

California Housing Market Update

West End Professionals

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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

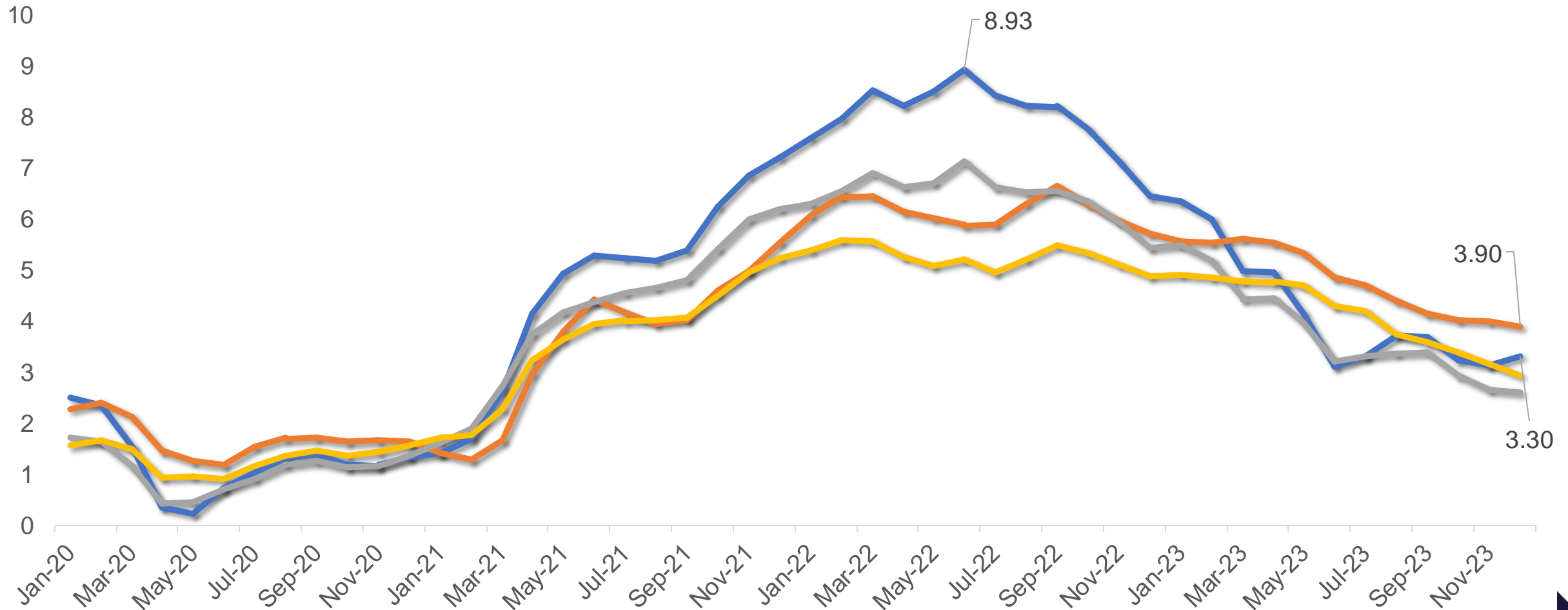
- Market will start to improve slowly
- Many challenges but all the same solution
- Overcome the “brother-in-law” effect

We might do a better on rates

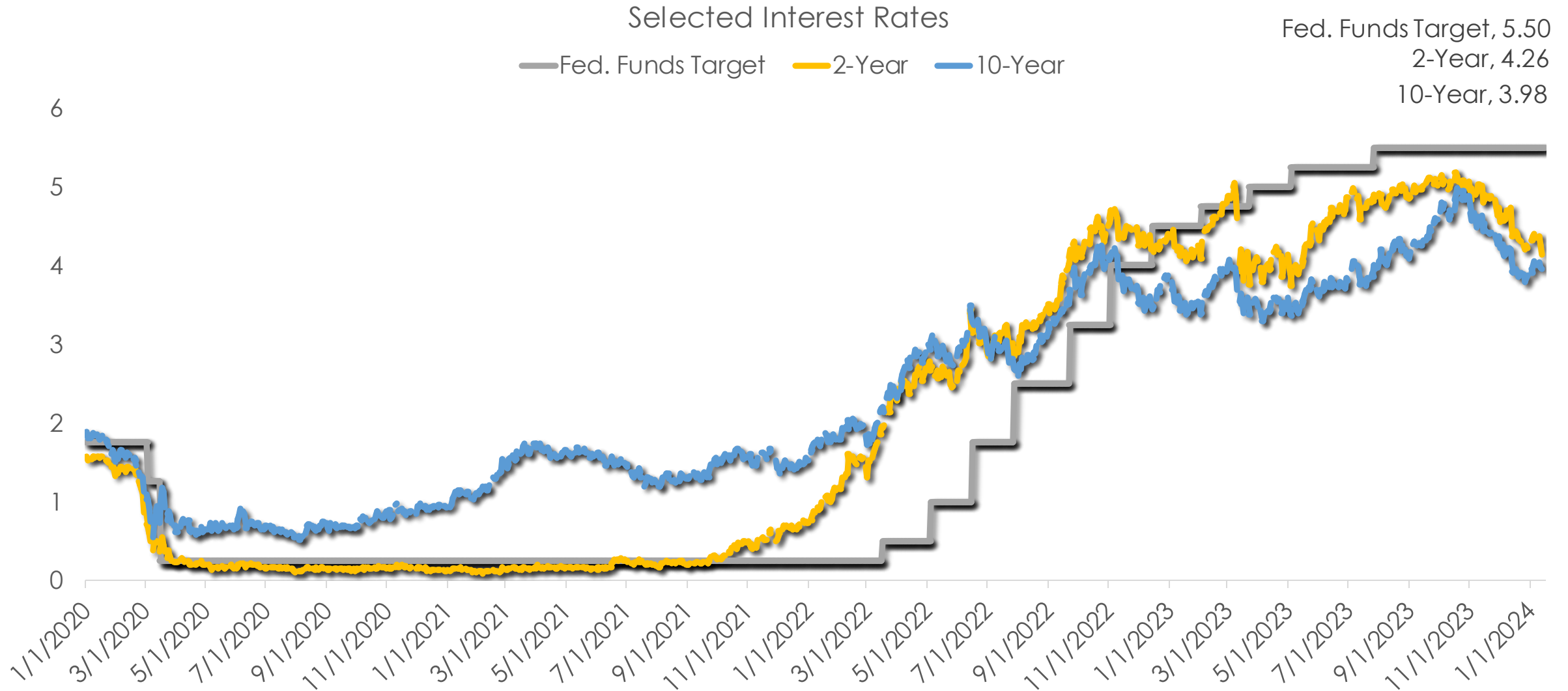
Last mile on inflation is toughest, rates down slowly

U.S. Consumer Price Inflation (YTY %)

— CPI YoY Growth — Core CPI YoY Growth — PCE YoY Growth — Core PCE YoY Growth



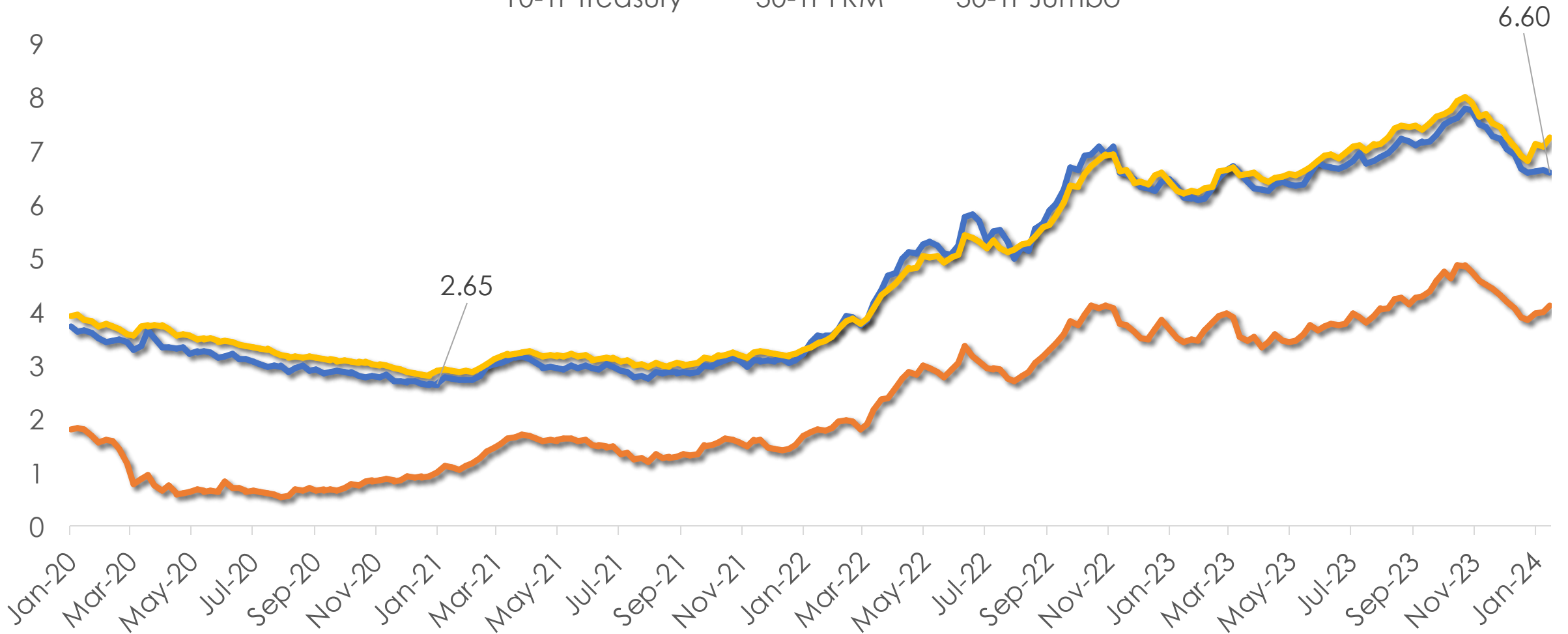
Bond market still likes the latest economic data



