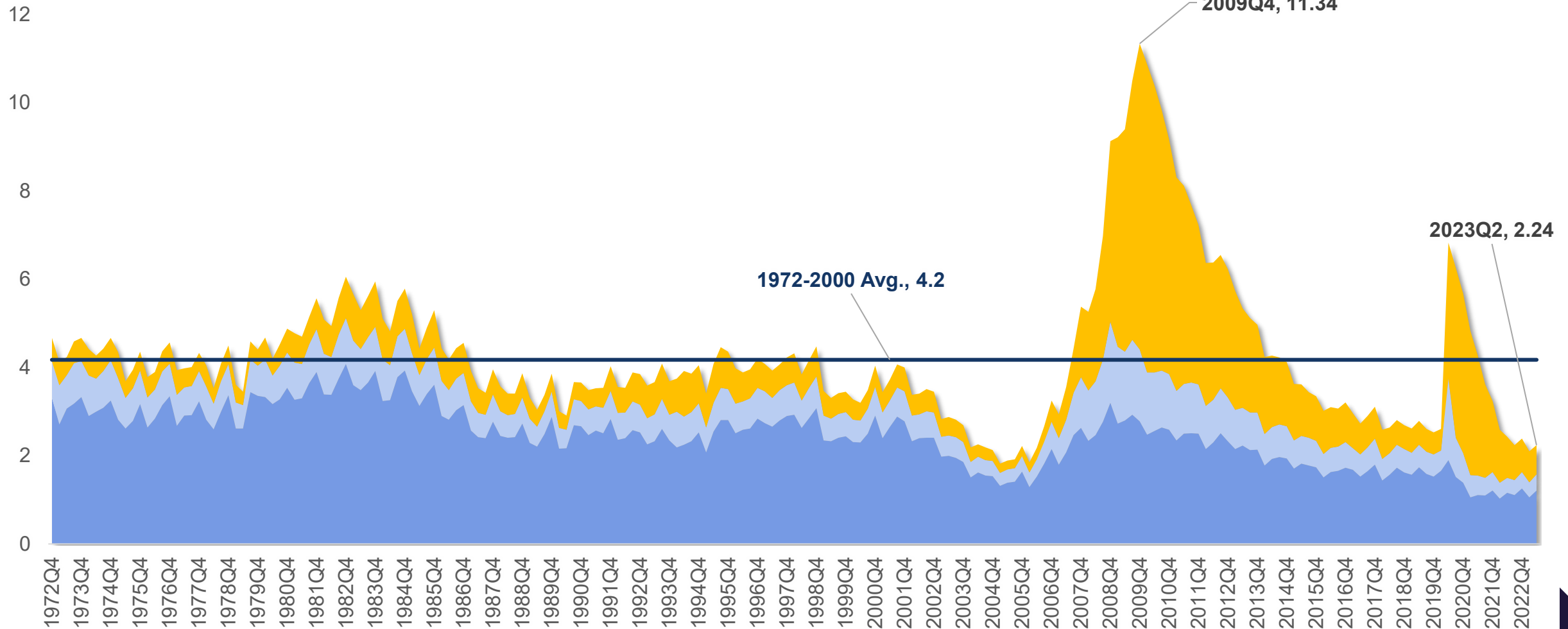
■ 2018 ■ 2019 ■ 2021 ■ 2022 ■ 2023



# Delinquency currently half of historical average

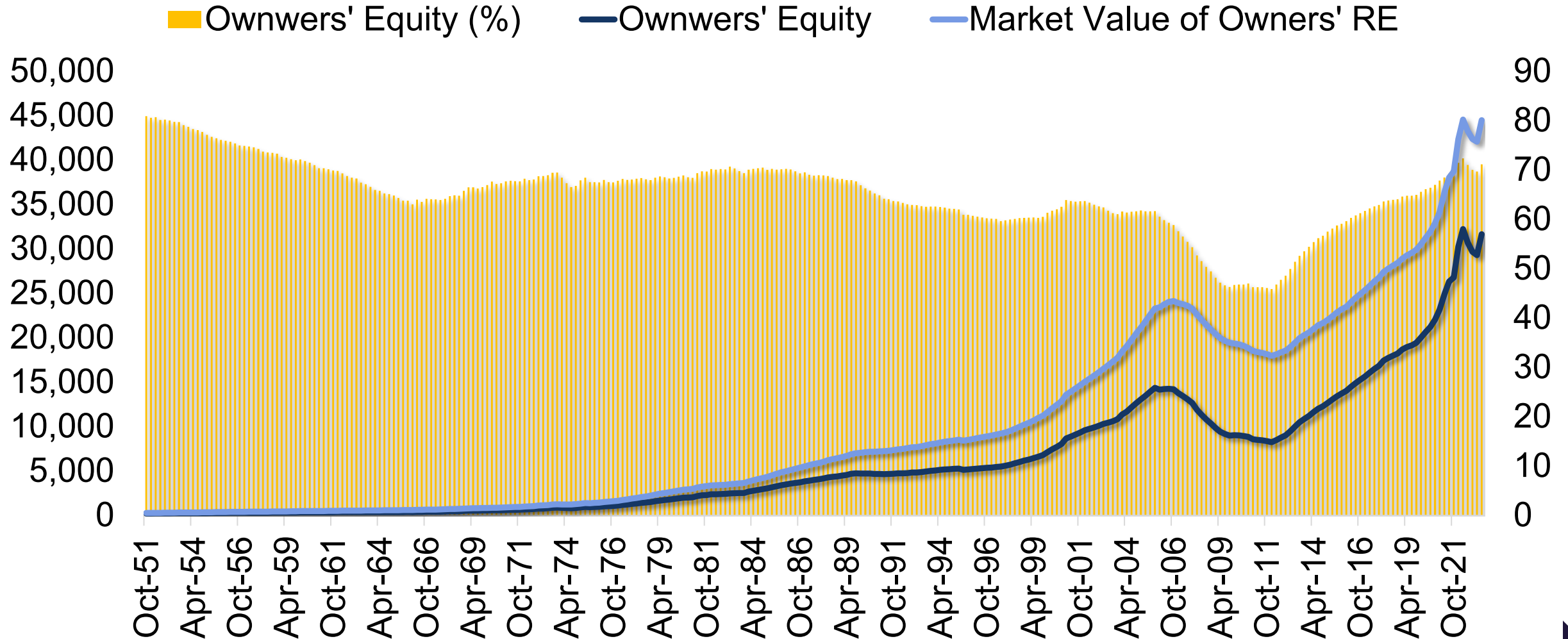
## California Mortgage Delinquency Rate

30-59 Days 60-89 Days 90+ Days 1972-2000 Avg.



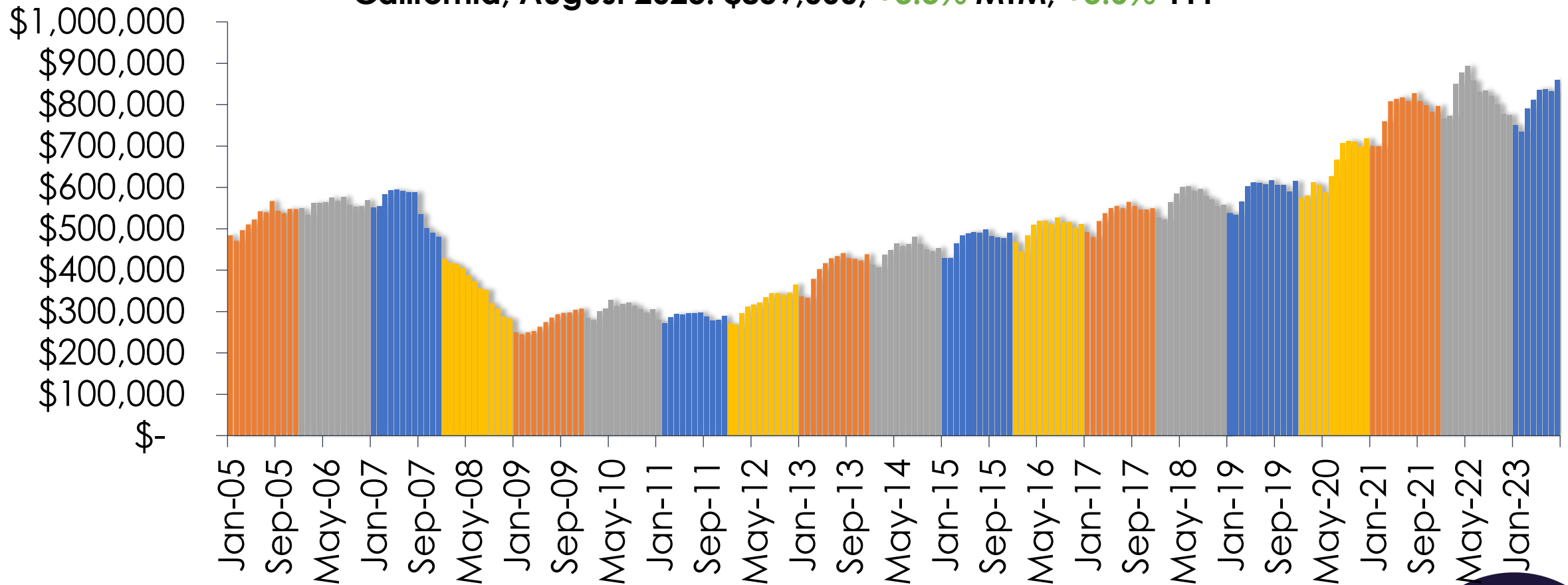
# Homeowner equity still at an all-time high

## U.S. Homeowners' Equity



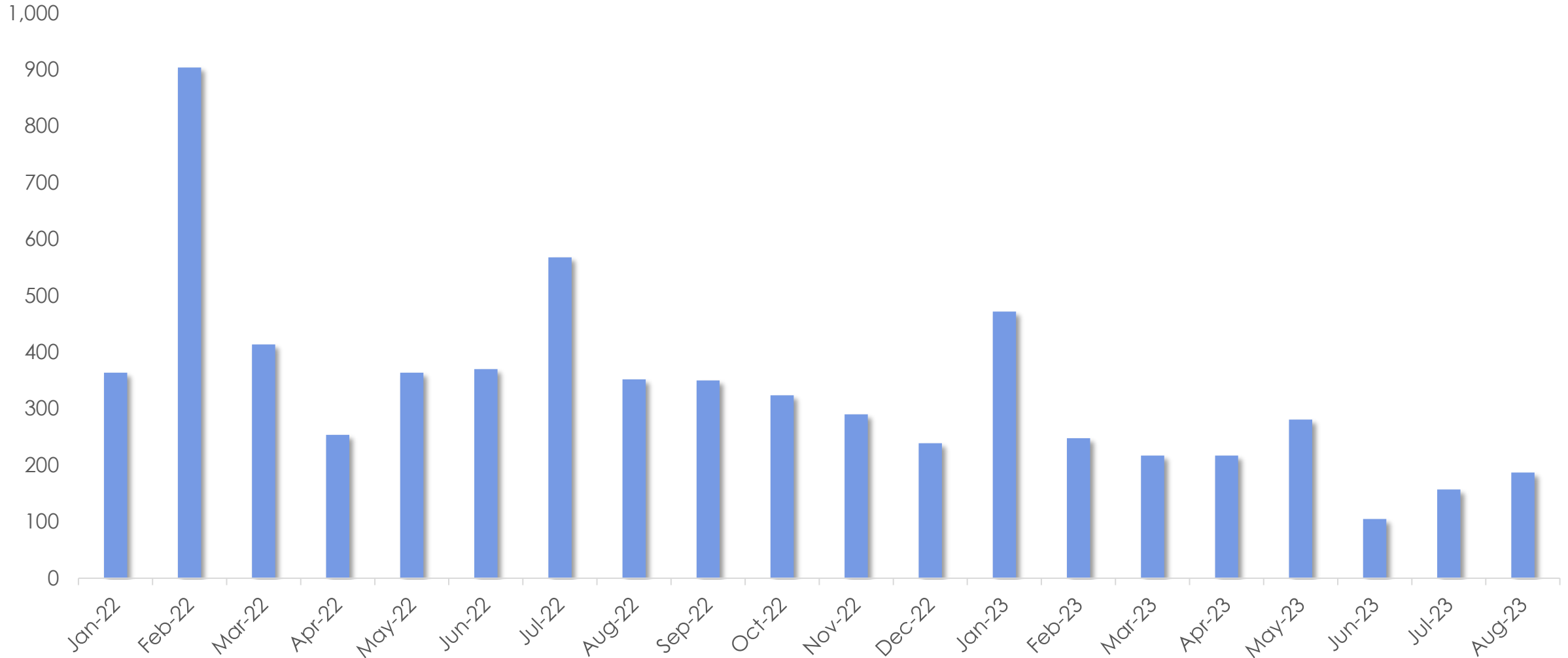
# Median home prices trending up all year

California, August 2023: \$859,000, +3.3% MTM, +3.0% YTY



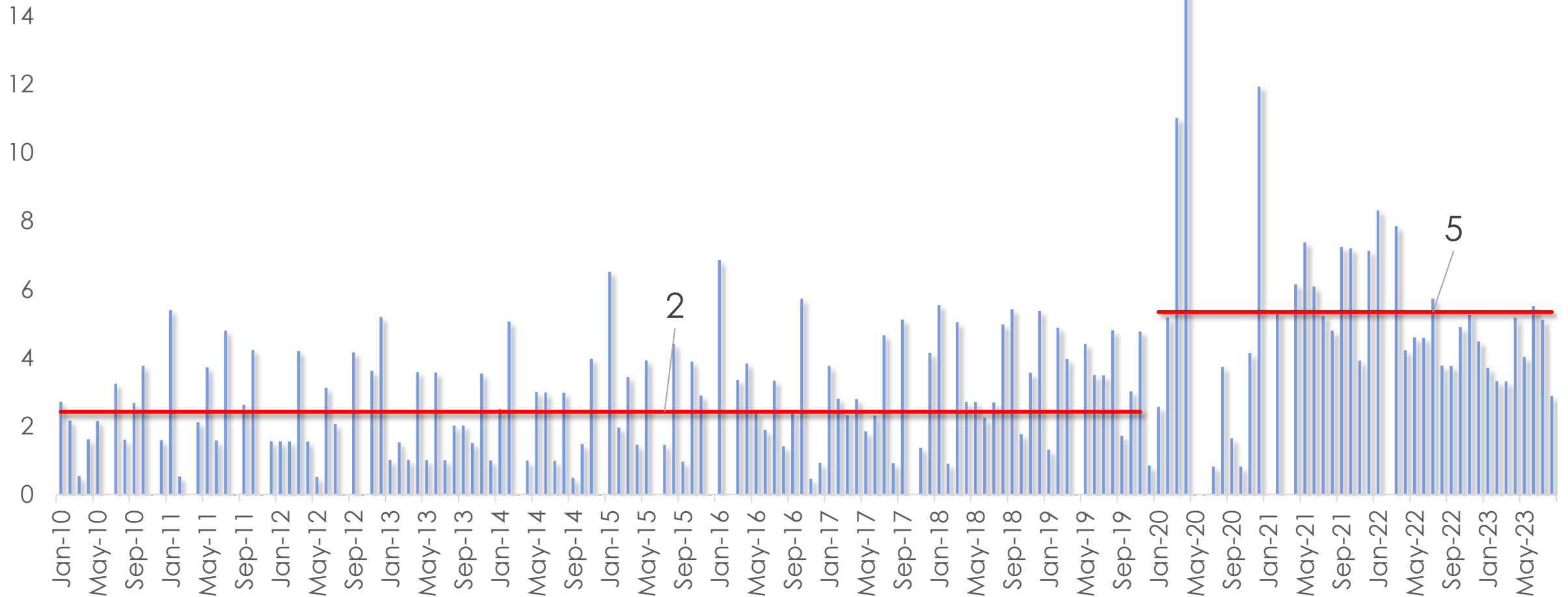
# We continue to see job growth despite layoffs

U.S. Nonfarm Job Growth



# Supply and demand still working... phew!

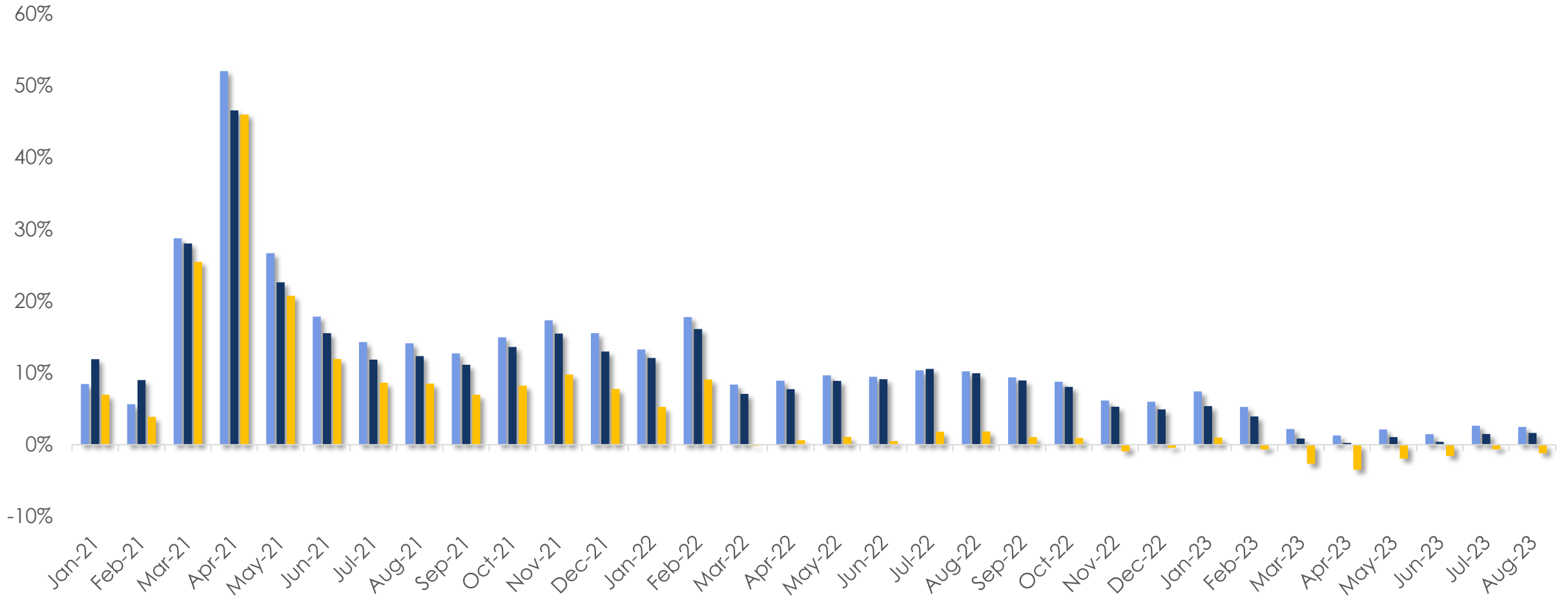
Average Hourly Wage Growth (YTY %)



