CALIFORNIA ASSOCIATION OF REALTORS®
Market Snapshot

Is California's housing market at a tipping point?

California real estate markets in 2013 have so far been riding on a fast and furious road to recovery. Housing prices rose precipitously in some markets, particularly in the Bay Area, that some experts even started talking about reoccurrence of a bubble. Dramatic increase in prices however was largely driven by lack of available inventory of homes for sale, as well as significant presence of investors and cash buyers. Tight market conditions led to a substantial rise in multiple offers, sales occurring on the day of listing, and selling prices far above the asking ones. While market conditions are clearly favoring sellers, there are indications that some of the California's real estate markets may be at a turning point.

Rising mortgage rates initially presented a sticker shock for many potential buyers who may have already been discouraged by fiercely competitive bidding wars and the number of cash offers. Their first reaction was to postpone their home purchase. The slowdown is suggested by a slight decrease in the buyer traffic reported in the REALTORS® Confidence Index. Rapidly increasing home prices also put a dent in affordability. The percentage of home buyers who could afford to purchase a median-priced home in California dropped to 36 percent in Q2 2013, down from 44 percent in Q1 2013 and from 51 percent in Q2 2012.

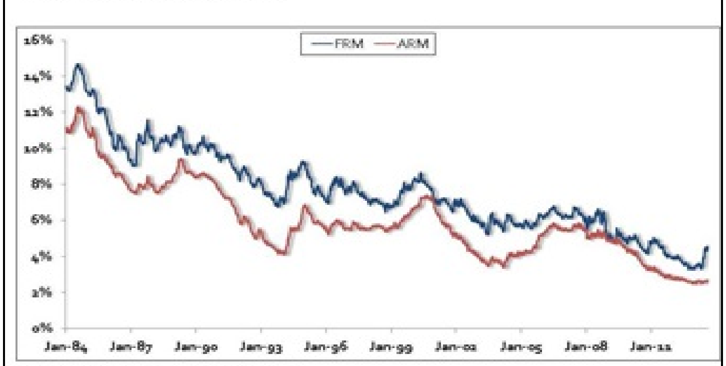
However, as everyone realizes that mortgage rates will most likely not be coming down to levels observed last year, and that housing is still relatively affordable by historical measures, buyers are slowly readjusting their expectations and coming back to the market.

Other indicators also suggest that real estate in California may be at a turning point. Fewer listings are under contract within a week or two than what we saw just a couple of months ago. The statewide median time on the market started inching up in June and again in July, after continuously declining since January 2012.

Additionally, investors are playing a smaller role. Rising prices and interest rates have shrunk investors' profit margins and the share of investors decreased to 16 percent in July from 22 percent at the beginning of 2013. Investors are also hard-pressed to find any supply of distressed properties, which has dwindled to less than a month of inventory. Distressed sales as a share of total sales have also come down dramatically to 17 percent, which was the lowest level since the end of 2007. Fortunately, however, supply of inventory of equity sales has increase 9 percent from June to July, and almost 20 percent from the year before. Increase in inventory is a much needed development and will aid the market to continue to grow going forward.

None of these changes to the housing market in California suggests that the recovery is in jeopardy. On the contrary, real estate markets are moving into a state of more measured and sustainable housing recovery in which traditional buyers and sellers will play a greater role. The sharp rise in interest rates did cause a pause in the market but continued recovery is on the way as everyone adjusts to new norms.

Figure 1: Weekly Mortgage Rates



SOURCE: Federal Home Loan Mortgage Corporation

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