

# California Housing Market Update

North Bay Association of REALTORS®

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# Lots of curveballs heading into the new year

## Macro stuff will play a big role

- Economy will be a little slower
- We may do a little better on rates
- Consumers & commercial biggest risks

## Opportunities in tough markets

- Consumers need us more than ever
- Some segments are counter-cyclical
- Policy could really help, so get active

## How will this impact housing?

- Last year should be the low-point for sales
- Inventory should improve slightly
- Still don't see foreclosure crisis

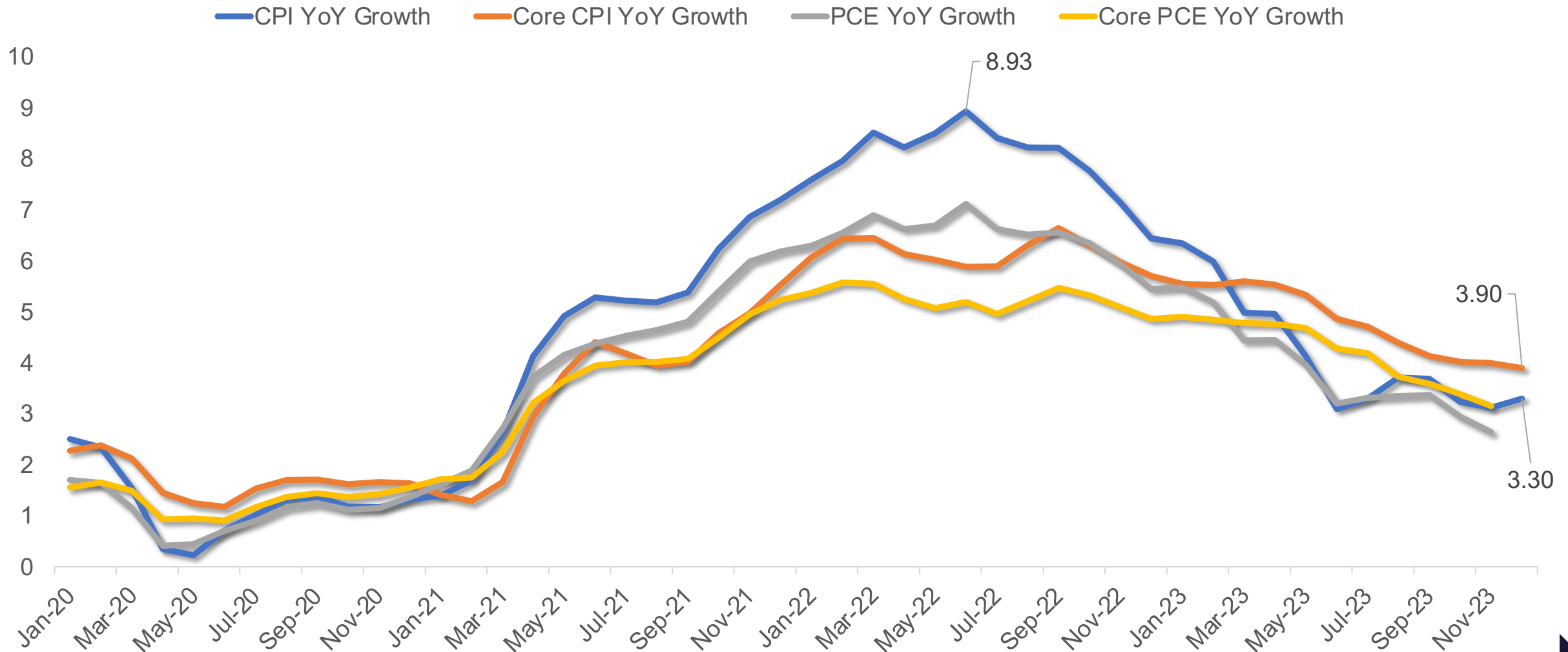
## Bottom line for 2024 & beyond

- Market will start to improve slowly
- Many challenges but all the same solution
- Overcome the “brother-in-law” effect

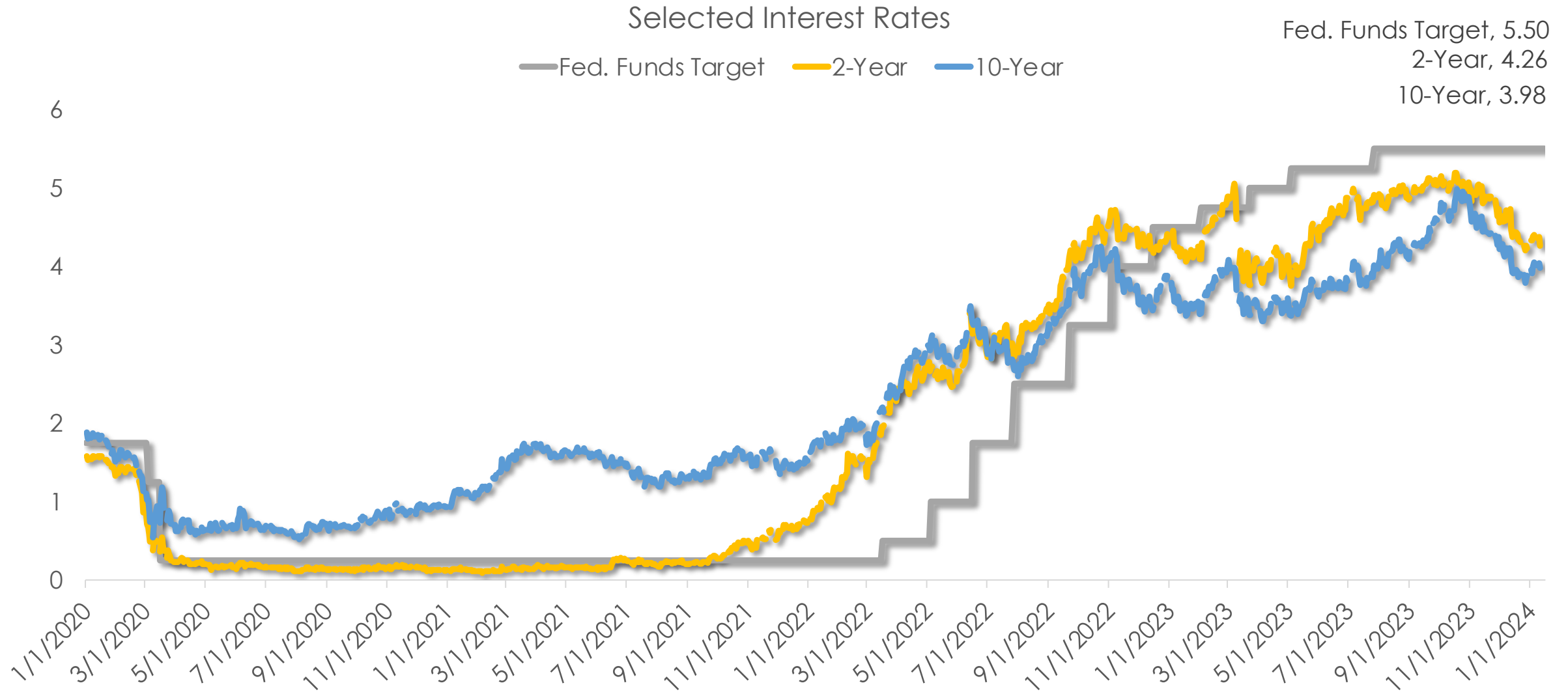
We might do a better on rates

# Last mile on inflation is toughest, rates down slowly

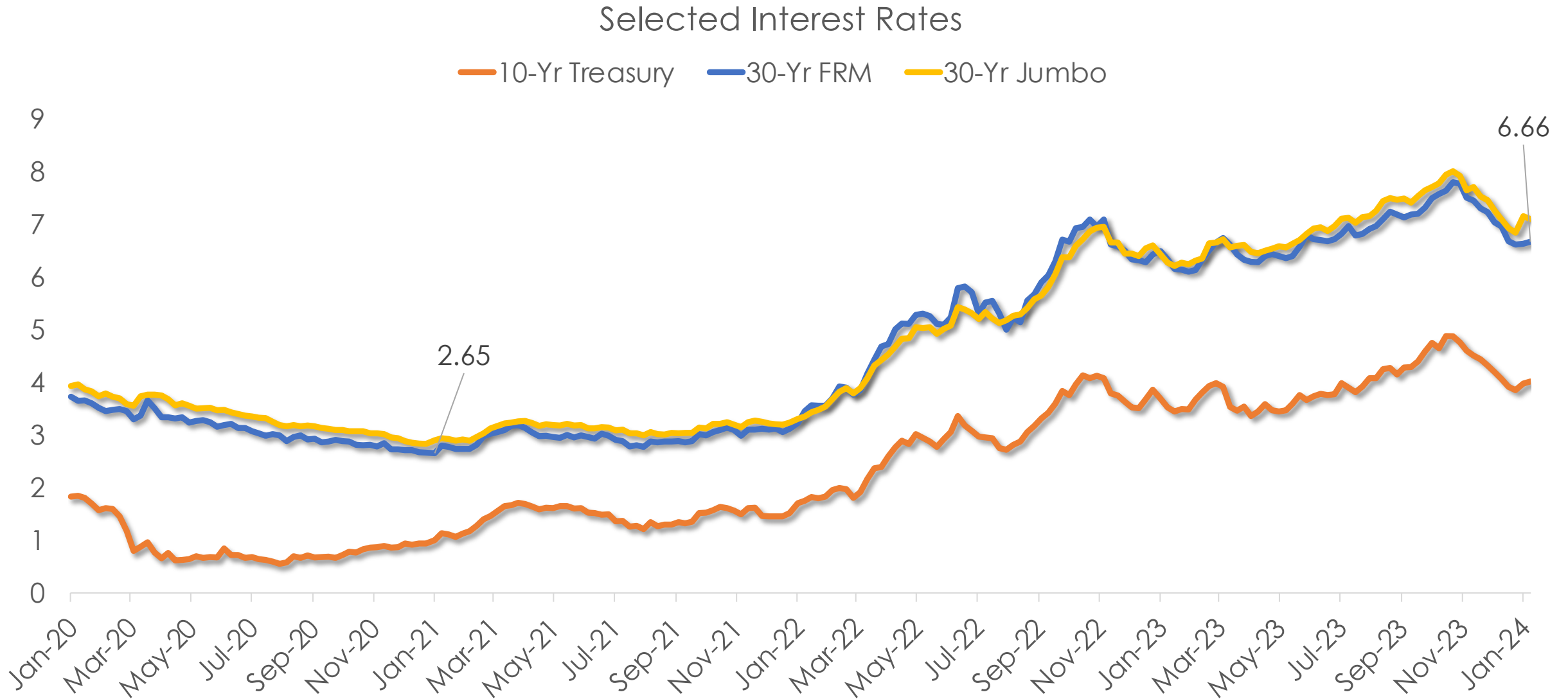
U.S. Consumer Price Inflation (YTY %)



# Bond market still likes the latest economic data



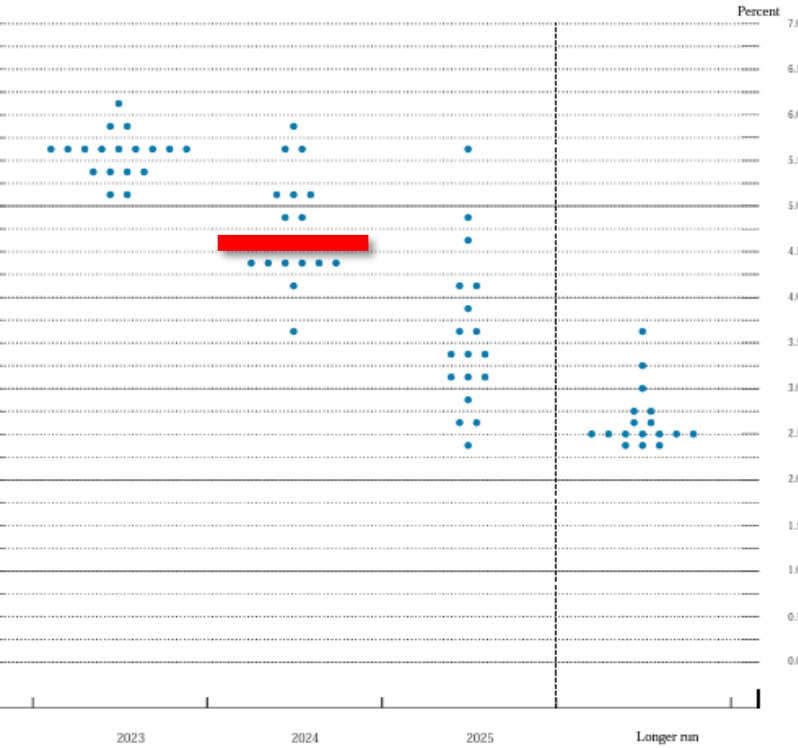
# Better 10-year already translating into lower rates



