California Housing Market Outlook

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Pismo Coast Association of REALTORS®

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CALIFORNIA ASSOCIATION OF REALTORS®

overview

01 Economy ok, for now:

- Mostly positive signs
- Some red flags

02 Housing still in doldrums:

- Why we need to have eyes wide open!
- Why we don't need to panic!

03 How YOU tilt the needle:

- Buyers lack knowledge they need?
- You can fill that gap for them!

04 Forecast slightly better:

- Smaller decline in sales
- More growth in prices

Fundamentals solid… for now

GDP **2.0%**
2019-Q2

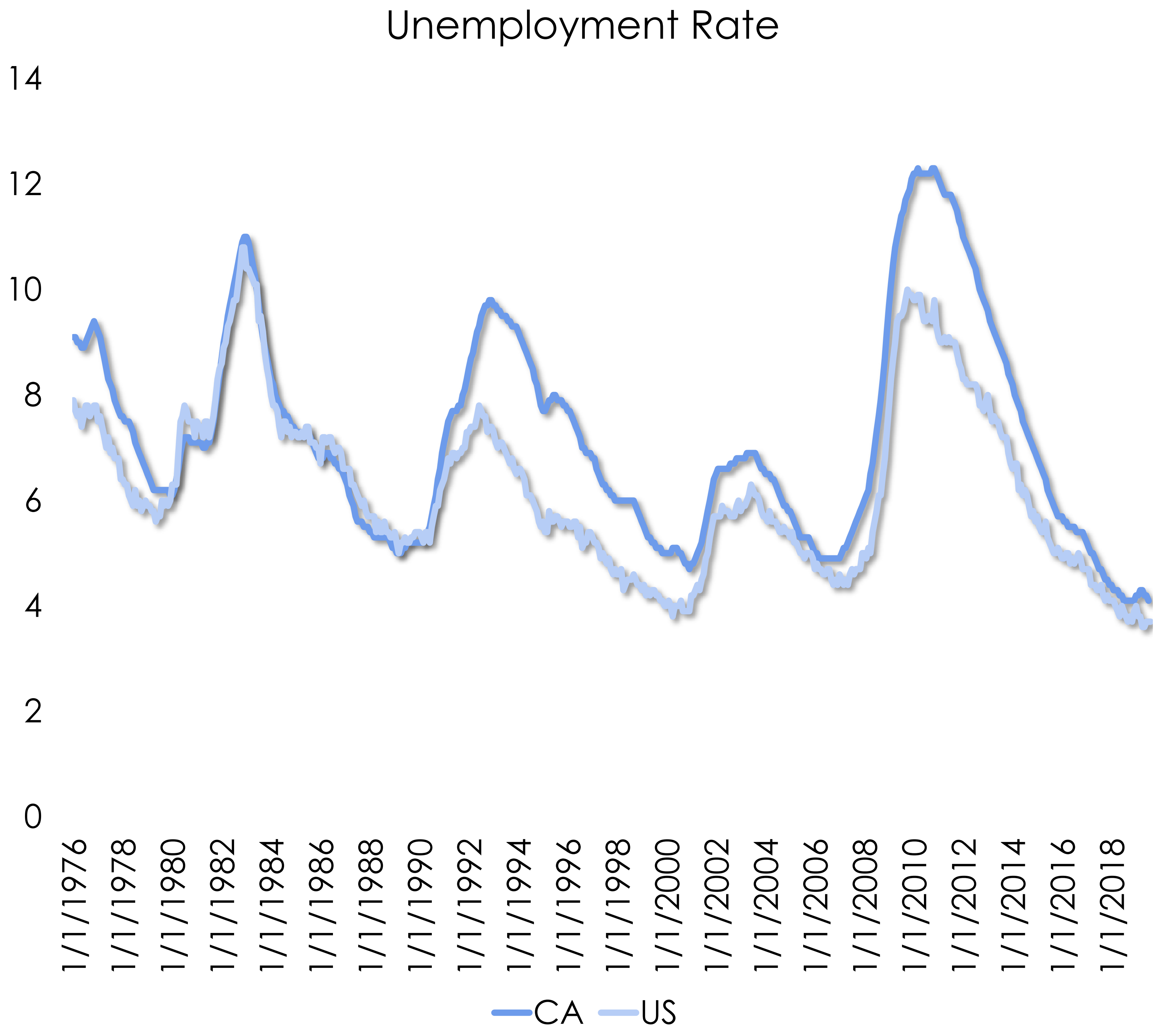
Unemployment **3.7%**
August 2019

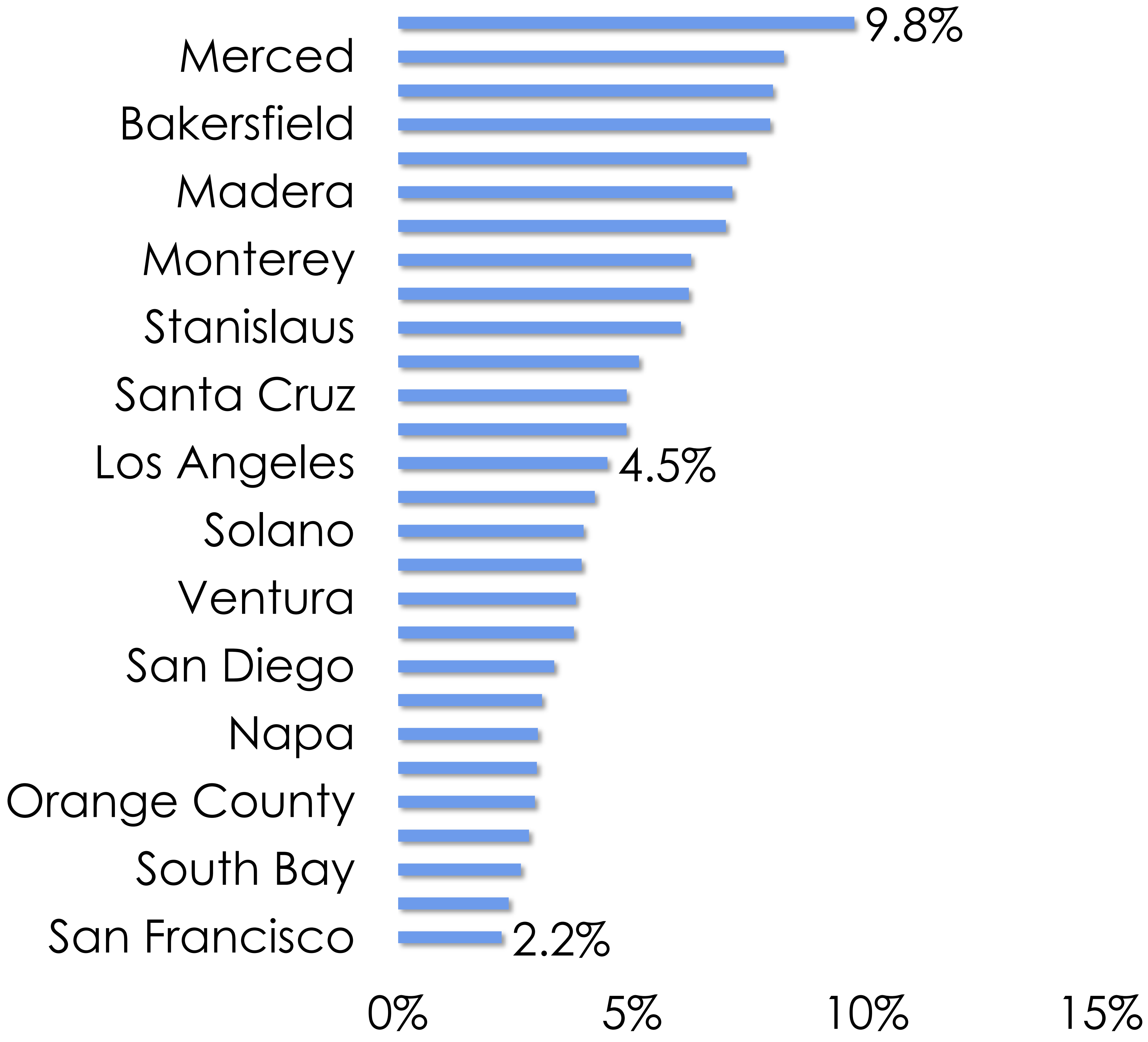
Consumption **4.6%**
2019-Q2

Job Growth **1.4%**
August 2019

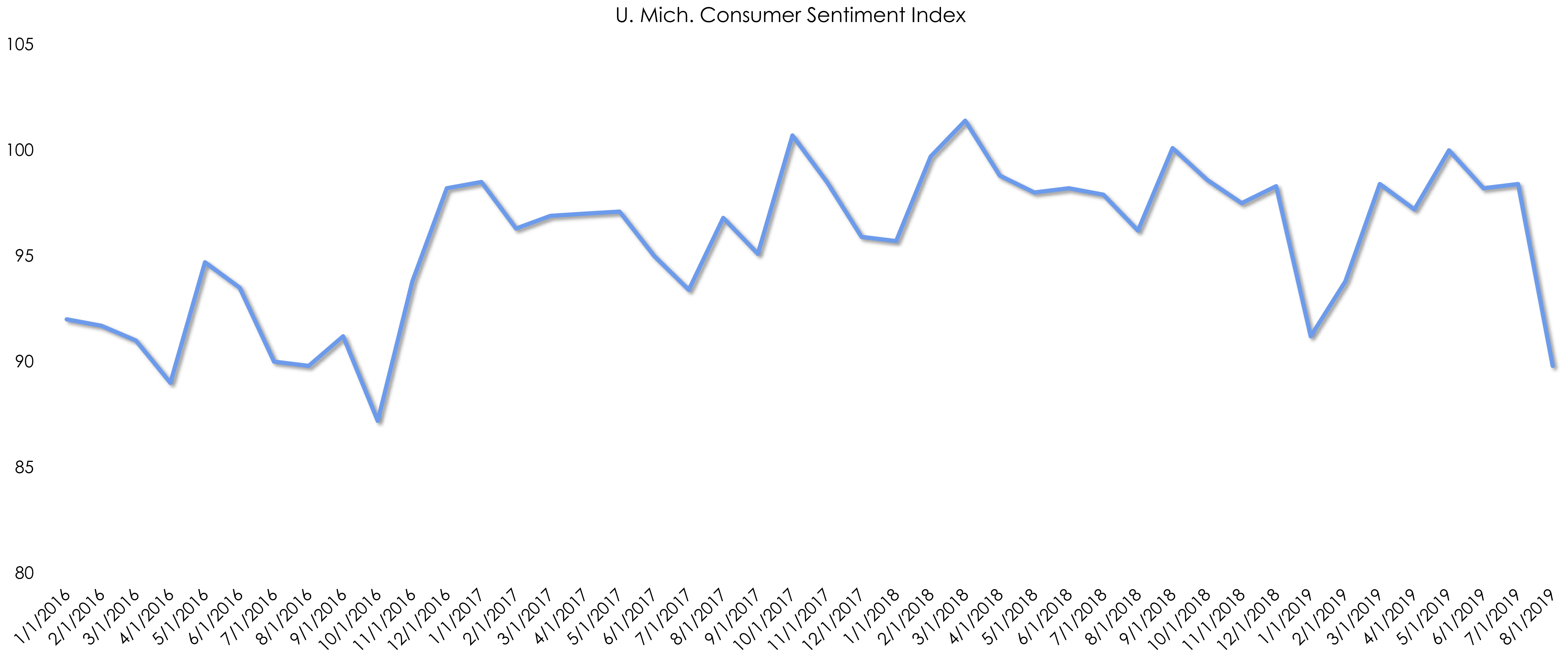
Core CPI **2.4%**
August 2019

Unemployment at lowest rate in 50 years

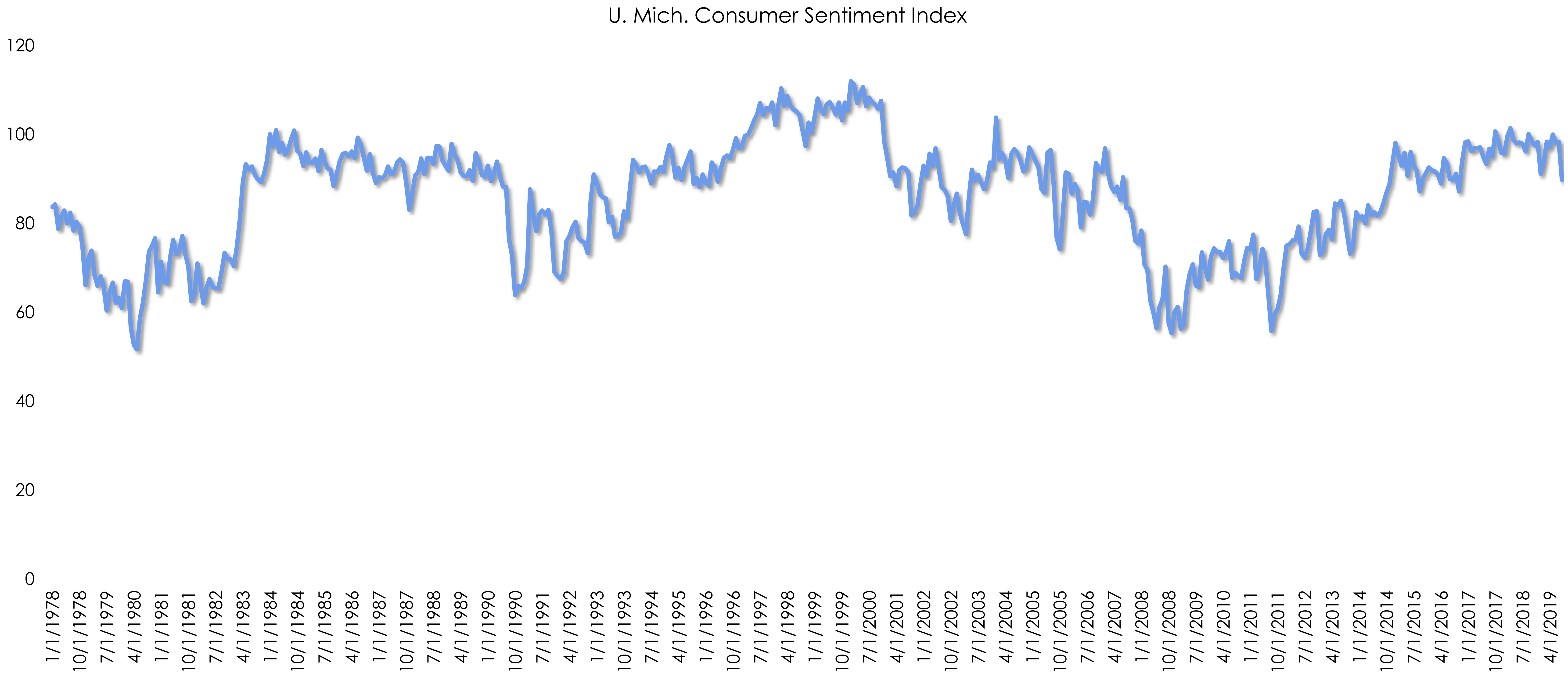




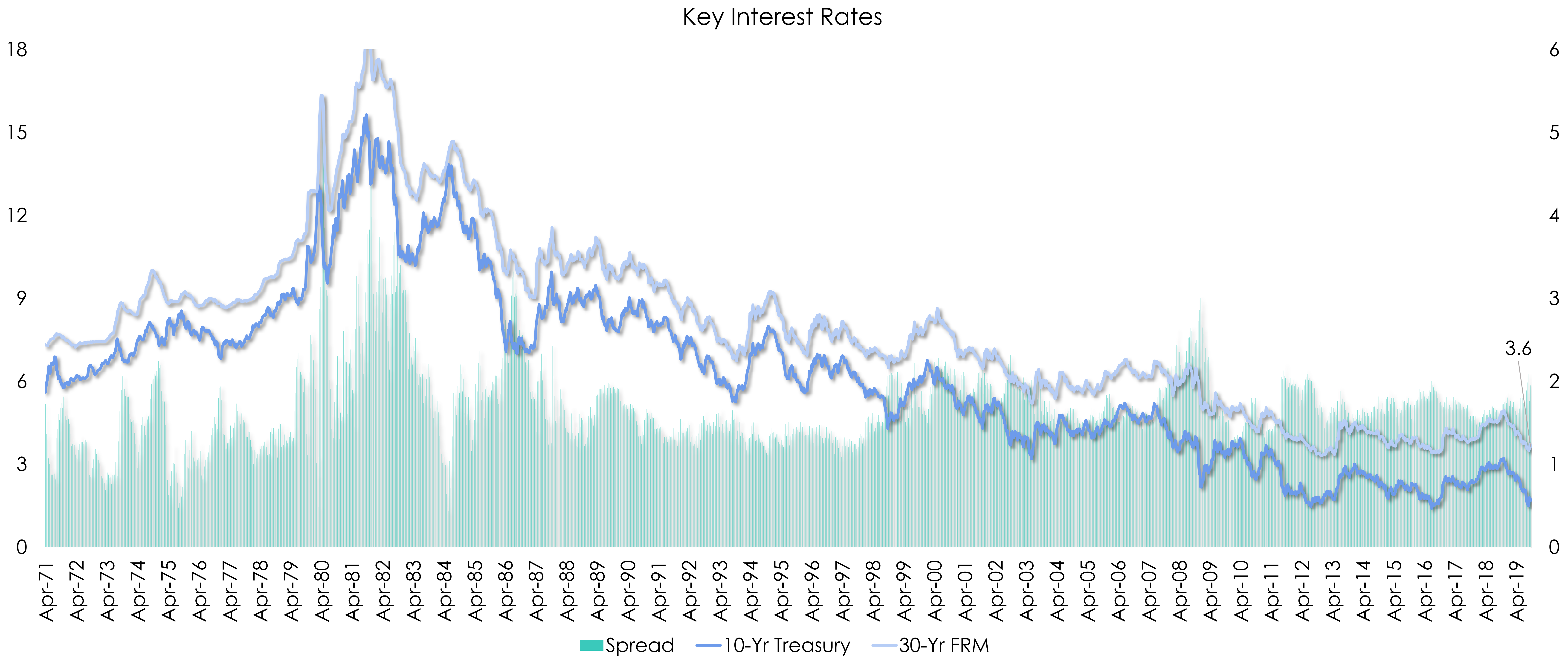
Consumers confidence stumbled lately



But remains near all-time high

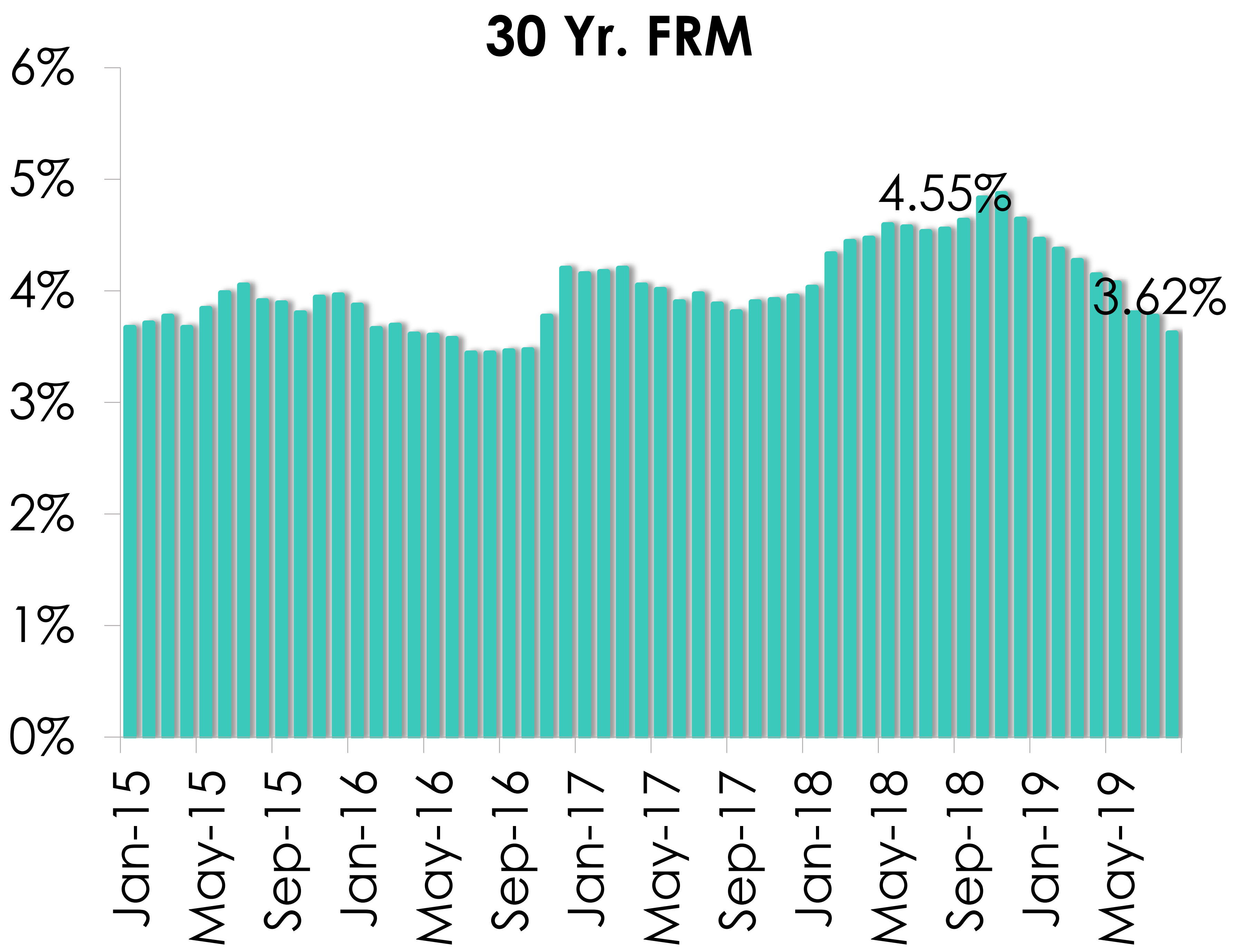


