

2023 California Economic & Housing Market Forecast

Palos Verdes Peninsula Association of REALTORS®

January 24, 2023

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California Association of REALTORS®



Return of the two-handed economist

01 The bad news

- Market down significantly after a strong run
- The economy may dip into modest recession

02 The better news

- Market showing signs of searching for bottom
- Not seeing the bottom fall out & inventory is tight

03 The even better news

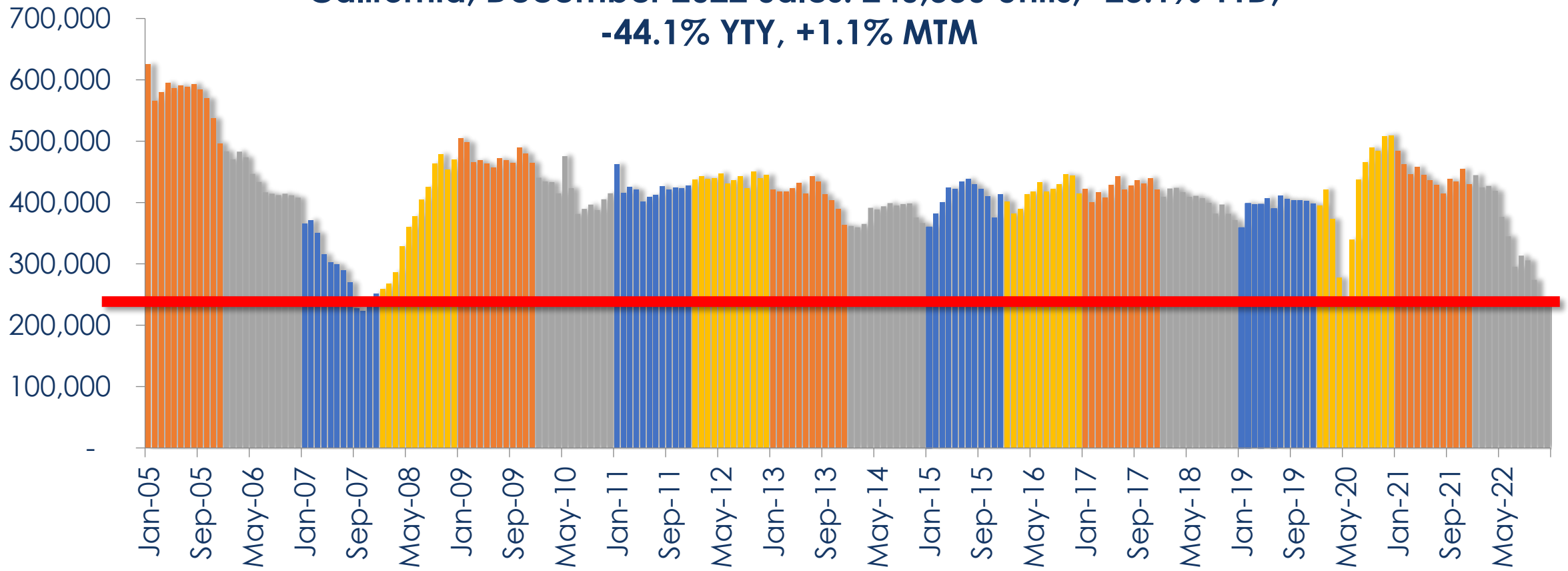
- We're not on the precipice like we were in 2008
- Sales will remain low, and prices will fall some

04 Bottom line for buyers & sellers

- Buy for the long run, benefits of ownership alive & well
- Shifting markets create opportunities for home buyers

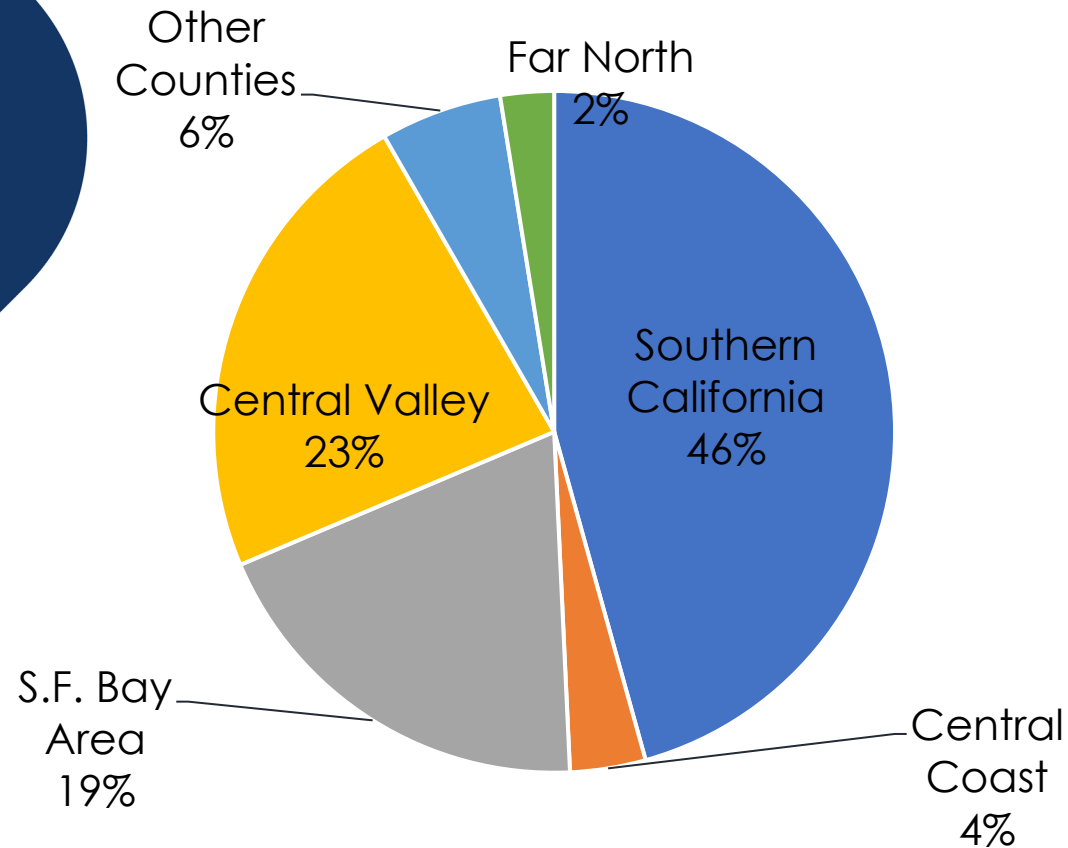
Entire 4th quarter spent below 300,000 transactions

California, December 2022 Sales: 240,330 Units, -23.1% YTD, -44.1% YTY, +1.1% MTM



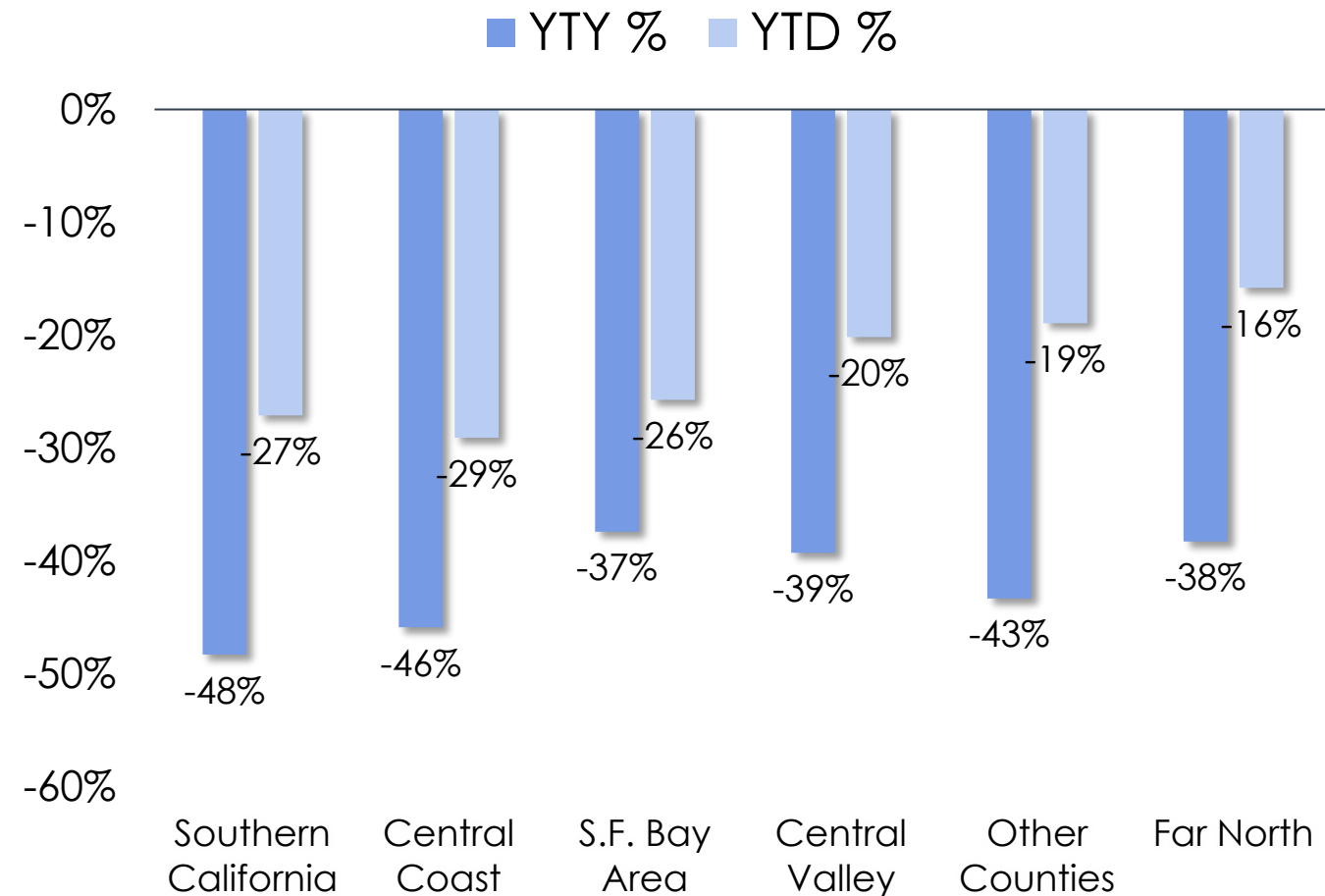
Every major region in California seeing similar trends