# Fed changes their mind on a dime, could improve

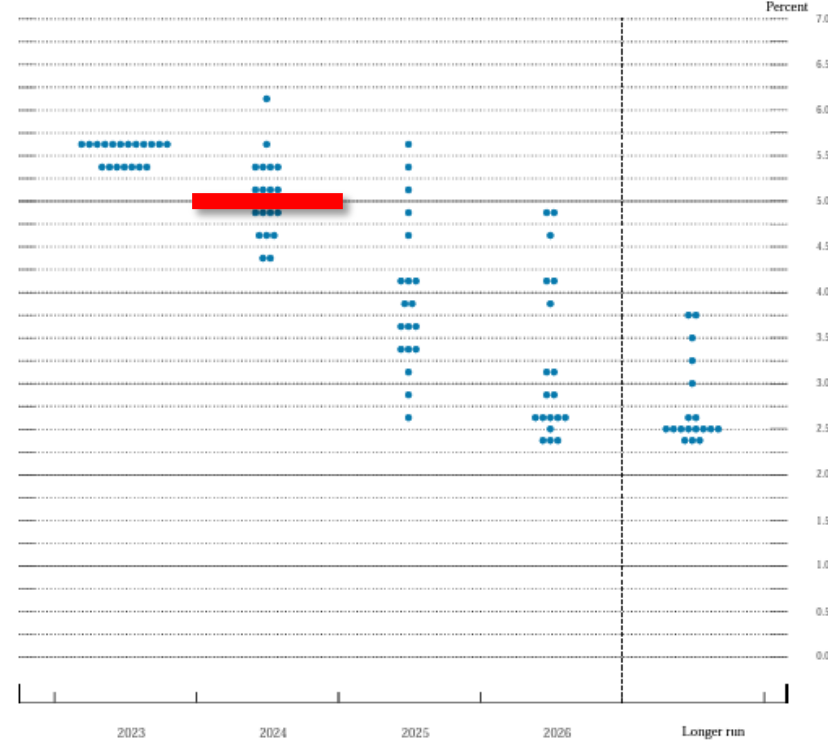
## June 2023

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



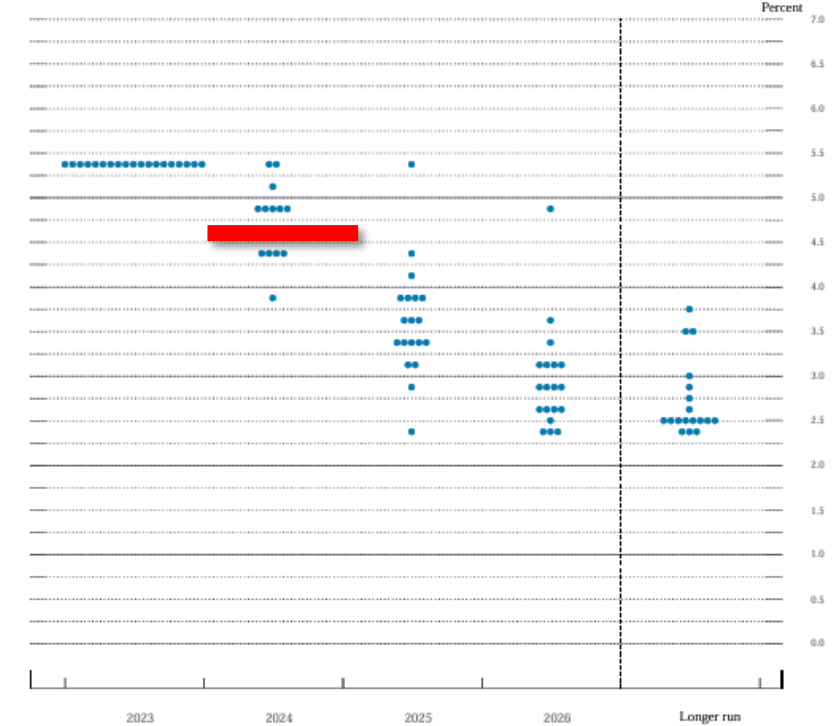
## September 2023

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



## December 2023

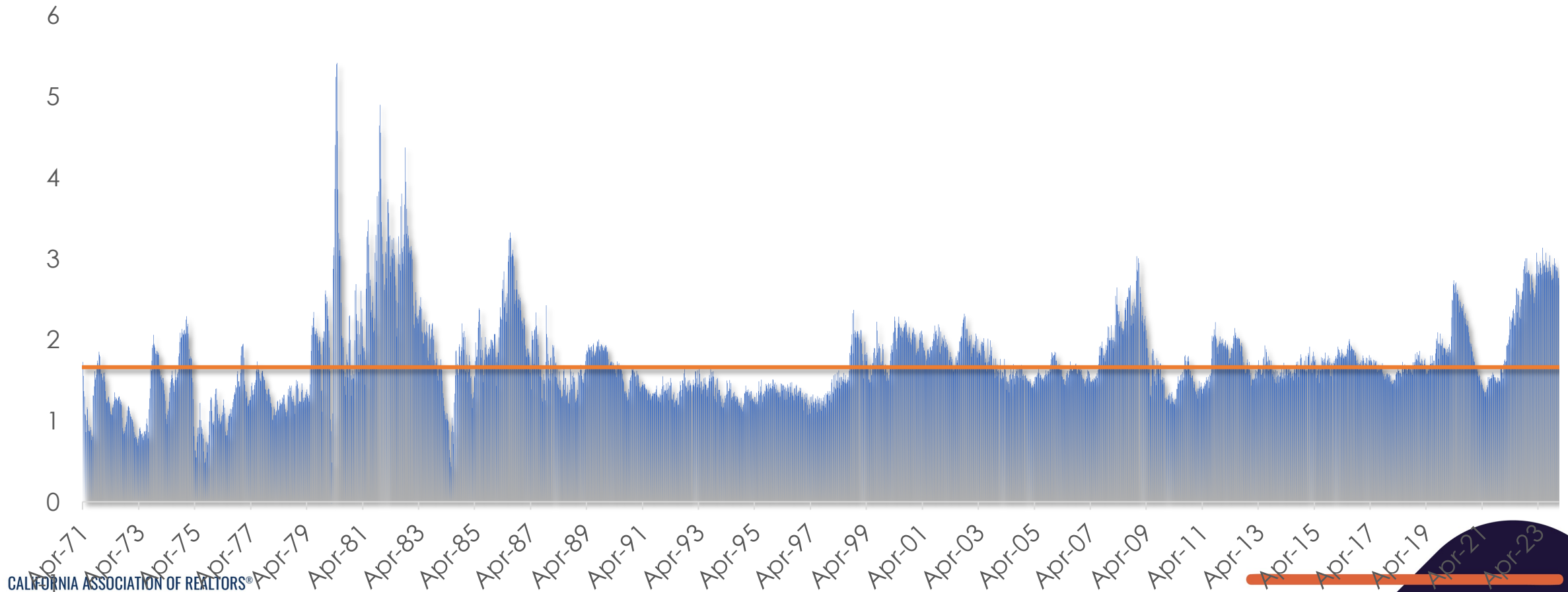
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



# Mortgage spreads very high, could come down some

Mortgage Rate Spread (30 Yr. FRM - 10 Yr. Treasury)

■ Spread   ■ Average

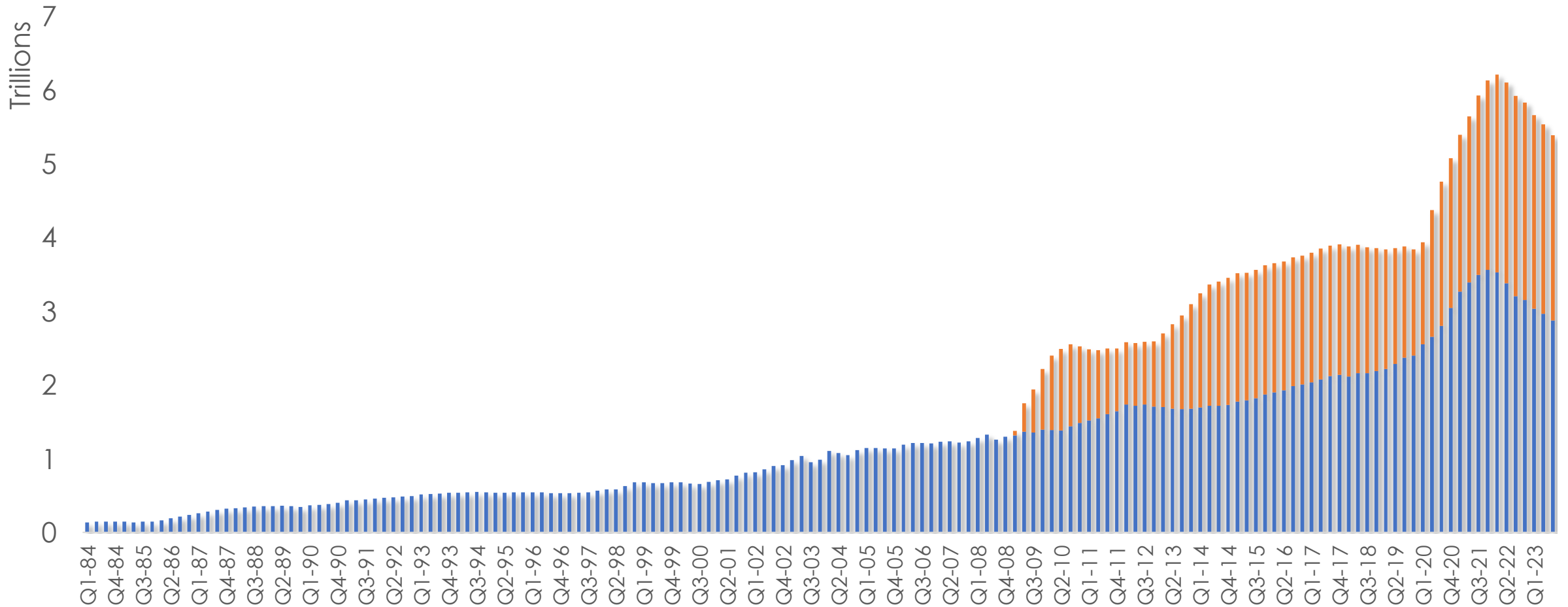




# MBS market means we can't expect huge drops

U.S. Mortgage Backed Securities on Balance Sheets

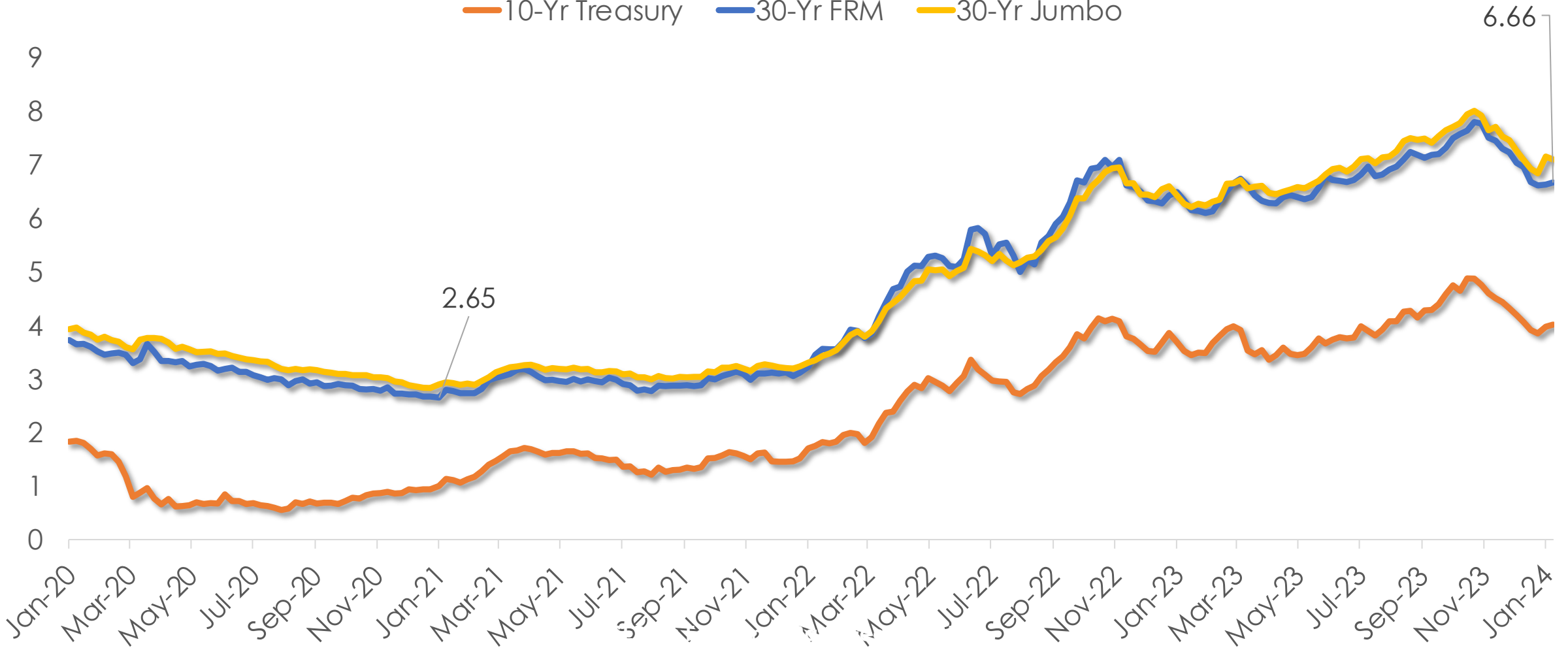
■ Banks ■ Federal Reserve



# Still going to see relatively high rates for buyers

Selected Interest Rates

10-Yr Treasury 30-Yr FRM 30-Yr Jumbo



Where the rubber meets the road



## Step 1: Define Buyer's Profile

### Select County of Residence

San Luis Obispo

### Select Annual Household Income

\$180,000

### Select Desired Downpayment (% of Purchase Price)

3.5% 5.0% 10.0% 20.0%

### Select Desired Monthly Payment (% of Income)

Low (30%) Medium (35%) High (40%)

## Step 2: Toggle Interest Rate for Buyer Impacts

### Select Rate for Purchasing Power & Inventory Below Cutoff

3.0%	3.5%	4.0%
4.5%	5.0%	5.5%
6.0%	6.5%	7.0%
7.5%	8.0%	8.5%
9.0%	9.5%	10.0%

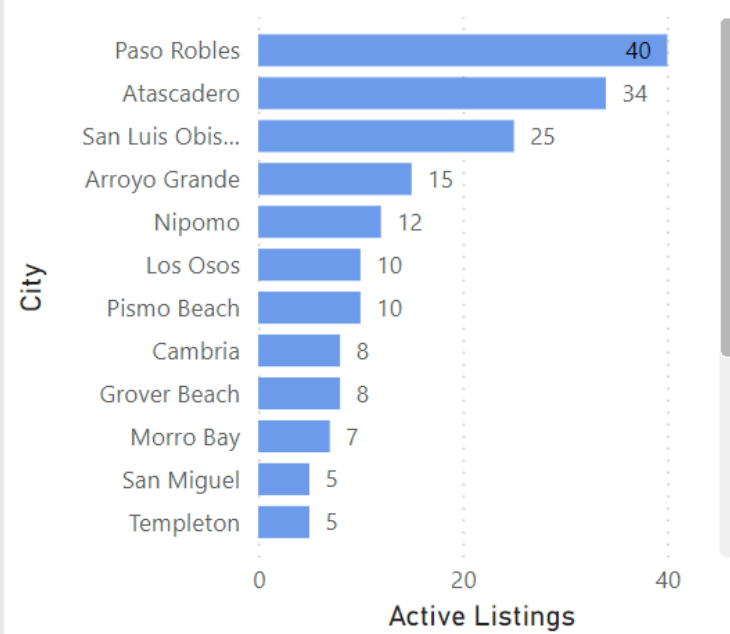
## Impact on Homebuyer's Purchasing Power

<b>\$5,250</b> Target Monthly Payment (PITI)	<b>\$1,061,800</b> Price Cutoff At Selected Rate	<b>\$106,180</b> Downpayment Amount
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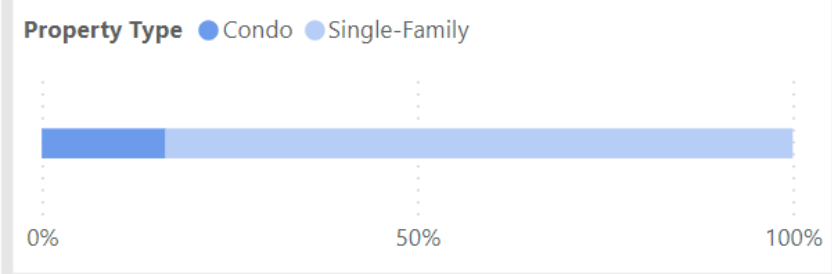
## Impact on Number of Listings Below Cutoff

<b>Nov-23</b> Listings As Of Month	<b>194</b> Listings At/Below Price Cutoff	<b>51%</b> Share At/Below Price Cutoff
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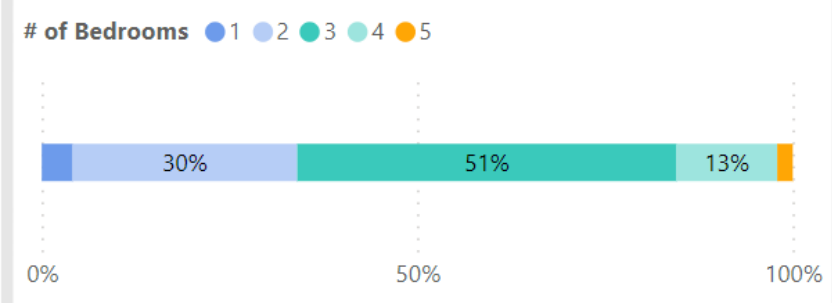
### Active Listings by City



### Share of Active Listings by Property Type



### Share of Active Listings by # of Bedrooms



### Step 1: Define Buyer's Profile

Select County of Residence ☰ 🔗

San Luis Obispo ▼

Select Annual Household Income

\$180,000 ▼

Select Desired Downpayment (% of Purchase Price)

Select Desired Monthly Payment (% of Income)

### Step 2: Toggle Interest Rate for Buyer Impacts

Select Rate for Purchasing Power & Inventory Below Cutoff

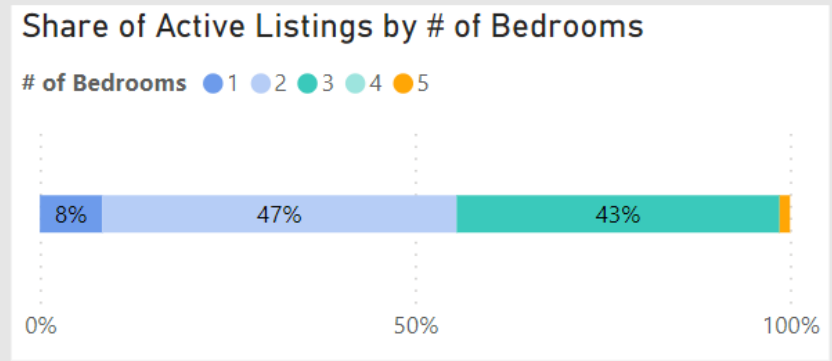
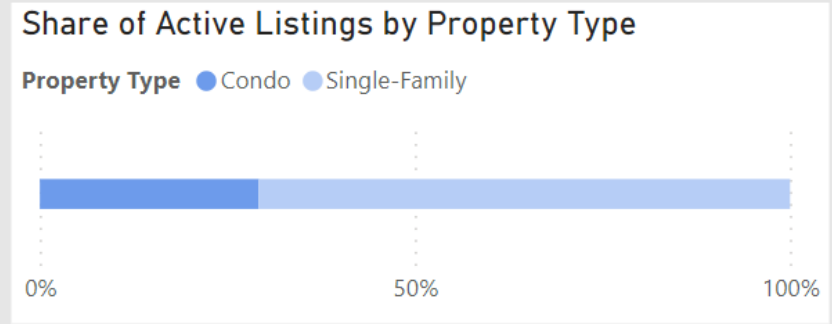
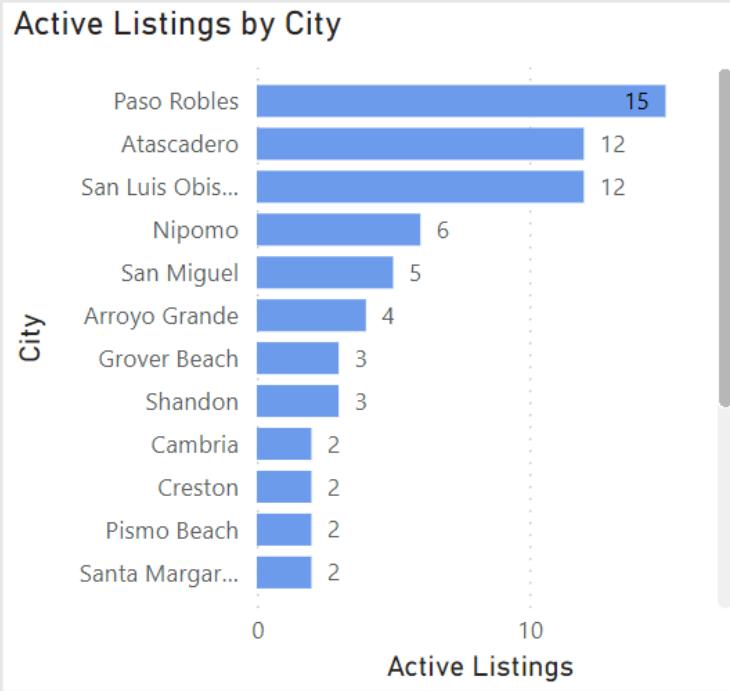
<input type="button" value="3.0%"/>	<input type="button" value="3.5%"/>	<input type="button" value="4.0%"/>
<input type="button" value="4.5%"/>	<input type="button" value="5.0%"/>	<input type="button" value="5.5%"/>
<input type="button" value="6.0%"/>	<input type="button" value="6.5%"/>	<input type="button" value="7.0%"/>
<input type="button" value="7.5%"/>	<input checked="" type="button" value="8.0%"/>	<input type="button" value="8.5%"/>
<input type="button" value="9.0%"/>	<input type="button" value="9.5%"/>	<input type="button" value="10.0%"/>

