



2023 California Economic & Housing Market Forecast

2022 REImagine!

October 12, 2022

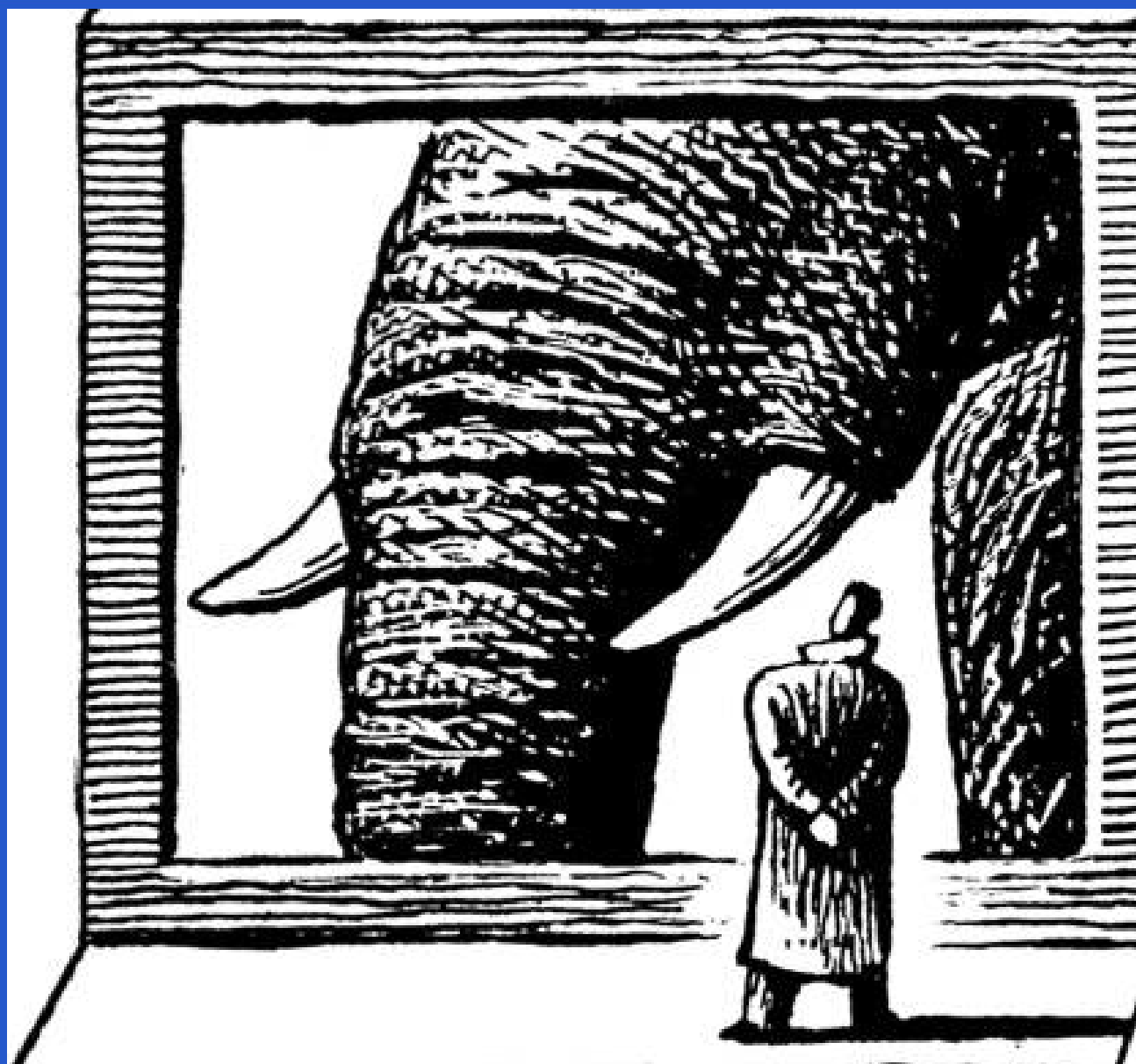
Jordan G. Levine

Vice President & Chief Economist

