

2016 CALIFORNIA HOUSING MARKET UPDATE

May 26, 2016

Economic Forecasting Conference

Georgia State University

Leslie Appleton Young, Chief Economist C.A.R.

WHAT HAPPENED?

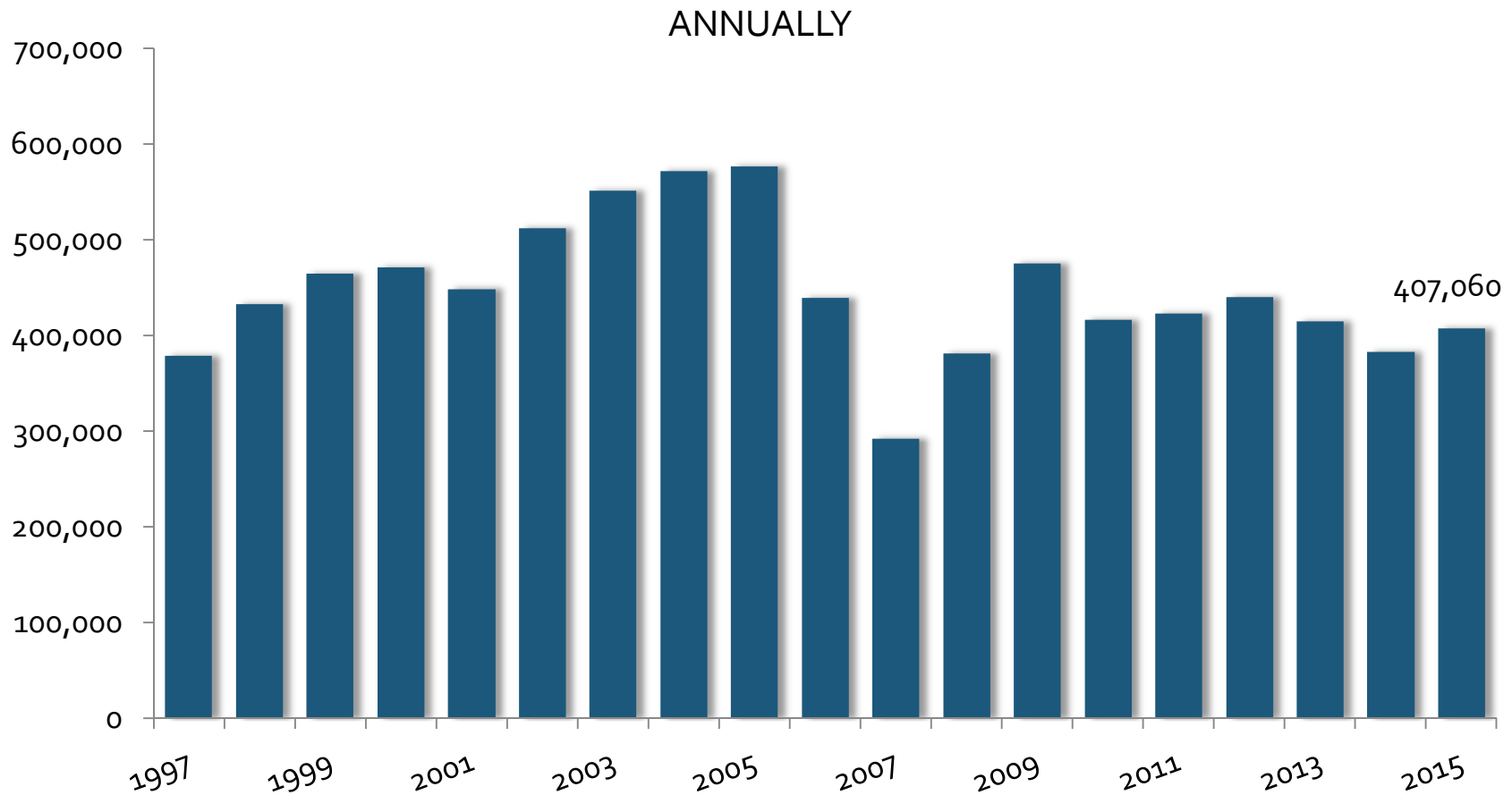


WHAT HAPPENED?

- California existing SF home sales fell by
- CA mediana 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

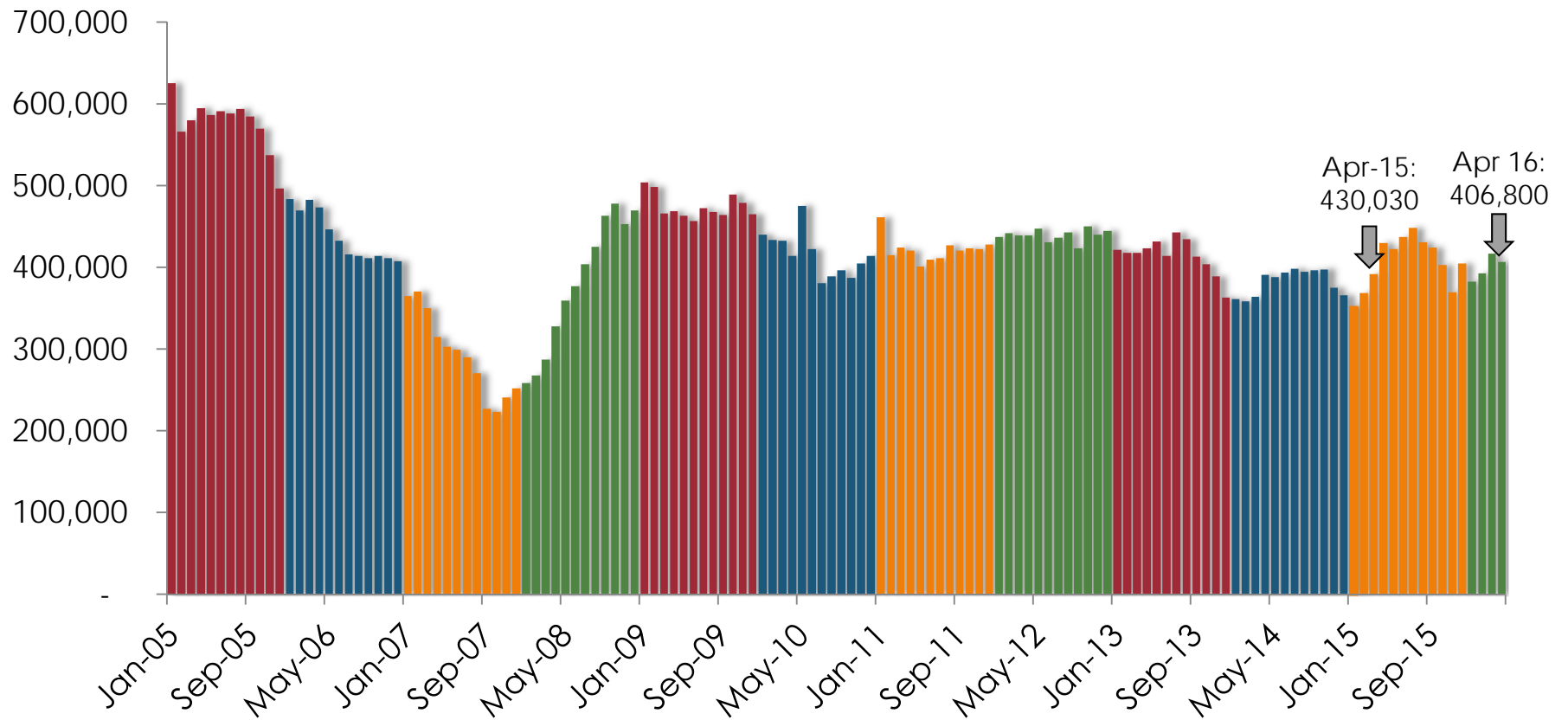


SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized

SALES OF EXISTING DETACHED HOMES

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



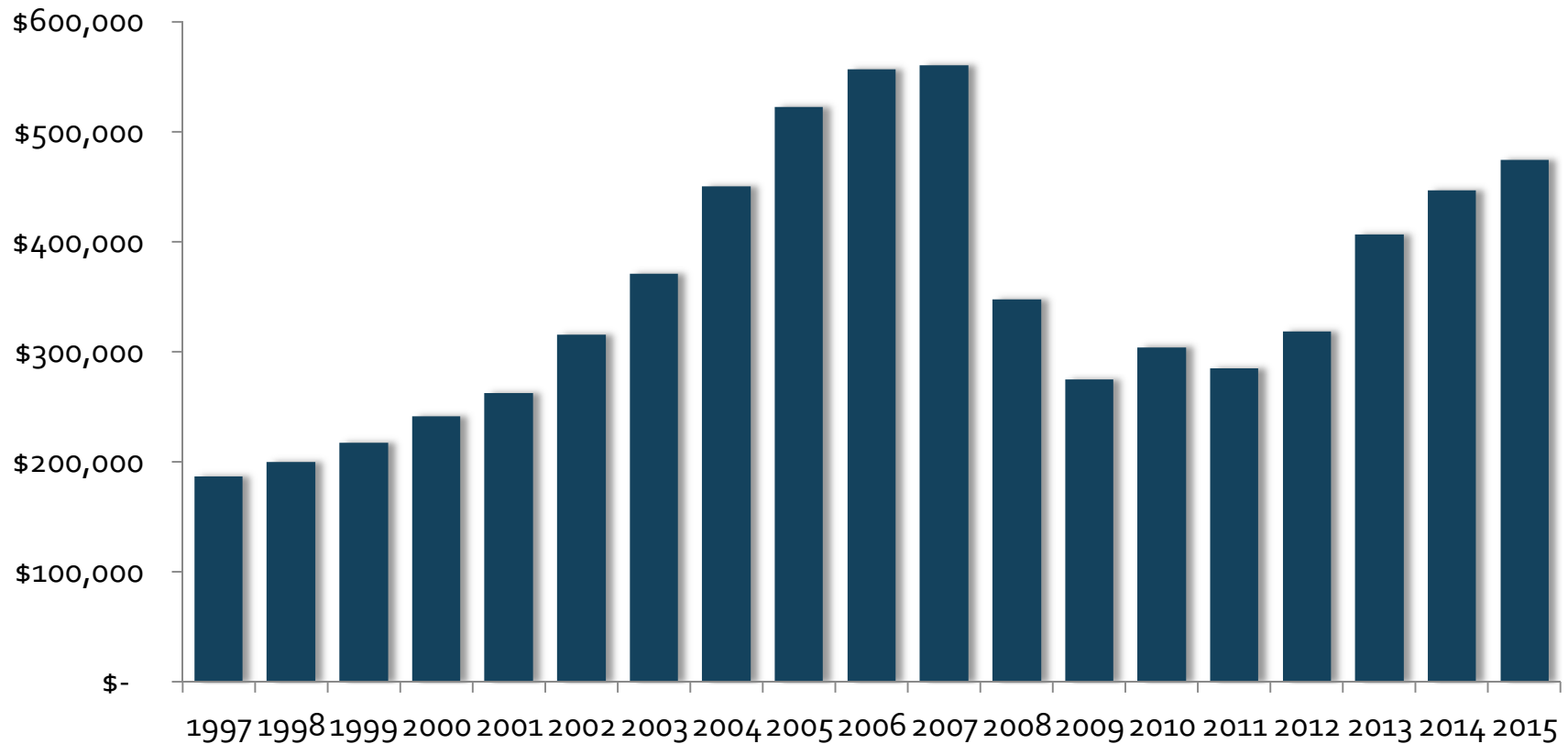
SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized