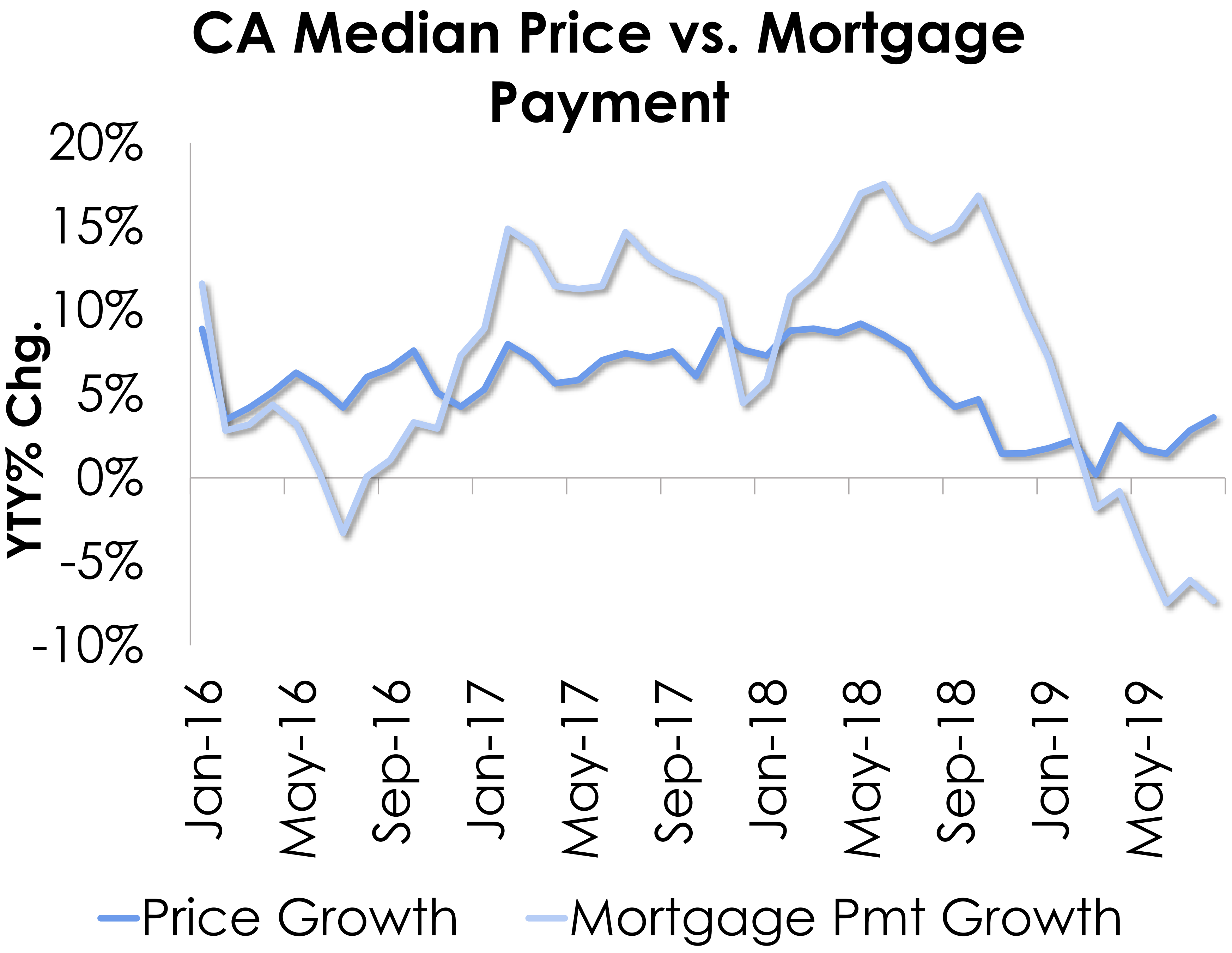
Rates near **historic lows**



SERIES: 30Yr FRM, 10-Yr Treasury
SOURCE: St. Louis Fed

Mortgage payment continued to drop

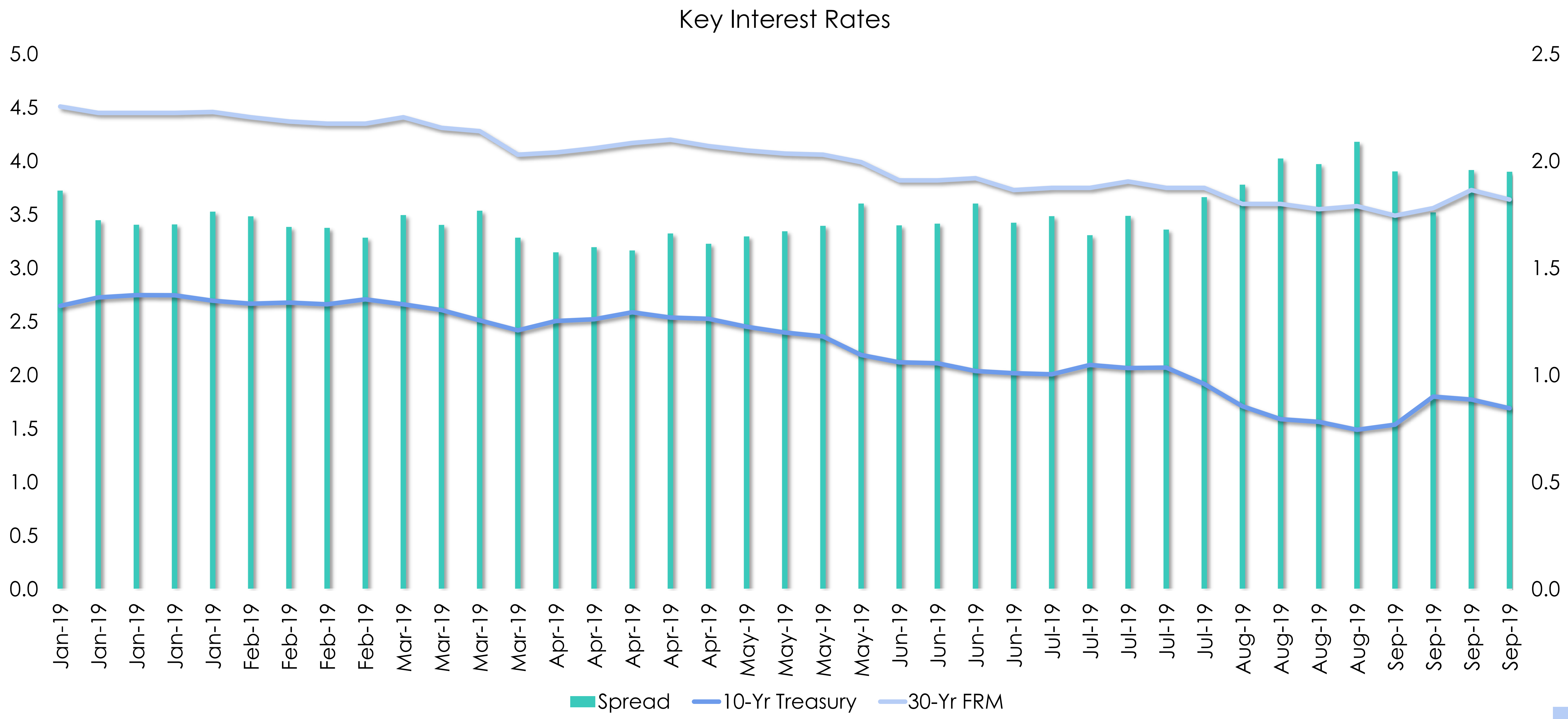




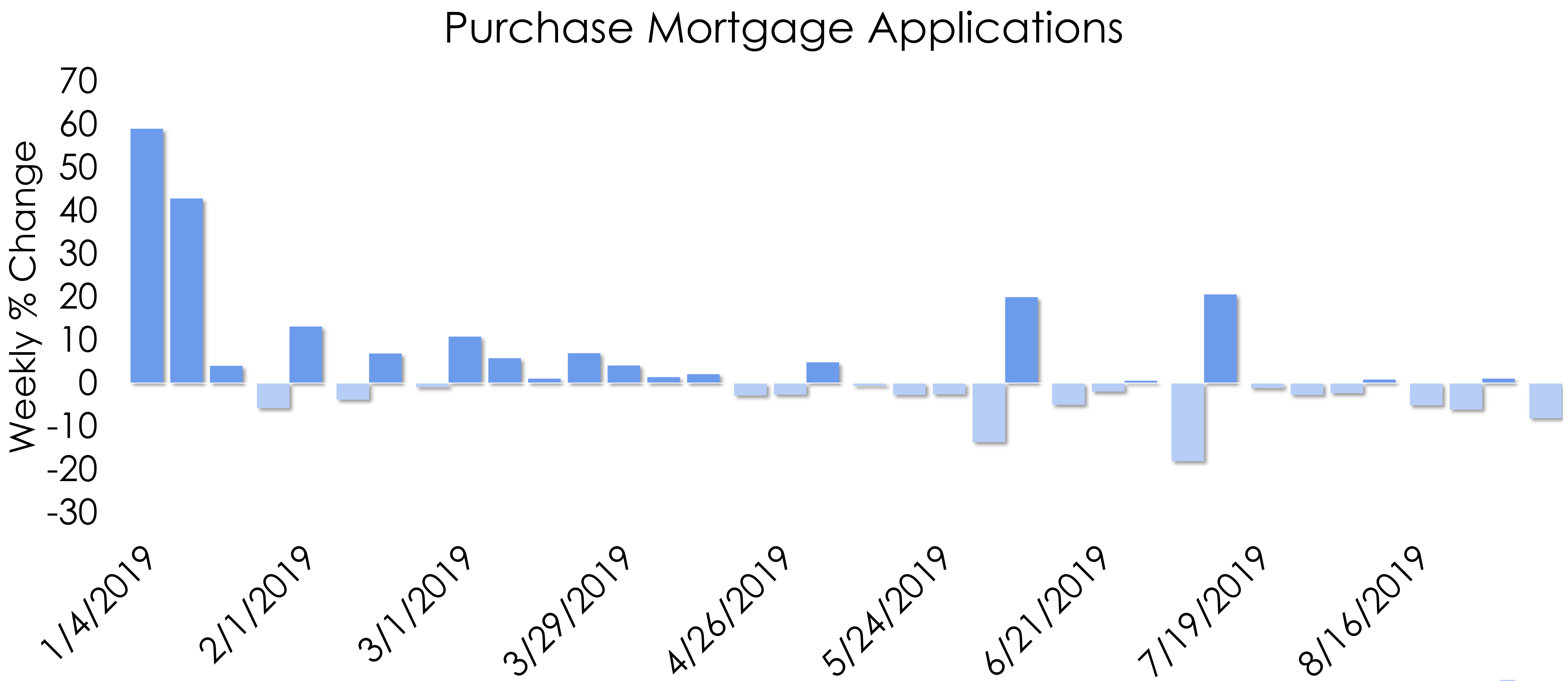
SERIES: Price Growth vs. Mortgage Payment Growth
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Why We Can't **Celebrate**

Rates look like they're **bottoming out**

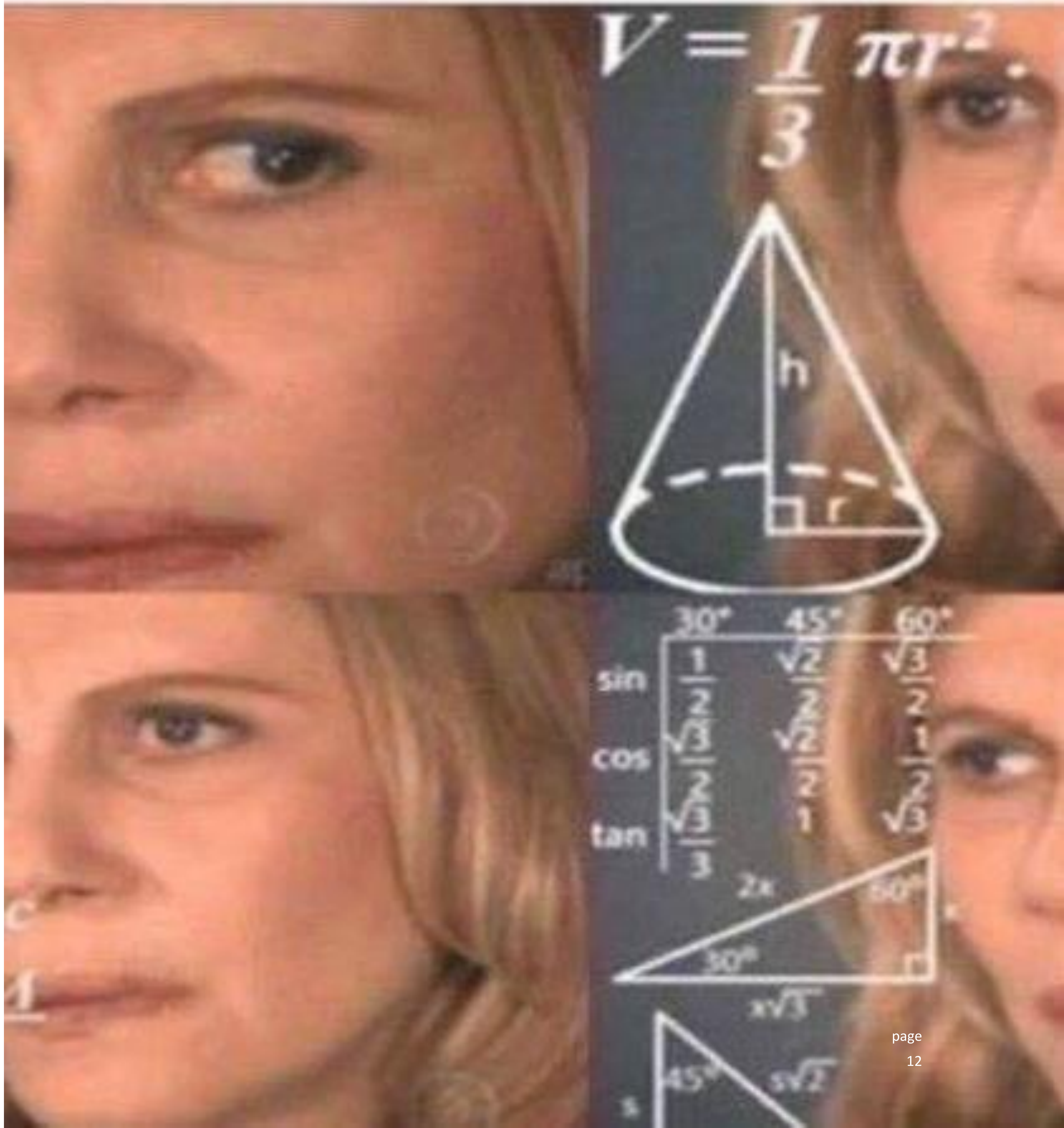


Buyers aren't responding…



Why rates aren't
spurring sales

- Tax reform: FTBs and Trade-ups
- Rates aren't everything
- Home prices at all time highs
- Big down payments
- Inventory is still constrained
- Market still competitive
- 1st time buyers have limited options



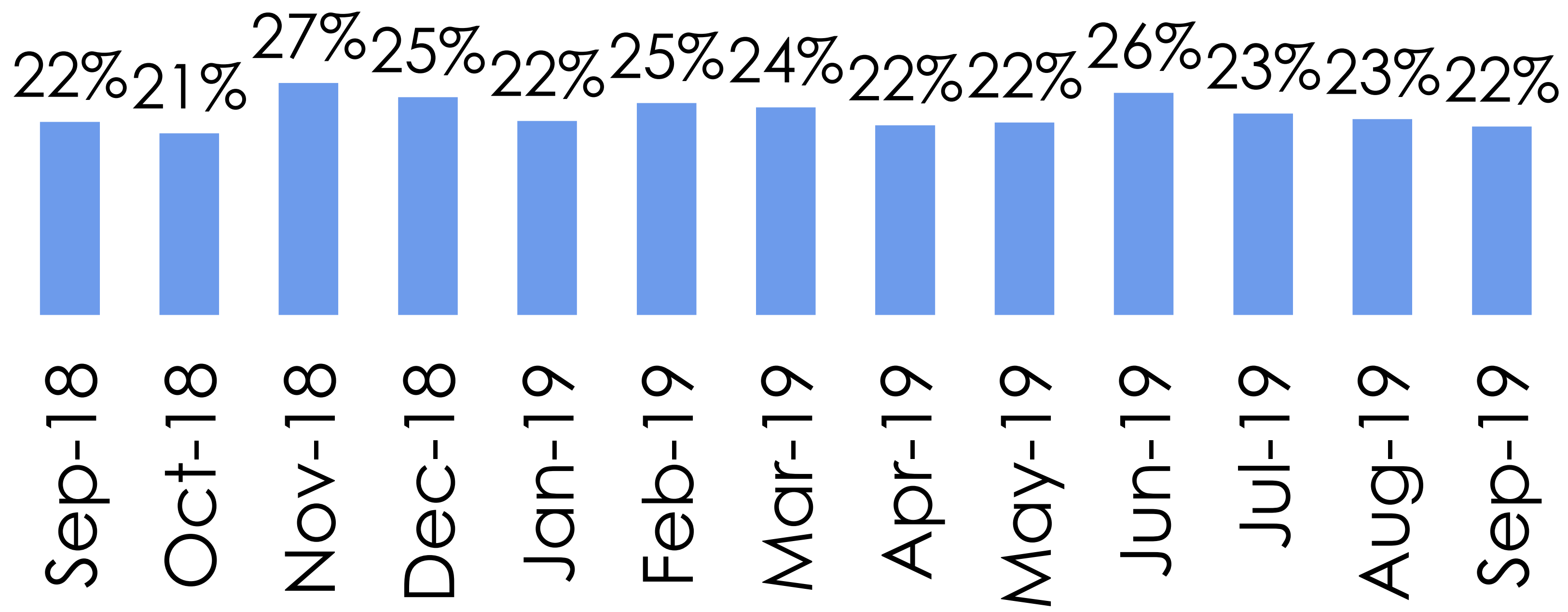
Other red flags

- Yield curve inversion
- Longest expansion in U.S. history
- Trade war escalating
- Business investment floundering
- Consumer debt pretty high
- Fed *lowering* rates
- Stock market overvalued
- Corporate profits falling
- New construction falling

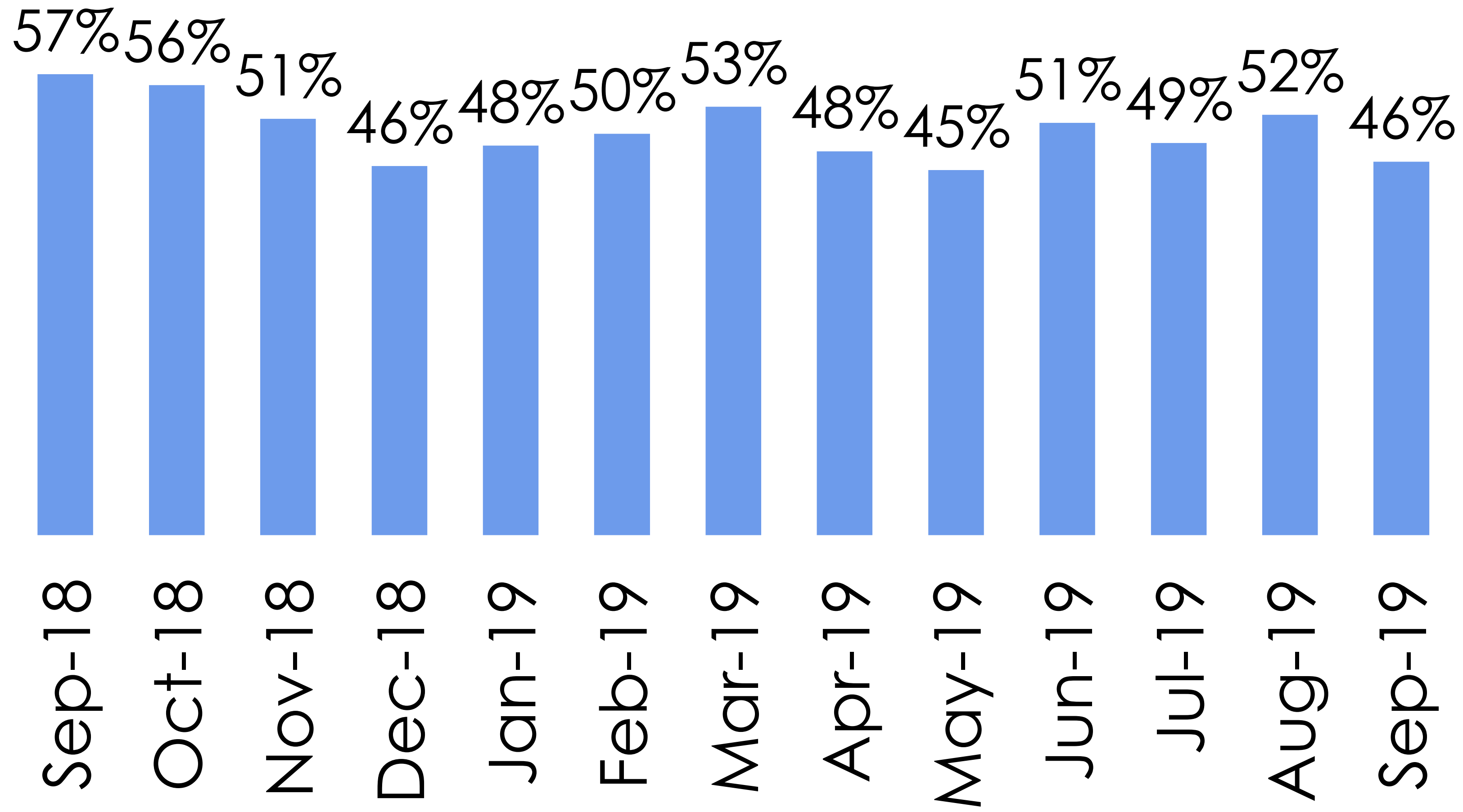
Let’s Talk Housing

is it a good time to buy or sell?

