



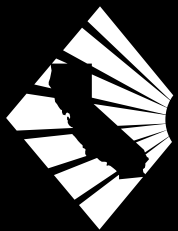
California's Housing Crunch

San Gabriel Valley Economic Forecast Summit

March 15, 2018

Oscar Wei

Senior Economist

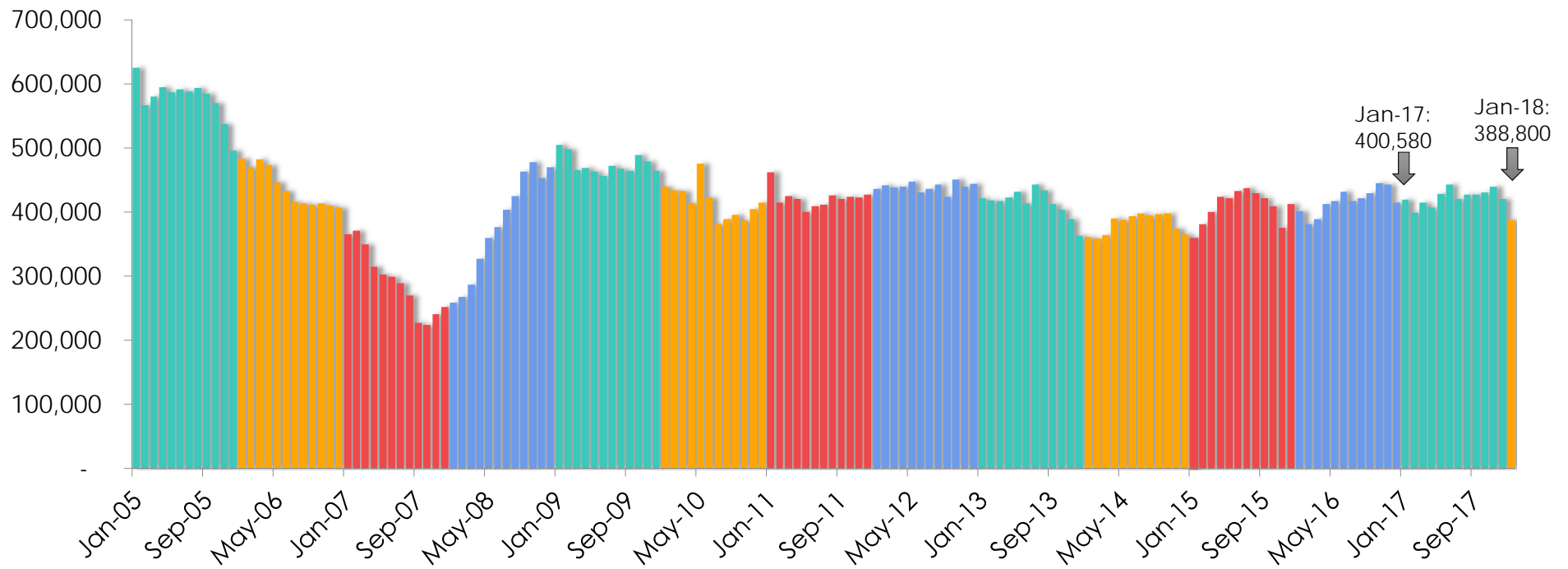


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Home sales off to a slow start in 2018

California, Jan. 2018 Sales: 388,800 Units, -2.9% YTD, -2.9% YTY

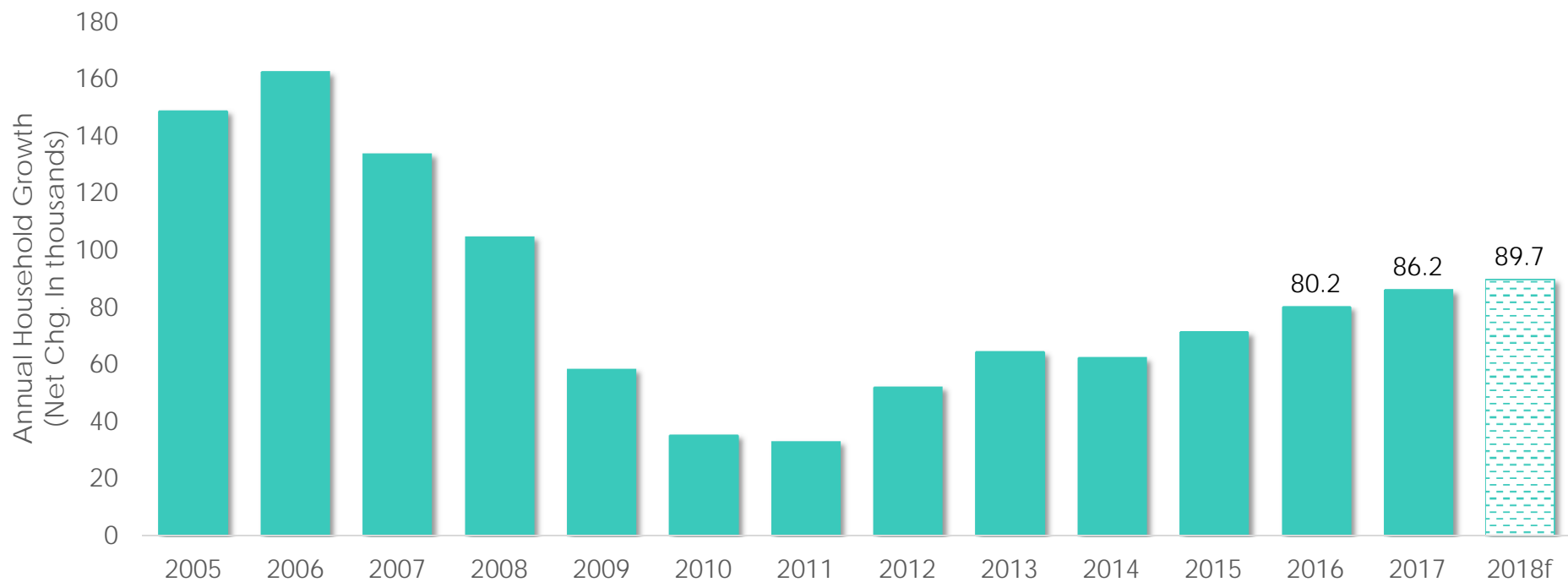


SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized



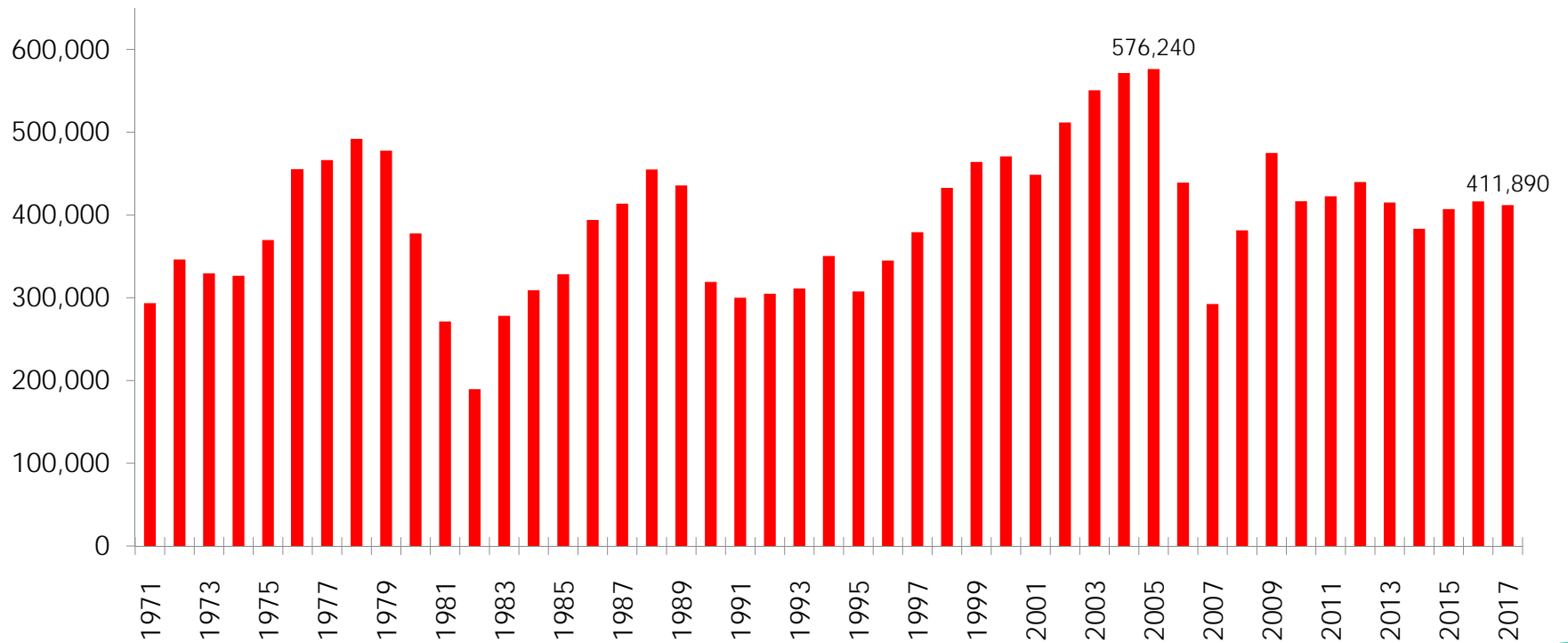
Household growth continues to support housing demand