MEDIAN PRICE ANNUAL COMPARISON

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

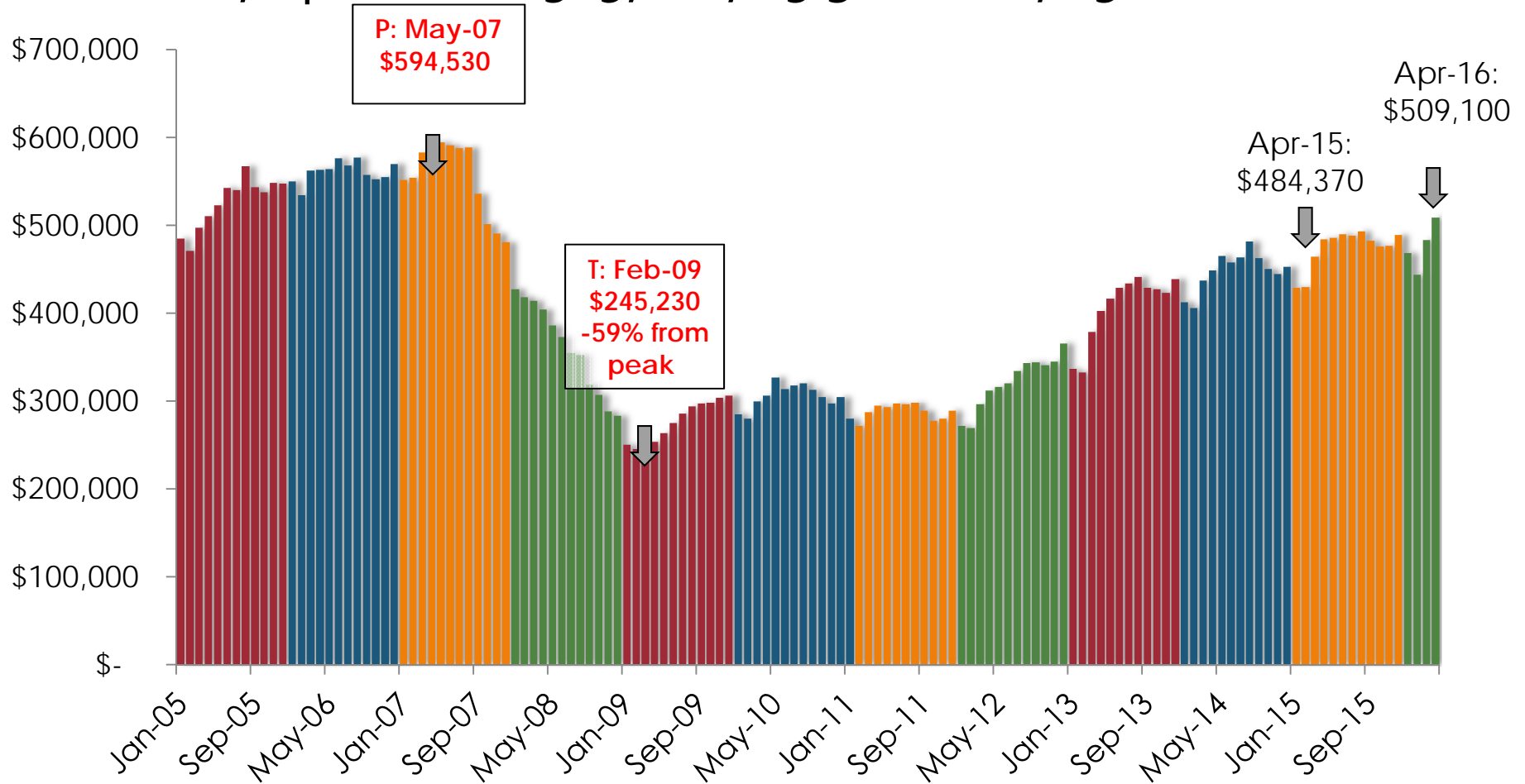
ANNUALLY



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

MEDIAN PRICE OF EXISTING DETACHED HOMES

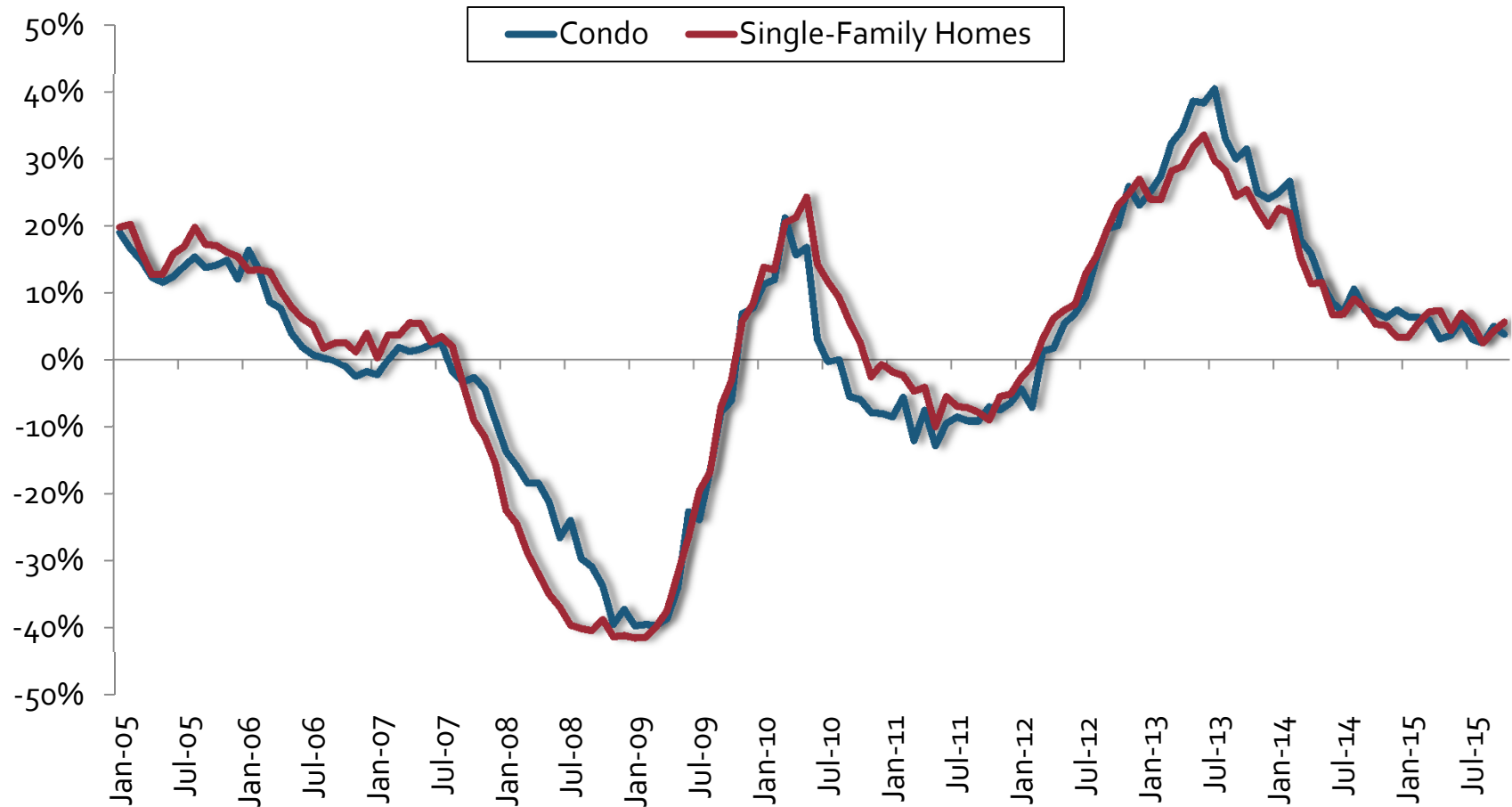
California, Apr. 2016: \$509,100, +5.3% MTM, +5.1% YTY



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

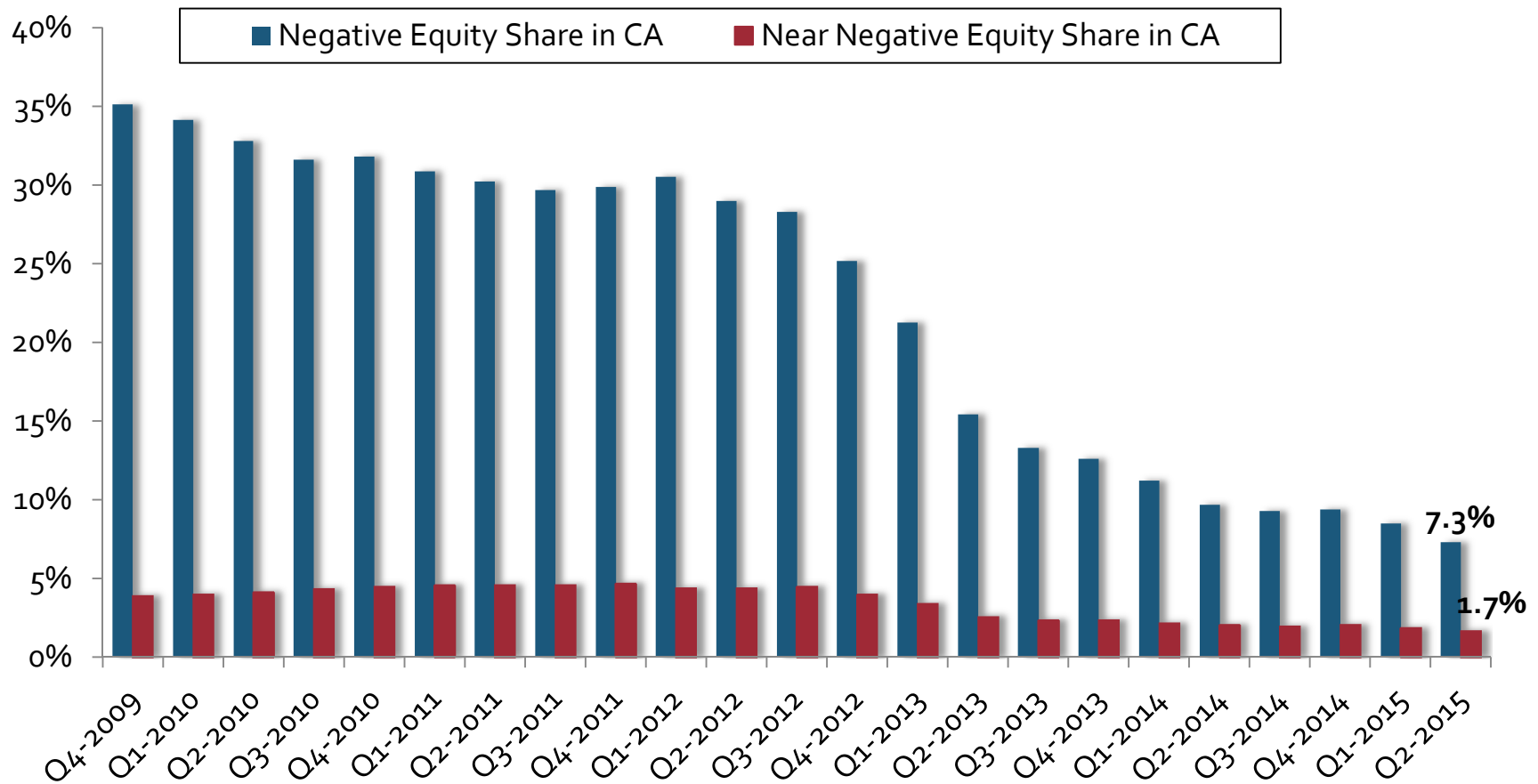


SERIES: Sales of SFH and Condo Units

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

UNDERWATER MORTGAGES

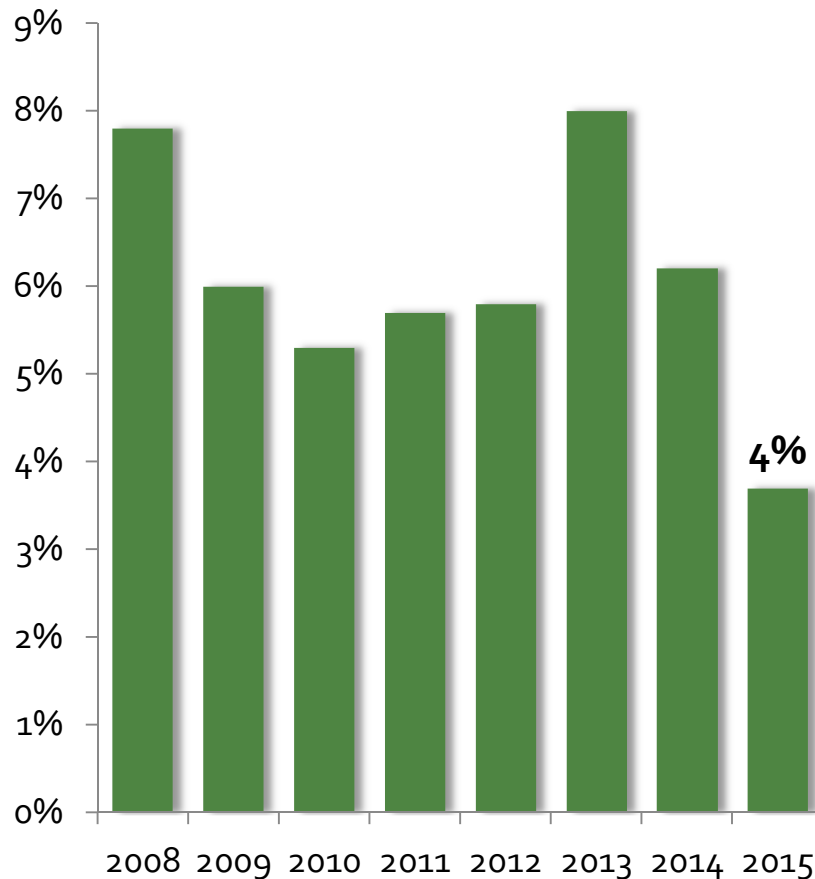
RISING PRICES HAVE REVERSED EQUITY LOSSES



SERIES: Underwater Mortgages

SOURCE: CoreLogic

THE SHARE OF INTERNATIONAL BUYERS DROPPED TO THE LOWEST LEVEL IN 8 YEARS



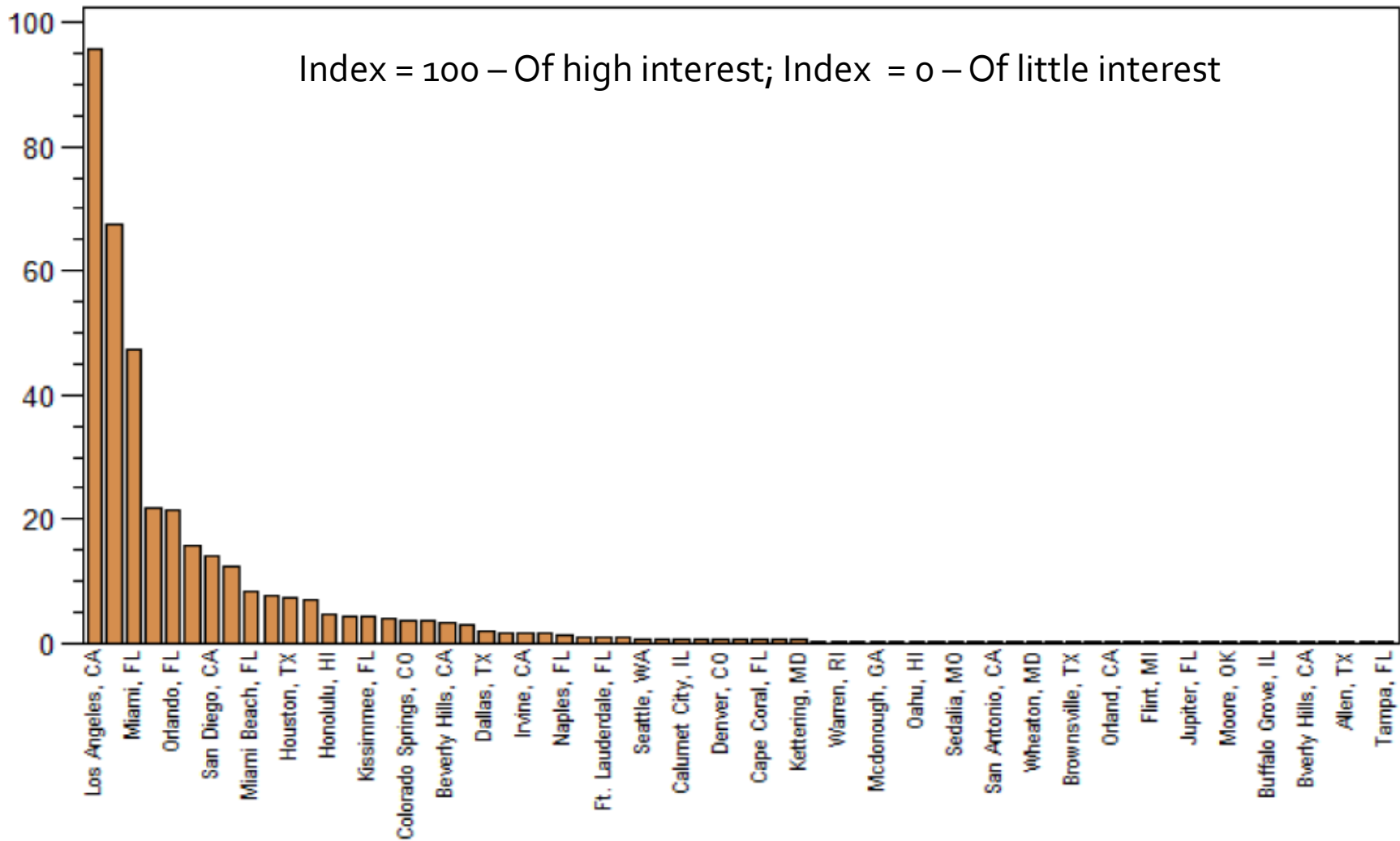
Q. Was the buyer an international buyer – a person who was a citizen of another country who wished to purchase residential real estate in the U.S.?

SERIES: 2015 Housing Market Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

TOP U.S. CITIES SEARCHED BY INTERNATIONAL CLIENTS (APRIL 2014 – MARCH 2015)