December 2022 Home Sales by Region

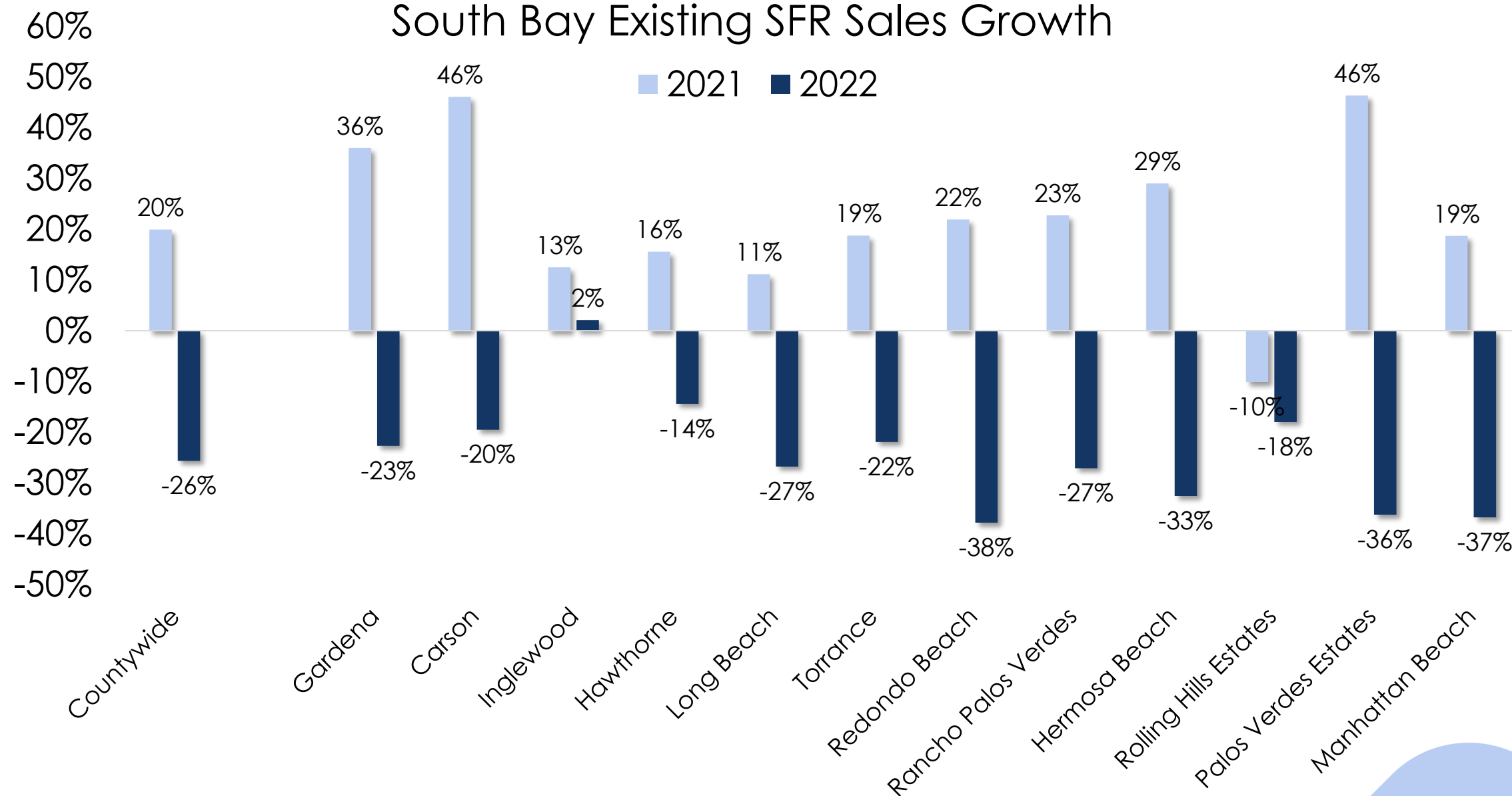


CALIFORNIA ASSOCIATION OF REALTORS®

December 2022 Home Sales Growth by Region

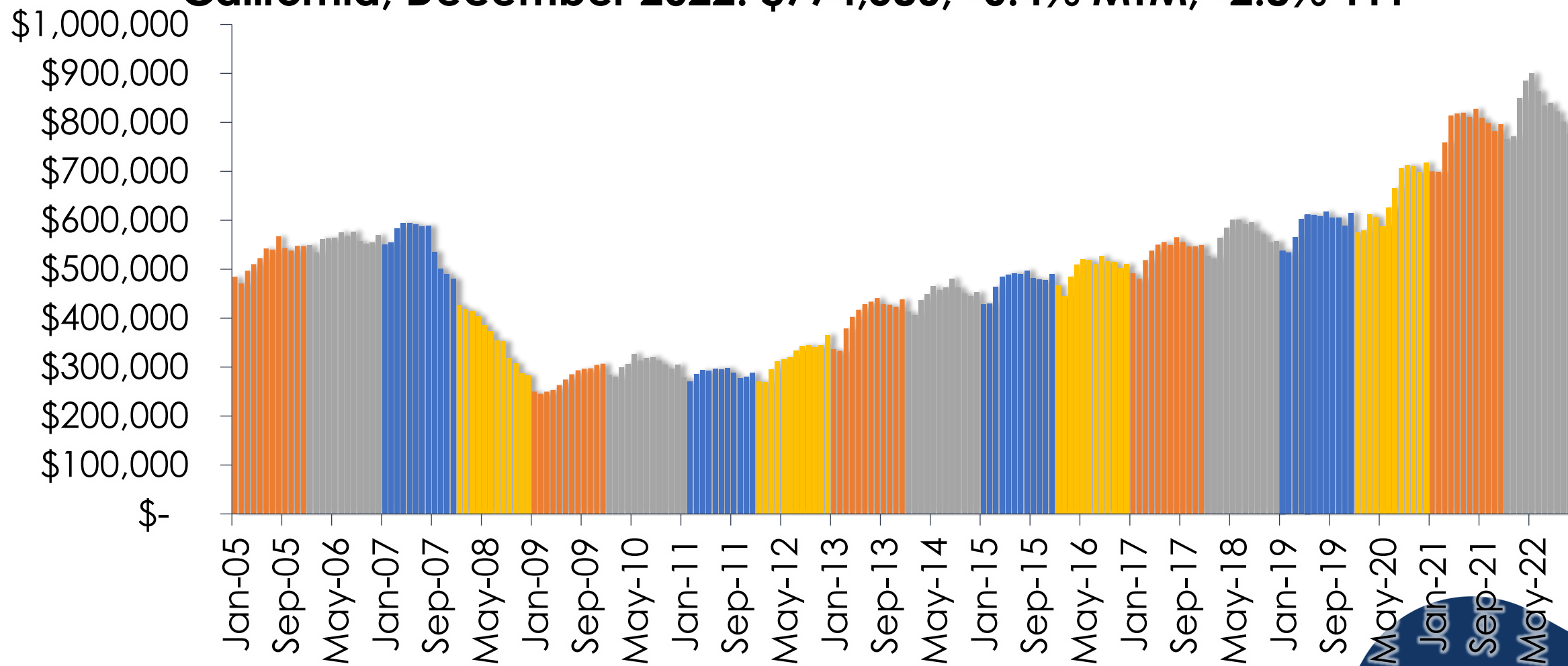


South Bay Existing SFR Sales Growth



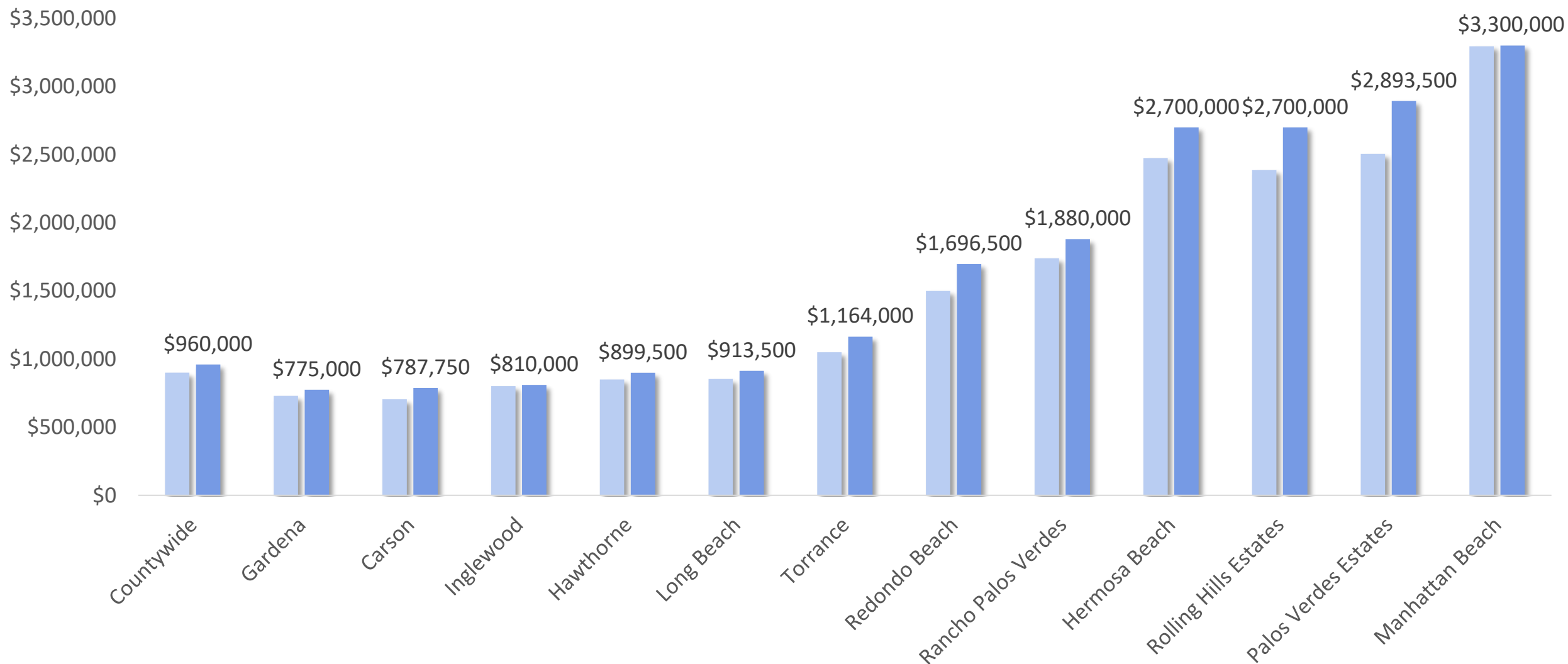
First median price decline in California since 2011

California, December 2022: \$774,580, -0.4% MTM, -2.8% YTY

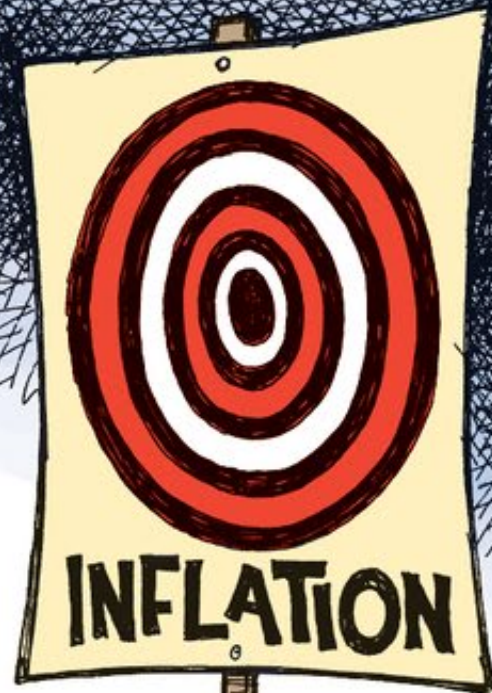


Prices still up across the board locally despite recent slowing

South Bay Existing SFR Median Price

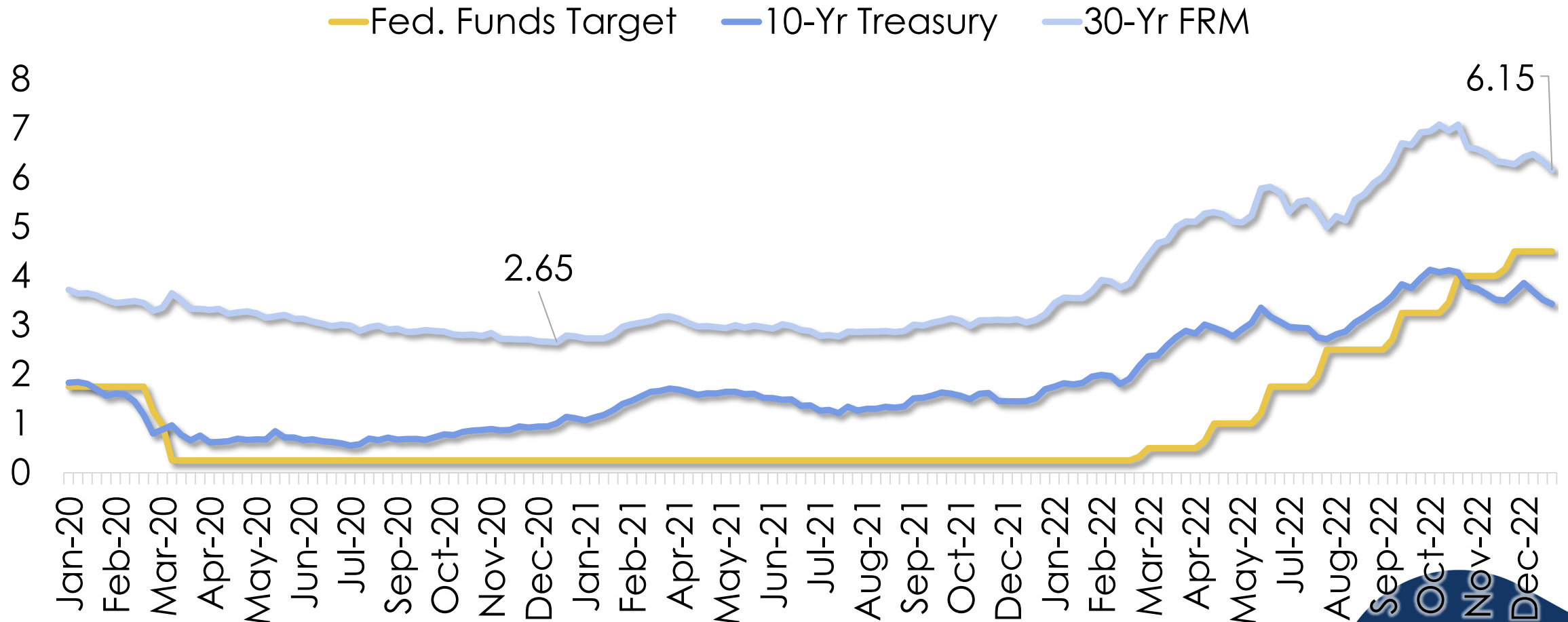


B. Rich
HEDGEYE



Rates are down for now and that helps buyers

Key Interest Rates



Step 1: Define Buyer's Profile

Select County of Residence

Los Angeles

Select Annual Household Income

\$500,000

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

\$13K

Target Monthly Payment (PITI)

\$2,763,755

Price Cutoff At Selected Rate

\$552,751

Downpayment Amount

Impact on Number of Listings Below Cutoff

Dec-22

Listings As Of Month

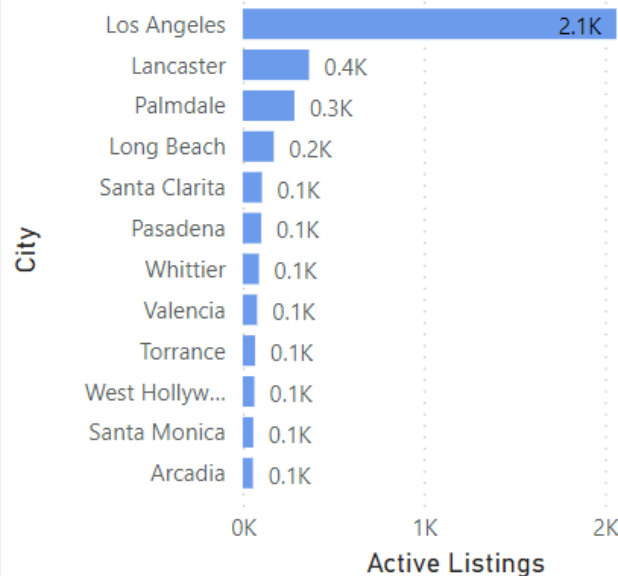
5,365

Listings At/Below Price Cutoff

82%

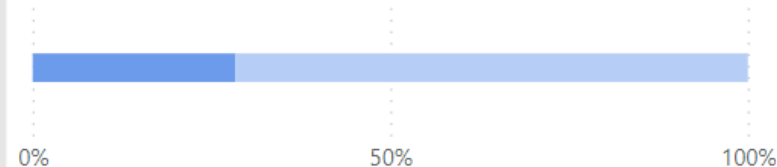
Share At/Below Price Cutoff

Active Listings by City



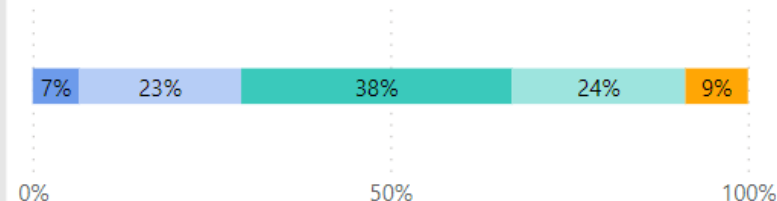
Share of Active Listings by Property Type

Property Type ● Condo ● Single-Family



Share of Active Listings by # of Bedrooms

of Bedrooms ● 1 ● 2 ● 3 ● 4 ● 5



Step 1: Define Buyer's Profile

Select County of Residence

Los Angeles

Select Annual Household Income

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3.0%

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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

\$13K

Target Monthly Payment (PITI)

\$2,102,111

Price Cutoff At Selected Rate

\$420,422

Downpayment Amount

Impact on Number of Listings Below Cutoff

Dec-22

Listings As Of Month

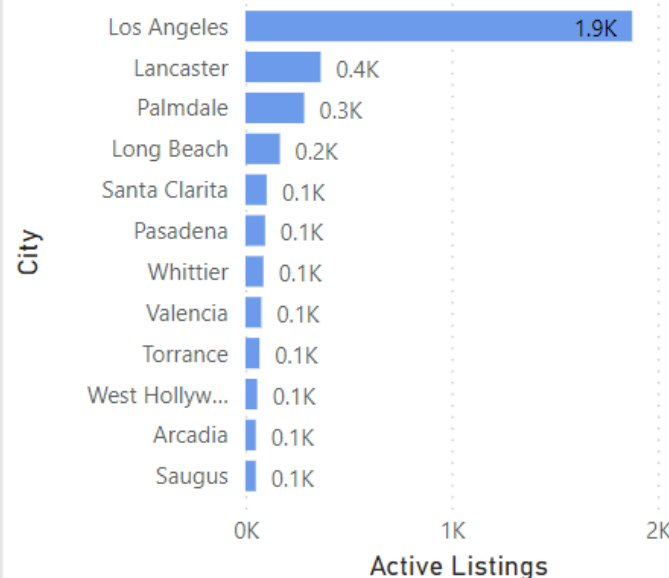
5,031

Listings At/Below Price Cutoff

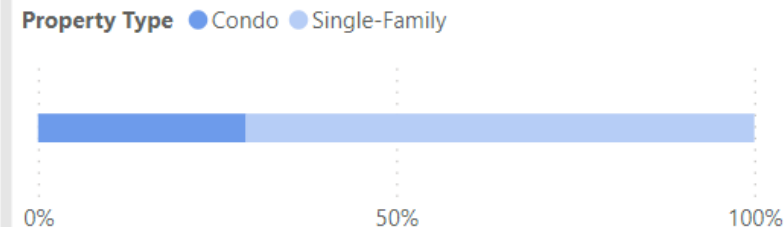
77%

Share At/Below Price Cutoff

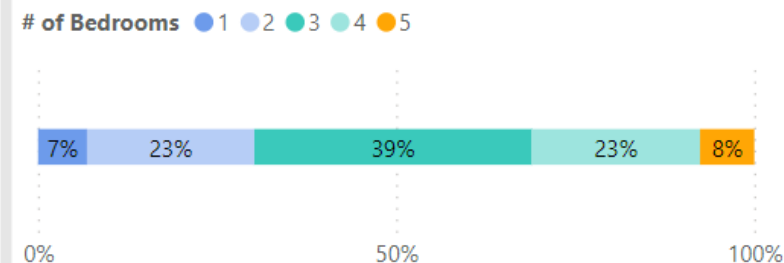
Active Listings by City



Share of Active Listings by Property Type



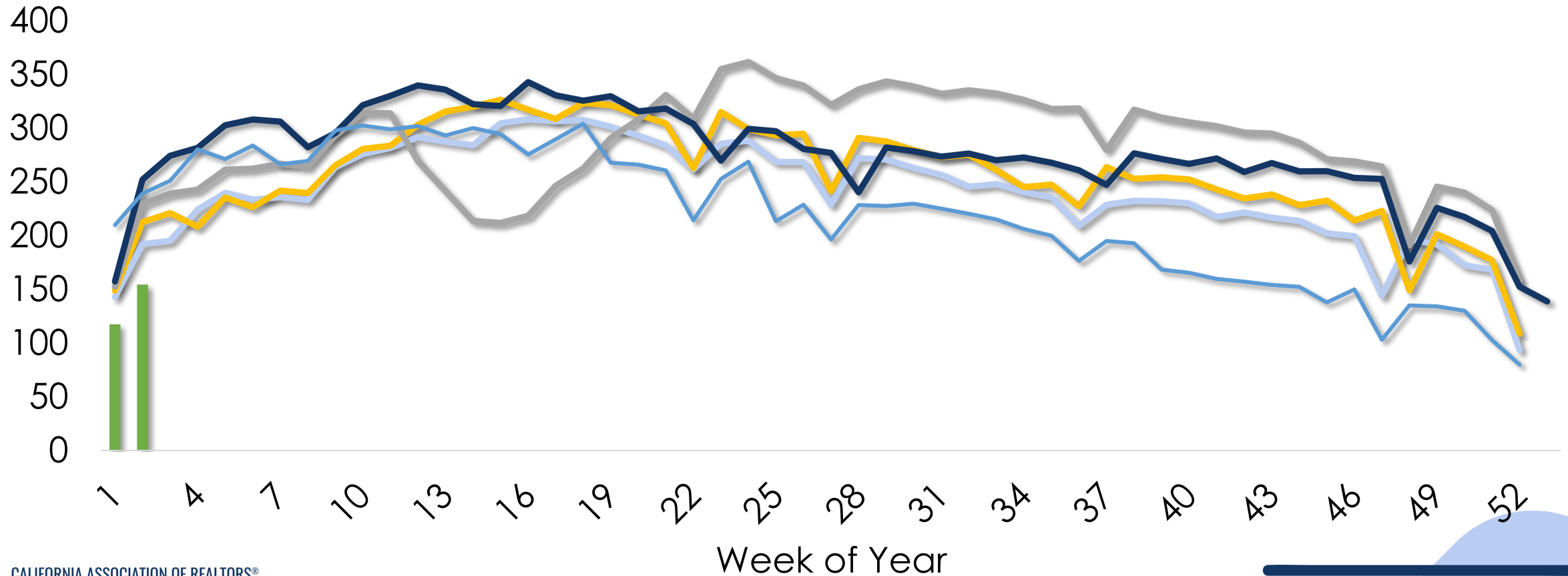
Share of Active Listings by # of Bedrooms