SERIES: Annual Household Growth
SOURCE: CA Department of Finance



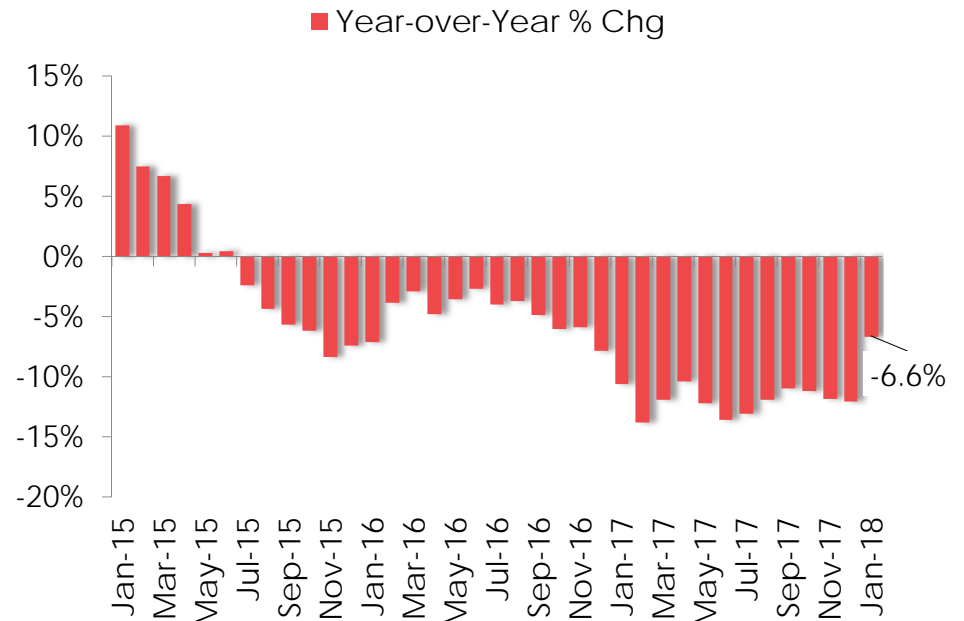
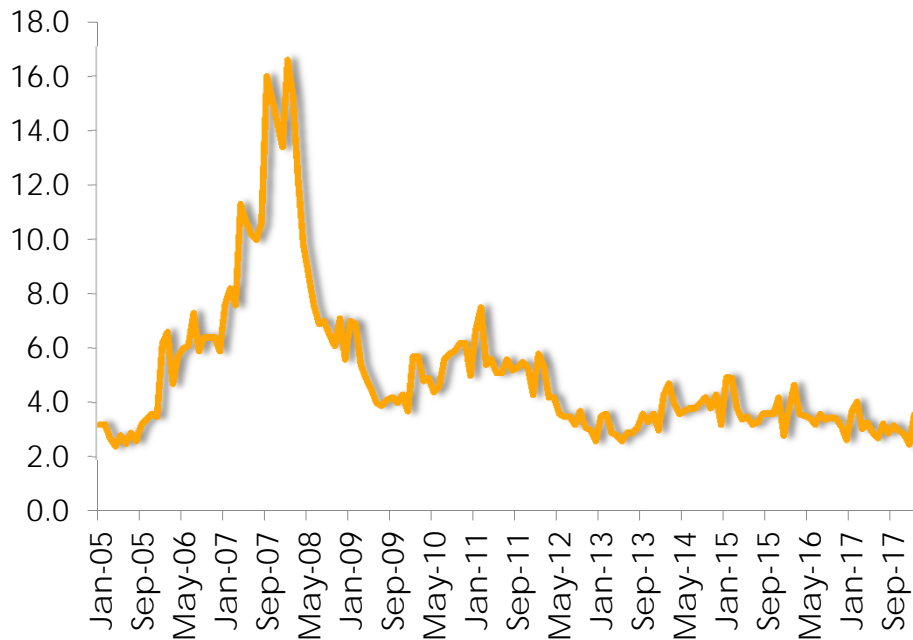
California Home Sales Level Significantly Below the Recent Peak





Supply remained on a downward trend

January 2017: 3.7 Months; January 2018: 3.6 Months

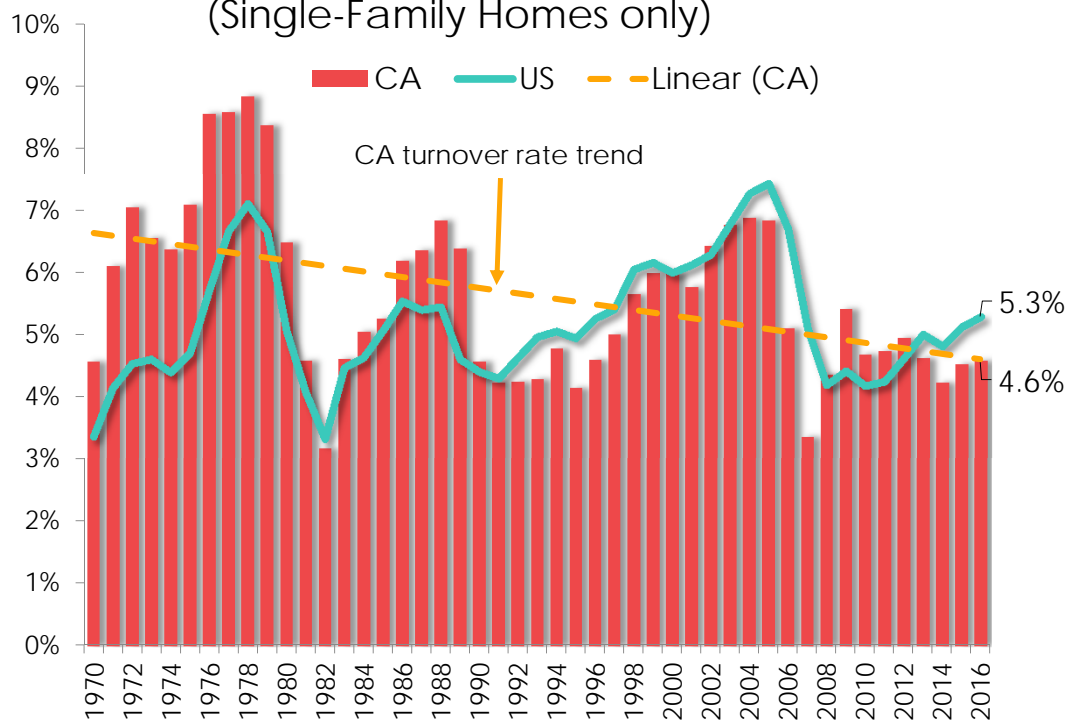


Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the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



Reasons for supply shortage: Fewer units being turned over

Housing Turnover Rate
(Single-Family Homes only)



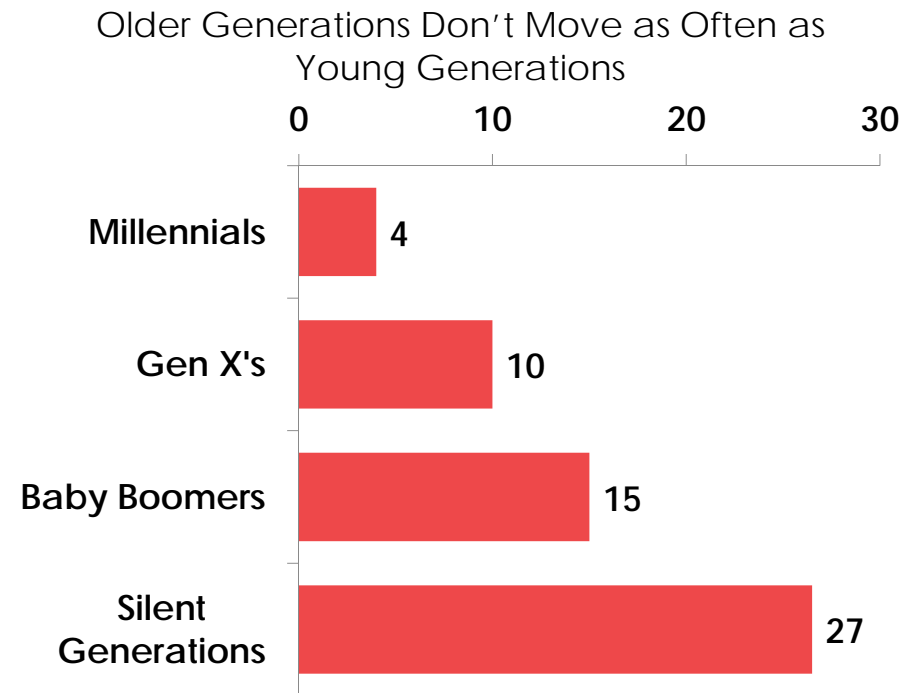
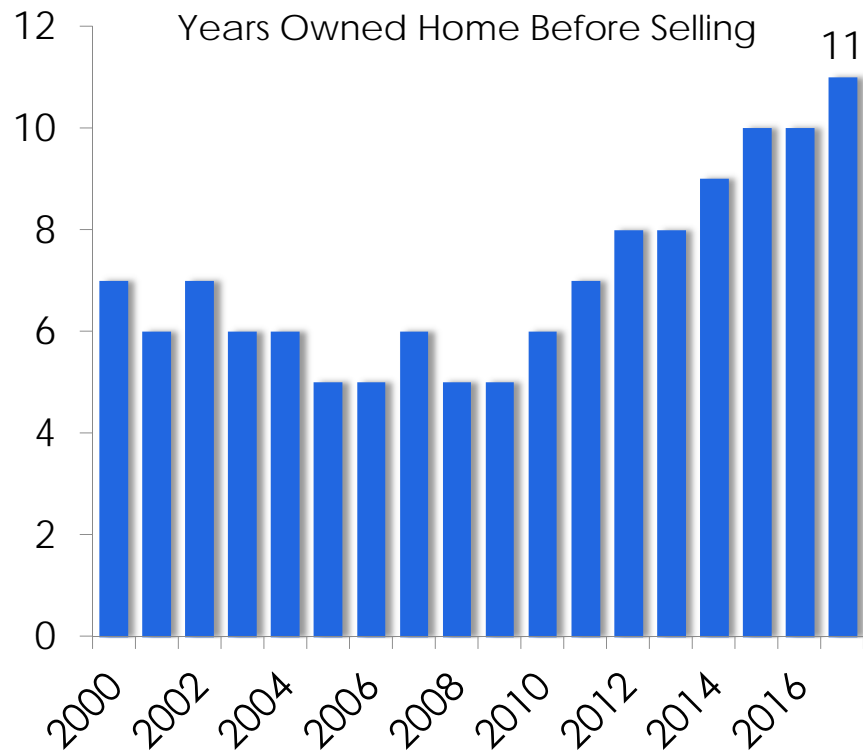
Long-Time Homeowners are not moving as in the past because:

- Demographic shift
- Low rate on current mortgage
- Low property taxes
- Capital gains hit
- Where can I afford to go?

SERIES: Percent of existing single-family homes being sold
SOURCE: Census Bureau, American Community Survey, Moody's Analytics, C.A.R.



