

2020 California Housing Market Forecast



September 26, 2019
Leslie Appleton-Young
Chief Economist + SVP
California Association of
REALTORS®



Karynne's Summary of Takeaways

Leslie's 2020 Forecast for California Statewide Housing: Prices up by 2.5%; Number of Sales up by 0.8%

2019's flattening was due to lack of supply of new homes, people staying in their homes longer and affordability constraints. Prices have grown faster than incomes.

There is uncertainty and a lot of noise due to the political climate, trade war, possible recession etc., but none of the risks are related to housing.

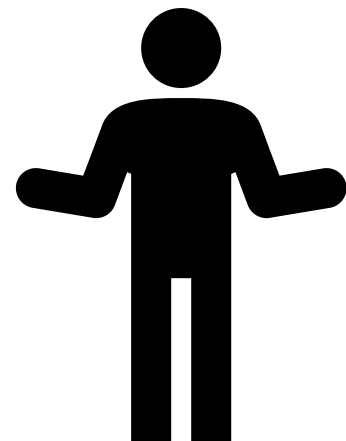
Fundamentals are good (GDP, unemployment lowest in 50 years, job growth and inflation).

Interest rates are expected to remain low.

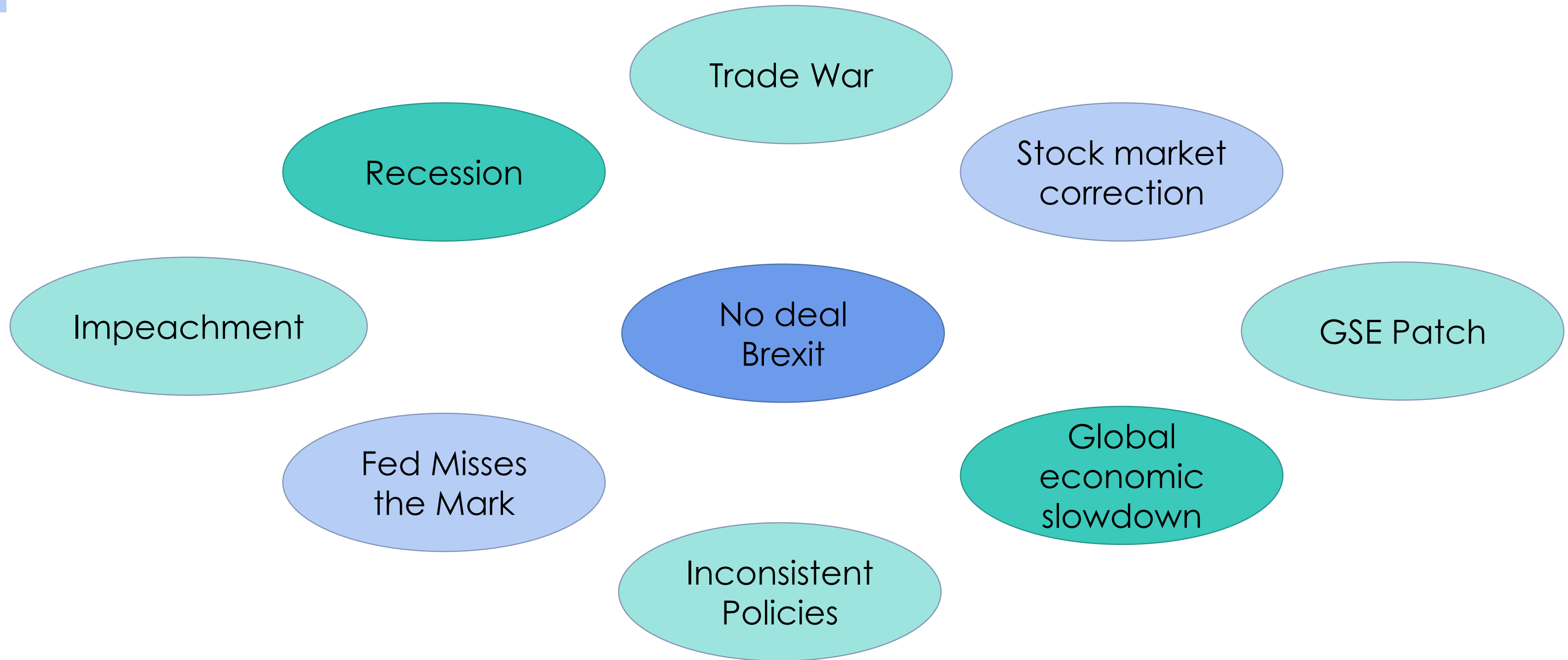


Macro Economic Outlook

UNCERTAINTY



What is everyone worried about? **Everything.**



**Aren't we due for a
recession in 2020?**



Recent Headline – Can 100+ Economists be Wrong?

Experts Say Next Recession Will Begin in 2020

The most likely triggers for the next recession are trade policy, a stock market correction or geopolitical crisis. Housing demand will decrease, but a housing slowdown is not expected to cause the recession.

Jul 25, 2019
Pulsenomics

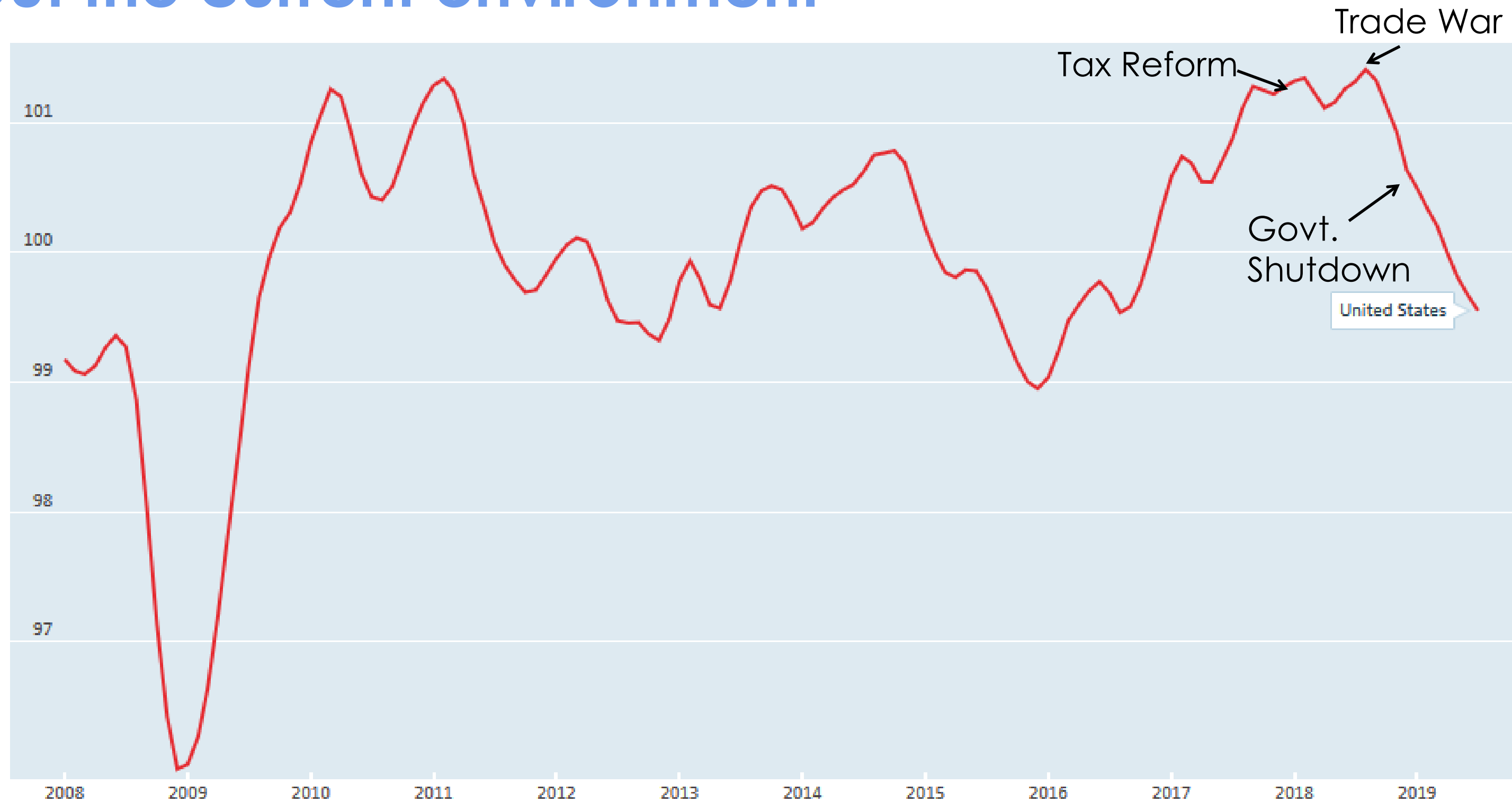


Aren't we due for a recession in 2020?

- 10th year of economic growth
- Yield curved inverted in August
- Q: What will drive the downturn when it comes ?
 - a) Global economic slowdown
 - b) Trade War
 - c) Geo-political crisis
 - d) Stock market correction
- Answer: All of the above (& none are housing)
- Bonus Answer: No timetable for recession

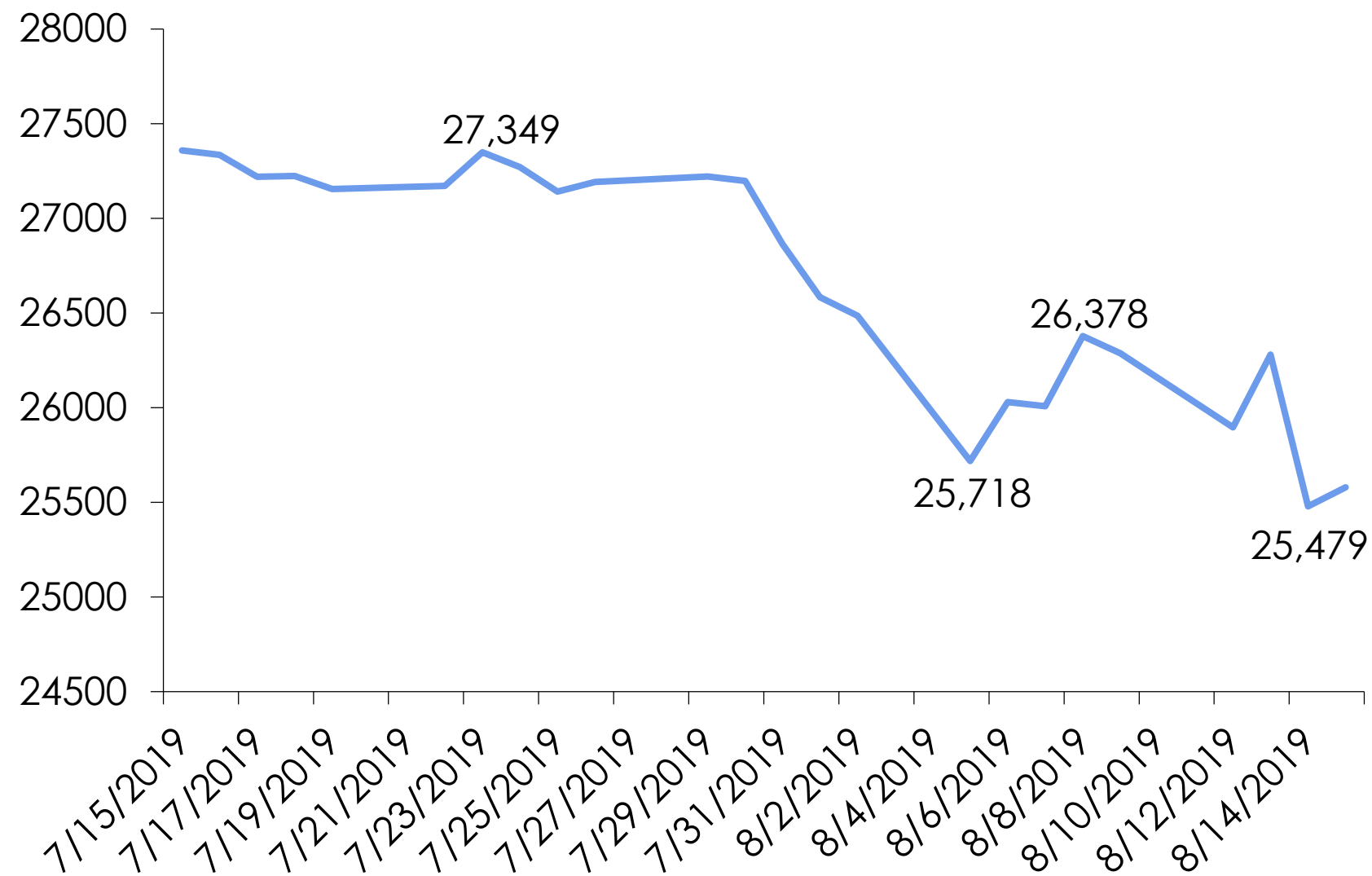


Business Leaders are concerned about the current environment

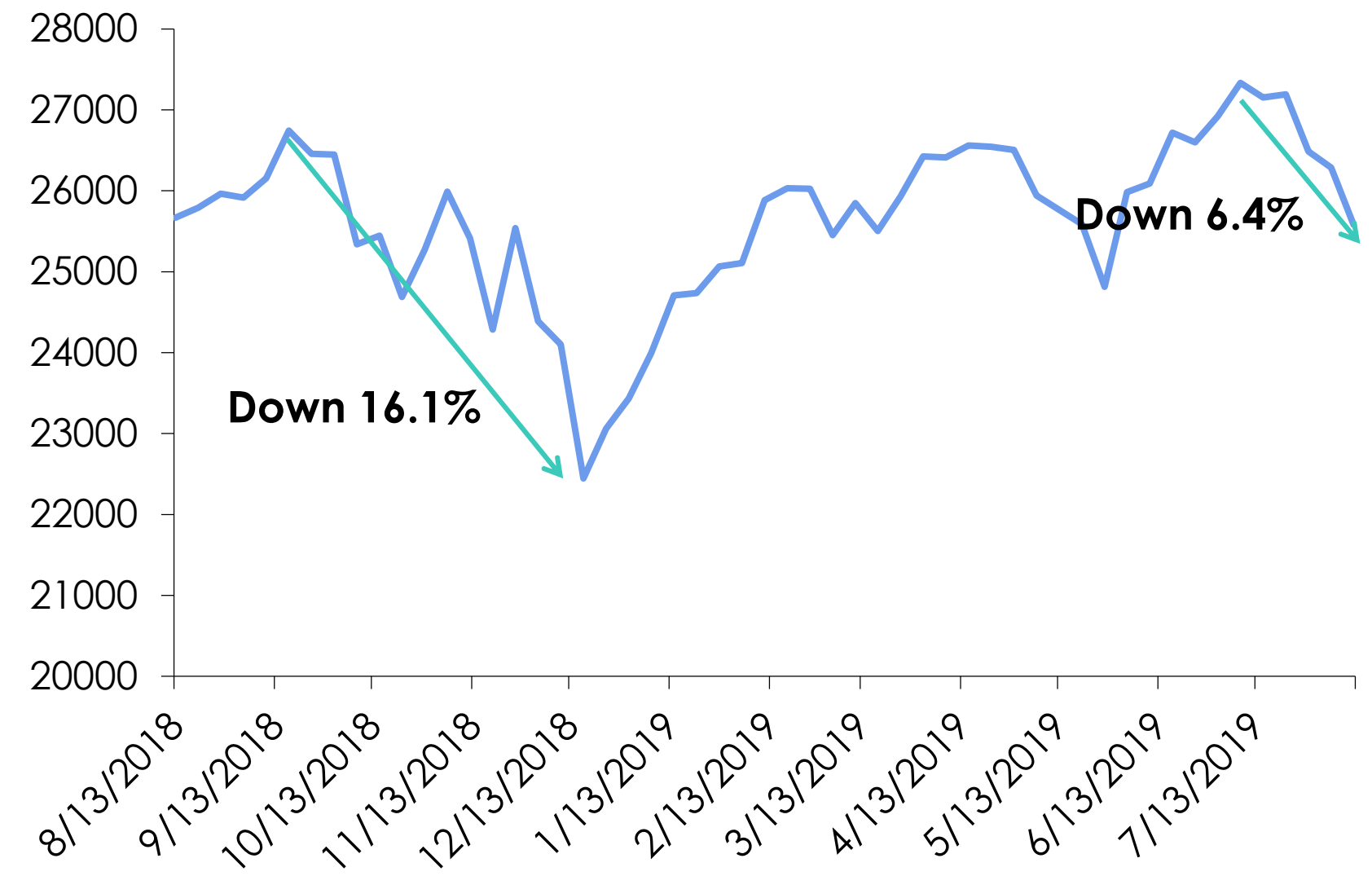


Stock market major jitters

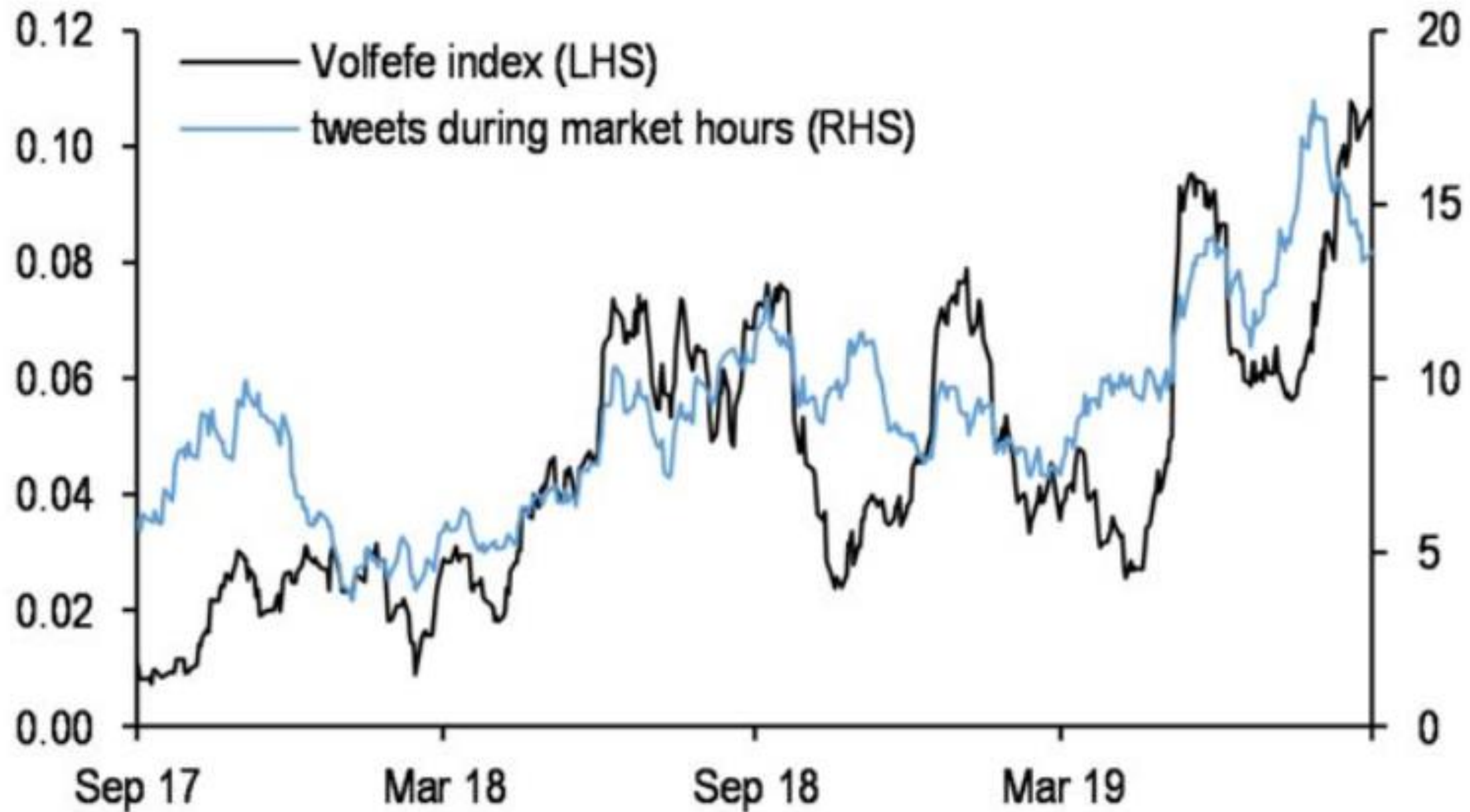
(7/15/19 – 8/15/19)



(8/13/18 – 8/15/19)

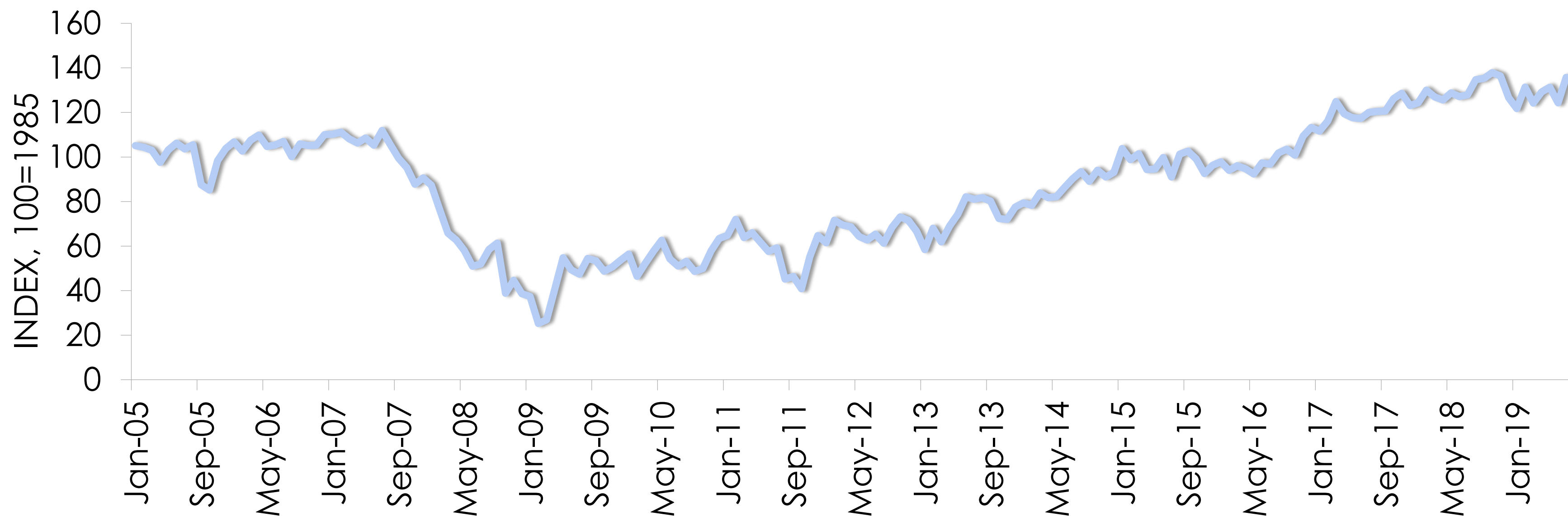


JP Morgan Volfefe Index: Tweets & Market Volatility



Consumer Confidence dropped 9 points in September

September 2019 **125.1**



The Conference Board: September News Release

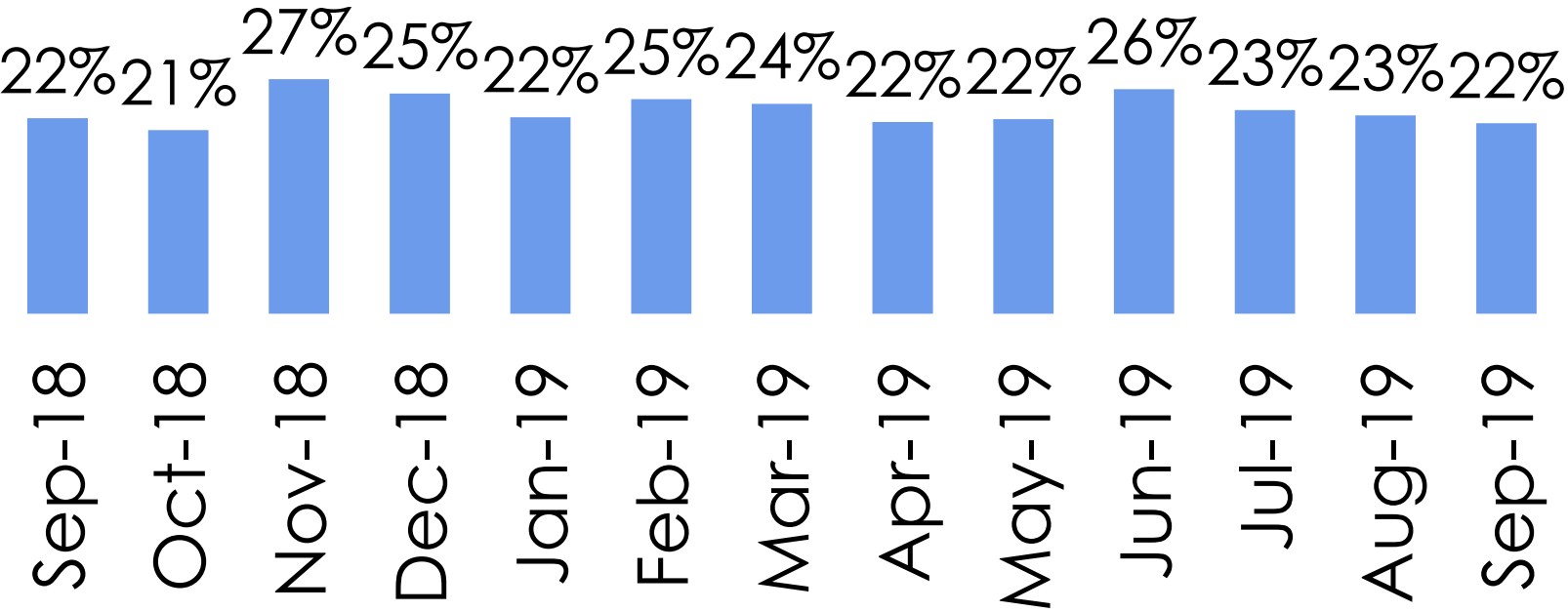
“While confidence could continue hovering around current levels for months to come, at some point this continued uncertainty will begin to diminish consumers' confidence in the expansion.”



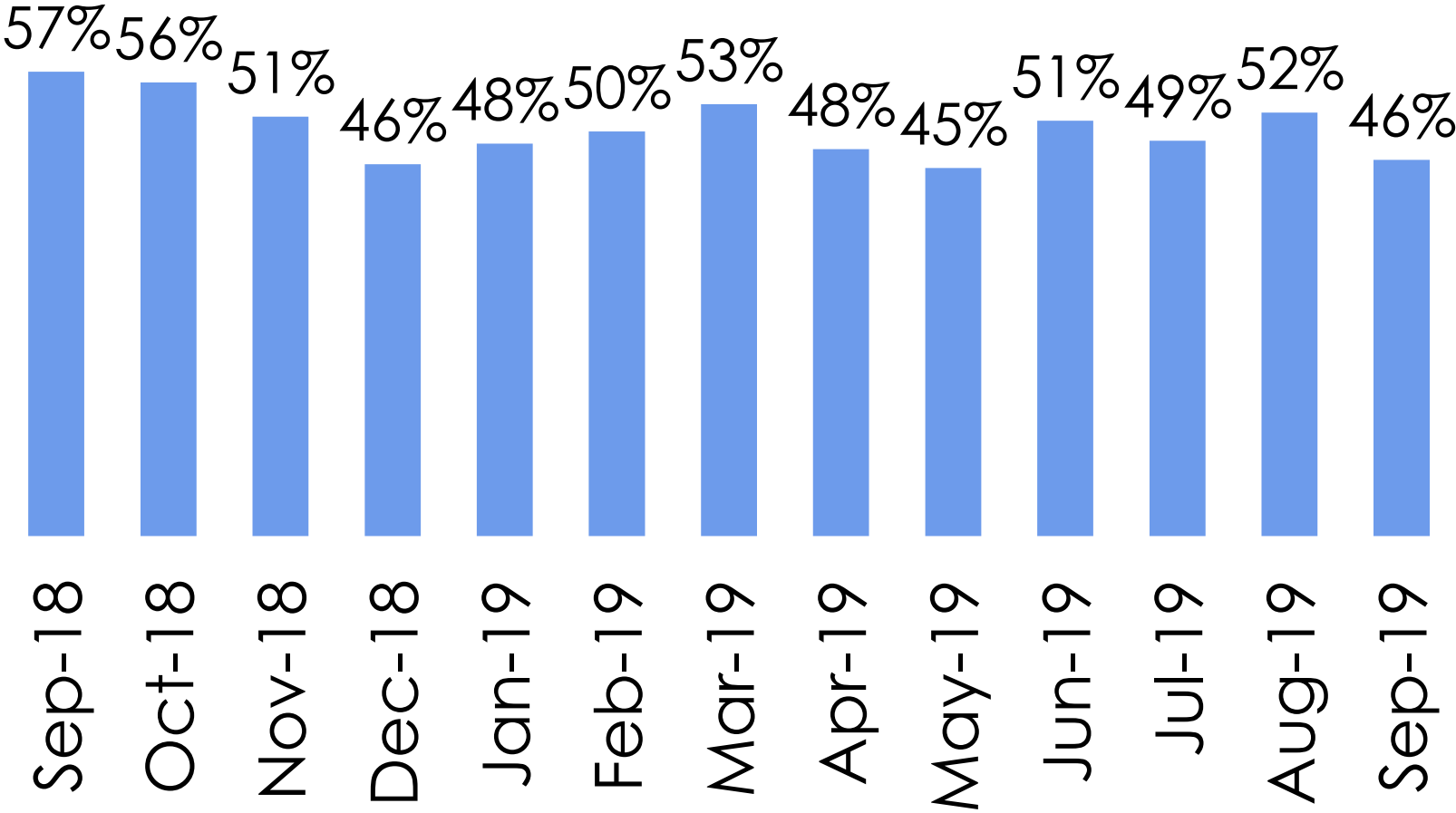
C.A.R. Google Consumer Poll: September 2019

Good time to buy? 22% Good time to sell? 46%

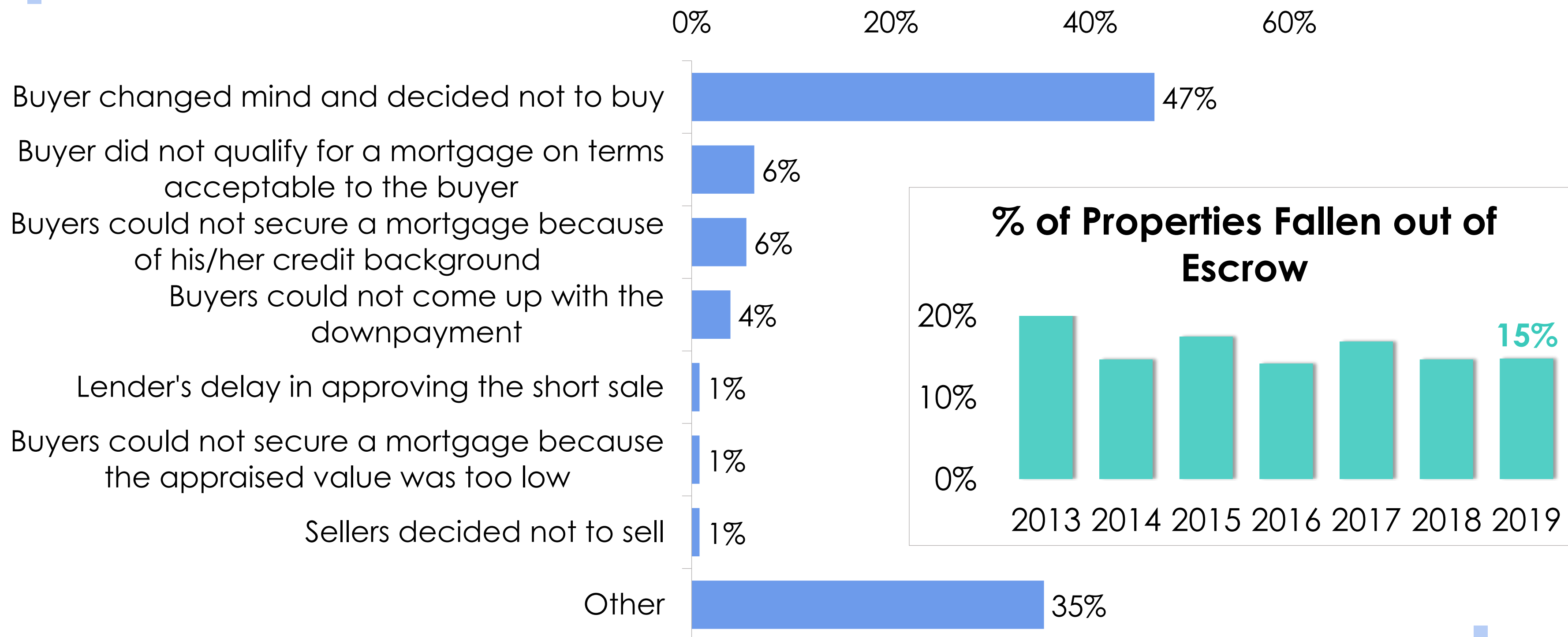
Do you think it's a good time to **buy** a home in California?
N=300



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



Properties falling out of escrow because buyer was unsure



***STOP THE NOISE –
Let's look at the data***



Fundamentals appear solid and sustainable if not spectacular...



