CALIFORNIA
ASSOCIATION
OF REALTORS®

R.E.A.C.T.

2018
State of the Consumer

Real Estate Analysis: Consumer Trends

R.E.A.C.T.

2018 State of the Consumer

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FOREWORD

2018 is a transition year for the housing market. The year started strong with existing home sales exceeding 2017's pace by 1.3 percent in the first quarter, but began to lose momentum by mid-year as market uncertainty started having a bigger psychological effect on the buying decision. As of August, sales are down 2.1 percent from the same time last year, and a market shift is undeniably underway.

Consumers are caught in the middle, but they can also be blamed for causing the market to decline. Housing affordability is no doubt the root cause for the lackluster performance of the market, but the surge in home prices in the last few years was the direct consequence of the imbalance between housing supply and housing demand. Fewer properties being turned over in the market is a primary reason for the tight inventory in housing in California, and homeowners staying in their homes longer is contributing to the low turnover rate.

The difference in price expectations between buyers and sellers is another reason for the market shift. With interest rates rising and expected to climb further in the short term, buyers are financially strapped and are unwilling to pay whatever price sellers demand. Meanwhile, sellers are hoping that the market is still competitive and that buyers will pay top dollar for their property as housing supply remains constrained. This mismatch leads to a decline in sales as buyers and sellers are unwilling to come to the table to discuss the price difference. The question then remains: how long will it take for the market to close the price expectation gap between buyers and sellers?

Understanding the mindset and the wants and needs of consumers are crucial to prepare for changes that could occur in the housing market in the upcoming years. This report details some of the important findings of real estate consumers in different phases of their home cycle: buy, sell, rent, and own. By examining their attitudes and behaviors, we hope to get a better understanding of the market dynamics from the perspective of those who truly determine the direction of the market.

KEY HIGHLIGHTS

BUYERS

- The typical home buyer is 43, married, and earns a median household income of $120,000.
- The housing preference of buyers differs depending on several factors including age, income level, and homebuyer status with younger buyers purchasing more affordable homes with room to grow and older buyers purchasing homes they can age in.
- First-time buyers typically purchased a 3-bedroom, 1,500 square foot, single-family home while repeat buyers bought slightly larger homes—a median of 1,700 square feet.
- Due to the competitive housing market under tight supply conditions, buyers spent a median of 8 weeks searching, spending much of that time visiting homes—a median of 9 homes.
- Buyers say they would have purchased sooner if it weren't for the cost and saved for a downpayment a median of 5 years.
- Nearly all buyers (94%) used an agent and 80 percent reported being either somewhat or extremely satisfied with the agent they used.

RENTERS

- The typical renter is 36, unmarried, and earns a median household income of $40,000.
- The top reason renters choose to rent instead of buy is affordability.
- Most renters currently live in a 2-bedroom apartment with a median square footage of just under 1,000 square feet and pay a median of $1,300 in rent per month.
- Renters are spending a median of 45 percent of their income on housing with the burden especially heavy for younger generations.
- Four out of five renters want to own someday, though older renters are less interested in owning than younger renters.
- Many renters have misconceptions about what it takes to buy, leaving a big opportunity for REALTORS® to step in and educate them about the process.

SELLERS

- The typical seller is 57 and owned their home for 11.5 years before selling.
- Younger sellers sold with a desire for a larger home and a better location while older sellers sold to downsize, selecting a smaller home with less square footage.
- Before selling, most were concerned whether they could get a good price and find a qualified buyer since they wanted to sell quickly.
- Homes were typically on the market for 3 weeks and were most commonly marketed through open houses and online.
- Sellers selected their agent through personal connections and communicated with them most often via the telephone and in person, often expecting a response either instantly or within half an hour.
- Overall, sellers were satisfied with the selling process but wish their home would have sold for a higher price and mentioned issues related to their buyers and pricing as challenges they faced.

HOMEOWNERS

- The typical homeowner is 56, married, and earns a median household income of $87,000 and the typical home is a 3-bedroom, 1,700 square foot single-family home.
- Homeowners are staying in their homes longer than expected due to affordability, convenience, and location.
- Homeowners are both satisfied with their home and satisfied with their status as homeowners.
- Just over one-third (36%) of homeowners plan to "age in place," meaning they will stay in their current home as they get older due to happiness and comfortability with their home.
- Nearly a quarter of homeowners (23%) say they considered selling their home in the past year as they are looking to capture equity gain, have children who have left the home, or had a change in employment.
- The number one thing that would make homeowners move is getting the price that they want for their current home.

PART 1

Buyers

Buying a home is typically the biggest purchase of a lifetime. Hovering right below a $600,000 median price, home prices are near an all-time high, and housing affordability is near an all-time low. Even so, consumers remain committed to homeownership and are taking the time to save so that they can still purchase a home sometime in the future.

Being in different life stages, buyers across various age groups have diverse preferences when it comes to buying a home. Younger buyers have less money to spend and are looking for an affordable starter home. Middle-aged buyers are looking for larger homes that are close to their current residence, so as not to disrupt their busy lifestyle. Older buyers are looking for quieter and less expensive homes for their retirement years. But all buyers are citing price as one of the top reasons they purchased the home they did.

Navigating tight housing supply conditions is not easy and homebuyers are feeling it. The buying process is complicated and takes time and dedication. Buyers are typically spending around two months searching for their home and making multiple offers before settling on the home they ended up purchasing. They are forced to make sacrifices on everything from price to location to size of the home and school quality. Many found a home that is not necessarily the perfect fit but instead a good enough fit. However, they are being held back from buying sooner due to finances.

Home buyers need help in the home-buying process. Many turn to the internet to educate themselves about the nitty gritty of a home sale transaction and to expedite their home searching process. Despite the assistance they are able to find online, most still prefer to tap into the knowledge of a real estate professional and rely on an agent/broker to guide them through the home-buying process. They turn to their agent for everything, from knowledge about the housing market to help with legal issues, and report a high level of satisfaction with the agent they used. To figure out how to better-serve buyers in a tight competitive market, REALTORS® need to get a better understanding of who the home buyers are.

PROFILE OF THE CALIFORNIA HOME BUYER

Home buyers have been slowly aging in the past two decades, as many in the younger generations have delayed getting married and starting a family. The median age of home buyers used to be in the high 30s two decades ago but has since inched up to the low-mid 40s. While the millennial generation is expected to take over the Baby Boomer generation as the largest population group by 2019, the typical home buyer's age will likely remain in the 40s as many millennials are putting off marriage and homeownership.

Nevertheless, with many millennials entering adulthood and forming their own households, this generation is playing a bigger role in the housing market. As the economy continues to grow, more young adults are able to land high paying jobs. In fact, the median age of home buyers bucked the trend and dipped this year to 43 from 45 in 2017, as more millennials start buying in California. According to the C.A.R. 2018 Annual Housing Market Survey, millennials make up nearly one-third (31%) of all buyers, a slight increase from the year before, when 29 percent of home sales were accounted for by the generation. Gen Xers make up 41 percent of all sales, while Baby Boomers account for 24 percent.

> *"I love California. I have friends and family here, the schools are good, I'm not far from the beach, there are tons of things to do here, I like the laws, I like the way of life, I love the various ethnicities represented in the population.*

With the non-white population growing at a faster pace than the white population in California in recent years, the pool of home buyers is also becoming more diverse. Non-whites have been the majority in California since 2000 and are projected to make up more than 70 percent of the state population by 2040. As diversity remains on the rise in the state, the housing market in California will be more directly linked to the social and economic well-being of the state's communities of color. While the white/Caucasian share of all buyers inches up slightly to 54 percent from 53 percent in 2017, non-whites continue to make up over 45 percent of all home buyers, and the share is significantly higher than 20 years ago when it was only 27 percent. The progress is even more impressive for first-time buyers, as 57 percent of all entry-level homes were purchased by non-whites, an increase from 54 percent in 2017.

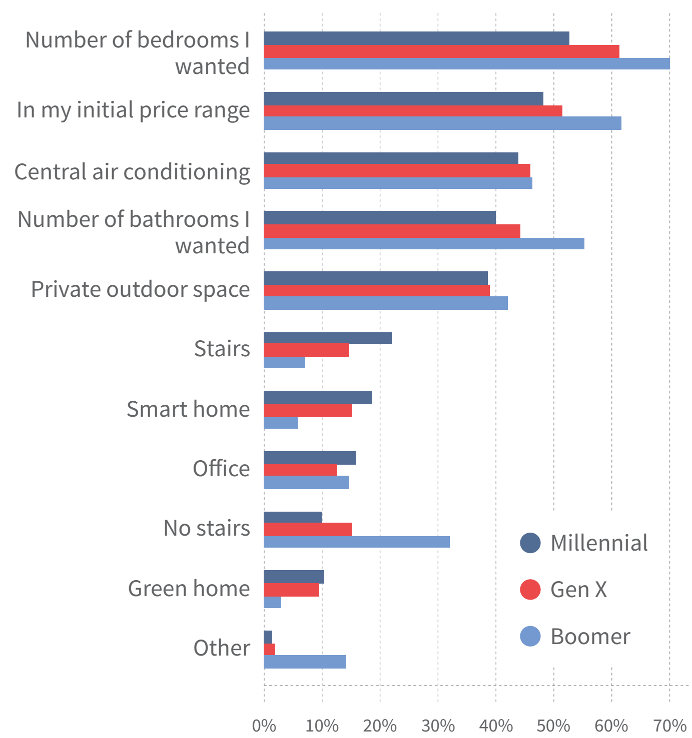
Nearly two-thirds (64%) of all buyers are married, and buyers earn a median annual household income of $120,000. Given how much home prices and interest rates have risen in the last five years, it is no surprise to see that a six-digit income is required to buy a median-priced home in California.

WHAT BUYERS WANT

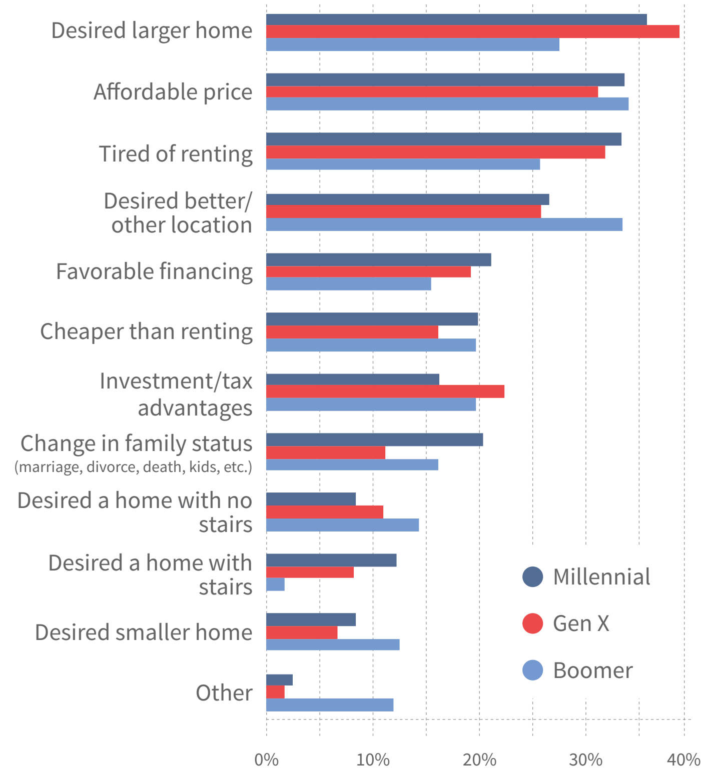
Home buyers have different housing preferences, depending on many variables including their age, income level, and homebuyer status – i.e. whether they are a first-time buyer, repeat buyer, investment buyer, or a second/vacation home buyer. While it is difficult to cover every group of buyers in the market, an examination of some of the major generational buyer segments should provide a comprehensive study of the wants/needs of many active market participants in the Golden State.

Buyer Breakout	Millennials	Gen X	Boomers
Median Age	29	42	60
Median Income	$90,000	$100,000	$90,000
%SFH	67%	71%	77%
%Single Story	63%	63%	69%
Median Bedrooms	3	3	3
Median Sq Footage	1,500	1,600	1,630
Median Final Sale Price	$350,000	$400,000	$379,500

Considerations for Home Buying



Primary Reasons for Home Purchase



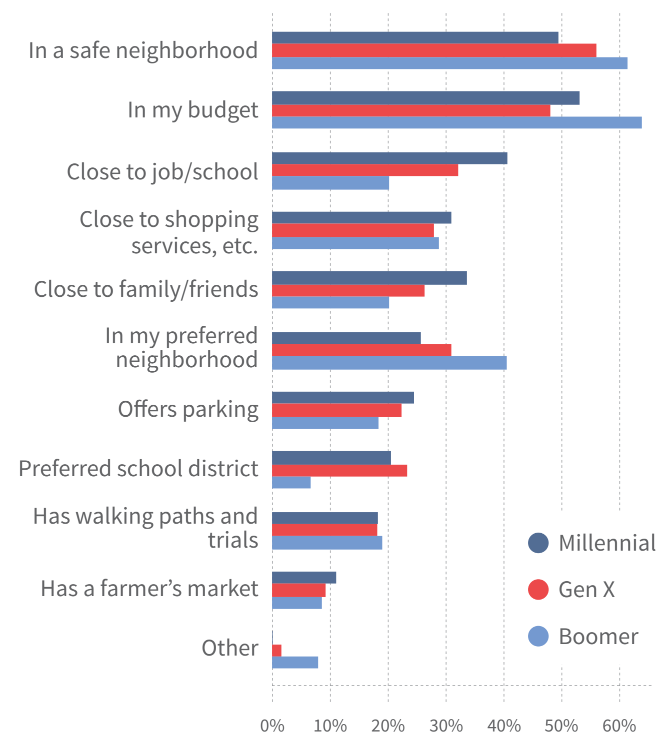
Millennials

In general, millennials have lower income and less equity than their older generational counterparts. As such, homes they bought were typically smaller with a median of 1,500 square feet, and more affordable with a median price of $350,000. Millennials tend to purchase townhomes and condos more often than any other generations, as they are generally the more affordable option, and typically more than $100,000 less expensive when compared to single-family homes.[1] They selected a home most often in the suburbs (43%), followed by homes in the city outside downtown (26%), and decided which neighborhood they wanted to live in based on their budget (52%), safety (49%), proximity to jobs/schools (40%) and family/friends (33%).

Millennial buyers typically moved up when they purchased a house, with a typical buyer in that generation adding just over 200 square feet to the size of their new home when compared to their previous home. Likely trying to make space for a growing family, 56 percent of them added at least one bedroom to their new residence. Twenty-seven percent bought a property with the same number of bedrooms as their prior home, while 17 percent downsized to fewer bedrooms. Since many of the younger generation had no experience in owning a property in the past, they preferred to buy a home with less maintenance. As such, nearly 40 percent of millennial buyers opted to purchase a newly constructed home that is presumably easier to maintain.

With growing families and children in the home, millennials also focused on nearby schools. Seventy-one percent said that the ease of their daily commute to work/school was a very important or an extremely important reason that they purchased where they did. In addition, 67 percent said that the quality of schools was an

Important Factors in Neighborhood Selection



important factor in their home-buying decision, more important than walkability or having entertainment/cultural activities nearby.

Generation X

Similar to millennials, the Gen X group most commonly selected a home in the suburbs. They typically moved up and purchased a home that is 300 square feet larger than the one they moved from. Over half of them (53%) selected a home with at least one bedroom more than their previous residence. Most purchased a single-family home, and townhouse/condo accounted for nearly 20 percent of those purchased. The majority of Gen Xers chose to buy within the same county as where they previously lived, presumably because they wanted to minimize the disruption from the relocation and maintain the same lifestyle.

Gen Xers, in general, purchased higher-priced properties than other generations. The median price for homes purchased by this generation was $400,000, 14 percent higher than that of millennials and 5 percent higher than that of Boomers. Gen Xers typically purchased more expensive homes partly because of their financial capability, but also because they needed a bigger home to accommodate their family size. They are likely looking for flexibility in their home, whether it's kids still in the house or aging parents moving in.

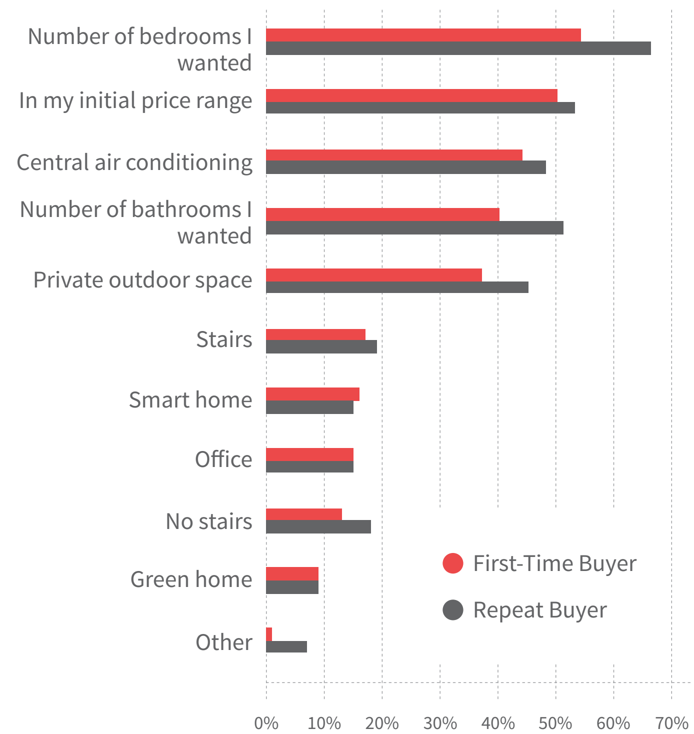
Gen Xers selected their neighborhood based first and foremost on safety, unlike other generations which ranked "neighborhood within their budget" as the number one reason. "Proximity to jobs/school" and "neighborhood was a preferred neighborhood" were also important factors in their decision, again suggesting that their relocation was intended not to disrupt their life, but instead to enhance it. In fact, 71 percent of Gen Xers cited the "ease of daily commute to work/school" as either a very important or an extremely important factor in their decision to purchase in the neighborhood that they did.

Boomers

Compared to younger buyers, Boomers were most likely to have purchased a single-family home and least likely to have purchased a newly constructed home. They purchased most often in the suburbs but were also the cohort that most likely bought in a rural area, as many of them are approaching retirement age and seeking a quieter/less expensive lifestyle. The median-price of a typical Boomer buyer home was $379,500.