Sellers are not moving as often as before

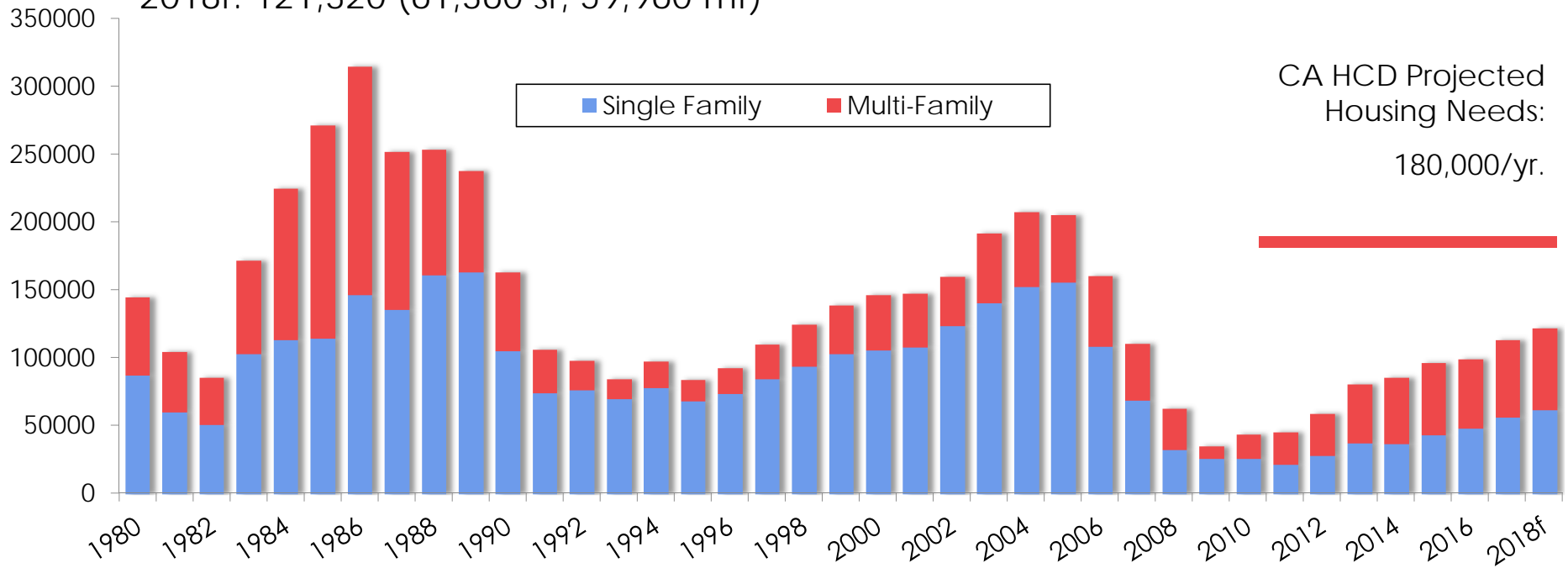




Reasons for supply shortage: "Missing" 60,000 new units annually

2017: 112,886 (55,779 sf, 57,107 mf)

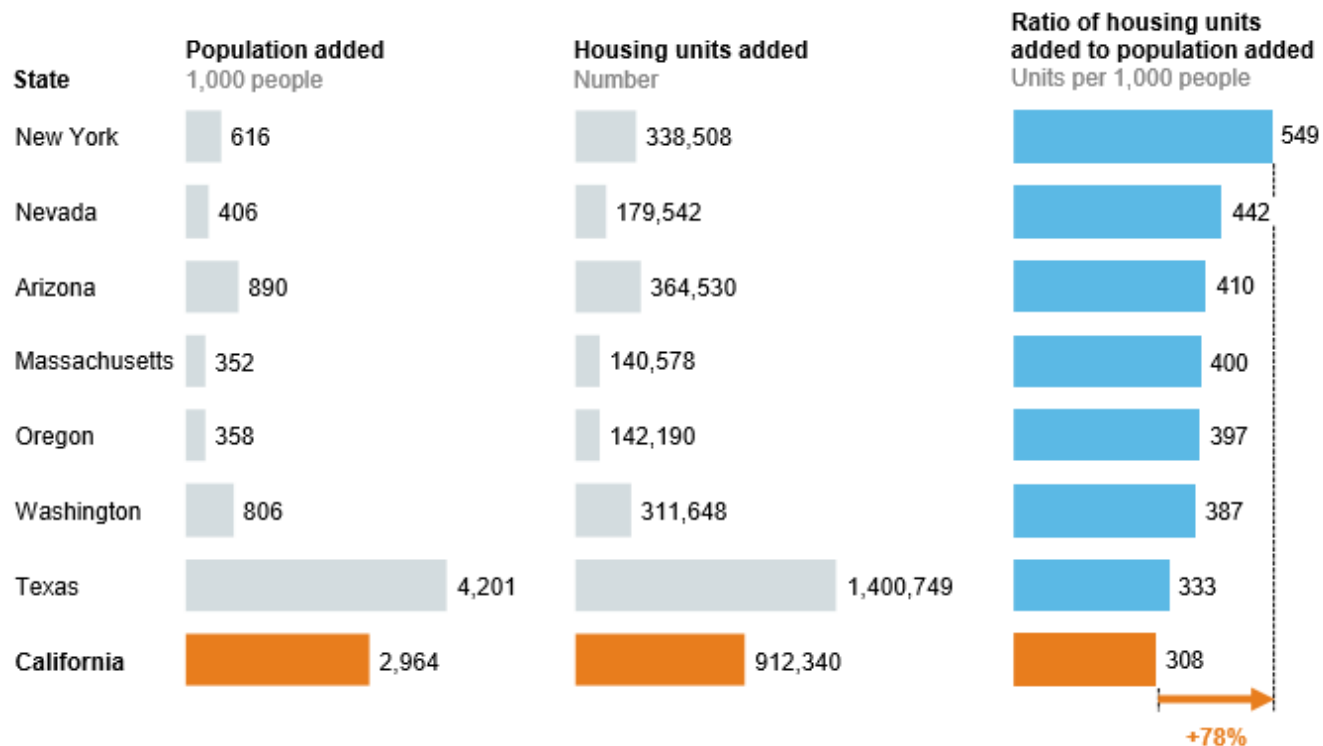
2018f: 121,320 (61,360 sf, 59,960 mf)



SERIES: California New Housing Permits
SOURCE: Construction Industry Research Board



CA has produced less housing per capita than other states



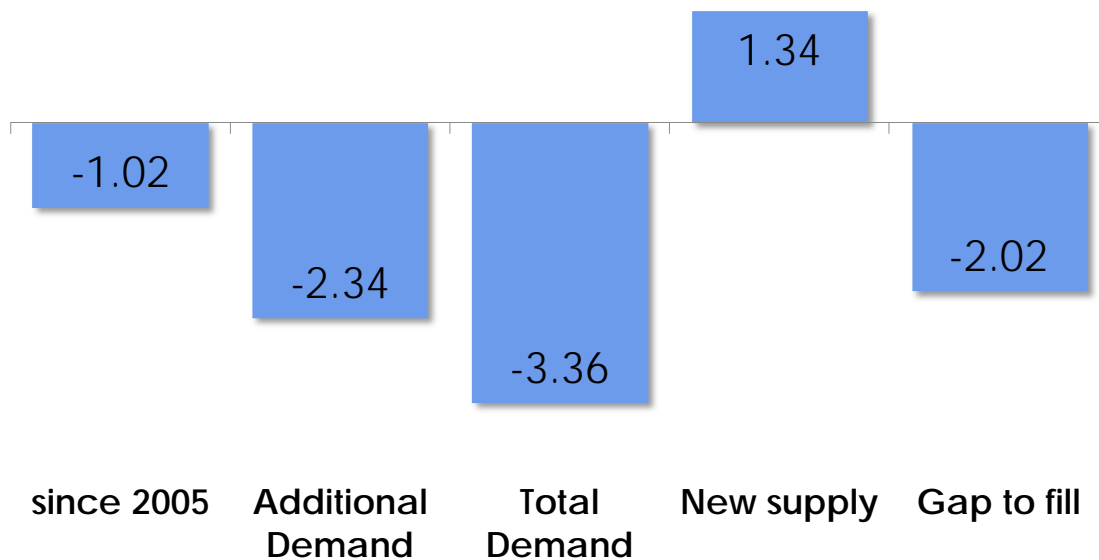
SOURCE: US Census Bureau; McKinsey Global Institute analysis

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



Housing supply gap will be over 2 Million at current construction pace

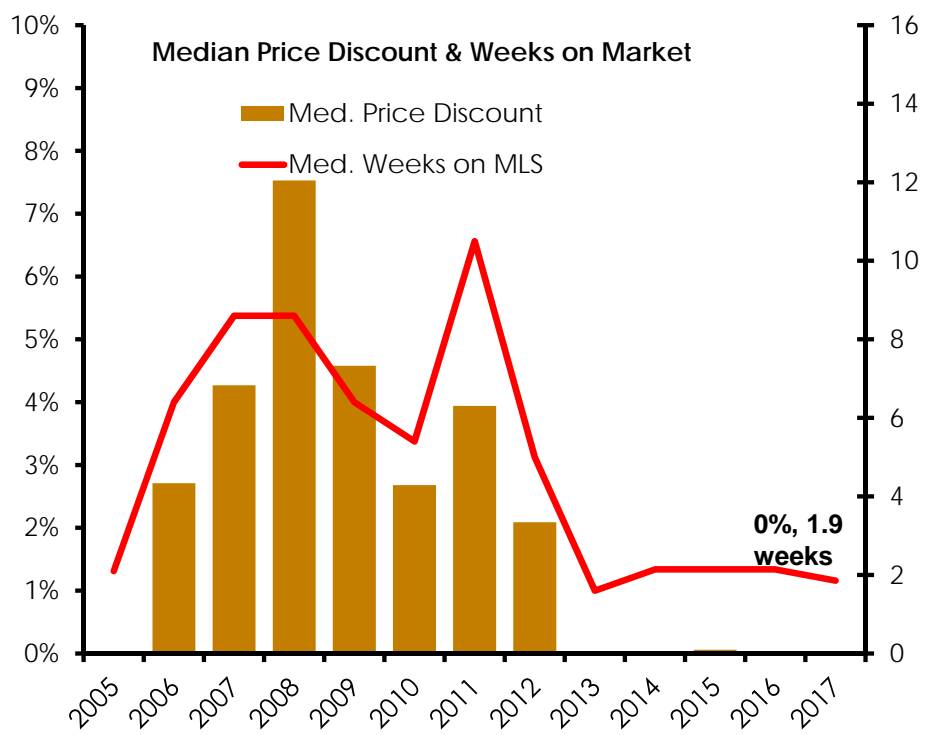
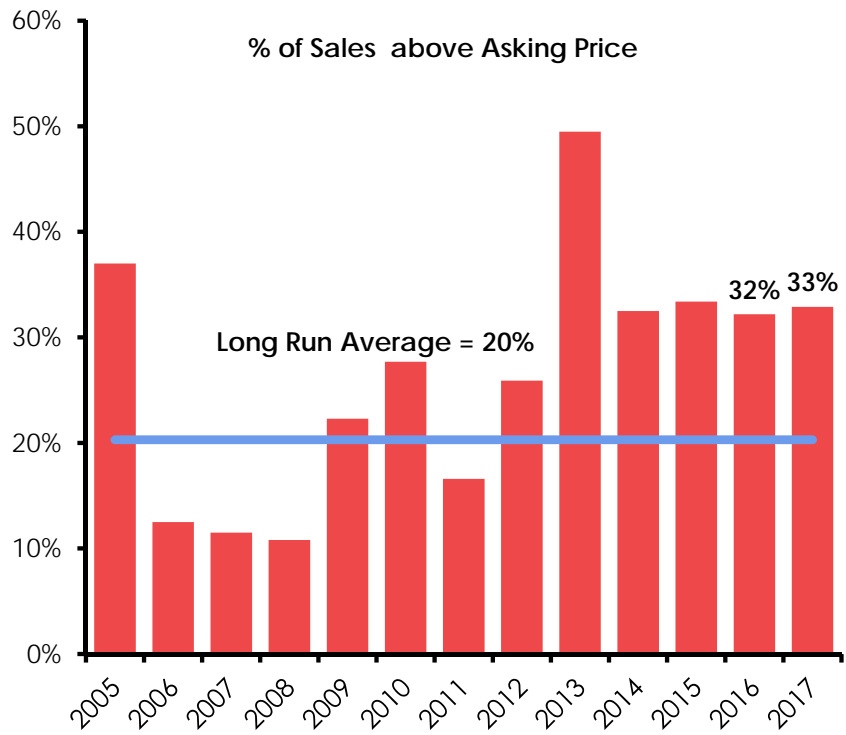
California Housing Supply Gap
(in millions)