California Association of REALTORS®

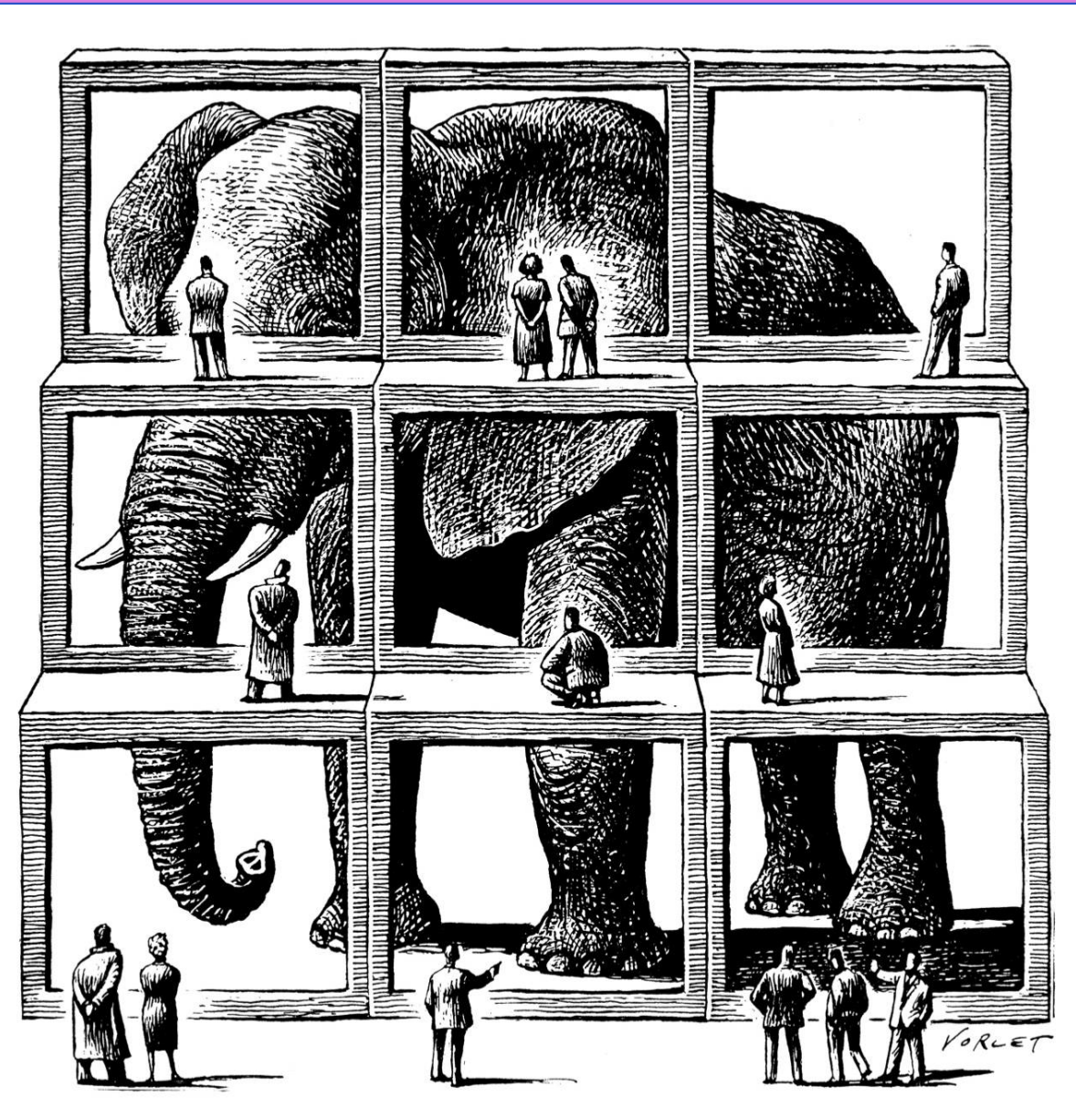






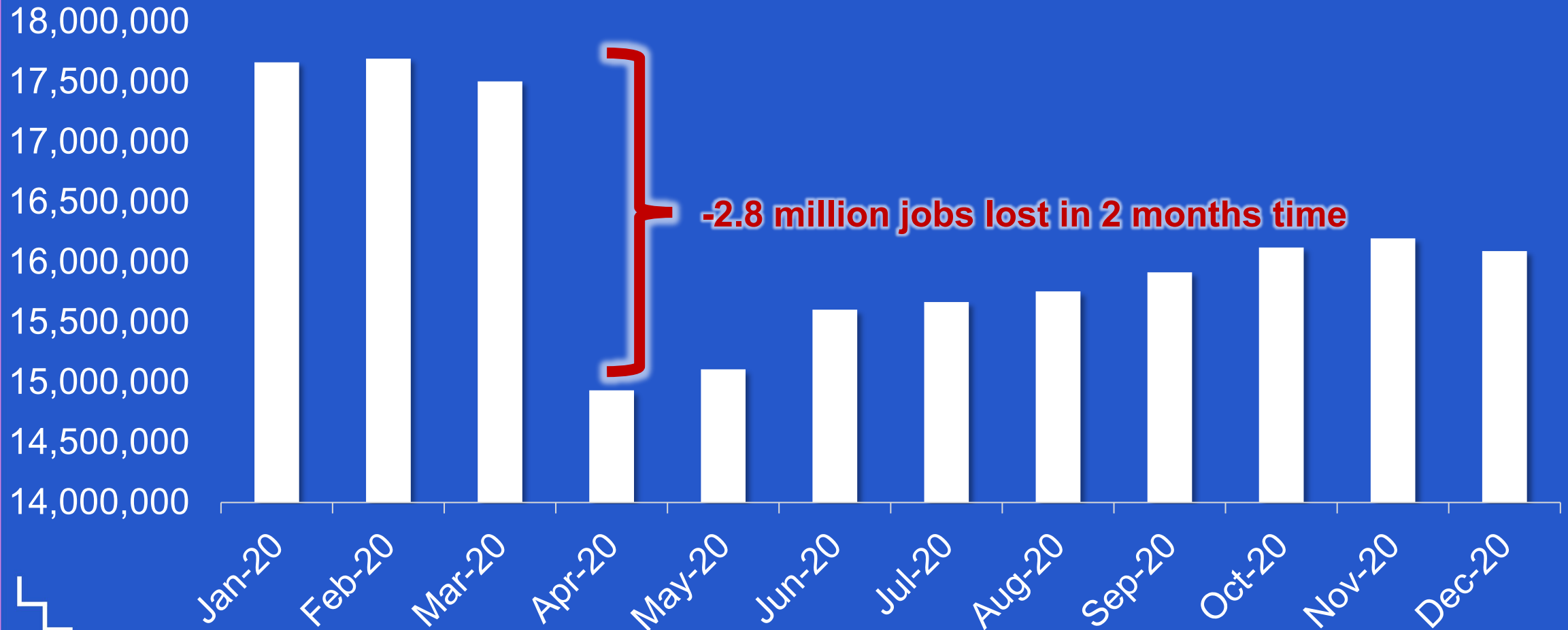
Context Matters

Step back
to see the
whole
picture



