

California Housing Market Forecast

Santa Clara County Association of REALTORS®
November 20, 2020

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California Association of REALTORS®



CALIFORNIA
ASSOCIATION
OF REALTORS®

It was the best of times...

My Advice to REALTORS®

Don't throw your business in cruise control
Hustle/elbow-grease is the name of the game
Put the data under your client's nose

The Rearview Mirror

Economy healing broadly
Buyer demand robust
Home sales rising
Prices at all-time high levels
Fewer homeowners in forbearance

The Road Ahead

~17 million people on unemployment
350K delinquencies here in California
Less than half as much inventory as 2019
Sales not rising like they would be



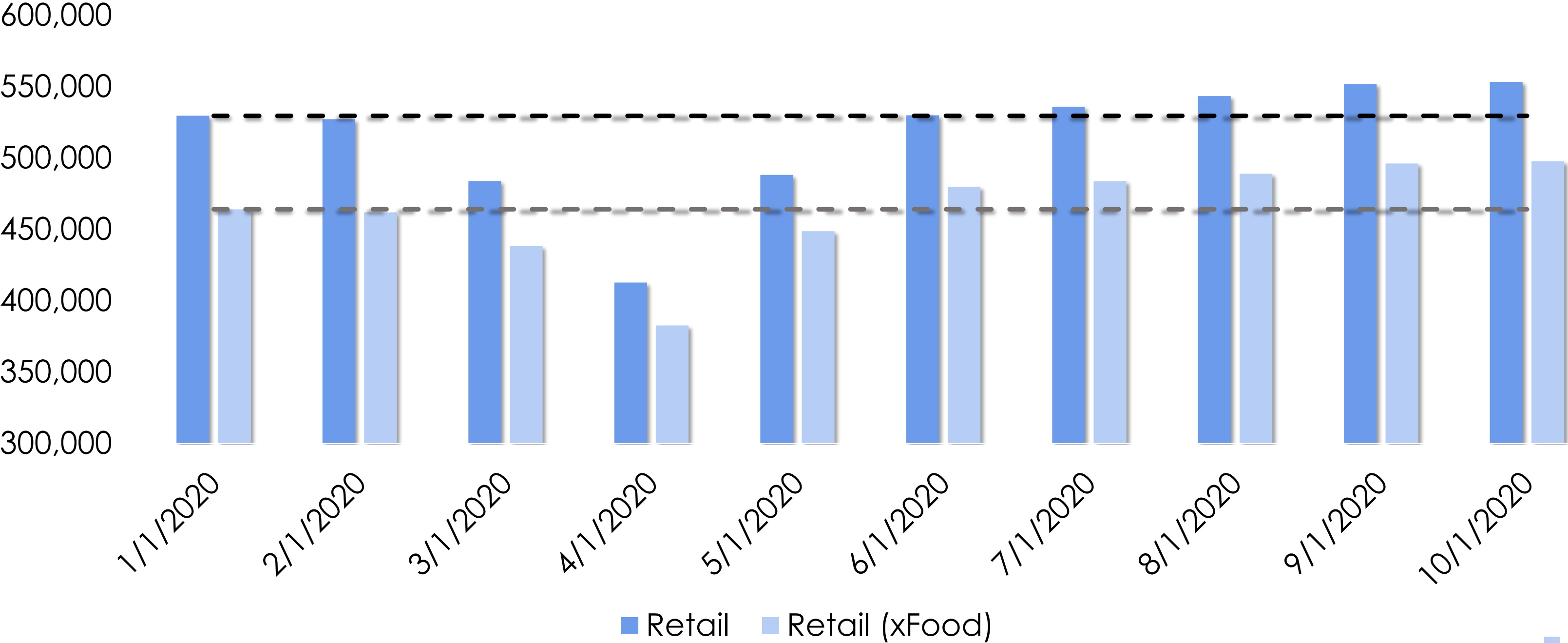


How About Some
GOOD NEWS?

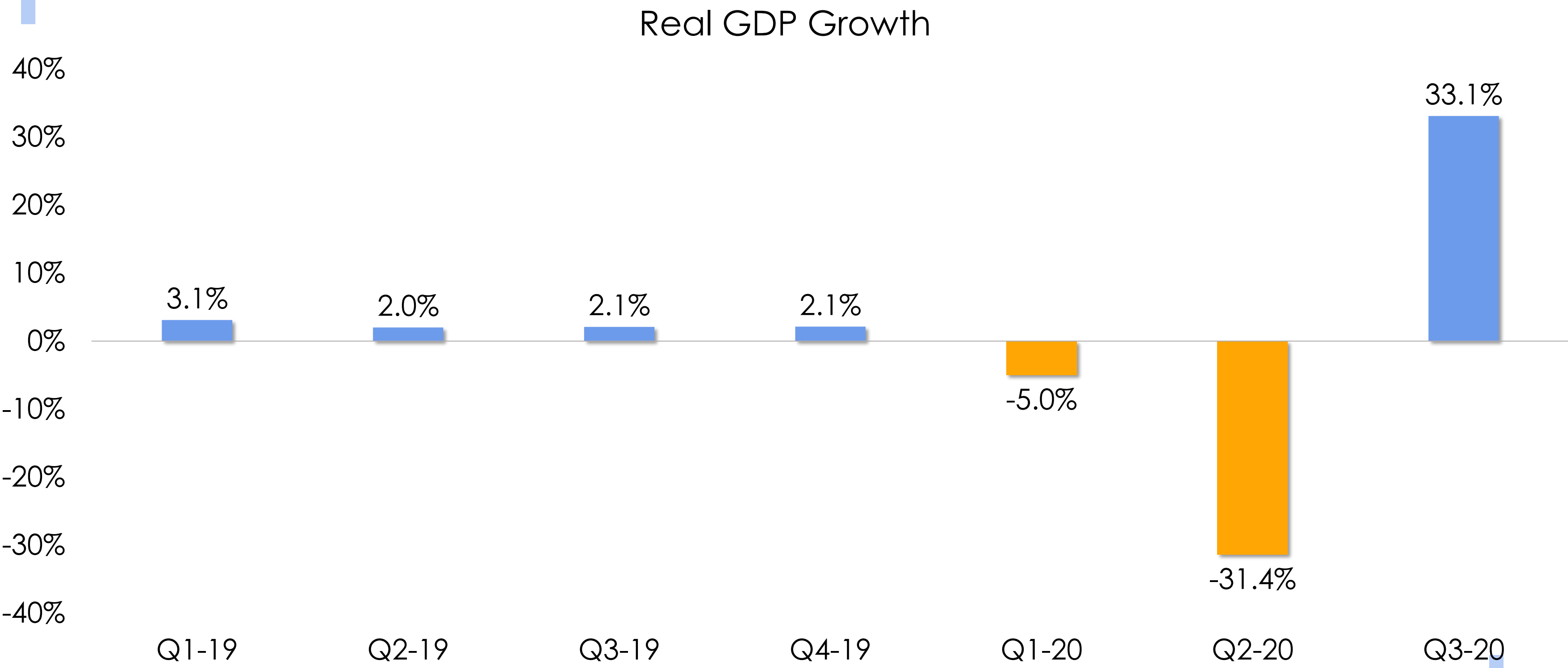


Consumers are BACK... many of them

U.S. Retail Sales

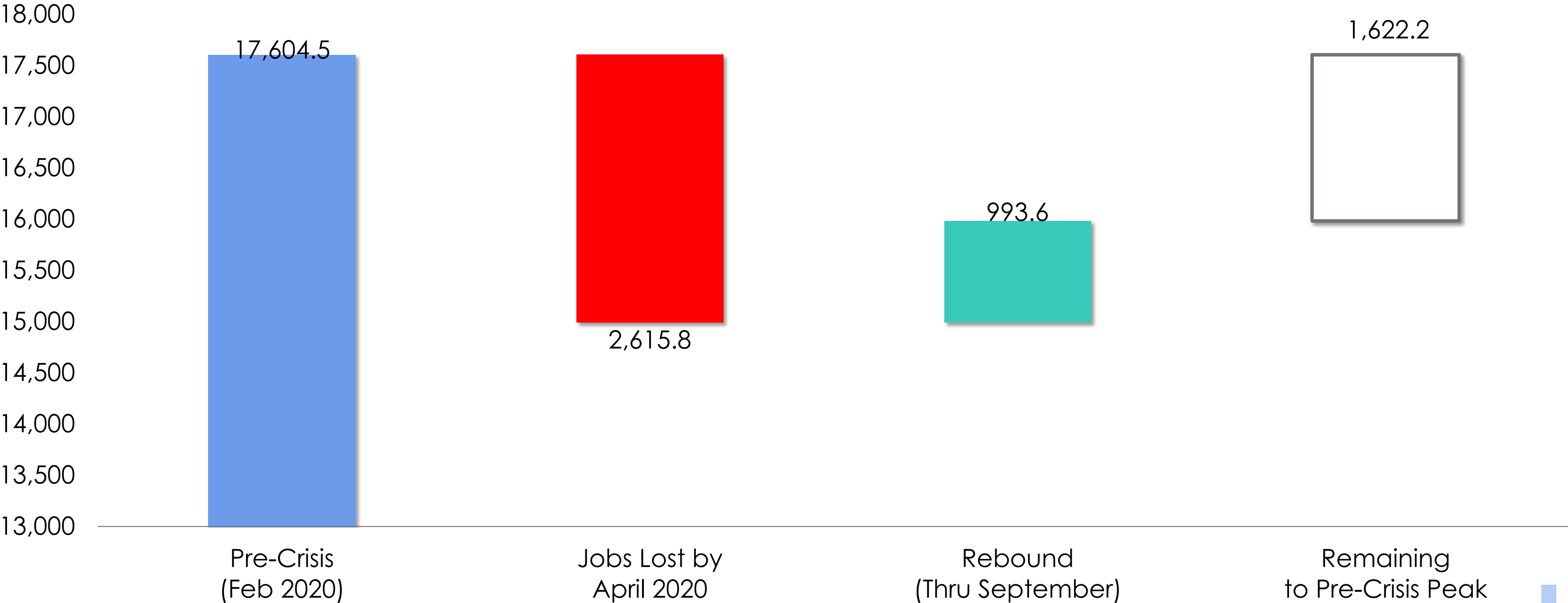


Sharp rebound in third quarter GDP

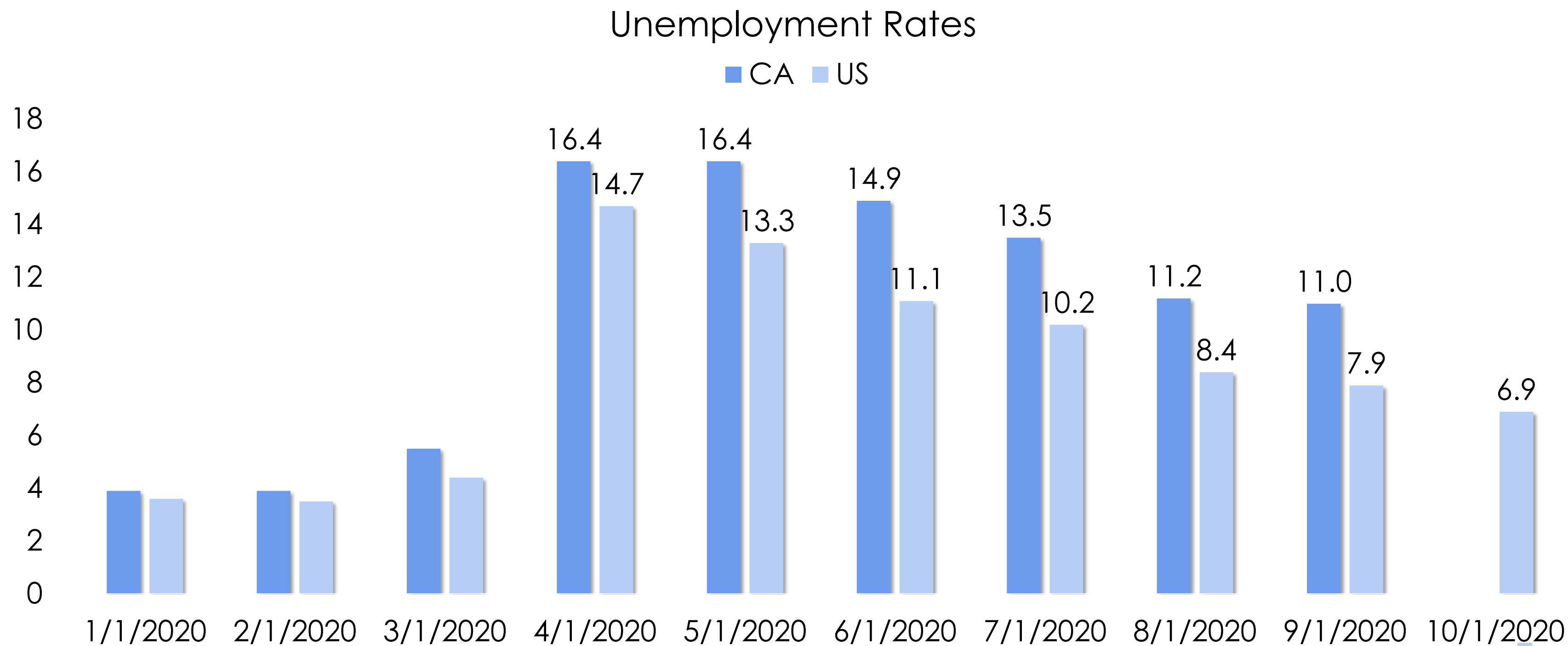


Snapshot of California labor markets

California Nonfarm Jobs

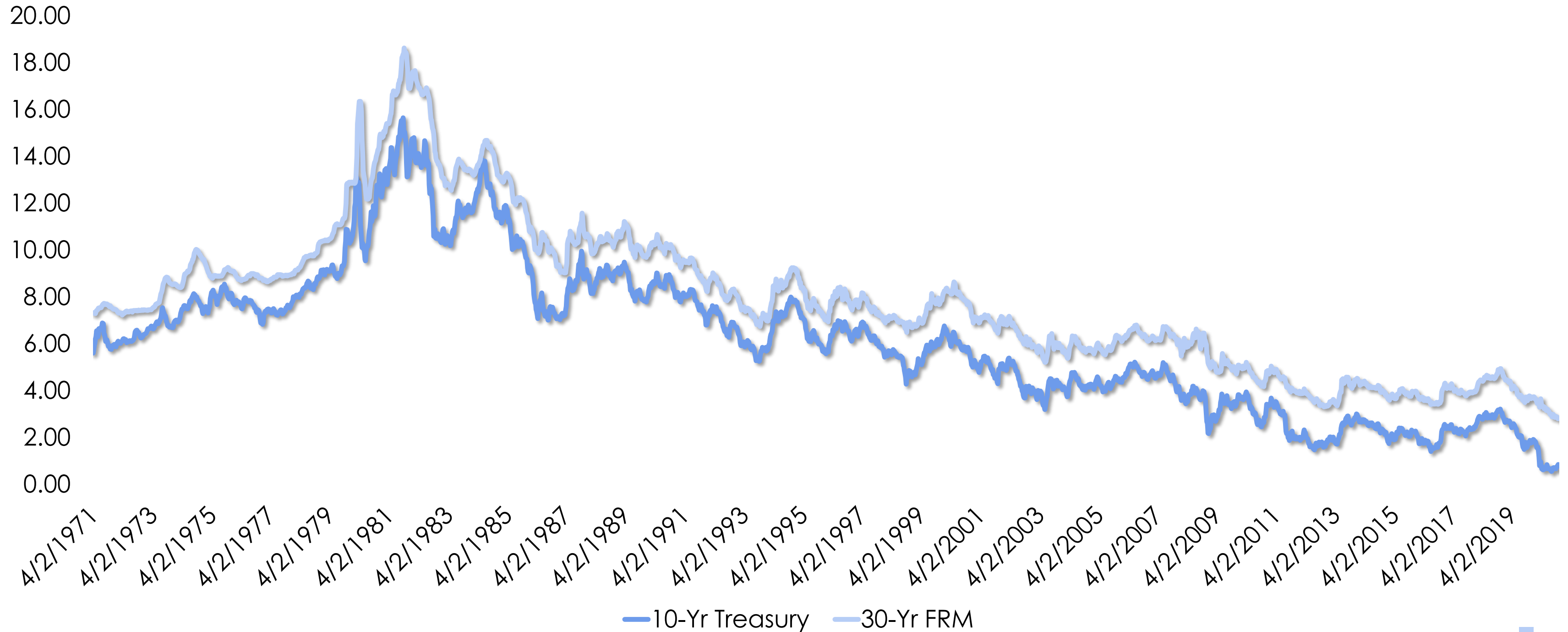


Unemployment rate **down consistently as well**



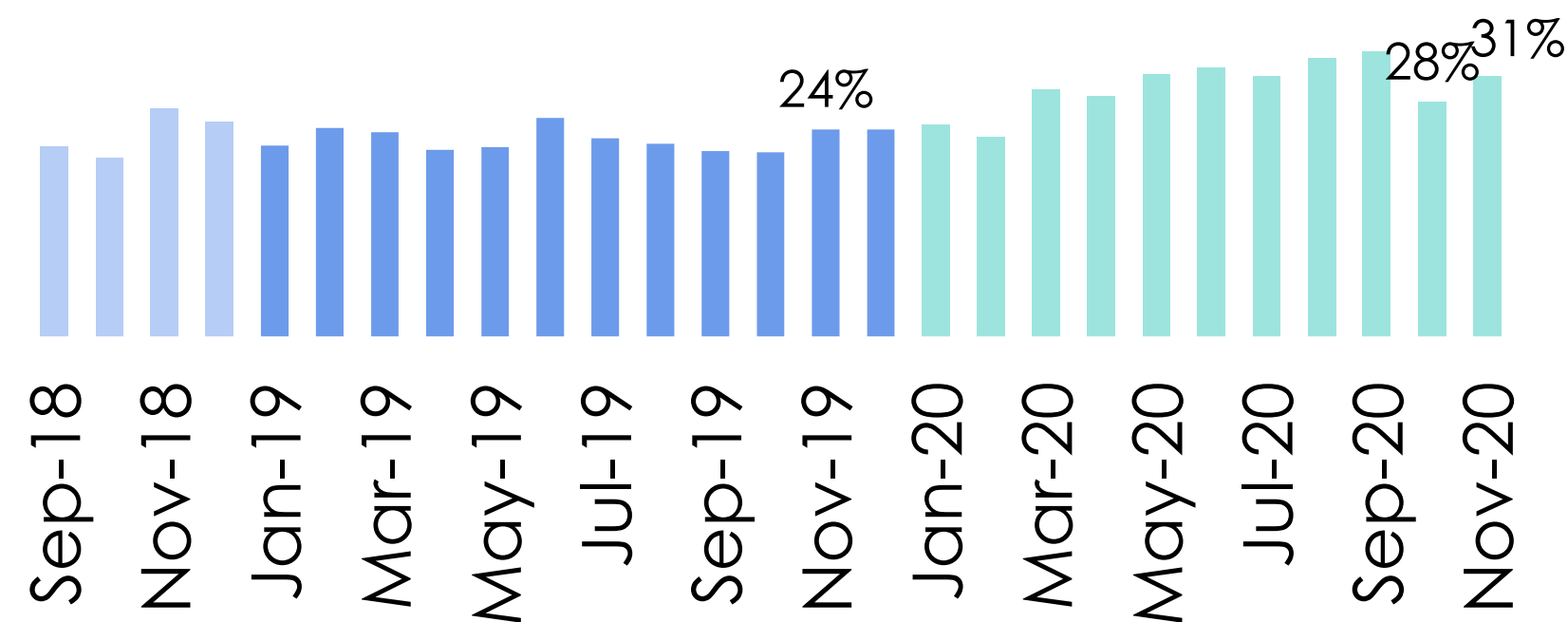
Interest rates have **NEVER** been lower

Key Interest Rates

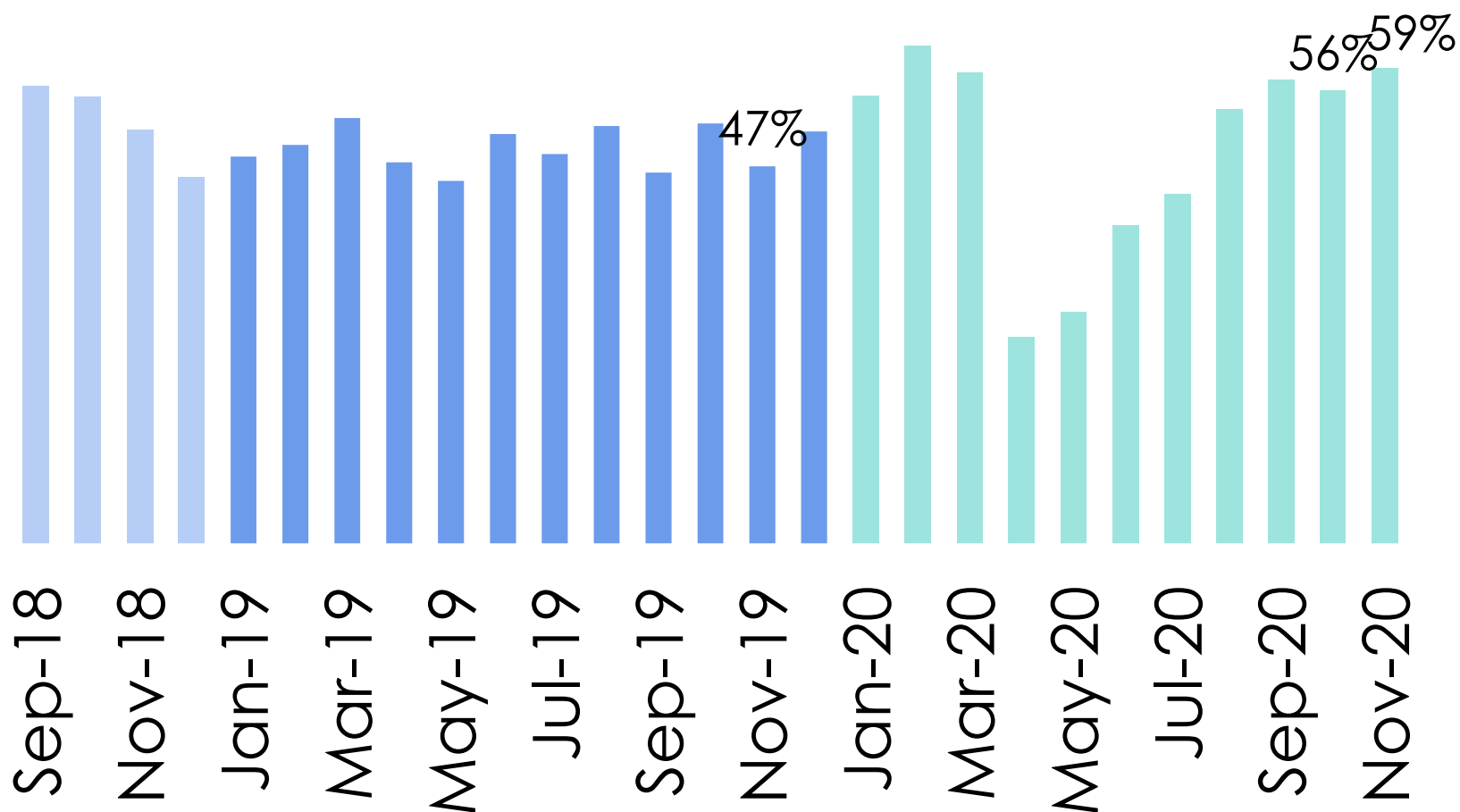


Is it a good time to **buy** or **sell**?