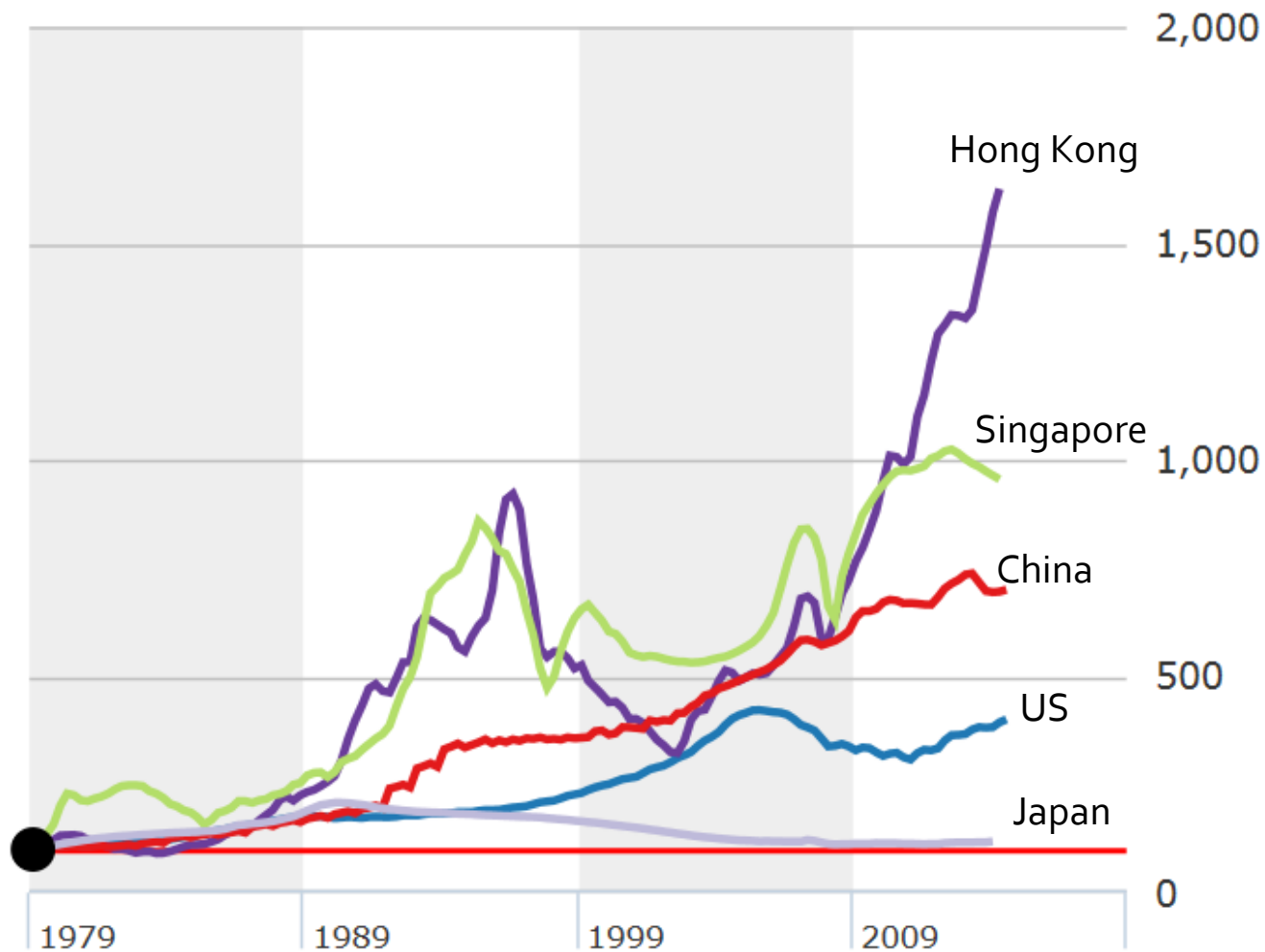
City Search Index



SOURCE: Realtor.com

THE ECONOMIST HOUSE-PRICE INDEX

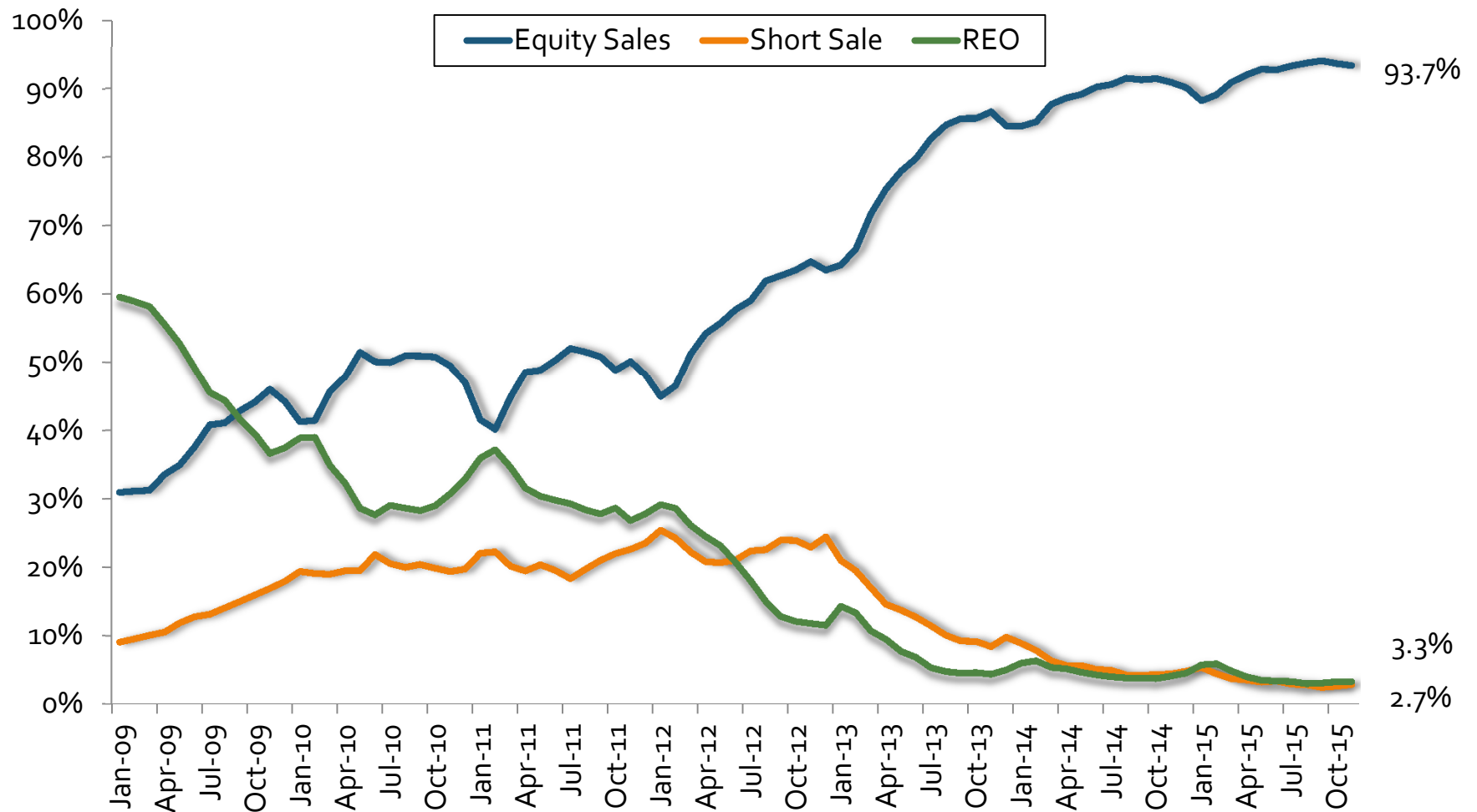
Q1 1980=100



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?



CALIFORNIA MARKET SUMMARY

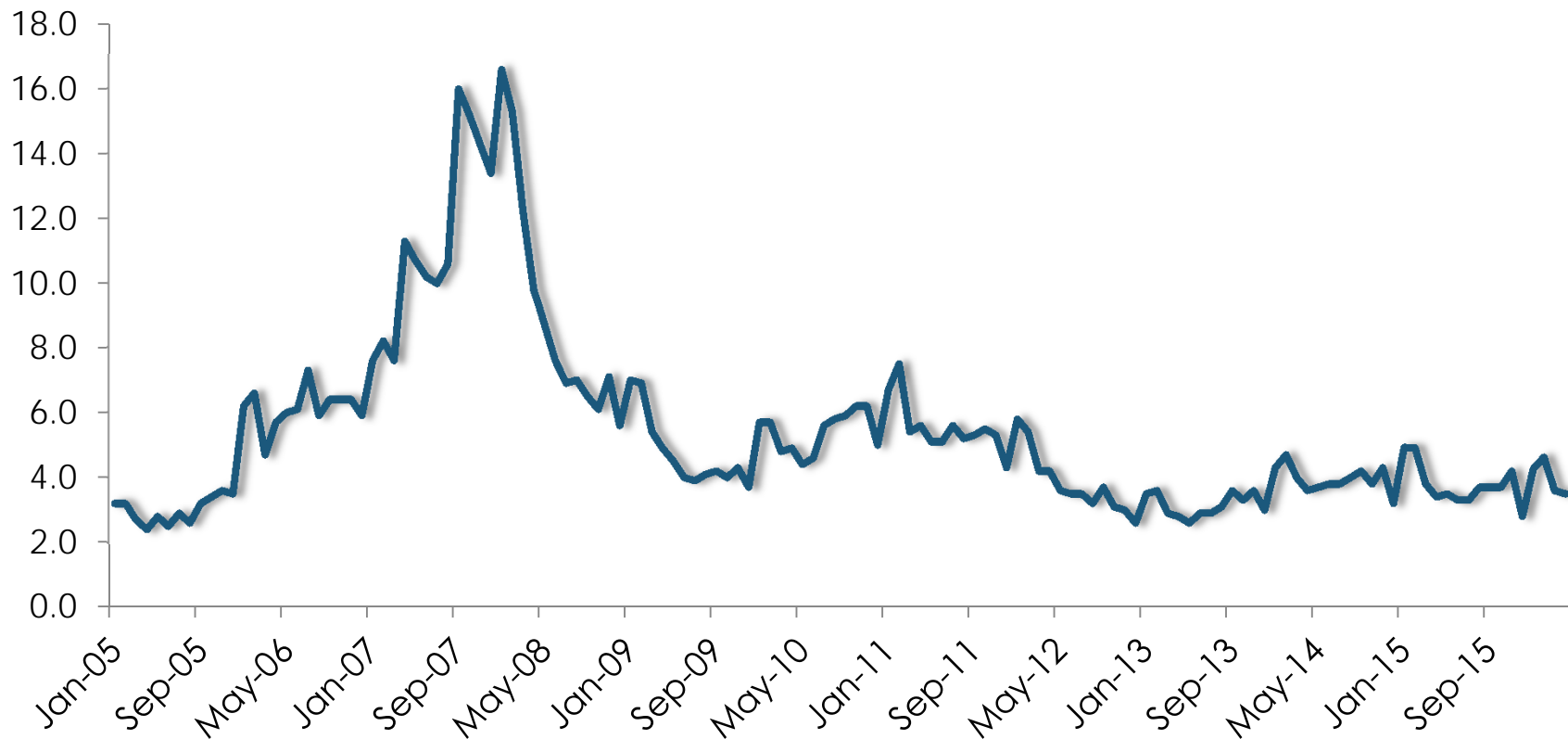
- Housing market fundamentals are strong
 - Job & Income growth are positive
 - Mortgage rates are low
 - Lending standards more reasonable
 - Household formation is rebounding
- And yet...
 - Supply well below long-run average
 - Boomers are not moving
 - Share of first-time buyers LOW
 - Affordability-constrained 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

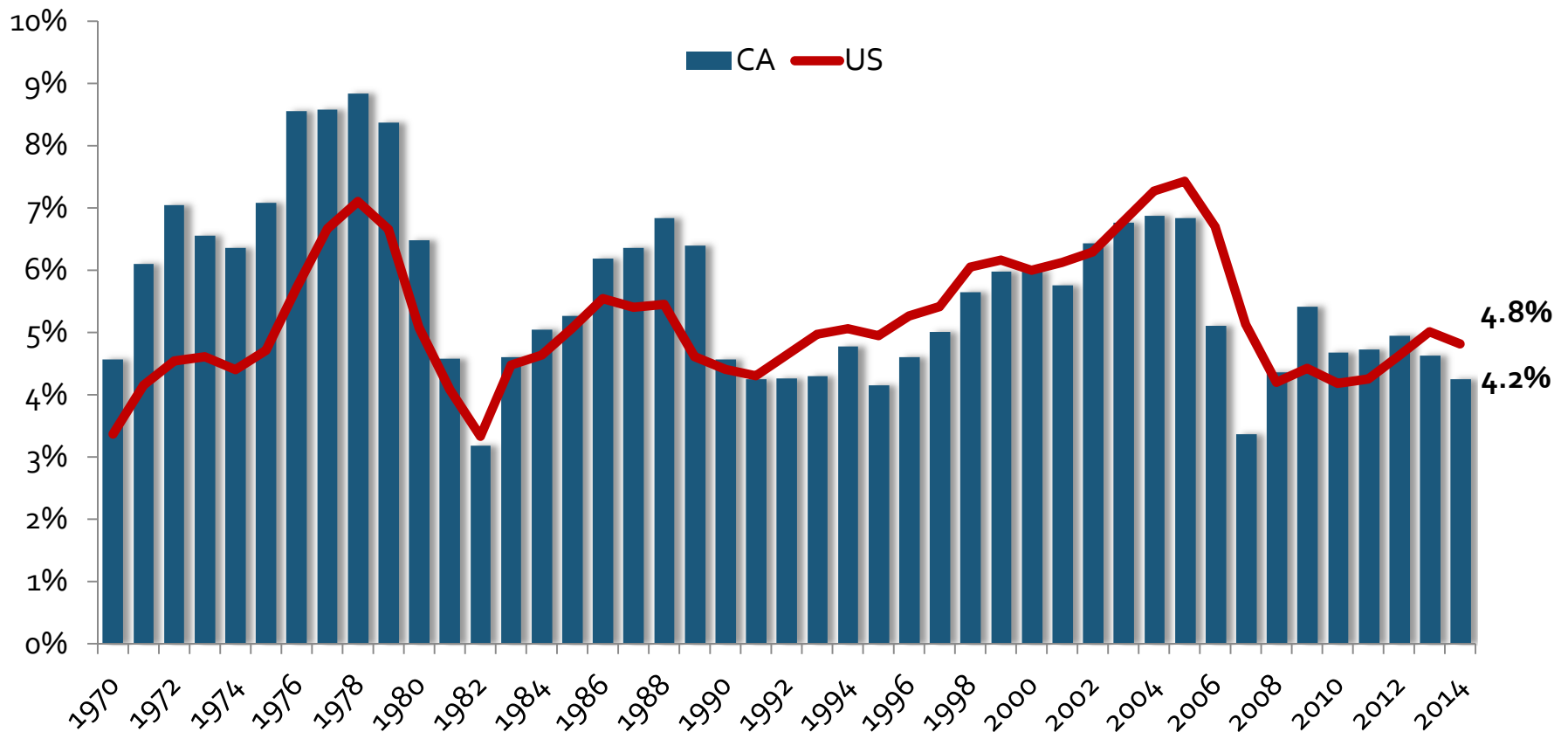
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

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.

YEARS OWNED BEFORE SALE HIGHEST IN 30 YEARS



Q: How long had the seller lived in their home?

SERIES: 2015 Housing Market Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

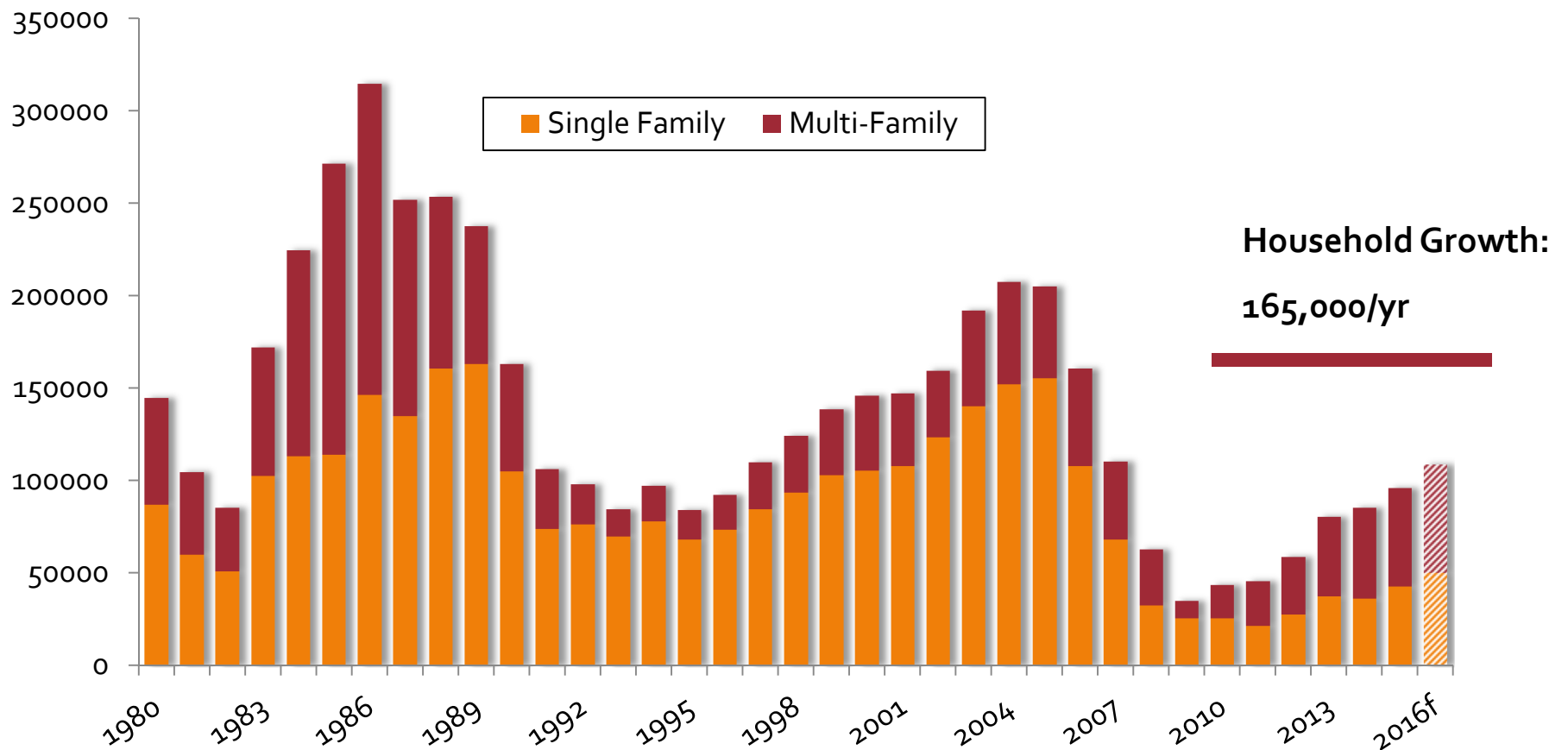
2. NEED MORE NEW HOMES



"MISSING" 100,000 NEW UNITS ANNUALLY

2015: 95,822 (42,959 sf, 52,863 mf)

2016f: 108,240 total units



SERIES: New Housing Permits

SOURCE: Construction Industry Research Board

SF BAY AREA POPULATION GROWTH

Bay Area Population Growth - Housing Supply

| | Population Growth '10-'14 | Housing Growth 10-'14 | Comparison |
|---------------|------------------------------|--------------------------|-------------|
| Alameda | 4.2% | 1.3% | Undersupply |
| Contra Costa | 3.6% | 1.4% | Undersupply |
| Marin | 1.4% | 0.4% | Undersupply |
| Napa | 2.0% | 0.7% | Undersupply |
| San Francisco | 3.9% | 1.3% | Undersupply |
| San Mateo | 3.7% | 0.9% | Undersupply |
| Santa Clara | 4.9% | 2.0% | Undersupply |
| Solano | 2.6% | 1.3% | Undersupply |
| Sonoma | 1.4% | 1.0% | "Balanced" |

