CALIFORNIA ASSOCIATION OF REALTORS® Market Snapshot

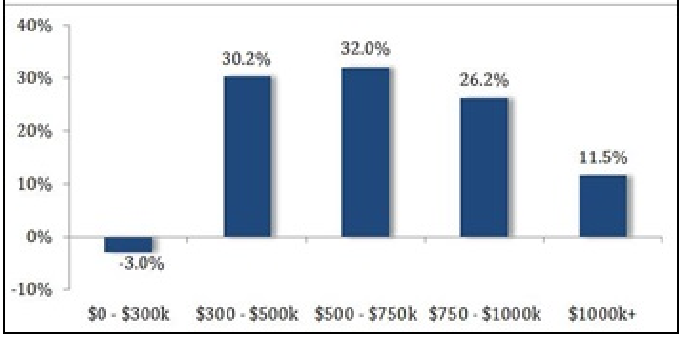
Getting the housing market out of the second gear

After several months of disappointing sales, what should we expect from the spring-buying season? According to C.A.R.'s monthly Market Pulse survey, over 50 percent of REALTORS® in California were seeing higher open house traffic in February when compared to the month before or February of 2013. Also, over 50 percent of REALTORS® indicated that they expect market conditions to improve over the next year. Another positive piece of news came from C.A.R.'s Pending Home Sales Index which reached the highest level in March since July of last year. While the index is still almost 10 percent lower than March of last year, it is encouraging to see the index rising to the level of last summer. Last, but not least, is the improvement in inventory. As Figure 1 suggests, increases in inventory have been broad across price ranges. Unfortunately, inventory of lowest-priced homes, those in the range up to $300,000, continue to decline and will probably remain very lean as distressed market clears. Meanwhile, higher-price ranges showed a healthy, 30 percent increase in homes available for sale.

Why the slowdown in sales activity? First and foremost, it is important to re-emphasize that home sales activity often reported in the news are aggregated at either state or metropolitan level. The Market Pulse survey of Realtors® suggests that market activity varies dramatically across the state and even across neighborhoods.

While some areas have returned to some level of normalization since last summer's buying frenzy, there are still areas with very high activity, numerous multiple bids, and sales prices well above the listing prices. However, if we look at reasons for slowdown in market activity on the whole in California, there are several trends worth mentioning. Investor activity has dropped over 30 percent from the same time last year. Since 2009, investors comprised a large share of buying activity, but with increased home prices and higher interest rates, investor activity has waned. Another reason for the slowdown has been the loss of affordability. Increase in prices, combined with higher rates led to drop in housing affordability of about 16 percentage points for the state, and even more in some hot markets. Each percentage point drop in housing affordability leads to 10,000 households not being able to qualify for a median priced home. The two trends, fallen housing affordability and exiting of investors, explain most of the drop in home-buying activity over the last year. While many expected the release of pent-up demand and traditional buyers to step in, traditional buyers have been reluctant up to now. However, as noted above, open house traffic has increased significantly when compared to last month and to last year. This could be an indication that primary home buyers may be ready to consider purchasing a home again, as prices and rates begin to show signs of stabilization.

Figure 1: Change in Inventory by Price Range, Year over year



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