# Consumers still propelling the economy as a result

U.S. Retail Sales Growth (YoY %)

■ Retail Growth ■ Retail Growth (x Food) ■ Real Growth



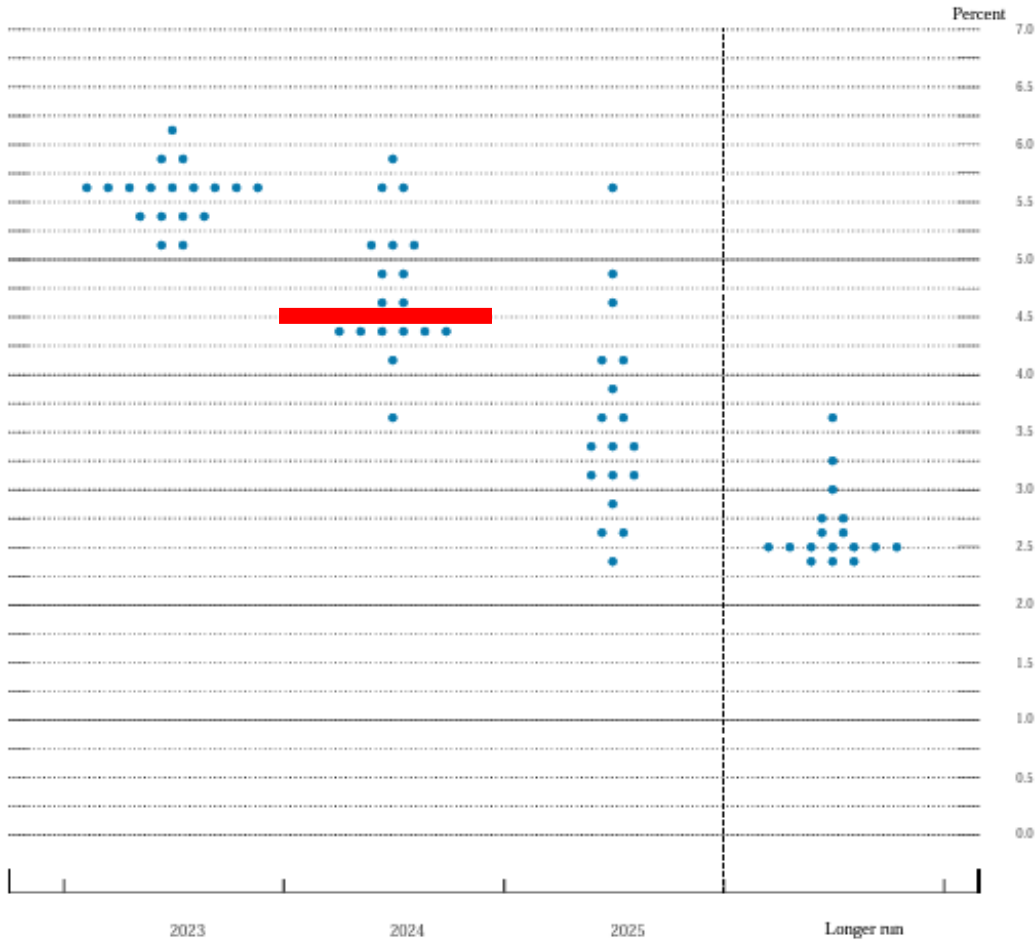
Don't take your foot off the gas





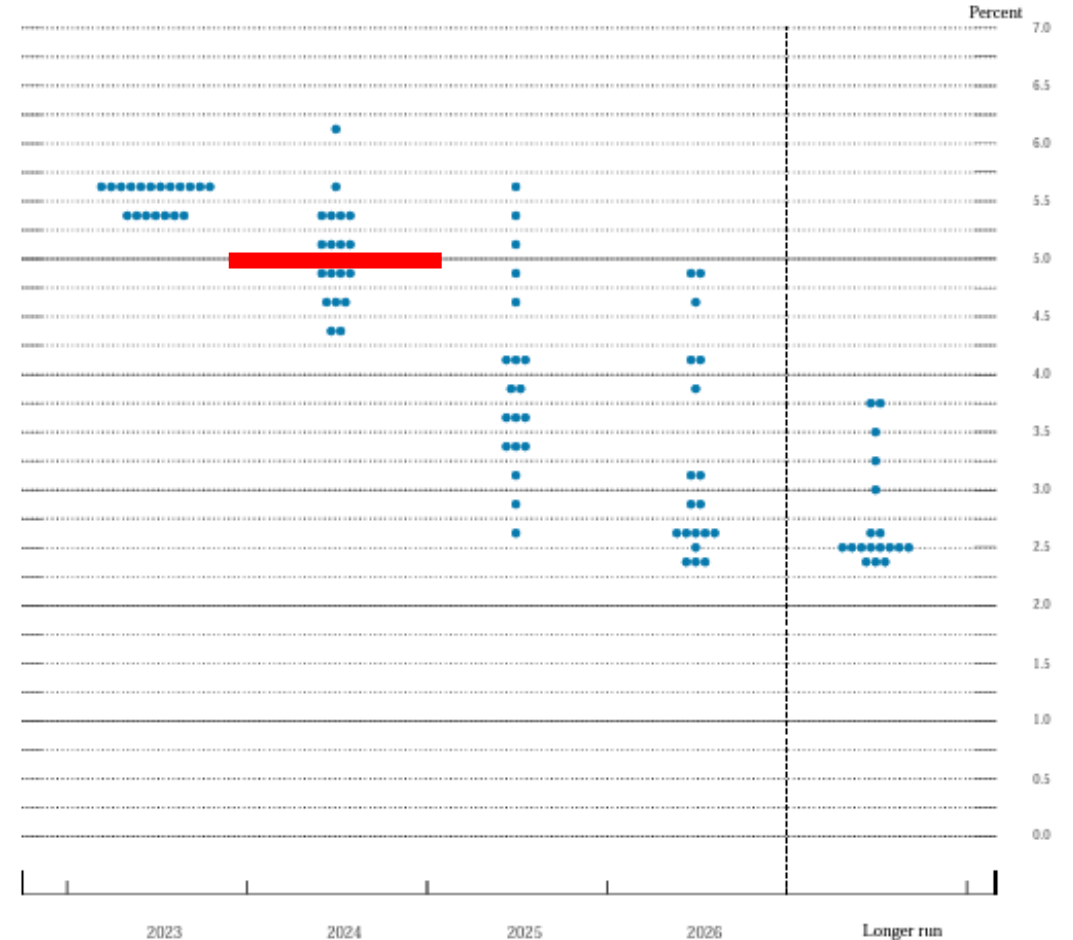
# June 2023

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

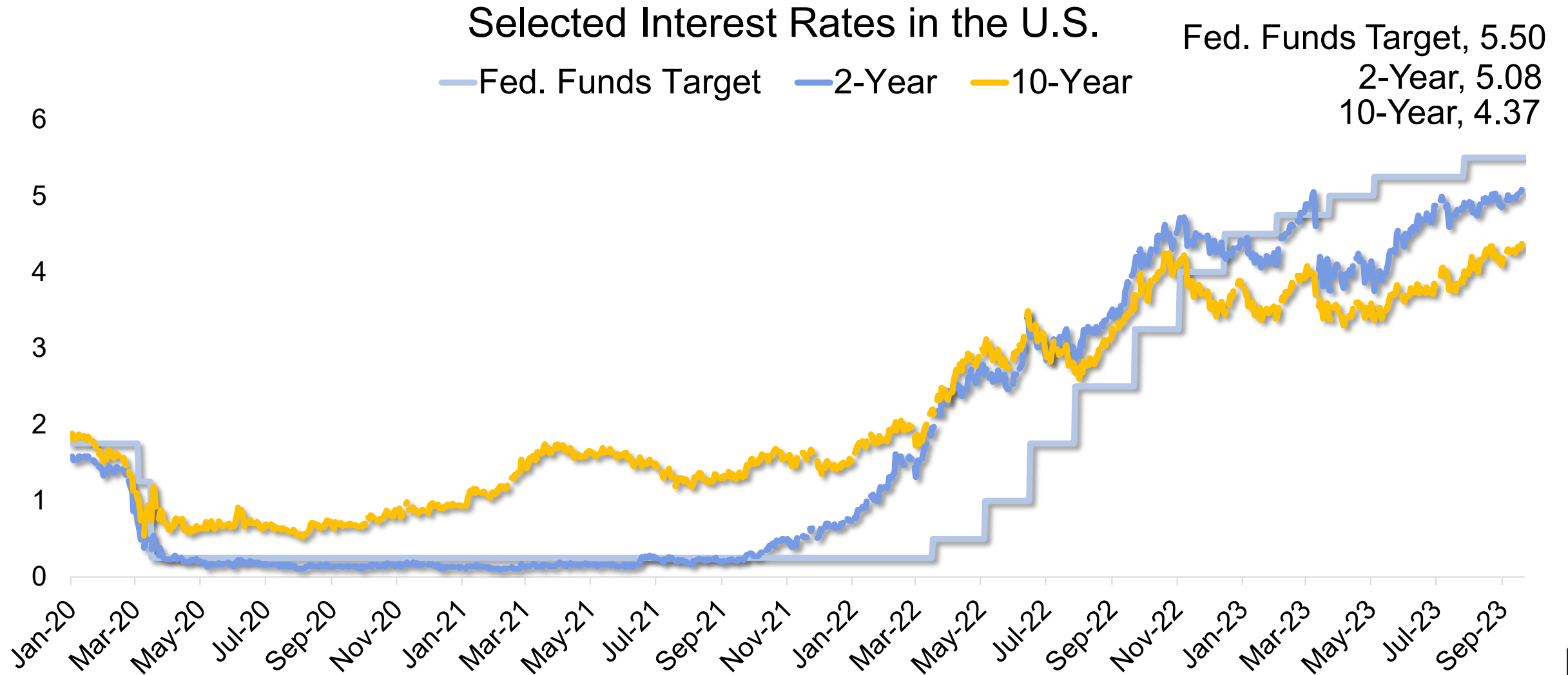


# September 2023

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



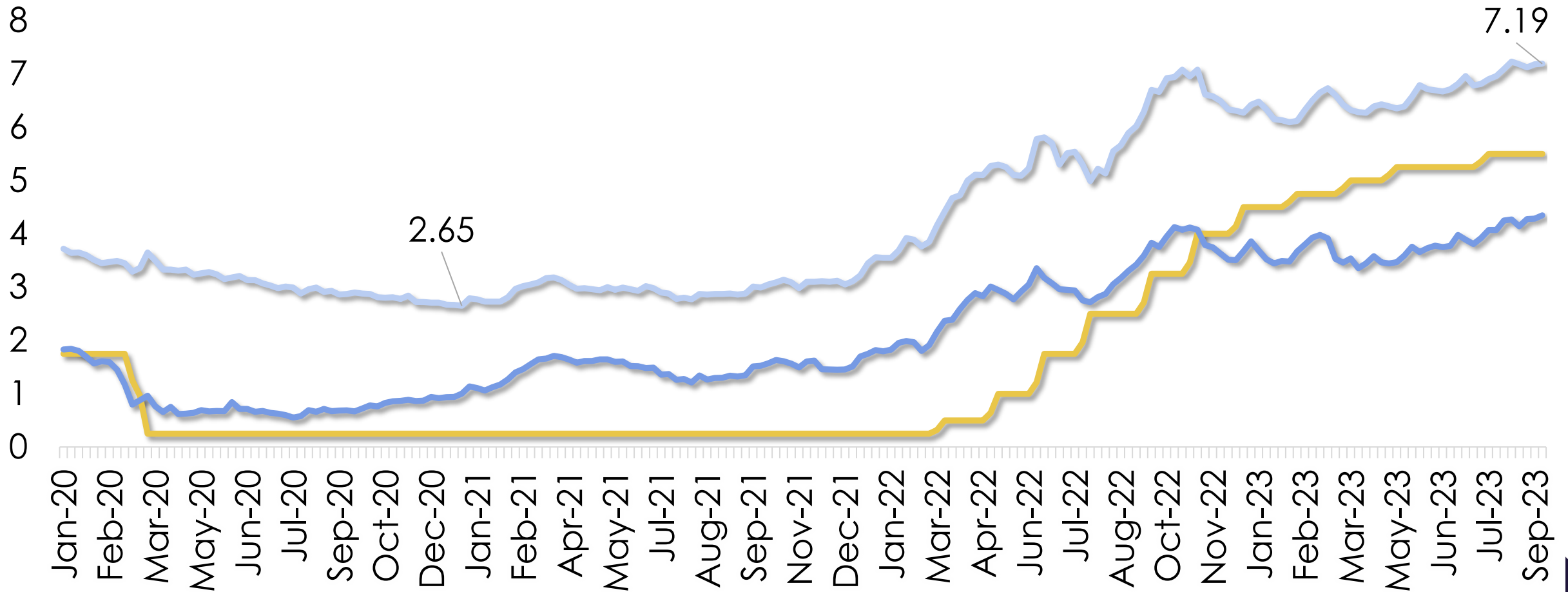
# Bond market finally baking in “higher for longer”