Better 10-year already translating into lower rates

Selected Interest Rates

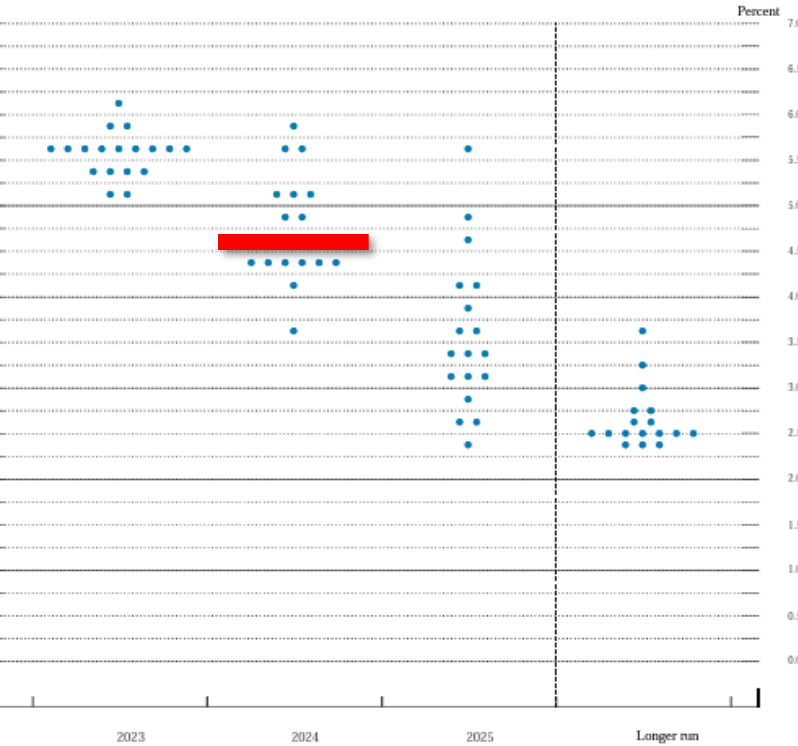
10-Yr Treasury 30-Yr FRM 30-Yr Jumbo



Fed changes their mind on a dime, could improve

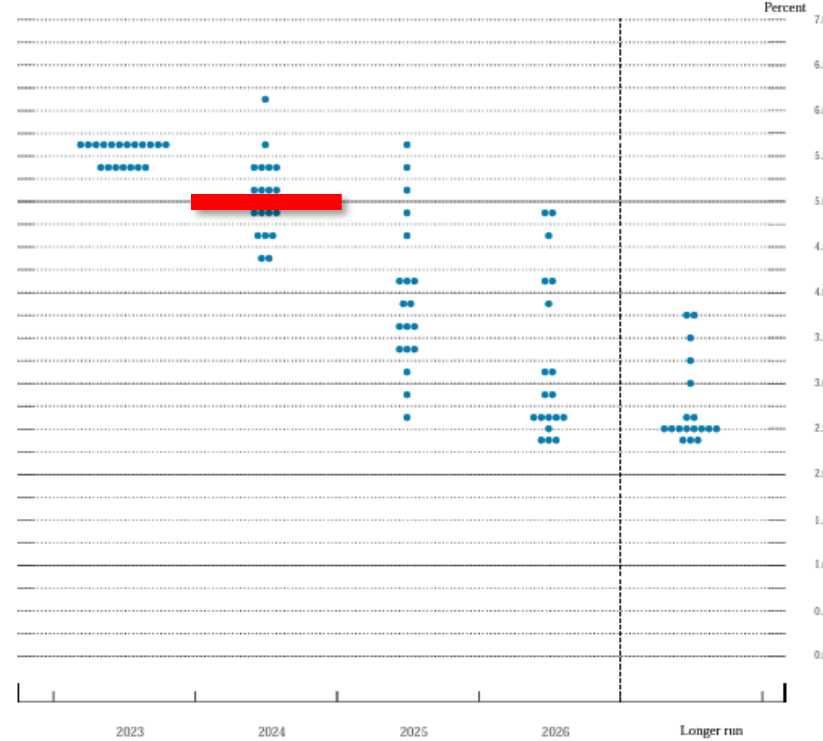
June 2023

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



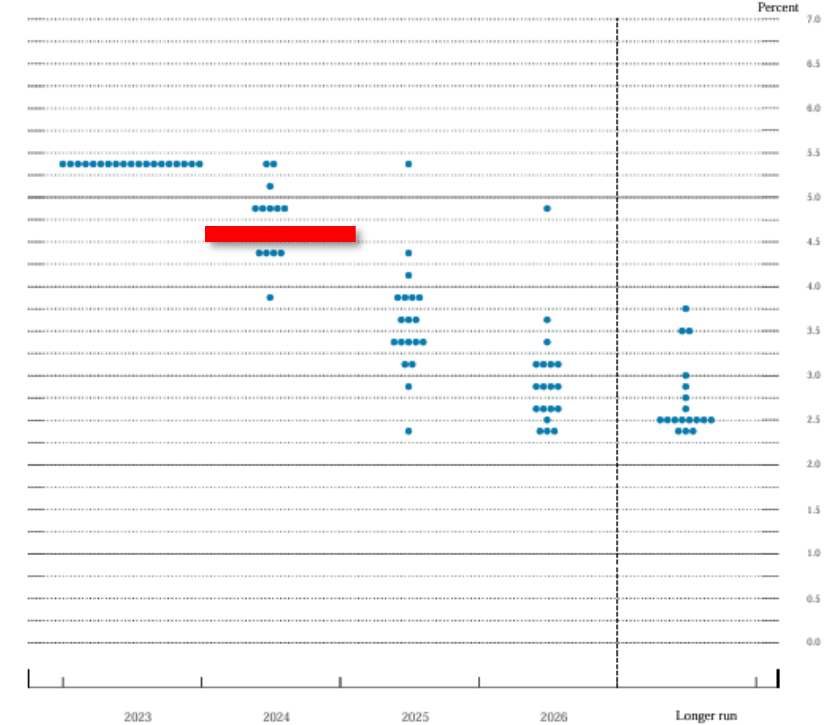
September 2023

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



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

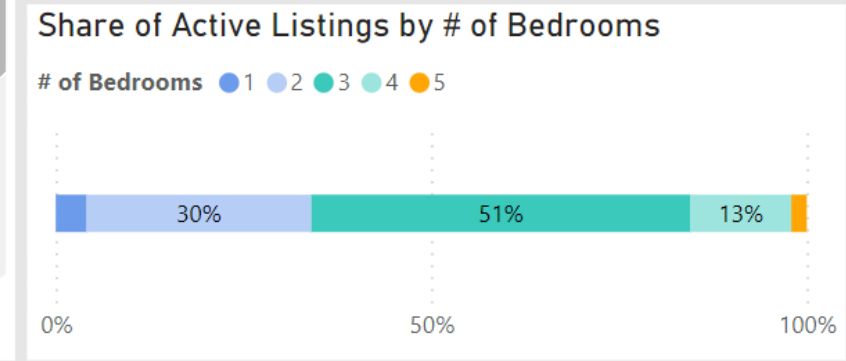
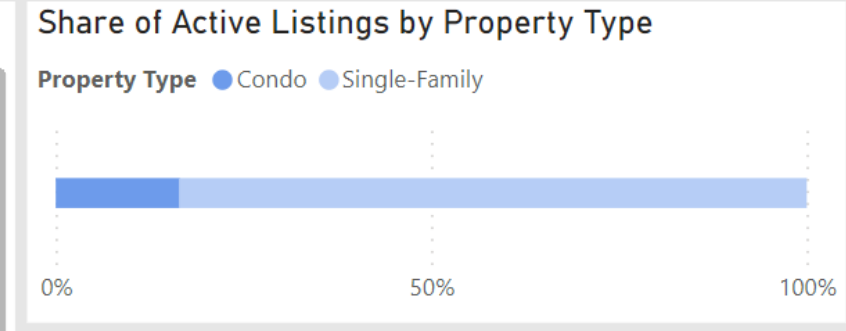
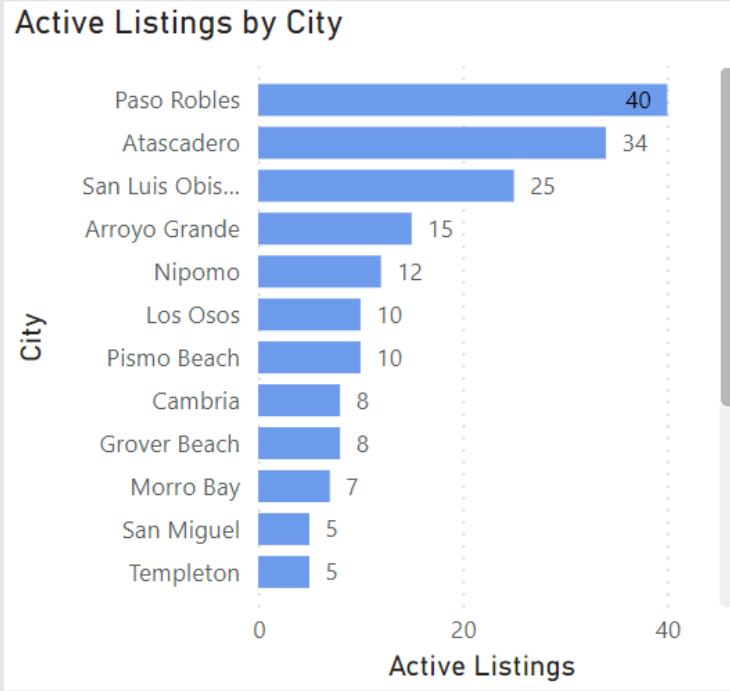
3.0%	3.5%	4.0%
4.5%	5.0%	5.5%
6.0%	6.5%	7.0%
7.5%	8.0%	8.5%
9.0%	9.5%	10.0%

Impact on Homebuyer's Purchasing Power

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

Nov-23 Listings As Of Month	194 Listings At/Below Price Cutoff	51% Share At/Below Price Cutoff
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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

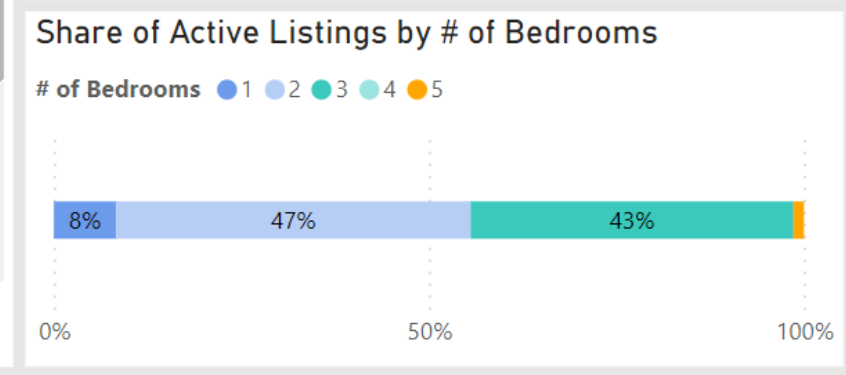
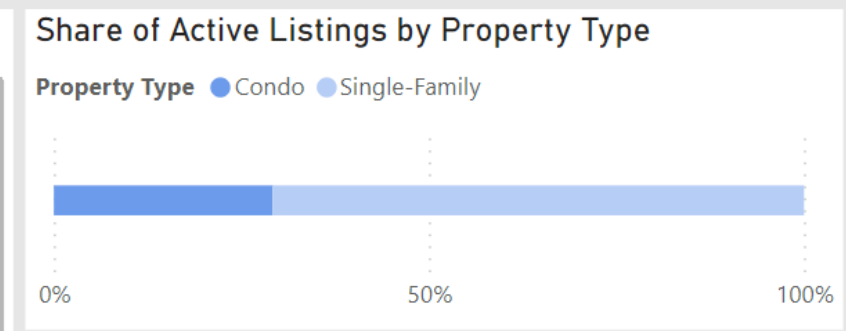
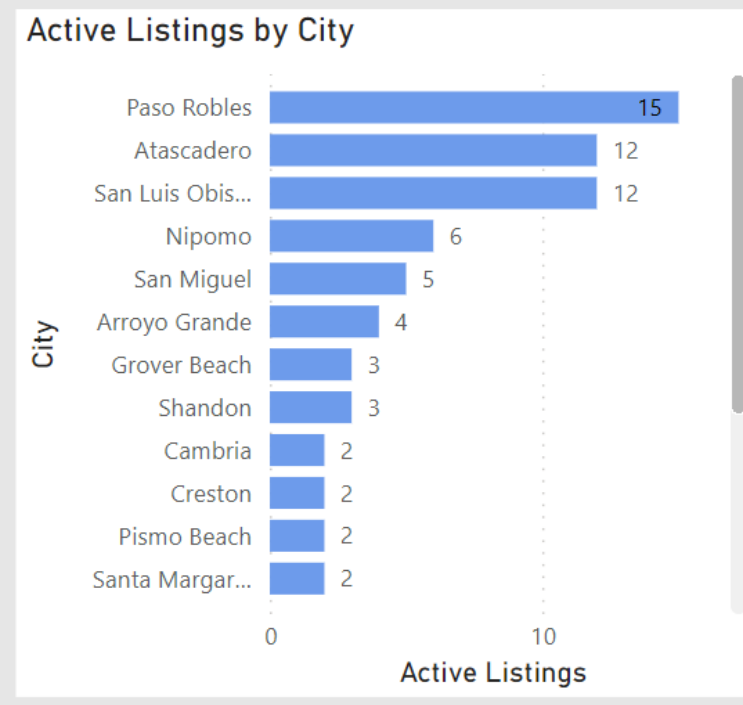
3.0%	3.5%	4.0%
4.5%	5.0%	5.5%
6.0%	6.5%	7.0%
7.5%	8.0%	8.5%
9.0%	9.5%	10.0%

Impact on Homebuyer's Purchasing Power

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

Nov-23 Listings As Of Month	72 Listings At/Below Price Cutoff	19% Share At/Below Price Cutoff
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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%

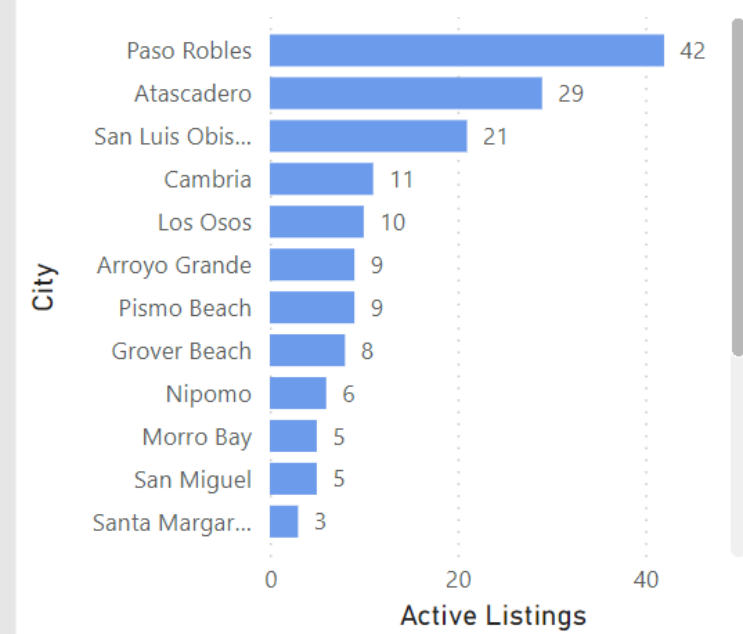
Impact on Homebuyer's Purchasing Power

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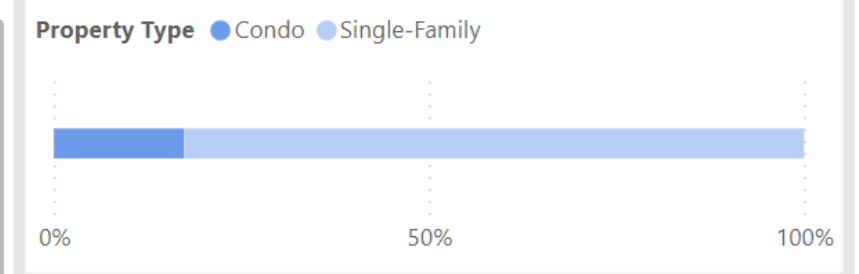
Impact on Number of Listings Below Cutoff

