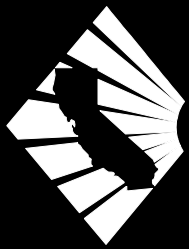




# Overview of the California Housing Market

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CALIFORNIA  
ASSOCIATION  
OF REALTORS®

November 30, 2017

Oscar Wei

Senior Economist



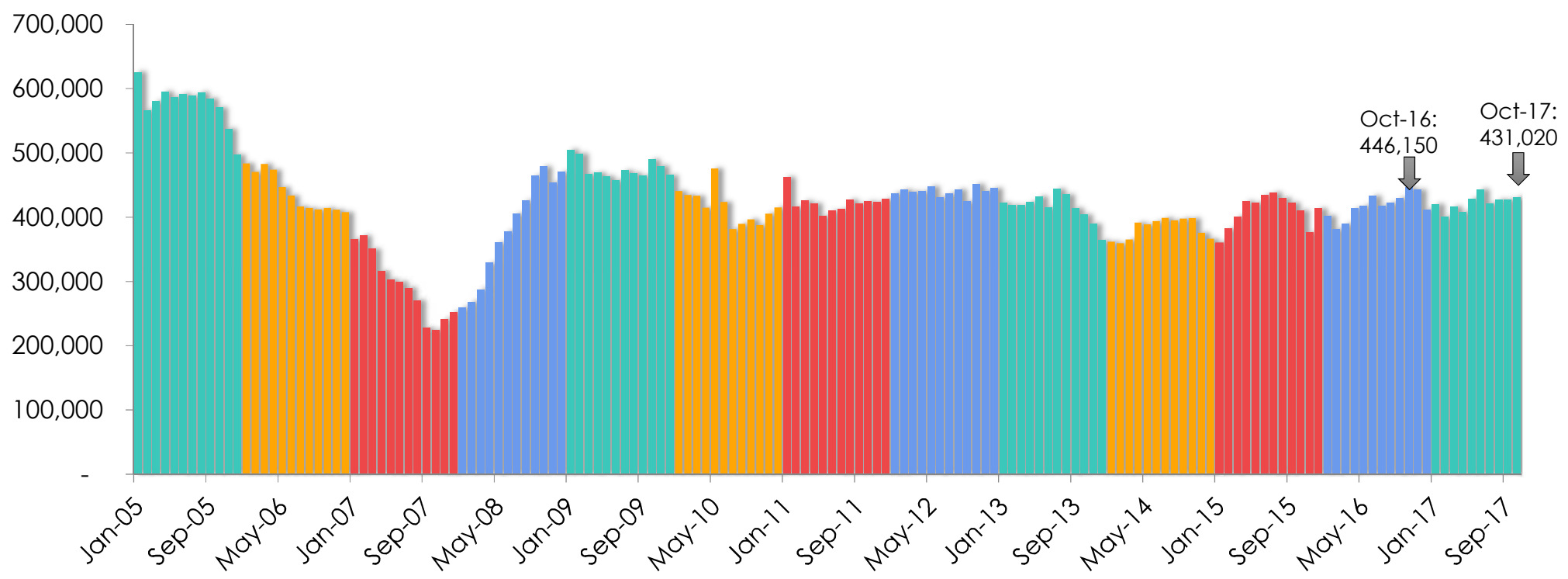
# Methodology

- C.A.R. has conducted the Annual Housing Market Survey since 1981. The questions and methodology have stayed essentially the same throughout that time.
- The survey was sent via email to a random sample of 25,804 REALTORS® throughout California. The sample represented the geographical distribution of C.A.R. membership across the state. The survey asked REALTORS® to provide information from their most recent sales transaction that closed escrow in the second quarter of 2017.
- The survey instrument was a questionnaire with both multiple choice and open-ended questions. There were 1,303 valid survey responses, equivalent to a response rate of 5.0 percent. The margin of error for this survey was +/- 2.6 percent at a 95 percent confidence level.



# First Back-to-Back YTY Decline Since Last August

California, Oct. 2017 Sales: 431,020 Units, +1.7% YTD, -3.4% YTY

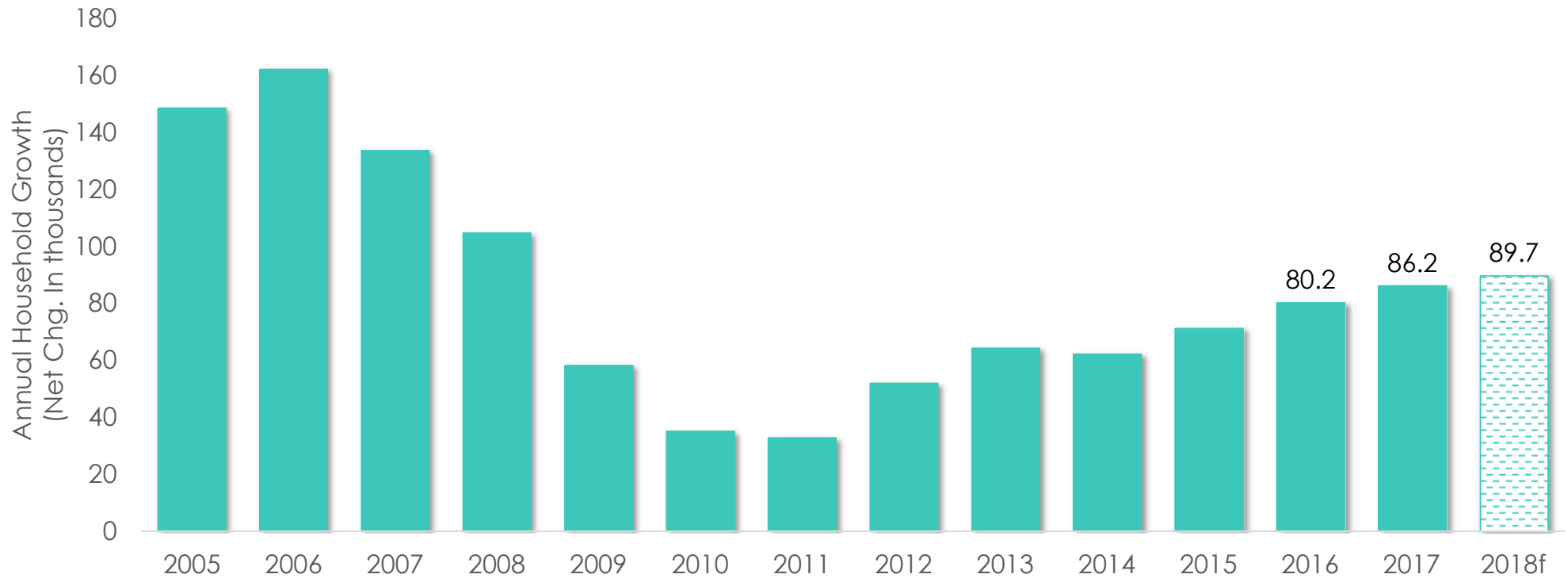


SERIES: Sales of Existing Single Family Homes  
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

\*Sales are seasonally adjusted and annualized



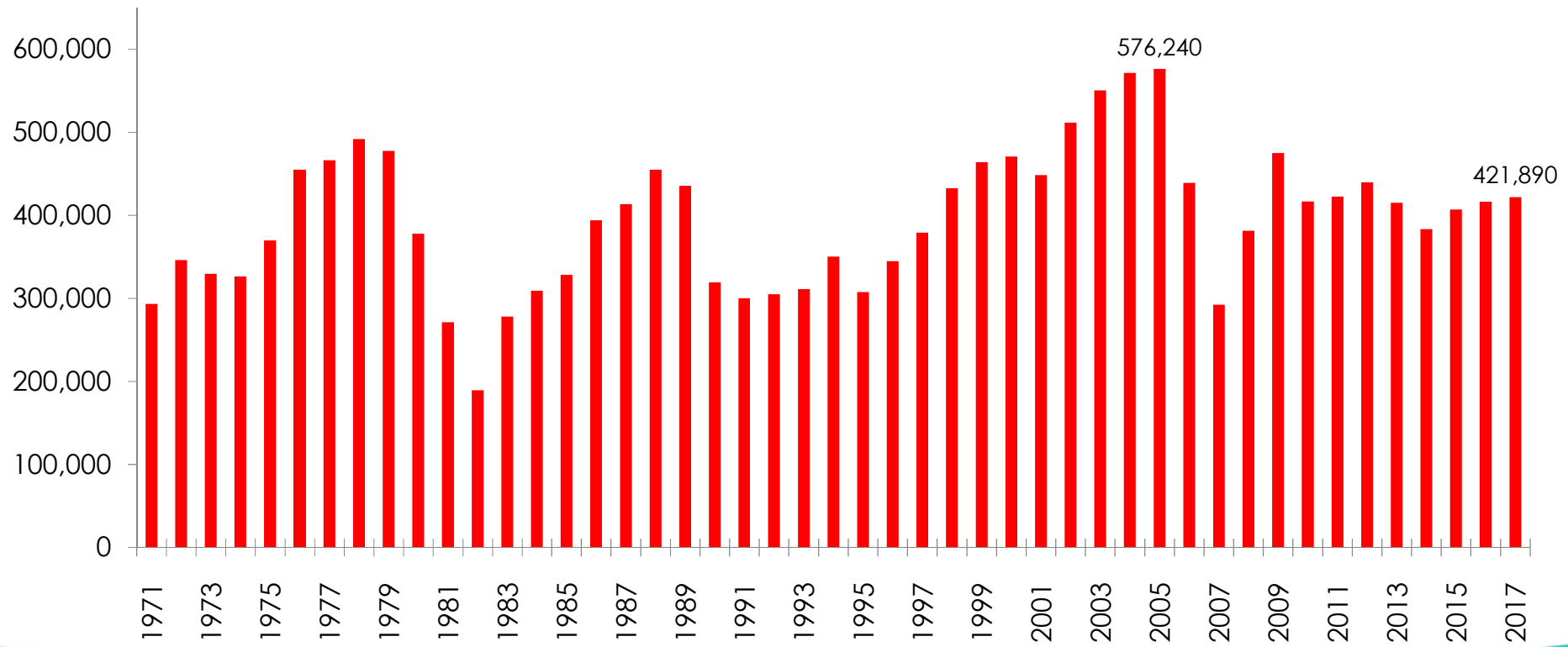
# Household Growth Continues to Support Housing Demand



SERIES: Annual Household Growth  
SOURCE: CA Department of Finance



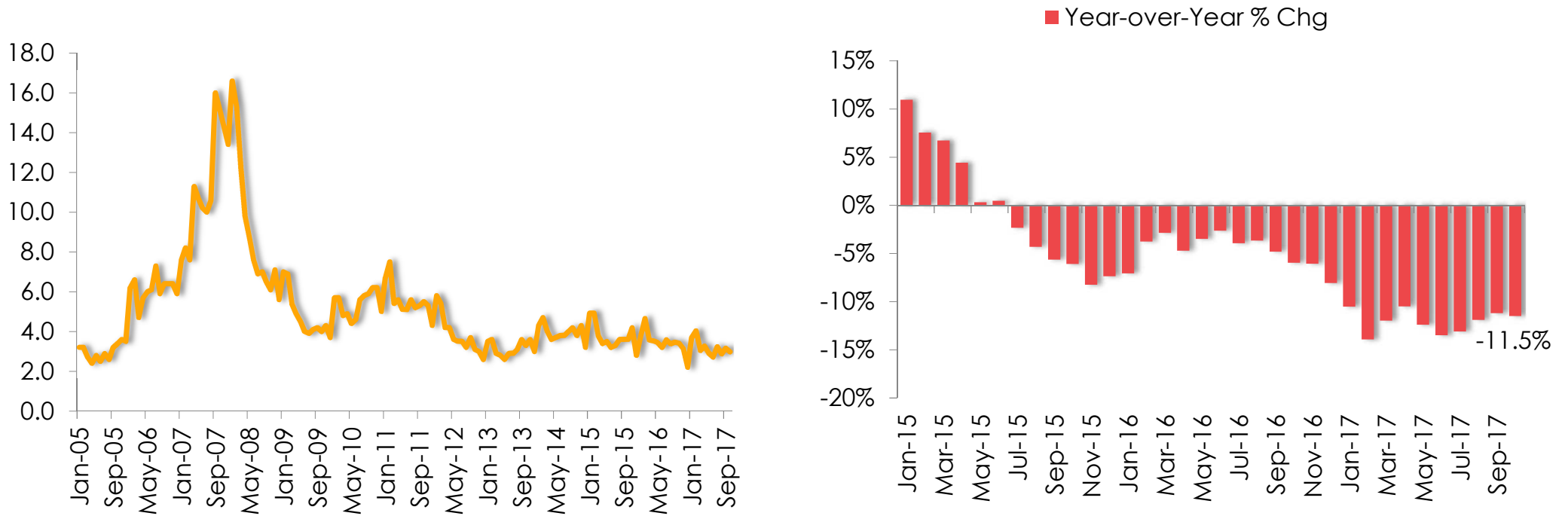
# California Home Sales Level Significantly Below the Recent Peak





# Supply Remains on a Downward Trend

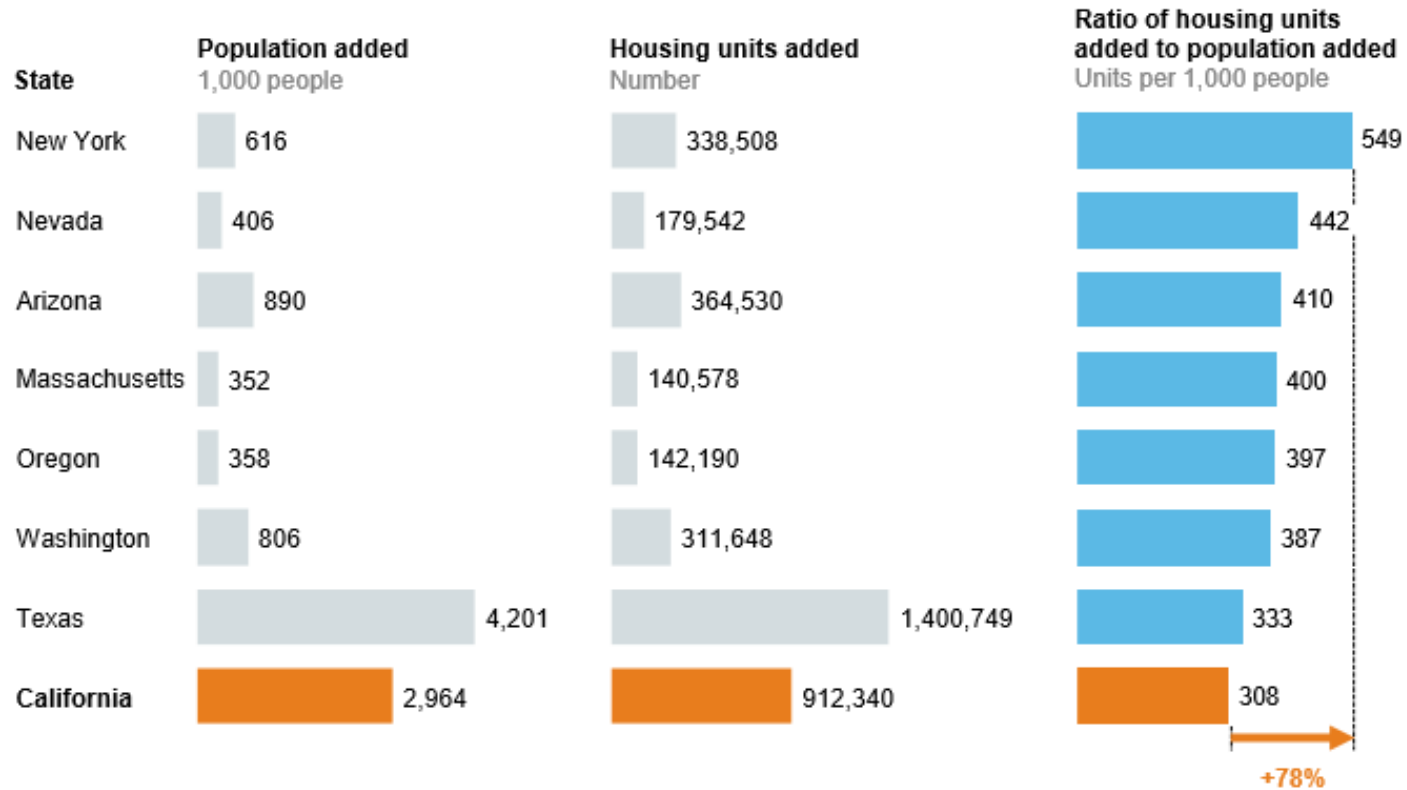
October 2016: 3.4 Months; October 2017: 3.0 Months



Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the number of "Sold" properties for the month in question.



