2016 CALIFORNIA HOUSING MARKET UPDATE

May 26, 2016
Economic Forecasting Conference
Georgia State University
Leslie Appleton Young, Chief Economist C.A.R.
WHAT HAPPENED?
WHAT HAPPENED?

– California existing SF home sales fell by
– CA medina home price dropped 59%
– Q4 2009, 35% of the mortgages in CA were “underwater”
– Foreclosures:
CA SALES IMPROVED AFTER DECLINING TWO YEARS

California 2015 Sales: 407,060 Units, Up 6.4% YTY

*Sales are seasonally adjusted and annualized

SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
SALES OF EXISTING DETACHED HOMES

California, Apr. 2016 Sales: 406,800 Units, +3.6% YTD, -5.4% YTY

*Sales are seasonally adjusted and annualized

SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
MEDIAN PRICE ANNUAL COMPARISON

California, 2015: $474,420, Up 6.2% YTY

ANNUALLY

SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
MEDIAN PRICE OF EXISTING DETACHED HOMES

California, Apr. 2016: $509,100, +5.3% MTM, +5.1% YTY

P: May-07 $594,530

T: Feb-09 $245,230 -59% from peak

Apr-16: $509,100

Apr-15: $484,370

SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
HOME PRICE APPRECIATION HAS BEEN MODERATING SINCE MID 2013

YTY% Chg. in Price

SERIES: Sales of SFH and Condo Units
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
UNDERWATER MORTGAGES
RISING PRICES HAVE REVERSED EQUITY LOSSES

SERIES: Underwater Mortgages
SOURCE: CoreLogic
THE SHARE OF INTERNATIONAL BUYERS DROPPED TO THE LOWEST LEVEL IN 8 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.?

SERIES: 2015 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
TOP U.S. CITIES SEARCHED BY INTERNATIONAL CLIENTS (APRIL 2014 – MARCH 2015)

Index = 100 – Of high interest; Index = 0 – Of little interest

SOURCE: Realtor.com
THE ECONOMIST HOUSE-PRICE INDEX

SERIES: The Economist House-Price Index
SOURCE: The Economist; Hong Kong Rating and Valuation Office; OECD; Standard & Poor’s; Thomson Reuters
CA HOUSING MARKET RECOVERY IN ONE CHART

SERIES: Distressed Sales, Not Seasonally Adjusted
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
WHAT’S WRONG?
• Housing market fundamentals are strong
  – Job & Income growth are positive
  – Mortgage rates are low
  – Lending standards more reasonable
  – Household formation is rebounding
• And yet...
  – Supply well below long-run average
  – Boomers are not moving
  – Share of first-time buyers LOW
  – Affordability-constrained Millennials looking outside CA
1. LOW INVENTORY
INVENTORY UP FROM LAST YEAR BUT PRIMARILY DUE TO SALES DECLINE

Apr. 2015: 3.4 Months; Apr. 2016: 3.5 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.

SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
WHERE IS THE INVENTORY?

– Affordability challenge for repeat buyers
  • Low rate on current mortgage
  • Low property taxes
  • Capital gains hit is viewed as onerous
  • Could not qualify for a mortgage today
  • Why sell when there is nowhere to go I can afford?
– Demographics: Trade-up buyer pool is smaller
– Investors renting instead of flipping
– New construction recovering but LOW
– Measurement error? Off- MLS listings not counted
FEWER HOUSING UNITS BEING TURNED OVER SINCE THE GREAT RECESSION

Housing Turnover Rate
(Single-Family Homes only)

SERIES: Percent of existing single-family homes being sold
SOURCE: Census Bureau, American Community Survey, Moody's Analytics, C.A.R.
Q: How long had the seller lived in their home?
SERIES: 2015 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
2. NEED MORE NEW HOMES
"MISSING" 100,000 NEW UNITS ANNUALLY

2015: 95,822 (42,959 sf, 52,863 mf)
2016f: 108,240 total units

Household Growth: 165,000/yr

SERIES: New Housing Permits
SOURCE: Construction Industry Research Board
## SF BAY AREA POPULATION GROWTH

