

Are we there yet? Some areas improving faster than others

It certainly feels like the market has been stuck in second gear for a while. Sales of homes in California in 2014 fell almost 8 percent from the year before, and a lot of decrease occurred at the end of the year. 2015 started rather slow too. Nevertheless, February sales activity as well as February pending sales index released by the California Association of Realtors suggests that the tide may be turning, at least in some areas.

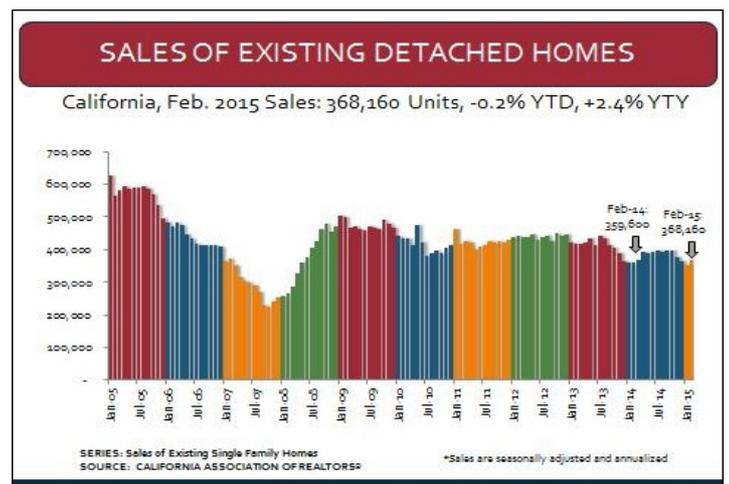
Although the year-over-year increase of home sales in February was mild at 2.4 percent, it was the largest increase observed since December 2012. It was also the second time in the last three months that sales experienced an increase from the previous year. Interestingly, February 2015's monthly increase in sales was stronger than the long-run average of 0.6 percent sales increase from January to February recorded since 1980. It is important to keep in mind that sale increases were not consistent across the state. While sales improved in the Central Valley region (at 4.7 percent increase over the last year), sales declined in both the Southern California region and the Bay Area, at 0.4 percent and 4.5 percent decline over the year before respectively.

Furthermore, pending sales index in February, which is a forward looking indicator of sales, jumped almost 27 percent on a monthly basis and 6 percent from last January. The increase from last January was the biggest year-over-year increase observed since May 2012. The month-to-month increase is attributed primarily to seasonal factors, but it was also much larger than the average December to January increase of 16.3 percent observed in the last six years.

Again, pending sales were particularly strong in the Central Valley region, though the Southern

California region also improved moderately from last year. Los Angeles County and the Inland Empire dipped however. Tight housing supply conditions continued to restraint home sales in the San Francisco Bay Area, where pending sales dropped 6.6 percent from the previous year.

As data suggest, it is still difficult to tell if the upcoming home buying season is going to be better than last year. As shown, some indicators suggest that it will. Also, inventory of homes for sales, one of the major constraints on the market over the last few years, seems to be improving in most of the state. The Bay Area unfortunately continues to struggle with lack of inventory, with inventory levels falling 10 percent from last year. Inventory in San Francisco alone dropped over 40 percent! Other areas, on the other hand generally saw improvement. Except San Diego and Santa Barbara, Southern California and Central Valley saw a solid improvement of about 7.5 percent from last year. Some other market indicators also suggest improvement in the upcoming months. A survey of market activity which measures open house traffic as well as data on realtor.com website activity both suggest increased activity from last year. With much improved employment situation in the state, still relatively lower rates, and home price appreciation slowing significantly, all fundamentals are in place for a stronger 2015.



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Hugo Torres
REALTOR®
Coldwell Banker Arcadia
15 E Foothill Blvd
Arcadia, CA 91006

Office: 626-445-5500
Cellular: 626-675-0658
Email: hugo@hugotorres.com
Website: <http://www.hugotorres.com>
BRE License: 01457023