SOURCE: CA Department of Finance, Pacific Union Association

U.S.: MASSIVE HOUSING SHORTAGE

(FROM 2012 TO 2015)

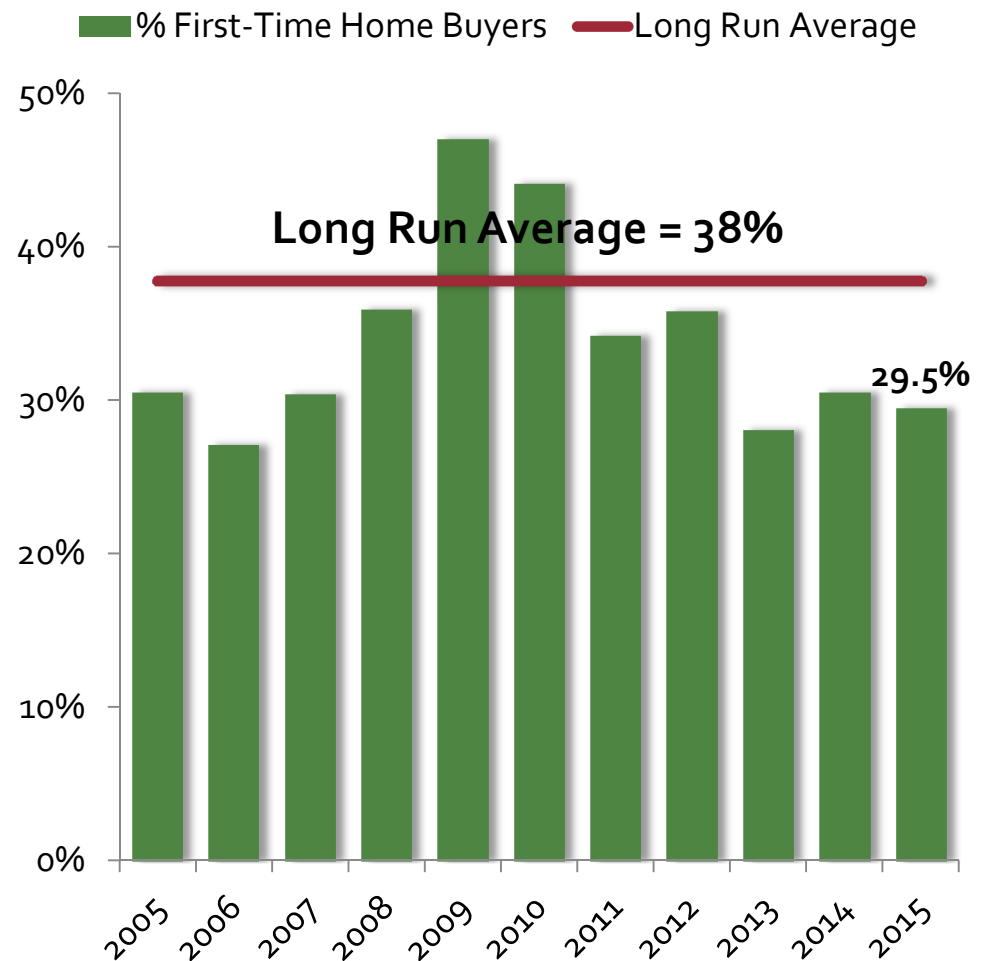
| Metro | Job Creation | New Home Construction | Ratio |
|-----------------------|--------------|-----------------------|-------|
| San Francisco-Oakland | 234,000 | 30,000 | 7.8 |
| Grand Rapids | 46,000 | 6,000 | 7.8 |
| San Jose | 118,000 | 23,000 | 5.1 |
| San Diego | 101,000 | 21,000 | 4.9 |
| Miami-Ft. Lauderdale | 191,000 | 48,000 | 3.9 |
| Salt Lake City | 57,000 | 15,000 | 3.9 |
| New York City | 400,000 | 114,000 | 3.5 |



3. NEED MORE AFFORDABLE HOMES

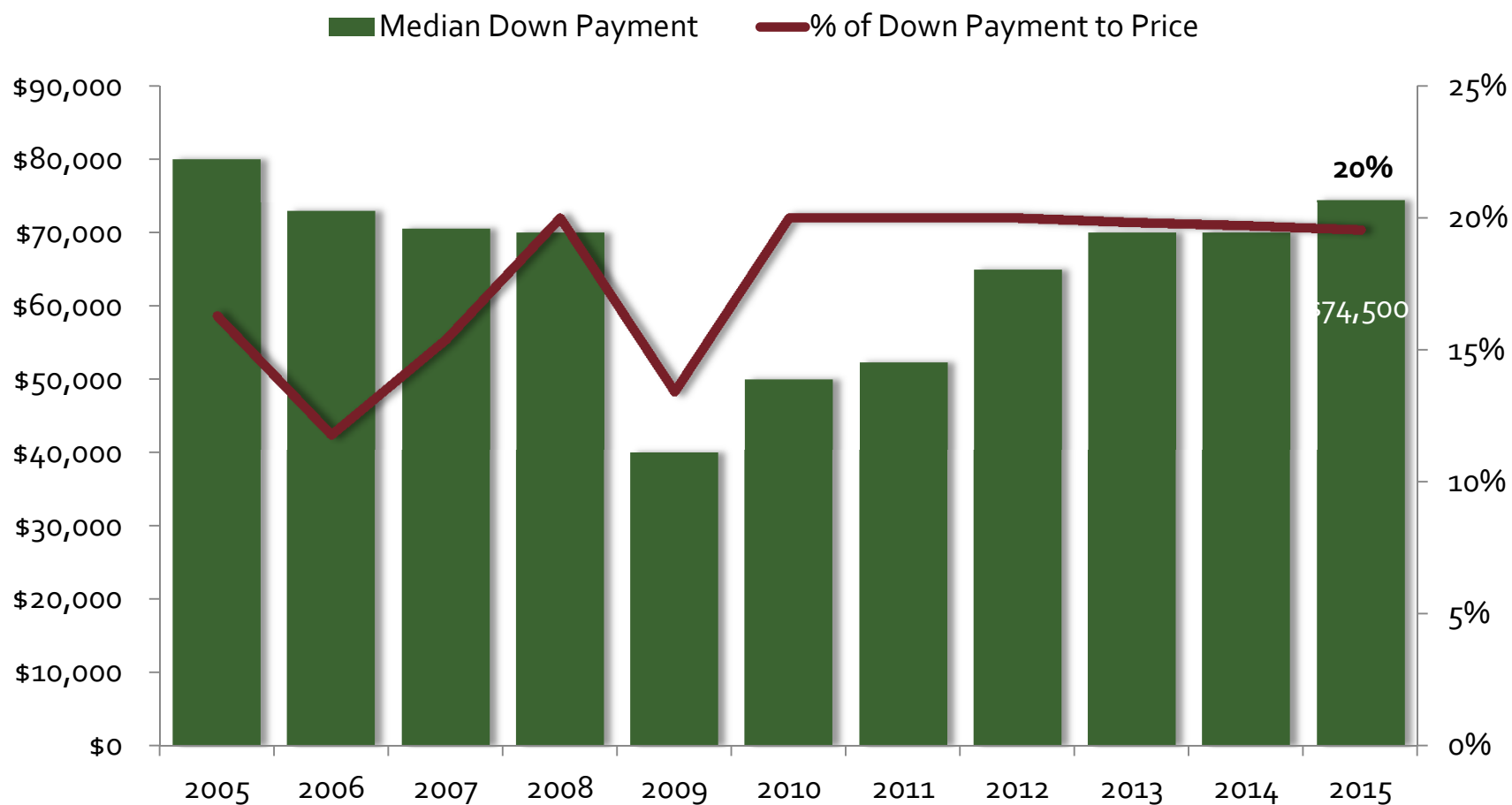


SHARE OF FIRST-TIME BUYERS REMAINS BELOW LONG-RUN AVERAGE



SERIES: 2015 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

THE MEDIAN DOWN PAYMENT HIGHEST SINCE 2005



Q. What was the amount of down payment?

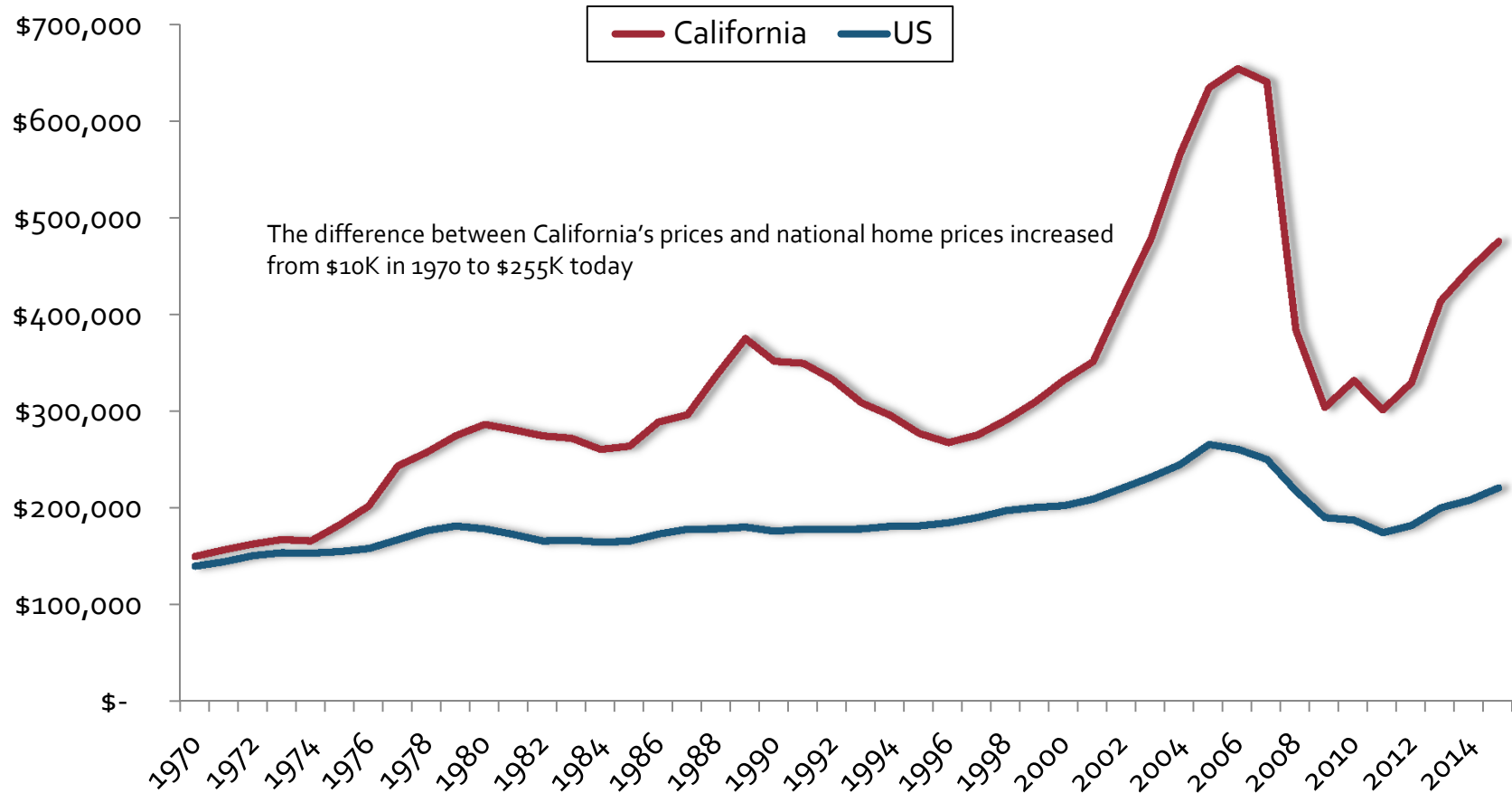
SERIES: 2015 Housing Market Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