### Impact on Homebuyer's Purchasing Power

<h1>\$5,250</h1> <p>Target Monthly Payment (PITI)</p>	<h1>\$677,080</h1> <p>Price Cutoff At Selected Rate</p>	<h1>\$67,708</h1> <p>Downpayment Amount</p>
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### Impact on Number of Listings Below Cutoff

<h1>Nov-23</h1> <p>Listings As Of Month</p>	<h1>72</h1> <p>Listings At/Below Price Cutoff</p>	<h1>19%</h1> <p>Share At/Below Price Cutoff</p>
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## Step 1: Define Buyer's Profile

### Select County of Residence

San Luis Obispo

### Select Annual Household Income

\$280,000

### Select Desired Downpayment (% of Purchase Price)

3.5% 5.0% 10.0% 20.0%

### Select Desired Monthly Payment (% of Income)

Low (30%) Medium (35%) High (40%)

## Step 2: Toggle Interest Rate for Buyer Impacts

### Select Rate for Purchasing Power & Inventory Below Cutoff

3.0%	3.5%	4.0%
4.5%	5.0%	5.5%
6.0%	6.5%	7.0%
7.5%	8.0%	8.5%
9.0%	9.5%	10.0%

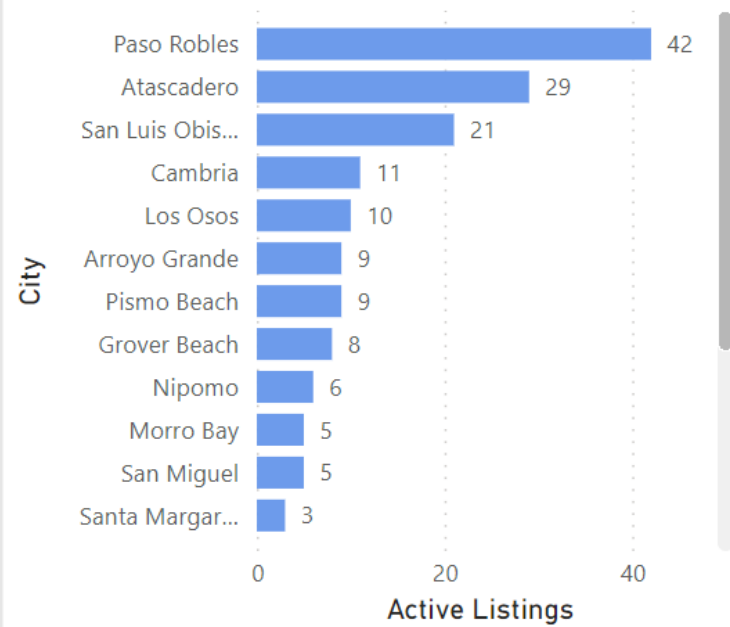
## Impact on Homebuyer's Purchasing Power

<b>\$8,167</b> Target Monthly Payment (PITI)	<b>\$1,053,236</b> Price Cutoff At Selected Rate	<b>\$105,324</b> Downpayment Amount
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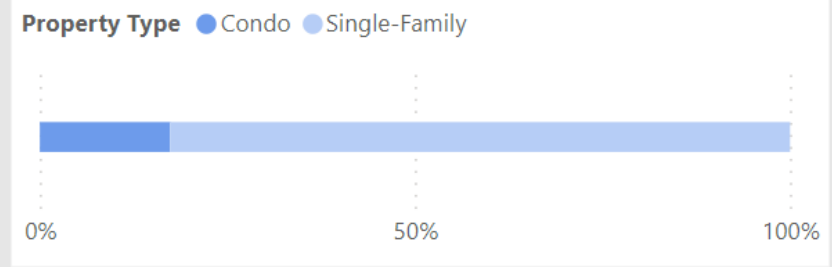
## Impact on Number of Listings Below Cutoff

<b>Dec-23</b> Listings As Of Month	<b>167</b> Listings At/Below Price Cutoff	<b>50%</b> Share At/Below Price Cutoff
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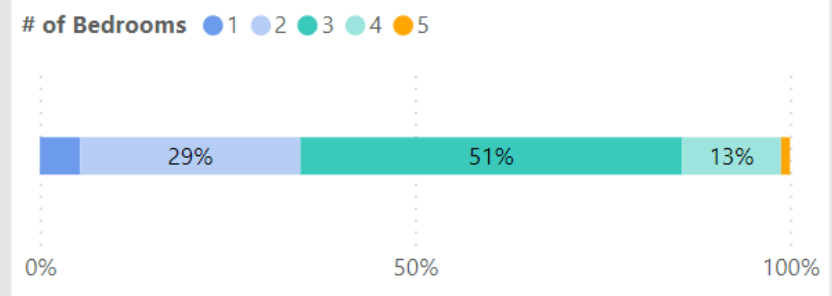
### Active Listings by City



### Share of Active Listings by Property Type



### Share of Active Listings by # of Bedrooms



### Step 1: Define Buyer's Profile

#### Select County of Residence

San Luis Obispo

#### Select Annual Household Income

\$180,000

#### Select Desired Downpayment (% of Purchase Price)

3.5% 5.0% 10.0% 20.0%

#### Select Desired Monthly Payment (% of Income)

Low (30%) Medium (35%) High (40%)

### Step 2: Toggle Interest Rate for Buyer Impacts

#### Select Rate for Purchasing Power & Inventory Below Cutoff

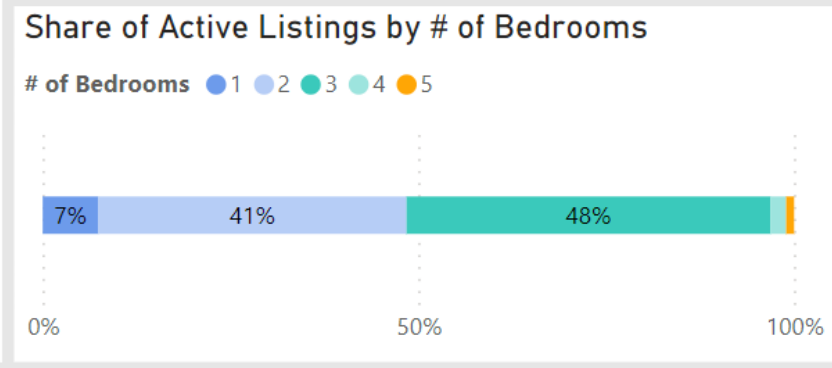
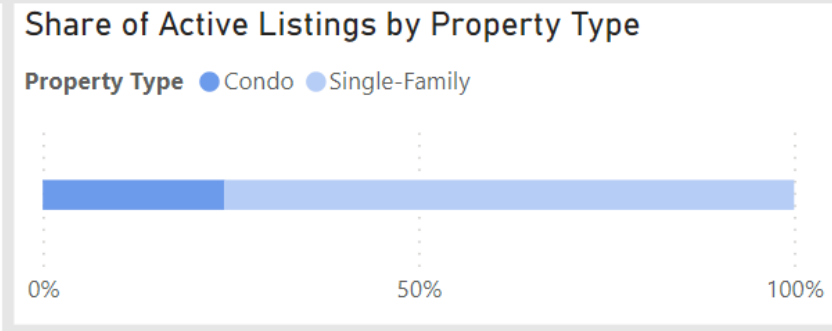
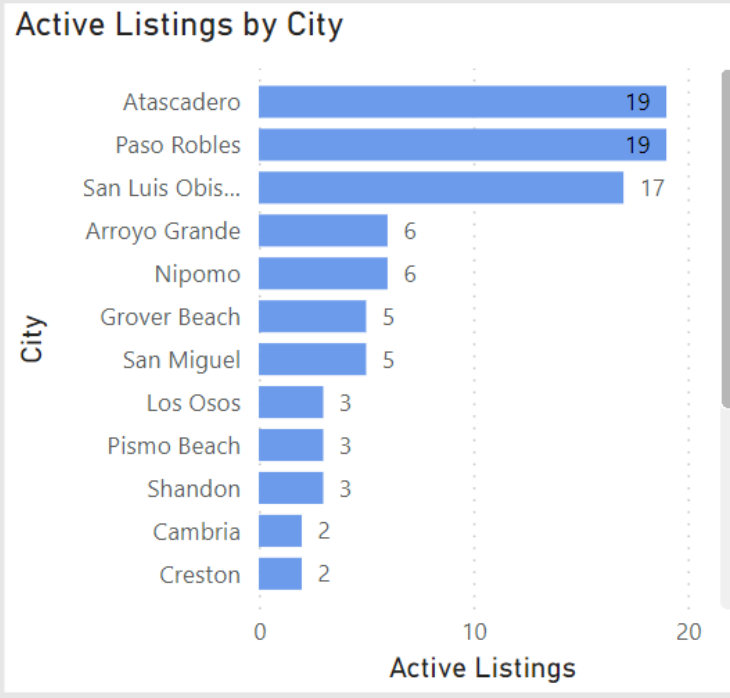
3.0%	3.5%	4.0%
4.5%	5.0%	5.5%
6.0%	6.5%	7.0%
7.5%	8.0%	8.5%
9.0%	9.5%	10.0%

### Impact on Homebuyer's Purchasing Power

<b>\$5,250</b> Target Monthly Payment (PITI)	<b>\$767,700</b> Price Cutoff At Selected Rate	<b>\$76,770</b> Downpayment Amount
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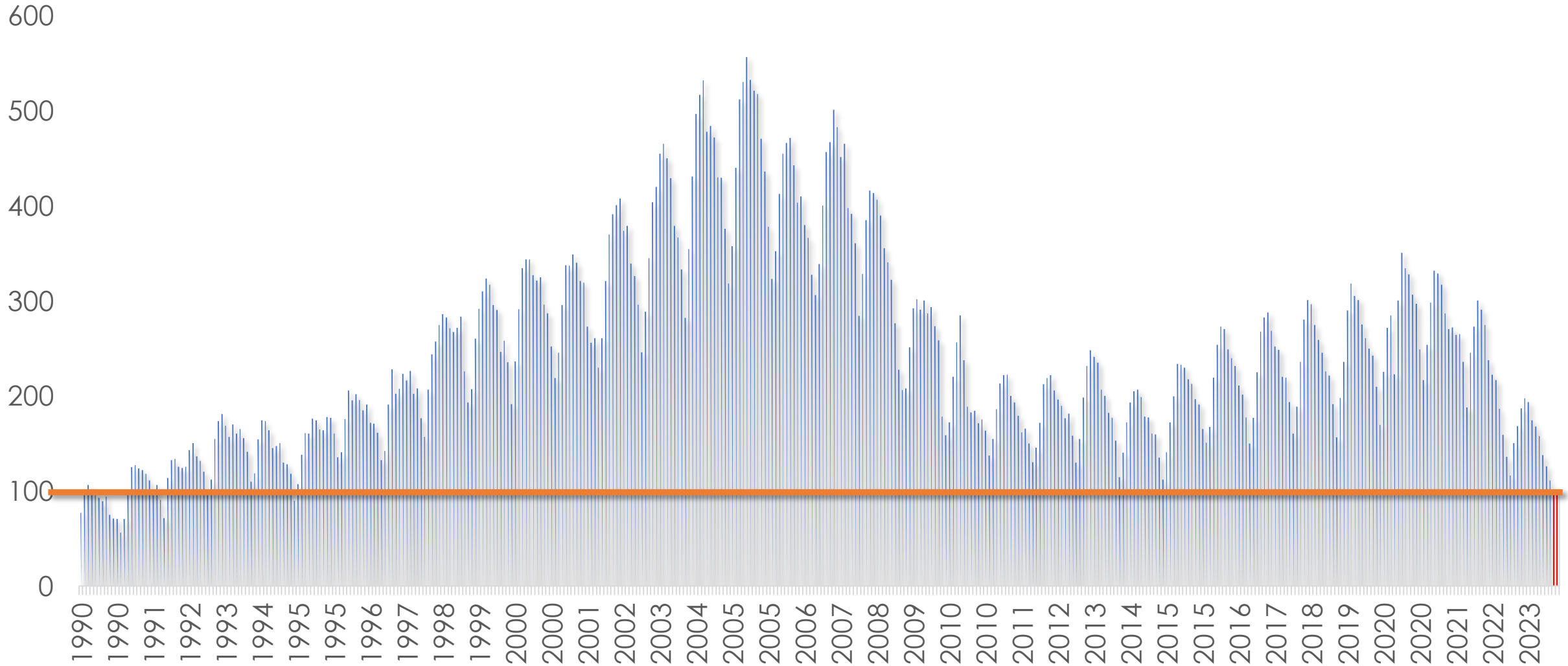
### Impact on Number of Listings Below Cutoff

<b>Nov-23</b> Listings As Of Month	<b>95</b> Listings At/Below Price Cutoff	<b>25%</b> Share At/Below Price Cutoff
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# Buyer demand reflects impact of higher rates