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

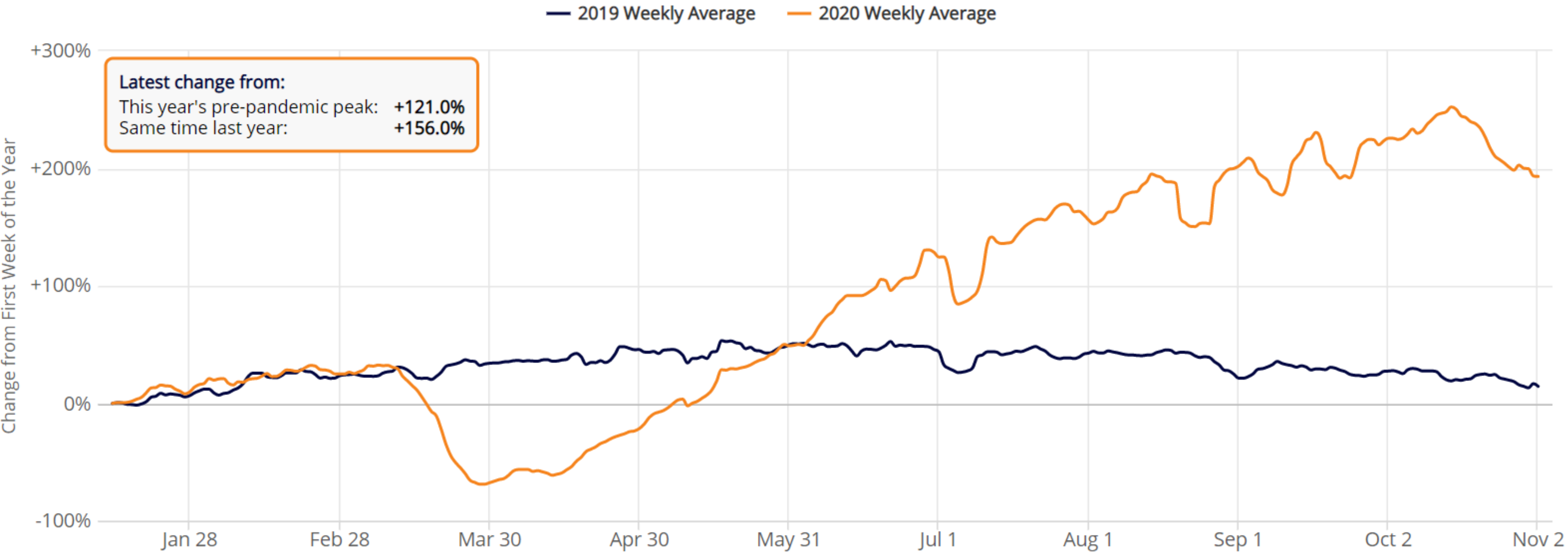


Do you think it's a good time to **sell** a home in California?



Impact of COVID-19 to Real Estate Showings in California

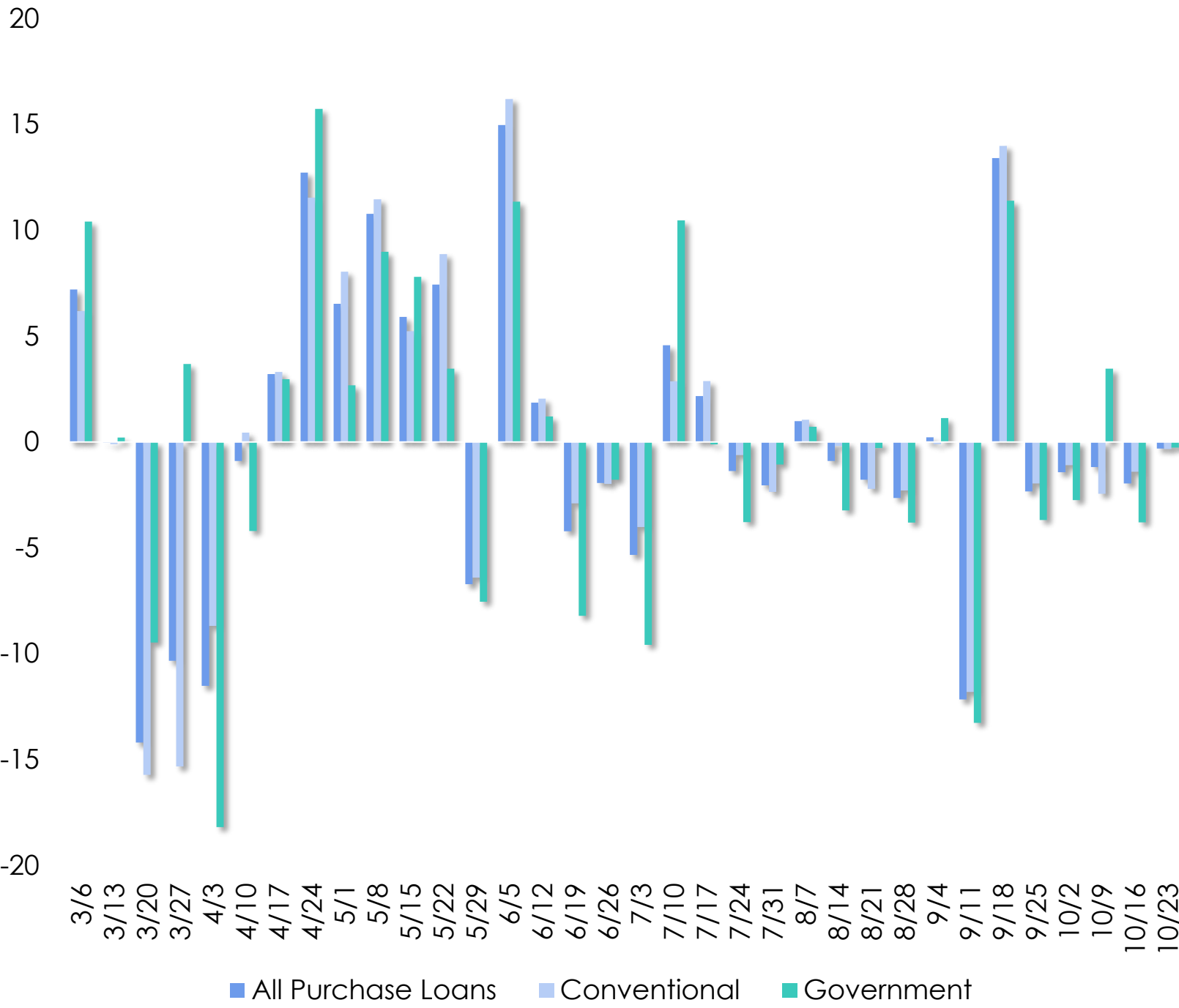
Weekly showings normalized to the first calendar week of January, 7-day moving average. Data through November 2, 2020



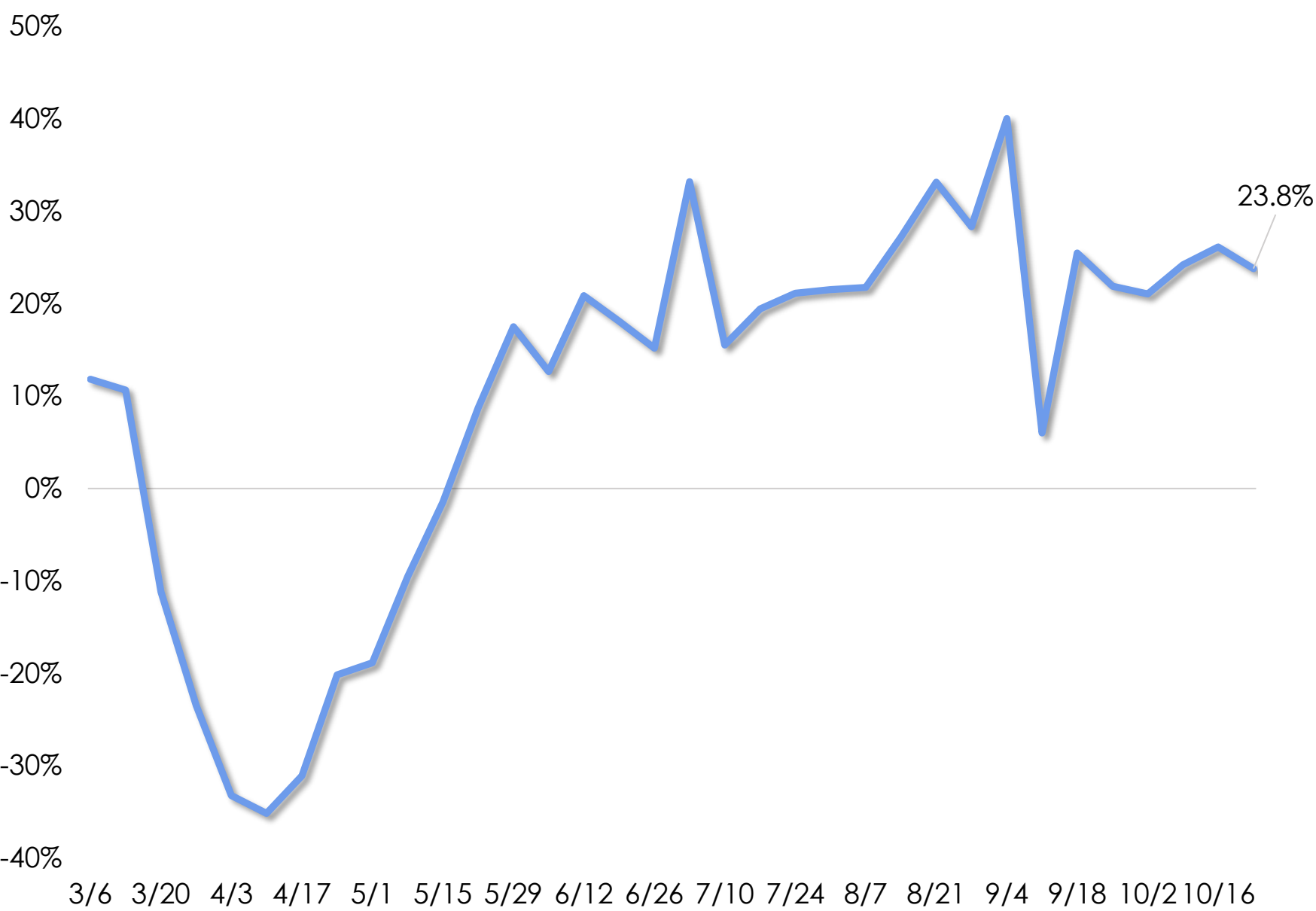
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Purchase applications remain strong well into fall

Weekly Change in New Mortgage Purchase Applications



Year-to-Year Change in New Mortgage Purchase Applications



California housing market: sales up, price remained above \$700K, supply lowest in years