# CA has produced less housing per capita than other US states



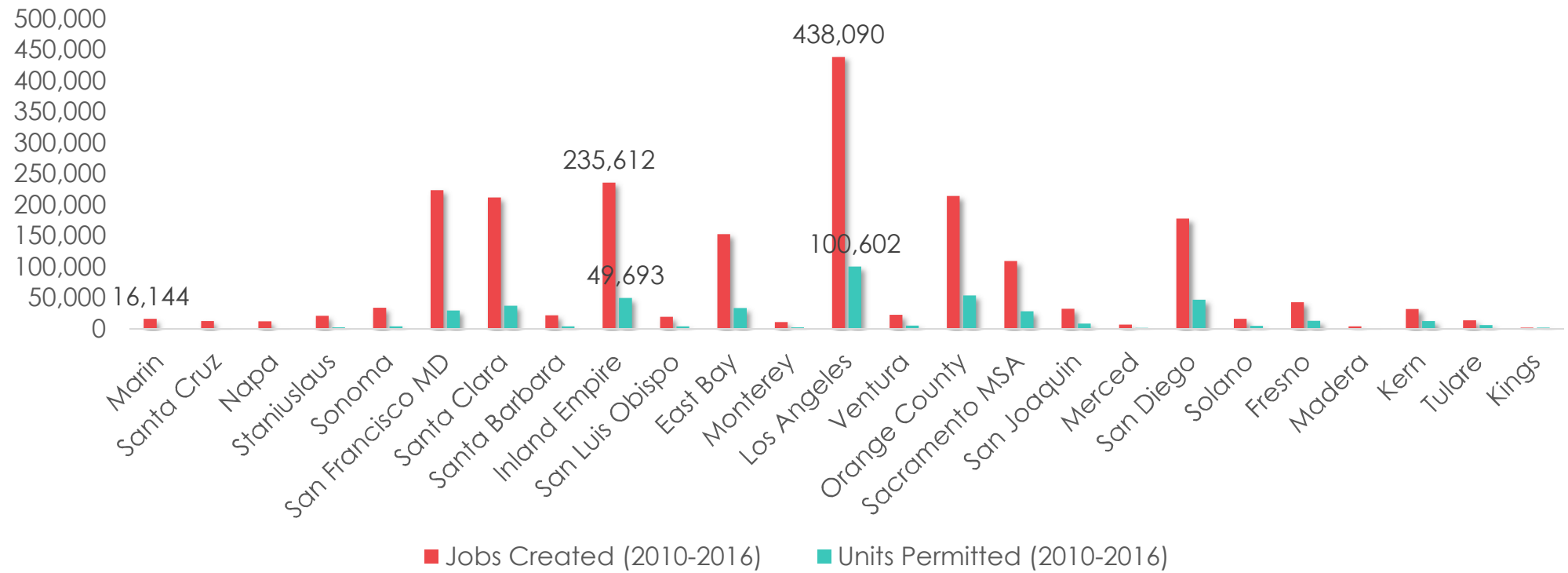
SOURCE: US Census Bureau; McKinsey Global Institute analysis

SOURCE: U.S. Census Bureau, McKinsey Global Institute



# Most Underbuilt Counties in California

Jobs Created vs. Units Permitted  
2010-2016

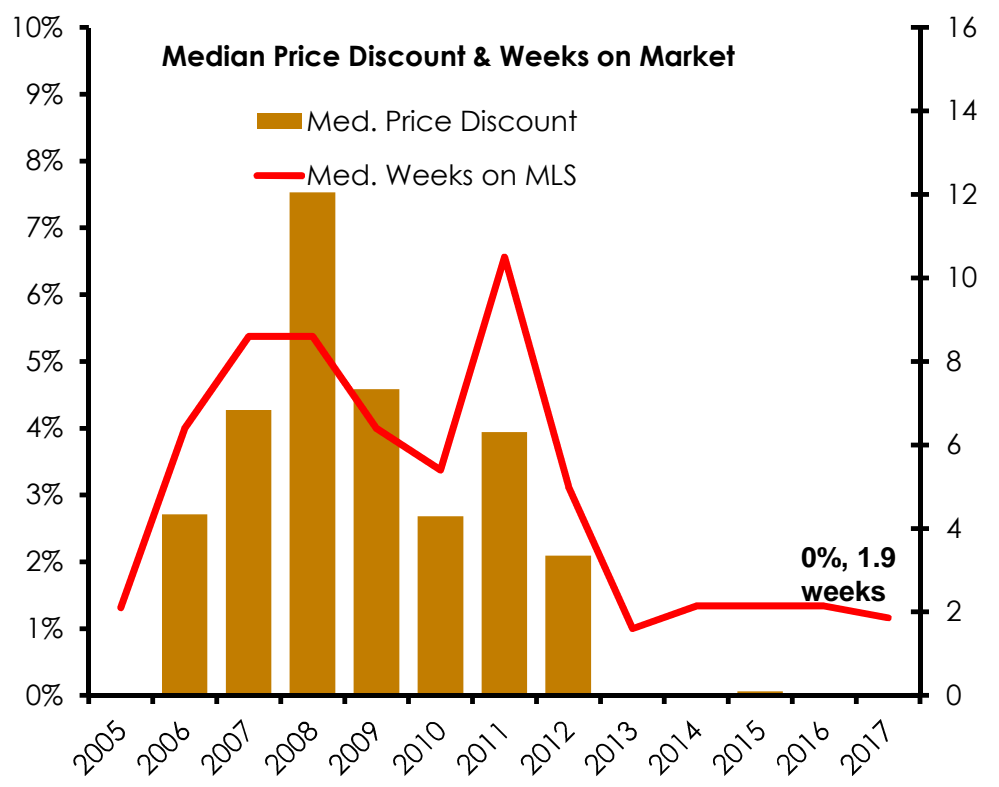
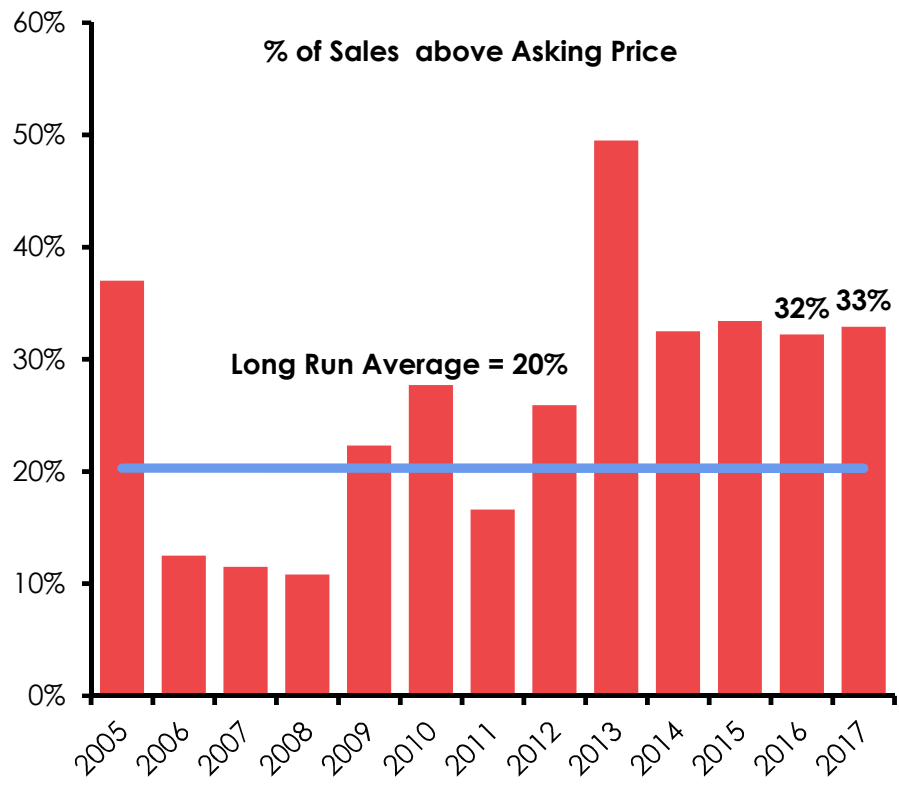


SERIES: Nonfarm Job Growth & Housing Affordability Index (HAI)  
SOURCE: CA EDD, Construction Industry Research Board



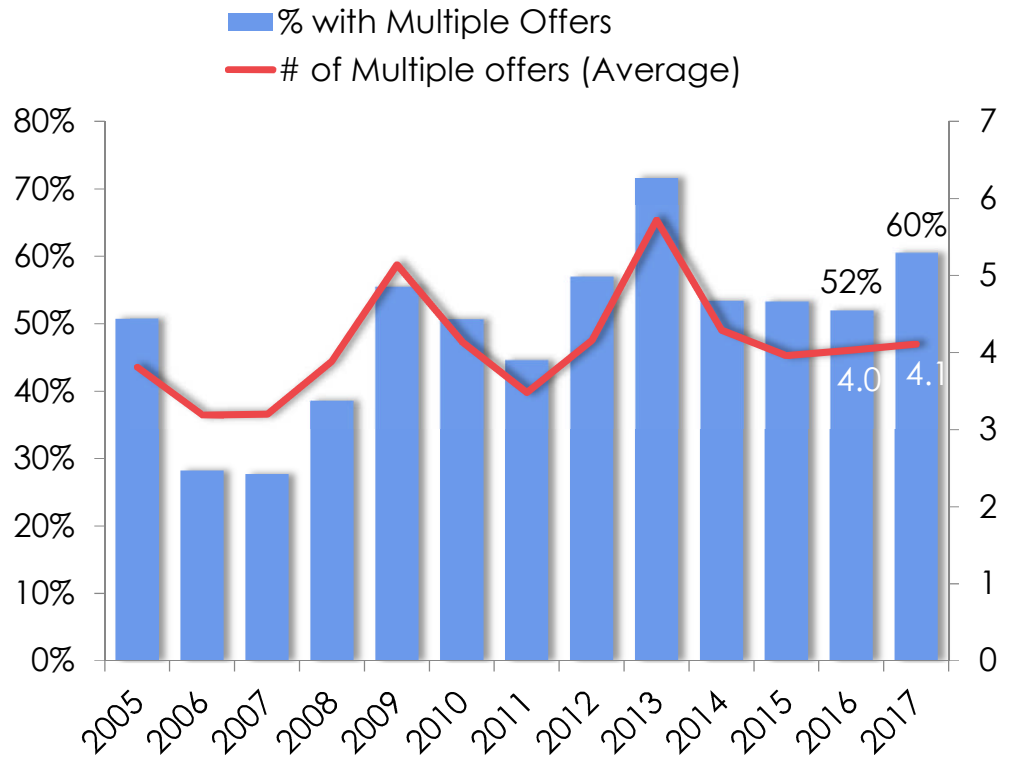


# Tight Supply Pushed up Home Prices, as One-third of Homes Were Sold above the Asking Price





# Market Competitiveness Surged, as Supply Continued to Tighten up





# Market Competitiveness Differ by Price Range

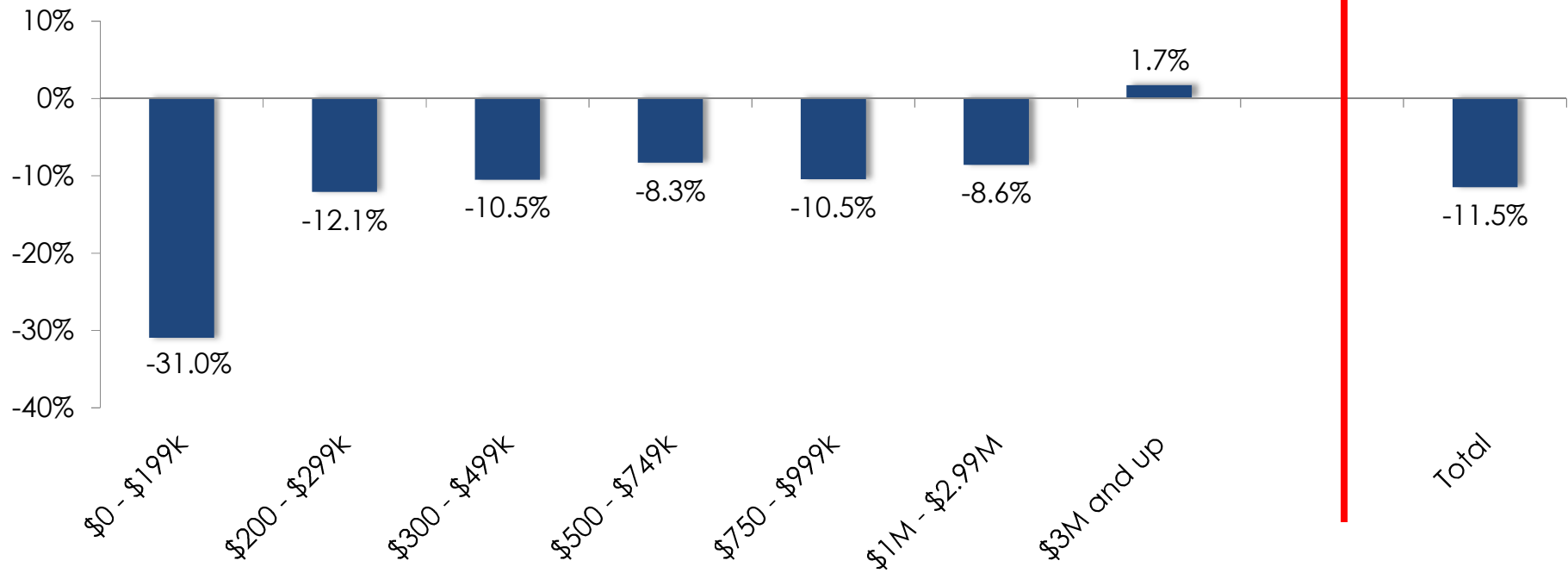
	\$0 - \$300k	\$301k - \$500k	\$501k - \$750k	\$751k - \$1000k	\$1001 and up	All Prices
% with Multiple Offer	47.1%	62.2%	65.9%	64.2%	61.0%	60.4%
% of Sales Above Asking Price	18.5%	34.1%	32.9%	39.7%	42.1%	32.9%
Days on Market	20	11	14	14	16	13



# Supply Constraint across Most Prices, but Most Obvious in the Lower End

October 2017

Active Listing

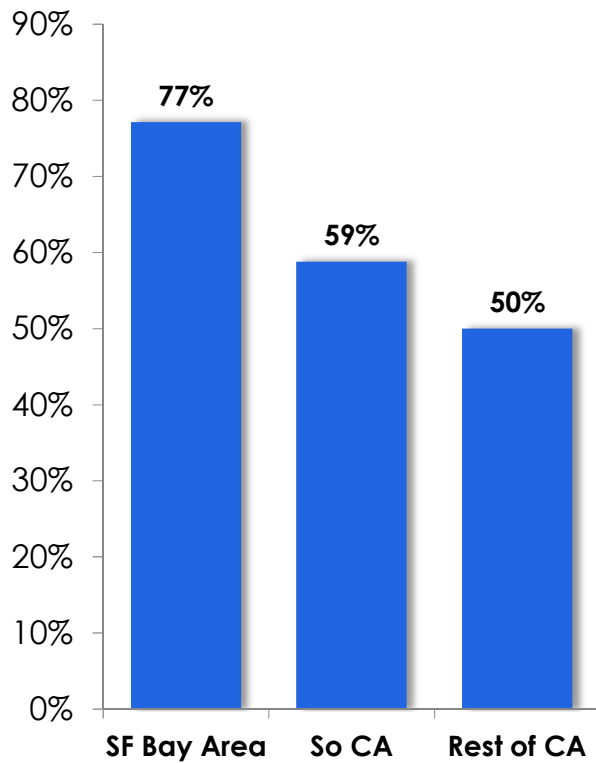


SERIES: Active Listings of Existing Single Family Homes  
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