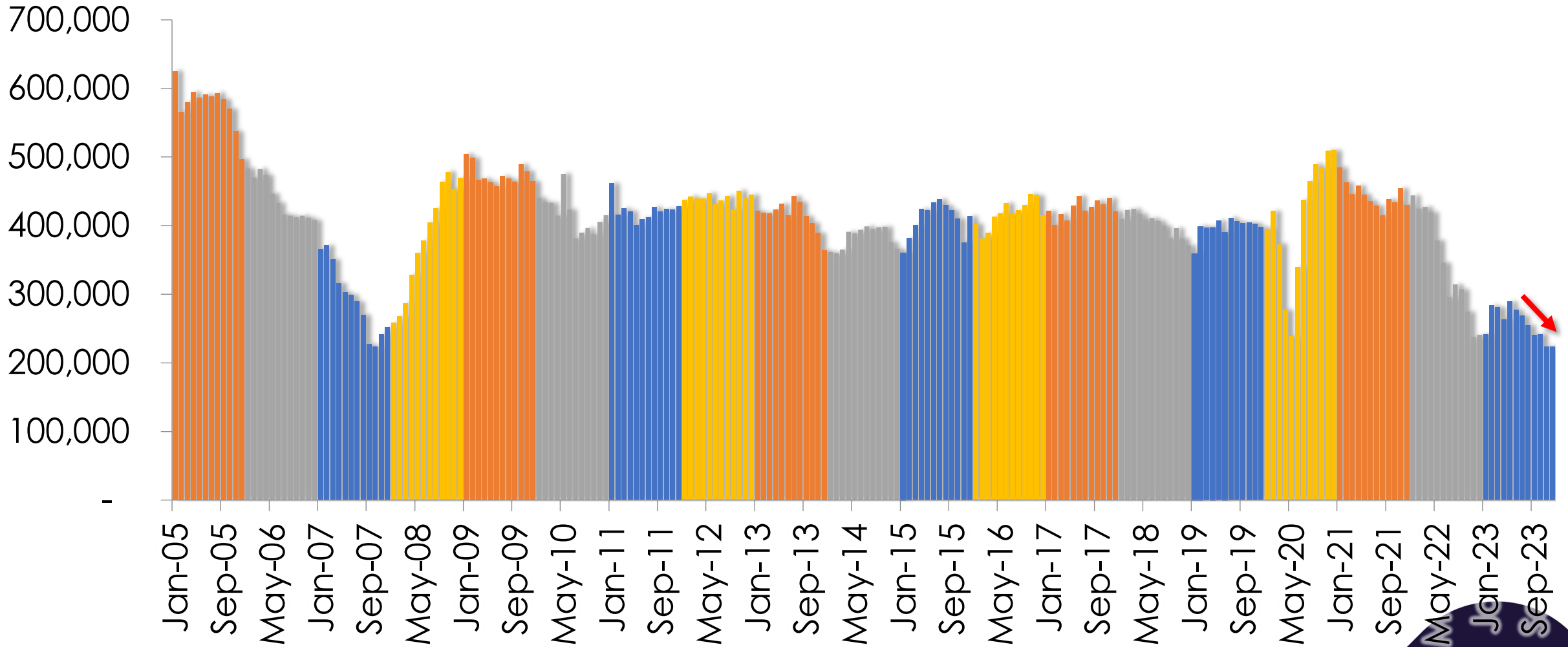
MBA Mortgage Purchase Applications





# Sales on downward trend as rates keep climbing

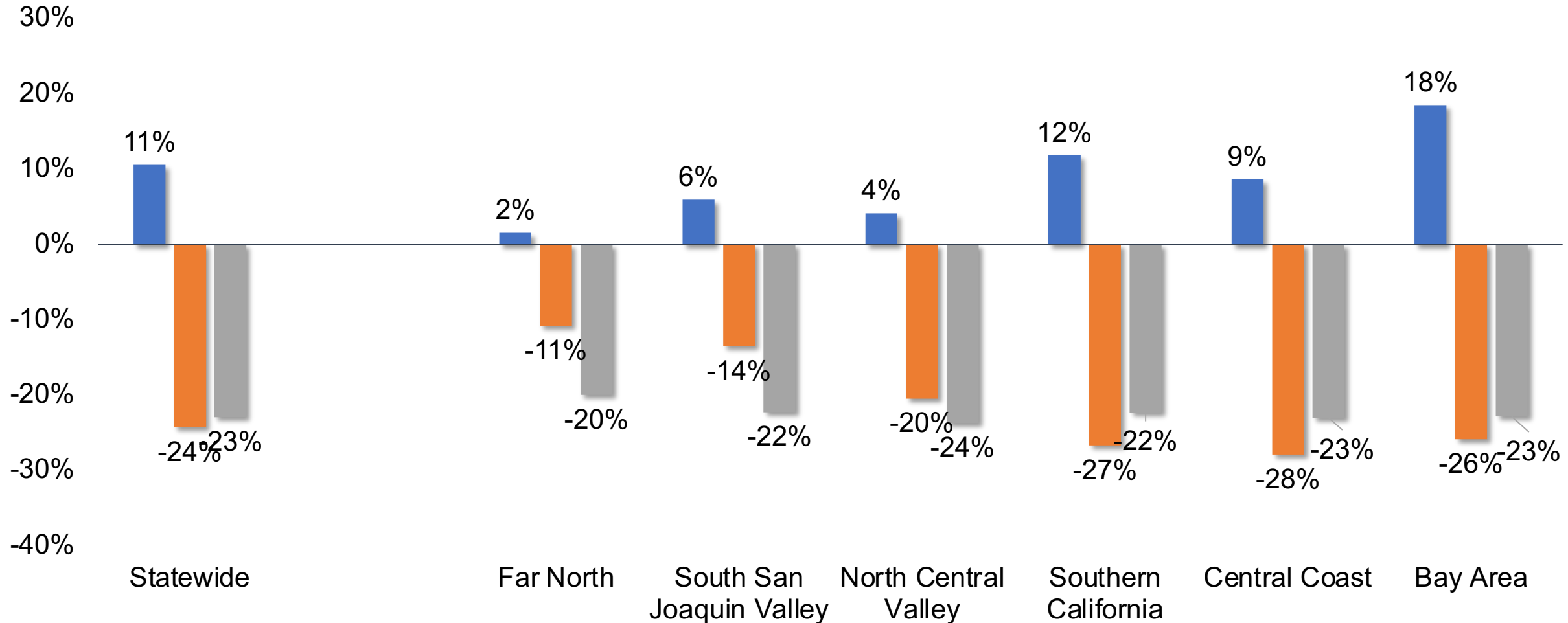
California, December 2023 Sales: 224,000 Units, **-7.1% YTY**, **0.0% MTM**



# All of California down significantly from peak

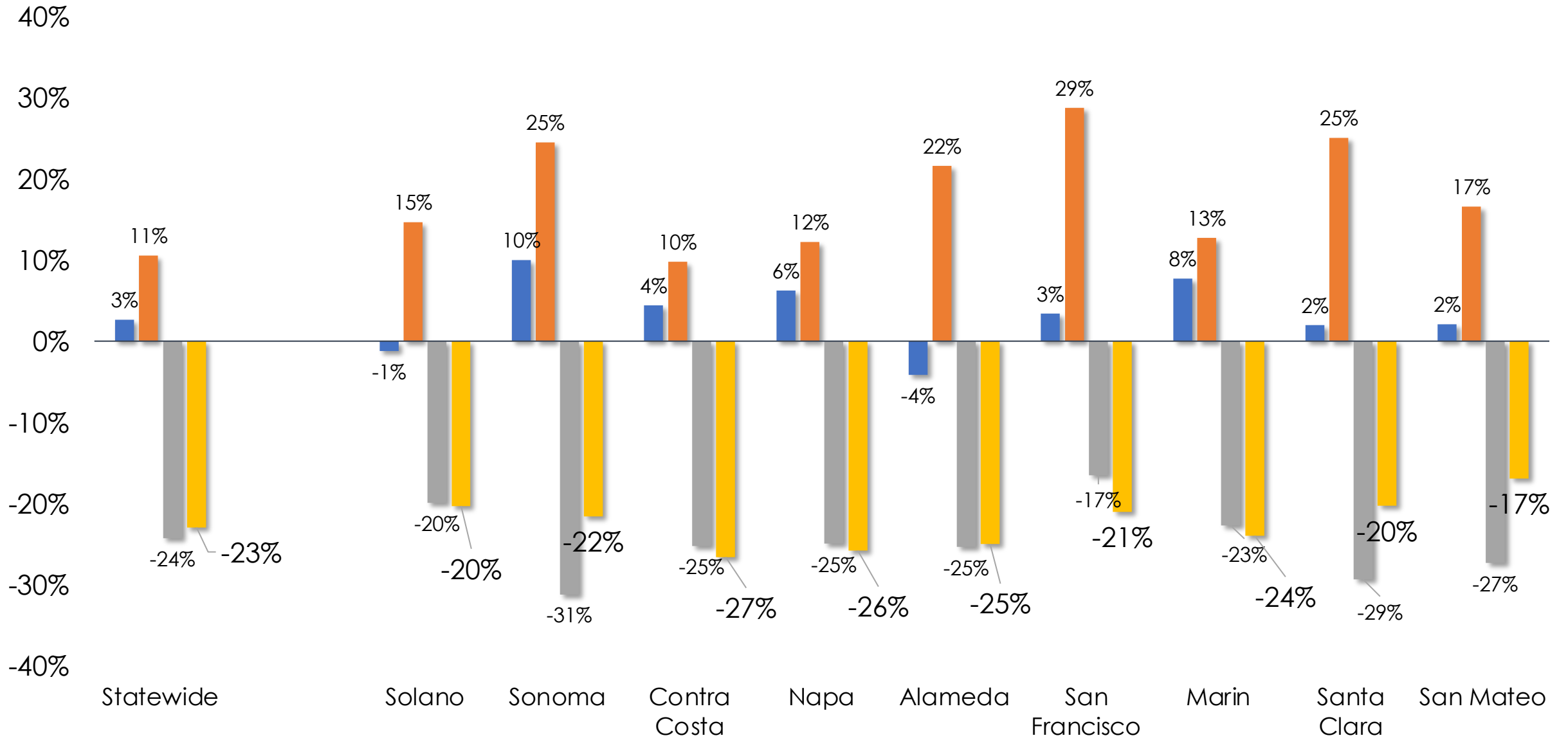
Annual Existing SFR Home Sales Growth by Region

■ 2021 ■ 2022 ■ 2023



# Bay Area Annual Existing SFR Home Sales Growth by County

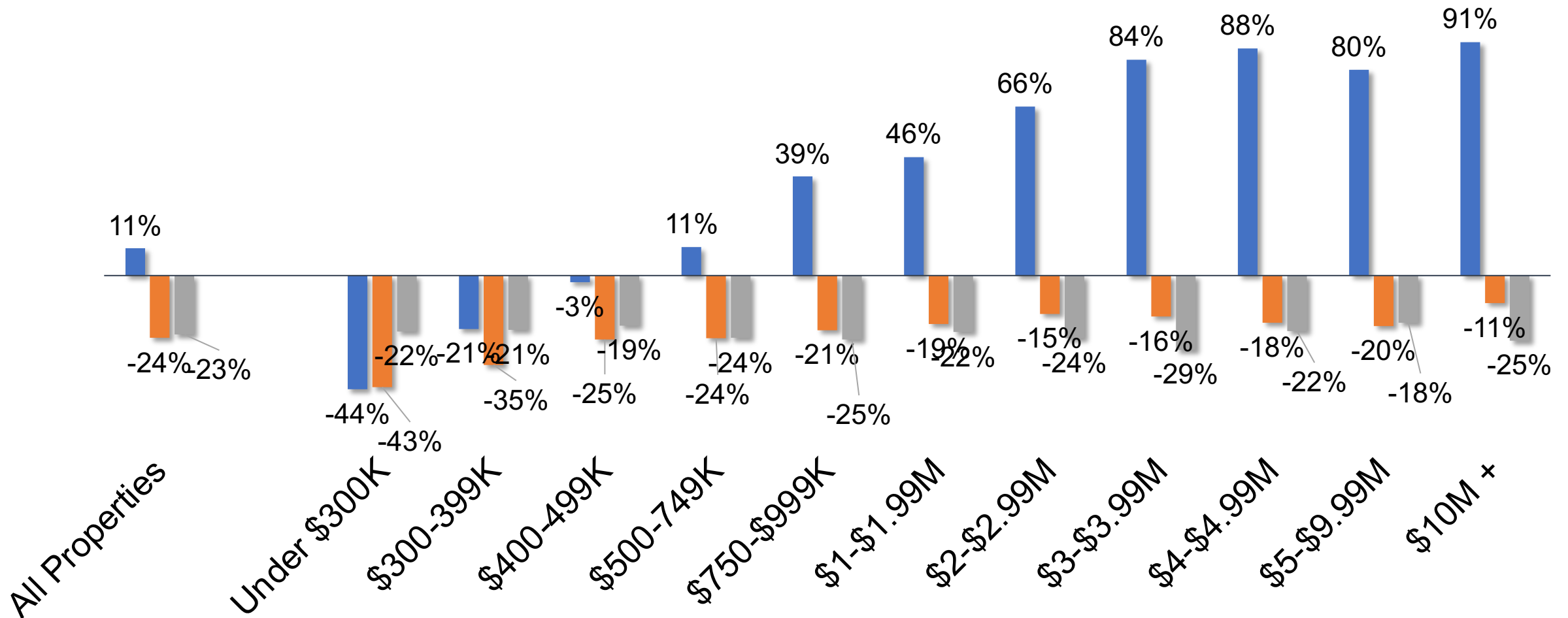
■ 2020 ■ 2021 ■ 2022 ■ 2023



# Biggest reason for slower growth is the top end

## California Existing SFR Home Sales Growth

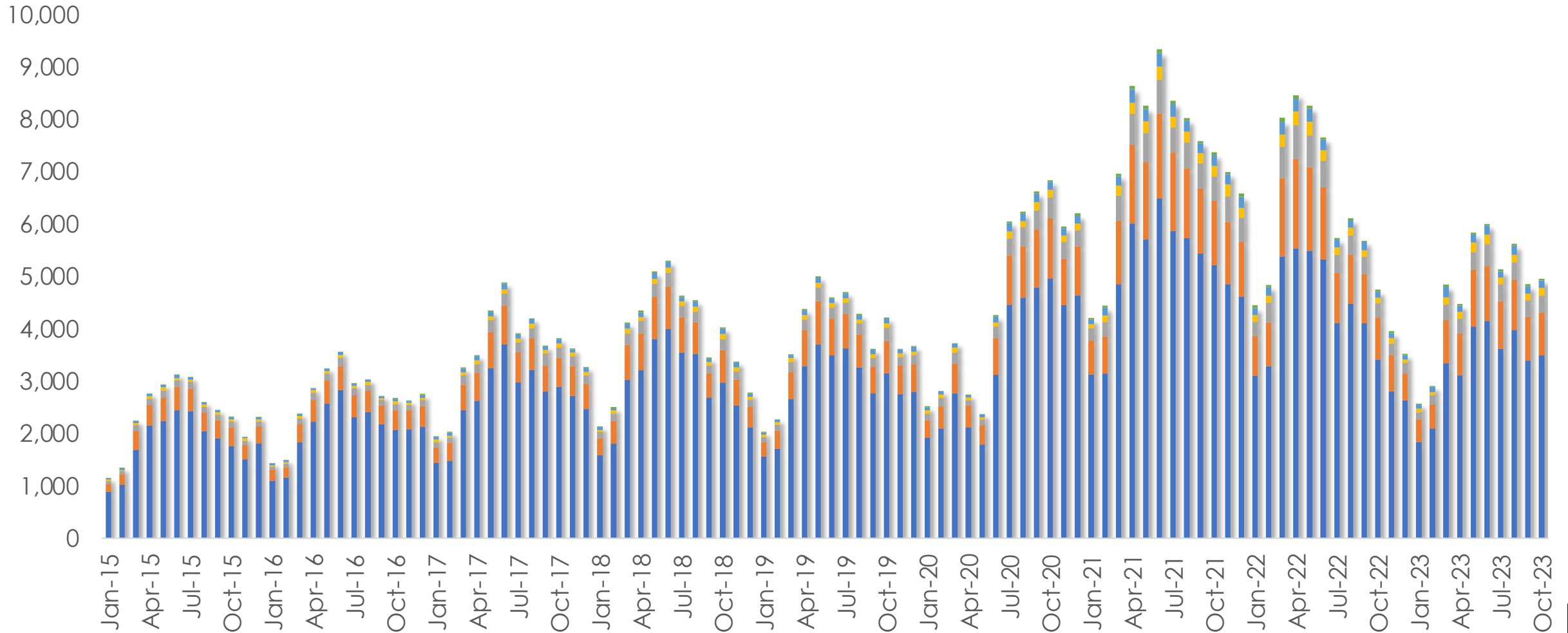
■ 2021 ■ 2022 ■ 2023



# Top end of the market still above pre-pandemic

California Existing SFR Sales Over \$1M

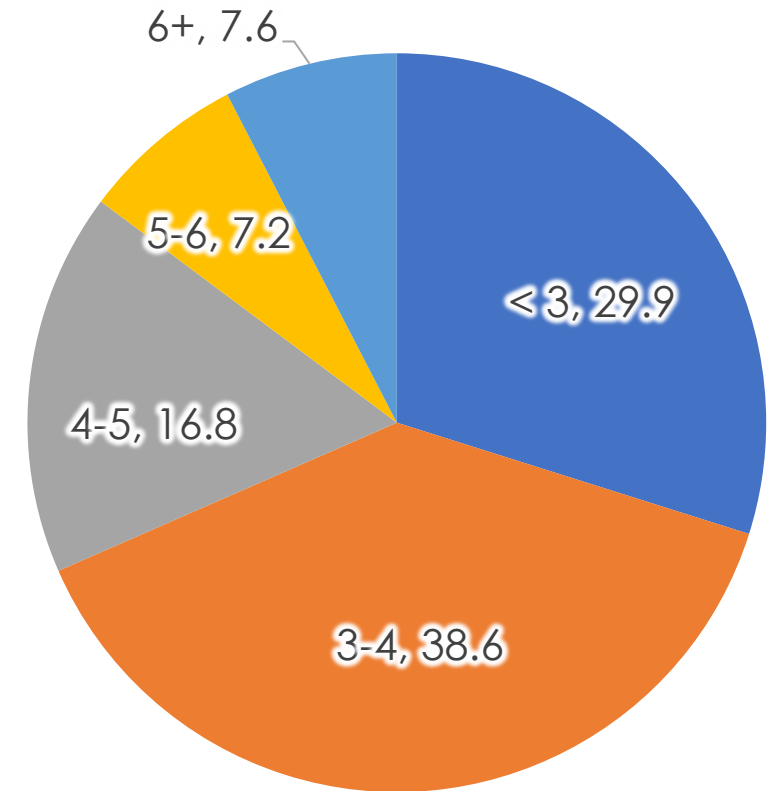
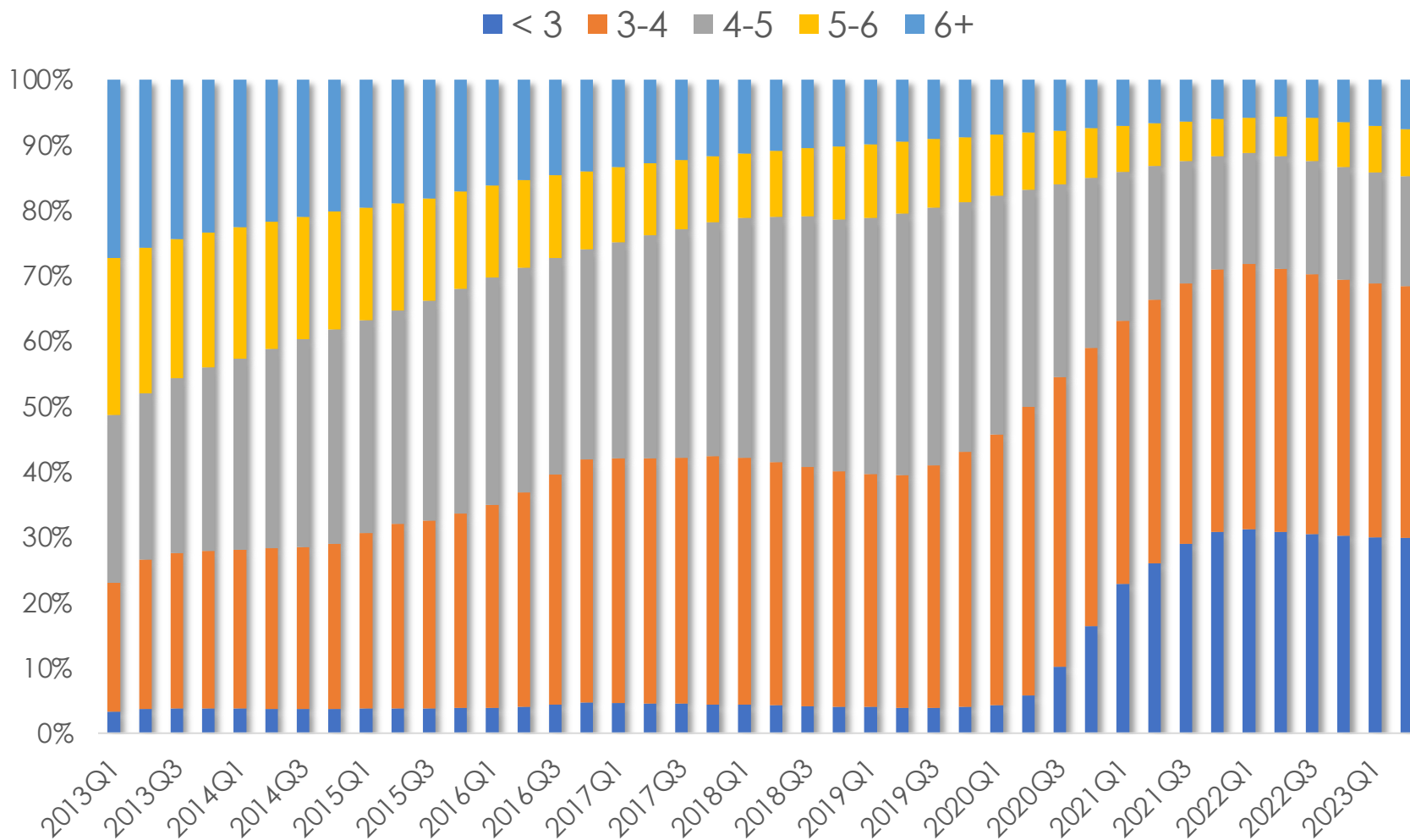
■ \$1-\$1.99M ■ \$2-\$2.99M ■ \$3-\$3.99M ■ \$4-\$4.99M ■ \$5-\$9.99M ■ \$10M +