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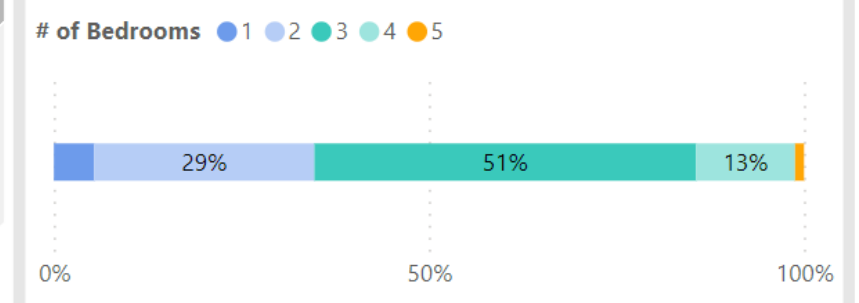
Active Listings by City



Share of Active Listings by Property Type



Share of Active Listings by # of Bedrooms



Step 1: Define Buyer's Profile

Select County of Residence

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Select Annual Household Income

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Select Desired Downpayment (% of Purchase Price)

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Select Desired Monthly Payment (% of Income)

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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%
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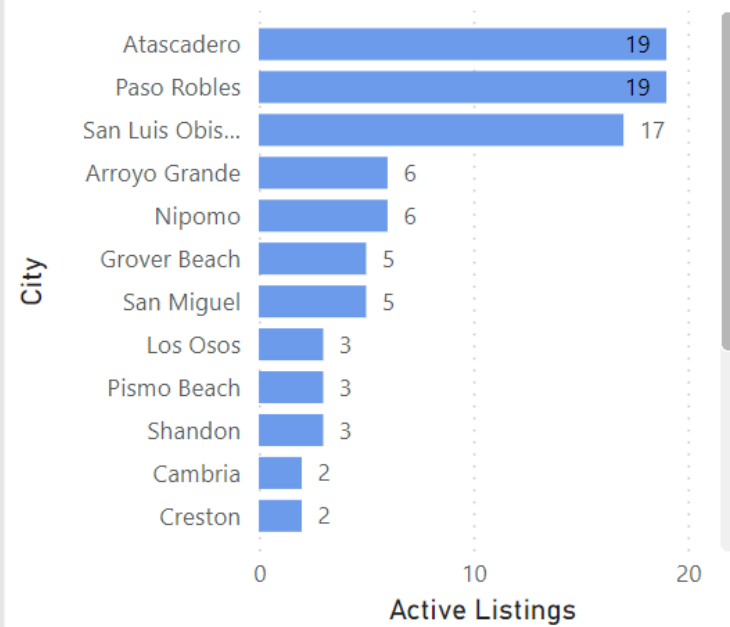
Impact on Homebuyer's Purchasing Power

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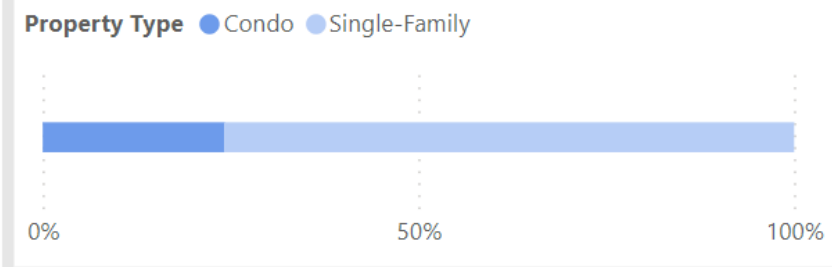
Impact on Number of Listings Below Cutoff

Nov-23 Listings As Of Month	95 Listings At/Below Price Cutoff	25% Share At/Below Price Cutoff
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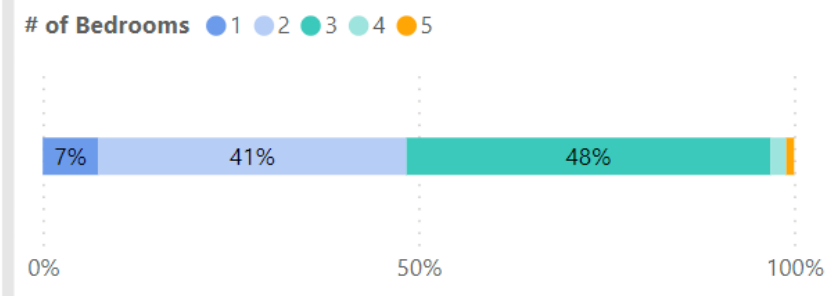
Active Listings by City



Share of Active Listings by Property Type

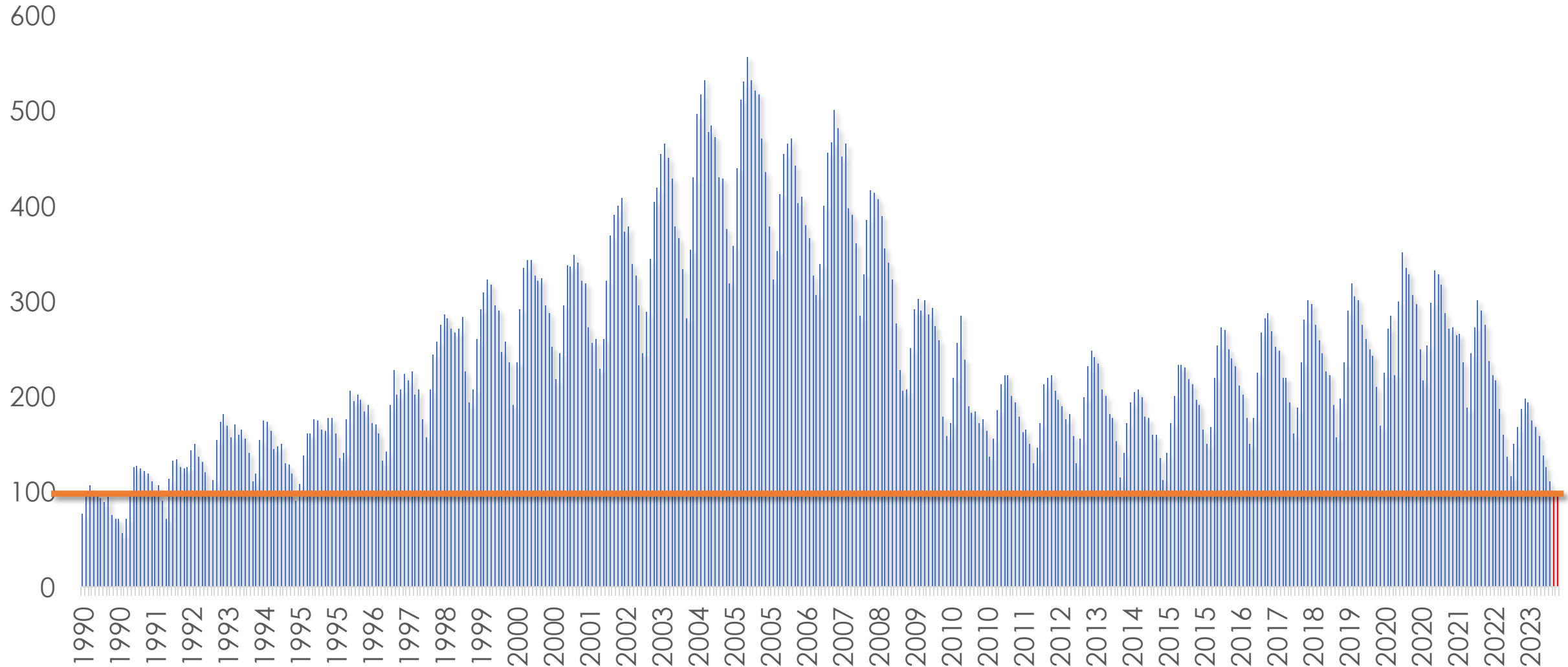


Share of Active Listings by # of Bedrooms



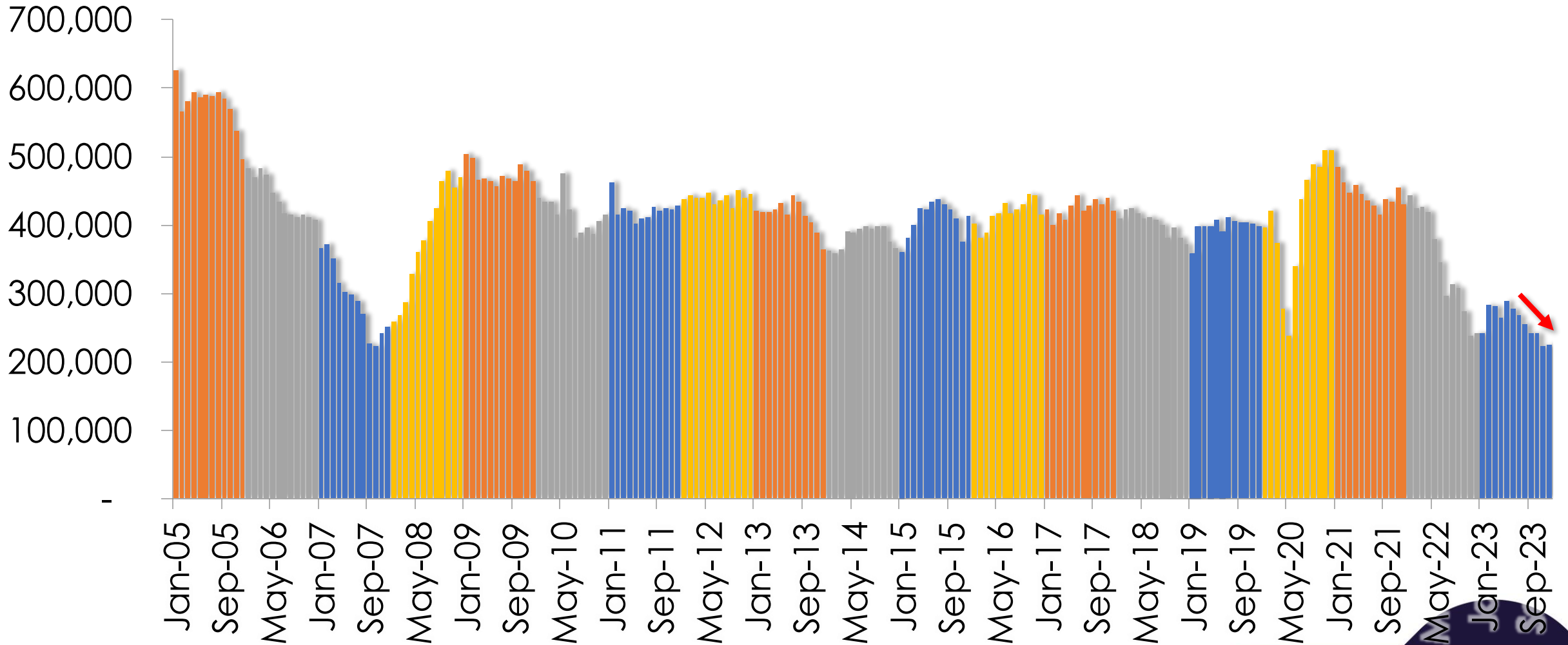
Buyer demand reflects impact of higher rates

MBA Mortgage Purchase Applications



Sales on downward trend as rates keep climbing

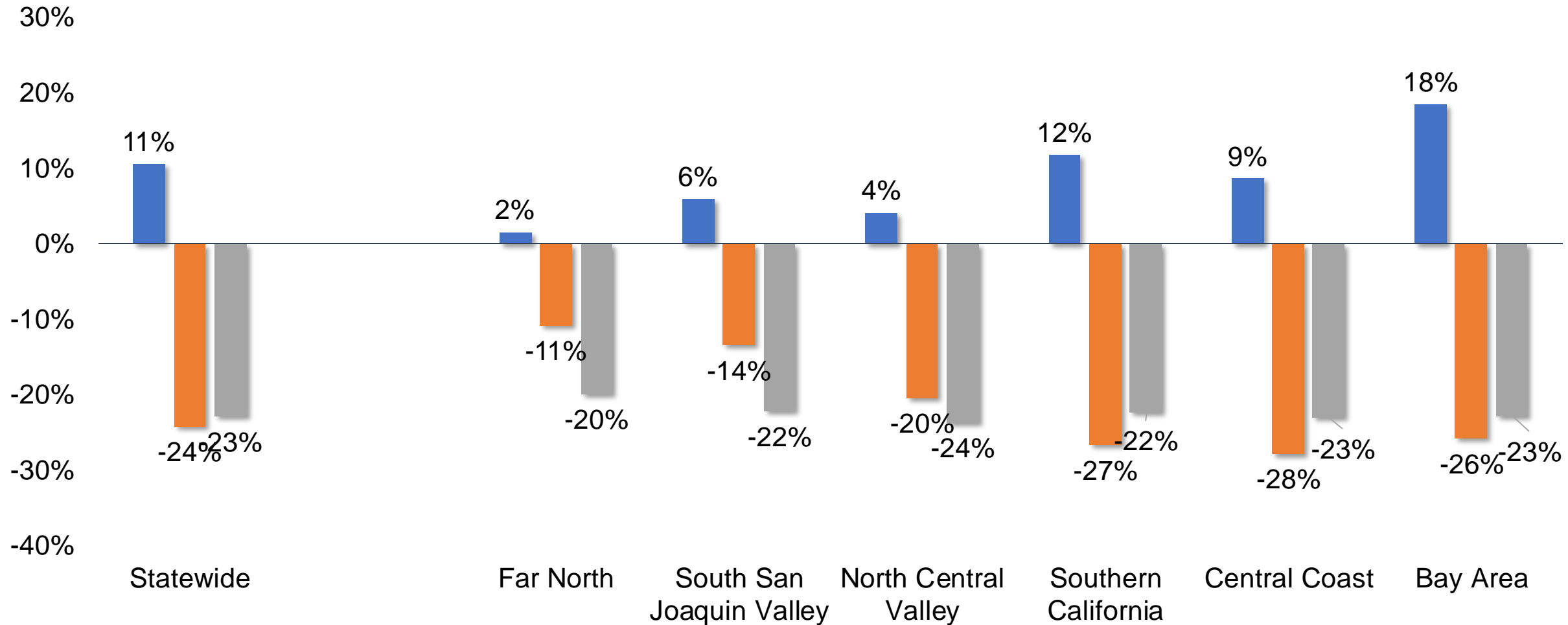
California, December 2023 Sales: 224,000 Units, **-7.1% YTY**, **0.0% MTM**