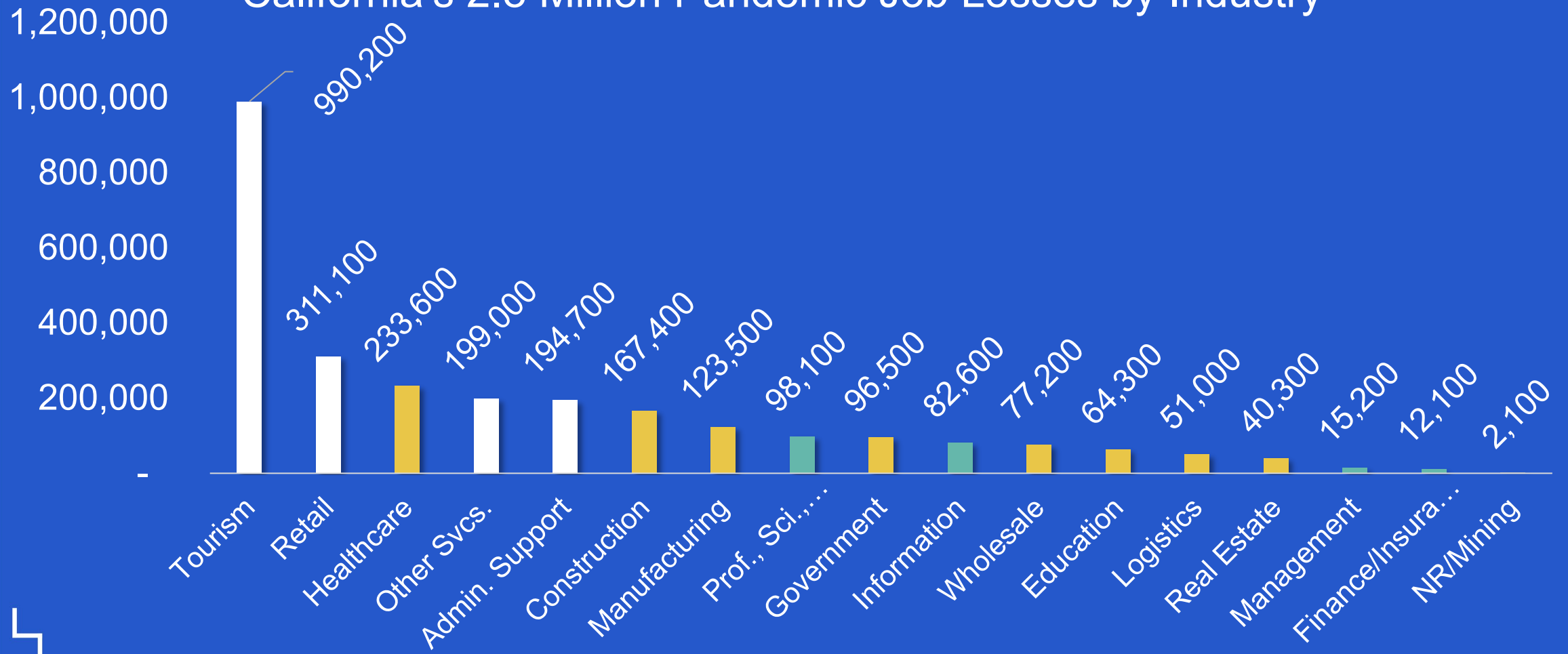
California near full jobs recovery from pandemic

California Nonfarm Employment



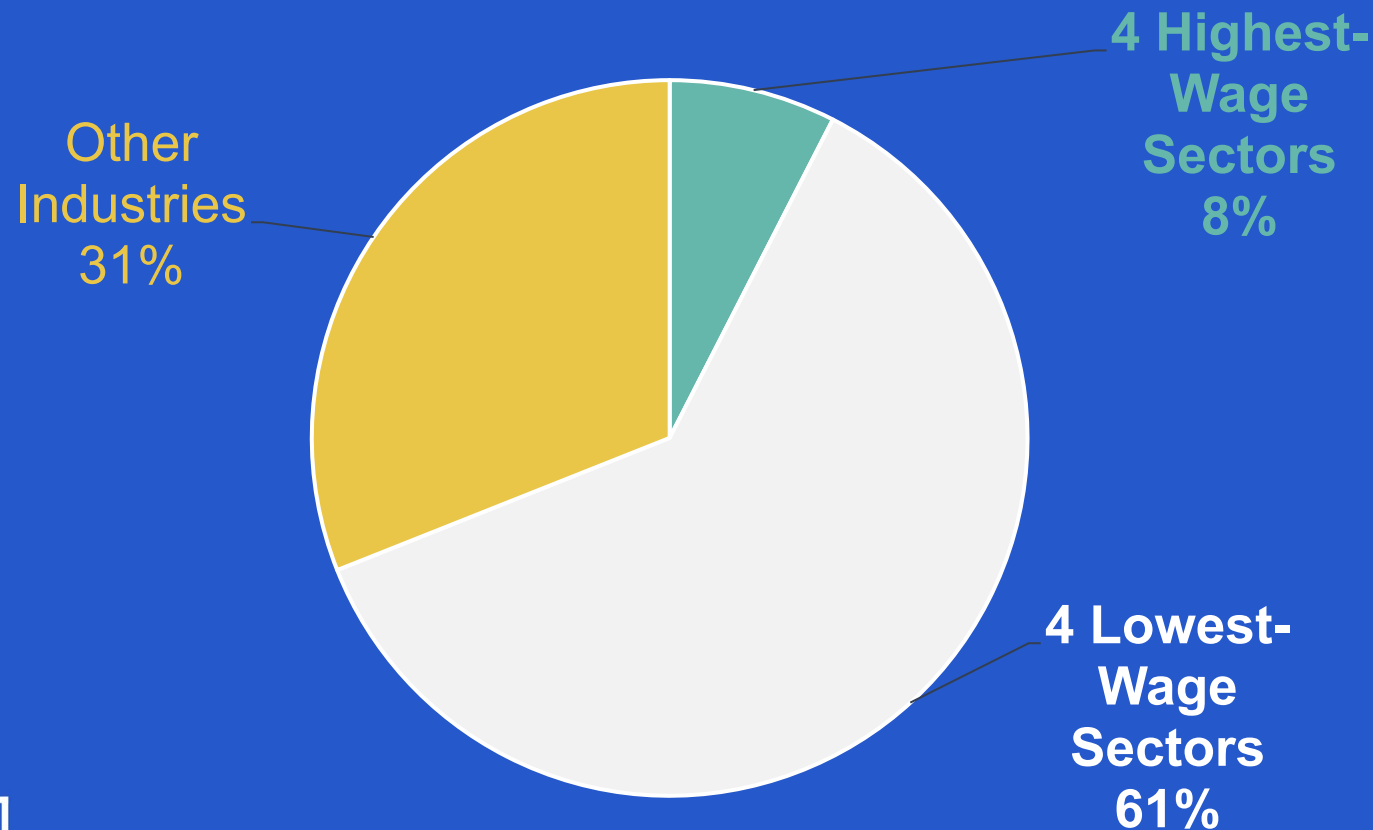
Most job losses resulted from being shut down