GDP **2.0%**

2019-Q2



Consumption **4.7%**

2019-Q2



Core CPI **2.4%**

August 2019



Unemployment **3.7%**

August 2019

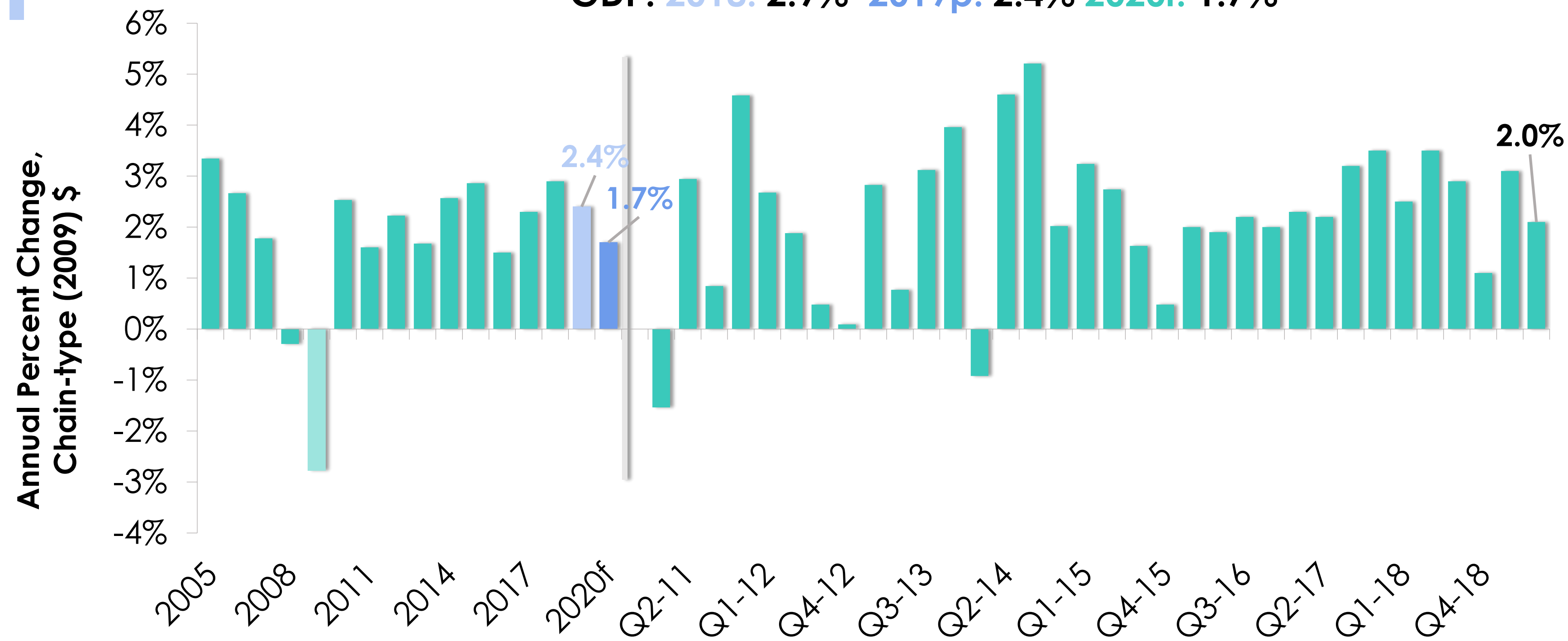


Job Growth **1.4%**

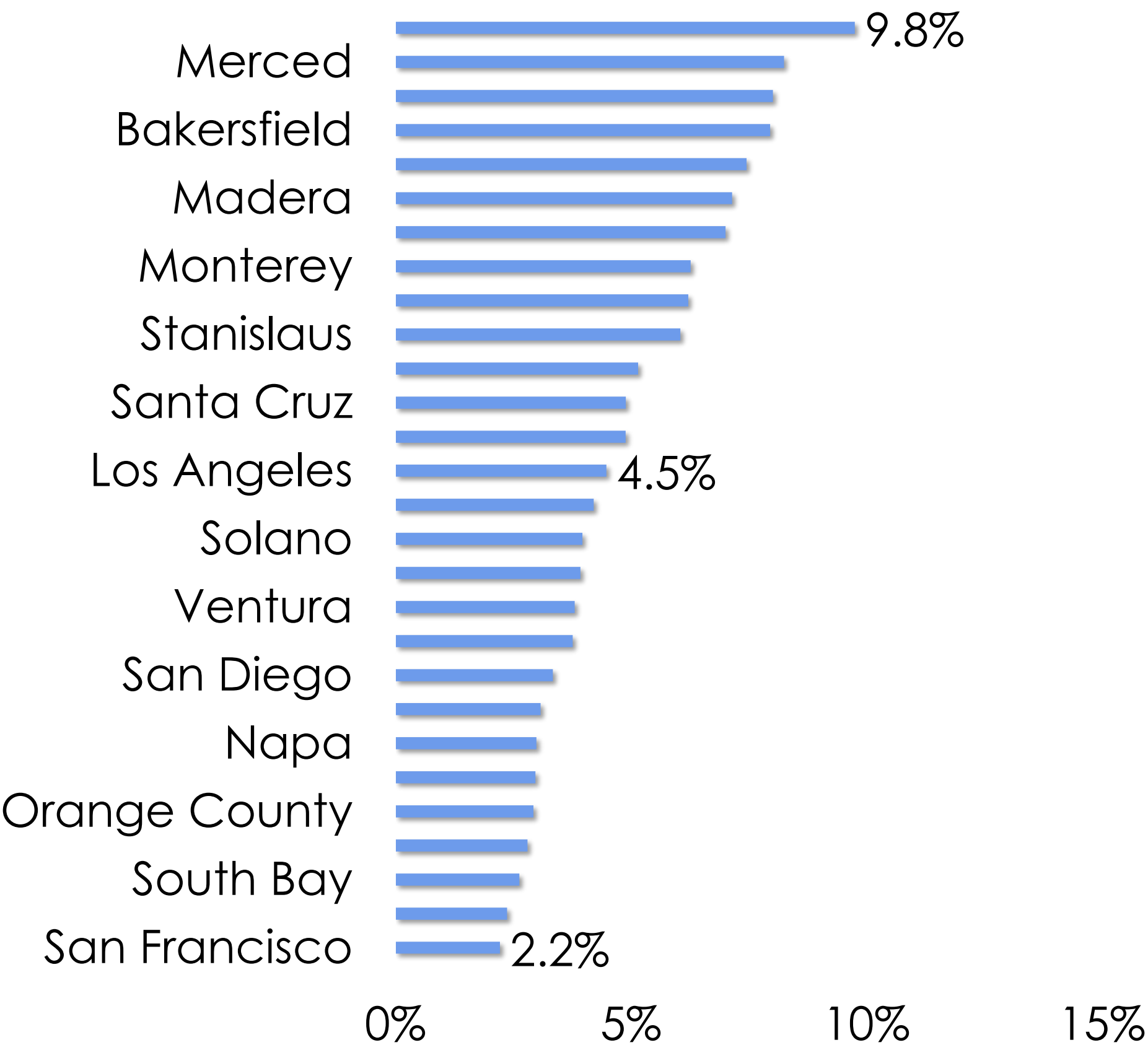
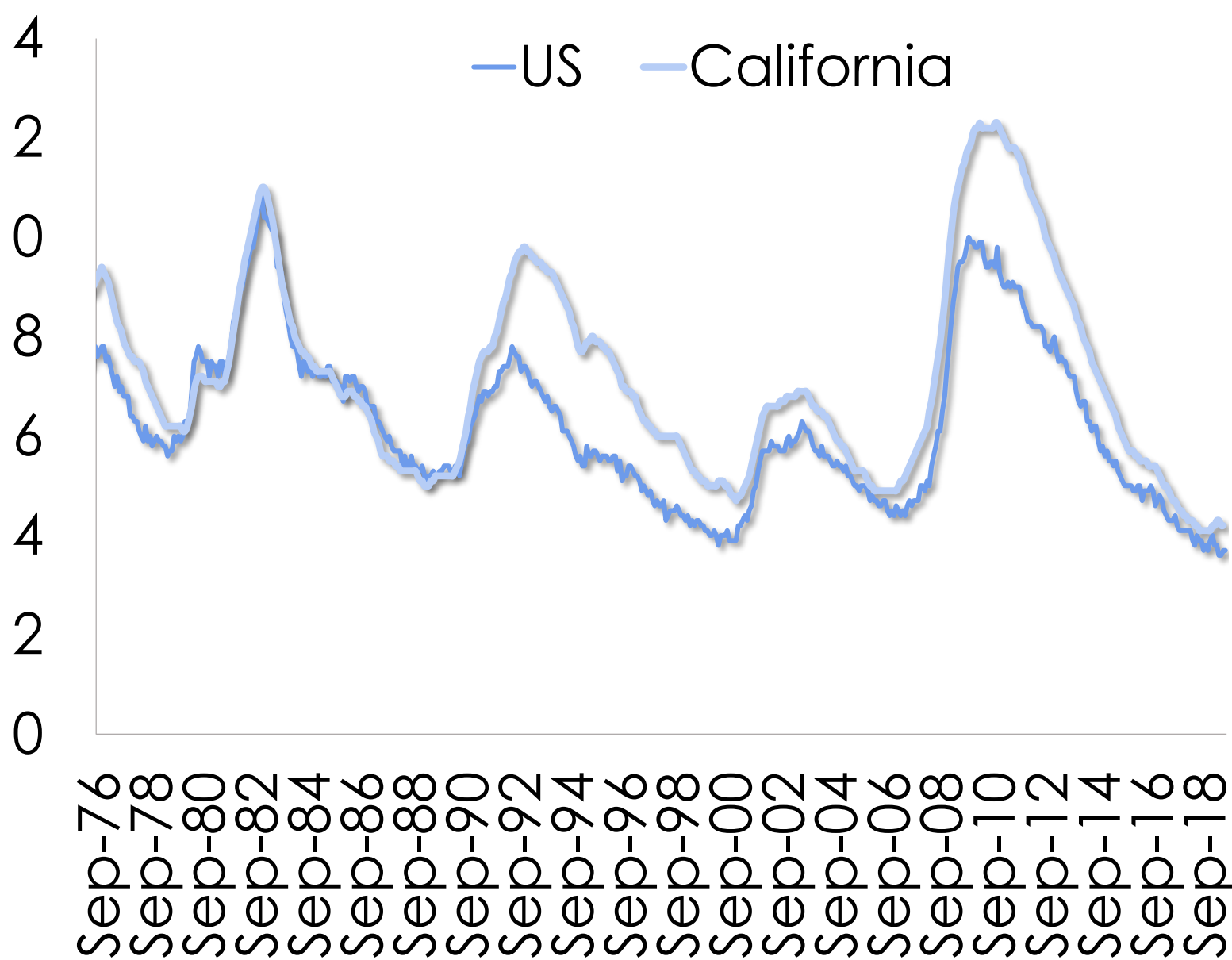
August 2019

Growth slowed from 3.1% in Q1 to 2.0% in Q2

GDP: 2018: 2.9% 2019p: 2.4% 2020f: 1.7%

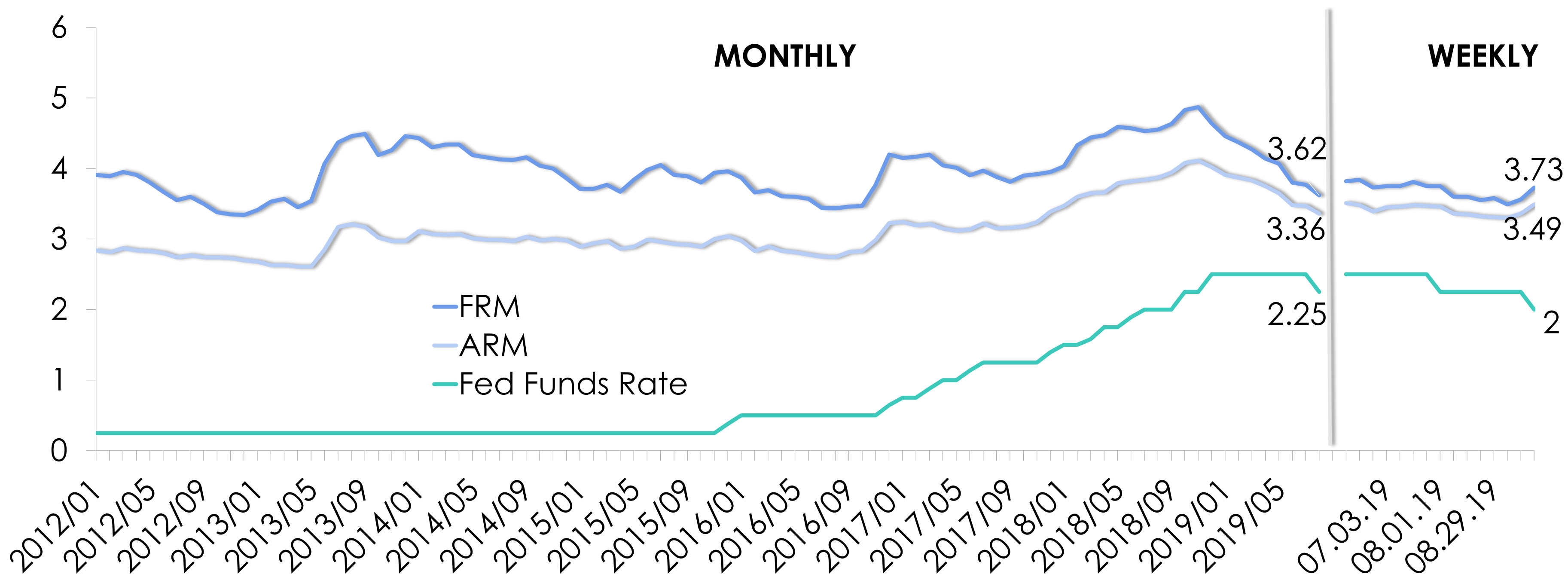


Unemployment at lowest rate in 50 years



Rates remain at historic lows – will move lower in 2020

January 2012 – September 2019



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 economic outlook

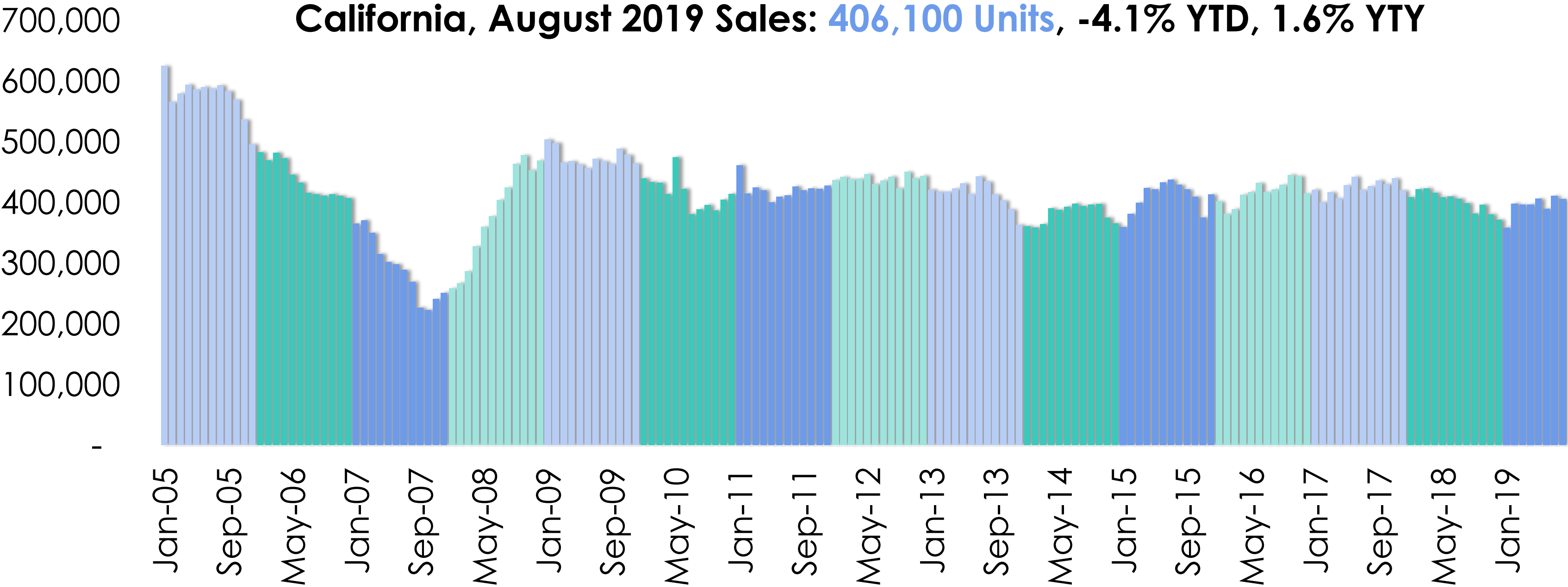
	2015	2016	2017	2018	2019p	2020f
Nonfarm Job Growth	2.7%	2.3%	1.6%	2.0%	1.5%	1.0%
Unemployment	6.2%	5.5%	4.8%	4.2%	4.3%	4.5%
CA Population (Million)	39.0	39.2	39.5	39.7	39.9	40.1
Population Growth	0.9%	0.7%	0.7%	0.6%	0.5%	0.4%



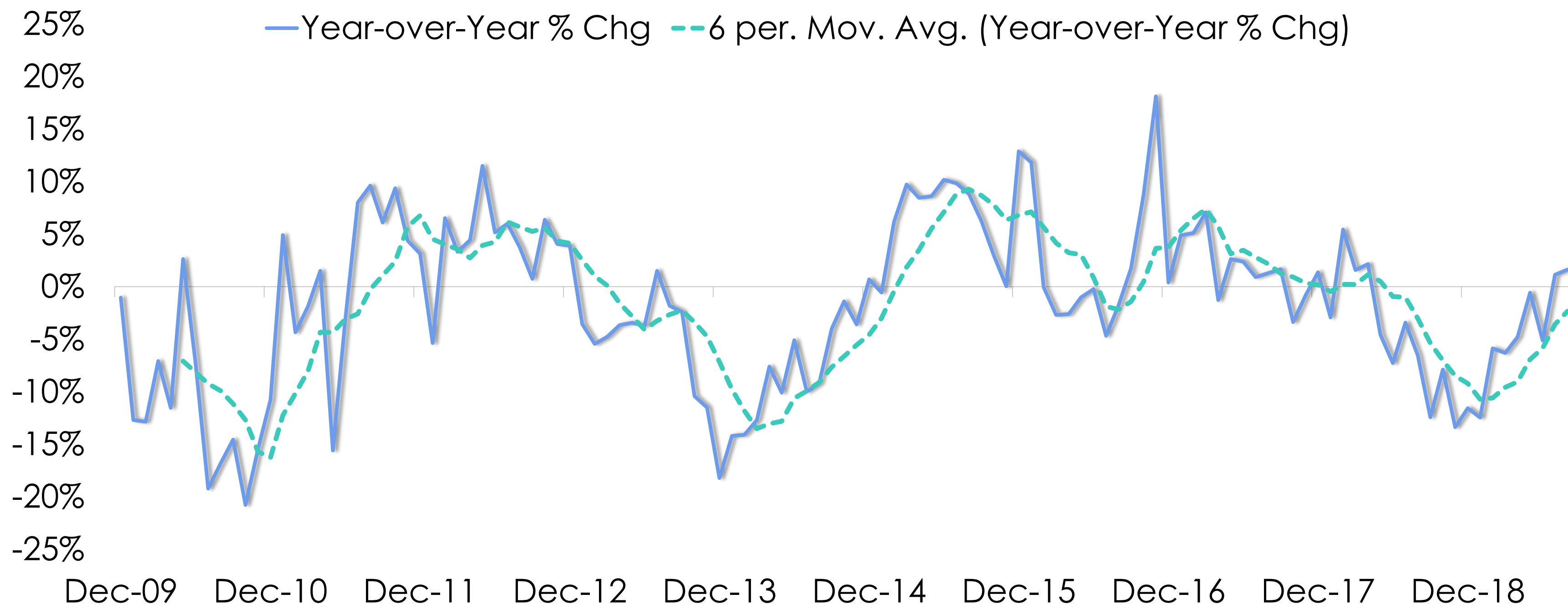


California Housing **Market**

Doing Better: Sales dip slightly from July, but remain above 400k

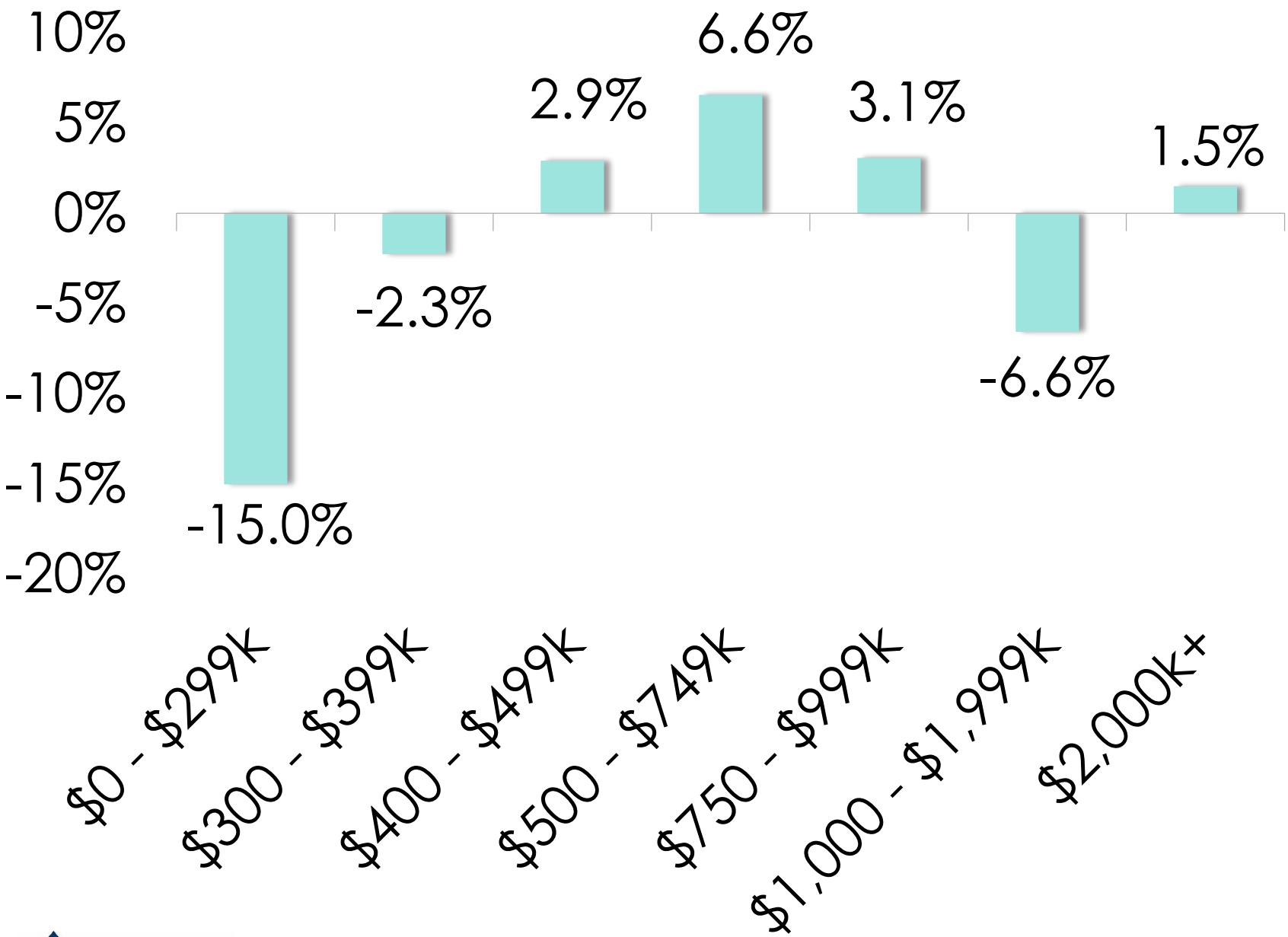


First back-to-back yearly sales gain since April 2018

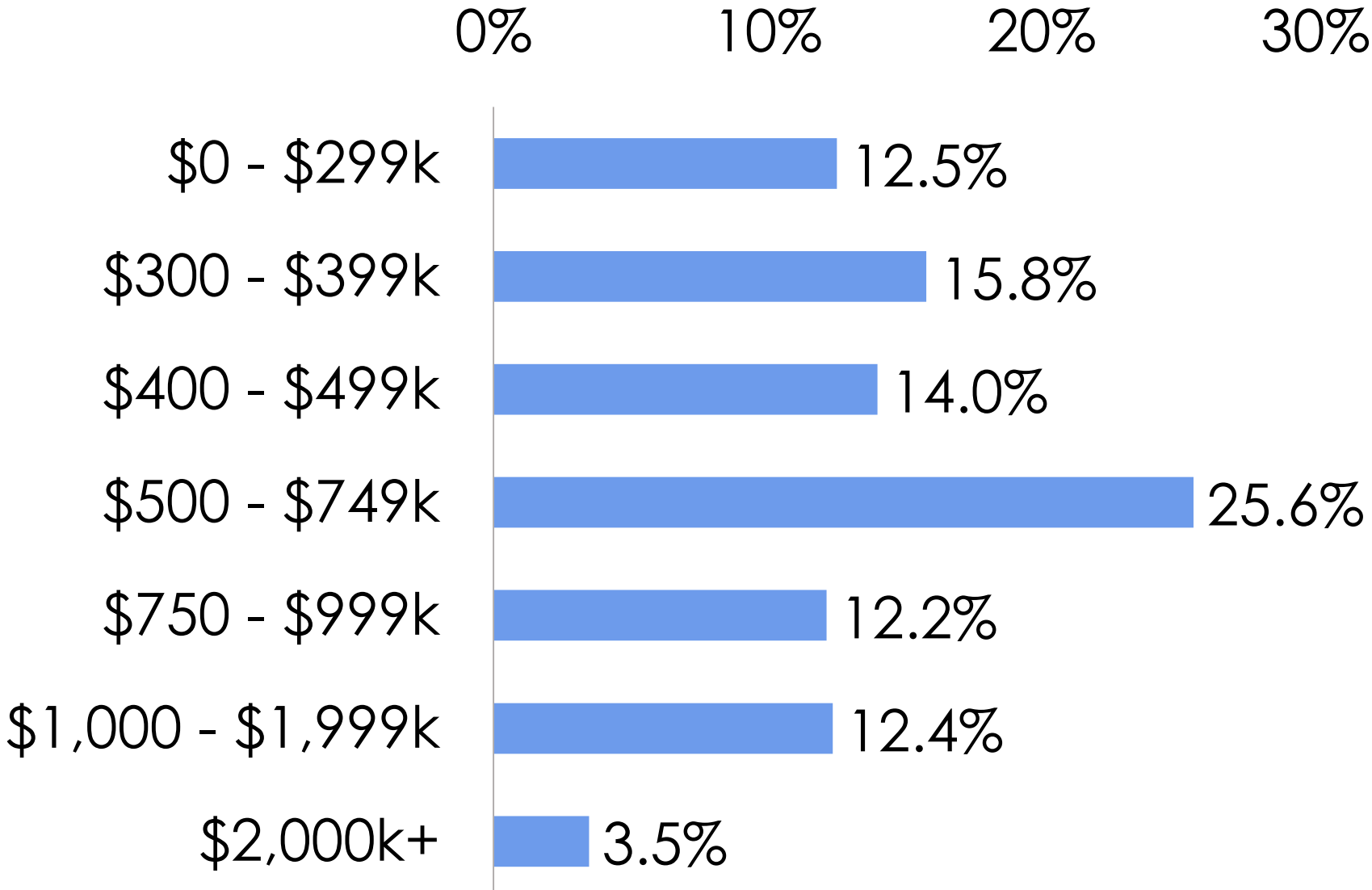


Sales constrained by tight supply, particularly at the low end

August 2019 (YTY% Chg.)