Mortgage applications consistently below pre-pandemic

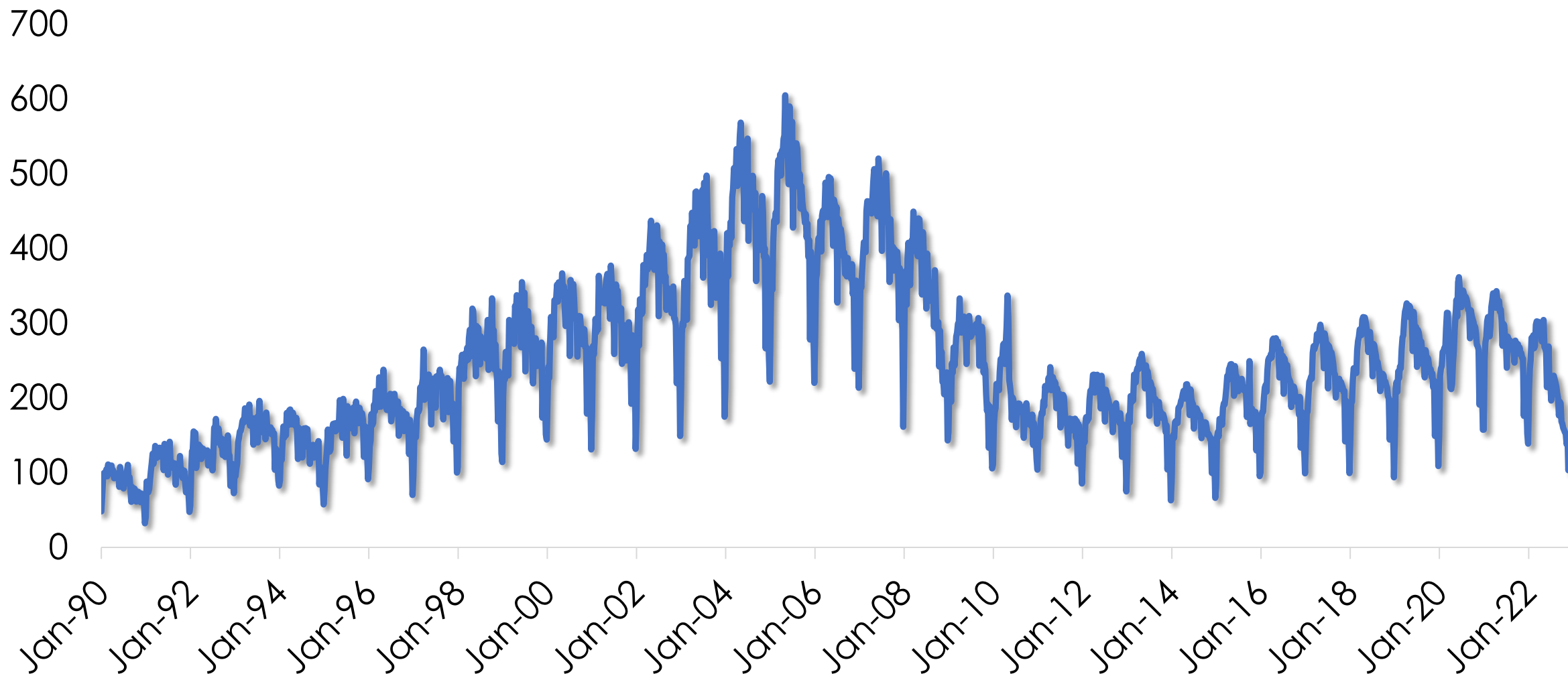
Mortgage Purchase Applications Index

■ 2023 ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022

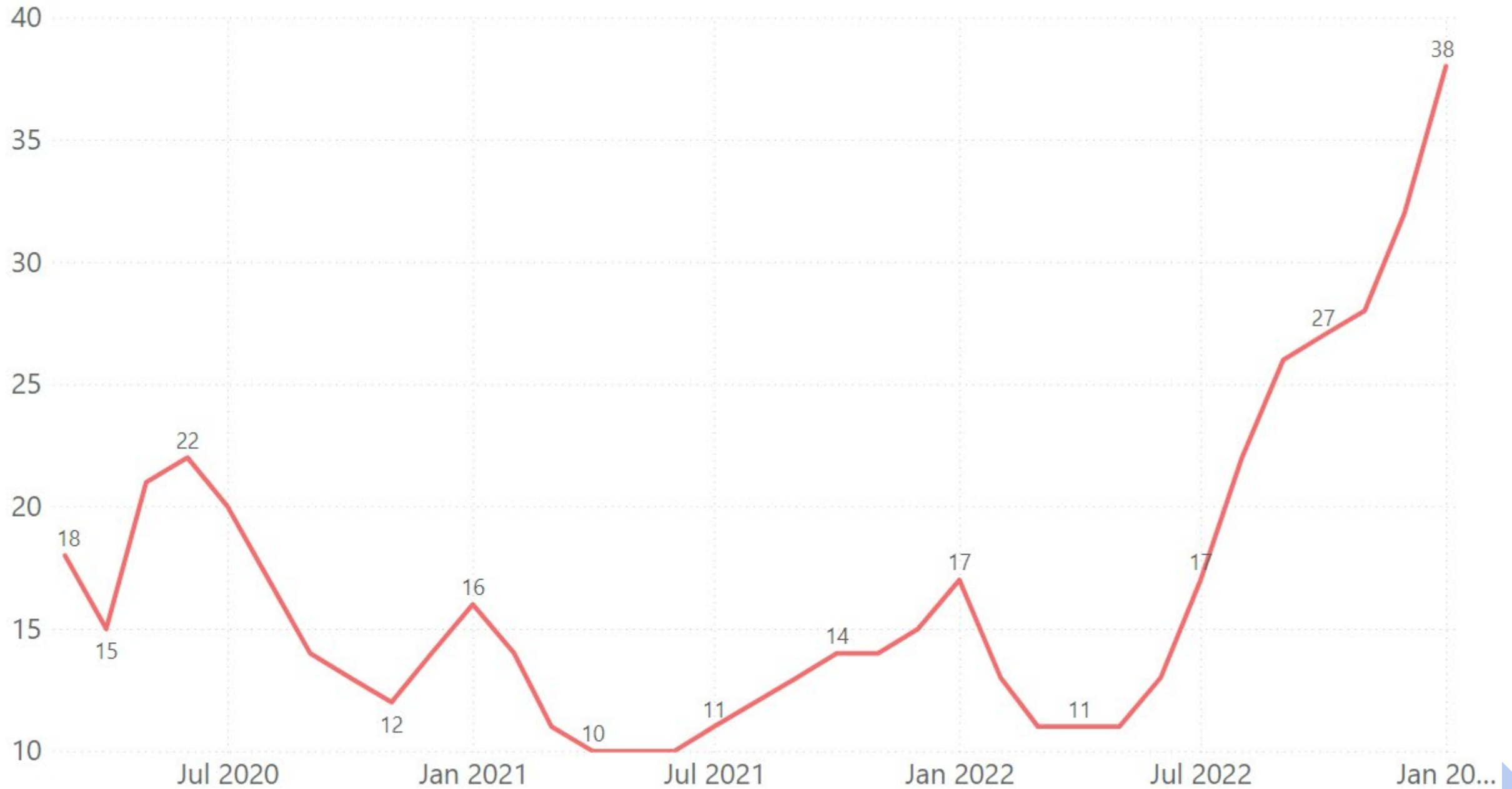


But also, at lowest level since reaching bottom in 2014

MBA Mortgage Purchase Index



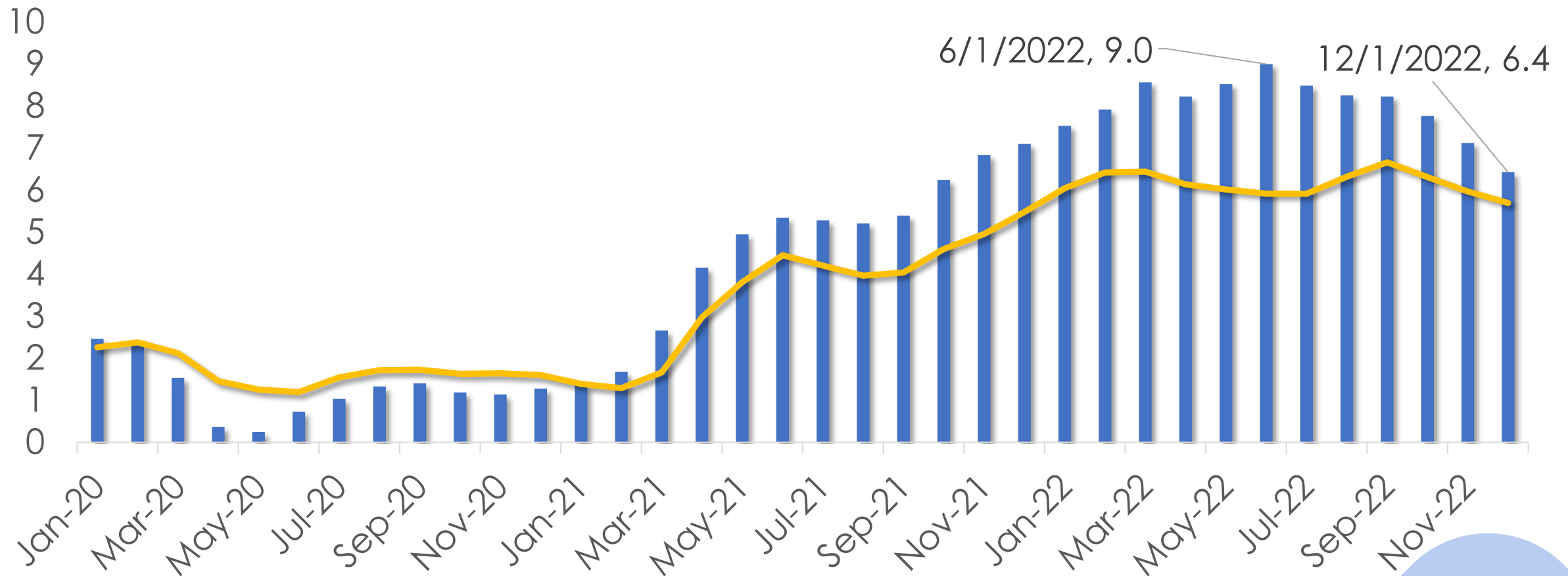
Median Days on Market for Closed Sales (Month-to-Date for Current Month)



Good news—we're probably past peak inflation

U.S. Consumer Price Index

■ CPI YoY Growth — Core CPI YoY Growth

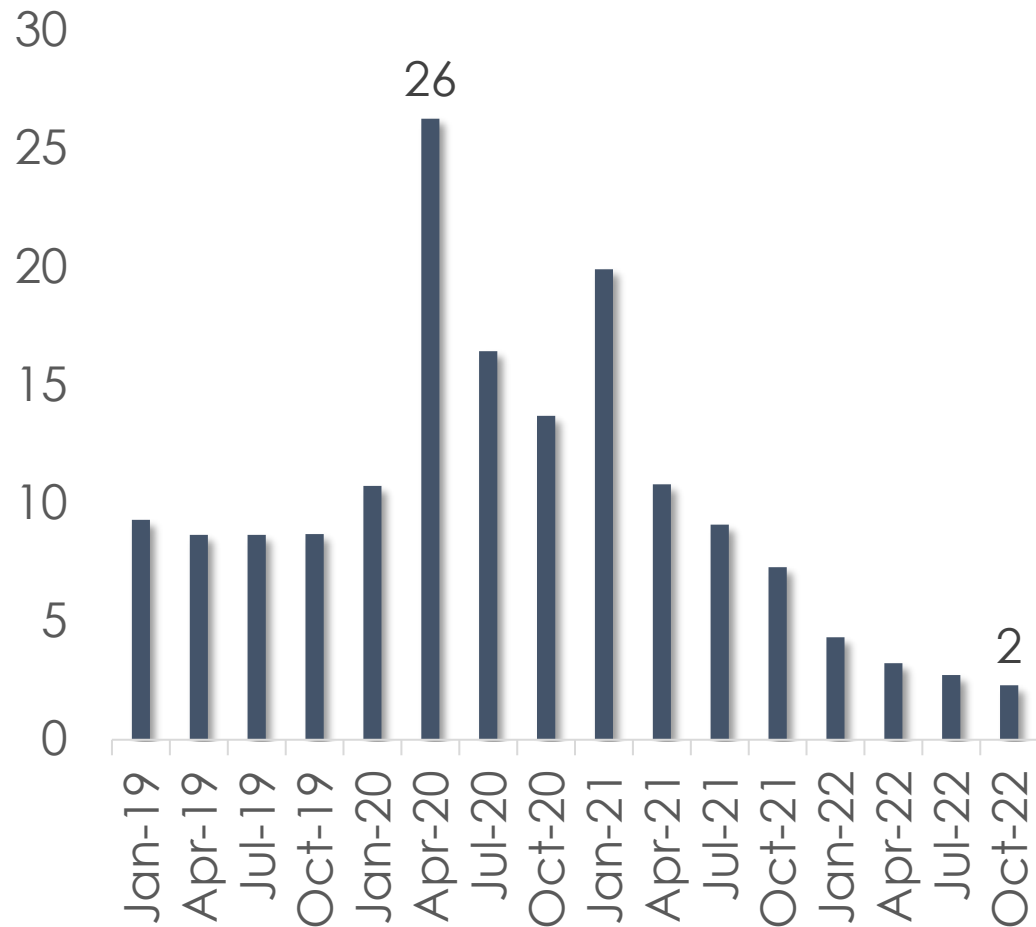




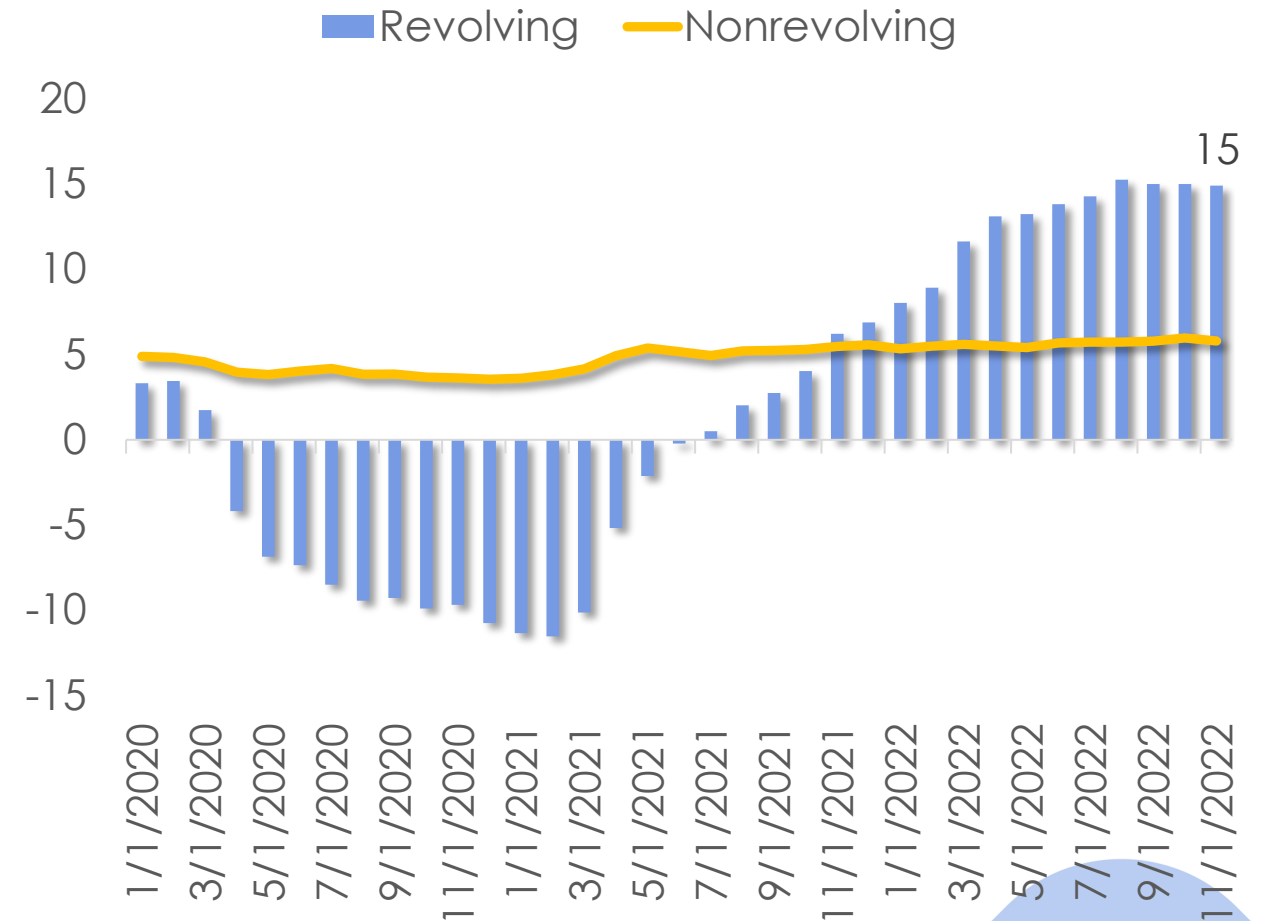
This Photo by Unknown Author is licensed under [CC BY](#)