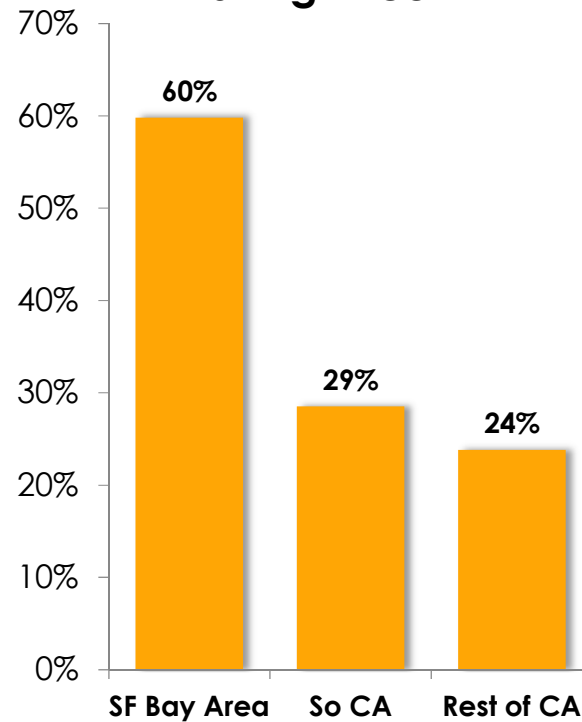


# Supply Constraint Also Differs By Region

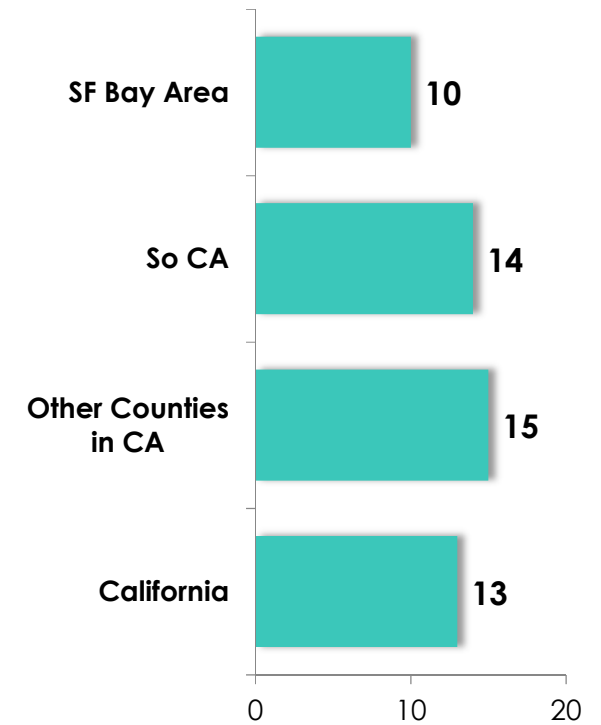
### % of Multiple Offer



### % of Sales Above Asking Price



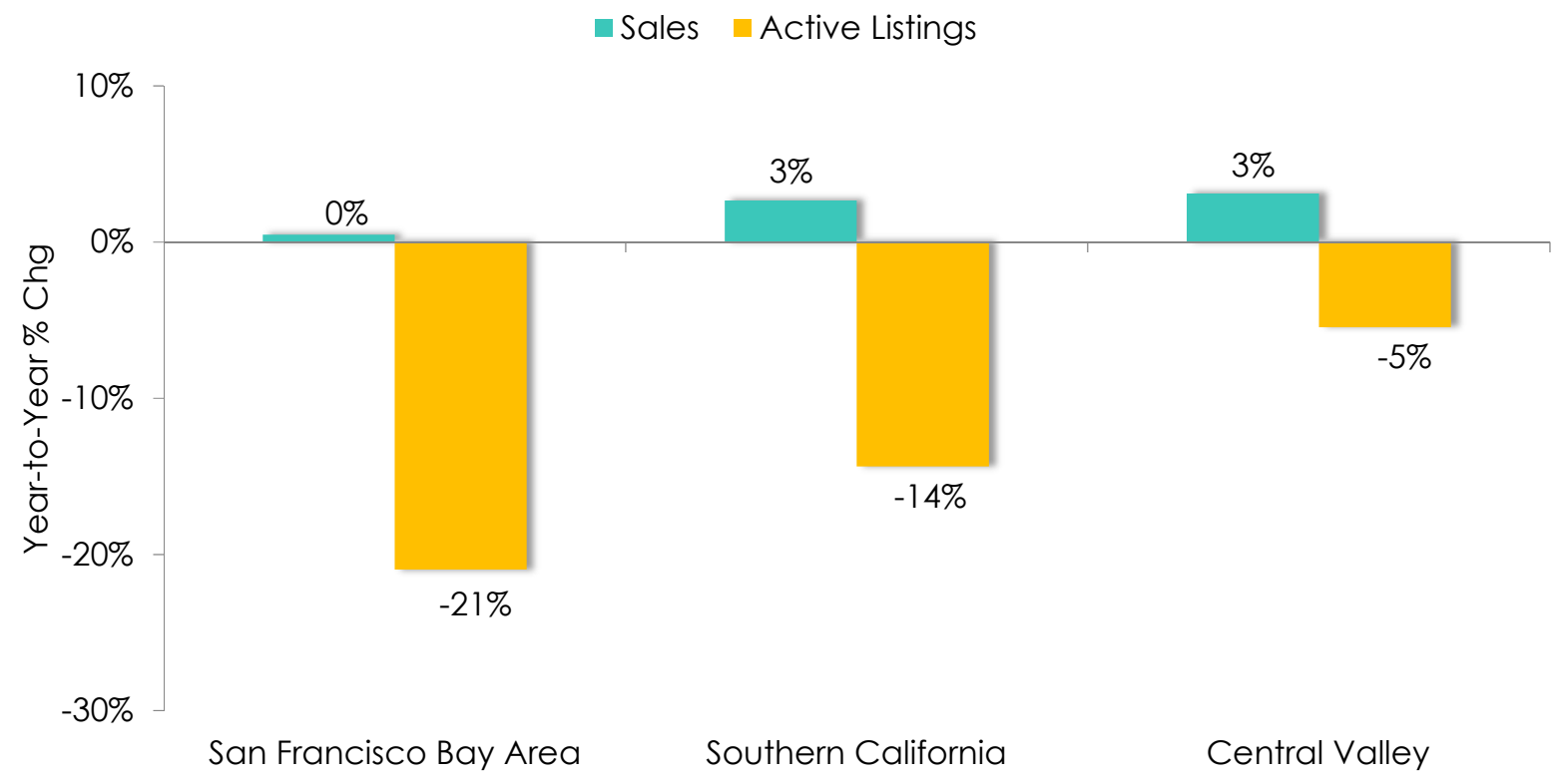
### Days on Market





# Supply Saw Declines, Especially in Bay Area

October 2017



SERIES: Sales and Listings of Existing Single Family Homes  
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



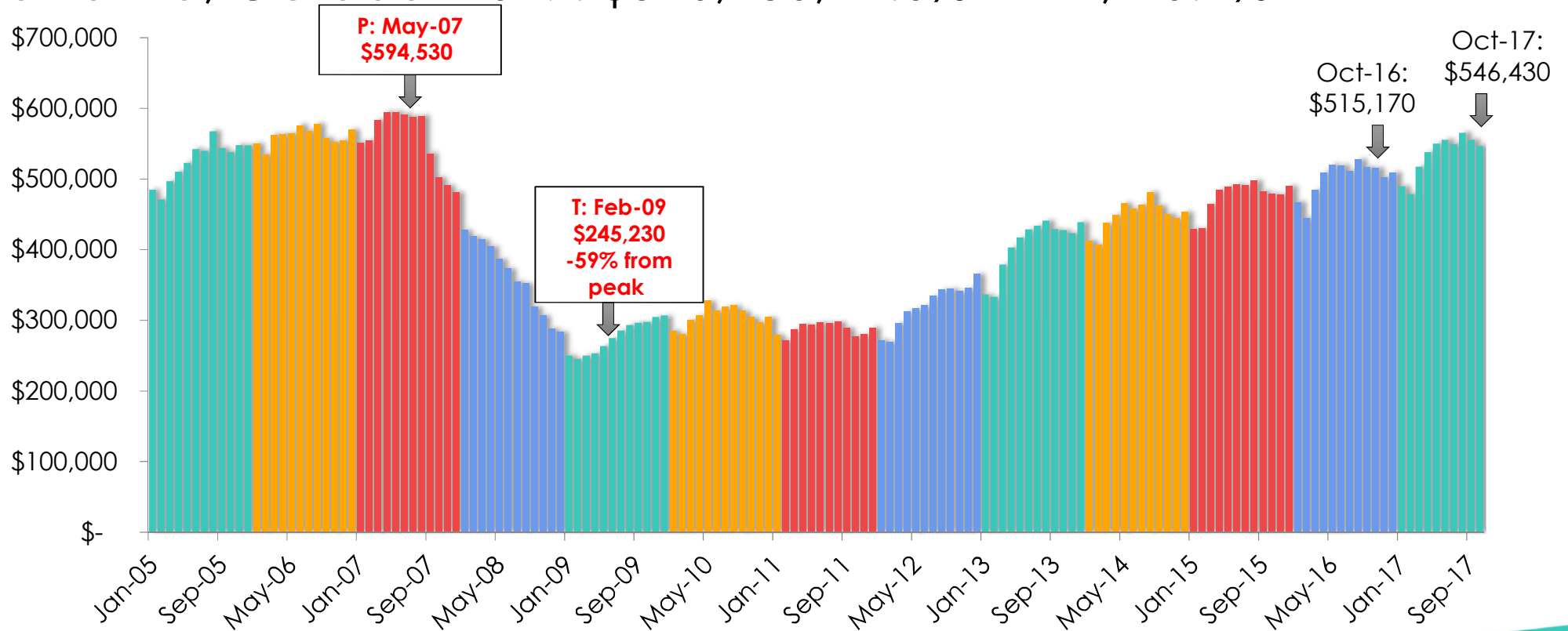
## ...Even Within So CA

	Inland Empire	LA/OC/SD	Southern California	California
% with Multiple Offer	54.8%	62.7%	58.8%	60.4%
% of Sales Above Asking Price	24.3%	33.4%	28.5%	32.9%
Days on Market	18.5	14	14	13



# Statewide Median Price Continued to Grow, and Accelerated in Recent Months

California, October 2017: \$546,430, -1.6% MTM, +6.1% YTY



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





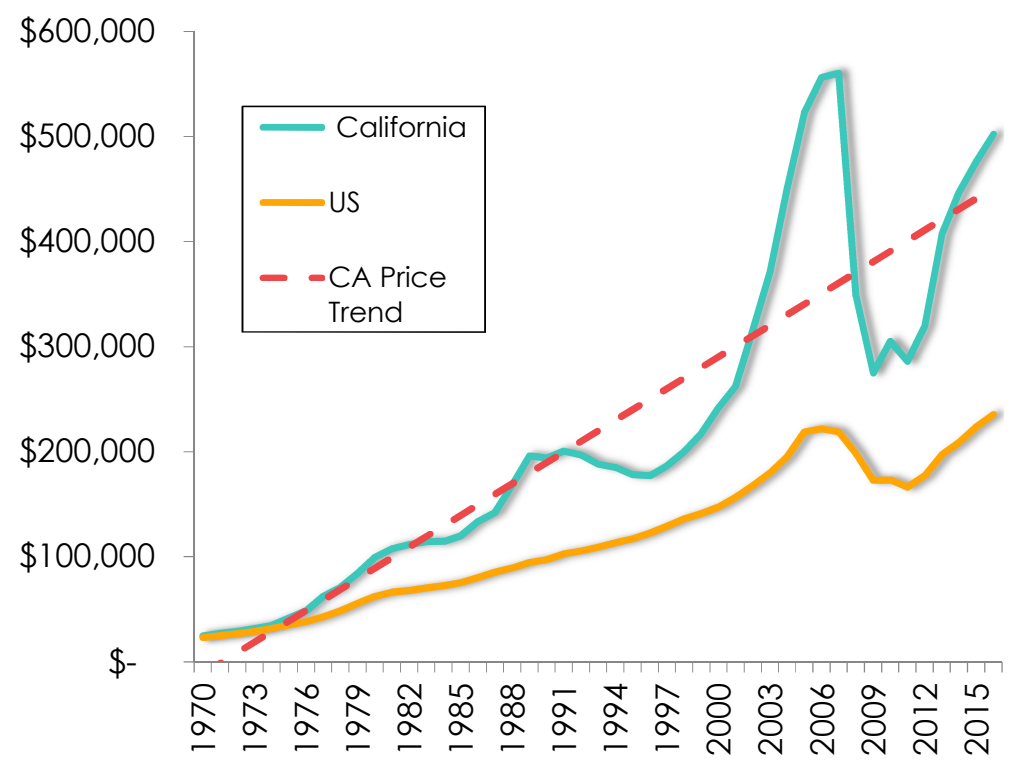
# California Housing Market Outlook

	2012	2013	2014	2015	2016	2017p	2018f
SFH Resales (000s)	439.8	414.9	382.7	409.4	416.7	421.9	426.2
% Change	4.1%	-5.9%	-7.8%	7.0%	1.8%	1.3%	1.0%
Median Price (\$000s)	\$319.3	\$407.2	\$446.9	\$476.3	\$502.3	\$538.5	\$561.0
% Change	11.6%	27.5%	9.8%	6.6%	5.4%	7.2%	4.2%
Housing Affordability Index	51%	36%	30%	31%	31%	29%	26%
30-Yr FRM	3.7%	4.0%	4.2%	3.9%	3.6%	4.0%	4.3%

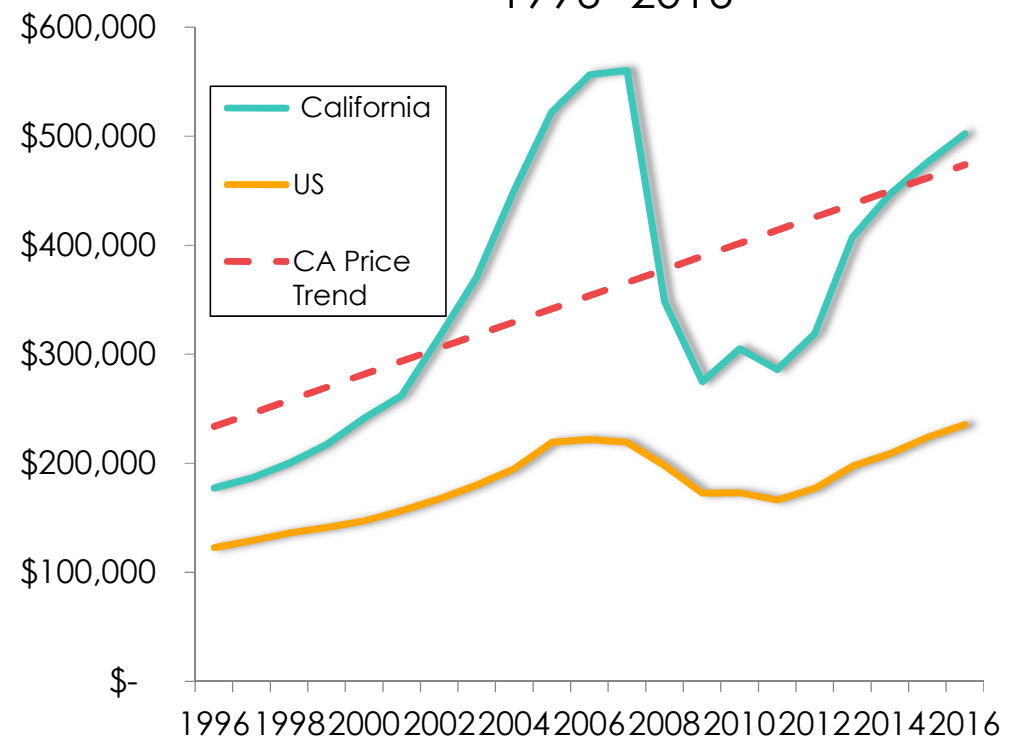


# California Median Price Above Long Run Trend

1970-2016



1996-2016



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



# Buyers Have More “Skin” in the Game

	2006	2012	2017
% of buyers with 20% or more down payment	43.2%	54.4%	42.9%
% of buyers with zero down payment	21.1%	4.6%	6.0%
% of cash buyers	11.0%	29.6%	21.5%
% of home buyers with a second mortgage	43.4%	1.8%	3.9%
% of buyer with ARM	32.6%	3.5%	5.1%



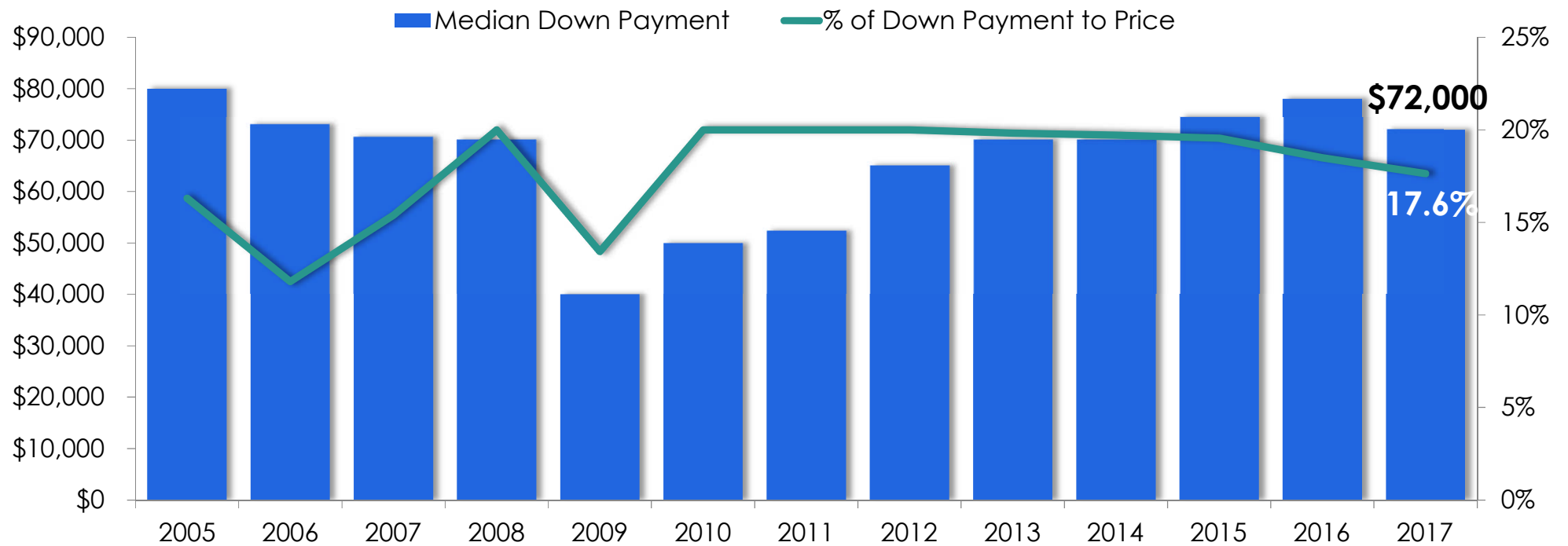
# Less Likelihood to Default as Monthly Payment Is More Affordable

	2006	2012	2017
Average mortgage rate (FRM)	6.4%	3.7%	4.0%
Median home price for existing single-family homes	\$556,430	\$319,310	\$525,000
Median household income for home buyers	\$100,000	\$100,000	\$120,000
Monthly Mortgage Payment (1 <sup>st</sup> mortgage)	\$2,500	\$1,429	\$1,924
Housing Affordability Index	12%	51%	28%



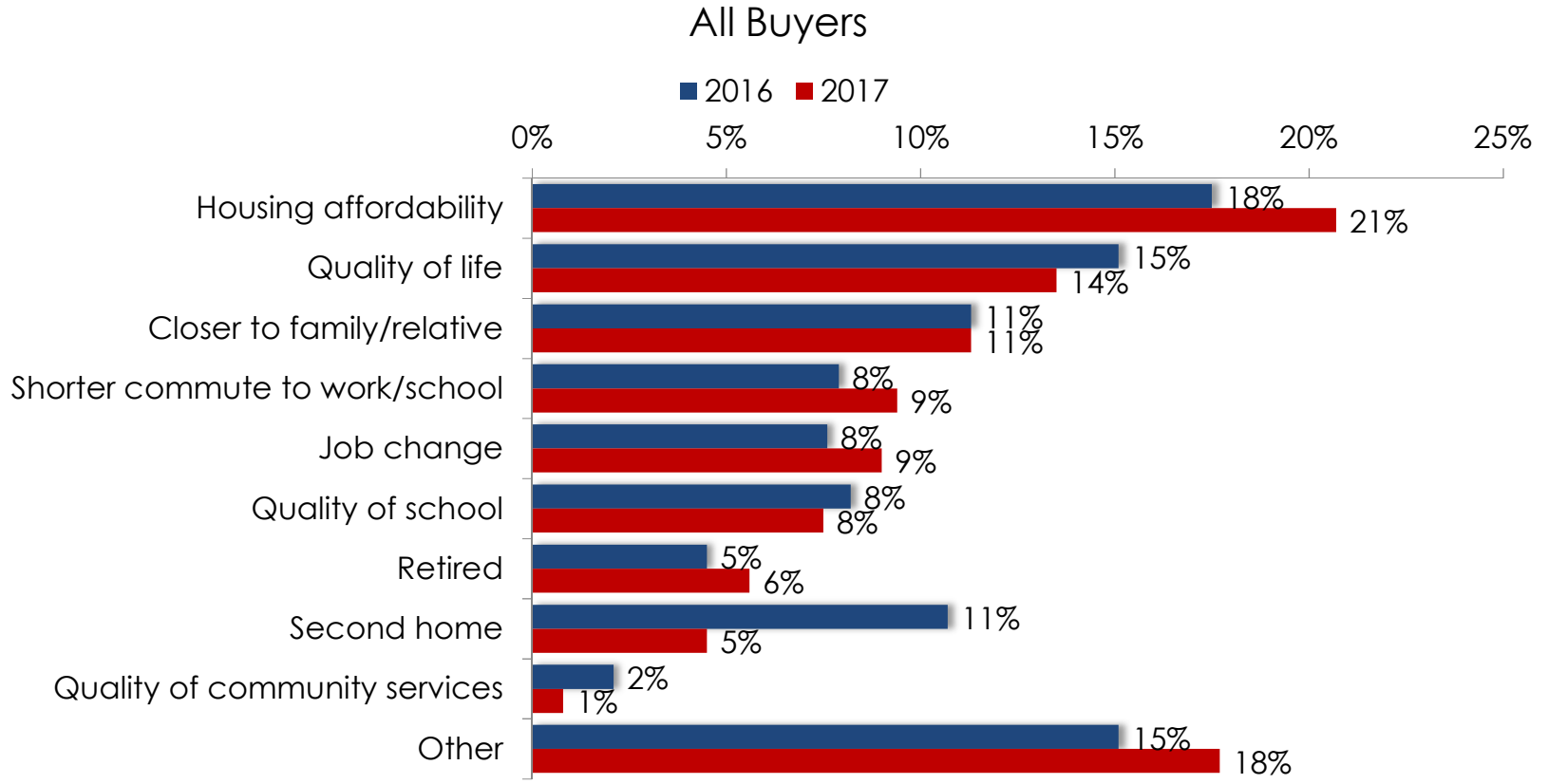
# Affordability Is a Down Payment Issue, But Also a Monthly Mortgage Payment Issue

Lowest down pmt. in % since 2009.