Foreclosure crisis is unlikely

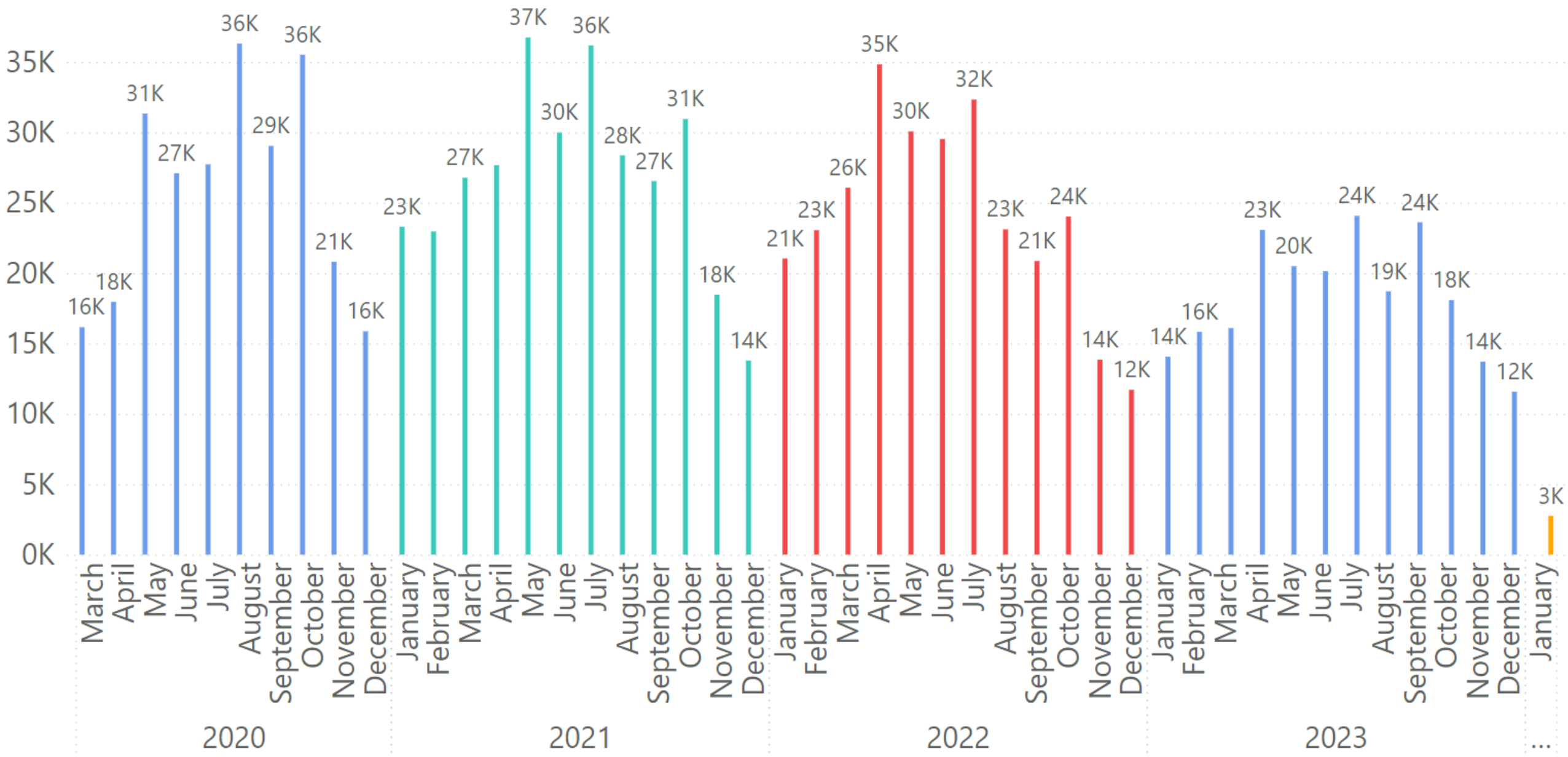
# A lot of locked in homeowners

California Outstanding Mortgages by Interest Rate



# New Existing SFR Listings Added to MLSs

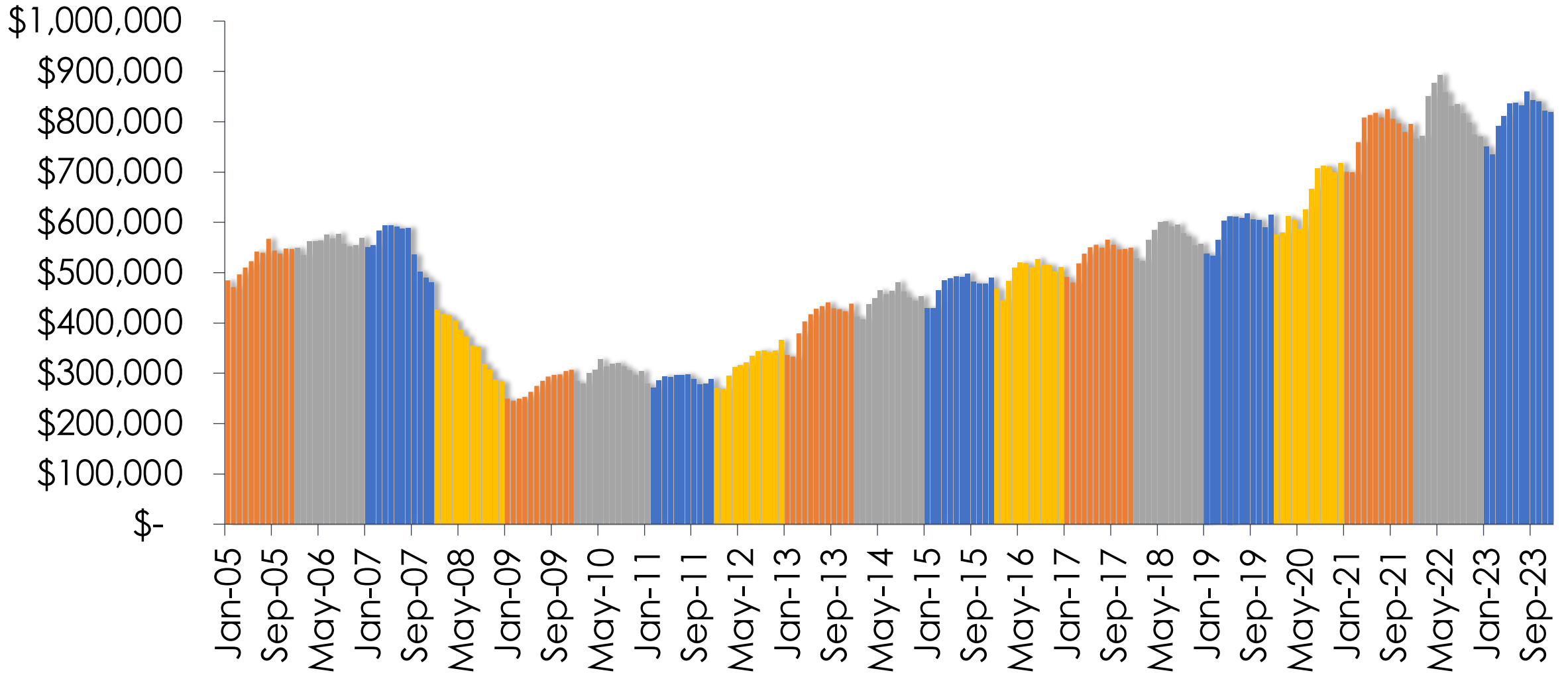
Year ● 2020 ● 2021 ● 2022 ● 2023 ● 2024





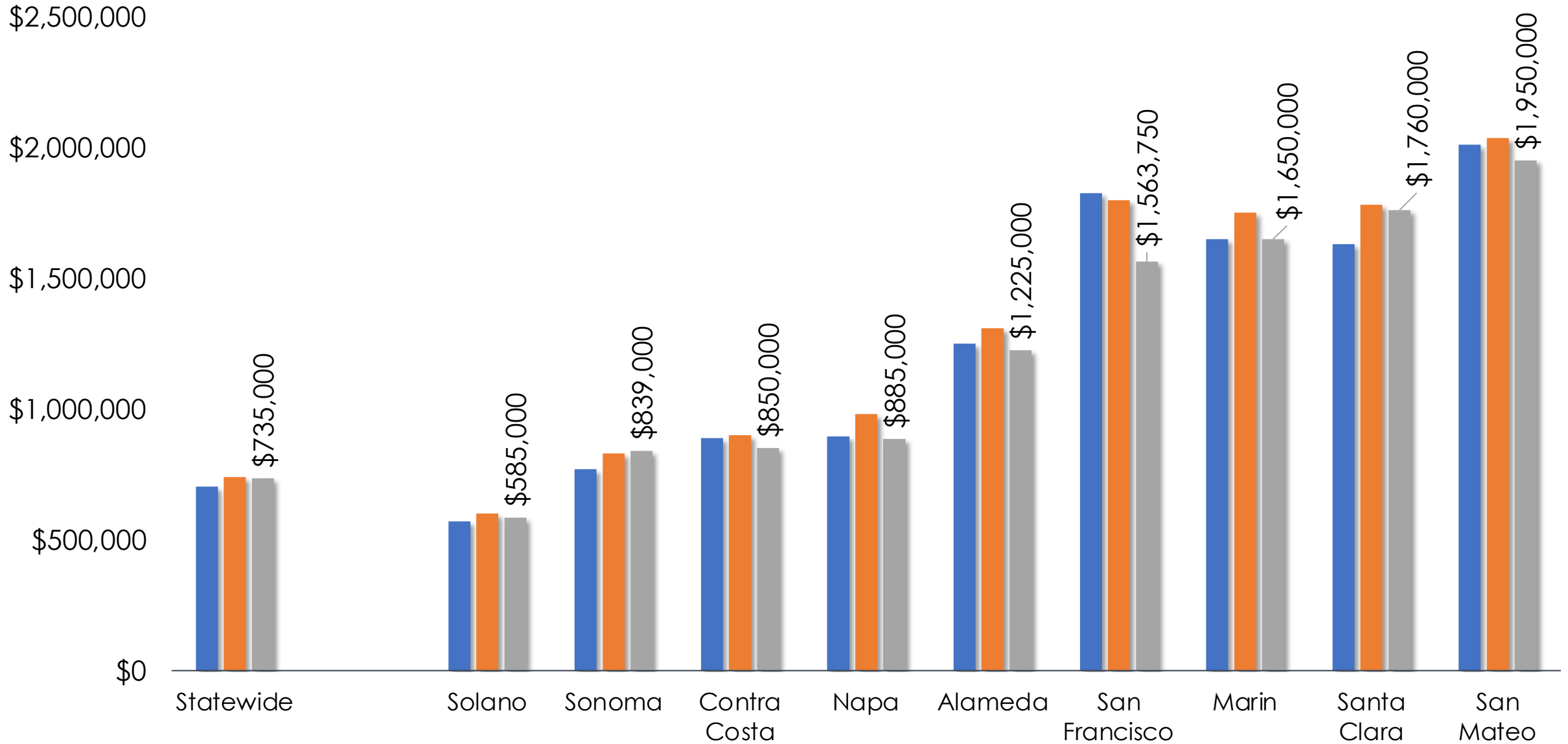
# California price increases for 6<sup>th</sup> month in a row

California, December 2023: \$819,740, **-0.3% MTM**, **+6.4% YTY**



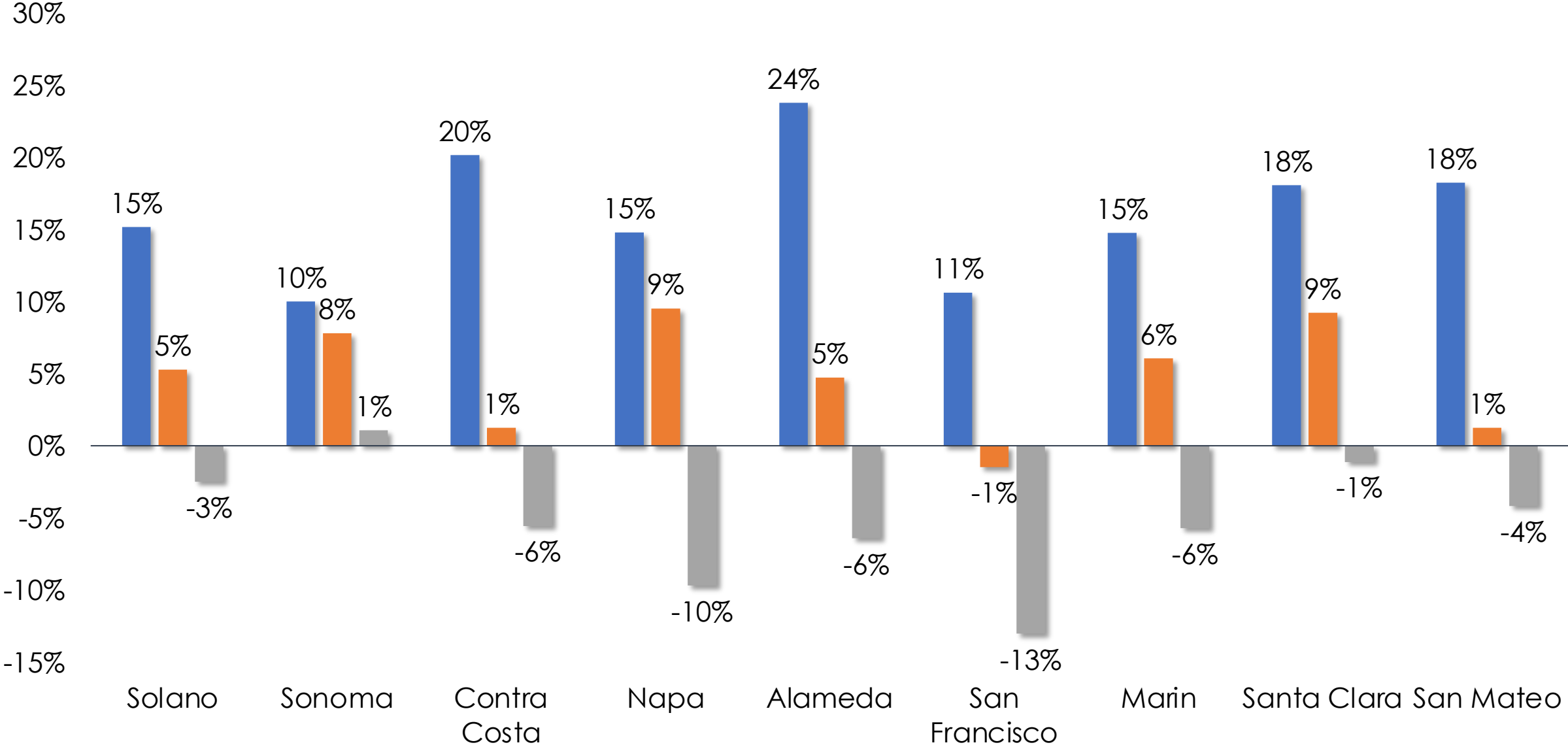
# Bay Area Annual Existing Median Price by County