# Mortgage rates likely to remain elevated this year

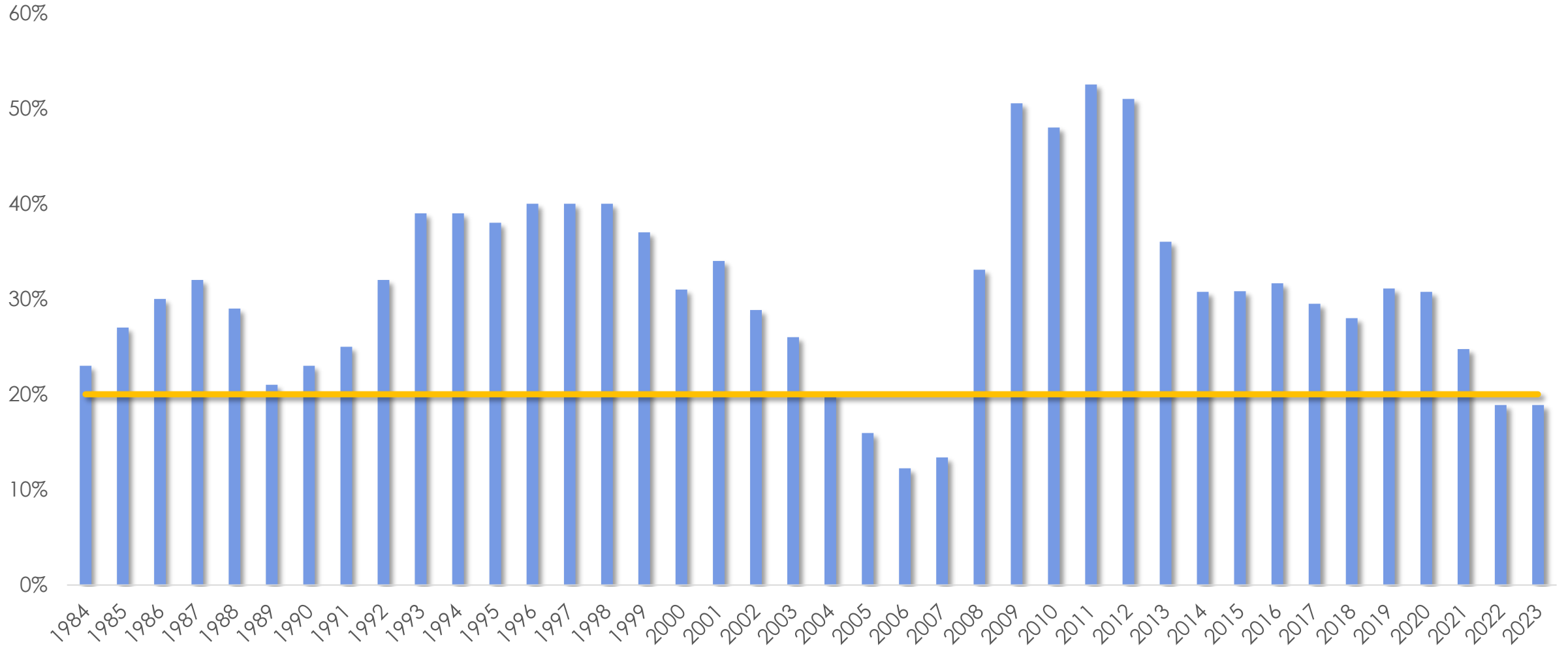
## Key Interest Rates

— Fed. Funds Target — 10-Yr Treasury — 30-Yr FRM



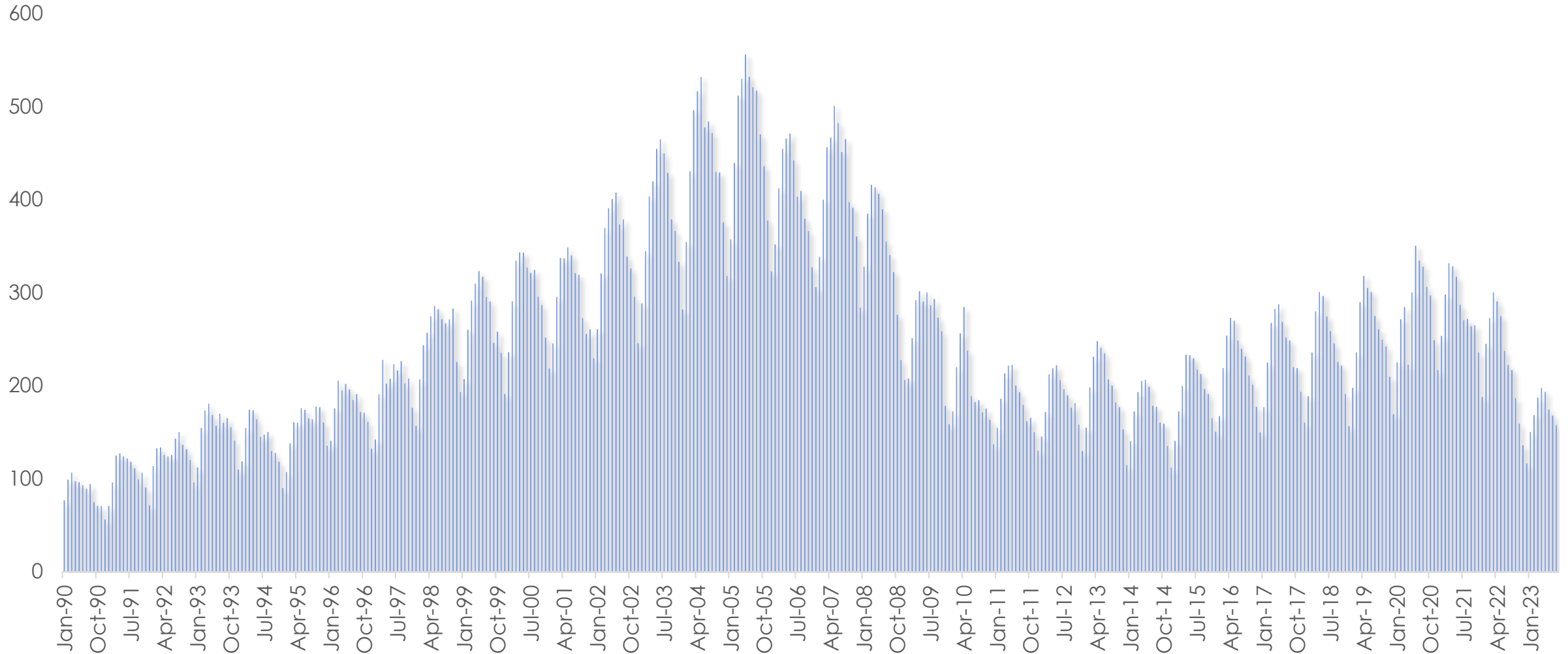
# Affordability and purchasing power near all-time lows

California Housing Affordability Index



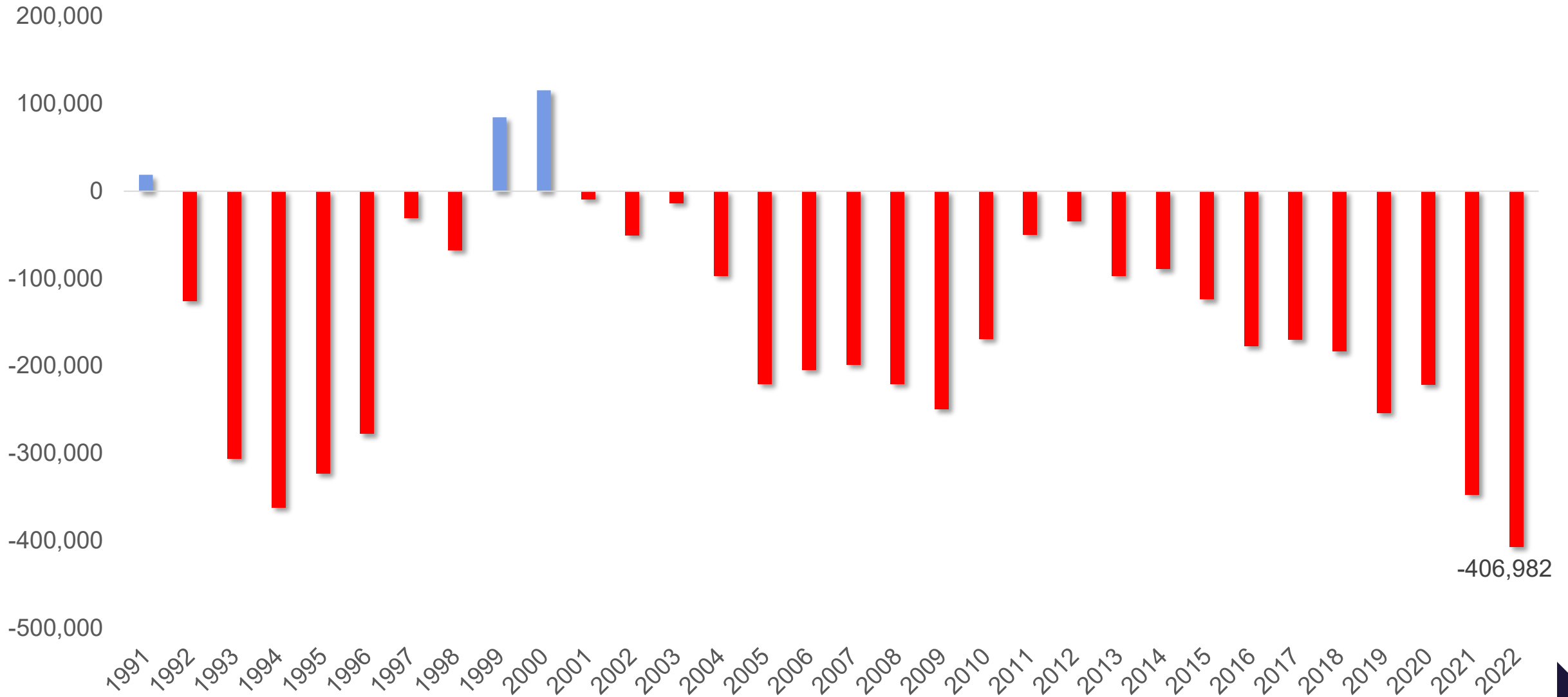
# Buyer demand reflects impact of higher rates

MBA New Purchase Mortgage Applications Index

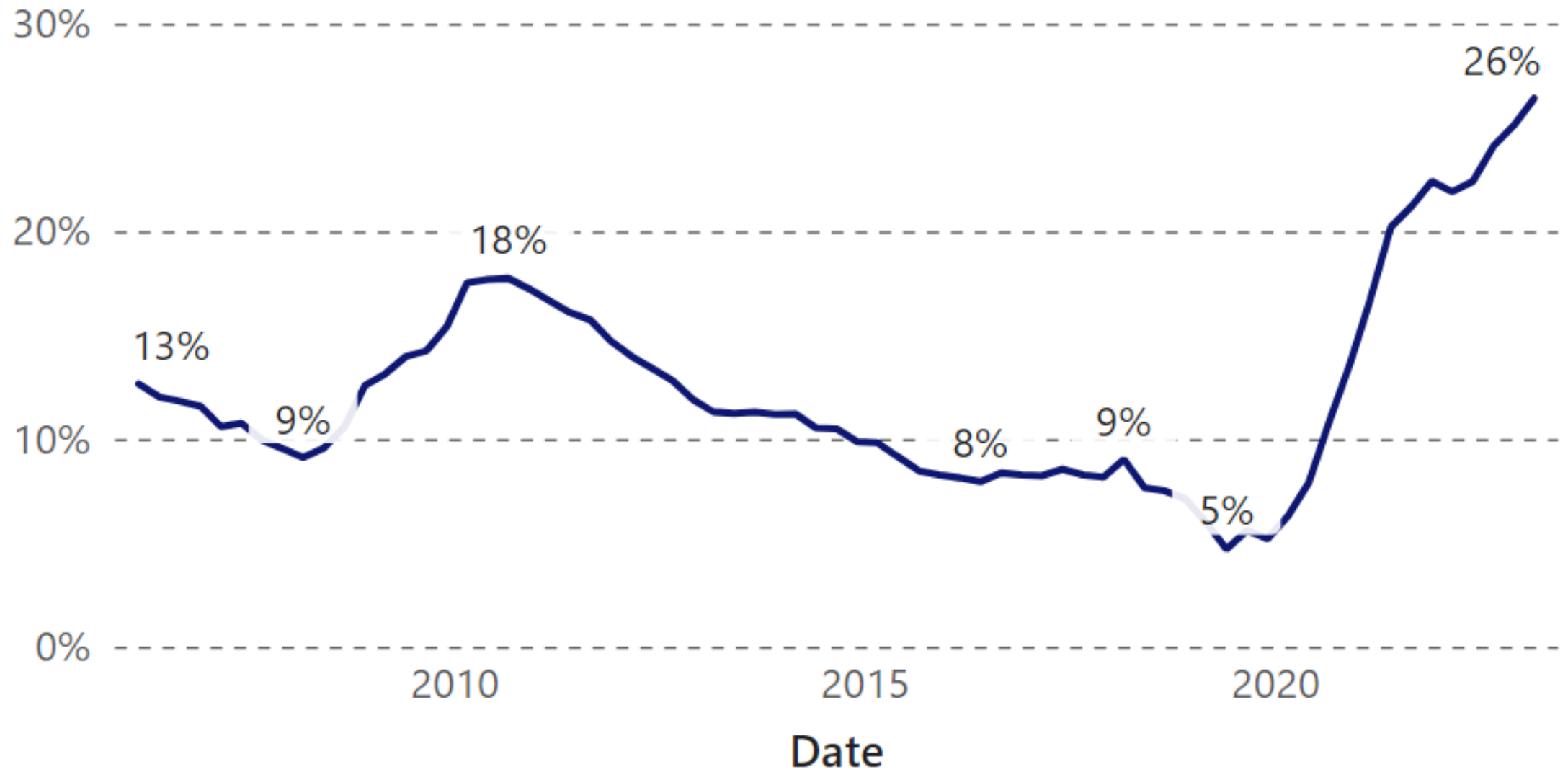


# Remote work exacerbating structural issues

California Net Domestic Migration

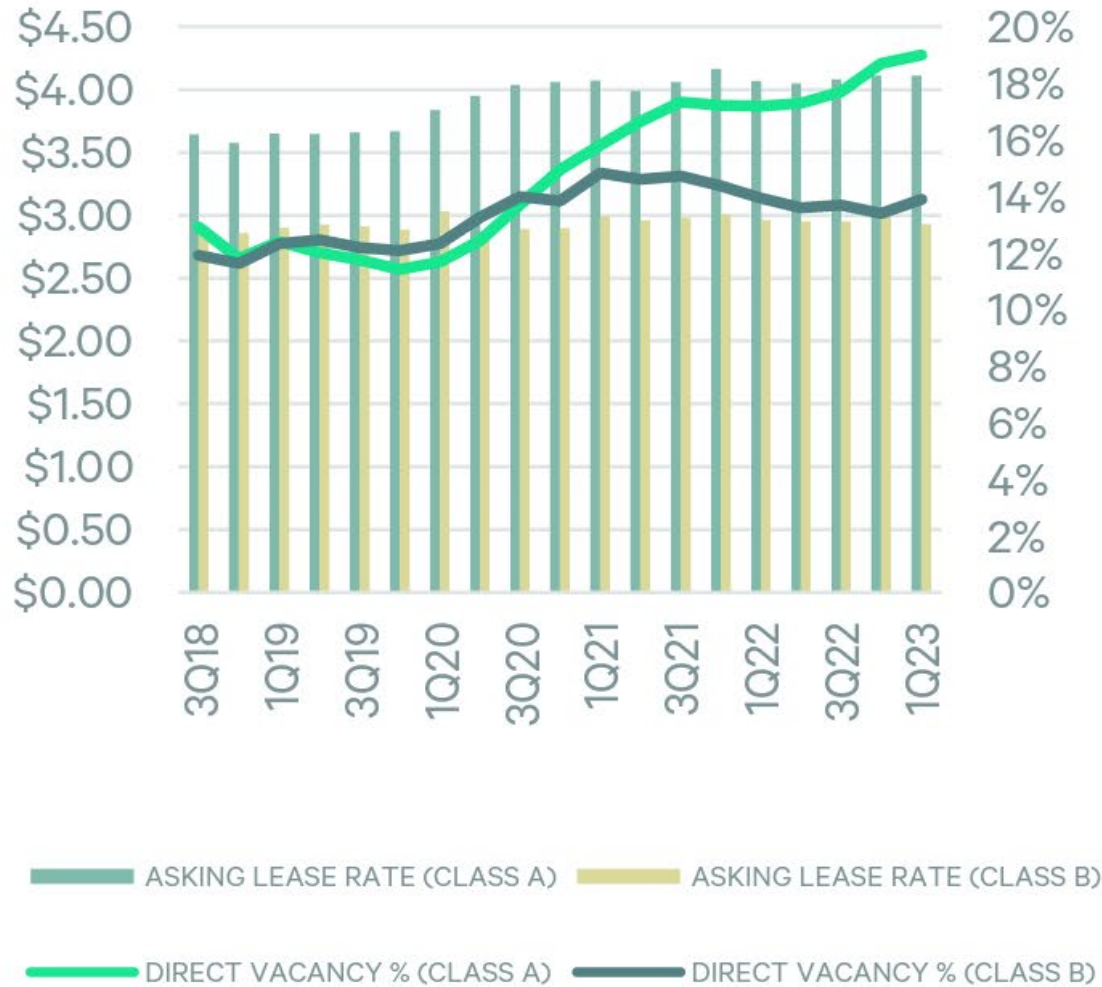


## San Francisco office space vacancy rate by quarter



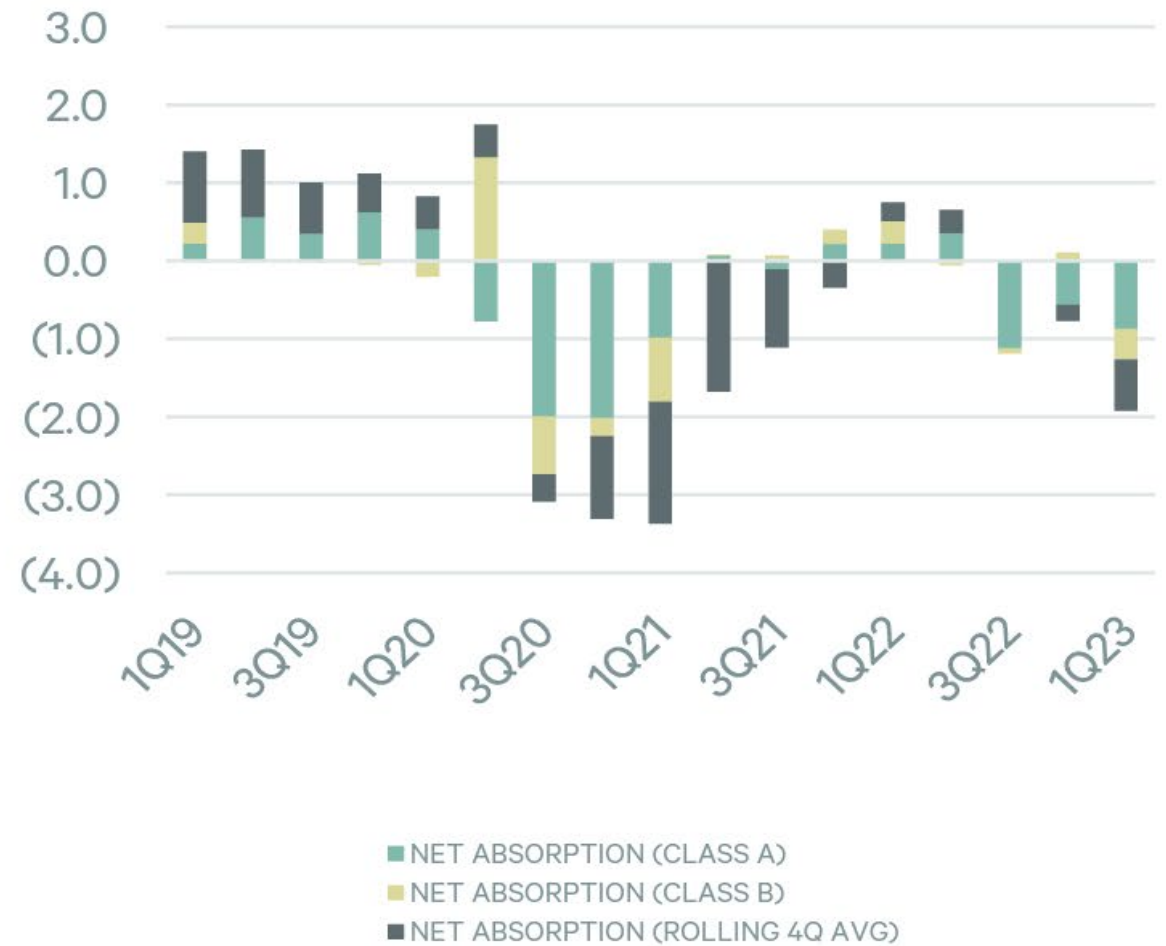
Source: CBRE Research, Q1 2023.

FIGURE 2: Direct Vacancy (%) and FSG Asking Rent by Class



Source: CBRE Research, Q1 2023.