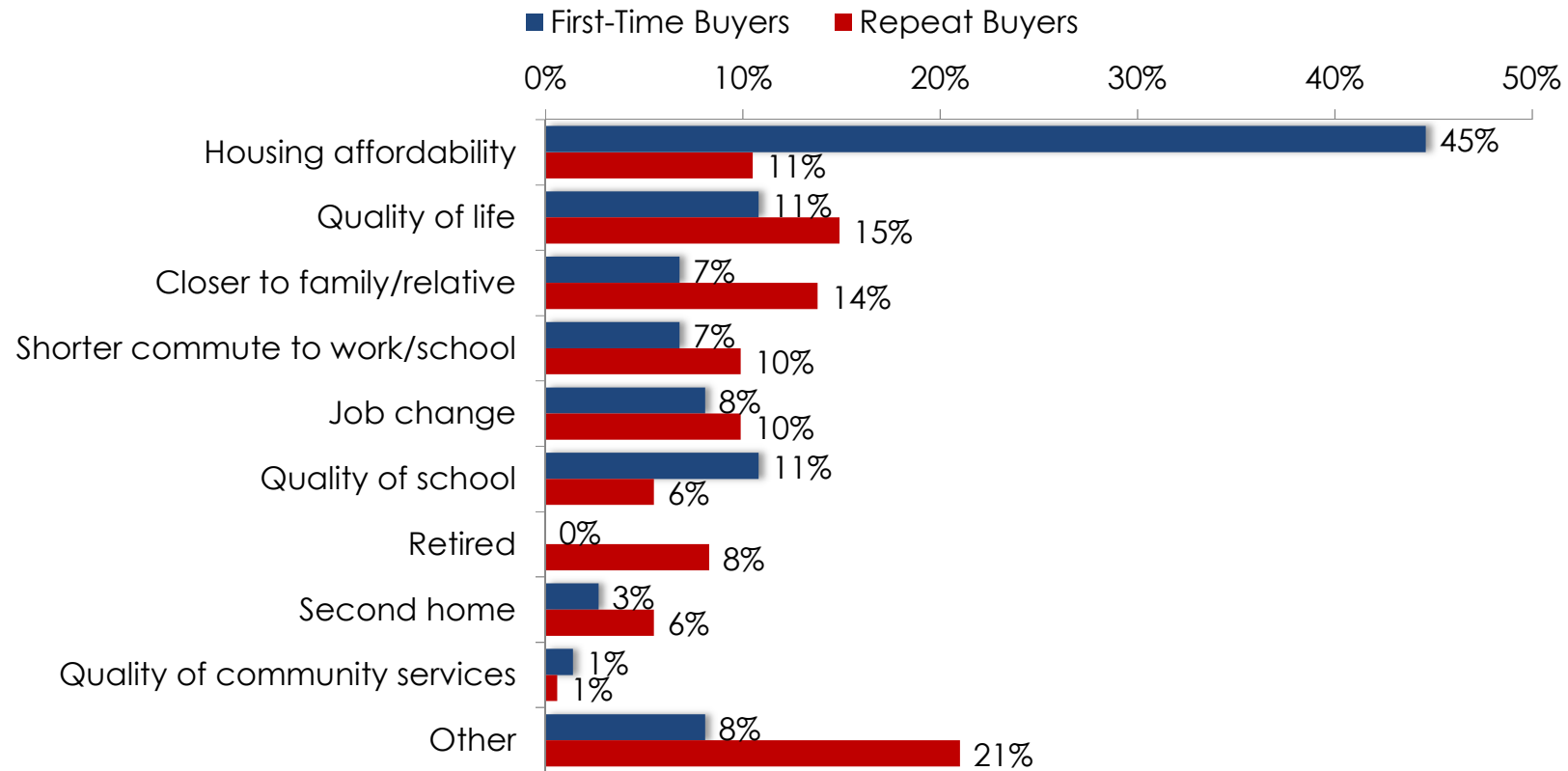


# Housing Affordability Still the Main Reason for Outmigration





# It's a Much Bigger Problem for First-Time Buyers





# The Market is Very Competitive for First-Time Buyers ...

	First-time Buyers	Repeat Buyers	All Buyers
% with Multiple Offer	68.8%	55.5%	60.4%
% of Sales Above Asking Price	41%	28.8%	32.9%
Days on Market	10	14	13

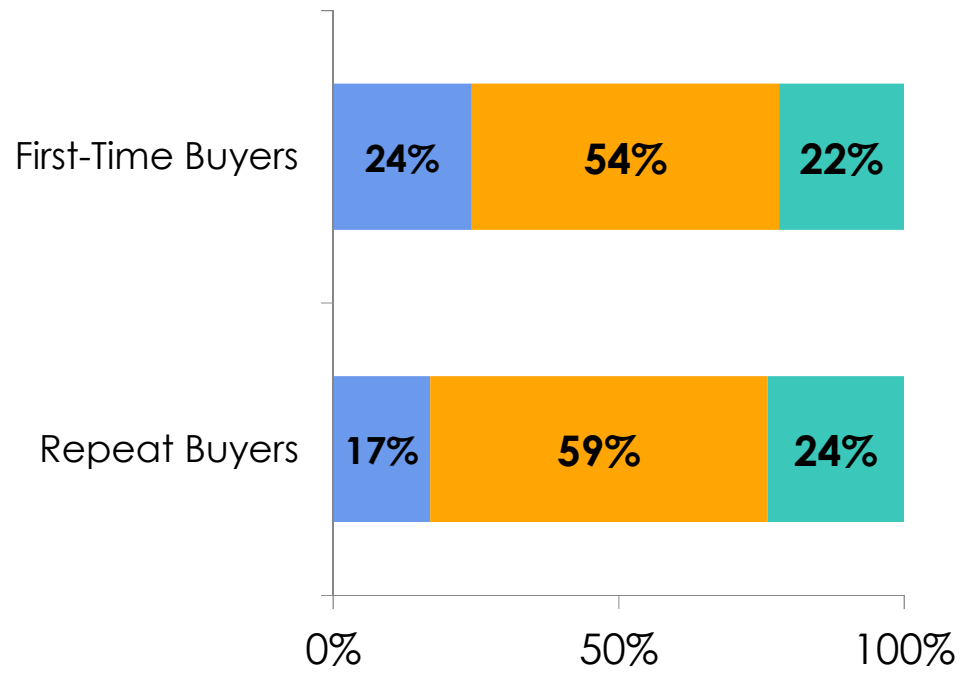




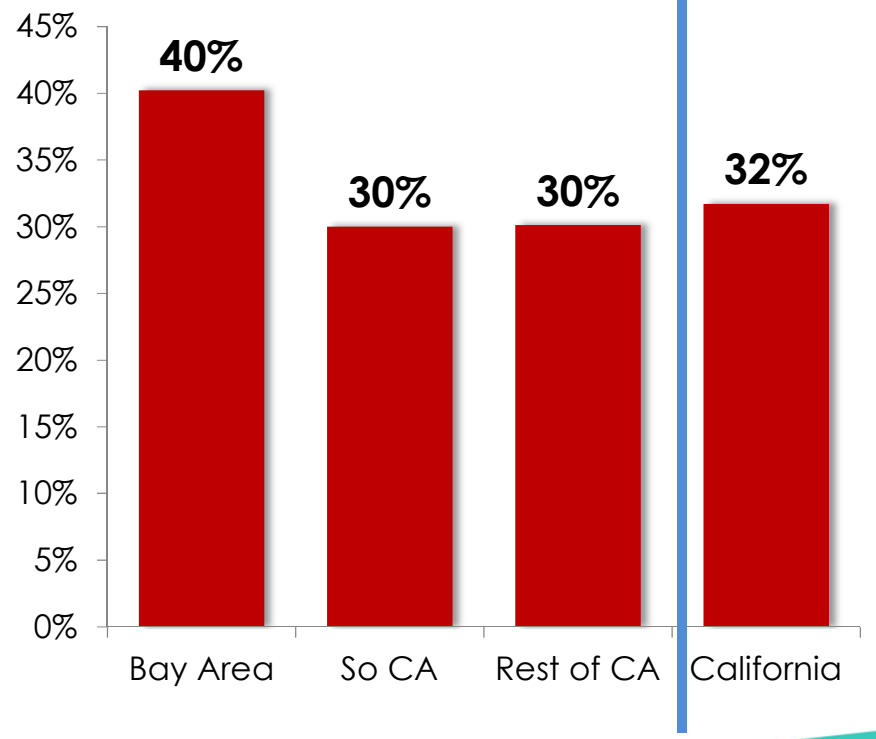
# ...Partly Because Many of Them Live in the Supply Constraint Bay Area

## Where are the buyers?

■ Bay Area ■ So CA ■ Rest of CA

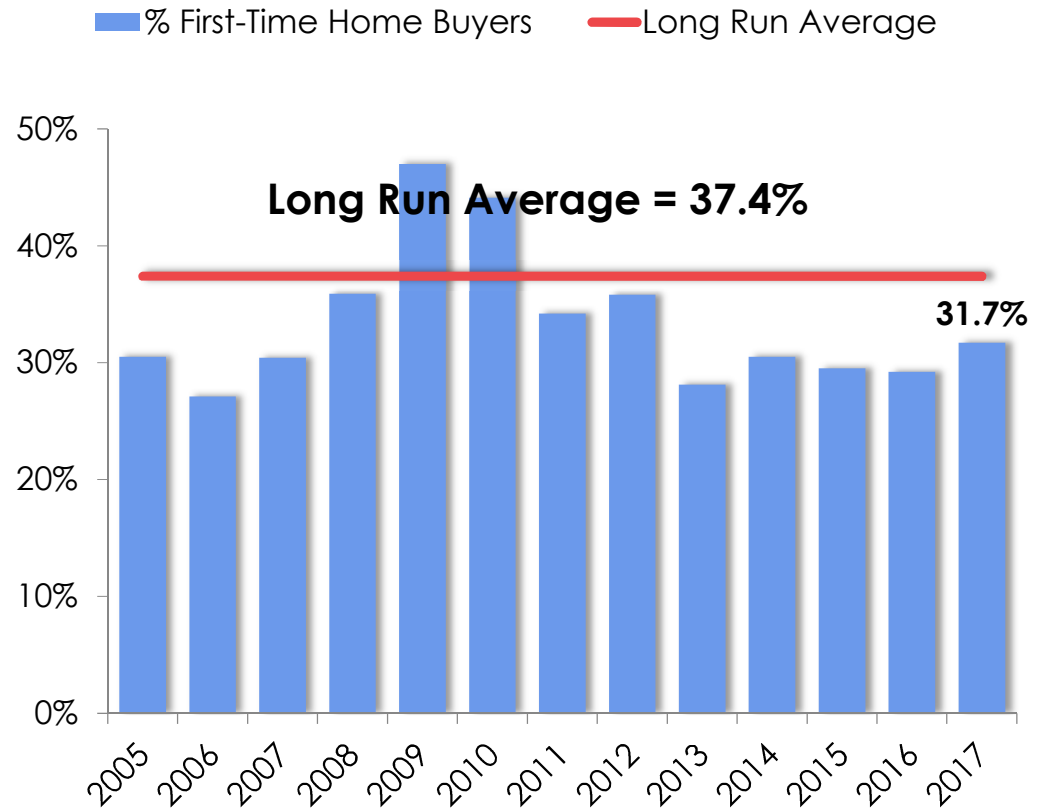


## % of First-Time Buyers



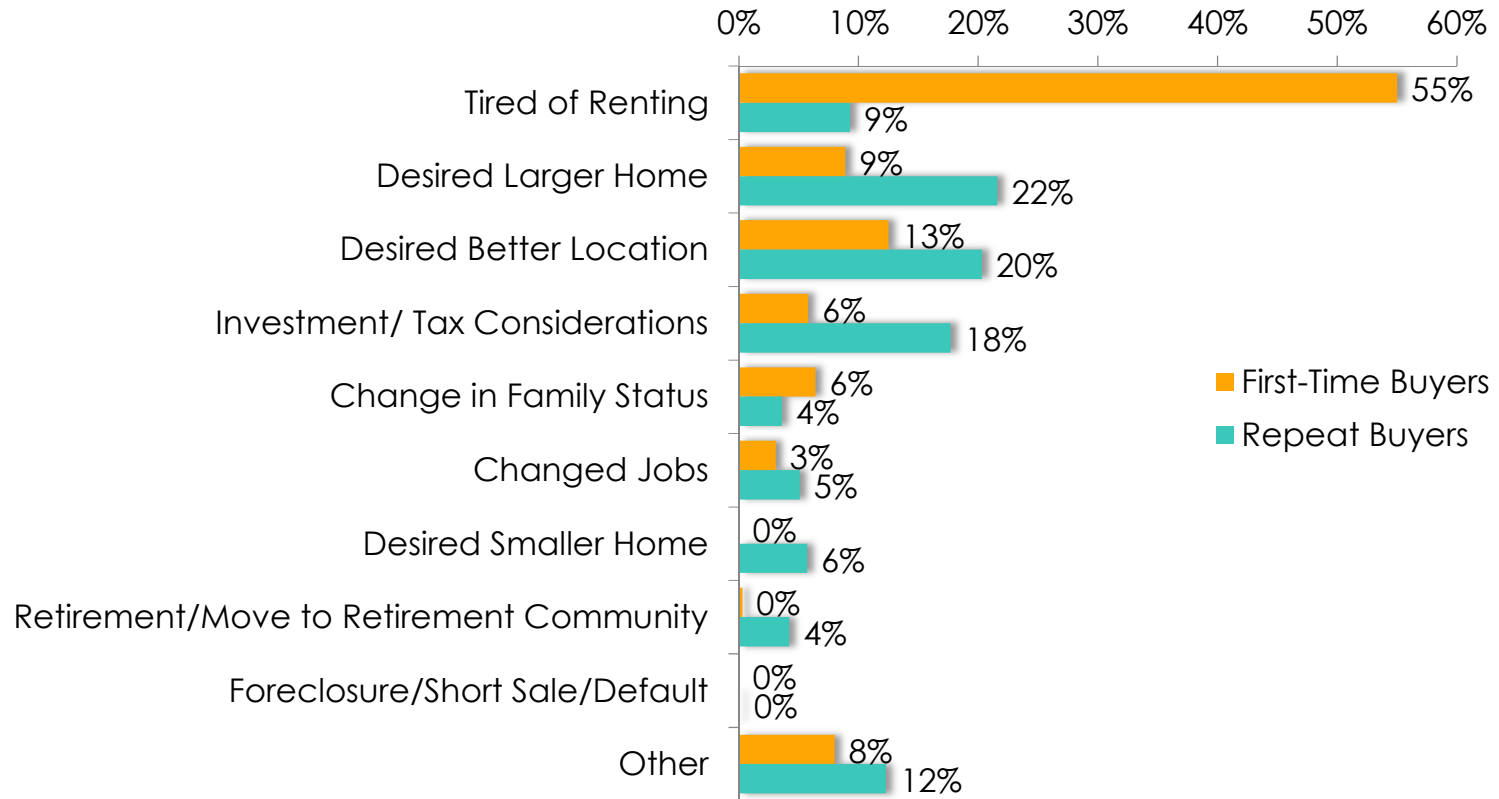


# Despite the Tough Market Conditions, Share of First Time Buyers Reached Highest Level since 2012





# Reasons For Buying: First-Time vs. Repeat



Q. What was the single most important reason for selling/buying the property?



# Characteristics of Homes: First-Time vs. Repeat (2017)

	First-time Buyers	Repeat Buyers	All Buyers
Median Sales Price	\$440,000	\$550,000	\$525,000
Median Square Footage	1,477	1,800	1,650
% of Detached Single-Family	75.8%	79.6%	78.0%
% of Condo/Townhome	18.4%	12.8%	14.6%