October 2020

484,510 | Existing Home Sales
+19.9% YTY -1.3% YTD % change



Price

\$711,300
+17.5% Y2Y



Unsold
Inventory Index

2.0 months
-33.3% Y2Y



Median Days
on Market

10 days
-58.3% Y2Y



Sales Price to
List Price Ratio

100.2%
+1.7% Y2Y

October 2020 Bay Area Housing Snapshot



+18.9% YTY
-4.4% YTD

Existing Home Sales
% change

\$1,100,000
+17.0% YTY

Existing Home Price
% change



**Unsold
Inventory Index**

1.8 months



**Median Days
on Market**

11 days



**Sales Price to
List Price Ratio**

102.4%

monthly
market
report

October
2020

Santa Clara County

Median Price



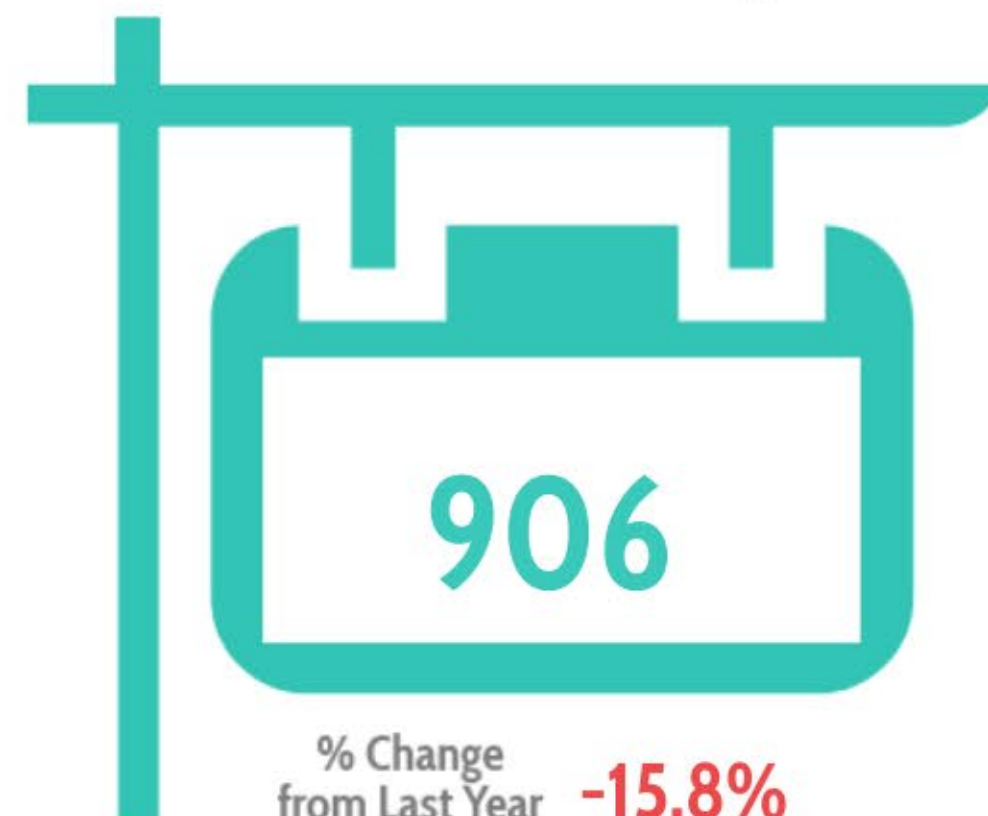
% Change
from Last Year **+16.8%**

Home Sales



% Change
from Last Year **+32.4%**

Active Listings



% Change
from Last Year **-15.8%**

Market Competition

Median
Days on
Market

8

Sales to
List Price %

102.2%

% of Active
Listings with
Reduced Prices

25.7%

monthly
market
report

October
2020

Gilroy, California

Median Price



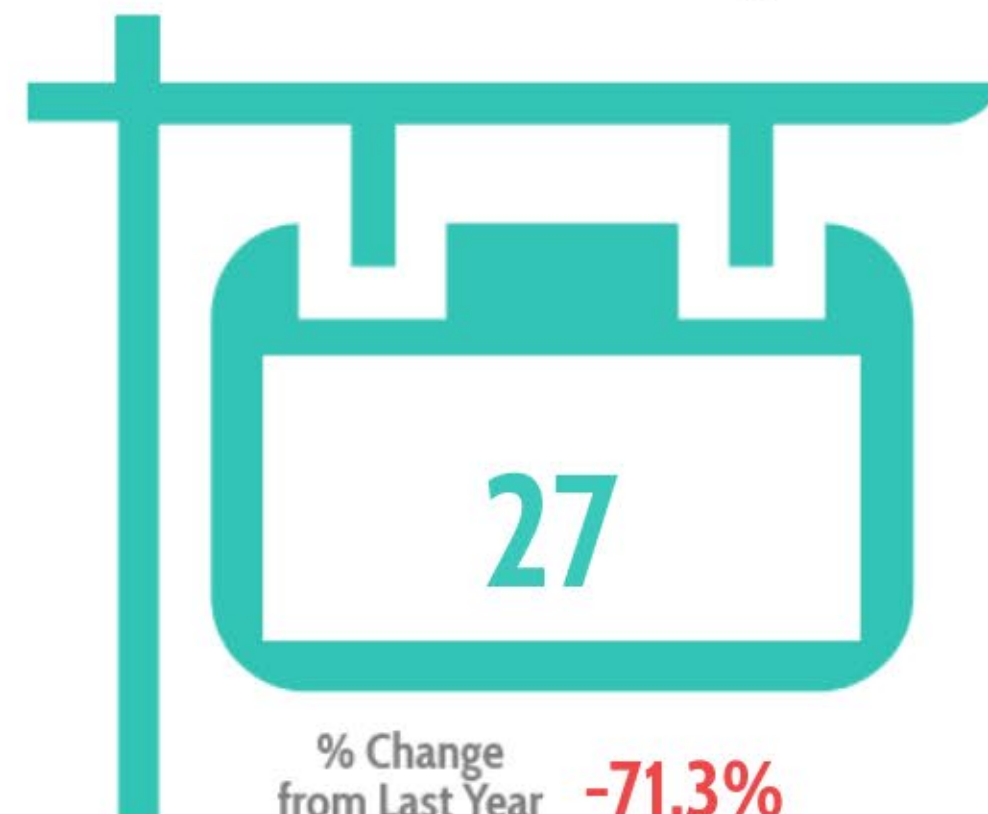
% Change
from Last Year **+3.7%**

Home Sales



% Change
from Last Year **+27.1%**

Active Listings



% Change
from Last Year **-71.3%**

Market Competition

Median
Days on
Market

7

Sales to
List Price %

101.6%

% of Active
Listings with
Reduced Prices

22.2%

monthly
market
report

October
2020

Morgan Hill, California

Median Price



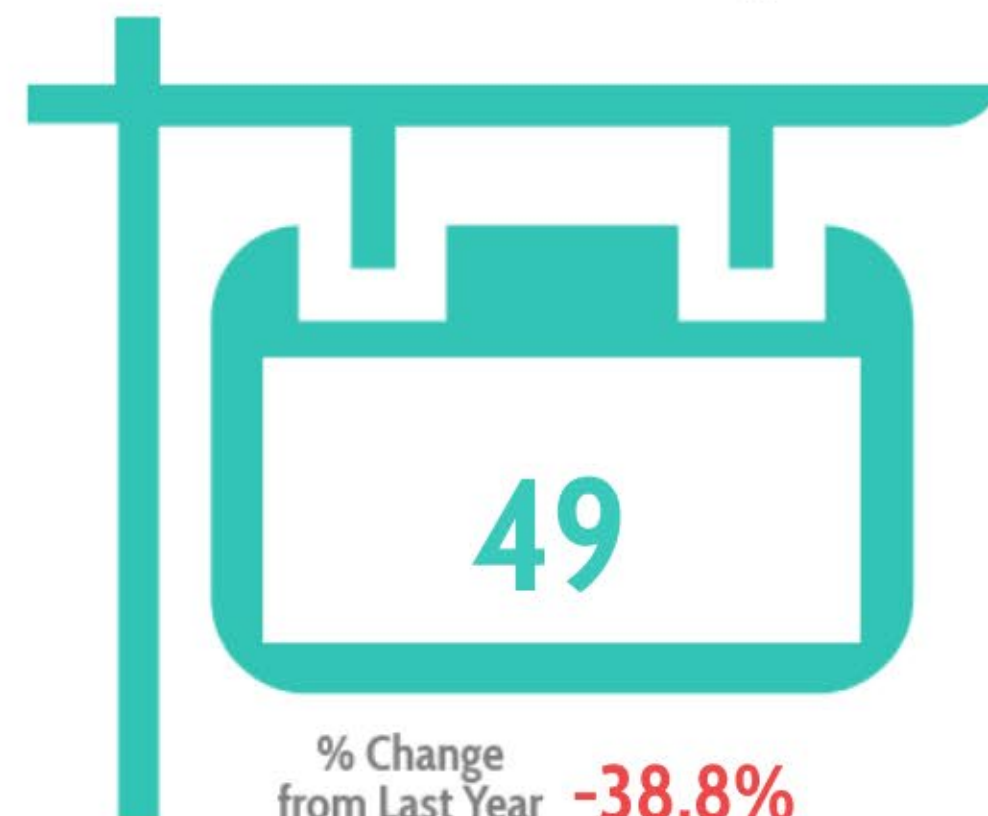
% Change
from Last Year **-2.2%**

Home Sales



% Change
from Last Year **+61.0%**

Active Listings



% Change
from Last Year **-38.8%**

Market Competition

Median
Days on
Market

9

Sales to
List Price %

100.3%

% of Active
Listings with
Reduced Prices

24.5%

monthly
market
report

October
2020

Milpitas, California

Median Price



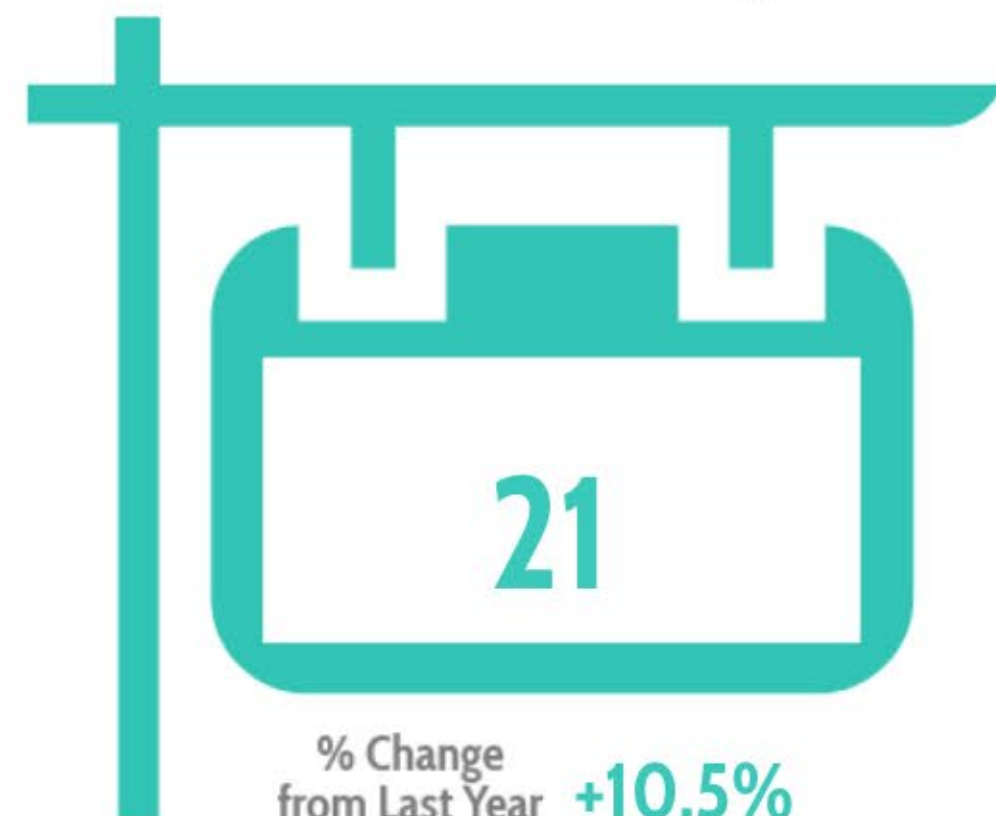
% Change
from Last Year **+16.4%**

Home Sales



% Change
from Last Year **+38.1%**

Active Listings



% Change
from Last Year **+10.5%**

Market Competition

Median
Days on
Market

10

Sales to
List Price %

103.8%

% of Active
Listings with
Reduced Prices

33.3%

monthly
market
report
October
2020

San Jose, California

Median Price



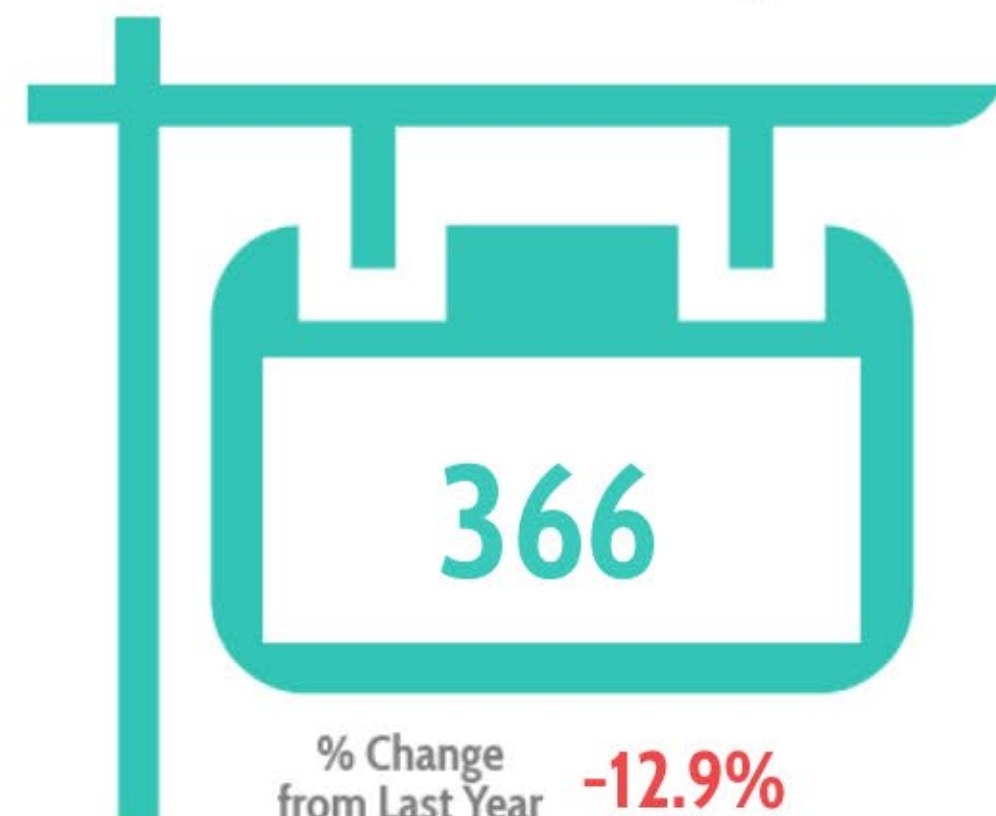
% Change
from Last Year **+20.4%**

Home Sales



% Change
from Last Year **+37.2%**

Active Listings



% Change
from Last Year **-12.9%**

Market Competition

Median
Days on
Market

8

Sales to
List Price %