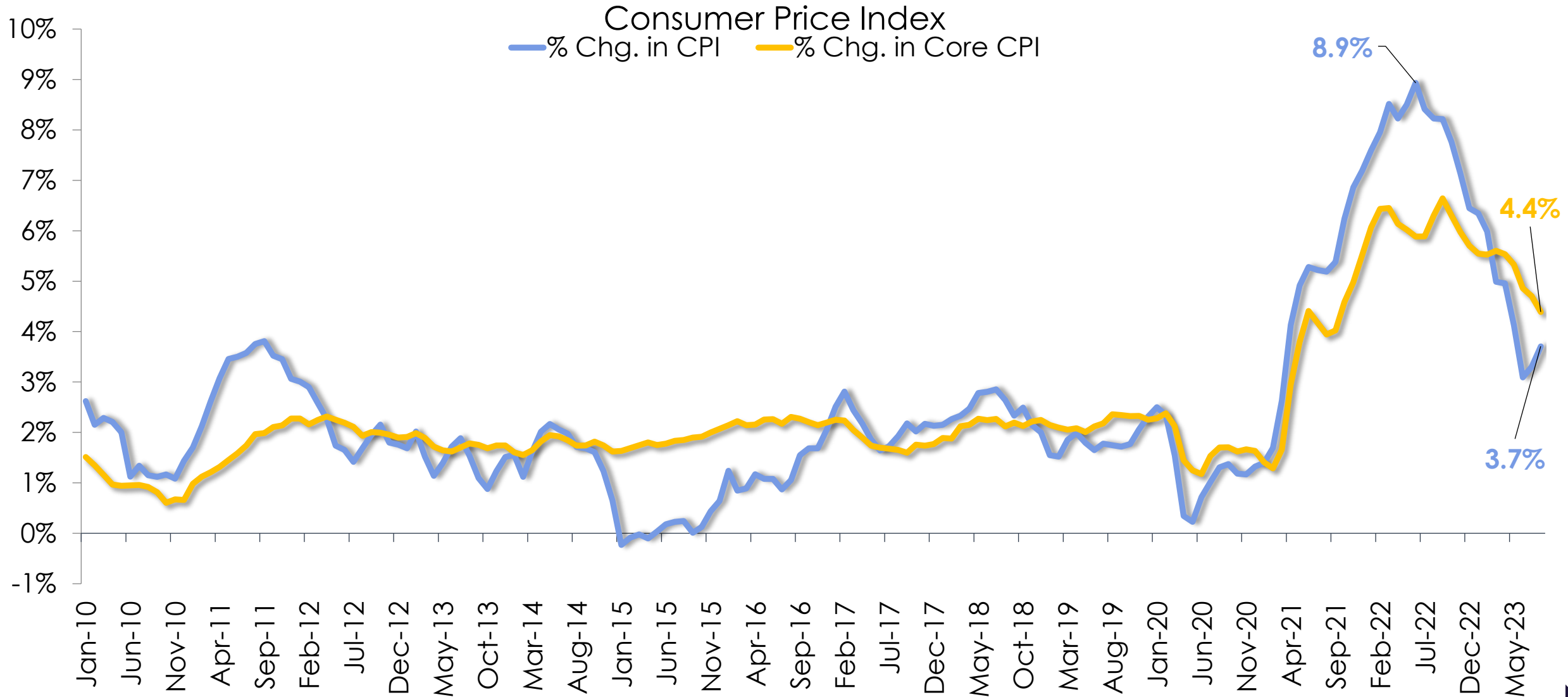
FIGURE 3: Net Absorption (MSF)



Source: CBRE Research, Q1 2023.



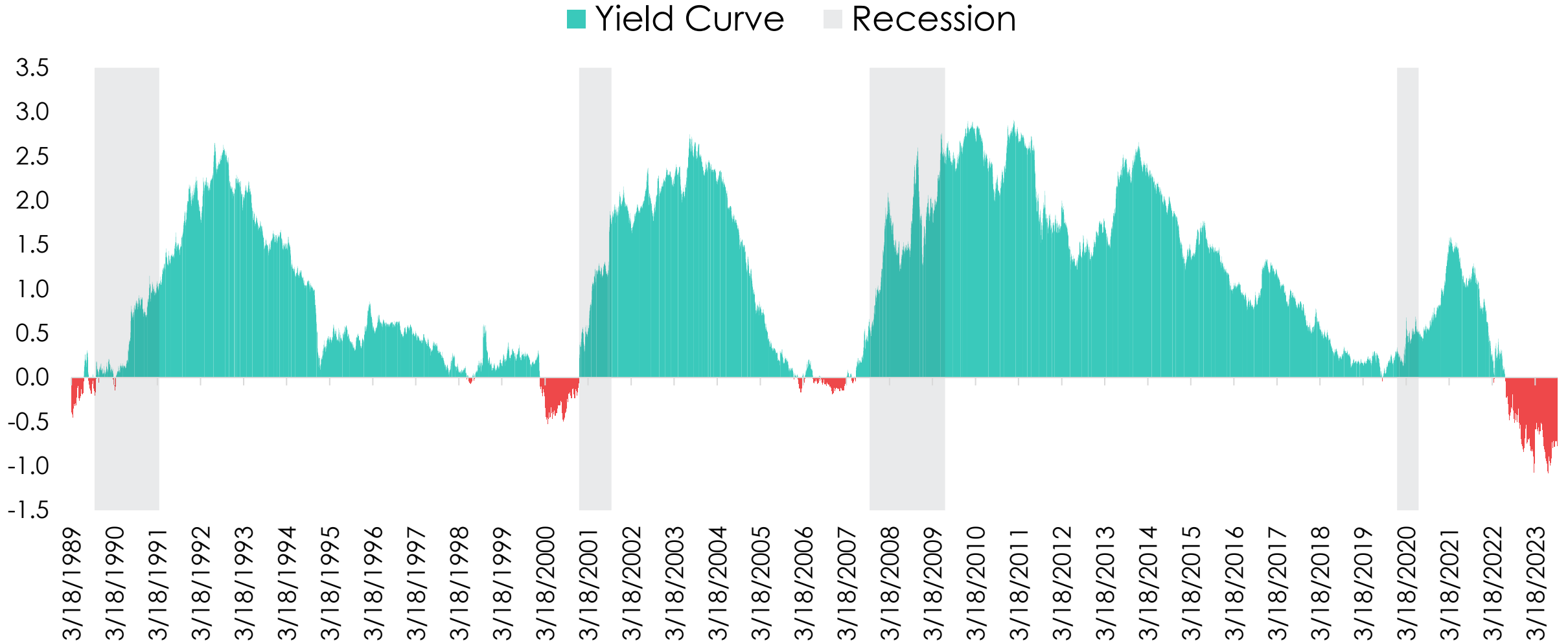
# Last mile on inflation is toughest, rates down slowly



Which brings us to today...

# Yield curve remains inverted due to short-run worries

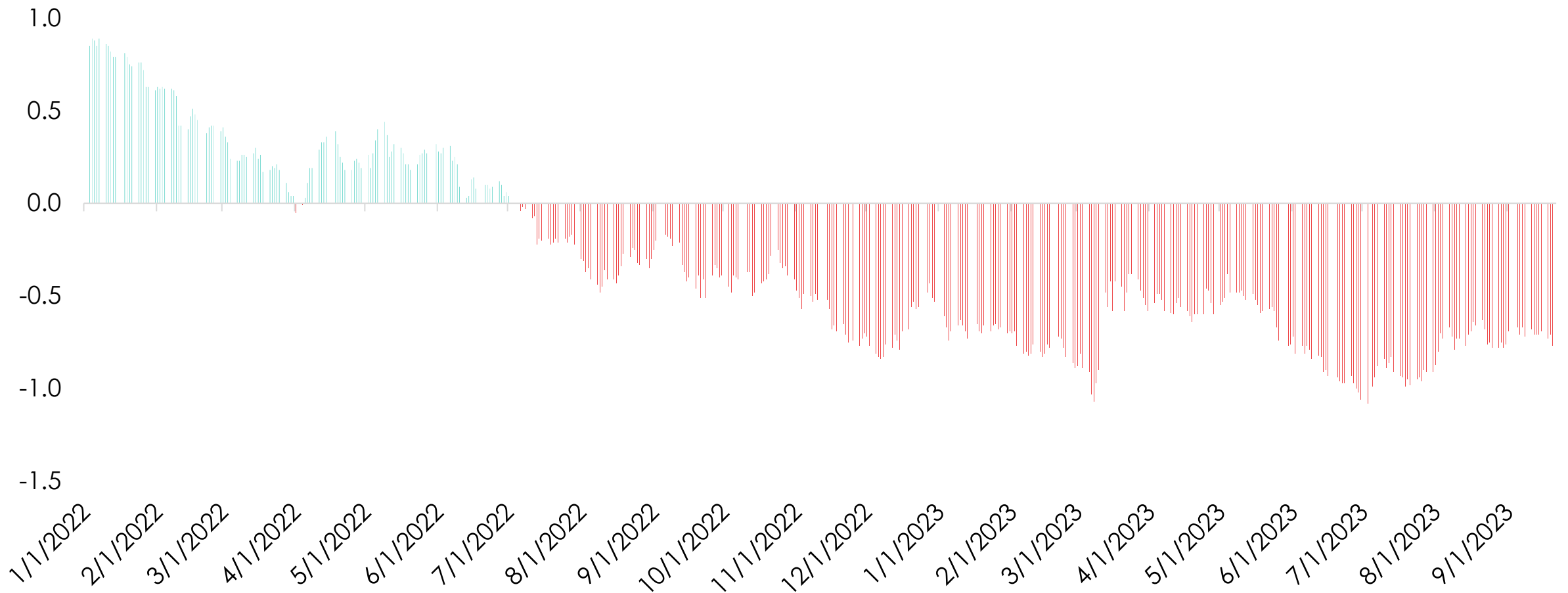
U.S. Yield Curve (10yr. - 2yr.)



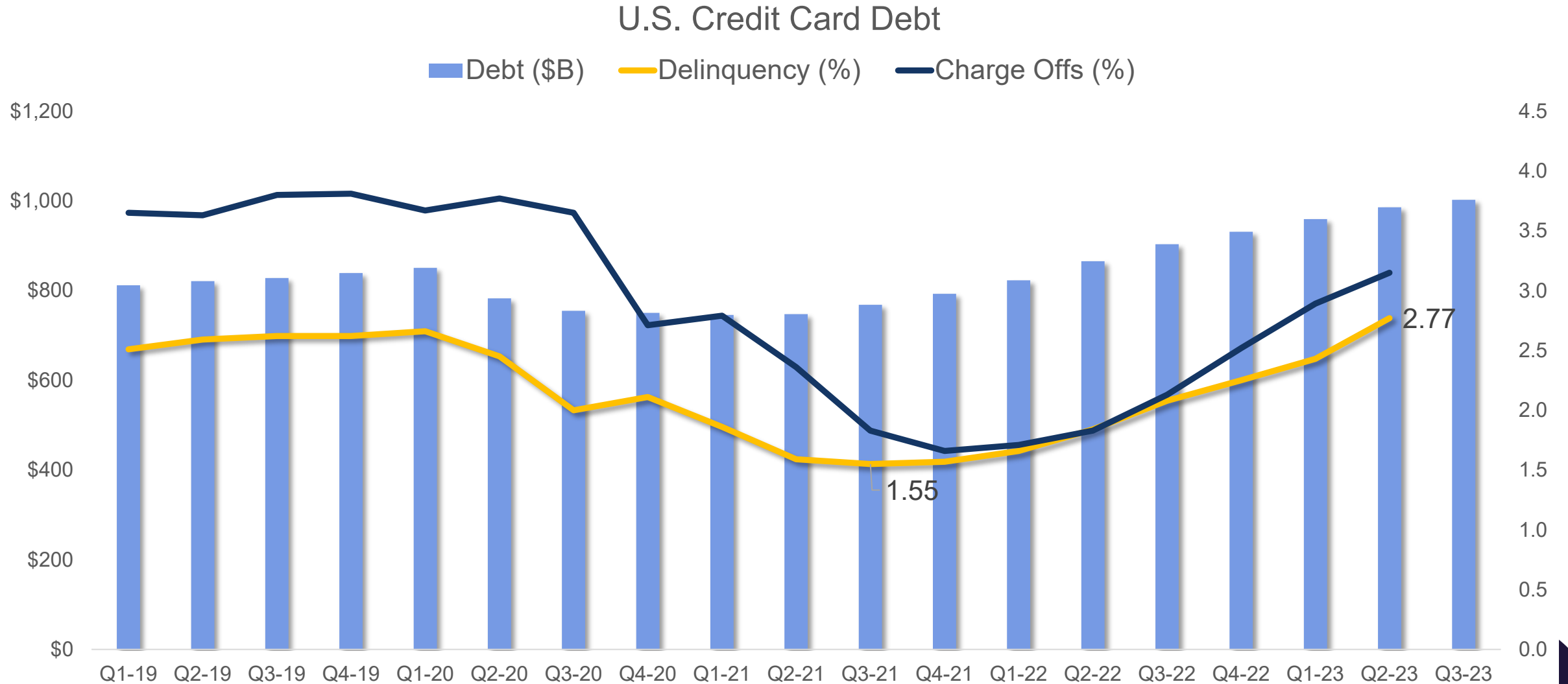
# Yield curve remains inverted due to short-run worries

U.S. Yield Curve (10yr. - 2yr.)