# Financial Characteristics: First-Time vs. Repeat (2017)

	First-time Buyers	Repeat Buyers	All Buyers
Median Household Income	\$85,000	\$150,000	\$120,000
Median Monthly Mortgage Payment	\$1,750	\$2,200	\$1,924
Median Downpayment (in \$\$)	\$35,000	\$108,300	\$72,000
Median Downpayment (in % to Price)	7.4%	20%	17.6%



# Financial Characteristics: First-Time vs. Repeat (2016)

	First-time Buyers	Repeat Buyers	All Buyers
Median Household Income	\$100,000	\$140,000	\$120,000
Median Monthly Mortgage Payment	\$1,265	\$1,441	\$1,280
Median Downpayment (in \$\$)	\$25,000	\$100,000	\$78,000
Median Downpayment (in % to Price)	7.0%	20%	18.5%

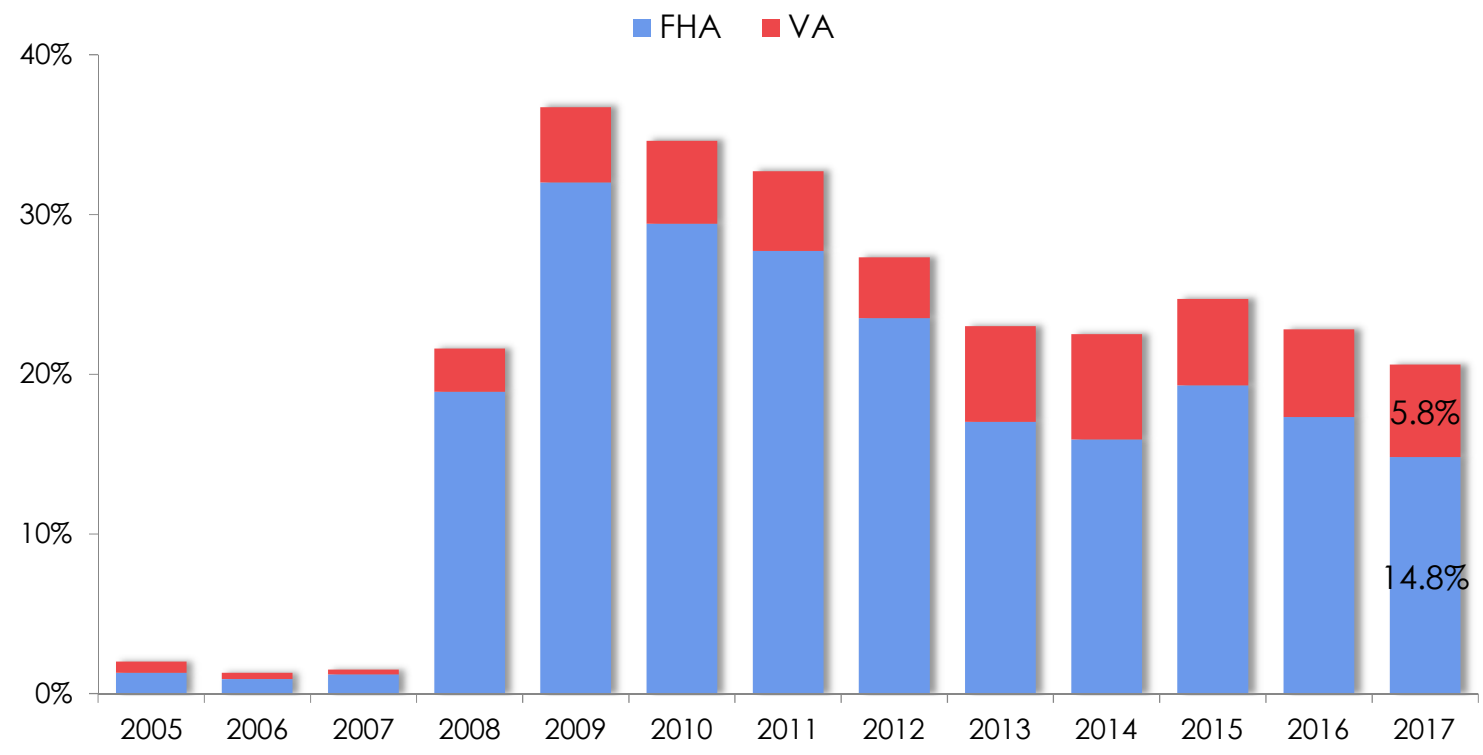


# Financial Characteristics II: First-Time vs. Repeat (2017)

	First-time Buyers	Repeat Buyers	All Buyers
% of buyers with zero down payment	10.2%	3.2%	6.0%
% of cash buyers	6.7%	29.0%	21.5%
% of home buyers with a second mortgage	5.9%	2.8%	3.9%
% with FHA Loan	22.6%	9.1%	14.8%



# FHA Loans Lowest since 2007

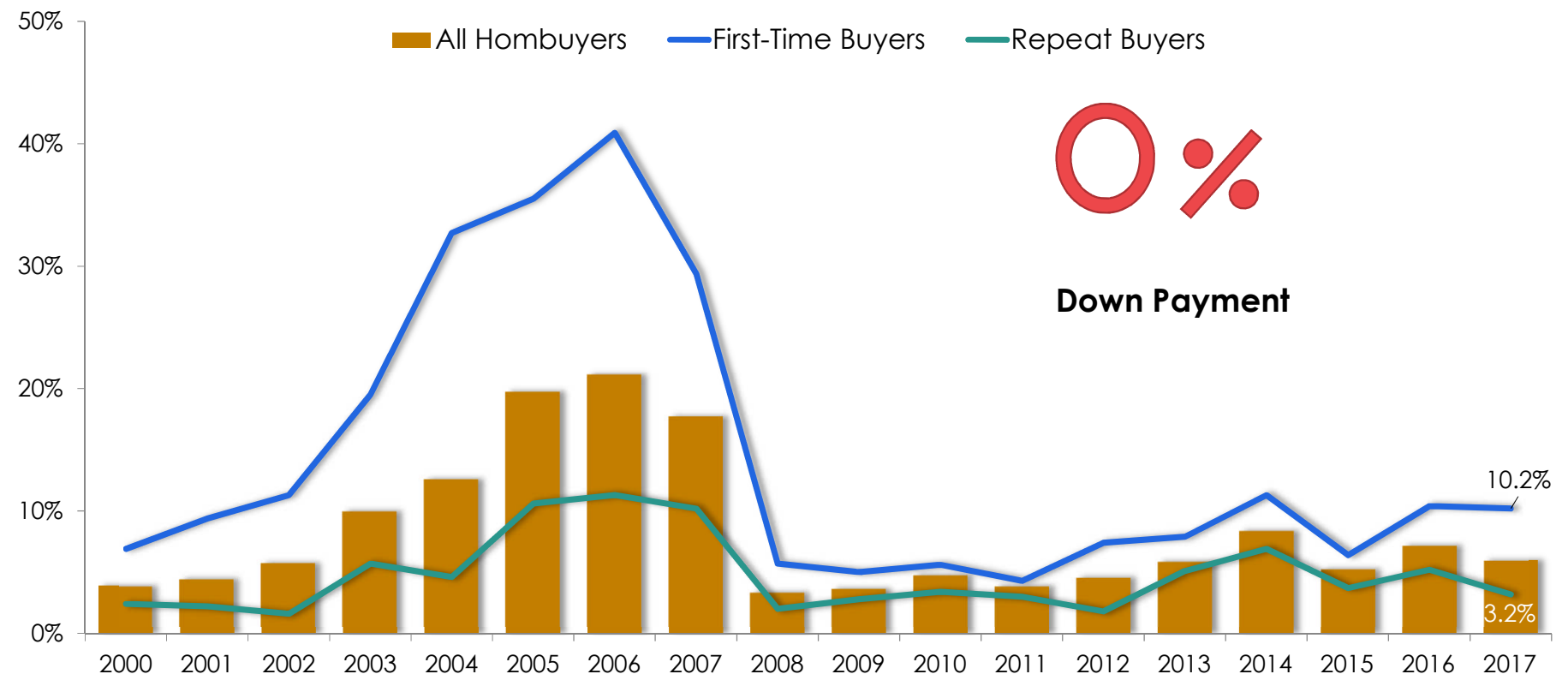


Q. Please indicate the type of mortgage.





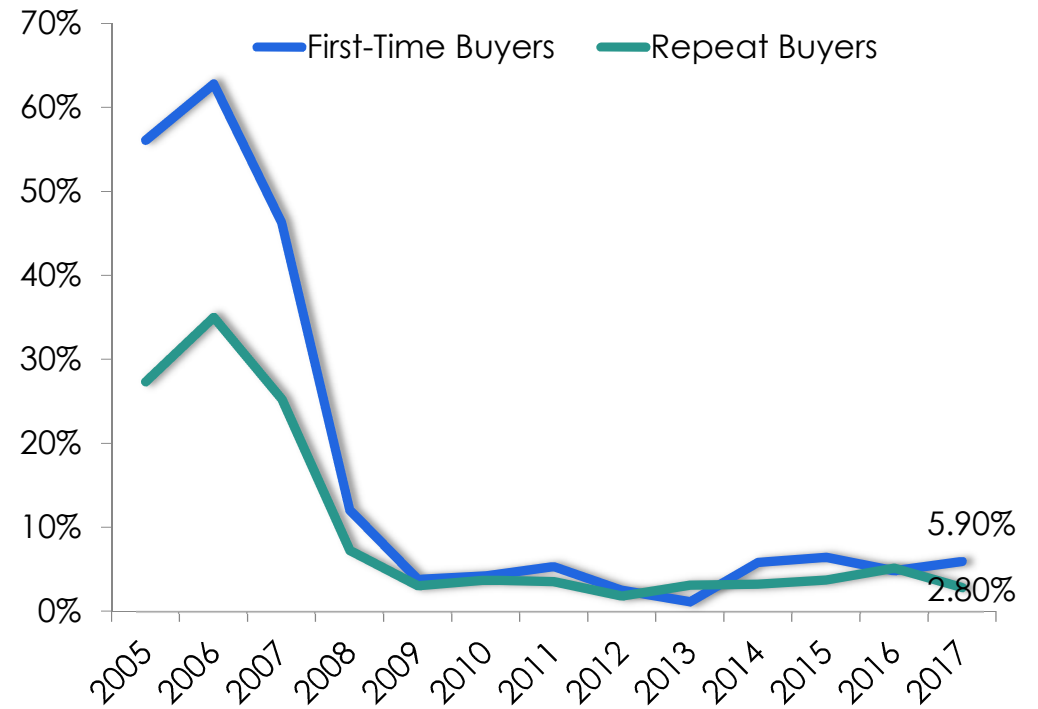
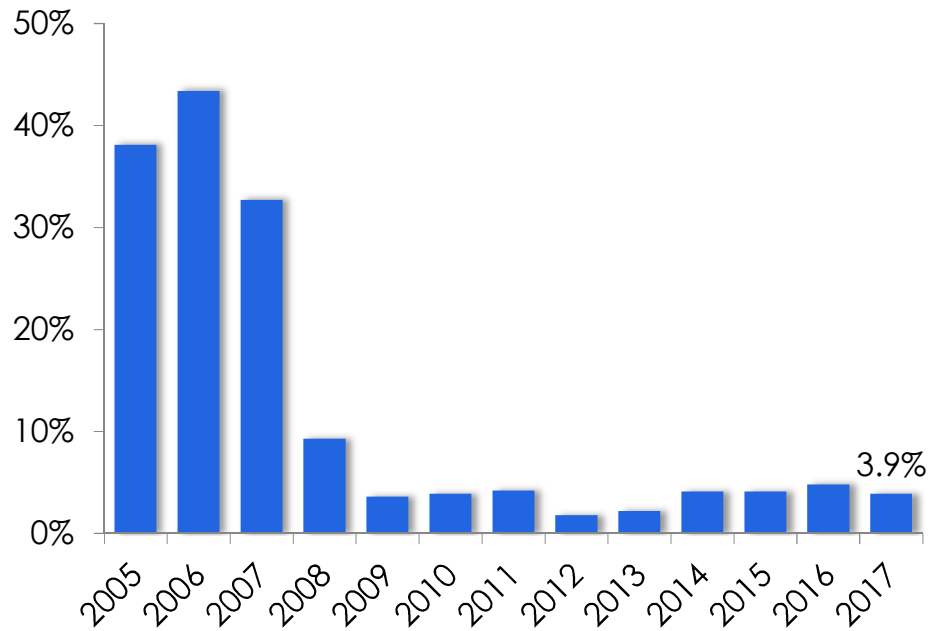
# Percent of Buyers with Zero Down Payment





# Proportion of Transactions with Second Mortgages

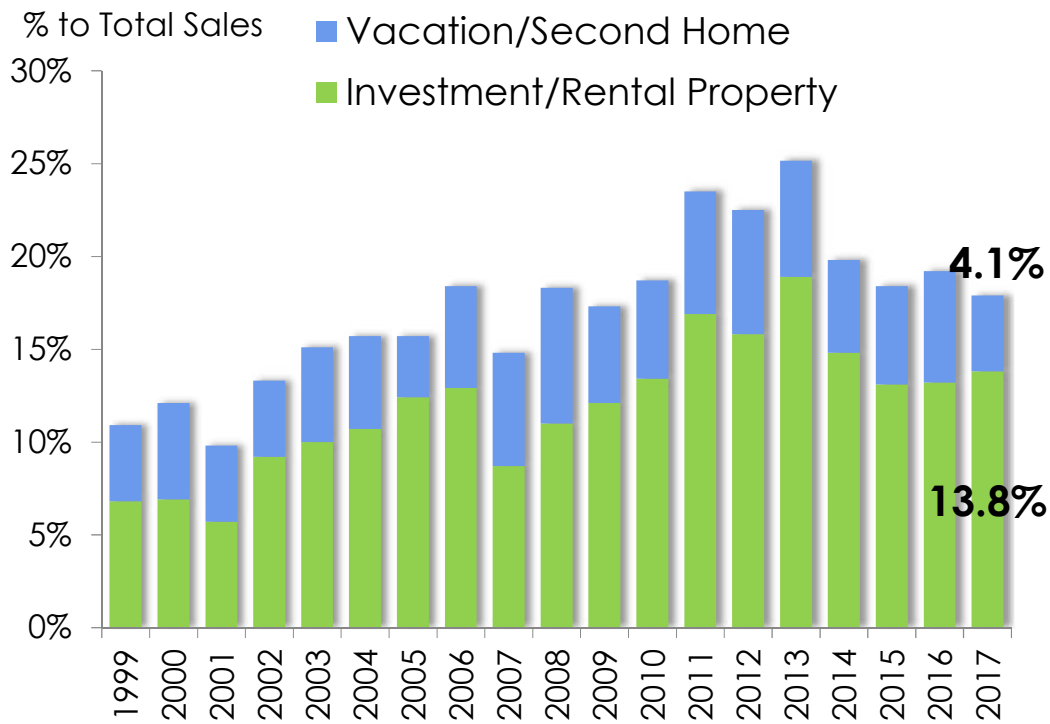
Percent of Home Sales with Second Mortgage



Q. In addition to the first mortgage or assumption, was there a second mortgage?



# Investor Buyers Inched Up in 2017; More Flippers in the Market



Flip

2014: 30%  
2015: 26%  
2016: 20%  
2017: 24%

Vs.



Rent

2014: 70%  
2015: 74%  
2016: 80%  
2017: 76%



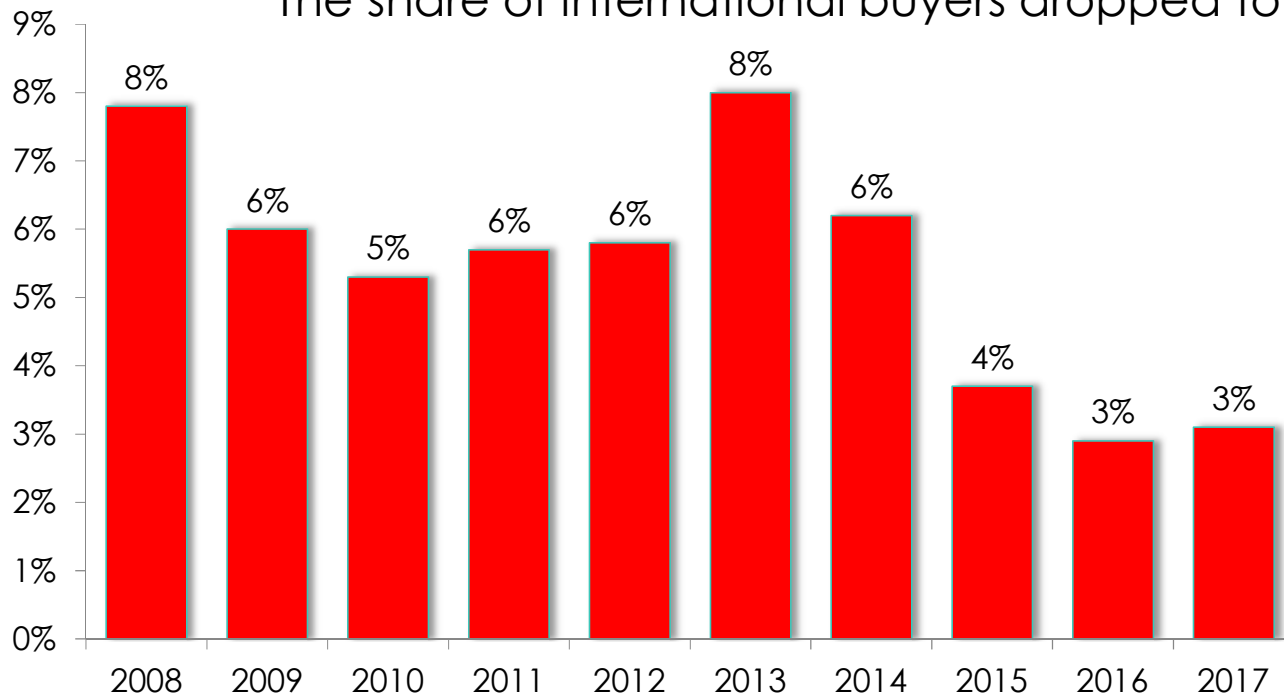
# Investor Buyers Have the Financial Advantage over First-Time Buyers