- With housing needs increasing at a rate of 180,000 every year, California will need more than 3.3 million units by 2030 to fill the housing demand and bring it back to 2005 level.
- At the current construction pace, however, California will have a backlog of over 2 million by 2030

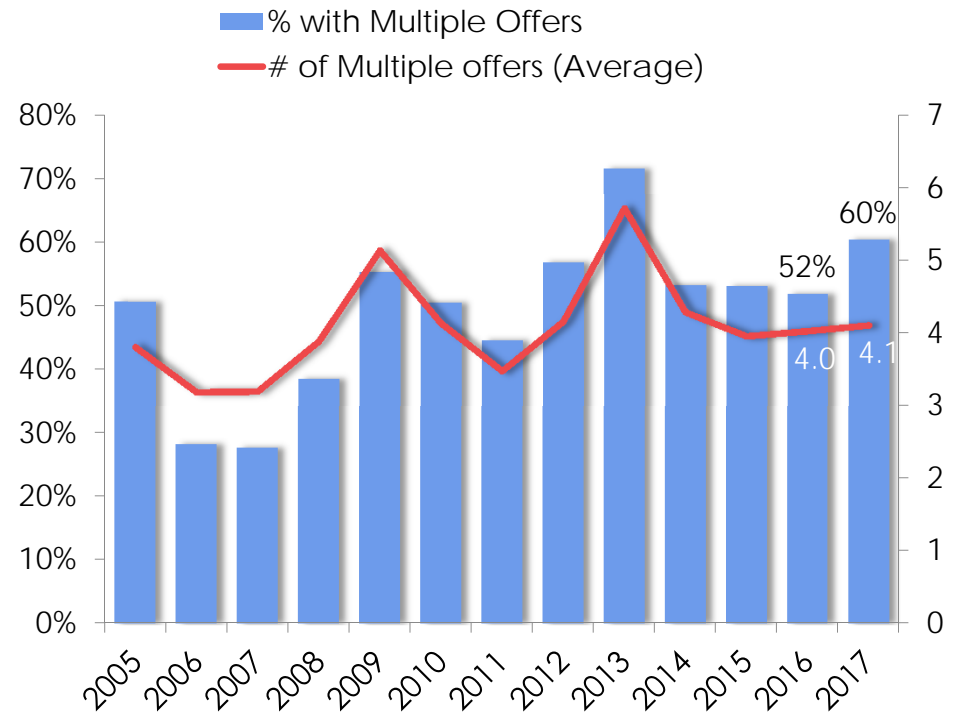


Tight Supply Pushed up Home Prices, as One-third of Homes Were Sold above the Asking Price





Market Competitiveness Surged, as Supply Continued to Tighten up





Market Competitiveness Differ by Price Range

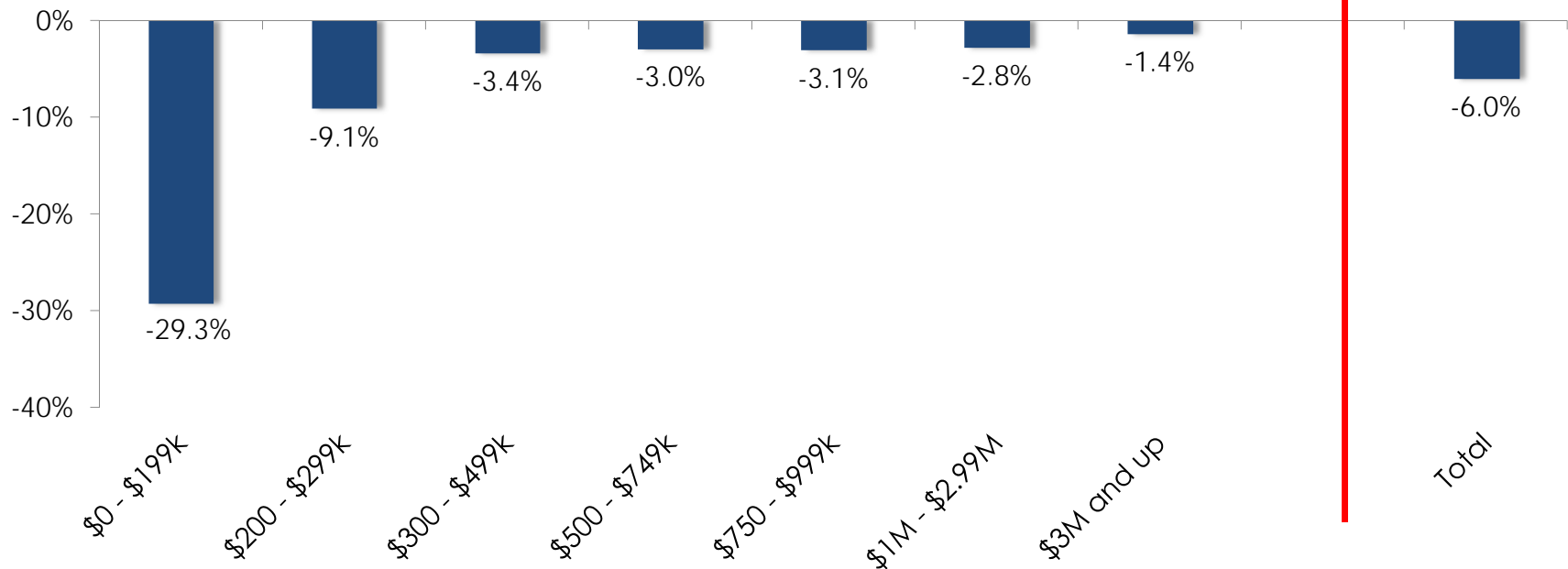
	\$0 - \$300k	\$301k - \$500k	\$501k - \$750k	\$751k - \$1000k	\$1001 and up	All Prices
% with Multiple Offer	47.1%	62.2%	65.9%	64.2%	61.0%	60.4%
% of Sales Above Asking Price	18.5%	34.1%	32.9%	39.7%	42.1%	32.9%
Days on Market	20	11	14	14	16	13



Supply Constraint Across All Price Ranges, but Most Obvious in the Lower End

January 2018

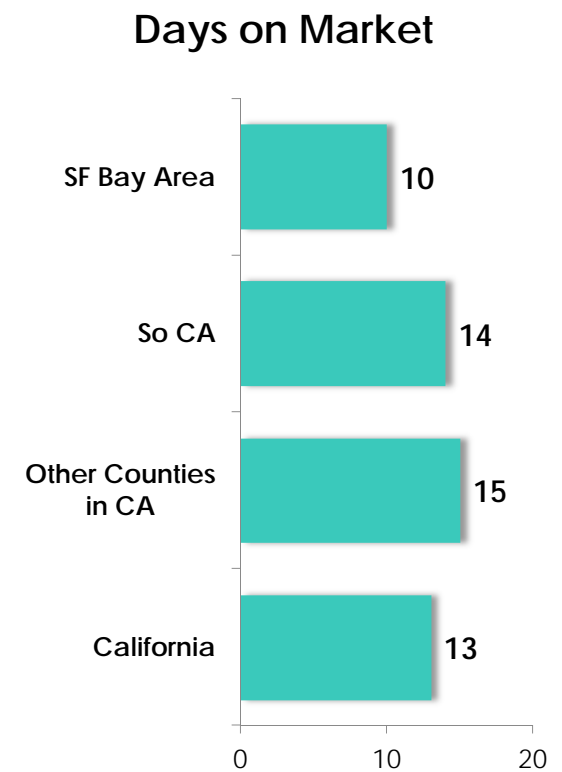
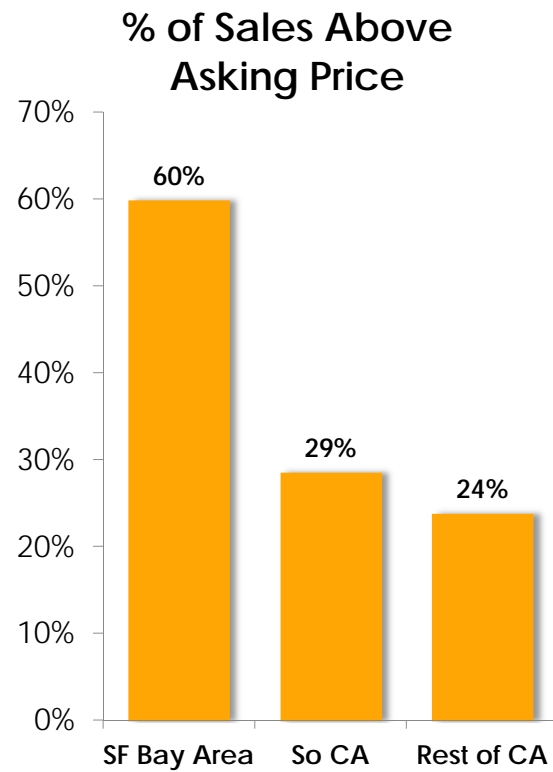
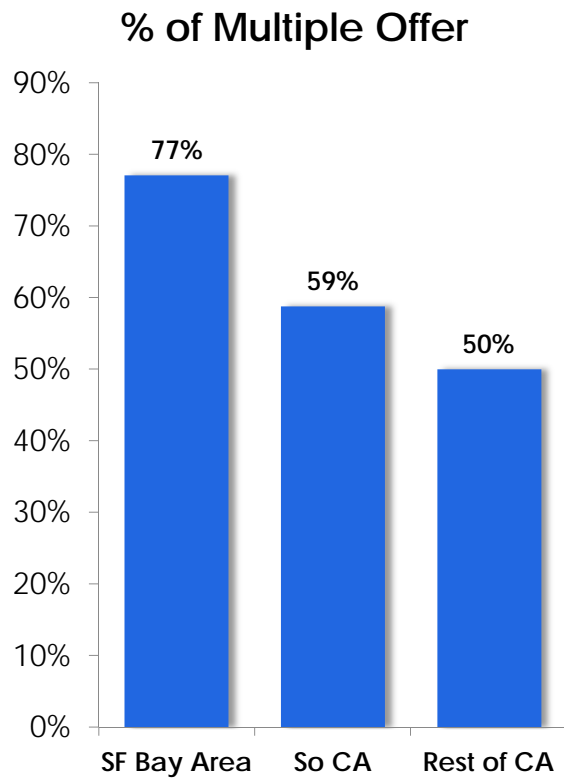
Active Listing