All of California down significantly from peak

Annual Existing SFR Home Sales Growth by Region

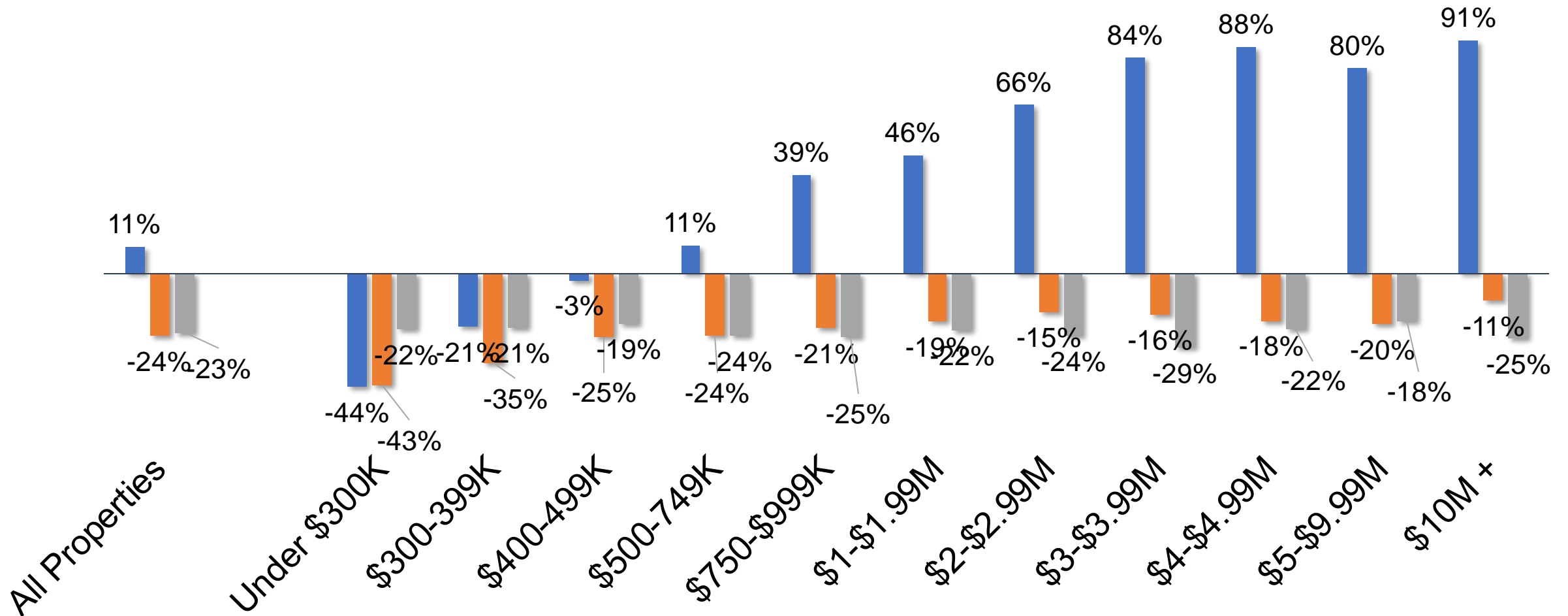
■ 2021 ■ 2022 ■ 2023



Biggest reason for slower growth is the top end

California Existing SFR Home Sales Growth

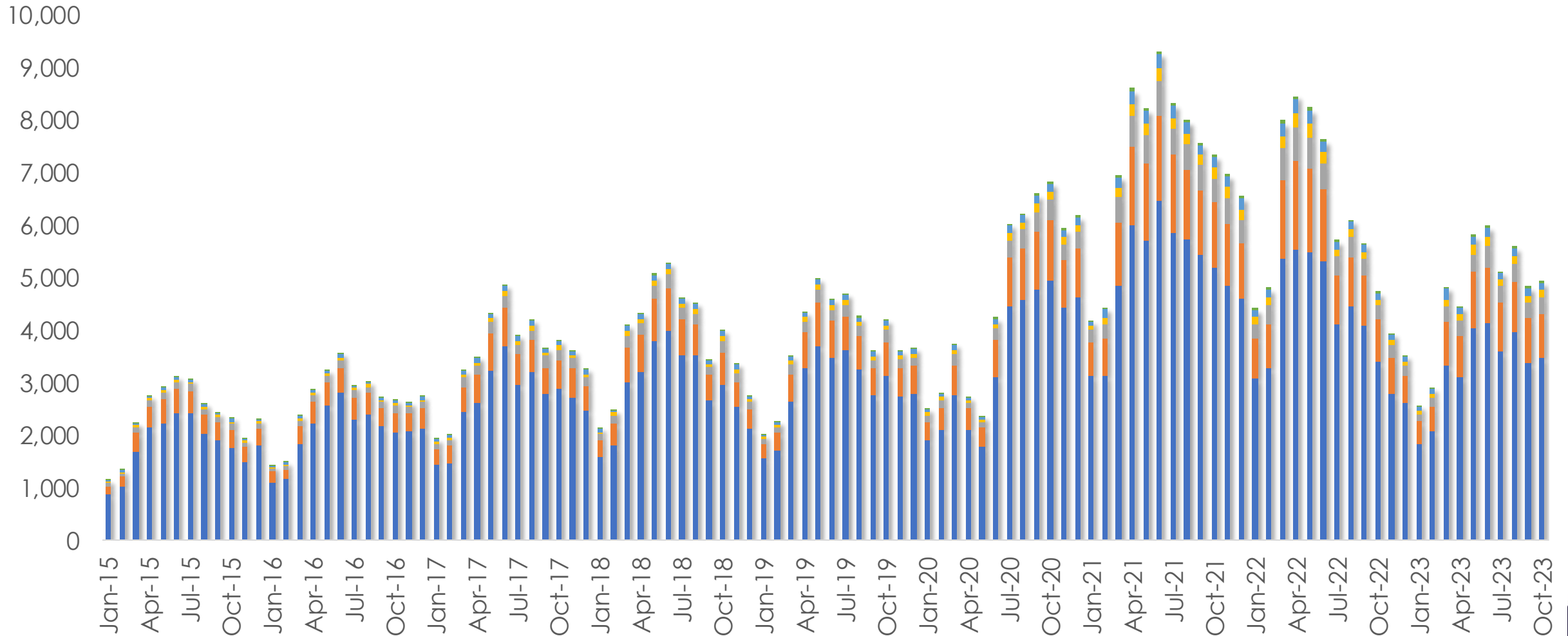
■ 2021 ■ 2022 ■ 2023



Top end of the market still above pre-pandemic

California Existing SFR Sales Over \$1M

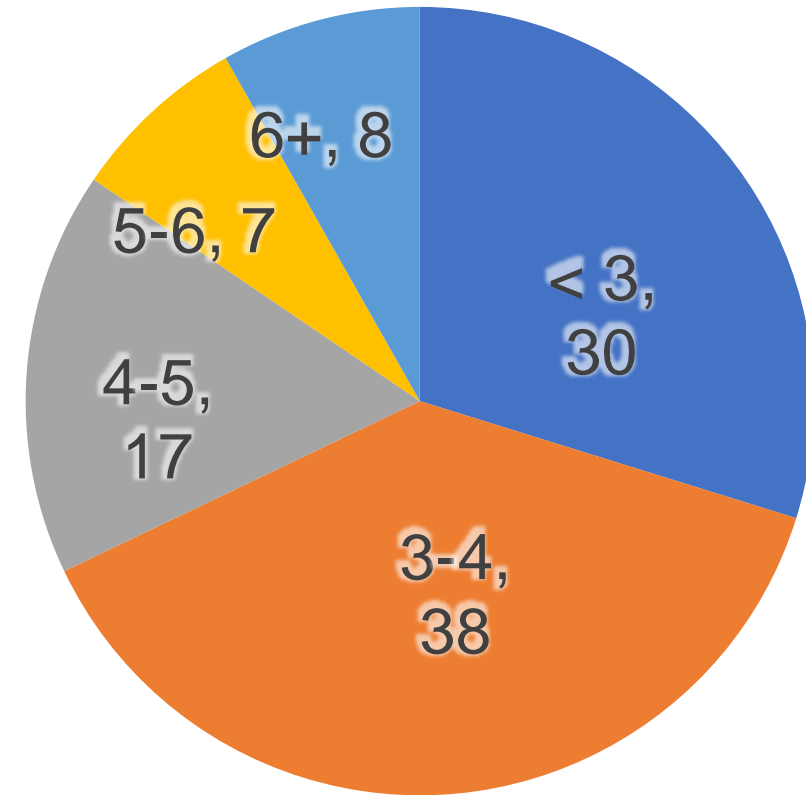
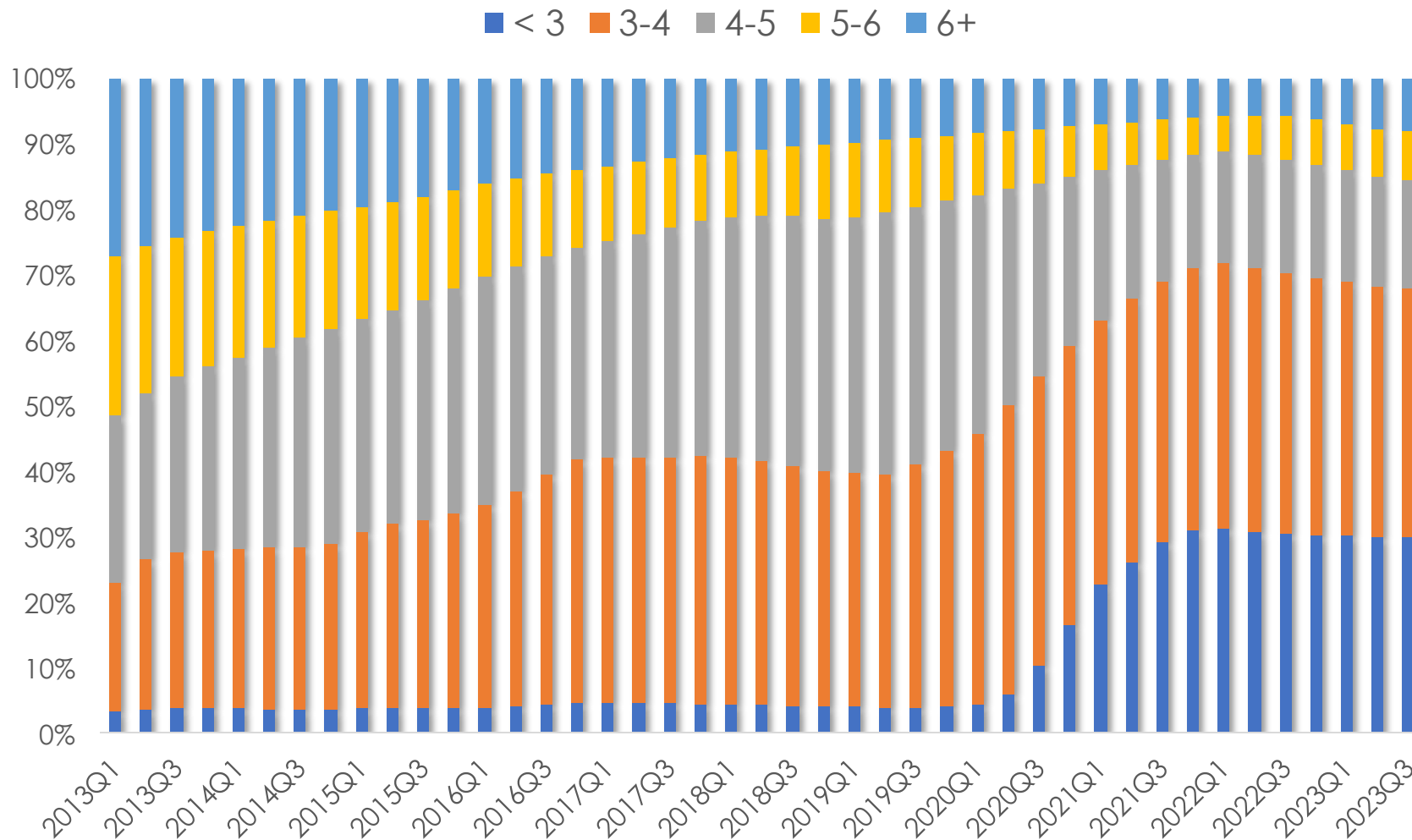
■ \$1-\$1.99M ■ \$2-\$2.99M ■ \$3-\$3.99M ■ \$4-\$4.99M ■ \$5-\$9.99M ■ \$10M +