	First-time Buyers	Investor Buyers
Median Sales Price	\$440,000	\$435,000
Median Square Footage	1,477	1,500
Median Household Income	\$85,000	\$200,000
Median Downpayment (in \$\$)	\$35,000	\$100,000



# International Buyers Remained Unchanged

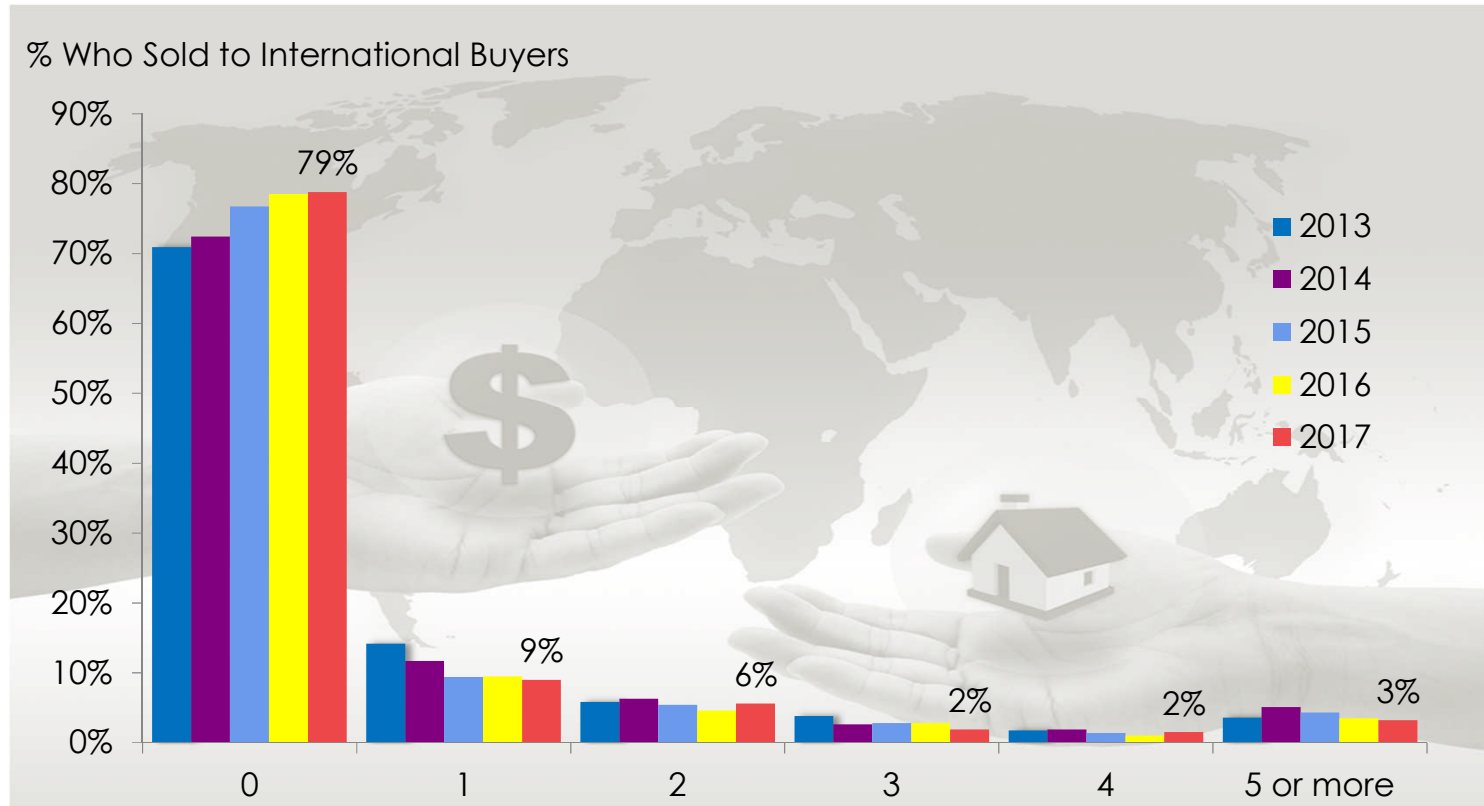
The share of international buyers dropped to the lowest level in 9 years



Q. Was the buyer an international buyer – a person who was a citizen of another country who wished to purchase residential real estate in the U.S.?



# But Fewer REALTORS® Worked with International Buyers in the Past 12 Months



Q. How many properties have you sold to an international buyer in the last 12 months?



# Cash Outflow Restrictions Had a Negative Effect on the Share of Chinese Buyers

2016

- China (53%)
- Mexico (10%)
- India (10%)

2017

- China (31%)
- Mexico (6%)
- India (9%)

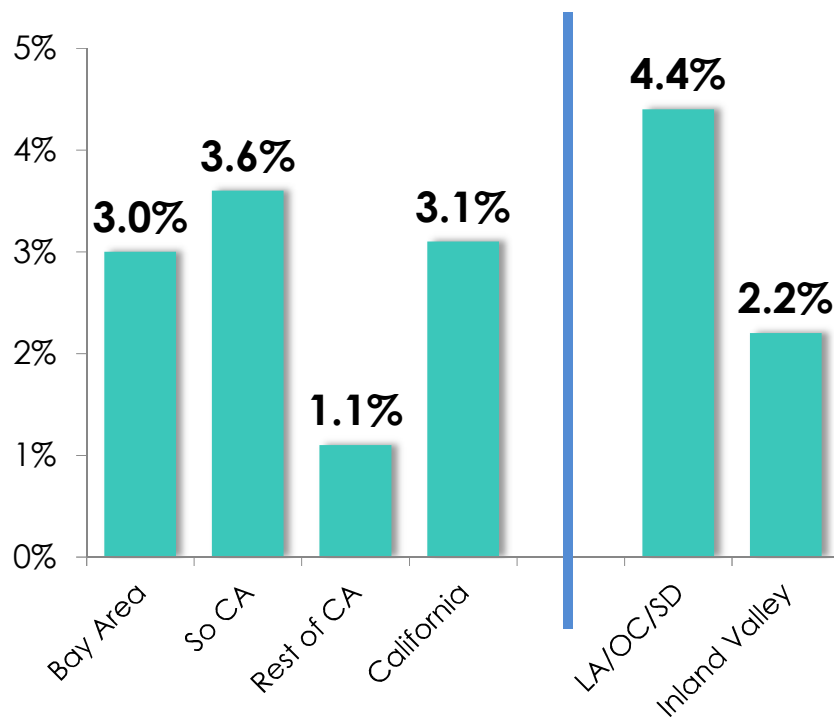


Q. What country did the (international) buyer come from?



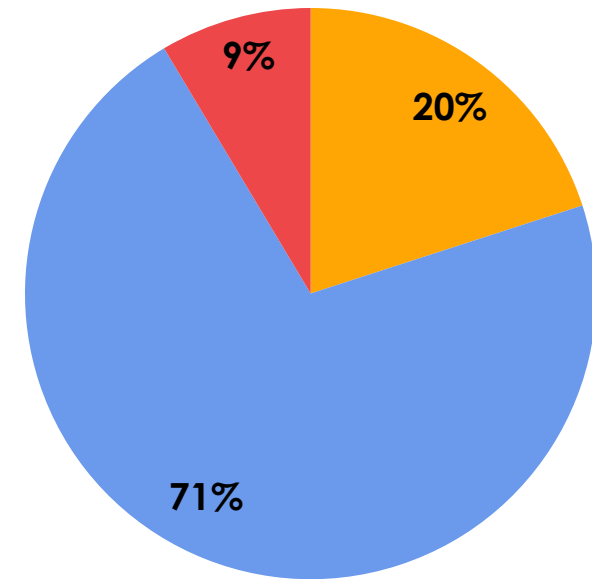
# International Buyers Mostly Interested in Metro Areas

### % of International Buyers



### Where are the properties?

Bay Area So CA Rest of CA

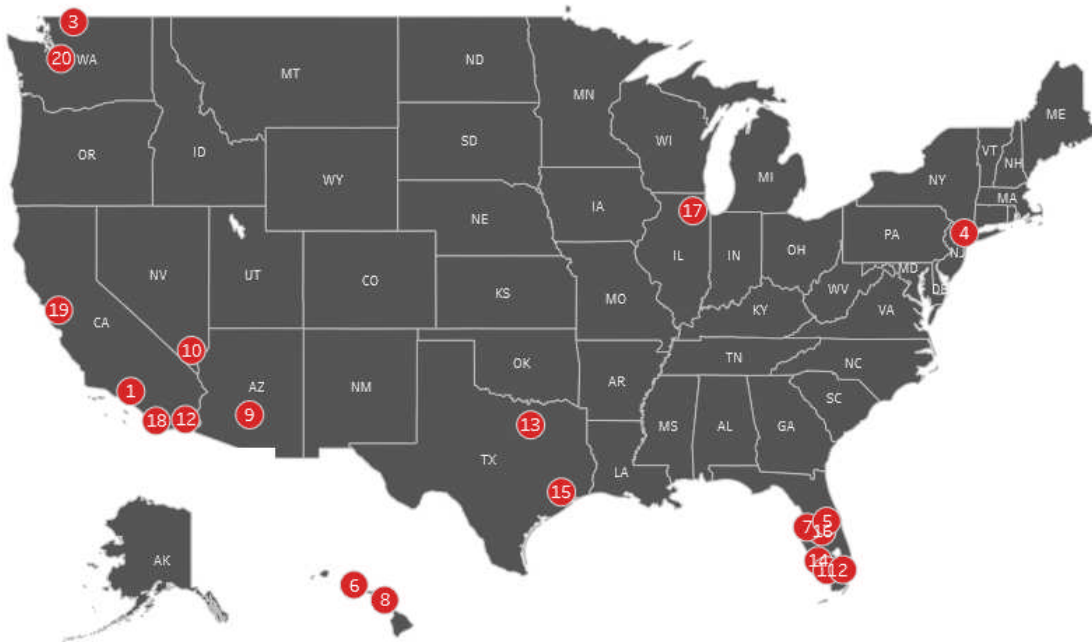






# Top 20 Markets for international traffic

September 2017

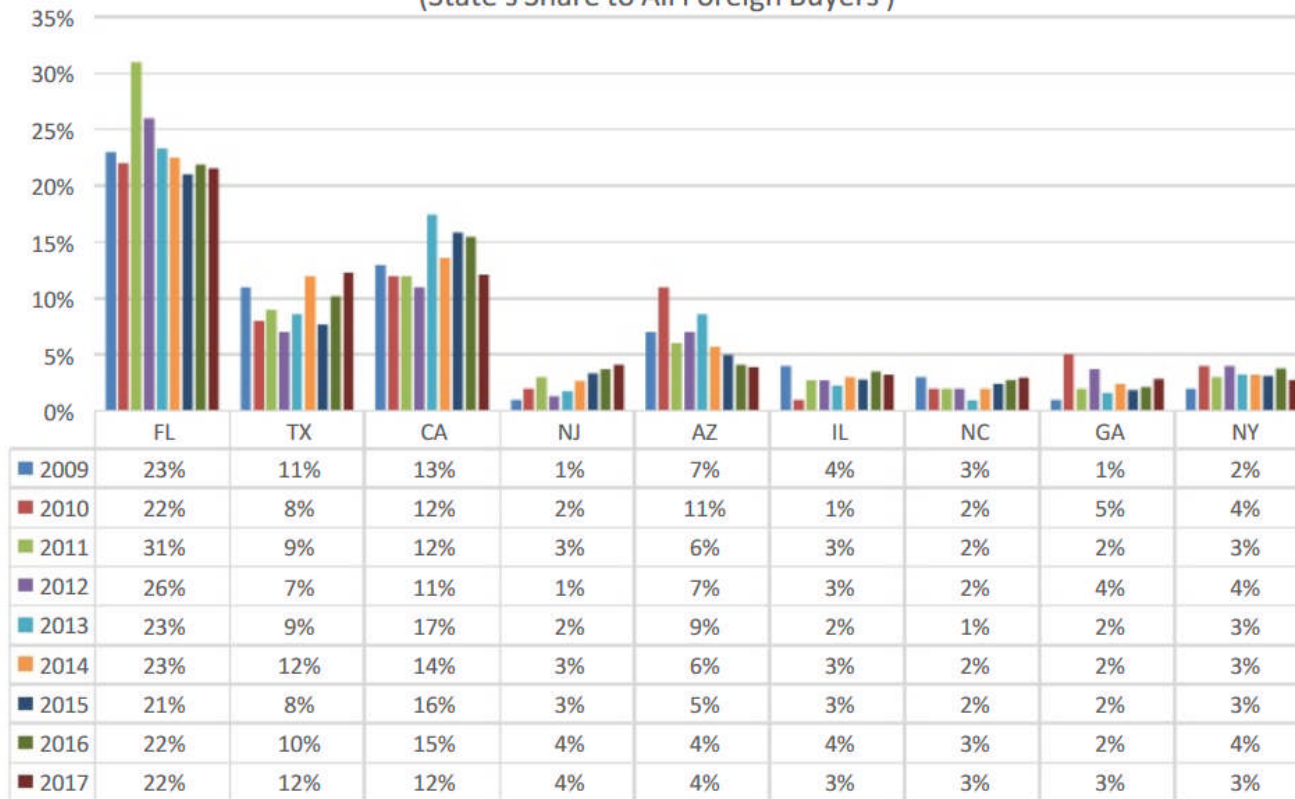


Rank	Market	Rank	Market
1	LA-Long Beach, CA	11	Naples-Immokalee, FL
2	Miami-Fort Lauderdale, FL	12	El Centro, CA
3	Bellingham, WA	13	Dallas-Fort Worth-Arlington, TX
4	New York-Newark, NY/NJ/PA	14	Cape Coral-Fort Myers, FL
5	Orlando-Kissimmee-Sanford, FL	15	Houston- The Woodlands, TX
6	Urban Honolulu, HI	16	Lakeland-Winter Haven, FL
7	Tampa-St. Petersburg, FL	17	Chicago, IL/IN/WI
8	Kahului-Wailuku-Lahaina, HI	18	San Diego-Carlsbad, CA
9	Phoenix-Mesa-Scottsdale, AZ	19	San Francisco – Oakland et al, CA
10	Las Vegas-Henderson-Paradise, NV	20	Seattle-Tacoma-Bellevue, WA



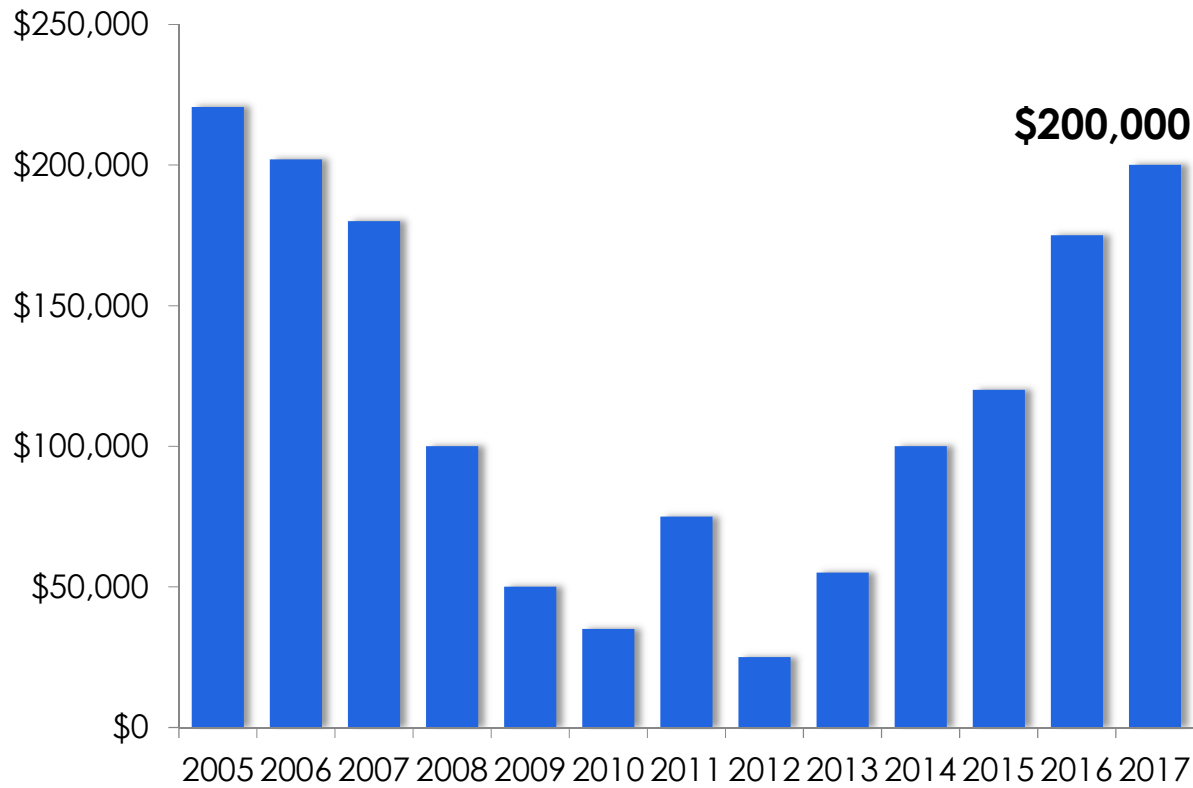
# 4 States Accounted for 1/2 of International Sales

Major Destinations of Foreign Buyers  
(State's Share to All Foreign Buyers )