California's 2.8 Million Pandemic Job Losses by Industry



Most high-wage industries insulated from COVID ↗

California's 2.8 Million Pandemic Job Losses by Industry

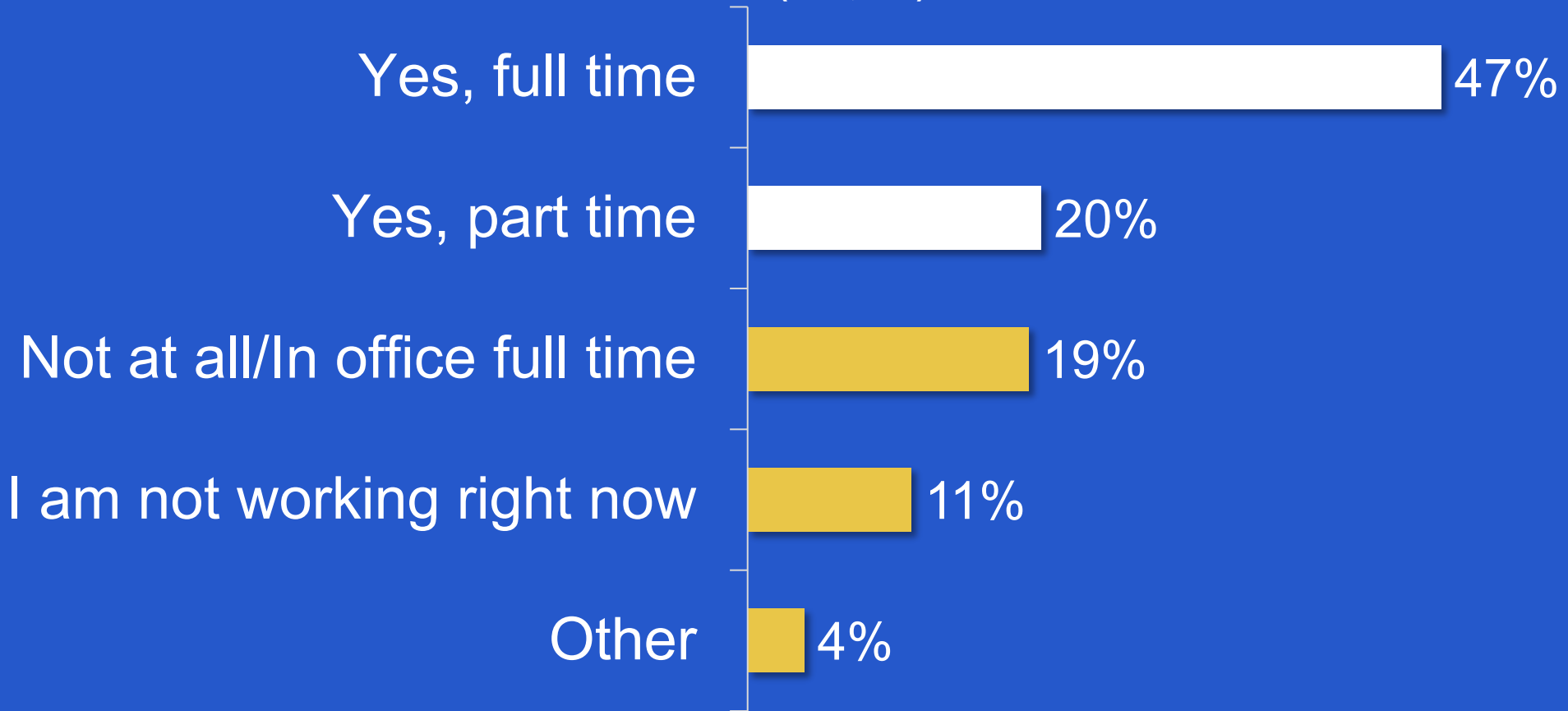




2/3 of buyers still work remotely at least part time



Do you currently work remotely?
(n=1,118)