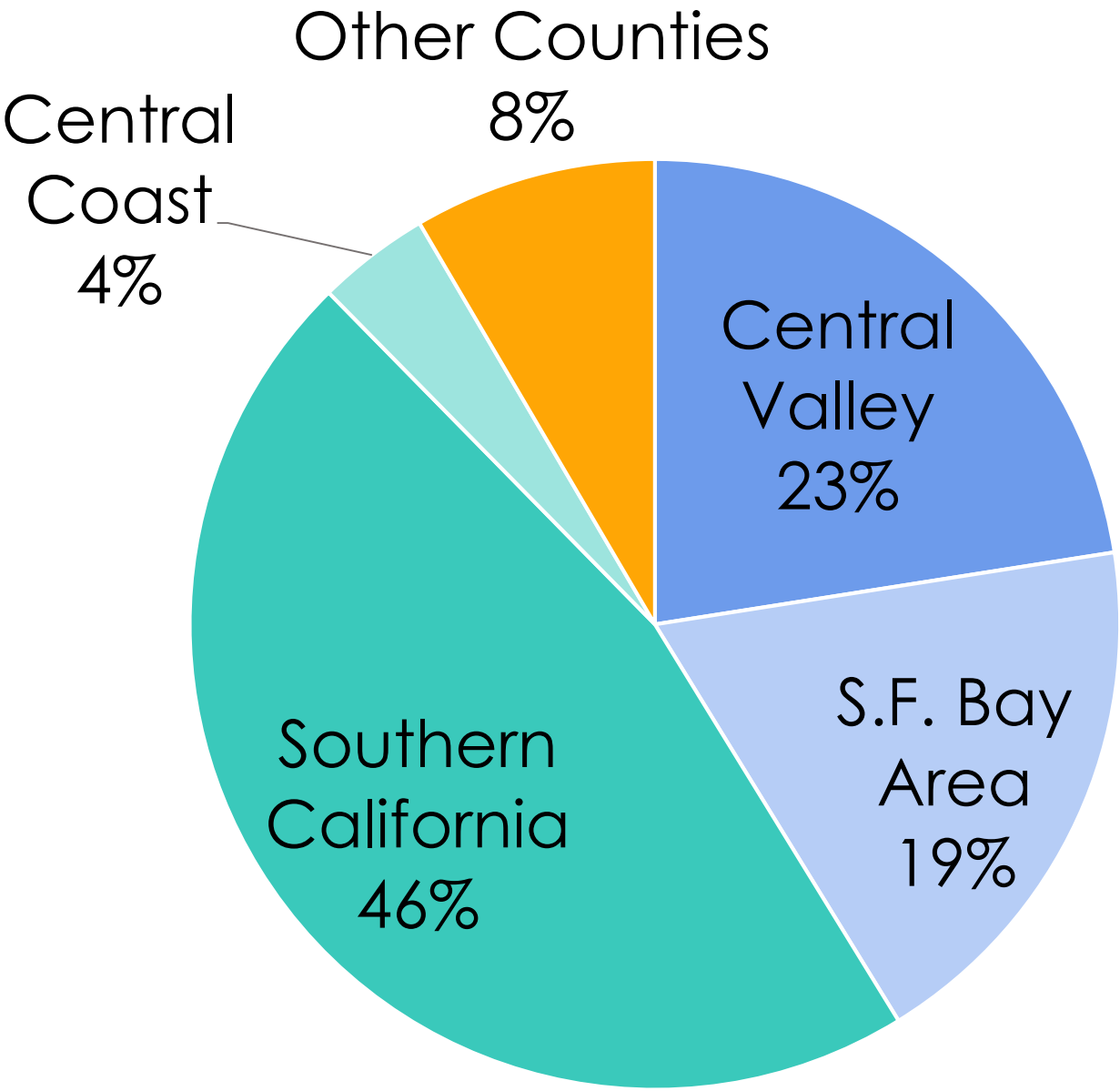


Share by Price Segment

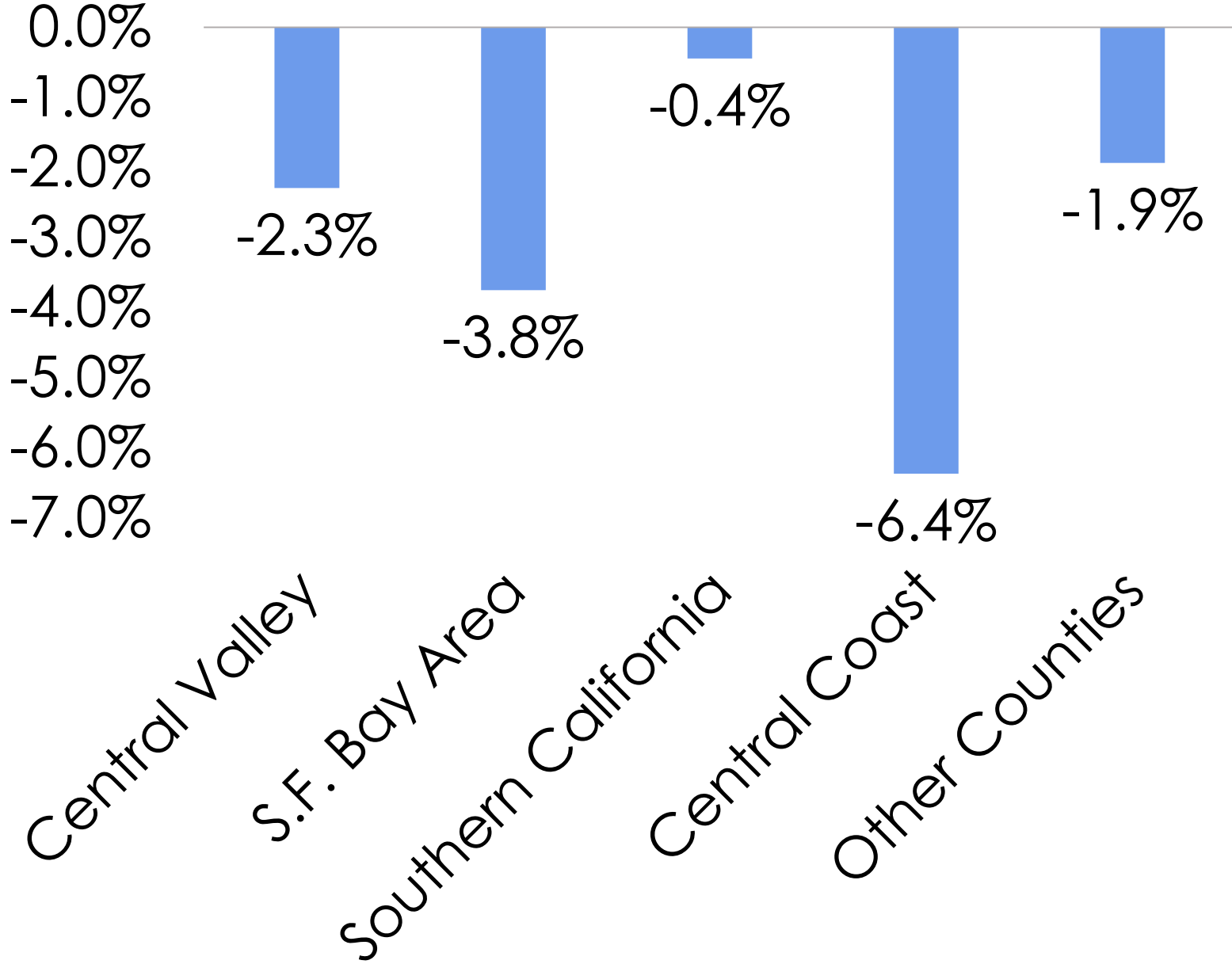


Sales by Region

August 2019 Home Sales by Region

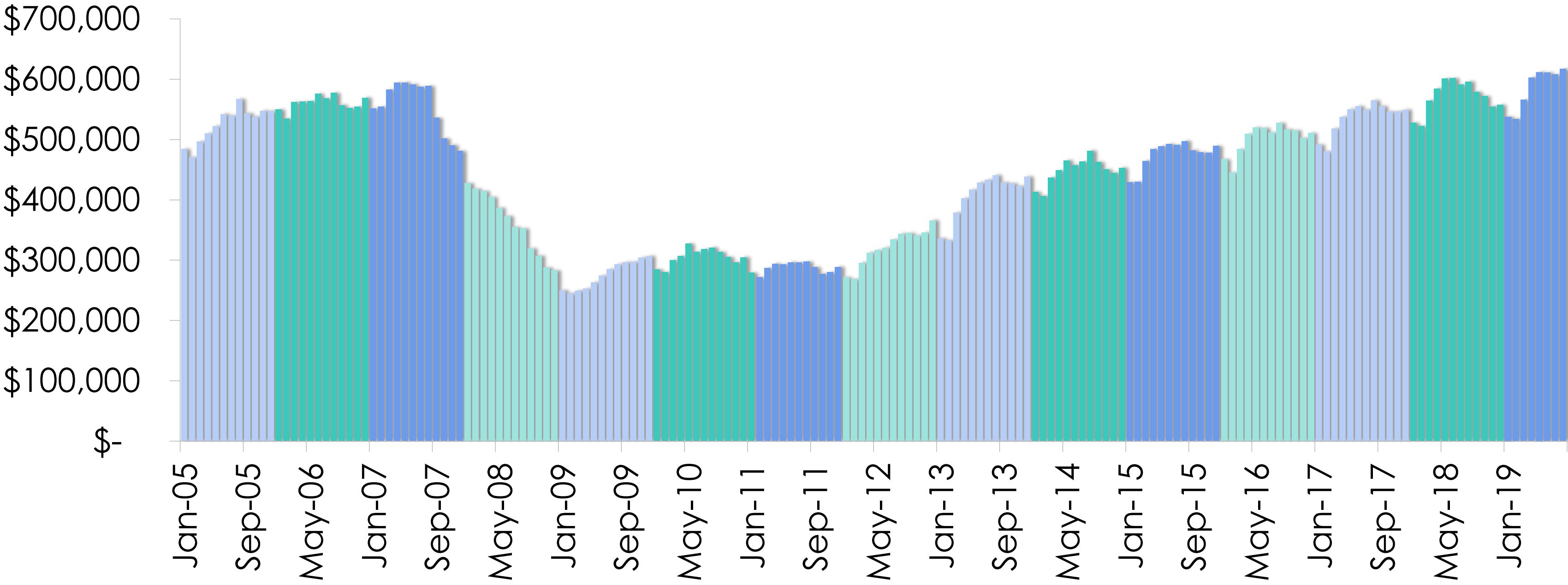


August 2019 YTY Sales Growth by Region (NSA)

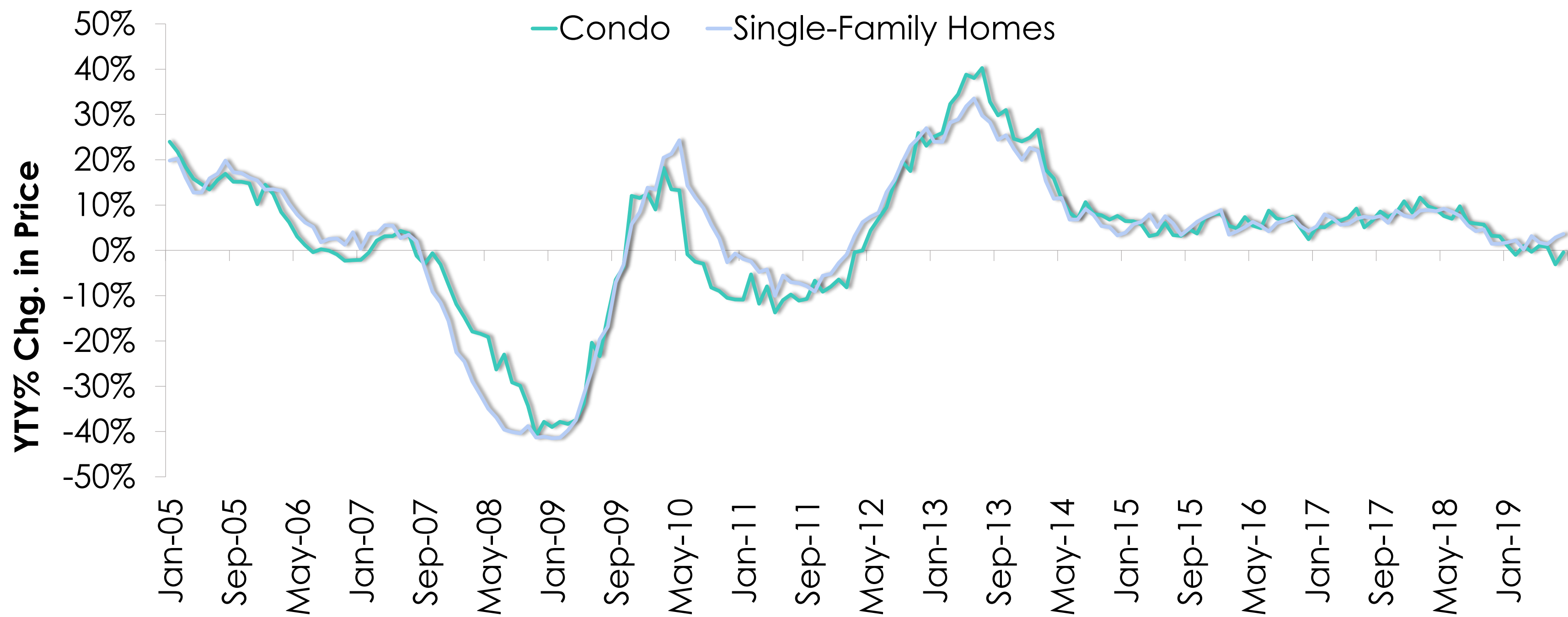


California median price at all-time high for August

California, August 2019: **\$617,410**, 1.5% MTM, 3.6% YTY

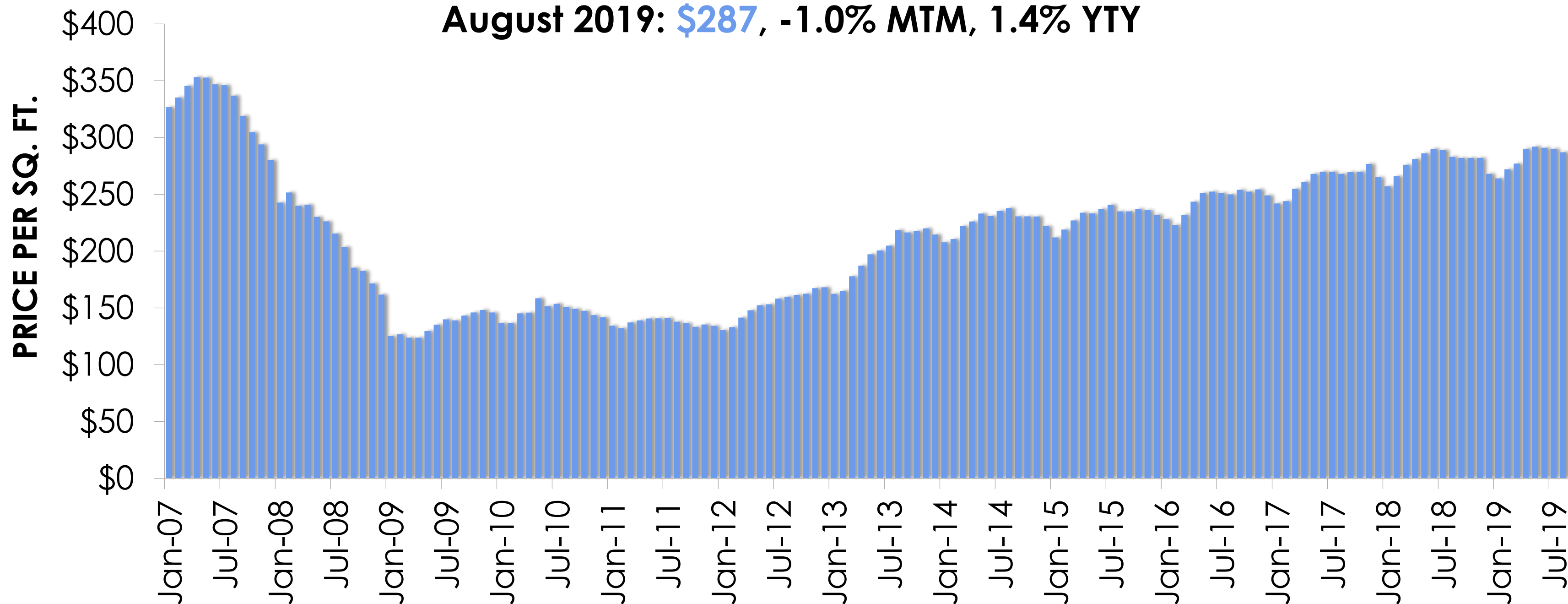


Single-family homes had the largest price gain in 10 months



Price/Square Foot slightly down from last month and inched up from last year

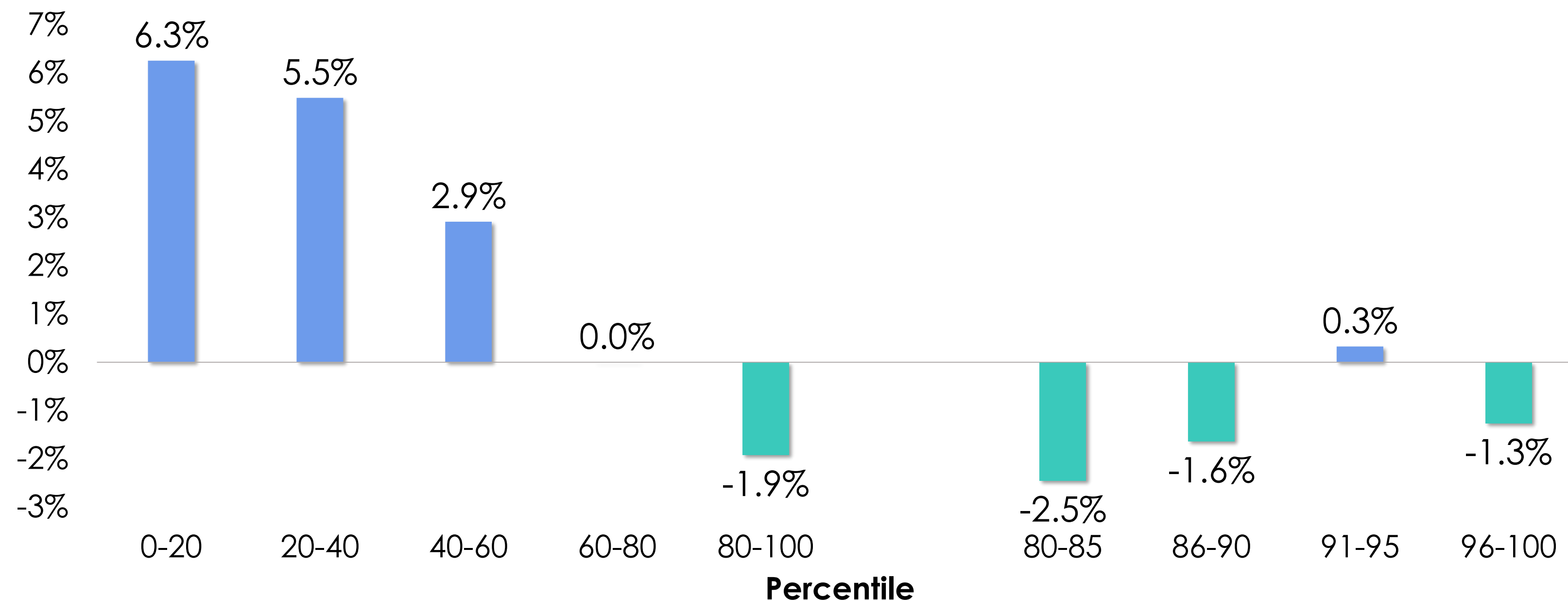
August 2019: **\$287**, -1.0% MTM, 1.4% YTY



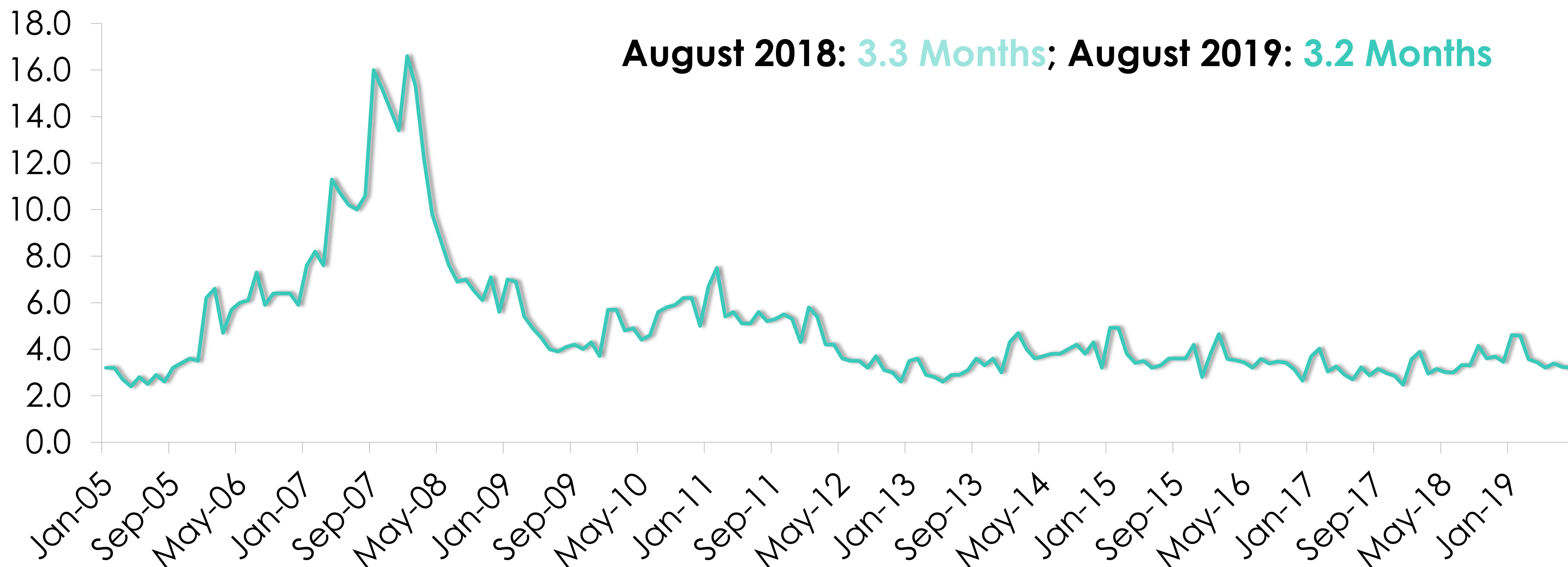
SERIES: Median Price Per Square Feet of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Top percentile saw decline in price growth - uncertainty

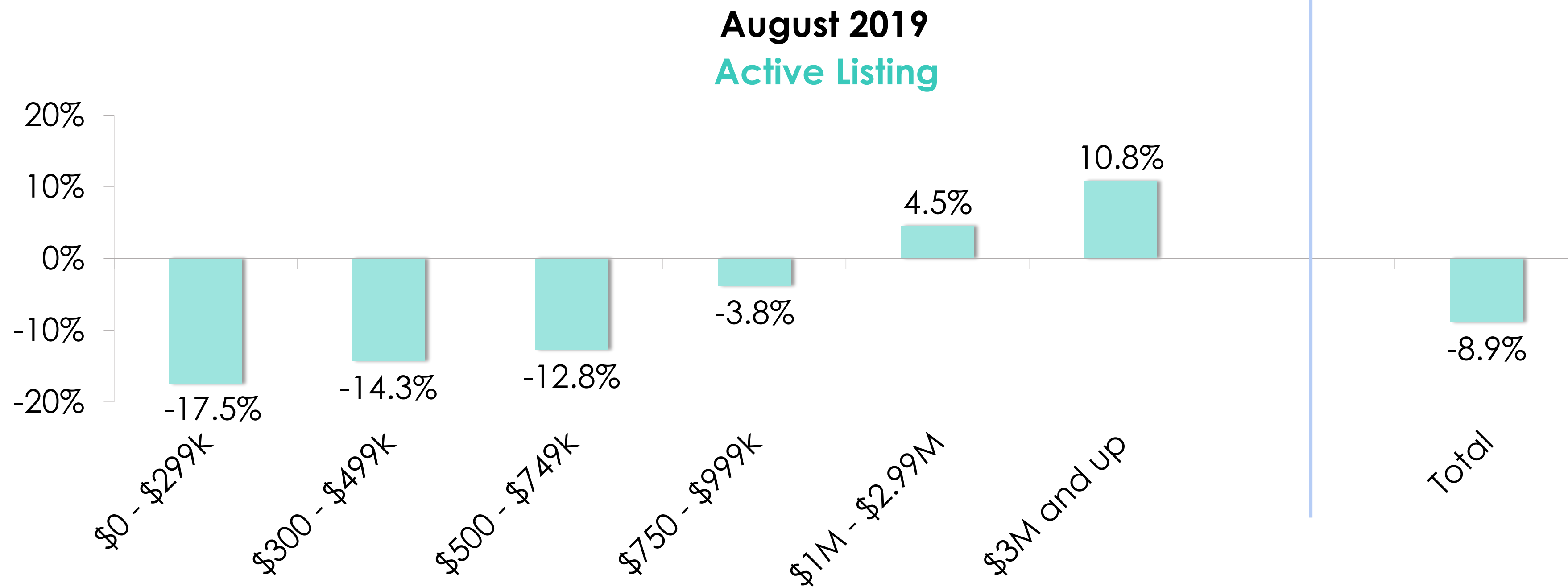
California Year-over-Year Price Growth by Quintile (August 2019)



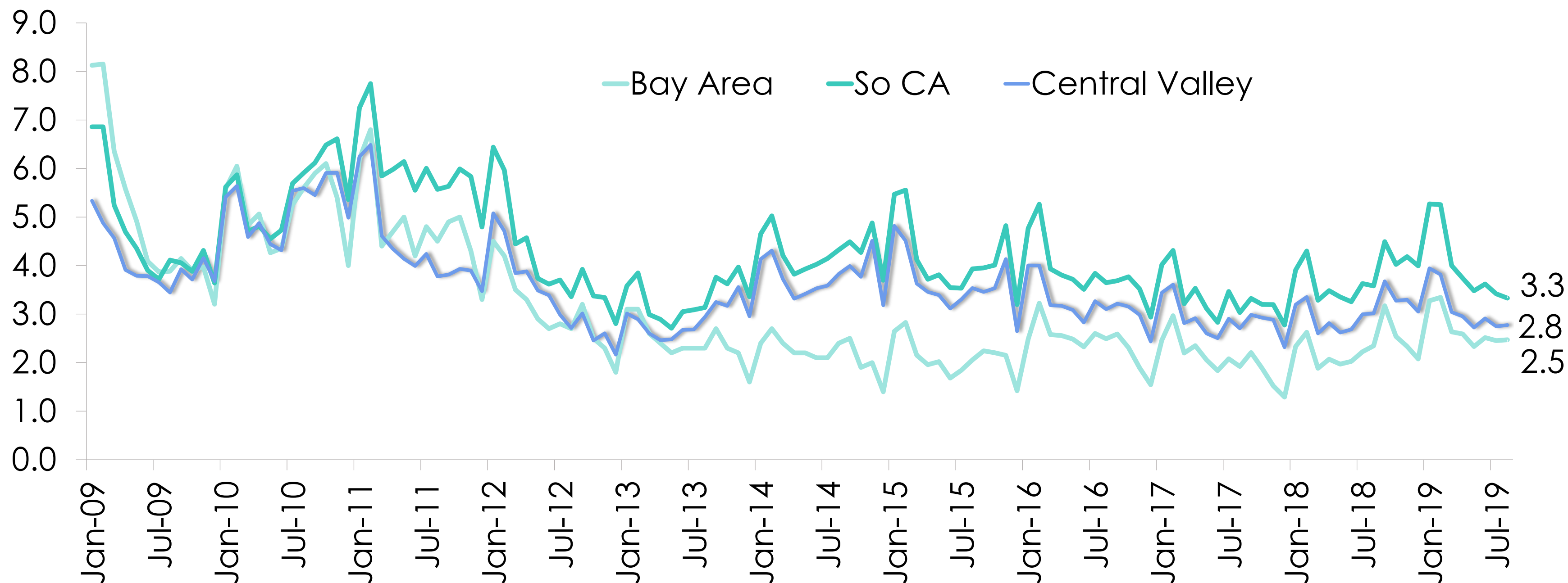
Inventory index down due primarily to drop in active listings



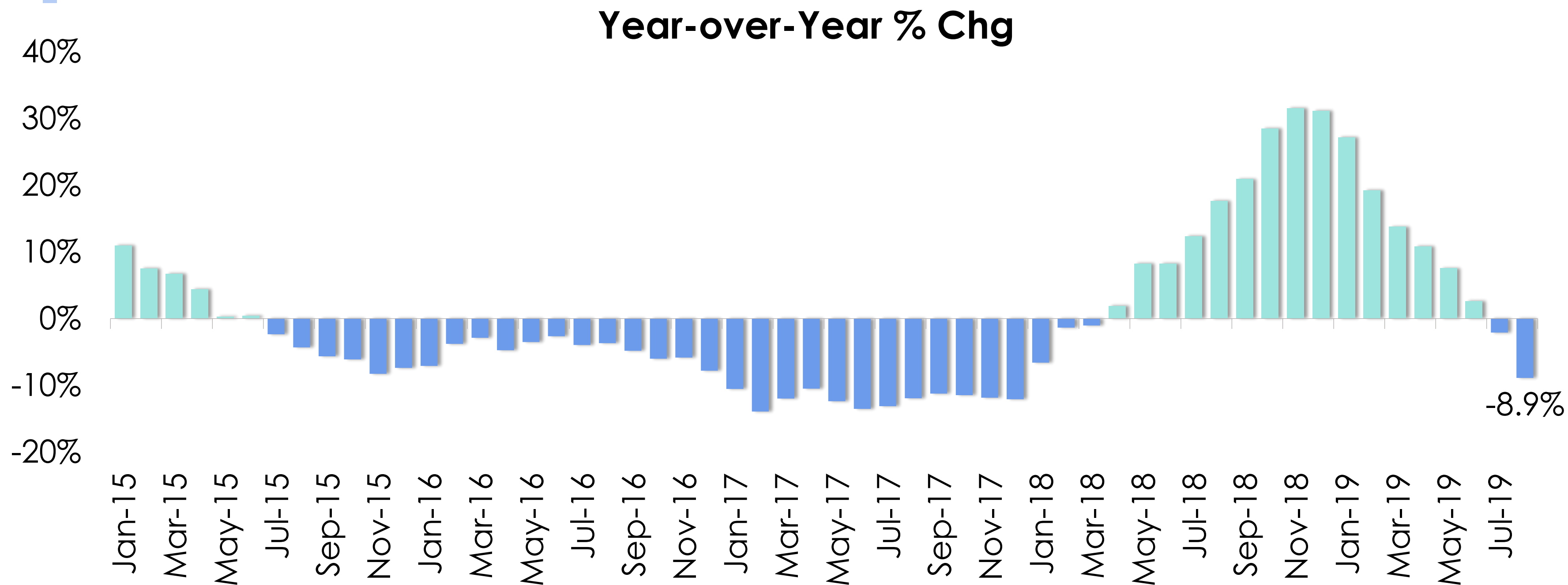
Supply improved only at the upper end of the market



Regional inventory mostly flat

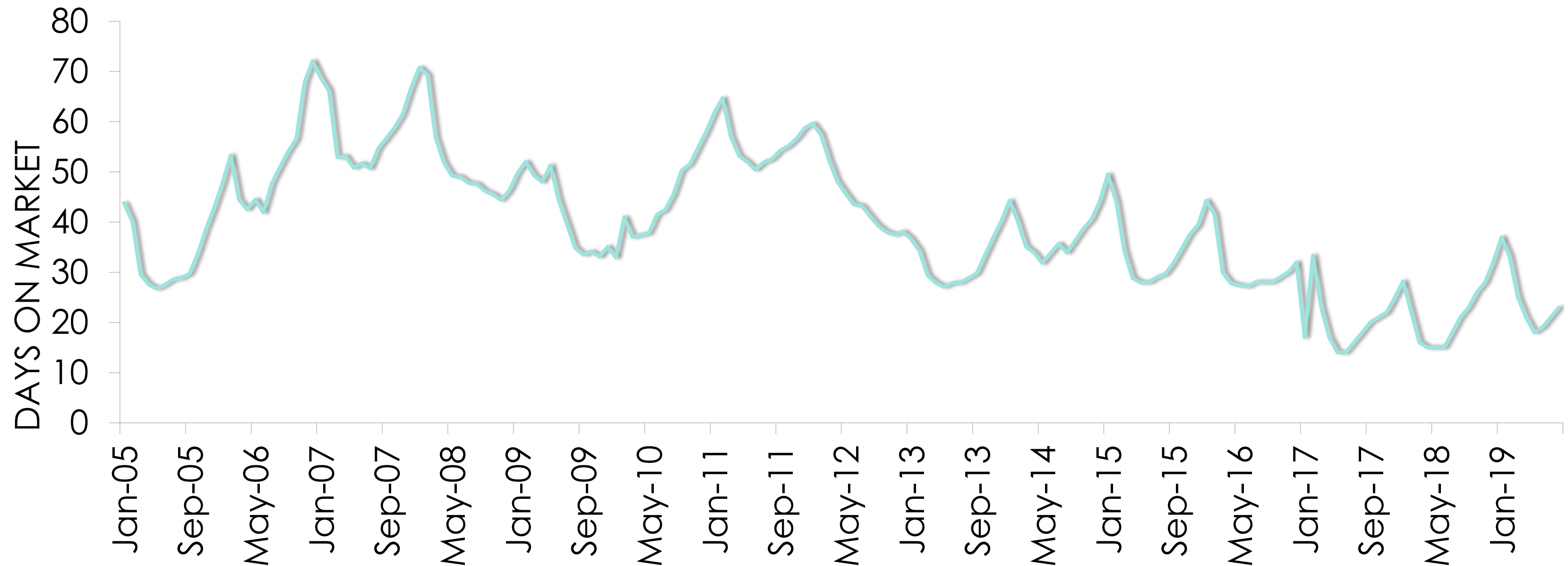


Active listings in August 2019 had the largest drop since Dec 2017



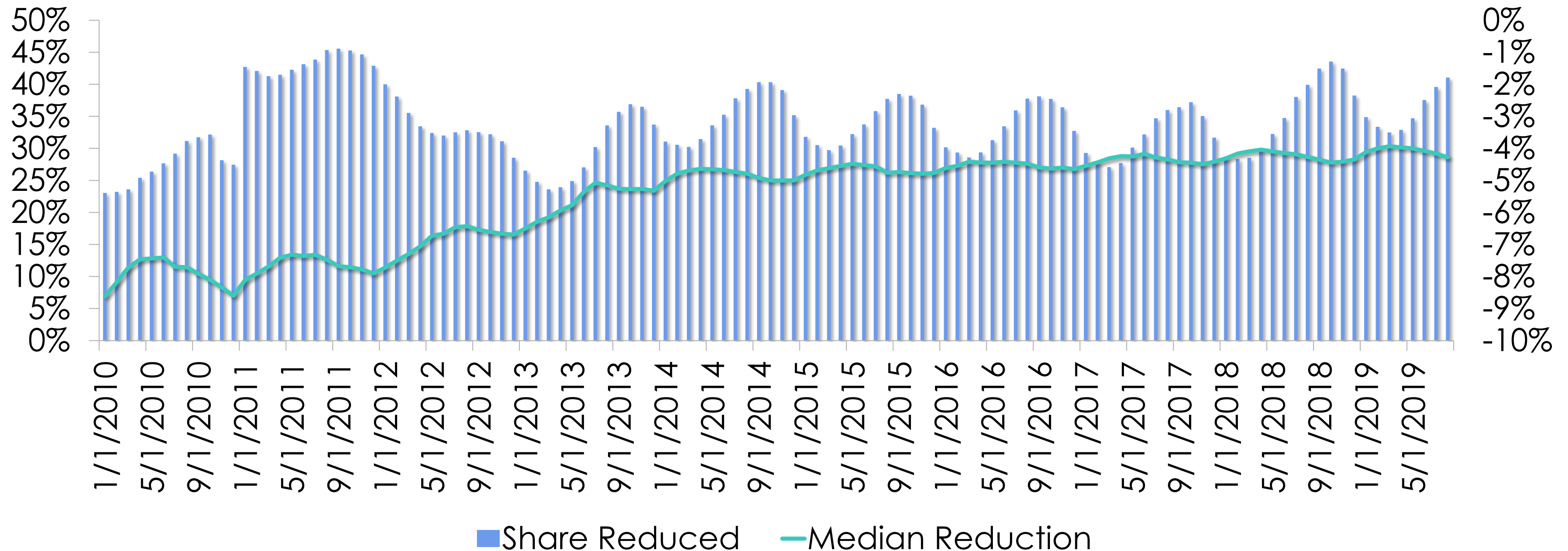
Time on market up as market ends its peak season