<table>
<thead>
<tr>
<th></th>
<th>Population Growth '10-'14</th>
<th>Housing Growth 10-'14</th>
<th>Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda</td>
<td>4.2%</td>
<td>1.3%</td>
<td>Undersupply</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>3.6%</td>
<td>1.4%</td>
<td>Undersupply</td>
</tr>
<tr>
<td>Marin</td>
<td>1.4%</td>
<td>0.4%</td>
<td>Undersupply</td>
</tr>
<tr>
<td>Napa</td>
<td>2.0%</td>
<td>0.7%</td>
<td>Undersupply</td>
</tr>
<tr>
<td>San Francisco</td>
<td>3.9%</td>
<td>1.3%</td>
<td>Undersupply</td>
</tr>
<tr>
<td>San Mateo</td>
<td>3.7%</td>
<td>0.9%</td>
<td>Undersupply</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>4.9%</td>
<td>2.0%</td>
<td>Undersupply</td>
</tr>
<tr>
<td>Solano</td>
<td>2.6%</td>
<td>1.3%</td>
<td>Undersupply</td>
</tr>
<tr>
<td>Sonoma</td>
<td>1.4%</td>
<td>1.0%</td>
<td>&quot;Balanced&quot;</td>
</tr>
</tbody>
</table>

**SOURCE:** CA Department of Finance, Pacific Union Association
# U.S.: MASSIVE HOUSING SHORTAGE
*(FROM 2012 TO 2015)*

<table>
<thead>
<tr>
<th>Metro</th>
<th>Job Creation</th>
<th>New Home Construction</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco-Oakland</td>
<td>234,000</td>
<td>30,000</td>
<td>7.8</td>
</tr>
<tr>
<td>Grand Rapids</td>
<td>46,000</td>
<td>6,000</td>
<td>7.8</td>
</tr>
<tr>
<td>San Jose</td>
<td>118,000</td>
<td>23,000</td>
<td>5.1</td>
</tr>
<tr>
<td>San Diego</td>
<td>101,000</td>
<td>21,000</td>
<td>4.9</td>
</tr>
<tr>
<td>Miami-Ft. Lauderdale</td>
<td>191,000</td>
<td>48,000</td>
<td>3.9</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>57,000</td>
<td>15,000</td>
<td>3.9</td>
</tr>
<tr>
<td>New York City</td>
<td>400,000</td>
<td>114,000</td>
<td>3.5</td>
</tr>
</tbody>
</table>
3. NEED MORE AFFORDABLE HOMES
SHARE OF FIRST-TIME BUYERS REMAINS BELOW LONG-RUN AVERAGE

% First-Time Home Buyers

Long Run Average

Long Run Average = 38%


29.5%

SERIES: 2015 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
Q. What was the amount of down payment?

SERIES: 2015 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
The difference between California's prices and national home prices increased from $10K in 1970 to $255K today.
HOUSING AFFORDABILITY PEAKED Q1 2012
PRICES V. LOW RATES AND INCOME GROWTH

% OF HOUSEHOLDS THAT CAN
BUY A MEDIAN-PRICED HOME

SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
HOUSING AFFORDABILITY IN CA: BY COUNTY

2016-Q1: % able to purchase median-priced home

SERIES: Housing Affordability Index
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
HOW WAGES MEASURED AGAINST INCOME REQUIRED TO BUY A HOME

California

2014 Annual Mean Wage

$0

$20,000

$40,000

$60,000

$80,000

$100,000

$120,000

Retail Salespersons
Chefs and Head Cooks
Elementary School Teachers
Firefighters
Police and Sherriff's Patrol Officers
Computer Programmers
Registered Nurses
Software Developers (Applications)
Min. Inc Required to Buy a Med. Home

Required to Buy a Home

$27,010

$45,340

$69,990

$71,630

$87,520

$89,250

$98,400

$119,970

$96,642

HOMEOWNERSHIP RATES

California Vs. U.S.

Series: Homeownership Rates
Source: U.S. Census Bureau
REASONS FOR CHANGING COUNTY
ALL BUYERS (2014 VS. 2015)

- Housing affordability: 2014 - 14%, 2015 - 23%
- Quality of life: 2014 - 14%, 2015 - 16%
- Second home: 2014 - 10%, 2015 - 10%
- Shorter commute to work/school: 2014 - 10%, 2015 - 10%
- Job change: 2014 - 9%, 2015 - 10%
- Closer to family/relative: 2014 - 8%, 2015 - 13%
- Quality of school: 2014 - 8%, 2015 - 7%
- Retired: 2014 - 3%, 2015 - 5%
- Quality of community services: 2014 - 3%, 2015 - 5%
- Other: 2014 - 14%, 2015 - 18%

SERIES: 2015 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
WHERE ARE WE HEADED?
1. MILLENNIALS MOVING OUT OF CA – CAN’T AFFORD TO LIVE NEAR JOBS NEW GROWTH CENTERS EMERGE
CASE STUDY:
2015 BEST PERFORMING CITIES