Bad news—inflation will likely lead us into recession

U.S. Savings Rate

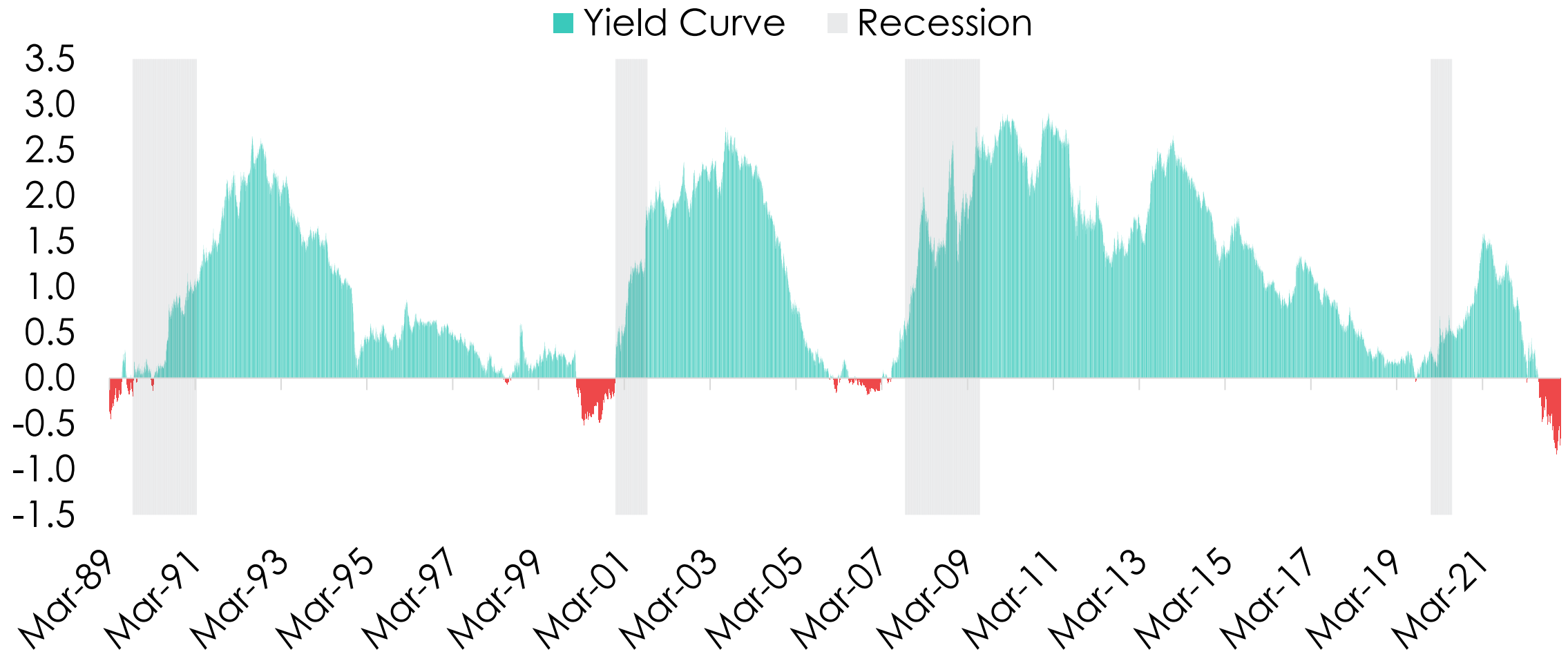


U.S. Consumer Credit Growth (YTY %)



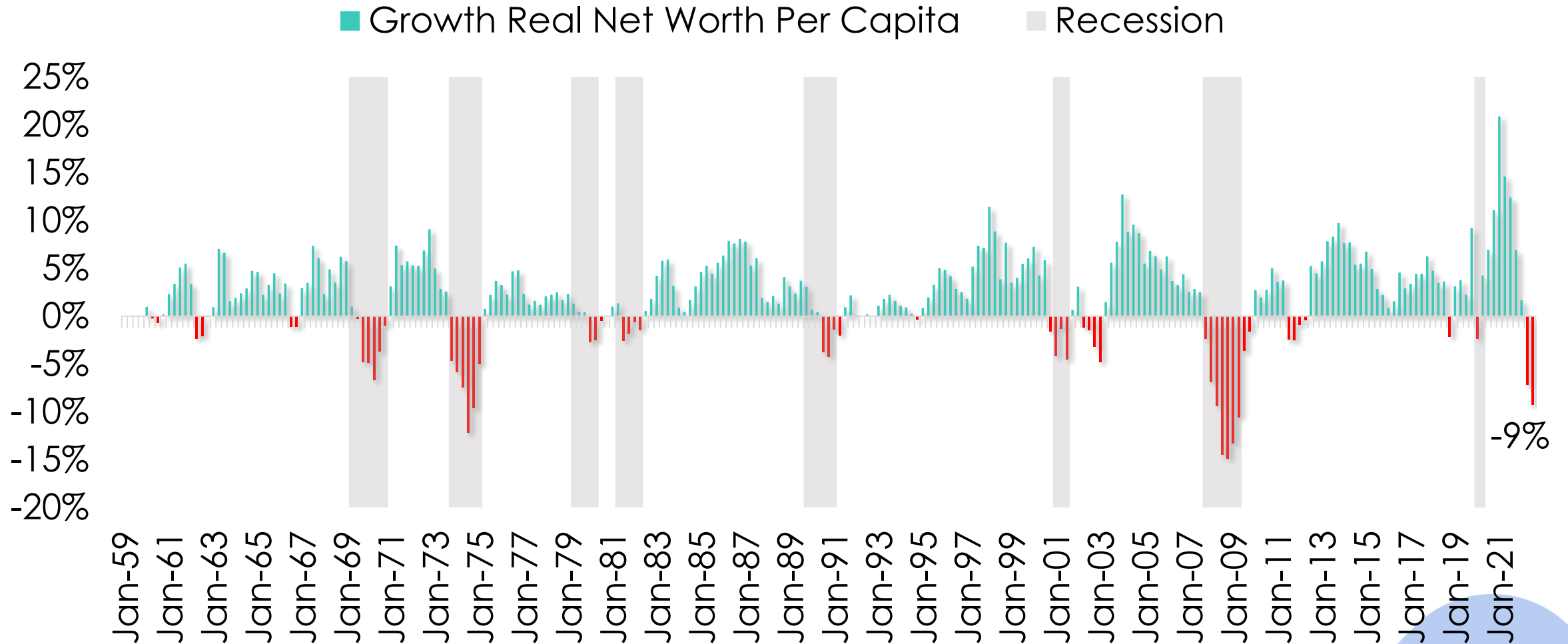
Yield curve, typically predictive of recession: 6-month inversion...

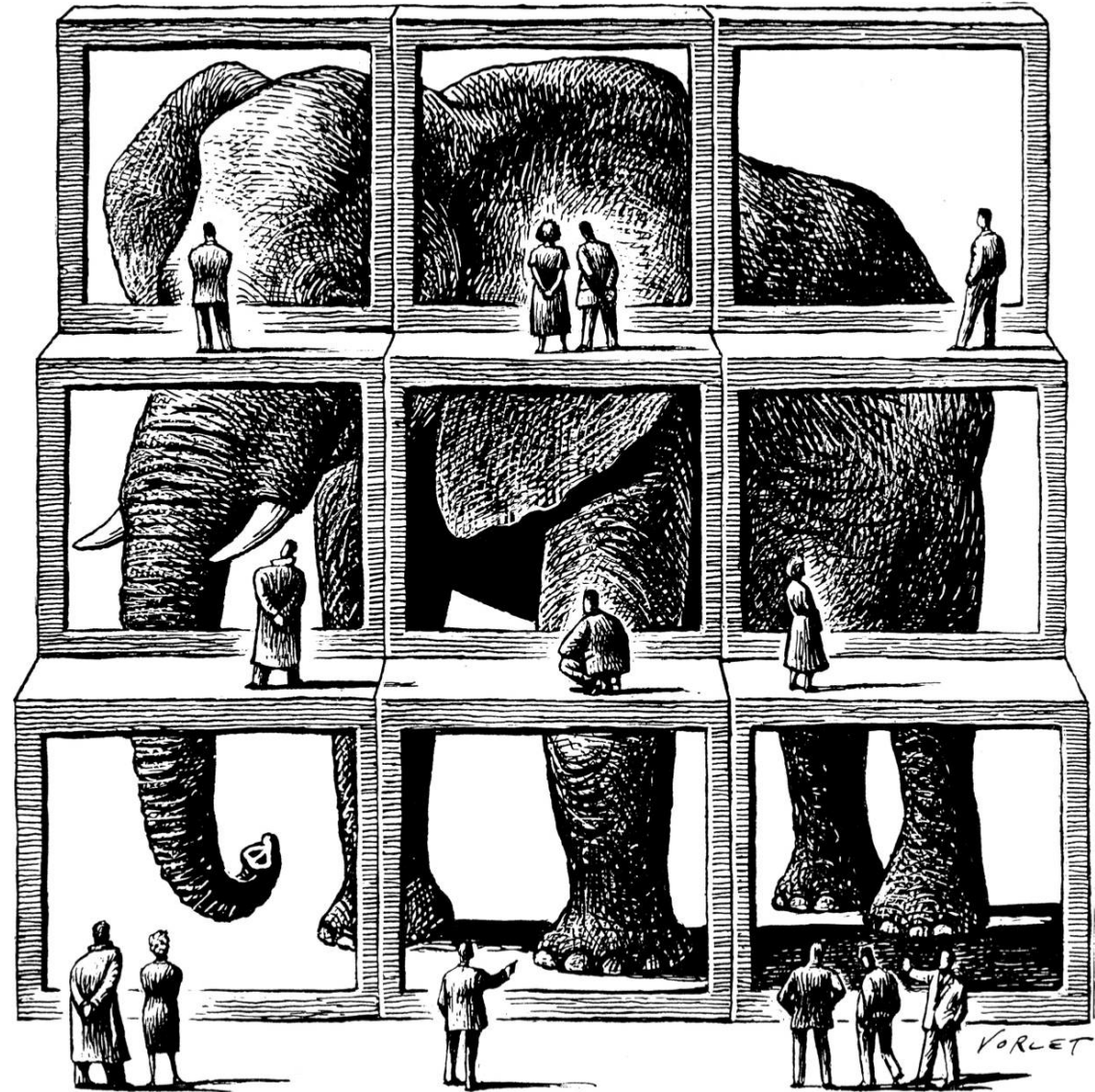
U.S. Yield Curve (10yr. - 2yr.)



Household wealth: a predictive indicator of recession

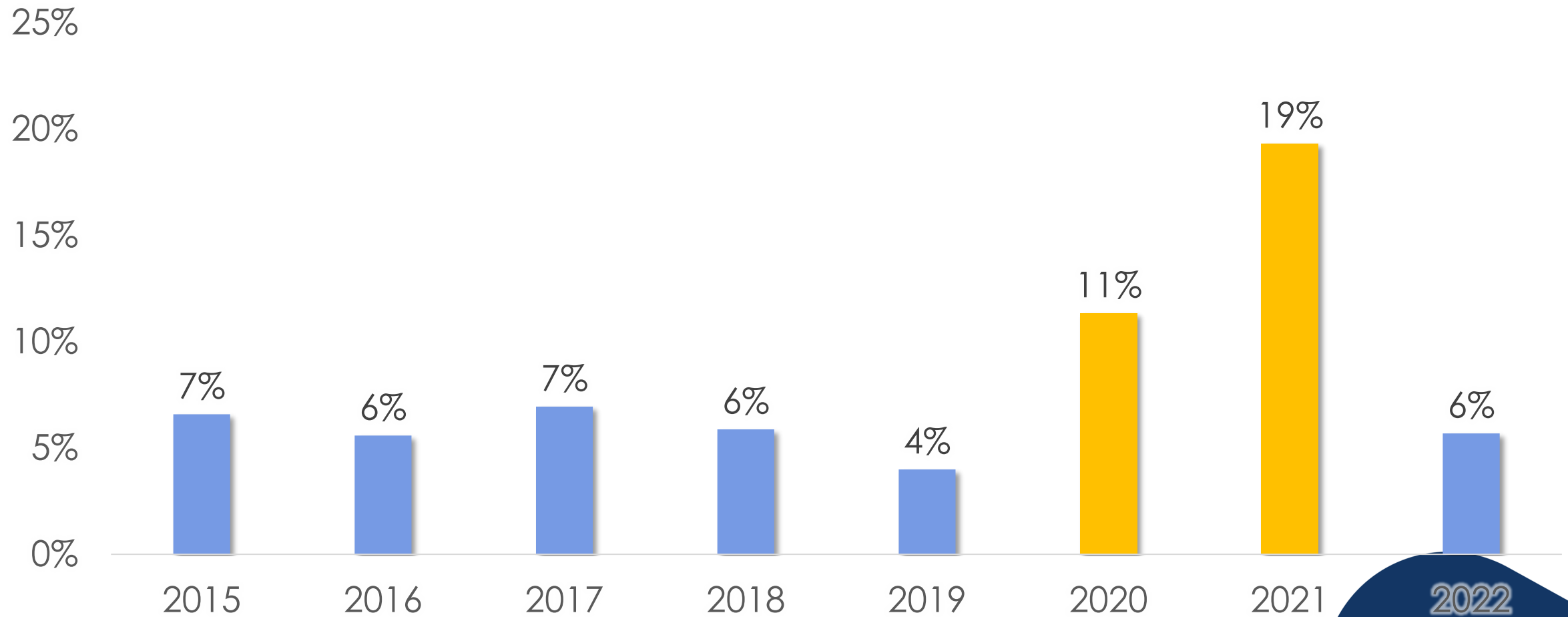
Growth in Real Net Worth Per Capita (YTY %)





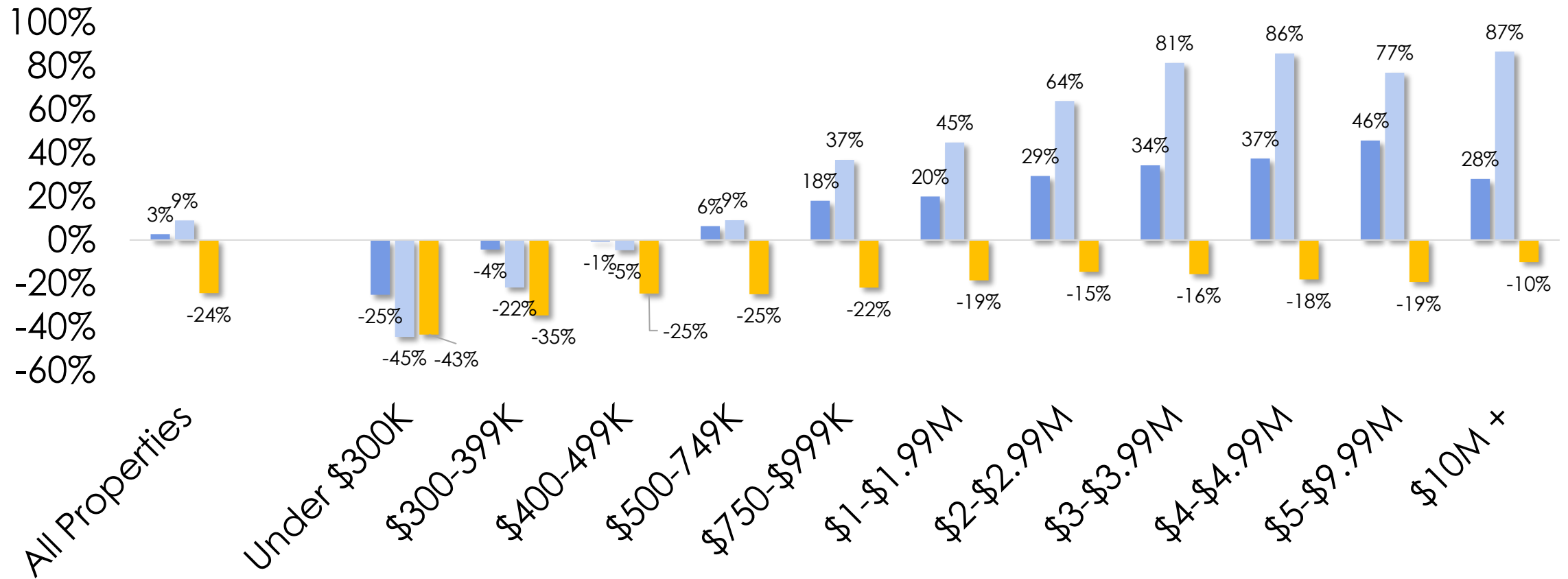
Coming off 2 years of very strong price growth