California, August 2019: **23.0 Days**



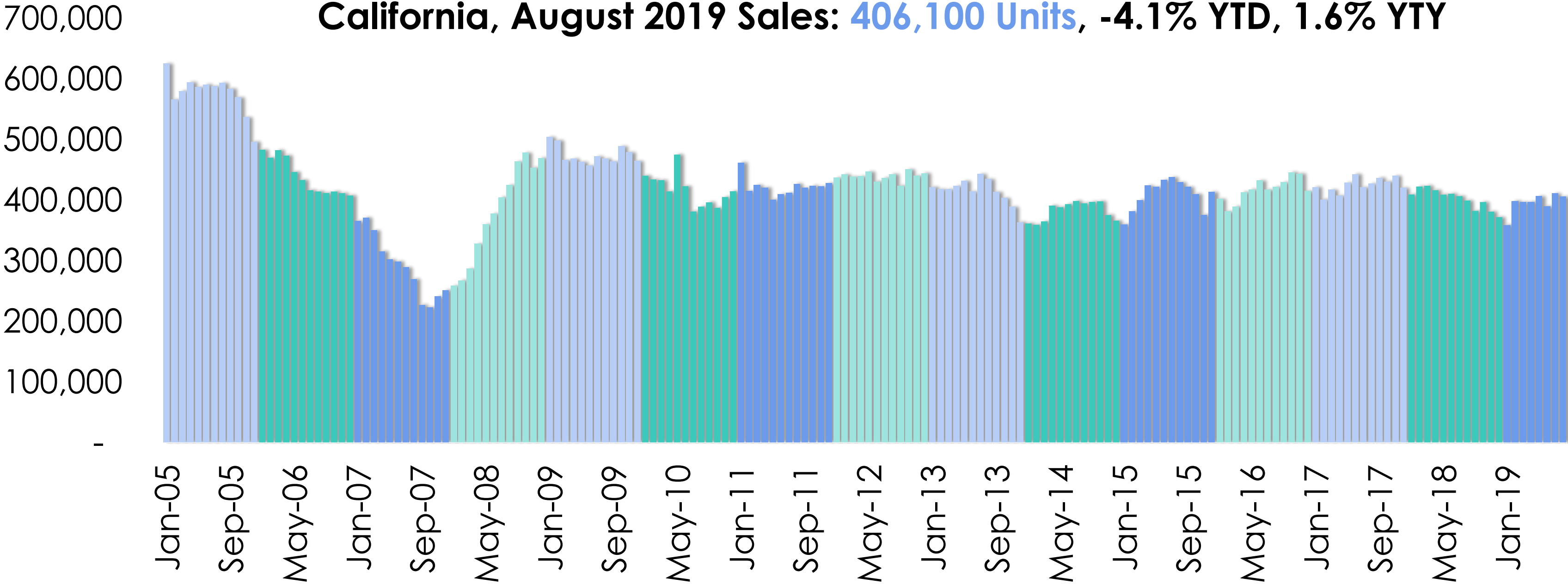
Reduced-Price Listings Rising

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



One more look at the last 15 years: flat sales with a very strong economy & low rates & pop growth

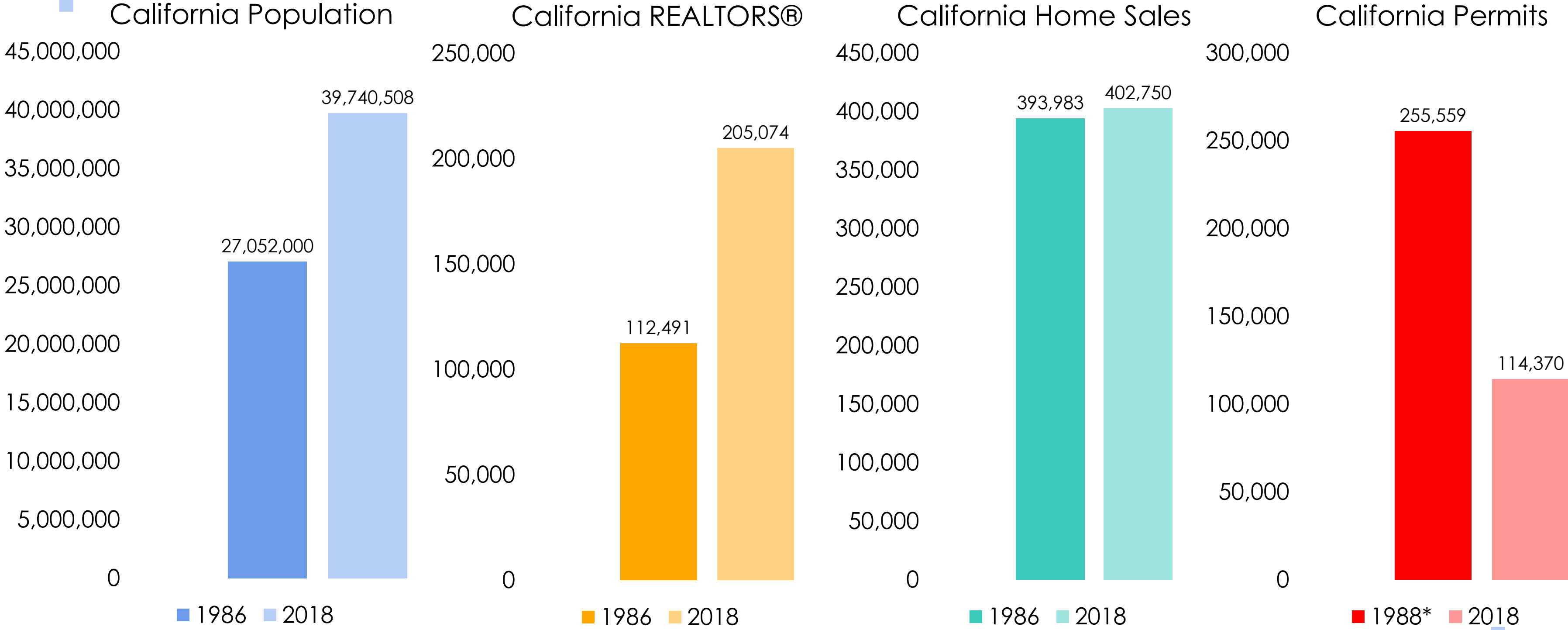
California, August 2019 Sales: 406,100 Units, -4.1% YTD, 1.6% YTY





How Did We Get Here?

More of everything, except...

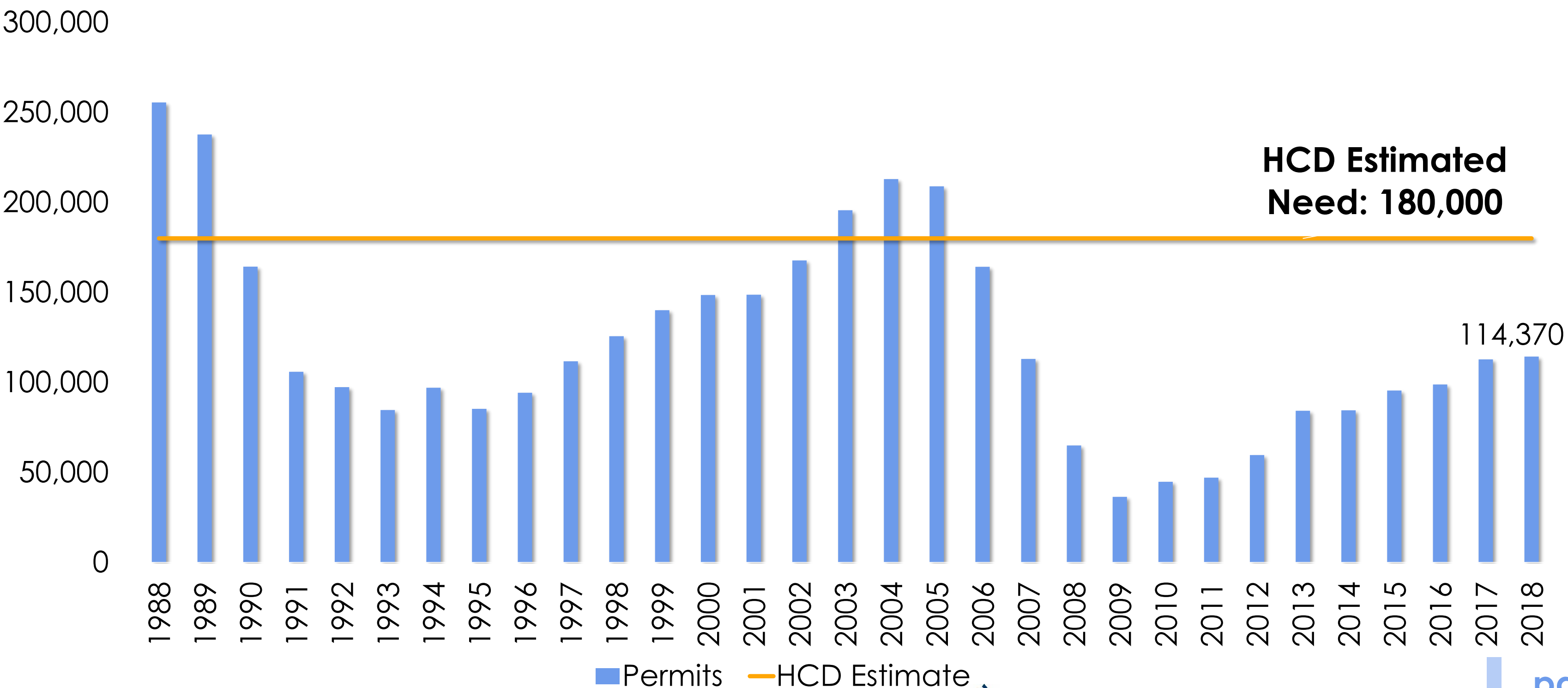


**3.5
Million**

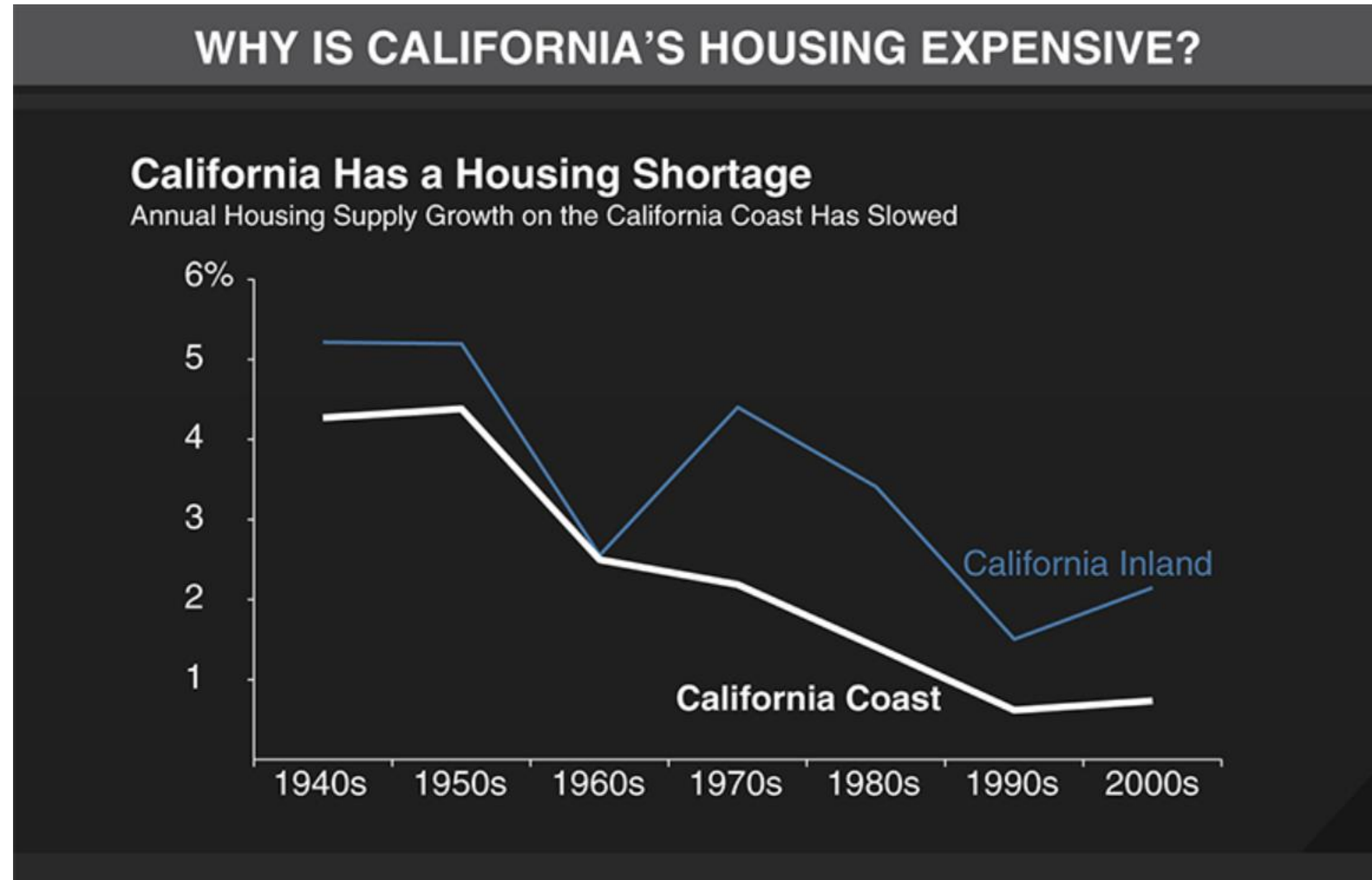


Number of new housing units off by all measures...

California Housing Permits

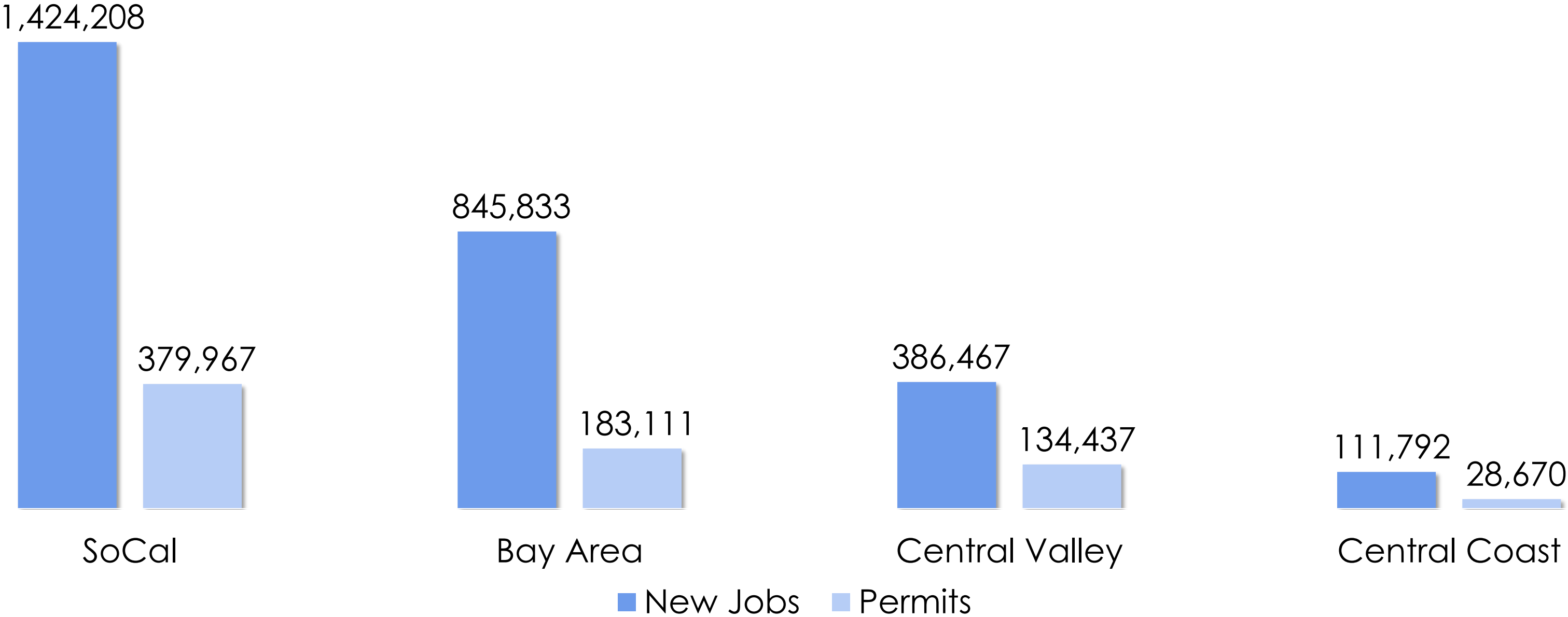


LAO agrees



So does the data...

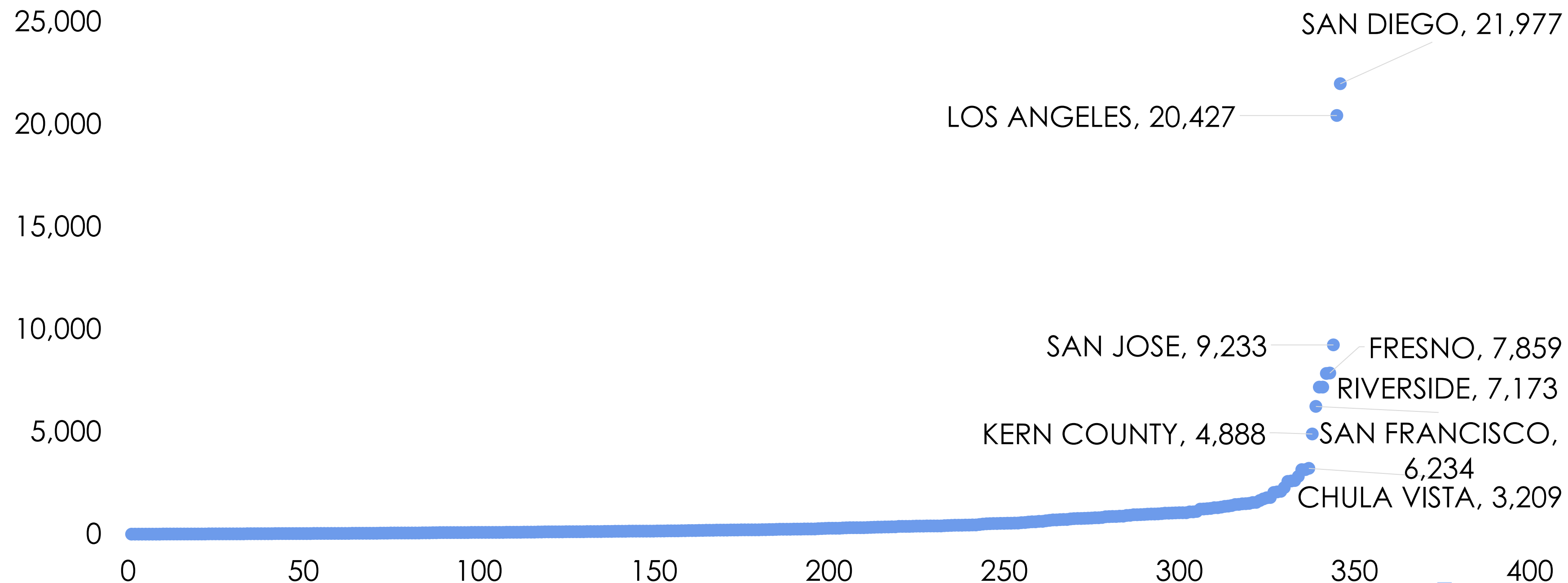
California New Jobs vs. New Construction
2010-2018



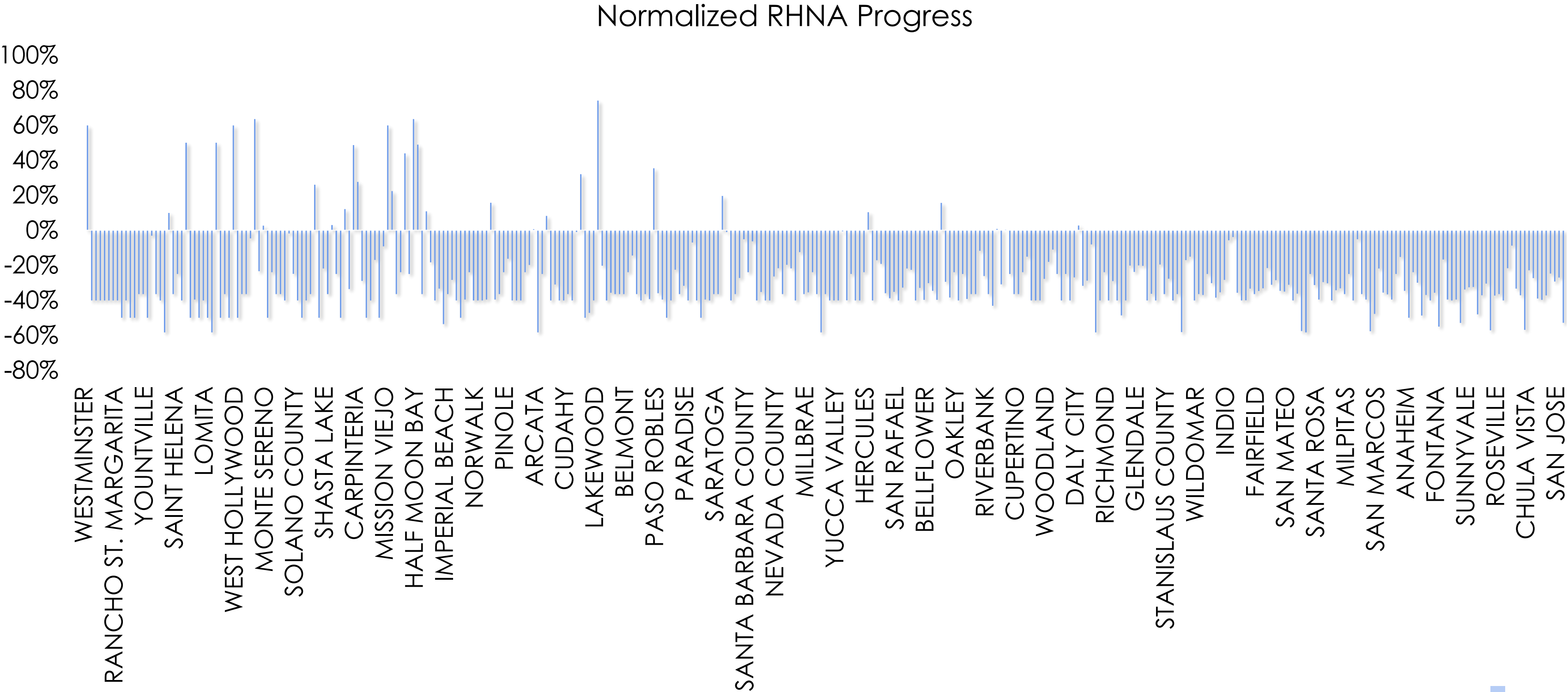
And so do the cities, really...

(RHNA = Regional Housing Needs Assessment)

Current RHNA Allocations

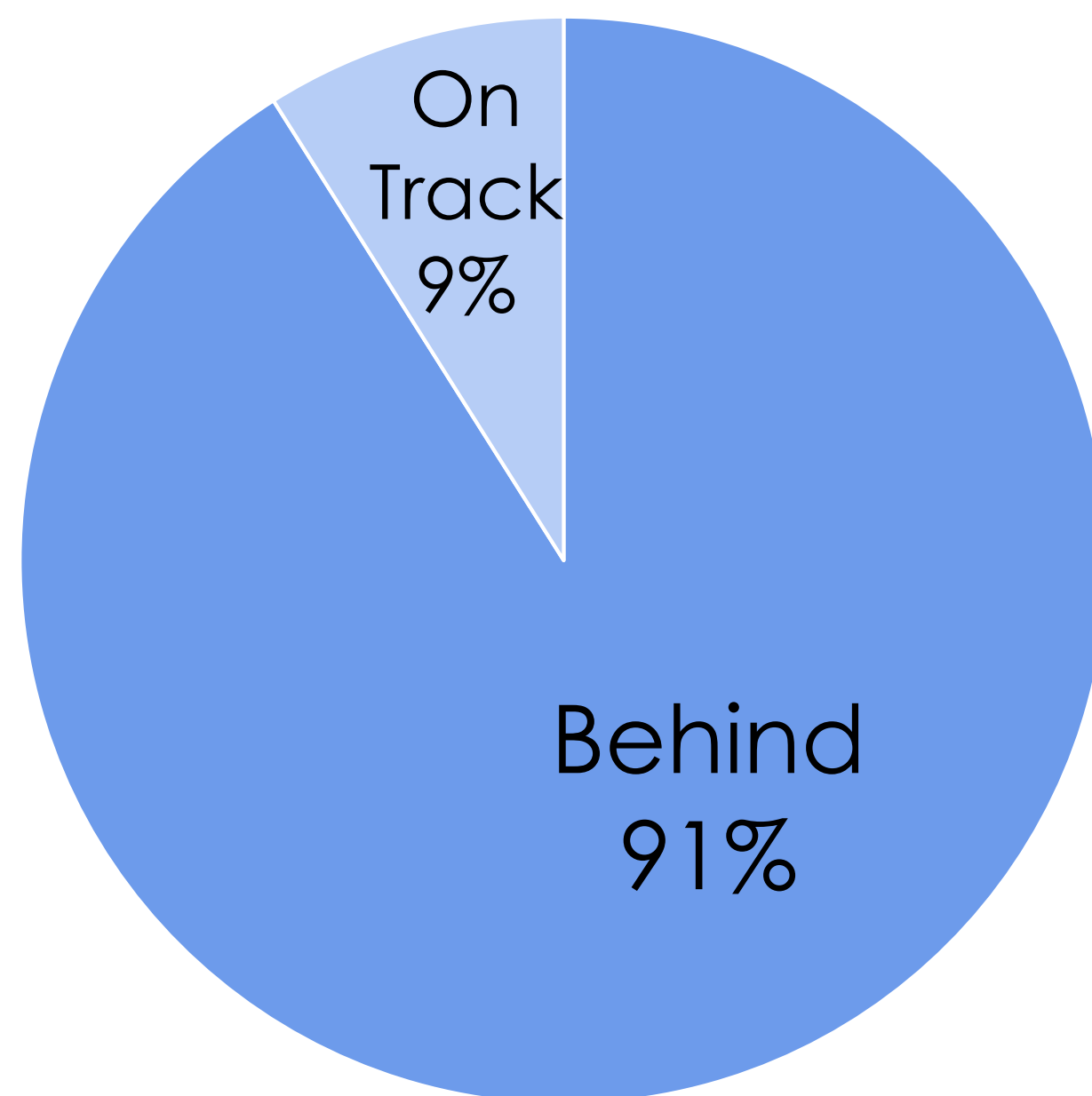


Most cities are failing...



In fact, 91% are behind...

Normalized RHNA Progress



Average:

- 28.6% Behind

Worst Performer:

- 58.3% Behind
(6-Way Tie, all SD)

Best Performer:

- 74.1% Ahead
(Parlier in Fresno County)



WHY DON'T WE BUILD ENOUGH HOUSING?