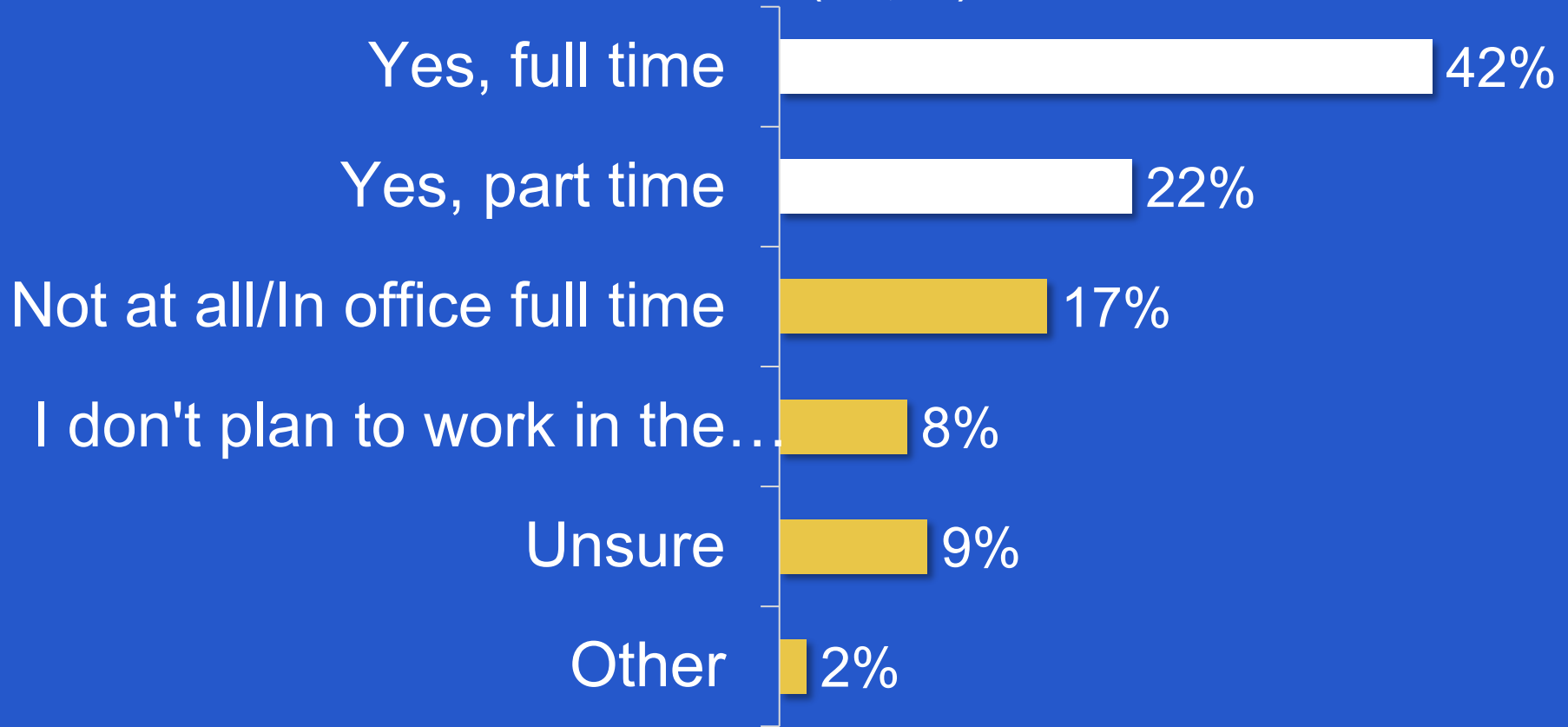




And most plan to continue, at least part time



Will you be working remotely in the future?
(n=1,114)