BUYERS

Considerations for Home Buying



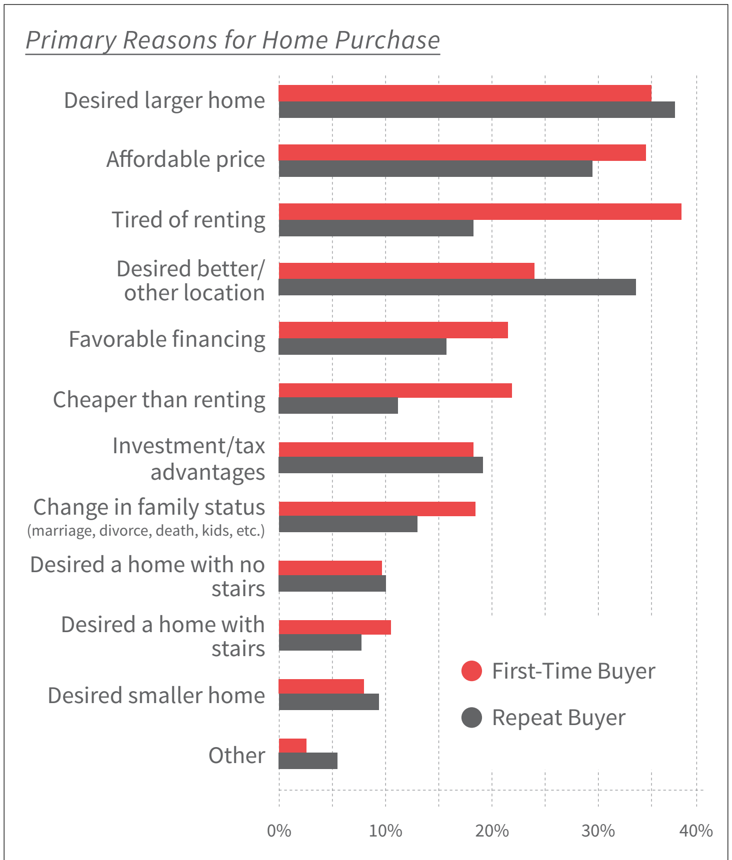
Boomers typically moved up when they purchased a property and added 250 square feet to their new residence. Despite relocating to a bigger house, the property that they purchased was generally less expensive than where they lived previously. They were also less likely than other generations to purchase in a county where they used to reside, with 24 percent buying in another county and 7 percent buying out of state. Since Boomers bought the least expensive home amongst all age groups, housing affordability probably played a role in the buying decision for those who purchased outside the county where they used to live.

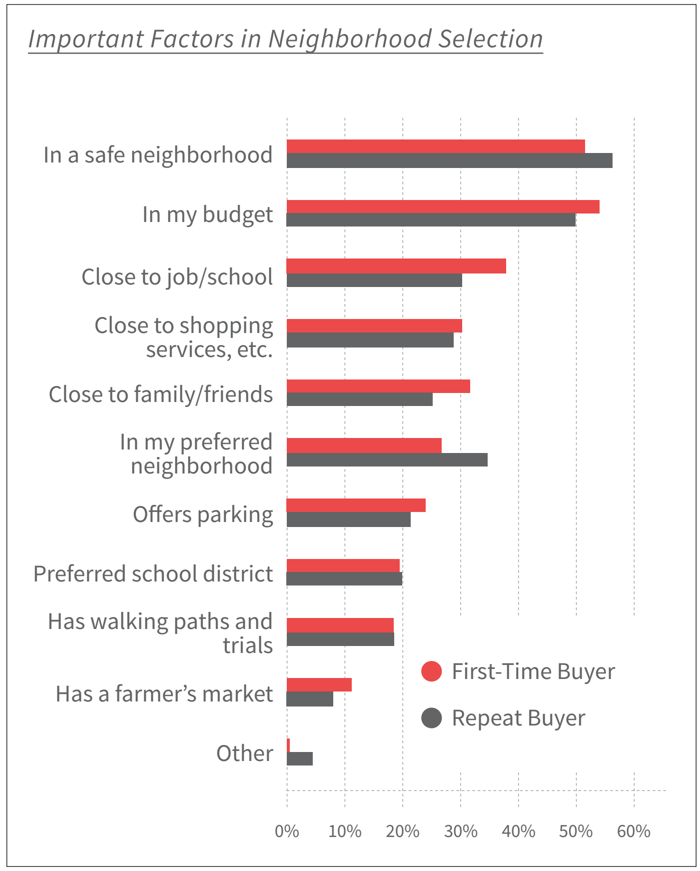
Boomers were significantly more likely than any other generation to consider a house without stairs as a requirement to their home purchase, as they plan to age in their new home. Unlike other generations, Boomers also considered the number of bathrooms in the home as a top priority for the home they purchased. Similar to other generations, budget (63%) and safety (61%) were the most important factors in Boomers' neighborhood selection during the home-buying process. Other important considerations include "being in their preferred neighborhood" (40%) and "being close to shopping services" (28%). Boomers seemed to be less concerned about schools, as their children are likely grown, and school is no longer a factor.

First-Time Buyers

First-time buyers typically have fewer financial resources when it comes to buying a house. As such, what they purchase as their entry-level home is usually different from what repeat buyers buy. The typical first-time buyer purchased a 3-bedroom, 1,500 square foot, single-family home. Nearly half purchased a home in the suburbs and two-thirds purchased a home with just one story. The homes they purchased were 300 square feet larger than the one they moved from, and 55 percent added at least one additional bedroom to their new residence when they moved from their prior home.

Buying a home with their desired bedroom count and within their price range were top requirements for first-time buyers. Other requirements included central air conditioning and desired bathroom count. They selected their neighborhood primarily based on their budget (53%), safety (51%), and the proximity to jobs/school (38%). First-time buyers were likely to purchase a home near where they previously lived, with only 20 percent choosing to leave the county or state.





Repeat Buyers

Repeat buyers earn more and have more flexibility financially than first-time buyers. They are also likely to have a bigger household and can afford to buy a larger house. A typical repeat buyer's new residence has 3 bedrooms and a median square footage of 1,700. Three-quarters purchased a single-family home and over half purchased a single-story property. Nearly half (44%) bought homes in the suburbs, 26 percent bought homes in the city outside downtown, 18 percent bought homes downtown in a city, and 11 percent bought in a rural area.

Repeat buyers generally move up, with their newly purchased home bigger than their previous home by a median of 200 square feet, despite having the same number of bedrooms. While the majority upgraded to a larger house in their recent purchase, 25 percent opted to downsize. The share who moved down is higher than that of first-time buyers, as repeat buyers are typically older and their family size is more likely to shrink than that of first-time buyers. Those who moved to a smaller unit, indeed, were a median age of 47. Similar to first-time buyers, the primary reasons repeat buyers selected their neighborhood were safety, price, and preferred neighborhood. Repeat buyers were more likely to move further from their previous home, as 23 percent relocated from another county and 5 percent moved from another state. More than a third of repeat buyers purchased their recent property as a second home and still owned their previous home.

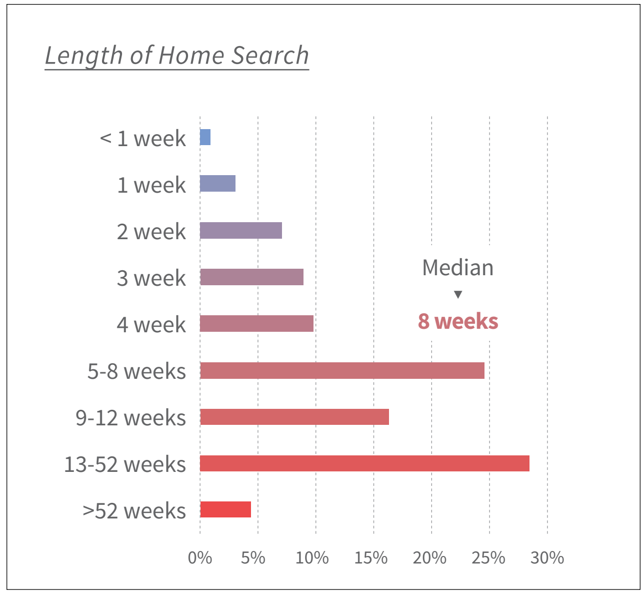
THE BUYING EXPERIENCE: HOME SEARCH AND SALES

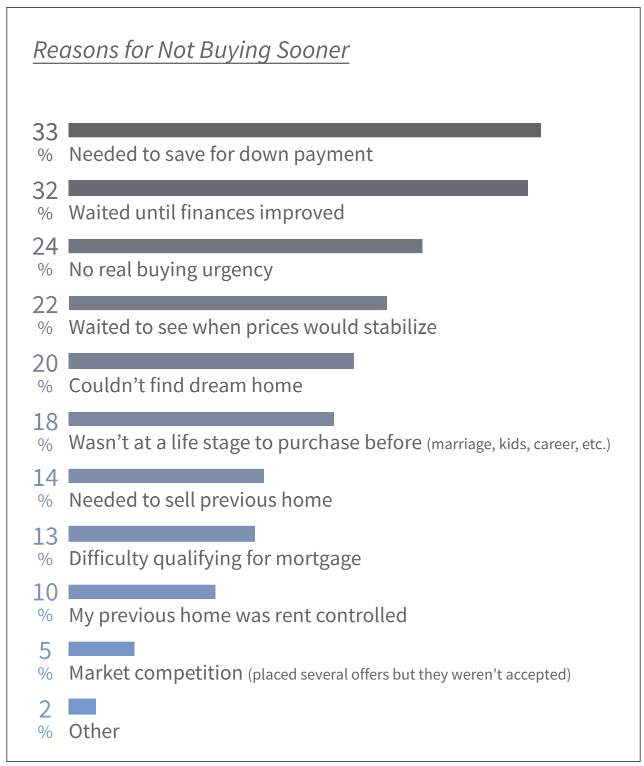
Consideration and Preparation

With a competitive housing market under tight supply conditions, finding the right home takes time. California buyers typically spent 8 weeks home searching, but nearly a third of them spent 13 weeks or more in the home search. In general, the more competitive the market is, the longer it takes to find a home. First-time buyers spent more time than repeat buyers in the home searching process. This is attributed at least partially to the competitive nature of the entry level market, as this segment of the market is usually tighter in supply. Buyers purchasing in the Bay Area spent a median of 10 weeks searching for their home, compared to 8 weeks everywhere else. Again, the Bay Area market is more competitive than the rest of California. Buyers who purchased homes at a price of $1 million or more spent a median of 7 weeks searching for their home, while those whose home cost less than $1 million spent a median of 8 weeks. This difference is also likely due to the fierce competition in the more affordable market.

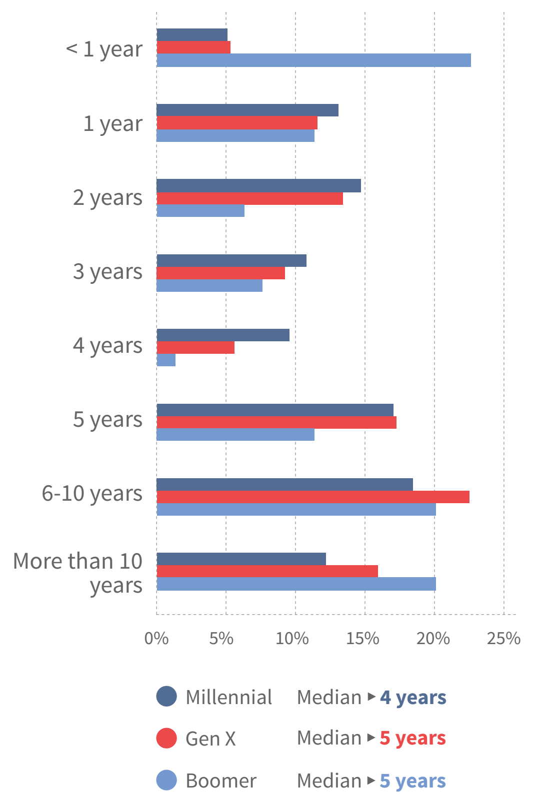
Much of the time during the home search process was spent on visiting homes. The median number of homes a buyer visited was 9, with 1 in 3 buyers visiting more than 10 homes before making a purchase. First-time buyers were more selective when compared to repeat buyers. They visited 10 homes prior to making a purchase, while repeat buyers only visited 8 homes.

Buyers said they would have purchased sooner if it weren't for the cost. Many of them waited because they needed to save for a down payment or they wanted to wait until their financial situation improved. Eighty percent of buyers saved for their down payment for longer than 1 year, with a median count of 5 years. While Gen Xers and Boomers both saved for a median of 5 years, nearly one-quarter of all Boomers saved for less than 1 year compared to just 5 percent of Gen Xers who did the same. As expected, those who purchased more expen-

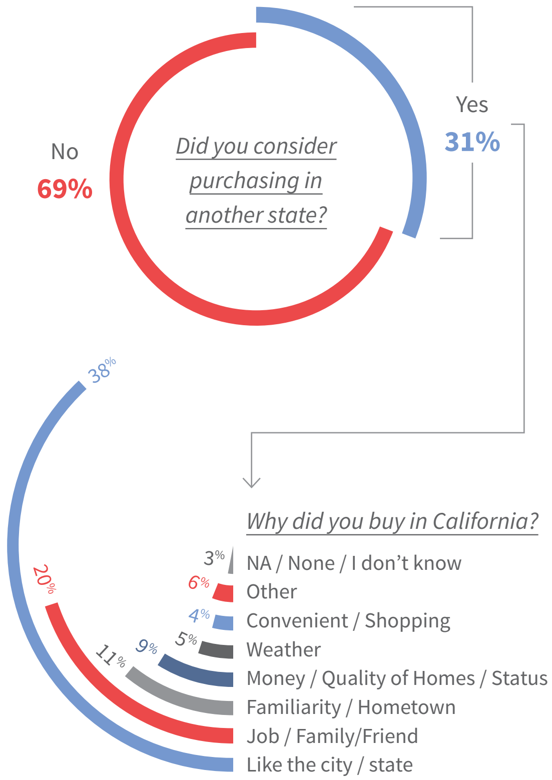




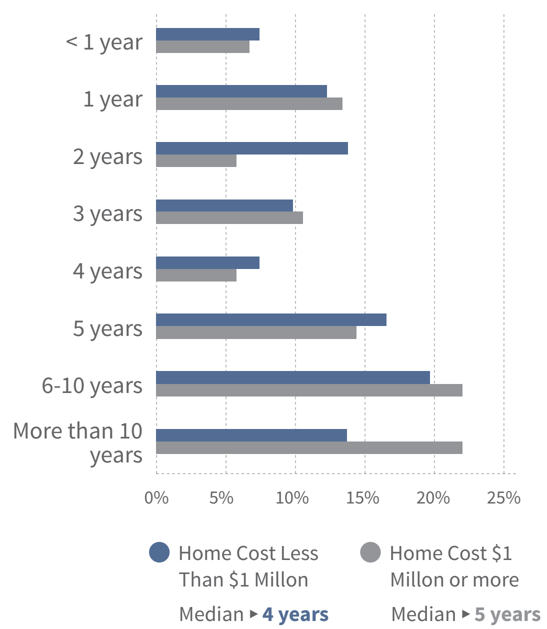
Number of Years Needed to Save for Down Payment



Reasons for Buying in California

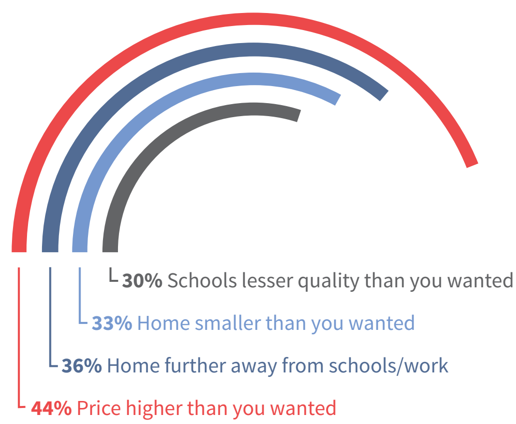


Number of Years Needed to Save for Down Payment



> *My wife is employed here plus her son just had her first grandchild and getting her to leave now would take a team of Morgan horses and they might even lose.*

Compromises Made to Purchase a Home



BUYERS

sive homes saved for longer–22 percent of those who purchased a home with a price of $1 million or more saved for more than 10 years.

The source of down payment for the majority of buyers was their personal savings. The same holds true across age groups, though Boomers were significantly more likely than millennials or Gen Xers to use the proceeds from the sale of a previous residence to fund their down payment since many Boomers were repeat buyers. Millennials were significantly more likely than Gen Xers or Boomers to use funds received from parents or family or funds received as a gift.

Nearly one in three buyers considered purchasing in a state other than California but stayed because they liked the city/state they were in or because of their job, family, or friends. Nevertheless, younger buyers and first-time buyers were more likely to consider the change, likely due to affordability. The outmigration trend will continue and exacerbate if home prices and interest rates continue to grow faster than wages. With the state's housing prices at 161 percent above the national average, California's high housing costs are the biggest factor hurting young, middle-class, often minority families, the most.[2] Millennials are being priced out of California as they tend to have less equity but more debt from student loans as compared to their older generational counterparts. Even more concerning is that those leaving the state in the largest numbers are around child-bearing age: 28 percent are between the ages of 35 and 44 and another third are between 26-34 and 45-54. If continued, the exodus of the younger generation from California could lead to an aging population for the state that is difficult to reverse.

When they ultimately selected their home, the top reasons for purchasing were the desire for a larger home, affordable home price, and to get out of renting. First-time buyers rated "tired of renting" above all else as their primary reason for buying, while repeat buyers felt a larger home in a better location was their driving fac-

"It was fun to bid on a home online since we had a budget and we were dealing with a professional service so we had the confidence everything was taken care of properly. However, there were moments of trepidation since we didn't have access to a traditional agent always."

tor. With tight inventory and high home prices, buyers needed to compromise on certain aspects when making their home purchase. Some of these compromises included "price being higher than they wanted," "purchasing a home further away from schools/work," "purchasing a home smaller than desired," "local schools lesser quality than desired," and "purchasing a home not in a preferred neighborhood."

Buyers made a median of 3 offers on other homes but nearly one-quarter made more than 10 offers. Those who purchased a home for more than $1 million made a median of 5 offers on other homes. Younger generations also made more offers, with millennials making a median of 5 compared to Boomers making a median of 1. First-time buyers made 4 offers on other homes compared to repeat buyers who made 2. The hyper-competitive, supply constrained Bay Area, had the highest incidence of multiple offers.