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



Market Competitiveness Differ by Region





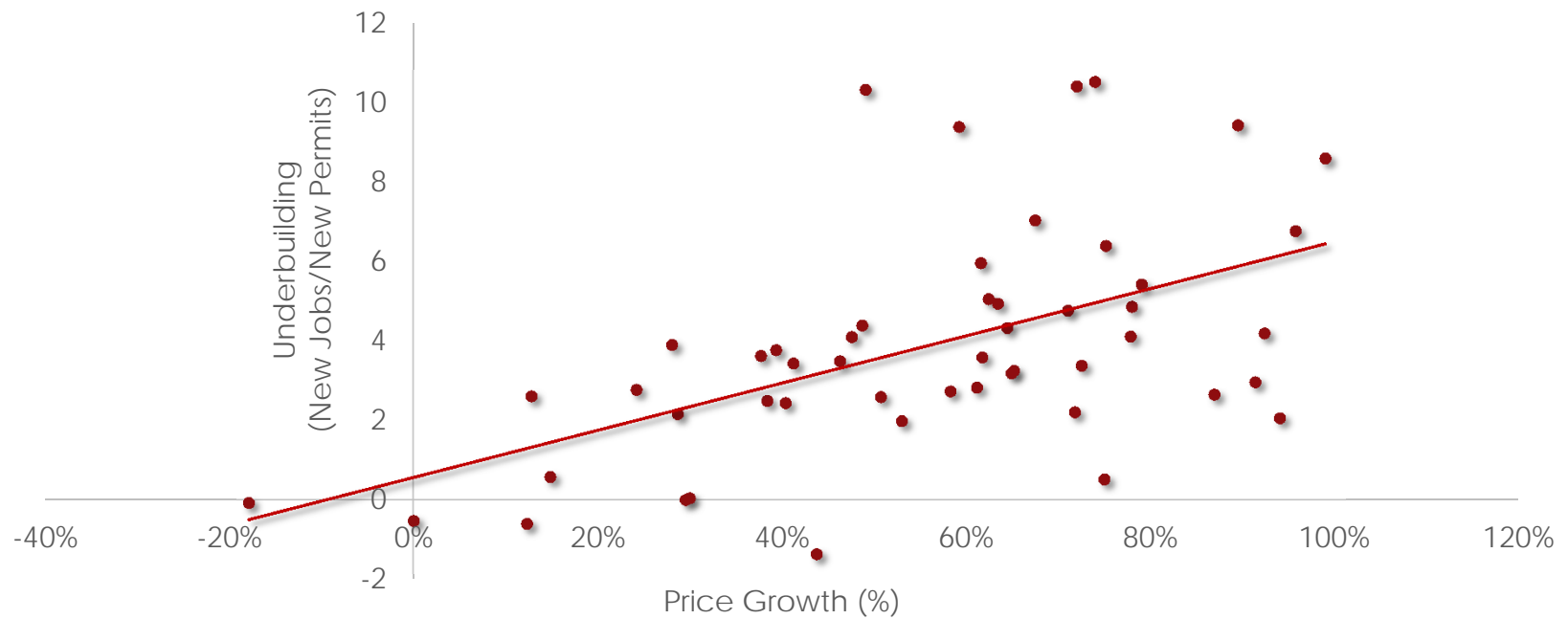
...Even Within So CA

	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



The More "Underbuilding", the higher the price growth

CA Underbuilding and Price Growth (2010-2015)

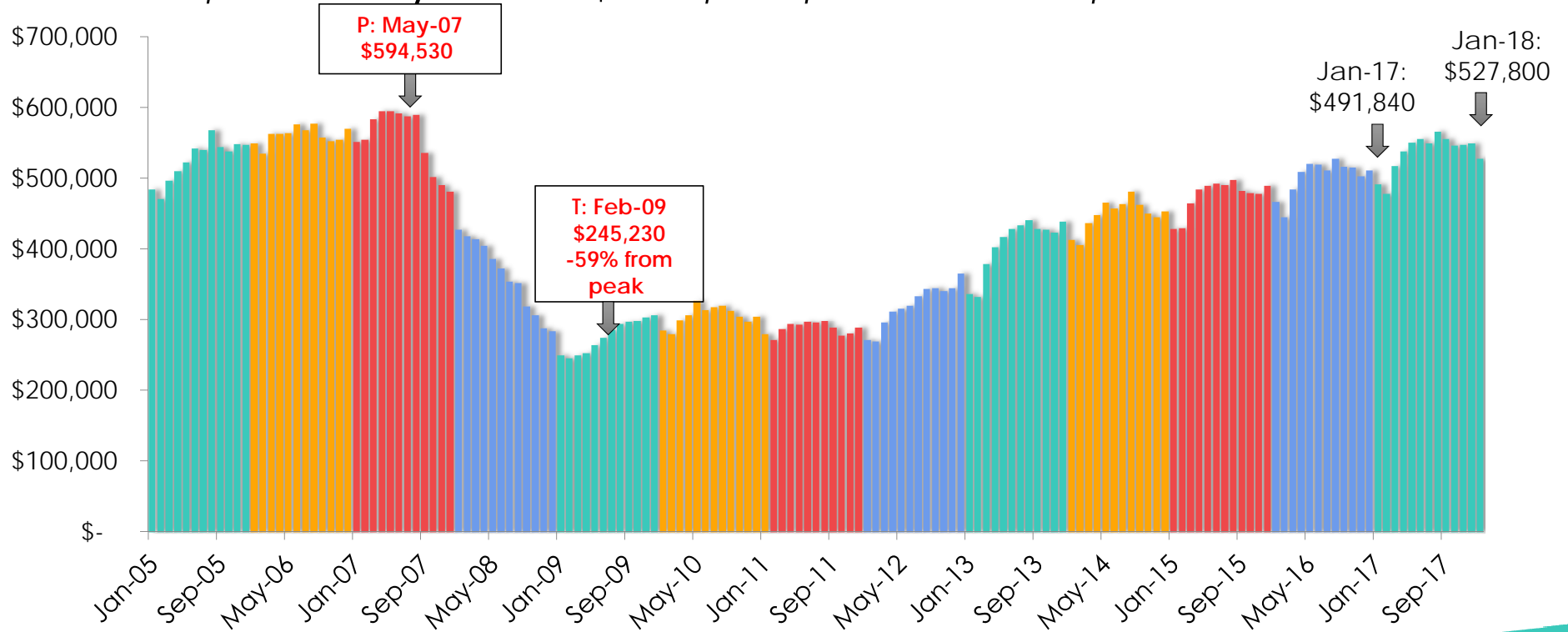


SERIES: Nonfarm Job Growth, New Housing Permits, Existing Median Prices
SOURCE: CA EDD, C.A.R., Construction Industry Research Board



Statewide median price continued to show strong growth

California, January 2018: \$527,800, -4.0% MTM, +7.3% YTY



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



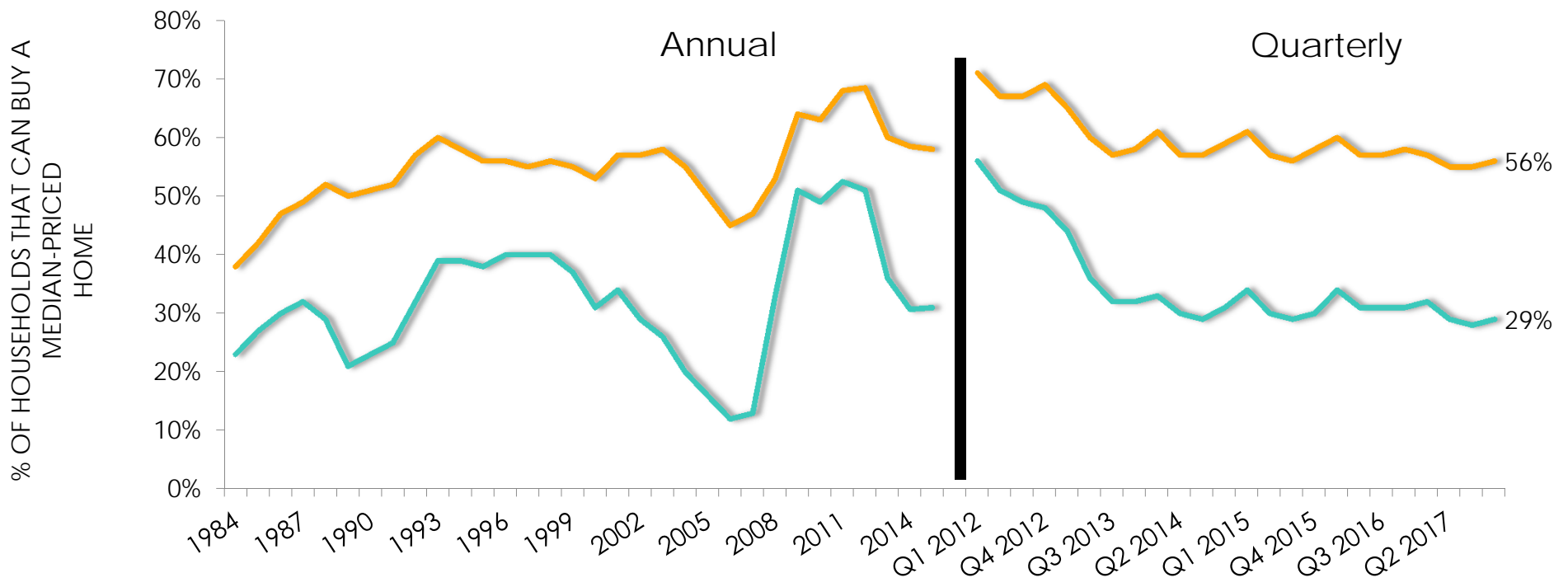
Southern California: Peak vs. Current Price