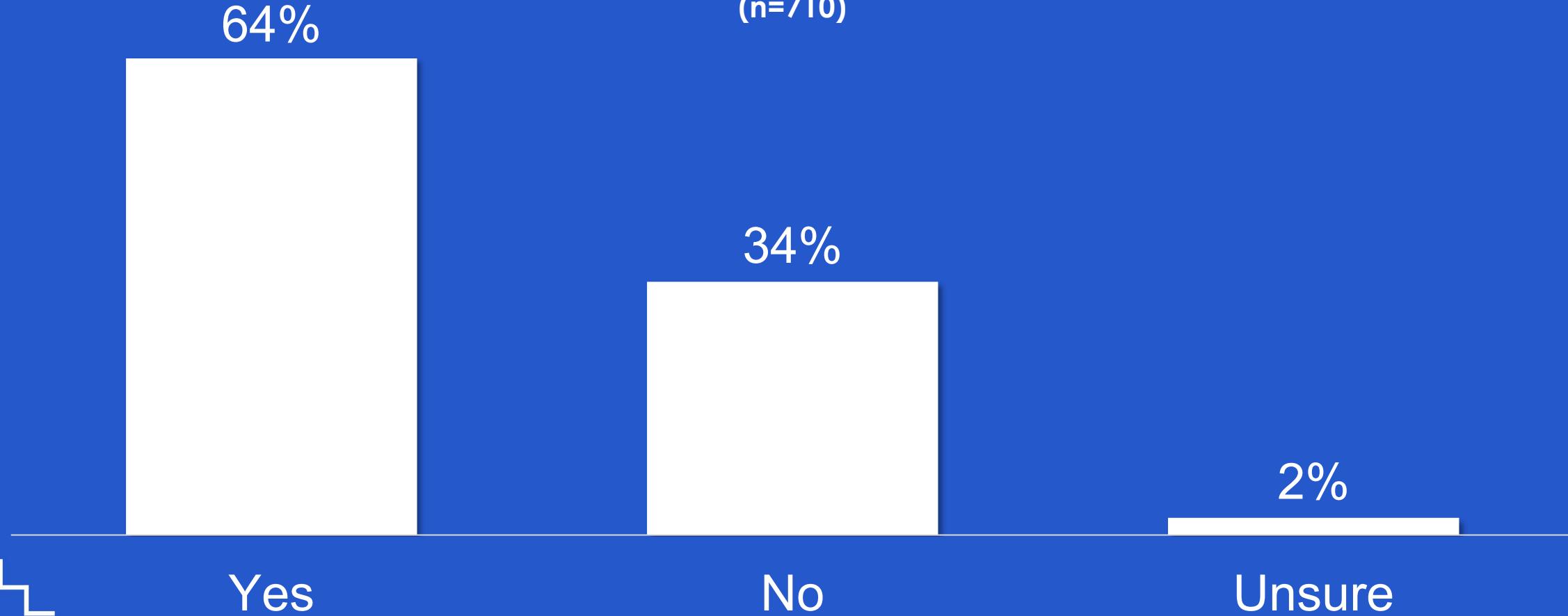




Plays a big role in buyer's decisions to move/buy

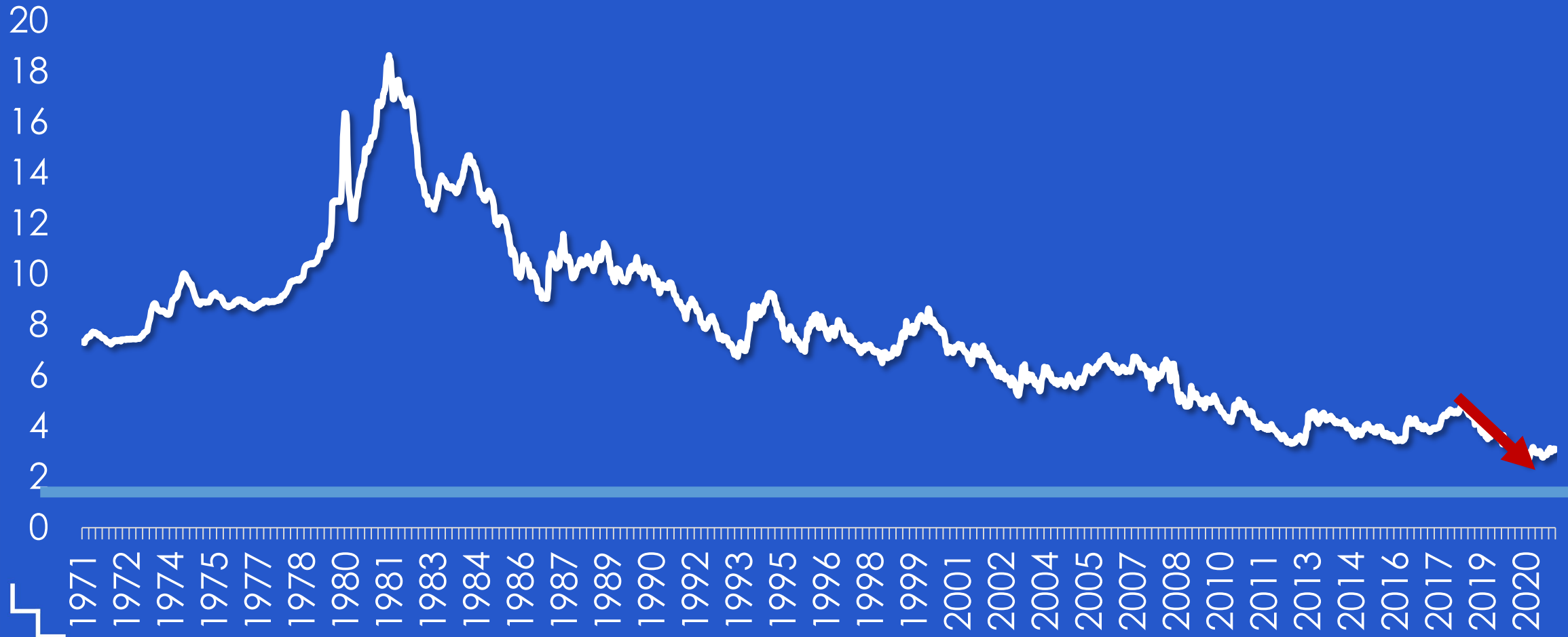


Did your ability to work remotely influence your decision on your current residence?
(n=710)



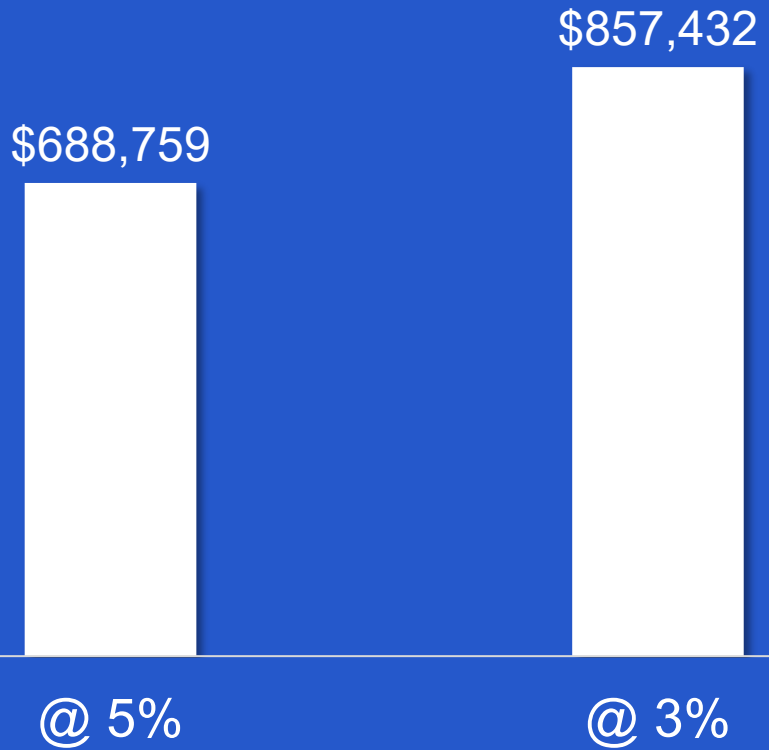
Interest rates fell to the lowest level in over 50 years