Foreclosure crisis is unlikely

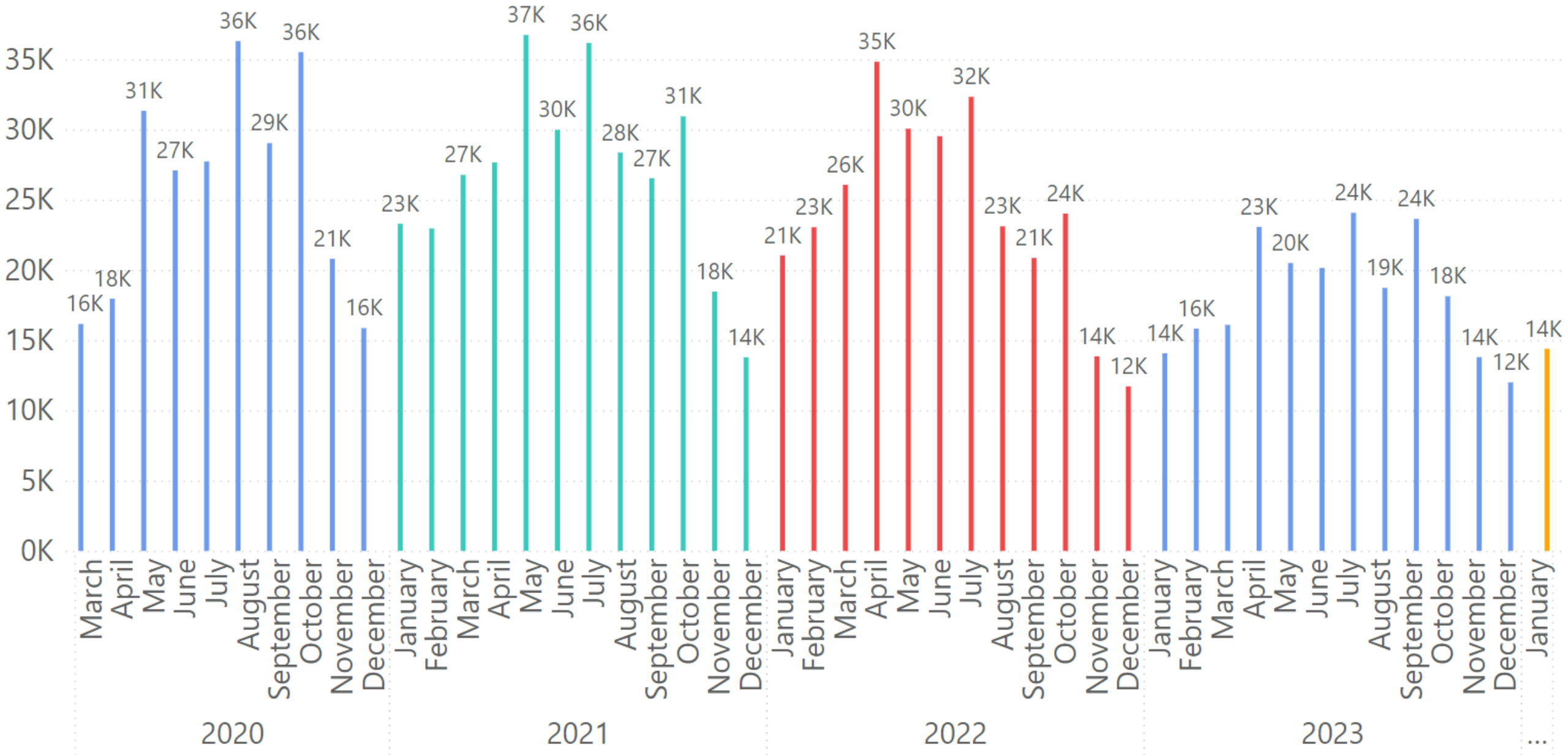
A lot of locked in homeowners

California Outstanding Mortgages by Interest Rate



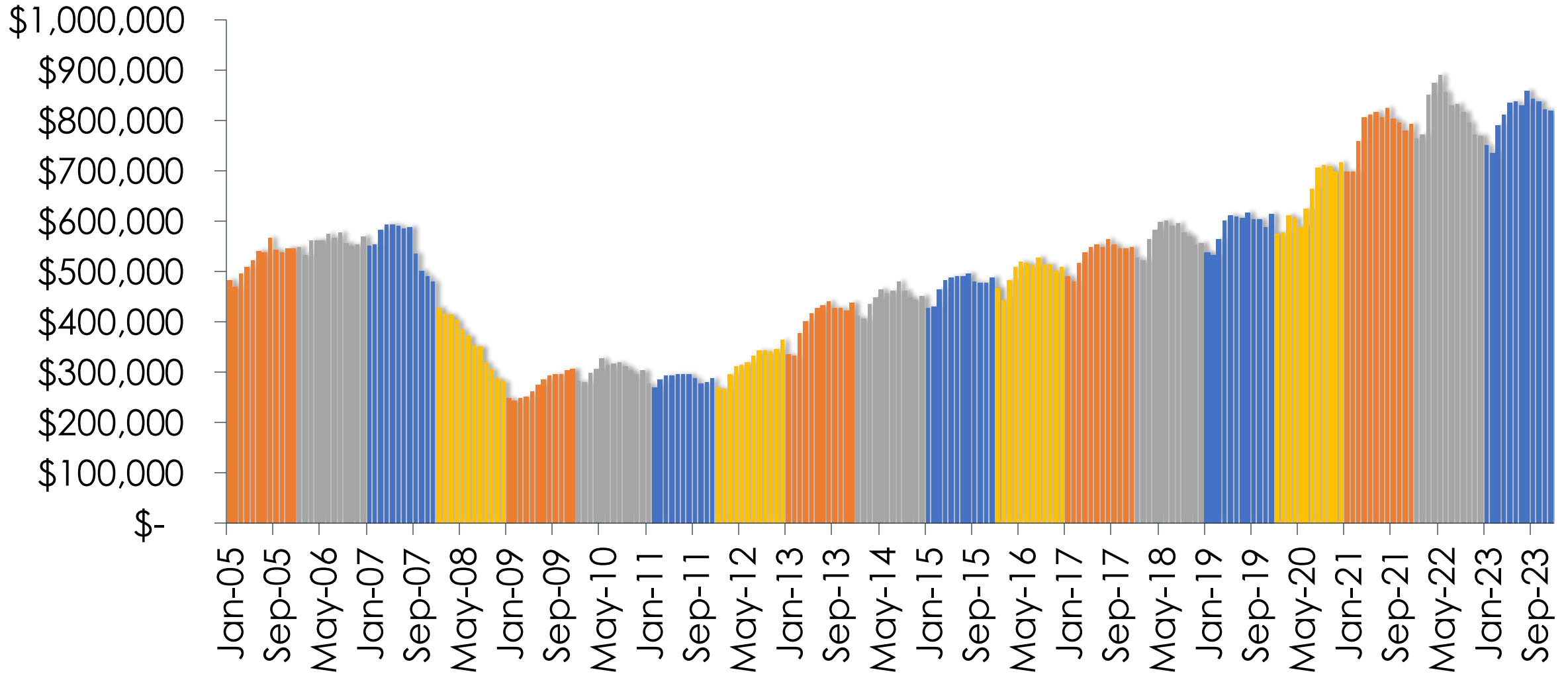
New Existing SFR Listings Added to MLSs

Year ● 2020 ● 2021 ● 2022 ● 2023 ● 2024



California price increases for 6th month in a row

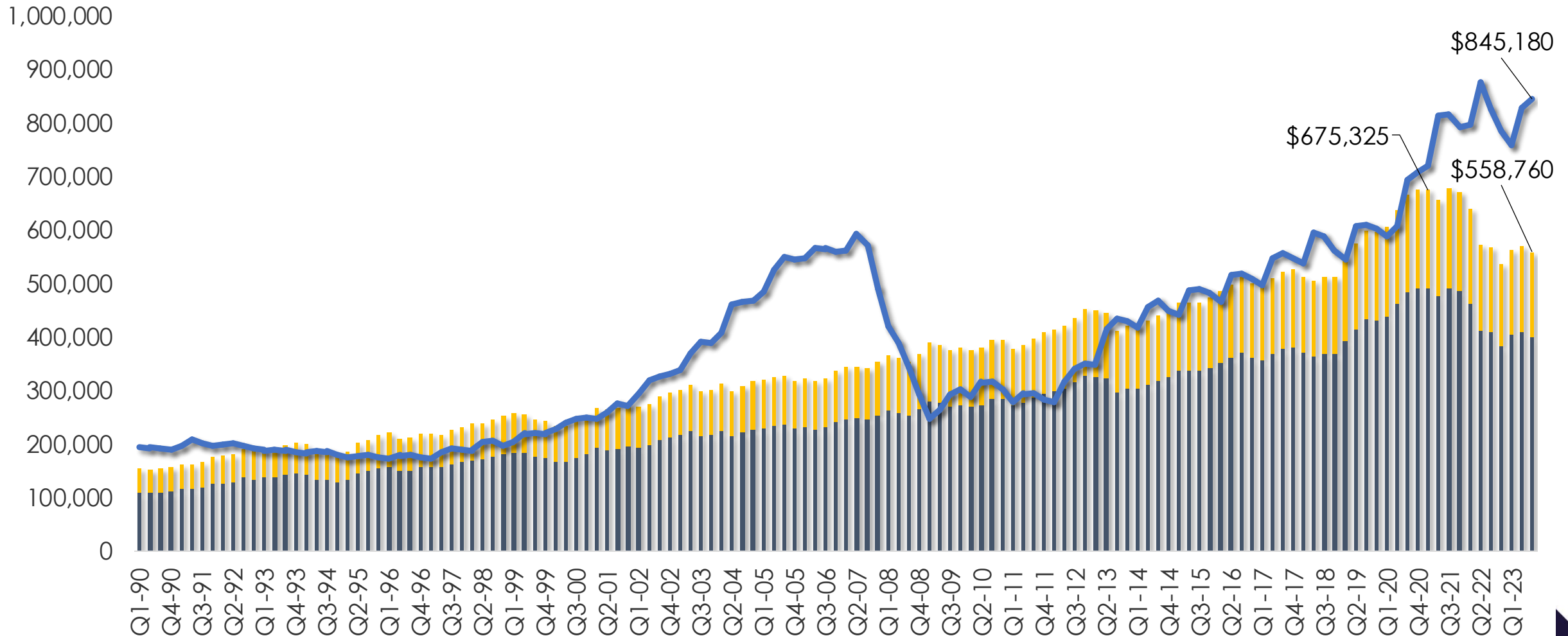
California, December 2023: \$819,740, **-0.3% MTM**, **+6.4% YTY**



Inventory shortage + higher rates create downside risk

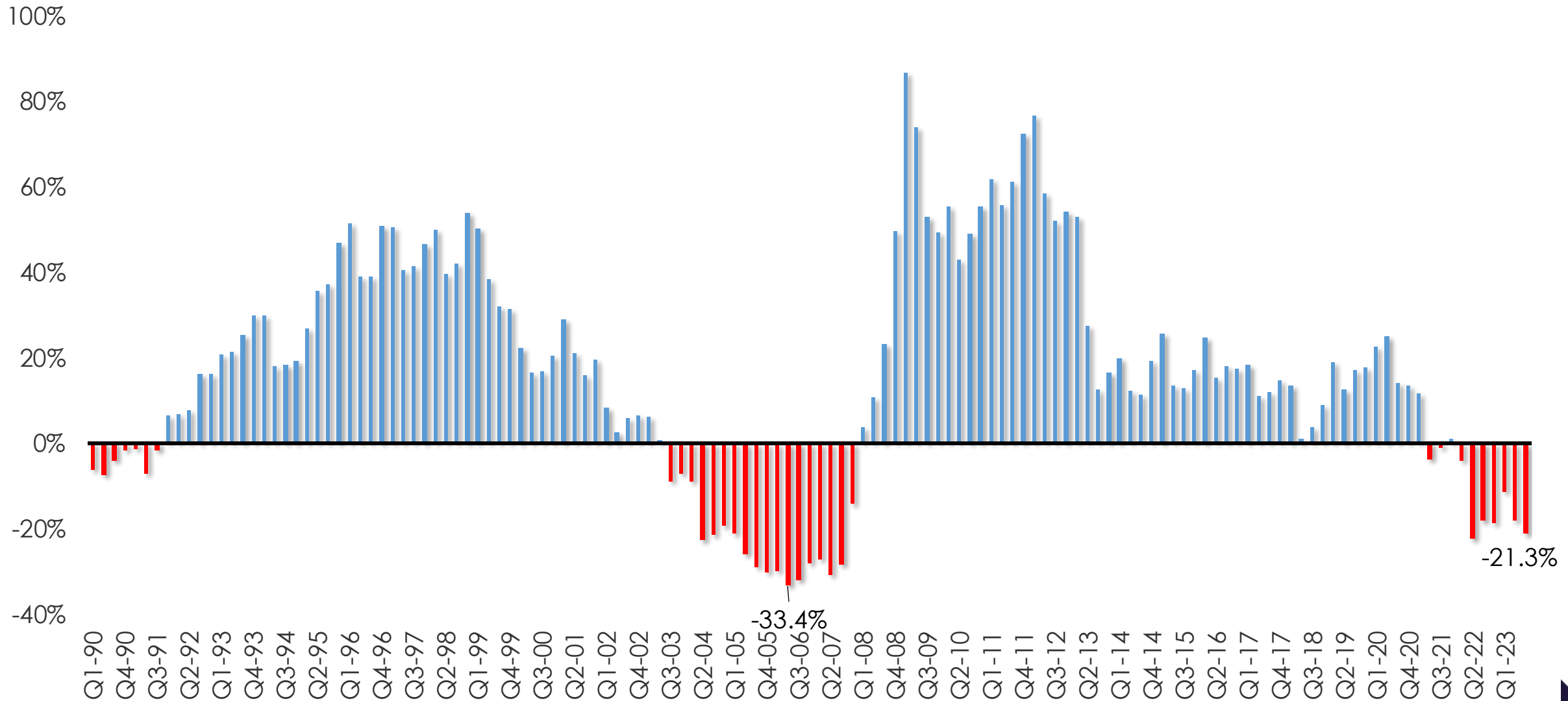
California Actual Median vs. Market Clearing Price

Lower Bound Upper Bound Actual



Worst case scenario for if economy causes correction?