California Existing SFR Annual Median Price Growth (%)



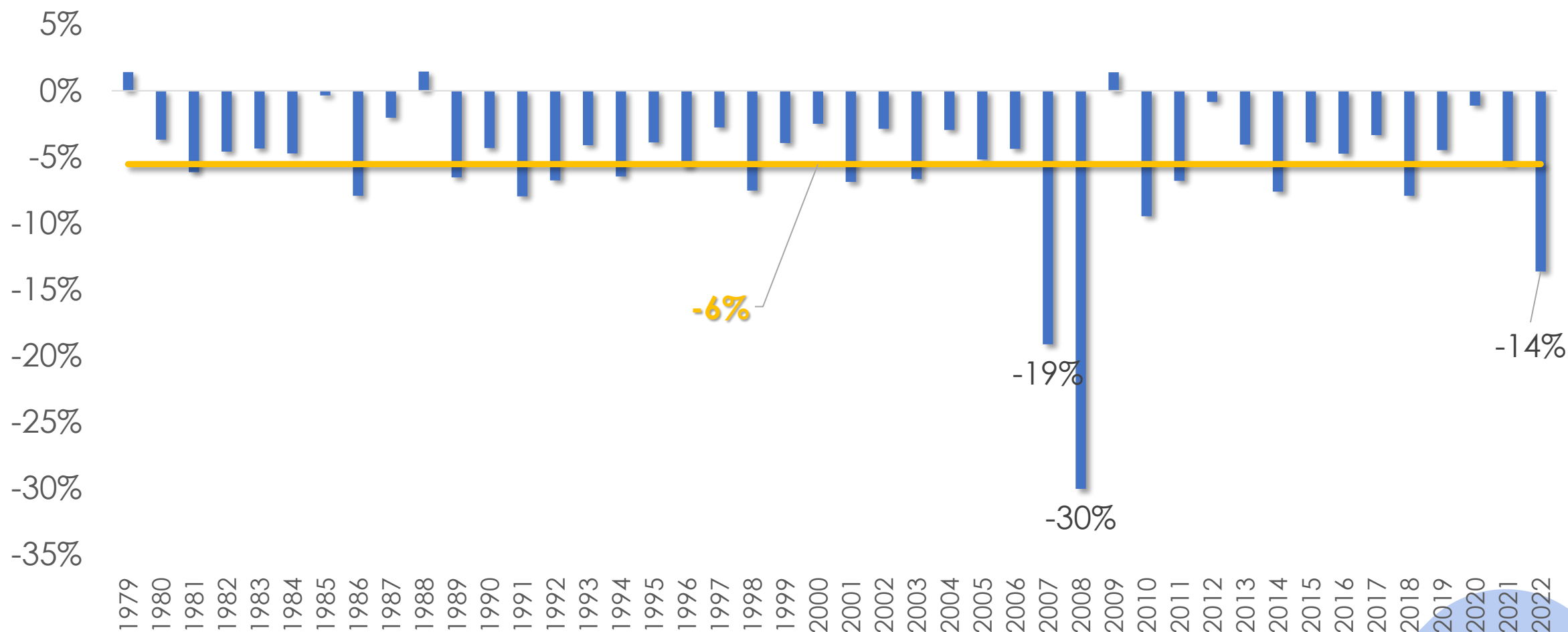
California Existing SFR Sales Growth

■ 2020 ■ 2021 ■ 2022



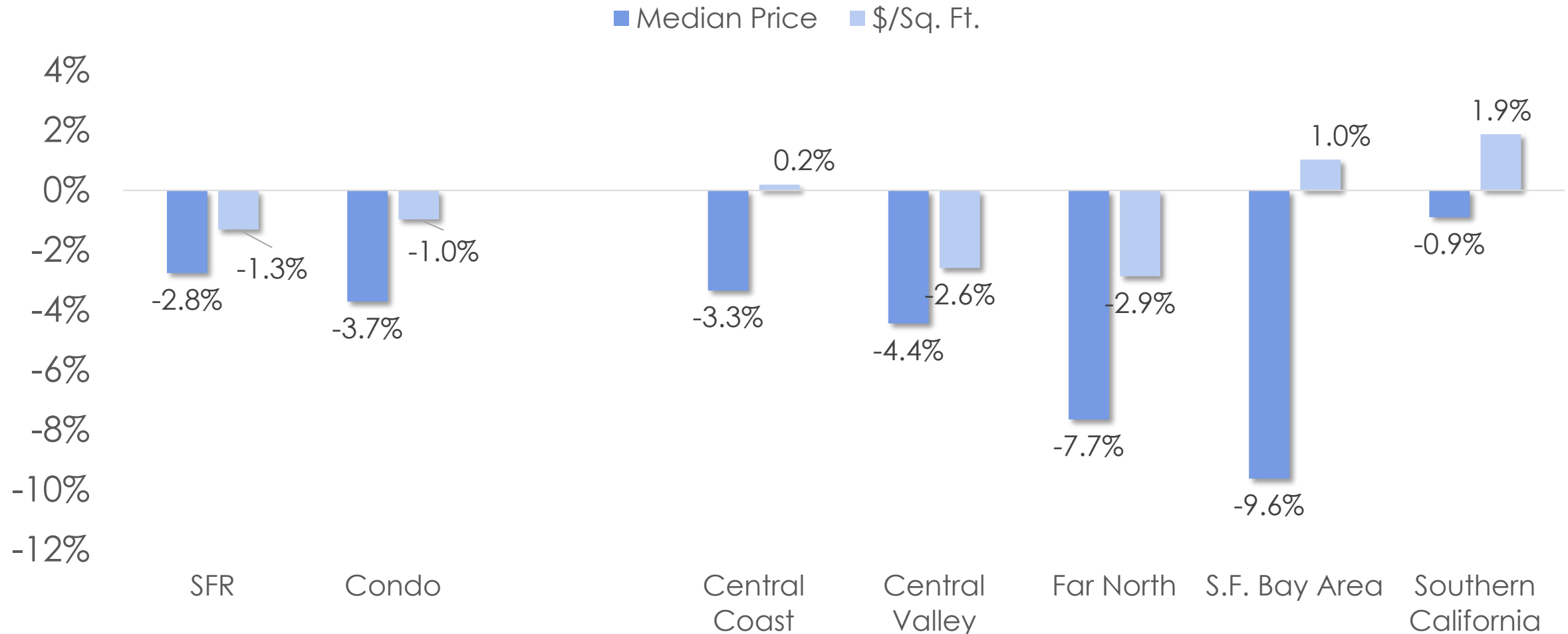
Seasonality exaggerates recent price declines

Annual Seasonal Peak to Winter Trough in Existing SFR Median Price



Per sq. ft. prices are down much less

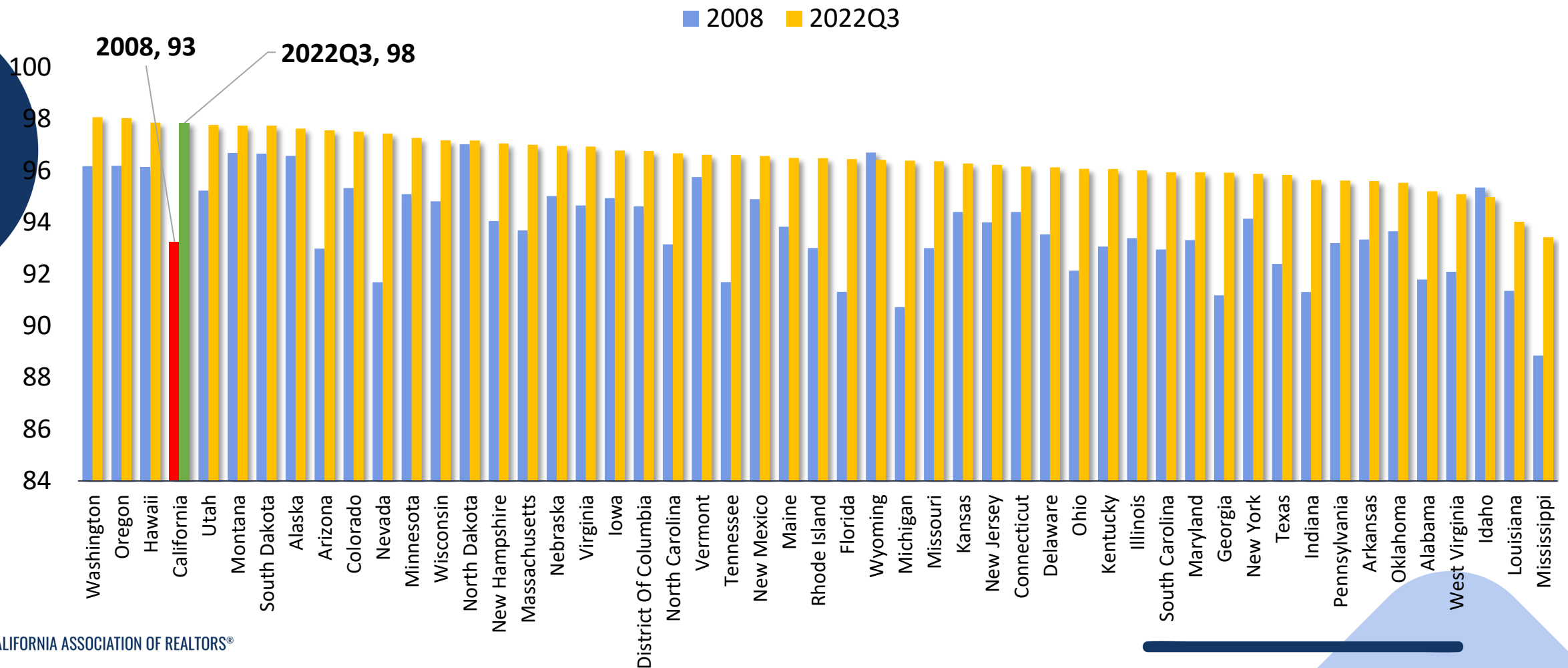
Year to Year Change in Existing SFR Prices (November 2022)