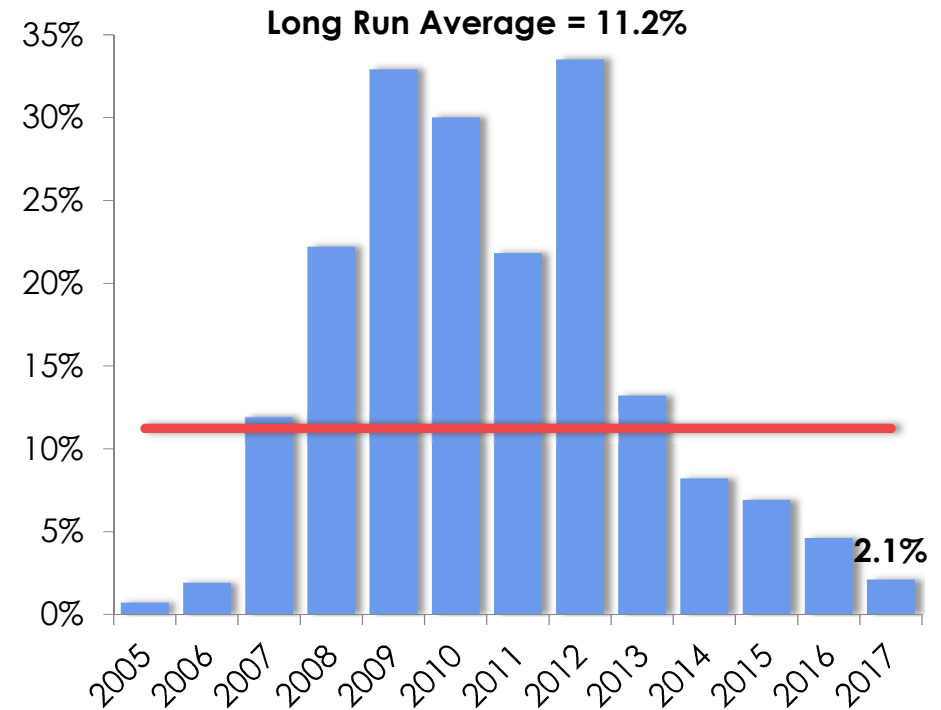
# Net Cash Gain to Sellers Highest since 2006



Q. What was the net cash gain or net loss to the seller as a result of this sale?



# Sellers with Net Cash Loss Dropped to the Lowest Level in the last 11 years

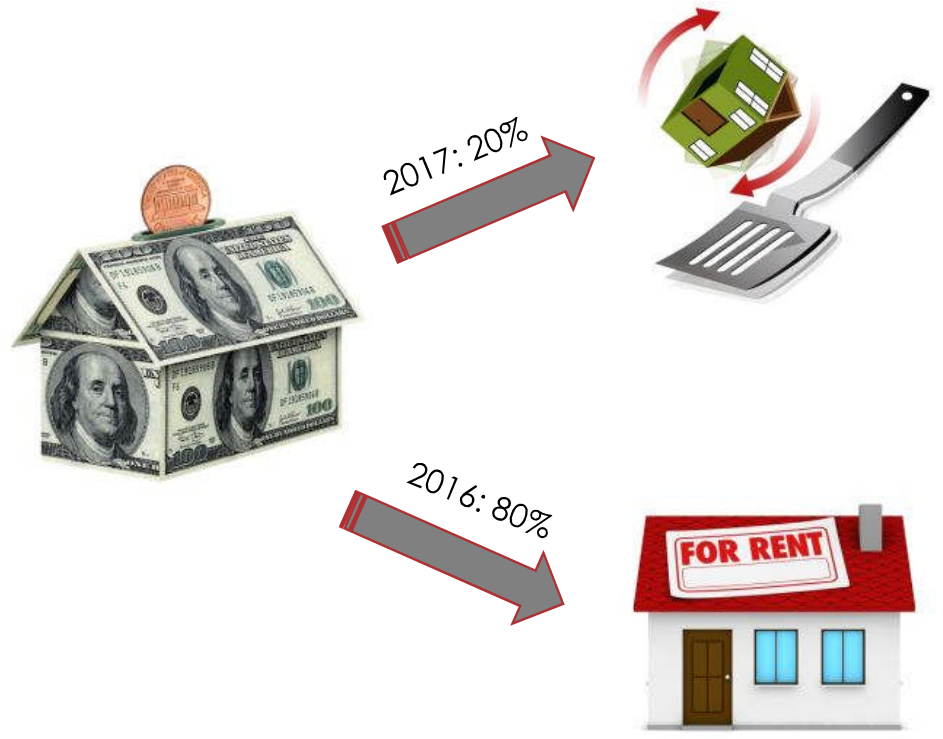
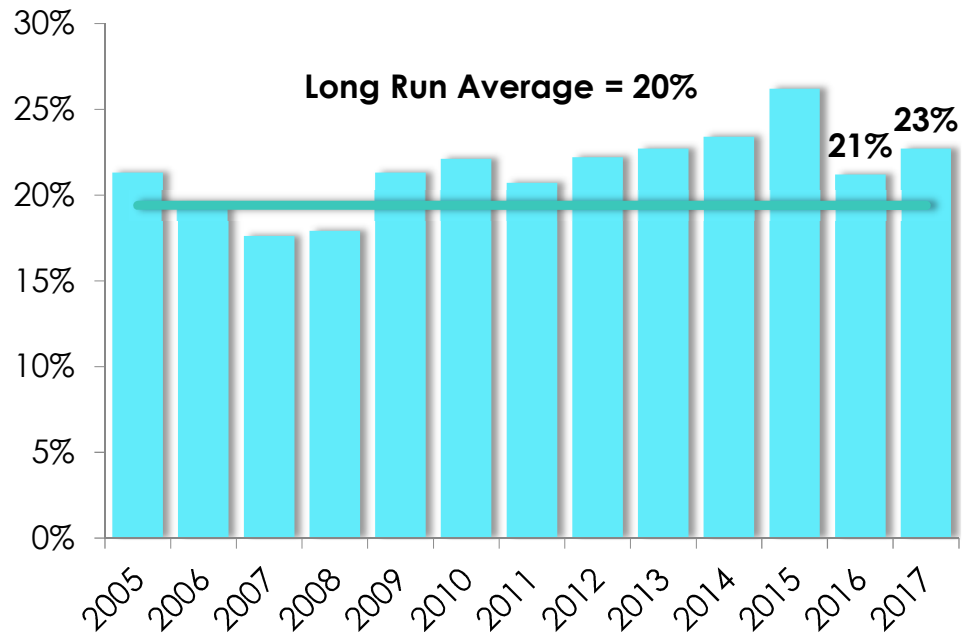


Q. What was the net cash gain or net loss to the seller as a result of this sale?



# More Investors Selling Their Properties; Most of Them Landlords

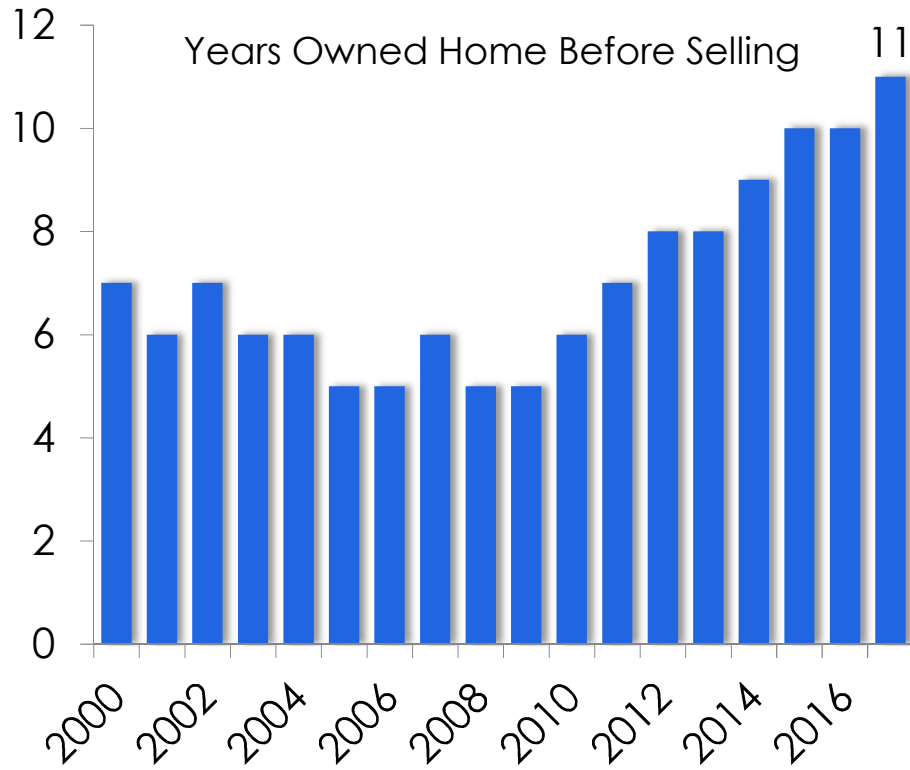
**Sellers Who Owned the Property  
as an Investment**



Q. How was the property occupied?



# Sellers Are Not Moving as Often as Before



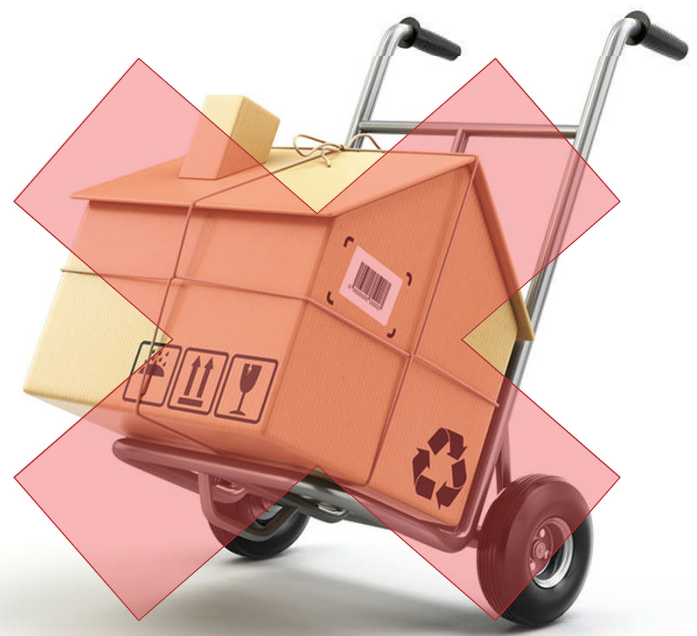
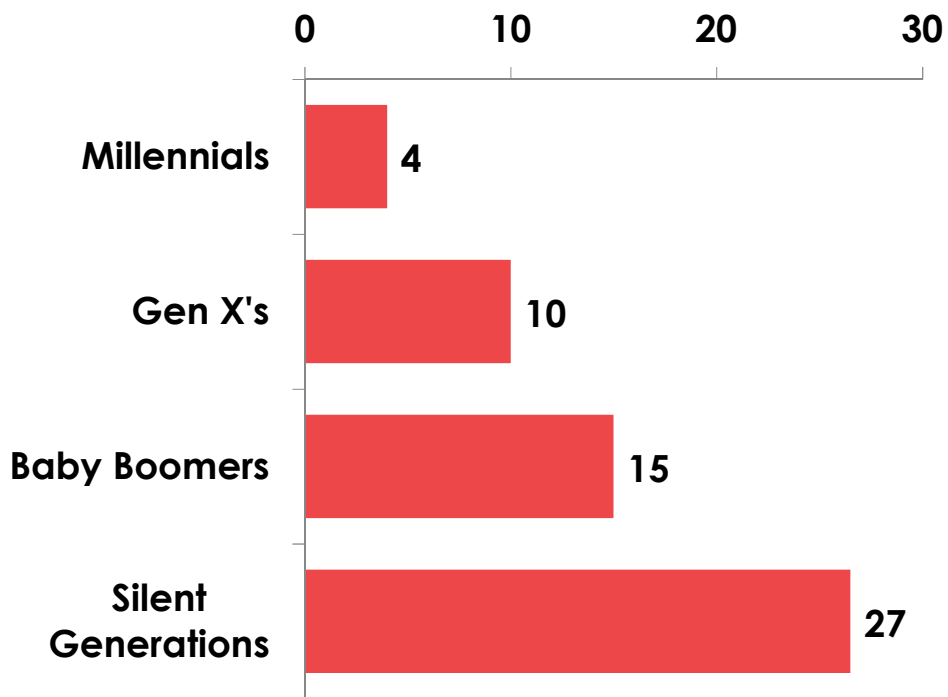
Long-Time Homeowners are not moving as in the past because:

- Low rate on current mortgage
- Low property taxes
- Capital gains hit
- Where can I afford to go?
- Remodel and stay



# ...Especially for Older Generations

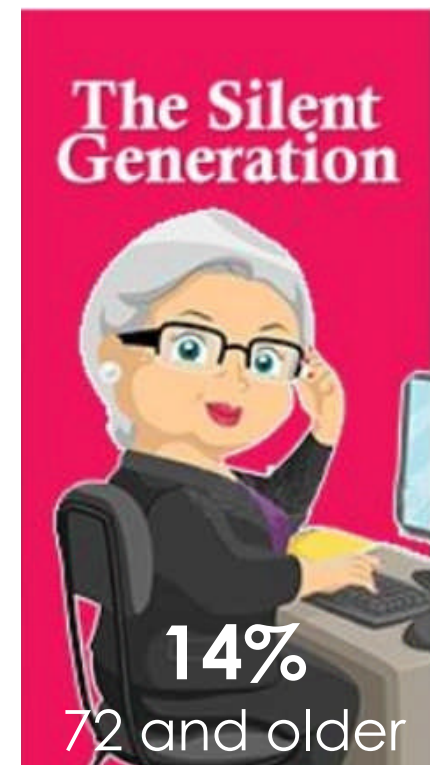
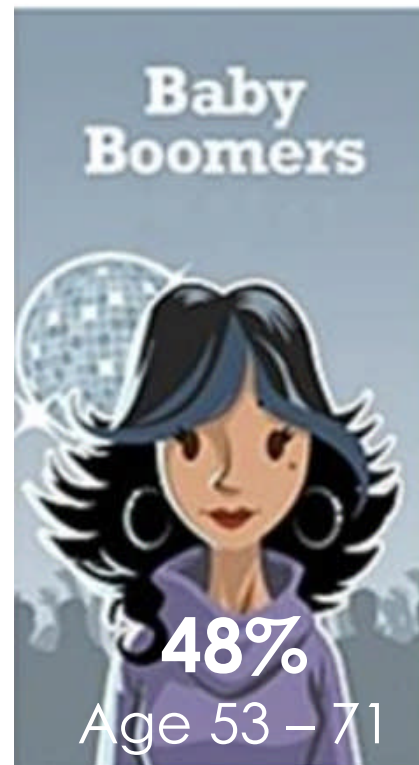
Years Owned Home Before Selling