Online Experience

Nearly all buyers selected Zillow as the single most useful website they visited. Boomers were the least likely to go online, however 83 percent still reported visiting a website during the buying process. They selected Zillow as the most useful website at an even higher rate than the other two generations.

More than a third of all buyers (34%) said they found the home they purchased through a real estate agent, and another third (32%) found their home online. The top three websites where buyers found their home online were Zillow (47%), Realtor.com (24%), and Redfin (19%). Millennials were most likely to find their home online, and they did so more commonly than through any other means.

Online home purchase/sales services have been gaining popularity in recent years, and many buyers took note. Many millennials used either Zillow Instant Offers, OpenDoor, Redfin Now, OfferPad, or Purplebricks to buy their home because they found it faster, easier, or less expensive than working with a traditional agent. They also liked that it had an assured move-in date. Buyers of all ages say they would use an online home purchase/ sales service to purchase a home in the future, suggesting that iBuyers are here to stay.

> *It was very useful, easy and cost less. Going online saved me a lot of time and it's a lot easier to do things this way.*

Challenges

Buyers report higher home prices and finances as the most difficult part of the overall buying process, and 27 percent of buyers say it was either somewhat or extremely difficult to obtain financing. This is especially true for younger generations who ranked obtaining financing as more difficult than did older generations. In addition, one-quarter of buyers experienced difficulty with their home appraising at a value equal to or below the final sale price, again with younger buyers experiencing more difficulty than older buyers. Though buyers went to banks and credit unions for information about the loan process, one-third of first-time buyers did not use a first-time buyer program, as many said they did not know about them.

> *I didn't feel [a first-time buyer program] was necessary – three of my friends were also purchasing homes at the time and I took their advice not to.*

THE BUYER/AGENT RELATIONSHIP

Connecting with Real Estate Agent

While the internet provides useful information to make decisions throughout the home-buying process, buyers continue to rely on real estate professionals to help them navigate through the sales transaction, evidenced by 94 percent using an agent. The most common way buyers found their agents was online (21%), followed closely by a referral from a friend, family member, or coworker (20%). Millennials were most likely to use the internet, though Gen Xers were close behind. Boomers were significantly less likely to find their agent online, instead trusting a referral from friends, family, and coworkers, or counting the agent as a personal friend or relative. The majority of buyers worked with the first agent they spoke to, but those who did not interviewed a median of 3 agents before making their selection.

California buyers said that their agent's knowledge about the market and the neighborhood was the most important service they provided and consider that knowledge the single most important reason for selecting the agent they used. Nearly half enlisted their agent at the very beginning of their home search to fully take advantage of that knowledge. Half of all buyers needed help with negotiating price and finding the right home—two areas where agents are looked to for their expertise.

Satisfaction

Over 80 percent of buyers say they were either somewhat or extremely satisfied with their agent for reasons including: their agent listened to their needs, was quick to respond, worked hard, helped find the best home, and negotiated a good deal. If knowing how to satisfy a home buyer is important to the success of a real estate agent, it is even more crucial to understand why home buyers may report dissatisfaction with their agent. Five

Most Important Reason for Selecting Agent

Buyer Advice to Agents
Listen to what the buyer says and be responsive and timely in your responses.
Communicaiton is the key to success.
Be completely open-minded and treat every customer equally. Also, gain knowledge about your customer. I bet that will help in the process of finding that person a good home.
Try not to always make it about the sale, make it about the home and how well a family could fit in there.

Changes Buyers Would Make
There was nothing that I would have changed. Everything went my way and I am happy that I got what I wanted out of it.
If there was one thing that I could change about my home buying experience that my agent could have helped me with it would have been responding more often with the person trying to sell their home instead of waiting a couple of days.
I wish that my agent had assisted me more with understanding financing. Although she was helpful, I feel that I perhaps paid more than I could have.

percent were either somewhat or extremely dissatisfied as they felt their agent was not aggressive in negotiation, needed to do a better job of monitoring the transaction, communicated ineffectively or not how they wanted, or was too slow to respond.

While most buyers were satisfied with the agent they used, there is always room for improvement. One way to improve the satisfaction level of home buyers is to get a better understanding of the assistance they need from their agent, and service them accordingly. To improve the home-buying process or their level of service, buyers advised agents to listen, communicate, and be patient. They also want their agents to be attentive and helpful, know the buyer, and to be available and knowledgeable. That said, 40 percent of buyers say they would not change anything about their home-buying experience. Those who would make changes want more agent availability and help or a better price on the house they bought. Overall, four out of five buyers would both work with the same agent again and recommend that agent to others.

FINAL THOUGHTS

Despite tough market conditions with tight supply and low housing affordability in California, there are still many potential buyers who want to buy a home, and agents can help them fulfill their American Dream. The key to successfully helping home buyers and satisfying their needs in the home sales process is to understand their expectations. It is important to set clients' expectations upfront by clearly explaining to them the amount of time and work involved in buying a home. Buyer satisfaction can continue to be improved by keeping the clients informed through frequent communication and by responding to them in a timely fashion as concerns arise throughout the process.

PART 2

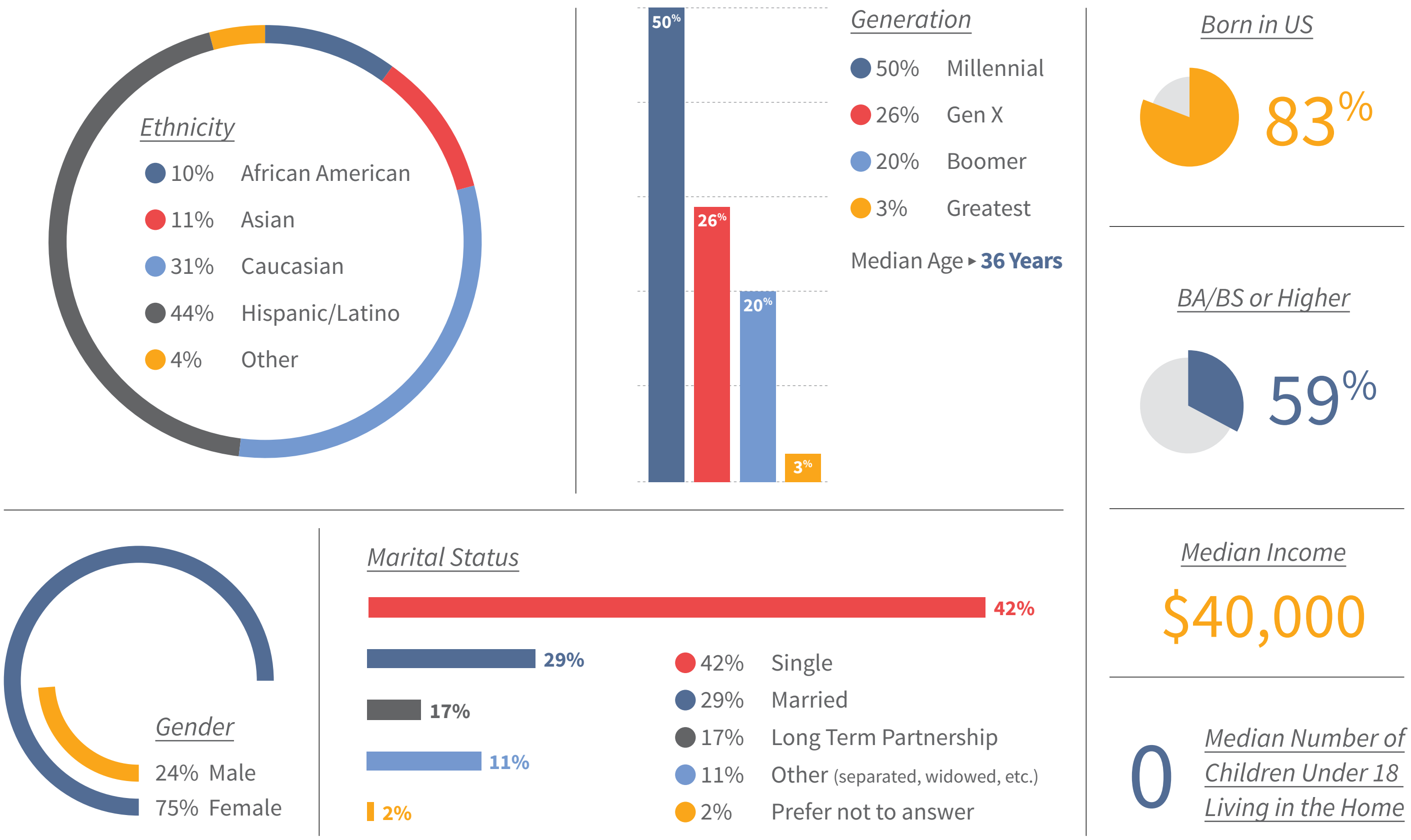
Renters

The number of renters has surged over the past 10 years with 2.1 million more households renting today than 30 years ago. Renting is not just for the income challenged anymore as there are more renters across the board representing all incomes, ethnicities, and demographics. While the number of renters has increased because of population growth, the percentage of renters has also increased. Affordability has continued to deteriorate over the course of the last decade or so, preventing a bigger increase in homeownership statewide, which is why renters are such an important piece of the housing puzzle in California today.

With California ranked the second highest across America in wages needed to afford a modest rental unit, affordability is a big obstacle facing homeownership. In 2016, the hourly wage[3] required to afford a two-bedroom apartment at the national level was $20.30, though in California, it was $28.59. In the same year, the minimum wage in California was only $10-$10.50 per hour depending on the number of employees in the company[4], which means a Californian making minimum wage would need to work nearly three full time jobs to afford a two-bedroom apartment.

Despite the financial difficulty, many renters will overcome the affordability challenges, and become homeowners eventually. They will need a lot of help, however, and REALTORS® can play a crucial role in assisting renters in reaching their American Dream.

Renter Snapshot



PROFILE OF THE CALIFORNIA RENTER

Who are the Renters?

A typical renter in California is 36-years-old, unmarried (71%), and has a median income of $40,000. Renters, in general, are younger than buyers, sellers, and homeowners, which makes sense as renting is typically the first step to enter the housing market for many young adults. Millennials, in fact, make up half of the renter population, while Gen Xers make up 26 percent.

Forty-two percent of renters are single, but an even larger percentage of them are in a relationship of some sort, whether it is being married (29%) or in a long-term partnership (17%). The majority of them do not live with any children under 18, and only 37 percent live with at least one child under 18.

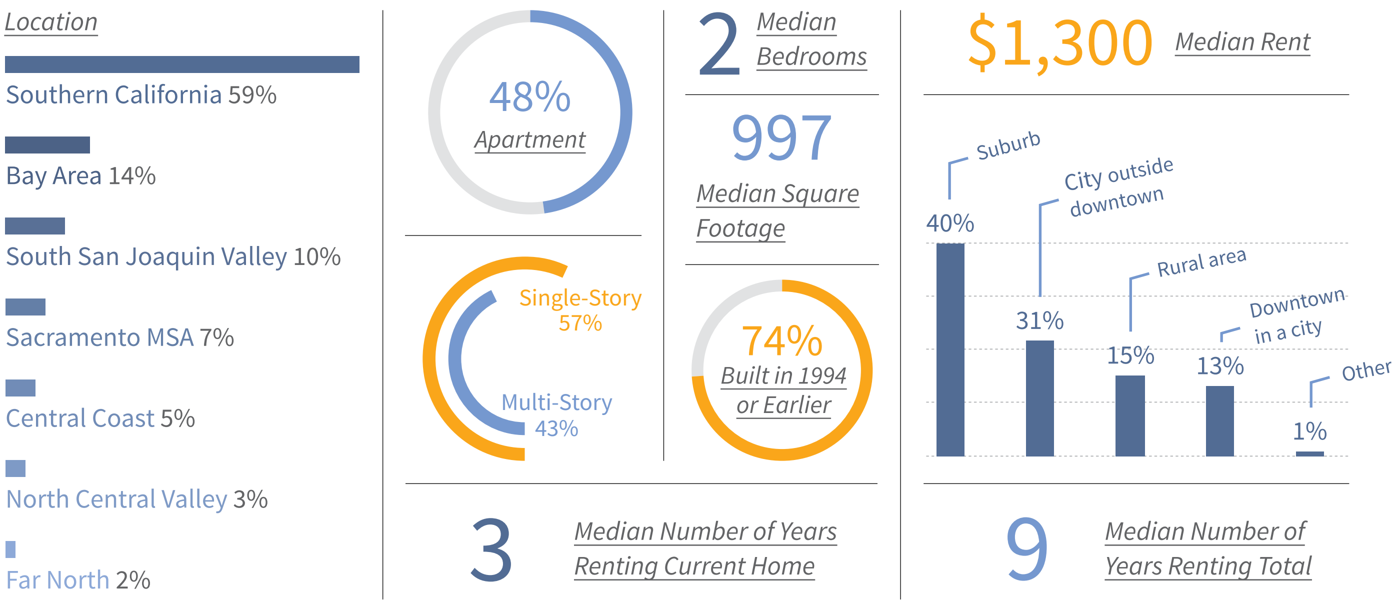
Renters are a racially and ethnically diverse group, with non-whites making up the majority of the population. Forty-four percent of renters in California are Hispanic/Latino, followed by 31 percent Caucasians, 11 percent Asians, and 10 percent African Americans.

Renters generally have lower income when compared to homeowners, home buyers, and home sellers. To put things into perspective, the estimated median income for all California households in 2018 is $70,635, which is 77 percent above the median income of renters. In fact, only 24 percent of renters in the survey earned above that threshold. The difference in income illustrates again the degree of severity of affordability in the housing market for those who are renting.

As of 2016, rent was up 73 percent from where it was in 2000, but household income was only up 36 percent.[5] With rents increasing at a much faster pace than incomes, many opted to rent simply because the option to buy was not financially feasible. When asked why they

RENTERS

Home Snapshot

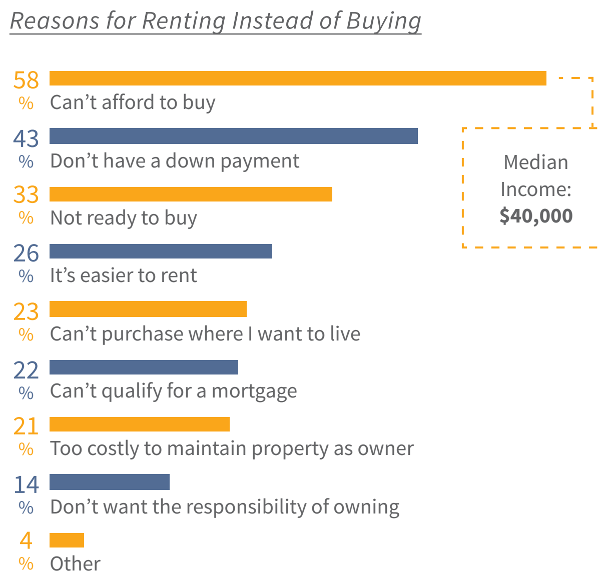


are renting instead of buying, 58 percent of California renters said it was because they could not afford to buy, followed by another 43 percent who said that they could not come up with the money for a down payment.

Affordability also plays a big role in renters' decision on where to rent. In fact, it was an important reason why two-thirds (64%) of renters selected their current rental unit. Other top reasons that factored in their decisions include their neighbor (46%), the size of the unit (39%), and the proximity of the unit to work (26%).

Current Housing Situation

As many renters are young singles who do not have a high household income, their housing selection tends to be smaller and more affordable than that of homeown-



ers. Nearly half of all renters live in an apartment, partly because it is the less expensive option, but appealing amenities could be another reason. Most apartment communities come with a fitness center, dog parks, WiFi availability, and other perks that are essential to an urban lifestyle. Renters, especially the younger generations, are drawn to these amenities and choose an apartment as their residence. Many of them have other preferences and select other housing types as their rentals because of their family size, lifestyle, or financial capability. For example, one-third of renters choose to live in a single-family home, partly because of their need for more space and more privacy. The low number of detached home renters also suggests that tight supply not only dictates the sales trend in California, but also restricts renters' selection in their market. Many opted for an apartment instead of a single-family home because there is a limited supply of single-family homes available for rent in the market.

The typical rental is a 2-bedroom unit with a median square footage of just below 1,000. While renters of all generations typically select a rental with the same number of bedrooms as their preferred choice, millennials' rental units are generally smaller, when compared to that of Gen Xers' and Baby Boomers. With the older generations being more likely to be married and have kids, the additional space to accommodate a bigger family is necessary.

A renter's perspective on the appeal of homeownership:

"A place in a community of other proud homeowners. Such a neighborhood tends to maintain their property and input to city council decisions such as, for example, nurturing programs for youth and seniors."