Do you think it's a good time to **buy** a home in California?
N=300

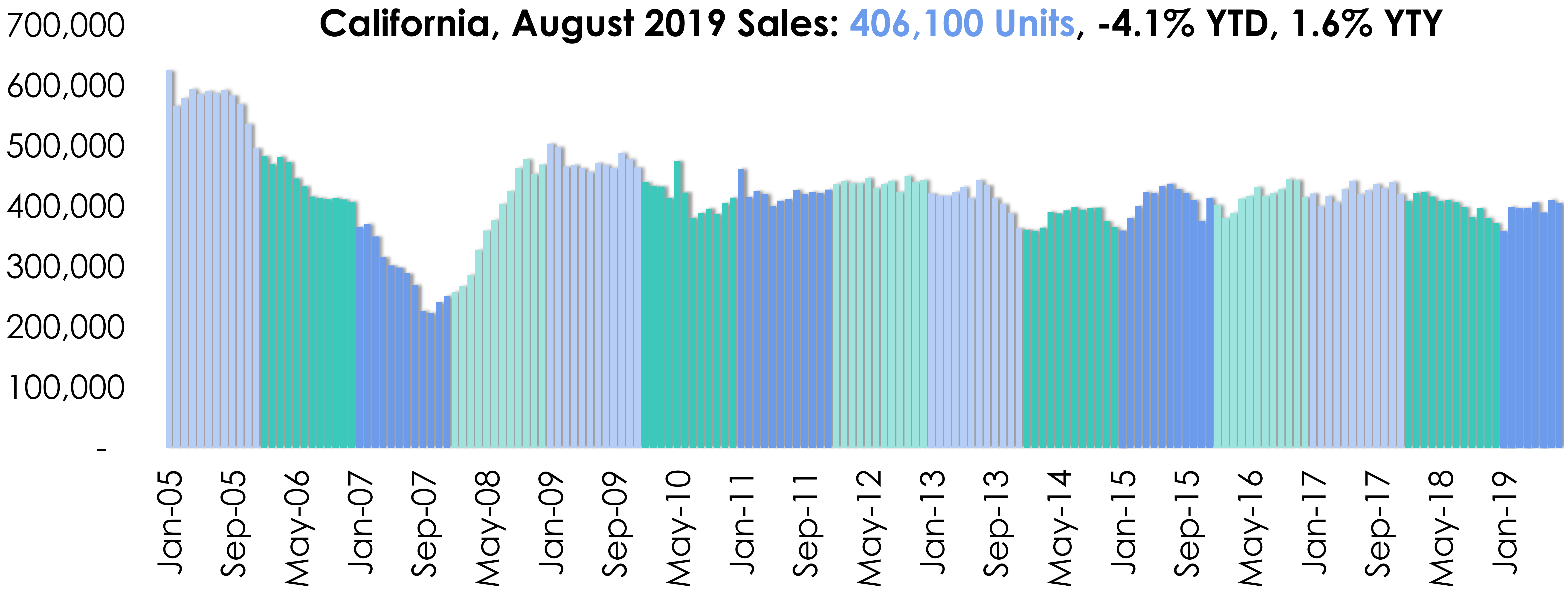


Do you think it's a good time to **sell** a home in California?
N=300



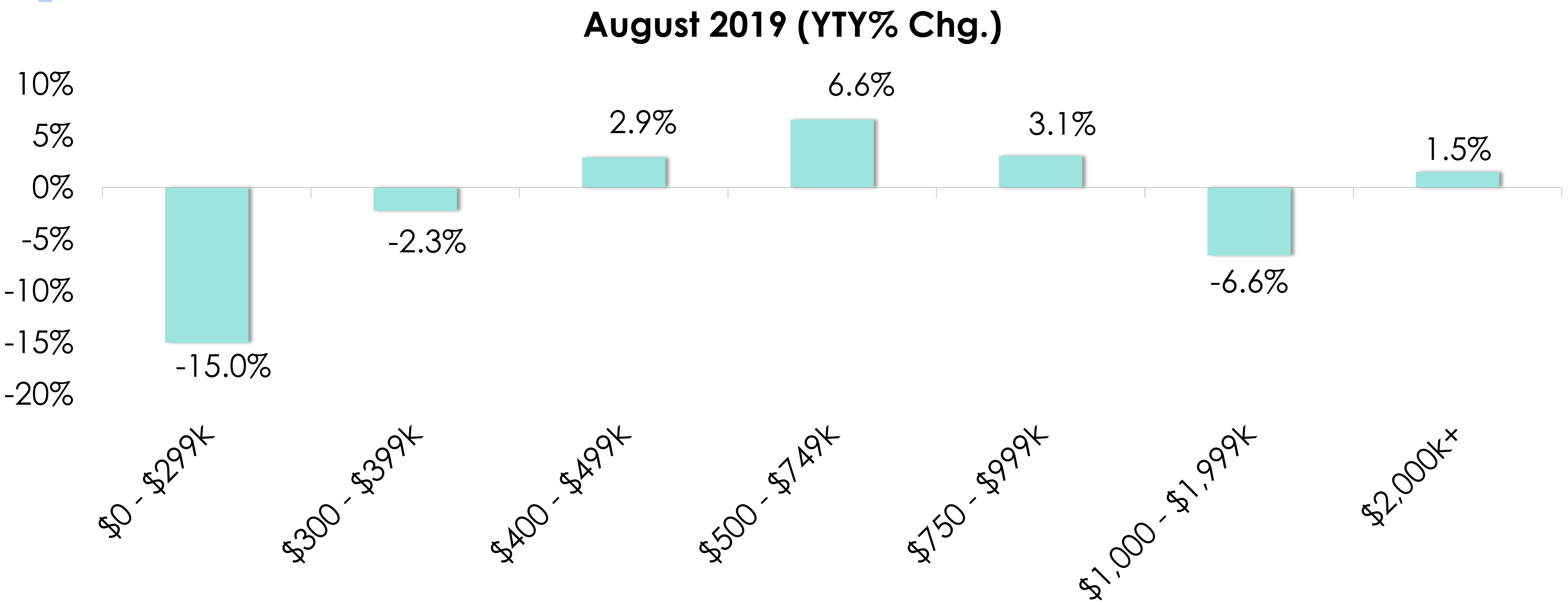
SERIES: 2018/2019 Google Consumer Poll
SOURCE: NATIONAL ASSOCIATION OF REALTORS®

Sales dip slightly from July, but remain above 400k



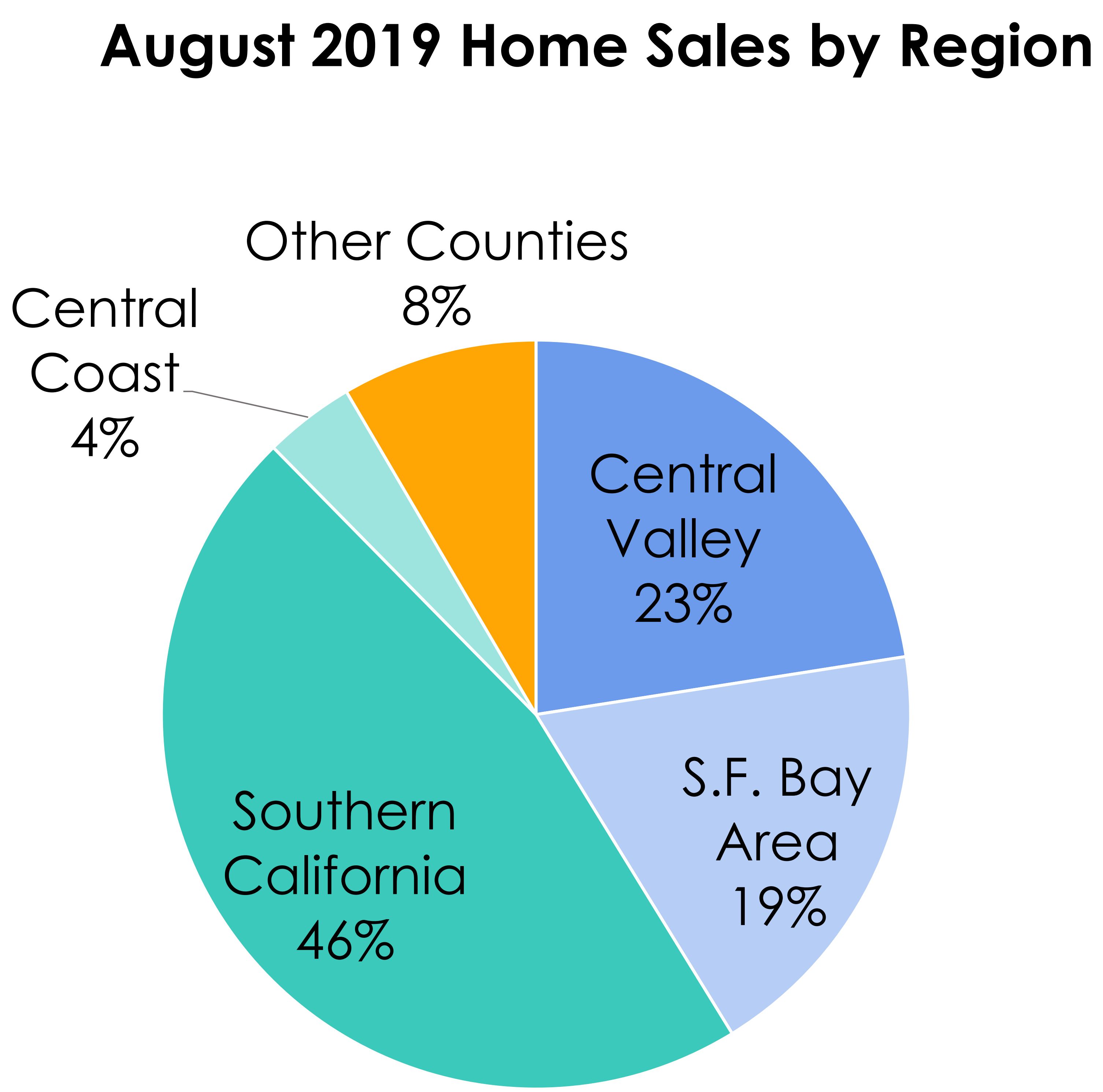
SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

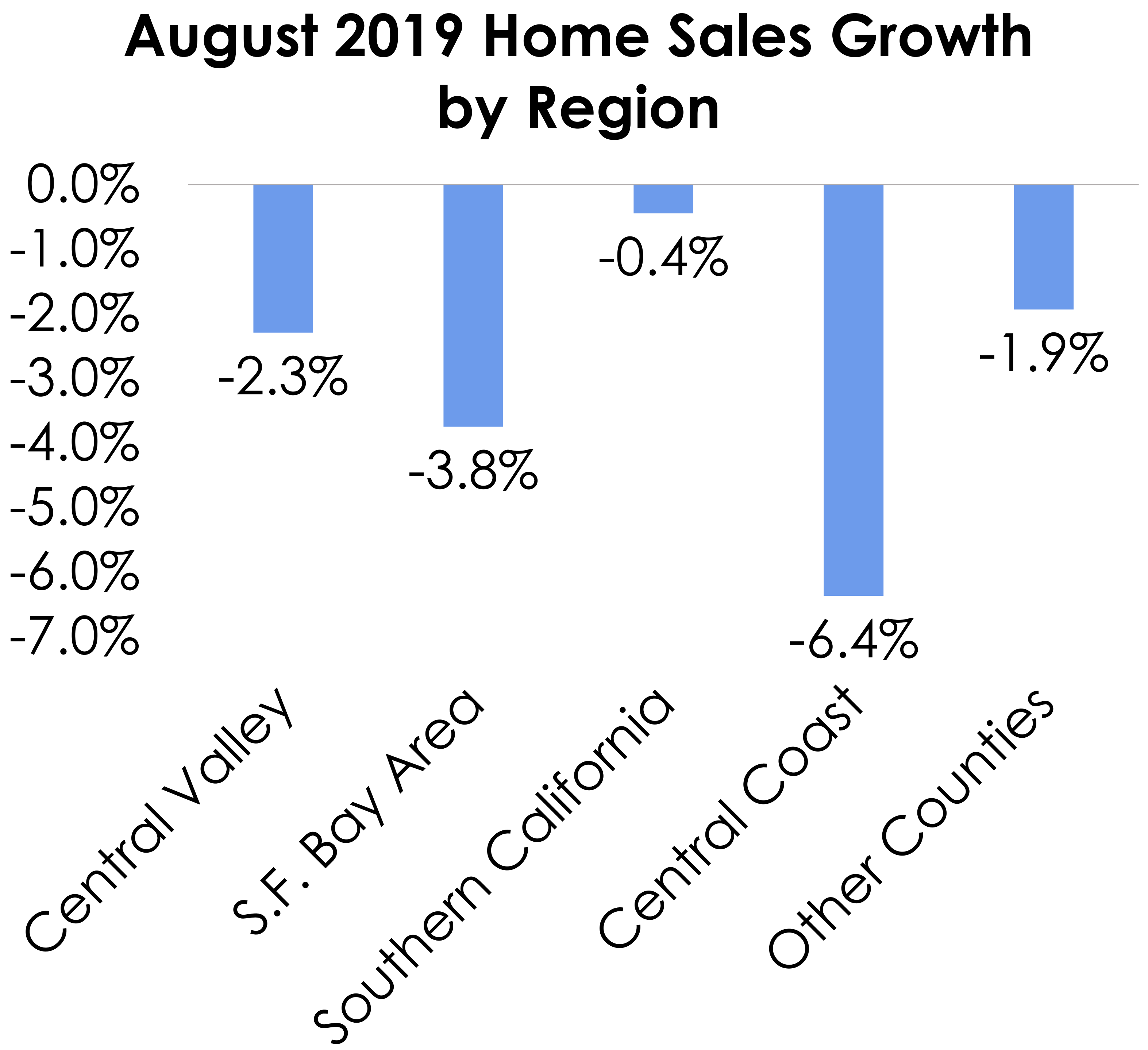
A tale of two markets



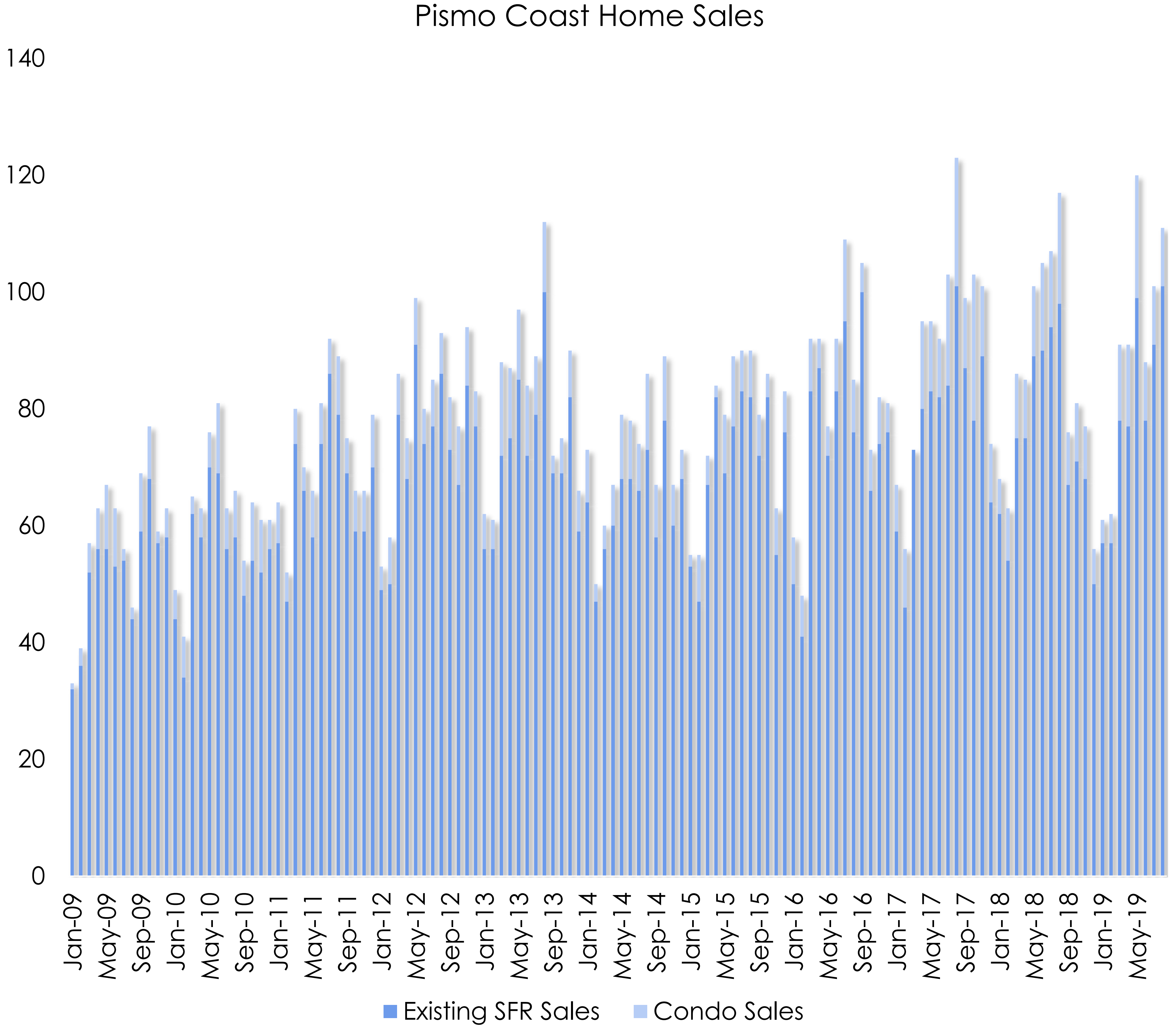
SERIES: Sales of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

