CALIFORNIA ASSOCIATION OF REALTORS®
Market Snapshot

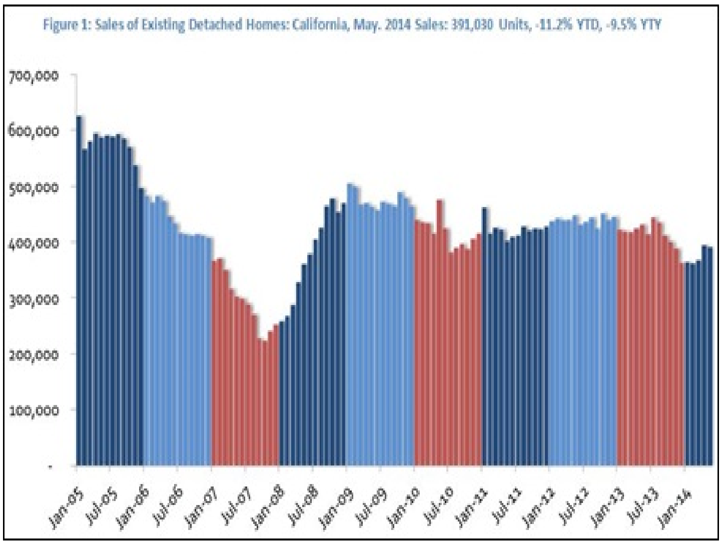
Why Is the Market In a Standstill?

Sales of existing detached homes have remained below 400,000 since November 2013, and the year-over-year decline continued for the tenth straight month. While slowing home sales activity reversed in March, this year's sales are significantly lower than in 2013. Sales are expected to improve in the upcoming months but the market may continue to perform below the level of 2013 for the next couple months.

One main reason for lower sales activity in the overall market is relatively lower activity in markets of homes priced under $400,000. Sales of homes priced under $200,000 dropped the most with almost a 40 percent decline from a year ago. Sales in price ranges between $200,000 to $300,000 and $300,000 to $400,000 also saw significant declines, 14 percent and 10 percent respectively. Sales of homes in higher price ranges increased slightly over the year before. Sales of condos and townhomes which were relatively stronger than the single family market, also declined in May 2014 after rising briefly in April, with sales decreasing 6.7 percent over May 2013, and 1.2 percent from April 2014.

The looming question for the housing market is what has caused such a disappointing start to the spring home buying season? The reasons for the slower market are twofold. It is both an issue of lower demand, as it is of lower supply. On the supply side, inventory of homes available for sale is still nowhere near the "normal" level. While inventory has certainly improved some over the prior year, diminishing lower-priced inventory, both REO and short sales, leaves buyers with fewer opportunities in the affordable category. Where are sellers? Some are still under water, going through mortgage modification process and consequently not incentivized to sell. Other potential sellers have locked in at very low mortgage interest rates. Given the anticipated increase in rates in the future, these homeowners are going to be disincentivized to sell as well. And lastly, distressed inventory that has dominated the market since the crash has almost been cleared in most part of the state.

And where are buyers? Well, the trade-up buyers need to first sell their homes before moving up and given the reasons discussed above, these potential move-up buyers may be holding on to their current homes. Meanwhile, one large group of buyers that has dominated the market over the last couple of years, investors, has exited the California market. Rapid increase in home prices limited their return on investment in residential real estate, while rallying stock market may be drawing them as well. And lastly, we are missing the first-time buyers. While first time buyers have traditionally comprised 35 to 40 percent of buyers, they are about half that share now. Fallen housing affordability coupled with the sentiment that accessing credit is difficult or impossible, may have kept first-time buyers away. In fact, one recent survey from Fannie Mae suggests that 73 percent of young renters believe it would be difficult to obtain a mortgage. Nevertheless, there are increasingly more programs targeted at first-time buyers and those interested in purchasing a home should explore their opportunities.



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