Region	Peak Month	Peak Price	Jan-18	%Chg Fr Peak
Orange	Jun-07	\$775,420	\$780,000	0.6%
San Diego	May-06	\$622,380	\$590,000	-5.2%
So CA	Jun-07	\$589,710	\$529,230	-10.3%
Los Angeles	Sep-07	\$625,812	\$564,100	-9.9%
Ventura	Aug-06	\$710,910	\$660,720	-7.1%
Riverside	Jun-06	\$431,710	\$397,250	-8.0%
San Bernardino	Aug-06	\$350,290	\$277,000	-20.9%
Santa Barbara	Jul-07	\$878,120	\$567,000	-35.4%



Housing affordability peaked at Q1 2012

California, 1984-2017

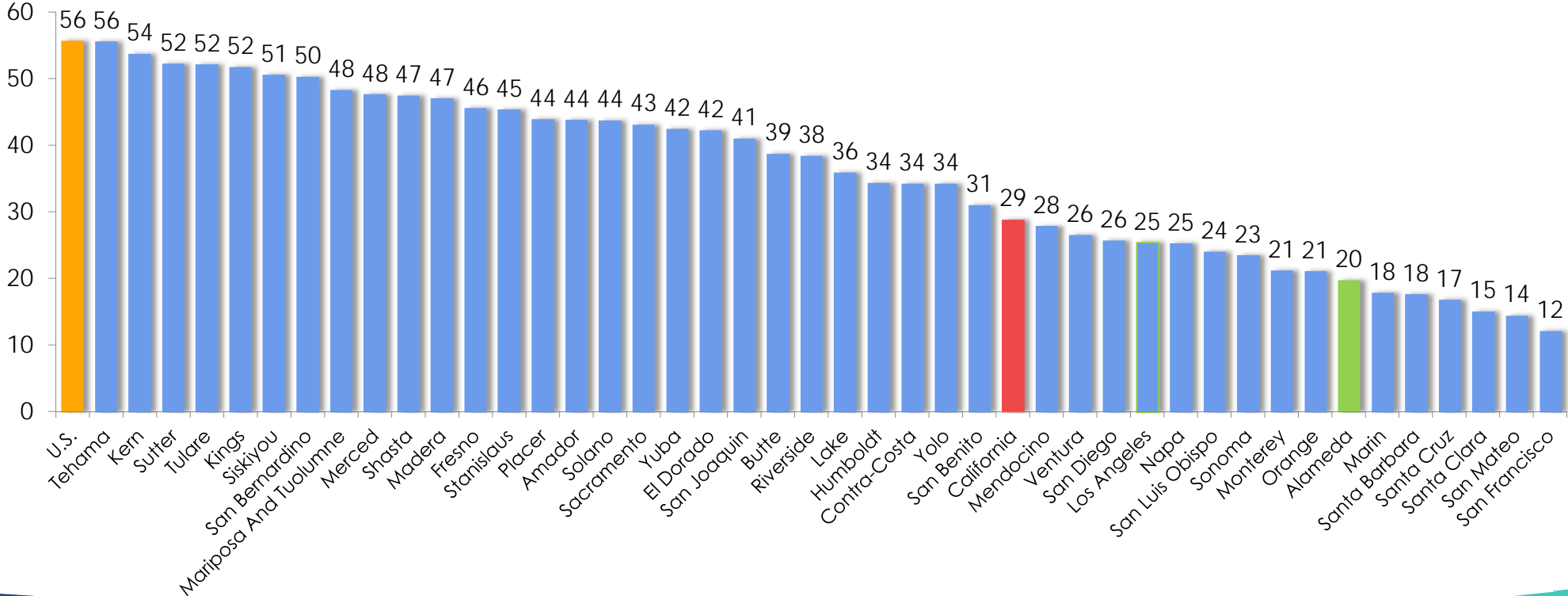


SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Housing affordability in CA: By County

2017-Q4: % able to purchase median-priced home



SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Minimum Annual Income Required During Affordability Peak vs. Current

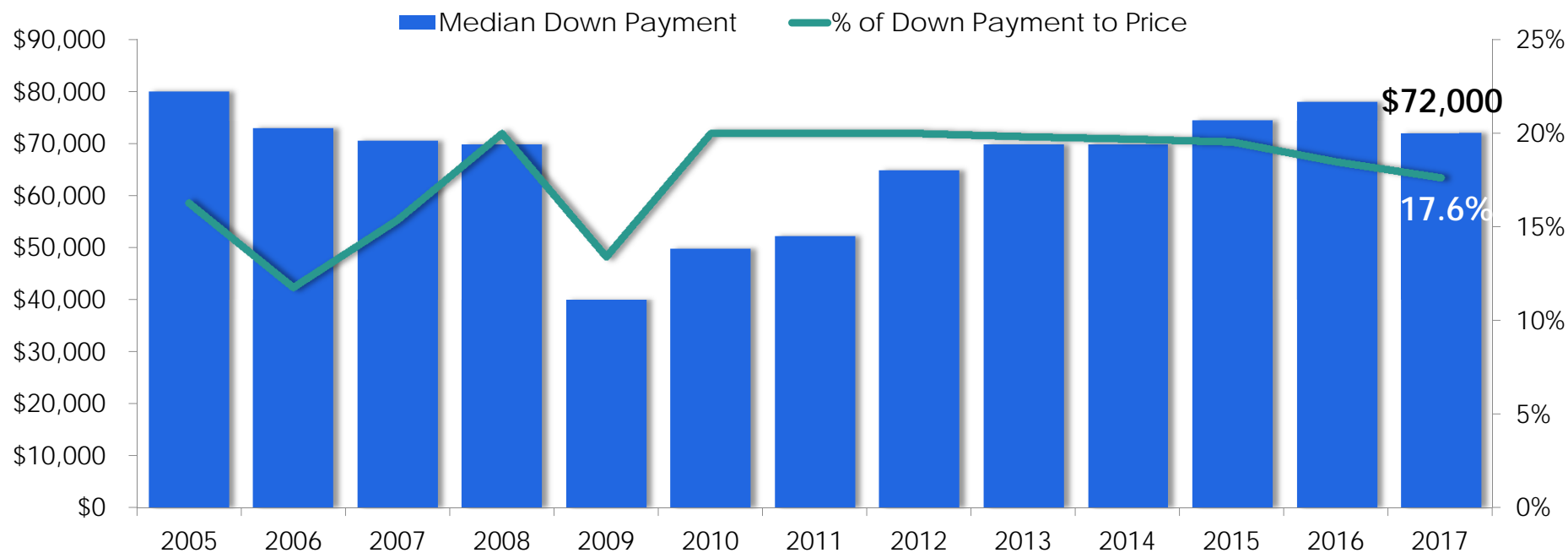
Region	2012 Q1	2017 Q4	% CHG
CA SFH	\$56,320	\$111,260	97.5%
CA Condo/Townhomes	\$44,440	\$90,810	104.3%
Los Angeles Metropolitan Area	\$53,780	\$100,210	86.3%
Inland Empire	\$35,170	\$68,650	95.2%
S.F. Bay Area	\$90,370	\$180,720	100.0%
US	\$32,000	\$50,040	56.4%

SERIES: Housing Affordability Index of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



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

Lowest down pmt. in % since 2009.





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

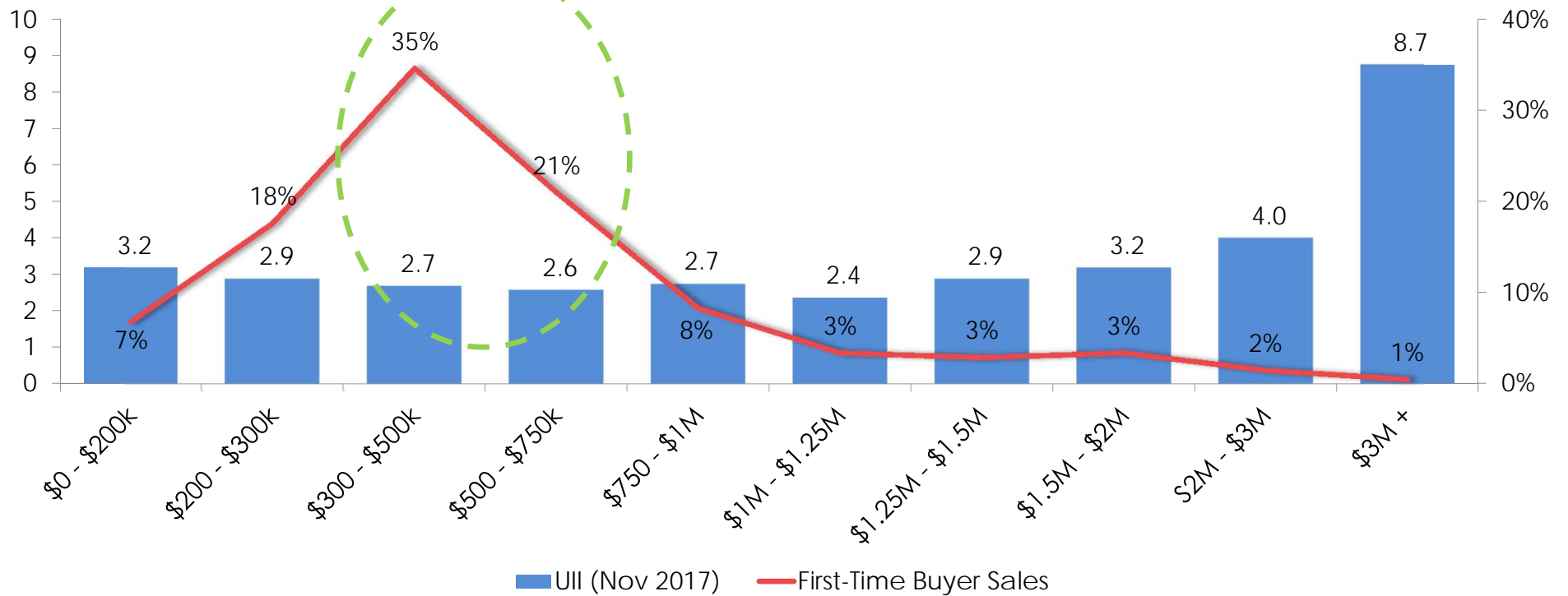


Characteristics of Homes. First-Time vs. Repeat (2017)

	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%



Most First-Time Buyers Purchasing in Markets with the Lowest Inventory



SERIES: 2017 Housing Market Survey, Unsold Inventory Index
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