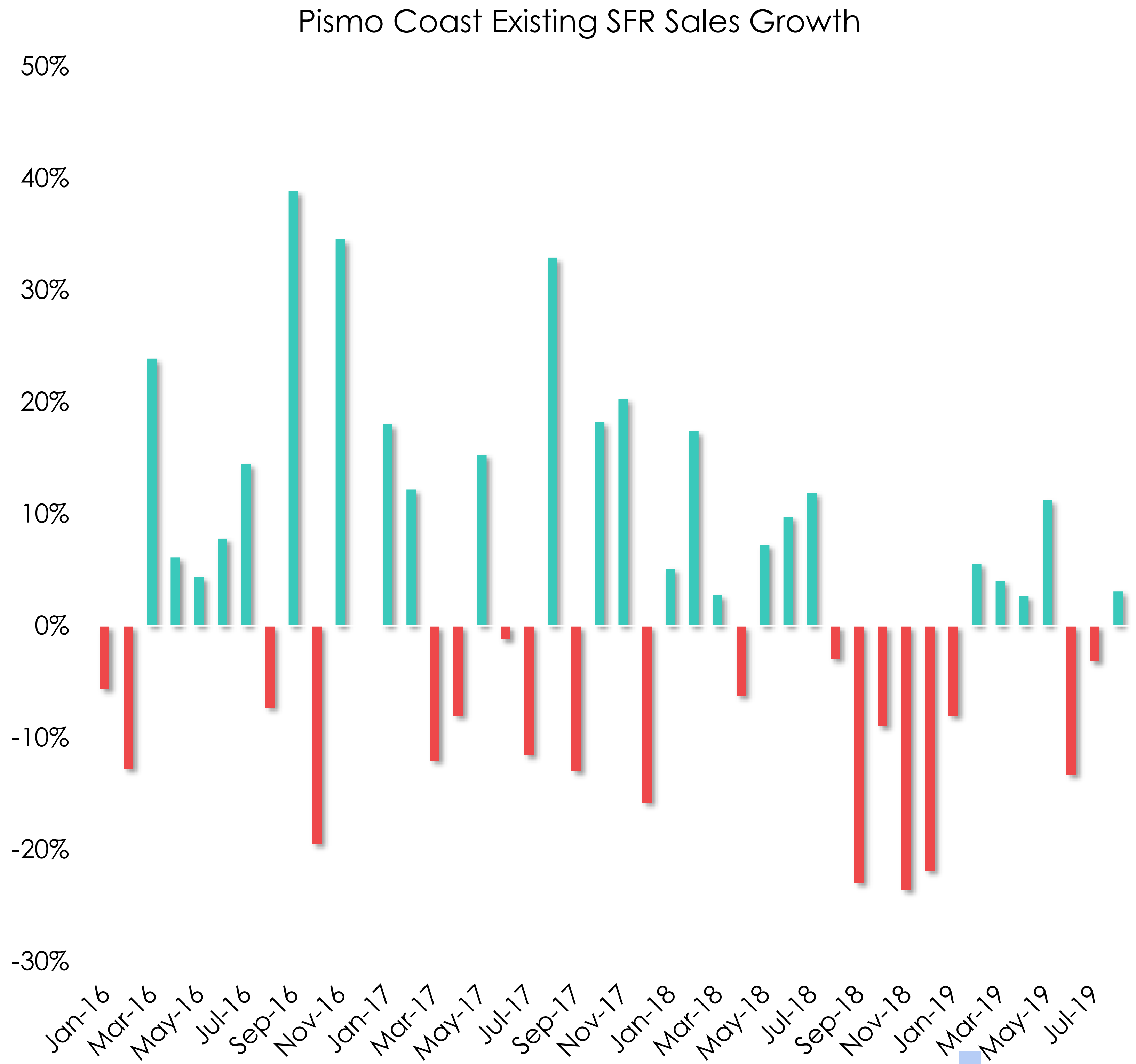
Every region declined last month



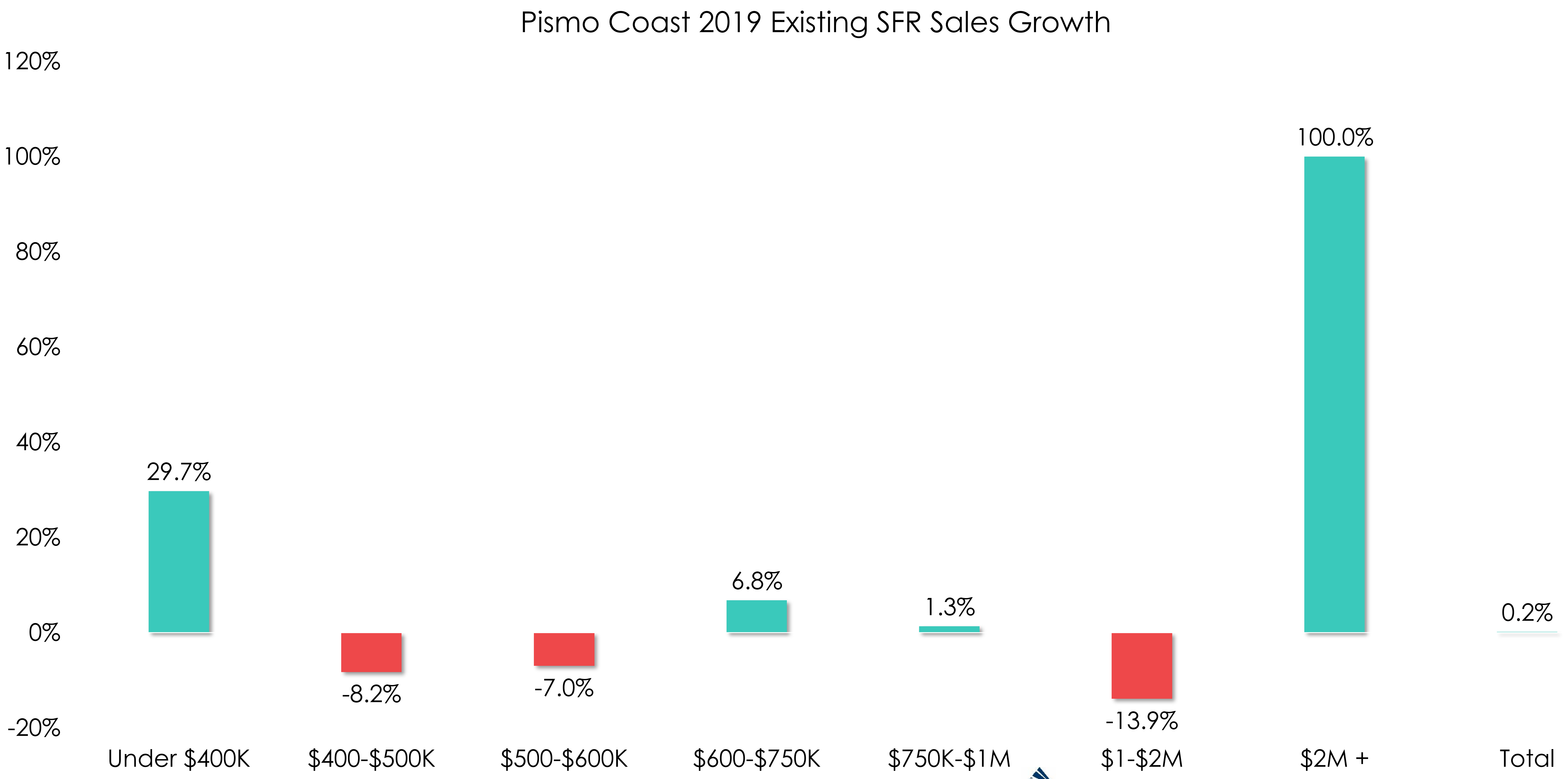


Better trend here, but slowing too

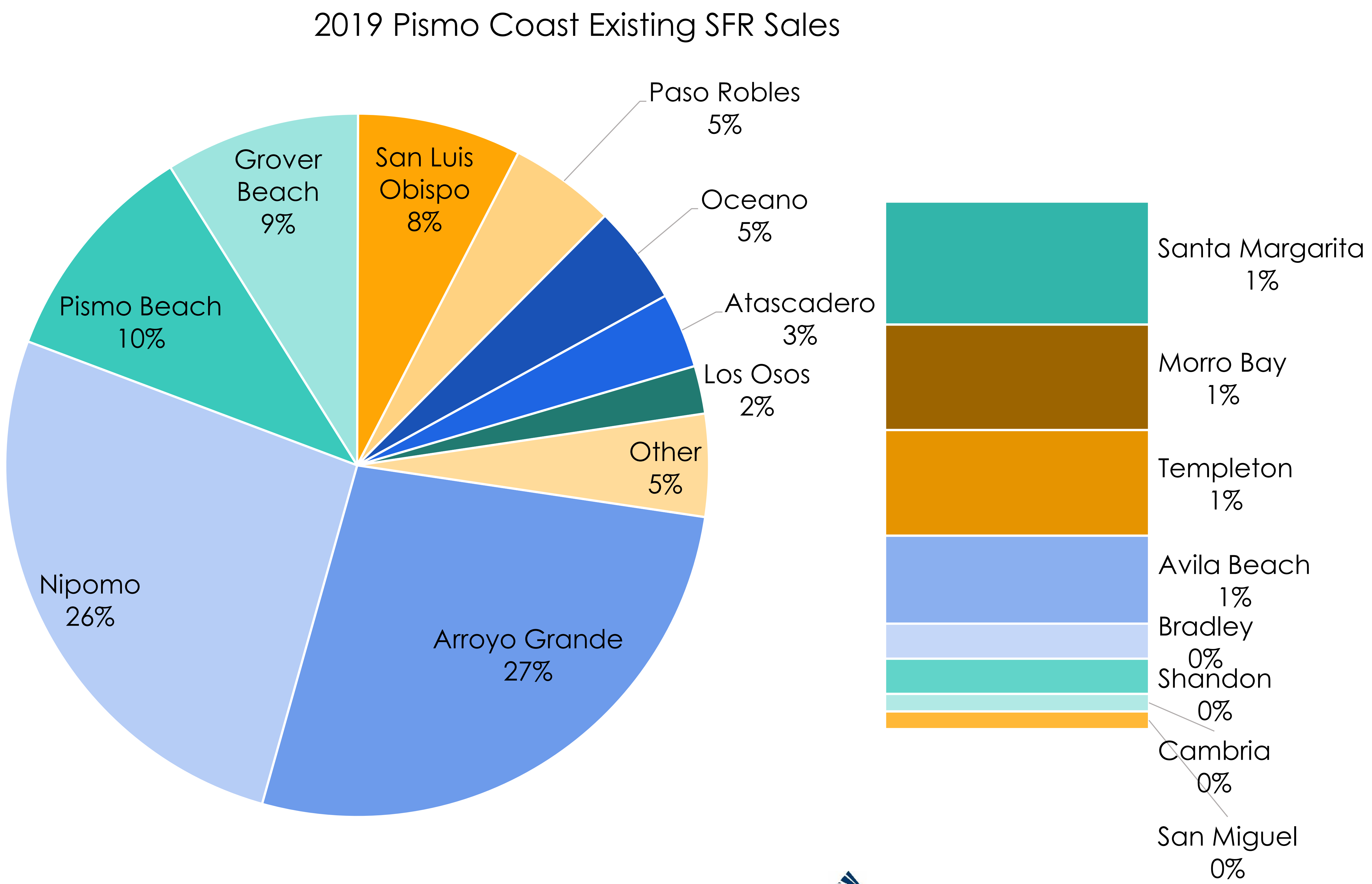




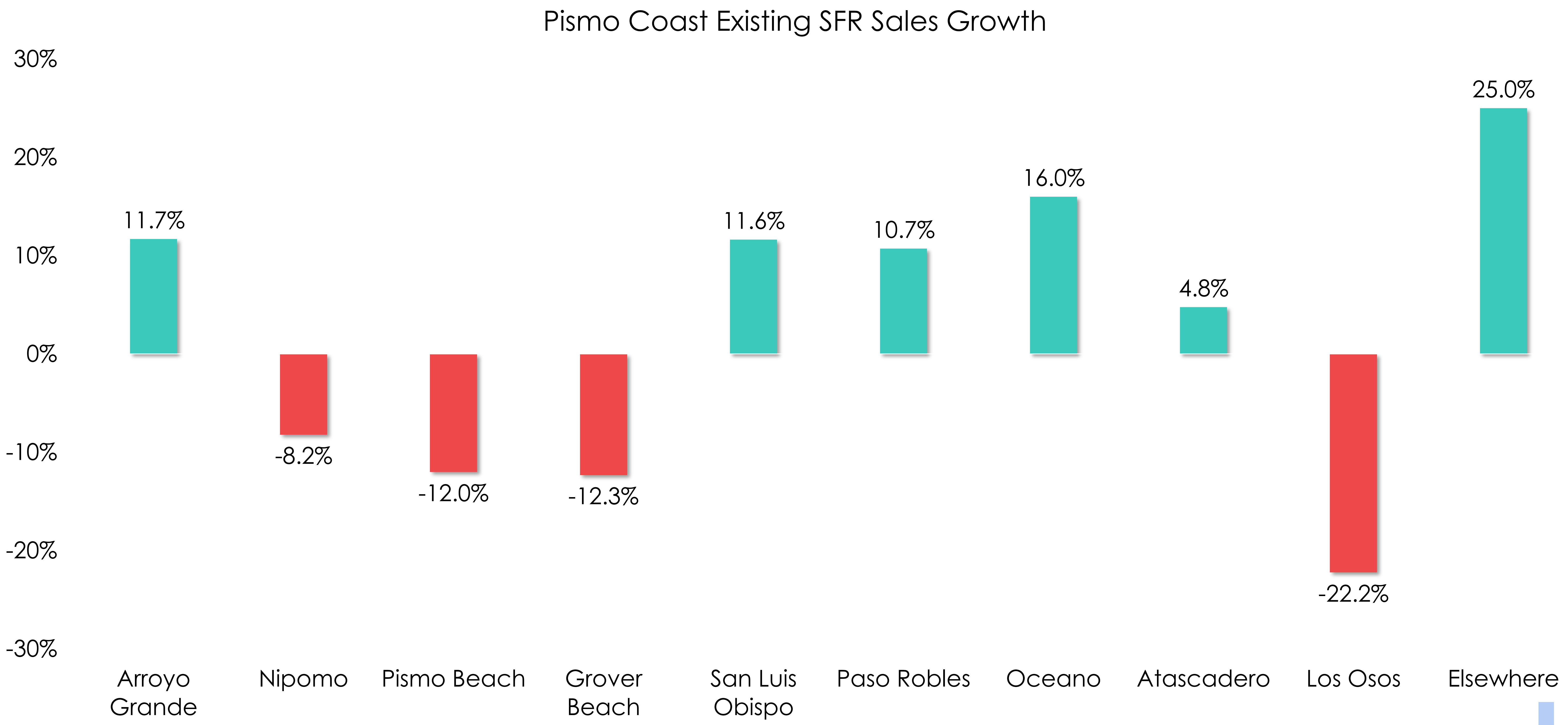
Similar story locally, except at bottom end



Branching out for **transactions**?

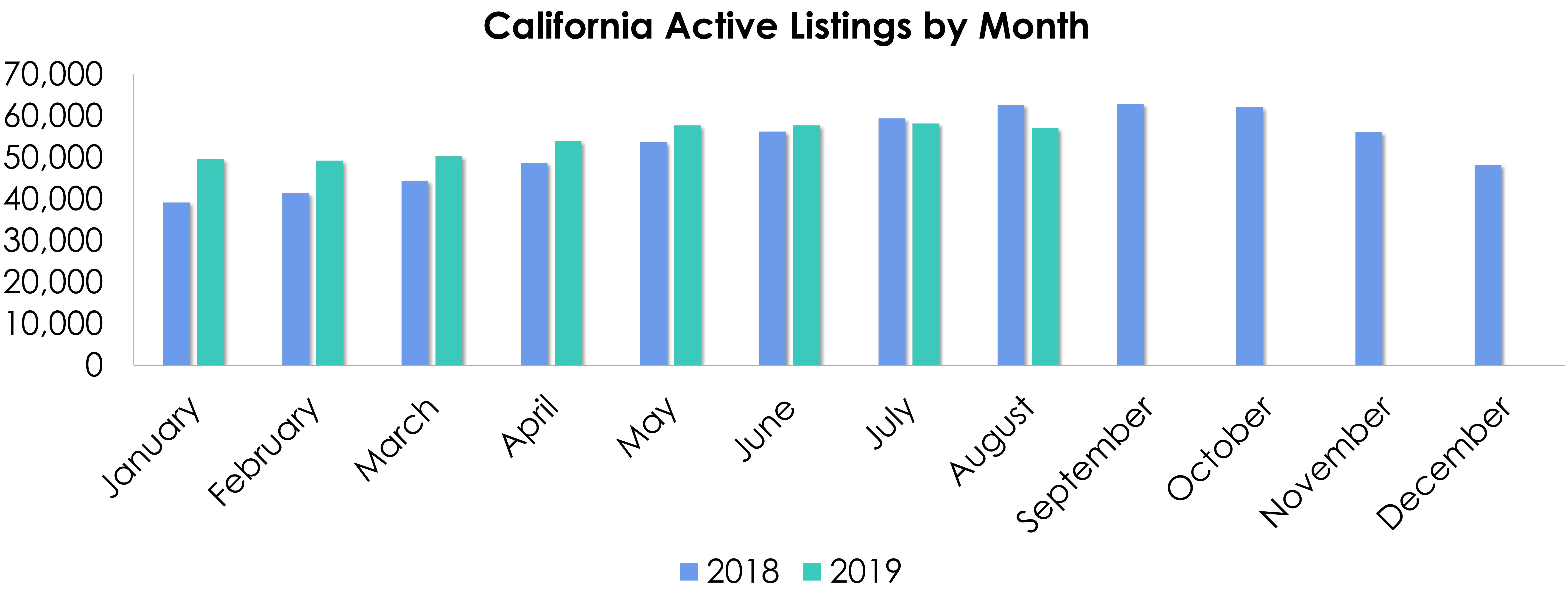


Evidence of a **softer market**?

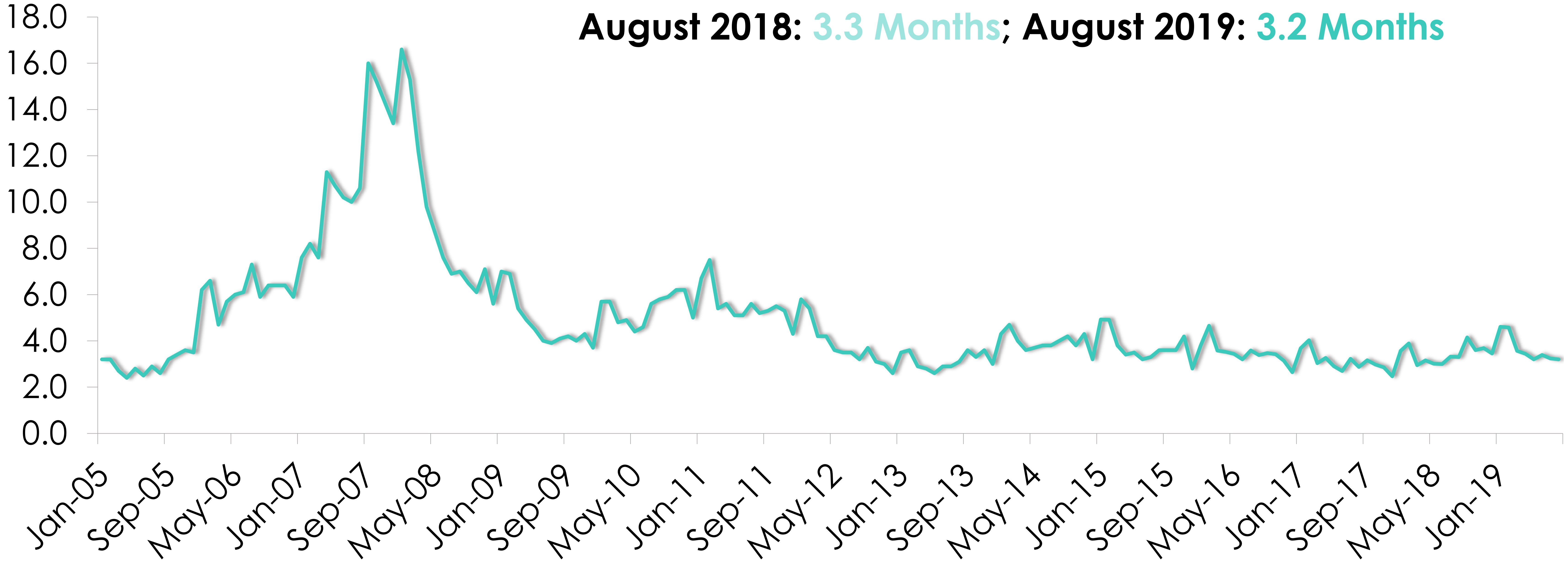


Buyers Have
More Choices Now

Active listings tightened up

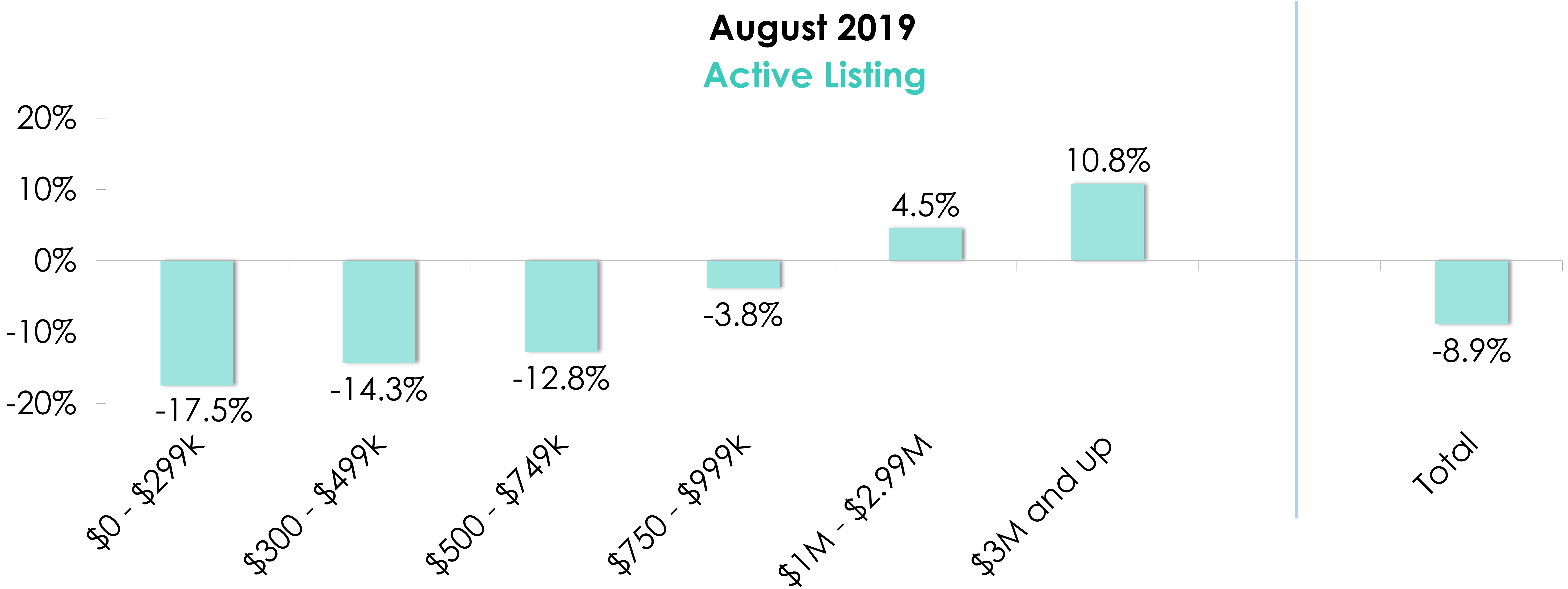


Market is still tight despite recent run



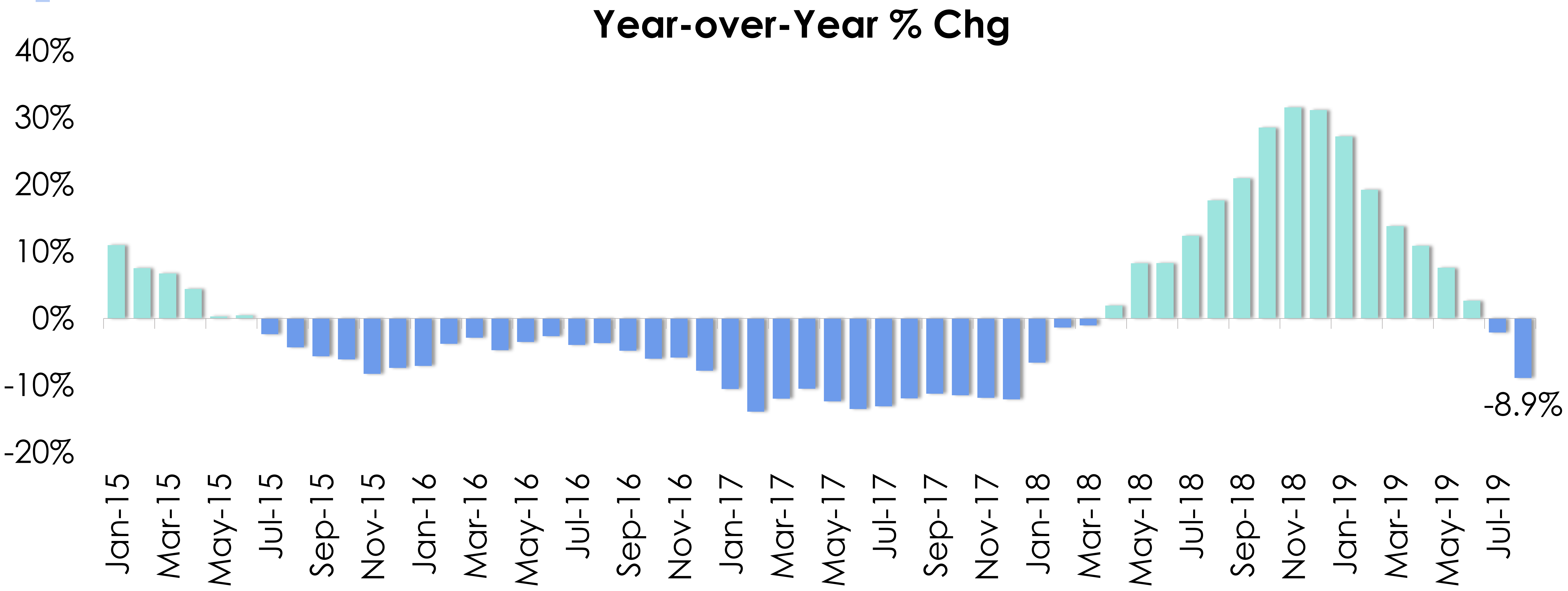
SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Supply improving at the upper end



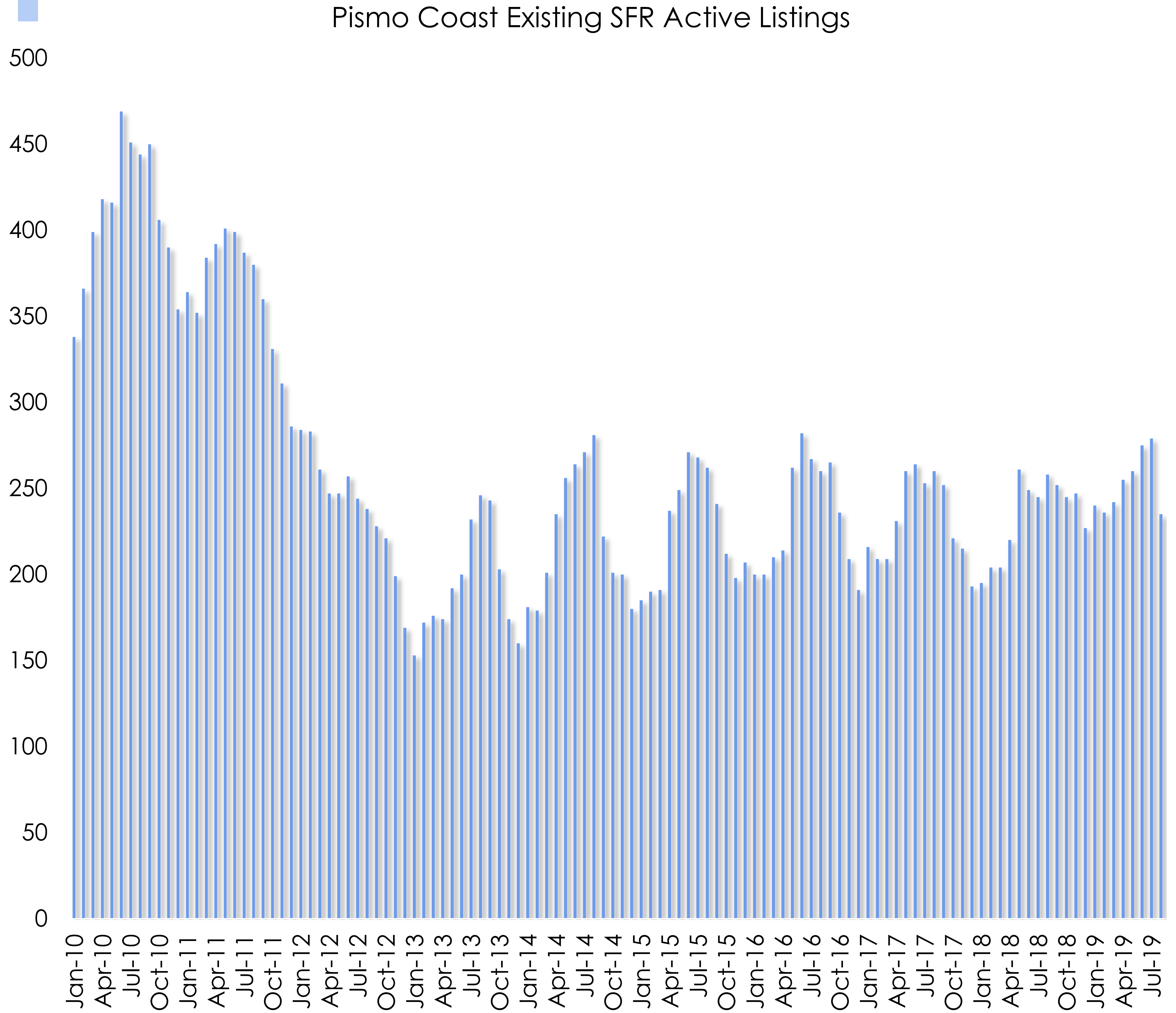
SERIES: Active Listings of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