**DON'T
PANIC**

California doing better on delinquency than the rest

MBA Servicing Portfolio: % of Mortgages Current by State, Q3-2022

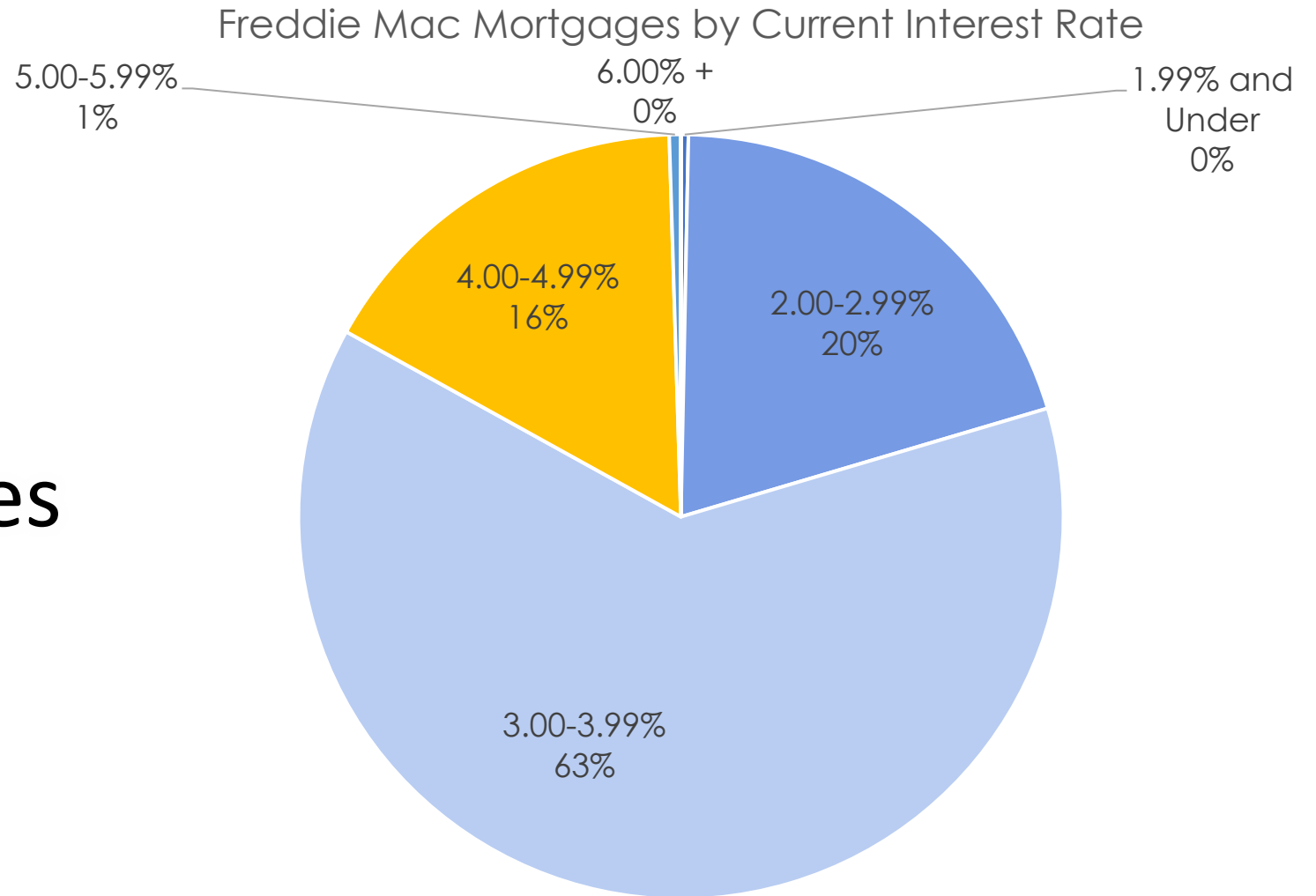


Getting rid of your current mortgage will cost

Freddie Mac Data As of June 2022

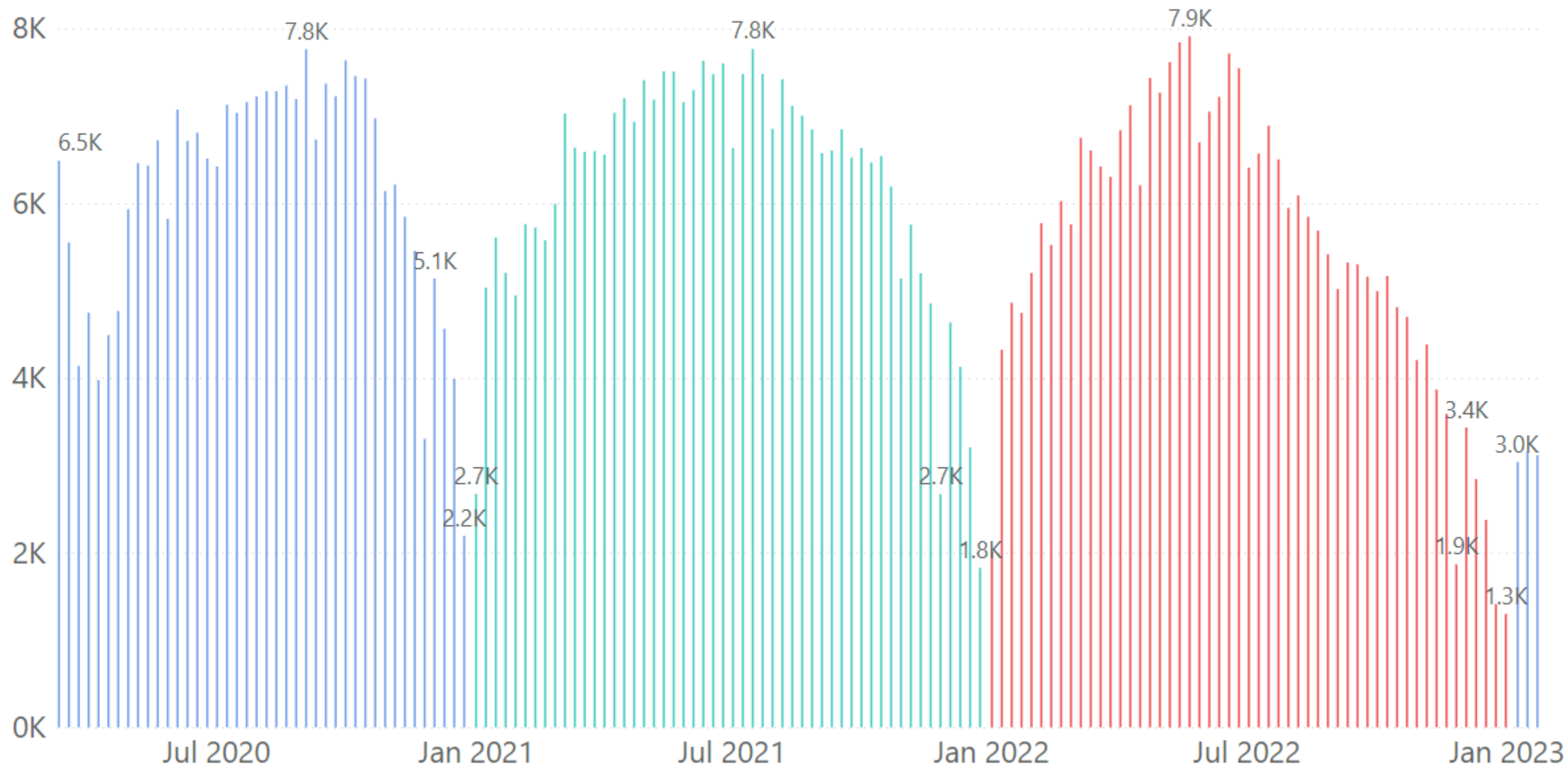
2,286,036 Mortgages

99% Current

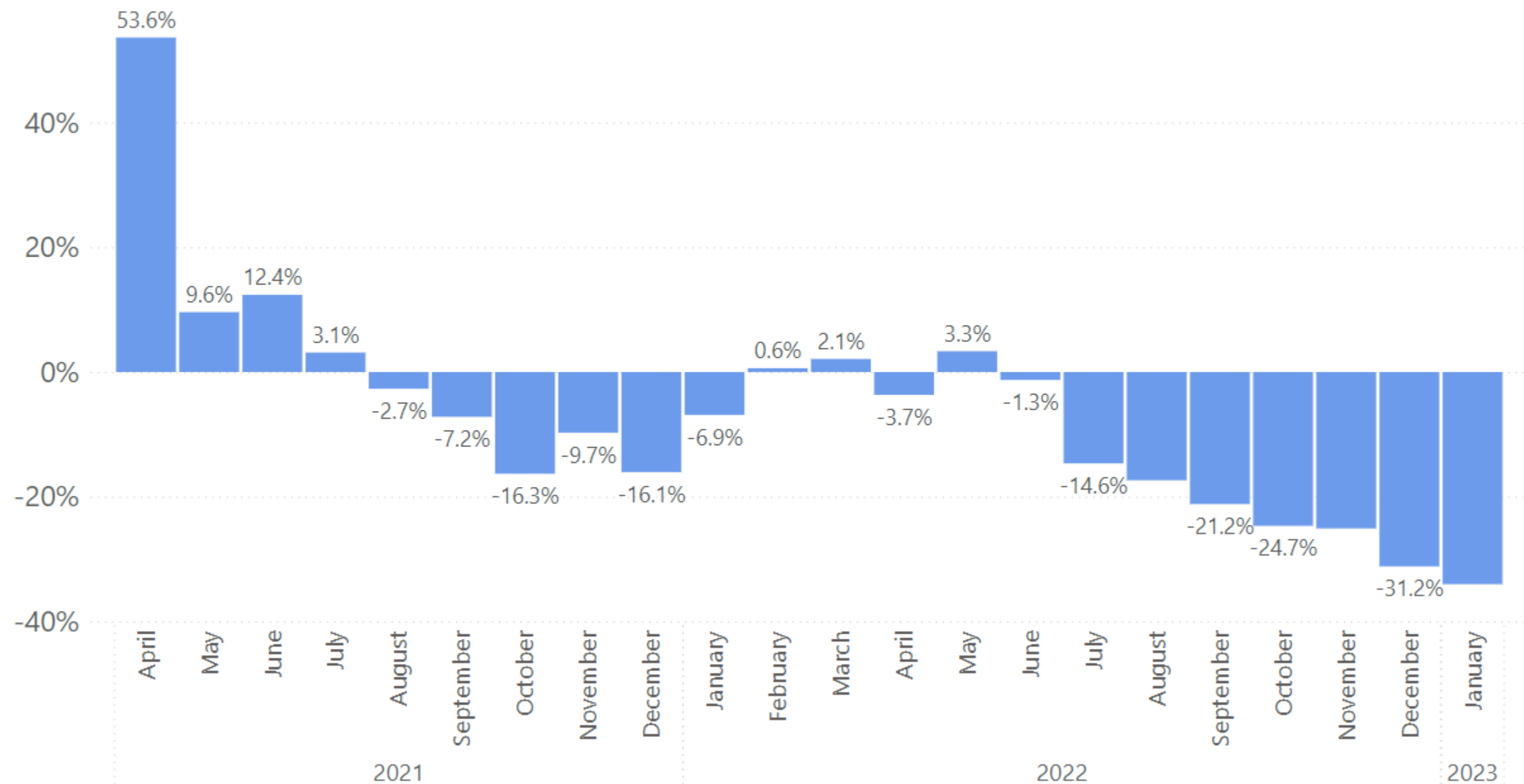


New Existing SFR Listings Added to MLSs

Year ● 2020 ● 2021 ● 2022 ● 2023



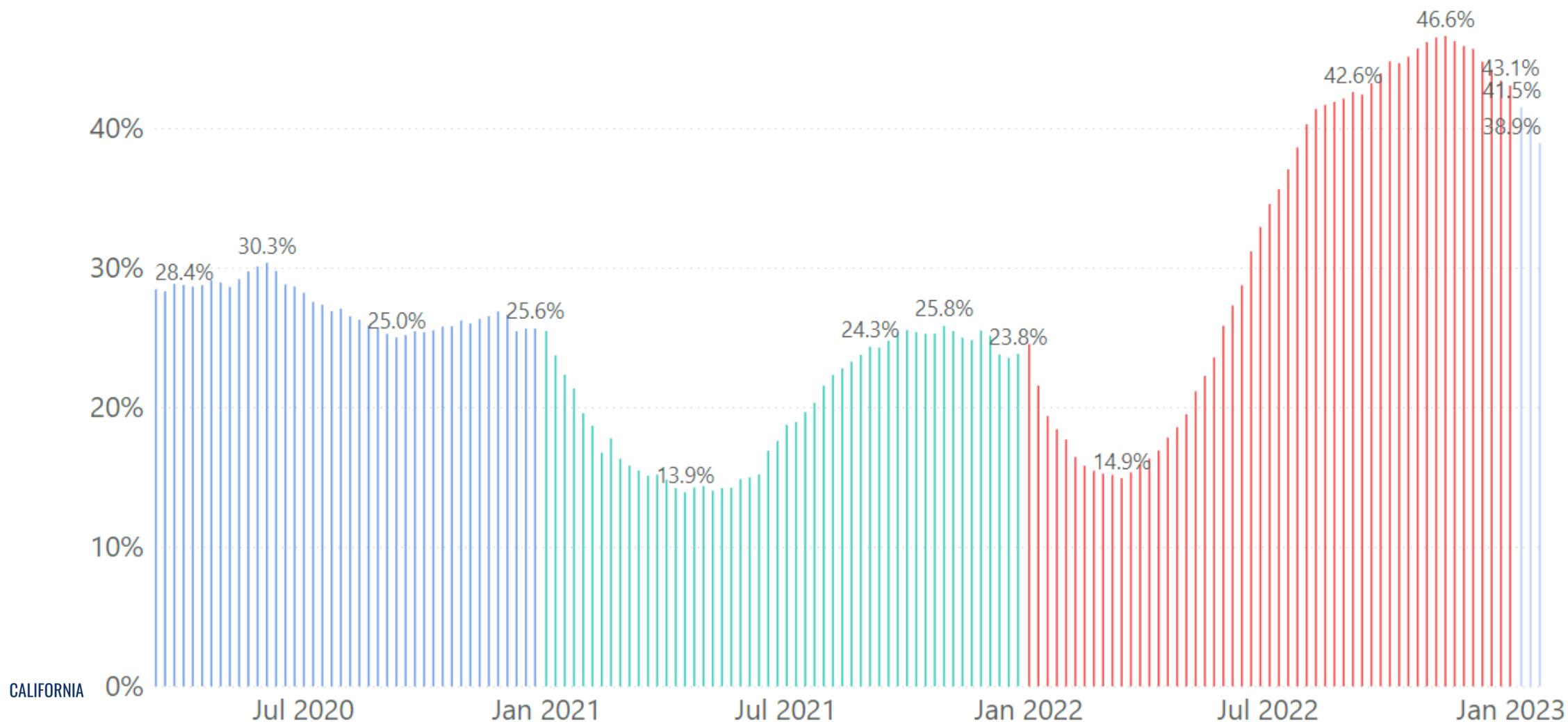
Year-to-Year Existing SFR New Listings Growth (Month-to-Date for Current Month)



More reductions, but bottom not falling out

% of Active Listings w/Reduced Price

Year ● 2020 ● 2021 ● 2022 ● 2023



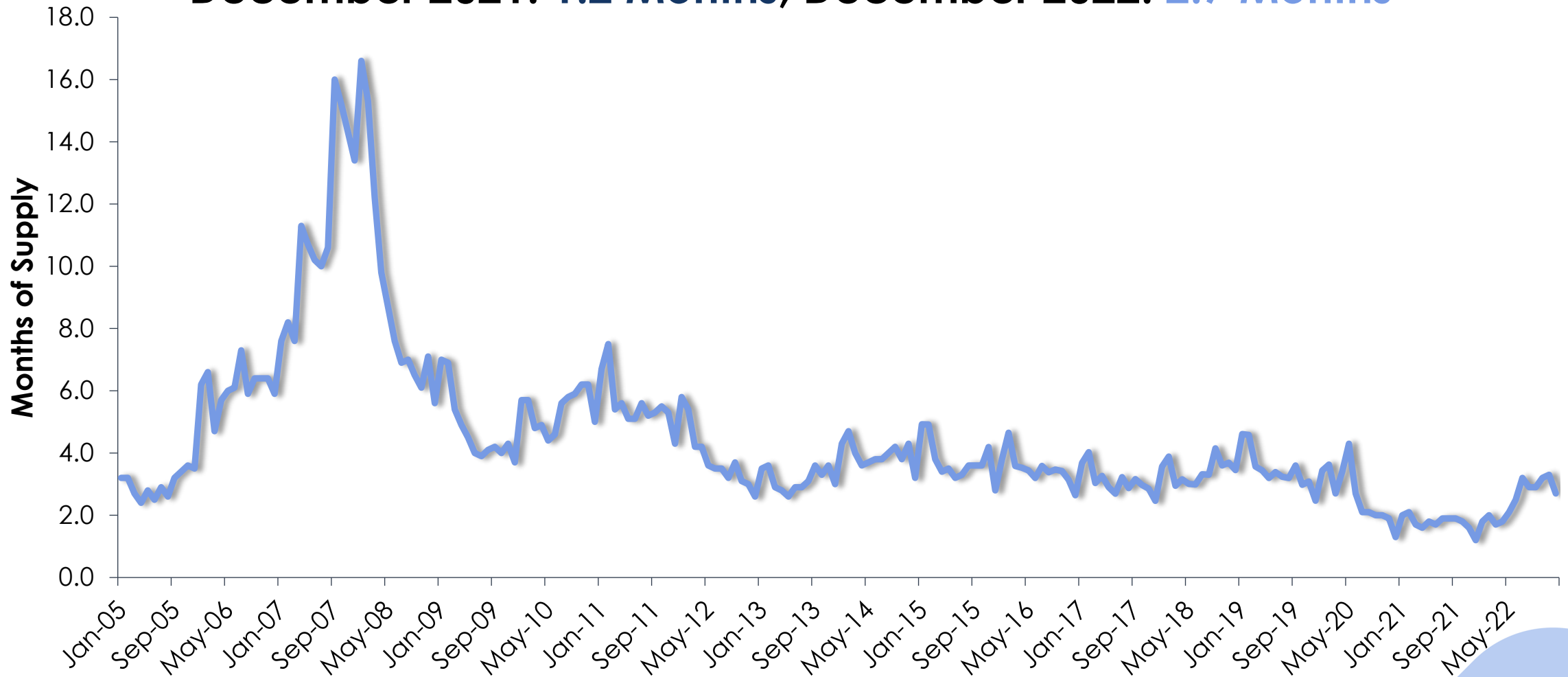
Typical reduction stabilizing in the 5-6% range...