Community Resistance
Blocks New Housing

Commercial Development
Brings in **More Local Tax Revenue**



Limited Land
to Build on

Project Reviews and CEQA
Delay or Reduce New Housing



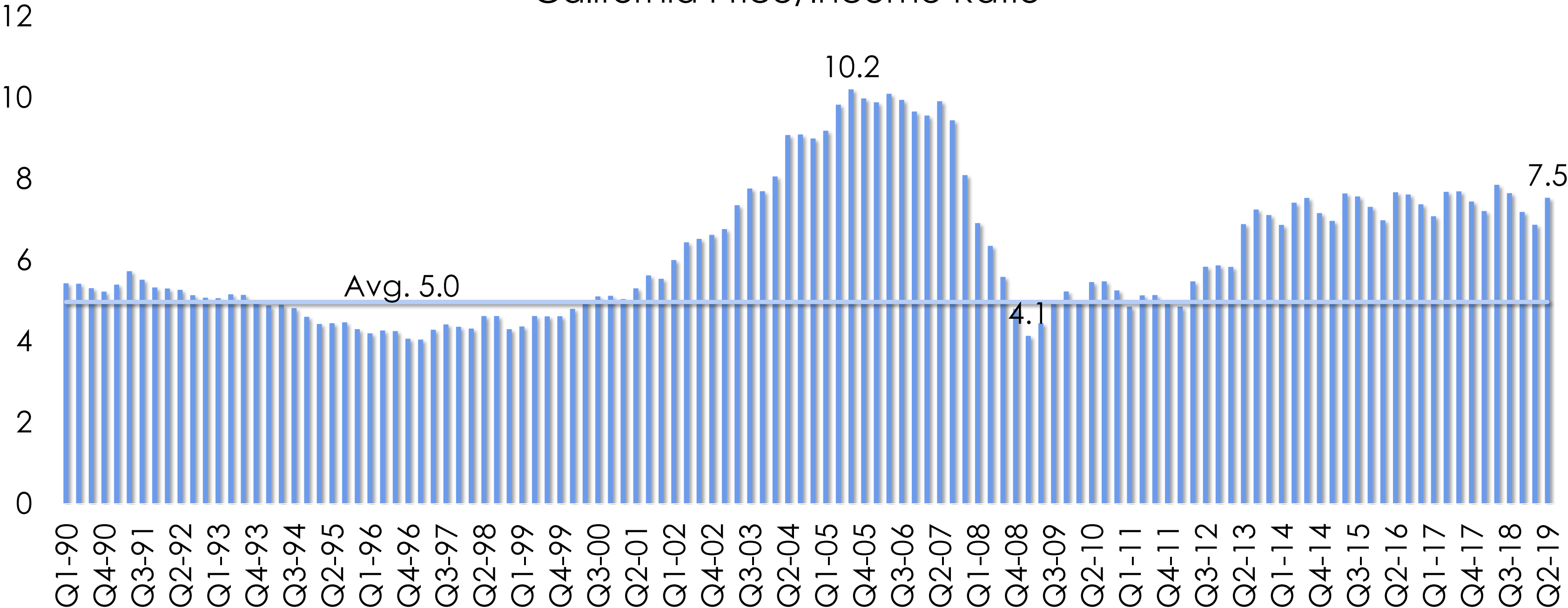


How It Hurts

California Right Now

Prices have grown much faster than incomes

California Price/Income Ratio

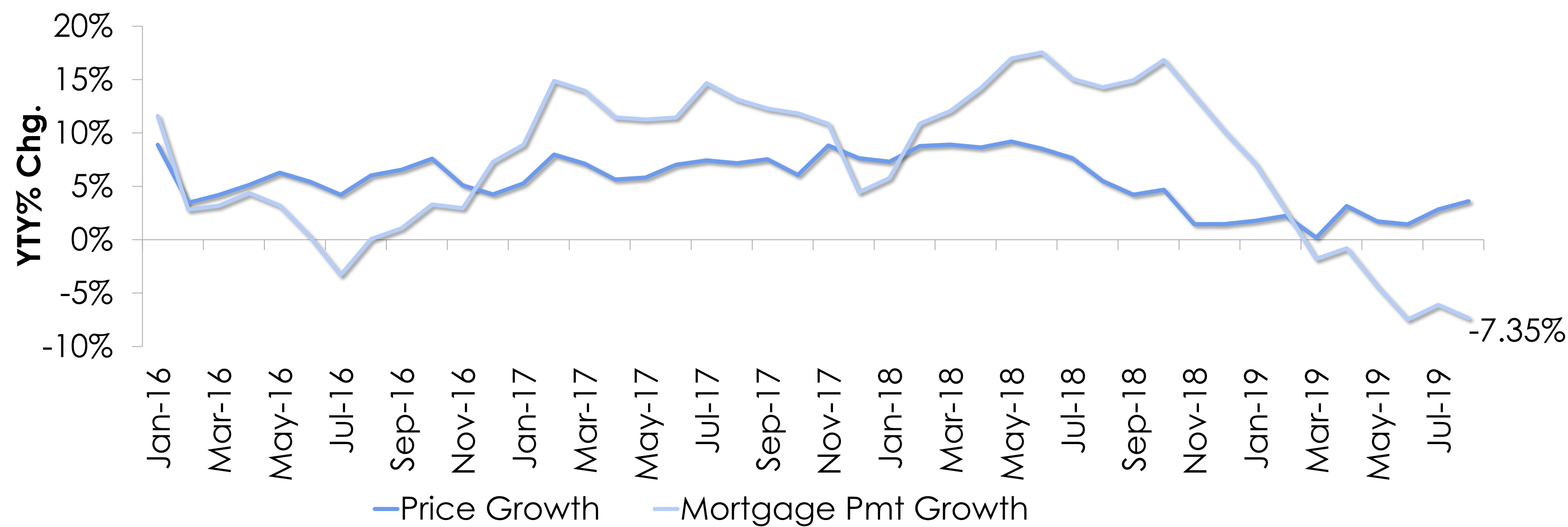


Minimum Annual Income Required During Affordability Peak vs. Current

Region	2012 Q1	2019 Q2	% CHG
CA SFH	\$56,320	\$122,960	118.3%
CA Condo/Townhomes	\$44,440	\$95,960	115.9%
Los Angeles Metropolitan Area	\$53,780	\$109,090	102.8%
Inland Empire	\$35,170	\$76,760	118.3%
S.F. Bay Area	\$90,370	\$197,970	119.1%
US	\$32,000	\$56,480	76.5%

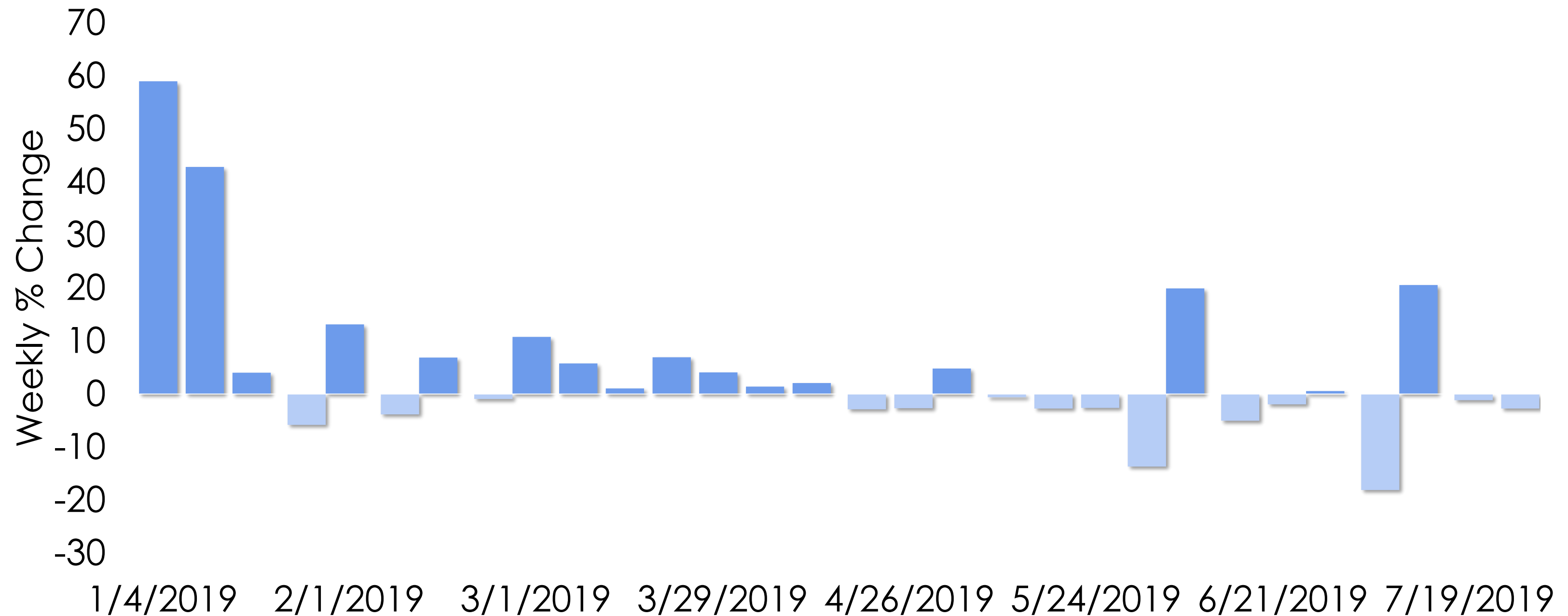
Mortgage payment continued to drop; rates lowest in 34 months

California Median Price vs. Mortgage Payment



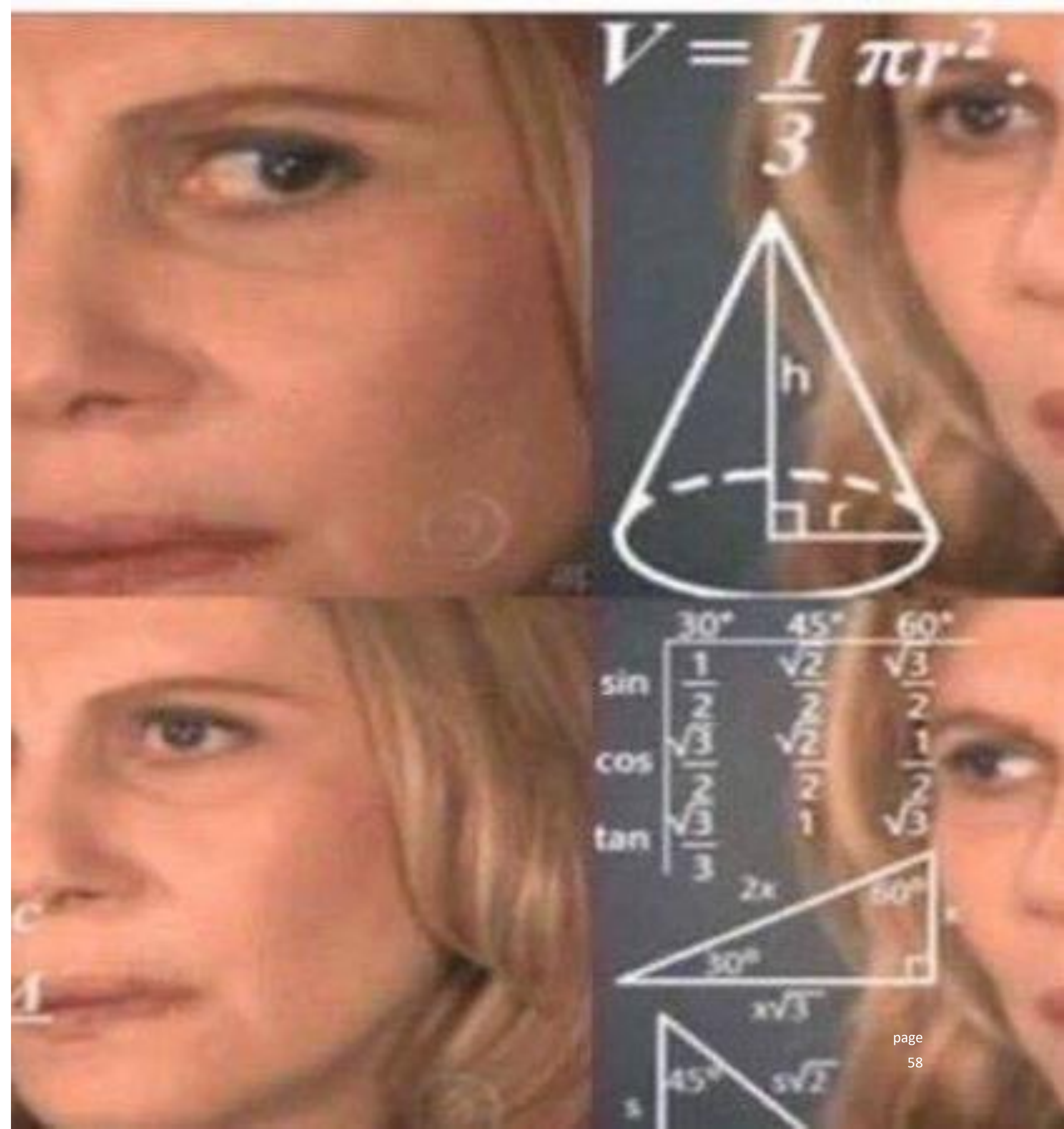
Buyers aren't responding like they used to ...

Purchase Mortgage Applications

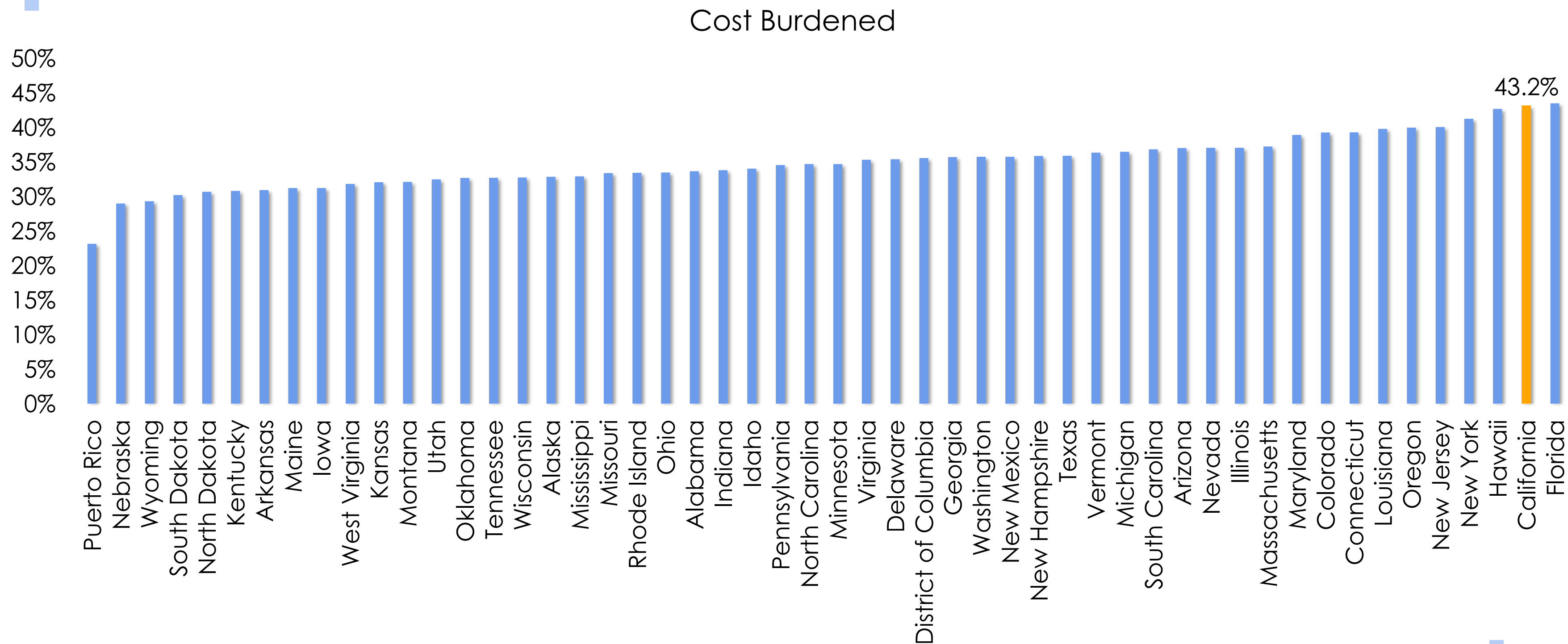


Why rates aren't spurring even more sales

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

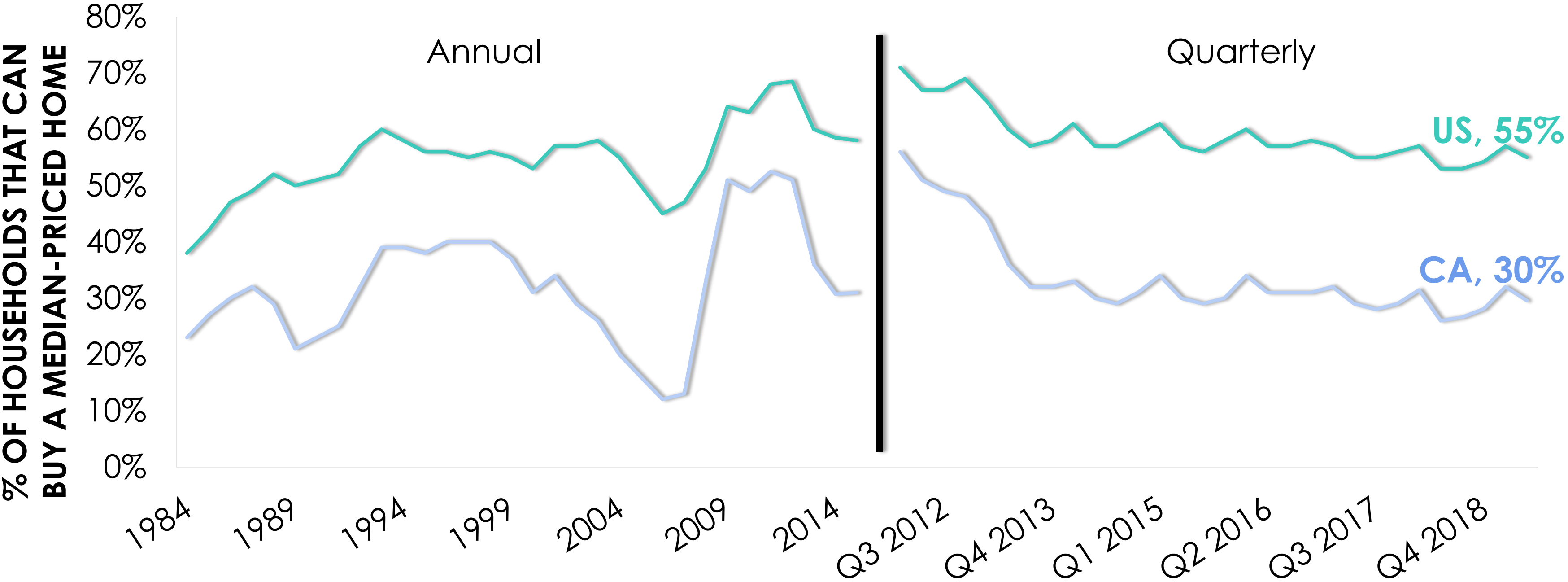


California has no money left over



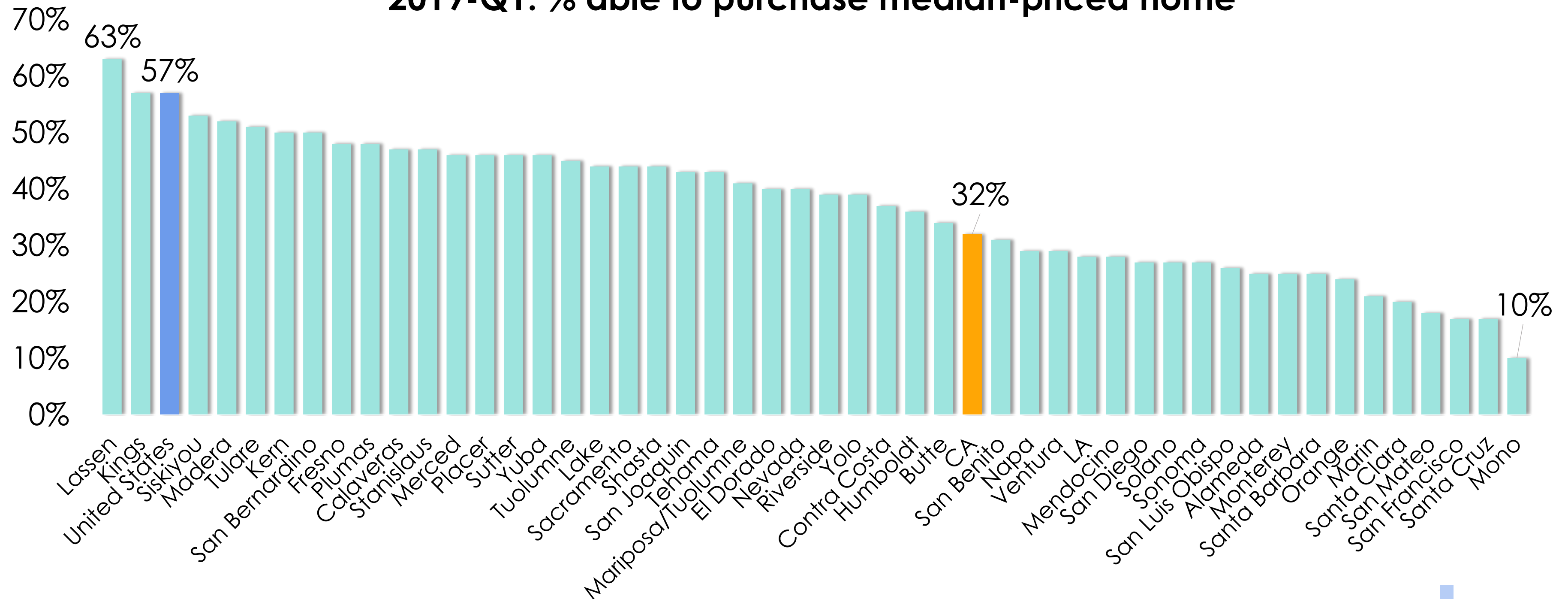
Housing affordability peaked at Q2-2012

California, 1984-2019



Many simply can't afford to buy

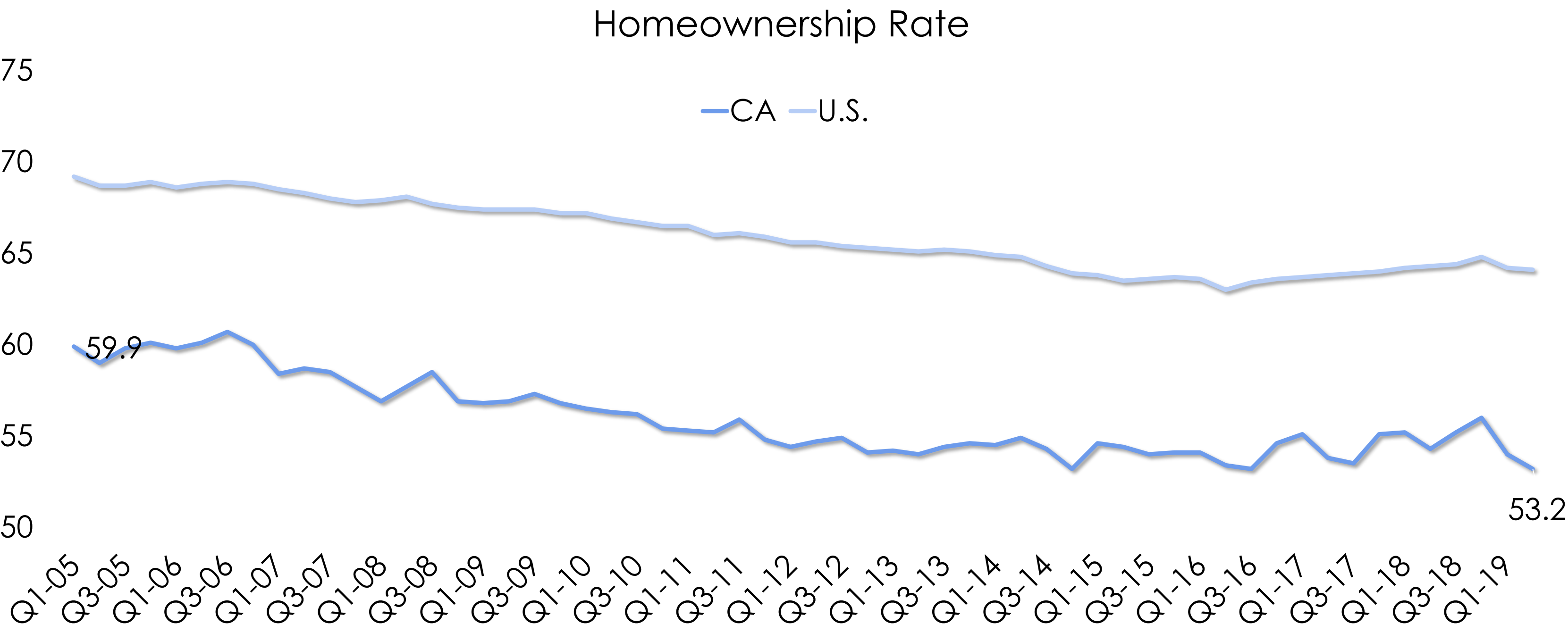
2019-Q1: % able to purchase median-priced home





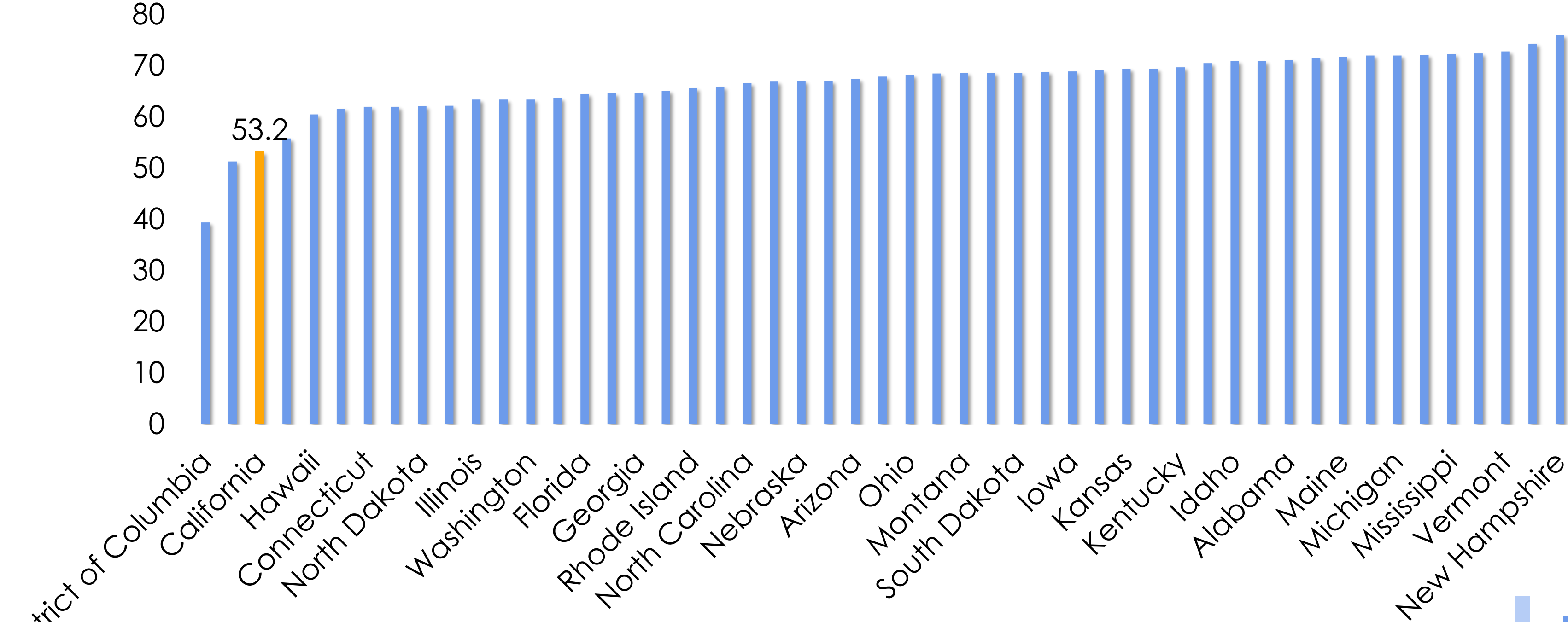
How It Hurts **California Later**

Homeownership is not rebounding



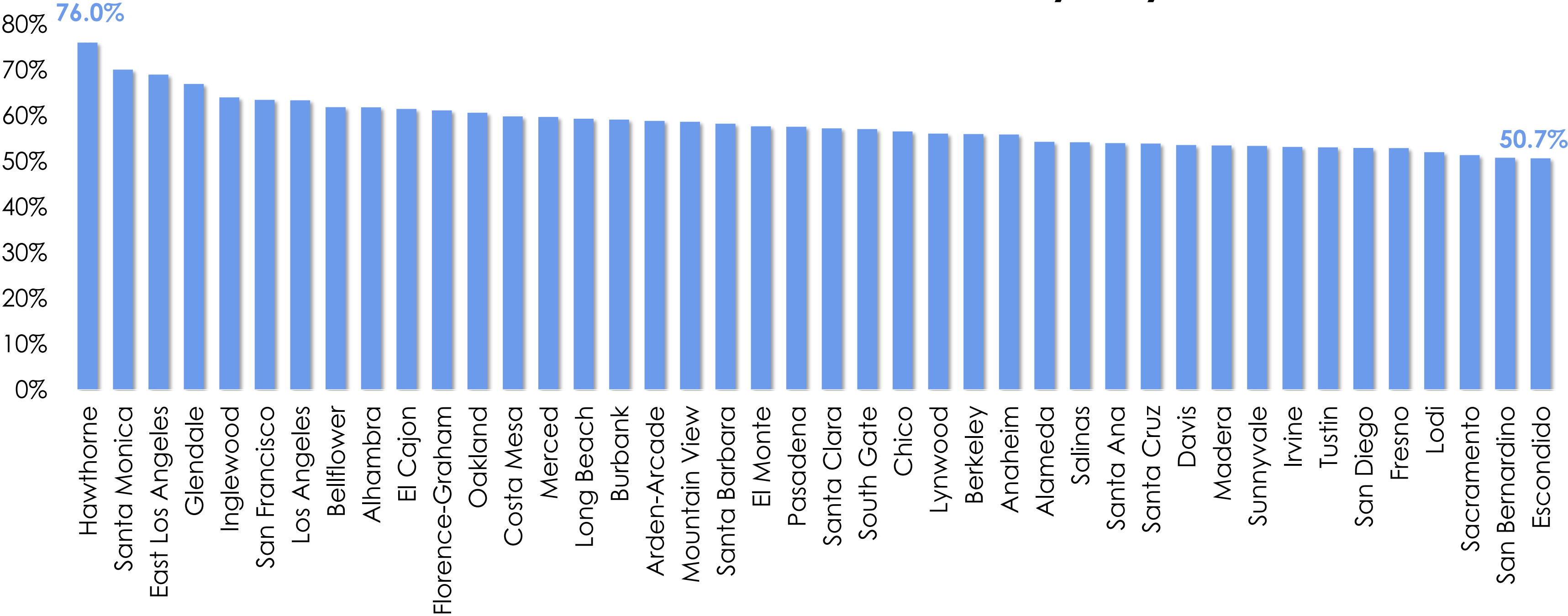
We're in questionable company now

Q2-19 Homeownership Rate



By 2025: CA majority Renter State

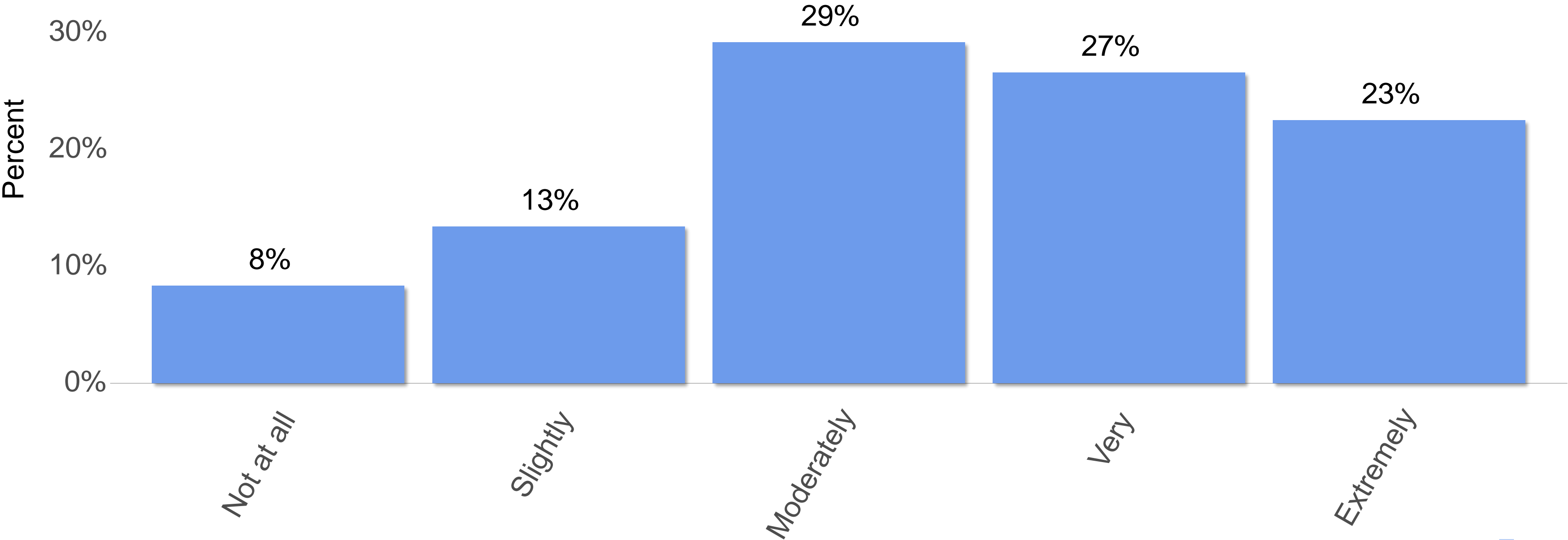
2017 California Renter Rate by City



Homeownership still aspirational

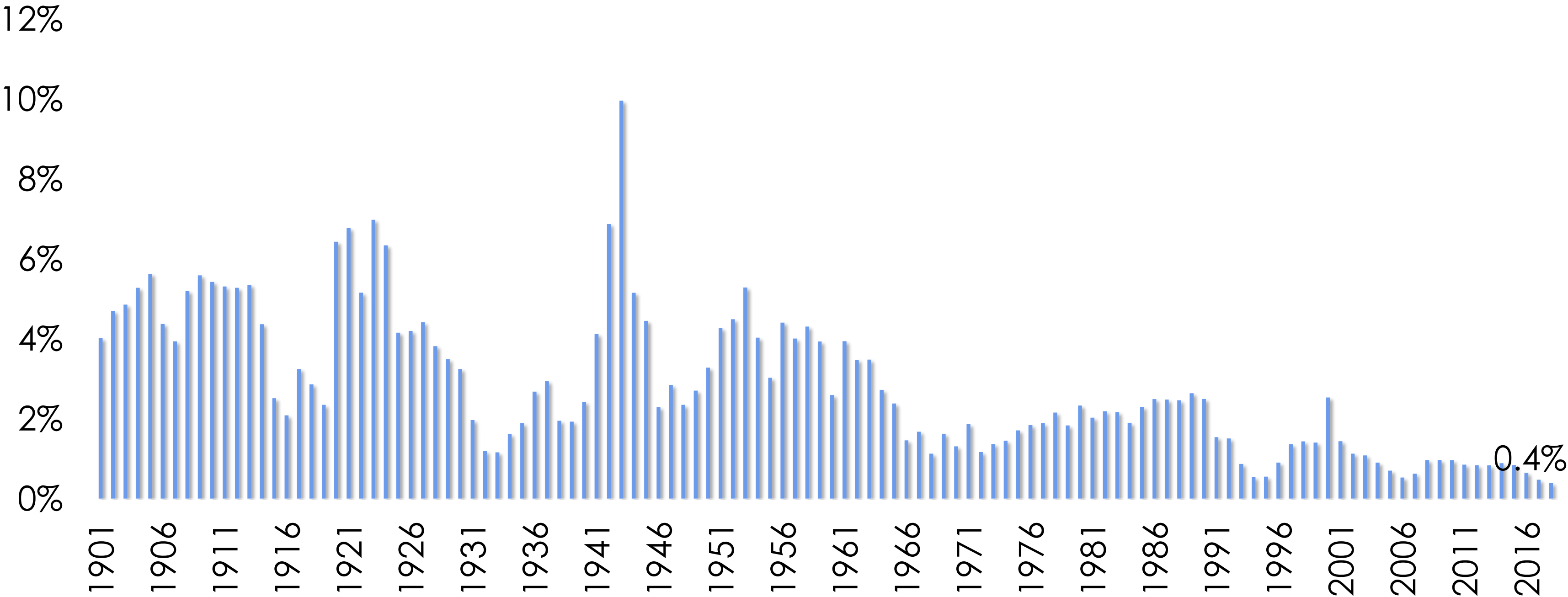
How important is homeownership to you?