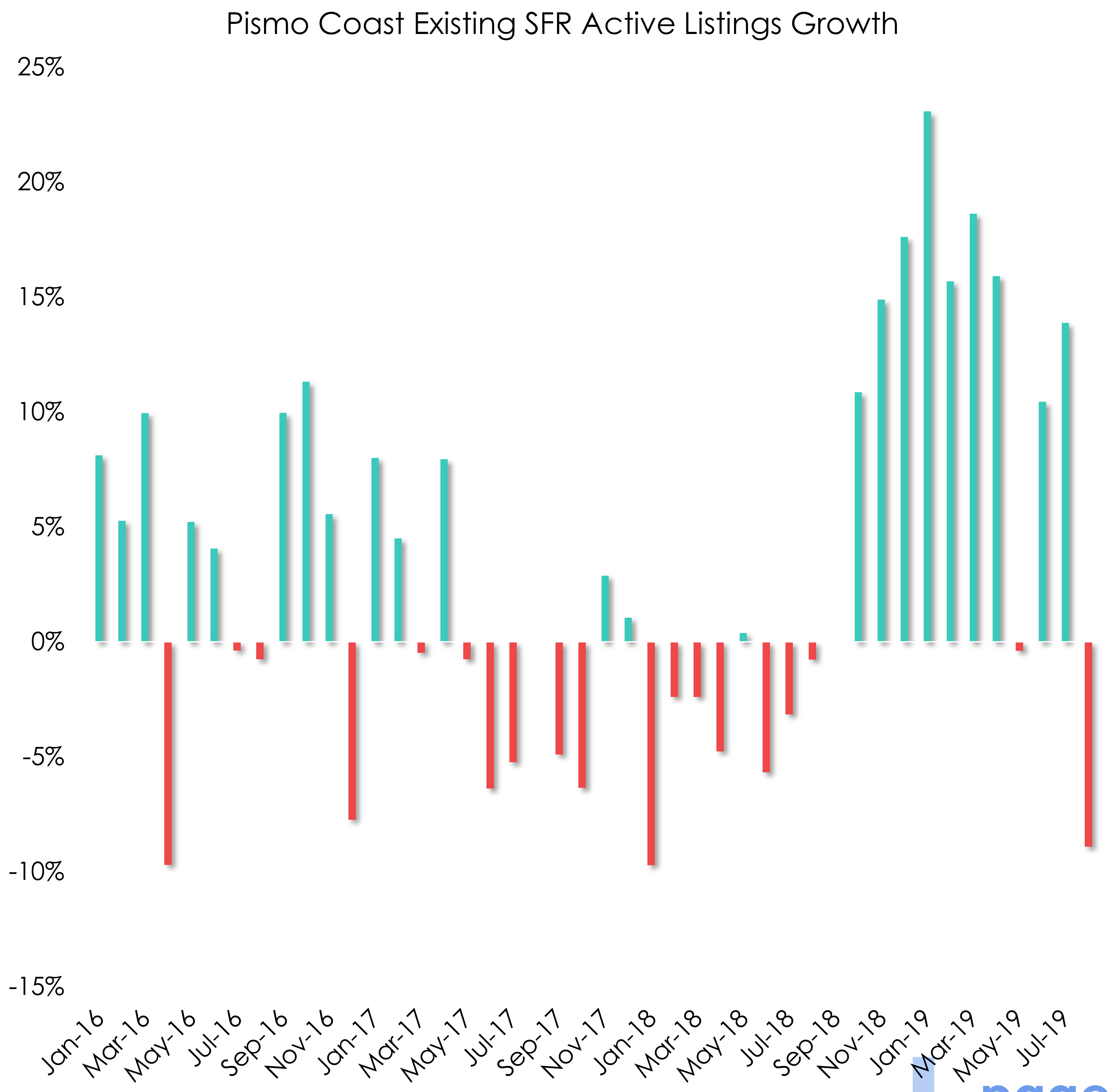
Rebalancing, not exodus



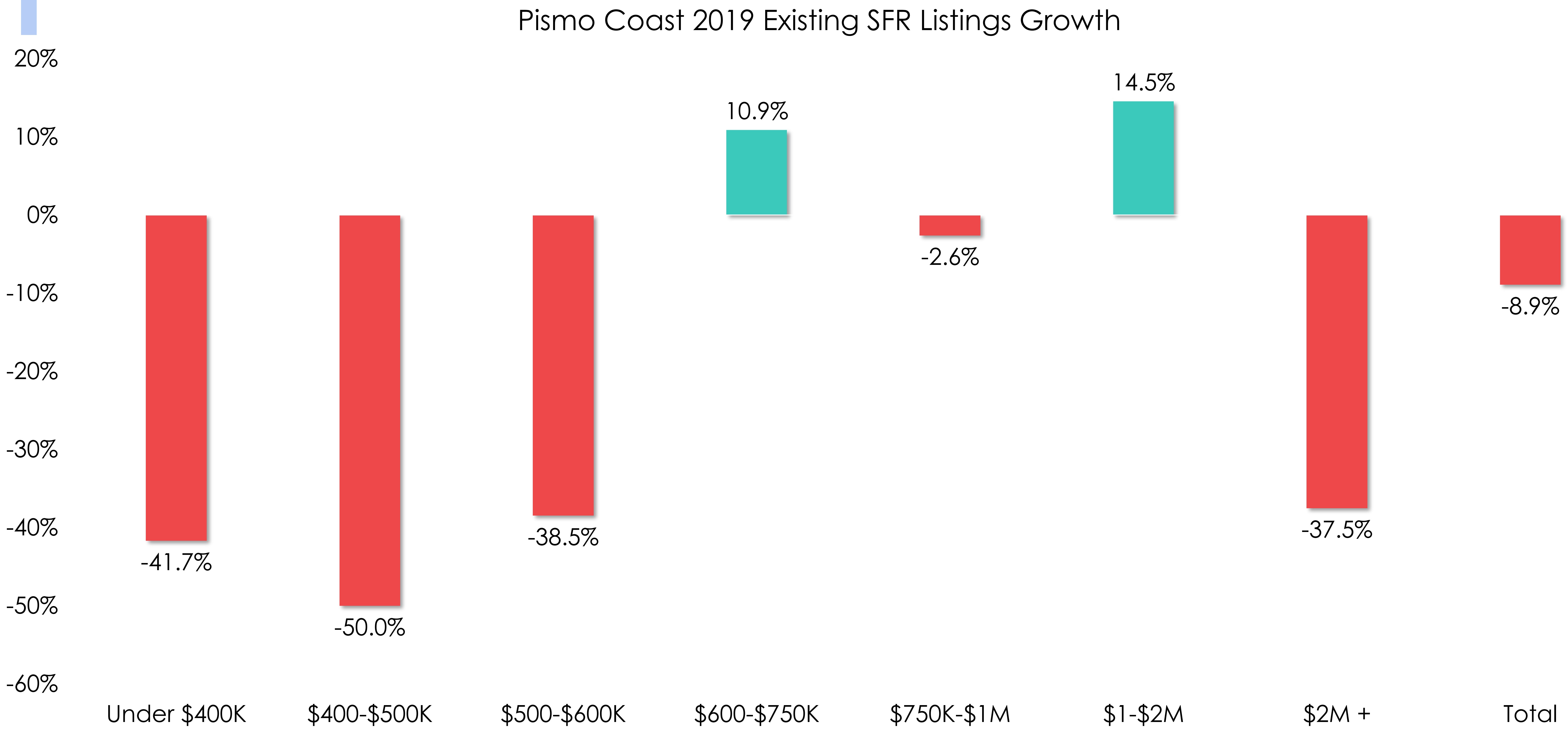
SERIES: Active Listing of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

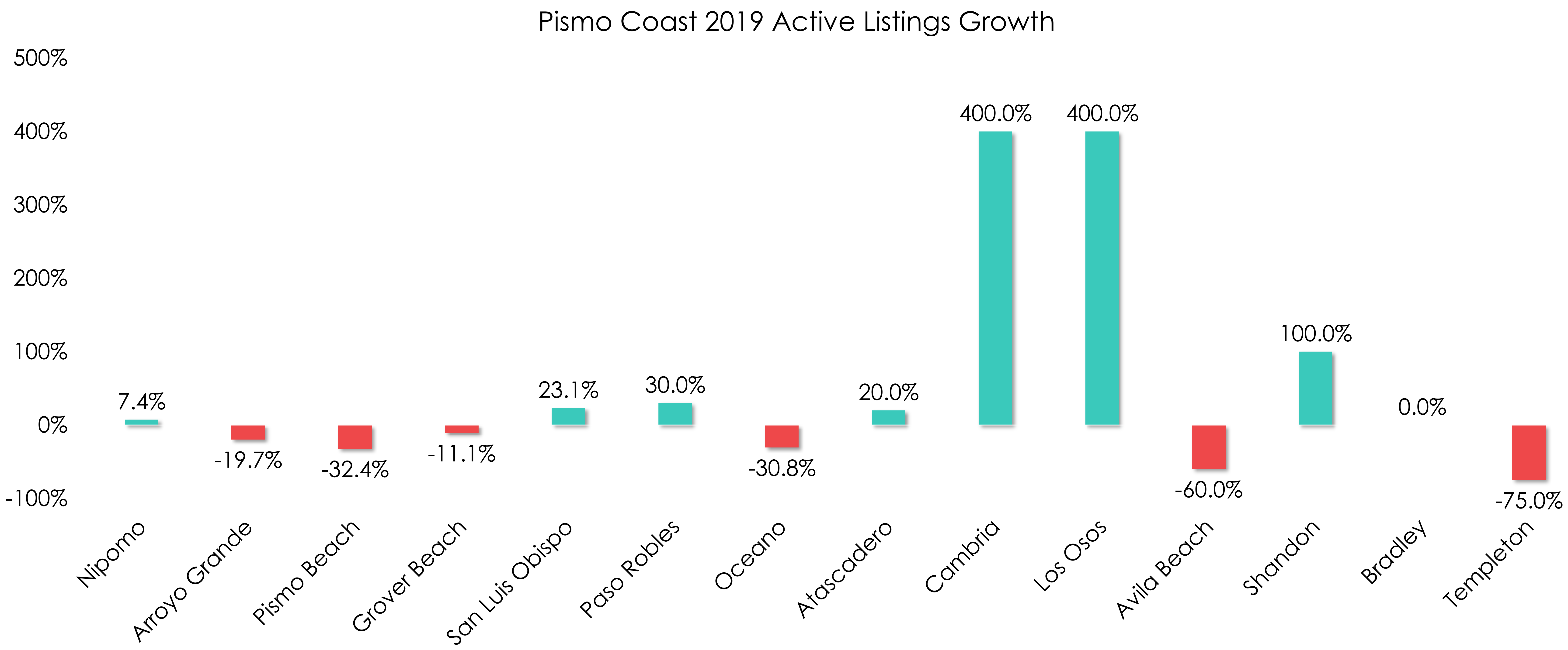
Still rising here, but similar trend





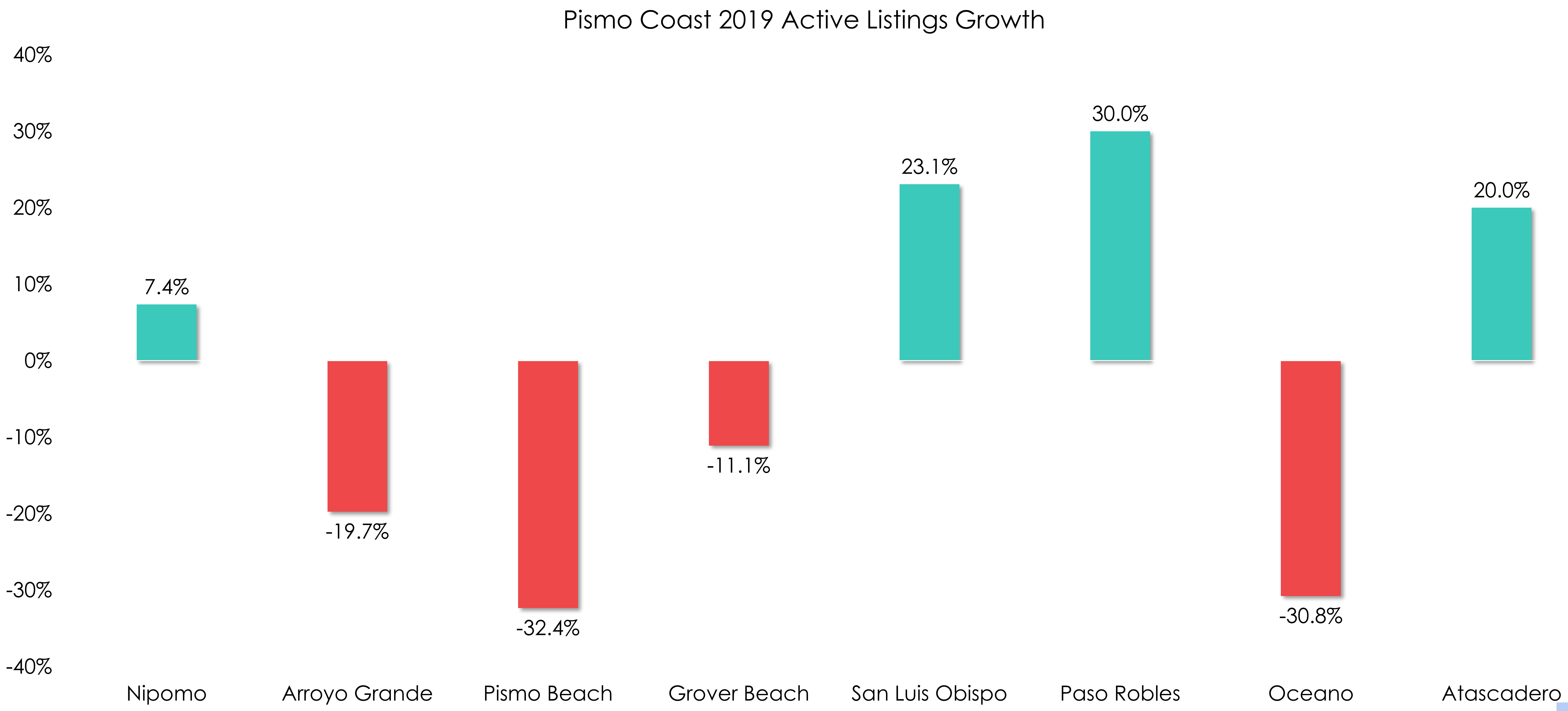
Still growing at top end: **cashing in?**





Pismo Coast 2019 Active Listings Growth
500%
400%
300%
200%
100%
0%
-100%
7.4%
-19.7%
-32.4%
-11.1%
23.1%
30.0%
-30.8%
20.0%
400.0%
400.0%
-60.0%
100.0%
0.0%
-75.0%
Nipomo
Arroyo Grande
Pismo Beach
Grover Beach
San Luis Obispo
Paso Robles
Oceano
Atascadero
Cambria
Los Osos
Avila Beach
Shandon
Bradley
Templeton

Seeking more listings farther afield?