Median Reduction on Reduced-Price Listings %



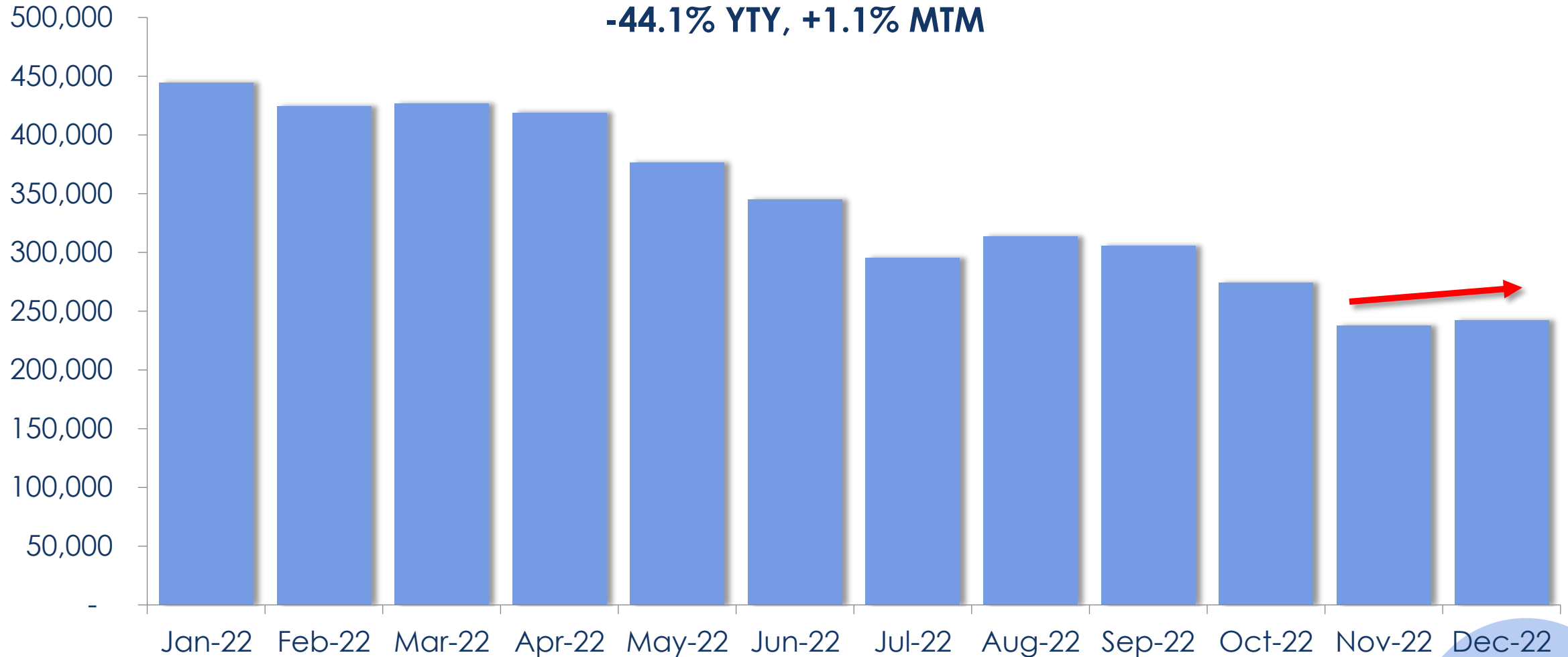
Inventory still very tight

December 2021: 1.2 Months; December 2022: 2.7 Months



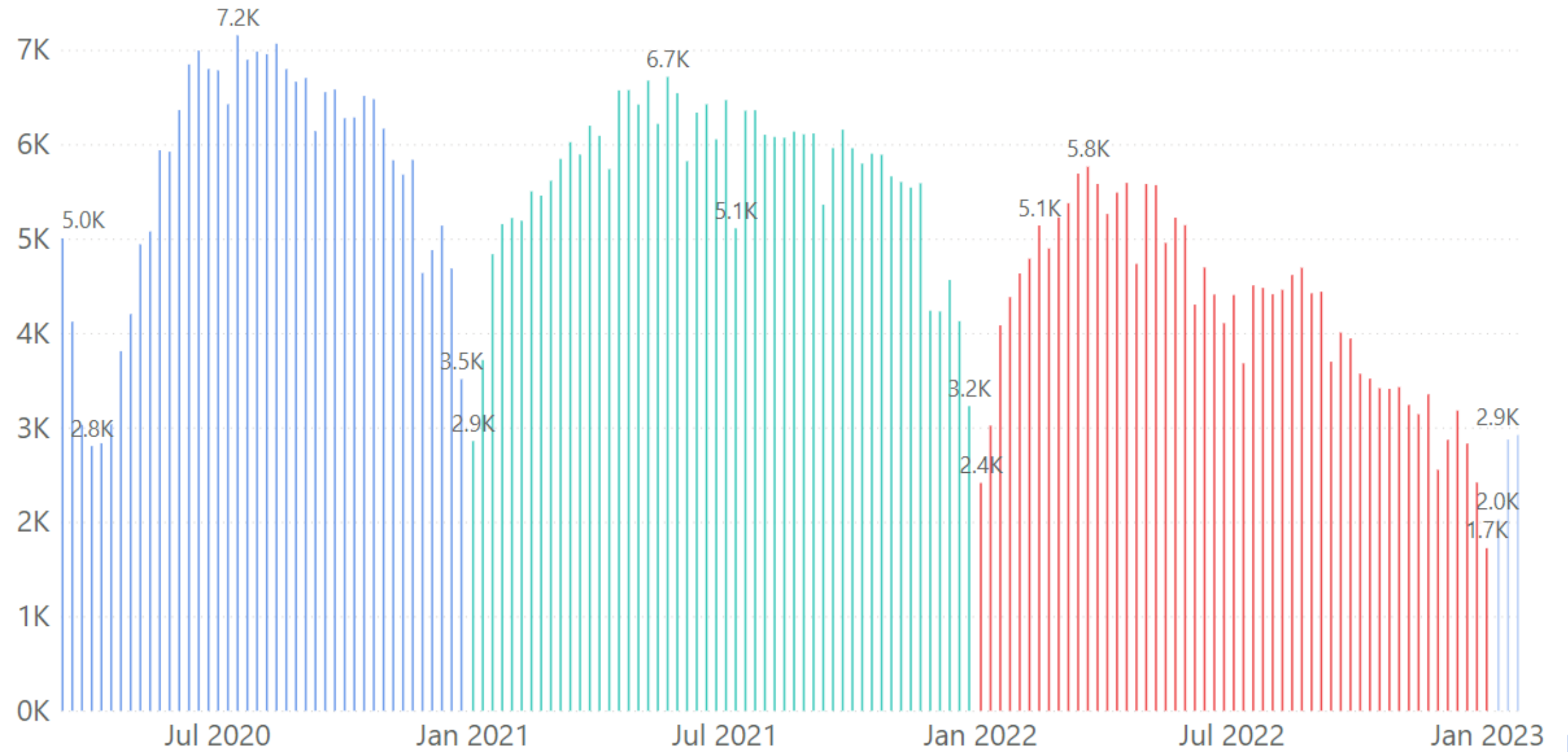
Transactions actually went up a little bit in December

California, December 2022 Sales: 240,330 Units, -23.1% YTD, -44.1% YTY, +1.1% MTM

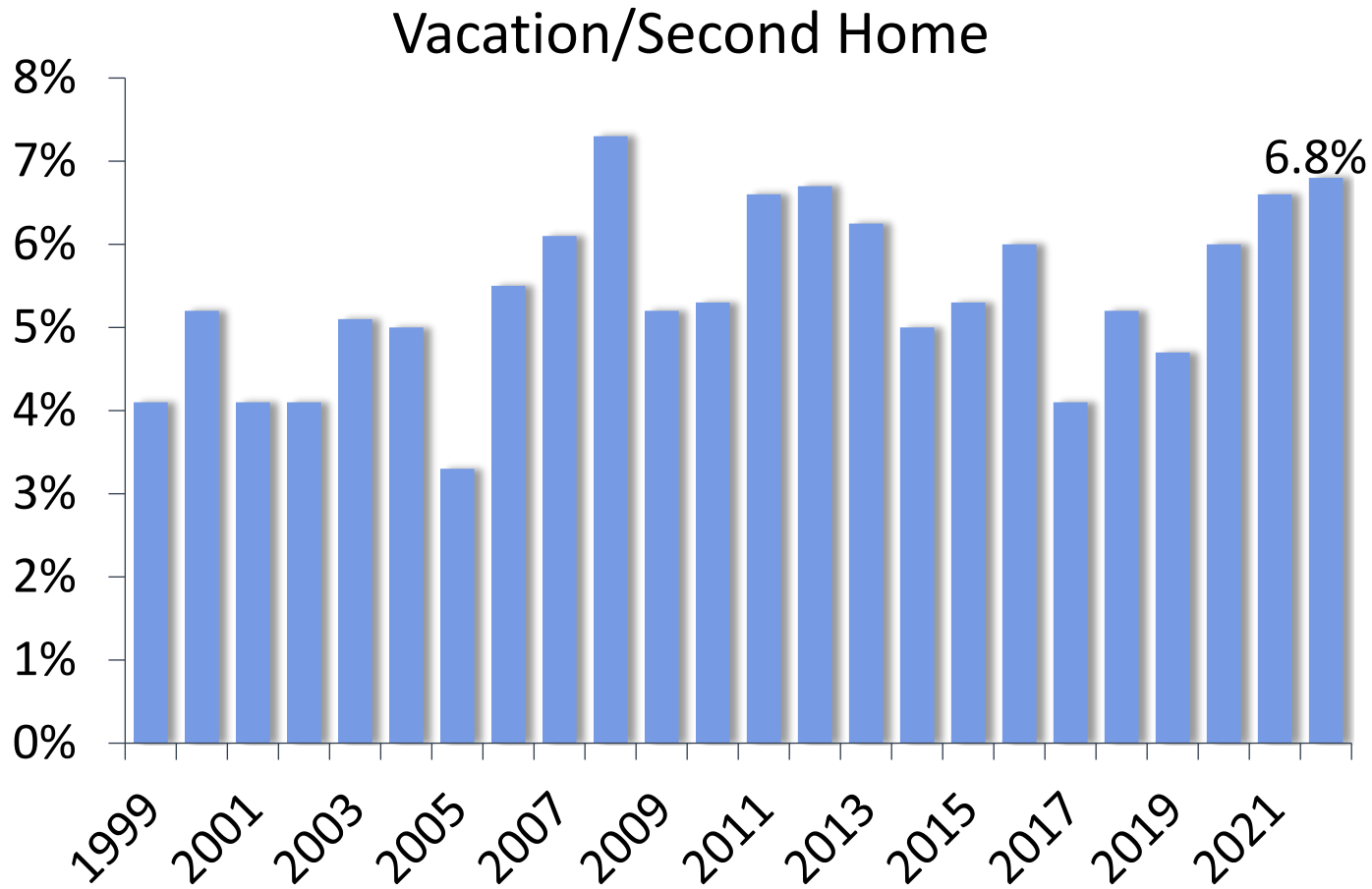


Existing SFR Pending Sales

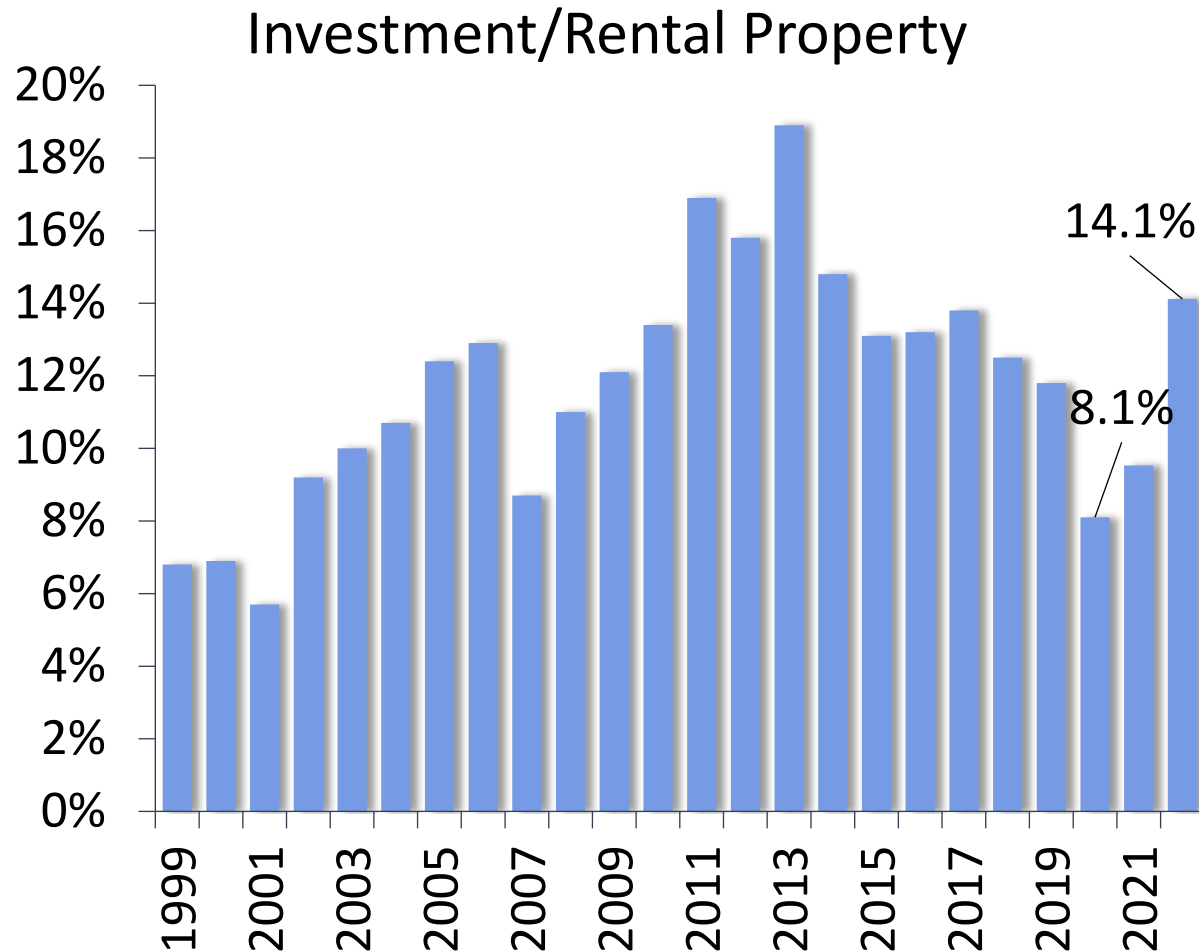
Year ● 2020 ● 2021 ● 2022 ● 2023



Vacation and 2nd home demand holding up much better



Investors are back to rentals as moratoriums expire




Flip

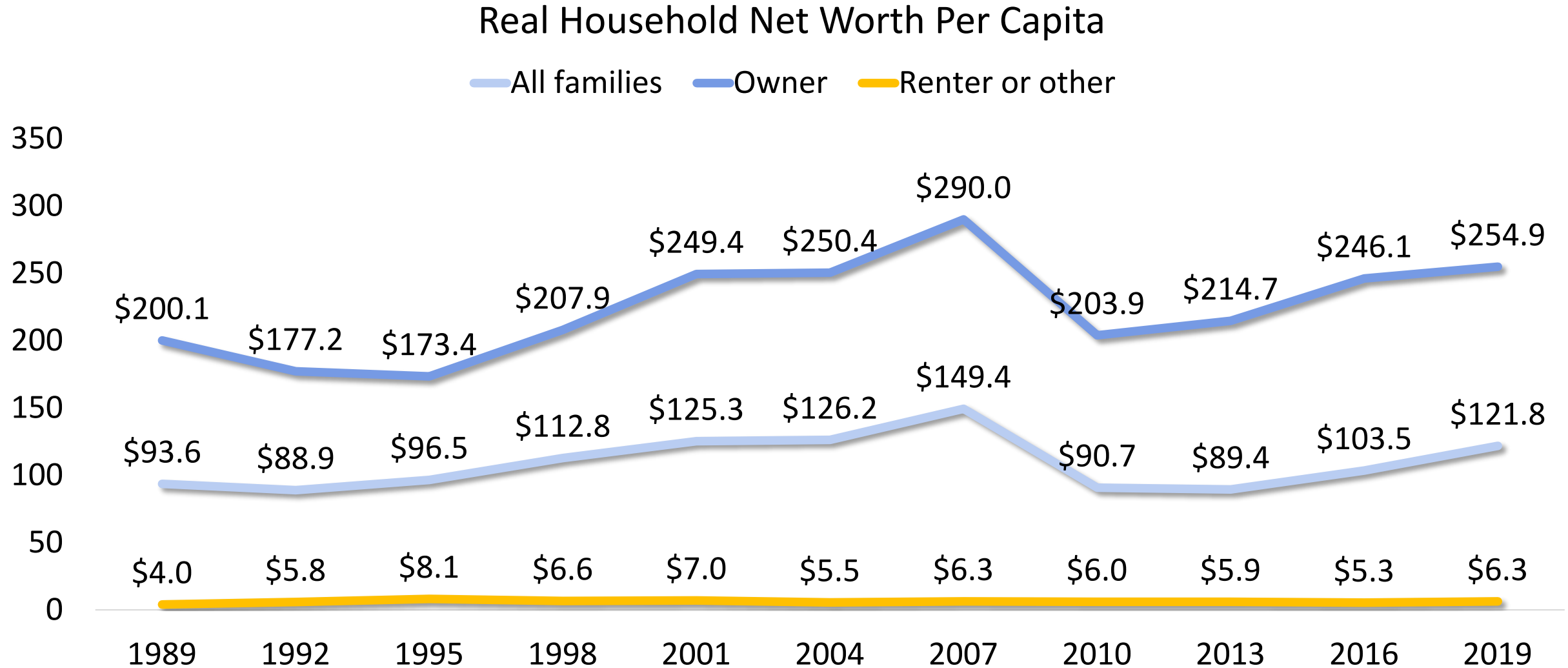
Vs.