n: 1663



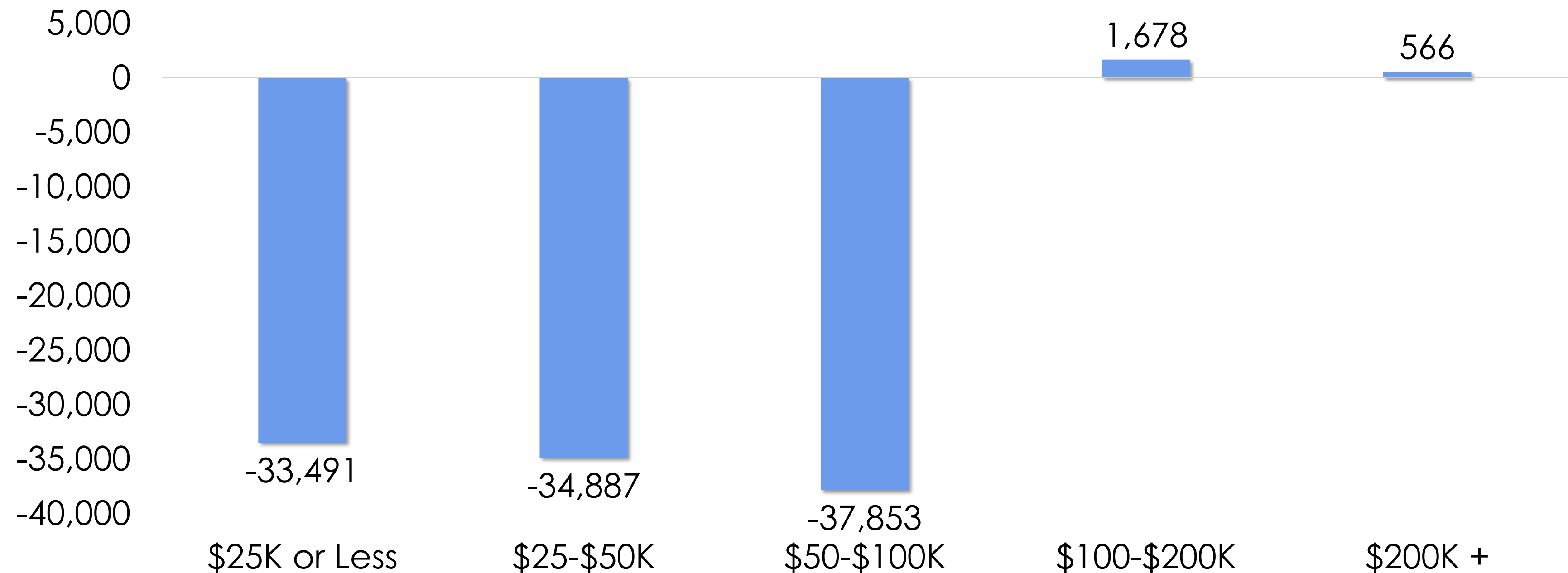
Population growth slowing

California Population Growth



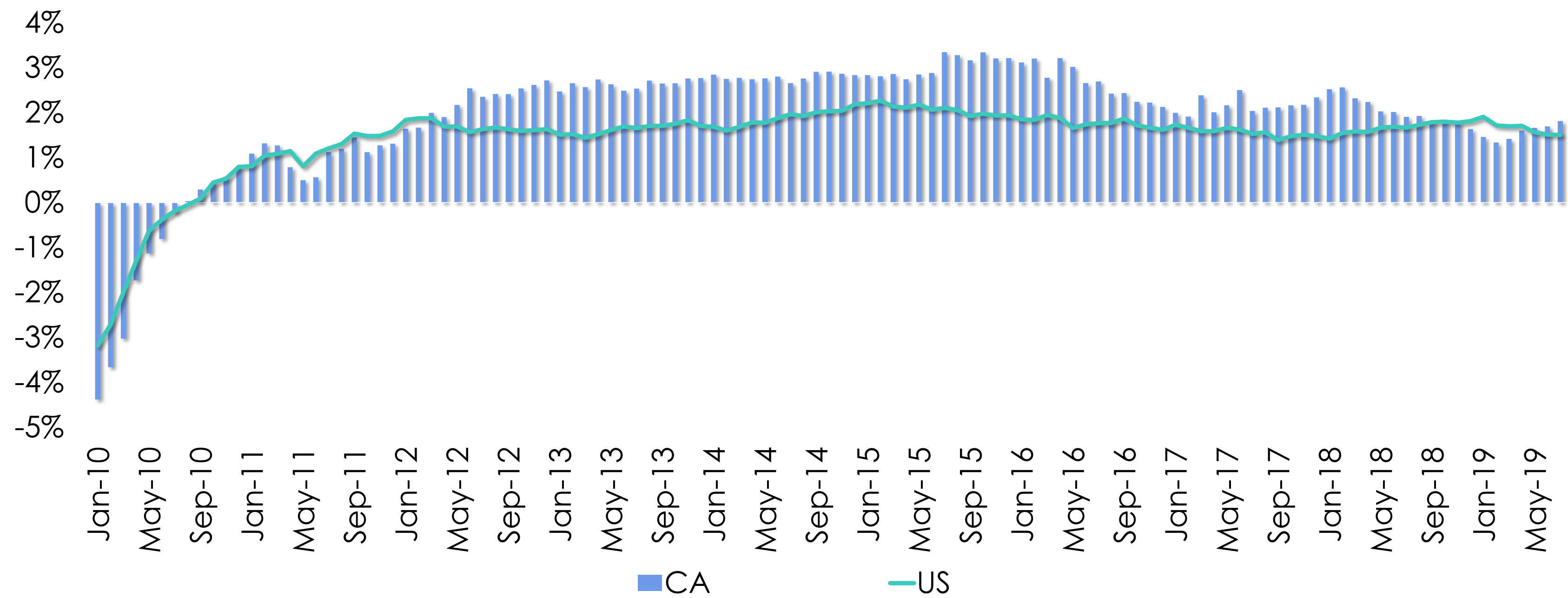
NOT our “job creators”

Net Migration by Income



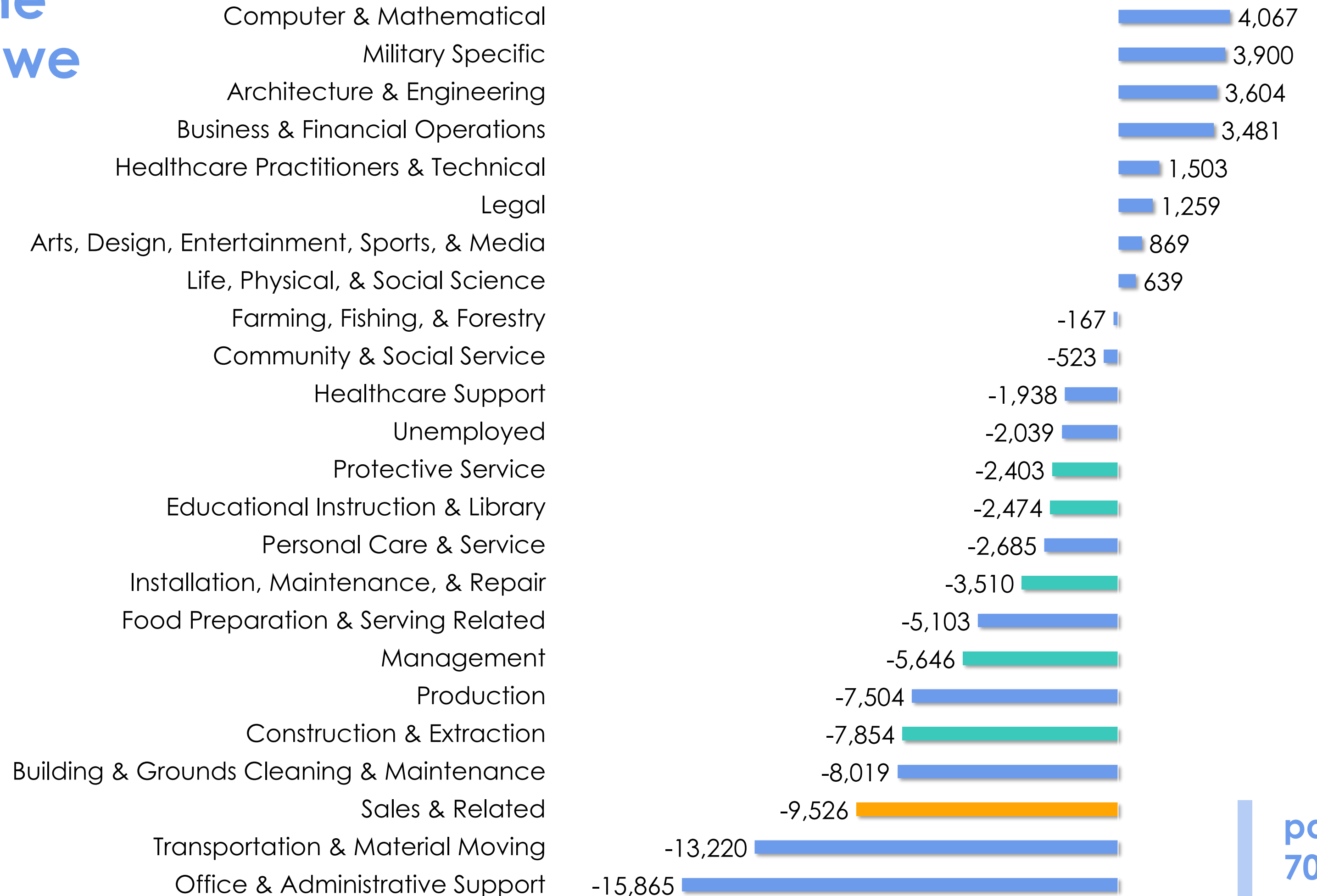
Hitting us economically

CA vs. US Job Growth



Losing the workers we need

Net Domestic Migration by Occupation



Conclusion:

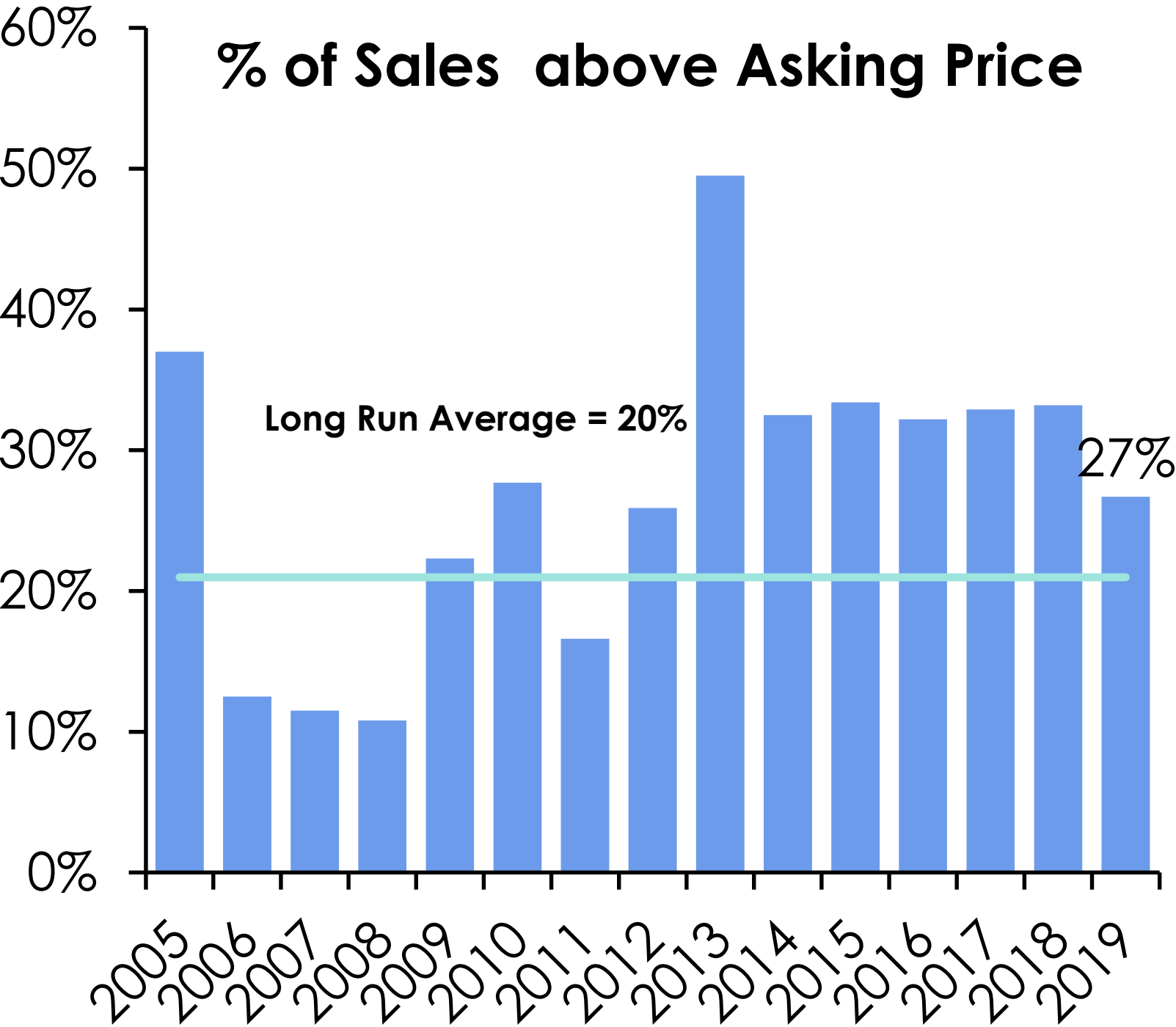
**A downshift driven by
supply & affordability
constraints**



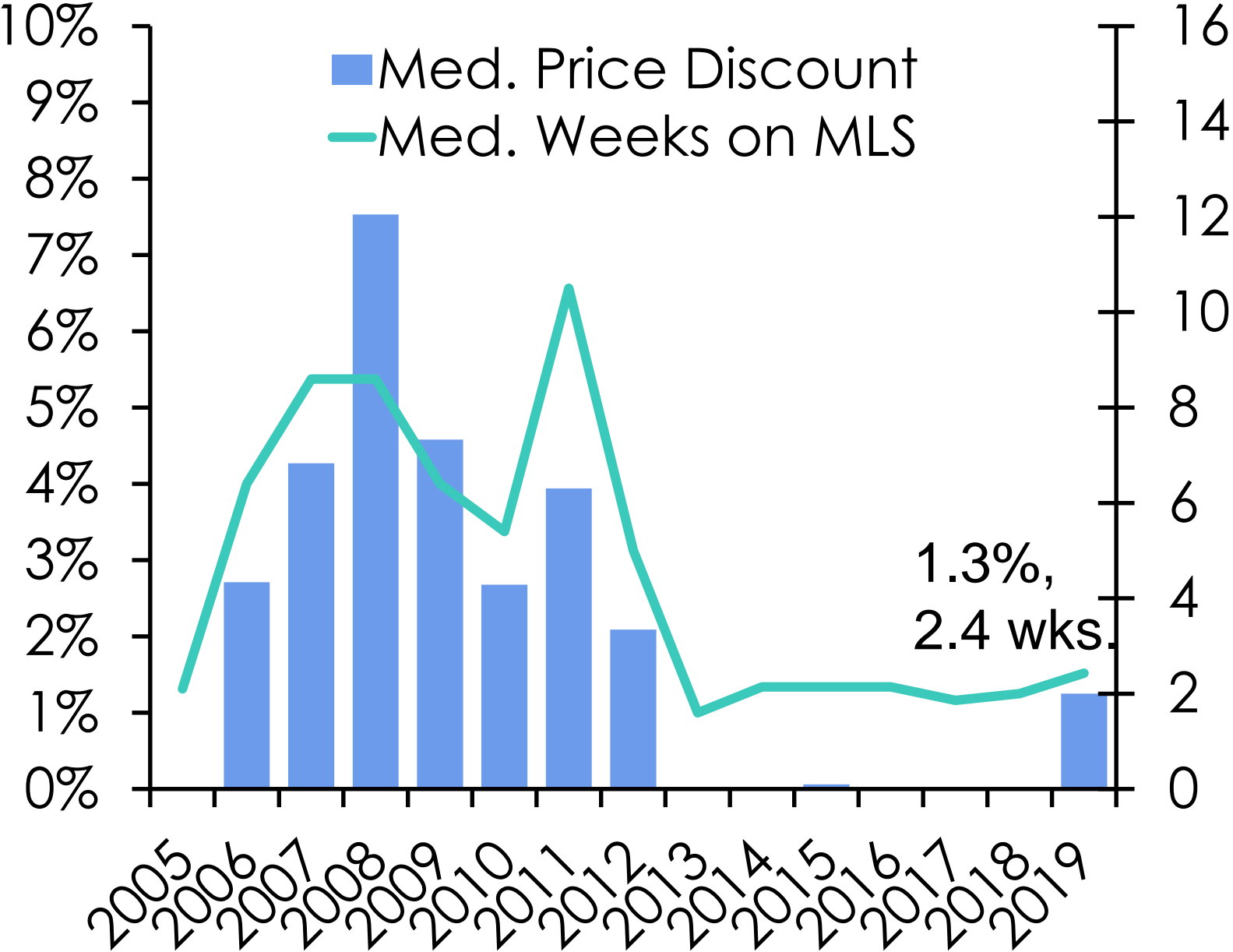
Annual Housing Market Survey

2019: A shift is afoot

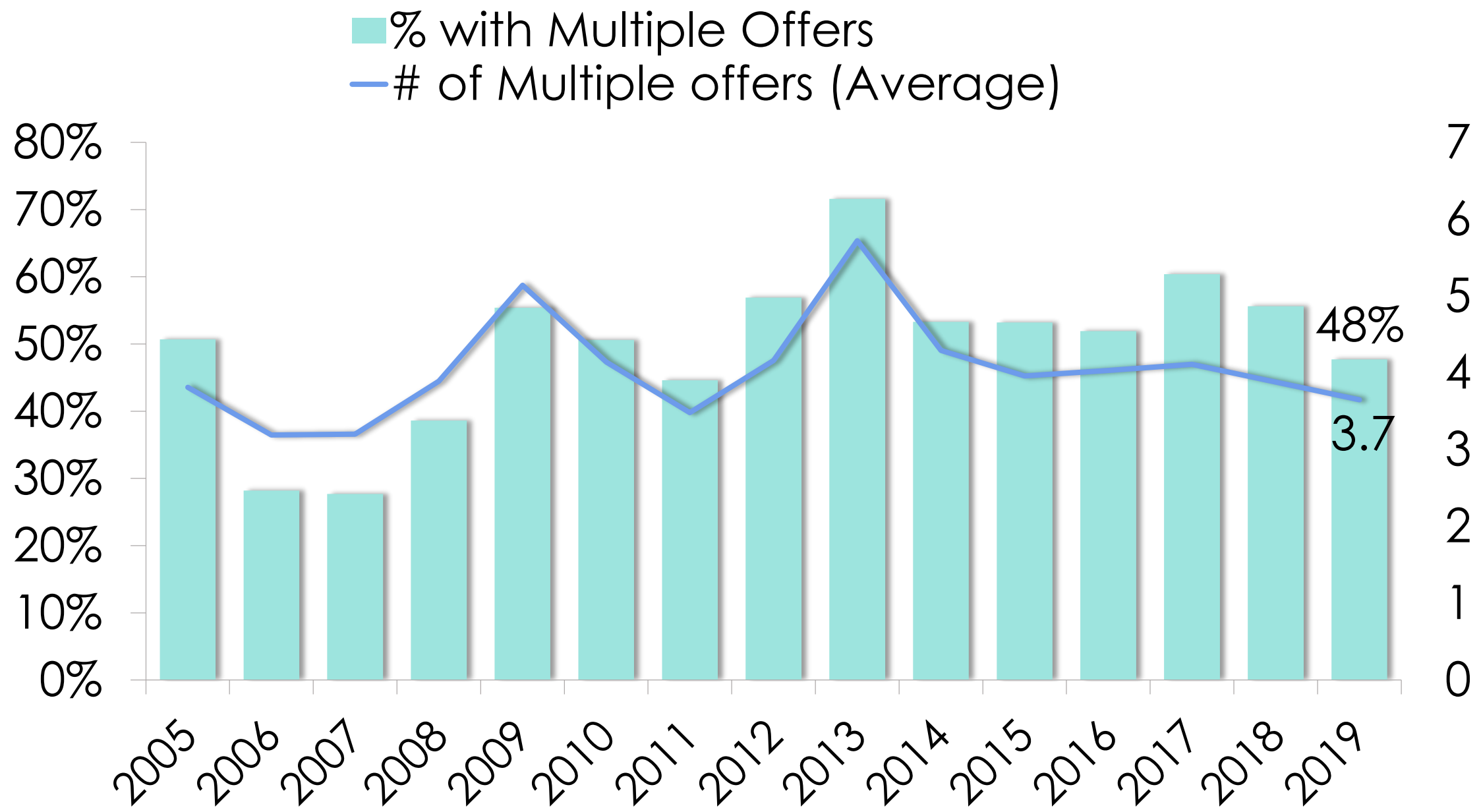
Market not as Competitive as Prior Years



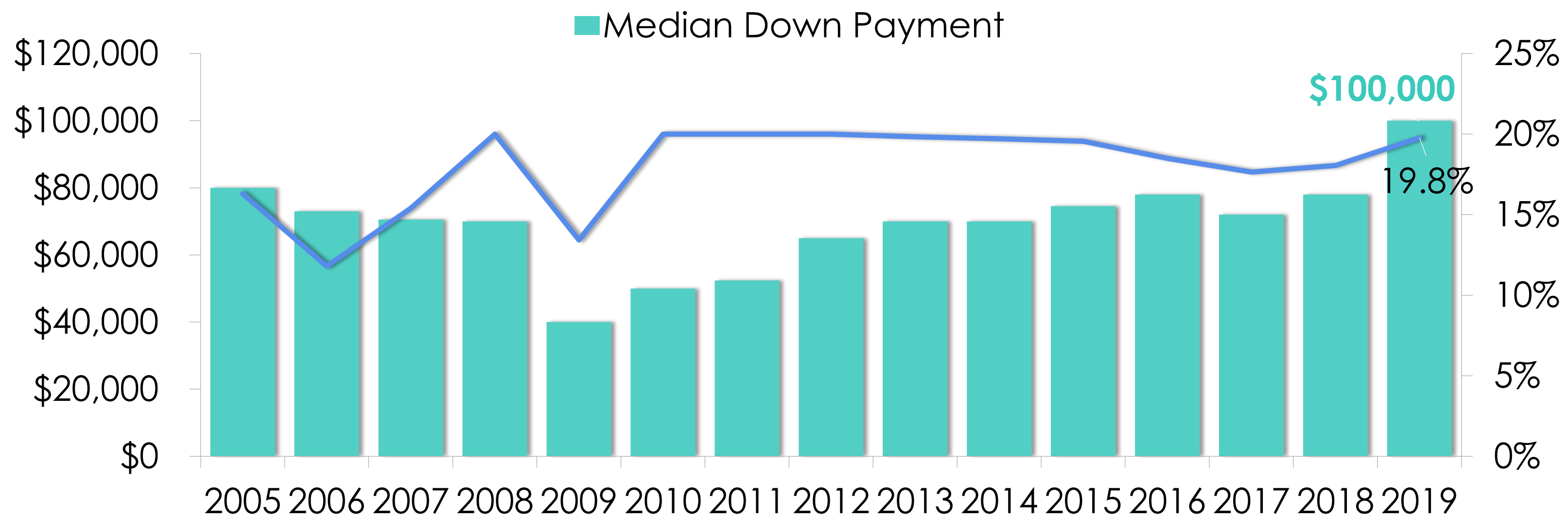
Median Price Discount & Weeks on Market



Less than Half of Sales Received Multiple Offers

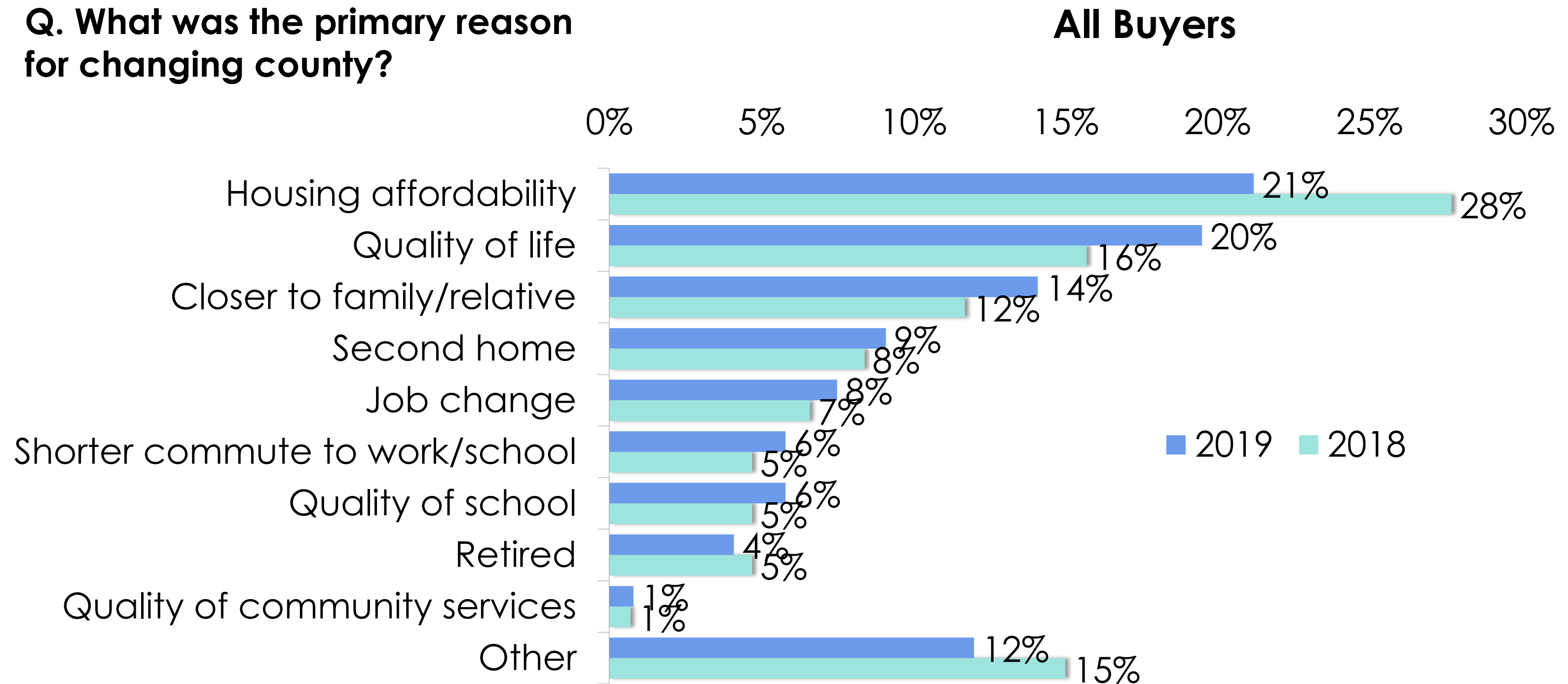


Record Home Prices Pushed up Down Payments



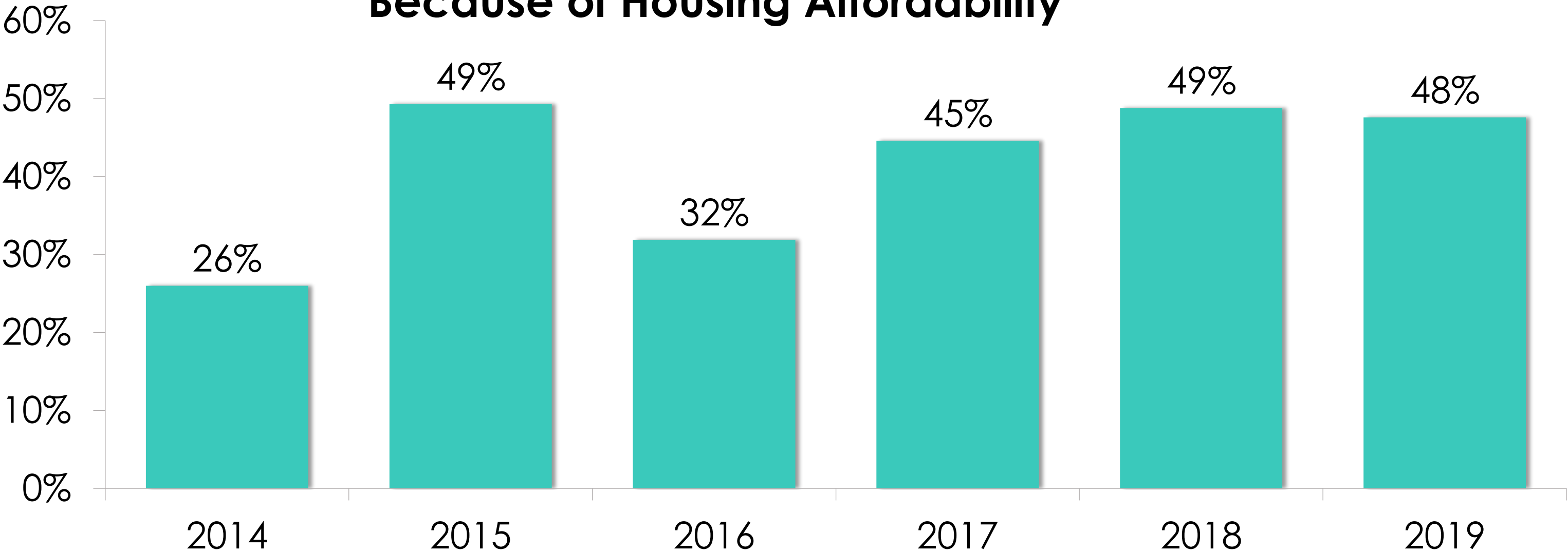
Housing Affordability Still the Main Reason for Outmigration

