

California Housing Market Is Expected to Be Up in 2014

The California housing market had a decent performance in 2013 so far. For the first nine months of 2013, sales of existing single-family detached homes were down 3.2 percent when compared to the same period of last year. This decline in sales was attributed partially to the hike in interest rates in recent months, as the average 30-year fixed rate increased more than 100 basis points since April 2013 and was the highest since the mid of 2011. Looking forward, annual sales of detached homes are expected to decline slightly from 439,420 units in 2012 to 430,270 units in 2013, with 2014 improving to 444,040 units.

The year 2013 is a year when the housing market transition from “investor sales” to “primary home sales”. The share of investor sales is expected to decline as the number of bargain properties continues to decrease, while the share of primary home sales is expected to improve as the economy continues to grow. As such, the increase in sales bought as primary homes will be undercut by the reduction in investor sales, and hence the slight decrease in overall sales in 2013. Next year will be a more “normal” year and the economy will presumably grow at a faster pace, which will provide support to the housing market.

With inventory levels remaining lean through the rest of 2013, the California median price is projected to increase 28.0 percent from \$319,310 in 2012 to \$408,600 in 2013. The significant increase in price in 2013 was due in part to the mix of sales. The sales share for higher end homes will continue to inch up or remain near the current level for the rest of the year. Thus, more homes in the upper price segments will be sold in 2013 when compared to 2012.

Because of the change in the mix of sales from 2012, the statewide median price is expected to increase significantly on a year-to-year basis.

The increase in the median price at the state level, however, appears to be slowing down in recent months. Since the sales share of distressed sales is already at a low level and is expected to remain at or near that level for the rest of the year, it is unlikely to see the sales share of distressed properties declining much lower next year. The price appreciation due to a shift in the mix of sales should thus be much smaller than what we observed in 2013. As a result, the median price for California existing single family homes is projected to increase only six percent to \$432,800 in 2014.

With the value of discounted properties continue to appreciate, investors are paring their purchases of distressed homes as their profit margin narrows. As investors take a step back, inventory will likely improve slightly in the upcoming year. Meanwhile, the increase in home prices will also encourage more homeowners to put their houses up for sale. The housing supply will grow and should gradually climb back from under three months in 2013 to about four months in 2014.

California Housing Market Outlook

Indicator	2008	2009	2010	2011	2012	2013p	2014f
SFH Resales (000s)	381.4	474.9	416.5	422.6	439.4	430.3	444.0
% Change	30.4%	24.5%	-12.3%	1.4%	4.0%	-2.1%	3.2%
Median Price (\$000s)	\$348.5	\$275.0	\$305.0	\$286.0	\$319.3	\$408.6	\$432.8
% Change	-37.8%	-21.1%	10.9%	-6.2%	11.6%	28.0%	6.0%
30-Yr FRM	6.0%	5.0%	4.7%	4.5%	3.7%	4.1%	5.3%
1-Yr ARM	5.2%	4.7%	3.8%	3.0%	2.7%	2.7%	3.1%

SERIES: CA Housing Market Outlook
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