■ Yield Curve ■ Recession

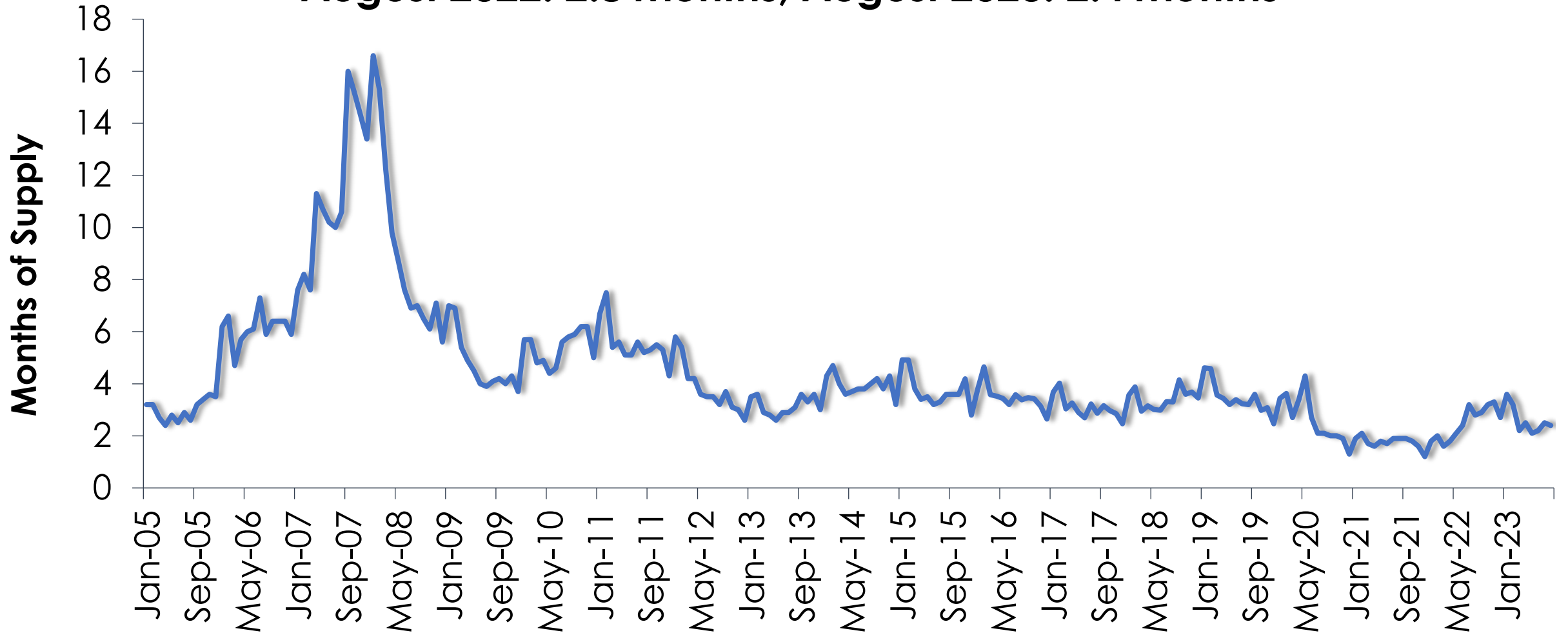


# Our main engine of growth is running out of gas

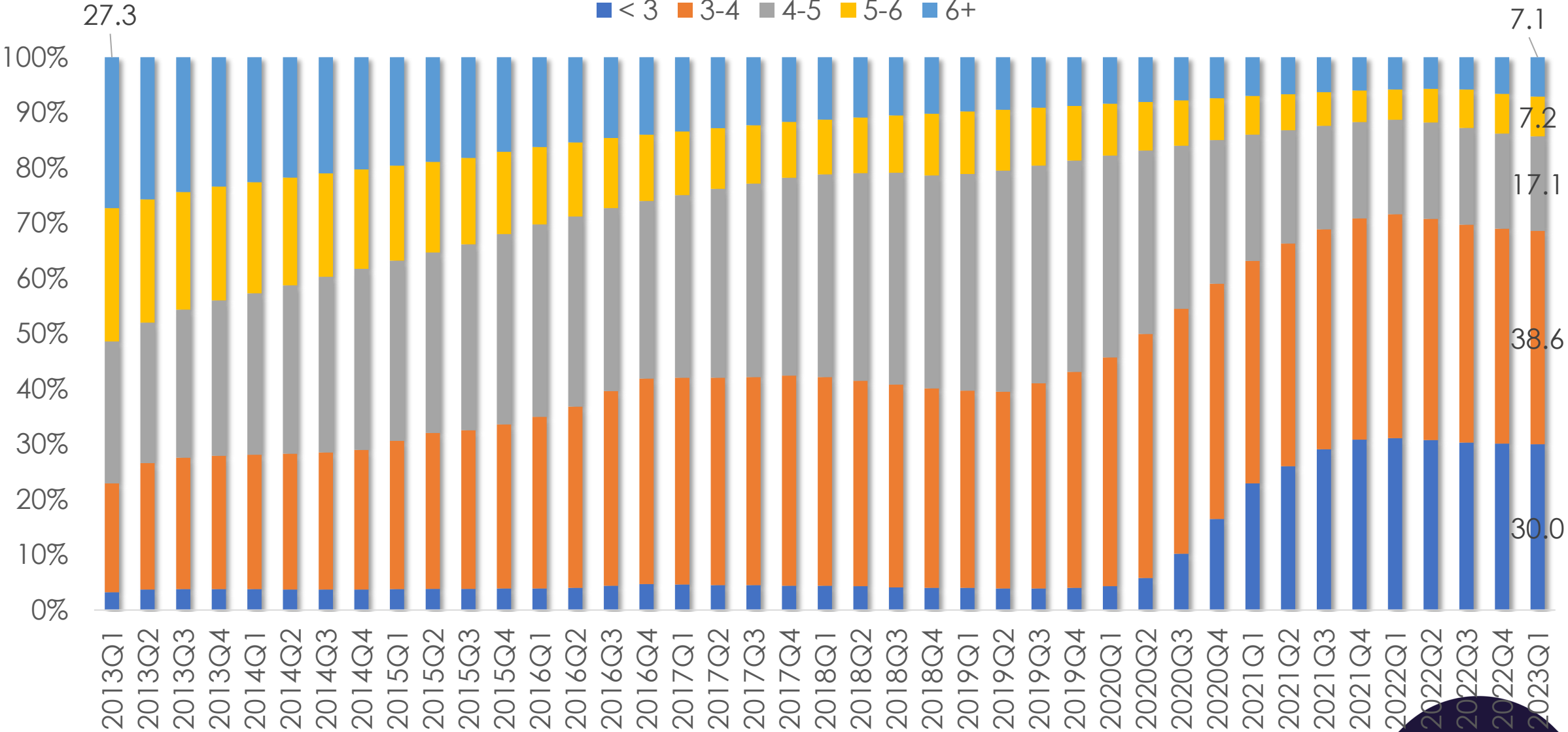


# Inventory remains the biggest challenge

**August 2022: 2.8 Months; August 2023: 2.4 Months**



# California Outstanding Mortgages by Current Interest Rate



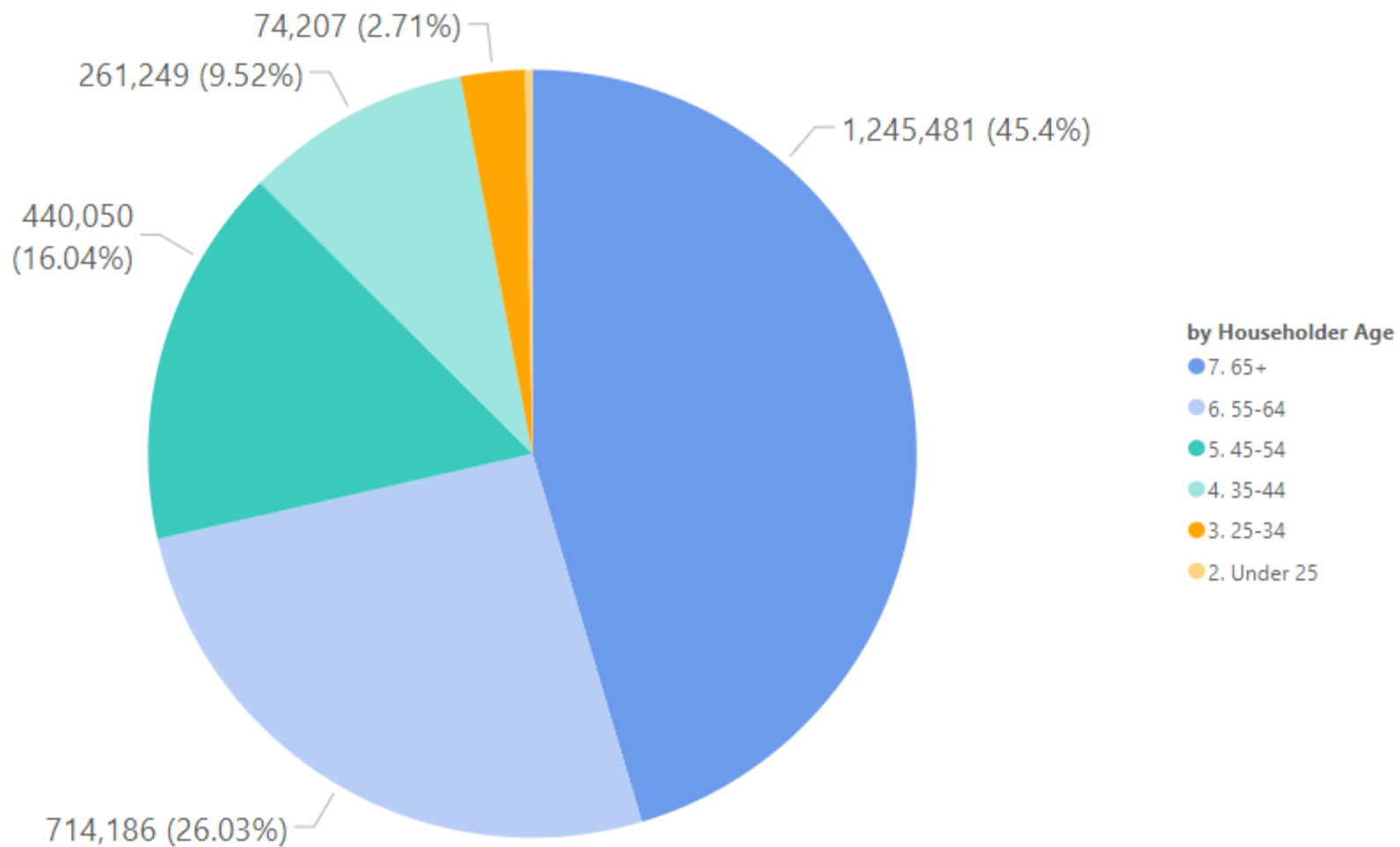
Year Moved In	County	Purchase Price	Market Value	Equity	Threshold	Number of Households
1996	Alameda County	77,735.18	360,597.90	282,862.73	\$250,000	55
1996	Alameda County	78,861.77	365,823.96	286,962.19	\$250,000	41
1996	Alameda County	81,114.97	376,276.07	295,161.11	\$250,000	54
1996	Alameda County	83,368.16	386,728.19	303,360.03	\$250,000	52
1991	Alameda County	87,991.99	360,597.90	272,605.91	\$250,000	50
1991	Alameda County	89,267.24	365,823.96	276,556.72	\$250,000	377
1996	Alameda County	89,677.10	415,994.10	326,317.00	\$250,000	55
1996	Alameda County	90,127.74	418,084.52	327,956.78	\$250,000	536
1996	Alameda County	91,254.34	423,310.58	332,056.24	\$250,000	72
1991	Alameda County	91,817.73	376,276.07	284,458.34	\$250,000	47
1996	Alameda County	92,380.93	428,536.64	336,155.70	\$250,000	59
1991	Alameda County	95,643.47	391,954.24	296,310.77	\$250,000	123
1996	Alameda County	95,760.72	444,214.81	348,454.08	\$250,000	75
1991	Alameda County	96,918.72	397,180.30	300,261.58	\$250,000	40
1996	Alameda County	101,393.71	470,345.09	368,951.38	\$250,000	734
1991	Alameda County	102,019.70	418,084.52	316,064.82	\$250,000	865
1991	Alameda County	104,570.19	428,536.64	323,966.44	\$250,000	74
1996	Alameda County	107,026.69	496,475.37	389,448.68	\$250,000	93
1996	Alameda County	110,406.48	512,153.54	401,747.06	\$250,000	305
1996	Alameda County	111,533.08	517,379.60	405,846.52	\$250,000	105

**Total**

**2,743,306**



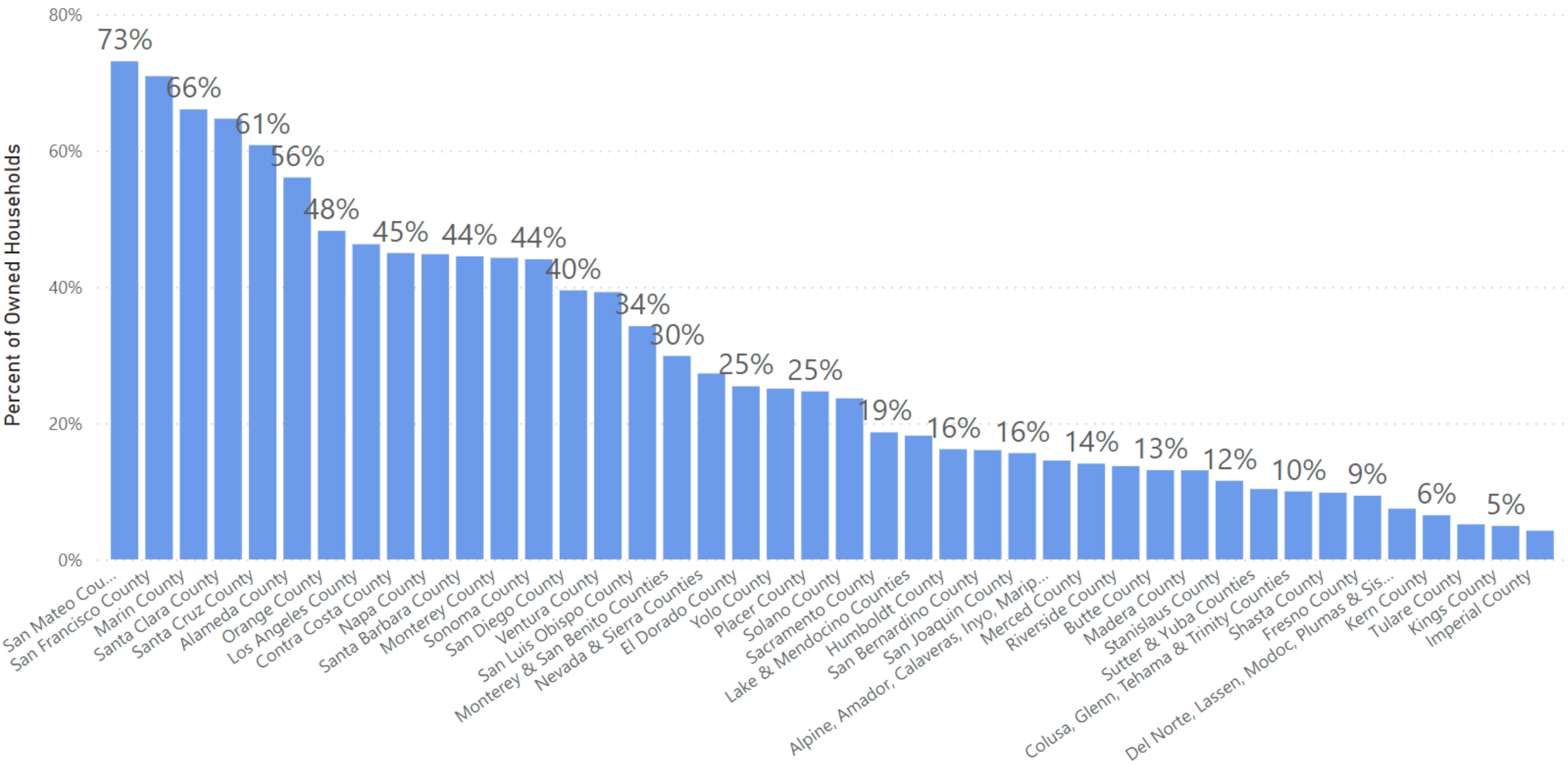
## Above Capital Gains Threshold by by Householder Age





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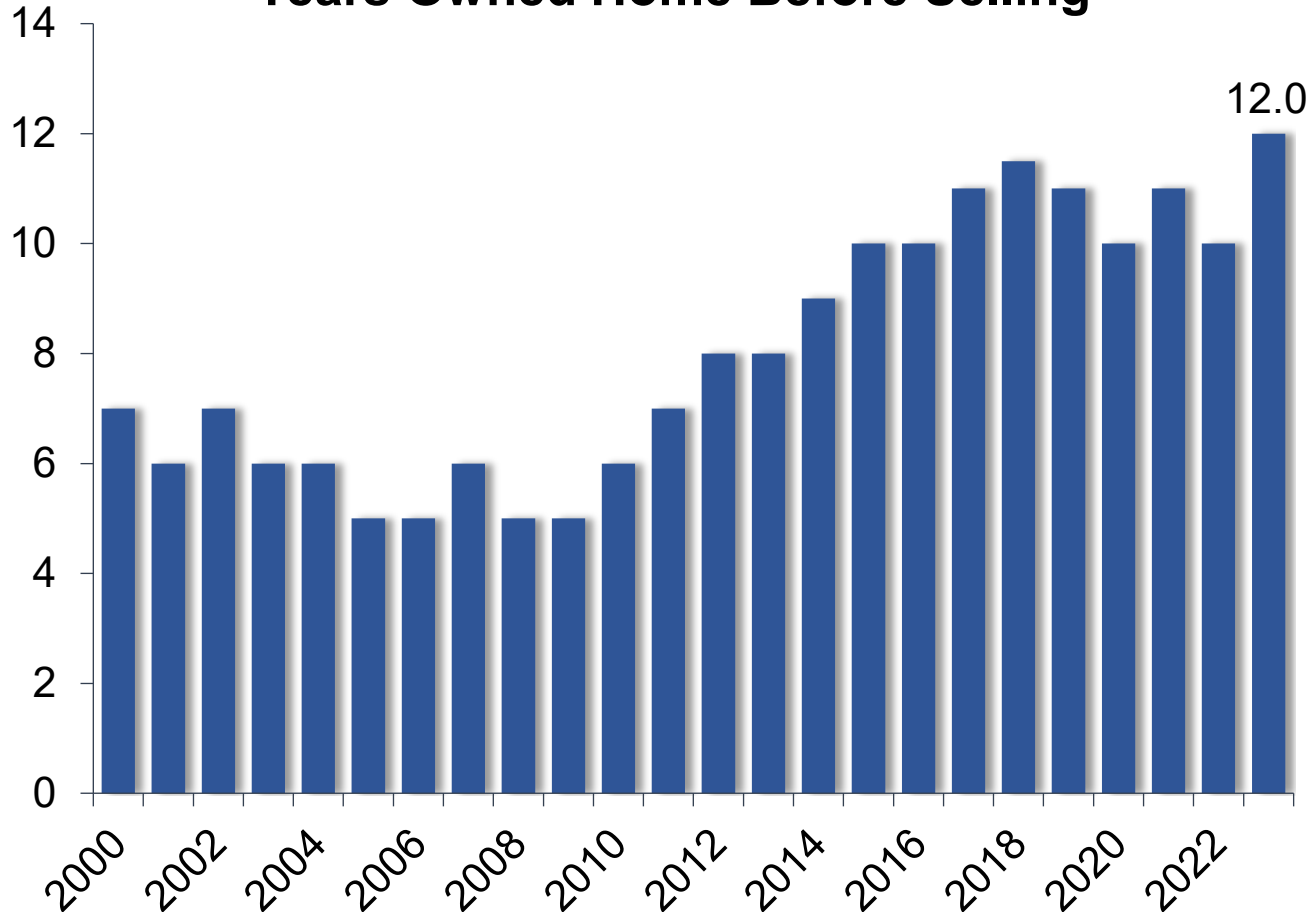
PERCENT OF OWNED HOUSEHOLDS BY BY COUNTY OF RESIDENCE BY BY HOUSEHOLDER AGE



by County of Residence

# Sellers' housing tenure reached a record high

Years Owned Home Before Selling

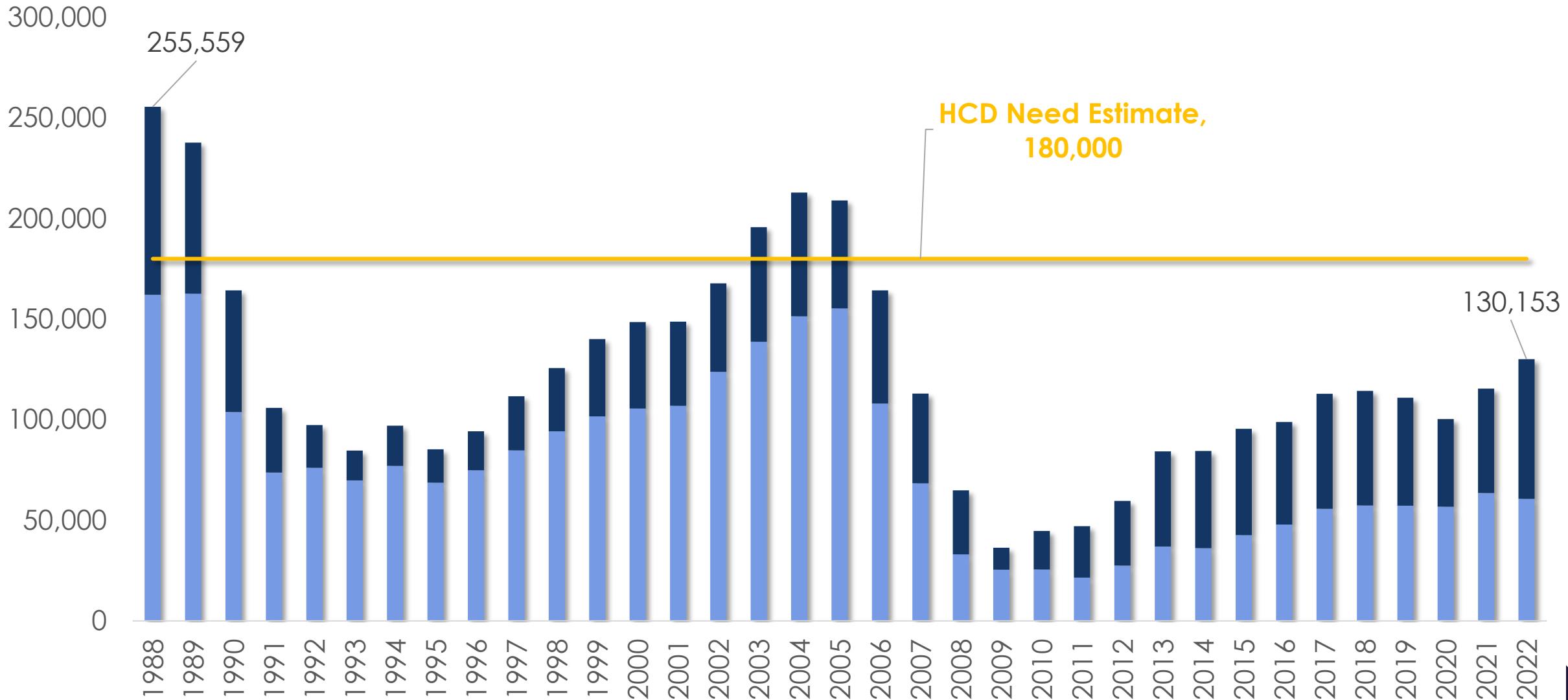


Homeowners holding onto homes longer than ever:

- Low rate on current mortgage
- Low property taxes
- Capital gains hit
- Where can I afford to go?
- Remodel and stay

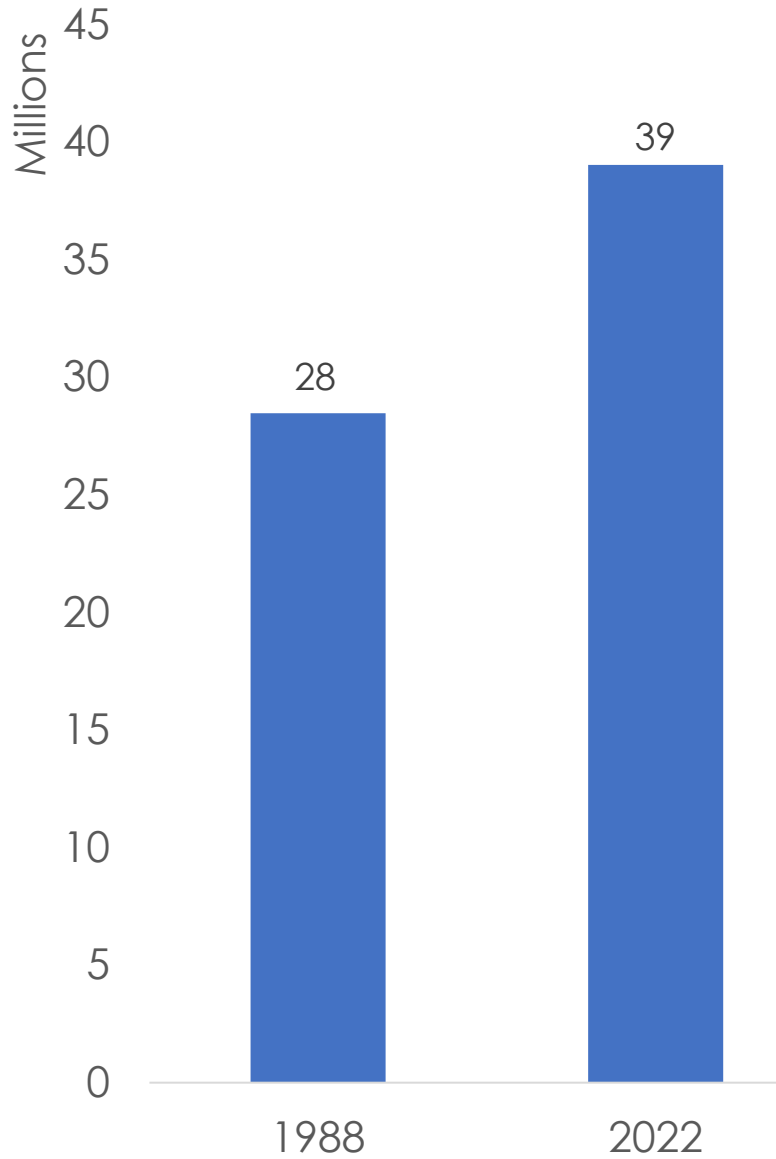
# California Residential Permit Activity

SF MF

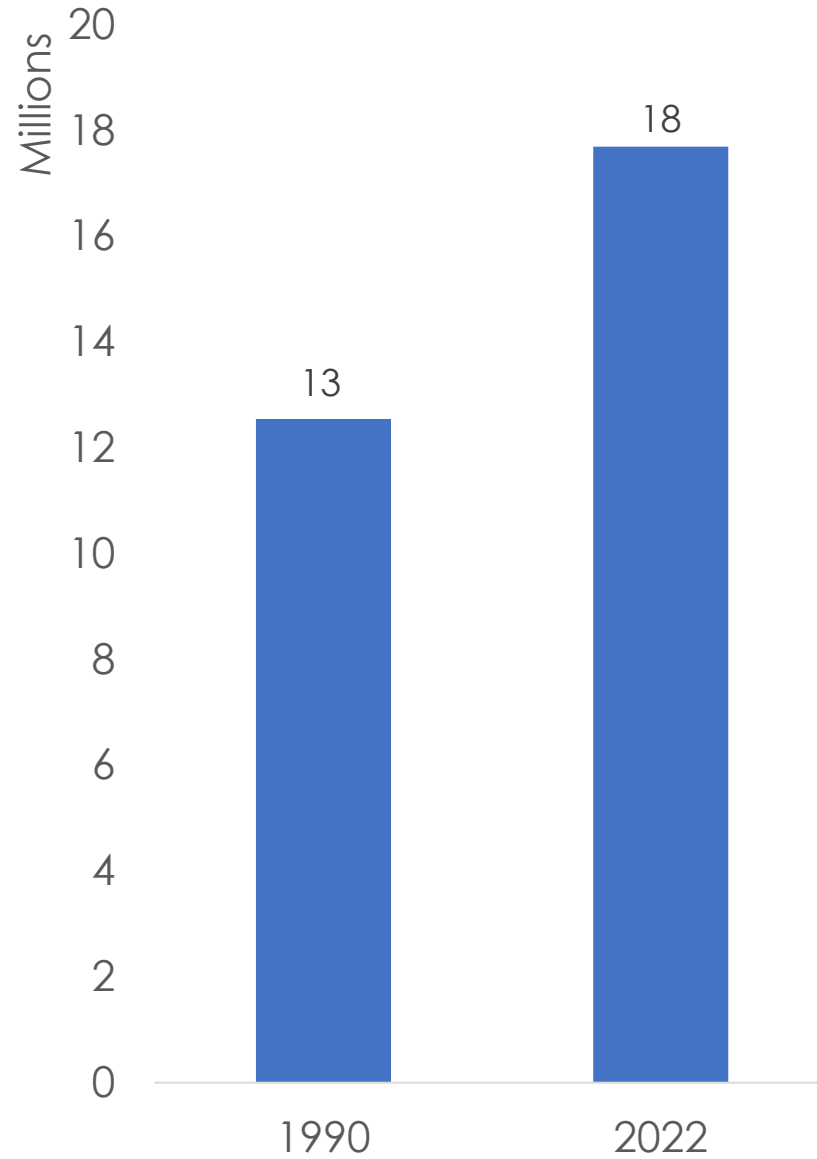




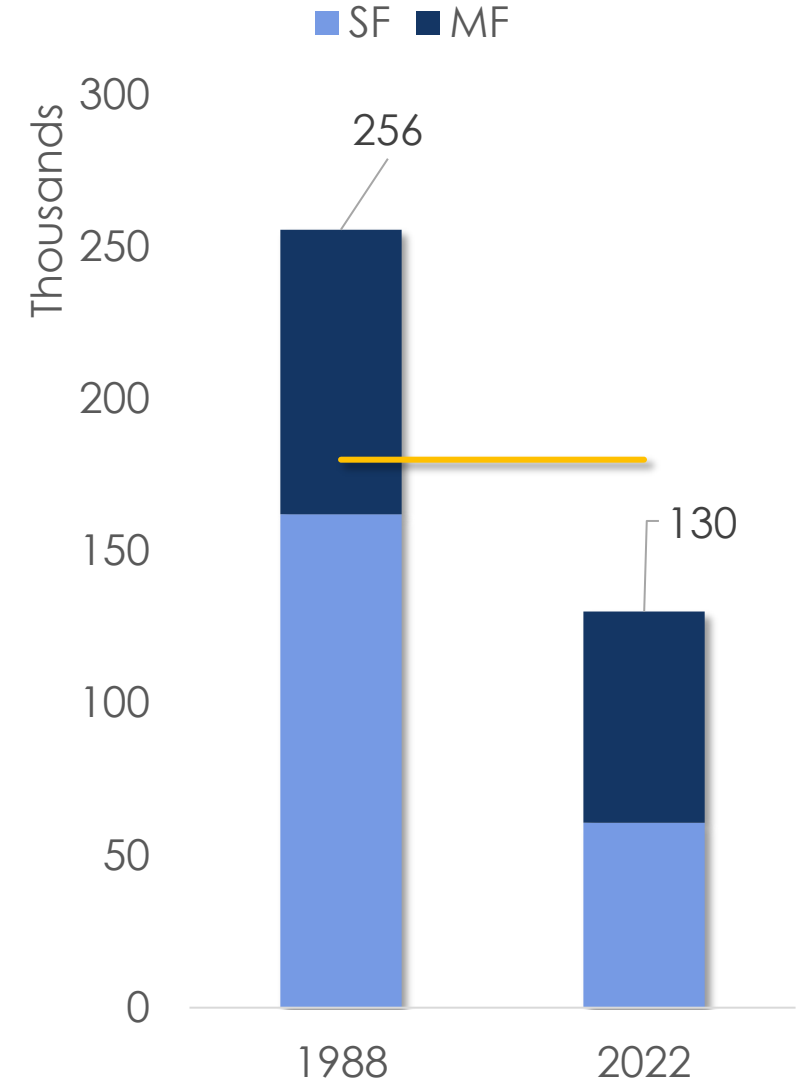
California Population



California Jobs

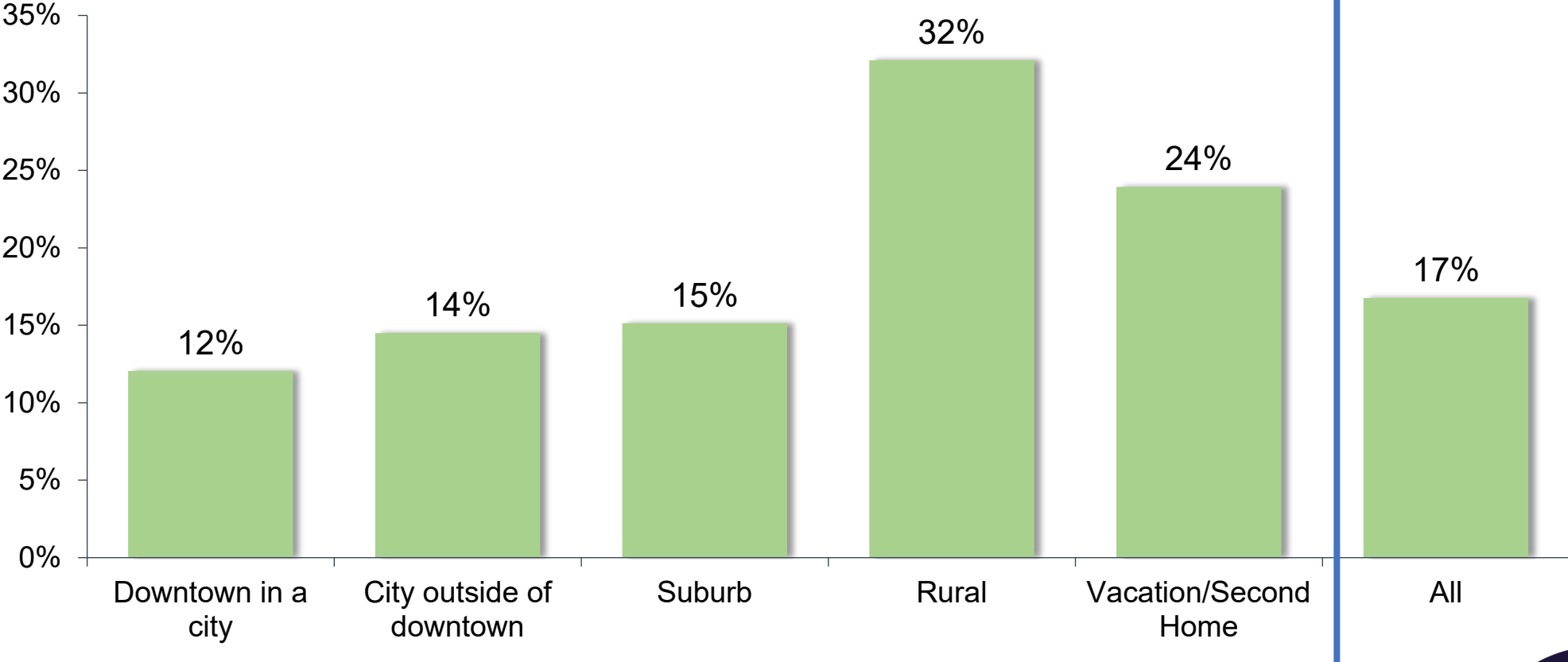


California Residential Permit Activity



# Insurance has become a big issue for home buying

% of buyers who had difficulties obtaining insurance



Q. Did the buyer have difficulties obtaining fire/homeowners insurance?

## Industry Changes

- Teams
- DRE/Supervision
- MLS Issues
- Lawsuits/DOJ
- Governance
- Disruption



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# So where is the opportunity?

Spoiler alert: it lies with the consumer!

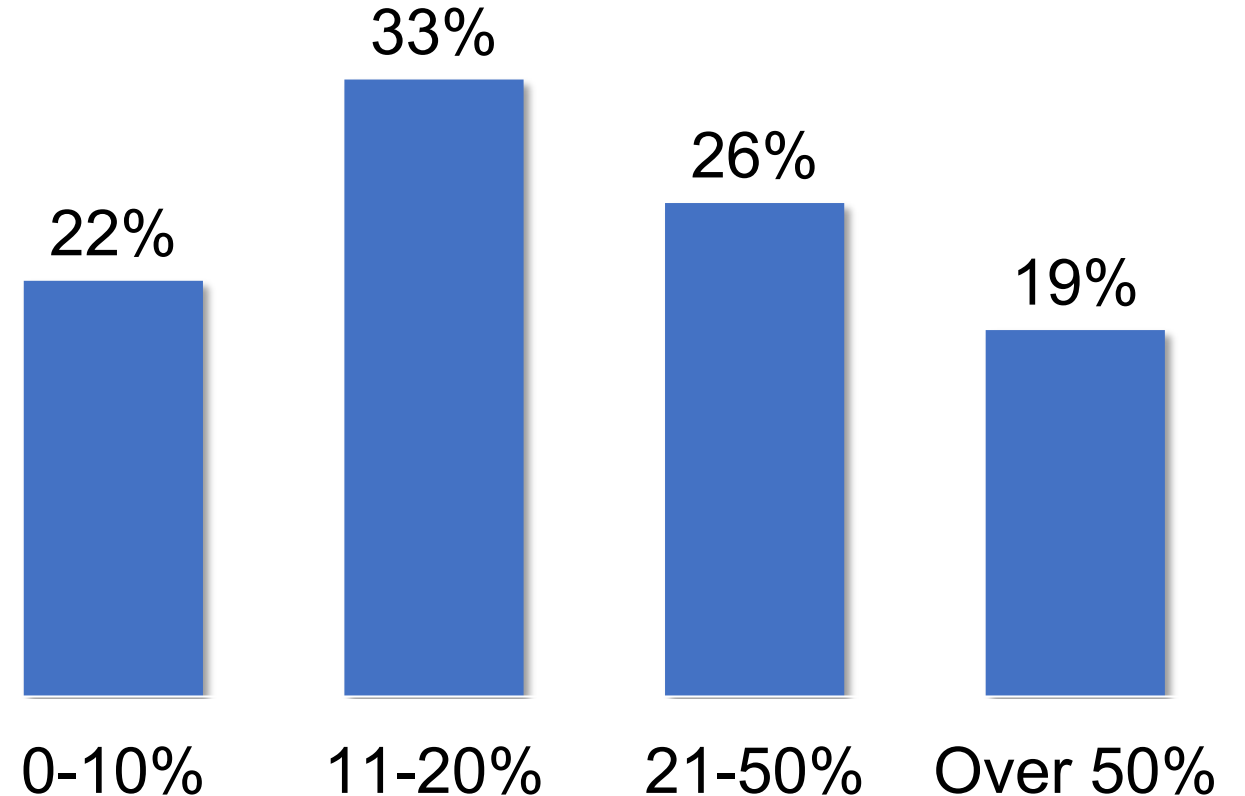


# There's an educational opportunity

- Brother-in-law effect
- Financial education
- Value of homeownership
- Golden rule of timing
- Benefits of housing supply
- Consequence of no supply

In your estimation, how much down payment is required to purchase a home?