Market Less

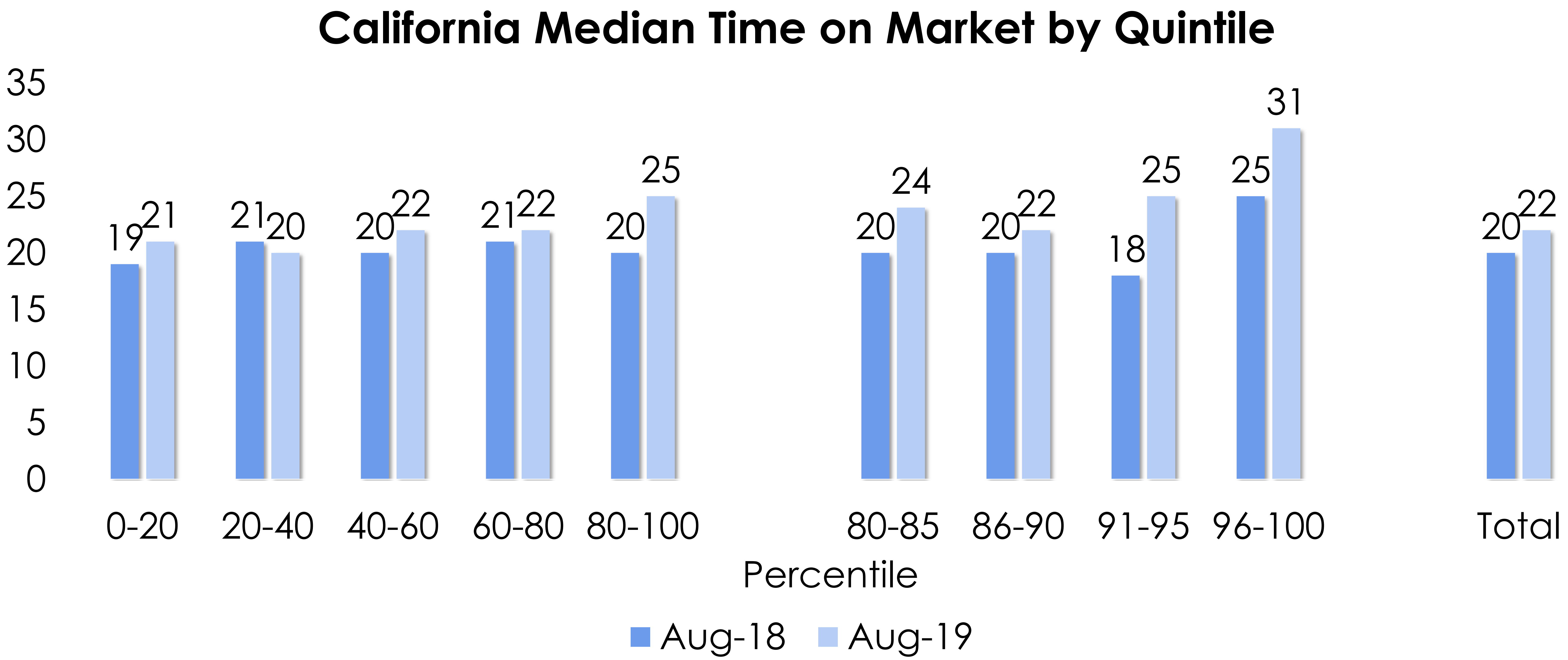
Competitive

Time on market rising

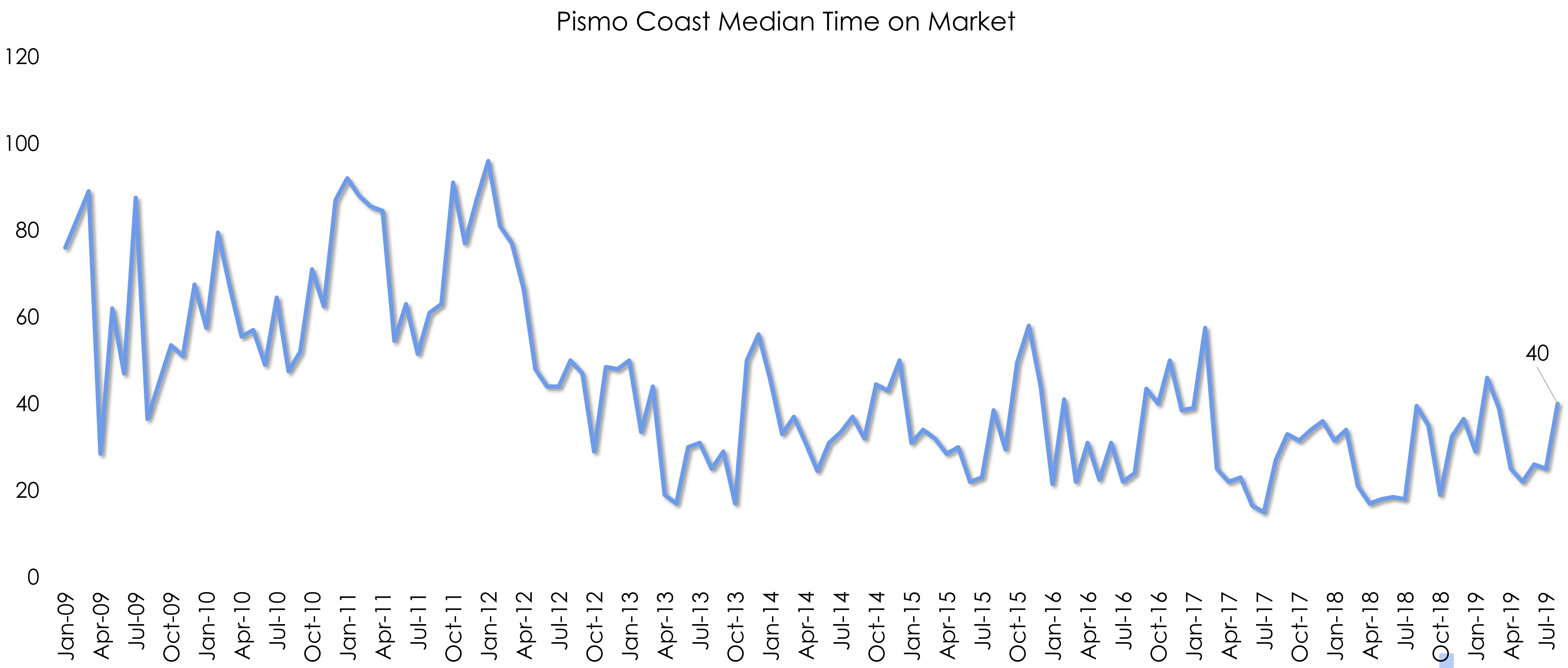
California, August 2019: 23.0 Days

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

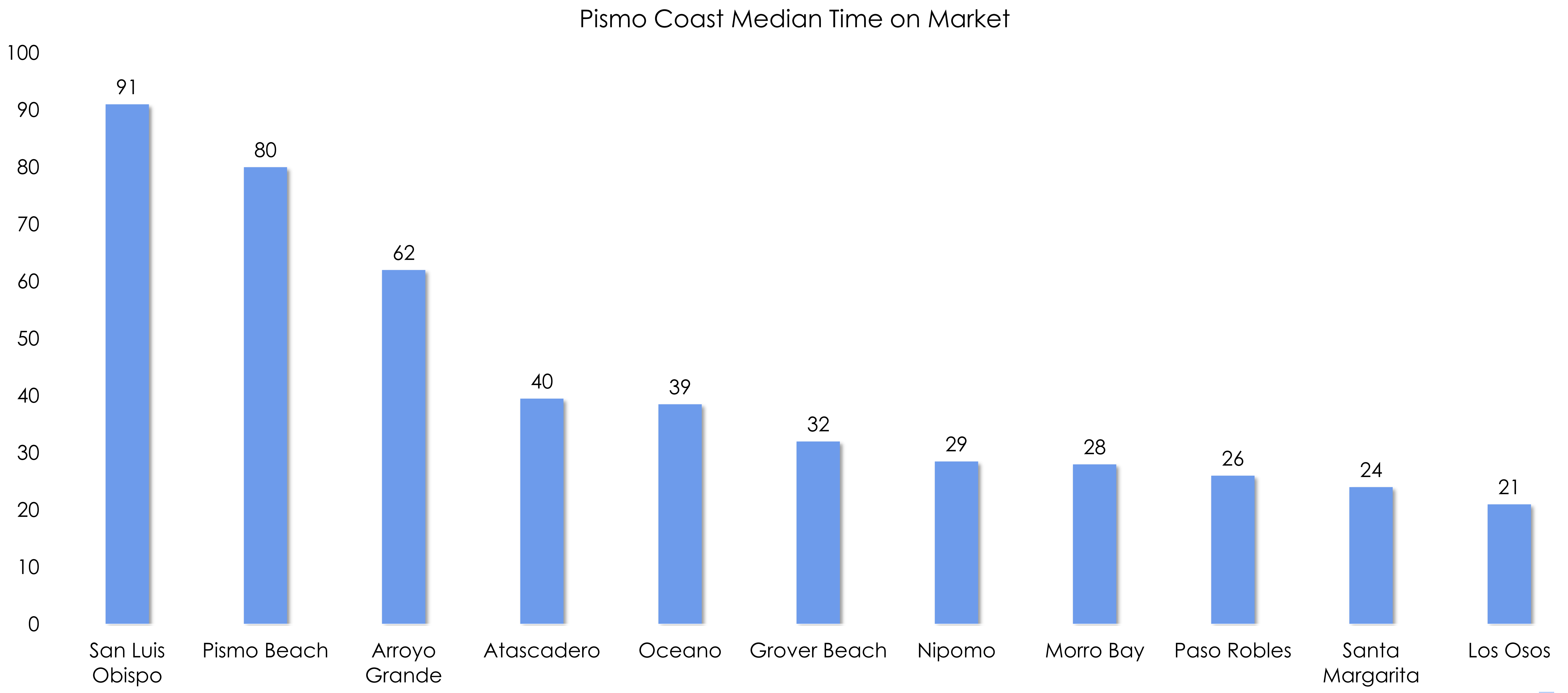
Up in most percentiles



Holding up relatively well here

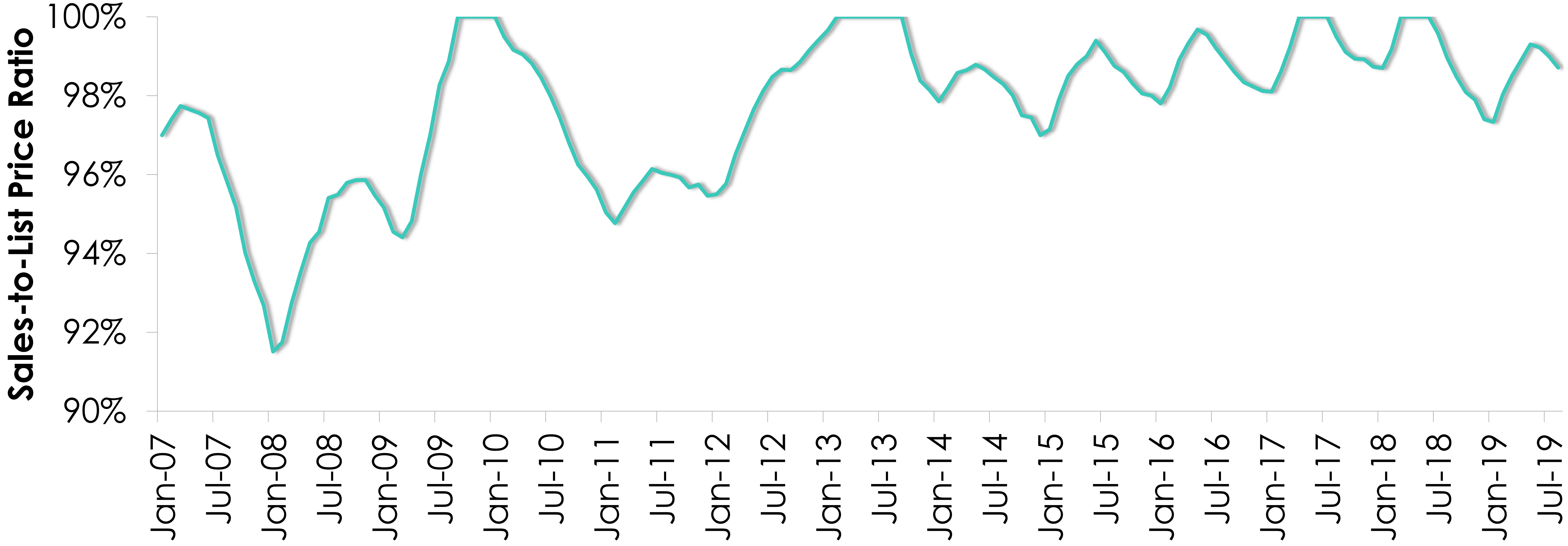


Varies wildly across the region



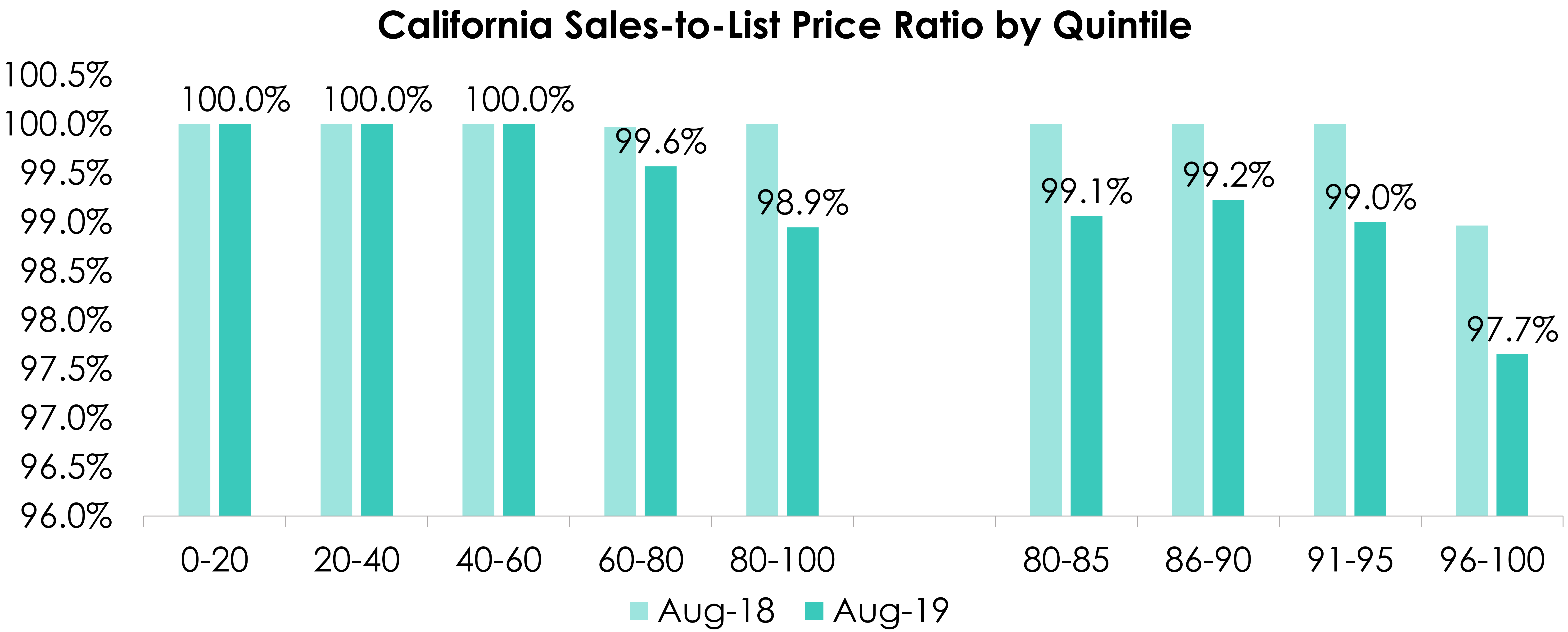
Sales price-to-list Price ratio dipped slightly as market ended its peak season

August 2019: 98.7%, -0.3% MTM, -0.2% YTY



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

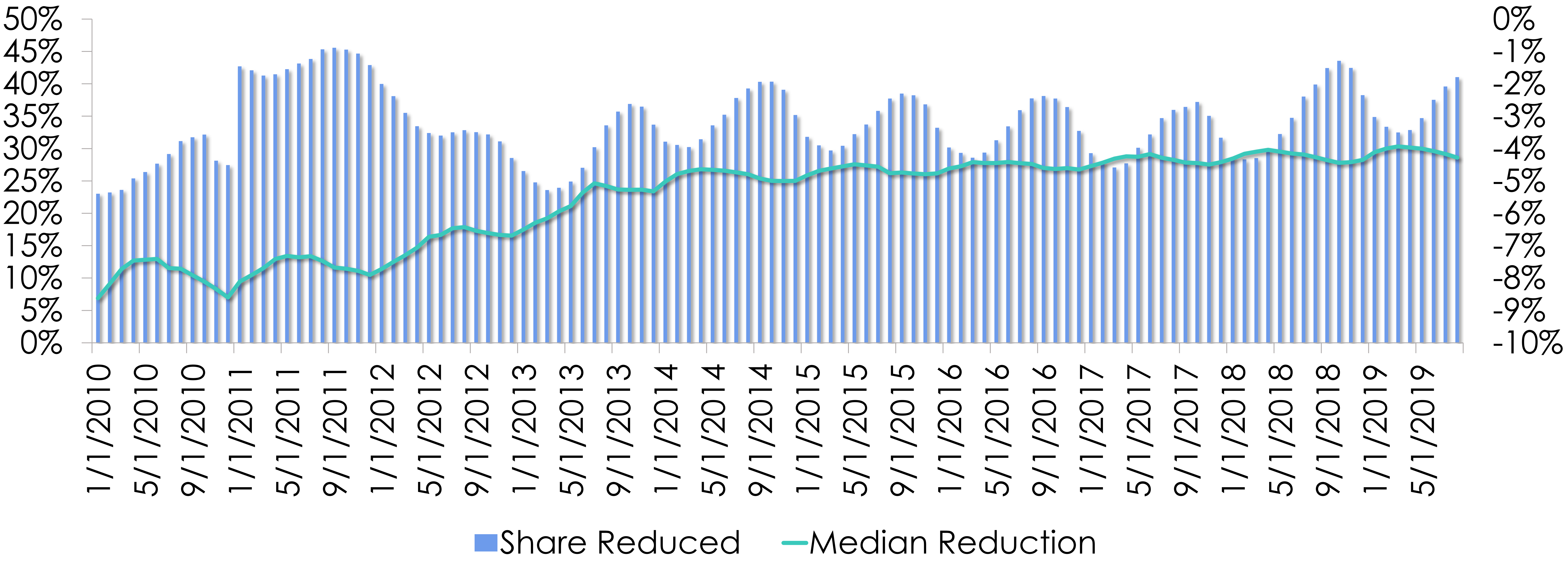
Sales-to-list price ratio down at top percentile



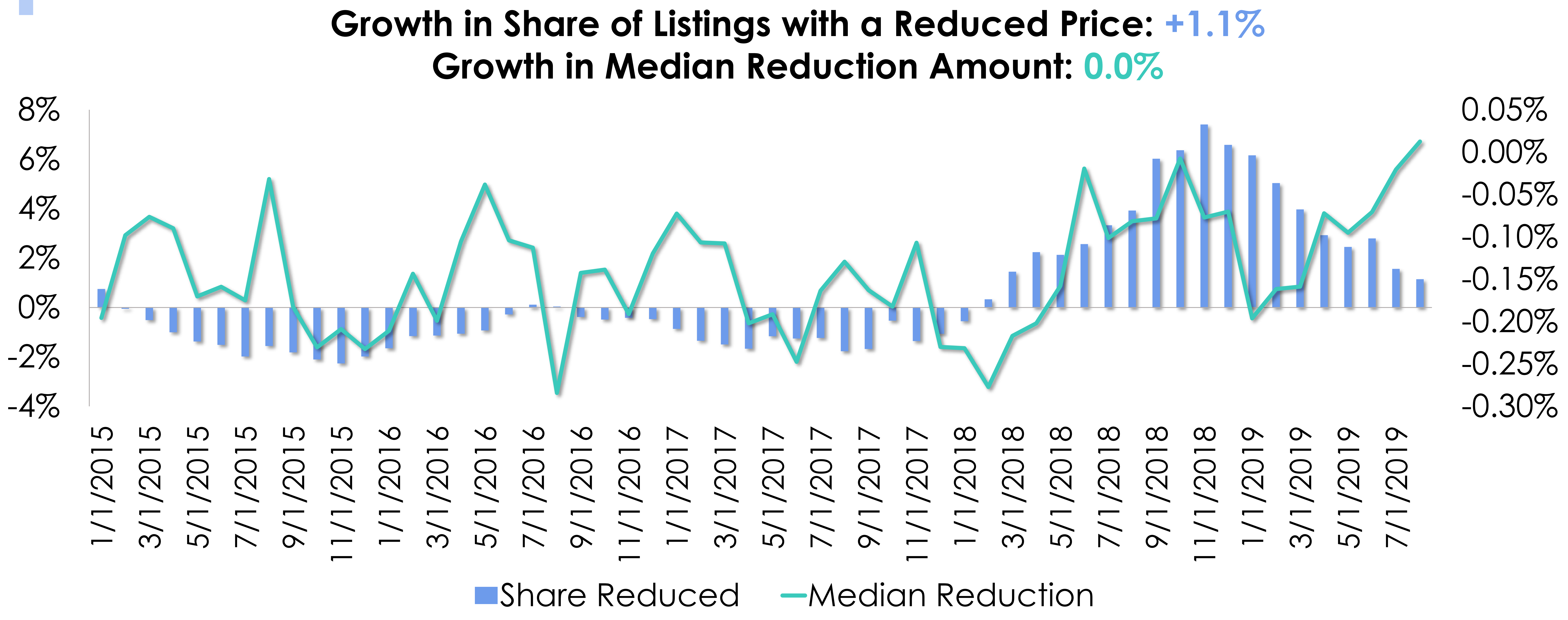
SERIES: Sales to List Ratio of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Reduced-Price Listings

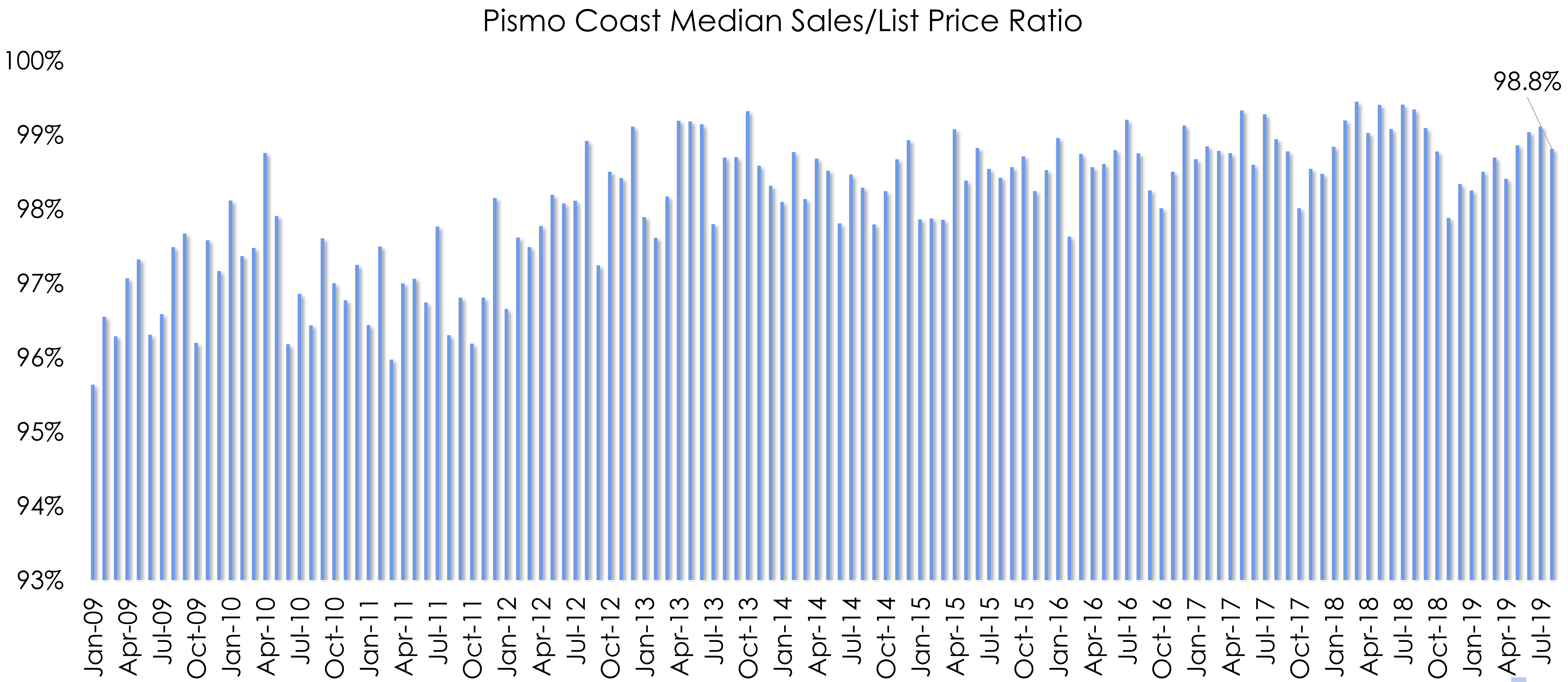
Share of Listings with a Reduced Price: 41.0%; Median Reduction Amount: -4.3%



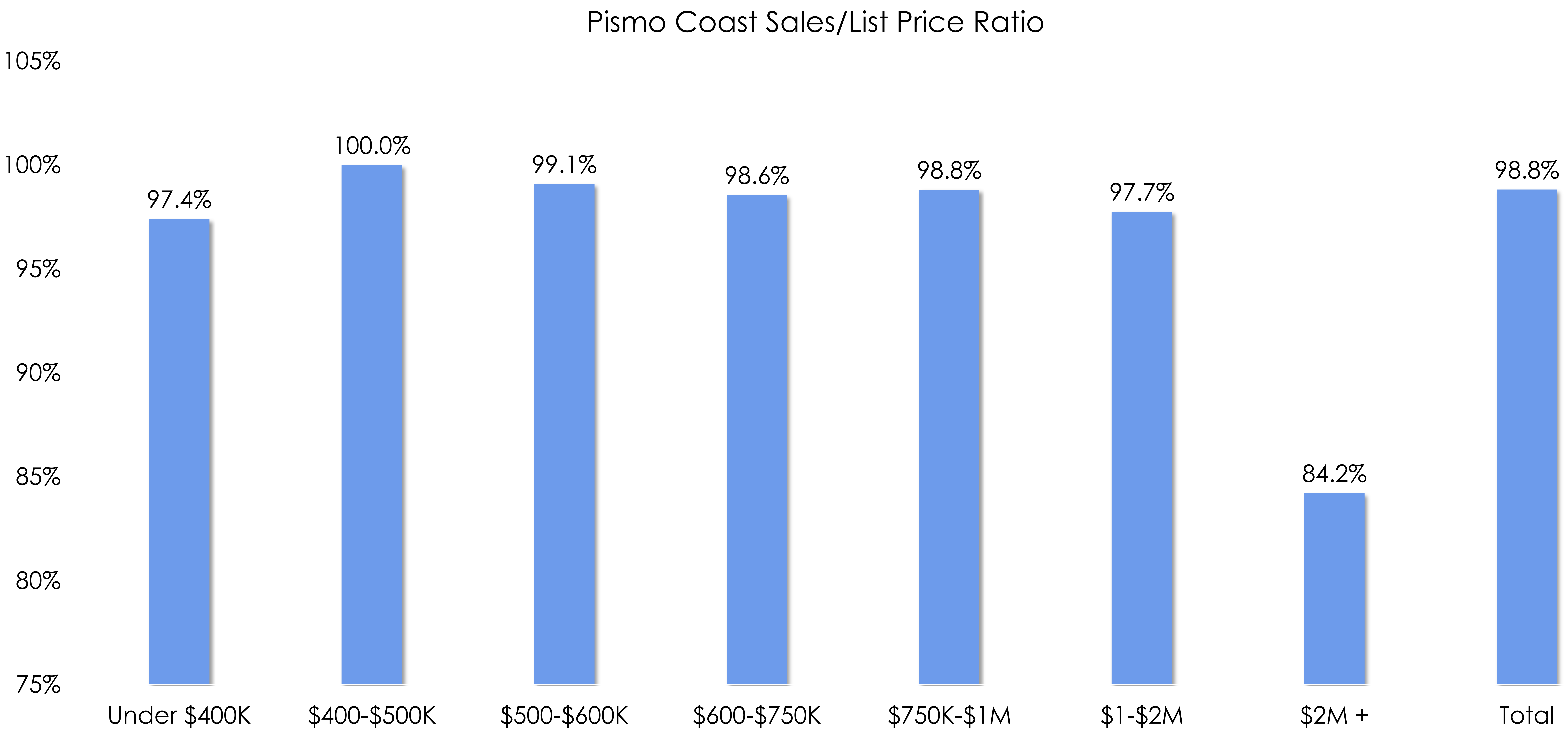
Growth in Reduced-Price Listings



Starting to see some discounting here



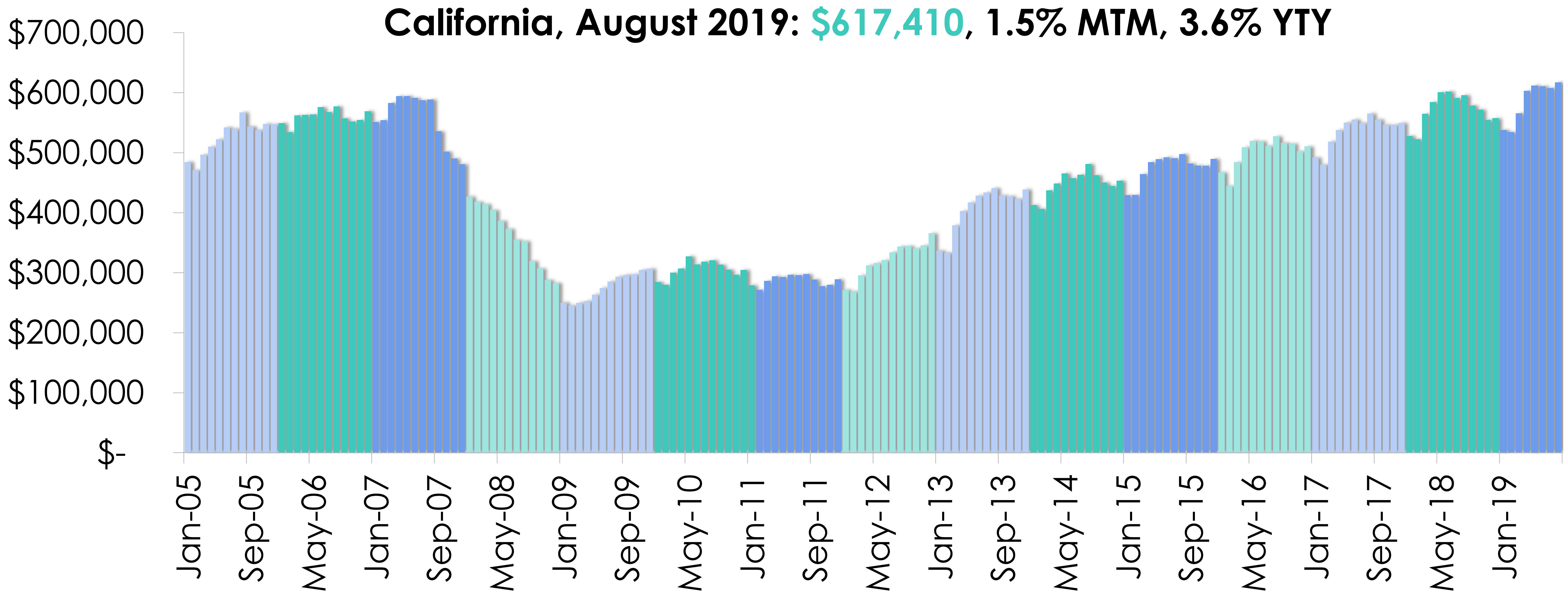
Top end actually cutting!