CALIFORNIA PRICES MORE VOLATILE AND MUCH HIGHER THAN THE NATION

1970-2015

2015 Dollar Value

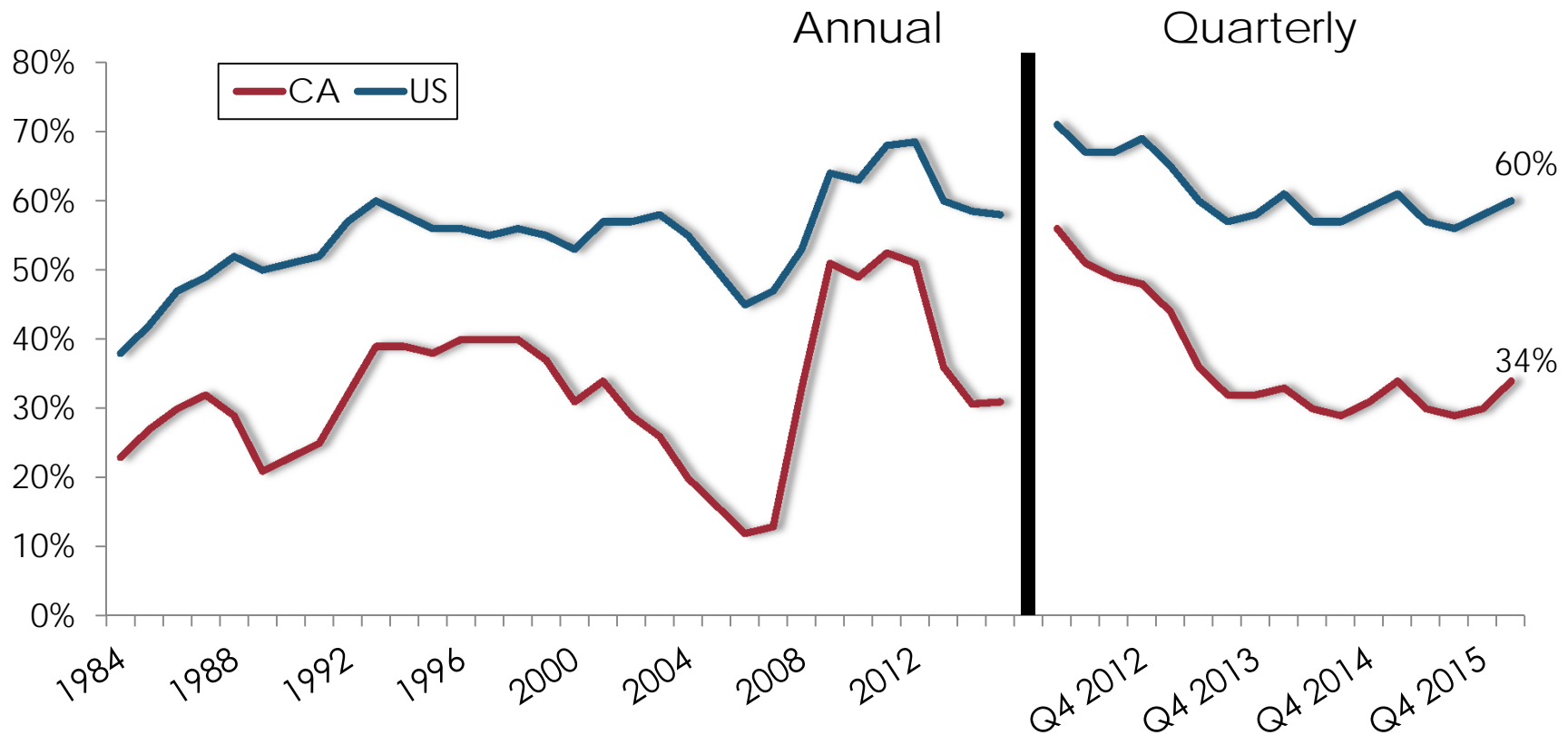


SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

HOUSING AFFORDABILITY PEAKED Q1 2012 PRICES V. LOW RATES AND INCOME GROWTH

California vs. U.S. – 1984-2015

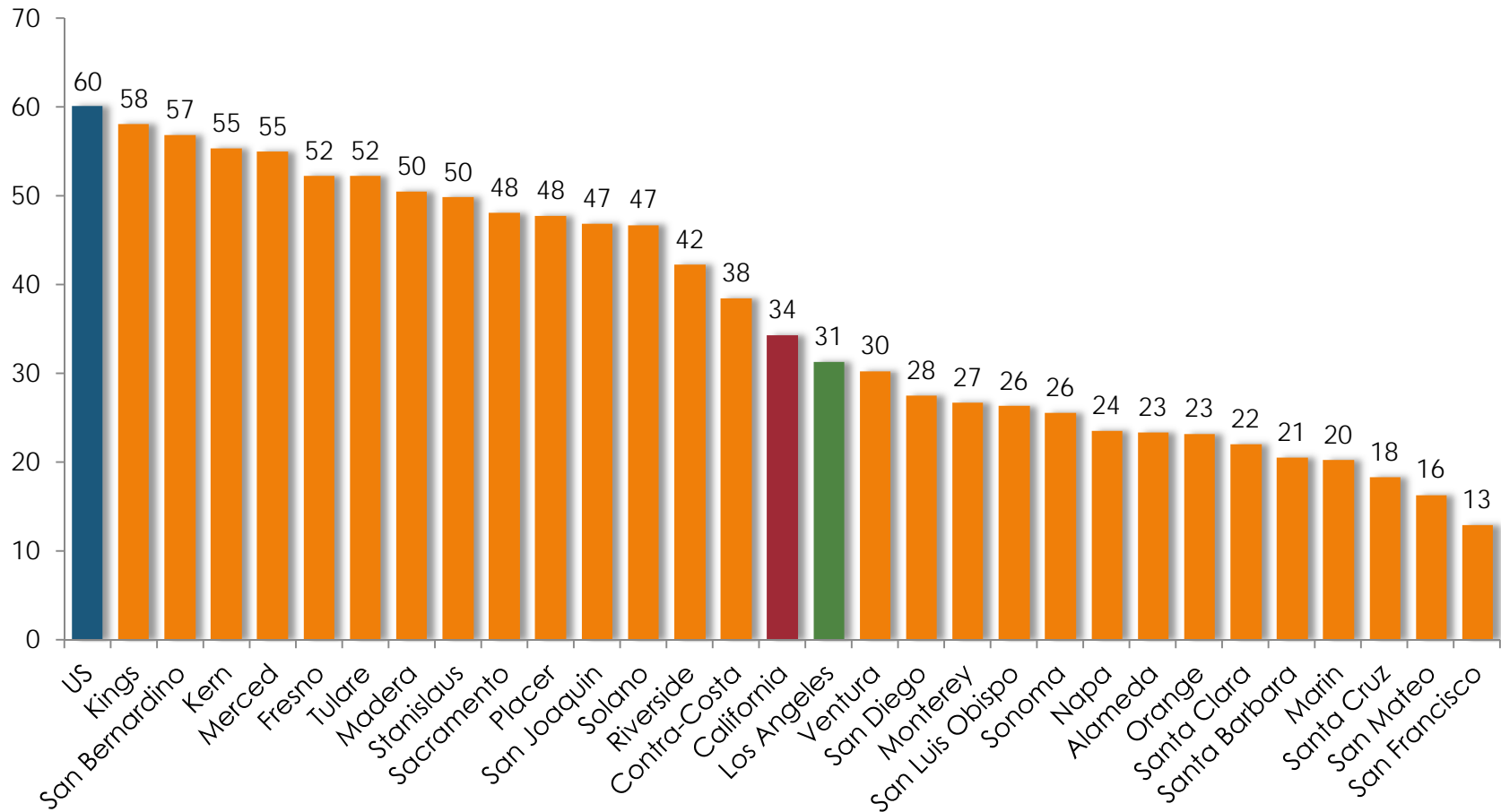
% OF HOUSEHOLDS THAT CAN
BUY A MEDIAN-PRICED HOME



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

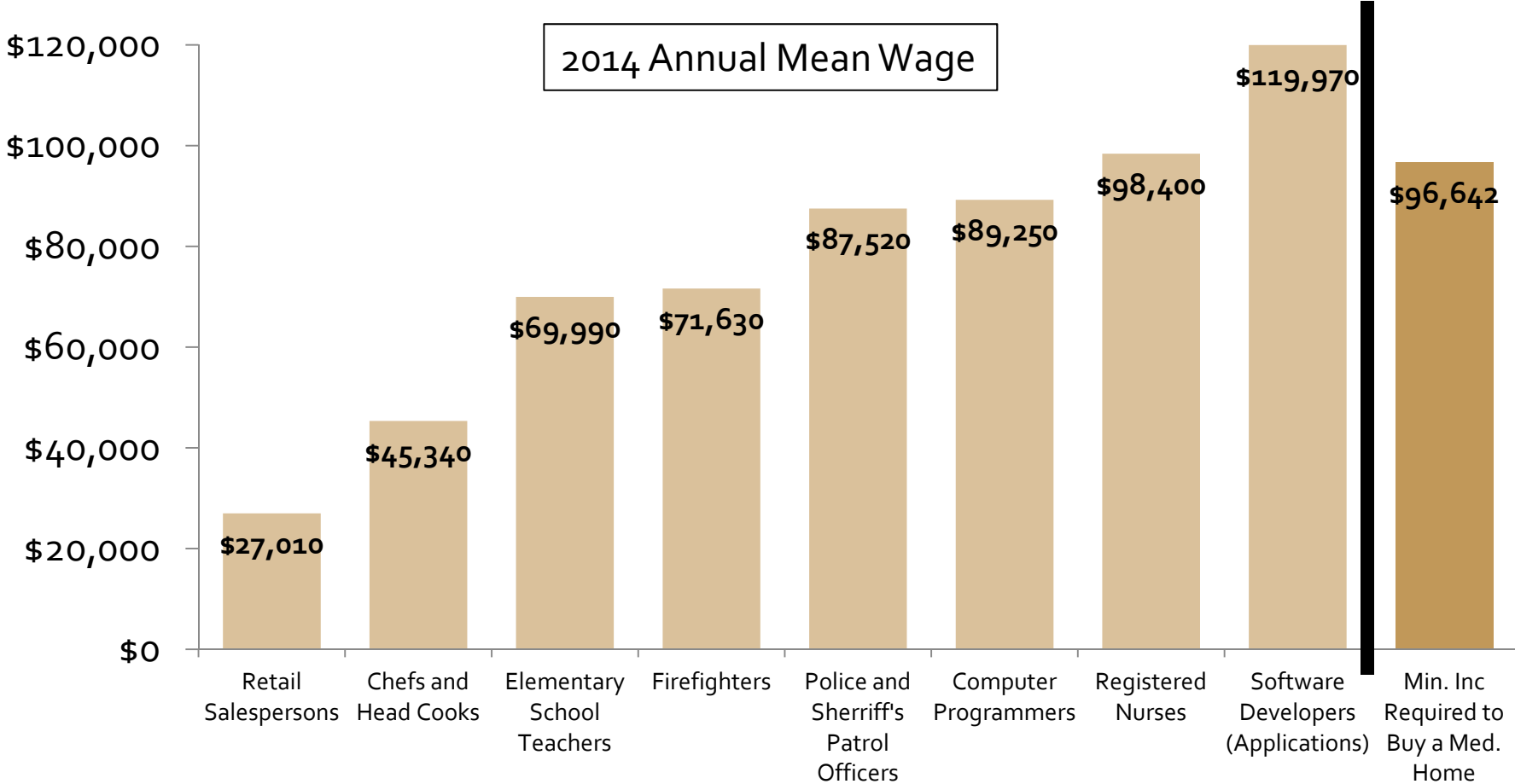


SERIES: Housing Affordability Index

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

HOW WAGES MEASURED AGAINST INCOME REQUIRED TO BUY A HOME

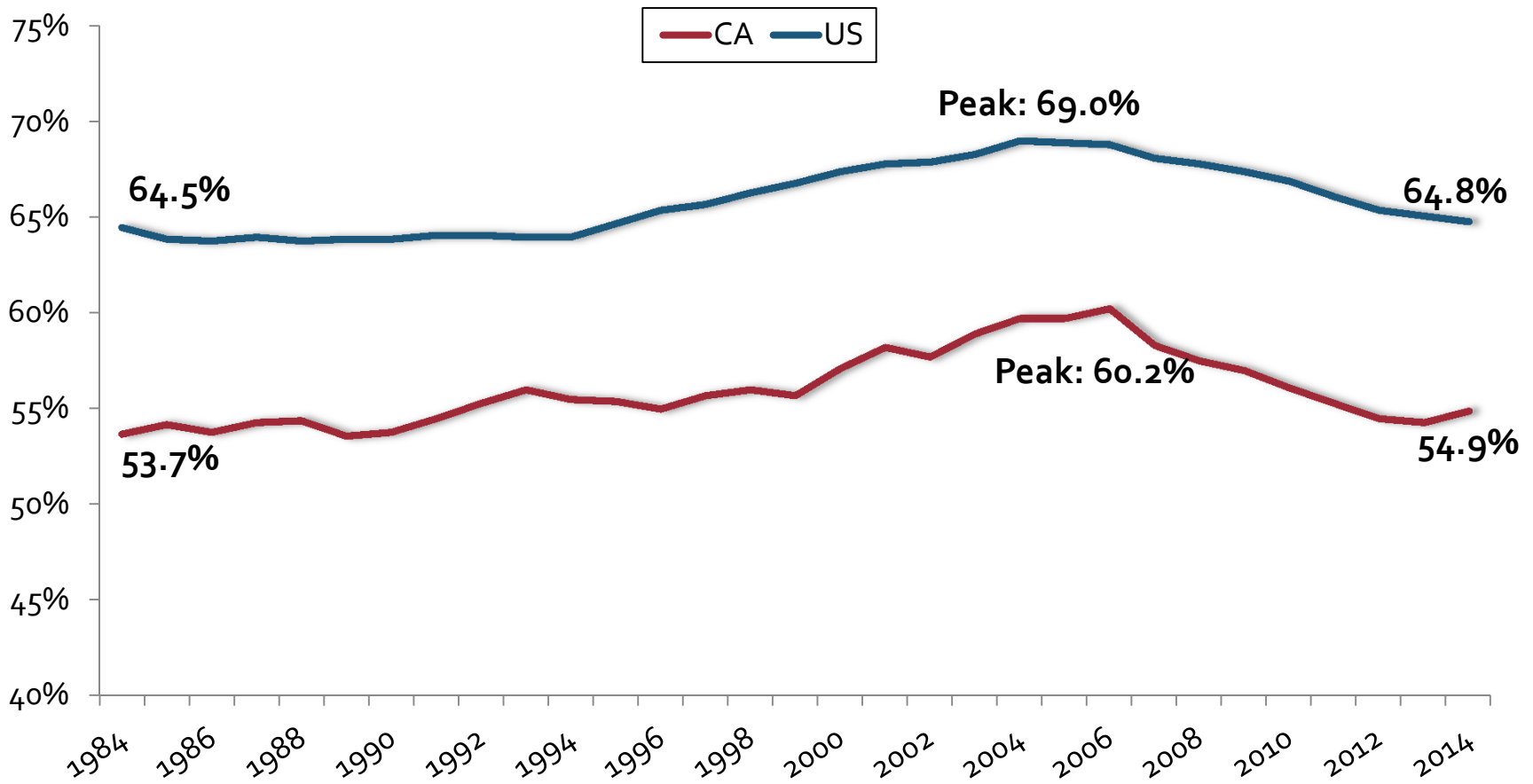
California



SOURCE: Bureau of Labor Statistics, C.A.R.

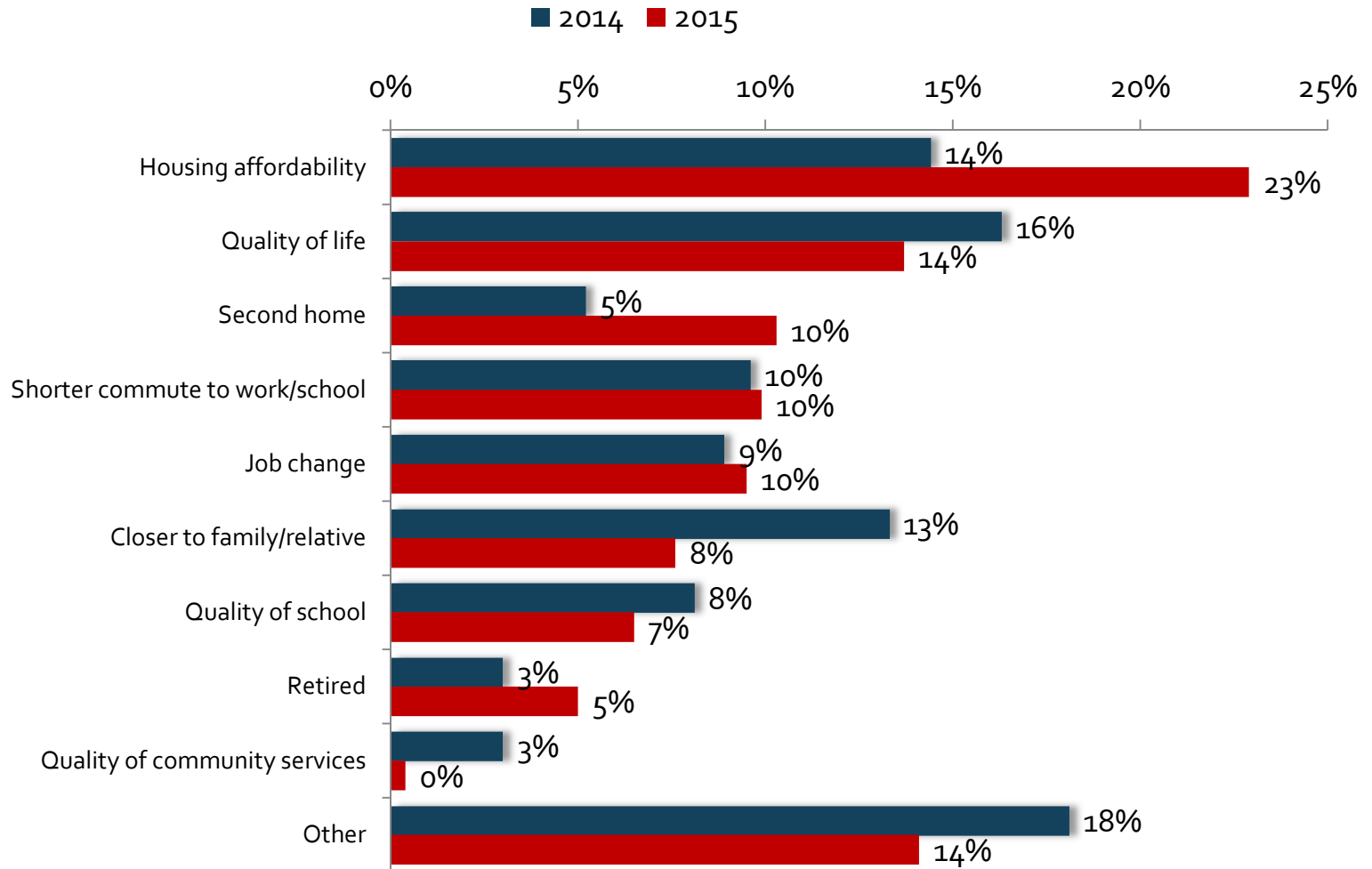
HOMEOWNERSHIP RATES

California Vs. U.S.



SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau

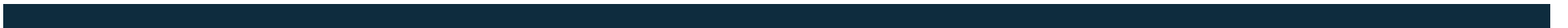
REASONS FOR CHANGING COUNTY ALL BUYERS (2014 VS. 2015)



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



Ross DeVoi, Minoli Ratnatunga, and Armen Bedroussian



COMPONENTS OF THE BEST-PERFORMING CITIES INDEX

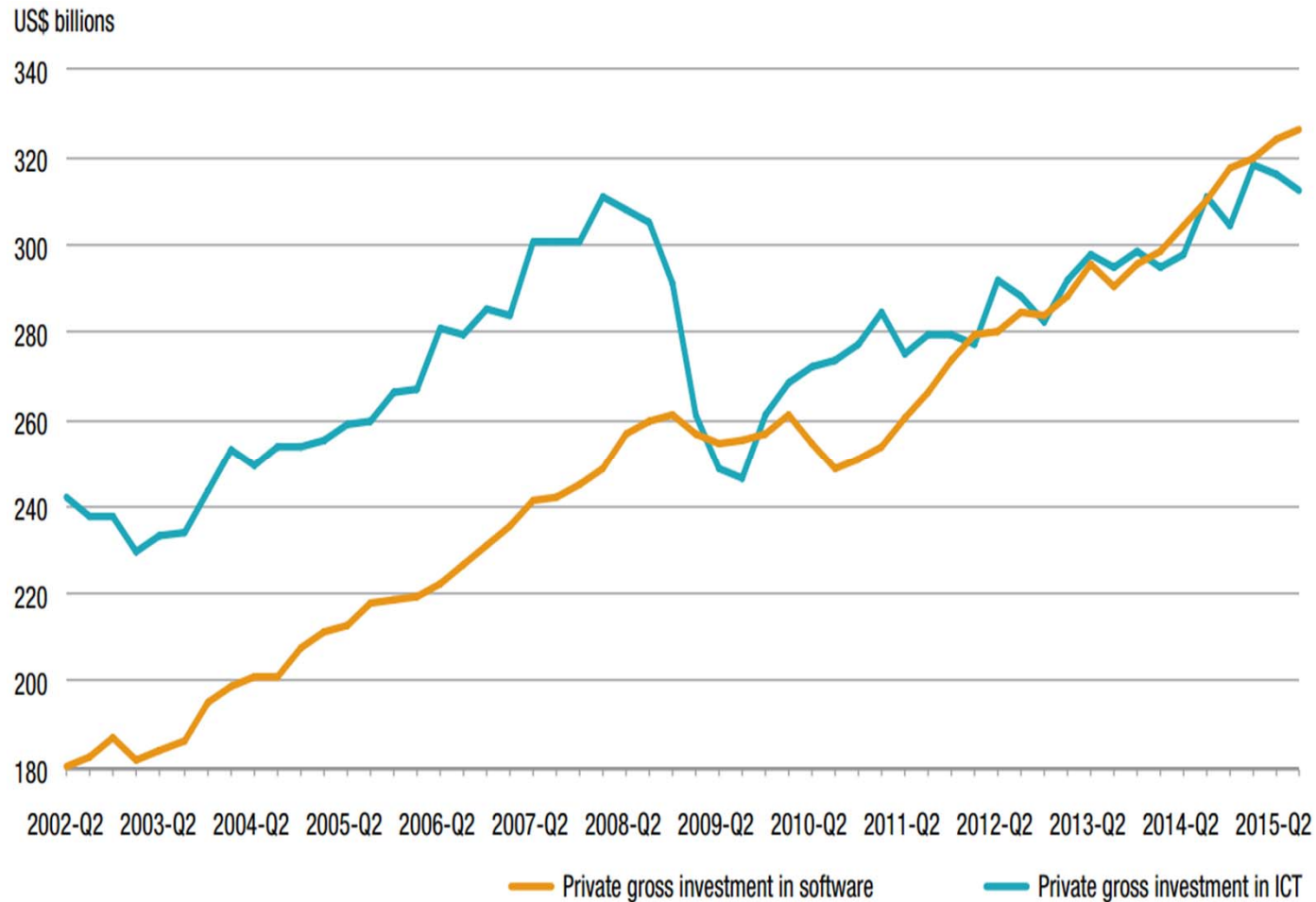
| Component | Weight |
|---|--------|
| Job growth (I=2009) | 0.143 |
| Job growth (I=2013) | 0.143 |
| Wage and salary growth (I=2008) | 0.143 |
| Wage and salary growth (I=2012) | 0.143 |
| Short-term job growth (Aug 2014-Aug 2015) | 0.143 |
| High-tech GDP growth (I=2009) | 0.071 |
| High-tech GDP growth (I=2013) | 0.071 |
| High-tech GDP location quotient (2014) | 0.071 |
| Number of high-tech industries with GDP LQ>1 (2014) | 0.071 |

Note: I 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

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



TOP 10 BEST-PERFORMING SMALL CITIES

Rank according to 2015 index

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



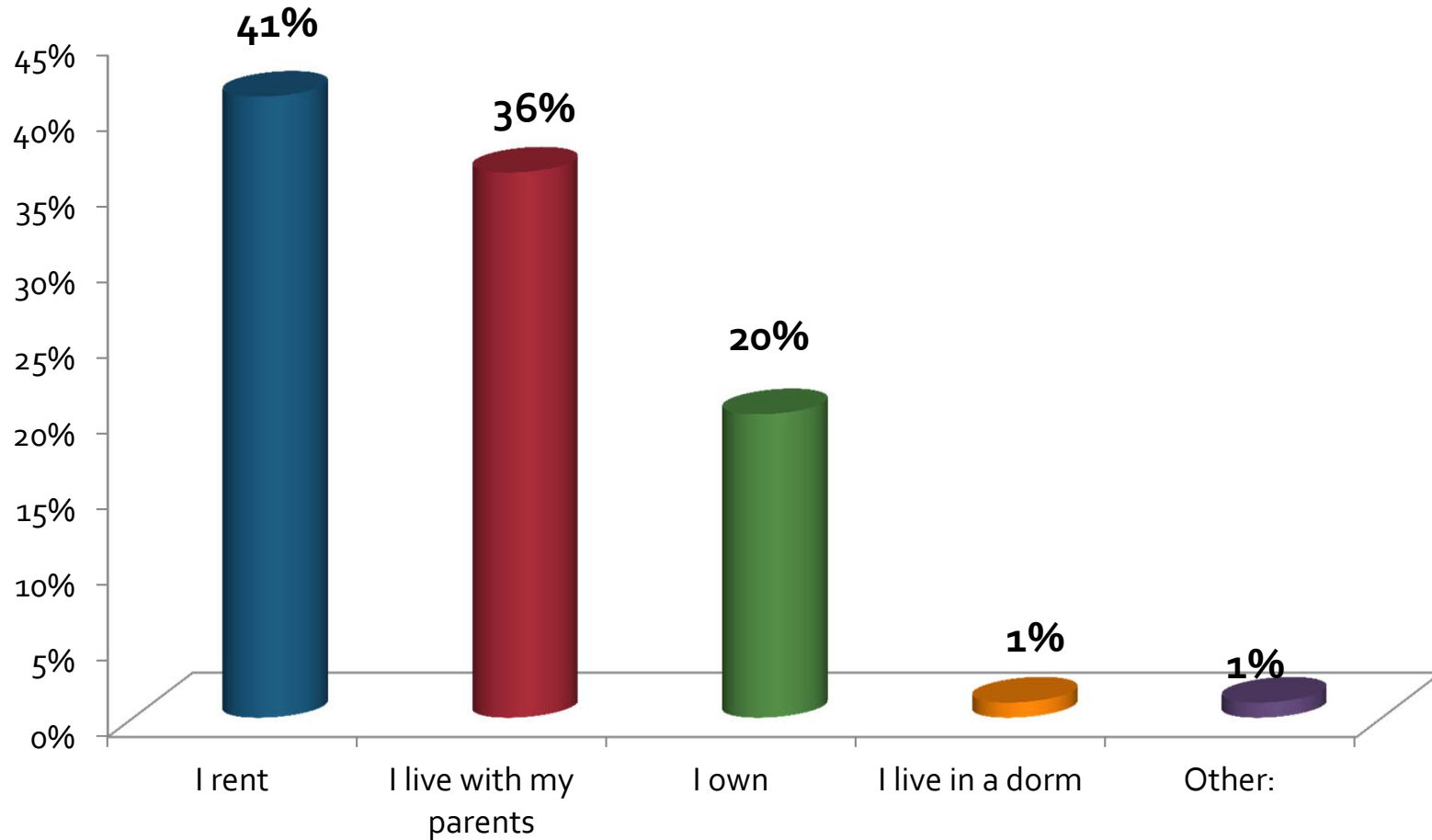
MILLENNIALS: TOMORROW'S HOME OWNERS?



MASLOW'S HIERARCHY OF NEEDS: REVISED



OVER 1/3 LIVE WITH THEIR PARENTS

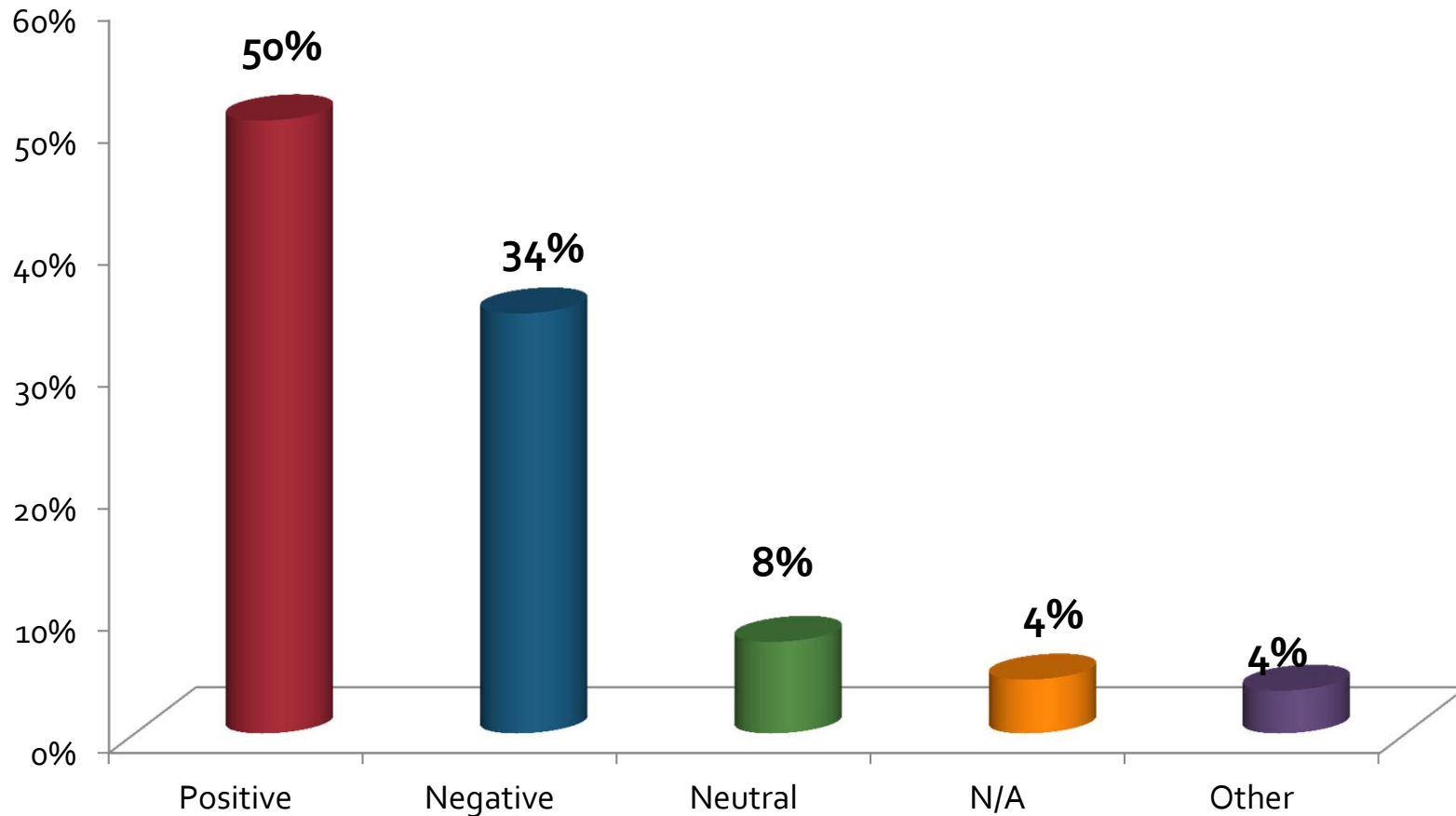


Q: What is your current living situation?

SERIES: 2014 Millennials Survey

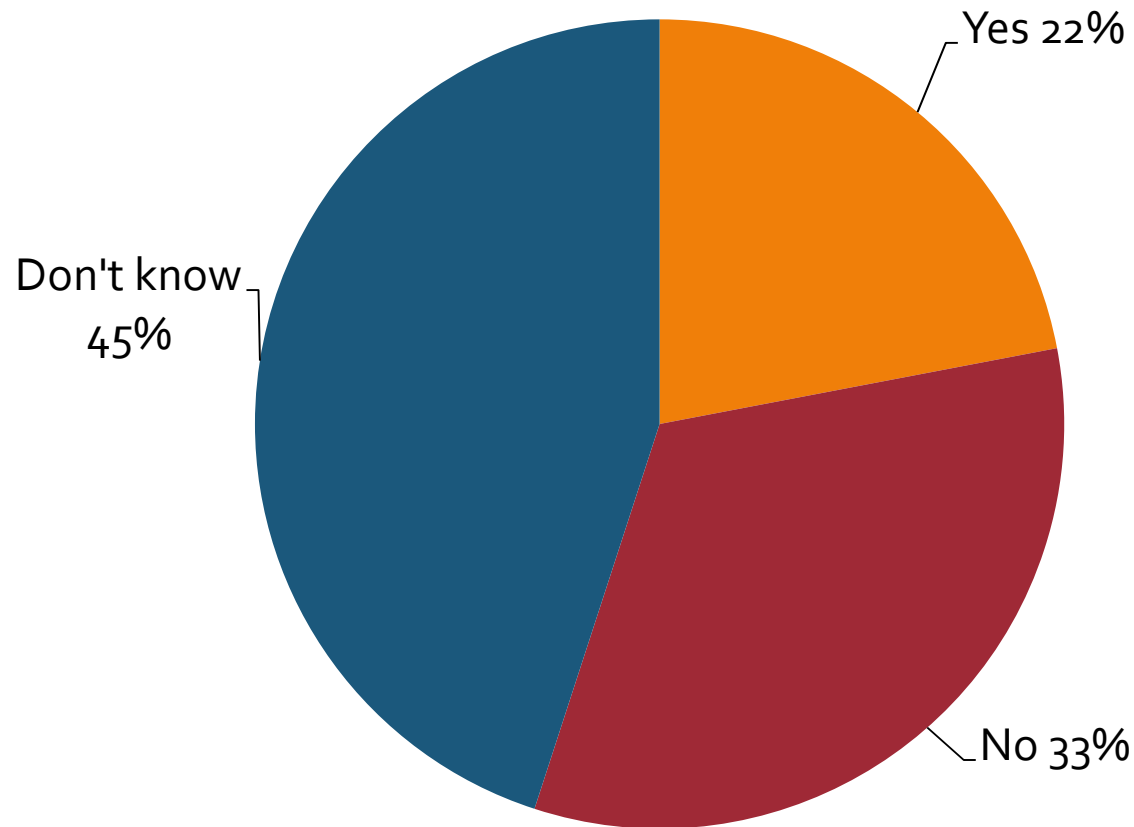
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