Q. What was the primary reason for changing county?



Housing Affordability Has Been a Consistent Issue for First-Time Buyers over the Last Few Years

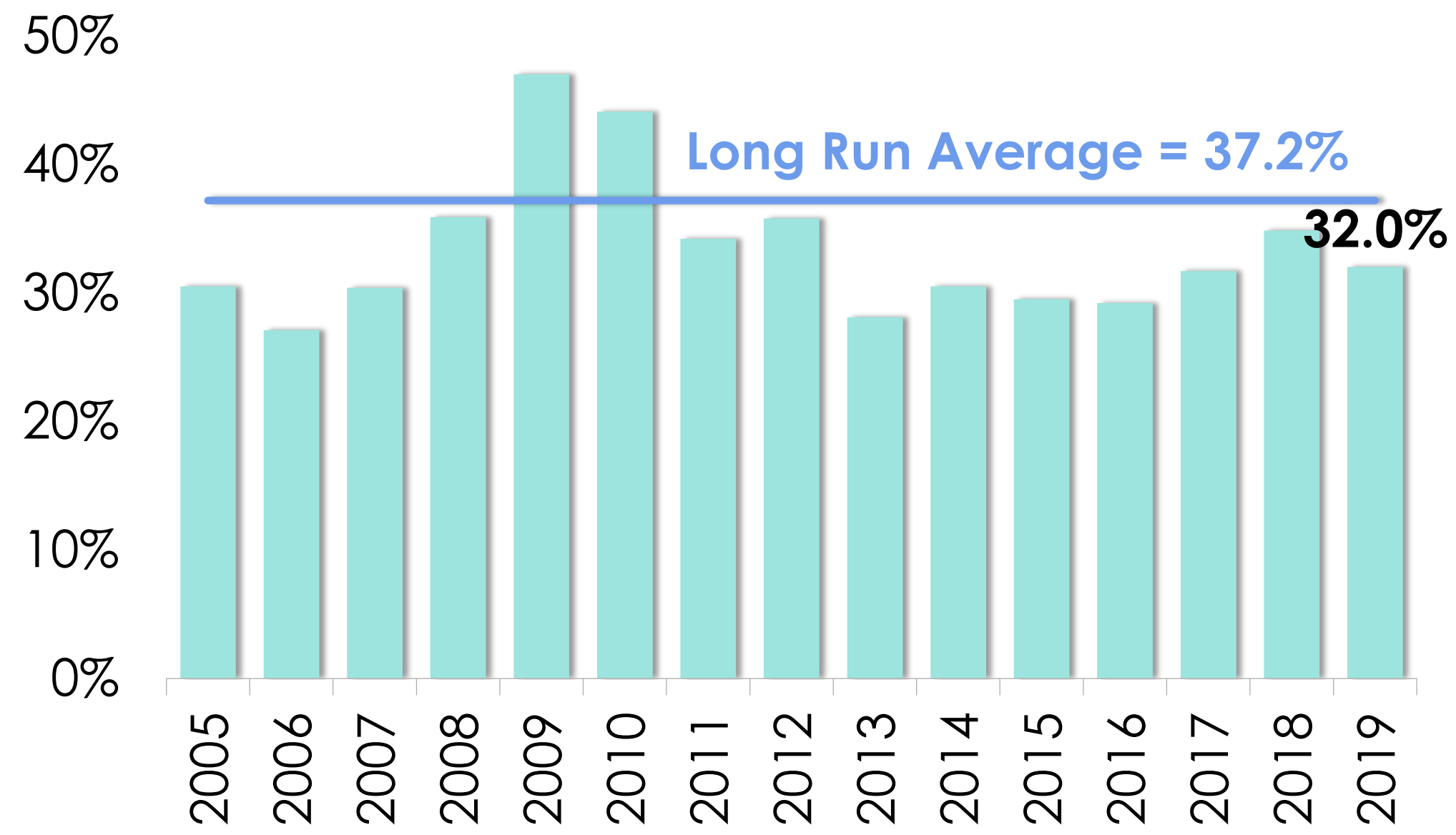
% of First-Time Buyers who Changed County Because of Housing Affordability



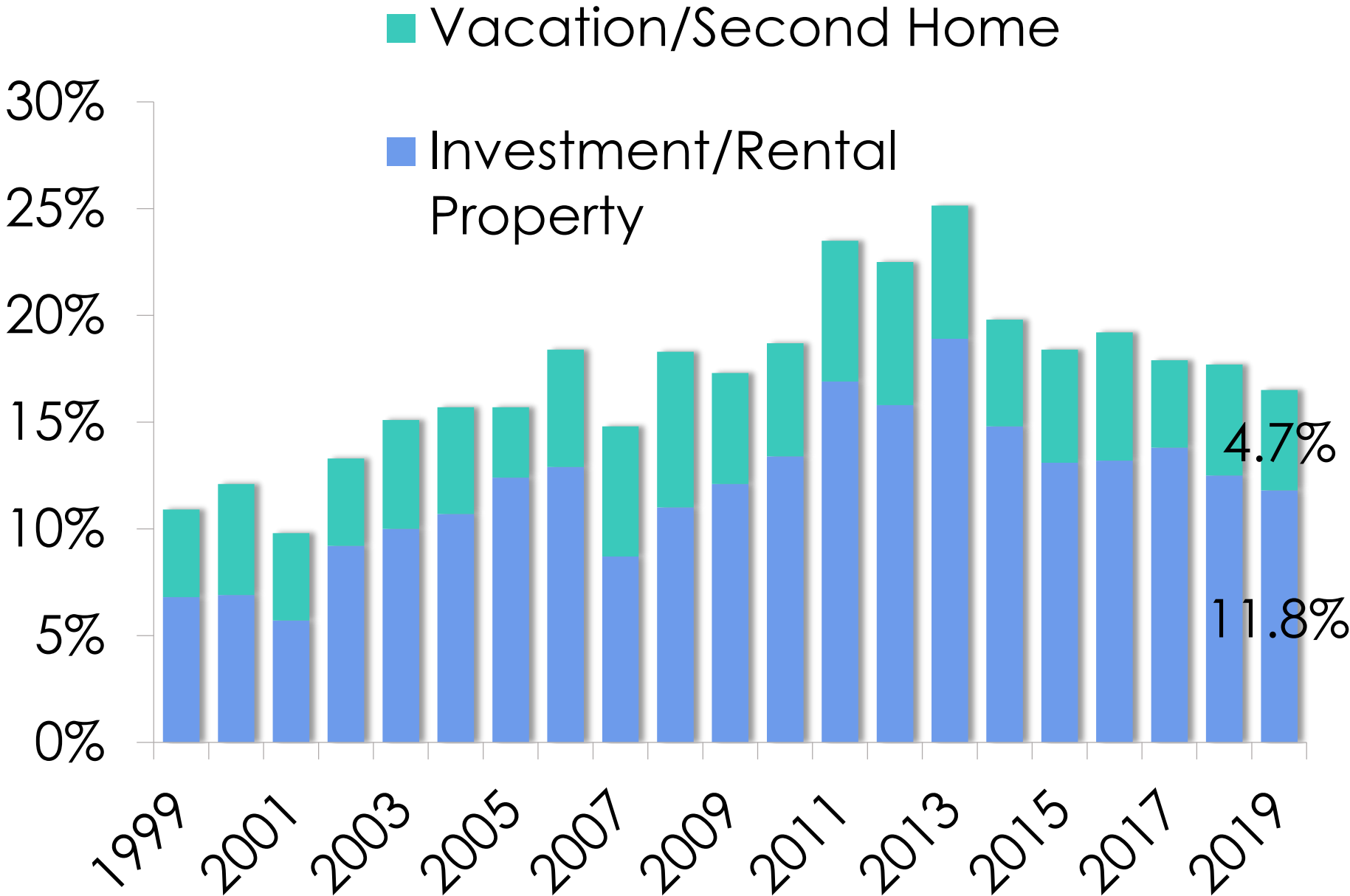
Share of First Time Buyers Dipped after Reaching Highest Level since 2012



■ % First-Time Home Buyers — Long Run Average



Investor Buyers Share Dropped to the Lowest since 2008; Fewer Flippers in the Market




Flip

Vs.


Rent

2014: 30%
2015: 26%
2016: 20%
2017: 24%
2018: 26%
2019: 18%

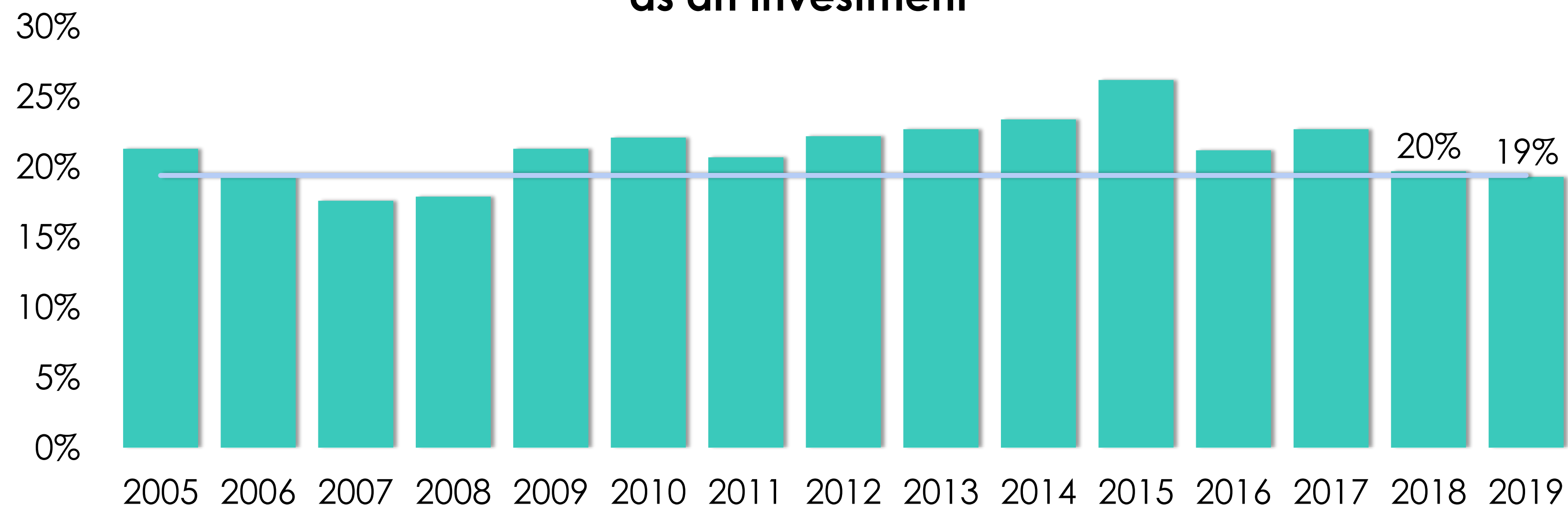
2014: 70%
2015: 74%
2016: 80%
2017: 76%
2018: 74%
2019: 82%

Investor Buyers Have the Financial Advantage over First-Time Buyers

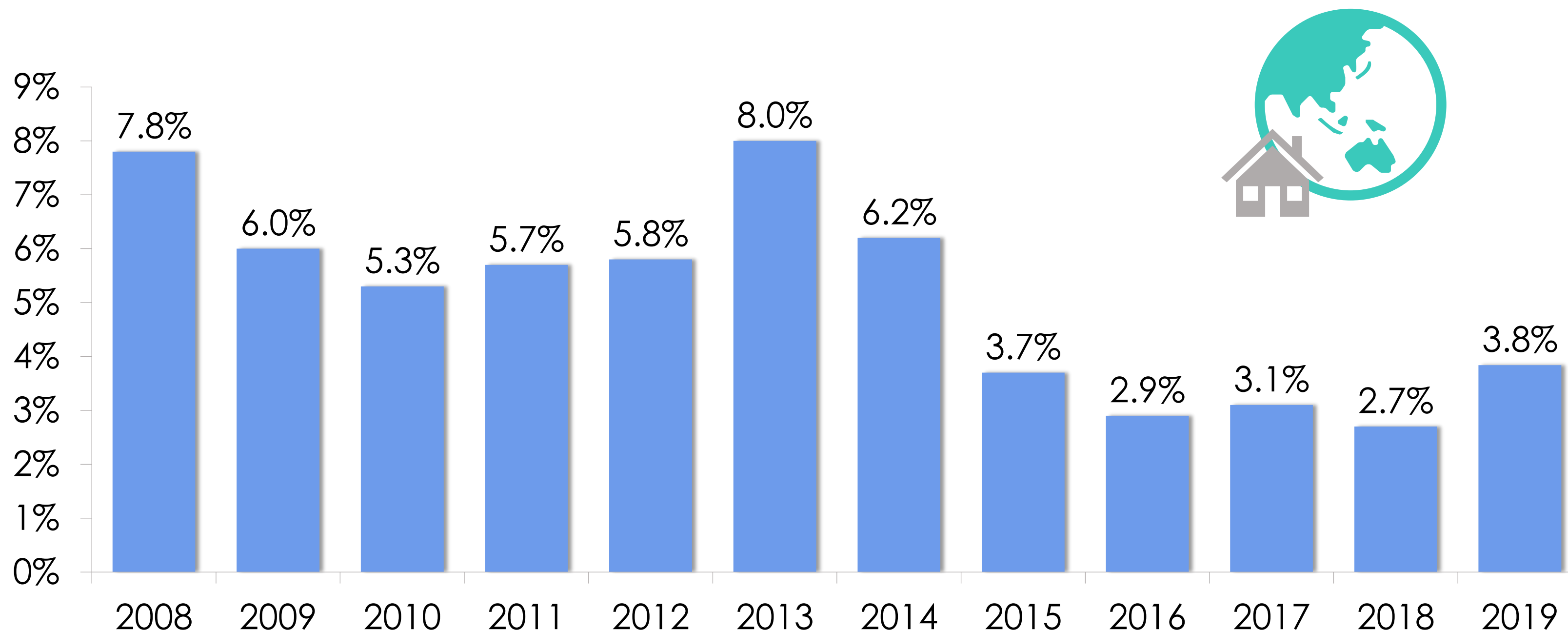
	First-time Buyers	Investor Buyers
Median Sales Price	\$516,500	\$495,000
Median Square Footage	1,500	1,400
Median Household Income	\$90,000	\$200,000
Median Downpayment (in \$\$)	\$35,500	\$100,000

Fewer Investors Selling Their properties; 4 out of 5 Are Landlords

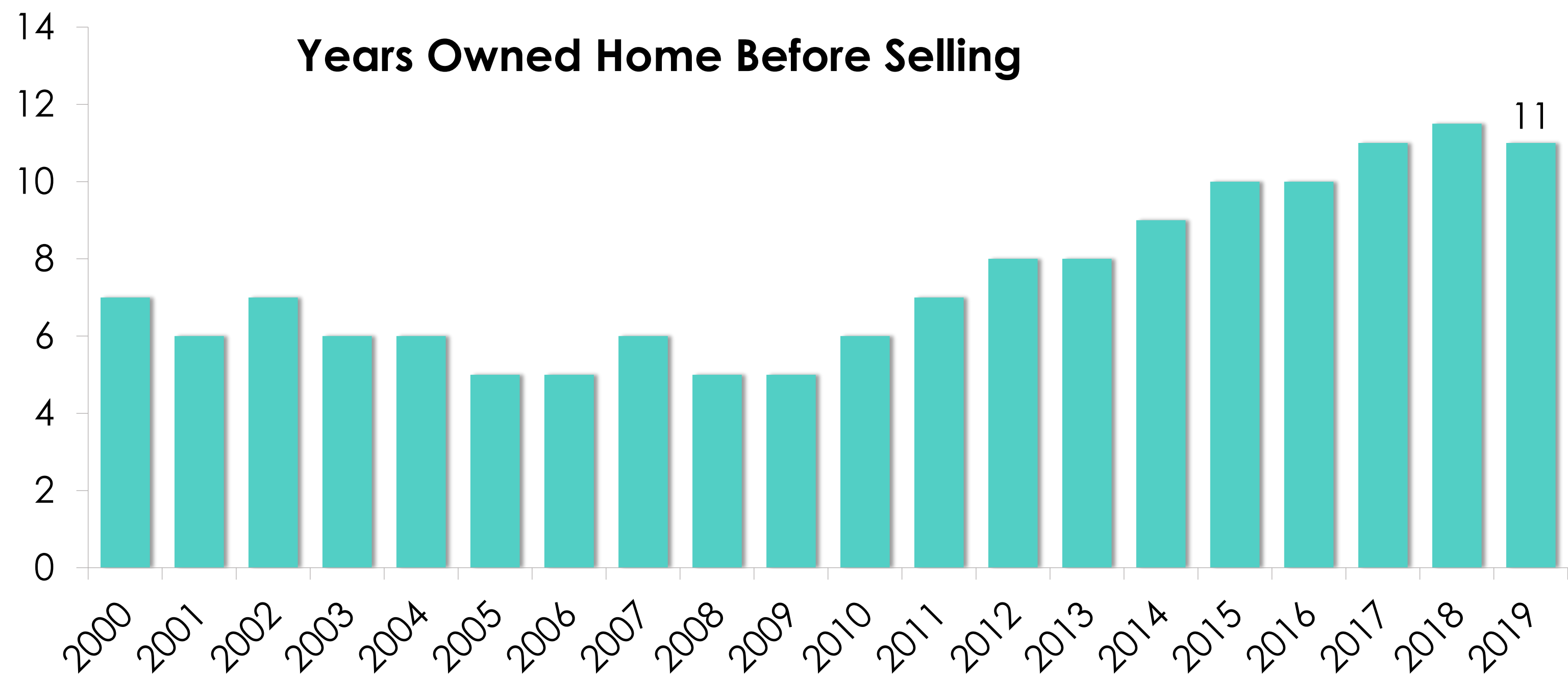
Sellers Who Owned the Property as an Investment



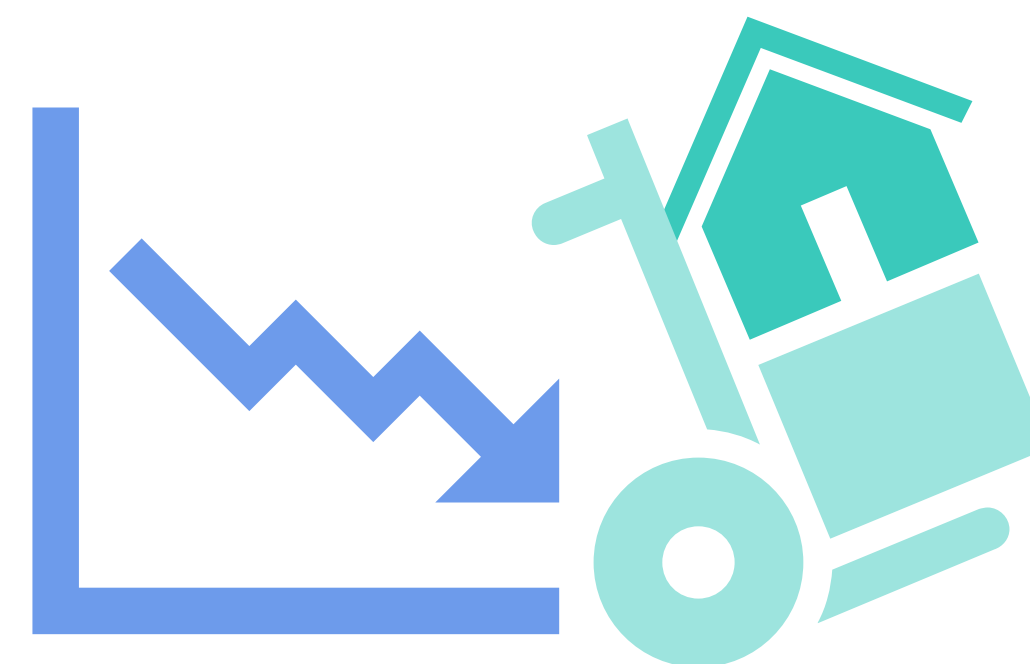
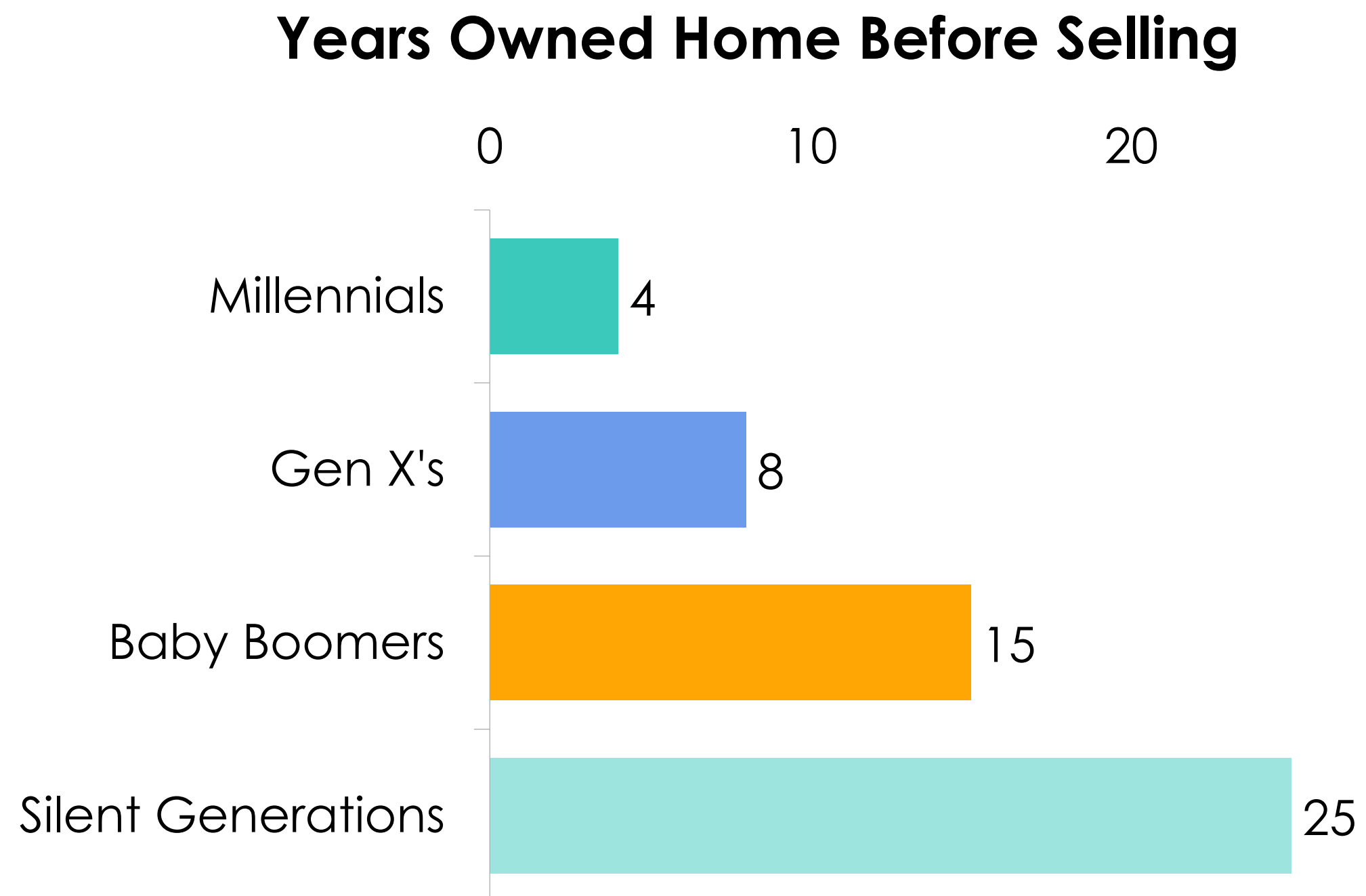
International Buyers Bounced back from 2018 Low



Sellers staying put: owned for a median of 11 years



...Especially for older generations (with consumer survey definition)

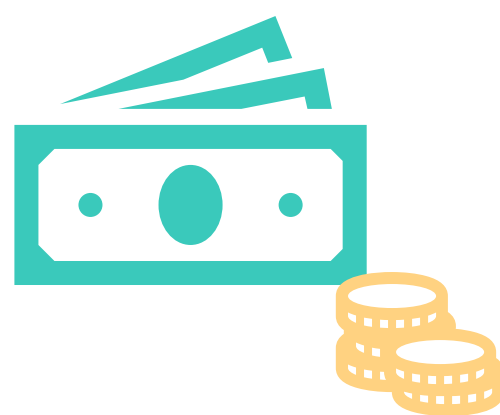


More Sellers Continue to Move out of California; Highest since 2005

Location of Seller's New Home

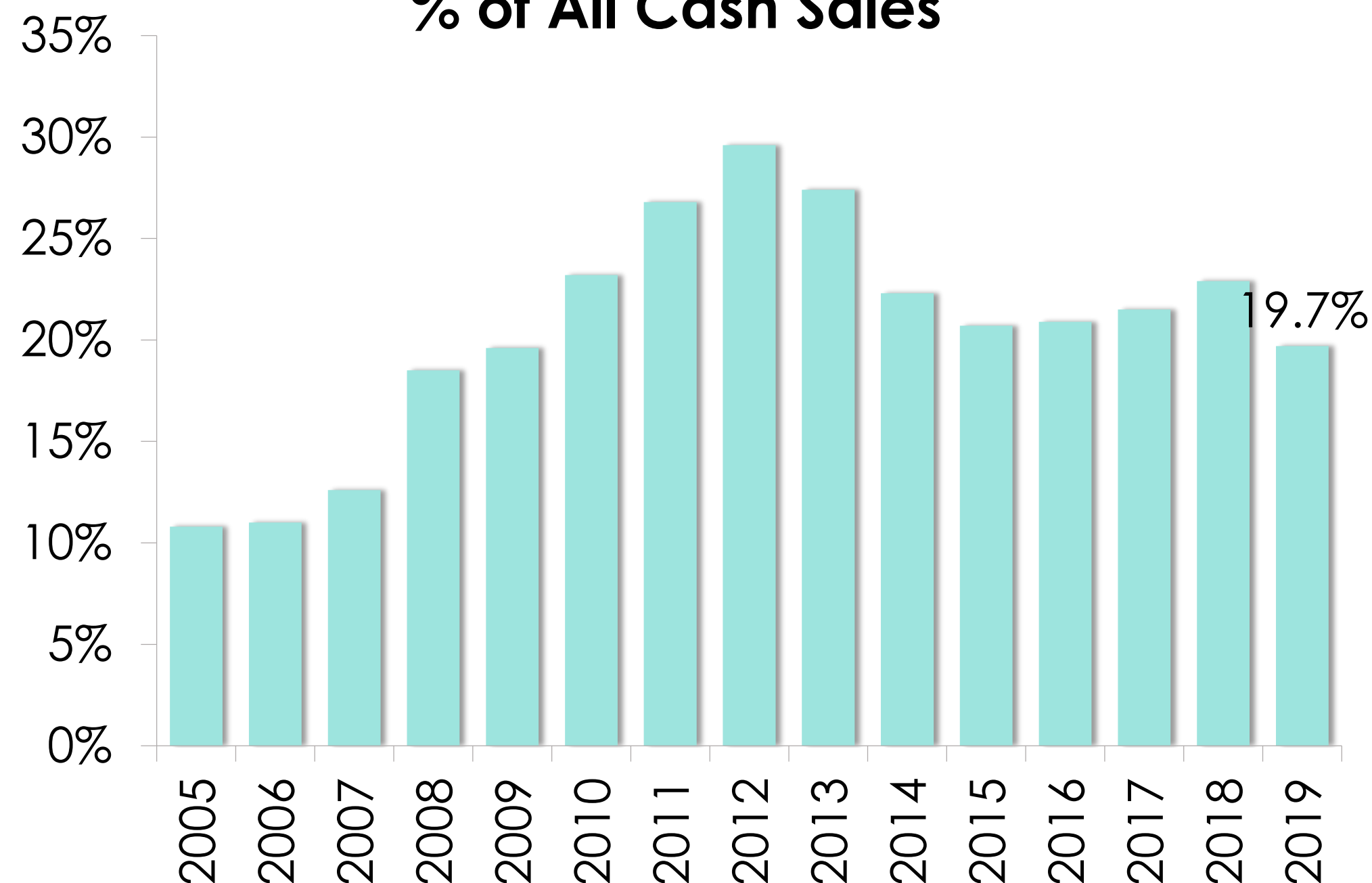
	2005	2009	2015	2019
Within the same county	38%	47%	44%	35%
In another county in California	23%	21%	20%	20%
In another state	31%	19%	22%	30%
Out of US	1%	2%	1%	0%
Don't Know/Not sure	7%	12%	13%	14%
Total	100%	100%	100%	100%

Share of cash buyers lowest in 10 years



- One-fifth of buyers paid with all cash
- The share of all cash buyers dipped below 20% for the 1st time since 2009

% of All Cash Sales





Where is
everyone going?

1841: Westward Ho!

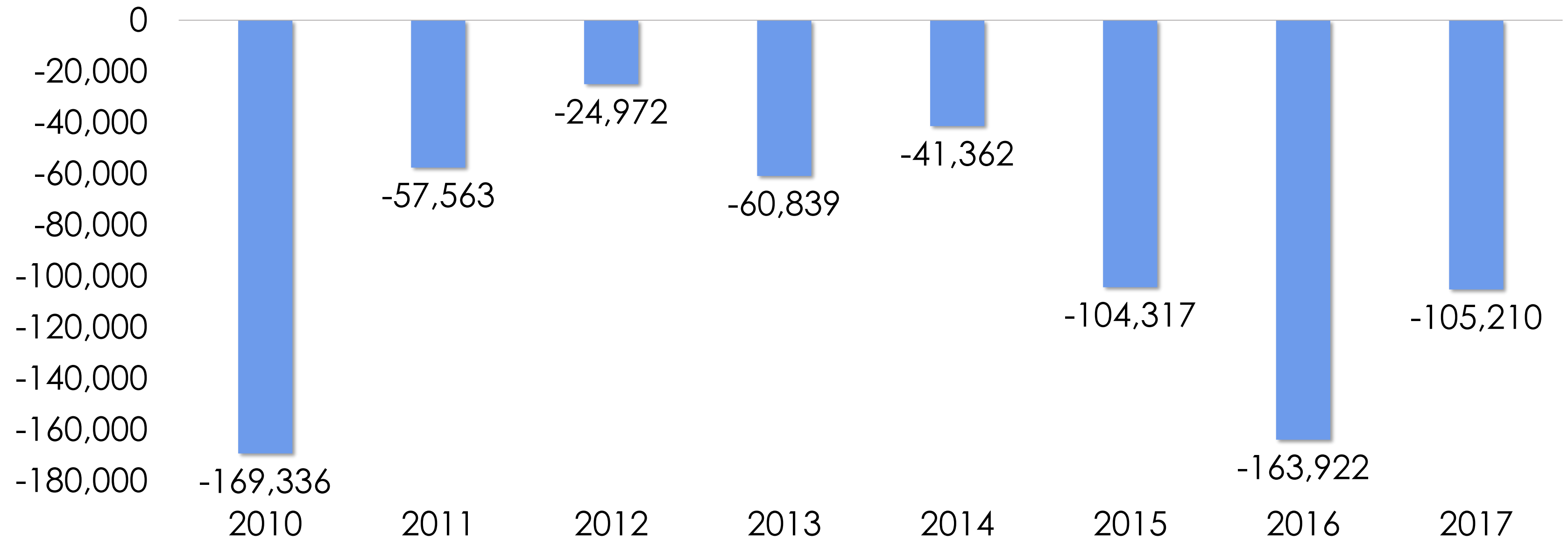


2010: Eastward Ho!