102.8%

% of Active
Listings with
Reduced Prices

19.9%

monthly
market
report
October
2020

Santa Clara, California

Median Price



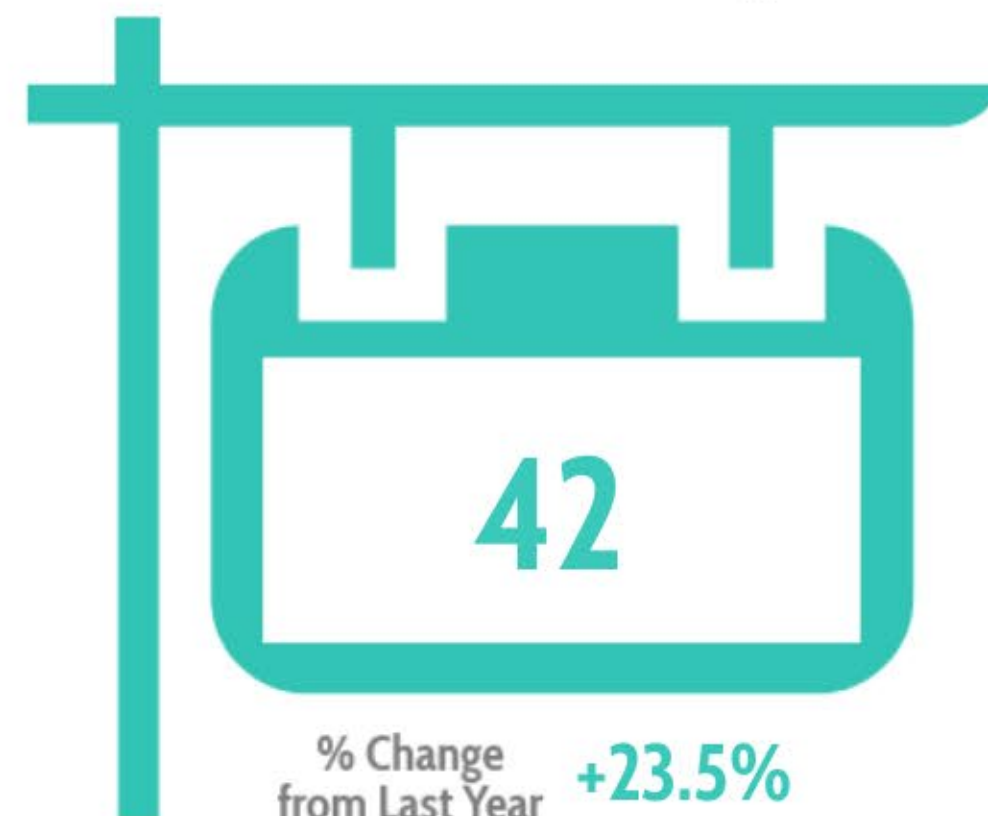
% Change
from Last Year **+21.0%**

Home Sales



% Change
from Last Year **+32.6%**

Active Listings



% Change
from Last Year **+23.5%**

Market Competition

Median
Days on
Market

10

Sales to
List Price %

100.0%

% of Active
Listings with
Reduced Prices

35.7%

monthly
market
report
October
2020

Los Gatos, California

Median Price



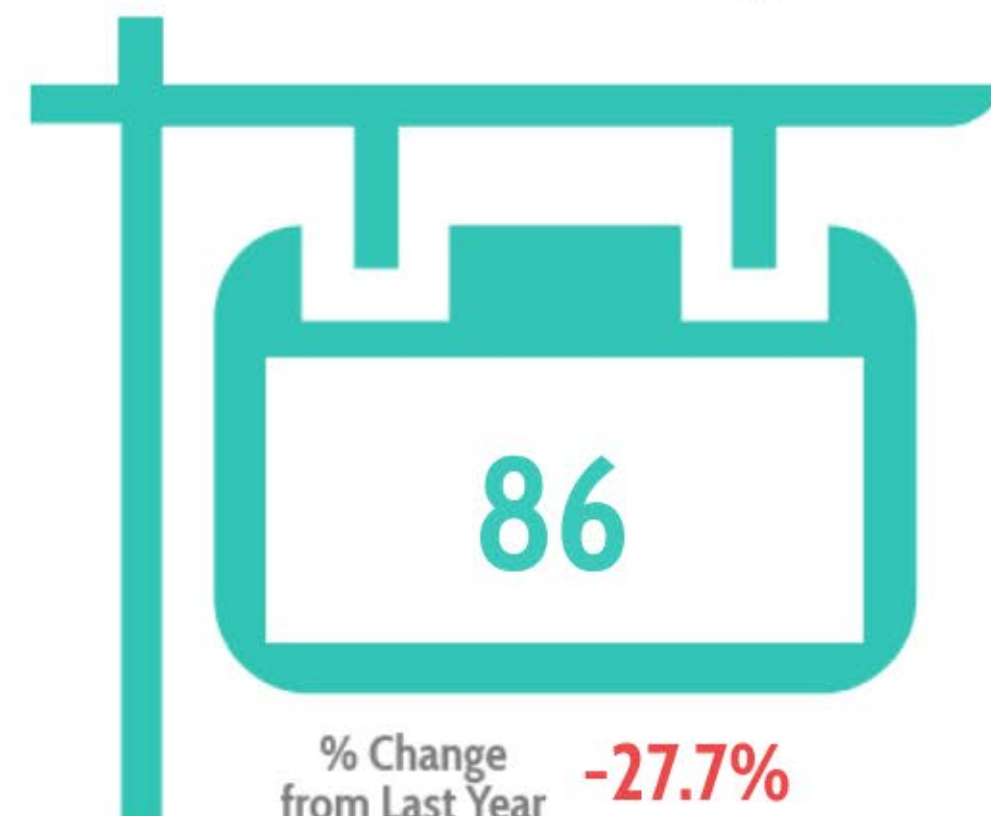
% Change
from Last Year **+0.0%**

Home Sales



% Change
from Last Year **+84.4%**

Active Listings



% Change
from Last Year **-27.7%**

Market Competition

Median
Days on
Market

10

Sales to
List Price %

100.4%

% of Active
Listings with
Reduced Prices

44.2%

monthly
market
report

October
2020

Cupertino, California

Median Price



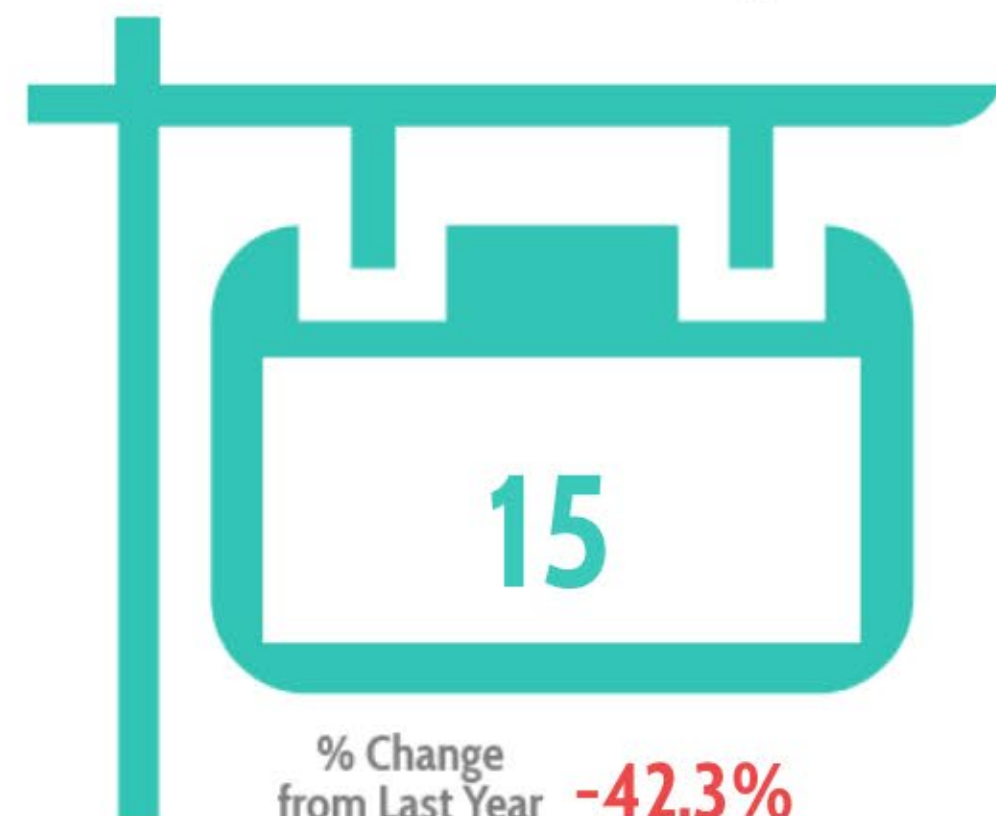
% Change
from Last Year **+8.5%**

Home Sales



% Change
from Last Year **+63.2%**

Active Listings



% Change
from Last Year **-42.3%**

Market Competition

Median
Days on
Market

8

Sales to
List Price %

103.7%

% of Active
Listings with
Reduced Prices

33.3%

monthly
market
report
October
2020

Palo Alto, California

Median Price



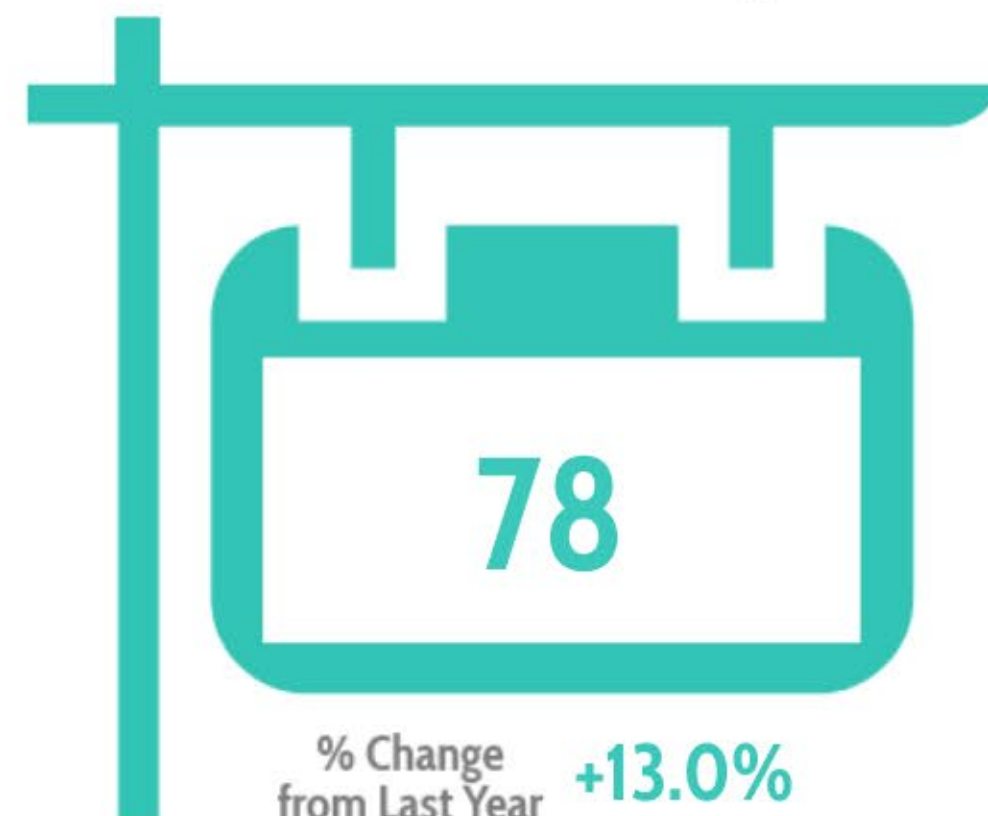
% Change
from Last Year **-11.6%**

Home Sales



% Change
from Last Year **+16.1%**

Active Listings



% Change
from Last Year **+13.0%**

Market Competition

Median
Days on
Market

11

Sales to
List Price %

100.7%

% of Active
Listings with
Reduced Prices

33.3%

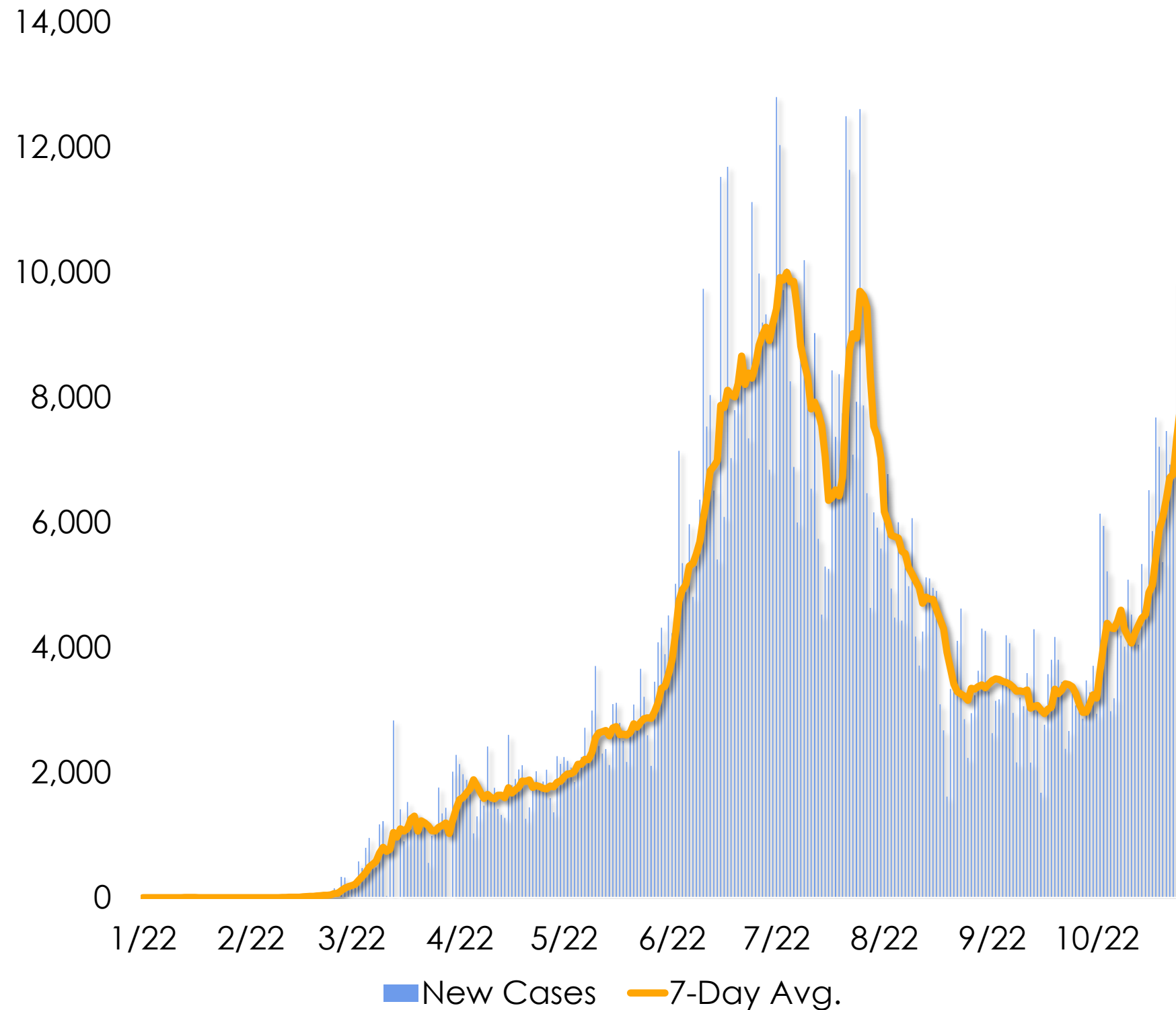


**Keep Champagne
Corked For Now**

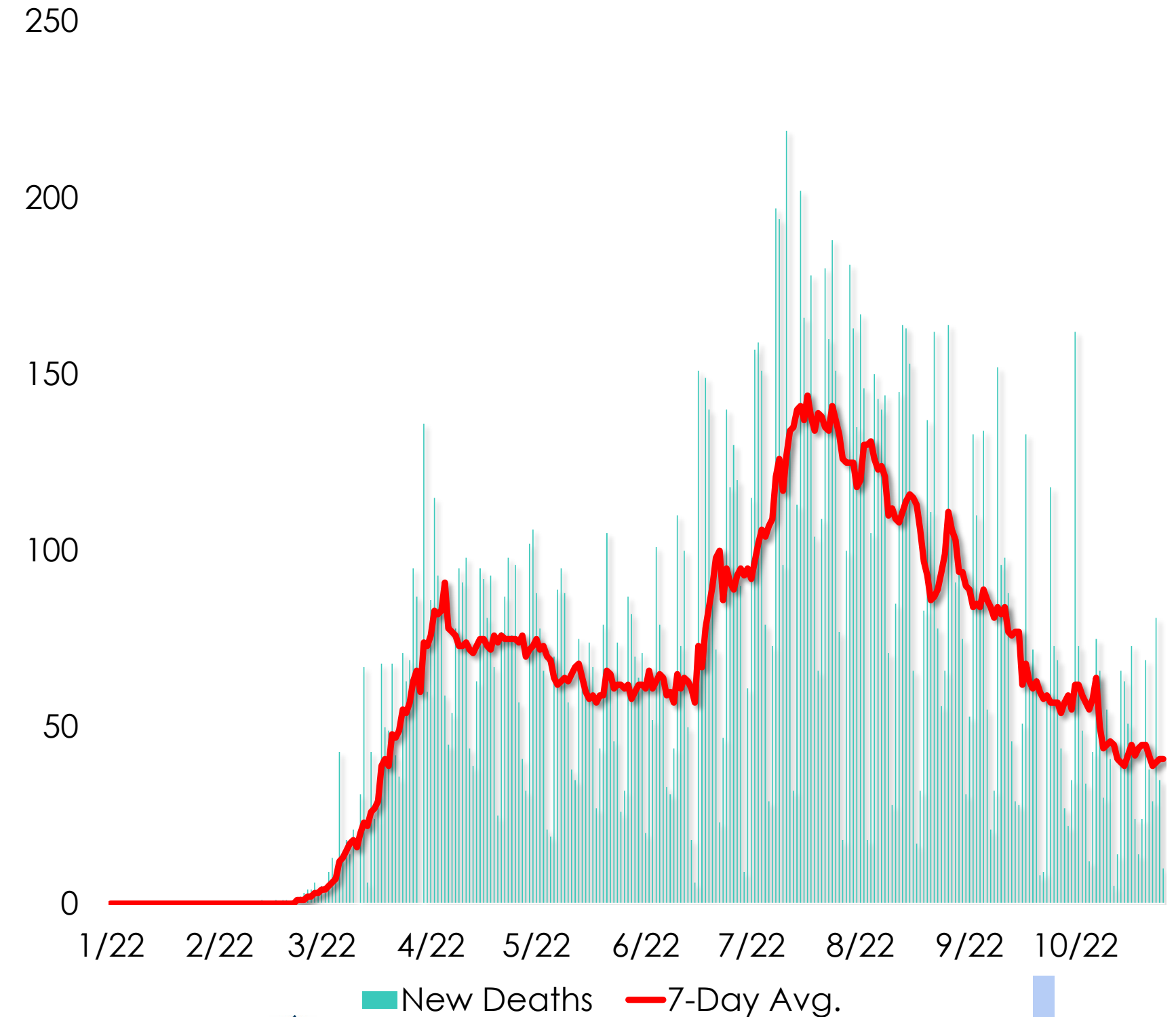


Daily California COVID-19 trends

Daily COVID-19 Cases in California

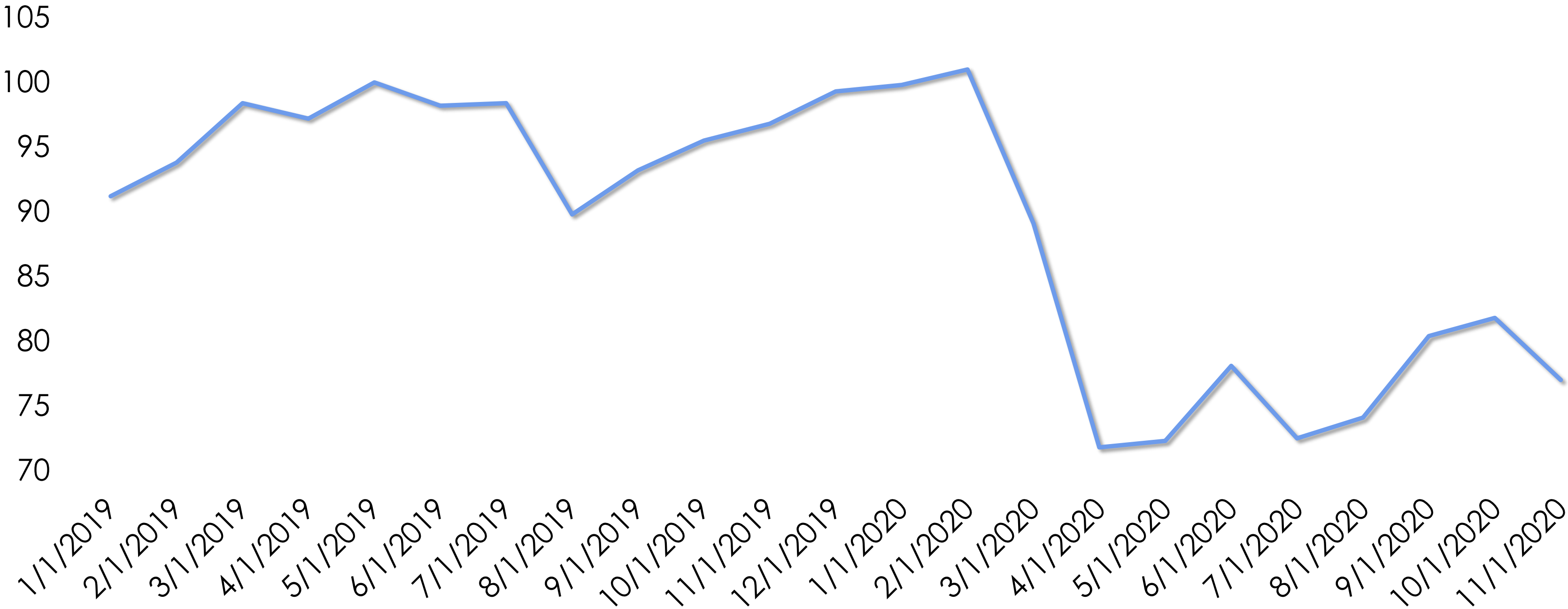


Daily COVID-19 Deaths in California



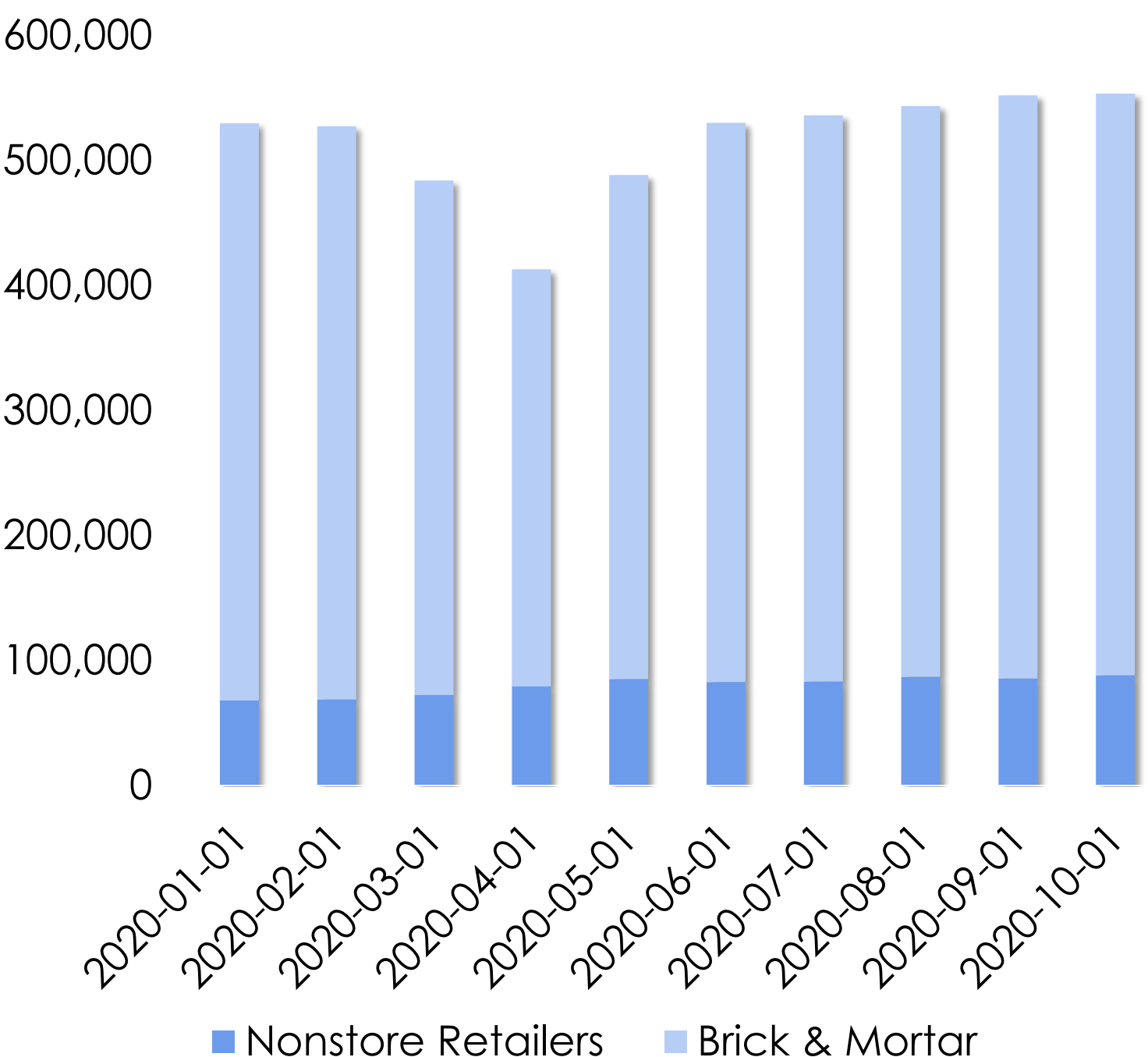
Consumers confidence stumbles in November

University of Michigan Index

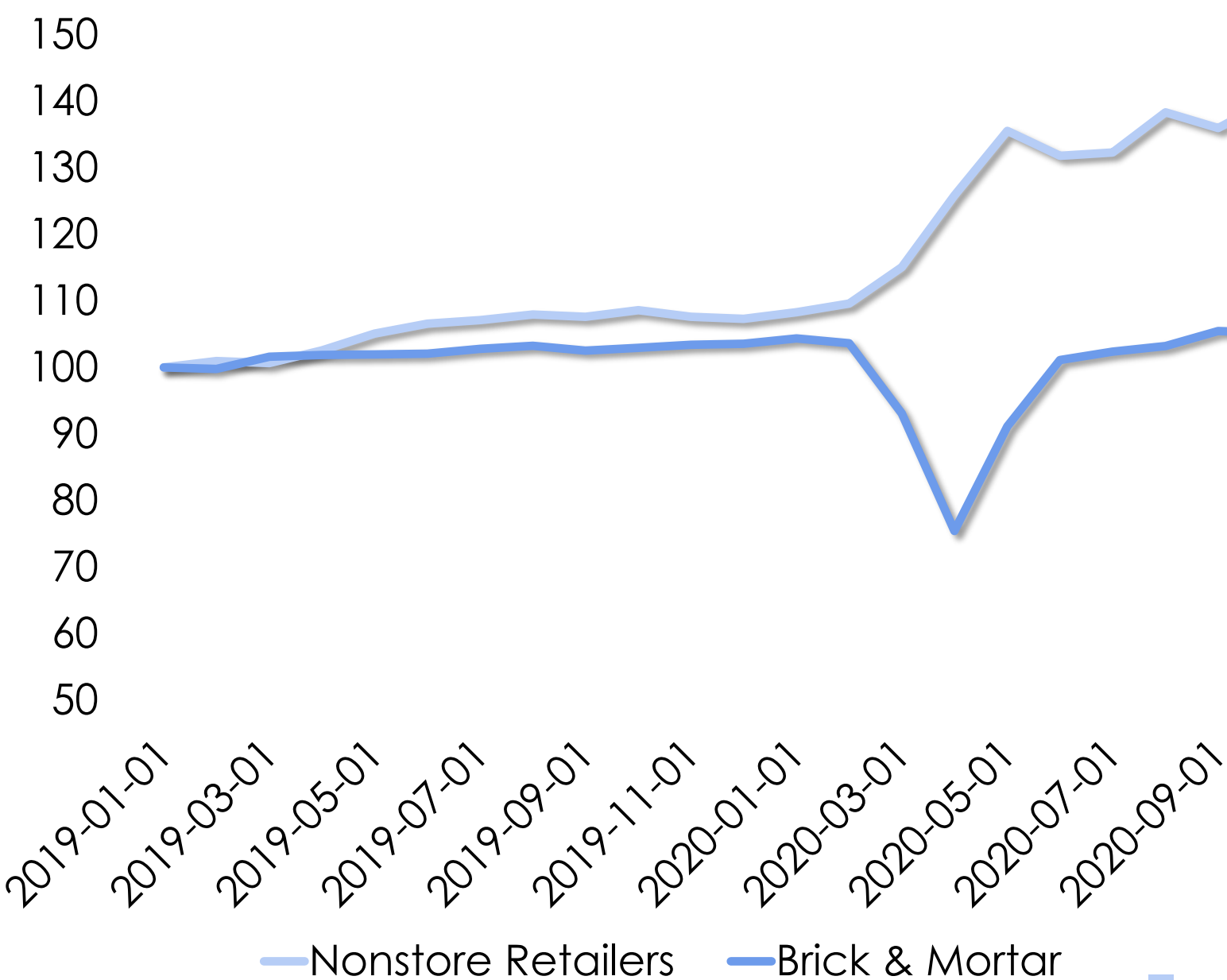


Wall Street vs. Main Street impacts

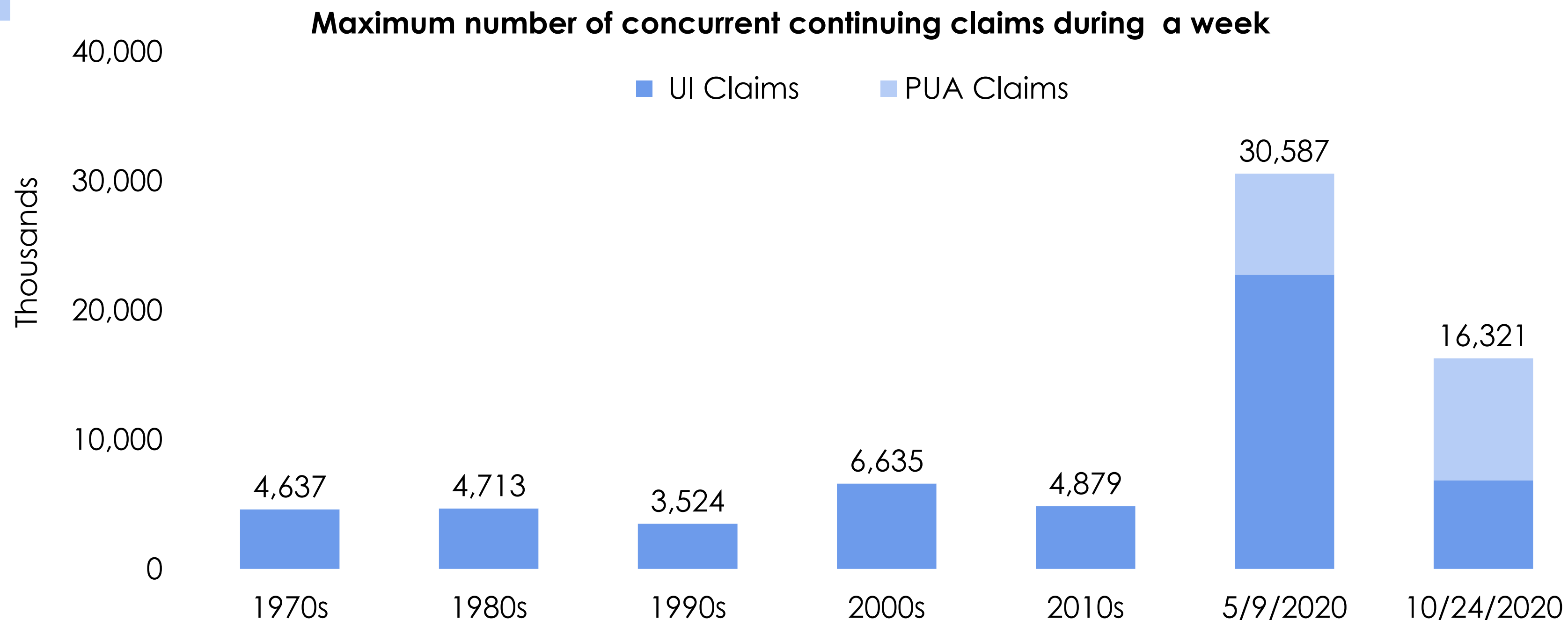
Retail Sales by Type of Retailer



Retail Sales by Type of Retailer
Index (Jan-2019 = 100)

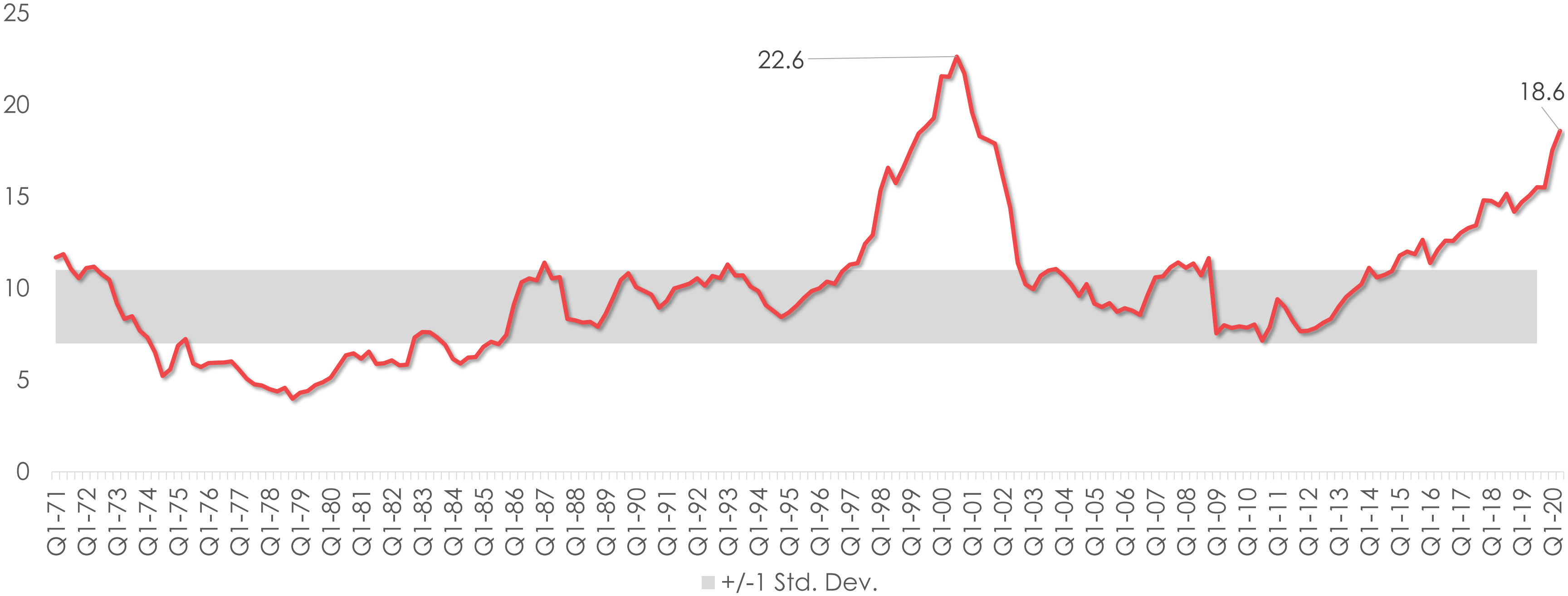


Still 3X more than prior worst period of unemployment



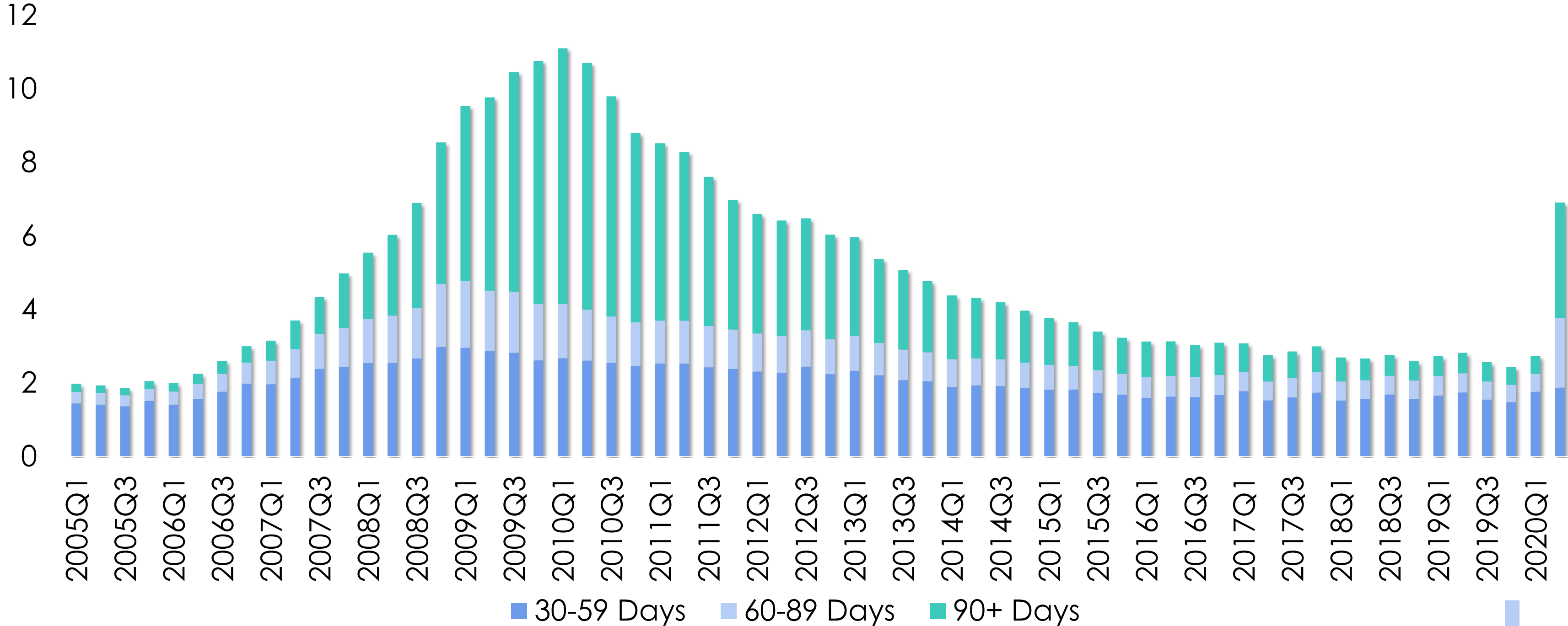
Stock market recovery: encouraging or worrying?