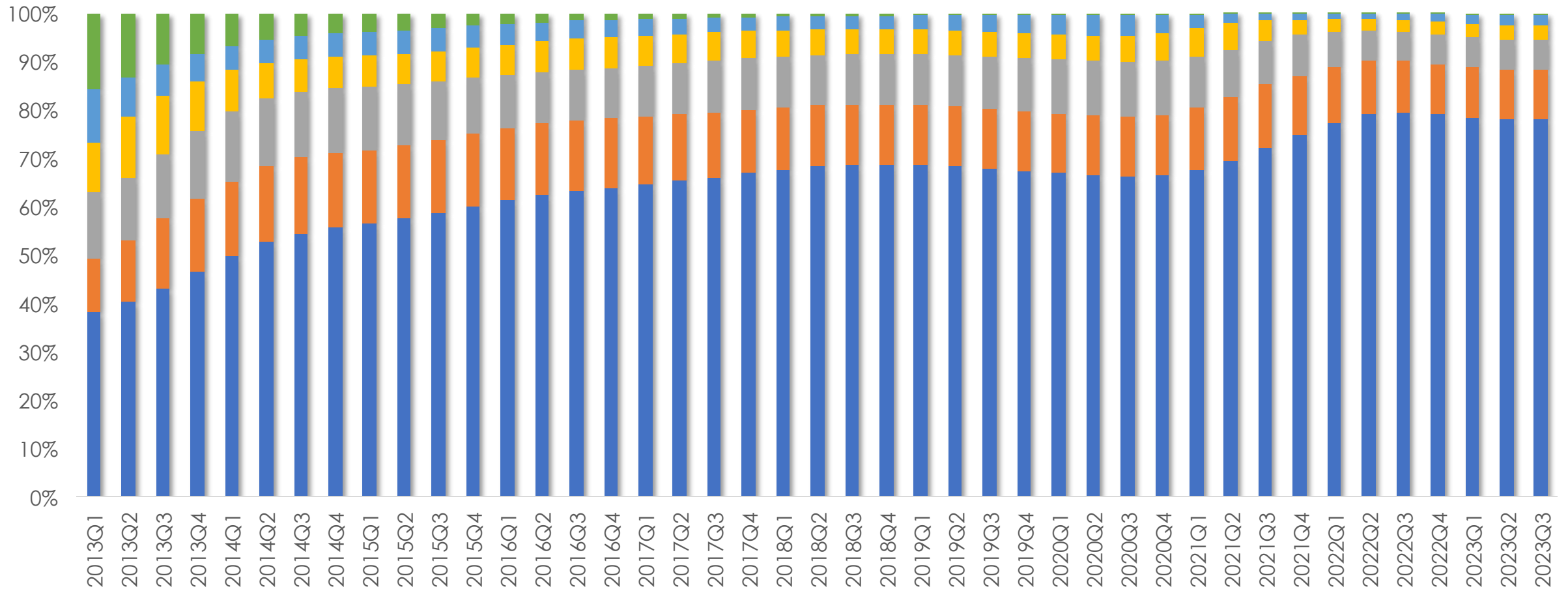
Difference Between Actual and Market-Clearing Price



A lot of home equity preventing REOs AND listings

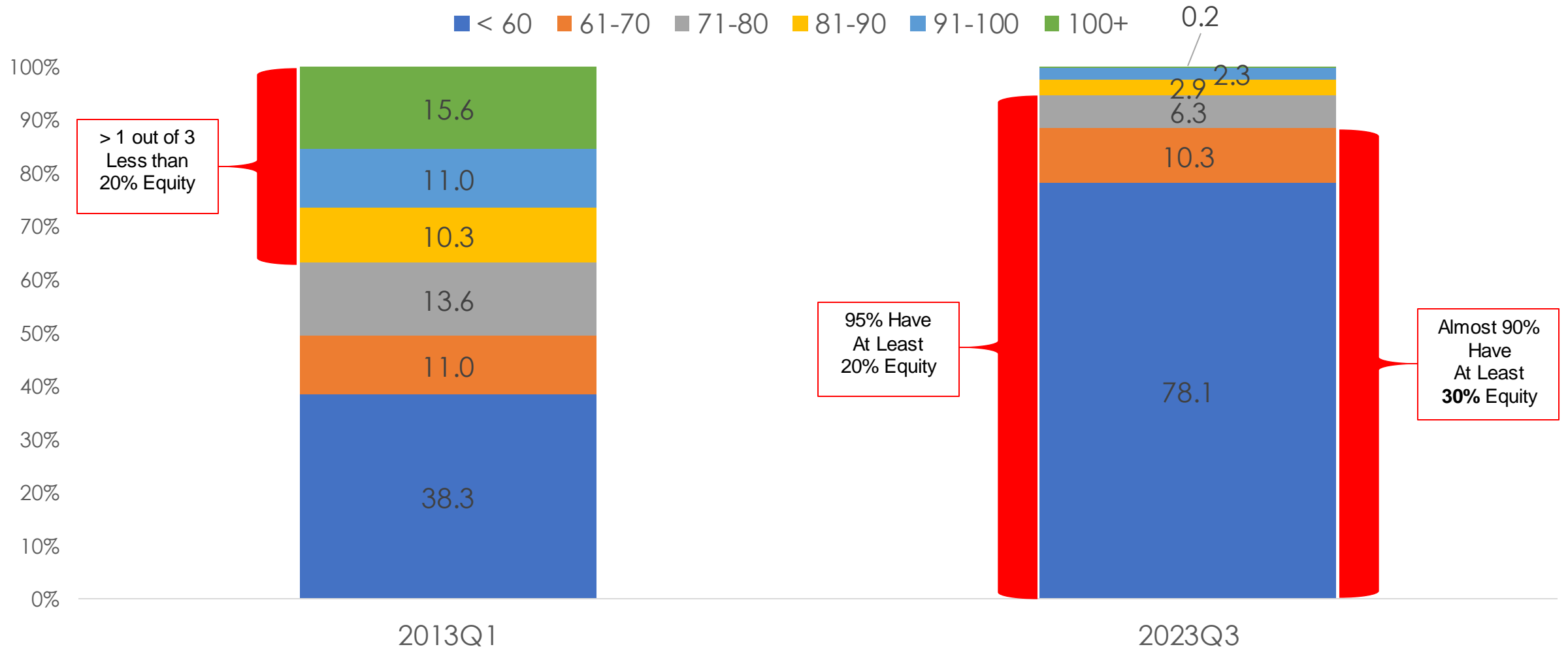
California Outstanding Mortgages by Loan to Value Ratio

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



A lot of home equity preventing REOs AND listings

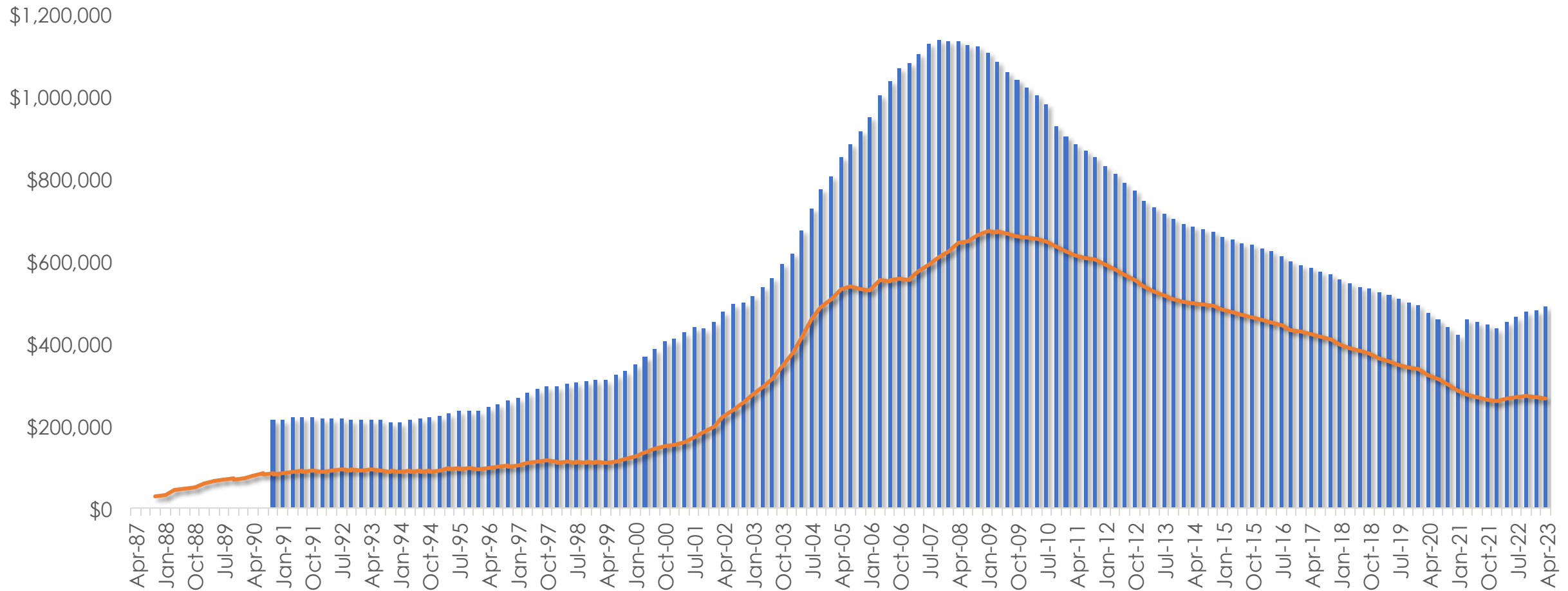
California Outstanding Mortgages by Loan to Value Ratio



Not much home equity borrowing this cycle

U.S. Home Equity Loans & Lines of Credit

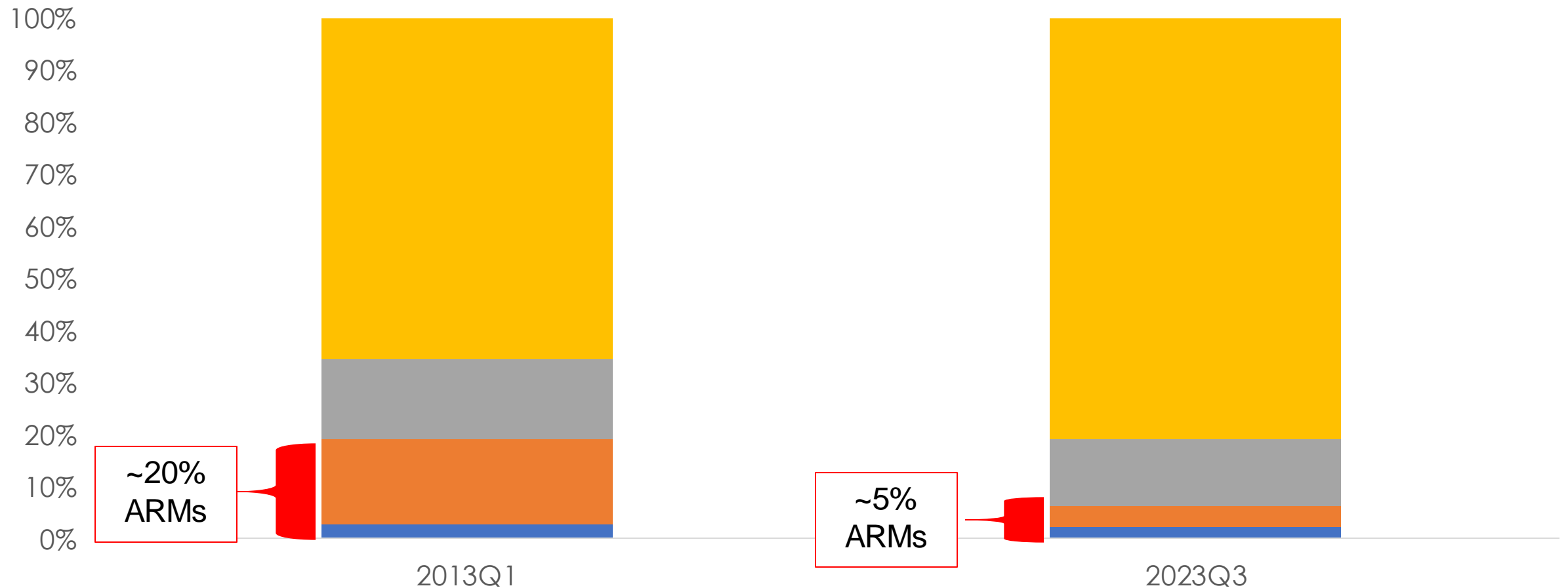
■ Home Equity Loans — HELOC, All Sources