Prices Slower

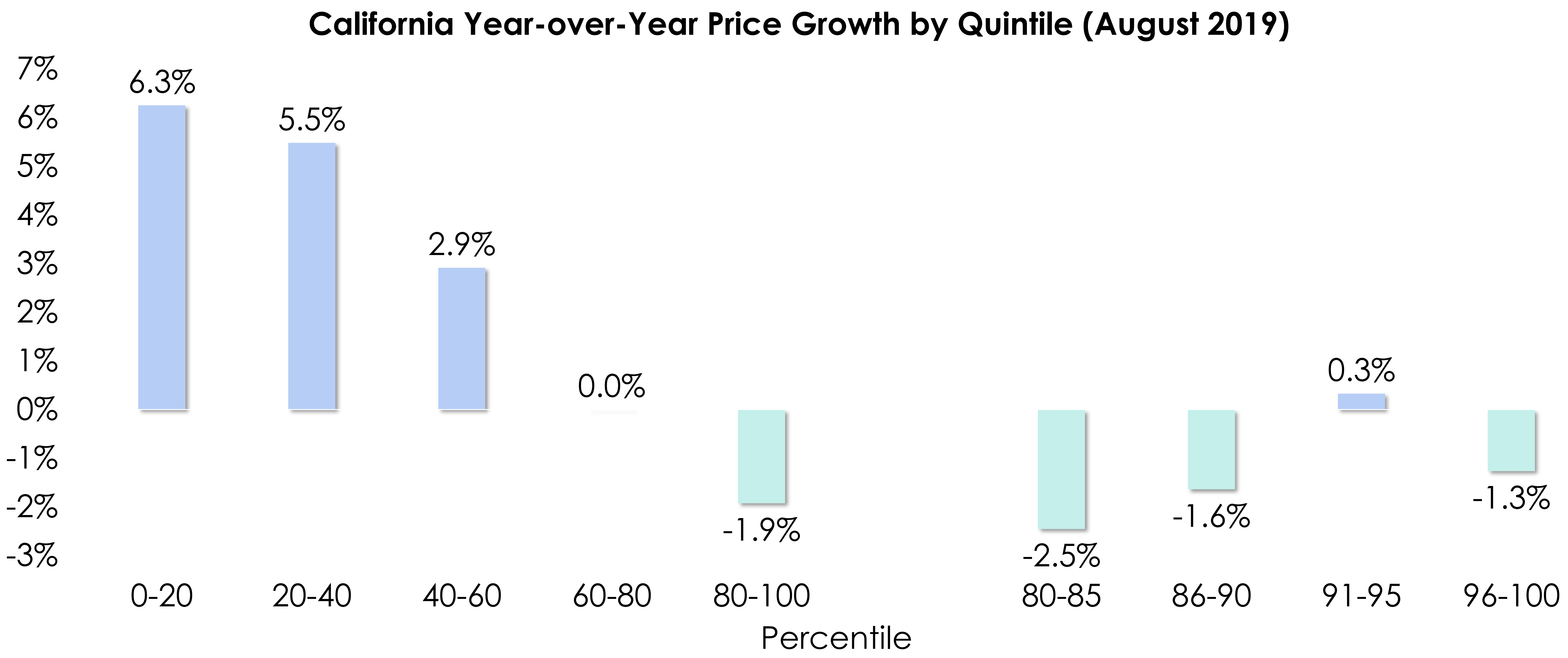
As A Result

California reached an **all-time high**



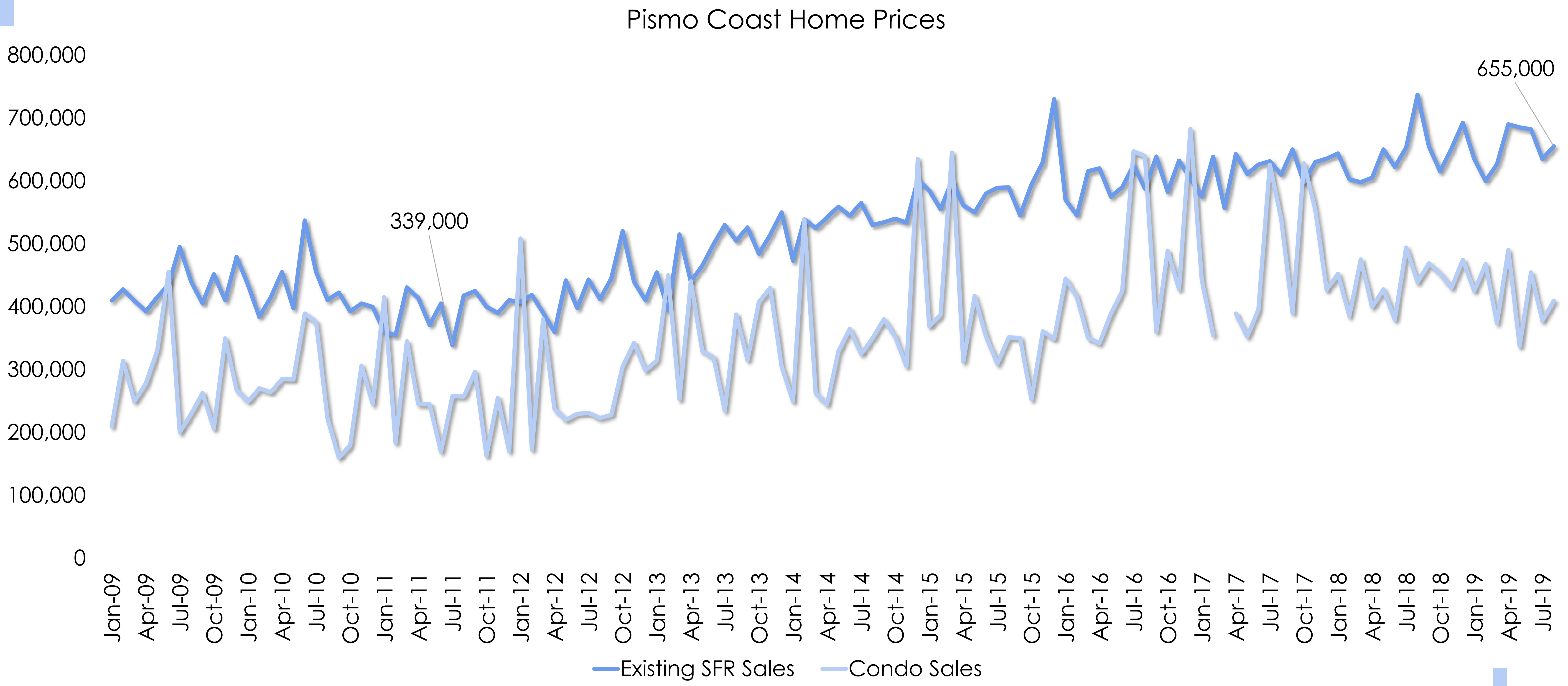
SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

But prices falling at the top end

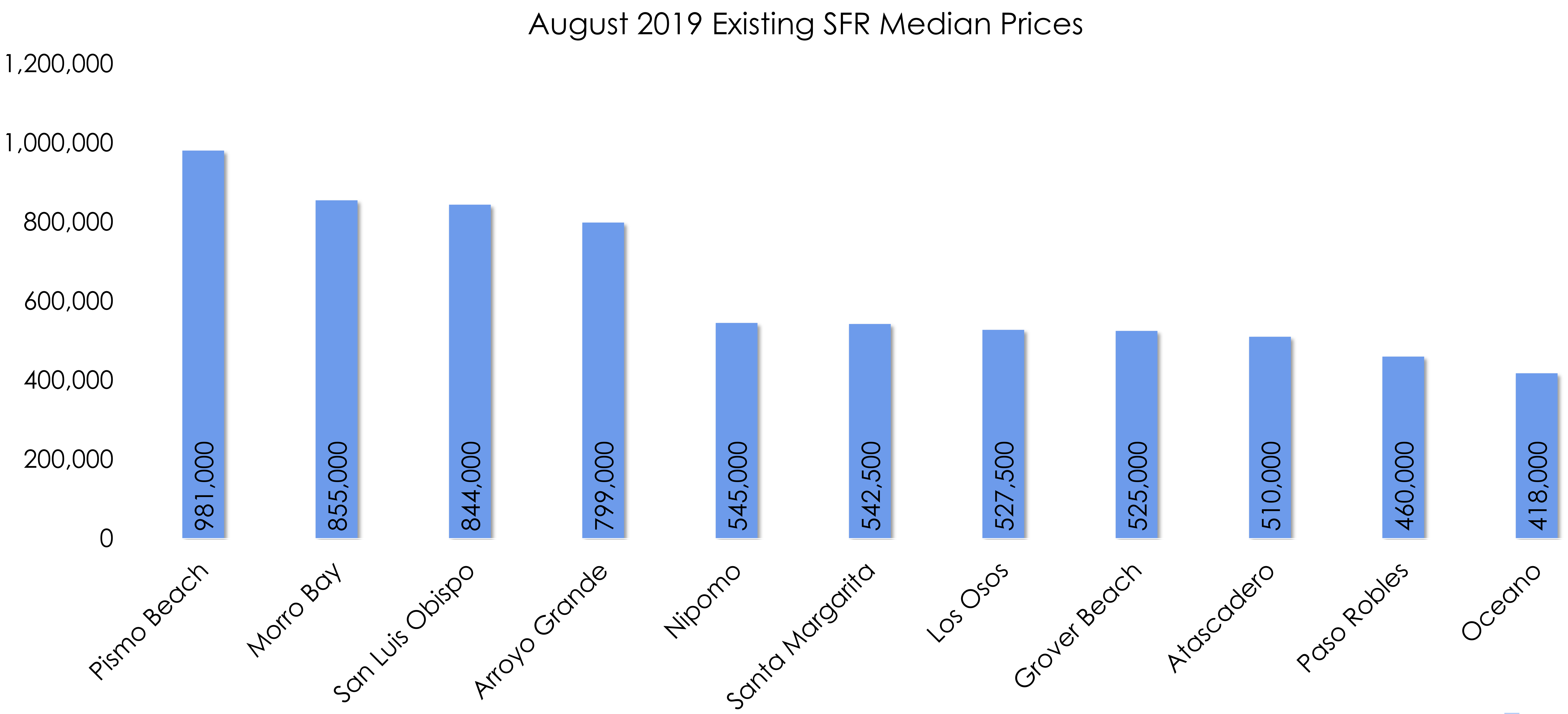


SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Moment of silence for ourselves?



Snapshot of local prices

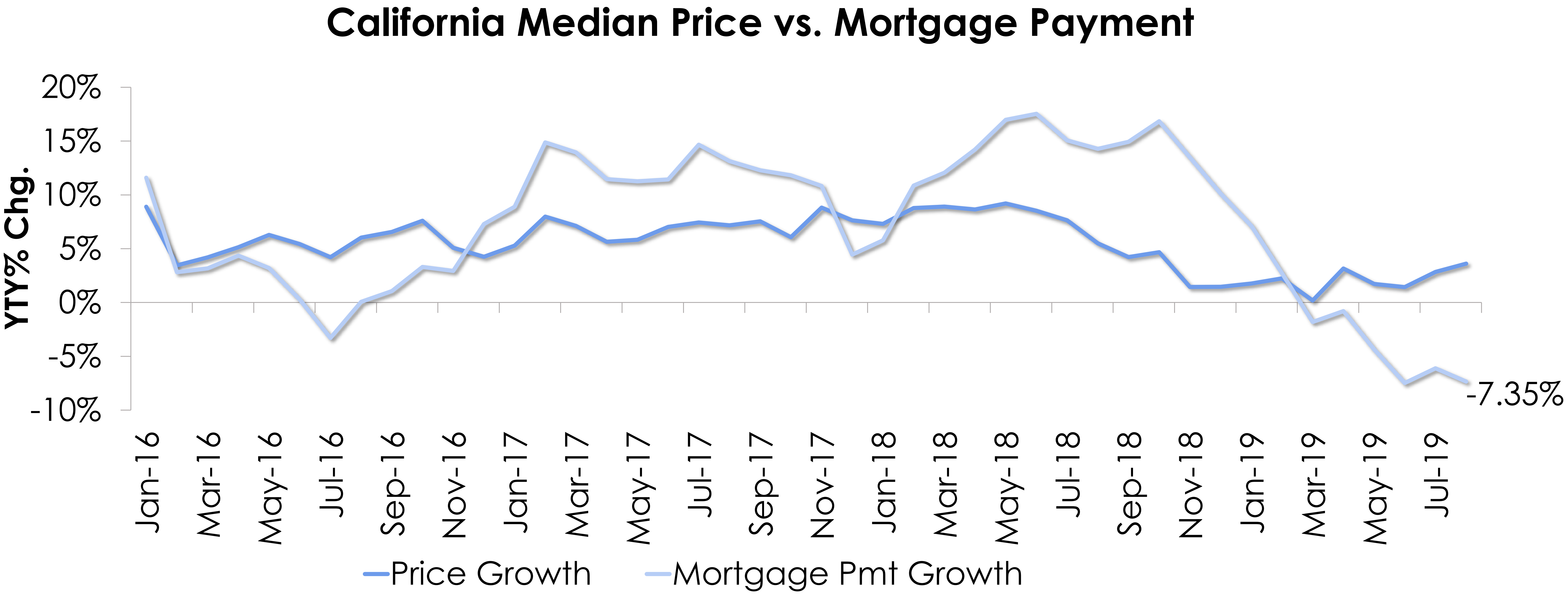


Prices have started to come down locally

Don’t

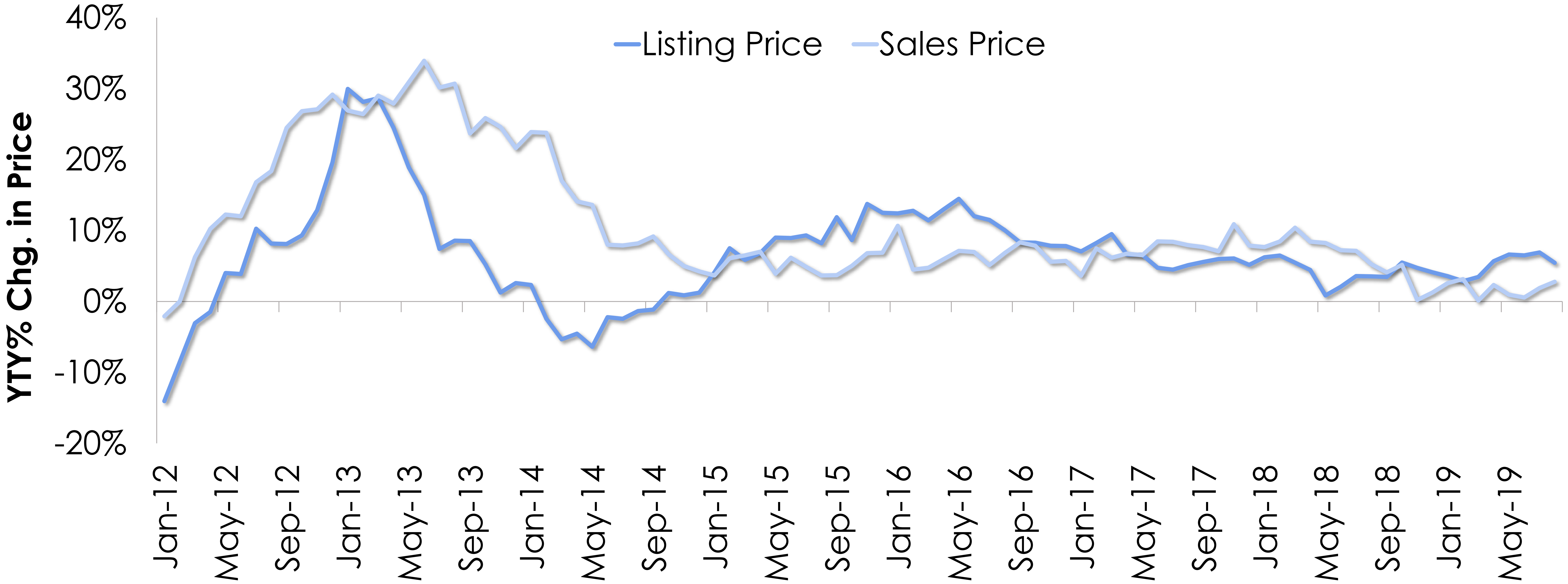
Panic

Mortgage payment continued to drop



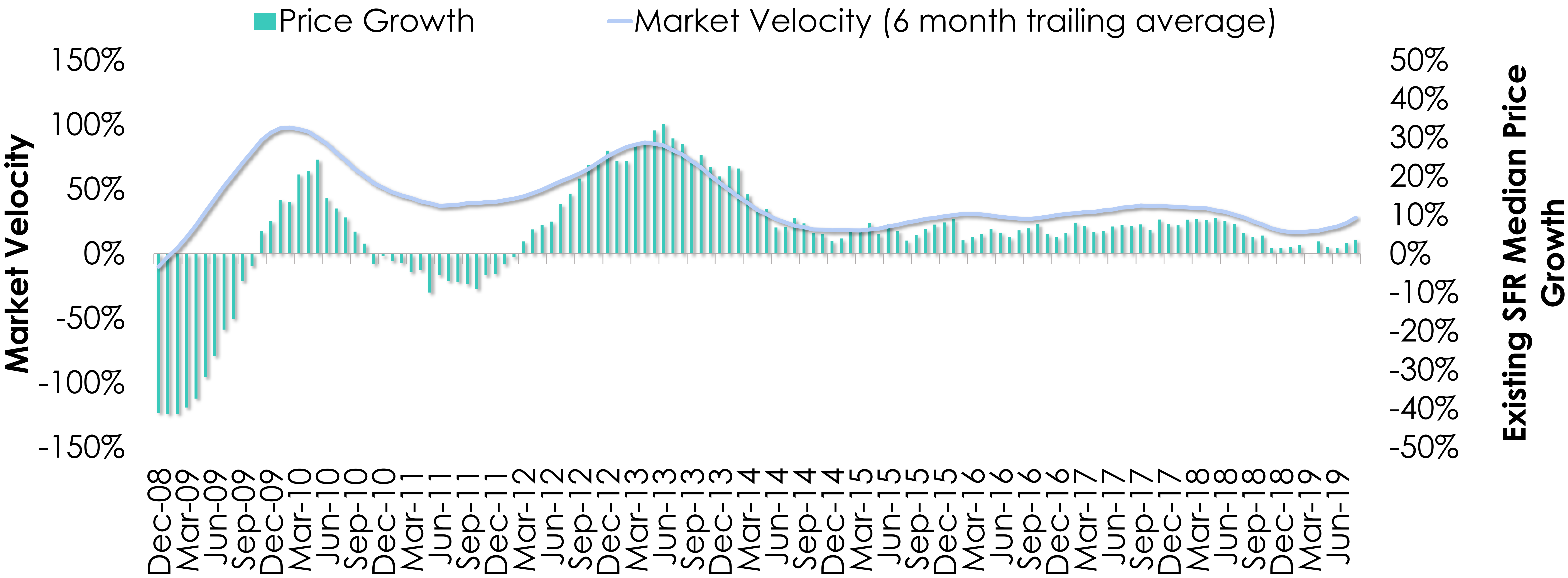
SERIES: Price Growth vs. Mortgage Payment Growth
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Listings prices suggest softening, not dropping



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

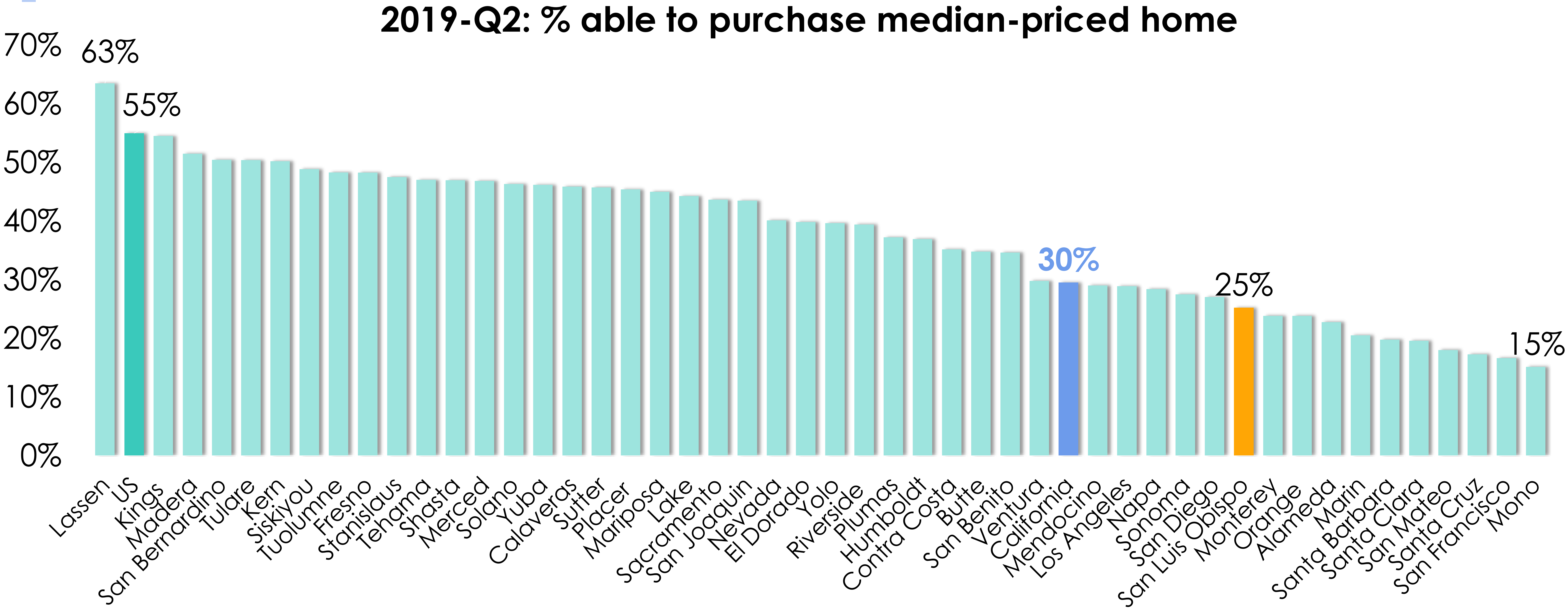
California market velocity suggests **more growth**



SERIES: Market Velocity & Price Growth
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