■ 2021 ■ 2022 ■ 2023



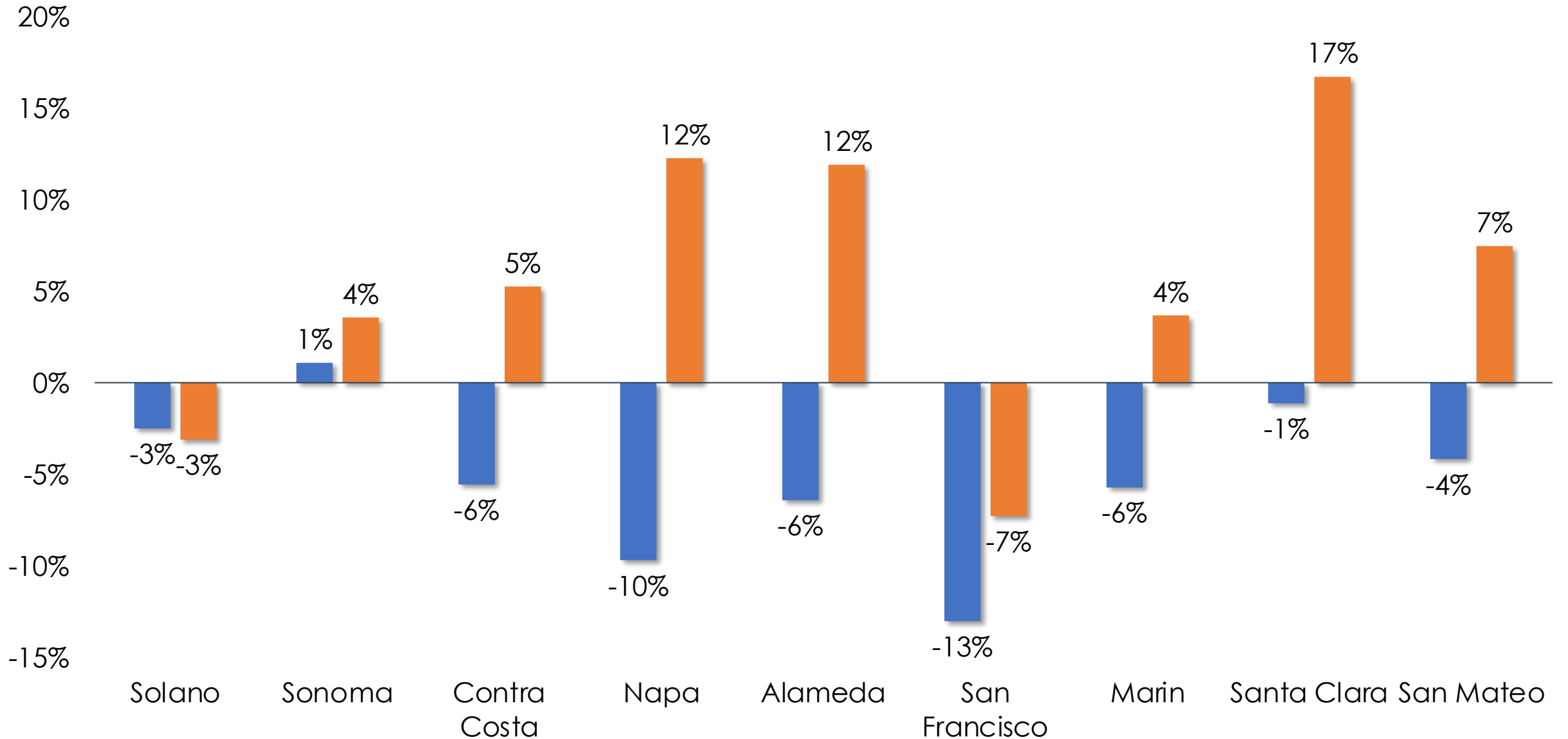
# Bay Area Annual Existing SFR Median Price Growth by County

■ 2021 ■ 2022 ■ 2023



# Bay Area Year-to-Year Existing SFR Median Price Growth by County

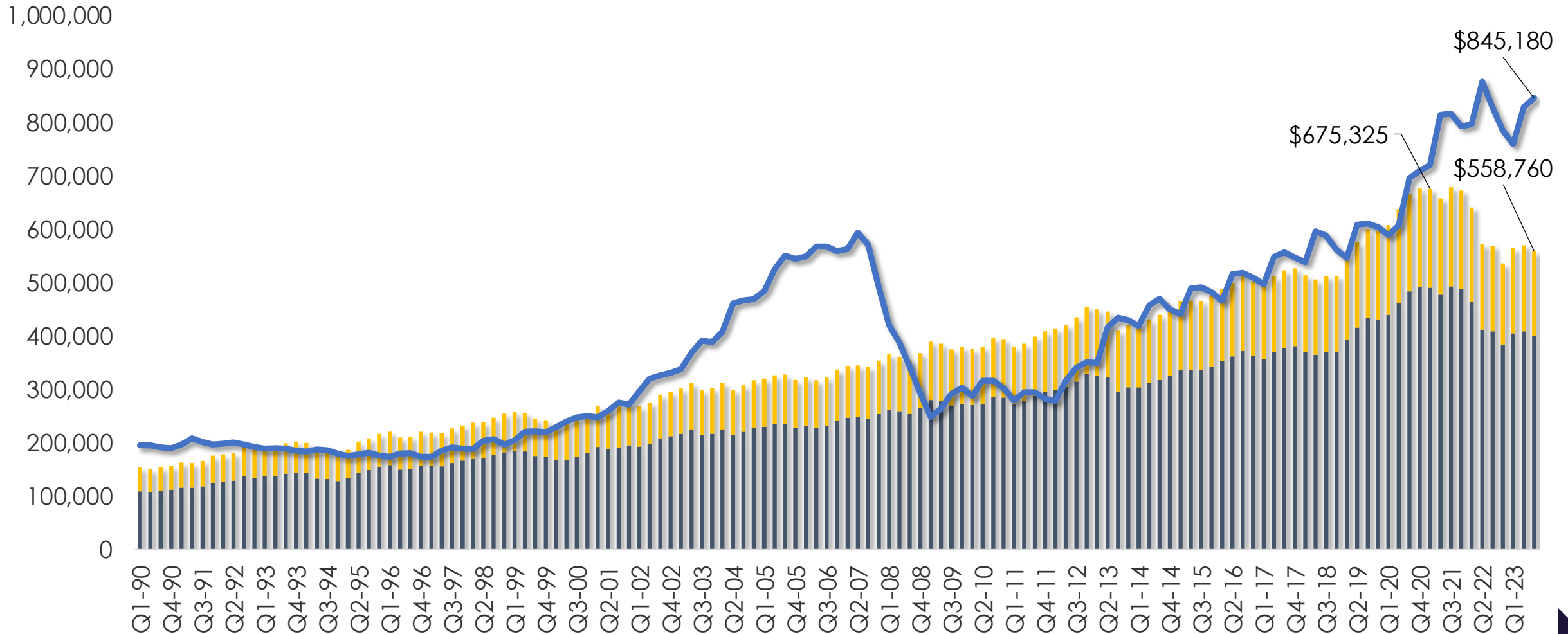
■ 2023 Annual ■ Dec-23 YoY



# Inventory shortage + higher rates create downside risk

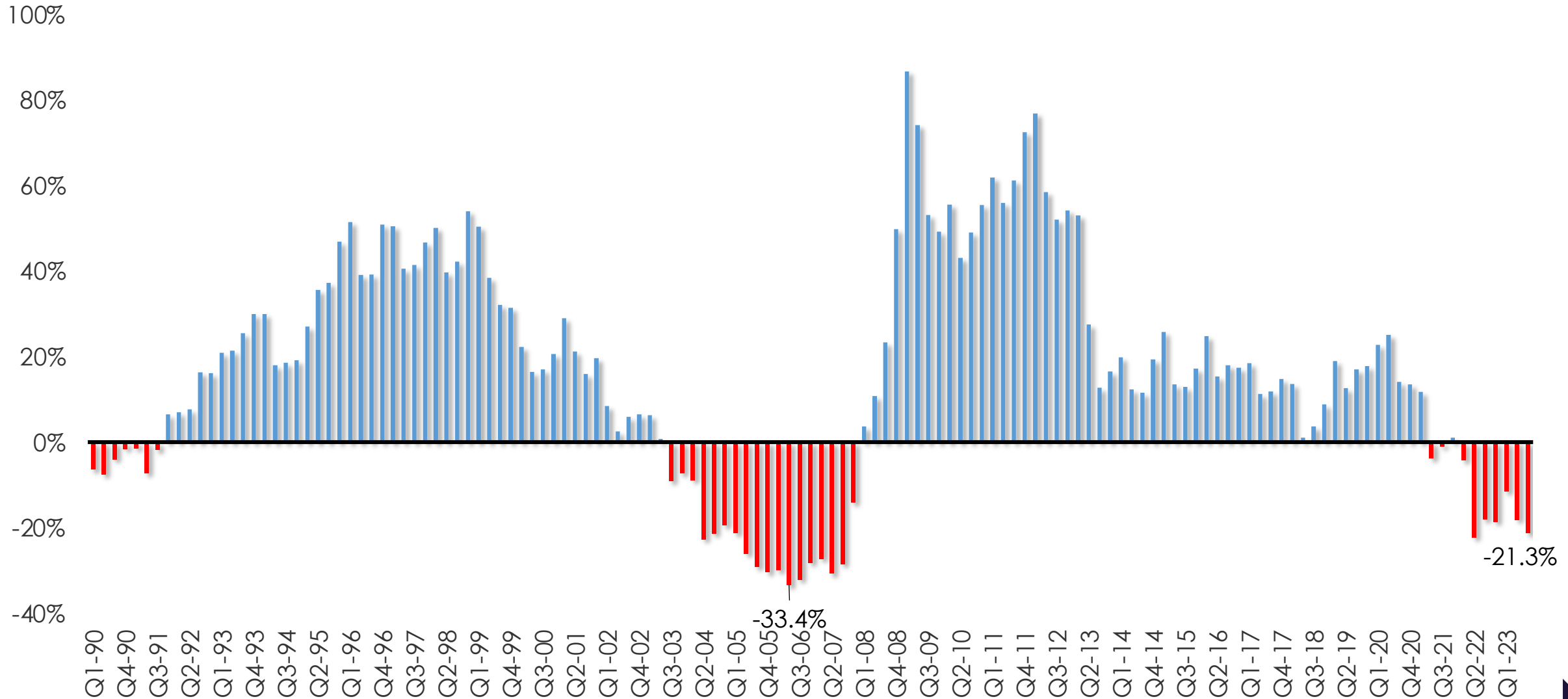
California Actual Median vs. Market Clearing Price

Lower Bound Upper Bound Actual



# Worst case scenario for if economy causes correction?

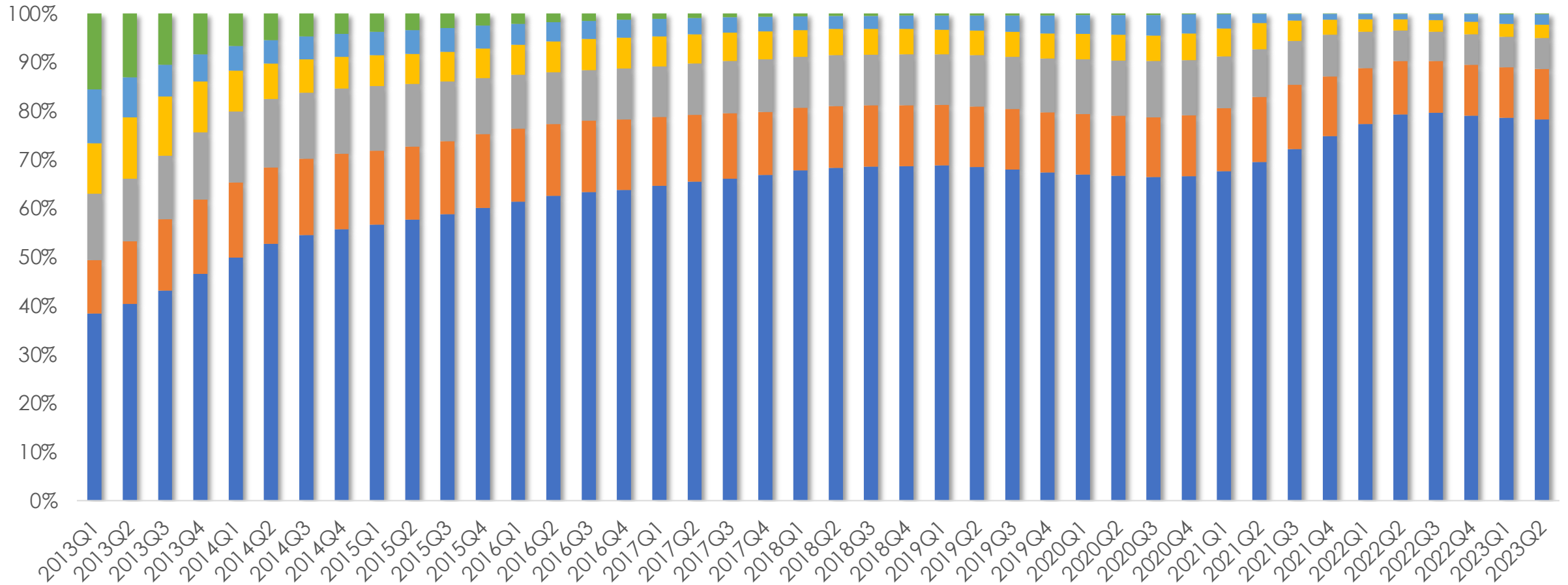
Difference Between Actual and Market-Clearing Price



# A lot of home equity preventing REOs AND listings

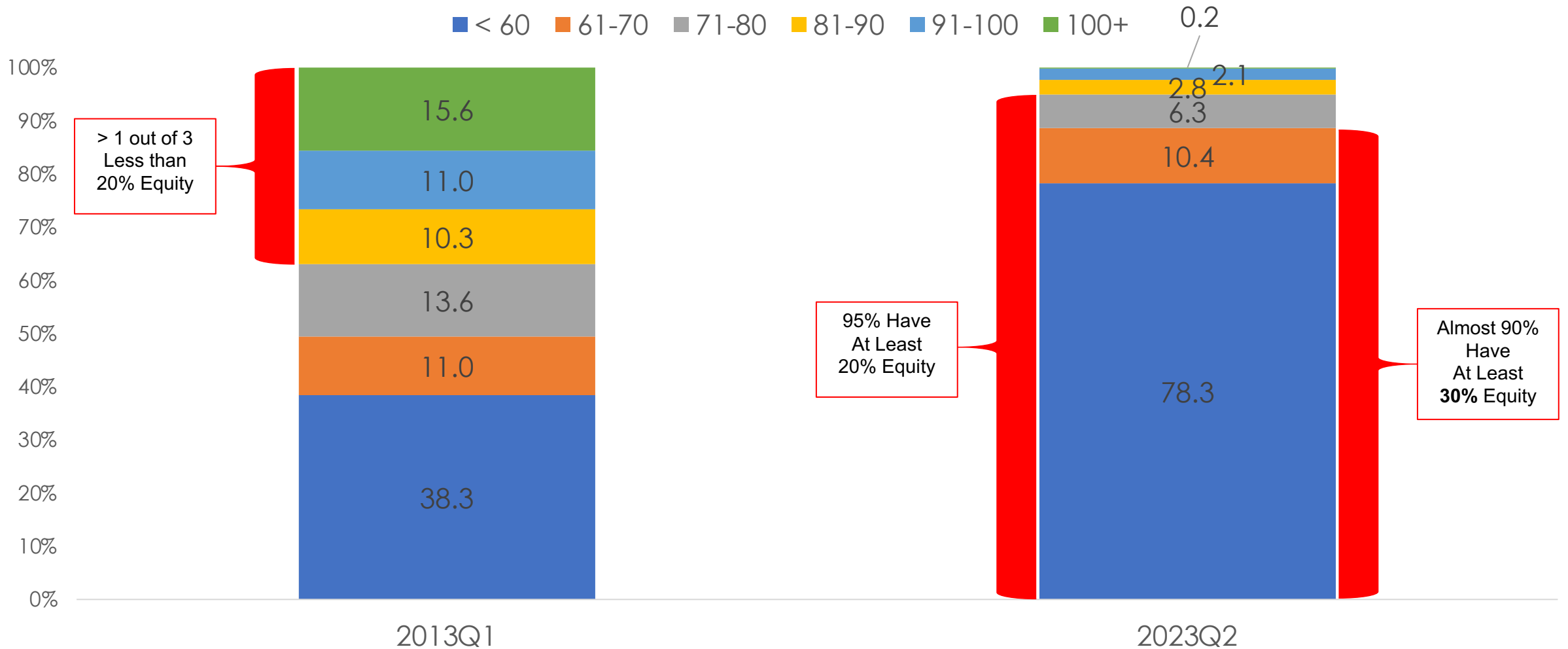
California Outstanding Mortgages by Loan to Value Ratio