More renters prefer to live in a suburb or a city outside downtown. Their selection, however, differs depending on their age. Gen Xers and Boomers are slightly more likely to live in a suburb than millennials. Meanwhile, renters in the younger generation are more likely to rent in the downtown area than the older generations. Whether this suggests that millennial renters prefer the vibrant city lifestyle over the quiet, peaceful pace of life in the suburbs, however, is still up for debate

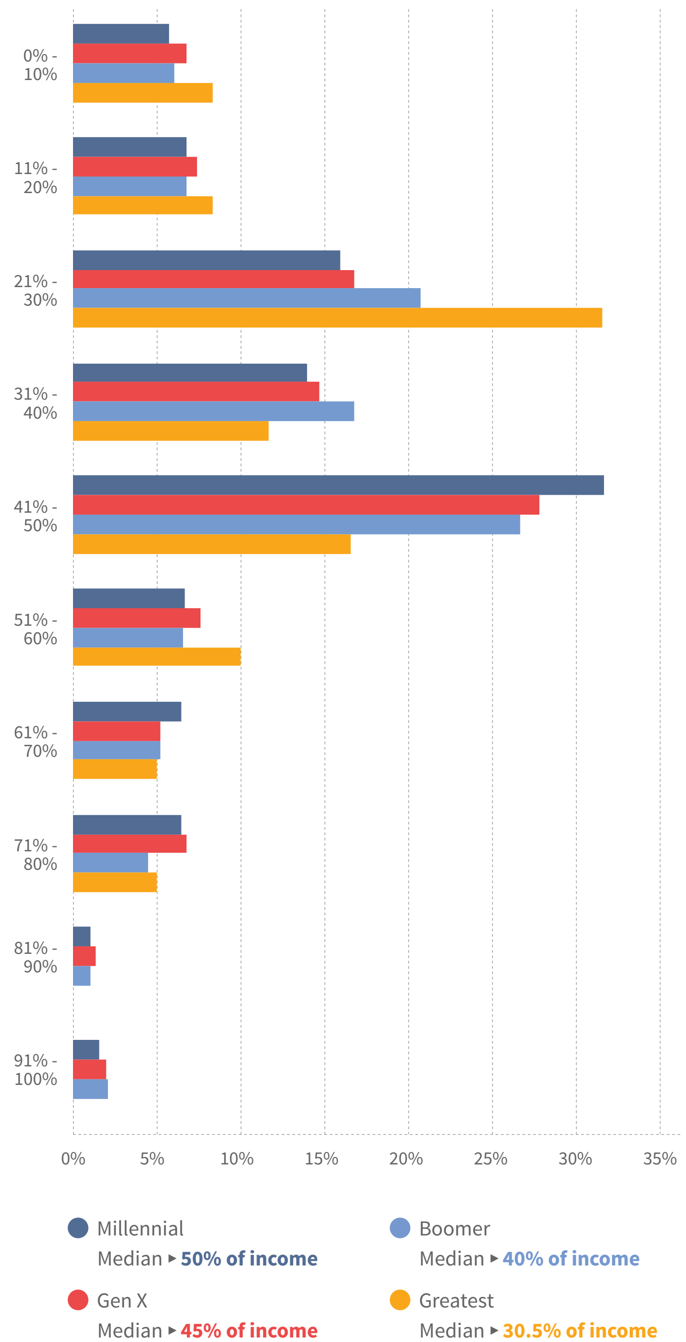
California renters pay a median monthly rent of $1,300, but the cost of renting varies across the state. Renters who live in the Bay Area pay the highest median at $1,800, while those who reside in Southern California pay $1,389. Renters in the rest of California generally pay less, ranging from $800 north of the Bay Area to $1,500 in the Central Coast. The discrepancies between regions are expected as the gap between demand and supply is the largest in the Northern California region, and is the smallest in the Central California area. There are also variations between different types of developed human settlements. Renting in an urban setting such as downtown in a city and city outside downtown are typically higher than renting in a rural area. This is no surprise as the cost of living in an urban setting is traditionally higher in major metropolitan areas.

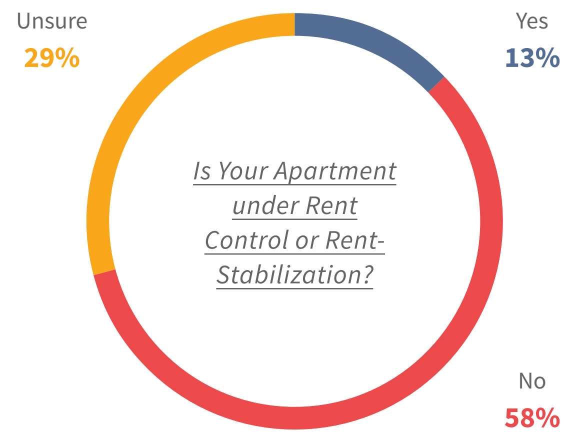
Rent has been growing at a fast pace in the last few years, and the rising trend is taking a toll on renters. Perhaps a more interesting number to look at is the share

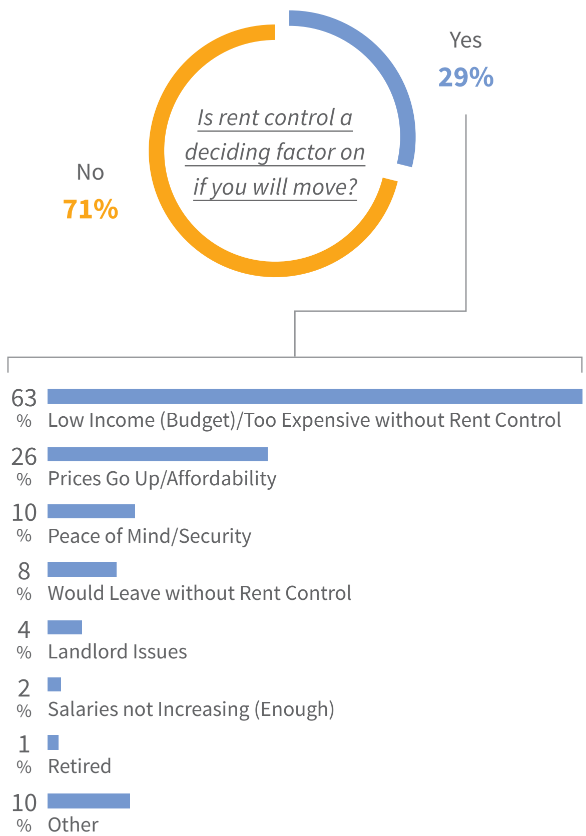
RENTERS

I can't afford to live in a place where the rent increases are limitless. I may end up homeless even though I have a full-time job.

Percent of Monthly Income Spent on Housing







of income that renters have to put aside to cover their housing costs. Renters in general spend 45 percent of their income on housing, with nearly seven out of 10 spending more than the recommended 30 percent. The burden is especially heavy for the younger generations, as millennials spend half of their income on rent, while the Greatest Generation (age 72 and older) spends less than a third. It takes a bigger chunk out of millennials' paycheck primarily because their rent is higher as they are more likely to live in higher cost areas. Because of the heavy burden on younger generations, they are more likely to share their rental unit with others. More than four out of 10 millennials split their rent with their roommates or other households, but only two out of 10 of Boomers split their rent.

Some renters are able to minimize their housing cost by living in a rent-controlled area. Those who live in a rent-controlled area are typically younger, more ethnically diverse, and have a lower income than those who do not live in one. They have lived in their current home for 5 years, and 45 percent have lived there for more than 5 years. While rent control policy creates affordable housing for some, tenants also remain in their rent-controlled units longer, which reduces the number of available rental properties in the market. In addition, rent control also reduces developers' incentive to build rental properties as it becomes more difficult to profit from such developments. When asked if rent control is a deciding factor on whether they will move, 30 percent of all renters said "Yes." Those who considered rent control as a deciding factor cited affordability as the issue.

Renters traditionally move more often than homeowners, as they are not tied down by their home equity. California renters typically have lived in their current home for a median of 3 years but have been renting for a total of 9 years. Younger renters are more likely to move more often either because they are students who typically have higher turnover rates, or they are just starting their career and changing jobs frequently. Older generations, on the other hand, tend to stay put for longer periods of time as they are less likely to have incentive to move due to a change in their lifestyle.

While the majority are unsure about how much longer they intend to live in their current residence, one quarter of renters have already decided that they want to move next year. Those moving within the next year are millennials (median age 31) who plan on renting again (63 percent) but nearly all want to own at some point (90 percent). Nearly half want their next home in the same city or county where they currently live. Those who plan to leave their current city or county are doing so because of affordability—44 percent cite cost of living as the reason while another 40 percent say housing prices are too high.

Nearly two-thirds of renters say they plan to rent again after moving from their current residence with older generations more likely than younger ones to continue to rent. Personal finance likely plays a role in that decision, as those who plan to rent again have a median household income of $35,000, as compared to the $50,000 median household income for those who plan to buy after moving from their current residence. The encouraging news, however, is that 75 percent of those who plan to rent again say they do want to own at some point.

"If the rent were to stay as is then I would feel more comfortable working on my career knowing that in time raises would help ease the financial pressure on the household and remove the constant anxiety of a rent increase."

RENTERS

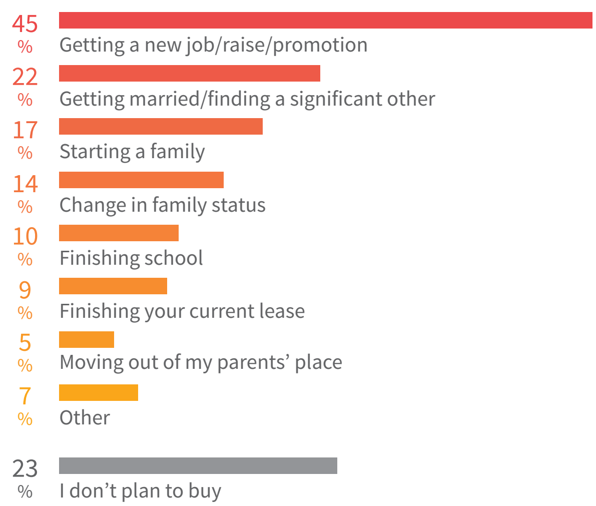
ATTITUDE TOWARDS HOME BUYING

While they are not there yet, many renters are very motivated to own a property as they recognize the benefits of being a homeowner. Half of California renters rated homeownership as either very important or extremely important and four out of five of them want to own someday. Homeownership, indeed, has many benefits. It provides more than just a roof and a shelter. It enhances quality of life in a variety of ways: better health, higher educational attainment, and wealth accumulation. In fact, nearly all renters saw advantages to homeownership when compared to renting. Some of the greatest advantages that they mentioned include having a good long-term investment, having the freedom to do what they want with their home, and the stability of planning roots. Younger renters want to be homeowners but cannot afford it, while older renters are more likely to want to stay renters forever.

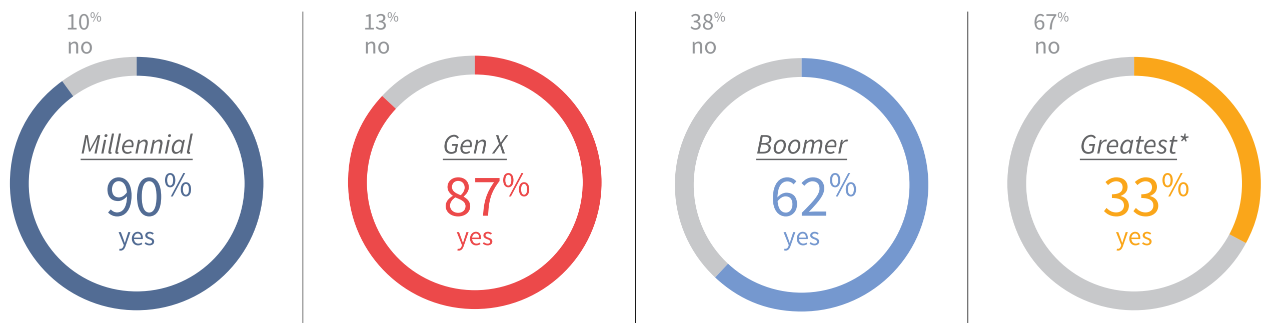
> *You can do what you want in your home such as decorate, landscape. It's nice to have the stability of knowing you don't have to move as soon as your lease expires.*

Greatest Advantage of Homeownership Compared to Renting

Life Events That Would Spur Renters Into the Process of Buying a Home



Do You Want to Own at Some Point in the Future?



**Greatest small sample size (n=58)*

Profile of Renters Who Want to Buy

Renters who want to become a homeowner someday are generally younger and more diverse. They have a median age of 35 and over half of them are millennials. Nearly three quarters are non-white, with almost half of them being Hispanic. Two out of five are single while half are in a relationship. They have a median income of $40,000, and currently spend a median of 50 percent on their housing cost. They have been a renter for eight years and are eager to become a homeowner.

Profile of Renters Who Do Not Want to Buy

Renters who report being less likely to want to own in the future represent 18 percent of all renters. They pay less in rent and live in a slightly smaller home. This group of renters is older (median age of 55), have a lower income (median income of $34,500), and currently spend 45 percent of their income on housing. Over two-fifths of them are white/Caucasian, but non-whites still make up over half of them. They are less likely to be married and more likely to be separated, widowed, or divorced than those who want to eventually own.

> *Making friends with the neighbors and letting your children grow up in a community that they are familiar with.*

They are significantly more likely to receive Section 8 Federal Housing Assistance or Housing Vouchers to help them pay rent. Nearly 30 percent of them say that they do not plan to move from their current home at all. They rank homeownership as less important and one quarter say they do not see any advantages to homeownership. Nearly half say they also see no social benefits of owning a home.

Nearly half of renters plan to purchase within the next five years and a third of all renters say they plan to buy a home after moving from their current residence. Many of them just need a little push from a life event or a little help financially to get them on track to homeownership. In fact, 45 percent of renters say if they got a new job, raise, or promotion, they would be spurred into the process of buying a home while another 40 percent said getting married and starting a family would motivate them to buy a

> *I will be done with my Masters degree and ready to begin my full time career. I will be in a better financial position to buy a home.*

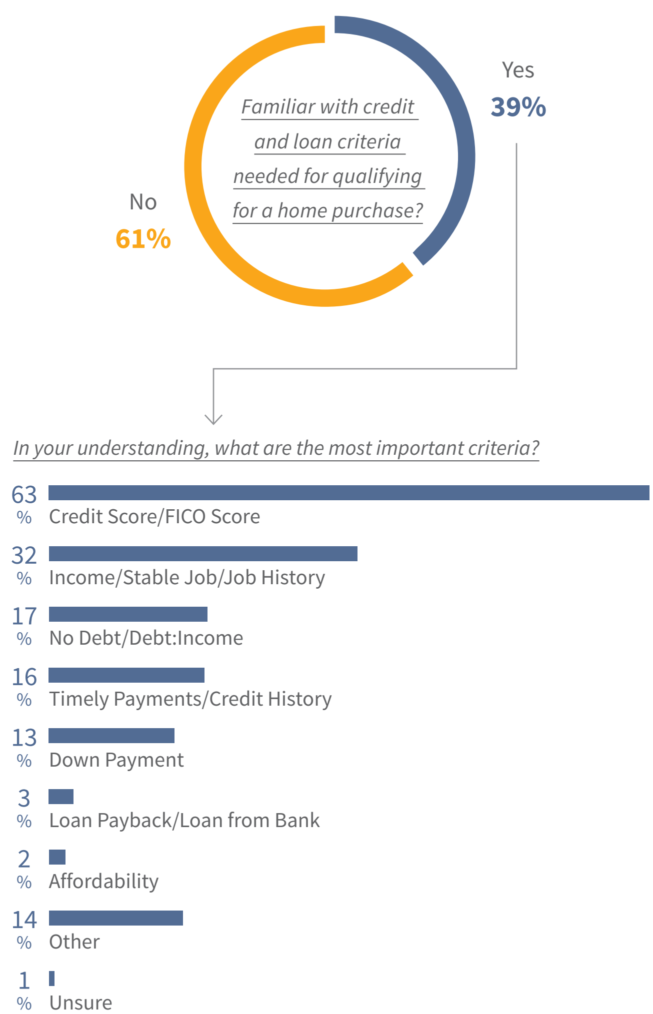
home. With the labor market doing well, jobs are being created month after month and wages and income are starting to rise. While people are getting married later in life, millennials are now getting into their mid-30s and are reaching an age where they are getting married and starting to form their own families. When combined, those two life events account for a large chunk of renters who may soon be ready to buy.

These renters' enthusiasm to become a homeowner is great news and provides a source of optimism that cuts across some of the affordability constraints. They have the income, wherewithal, and plans in place to become a homeowner. While many of them are not planning to do it immediately, there is a lot of opportunity for REALTORS® to move the needle on this group by providing them with the housing finance knowledge that they need when they are ready to jump into the market.

PERCEPTIONS OF BUYING

Renters have many misconceptions about what it takes to buy, which leaves plenty of opportunities for REALTORS® to be agents of change and help renters get over the huge obstacles to homeownership. Many renters feel that they are not in a financial position to become a homeowner. While some are facing too big a constraint to jump into homeownership, there is an opportunity for REALTORS® to help others see the vision, understand the benefits of homeownership, and see what it looks like in terms of actual numbers, as often the cost is not as high as people may believe. As California continues to become more and more diverse, it is especially critical to boost homeownership across all ethnicities and income brackets.

Financial literacy or lack thereof is a barrier for renters to become a homeowner. The lack of financial knowledge on home buying often scares them from even considering the idea of owning a home. Only 40 percent of renters are familiar with the credit and loan criteria needed to purchase a home. In their understanding, the most important criteria are credit and FICO scores. Many renters also do not know how much down payment is required, with 14 percent under the impression that over 50 percent down is required. Nearly 40 percent of California renters estimate that more than 20 percent down payment is required to become a homeowner. This mis-



conception results in many renters delaying buying their home or possibly even giving up their American Dream. Sixty-one percent of all renters would look for a house if they knew they could qualify with a lower down payment and that number jumps to 69 percent for those who plan to own someday.

I only vaguely know of a first time buyer program, but I don't know the details.

It is important for REALTORS® to combat this misperception, as this may be the reason why there are people in higher income brackets who have not made the jump into homeownership. REALTORS® should have conversations with renters about the benefits of homeownership and the advantages that homeownership brings, including locking in interest rates, tax advantages, and the ability to accumulate wealth as prices appreciate. REALTORS® have the opportunity to be agents of change and educate renters on what it really takes to become a homebuyer, especially in regard to low down payment options that can get people into homes.

Most renters also do not know how much they qualify for regarding a home loan and most are not aware of first-time buyer programs in their area. First-time buyer programs that renters are aware of include government/city/HUD, first-time buyer, FHA, and low down payment/down payment help. Renters could use some help in this area in finding out what assistance they can get as an entry-level buyer, and REALTORS® could be their source of information. By educating them about the availability of first-time buyers assistance programs, renters can expedite their process of becoming a homeowner.

FINAL THOUGHTS

Affordability makes it difficult for renters to become home buyers, as saving is difficult when rents are so high. It is important to think outside the box where affordability may be too insurmountable even with a lower down payment option. There is an opportunity to be creative, and these options are playing out in the market. REALTORS® can begin to encourage Accessory Dwelling Units (ADUs) as a way to potentially offset the cost of homeownership. Renters can buy a home and convert the garage into a granny flat or build a smaller unit in the back and turn it into a rental property, which creates

an opportunity for those who might not otherwise be able to become home owners by leveraging additional passive income on top of their employment income, to bridge the gap that was keeping them from becoming a homeowner.

For some renters, there are too many obstacles to become homeowners—they do not make enough, and rents are too high for them to be saving so they are going to stay renters. The best thing that REALTORS® can do for this group is to address structural issues and be advocates for new construction—essentially, fighting for supply. For all other renters, education is key. Older generations can be educated about the options they have to avoid capital gains and take their property tax base with them, and all can be educated about loans and the costs associated with homeownership.