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%



Investor Buyers Have the Financial Advantage over First-Time Buyers

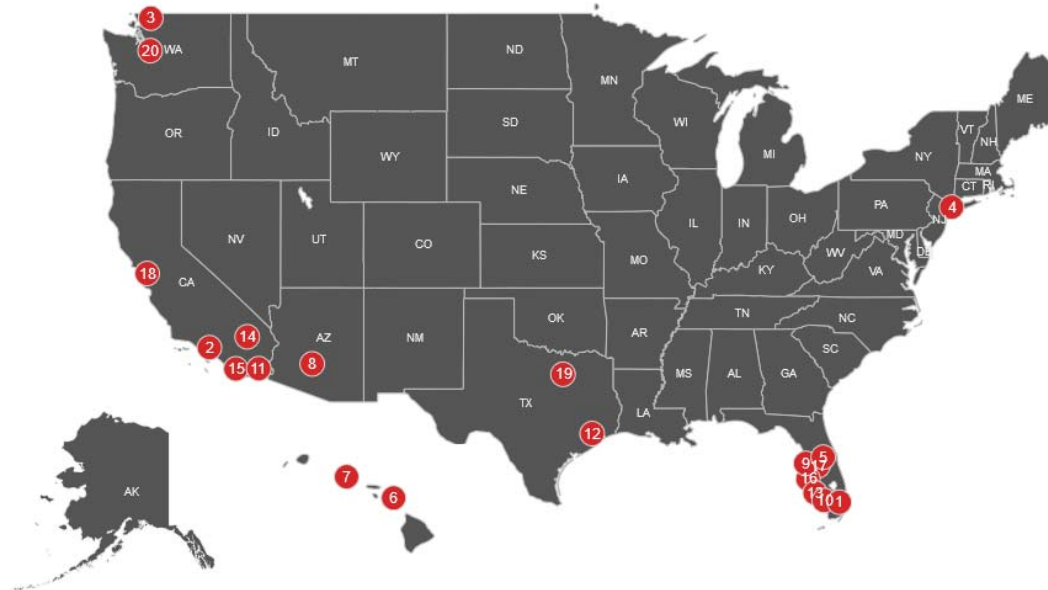
	First-time Buyers	Investor Buyers
Median Sales Price	\$440,000	\$435,000
Median Square Footage	1,477	1,500
Median Household Income	\$85,000	\$200,000
Median Downpayment (in \$\$)	\$35,000	\$100,000



Top 20 Markets for international traffic

January 2018

Rank	Market
1	Miami-Fort Lauderdale, FL
2	LA-Long Beach - Anaheim, CA
3	Bellingham, WA
4	New York-Newark-Jersey City, NY/NJ/PA
5	Orlando-Kissimmee-Sanford, FL
6	Kahului-Wailuku-Lahaina, HI
7	Urban Honolulu, HI
8	Phoenix-Mesa-Scottsdale, AZ
9	Tampa-St. Petersburg-Clearwater, FL
10	Naples-Immokalee-Marco Island, FL

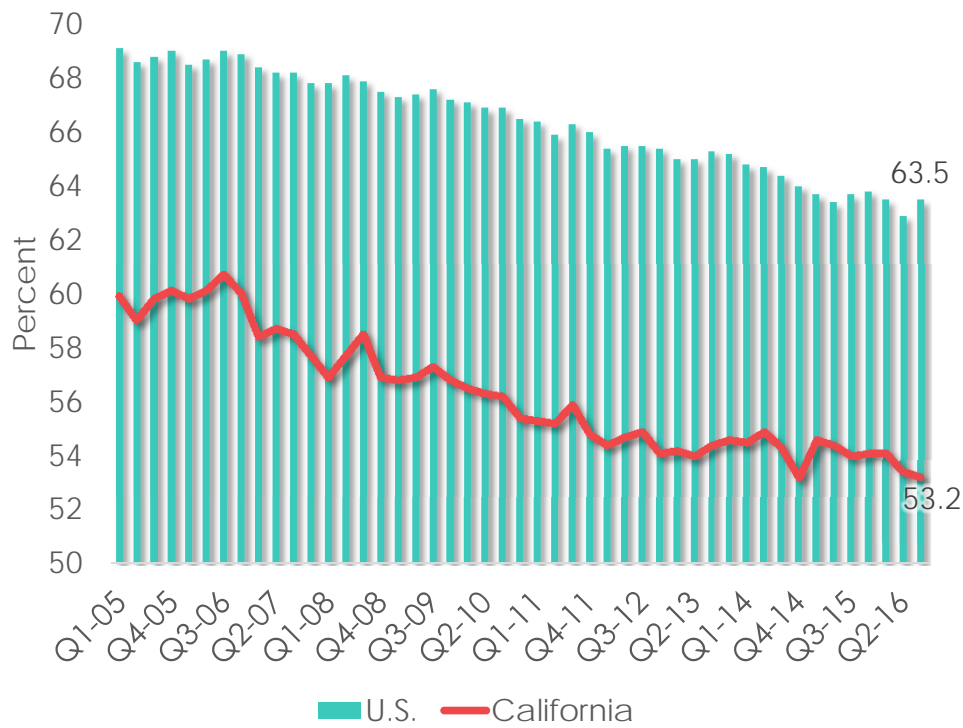


Rank	Market
11	El Centro, CA
12	Houston- The Woodlands-Sugar Land, TX
13	Cape Coral-Fort Myers, FL
14	Riverside-San Bernardino-Ontario, CA
15	San Diego-Carlsbad, CA
16	North Port-Sarasota - Bradenton, FL
17	Lakeland-Winter Haven, FL
18	San Francisco - Oakland - Hayward, CA
19	Dallas-Fort Worth-Arlington, TX
20	Seattle-Tacoma-Bellevue, WA



Homeownership Dropped, Big Gap in CA

Homeownership Rate, 2005-2016



Homeownership Gap (Smoothed)



SERIES: Homeownership Rate (%)
SOURCE: U.S. Census Bureau, Housing Vacancy Survey (HVS)

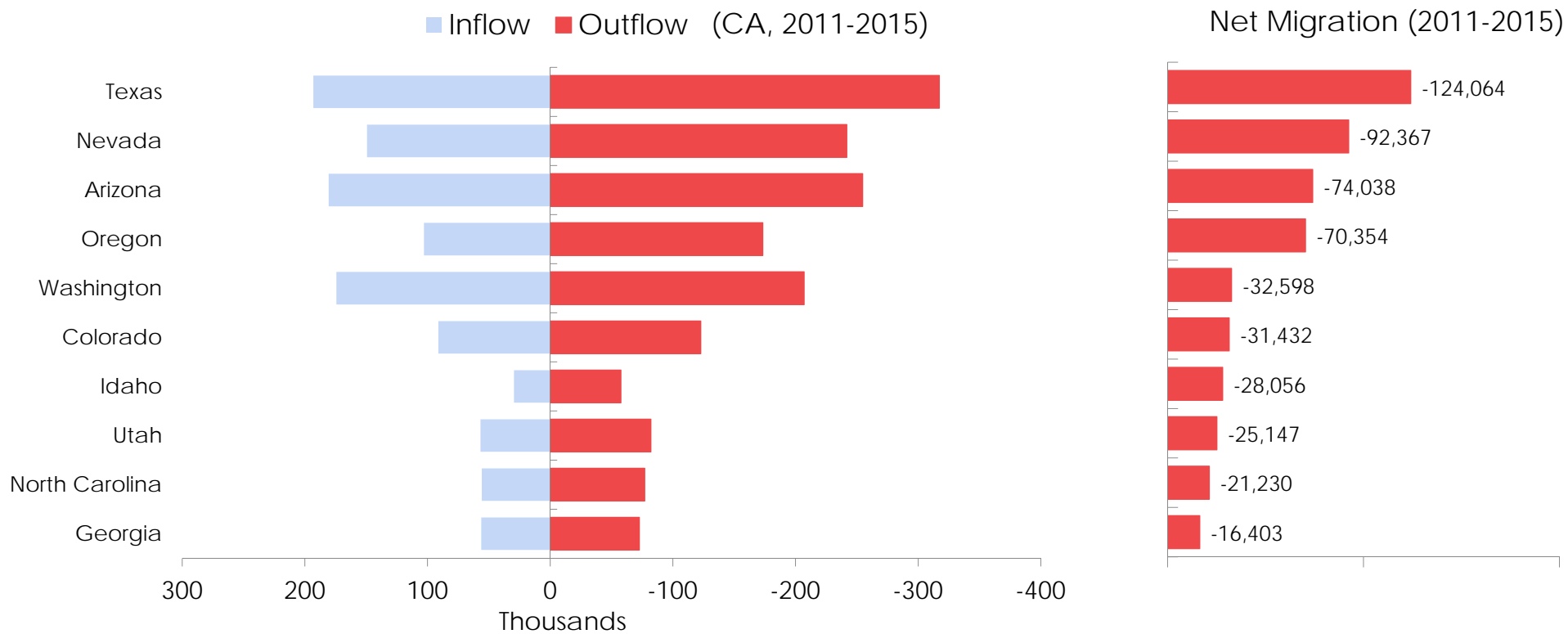


How Do High Housing Cost Affect Californians?