Milken Institute
## COMPONENTS OF THE BEST-PERFORMING CITIES INDEX

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job growth (l=2009)</td>
<td>0.143</td>
</tr>
<tr>
<td>Job growth (l=2013)</td>
<td>0.143</td>
</tr>
<tr>
<td>Wage and salary growth (l=2008)</td>
<td>0.143</td>
</tr>
<tr>
<td>Wage and salary growth (l=2012)</td>
<td>0.143</td>
</tr>
<tr>
<td>Short-term job growth (Aug 2014-Aug 2015)</td>
<td>0.143</td>
</tr>
<tr>
<td>High-tech GDP growth (l=2009)</td>
<td>0.071</td>
</tr>
<tr>
<td>High-tech GDP growth (l=2013)</td>
<td>0.071</td>
</tr>
<tr>
<td>High-tech GDP location quotient (2014)</td>
<td>0.071</td>
</tr>
<tr>
<td>Number of high-tech industries with GDP LQ&gt;1 (2014)</td>
<td>0.071</td>
</tr>
</tbody>
</table>

Note: l refers to the beginning year of index. Weights do not add up to 1 due to rounding.
Source: Milken Institute.
RISE IN BUSINESS SPENDING ON SOFTWARE AND INFORMATION AND COMMUNICATION TECHNOLOGY

Sources: Milken Institute, IHS Global Insight.
### TOP 10 BEST-PERFORMING CITIES ACCORDING TO 2015 INDEX

<table>
<thead>
<tr>
<th>Metropolitan statistical area (MSA)</th>
<th>2015 rank</th>
<th>2014 rank</th>
<th>Rank change</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Jose-Sunnyvale-Santa Clara, CA</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>San Francisco-San Mateo-Redwood City, CA</td>
<td>2</td>
<td>1</td>
<td>-1</td>
</tr>
<tr>
<td>Provo-Orem, UT</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Austin-Round Rock, TX</td>
<td>4</td>
<td>2</td>
<td>-2</td>
</tr>
<tr>
<td>Dallas-Plano-Irving, TX</td>
<td>5</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Raleigh, NC</td>
<td>6</td>
<td>5</td>
<td>-1</td>
</tr>
<tr>
<td>Seattle-Bellevue-Everett, WA</td>
<td>7</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Portland-Vancouver-Hillsboro, OR-WA</td>
<td>8</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Greeley, CO</td>
<td>9</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>San Luis Obispo-Paso Robles-Arroyo Grande, CA</td>
<td>10</td>
<td>24</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Milken Institute.
### Top 10 Best-Performing Small Cities

<table>
<thead>
<tr>
<th>Metropolitan statistical area (MSA)</th>
<th>2015 rank</th>
<th>2014 rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fargo, ND-MN</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bismarck, ND</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Ames, IA</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Janesville-Beloit, WI</td>
<td>4</td>
<td>41</td>
</tr>
<tr>
<td>Odessa, TX</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>The Villages, FL</td>
<td>6</td>
<td>(new)</td>
</tr>
<tr>
<td>Columbus, IN</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Bend-Redmond, OR</td>
<td>8</td>
<td>46</td>
</tr>
<tr>
<td>Logan, UT-ID</td>
<td>9</td>
<td>35</td>
</tr>
<tr>
<td>Auburn-Opelika, AL</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Milken Institute.
MILLENNIALS: TOMORROW’S HOME OWNERS?
OVER 1/3 LIVE WITH THEIR PARENTS

Q: What is your current living situation?
SERIES: 2014 Millennials Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
ATTITUDE TOWARD THE HOME BUYING PROCESS – MIXED RESULTS

SOURCE: How would you describe your attitude towards the home buying process? C.A.R. 2014 Millennial Survey

- Positive: 50%
- Negative: 34%
- Neutral: 8%
- N/A: 4%
- Other: 4%
MOST MILLENNIALS UNCERTAIN/DOUBTFUL THAT THEY COULD OBTAIN A MORTGAGE

Q: Could you obtain a mortgage if you applied now?

- Yes: 22%
- No: 33%
- Don't know: 45%

PEOPLE WOULD PREFER THE FOLLOWING OVER GOING THROUGH THE HOME MORTGAGE PROCESS AGAIN:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain 10 pounds</td>
<td>23%</td>
</tr>
<tr>
<td>Spend 24 hours with the person you most dislike</td>
<td>12%</td>
</tr>
<tr>
<td>Get a root canal</td>
<td>7%</td>
</tr>
<tr>
<td>Spend a night in prison</td>
<td>7%</td>
</tr>
</tbody>
</table>

SOURCE: Guaranteed Rate Mortgage Survey of 1,000 adults 25 and older  USA Today April 2014
2. BOOMERS STAYING PUT
BOOMERS – BORN BETWEEN 1946-1964

What is your age?

SERIES: 2014 Baby Boomer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
What is your marital status?

SERIES: 2014 Baby Boomer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
3/4 BABY BOOMERS ARE HOME OWNERS

What is your current living situation?

SERIES: 2014 Baby Boomer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
Do you have equity in your home?