The good news is homeownership is still aspirational, but less so as affordability and supply dwindle. REALTORS® need to focus on some of the bigger structural issues including encouraging new construction and housing turnover, getting past the "not in my backyard" (NIMBY) culture, and educating older renters on the fact that they can take their low tax base with them when they move depending on where they live, all of which may start to help facilitate more housing turnover and address some of the affordability concerns. There is still an opportunity, especially among younger renters who are very optimistic about homeownership.

PART3

Sellers

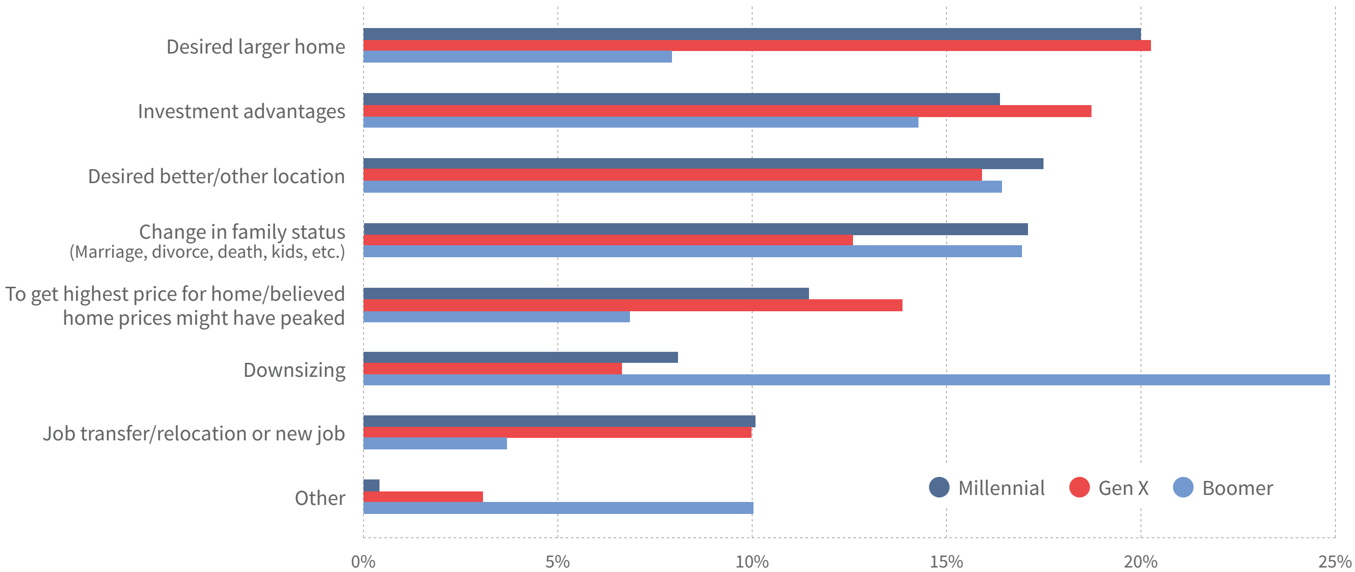
While rising home prices continue to create housing affordability issues for potential home buyers, the strong appreciation in home values is great news for those who want to sell their properties. That is, unless sellers plan on re-entering the housing market to purchase their next home. Many, indeed, try to sell and buy at the same time, which makes the selling process that much more challenging.

Despite the internet becoming a great source of information for everything including home selling, many sellers continued to rely on a real estate professional to guide them through the selling process, especially those who sold and bought simultaneously. As the housing market transitions into the next phase, sellers may need even more help from agents in setting their pricing strategy and negotiating with prospective buyers. This is a great opportunity for REALTORS® to shine and provide the knowledge necessary to carry their sellers over the finish line and beyond during this interesting time.

PROFILE OF THE CALIFORNIA HOME SELLER

Home sellers' age has been steadily rising for the past 20 years. The age of a typical seller in California used to be 50 in the 1990s but climbed up to 57 in 2018.[6] The rise in sellers' age is partly due to the aging population in the state as the large cohort of Baby Boomers moves into and through their retirement years. The share of the

Primary Reason for Selling their Home



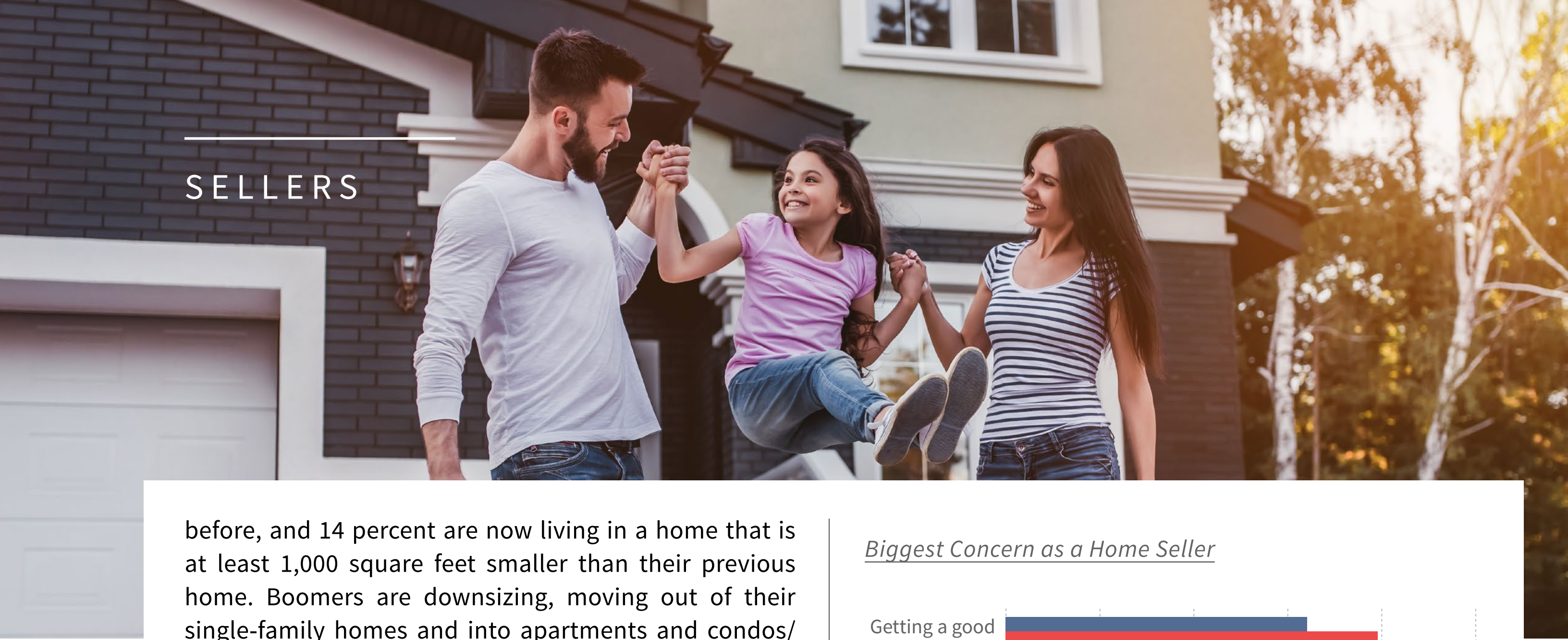
population age 65 and older is projected to grow rapidly and will become a larger share of the population in 2030 than children under 18. The state median age is projected to increase from 36.6 years in 2017 to 41 years by 2036. In fact, the share of the population age 65 and older is projected to grow from 14 percent in 2016 to 23 percent in 2036. With the state's population aging quickly, a larger share of the seller population will be represented by the older age group. Sellers age 53 and older, for example, made up 60 percent of all sellers in 2018, as compared to 41 percent in 1998.

Homebuyers purchasing their homes at an older age also lead to sellers selling their properties at a later age. As mentioned earlier, buyers' age in general has been steadily rising because they are delaying marriage and forming families later in life. Since they begin making their footprint in the housing market at an older age, the entire process including the home selling phase has been pushed back. In addition, homeowners are holding on to their property longer (11.5 years) as compared to a decade ago when the norm was 7 years, which elevates the sellers' age even more.[7]

The sellers' population is also getting more diverse. Nearly three-quarters (72%) of all home sellers are white/Caucasian, which is consistent with the trend observed in the last few years. While non-whites make up only slightly above a quarter (28%) of all home sellers, the share has already improved from 20 years ago when they made up only 18 percent of all sellers. With more non-whites entering the housing market and becoming homeowners in the last decade, the diversity of the seller population should continue to grow in the years to come.

Home sellers sell their properties for different reasons. Some sold as they desired a larger home, others sold because of investment advantages, while still others sold because they desired a better or different location. Their reasons to sell vary depending on their age. As the younger generations expand their family and improve their finances, they want to move up. As such, "desire for a larger home" and "desire for a better/other location" were two of their top three primary reasons to sell. Nearly one-third of millennials and Gen Xers, in fact, moved to a home with at least one more bedroom than the house they sold. Two out of five of them now have a home that is larger (in terms of square footage) than their previous home.

Meanwhile, with kids moving out of the house and no longer needing the extra space, it is no surprise that Boomers sold their properties because they wanted to downsize. More than a quarter (28%) of Boomer sellers moved to a home with fewer bedrooms after they sold their previous home. Two out of five moved to a unit that is smaller in square footage than the one they had



before, and 14 percent are now living in a home that is at least 1,000 square feet smaller than their previous home. Boomers are downsizing, moving out of their single-family homes and into apartments and condos/townhomes.

Sellers prefer not to move too far away from where they lived before as 41 percent moved to a home in the same neighborhood or the same city. Thirty-seven percent relocated within the county while another 20 percent moved to a different county in California. Boomers were the most likely to move further away, with only 29 percent moving to a home in the same neighborhood or city and one-third now living in a different county in California. Just over 40 percent of sellers now live in the suburbs and 68 percent live in a single-family home..

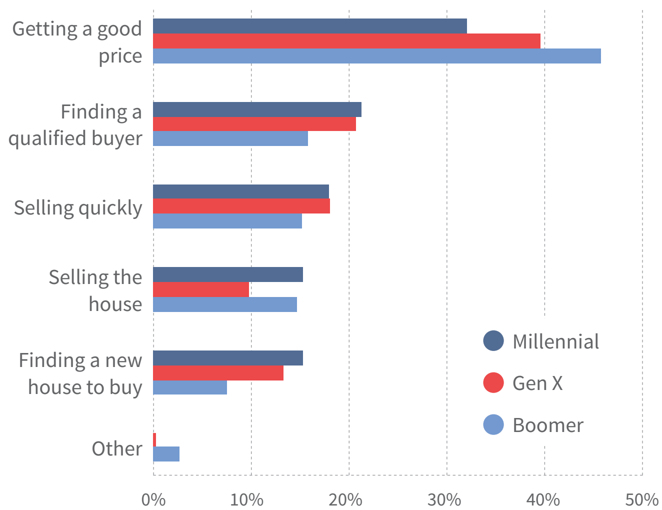
THE SELLING EXPERIENCE: LISTING AND SELLING

Consideration and Preparation

Selling a home is not a simple process and can be very stressful. A recent study, in fact, reveals that home selling is the most stressful event in one's life. Many find the process even more stressful than other major life events like having a baby, starting a new job, or getting a divorce.[8] This is not a surprise as home selling involves many intricate details such as the appraisal, the inspections, and buyer qualification, which require time and patience on the seller's end. They all add up to a daunting process and prove to be overwhelming for many who only go through the process once every few years, or even once in a lifetime.

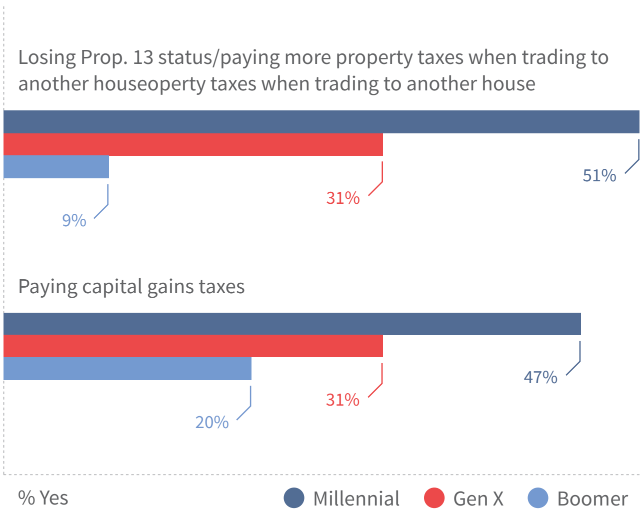
The most important factor for home sellers is whether their home can be sold at the price they want within their timeframe. Results from the C.A.R. Consumer Survey provide evidence to that observation, as 37 percent of those who sold a home in the last 18 months said their biggest concern was whether they could get a good price. They were also concerned about finding a qualified buyer or being able to sell their home quickly. Older sellers were more concerned with getting a good price, and 45 percent of Boomers cited that as their biggest concern. As many Boomers count their home equity as part of their retirement nest egg, it is no wonder that their foremost concern is price.

Biggest Concern as a Home Seller

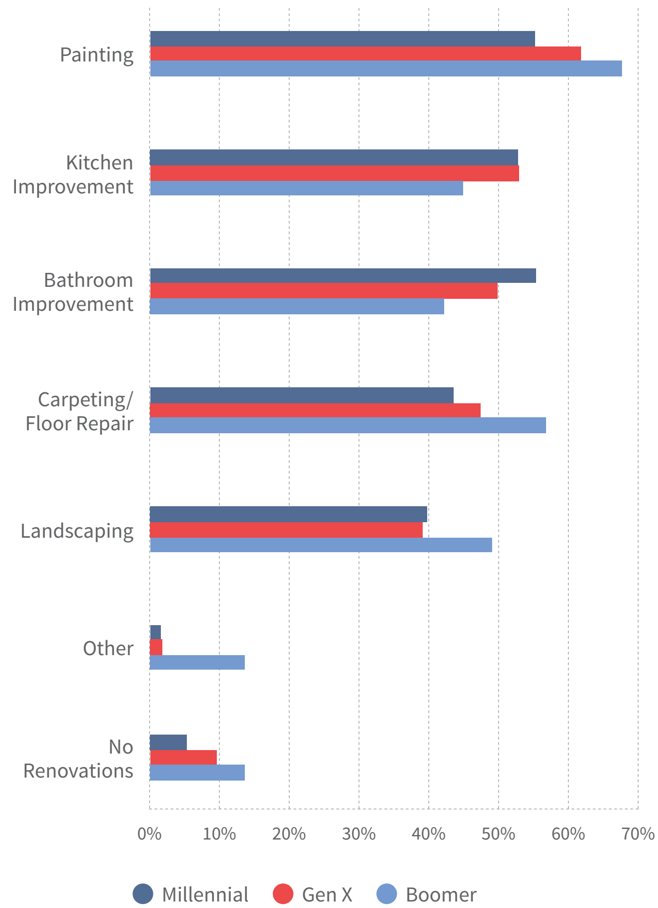


With the housing market showing signs of slowing down in recent months, selling a home now is tougher than it was a year ago. But it is even more challenging when a seller tries to buy and sell at the same time. Many sellers, nevertheless, took that risk in their last home sale transaction, as nearly half of them tried to buy and sell at the same time. Younger sellers were more likely to conduct sell-and-buy transactions simultaneously, as 56 percent of them attempted to so in their last transaction, while only 23 percent of Boomers tried to put on the seller and the buyer hats at the same time.

Factors that Prevented From Selling Sooner



Renovations Completed



Housing related tax laws are something home sellers keep in mind when deciding to sell, but different generations have different perspectives on the policies. Overall, 65 percent of all sellers said that neither losing Prop. 13 status/paying more property taxes when trading to another house, nor paying capital gains taxes was a factor that prevented them from selling their house sooner. Millennials, however, were much more concerned about losing their Prop. 13 status and paying more capital gains taxes if they were to sell their house sooner. Their concern was very legitimate, as their home tenure was typically shorter than their older generational counterparts, and they were not eligible to exercise a base-value transfer. With the same logic applied to the Boomers, it is not a surprise to see them being the least likely to say either was a factor holding them back from selling their property. Similarly, the longer a seller owned their home, the less likely they were to consider losing Prop. 13 status/paying more property taxes when trading to another house to be a factor that prevented them from selling sooner. Forty-three percent of those who owned for less than 5 years considered this to be a factor compared to just 22 percent of those who owned 15 or more years.

To prepare their home for sale, over 90 percent completed some sort of renovation. Millennials were most likely to upgrade the bathroom, Gen Xers and Boomers were most likely to paint. Those who sold 13-18 months ago were less likely to make any renovations at all compared to those who sold more recently. First-time sellers were more likely to remodel than repeat sellers, and repeat sellers were more likely to paint and fix the floor/carpeting than first-time sellers.

Despite the market shift, tight supply and fierce market competition continued to result in many sellers receiving multiple offers for their properties. Overall, sellers

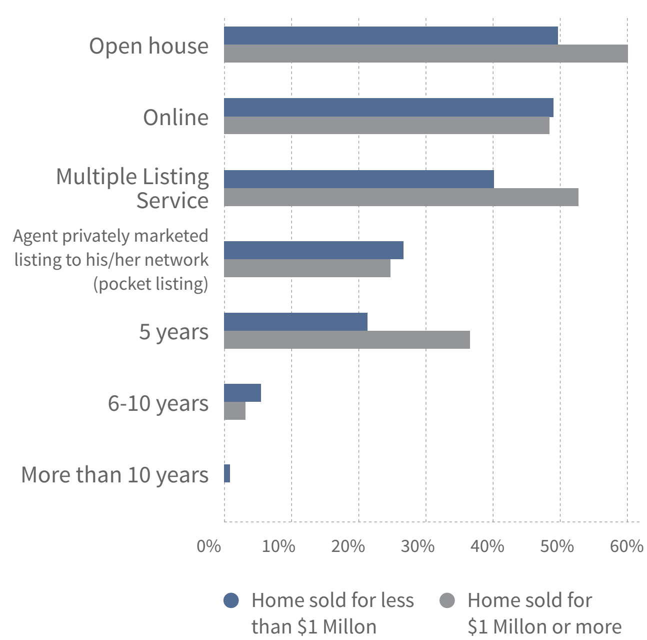
SELLERS

received a median of 4 offers. Half of them accepted the offer with the highest bid, one-seventh of them accepted the offer that paid all cash, and another one-seventh took the offer from a buyer whom they believed would close the fastest.