Average Conventional 30-Year Fixed-Rate Mortgage Rate



Jump in purchasing power bestowed on buyers

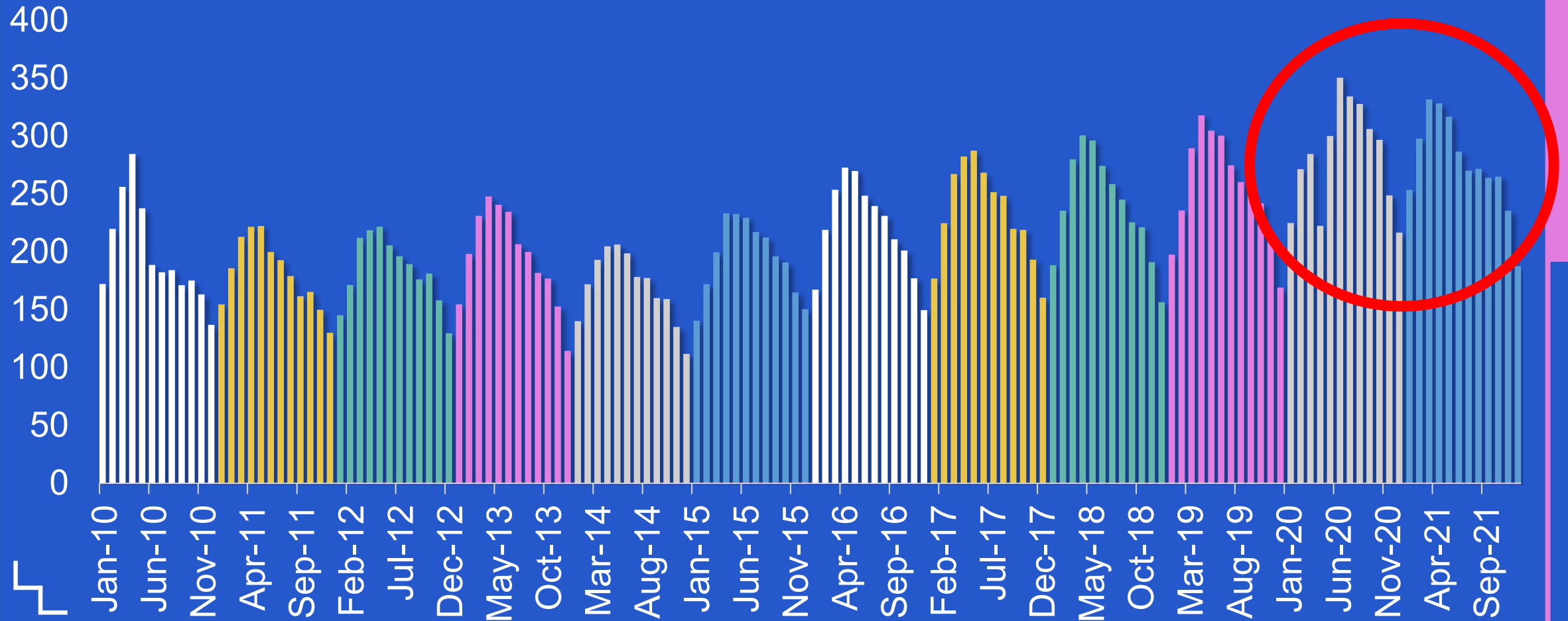
\$150K Household Purchasing Power



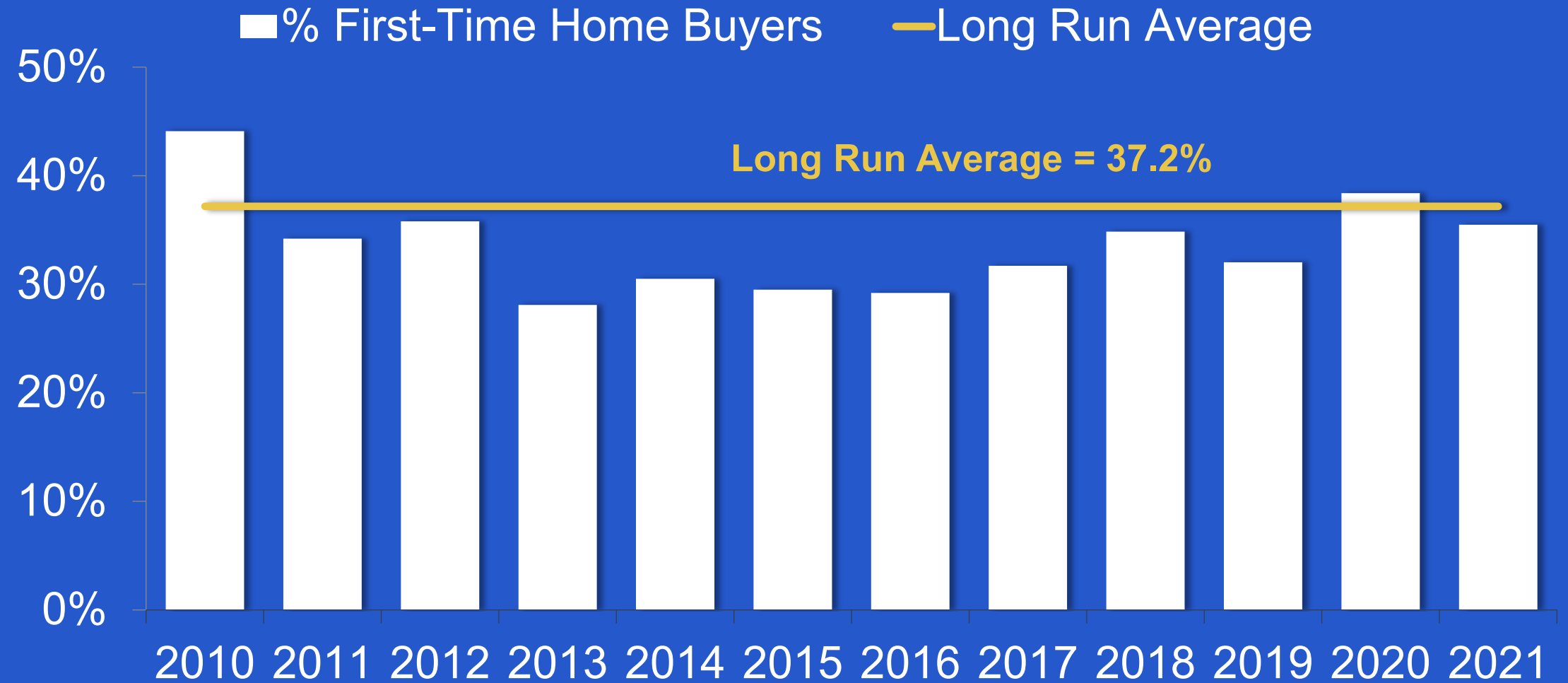
Interest Rate Effect on Purchasing Power	24%
Cumulative Price Growth, 2019-2022	46%