U.S. Capital Markets P/E Ratio
(Wilshire 5000 Market Cap / Total Corporate Profits)



Lots of delinquency to reckon with eventually

California Mortgage Delinquencies





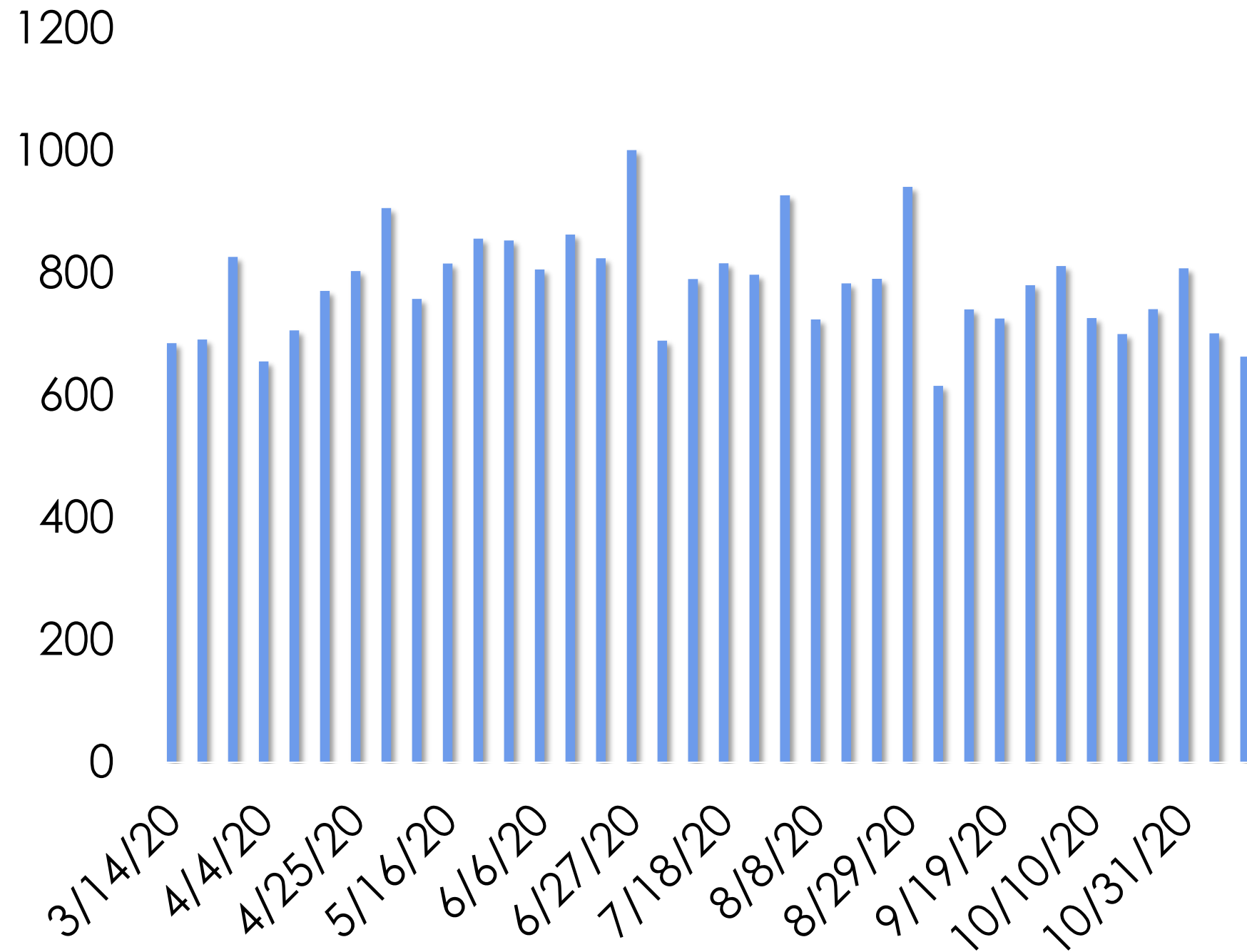
Nerd Alert

Growth vs. Levels

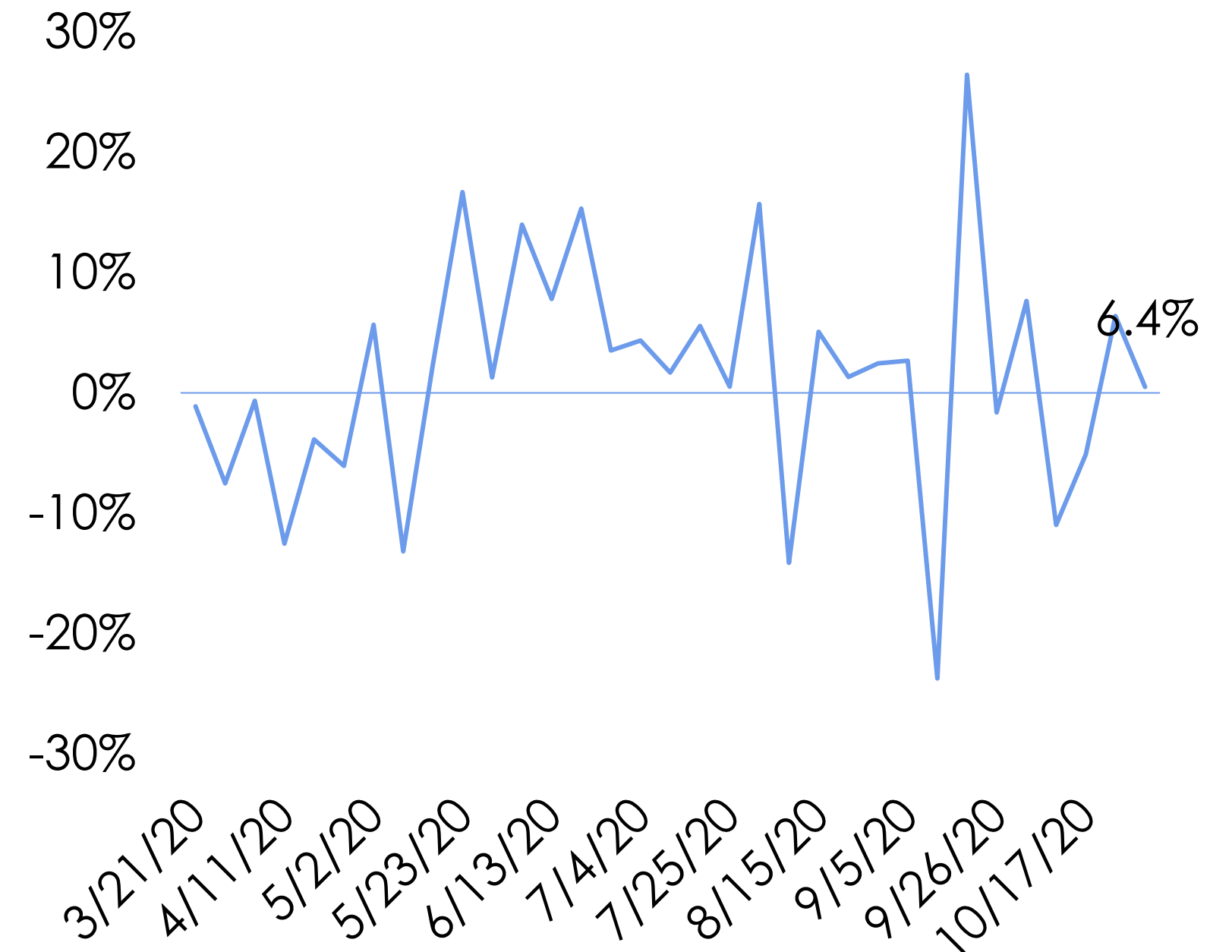


Sales unseasonably strong, but not actually growing

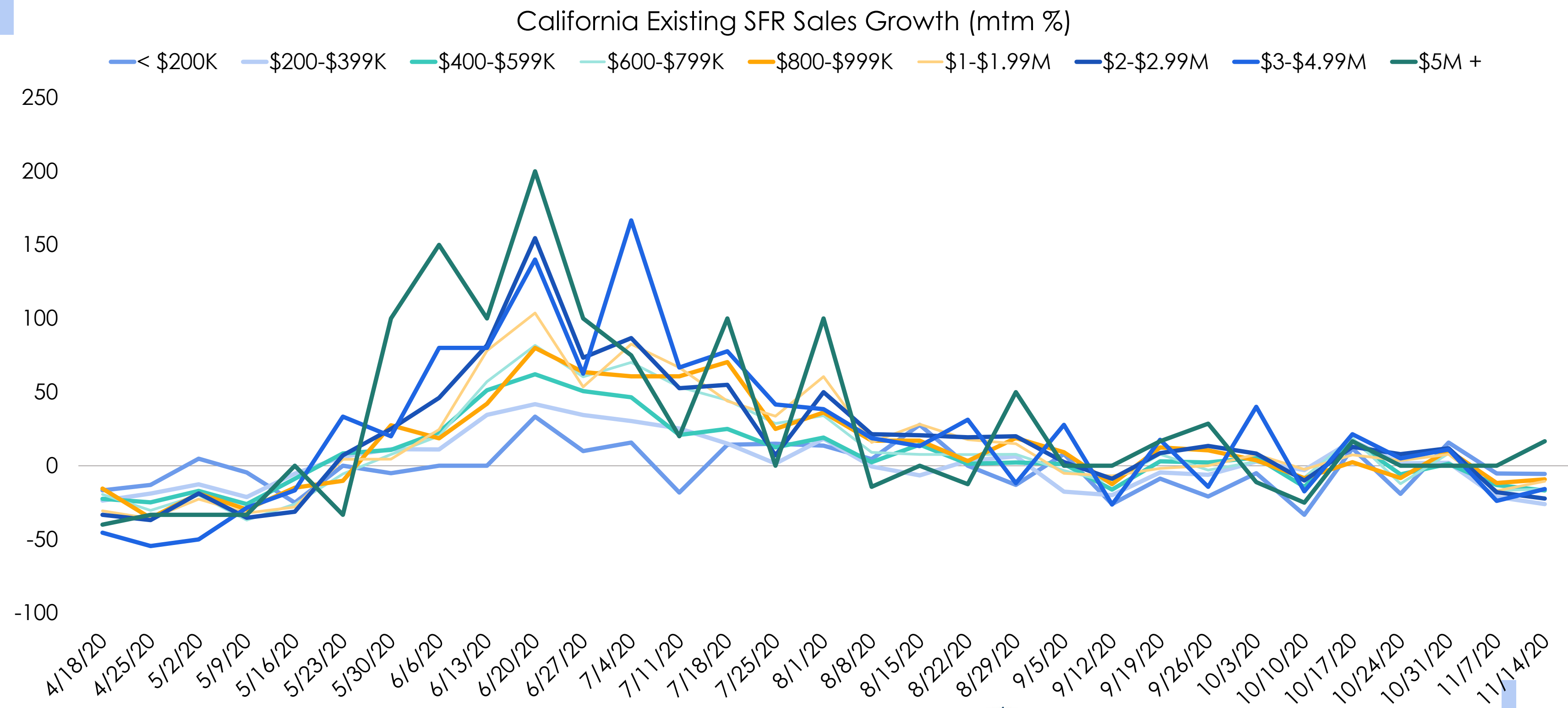
Average Daily Closed Sales (Existing SFH only)



% Chg. in Closed Sales from Prior Week (Daily Average)



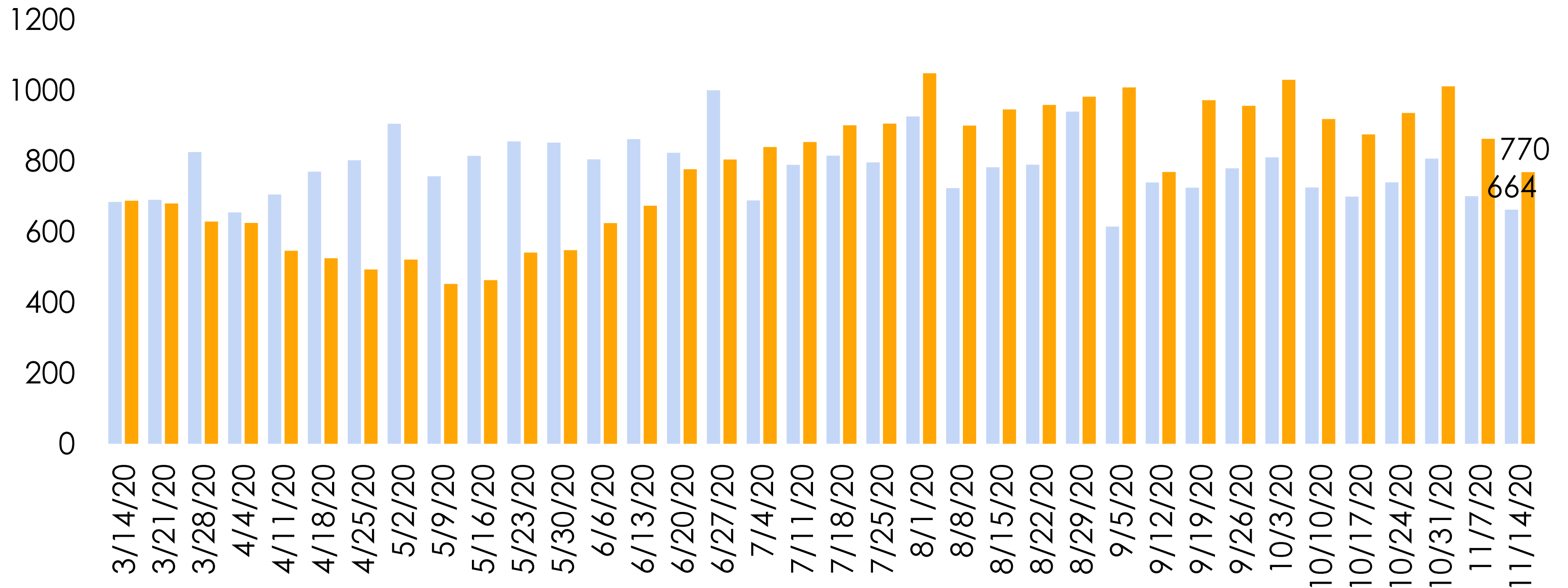
Slower across most price segments



California weekly closed sales

Weekly Sales (Daily Average) - 2019 vs. 2020

■ CA_2019 ■ CA_2020



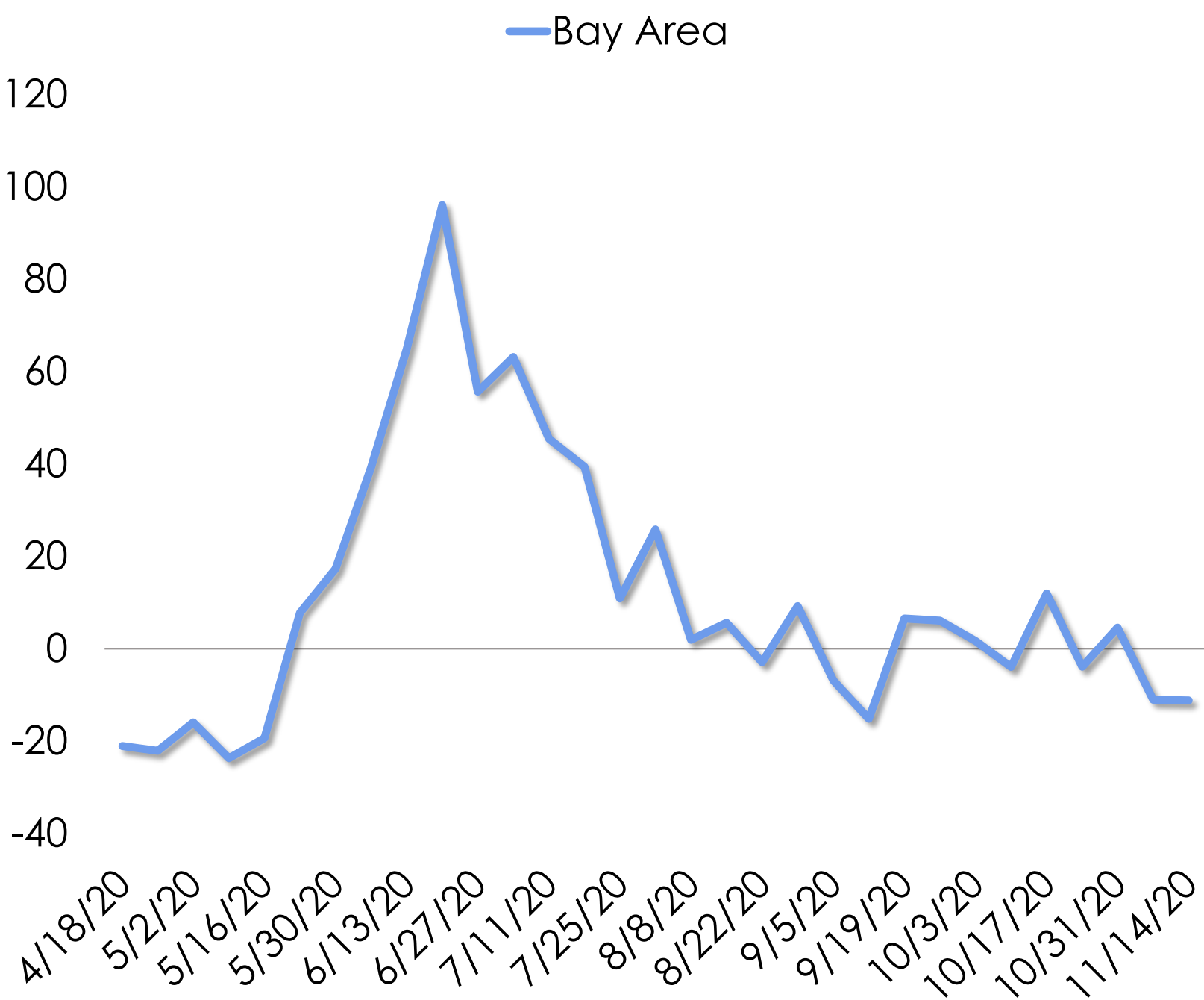
Slower across most regions **as well**

Average Daily Closed Sales
(Existing SFH only)