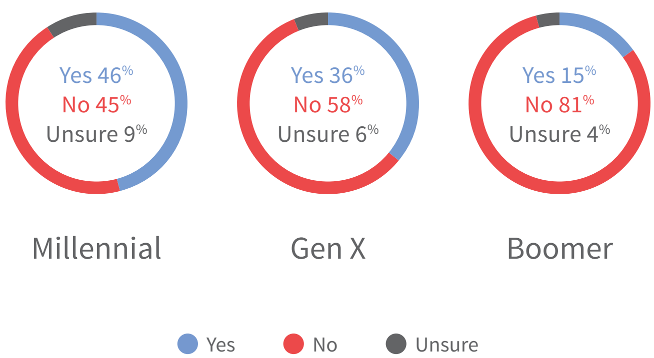
Homes were on the market for a median of 3 weeks, and only 10 percent of sellers reported a more than 10-week wait prior to the open escrow, though 14 percent of homes that sold for $1 million or more reported a more than 10-week wait. Properties were most commonly marketed through an open house or online, though one-quarter of sellers say that their property was privately marketed to the agent's network (a pocket listing). Those that were marketed online were listed on Zillow, realtor.com, the agent's website, the broker's website, Redfin, and Trulia. Homes that sold for $1 million or more were significantly more likely than those that sold for less than $1 million to be marketed through an open house, likely because competition for less expensive homes is stronger and so an open house may not be necessary. Those that sold for $1 million or more were also more likely to be marketed through a virtual tour, as those who sold a pricier home may have been more likely to spend more money on marketing. "Coming soon" listings—homes that are not officially on the market but are expected to be listed for sale within a short time frame—are also popping up more often, and 42 percent of sellers said they initially listed their property as "coming soon" before putting it on the market.

Number of Days Listed on the Market Prior to the Opening of Successful Escrow

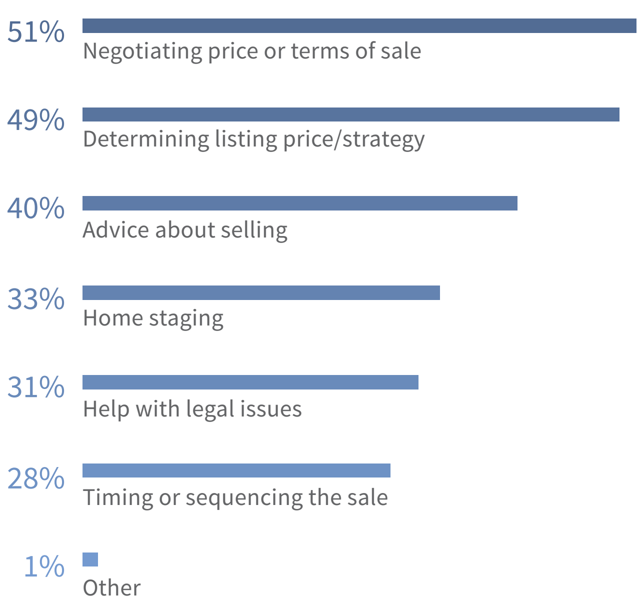
How the Property Was Marketed



Was Your House Intentionally Listed Below Market Price to Draw More Interest From Buyers?



Parts of the Sale Where Agent Assistance Was Needed



Online Experience

Almost all sellers used the internet in the home selling process, though the older the seller, the less likely this was to be the case. Zillow was found to be the most useful website followed by realtor.com and the agent's website. Over half of all sellers used a home valuation tool, often turning to a Zestimate on Zillow or did a search for comparable homes on realtor.com. Younger generations were more likely to use an online home valuation tool—66 percent of millennials did so compared to 46 percent of Boomers. Most sellers said that the home valuation they found on the internet was in line with the home valuation provided by their agent.

Technology such as the online home valuation tools allows sellers to formulate their pricing strategy. One-third of sellers' houses were intentionally listed below market price to draw more interest from buyers and potentially generate multiple offers. Properties that were listed below market price received more offers in general, and they were off the market sooner. The younger the seller, the more common this tactic was.

THE SELLER/AGENT RELATIONSHIP

While the internet is very resourceful for sellers in the home selling process, many still rely on their real estate agent to carry them through the complicated process. In fact, 85 percent of those who sold in the past 18 months used a real estate agent. Sellers could use an agent's assistance in many different ways, but half of all sellers needed help from their agent with either price/term of sale negotiation or determining listing price/strategy. This is even more true of older generations, as two-thirds of Boomers report needing assistance with negotiating and determining listing price/strategy, compared to just two in five millennials. Gen Xers were more likely than either generation to look to their agent for advice about selling but least likely to need assistance with home staging or legal issues.

SELLERS

> *Listen to the worries of the seller. Offer honest advice. Do not make promises that are unrealistic and apologize when there is a problem, no matter how small.*

Connecting with a Real Estate Agent

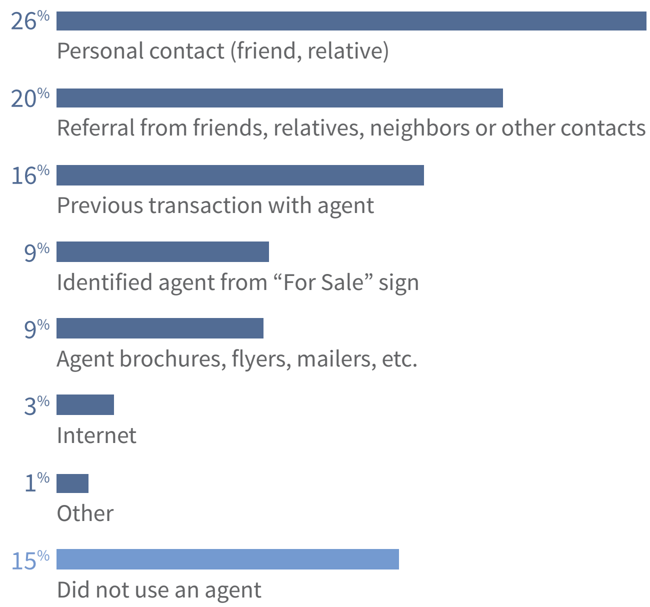
Sellers most commonly found their real estate agent through personal means, most often selecting a friend or relative. A referral from friends, relatives, neighbors, or other contacts was the second most common way sellers selected their agent. This personal relationship or recommendation is the likely reason that half of sellers interviewed 1 or fewer agents before selecting the agent they used. Younger sellers were least likely to have a personal contact serve as their agent and also interviewed more agents than older sellers before selecting their agent of choice, typically 2 agents, though over one-third of millennials (37%) interviewed 3 or more.

An agent's reputation is the single most important reason overall that sellers selected the agent whom they used but this varies greatly by generation. Boomers were most likely to select an agent whom they worked with on a previous transaction, Gen Xers were most likely to select an agent that they deemed trustworthy, and millennials said that reputation was the most important reason.

One out of five sellers initially listed with a different agent than the one who ended up selling their home. Sellers changed agents for a variety of reasons including feeling that the previous agent did not communicate well, the previous agent did not seem to know what they were doing, the listing agreement expired and they were not able to sell the home, the agent did not listen to the seller's needs, or the previous agent was not trustworthy. Younger generations were more likely to change agents, likely because older agents more commonly selected an agent that they had worked with previously.

Over two-thirds of sellers did not know their agent prior to this transaction, but those who did, knew their

How Sellers Found Their Real Estate Agent

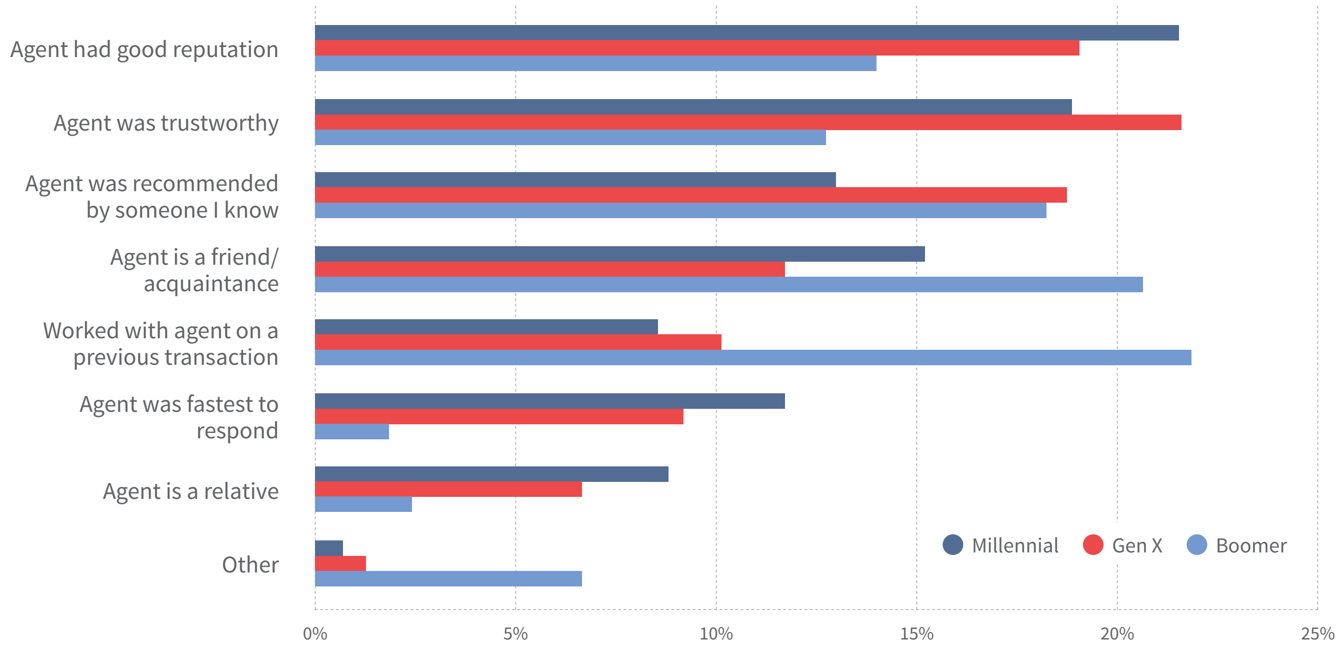


agent for a median of 7 years. Boomers were most likely to be acquainted prior to the transaction with over half saying that they knew their agent beforehand. Agents most commonly kept in touch via phone calls, in person, emails, or texts.

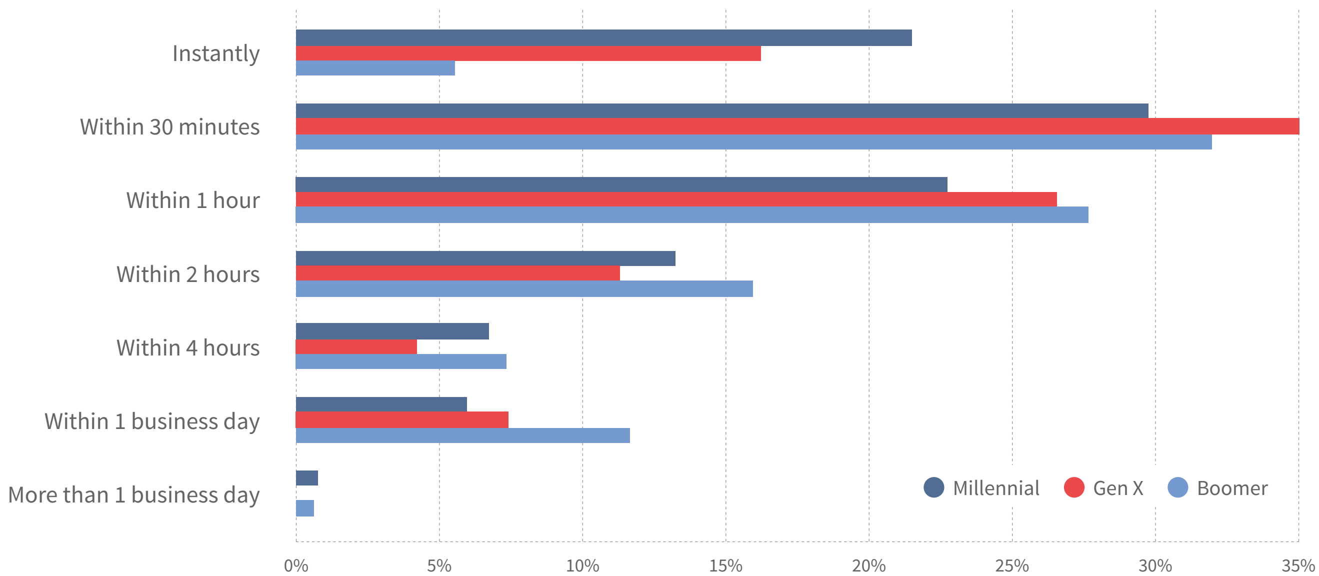
Agent Communication

While it may be more convenient to communicate electronically, home sellers still prefer to have a livelier interaction with their agent. Two-thirds of all sellers prefer their agent to communicate with them either via the telephone or in person. Despite being more tech savvy than other generations, millennials prefer in-person communication above all other methods. As many in this generation are also first-time sellers, their lack of experience in home selling may have prompted them

Most Important Reason for Agent Selection



Typical Response Time Expected from Agent



I was fortunate to have found an agent that was extremely attentive to my needs. Her availability of time was limited given her popularity so that perhaps a few more in-person sessions would have made the experience even better.

to choose a more interactive communication method with their agent in the hope of getting a better understanding of the whole process and building trust with their REALTOR®. Gen Xers and Boomers, in general, had more home selling experience, and as such, were more "hands off" when compared to millennials. "Telephone calls" was the top preferred choice of communication with their agent. In reality, each generation's actual communication method with their agent was in line with their preferred method.

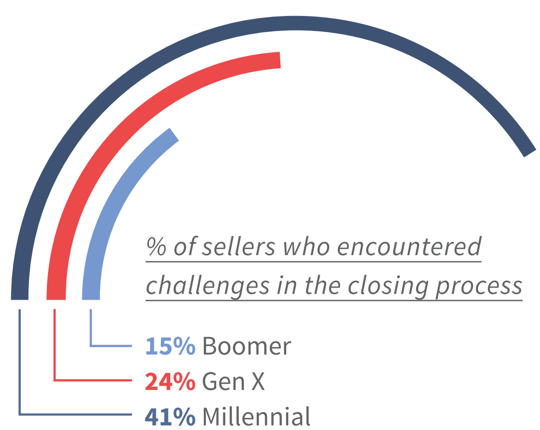
Responsiveness is important to sellers, and they have high expectations on their agent's response time. Nearly half expected their agent to respond to their communication either instantly or within half an hour. Millennials were most likely to want "instant access" to their agent—21 percent said they expected an immediate response compared to 16 percent of Gen Xers and just 5 percent of Boomers who felt the same way. Boomers, on the other hand, were more willing to wait and 12 percent said they expected a response within 1 business day. Their agents, in general, were able to meet or exceed their expectation.

Overall, sellers were satisfied with their agent, rating them an average of 4.31 on a 5-point scale with "1" being "extremely dissatisfied" and "5" being "extremely satisfied." Sellers also reported being satisfied with the value received for what they paid their agent, rating it 4.24 on the same 5-point scale. Overall, nearly 90 percent said they were either somewhat or extremely satisfied with their agent and ranked attributes such as being quick to respond and listening to their needs as the top reasons for satisfaction. When asked how their agent could improve their level of service, sellers advised agents to listen, communicate, and be patient.

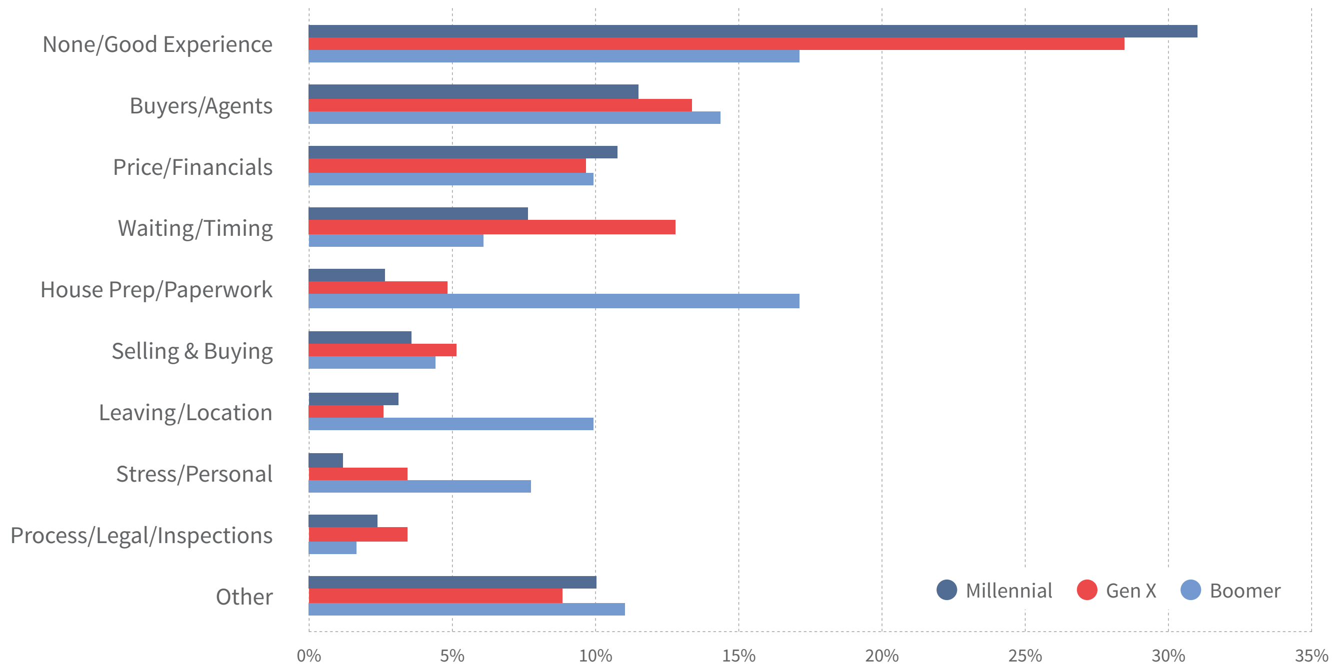
Challenges

Sellers were generally satisfied with the selling process, as they rated the process an average of 4.27 on the same 5-point scale mentioned previously. Eighty-eight percent said they were either "extremely satisfied" or "somewhat satisfied." Despite having a good experience in general, sellers did encounter some challenges in their last home sale experience. They were primarily issues related to their buyers, pricing, and financial to name a few, though it varied by generation. Millennials experienced challenges with finding buyers and issues with their agent and also struggled with pricing their home. Gen Xers also struggled with finding a qualified buyer and with the timing of the sale including the amount of time spent waiting. Boomers found prepping the house for sale, including improvements, cleaning, and staging to be the most challenging aspect of their home selling experience. Younger sellers were more likely to experience challenges in the closing process.