SERIES: 2014 Baby Boomer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

MOST HAVE EQUITY IN THEIR HOME

Yes, 92%

No, 8%
MAJORITY DO NOT PLAN TO SELL HOME WHEN THEY RETIRE

Do you plan to sell your current home when you retire?

Yes, 10%

Don't know/unsure, 32%

No, 59%

SERIES: 2014 Baby Boomer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
Do you worry about your children’s ability to become home owners in the future?

SERIES: 2014 Baby Boomer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

MAJORITY WORRY ABOUT CHILDRENS’ ABILITY TO BECOME HOME OWNERS

Yes, 55%
No, 45%
Do you plan to help your children with their down payment to purchase a home?

SERIES: 2014 Baby Boomer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
WHAT KEEPS BOOMERS UP AT NIGHT?

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nothing</td>
<td>39%</td>
</tr>
<tr>
<td>Bills/ finances</td>
<td>13%</td>
</tr>
<tr>
<td>Stress/ anxiety</td>
<td>6%</td>
</tr>
<tr>
<td>Family issues</td>
<td>4%</td>
</tr>
<tr>
<td>Work</td>
<td>4%</td>
</tr>
<tr>
<td>Job security</td>
<td>4%</td>
</tr>
<tr>
<td>Ache/ pain</td>
<td>4%</td>
</tr>
<tr>
<td>Insomnia</td>
<td>3%</td>
</tr>
<tr>
<td>Health concerns</td>
<td>3%</td>
</tr>
<tr>
<td>TV/ internet</td>
<td>2%</td>
</tr>
<tr>
<td>World politics</td>
<td>2%</td>
</tr>
<tr>
<td>Economy</td>
<td>1%</td>
</tr>
</tbody>
</table>

What keeps you up at night?

SERIES: 2014 Baby Boomer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
2016 FORECAST
### CALIFORNIA HOUSING MARKET OUTLOOK

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SFH Resales (000s)</strong></td>
<td>416.5</td>
<td>422.6</td>
<td>439.8</td>
<td>414.9</td>
<td>382.7</td>
<td>407.1</td>
<td>432.6</td>
</tr>
<tr>
<td>%Change</td>
<td>-12.3%</td>
<td>1.4%</td>
<td>4.1%</td>
<td>-5.9%</td>
<td>-7.8%</td>
<td>6.4%</td>
<td>6.3%</td>
</tr>
<tr>
<td><strong>Median Price ($000s)</strong></td>
<td>$305.0</td>
<td>$286.0</td>
<td>$319.3</td>
<td>$407.2</td>
<td>$446.9</td>
<td>$474.4</td>
<td>$489.4</td>
</tr>
<tr>
<td>%Change</td>
<td>10.9%</td>
<td>-6.2%</td>
<td>11.6%</td>
<td>27.5%</td>
<td>9.8%</td>
<td>6.2%</td>
<td>3.2%</td>
</tr>
<tr>
<td><strong>Housing Affordability</strong></td>
<td>48%</td>
<td>53%</td>
<td>51%</td>
<td>36%</td>
<td>30%</td>
<td>31%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>30-Yr FRM</strong></td>
<td>4.7%</td>
<td>4.5%</td>
<td>3.7%</td>
<td>4.0%</td>
<td>4.2%</td>
<td>3.9%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

**SERIES:** CA Housing Market Outlook  
**SOURCE:** CALIFORNIA ASSOCIATION OF REALTORS®
SALES UP FOR 2015 AND CONTINUE TO IMPROVE IN 2016; PRICE WILL GROW STEADILY THIS YEAR AND NEXT

**Sales of Existing Detached Homes**

- **Units (Thousand)**
  - 2005: 407.1
  - 2007: 432.6
  - 2009: 407.1
  - 2011: 432.6
  - 2013: 407.1
  - 2015: 432.6

**Median Price**

- **Price (Thousand)**
  - 2005: $474
  - 2007: $489

**Series:** CA Housing Market Outlook

**Source:** CALIFORNIA ASSOCIATION OF REALTORS®
KEY TAKEAWAYS

• Both CA home sales and prices will be up mid-single digits in 2016
• Fundamental demand drivers (jobs; rates; household formation) are strong
• Housing affordability an insurmountable hurdle for many
• Trading up/down is too expensive for Boomers
• CA will see accelerating out-migration of Millennials in search of housing they can afford
STAY CONNECTED WITH RESEARCH

facebook.com/CARResearchGroup

twitter.com/CARResearchInfo

On.car.org/CARRResearch

Housingmatters.car.org
THANK YOU!

www.car.org/marketdata
lesliea@car.org

This presentation can be found on
www.car.org/marketdata
Speeches & Presentations