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

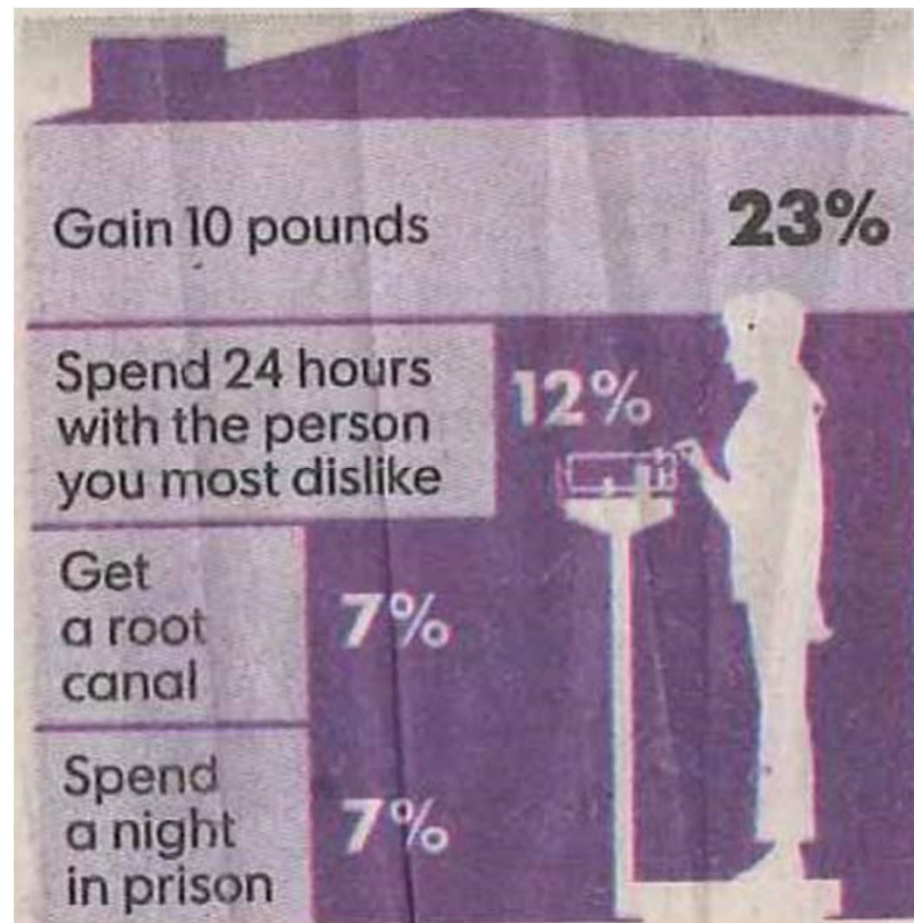
MOST MILLENNIALS UNCERTAIN/DOUBTFUL THAT THEY COULD OBTAIN A MORTGAGE



SOURCE: C.A.R. 2014 Millennial Survey

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

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

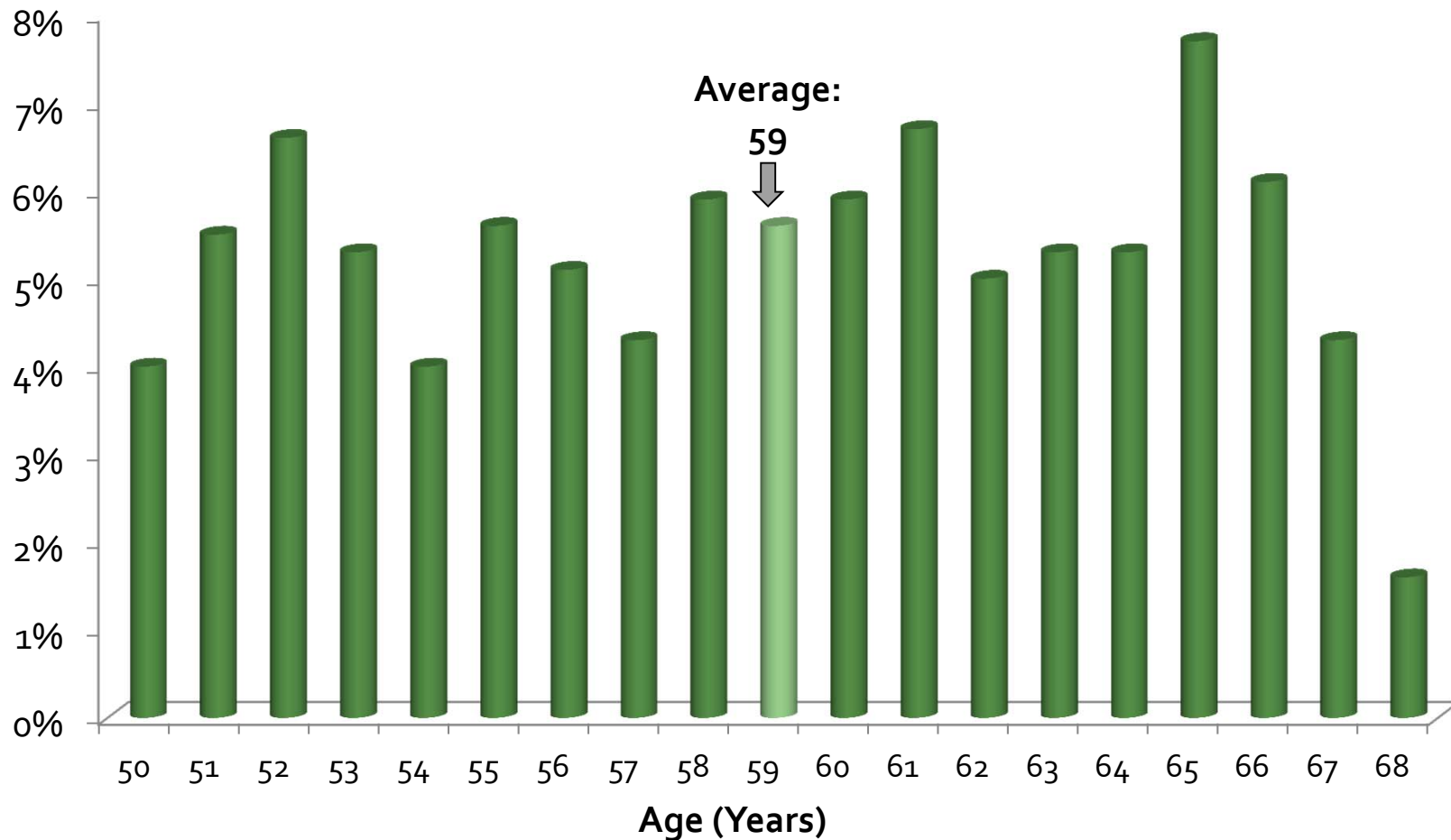


SOURCE: Guaranteed Rate Mortgage Survey of 1,000 adults 25 and older USA Today April 2014

2. BOOMERS STAYING PUT



BOOMERS – BORN BETWEEN 1946-1964

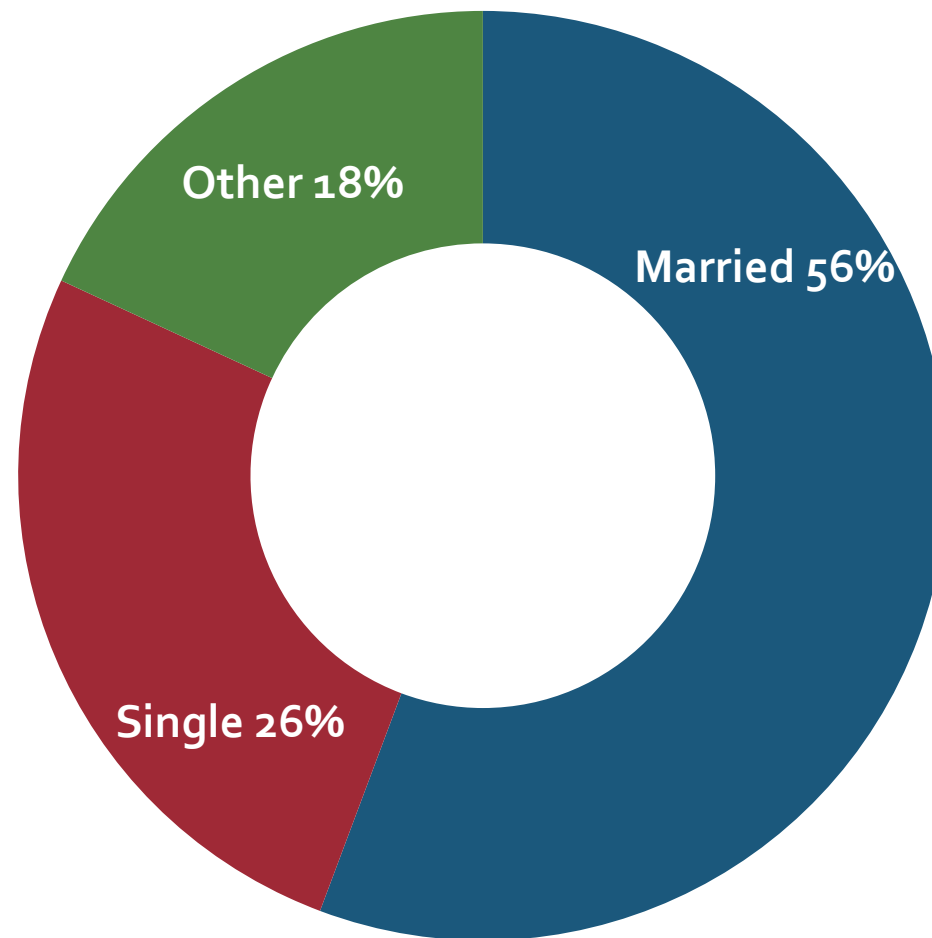


What is your age?

SERIES: 2014 Baby Boomer Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

MAJORITY ARE MARRIED

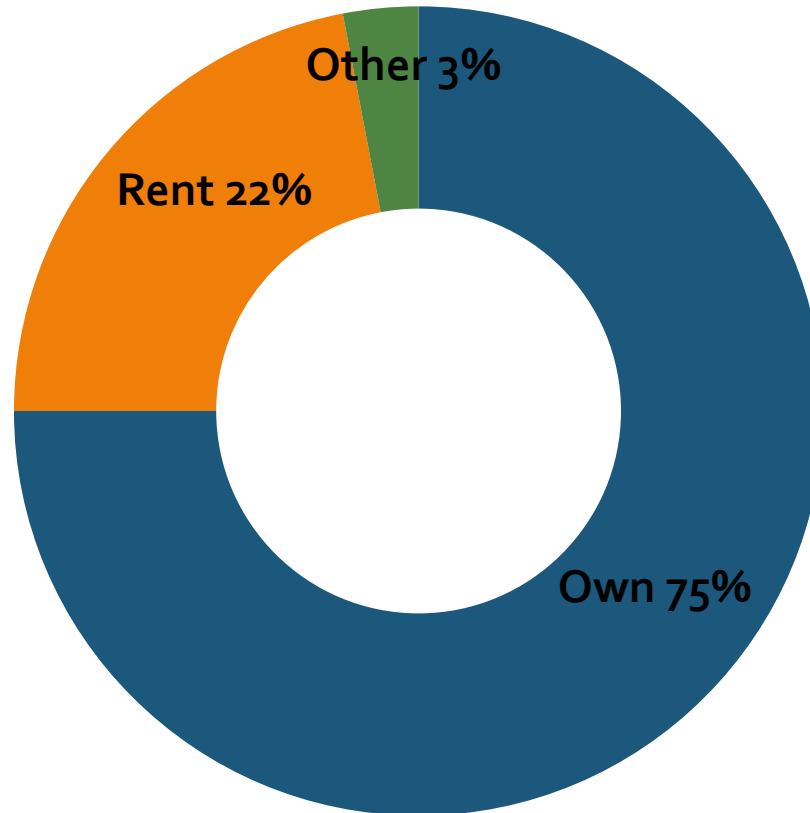


What is your marital status?

SERIES: 2014 Baby Boomer Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

3/4 BABY BOOMERS ARE HOME OWNERS

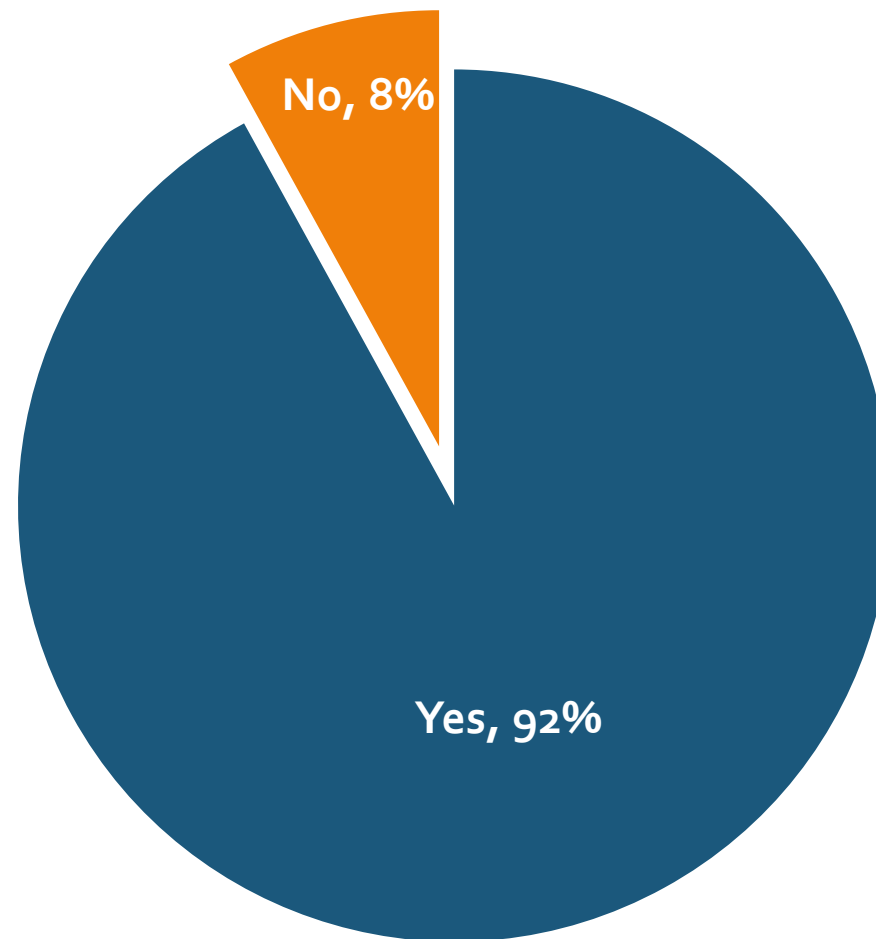


What is your current living situation?

SERIES: 2014 Baby Boomer Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

MOST HAVE EQUITY IN THEIR HOME

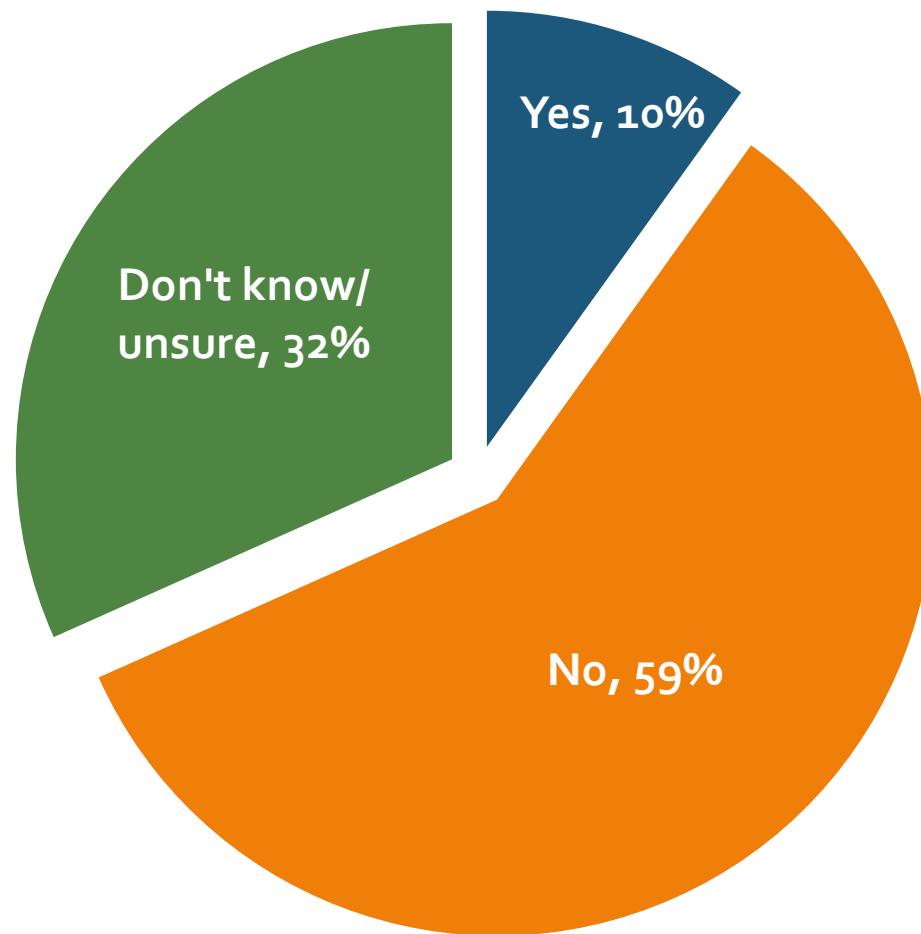


Do you have equity in your home?

SERIES: 2014 Baby Boomer Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

MAJORITY DO NOT PLAN TO SELL HOME WHEN THEY RETIRE

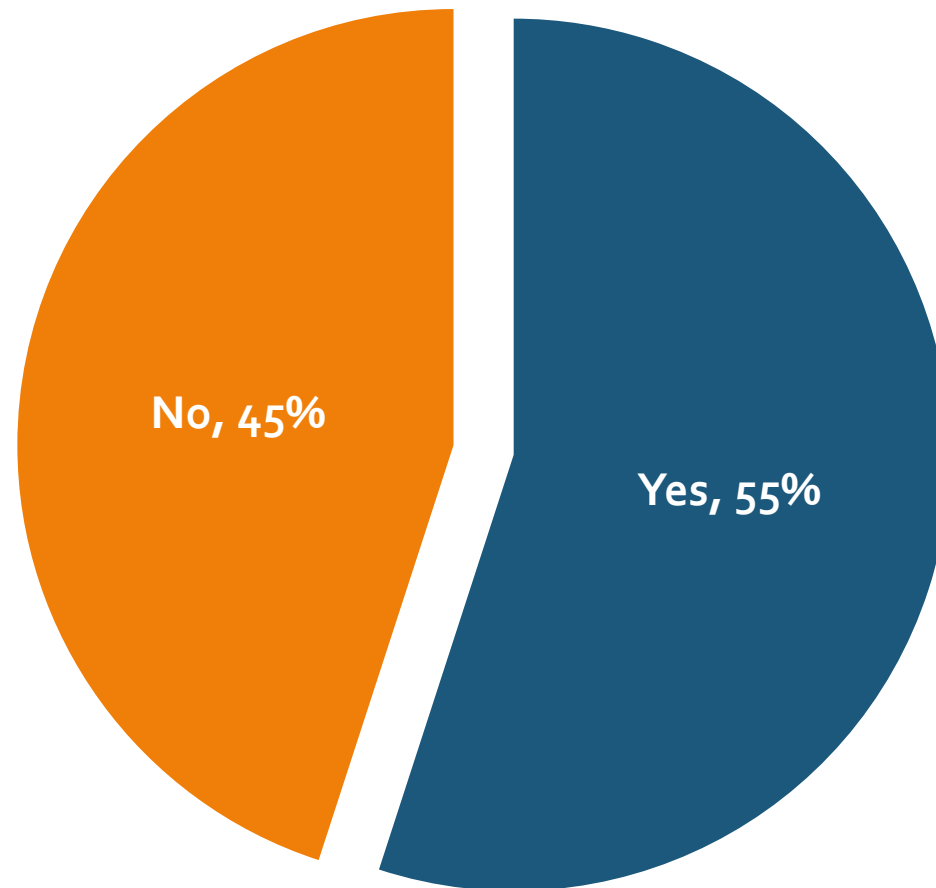


Do you plan to sell your current home when you retire?