# Sellers Generation Breakdown

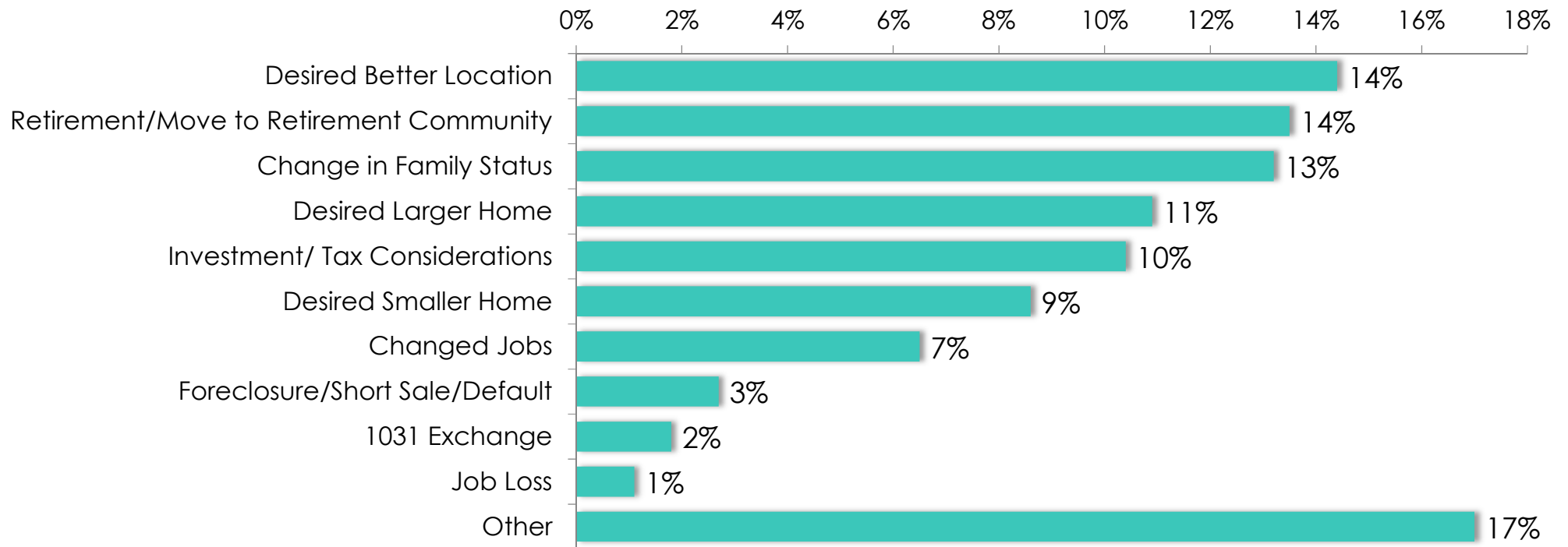
Median Age: 57







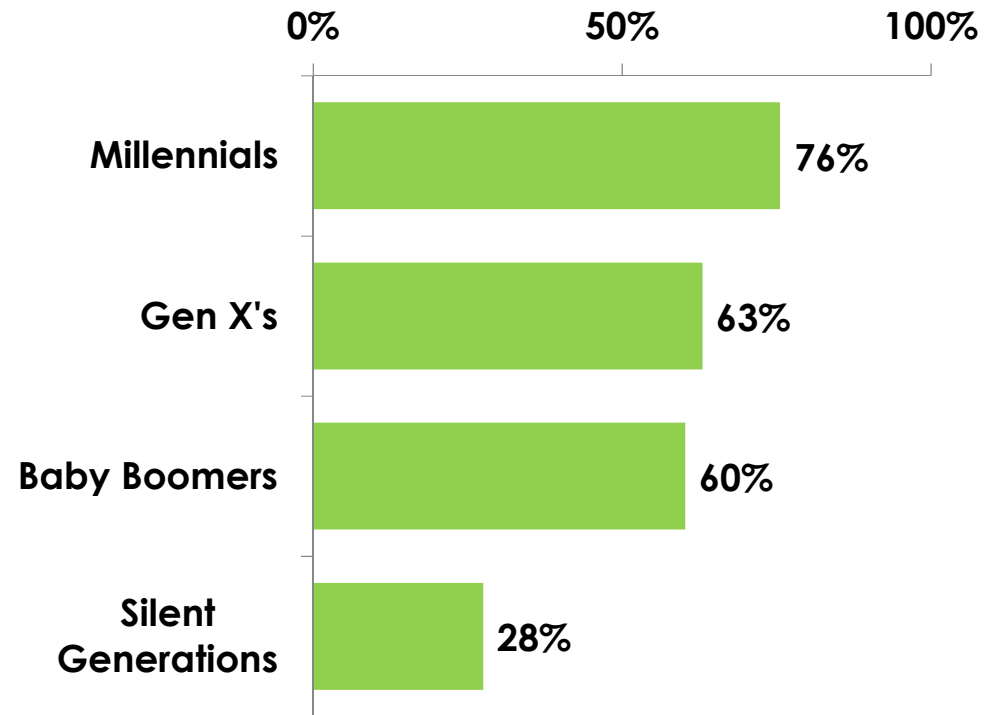
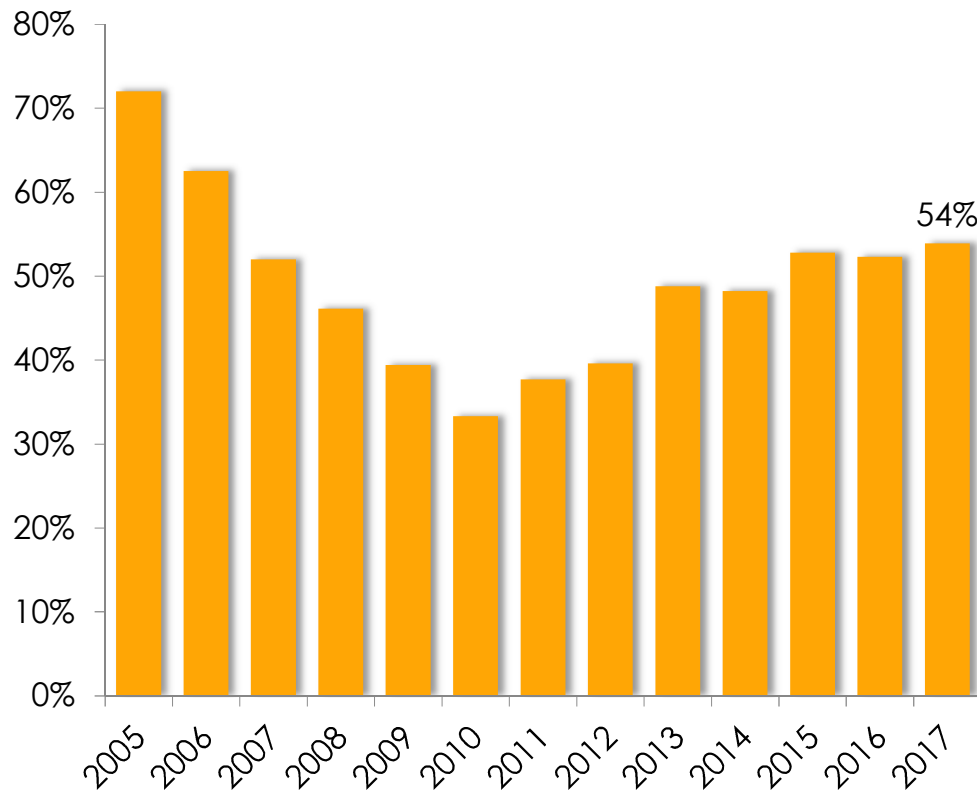
# Reasons For Selling



Q. What was the single most important reason for selling the property?



# Sellers Who Planned to Buy Another Home Reached the Highest Level since 2006





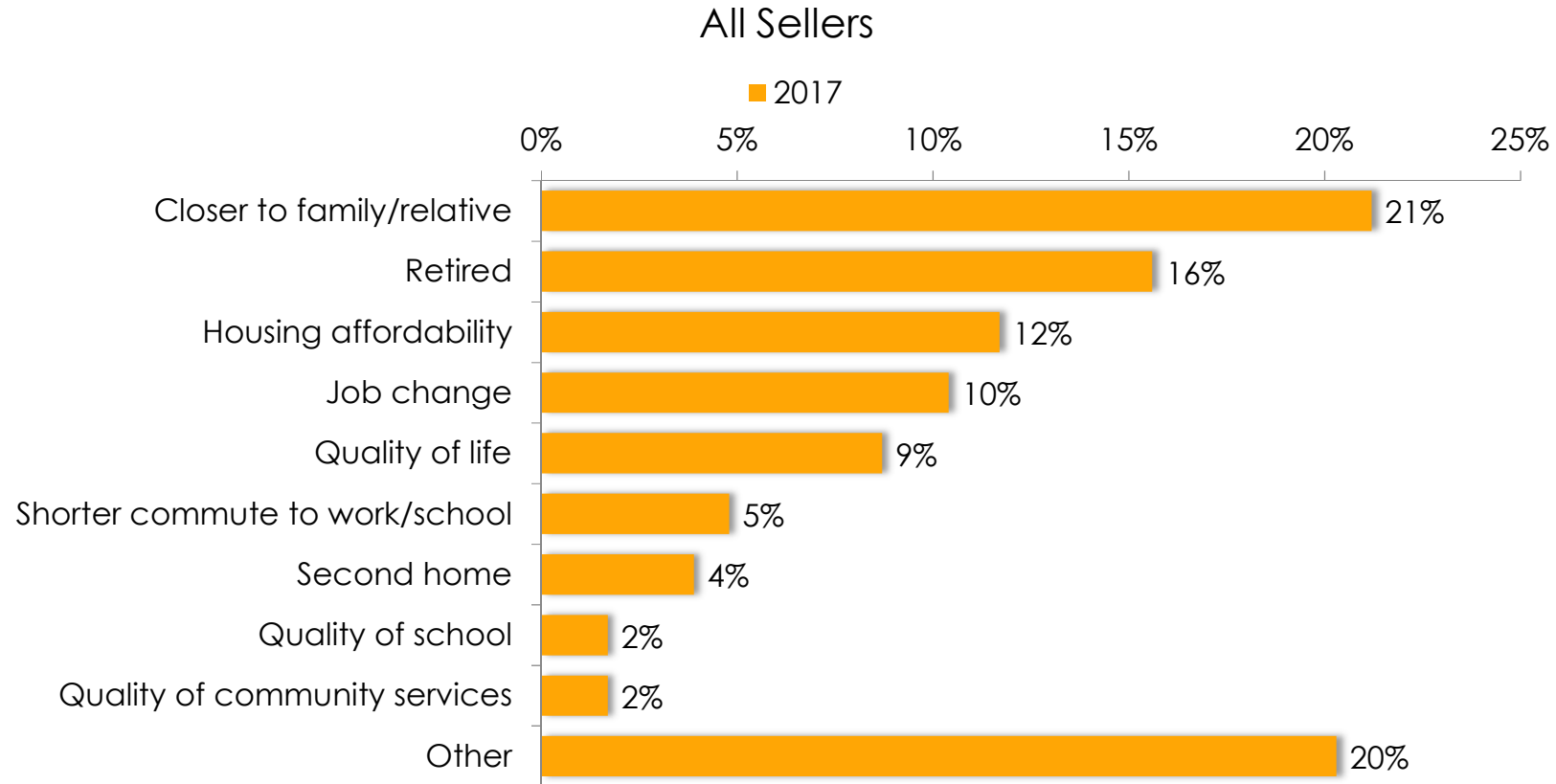
# More Sellers Continue to Move out of California; Highest since 2007

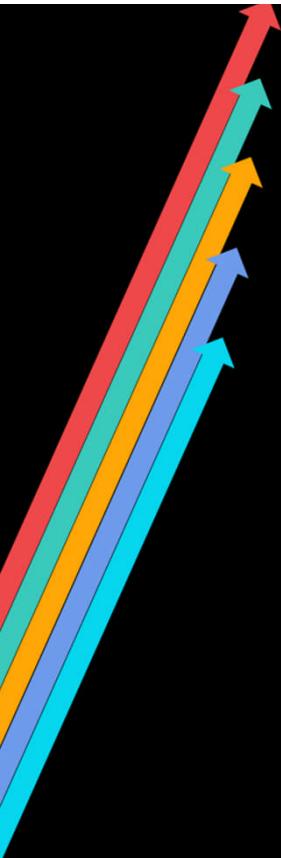
## Location of Seller's New Home

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Within the same county	38%	41%	37%	45%	47%	42%	49%	49%	46%	44%	44%	40%	38%
In another county in California	23%	18%	24%	17%	21%	21%	19%	18%	20%	21%	20%	21%	20%
In another state	31%	28%	29%	27%	19%	20%	20%	22%	19%	22%	22%	25%	28%
Out of US	1%	2%	1%	1%	2%	1%	1%	1%	0%	1%	1%	1%	1%
Don't Know/Not sure	7%	11%	9%	10%	12%	16%	10%	10%	15%	13%	13%	13%	14%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%



# Reasons for Changing County





# Tax Reform



# Tax Reform Proposal

## **Provisions that affect the housing market:**

- Reduce the mortgage interest deduction (MID) cap from \$1M to \$500k
- Cap property tax deductions at \$10,000
- Require five years instead of two for the exclusion of capital gain tax on primary home sales. Taxpayer use of the exclusion would be limited to one sale every five years, rather than one every two.
- Eliminate the MID on second homes
- Homeowners no longer able to deduct interest on home equity loans



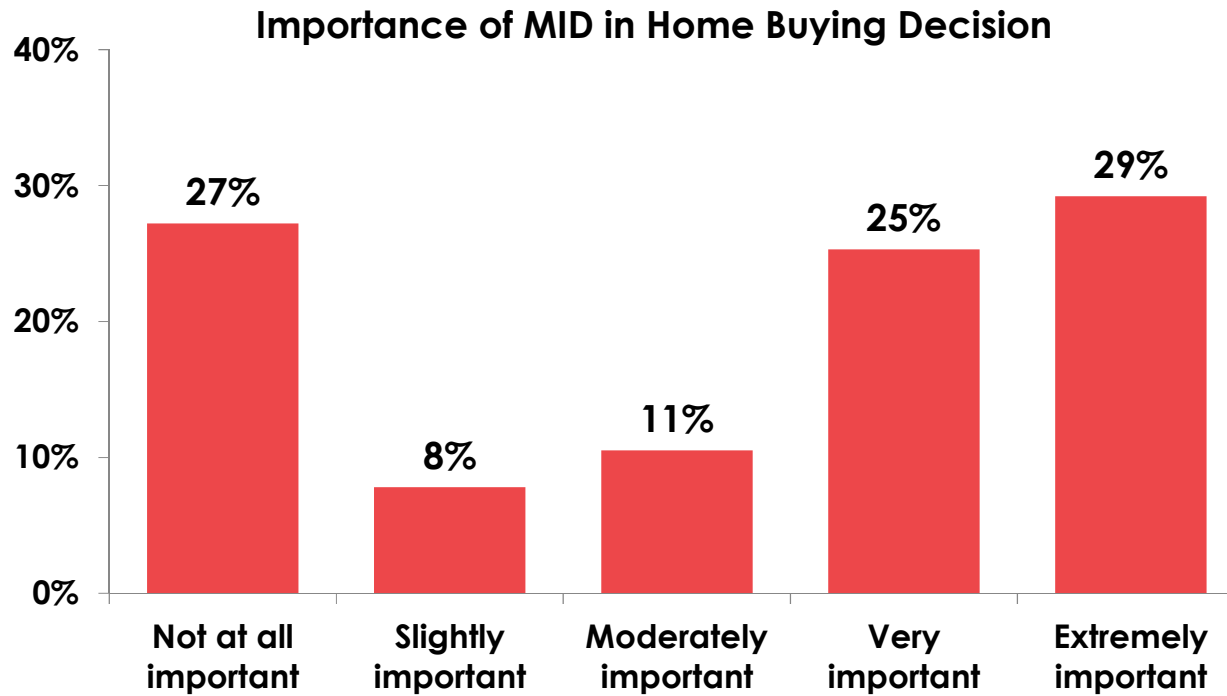
# Impact on the Housing Market

## **Impact on the housing market:**

- Incentives of using MID as a tax saving tool as a homeowner would be nullified, as the standard deduction nearly doubles
- Lowering MID cap and limiting property tax cap increases the cost of owning a home for many homeowners in high cost state
- Further constraint housing supply shortage with the new capital gain tax requirement
- Home values decline as tax saving benefits vanish



# Mortgage Interest Deduction Affects Home Buying Decision



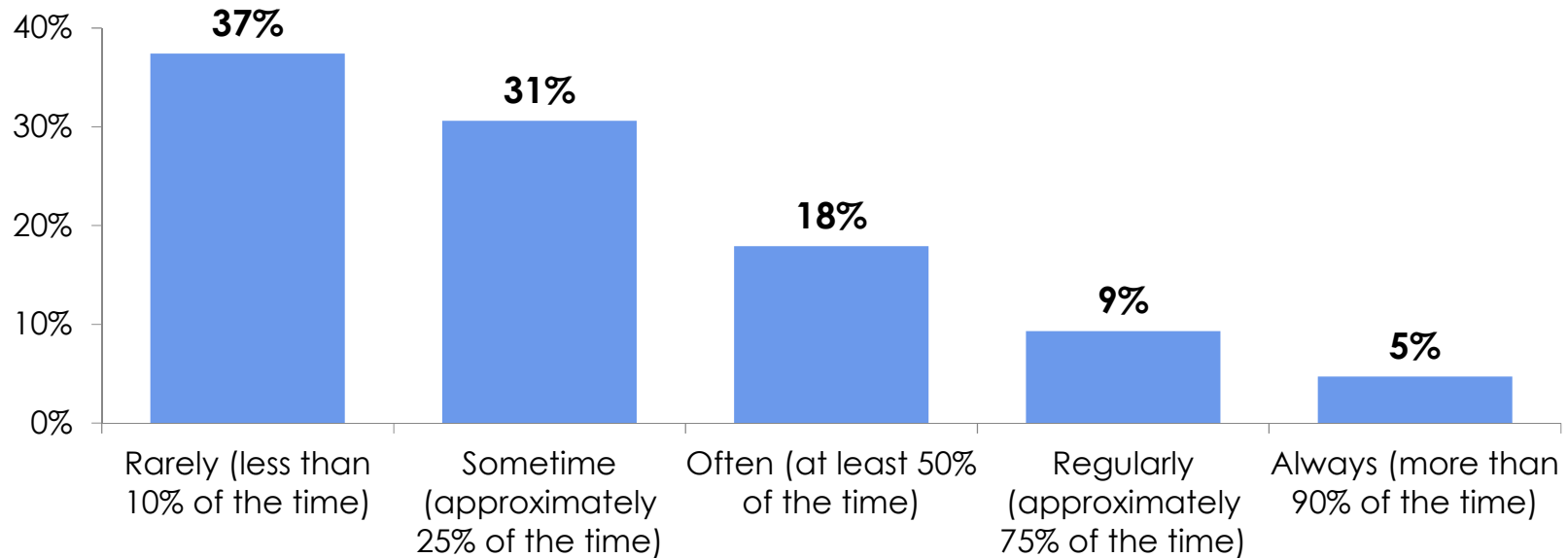
Q. How important was the mortgage interest deduction (MID) in the home buyer's decision to purchase?





# How Much Property Taxes They Pay Also Makes a Difference

### Increase in Property Taxes Dissuade from Buying a New Residence



Q. In general, how often does the increase in property taxes that a homebuyer faces dissuade the homeowner from purchasing a new residence?



# Key Takeaways

- Market competitiveness remains elevated as housing supply continues to be tight
- Home prices near peak level, but not a sign of imminent threat yet as fundamentals remain solid
- First-time buyers are the most affected by the fierce competition, but more are entering the market
- Sellers staying longer in their house, many of those who sold their properties moved out of state because of affordability issue
- Tax reform will have a negative effect on the home buying decision of many potential homebuyers



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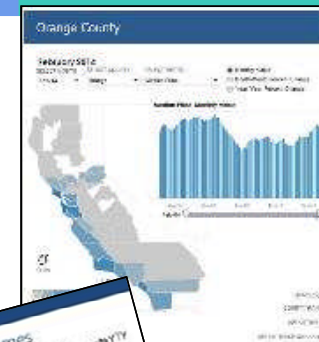
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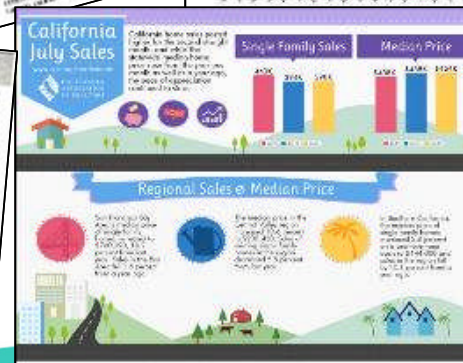


**Market Snapshot**

Category	Value	Change
Single Family Sales	1,234	+12%
Median Price	\$450,000	+5%
Days on Market	30	-2 days
Inventory	1,500	+10%
Price per Sq Ft	\$150	+3%

**Market Snapshot**

The housing market continues to show signs of recovery, with sales of existing detached homes showing a steady increase over the past several months. This growth is supported by a combination of factors, including a strong economy, low interest rates, and a growing population. As a result, the demand for housing remains high, leading to a shortage of inventory and a corresponding increase in prices. This trend is expected to continue in the near future, as the market remains resilient to economic challenges.





# Thank You

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