< 60   61-70   71-80   81-90   91-100   100+



# A lot of home equity preventing REOs AND listings

California Outstanding Mortgages by Loan to Value Ratio

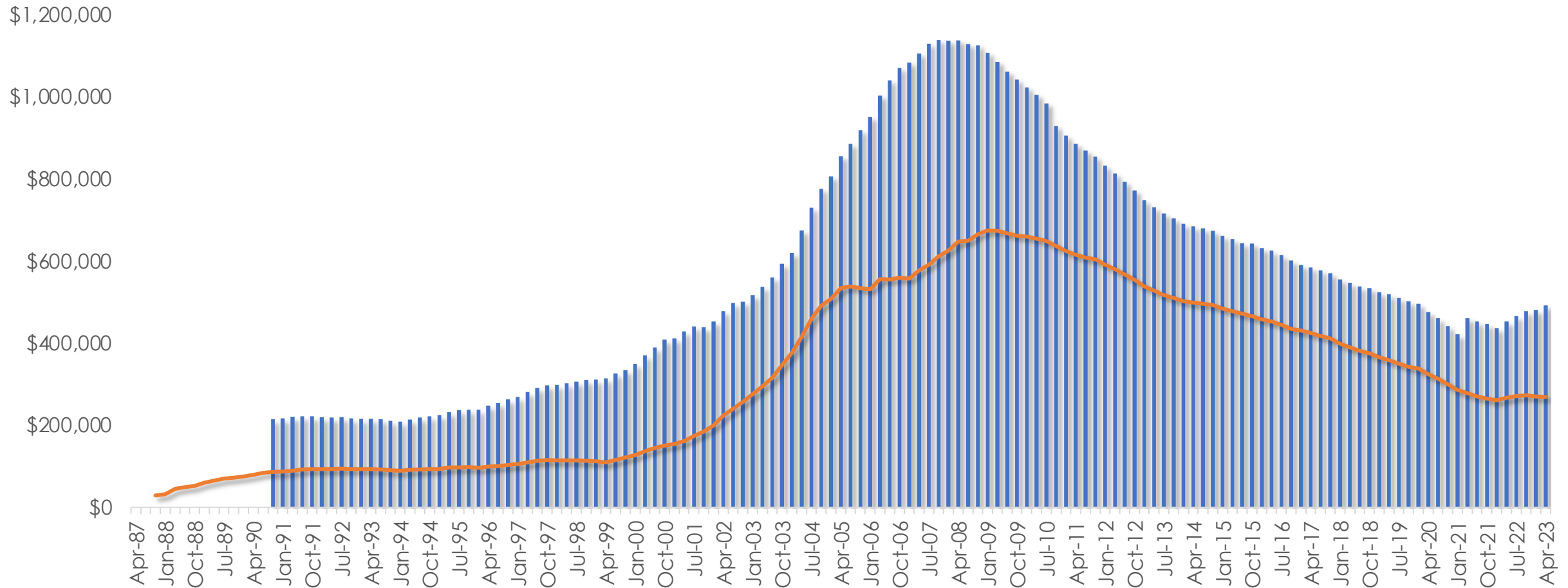




# Not much home equity borrowing this cycle

U.S. Home Equity Loans & Lines of Credit

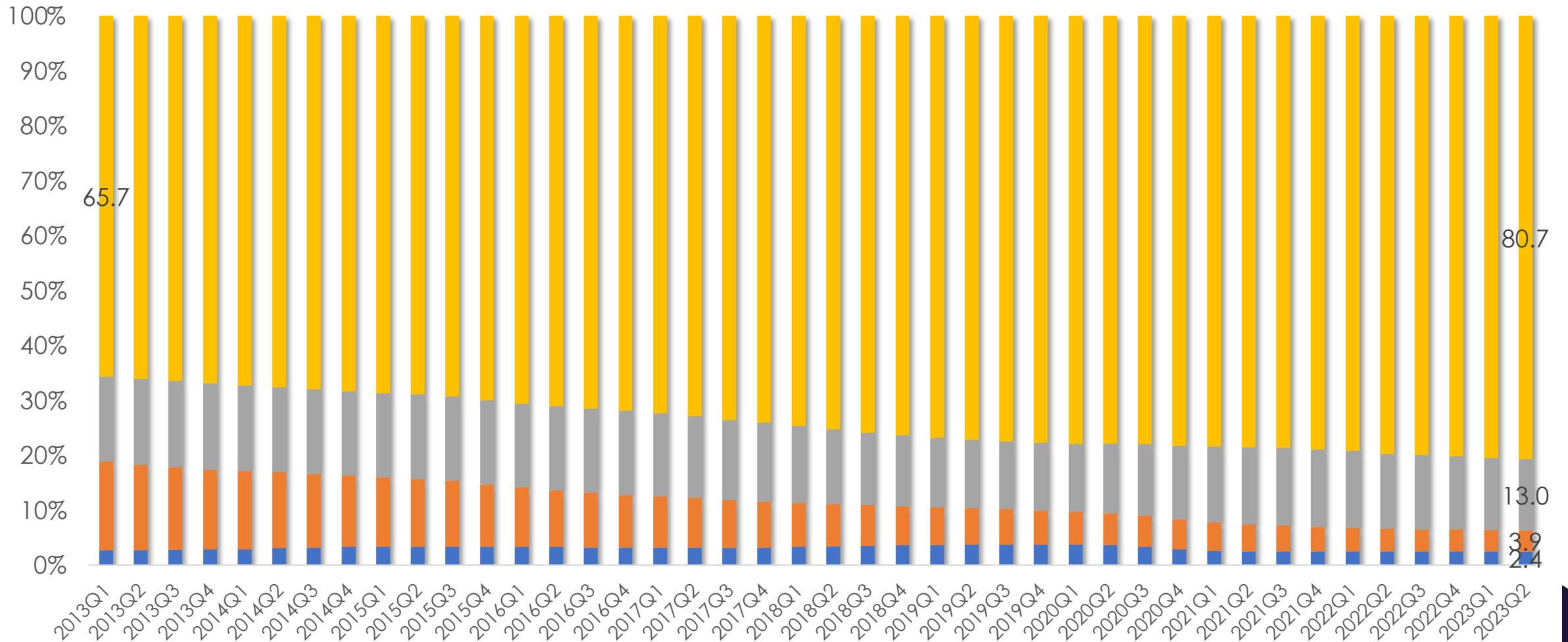
■ Home Equity Loans    — HELOC, All Sources



# Not the underlying risk profile to rising rates

California Outstanding Mortgages by Mortgage Type

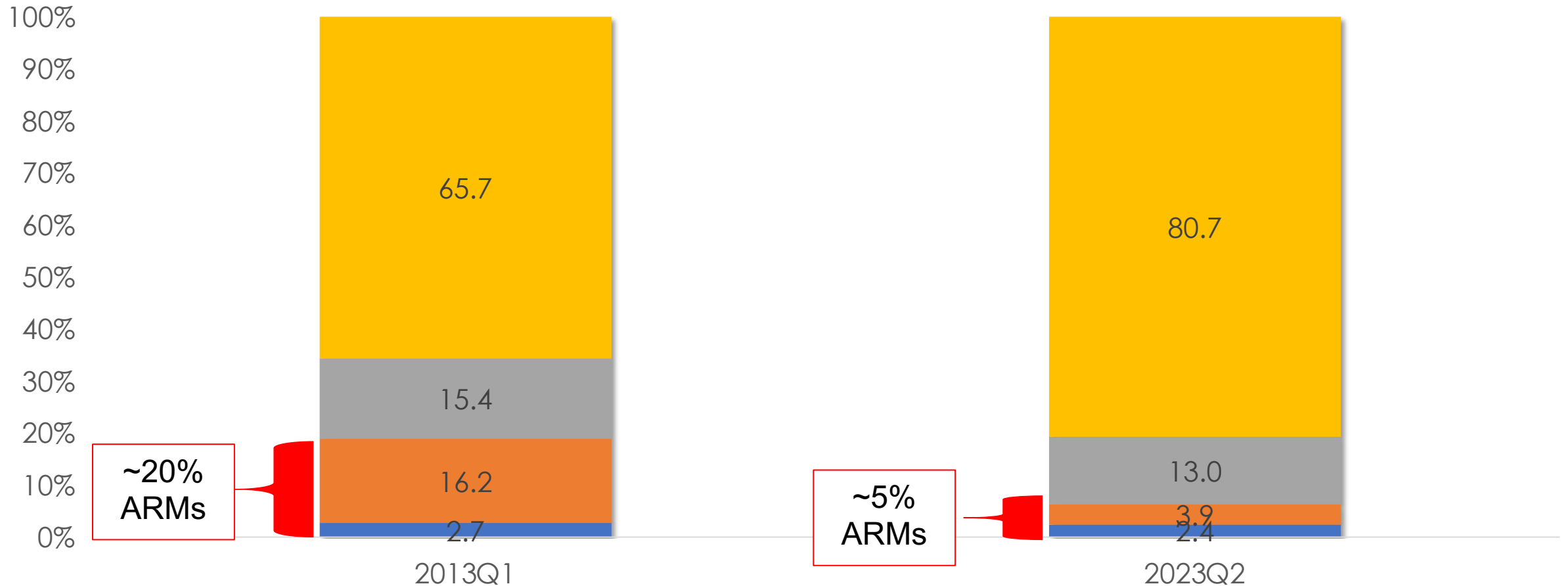
ARM 1-4 ARM 5+ 15-YR FRM 30-Yr FRM



# Only 1 in 20 have ARMs, not 1 in 5

California Outstanding Mortgages by Mortgage Type

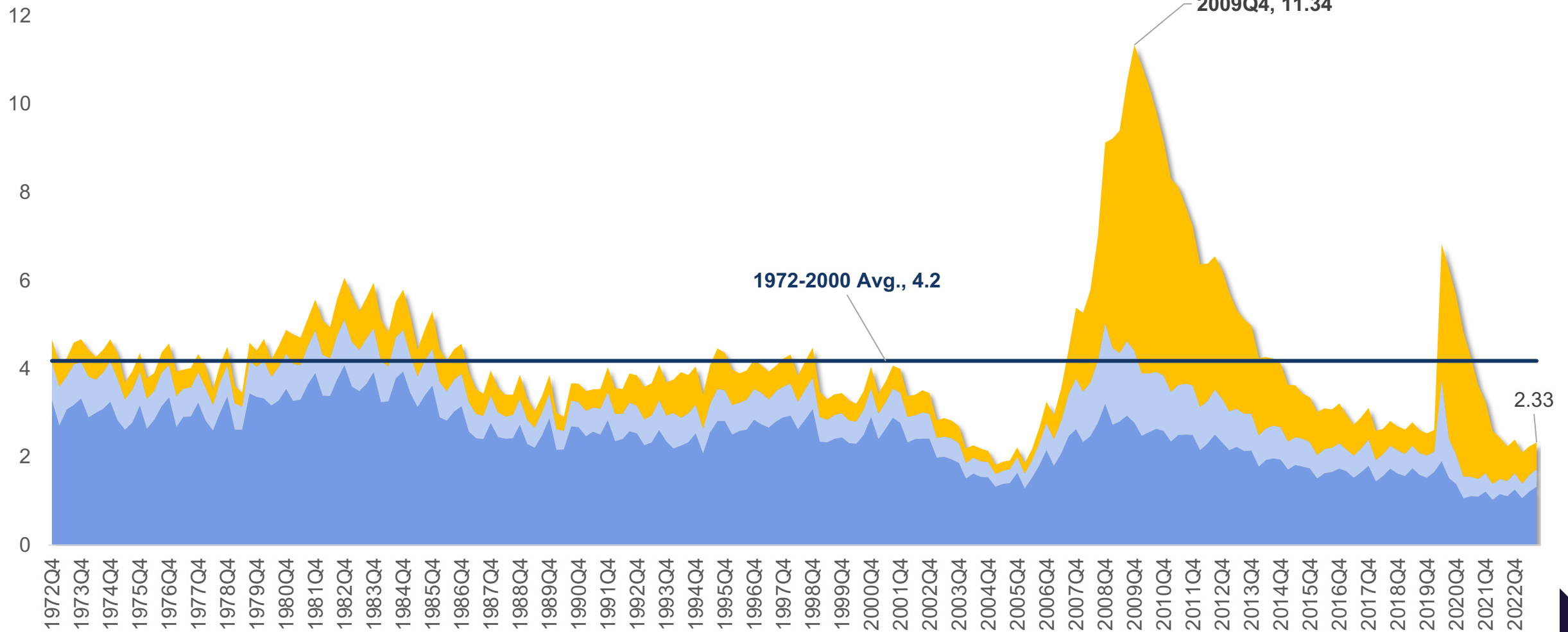
■ ARM 1-4 ■ ARM 5+ ■ 15-YR FRM ■ 30-Yr FRM



# Delinquency currently half of historical average

## California Mortgage Delinquency Rate

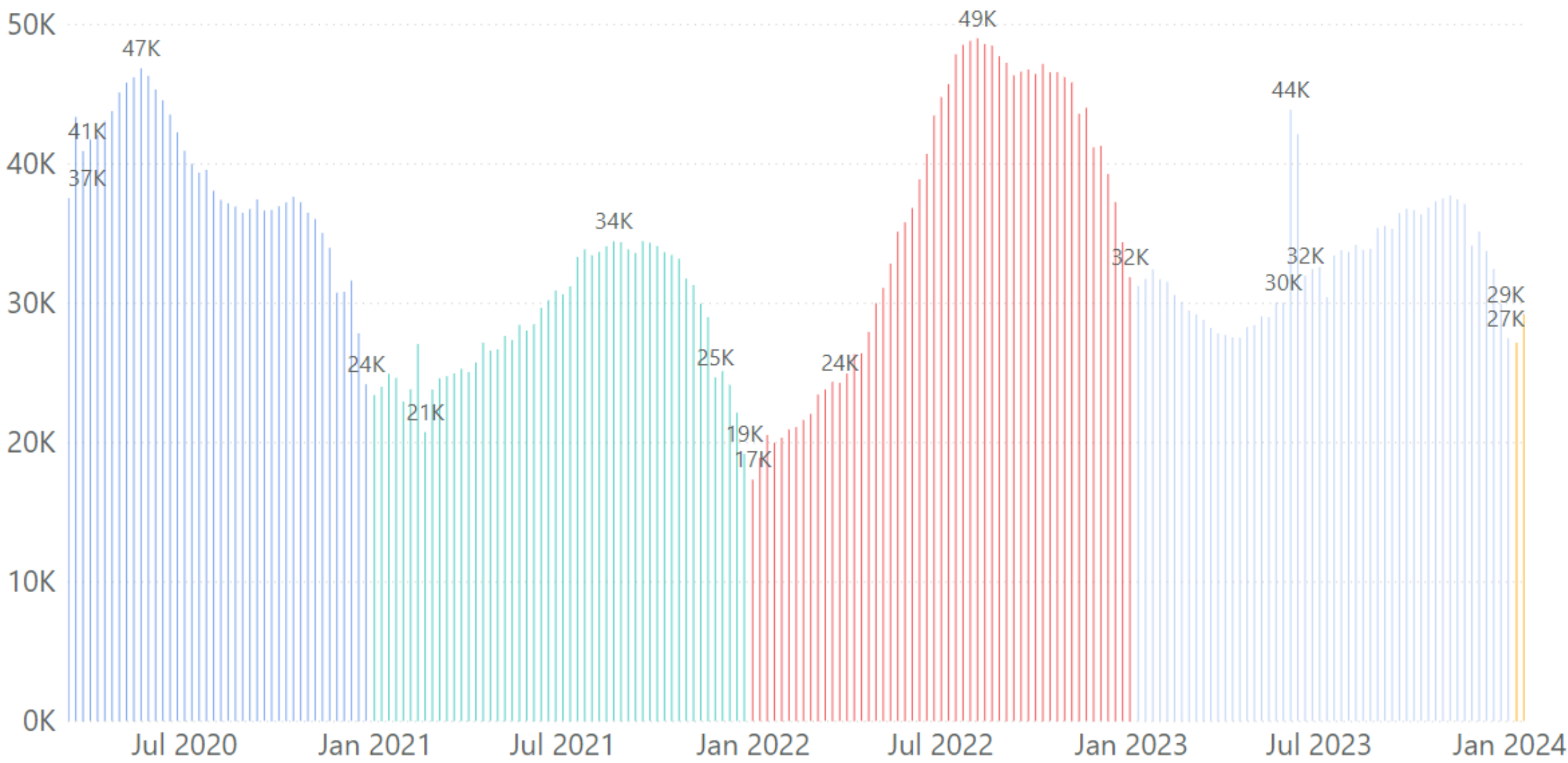
30-60 Days 61-90 Days 90+ Days 1972-2000 Avg.