Rent

2014: 30%
2015: 26%
2016: 20%
2017: 24%
2018: 26%
2019: 18%
2020: 27%
2021: 29%
2022: 18%

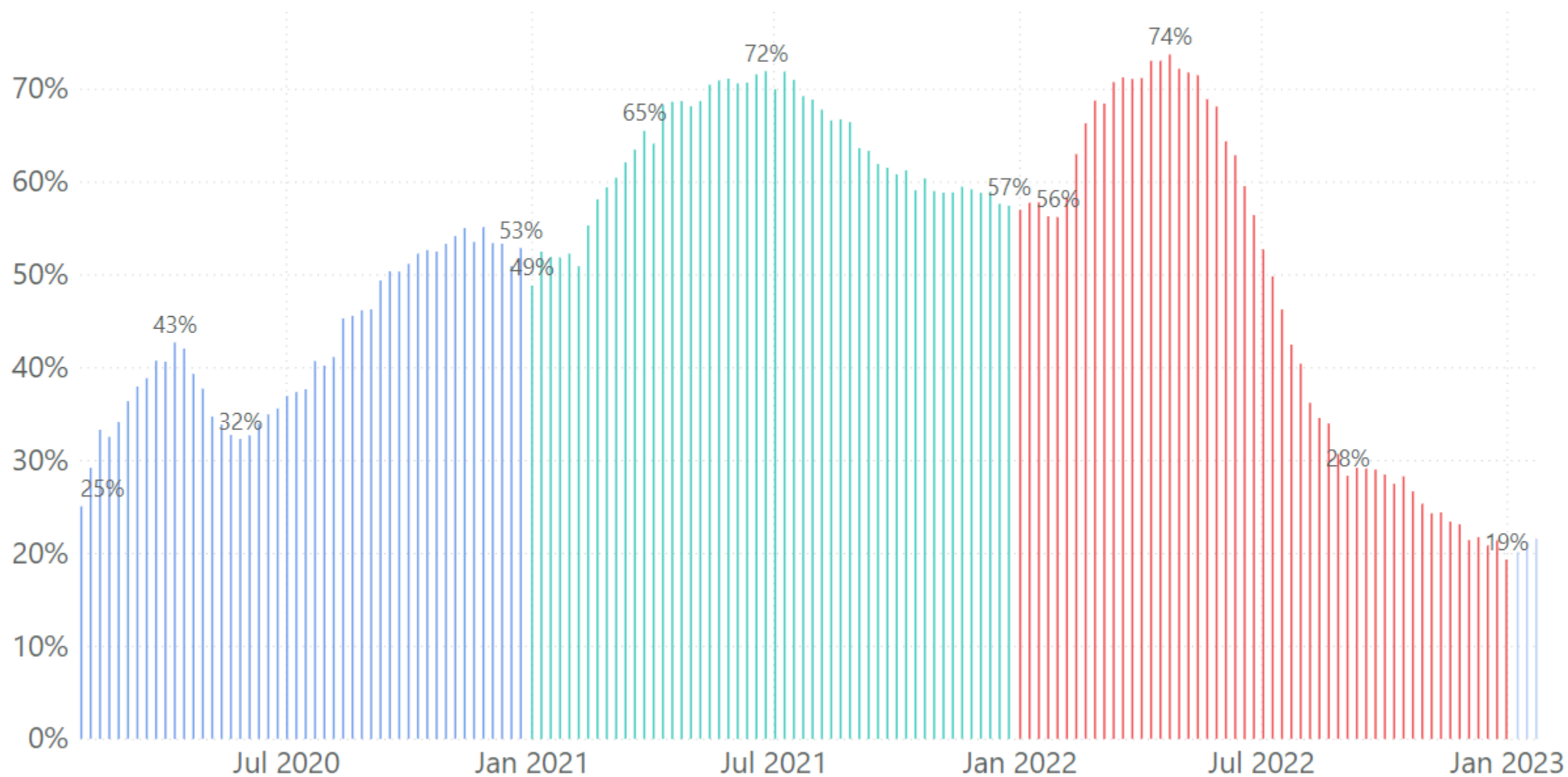
2014: 70%
2015: 74%
2016: 80%
2017: 76%
2018: 74%
2019: 82%
2020: 73%
2021: 71%
2022: 82%

Homeownership: the 1 & only path to wealth accumulation

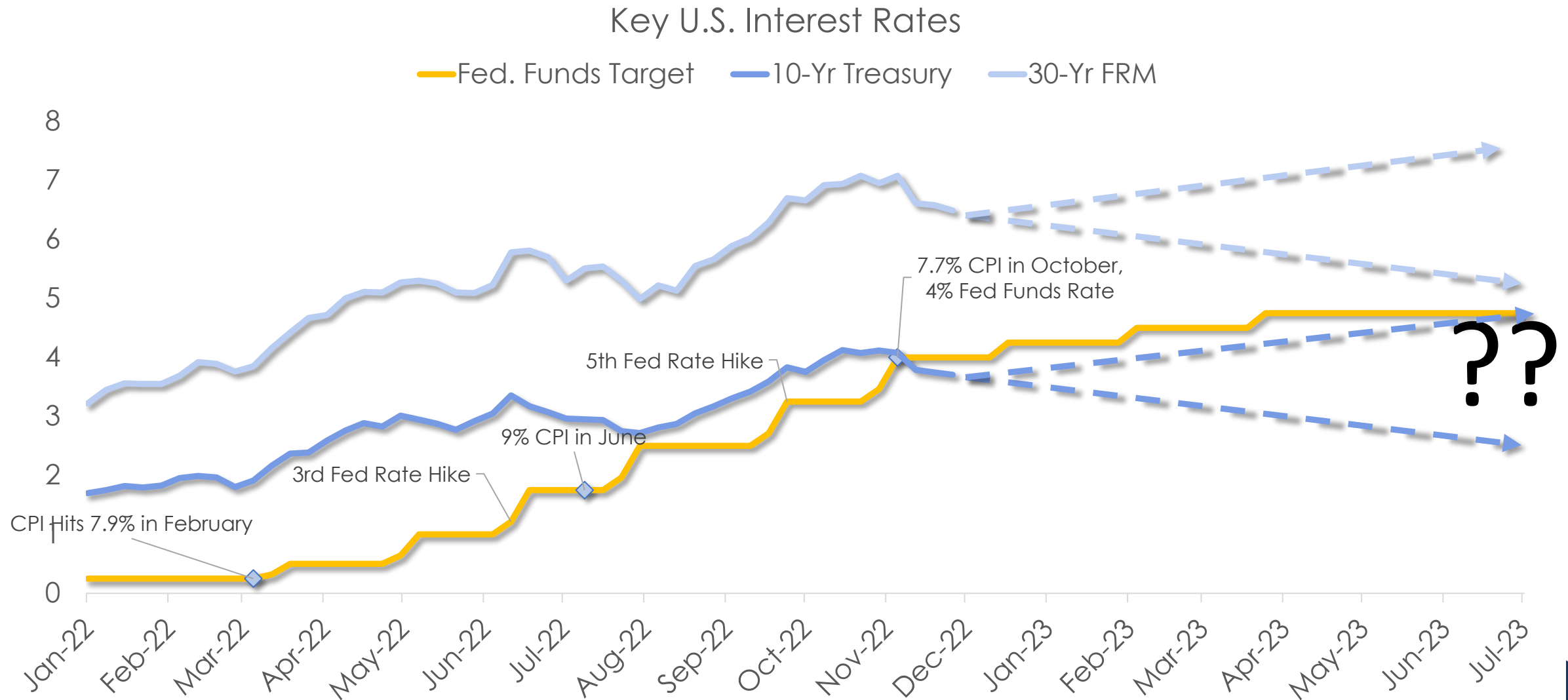


% of Homes Closed Above List Price

Year ● 2020 ● 2021 ● 2022 ● 2023



What is reasonable to expect given Fed guidance?



Step 1: Define Buyer's Profile

Select County of Residence

Los Angeles

Select Annual Household Income

\$500,000

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

\$13K

Target Monthly Payment (PITI)

\$1,931,272

Price Cutoff At Selected Rate

\$386,254

Downpayment Amount

Impact on Number of Listings Below Cutoff

Dec-22

Listings As Of Month

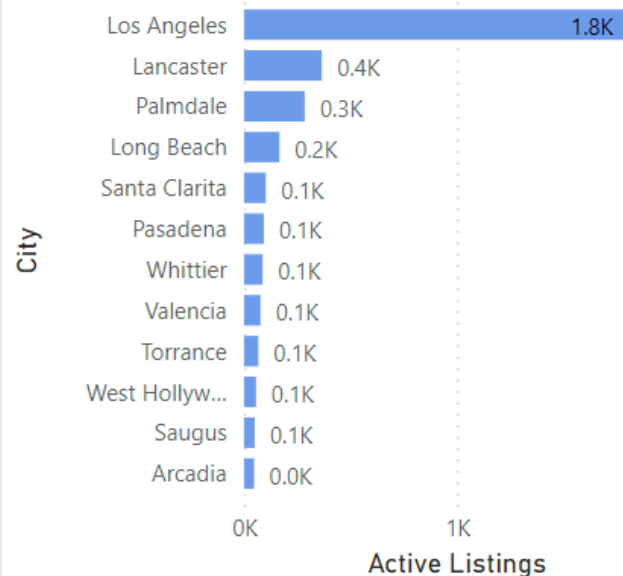
4,896

Listings At/Below Price Cutoff

75%

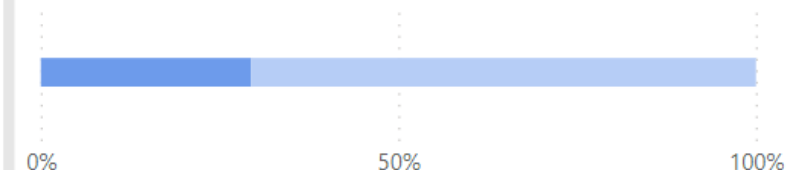
Share At/Below Price Cutoff

Active Listings by City



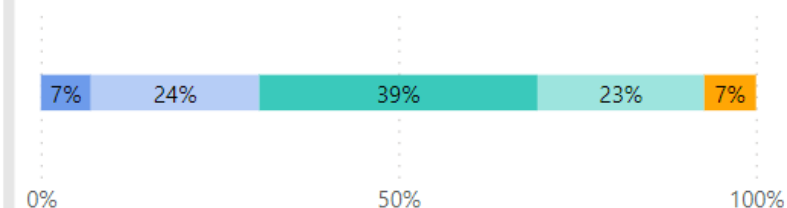
Share of Active Listings by Property Type

Property Type ● Condo ● Single-Family



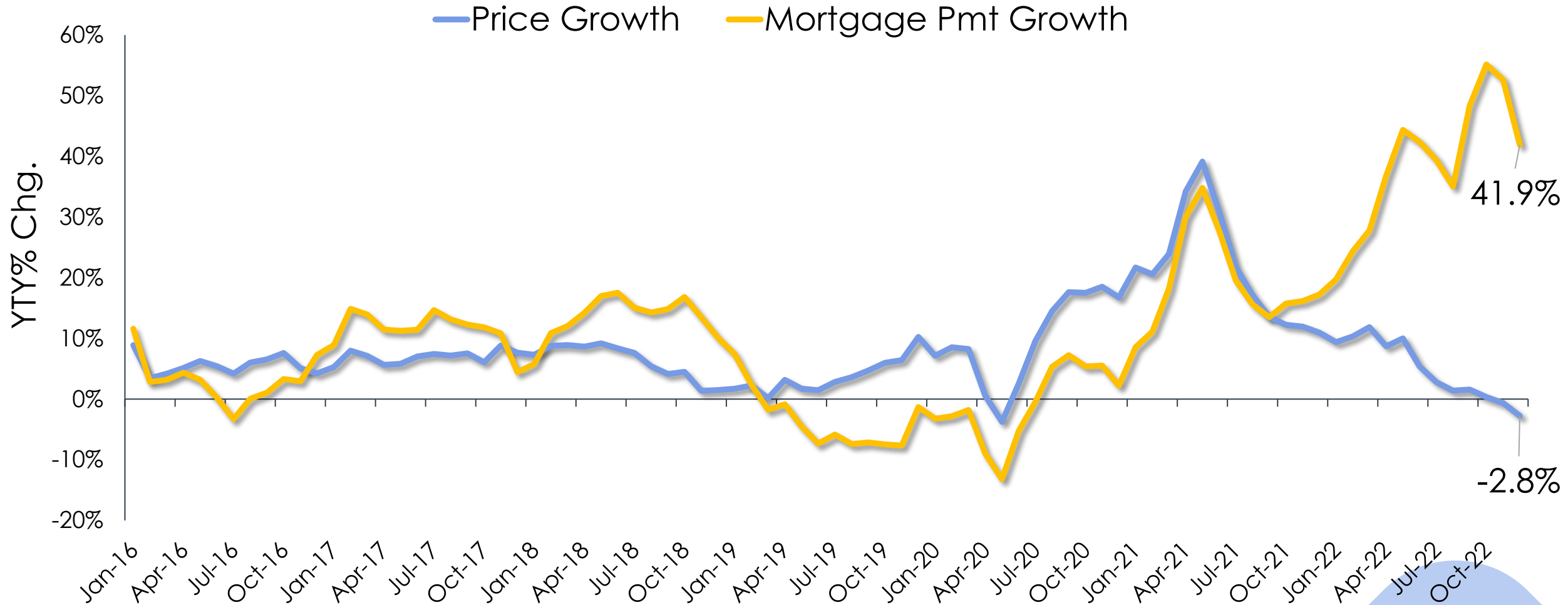
Share of Active Listings by # of Bedrooms

of Bedrooms ● 1 ● 2 ● 3 ● 4 ● 5



Slower prices canceled out by higher rates

California Median Price vs. Mortgage Payment



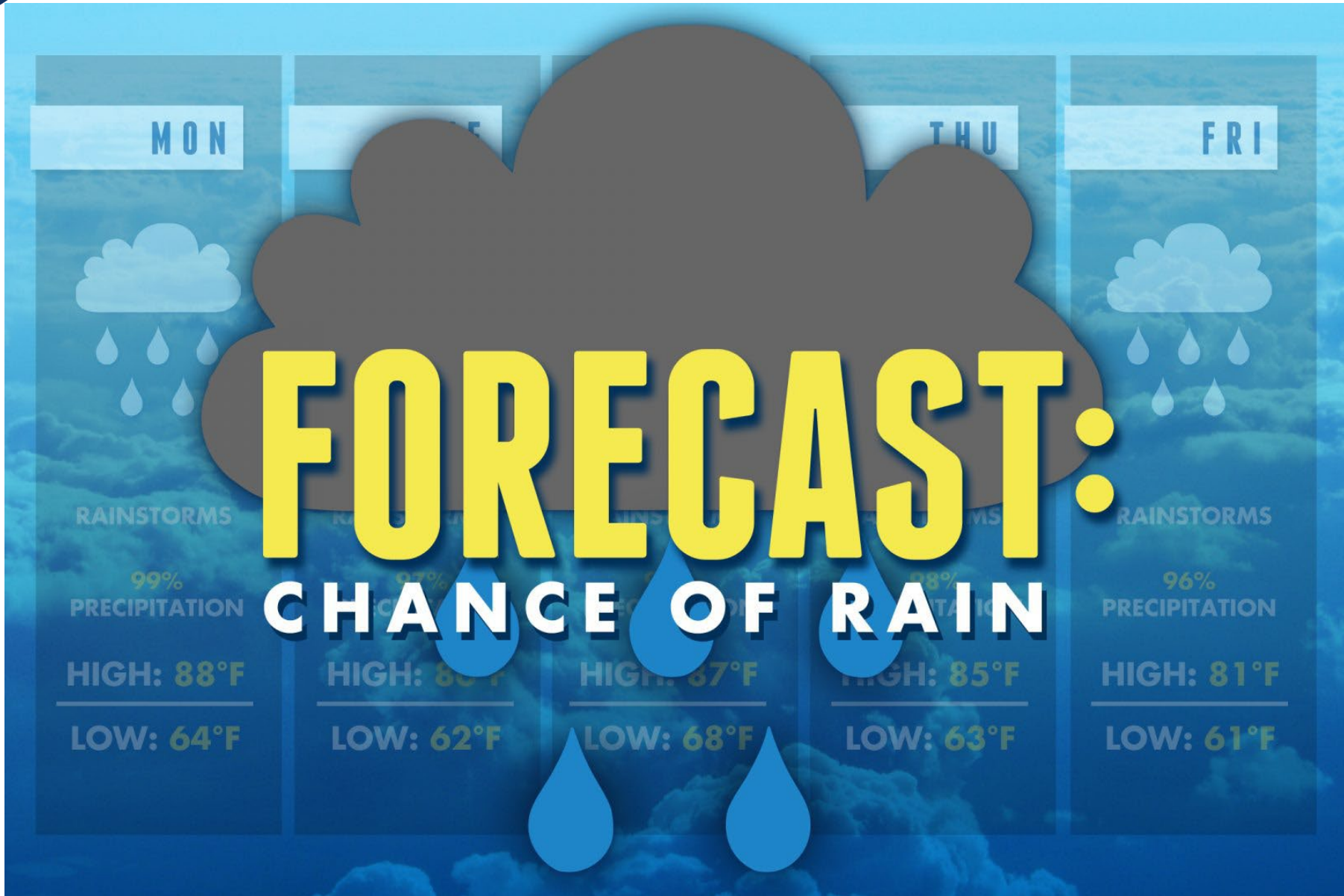
Recipe 4 Success: Expectations, Context, and Perspective

For Buyers

- Rates Are Up
- Purchasing Power Down
- Economic Uncertainty
- Less Competitive Market
- More Homes For Sale
- Long-Term Ownership Benefits
- It's Not 2008 All Over Again

For Sellers

- Fewer Buyers In Market
- Homes Sitting Longer
- More Discounting/Concessions
- Still A Good Market, Just Spoiled
- Homes Still Selling Fast
- Home Prices Remain High
- Many Selling Over List



U.S. economic outlook

	2016	2017	2018	2019	2020	2021	2022p	2023f
US GDP	1.6%	2.3%	3.0%	2.2%	-3.5%	5.7%	0.9%	-0.5%
Nonfarm Job Growth	1.8%	1.6%	1.6%	1.3%	-5.7%	2.8%	3.4%	-0.5%
Unemployment	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.7%	4.4%
CPI	1.4%	2.1%	2.4%	1.8%	1.2%	4.7%	8.0%	4.4%
Real Disposable Income, % Change	2.7%	2.9%	4.0%	2.9%	5.8%	2.2%	-5.4%	0.2%

California housing market outlook

	2015	2016	2017	2018	2019	2020	2021	2022p	2023f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	411.9	444.5	359.2	333.4
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	3.5%	7.9%	-19.2%	-7.2%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$659.4	\$786.7	\$831.5	\$758.6
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	11.3%	19.3%	5.7%	-8.8%
Housing Affordability Index	31%	31%	29%	28%	31%	32%	26%	19%	18%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.1%	3.0%	5.2%	6.6%



Thank You