(n=1,015)



# Buyers and sellers need us more than ever

August 2023



**Median  
Sales Price**

**\$859,800**  
+3.0% Y2Y



**Unsold  
Inventory Index**

**2.4 months**  
-14.3% Y2Y



**Median  
Days on Market**

**18 days**  
-21.7% Y2Y



**Sales  
Above List**

**47%**  
+15pp Y2Y



**Reduced  
Listings**

**34%**  
-9pp Y2Y



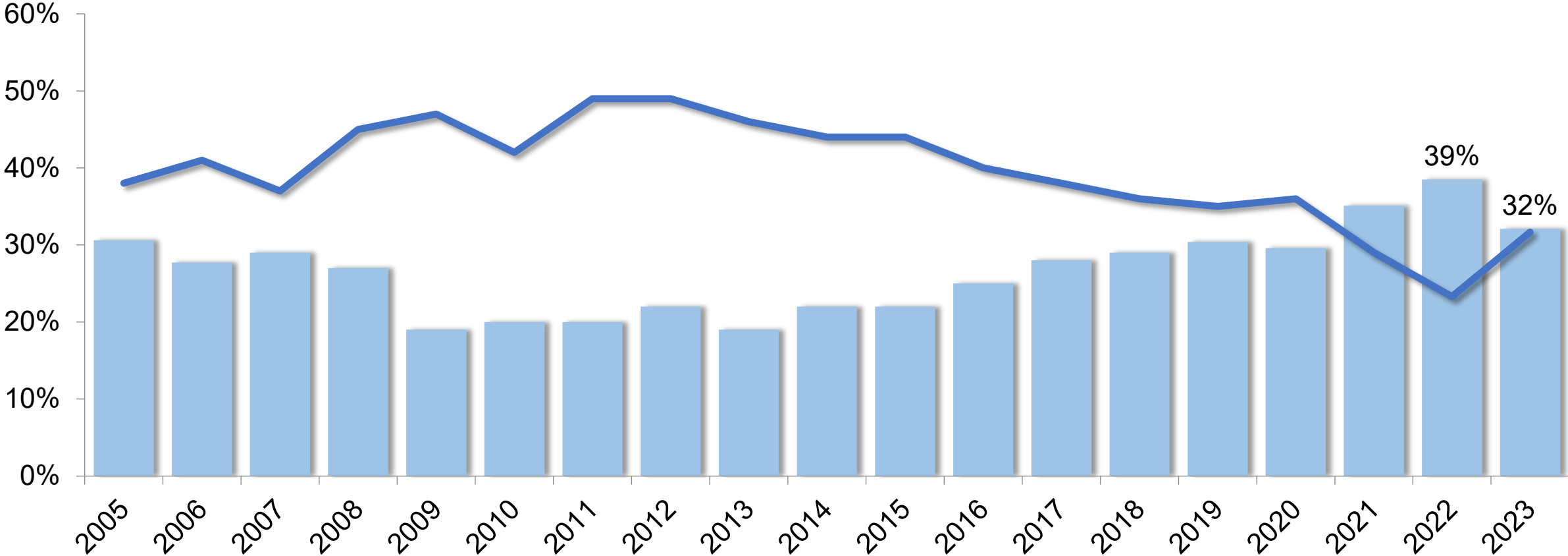
**30-Yr FRM  
Rate**

**7.07%**  
+185bps Y2Y

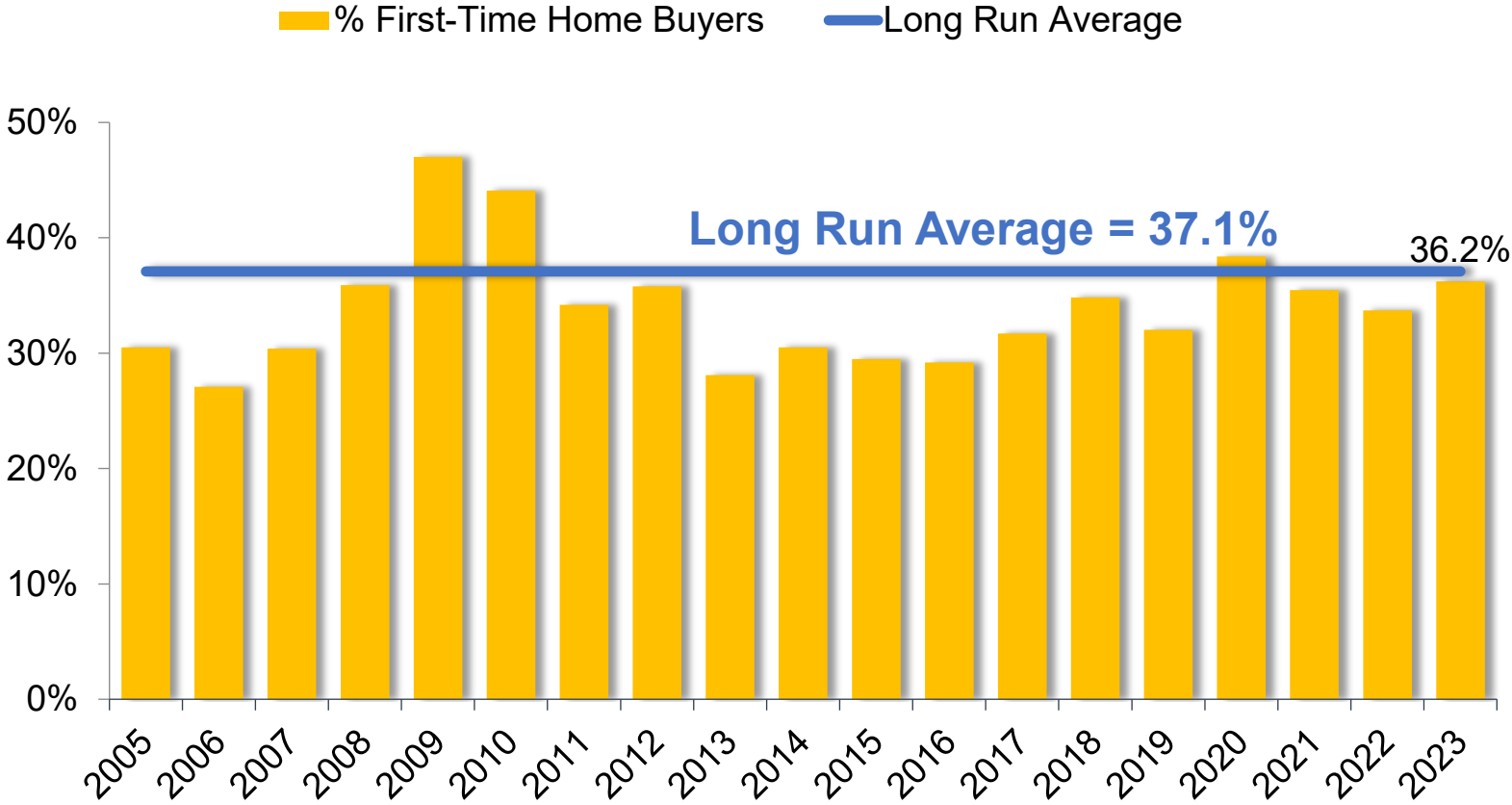
# Outmigration finally slows after the pandemic