Challenges in the Closing Process



Most Challenging Aspect of Home Selling Experience



From mortgage delays to issues with the title, any number of things can go wrong on closing day.

While nearly half of Boomers said that there is nothing they would change about their recent home sale, only 20 percent of millennials said the same. Millennials wished their home would have sold faster and for a higher price. This is perhaps due to the fact that many of them tried to sell and buy at the same time. As they were trying to close their deals on both ends, expediting the selling process and getting a higher proceed from the sale of the previous home would likely relieve some of the stress on the buyer side.

The hardest thing was to hand over the keys to the house. The process and the business flowed very fast, but saying goodbye to the house was difficult.

Boomers also would have liked to have sold their property for a higher price, but wished they would not have had to sell at all. With Boomers staying in their home the longest before selling, they have built more memories in their prior residence than the younger generations and were thus, the most sentimental about selling the property. Gen Xers would have liked to sell for a higher price and wished they would have done more research about the selling process.

FINAL THOUGHTS

Sellers have been in the driver's seat for the last few years as tight housing supply dictated the market, but the momentum is shifting and changes are underway. Undeniably, housing demand is softening and sellers need more help and advice from their agent during this transitional period. REALTORS® can offer their clients an effective value proposition by offering timely and effective communication, being knowledgeable about the market area, providing market expertise, and offering superb negotiating skills. It is also important for agents to recognize that for sellers, selling their home is not just a financial transaction but a significant experience in a seller's life that is frequently full of emotion and anxiety. Sellers turn to their REALTOR® because they want an expert that they trust as they proceed through the sale of their most valuable asset—their home. But an agent who wants to establish a client for life should always keep this phrase in mind: "people don't care how much you know… unless they know how much you care."

PART 4

Homeowners

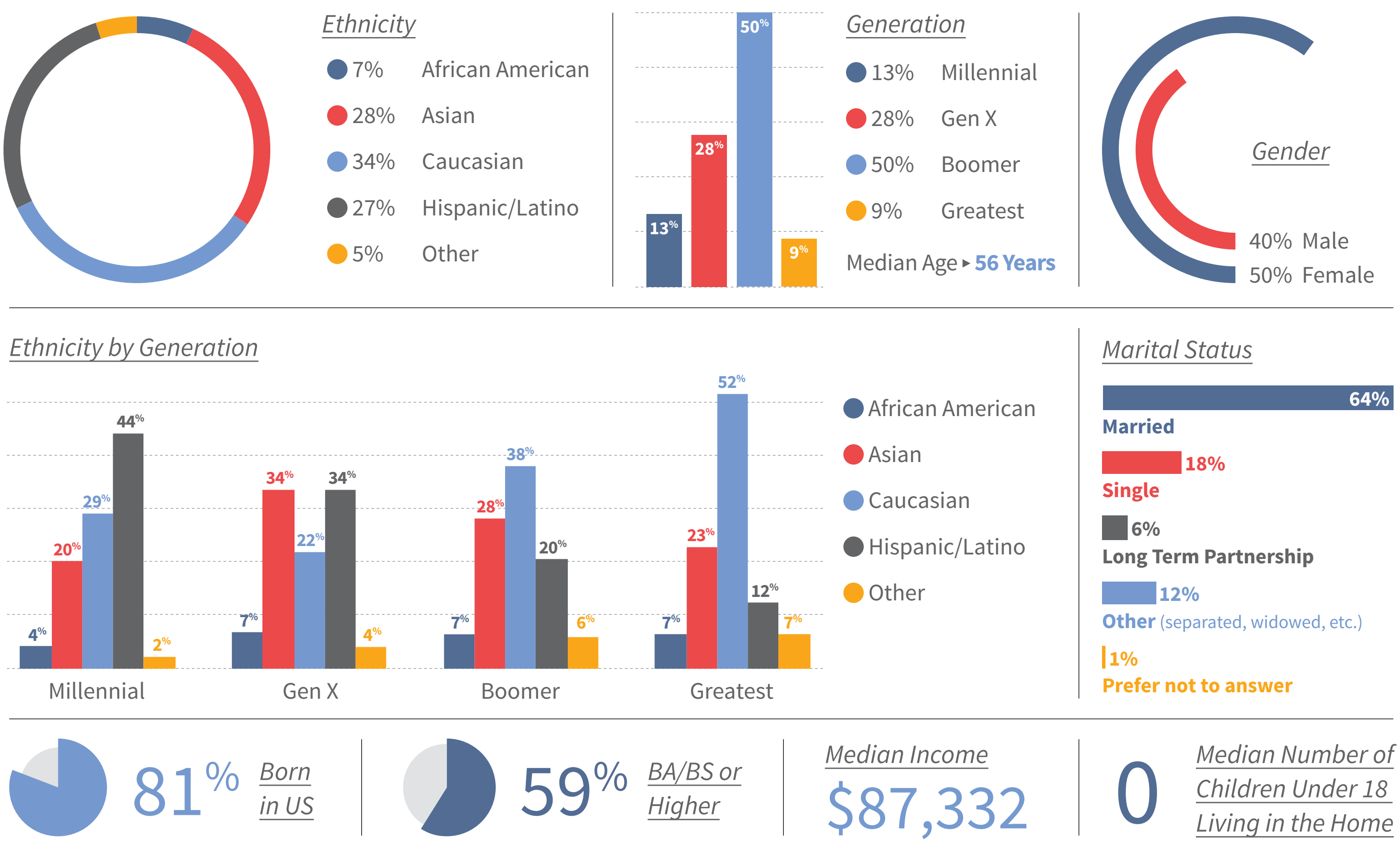
Owning a home is becoming harder and harder, specifically in high cost states like California. After peaking in the mid 2000s, homeownership trended downward for 10 years before ticking up slightly in 2017. While the homeownership rate gap may not have grown in the last few years, it has not improved much either. California has remained consistently below the U.S. in homeownership rates, and was ranked the second lowest among all states—only behind New York. With home prices and interest rates expected to climb further in the upcoming year, homeownership will likely continue to deteriorate. Homeownership rates could potentially drop below 50 percent in the next few years due to interest rate hikes, price growth, low turnover rates, lack of new construction, and the short-term impact of Costa Hawkins Rental Housing Act repeal.

Homeownership is especially difficult to achieve for younger generations and for the non-white population. Over the 10-year span between 2005 and 2015, homeownership rates in California declined the most for younger generations with those under age 35 dropping from 30 percent to 23 percent and those between ages 35-44 dropping from 56 percent down to 43 percent.[9] Likewise, the homeownership gap between Caucasian and non-white households has experienced limited changes during the past two decades. The difference in homeownership rate between Caucasians (64%) and African-Americans (35%) and Hispanics (43%) remain at more than 20 percentage points.

But owning a home is still an aspiration for many. Over 90 percent of the general population feels that homeownership is an achievement to be proud of (86 percent of Hispanic and 96 percent of African-American respondents agree).[10] Seven out of 10 also believe that owning a home is an important part of the American Dream.[11] This is because homeowners enjoy a myriad of financial benefits such as tax deduction, wealth creation, and hedging against inflationary increase in housing cost with a fixed monthly mortgage payment. In addition, homeownership yields many social benefits including higher educational attainment, better health, lower crime rates, and higher civic participation. Homeownership matters because it provides more than just a roof and a shelter.

With California on the edge of becoming a renter state in the next decade, it is important to examine the issue through different angles to get a more complete understanding of the underlying condition. The homeownership rate continues to decline due in large part to tight supply, and fewer properties being turned over on the market, which contributes to the low inventory condition in the housing market. By reviewing the results from the Homeowner Survey, perhaps it will provide some insights as to why homeowners are staying put and offer some guidance on whether the situation will get better.

Homeowner Snapshot



PROFILE OF THE CALIFORNIA HOMEOWNER

A typical homeowner in California is a Boomer in his/her 50s (median age of 56—older than renters, buyers, and sellers), married (64 %), and has no children under 18 living with him/her. Three out of five have at least a four-year college degree and earn a median household income of just over $87,000 per year. They have lived in their home for a median of 15 years.

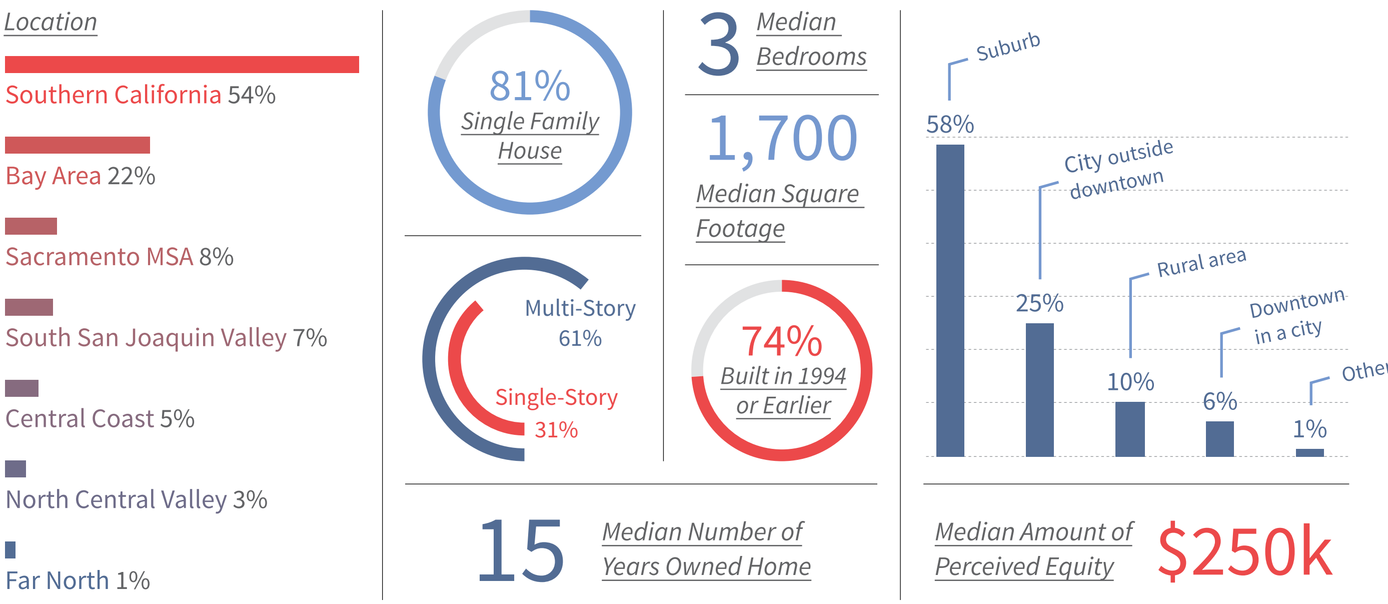
Homeowners in California represent a melting pot of ethnicities with 34 percent Caucasian, 28 percent Asian, and 27 percent Hispanic/Latino. Four out of five were born in the United States.

Younger homeowners (Millennials and Gen Xers) are more ethnically diverse when compared to the overall homeowners' population. This is consistent with the population trend of those who are in other stages of the home cycle – renters, buyers, and sellers. As mentioned in previous chapters, the overall state's population will become increasingly more diverse in the years to come. While California has lost residents in domestic migration as the cost of living in the state gets higher and higher, our state receives by far the highest number of foreign immigrants, and the gain more than made up for those who left the state. As such, immigrants and non-whites have been playing a bigger role in the housing market. In fact, non-whites have been the majority in California since 2000 and are projected to make up more than 70 percent of the state population by 2040. The homeownership rate for immigrants, meanwhile, has been on a rising trend throughout the last two decades, up from 47.1 percent in 2000 to a projected 50.9 percent by 2020.[12] As diversity remains on the rise in the state, the housing market in California will be more directly linked to the social and economic well-being of the state's communities of color.

HOMEOWNERS

> *I get to be part of an established community. I do not need to spend time looking for rentals from year to year. I do not need to rely on anyone else to take care of the home.*

Home Snapshot



THE TYPICAL AMERICAN DREAM HOUSE

Four out of five homeowners live in a single-family home with a median of 3 bedrooms and 1,700 square feet. Nearly two-thirds (61%) have a single-story home and 73 percent live in a home built in 1994 or earlier. The majority (58%) live in a suburb, but three of 10 live either in a city outside downtown (25%) or in the downtown of a city (6%). They are spread throughout California, with three-quarters in either Southern California (54 percent) or the Bay Area (22 percent). Homeowners purchased their home for a median price of $250,000 but believe the current value has already doubled to a median of $500,000.

> *"It is ours and we can do what we want to it and inside of it. Gives us pride in our neighborhood and are part of the community."*

As is commonly thought, younger generations are significantly more likely to live closer to city centers. Twelve percent of millennials reported living near "downtown in a city" as compared to just 7 percent of Gen Xers, 5 percent of Boomers, and 6 percent of the Greatest Generation. Living in the suburbs is the most popular choice across all age groups, however, with 53 percent of millennials, 54 percent of Gen Xers, 62 percent of Boomers, and 52 percent of the Greatest Generation reporting that their home is located in a suburb.

> *The housing market crashed twice. We didn't have any equity for a long time. Now we can't afford to move.*

Though single-family homes are the most common property type that homeowners of all ages live in, millennials are more likely than other generations to own a condominium (11%) and the Greatest Generation is more likely than any other generation to own a mobile home (8%). Their choice of home could be partially based on affordability as millennials and Greatest are the two generations with lower median incomes ($79,000 for millennials and $75,000 for Greatest, as compared to $100,000 for Gen Xers and $84,000 for Boomers).

I have stayed in my present home longer than I had planned to because I haven't gotten the money I need for a larger home just yet.

Californians who own their home are happy. They're satisfied with their home (86 percent report being somewhat satisfied or extremely satisfied) and satisfied with their status as being a homeowner (91 percent are somewhat satisfied or extremely satisfied). This holds true across all generations and ethnicities. Their satisfaction stems from the numerous financial and social benefits they receive as a result of being a homeowner: status, stability, and security, and they think of homeownership as a marker of success in life.

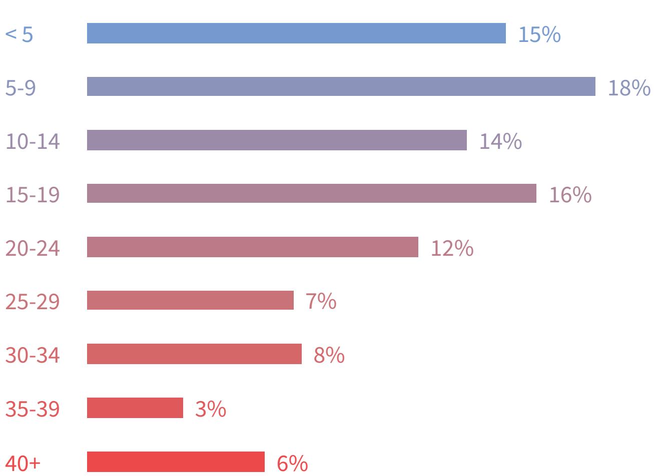
HOMEOWNERS' FUTURE PLAN: THOSE WHO PLAN TO STAY PUT

Housing supply shortage has been the root cause of the affordability problem, and fewer homes being turned over is a big reason behind the tight inventory condition. As discussed in previous chapters, sellers are staying in their home for a longer period of time. Survey results show that California homeowners have lived in their homes for a median of 15 years, but one-quarter of them report having lived in their home for 25 years or more. And the older the generation, the more likely they have lived in their home for a longer period of time. Millennials, for example, have lived in their home a median of five years, while the Greatest Generation has lived in their home a median of 30 years. With more Boomers aging into their retirement years, it is not a surprise to see the median number of years of homeownership trend up.

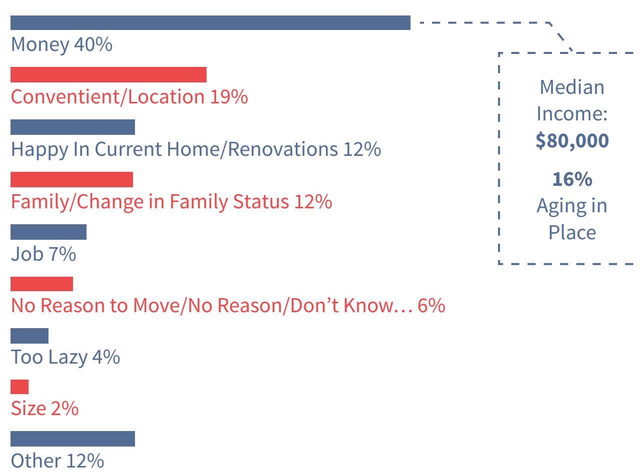
Most homeowners expected to stay as long as they have when they first purchased their home, but 14 percent thought they would have moved on by now. So why are they staying longer than anticipated? Two out of five say it is because of affordability, and with a median household income of $80,000, a lack of affordable homes is making

The longer I stayed the harder it was to leave.