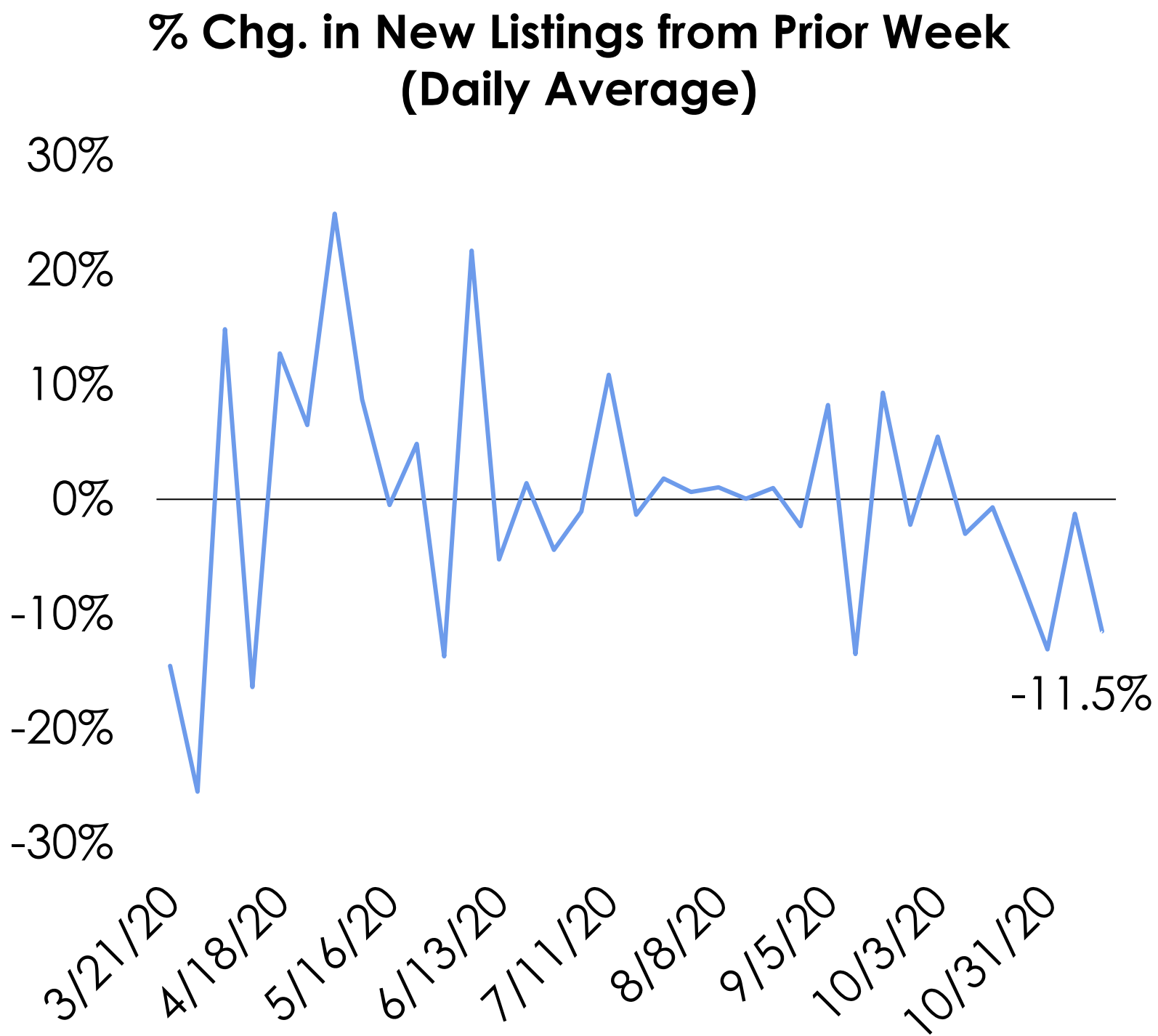
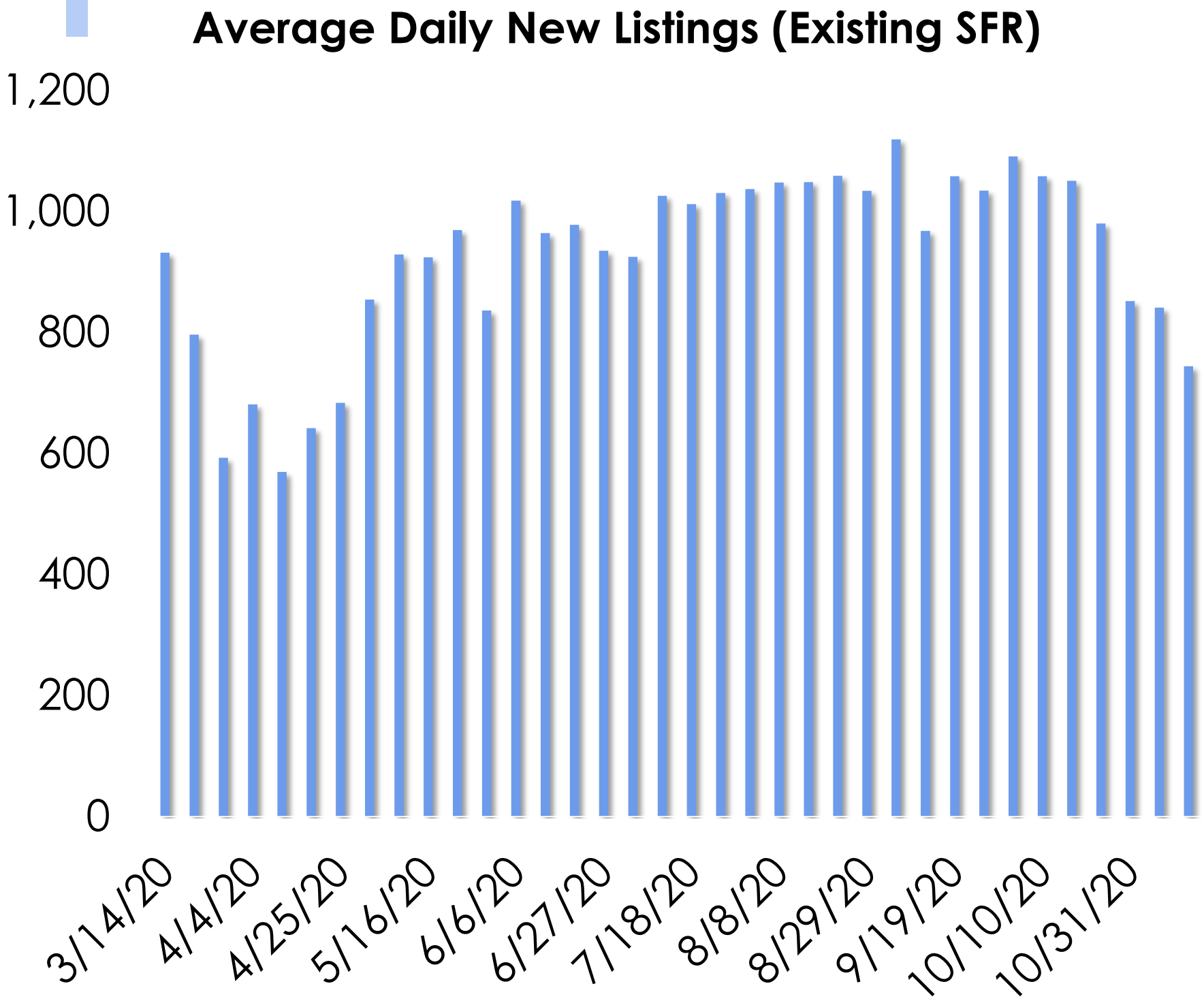


Bay Area

Existing SFR Sales Growth (mtm %)

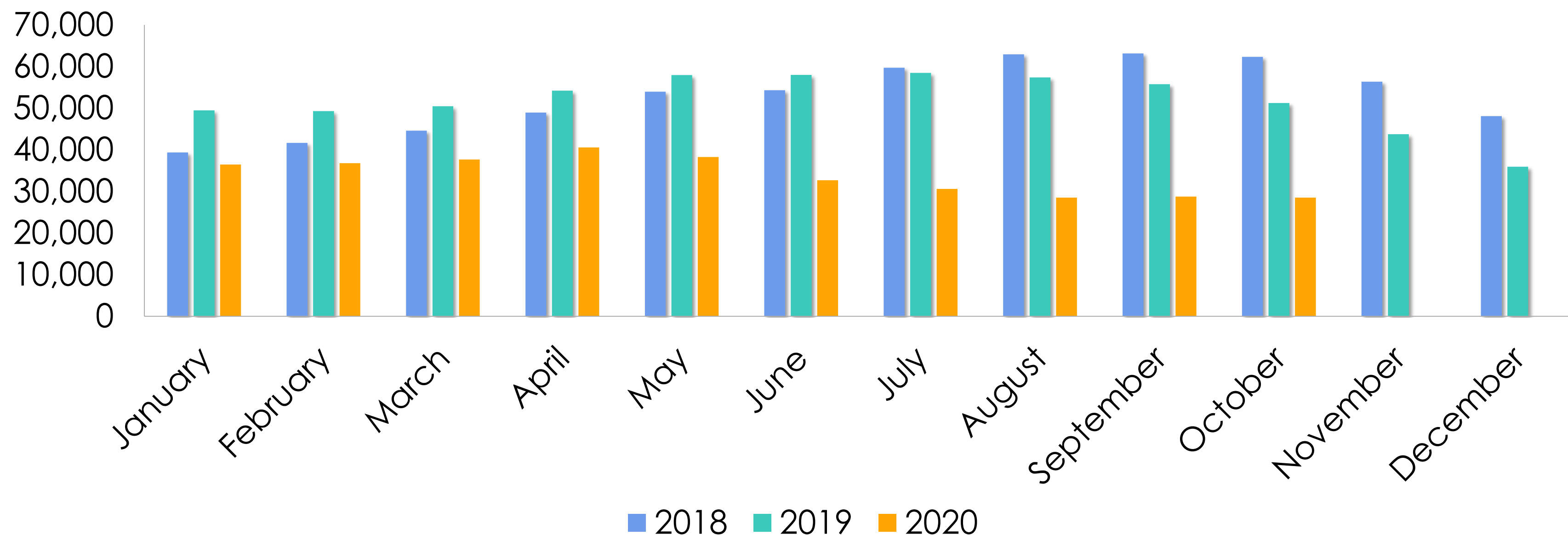


California new listings tighten up further



Active listings dipped below last month to lowest level in over 15 years

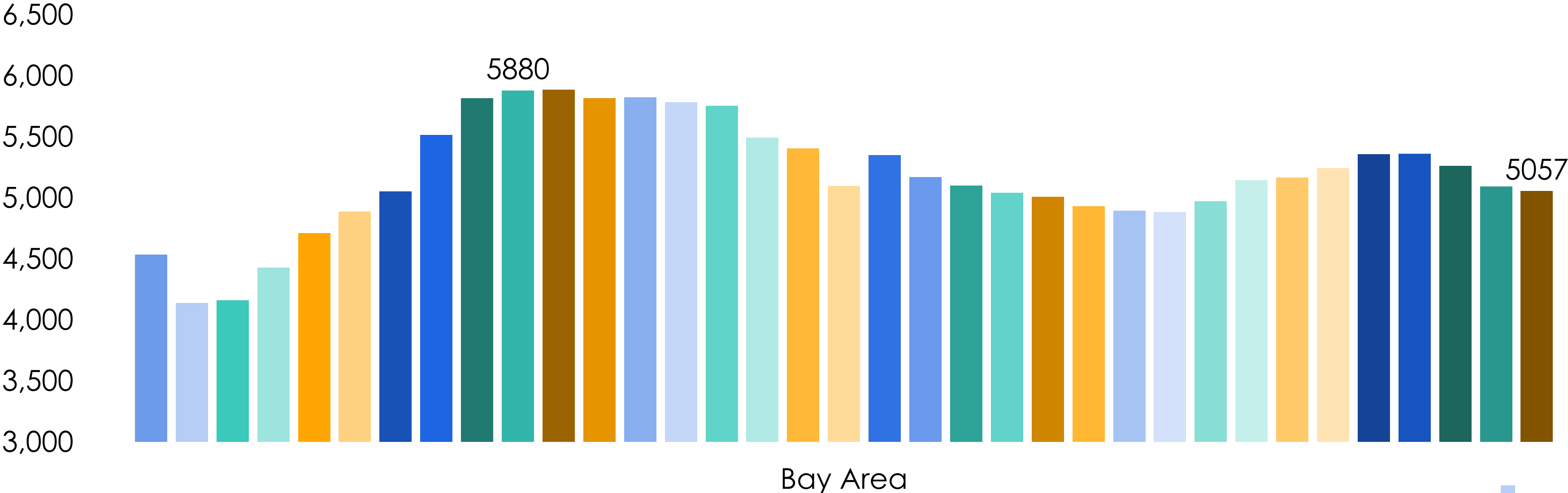
California Active Listings by Month



Total active listings by region

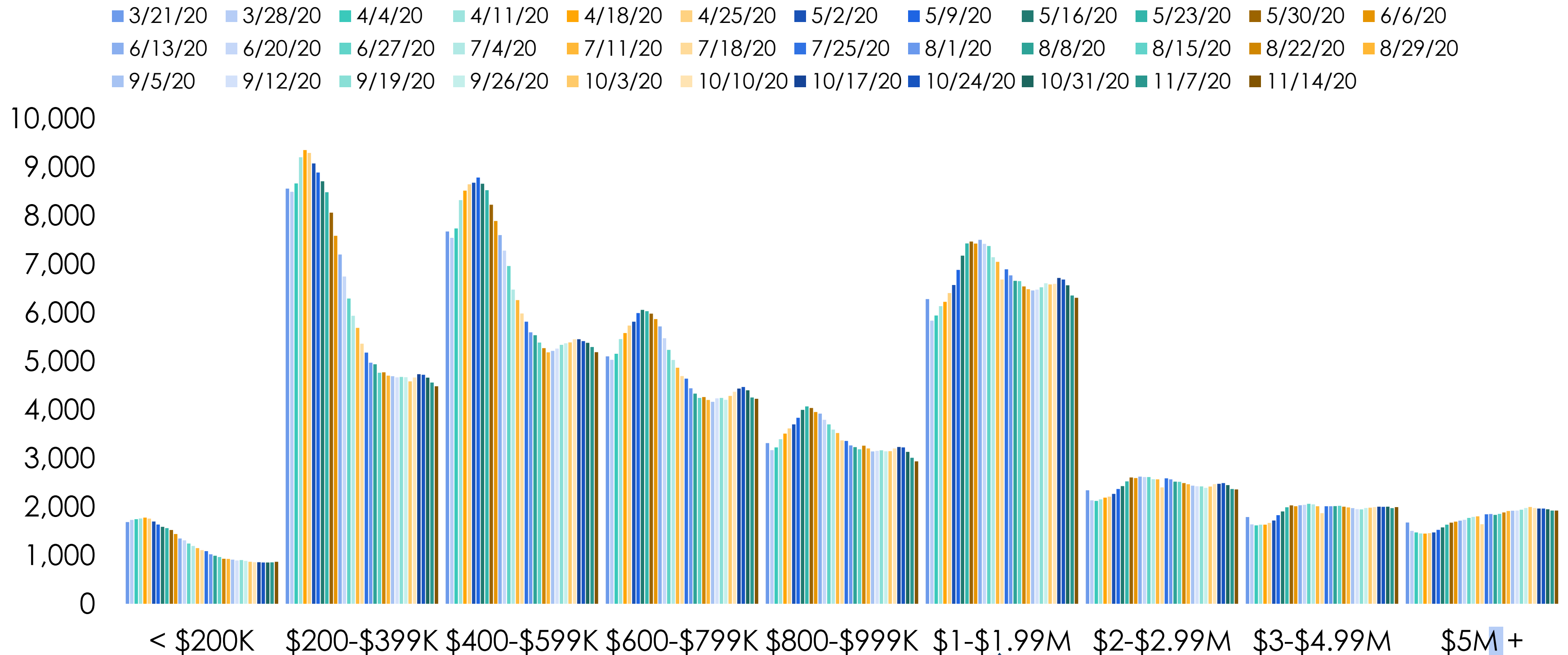
Total Active Listings (Existing SFR)

3/21/20 3/28/20 4/4/20 4/11/20 4/18/20 4/25/20 5/2/20 5/9/20 5/16/20 5/23/20 5/30/20 6/6/20
6/13/20 6/20/20 6/27/20 7/4/20 7/11/20 7/18/20 7/25/20 8/1/20 8/8/20 8/15/20 8/22/20 8/29/20
9/5/20 9/12/20 9/19/20 9/26/20 10/3/20 10/10/20 10/17/20 10/24/20 10/31/20 11/7/20 11/14/20



Total active listings by price range

Total Active Listings (Existing SFR)



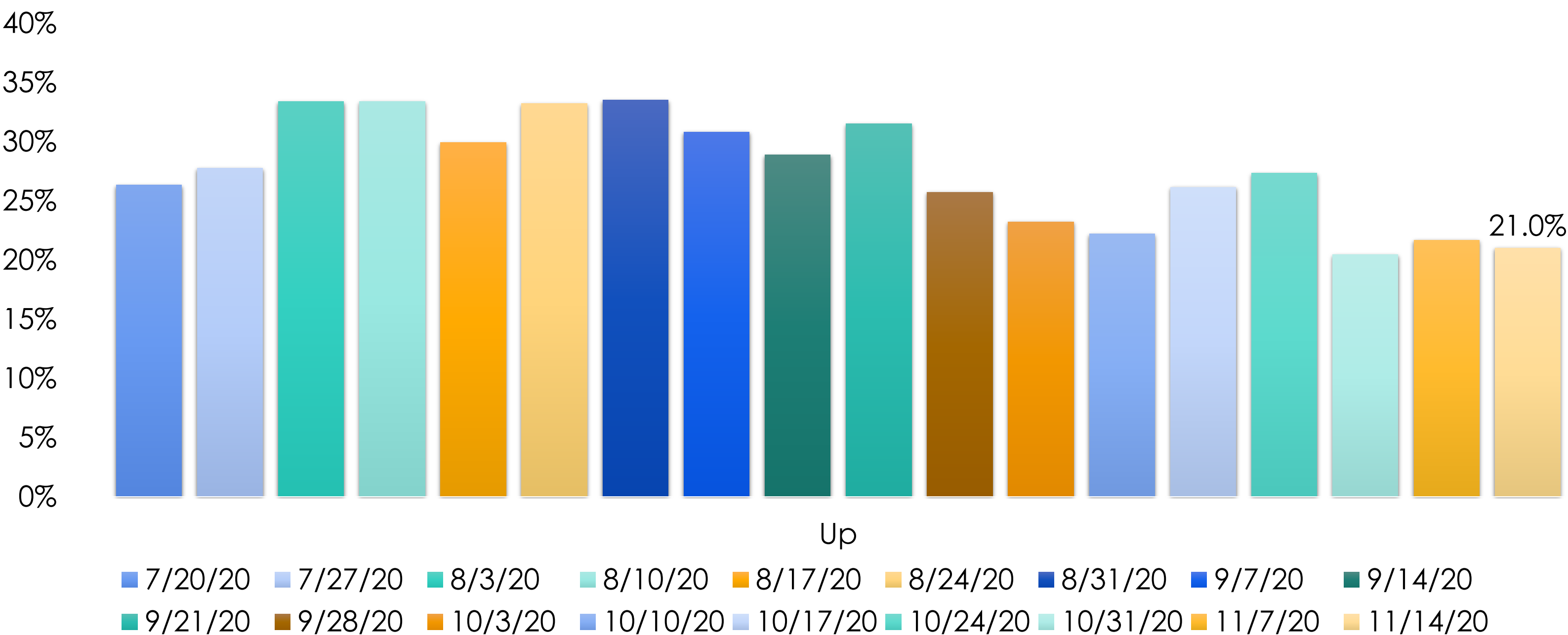


What Are
REALTORS® Saying?



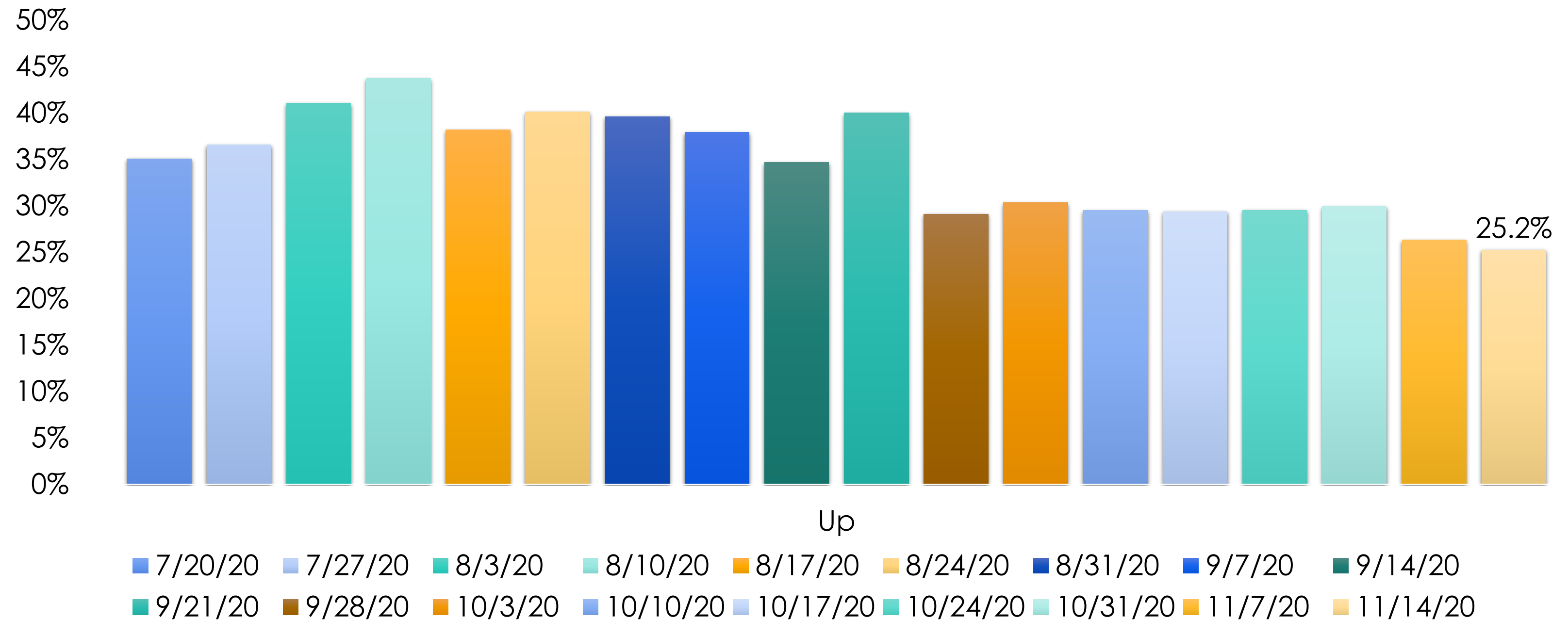
Listings Looking Ahead

Q: Do you think next week **listings** will go:



Sales Looking Ahead

Q: Do you think next week **sales** will go:



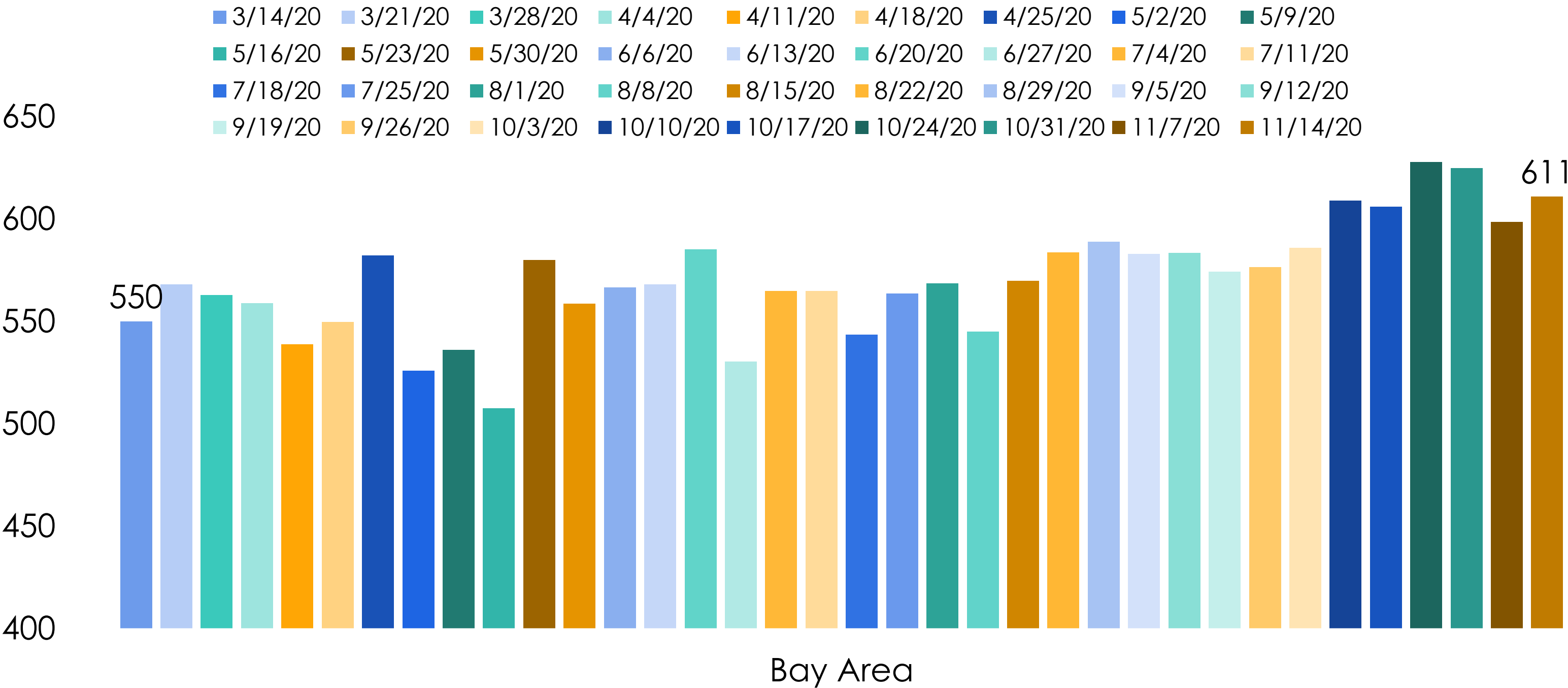


Competitiveness Tells Us
It's All Supply Driven



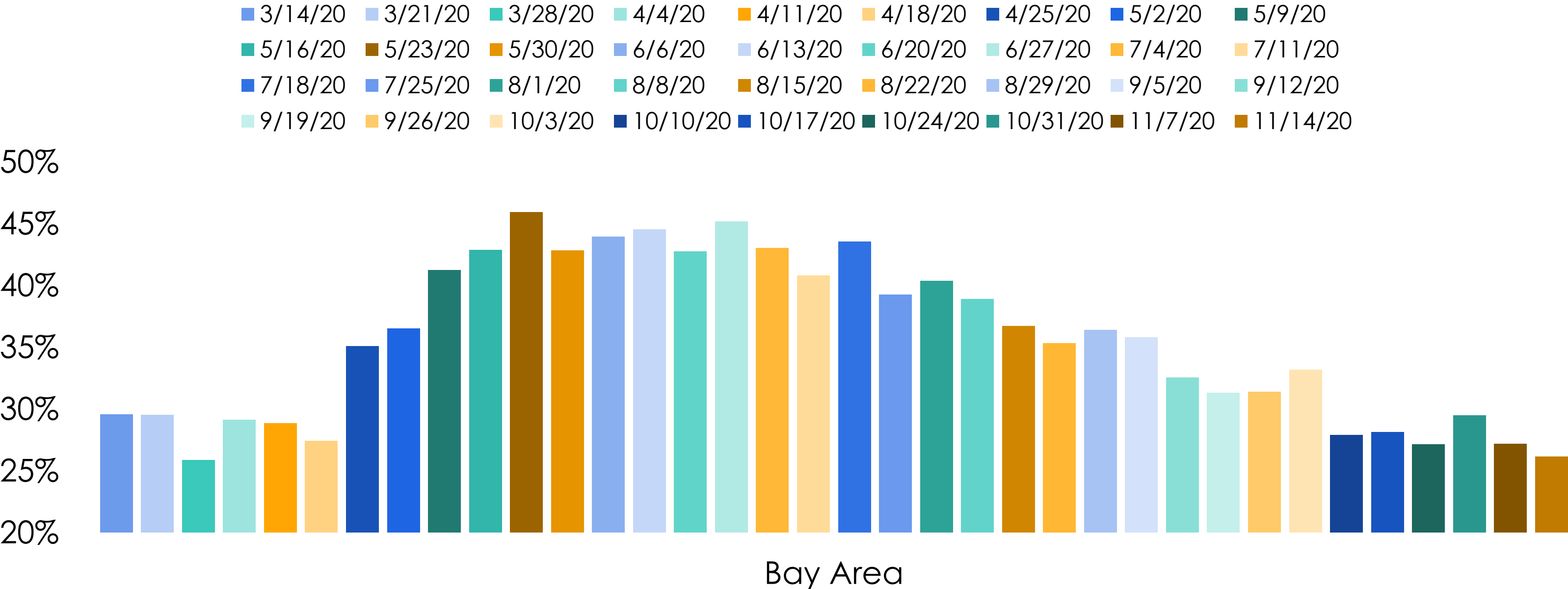
Closed sale prices rising steadily

Median Closed Sale Price (\$/SF)



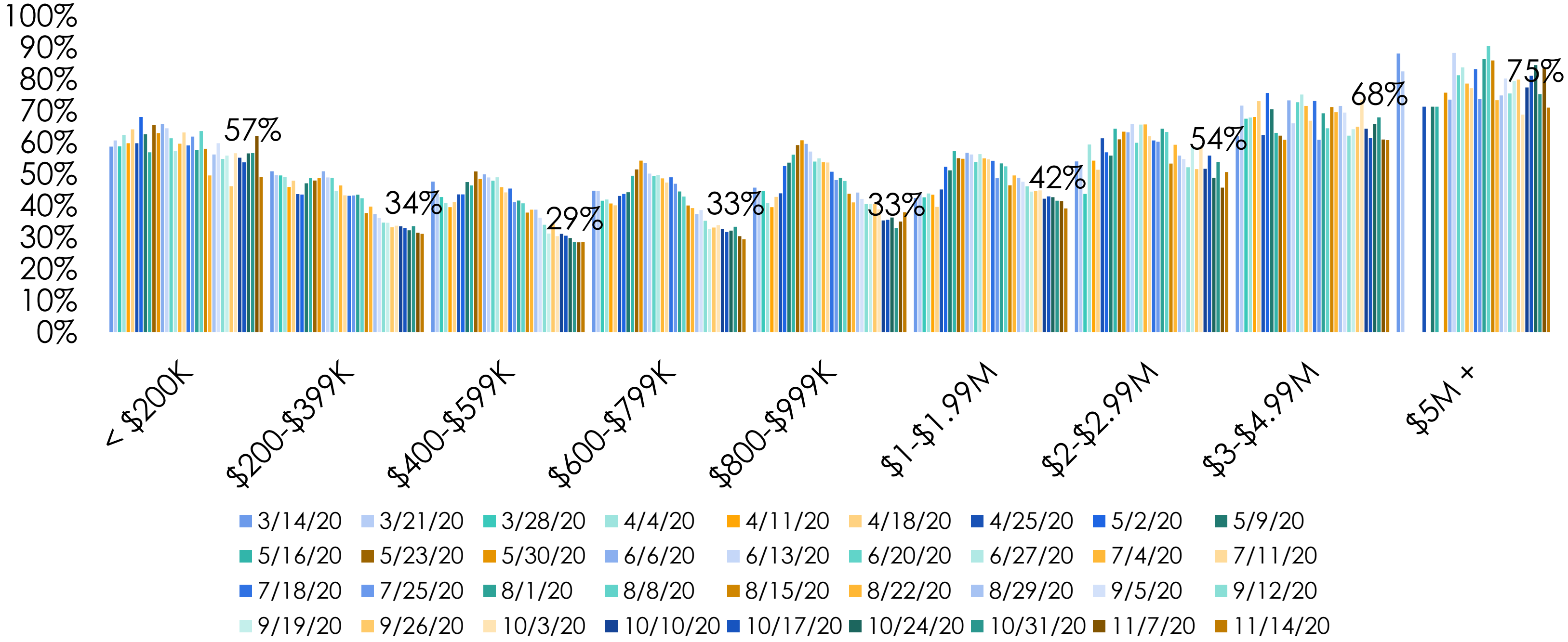
Fewer closings below asking price

Percentage of Closed Sales with Price Reduction



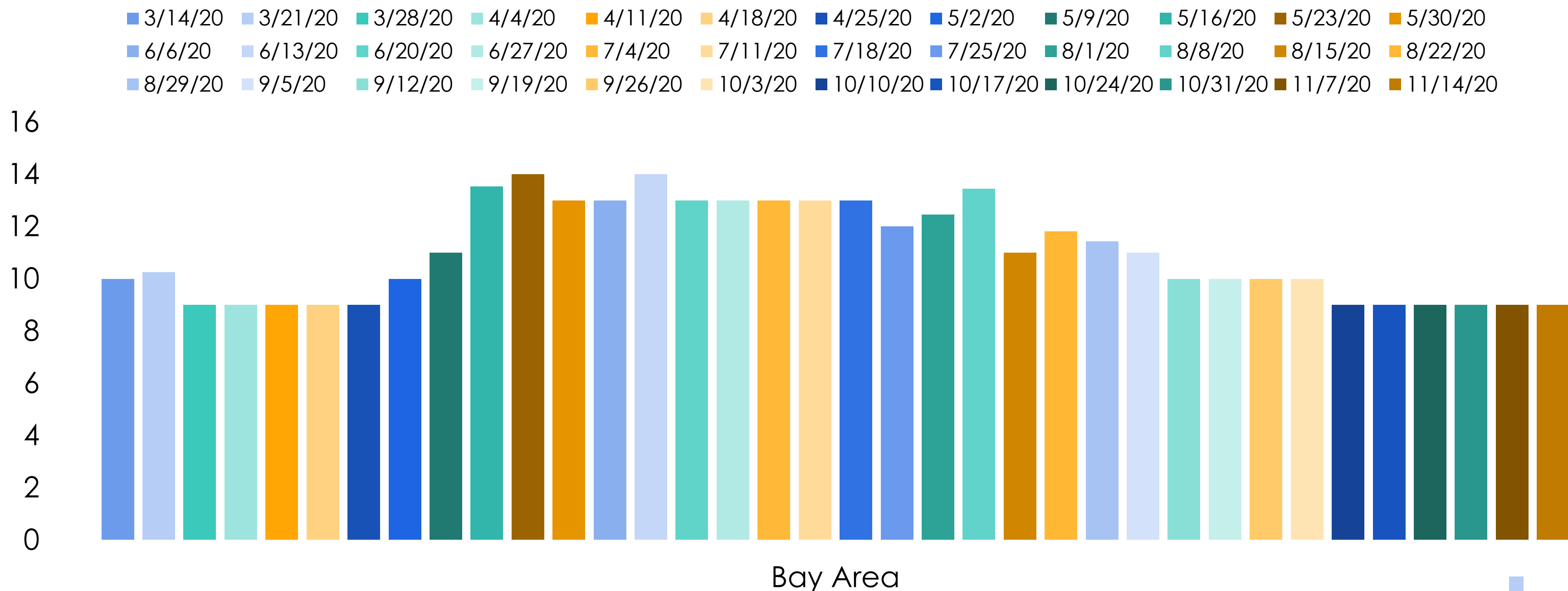
Share of homes sold with a discount

Percentage of Closed Sales with Price Discount



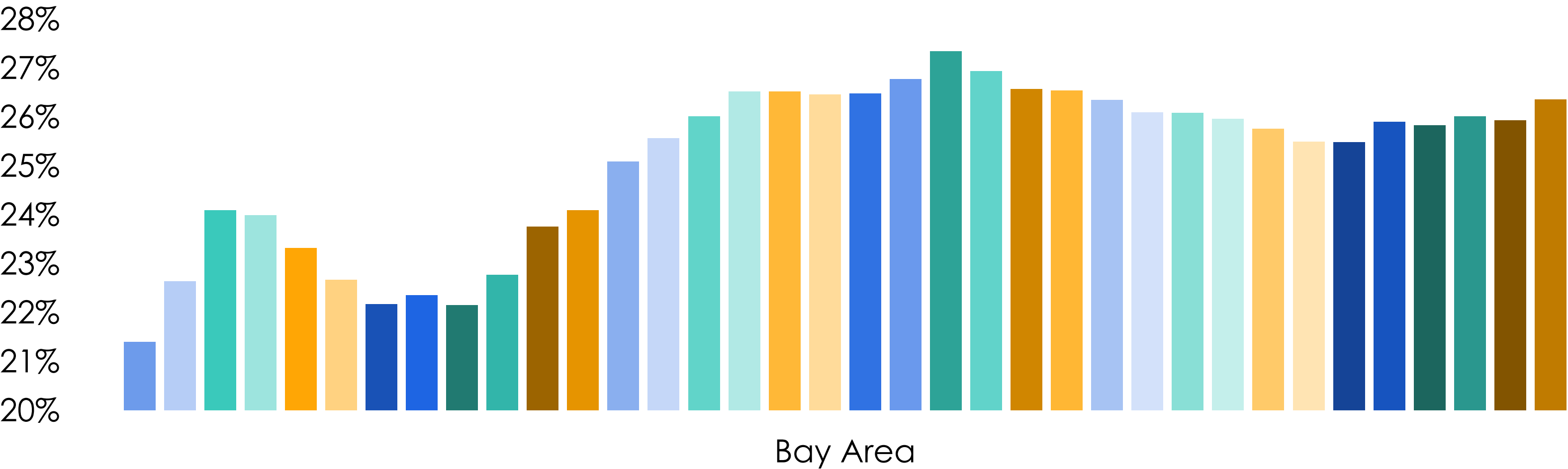
Median time on market (list date to pending date)

Median Time on Market by Region



Actives seeing slight rise in reductions—priced right?

Percentage of Active Listings Reduced from Original List Price

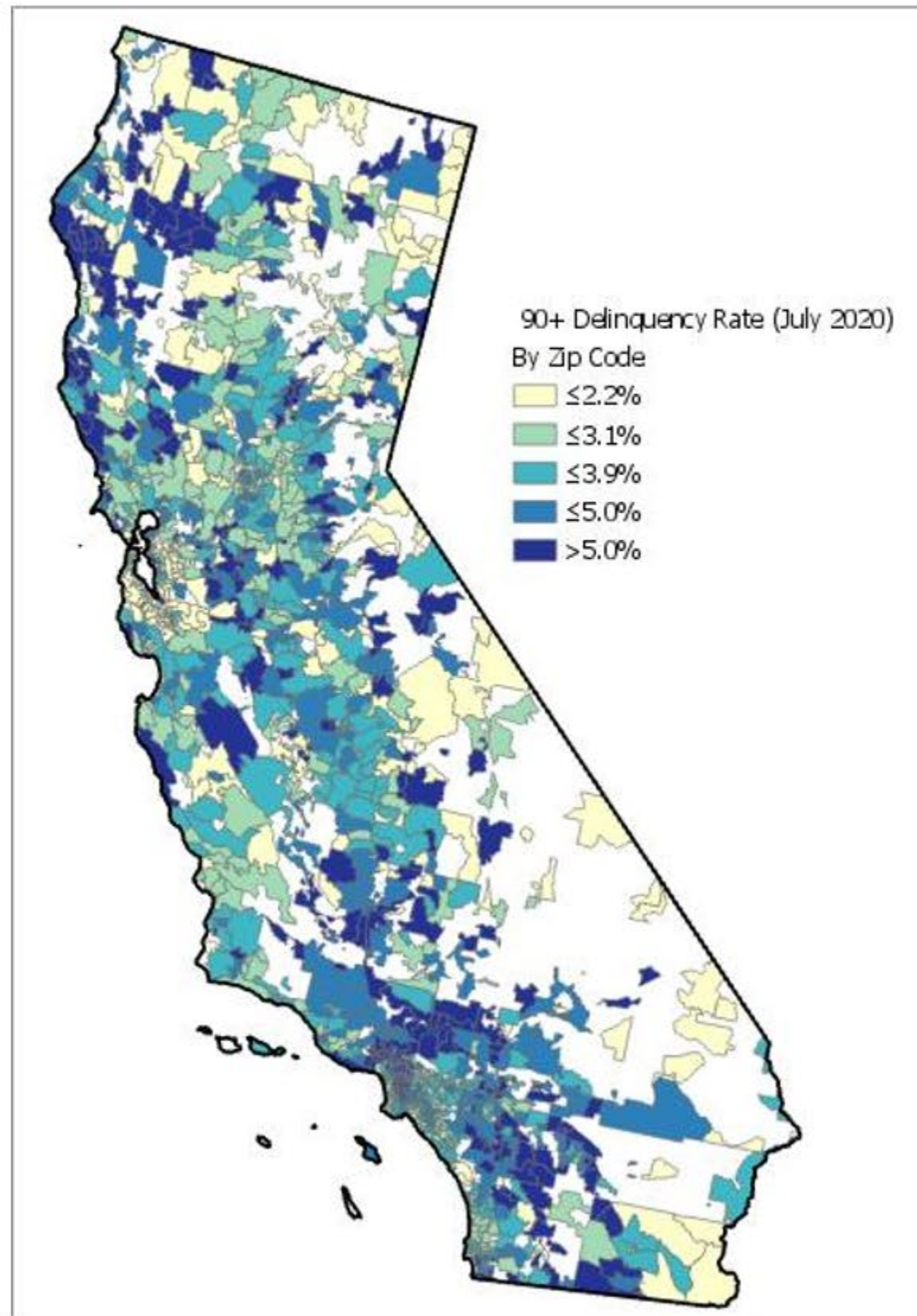




**Just Because It's Not THAT Good
Doesn't Mean It's 2008 All Over**



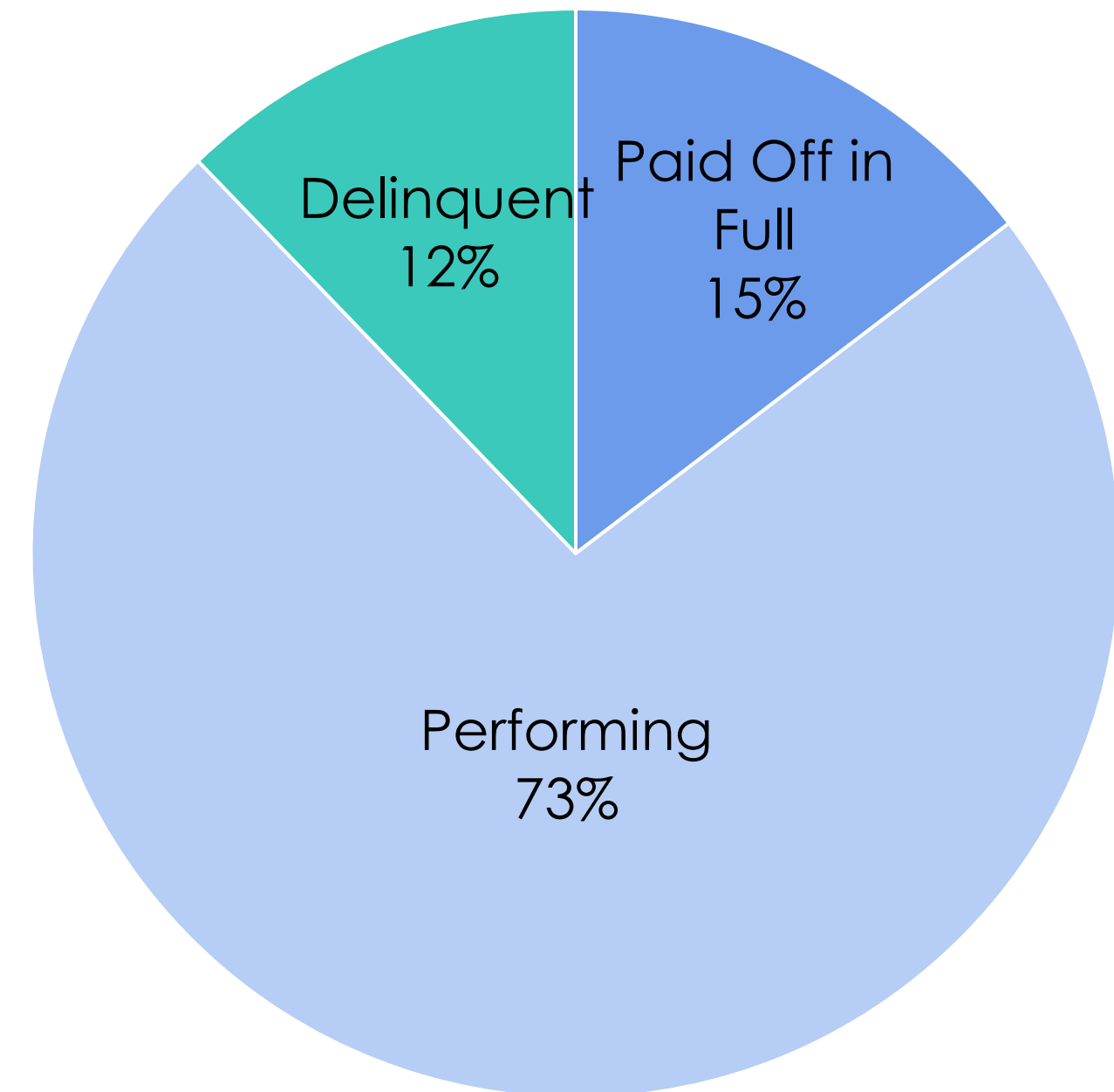
Serious delinquencies peak outside main urban areas



Source: CoreLogic TrueStandings Servicing

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California COVID-related Forbearance



Foreclosures could become a problem, size of impact will be more like 2015 than 2008

The Bad News:

- Potentially 600,000 foreclosures nationwide
- That suggests 60,000 in California
- Currently a moratorium through end of 2020
- Eventually delinquencies will be reckoned with
- Serious delinquencies up a lot in Q3
- Could impact prices (but single digit impacts)

Reasons to Be Hopeful:

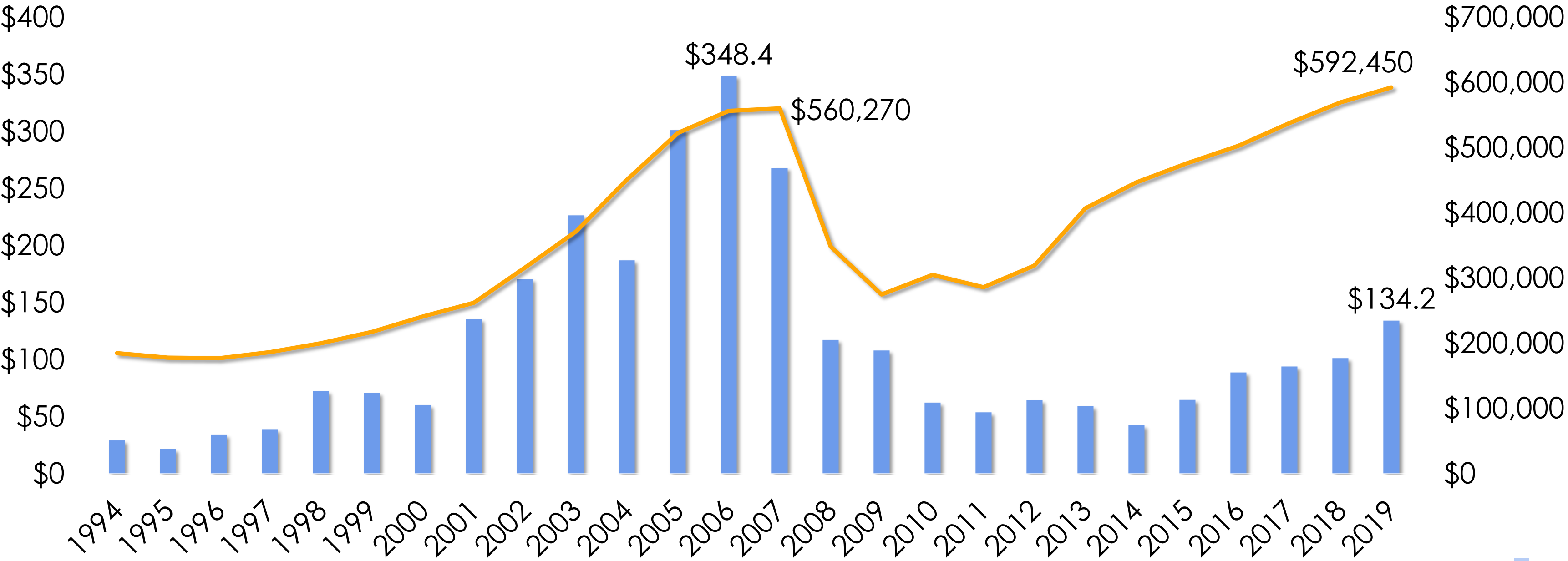
- Better fundamentals
- Lots of home equity/minimal cashing out
- No NINJA loans/option ARMs
- Government on board (5-year + workouts)



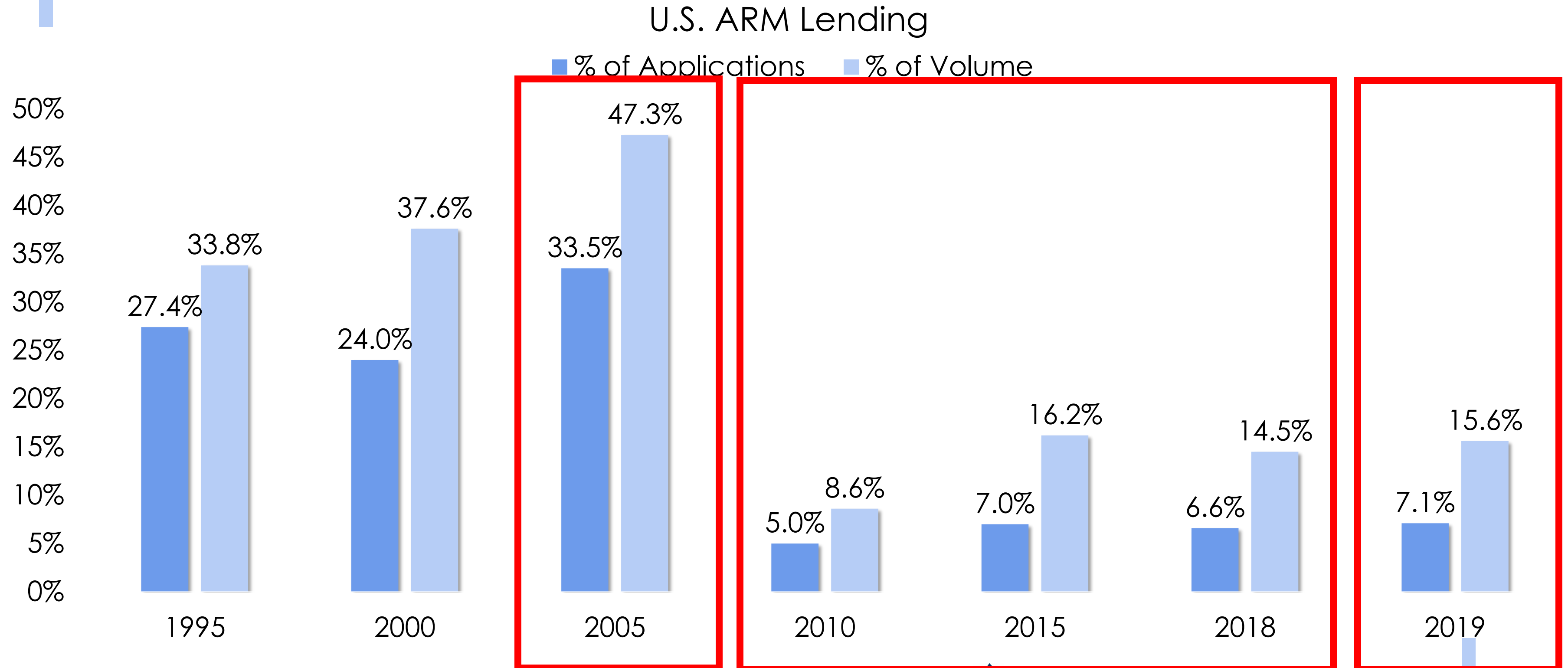
Many homeowners still have skin in the game

Combined Volume of Cash-out and 2nd Mortgages/HELOC Consolidation

■ HELOC Volume (Left) — Median Price (Right)

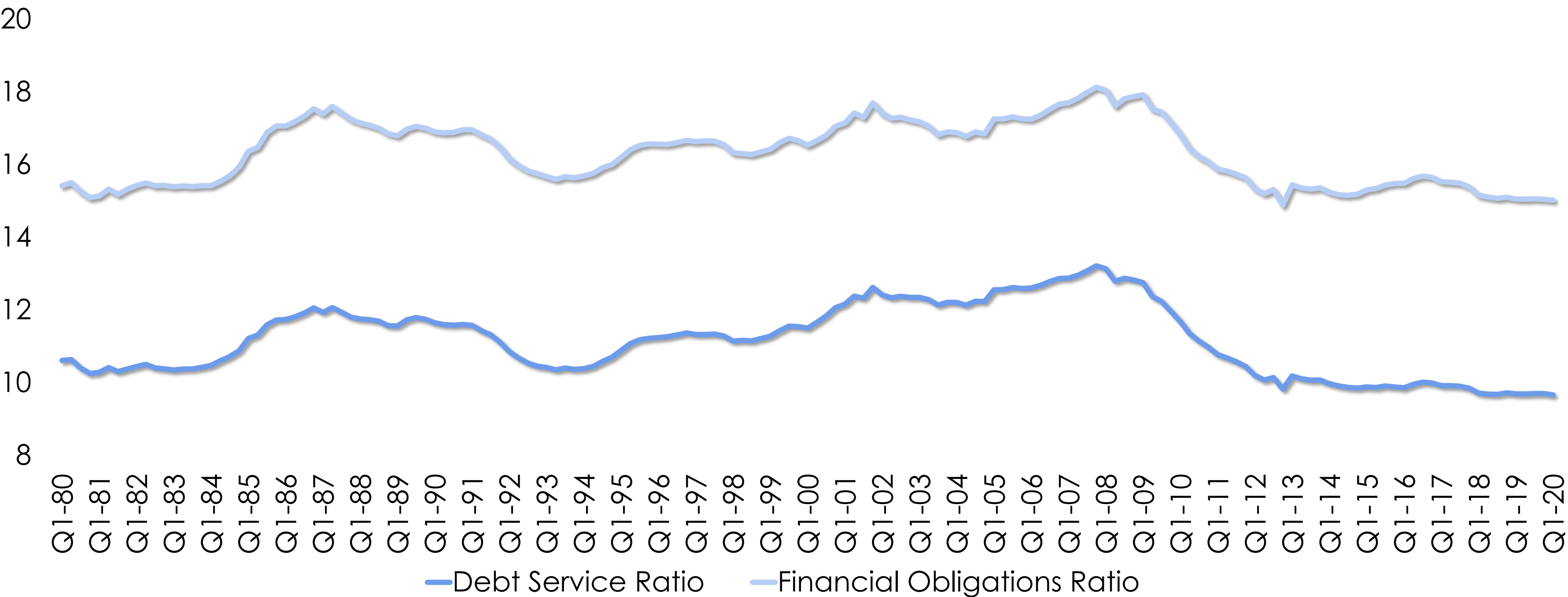


Not as many fundamental problems in mortgage market



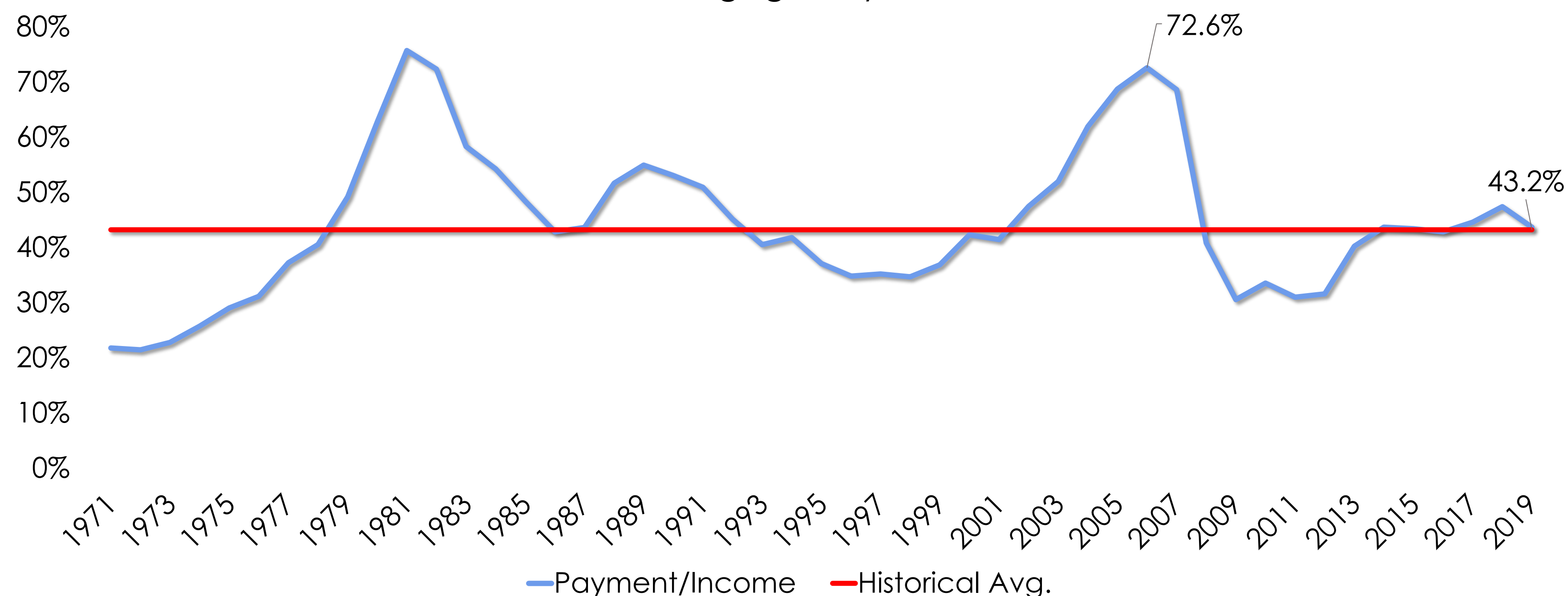
Household balance sheets **were in much better shape**

Household Debt and Financial Obligations



Prices weren't as inflated as they were in 2005

California Median Mortgage Payment to Income Ratio





The Forecast



U.S. economic outlook

	2015	2016	2017	2018	2019	2020p	2021f
US GDP	2.6%	1.6%	2.3%	3.0%	2.2%	-3.6%	4.2%
Nonfarm Job Growth	2.1%	1.8%	1.6%	1.6%	1.3%	-6.5%	3.0%
Unemployment	5.3%	4.9%	4.4%	3.9%	3.7%	8.8%	7.1%
CPI	0.1%	1.4%	2.1%	2.4%	1.8%	1.0%	2.1%
Real Disposable Income, % Change	3.4%	2.7%	2.9%	4.0%	2.9%	6.3%	-3.5%



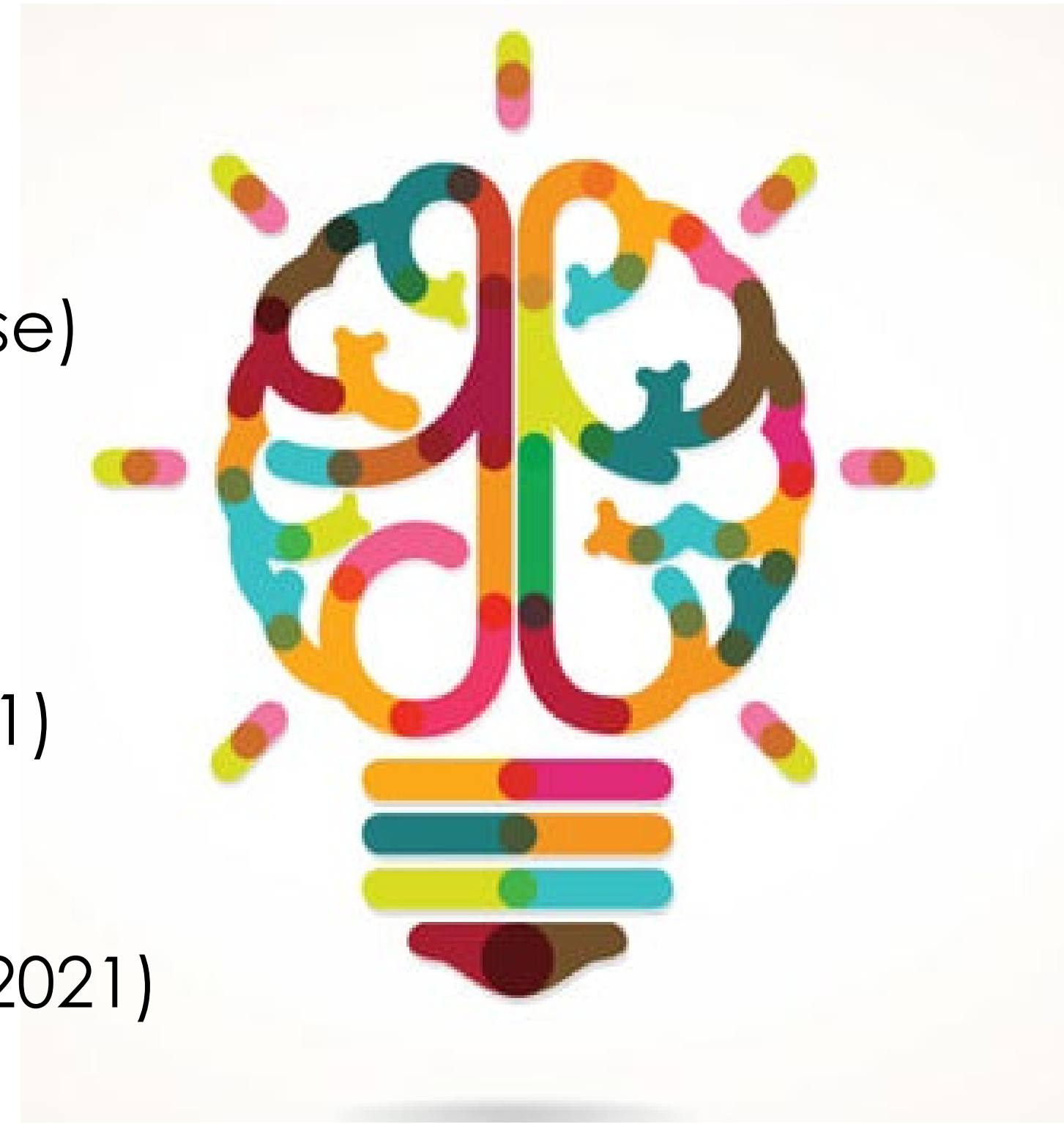
California housing market outlook (baseline)

	2015	2016	2017	2018	2019	2020p	2021f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	398.8	411.9
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	0.2%	3.3%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$661.1	\$690.3
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	11.6%	4.4%
Housing Affordability Index	31%	31%	29%	28%	31%	32%	31%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.2%	3.1%



Baseline housing forecast **key assumptions**

- Vaccine available in H121
- No COVID surge this flu season (modest rise)
- GDP growth rate at 4.2% in 2021
- Household income growth at 3.3% in 2021
- Interest rates near record low (3.1% in 2021)
- 2021 inventory unchanged from 2020
- Foreclosures at low level (< 8% of sales in 2021)
- Foreclosures average <10% discount



Worst case housing forecast **key assumptions**

- Vaccine not available until H221
- Flu season resurgence in COVID
- California shut down for (2 months +)
- Zero growth in GDP in 2021
- Household income drops 4.2% in 2021
- No new federal stimulus in 2021
- Interest rates rise slightly ($>3\%$ in 2021)
- Inventory increases (+20-25% from 2020)
- Foreclosures at 2009-2010 (30% of all sales)
- Foreclosures average 40% discount



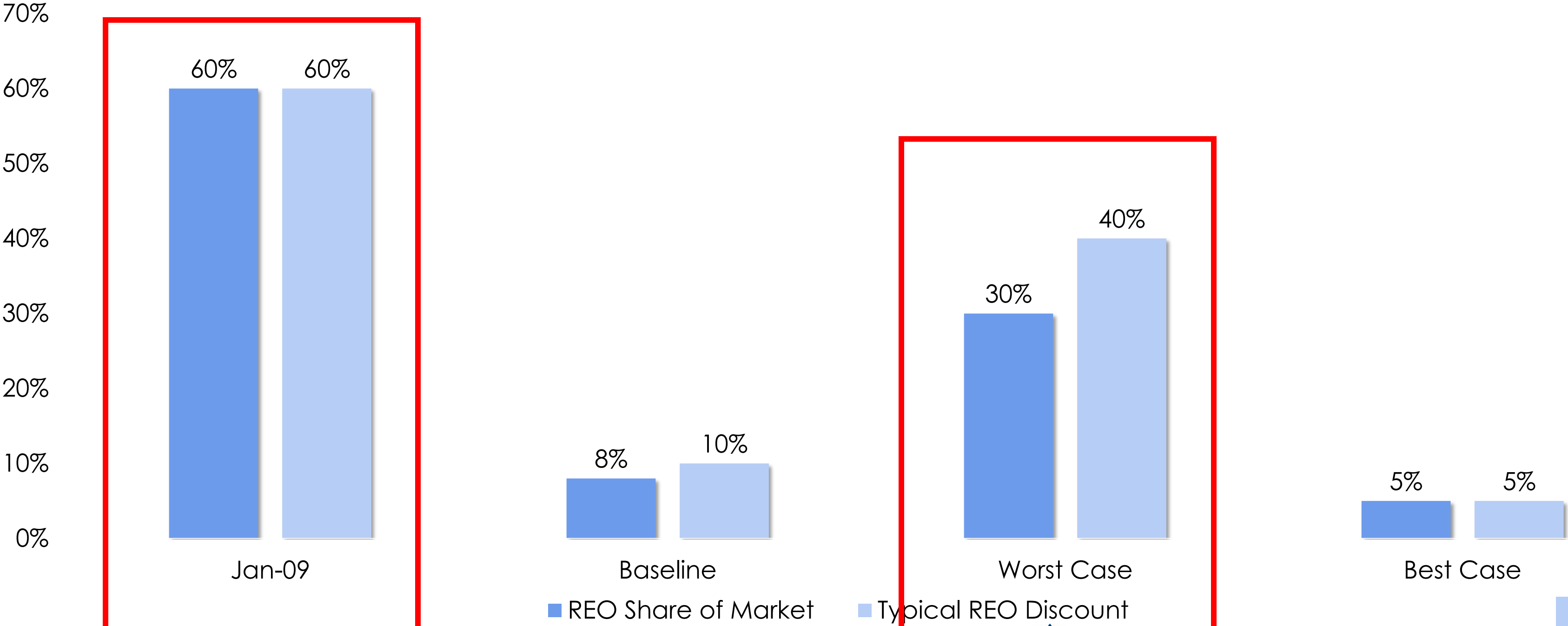
California housing market outlook (worst case)

	2015	2016	2017	2018	2019	2020p	2021f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	377.0	330.0
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	-5.3%	-12.5%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$620.6	\$518.8
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	4.8%	-16.4%
Housing Affordability Index	31%	31%	29%	28%	31%	33%	41%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.2%	3.2%



Potential REO scenarios

California REO Market
REO Market Share and Typical Discount (Relative to Market)



California housing market outlook (best case)

	2015	2016	2017	2018	2019	2020p	2021f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	408.4	430.3
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	2.6%	5.4%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$668.3	\$717.8
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	12.8%	7.4%
Housing Affordability Index	31%	31%	29%	28%	31%	31%	29%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.2%	2.9%



Concluding remarks

Yes, things have gotten better

- Macroeconomic data has improved
- We are seeing that across most aspects of our business

REALTORS® still face a challenging environment

- Inventory preventing many sales from happening
- Still a lot of healing left to do and many still hurting

Keeping it really real

- Lots of uncertainty remains, even with vaccine
- Evictions, foreclosures, long-term structural issues
- Time for cautious optimism, **emphasis on caution**



We Want To Hear From You!



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Thank You

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