## Percentage of Sellers by Location of Next Residence

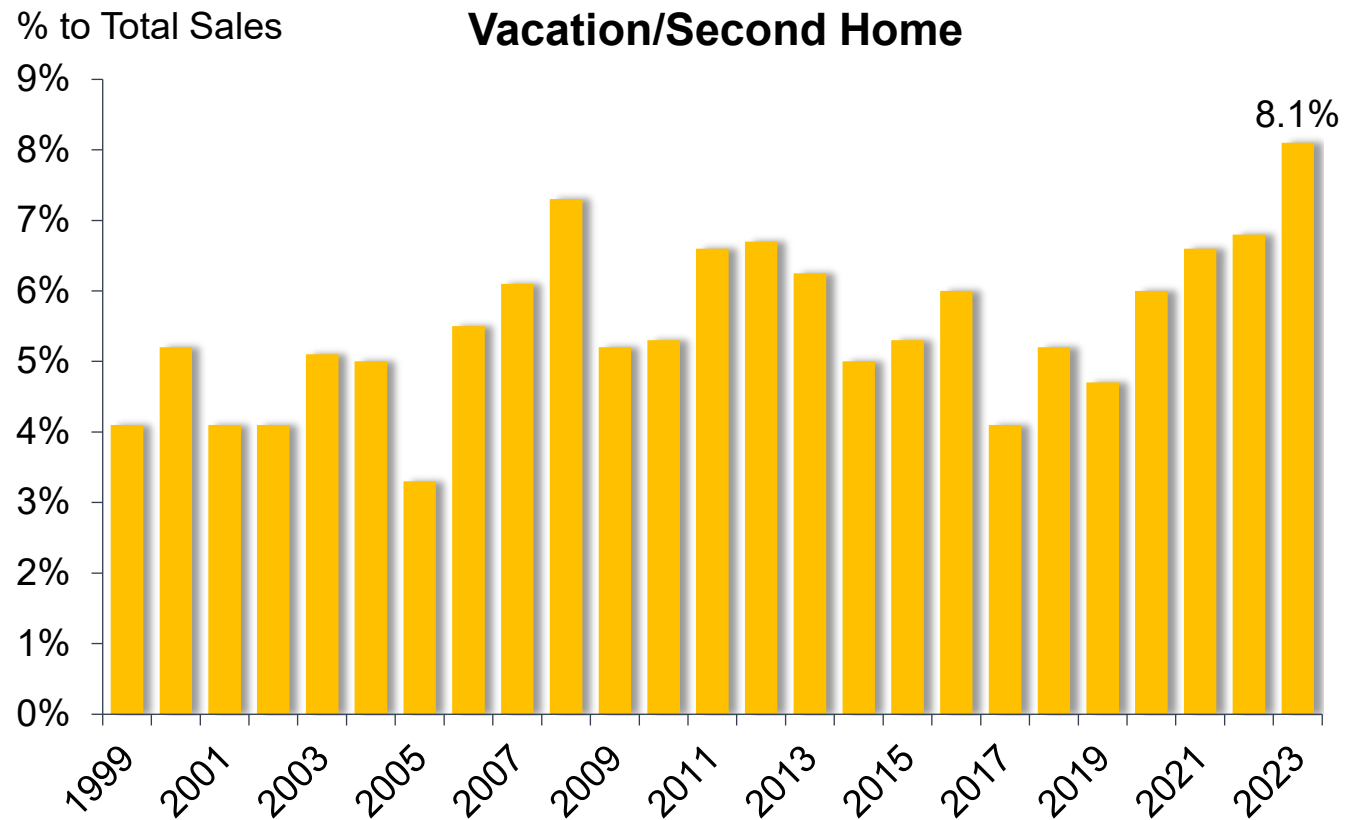
Out of CA Same County



# Being a buyer's agent is tough, but worth the effort

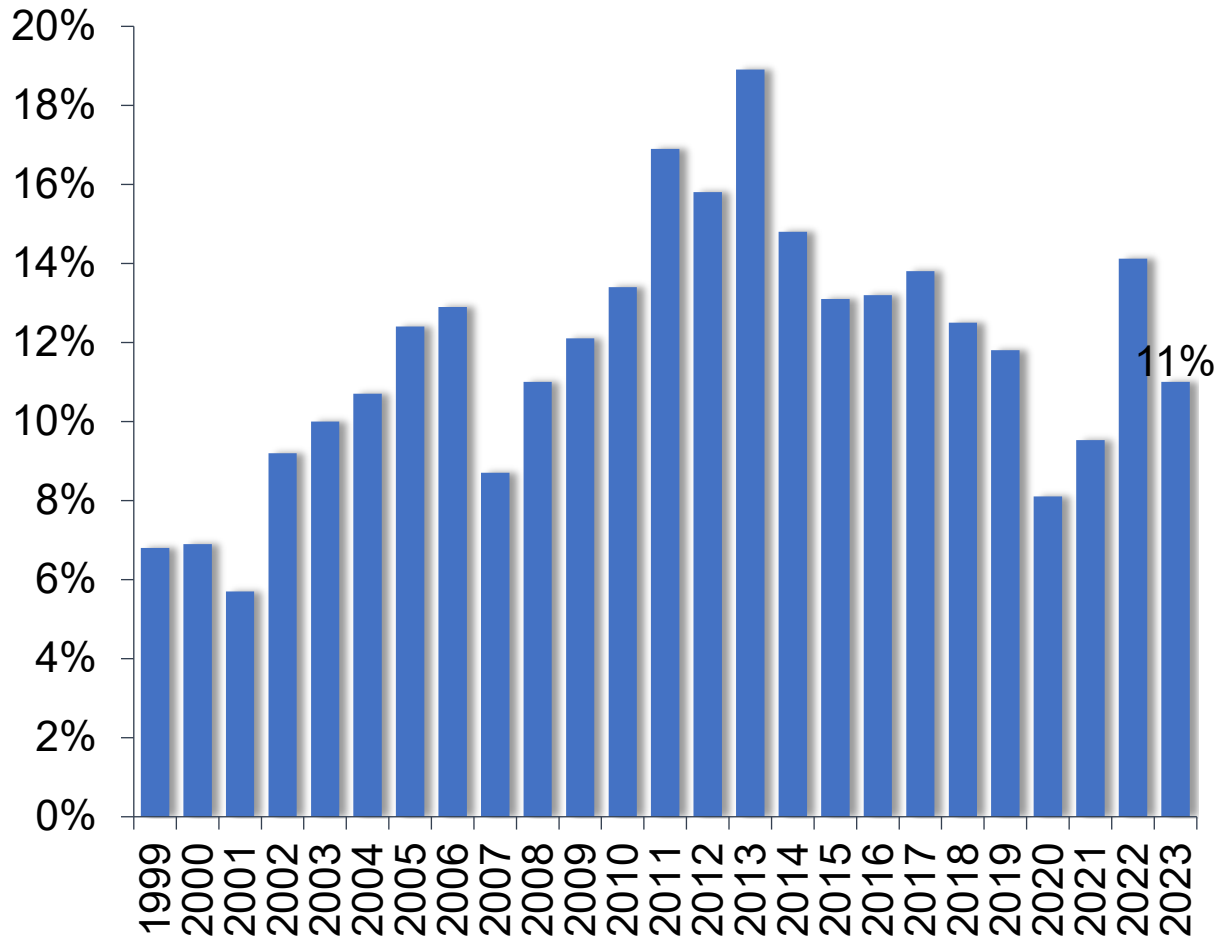


# Share of vacation home buying continued to climb

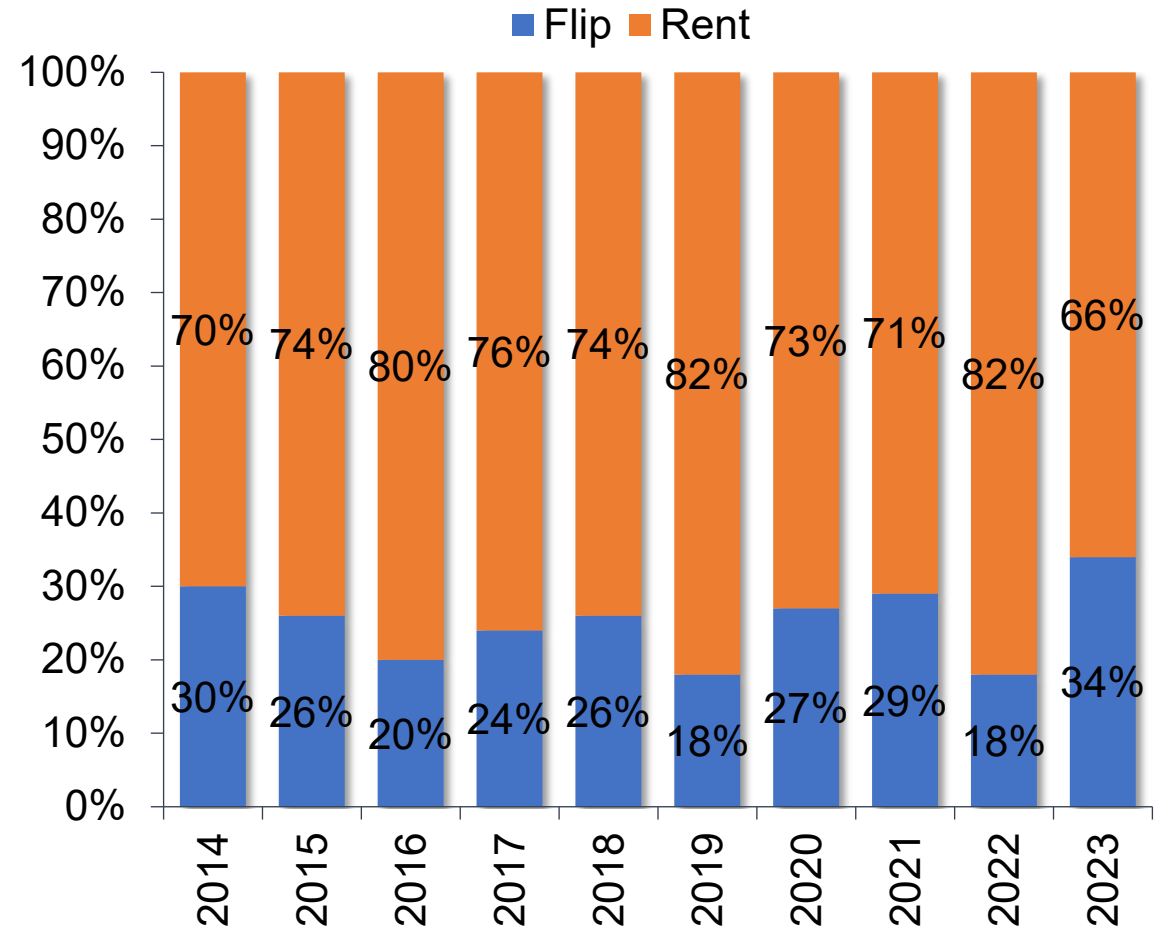


# Investor share dips as rent growth slows

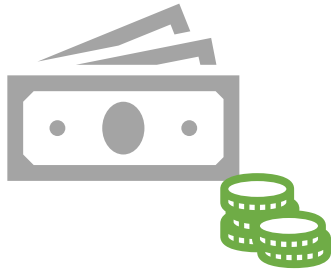
## Investment/Rental Property Sales



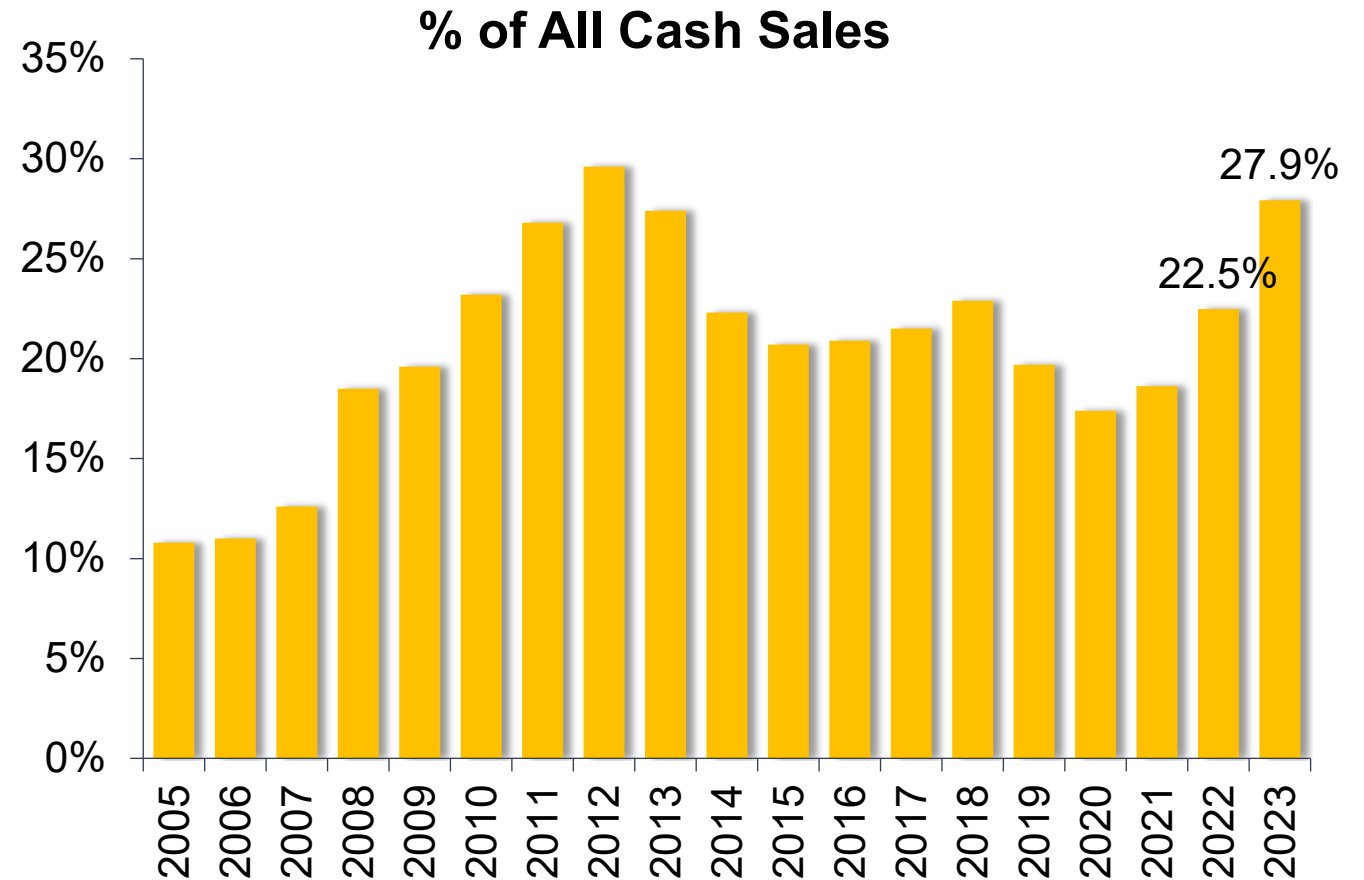
## Investment Property: Flip vs. Rent



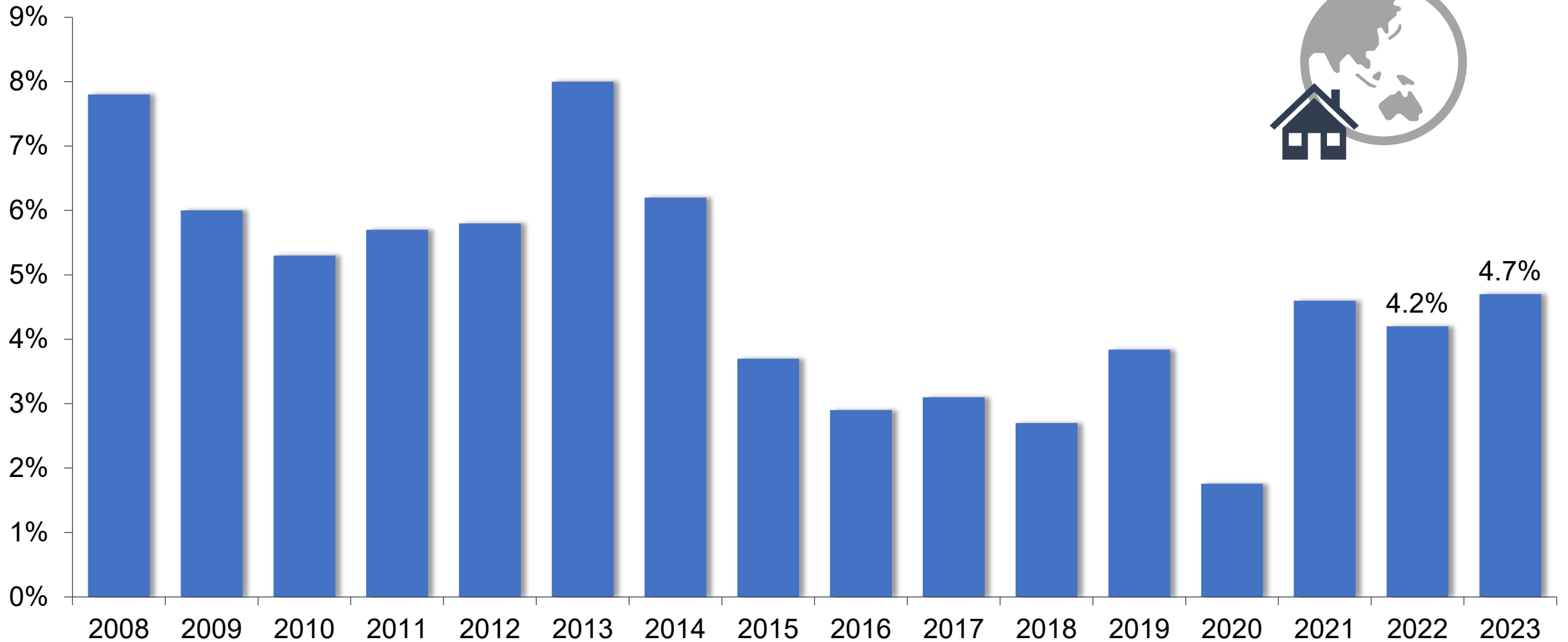
# All cash buyers still in the market are rates rise



- **Over a quarter of buyers paid with all cash**
- **Higher interest rates and tight supply push up the share of all cash buyers**



# Share of international buyers rebounding in CA



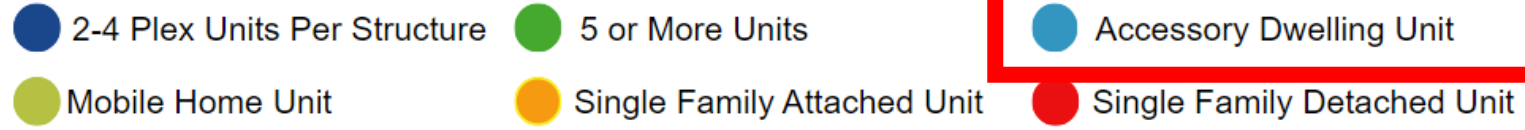


by Householder Age	Above Capital Gains Threshold	Total Owned Households	Total Households	Percent of Owned Households
2. Under 25	8,133	38,965	358,358	21%
3. 25-34	74,207	557,829	2,053,384	13%
4. 35-44	261,249	1,248,496	2,588,341	21%
5. 45-54	440,050	1,464,643	2,512,429	30%
6. 55-64	714,186	1,721,239	2,533,887	41%
7. 65+	1,245,481	2,481,966	3,382,672	50%
<b>Total</b>	<b>2,743,306</b>	<b>7,513,138</b>	<b>14,512,149</b>	<b>37%</b>

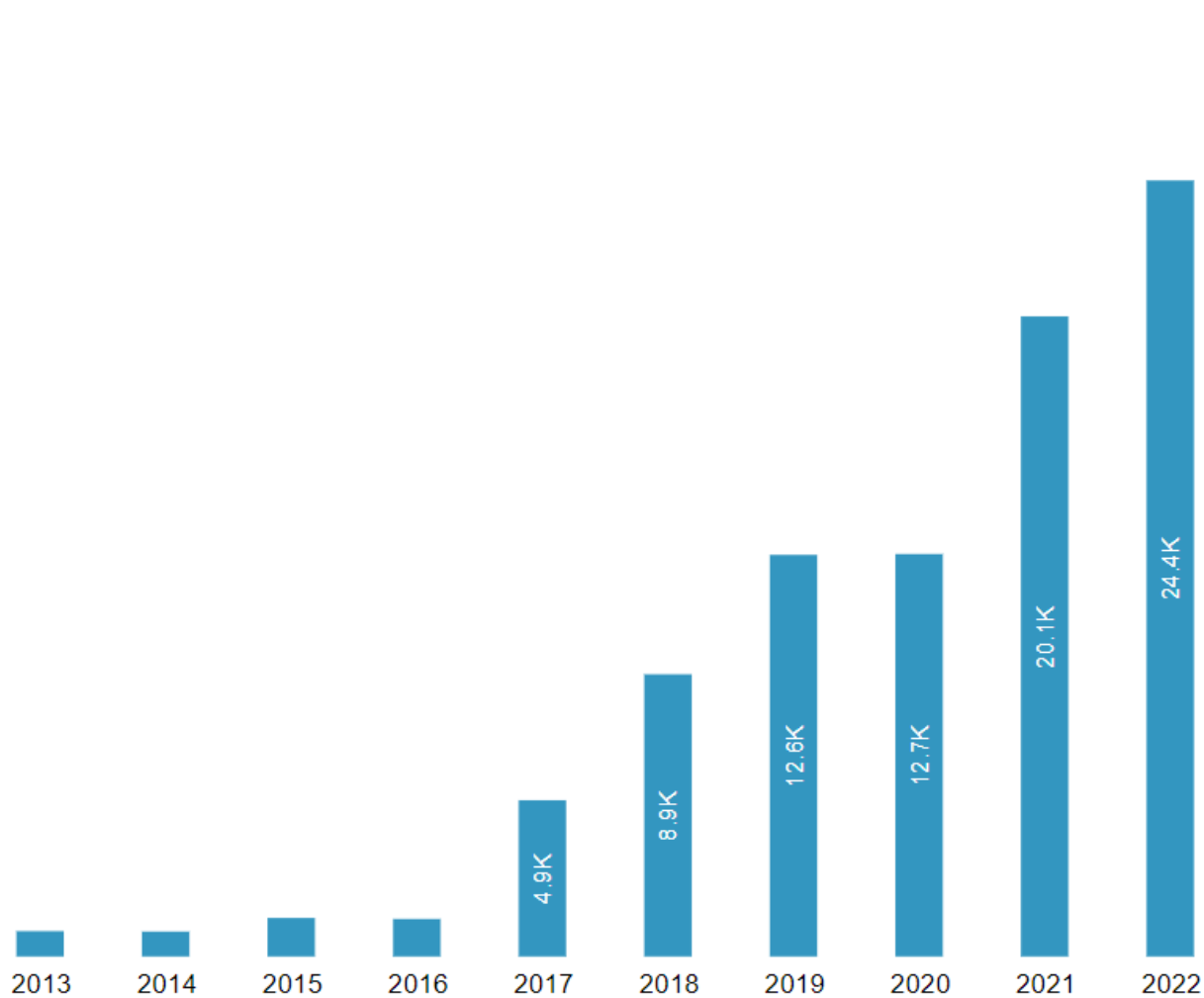
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<b>by Householder Age</b>	<b>Above Capital Gains Threshold</b>	<b>Total Owned Households</b>	<b>Total Households</b>	<b>Percent of Owned Households</b>
2. Under 25	2,366	38,965	358,358	6%
3. 25-34	21,972	557,829	2,053,384	4%
4. 35-44	65,459	1,248,496	2,588,341	5%
5. 45-54	139,702	1,464,643	2,512,429	10%
6. 55-64	263,495	1,721,239	2,533,887	15%
7. 65+	552,721	2,481,966	3,382,672	22%
<b>Total</b>	<b>1,045,715</b>	<b>7,513,138</b>	<b>14,512,149</b>	<b>14%</b>

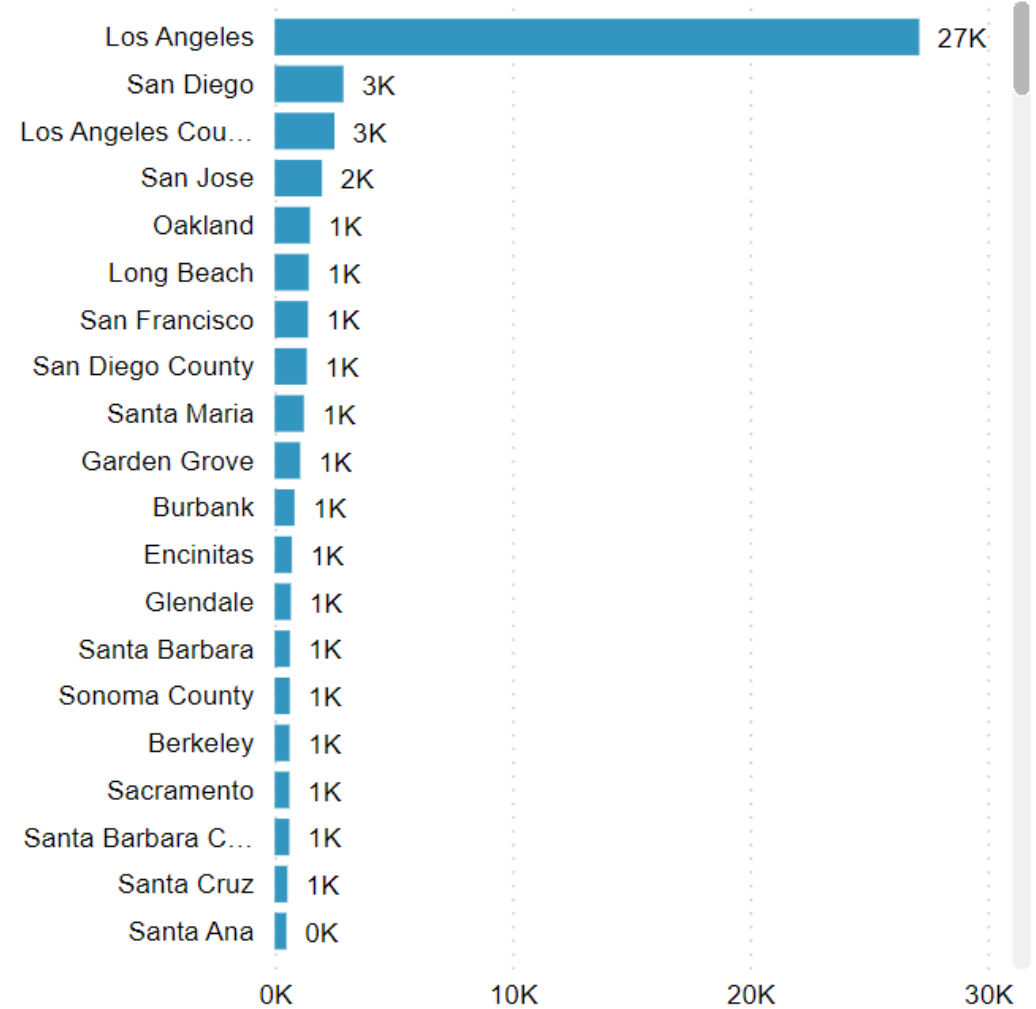
# Construction: Structure Type



## Units Permitted by Structure Type



## Units Permitted by Structure Type by Jurisdiction



Taking all that into account...

# U.S. economic outlook

	2016	2017	2018	2019	2020	2021	2022	2023p	2024f
US GDP	1.6%	2.3%	3.0%	2.2%	-3.5%	5.9%	2.1%	1.7%	0.7%
Nonfarm Job Growth	1.8%	1.6%	1.6%	1.3%	-5.7%	2.8%	4.3%	1.7%	0.2%
Unemployment	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.7%	4.4%
CPI	1.4%	2.1%	2.4%	1.8%	1.2%	4.7%	8.0%	3.9%	2.6%
Real Disposable Income, % Change	2.7%	2.9%	4.0%	2.9%	5.8%	1.9%	-6.1%	3.5%	2.1%

# California economic outlook

	2016	2017	2018	2019	2020	2021	2022	2023p	2024f
Nonfarm Job Growth	2.3%	2.1%	2.1%	1.5%	-6.9%	3.2%	5.0%	1.4%	0.5%
Unemployment	5.5%	4.8%	4.3%	4.1%	10.3%	7.4%	4.4%	4.6%	5.0%
CA Population (Million)	39.4	39.5	39.6	39.6	39.5	39.5	39.5	39.5	39.5
Population Growth	0.6%	0.4%	0.2%	0.1%	-0.9%	-0.5%	-0.4%	0.0%	0.0%

# California housing market outlook

	2016	2017	2018	2019	2020	2021	2022	2023p	2024f
SFH Resales (000s)	417.7	424.9	402.6	398.0	411.9	444.5	342.0	266.2	327.1
% Change	2.0%	1.7%	-5.2%	-1.2%	3.5%	7.9%	-23.1%	-22.2%	22.9%
Median Price (\$000s)	\$502.3	\$537.9	\$569.5	\$592.4	\$659.4	\$786.8	\$822.3	\$810.0	\$860.3
% Change	5.4%	7.1%	5.9%	4.0%	11.3%	19.3%	4.5%	-1.5%	6.2%
Housing Affordability Index	31%	29%	28%	31%	32%	26%	19%	17%	17%
30-Yr FRM	3.6%	4.0%	4.5%	3.9%	3.1%	3.0%	5.3%	6.7%	6.0%

Thank you!!