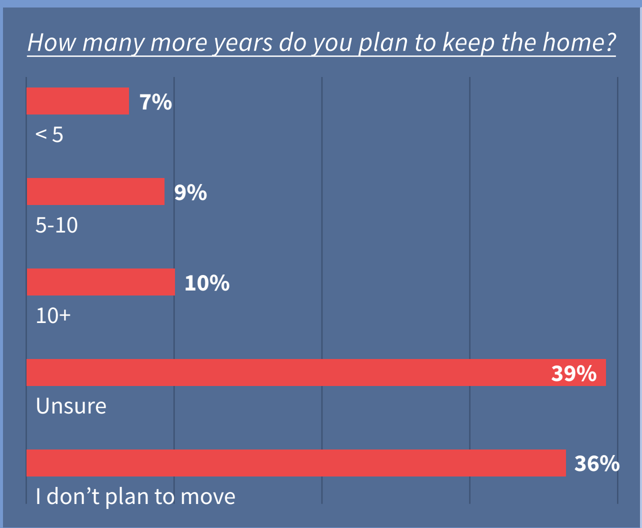
Time in Home (In Years)

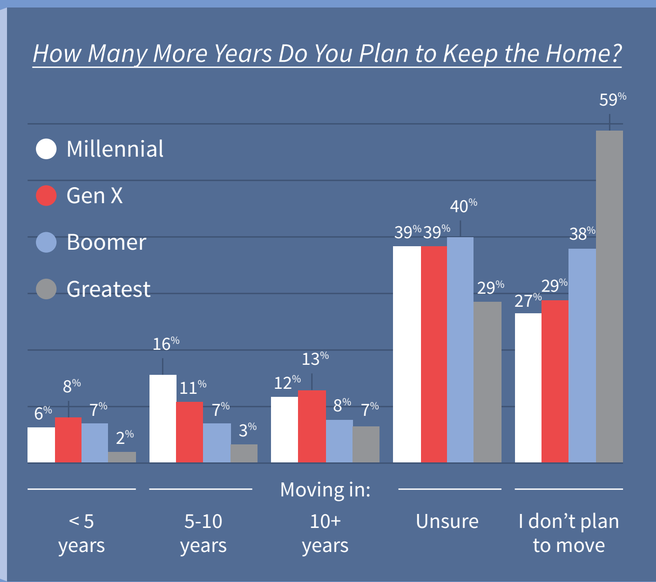


Main Reason Homeowners Have Stayed Longer Than Planned



My husband and I are very healthy seniors. Our house is located close to shops, public transportation, the library, a hospital





Factors in the Decision Not to Sell	Very / Extremely Important	Mean
My current home will be my retirement residence	56%	3.55
I'm concerned property taxes on another home would be too expensive	55%	3.48
The price of a home in my desired neighborhood is too high	53%	3.40
I'm concerned that the mortgage rate on another home would be too high	49%	3.30
I don't want to pay capital gains	42%	3.12
The transaction cost of selling and buying is too high	38%	3.03
I'm waiting for the value of my home to increase	33%	2.89
I'm concerned it would be difficult to qualify for financing to purchase another home	33%	2.74
We need the space: children/family have moved back in	25%	2.50
I have not been able to find another house because listings are scarce	24%	2.53

I've put a lot of love, time, effort, and money into my home for the express reason to keep it until I die and pass it on to my children

Housing is becoming unaffordable in Bay Area, unless something dramatic happens, I don't see myself moving.

this group stay put. In fact, 16 percent of those who cited affordability as the reason they have stayed was to "age in place." Another one out of five stayed longer than anticipated because of convenience and location.

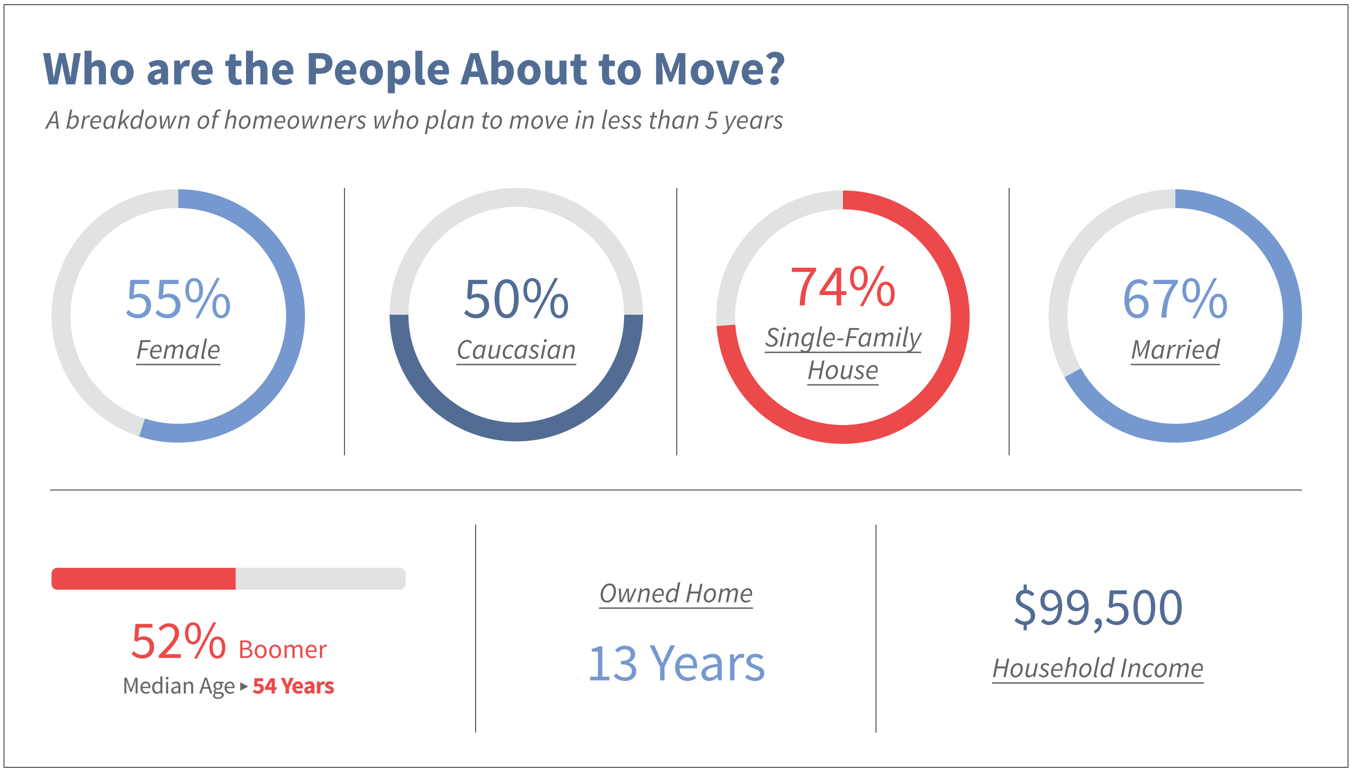
Homeowners are also staying because they are satisfied with the home they are in now. Nine out of ten homeowners in California are either somewhat or extremely satisfied with their home. On a 5-point scale, with "5" being extremely satisfied and "1" being extremely dissatisfied, homeowners rated their average satisfaction at a 4.22. The Greatest Generation is the most satisfied with a rating of 4.47, compared to Boomers at 4.26, millennials at 4.17, and Gen Xers at 4.09. Those that plan to "age in place" also rated their satisfaction at 4.47 while those who plan to move again rated satisfaction with their home at 4.14. Overall, homeowners are very satisfied with their designation as a homeowner, with 91 percent reporting being either somewhat or extremely satisfied and an average rating of satisfaction at 4.45.

Aging in Place

The best words to describe the future housing plan of current homeowners are probably, "uncertainty" and "stability." Two out of five are unsure if and when they might move again, while over one-third (36%) say they will "age in place." Only one-quarter of California homeowners say they eventually plan to move again. Homeowners who are "aging in place" have owned their home a median of 17 years—longer than both those who plan to move (median of 12 years) and those who are unsure (median of 15 years).

A homeowner who decides to "age in place" is a homeowner who plans to stay in his or her current home as he or she gets older, instead of trading down or moving into a retirement community or assisted living facility. Fifty-nine percent of the Greatest Generation said that they will be "aging in place," as compared to just 27 percent of the millennial generation, though both cohorts cite happiness/comfortability and location/convenience as the top reasons they plan to stay. Those who plan to "age in place" typically live in a single-family home in a suburb in a 1,700 square foot, single-story home with 3 bedrooms.

Of those planning to "age in place," 3 out of 10 have made some modifications to the home, with 24 percent saying they have remodeled part of their house. The increasing amount of remodeling for those who choose to age in place is supported by the evidence that the value of residential alterations/additions permits in California was at an all-time high of $3.9 billion through



the first seven months of 2016. It increased 16 percent over 2015 and was the strongest growth for the series this cycle.

California homeowners are choosing to "age in place" for several different reasons, the most common reasons are that they are happy/comfortable with their housing situation, followed closely by the location/convenience of their current home. In addition, 56 percent of those who have decided not to sell report that it is very important or extremely important that this home will be their retirement residence. Homeowners also cite concern that property taxes on another home would be too expensive and prices in their desired neighborhood are too high as important reasons why they have chosen not to sell their home.

HOMEOWNERS' FUTURE PLAN: THOSE WHO PLAN TO MOVE

While the majority of homeowners have no plans to move, there are some who want to sell eventually. Seven percent of all homeowners say they plan to move within the next 5 years. Of this group, half are Caucasian, half are Boomers, and over two-thirds are married. Three-quarters live in a single-family home and they have owned their home a median of 13 years. With a median income of $99,500, these homeowners are looking to move to a home of a different size than the one they currently own, with 38 percent who plan to move up to a larger home and 37 percent who plan to move down to a smaller home.

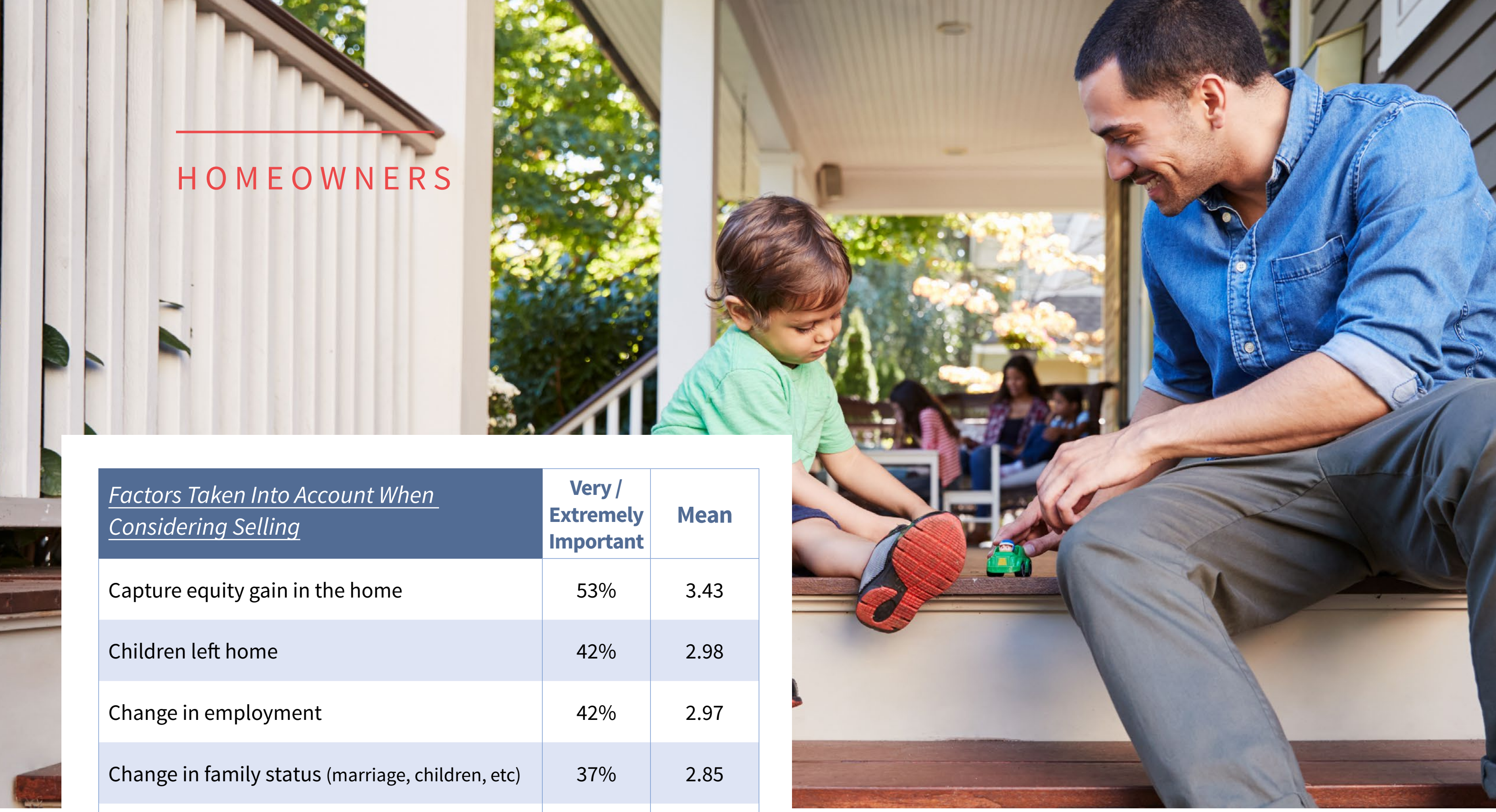
The majority of these homes are located in the suburbs (61%) and have a median of 1,714 square feet and 3 bedrooms. Over half of are located in Southern California (57%) with another 18 percent in the Bay Area. The remaining 25 percent of homes are spread throughout

the Central Coast, the far north region of California, the North Central Valley, Sacramento, and South San Joaquin Valley.

Other homeowners have plans to move in the future, but their schedule is beyond a 5-year timeline. Nine percent of all homeowners think they will sell their home sometime between 5-10 years, and 10 percent said they won't move for more than 10 years. Younger generations were more set on moving—34 percent of millennials and 32 percent of Gen Xers said they will eventually move while only 21 percent of Boomers and 12 percent of Greatests say the same. Boomers were the most unsure—40 percent were uncertain whether they will move or stay. Hispanic and Caucasian respondents were the most likely to move with 30 percent and 27 percent, respectively, saying they will be choosing a new home in the future.

One-third of homeowners who plan to sell their home in the future said that they want their next home to be larger than their current one. With 42 percent of this group being part of the millennial generation and another 39 percent being part of Gen Xers, it is likely that they need more space for their ever-growing family. Another third wanted a smaller home, and with Boomers representing 64 percent of this group, it is likely that they are planning to downsize. Perhaps it is because their kids have moved out or a larger house is becoming increasingly more difficult to maintain—either way, this cohort needs less space than they did before.

When asked where their next home will be located, nearly a quarter of homeowners said they are ready to move out of California and envision their next home to be in another state. Arizona, Nevada, and Texas top the list, with all three states having more affordable housing and lower income tax rates. This holds true across all generations with older generations leaving at a faster pace. Twenty-one percent of the Greatest Generation and 23 percent of Boomers are planning for their next home to be in another state, as compared to 14 percent of Gen Xers and 8 percent of millennials. Many others plan to



HOMEOWNERS

Factors Taken Into Account When Considering Selling	Very / Extremely Important	Mean
Capture equity gain in the home	53%	3.43
Children left home	42%	2.98
Change in employment	42%	2.97
Change in family status (marriage, children, etc)	37%	2.85
Desire for larger home	37%	2.72
I am retiring	36%	2.89
Desire for smaller home	35%	2.74
I can no longer afford my current home	25%	2.44
Children moved back in	20%	2.29

Events That Would Prompt Home Sales	Very / Extremely Important	Mean
If I get the price I want for my current home	62%	3.63
If I had a gain in my home value	51%	3.35
If I knew an equivalent or better house was available to purchase	51%	3.35
Increase in my income	46%	3.23
If I could carry over my current property tax bill	45%	3.19
If I could carry over my current mortgage rate	43%	3.12

stay close by with 21 percent saying they want to stay in the same county where they currently reside and 18 percent who want to stay in California but plan to switch counties.

These results are consistent with survey findings reported in the 2018 C.A.R. Annual Housing Market Survey, which showed that sellers are moving out of California at the highest rate since 07. High cost of living, higher state income tax rates, and a lack of affordable housing continued to drive many to leave California. This resulted in a net loss of 1 million residents in the state's population due to domestic migration.

Outmigration has consequences further reaching than just a shrinking population count. Companies and jobs are also leaving the state and expanding elsewhere because they have difficulty finding qualified workers in California. Additionally, the cost of hiring is higher because of the higher cost of living in the state. Toyota and Jamba Juice both left California for Texas, while Nestle moved to Virginia, and Northrop Grumman is now in Washington D.C. Outmigration will also lead to an increase in income inequality since there will be a reduction in less-skilled workers' access to high-wage labor markets and a slowdown in economic growth, which of course, reduces housing demand.

Homeowners receive a level of general respect in society. Homeowners receive offers not given to others.

When asked if they had considered selling their home in the past year, 23 percent of California homeowners said they had. Having owned their home a median of 13.8 years, these homeowners considered selling because they want to capture equity gain in the home (53 percent rated this attribute as very important or extremely important in their decision to possibly sell their home), or their children have already left the home or they have had a change in employment. Nearly half of those who thought about selling are Boomers (49%) with a median age of 54 and have a household income of $85,000. Seventy-nine percent of this group currently live in a single-family home.

What Would Make Homeowners Move?

Despite most homeowners indicating that they do not plan to sell in the short term, their decisions are not set in stone. The key is whether there is any financial motivation. When asked what would prompt them to put their home up for sale within the next year, the number one response from homeowners is getting the price they want for their current home (rated as very important or extremely important by 62 percent of homeowners). They would also be encouraged to move if they have a gain in their home value or know that an equivalent or better house is available to purchase. Homeowners might also move if they have an increase in income. Finally, being able to carry over their current property tax bill and their current mortgage rate are factors that are either very important or extremely important to homeowners and would motivate them to move.

FINAL THOUGHTS

With housing affordability continuing to drop due to higher home prices and rising interest rates, it is getting tougher to attain the American Dream. Many still have not given up, however, because homeownership is more than just providing a roof and a shelter. At the personal level, homeownership creates wealth, provides a sense of financial stability, and the wealth accumulation effect carries over from one generation to the next. At the macro level, homeownership is good for the economy. According to calculations by the National Association of Realtors®, one new job is supported by every two home sales. Be it due to expenditures that come with owning a home (remodeling, new furniture, mortgage origination) or expenditures that come from being part of a community (eating at restaurants, going to a ballgame), home buying contributes to both job creation and economic growth. Homeownership also enhances quality of life with a number of benefits including better health, lower crime rates, higher education, and more civic engagement. Society wins when more people are homeowners as they are more self-sufficient, invested in neighborhood upkeep and keeping communities aesthetically pleasing, and are more socially and politically engaged.

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SELLERS

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METHODOLOGY

The 2018 State of the California Consumer survey was conducted online between May 9 and July 9, 2018 aiming to understand the process of home buying and selling, as well as the motivation behind renting and owning from the perspective of the California consumer. Invites were sent to 470,803 consumers ages 18 and older in the state of California, resulting in 6,144 participants, a 1.3% response rate. The margin of error for this survey was ±1.2% at a 95% confidence interval.

The breakdown of respondents is as follows:

- 1,441 Buyers: Purchased a home in California within 18 months preceding survey participation
- 1,856 Renters: Renting a home in California at the time of survey participation
- 1,065 Sellers: Sold a home in California in the preceding 18 months before survey participation
- 1,782 Homeowners: Owned a home in California for more than 18 months at the time of survey participation

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