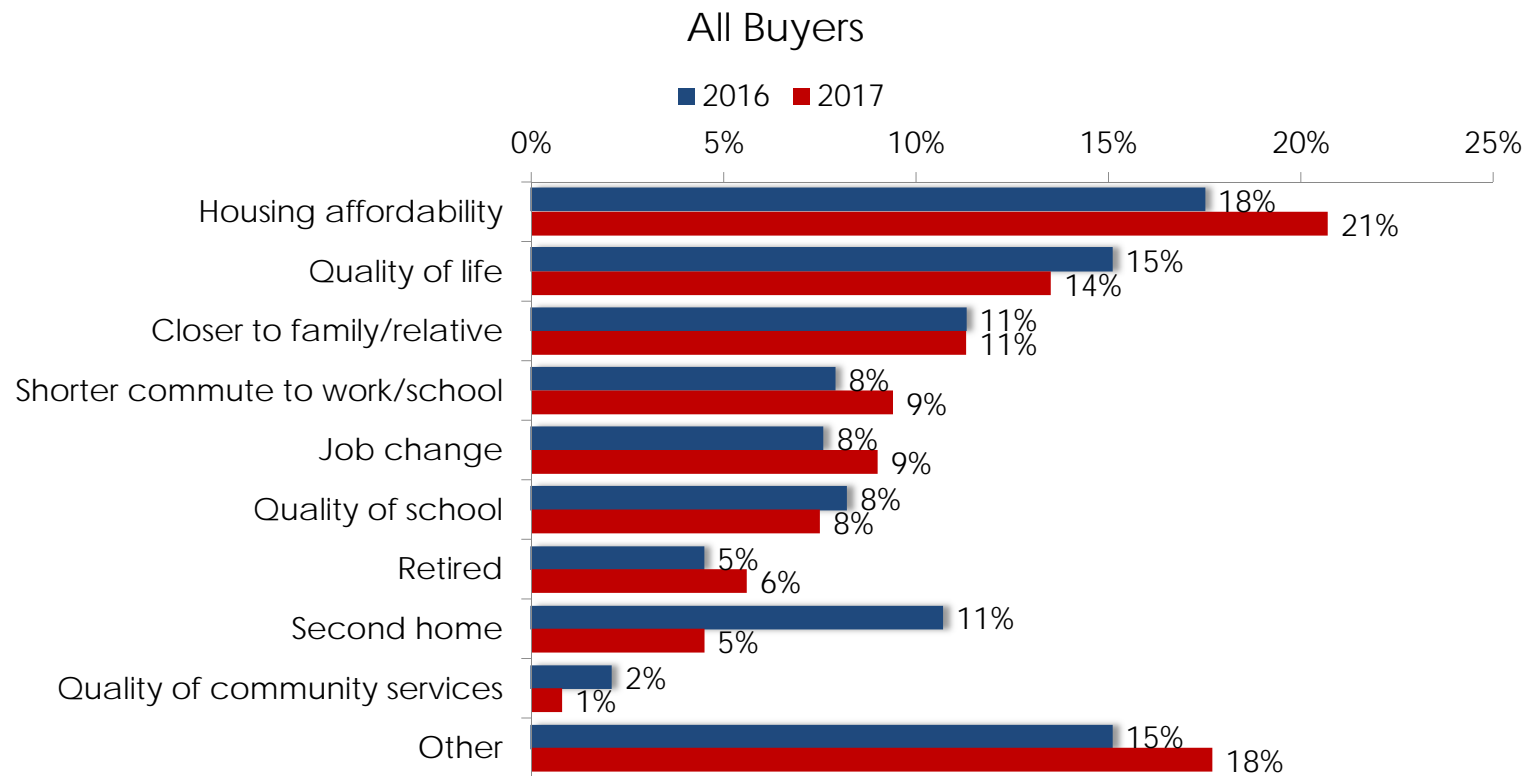
The Consequences: People leaving



SERIES: California Migration
SOURCE: U.S. Census, Calculations by the California Association of REALTORS®

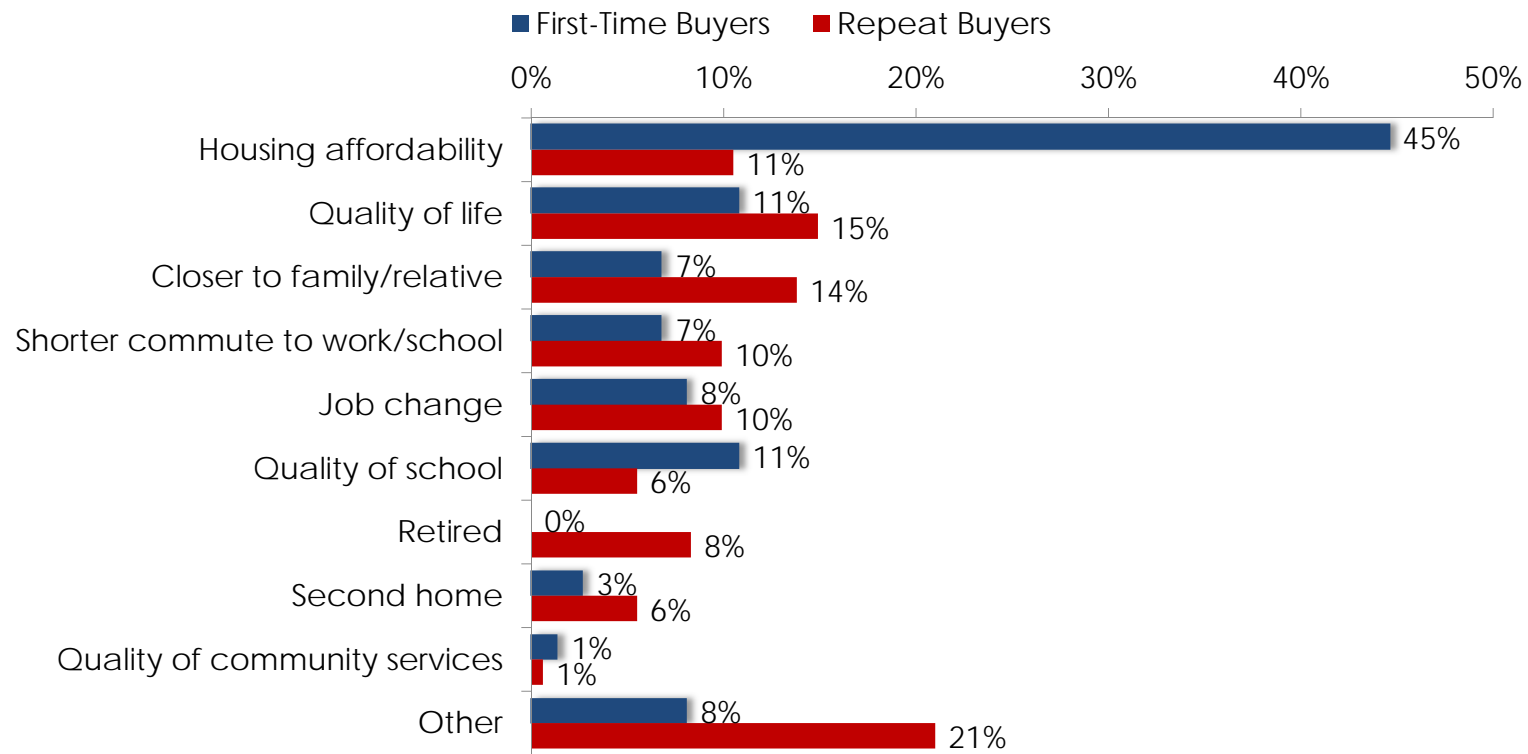


Housing Affordability Still the Main Reason for Outmigration





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





How Do High Housing Costs Affect the Economy



Negative impact of excessive barriers to housing development:

- Lower housing affordability for working families
- Increase income inequality by reducing less-skilled workers' access to high-wage labor markets
- Slow down economic growth by driving labor migration away from the most productive regions



The Consequences: Companies and jobs leave or expand elsewhere

Companies that left the state

- Nestle (Rosslyn, VA)
- Northrop Grumman (DC)
- Toyota (Plano, TX)
- Jamba Juice (Plano, TX)
- Parsons Engineering (Plano, TX)
- Occidental Petroleum (Woodlands, TX)



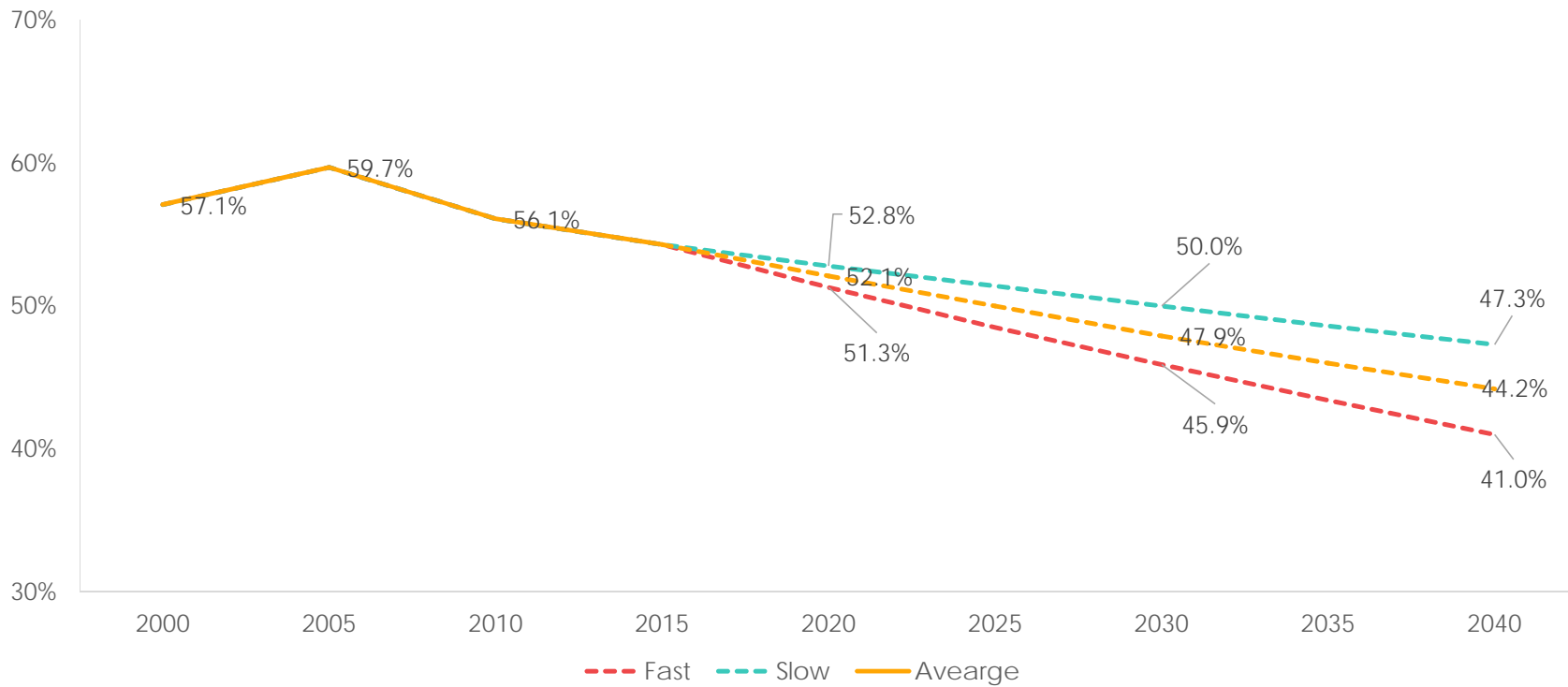
Solutions

- *Build More*: Regulatory Changes Are Essential
- Free the Existing Inventory
- Add Secondary Units
- Recycle Retail and Commercial Projects
- Utilize Surplus Land (where ever available)



Homeownership will deteriorate further if the trend continues

California Homeownership Rate



SERIES: Homeownership Rate
SOURCE: U.S. Census Bureau, American Community Survey, C.A.R. projection



Key Takeaways

- Despite solid housing demand, sales have been held back by supply constraint; conditions not likely to change in the near term.
- The accelerating price growth is a concern for housing affordability and homeownership, as interest rates are expected to climb in 2018.
- First-time buyers are the most affected, and the decline in housing affordability will lead to more outmigration.
- Solution to the housing crisis: build more and improve the turnover rate



Thank You

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