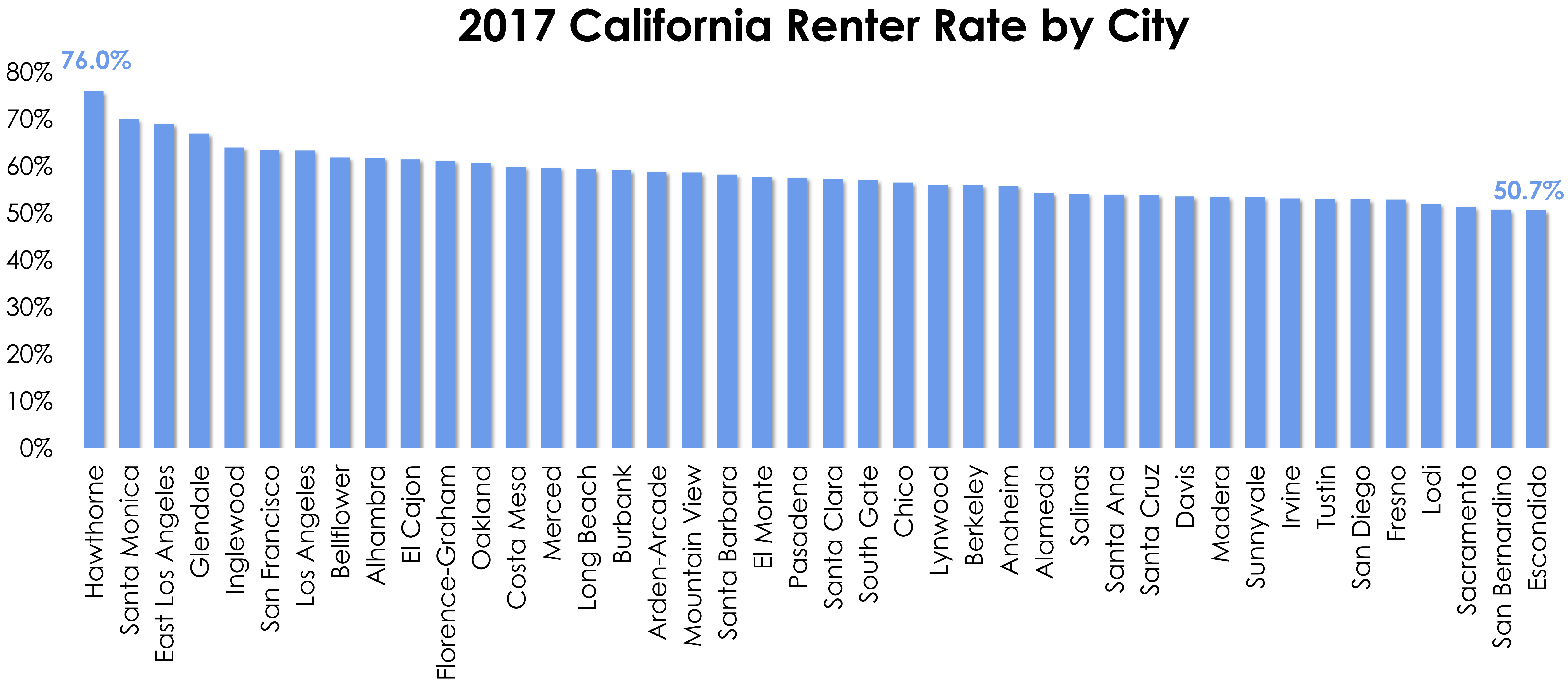
Why You Can't Celebrate either

Many simply can't afford to buy



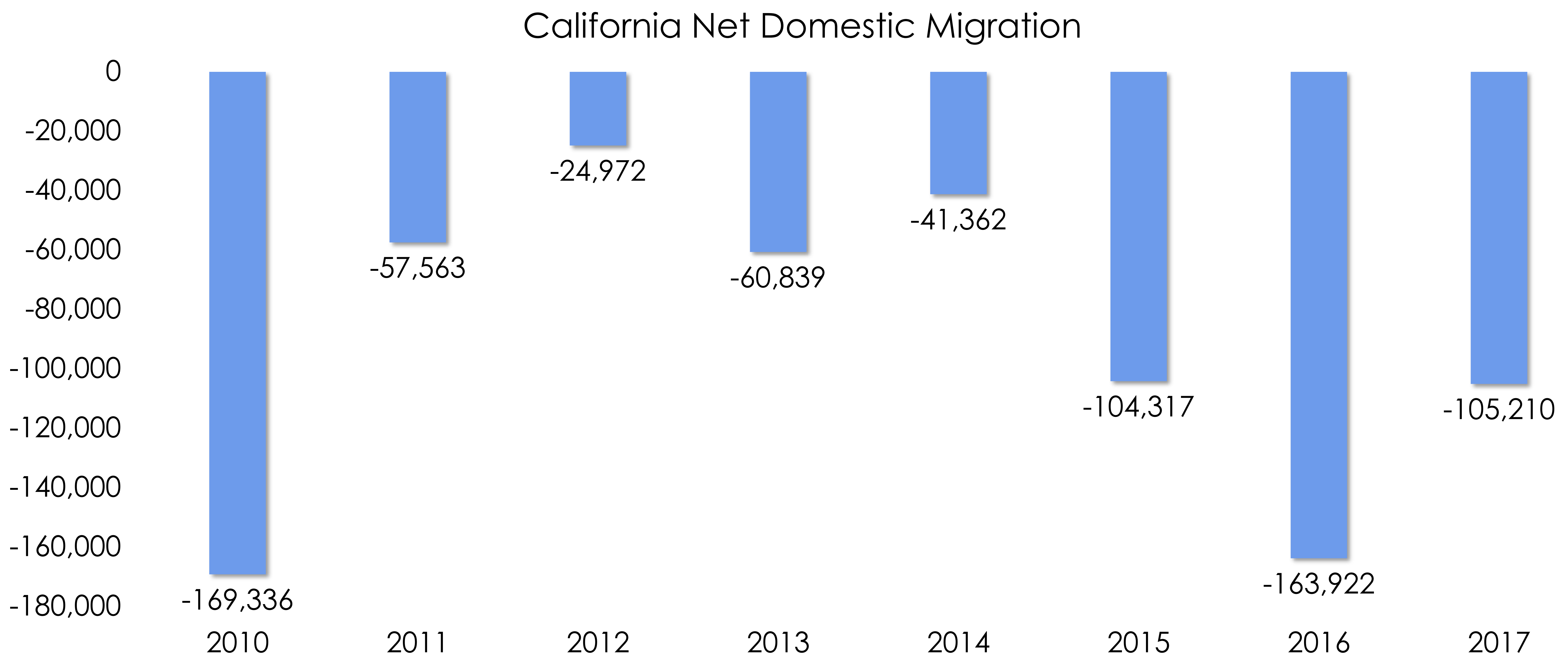
SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Majority renter cities will surprise you



SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau
CALIFORNIA ASSOCIATION OF REALTORS®

~750k people have left since 2010

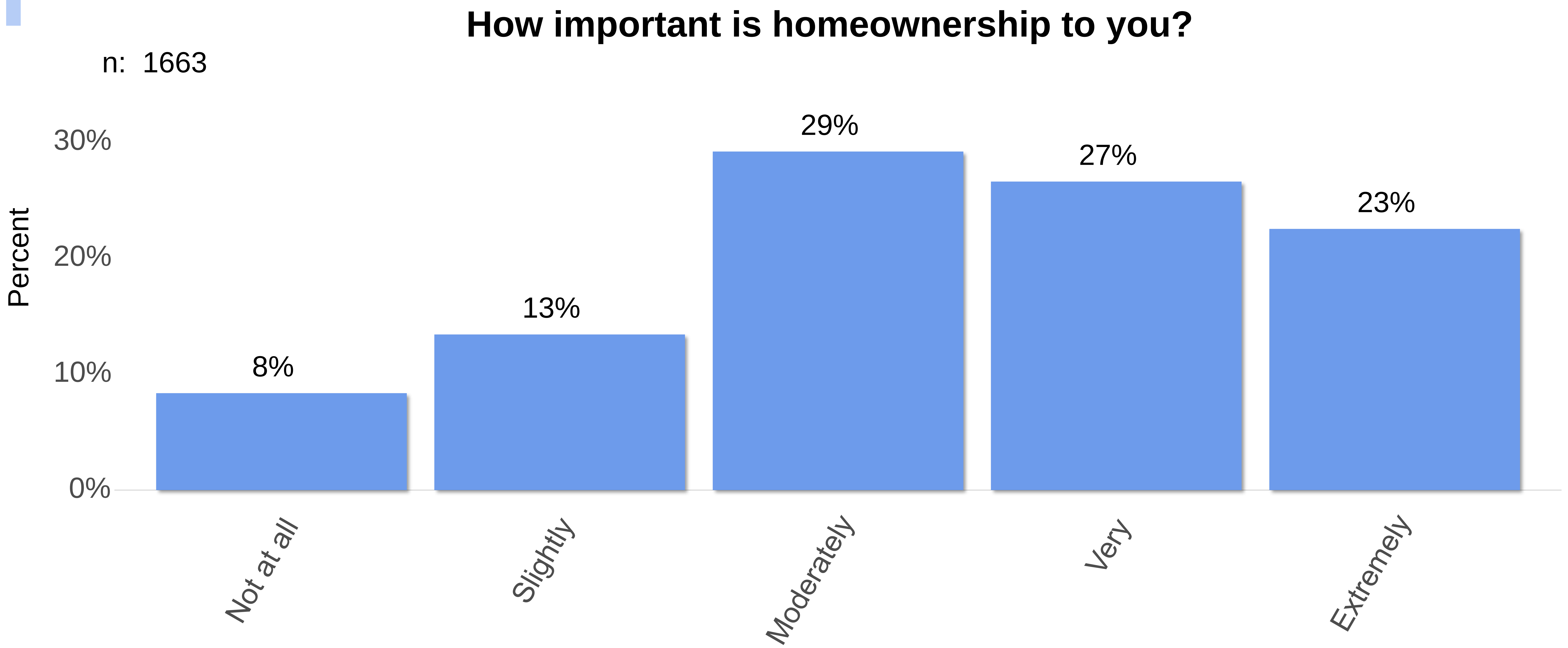


YOU Can Move the Needle!!

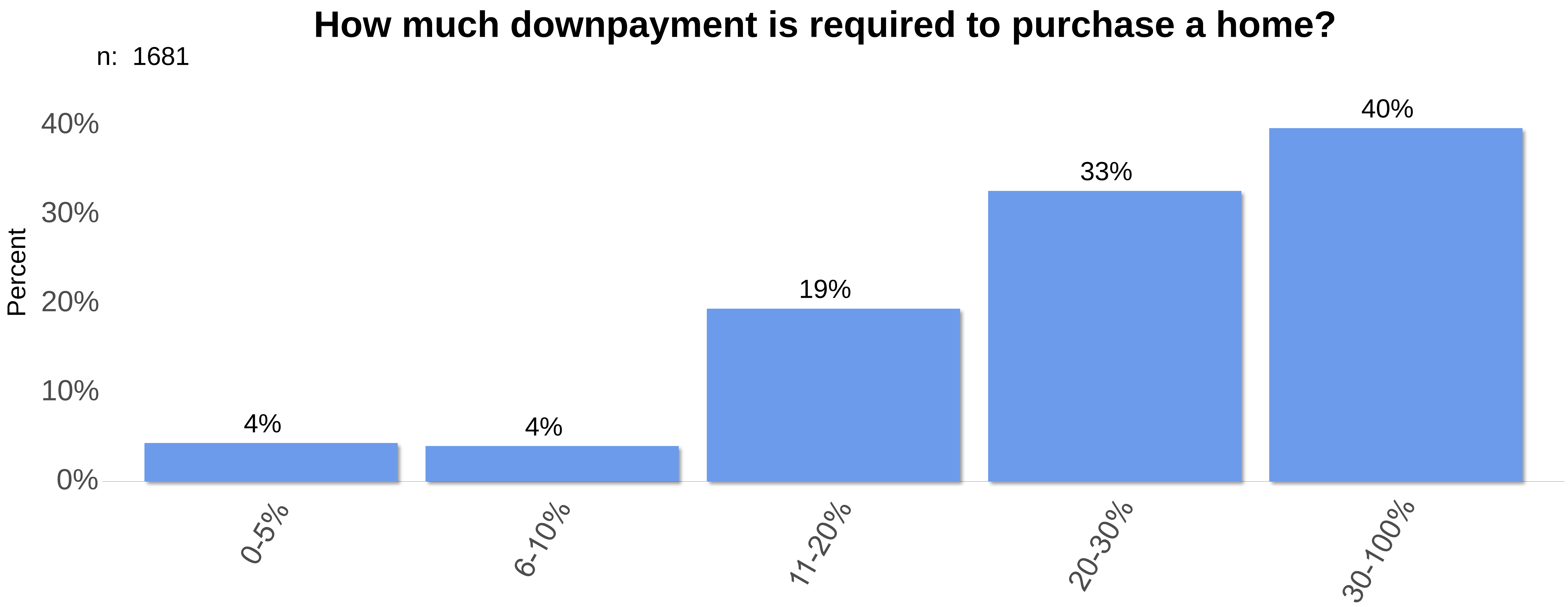
Homeownership? Aspirational v. Attainable

- The desire for homeownership remains strong
- First-time buyers face often insurmountable obstacles
- Government policies do not support housing as in the past
- More Millennials are making the difficult choice to leave
- Their ability to build wealth over time is compromised
- Where will our children live?

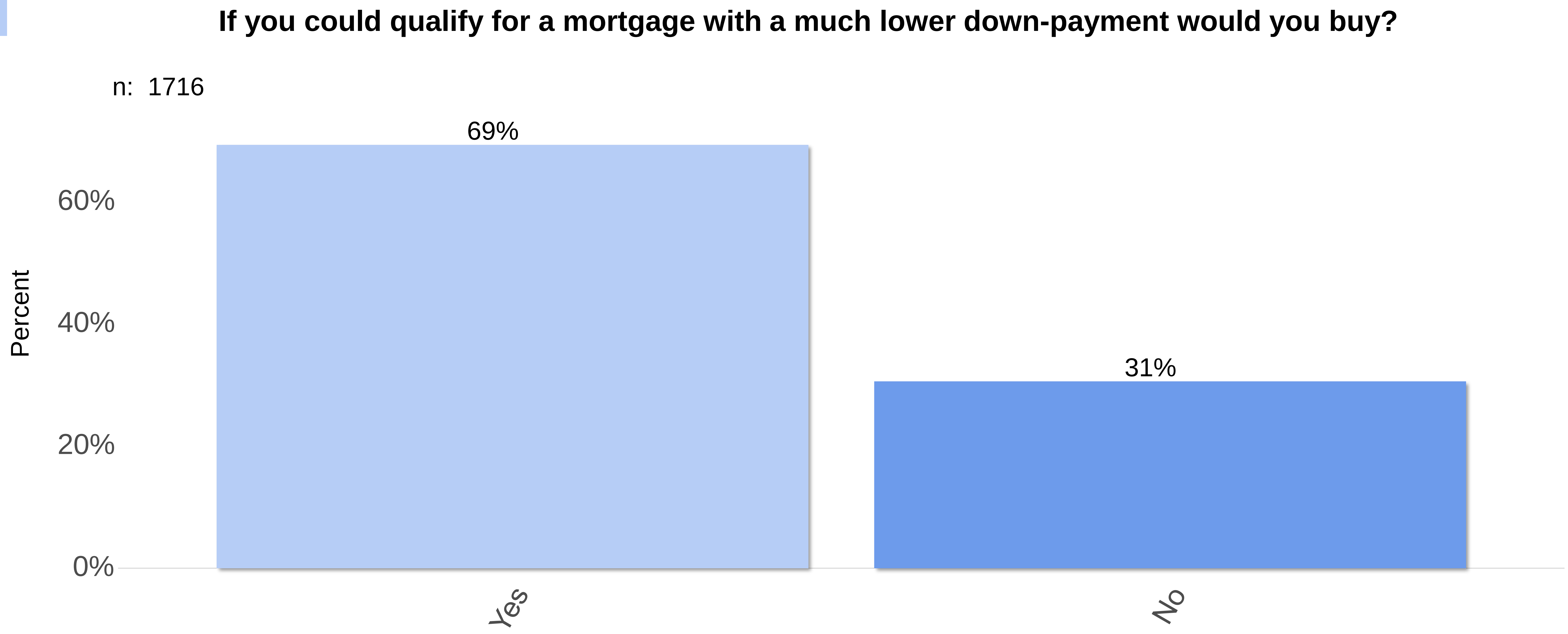
Homeownership still aspirational



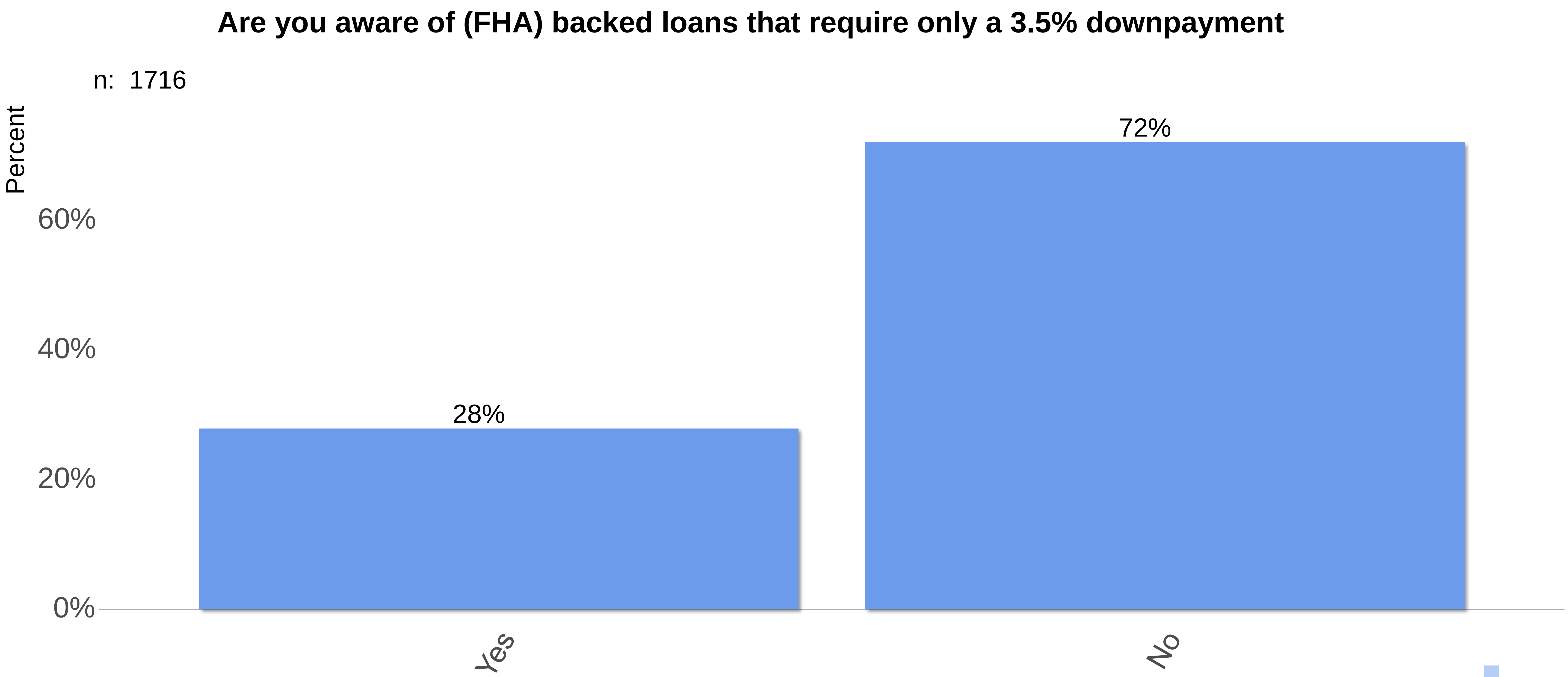
But vastly over-estimate downpayment



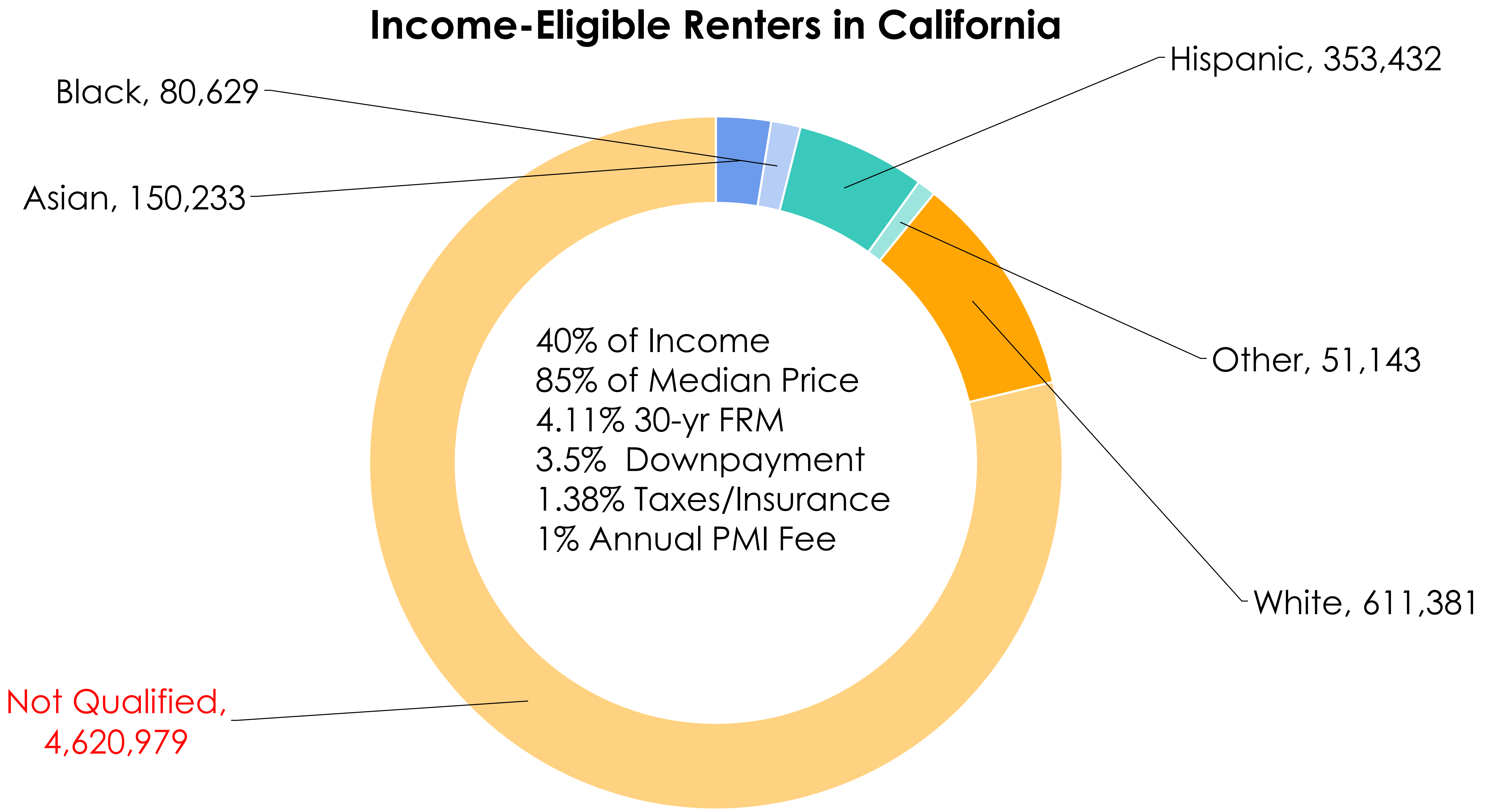
Most renters would buy with little down



Only 30% know of low-down loans



Lots of potentially eligible renters



Not just in “affordable” areas

Region	Income-Eligible Renters
SoCal	669,509
Central Valley	299,780
Bay Area	161,278
Other	71,475
Central Coast	44,776
Grand Total	**1,246,818**

The Forecast

U.S. economic outlook

	2015	2016	2017	2018	2019p	2020f
US GDP	2.6%	1.6%	2.3%	2.9%	2.2%	1.6%
Nonfarm Job Growth	2.1%	1.8%	1.4%	1.6%	1.3%	0.8%
Unemployment	5.3%	4.9%	4.4%	3.9%	3.7%	3.9%
CPI	0.1%	1.4%	2.0%	2.4%	2.0%	2.0%
Real Disposable Income, % Change	3.4%	2.7%	2.1%	2.9%	2.8%	2.5%

California housing market outlook

	2015	2016	2017	2018	2019p	2020f
SFH Resales (000s)	409.4	417.7	424.9	402.8	390.2	393.5
% Change	7.0%	2.0%	1.7%	-5.2%	-3.1%	0.8%
Median Price ($000s)	$476.3	$502.3	$537.9	$570.0	$593.2	$607.9
% Change	6.6%	5.4%	7.1%	6.0%	4.1%	2.5%
Housing Affordability Index	31%	31%	29%	28%	32%	32%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.7%

Key takeaways

- Low rates help sales but is the momentum is sustainable
- Price set new high but growth will remain soft to modest
- More possible rate cuts in H219
- Many want to buy but affordability remains an issue
- Market competitive, productivity/earnings to decline
- 2020 will be more difficult than 2019, but not impossible

Thank You