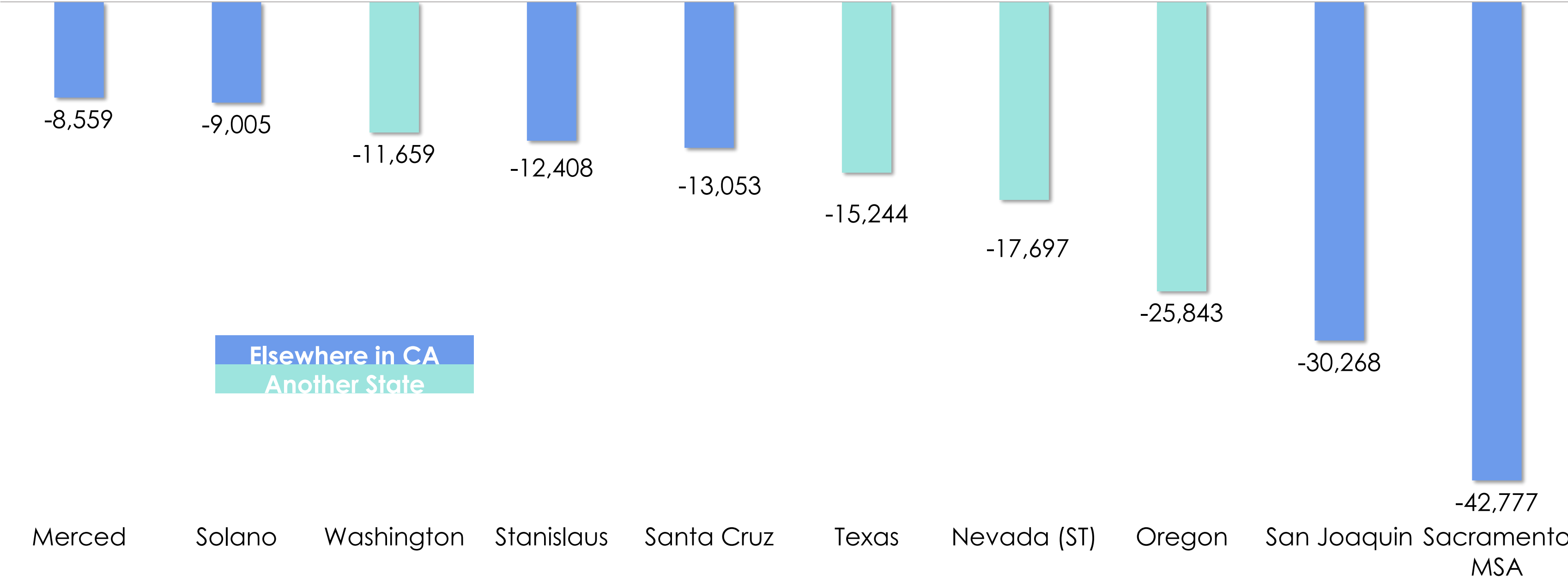
~750k people have left since 2010

California Net Domestic Migration

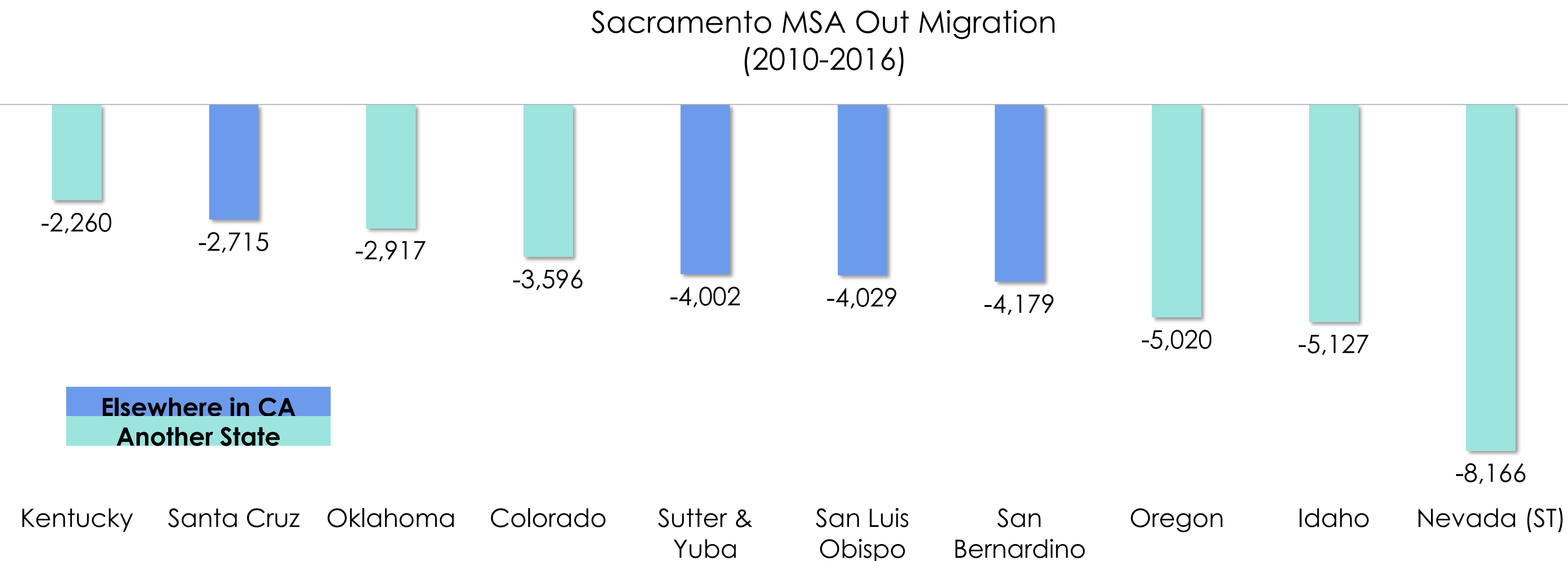


Step 1: SF Bay to Cheaper Markets

Core San Francisco Bay Area Out Migration (2010-2016)

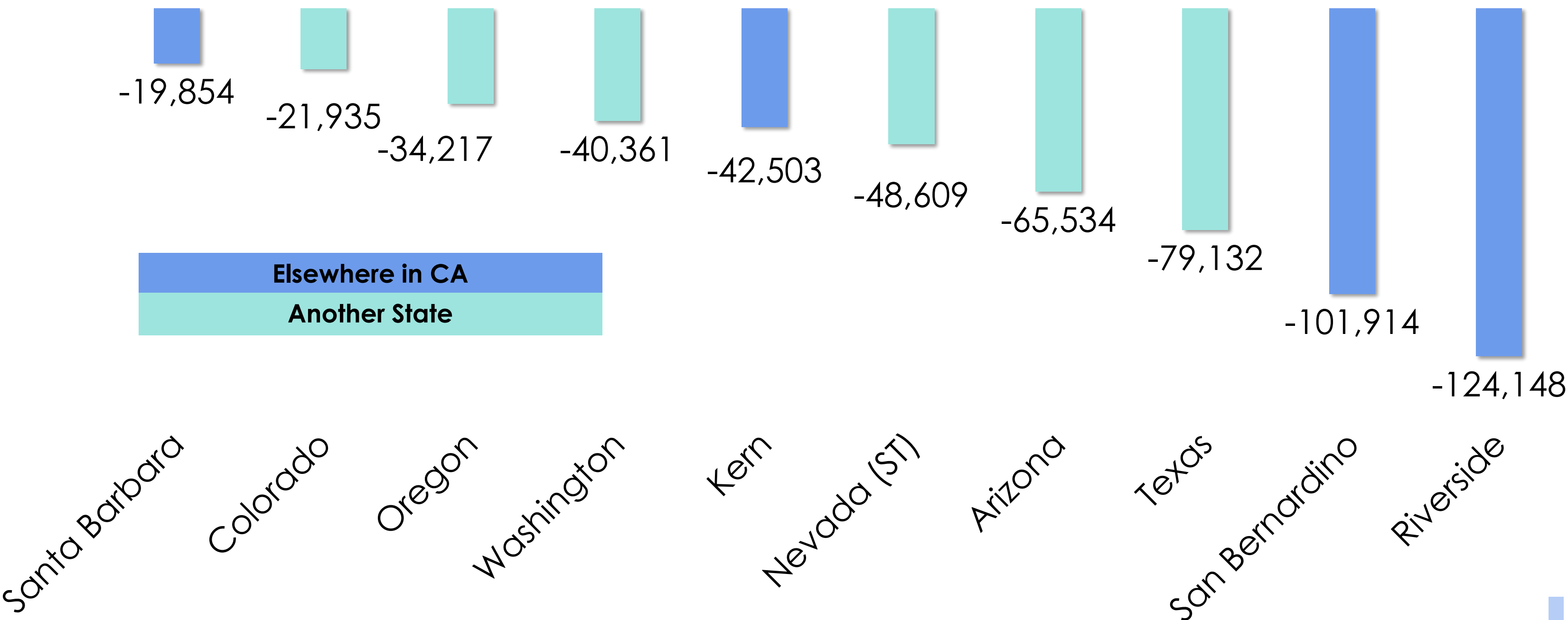


Step 2: Pricing Prior Residents Out of State

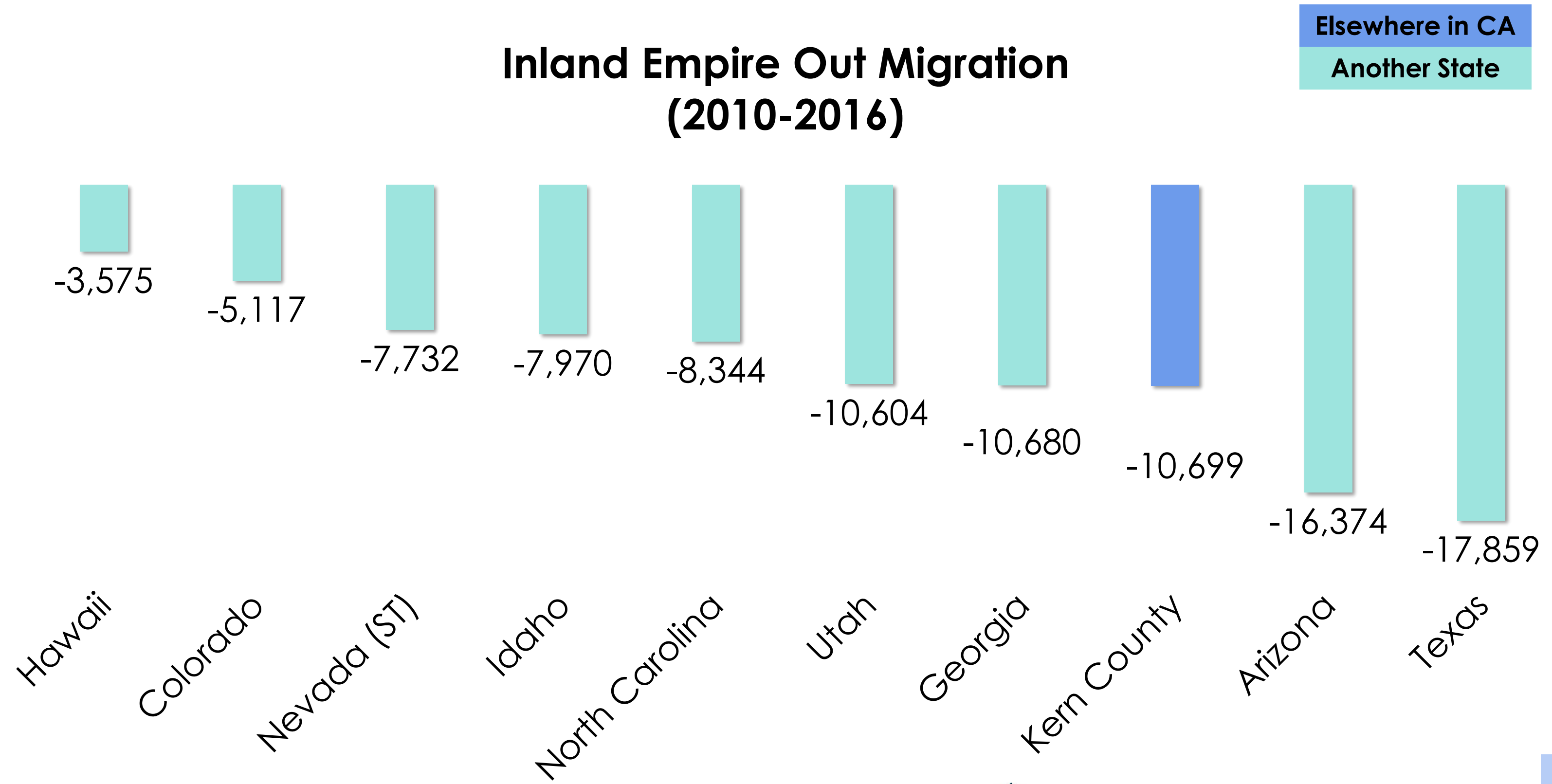


Step 1: SoCal coastal to cheaper markets

Coastal Southern California Out Migration (2010-2016)



Step 2: pricing prior residents out of state



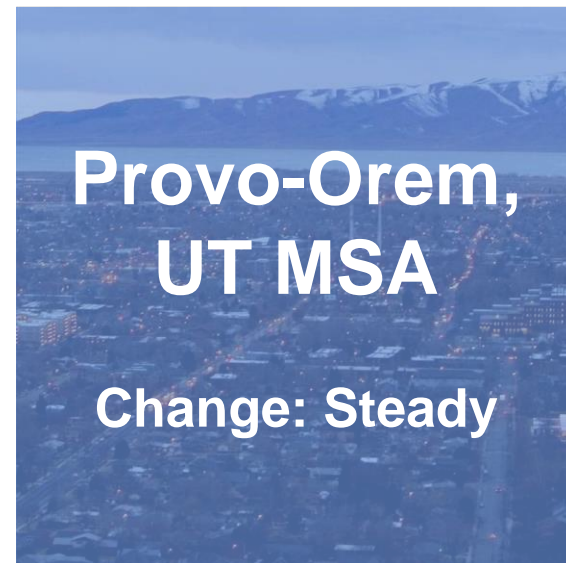
Best performing cities are everywhere

Milken Institute Annual Report 2018

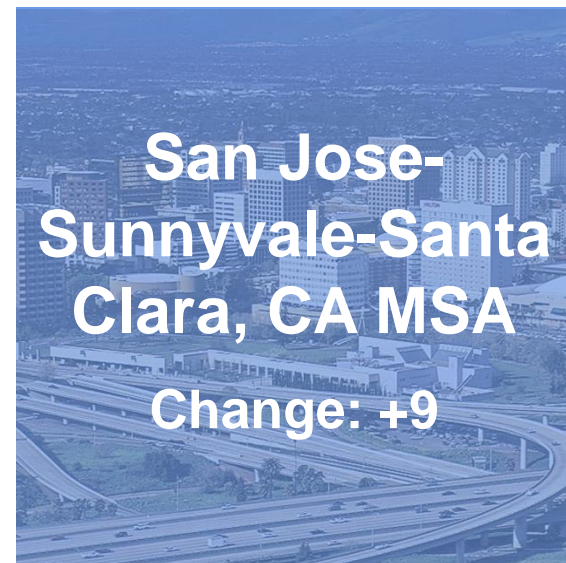


Top 10 best performing large cities

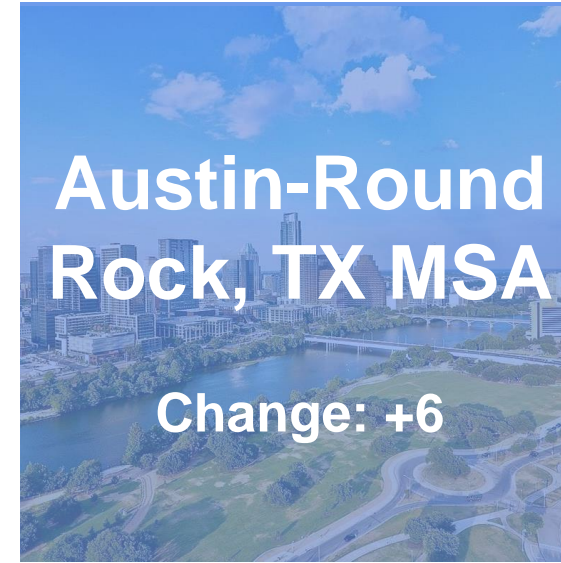
1



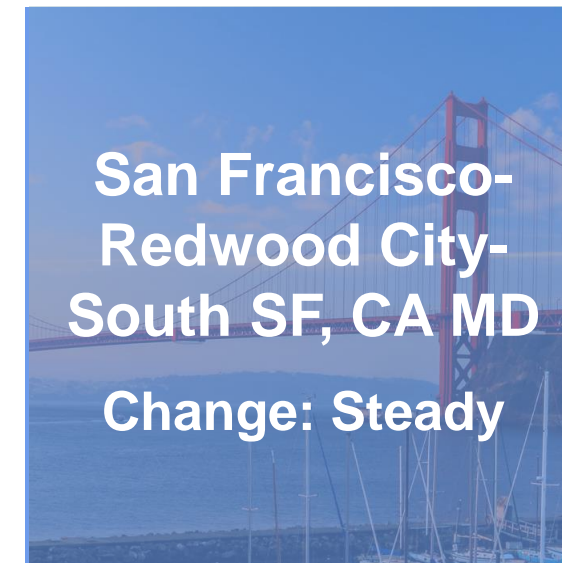
2



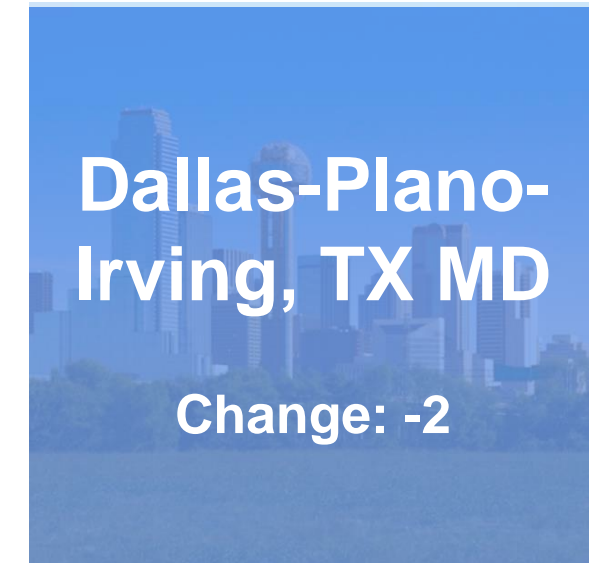
3



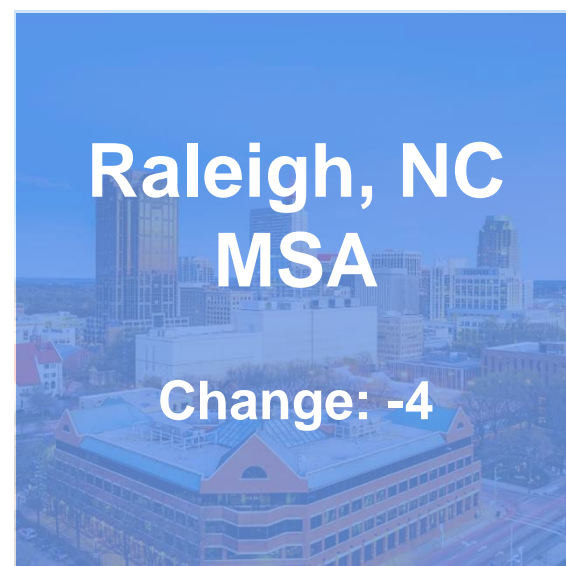
4



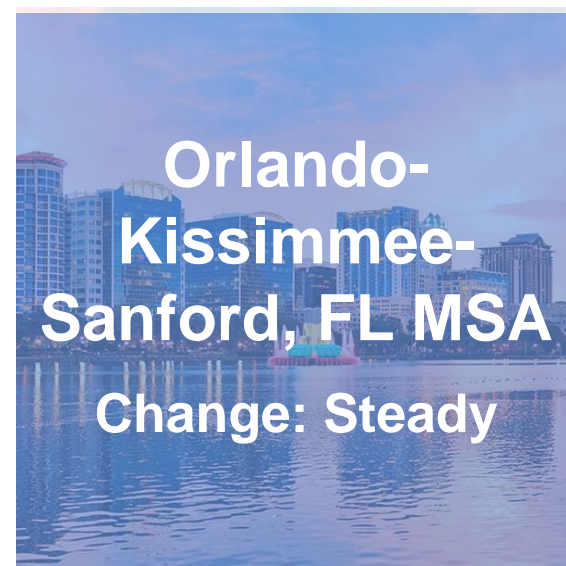
5



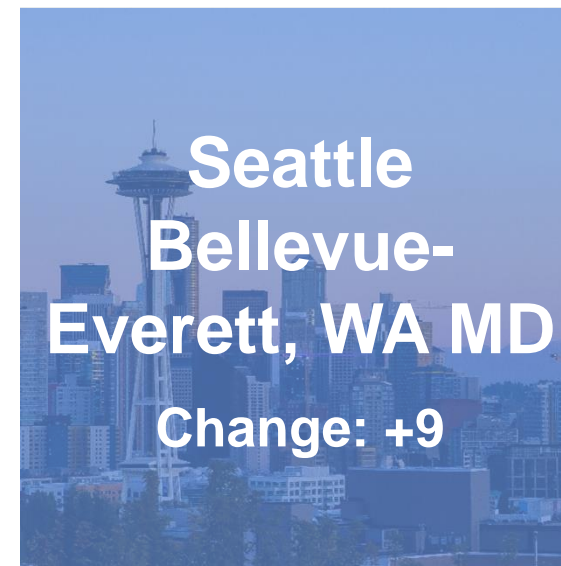
6



7



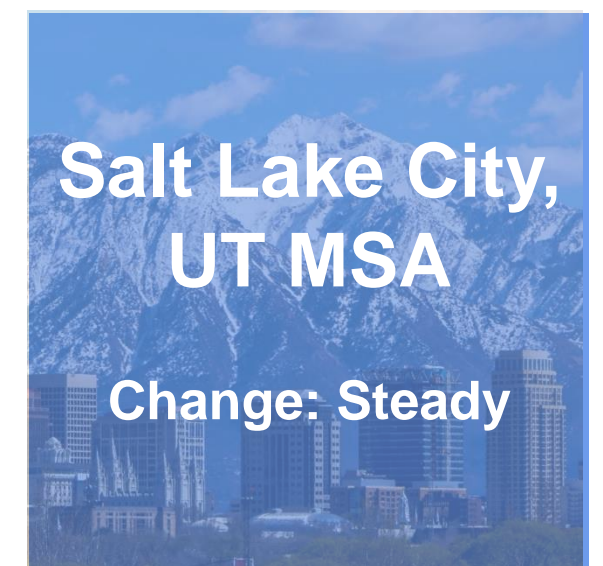
8



9

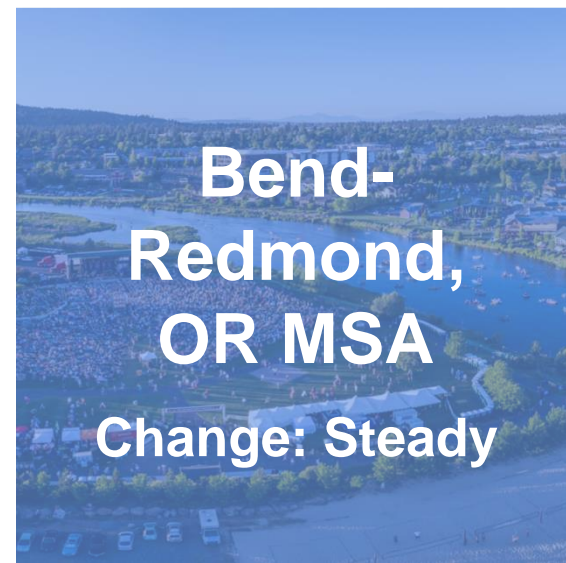


10



Top 10 best performing small cities

1



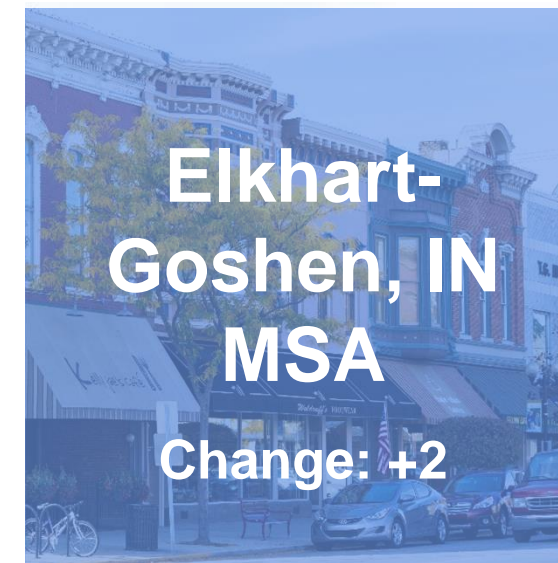
2



3



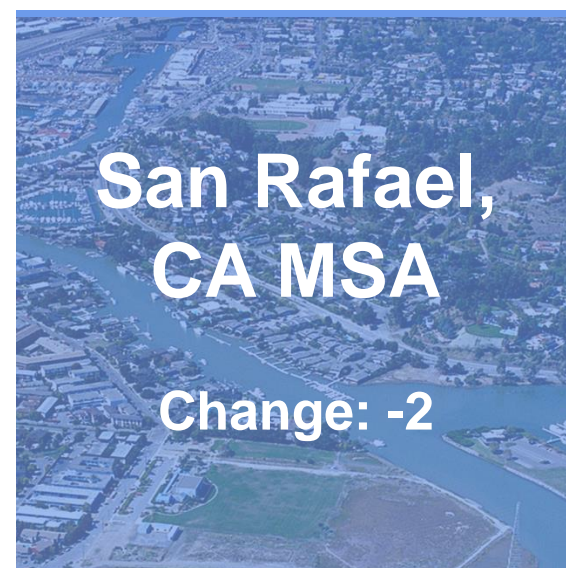
4



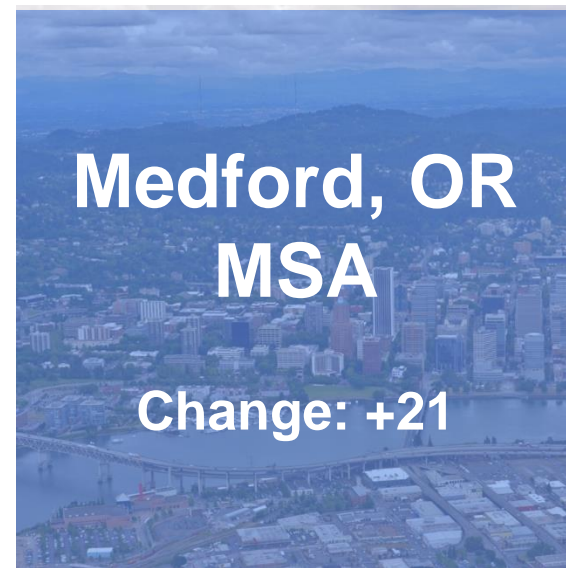
5



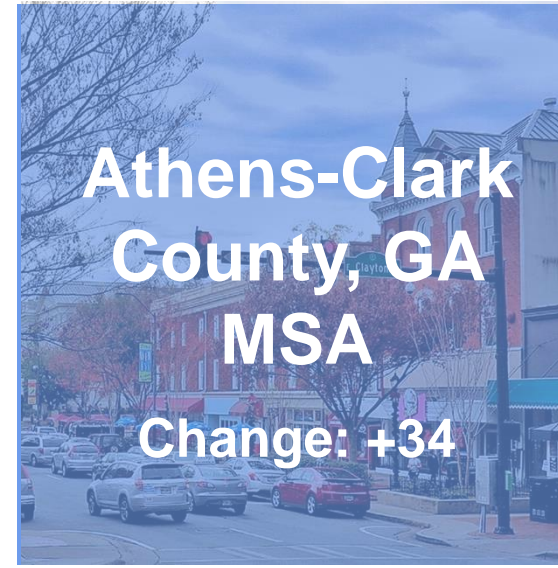
6



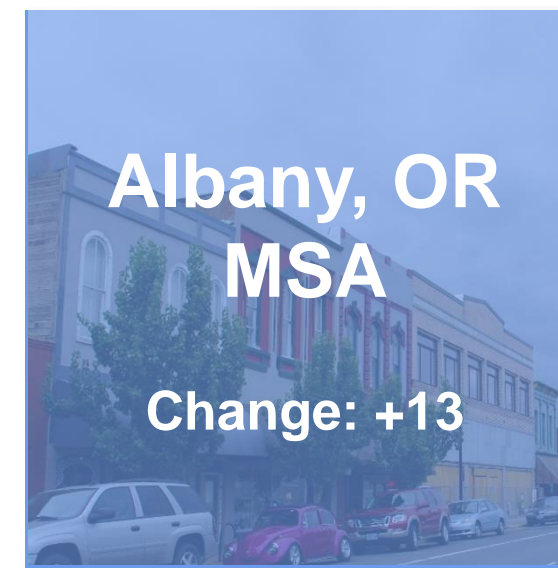
7



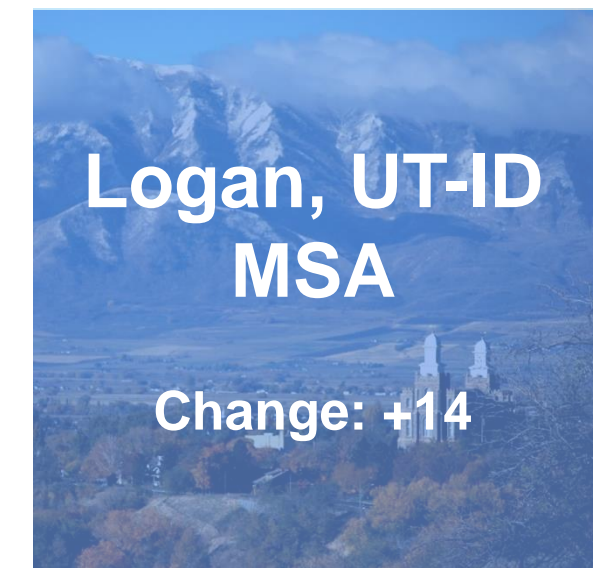
8



9



10



Biggest gainers 2017-2018

	2018 Rank	Change
Merced, CA MSA	38	56
Norwich-New London, CT MSA	123	54
Tucson, AZ MSA	102	52
Lansing-East Lansing, MI MSA	89	49
Myrtle Beach-Conway-North Myrtle Beach, SC-...	51	48
Scranton-Wilkes-Barre-Hazleton, PA MSA	85	36
Kennewick-Richland, WA MSA	148	36
Albuquerque, NM MSA	66	35
Tallahassee, FL MSA	82	35
Trenton, NJ MSA	125	35



Forecast

2020 California Housing Market Forecast

	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%