Need to understand the push & pull

# Existing SFR Active Listings

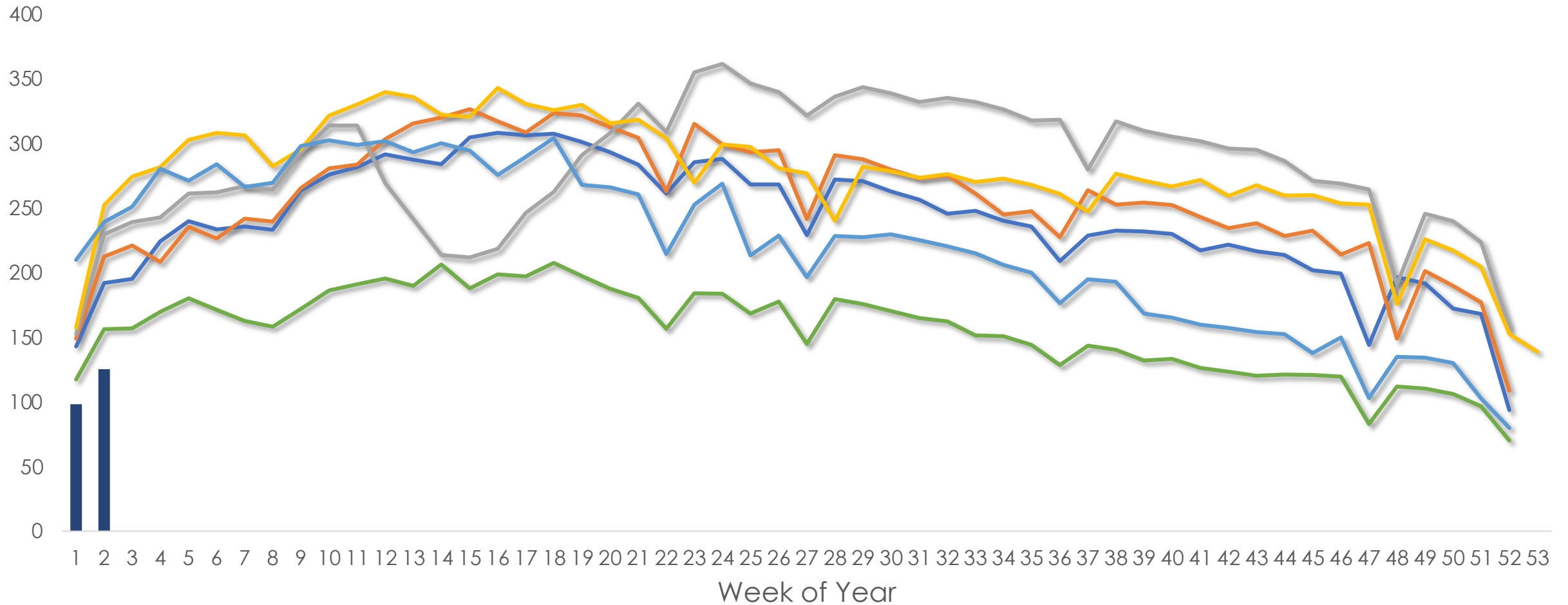
Year ● 2020 ● 2021 ● 2022 ● 2023 ● 2024



# Sellers need to know demand is catching up though

U.S. New Purchase Mortgage Applications

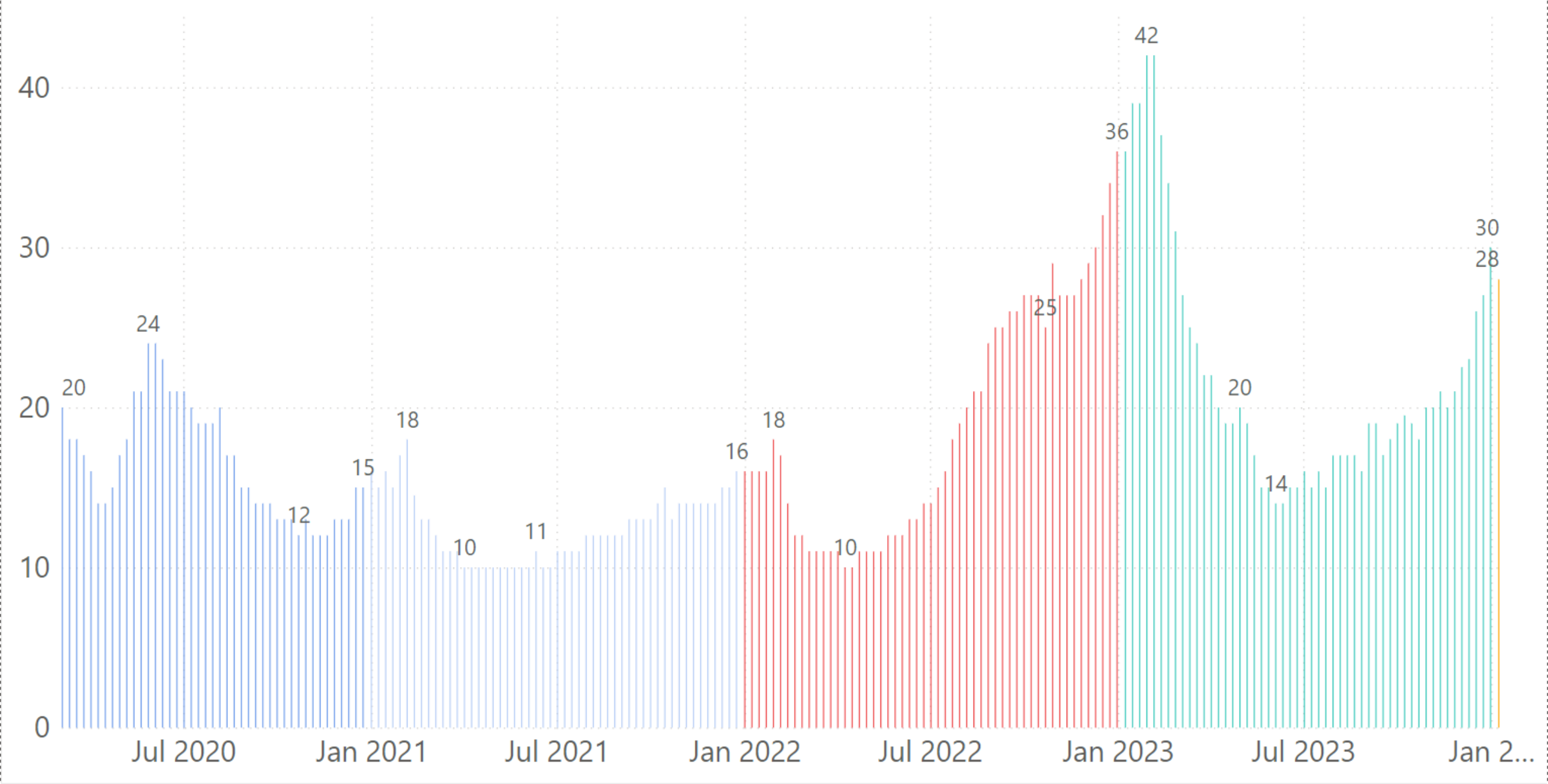
2024 2018 2019 2020 2021 2022 2023



# Median Days on Market for Closed Sales (Month-to-Date for Current Month)



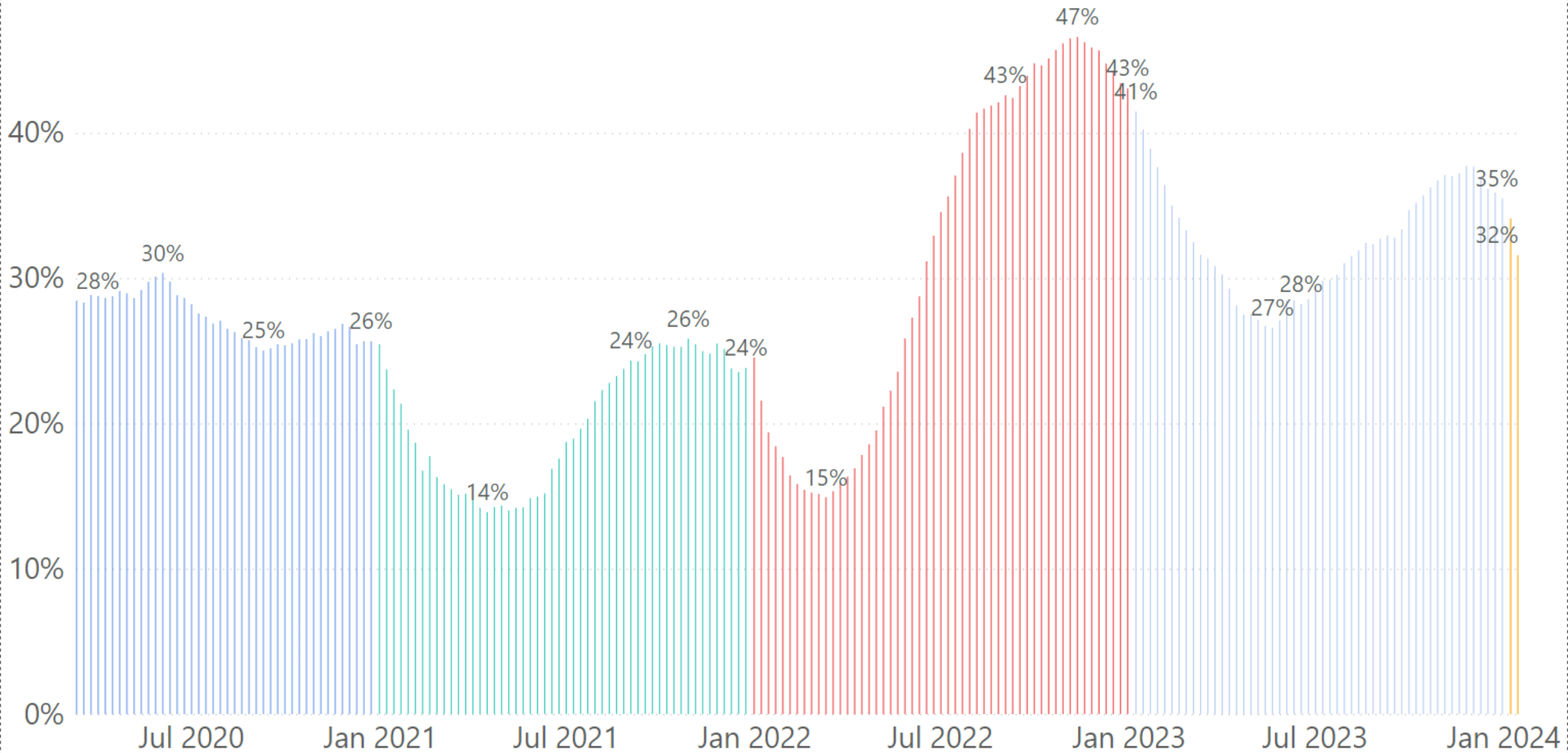
● 2020 ● 2021 ● 2022 ● 2023 ● 2024





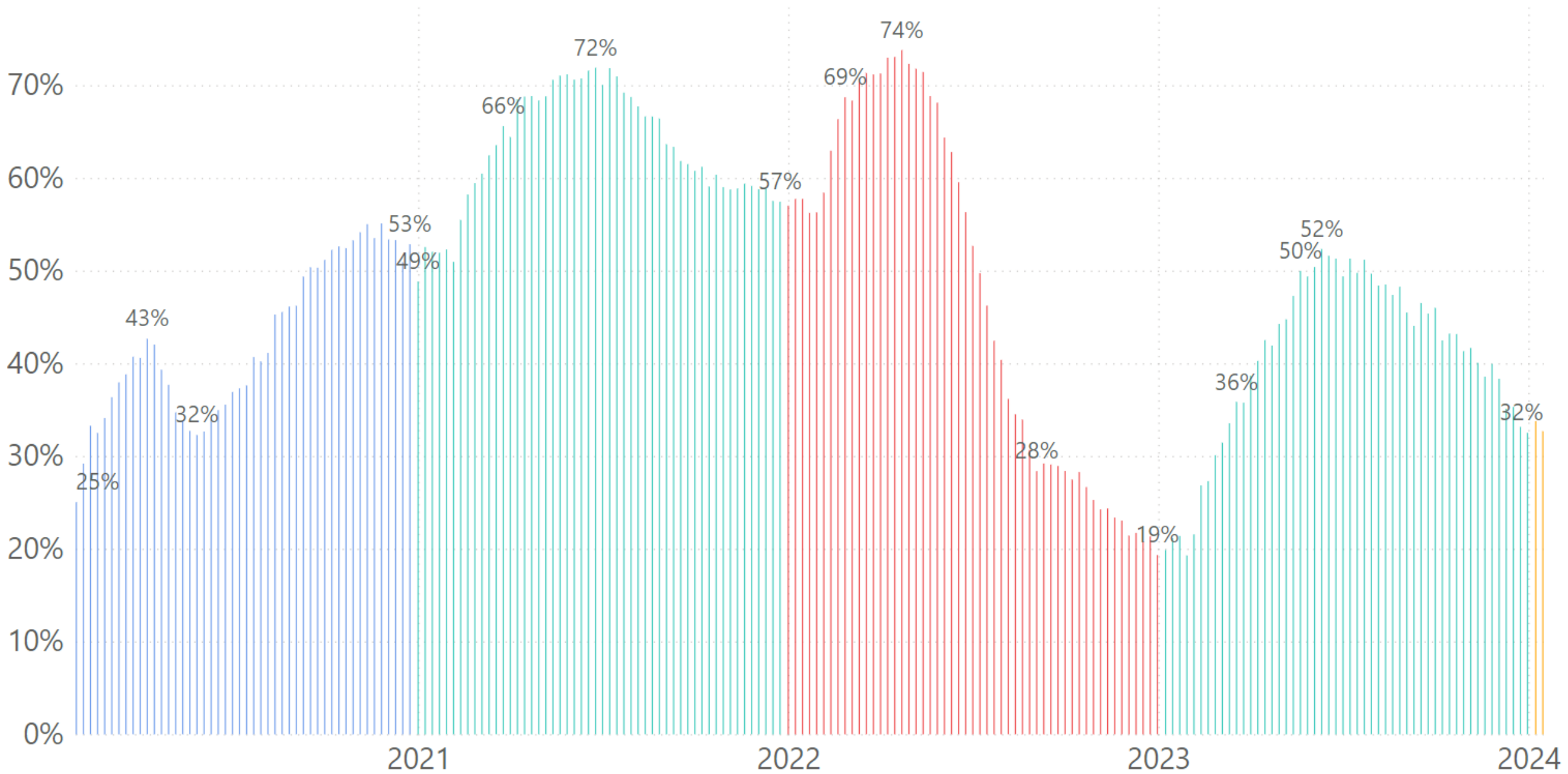
# % of Active Listings w/Reduced Price

Year ● 2020 ● 2021 ● 2022 ● 2023 ● 2024



# % of Homes Closed Above List Price

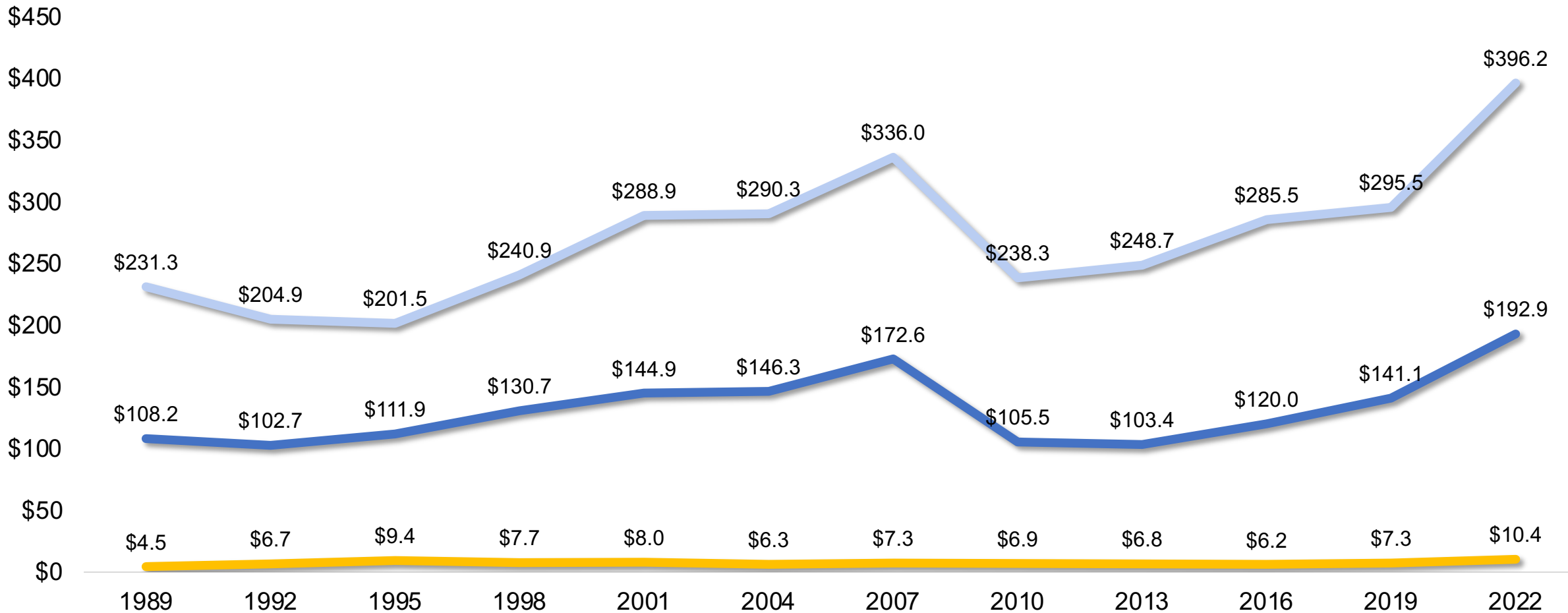
Year ● 2020 ● 2021 ● 2022 ● 2023 ● 2024



# The benefits of homeownership are well documented

## Real Household Net Worth Per Capita

— All families — Owner — Renter/Other



# The Forecast for 2024

# 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 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%	6.8%	6.3%

Thank you!!