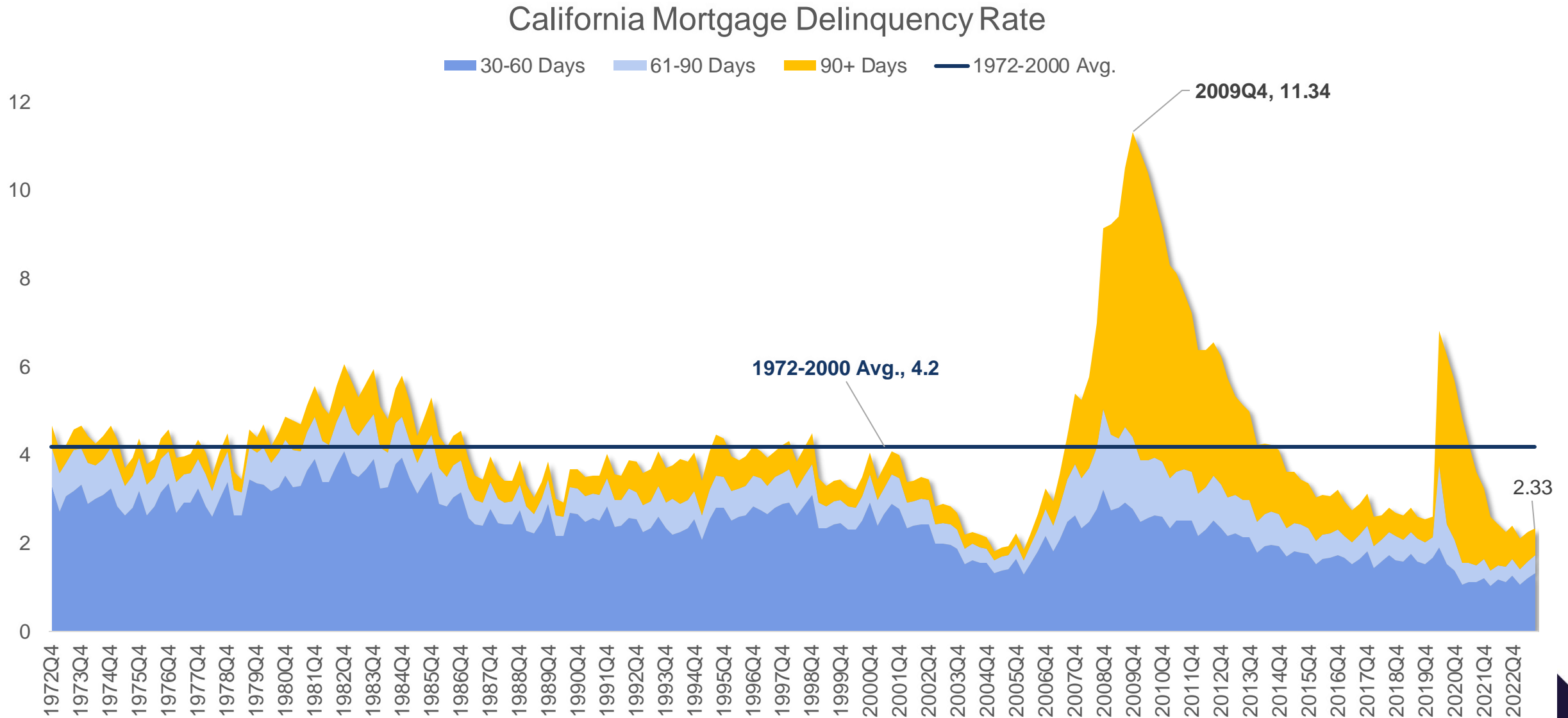
Only 1 in 20 have ARMs, not 1 in 5

California Outstanding Mortgages by Mortgage Type

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



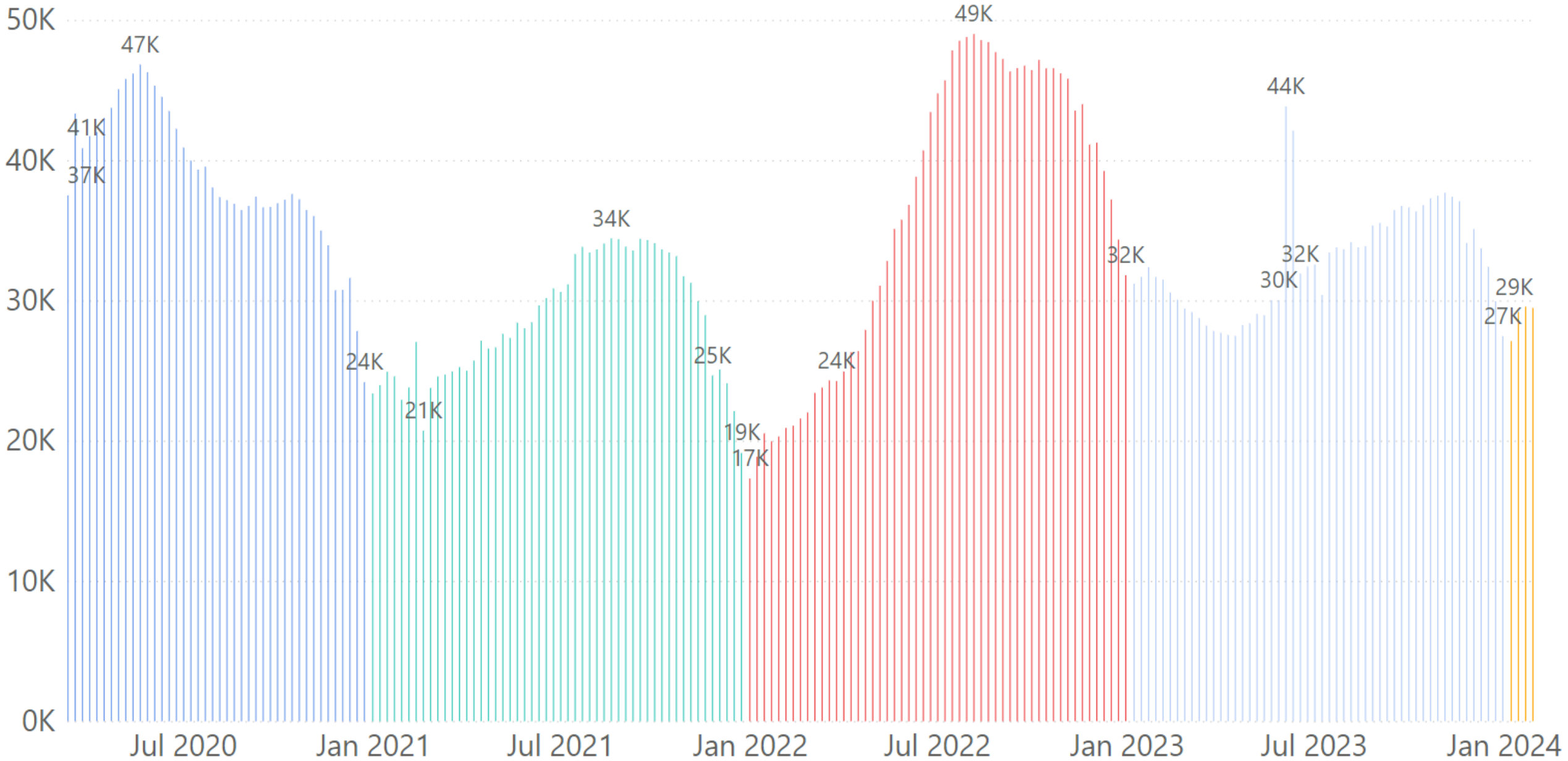
Delinquency currently half of historical average