SERIES: 2014 Baby Boomer Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

MAJORITY WORRY ABOUT CHILDRENS' ABILITY TO BECOME HOME OWNERS

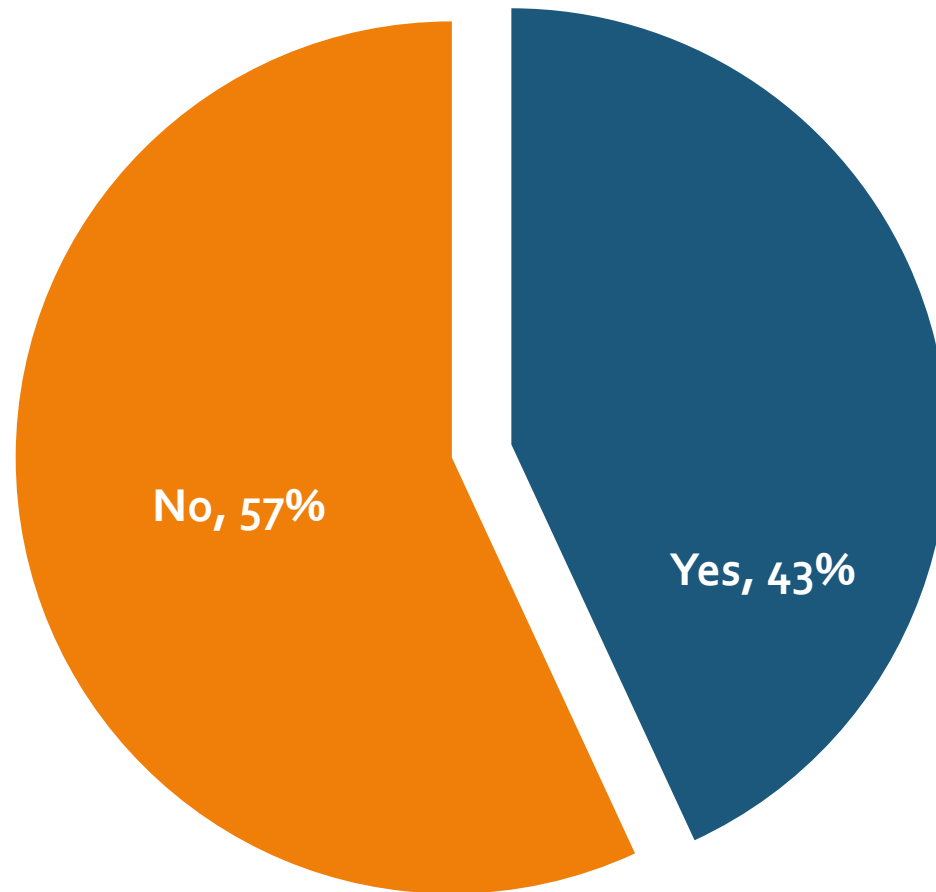


Do you worry about your children's ability to become home owners in the future?

SERIES: 2014 Baby Boomer Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

TIME TO TALK: 2/5 PLAN TO HELP CHILDREN WITH DOWN PAYMENT

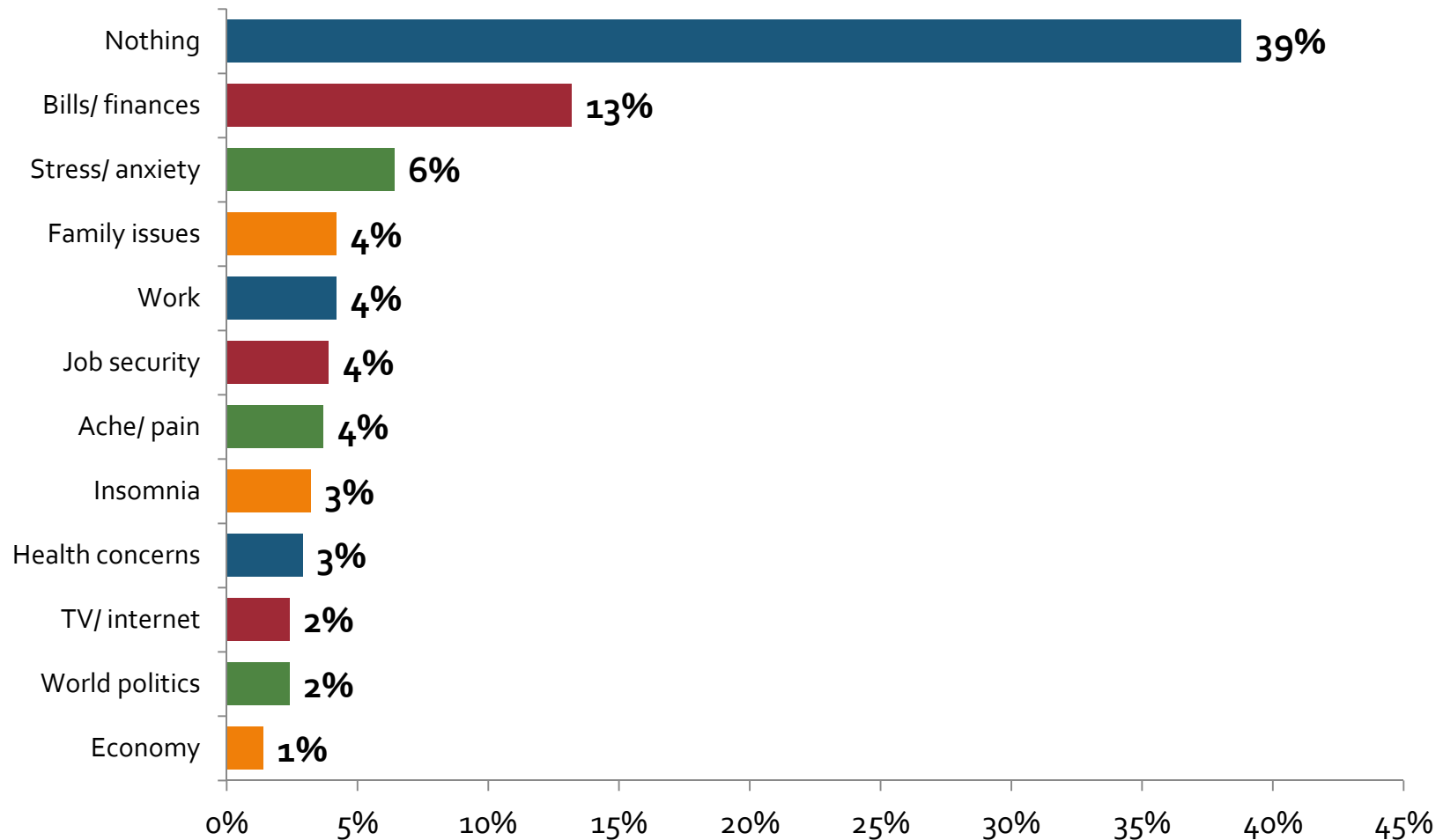


Do you plan to help your children with their down payment to purchase a home?

SERIES: 2014 Baby Boomer Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

WHAT KEEPS BOOMERS UP AT NIGHT?



What keeps you up at night?

SERIES: 2014 Baby Boomer Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

2016 FORECAST



CALIFORNIA HOUSING MARKET OUTLOOK

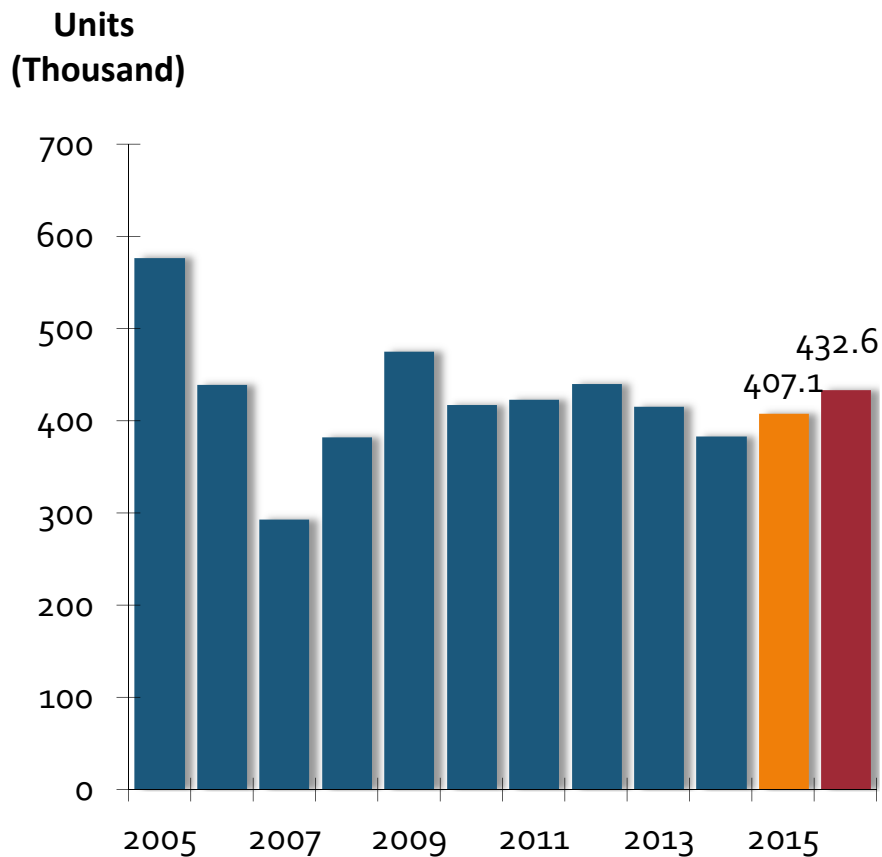
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016F |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|
| SFH Resales (000s) | 416.5 | 422.6 | 439.8 | 414.9 | 382.7 | 407.1 | 432.6 |
| % Change | -12.3% | 1.4% | 4.1% | -5.9% | -7.8% | 6.4% | 6.3% |
| Median Price (\$000s) | \$305.0 | \$286.0 | \$319.3 | \$407.2 | \$446.9 | \$474.4 | \$489.4 |
| % Change | 10.9% | -6.2% | 11.6% | 27.5% | 9.8% | 6.2% | 3.2% |
| Housing Affordability | 48% | 53% | 51% | 36% | 30% | 31% | 33% |
| 30-Yr FRM | 4.7% | 4.5% | 3.7% | 4.0% | 4.2% | 3.9% | 3.9% |

SERIES: CA Housing Market Outlook

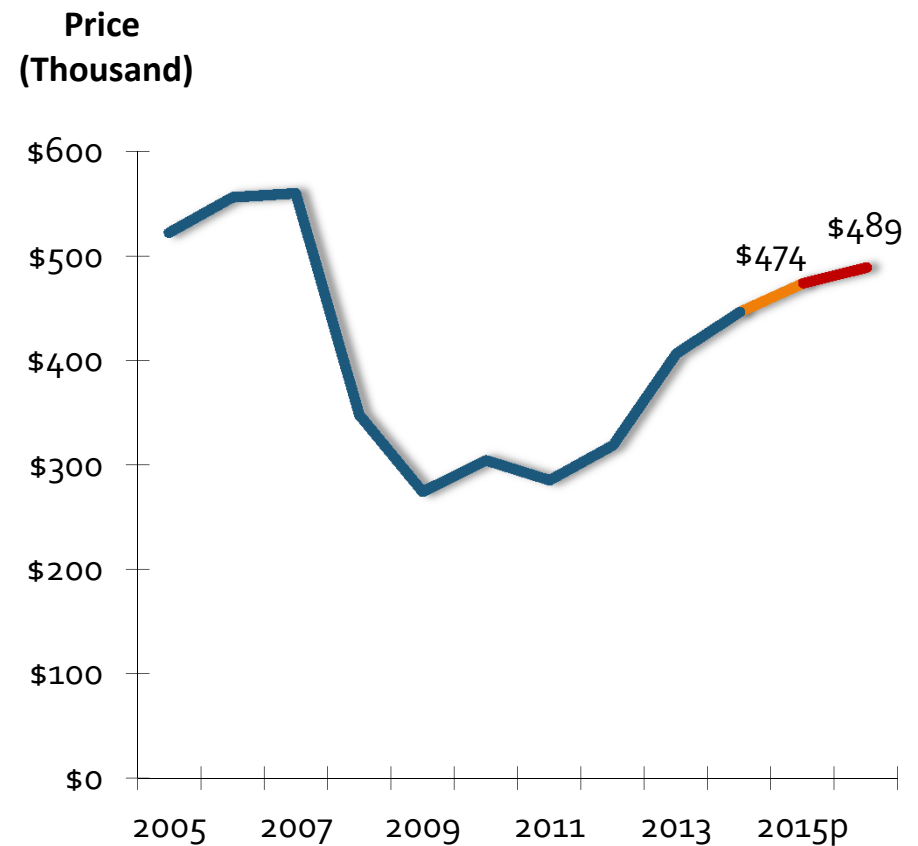
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

SALES UP FOR 2015 AND CONTINUE TO IMPROVE IN 2016; PRICE WILL GROW STEADILY THIS YEAR AND NEXT

Sales of Existing Detached Homes



Median Price



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



CARResearchGroup



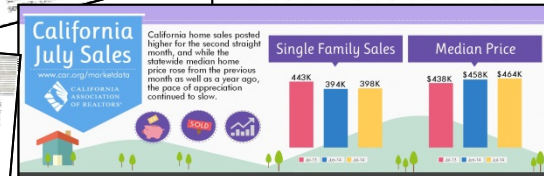
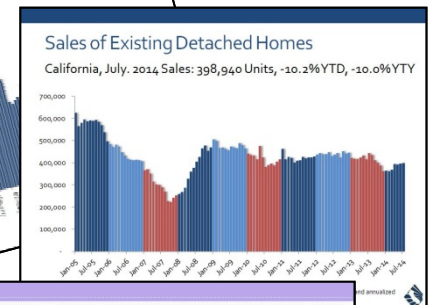
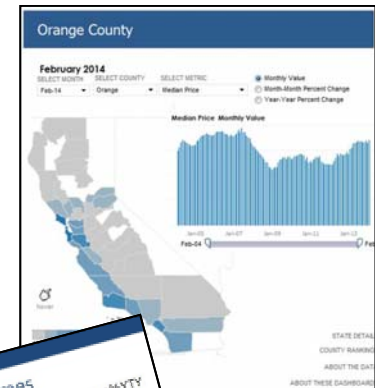
CARResearchInfo



On.car.org/CARResearch



Housingmatters.car.org



| Category | Reporting Period | Current Period | Last Period | Year Ago | Change from Last Period | Change from Year Ago |
|---|------------------|----------------|-------------|-----------|-------------------------|----------------------|
| Existing Home Sales (SARIS) | July 14 | 398,940 | 386,151 | 435,091 | +3.3% | -10.0% |
| Median Home Price * | July 14 | \$436,731 | \$433,071 | \$433,741 | +0.8% | +0.1% |
| Single-Family Home Sales ** | July 14 | 3,459 | 3,7 | 3,8 | +2.0% | -10.0% |
| Median Year-to-Market Price | July 14 | 33.7 | 33.9 | 33.9 | +0.2% | -10.0% |
| Traditional Housing, Affordable Index (HARIS) | July 14 | 20% | 20% | 20% | +0.0% | -10.0% |
| 30-year Fixed Rate Mortgage (FRB) | July 14 | 4.13% | 4.13% | 4.13% | -0.0% | -0.0% |

Market Snapshot

Regional Sales & Median Price

- San Francisco Bay Area's median price of single family homes increased 10.2 percent from last year. Sales in the Bay Area fell 1.0 percent from a year ago.
- The median price in the Central Valley region increased 10.0 percent to \$238,430. Sales of existing single family homes in the region decreased 3.5 percent from last year.
- In Southern California, the median price of single family homes increased 5.8 percent on a year-over-year basis to \$444,000 and sales in the region fell by 10.1 percent from a year ago.

THANK YOU!

www.car.org/marketdata

lesliea@car.org

This presentation can be found on

www.car.org/marketdata

Speeches & Presentations