Need to understand the push & pull

Existing SFR Active Listings

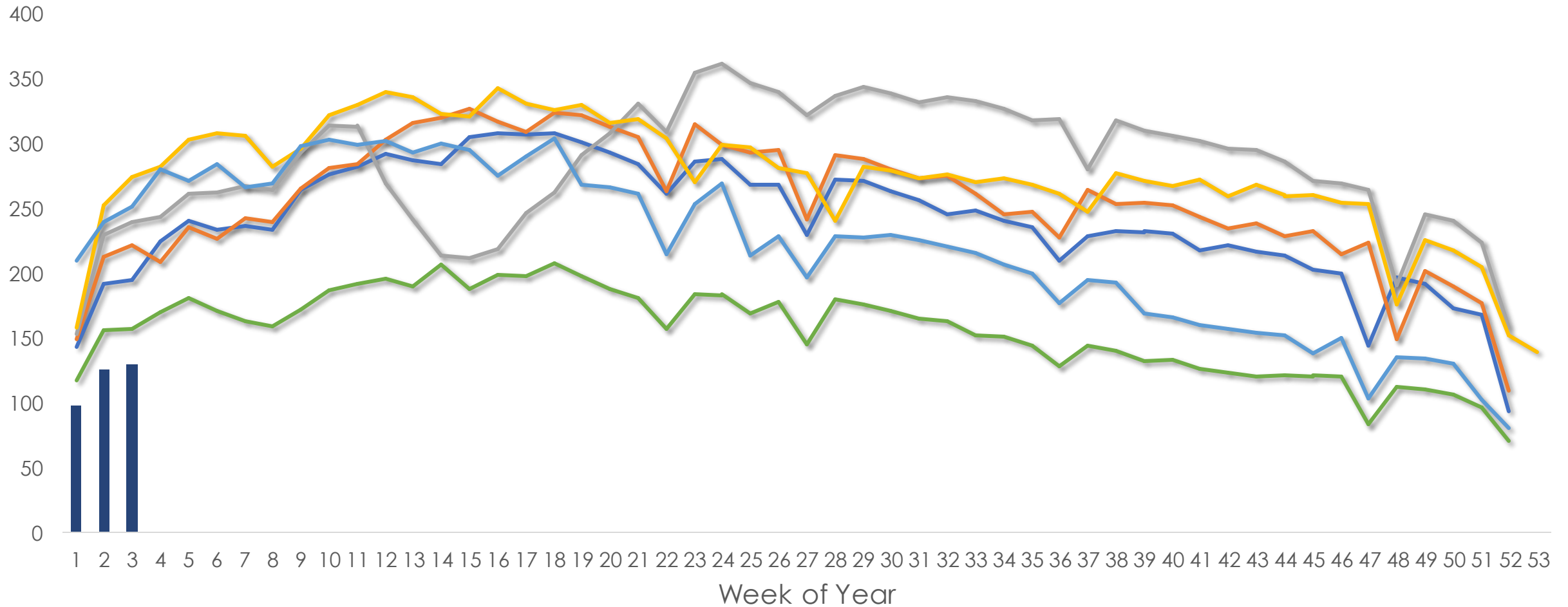
Year ● 2020 ● 2021 ● 2022 ● 2023 ● 2024



Sellers need to know demand is catching up though

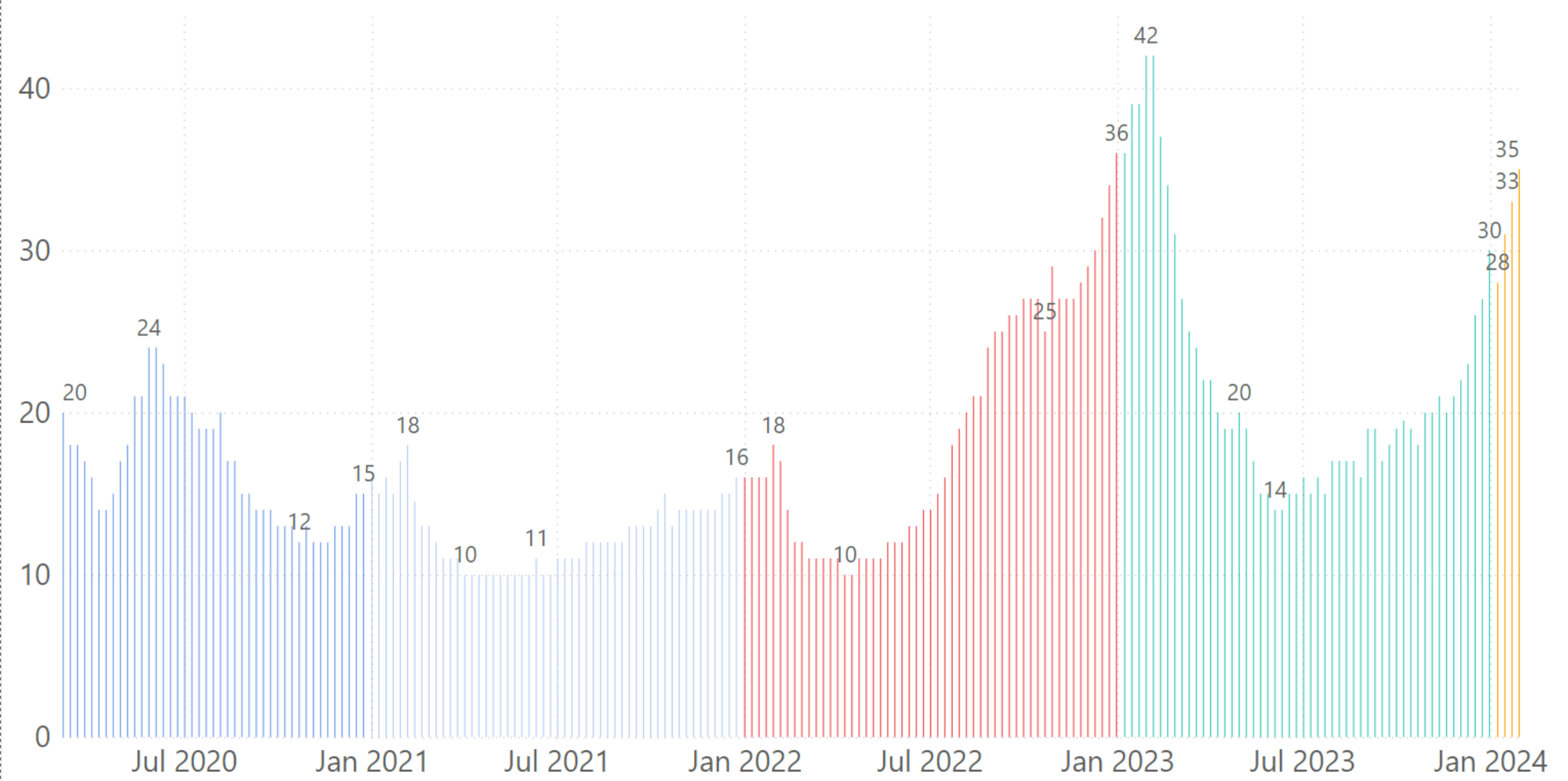
U.S. New Purchase Mortgage Applications

2024 2018 2019 2020 2021 2022 2023



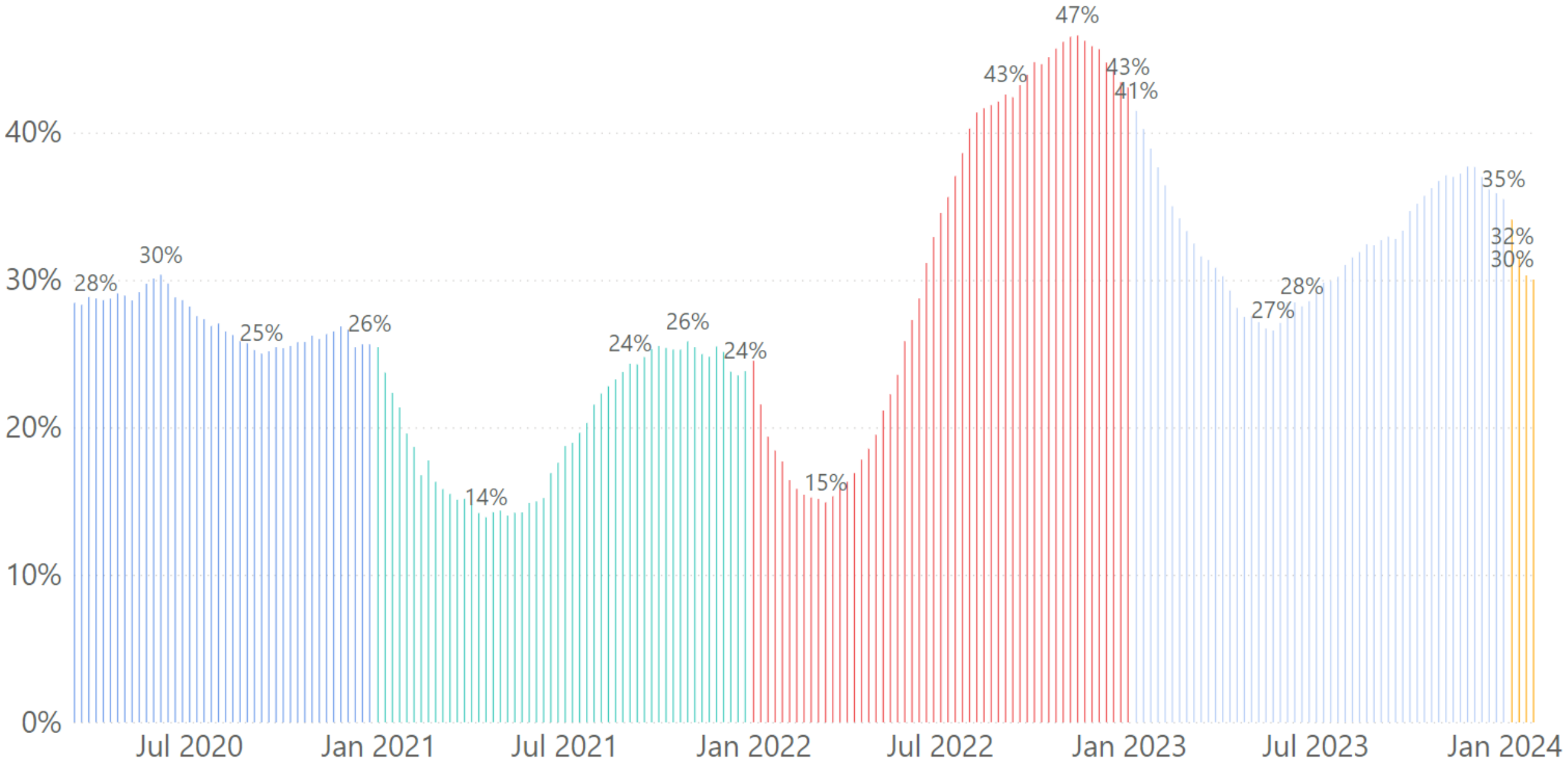
Median Days on Market for Closed Sales (Month-to-Date for Current Month)

● 2020 ● 2021 ● 2022 ● 2023 ● 2024



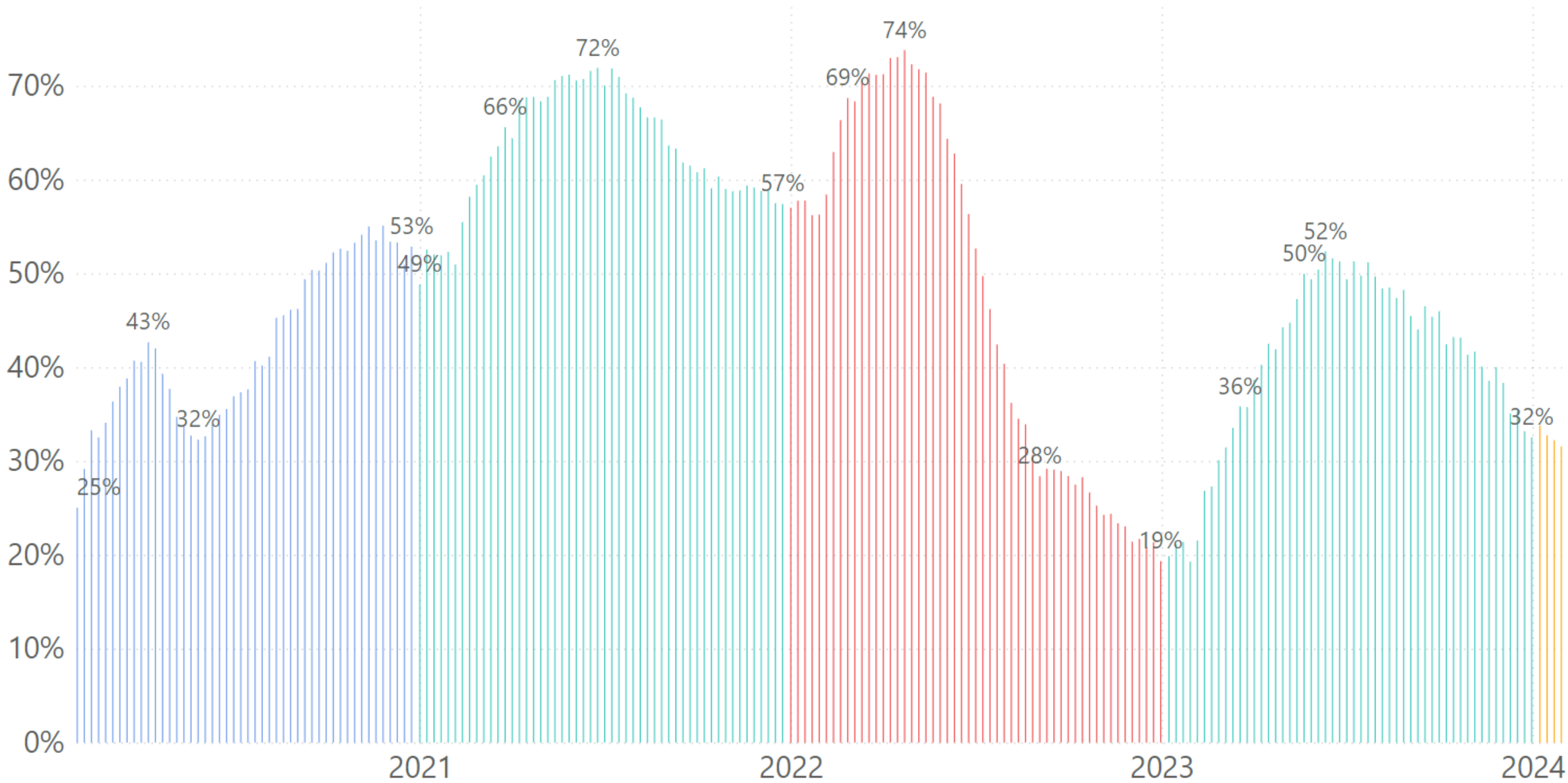
% of Active Listings w/Reduced Price

Year ● 2020 ● 2021 ● 2022 ● 2023 ● 2024



% of Homes Closed Above List Price

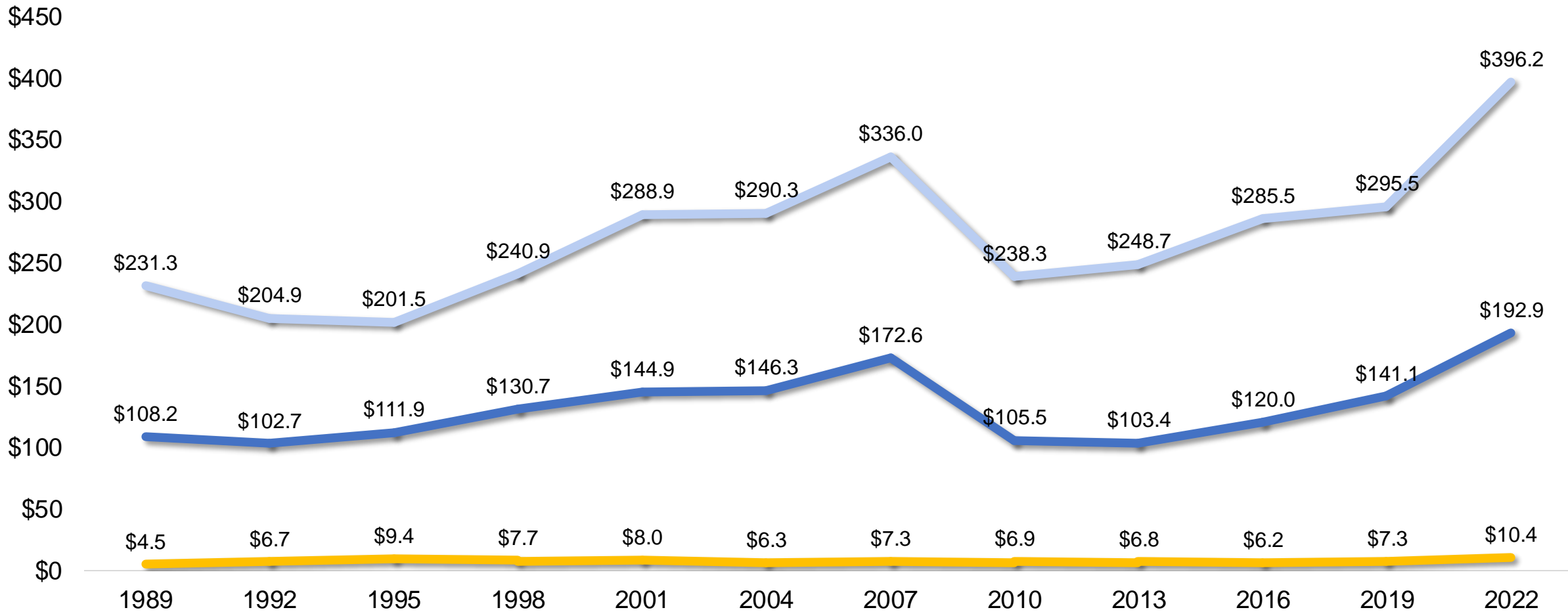
Year ● 2020 ● 2021 ● 2022 ● 2023 ● 2024



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	2023	2024f
US GDP	1.8%	2.5%	3.0%	2.5%	-2.2%	5.8%	1.9%	2.5%	0.7%
Nonfarm Job Growth	1.8%	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.3%	0.2%
Unemployment	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%	3.6%	4.4%
CPI	1.3%	2.1%	2.4%	1.8%	1.2%	4.7%	8.0%	4.1%	2.6%
Real Disposable Income, % Change	1.9%	3.1%	3.6%	3.1%	6.4%	3.1%	-5.9%	4.2%	2.1%

California housing market outlook

	2016	2017	2018	2019	2020	2021	2022	2023	2024p
SFH Resales (000s)	417.7	424.9	402.6	398.0	411.9	444.5	342.5	257.6	327.1
% Change	2.0%	1.7%	-5.2%	-1.2%	3.5%	7.9%	-22.9%	-24.8%	27.0%
Median Price (\$000s)	\$502.3	\$537.9	\$569.5	\$592.4	\$659.4	\$784.3	\$818.9	\$814.0	\$860.3
% Change	5.4%	7.1%	5.9%	4.0%	11.3%	18.9%	4.4%	-0.6%	5.7%
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!!