Mortgage applications at highest level in a decade ↗

U.S. New Mortgage Purchase Applications

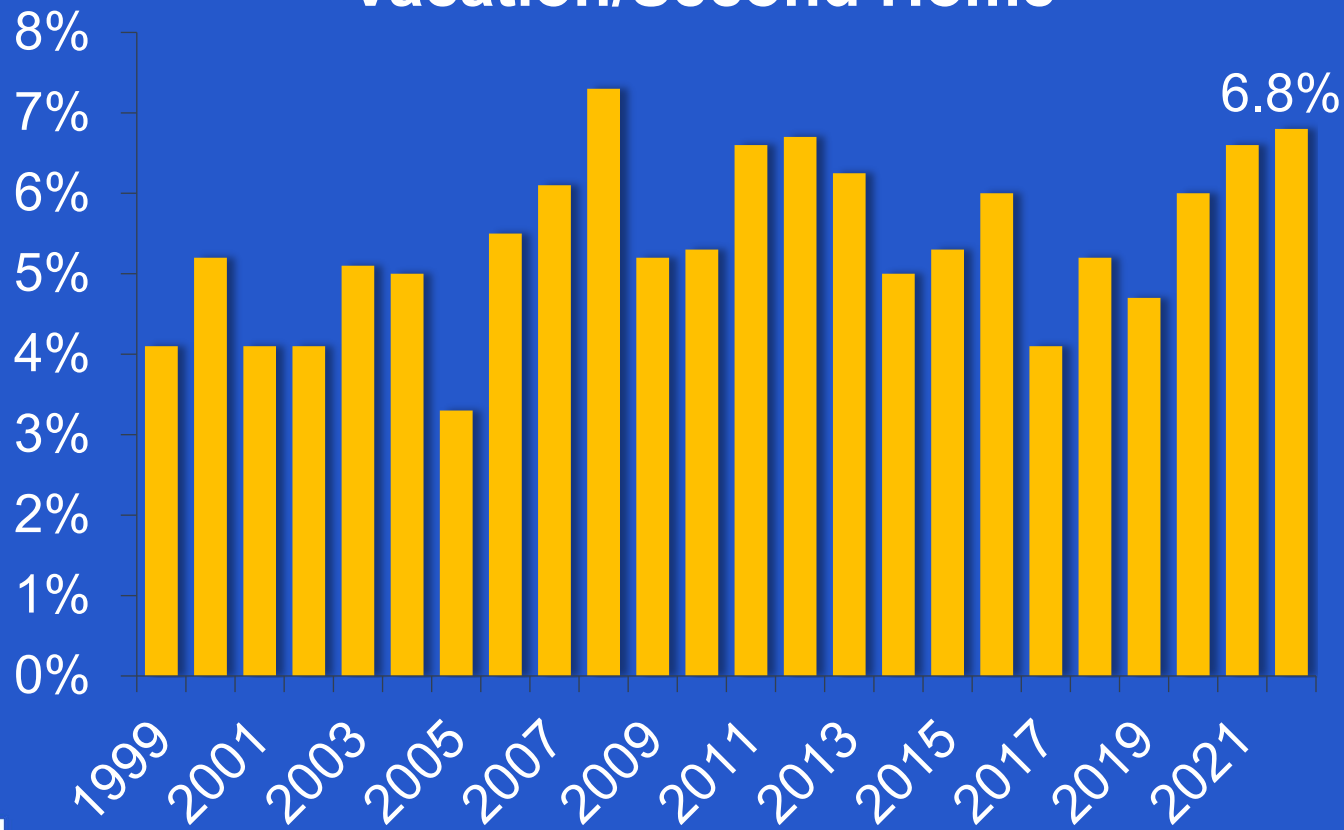


First-time buyers rose to highest level in a decade



Not just primary residences, a lot of second homes

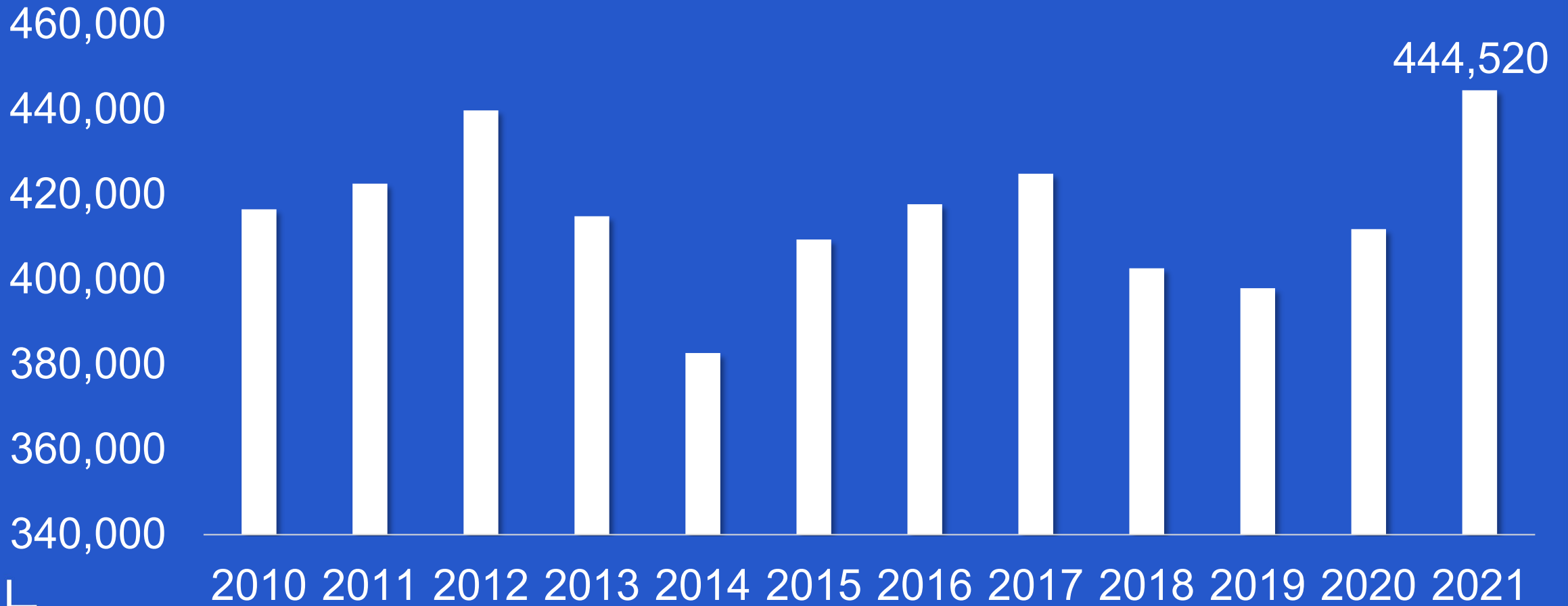
Vacation/Second Home



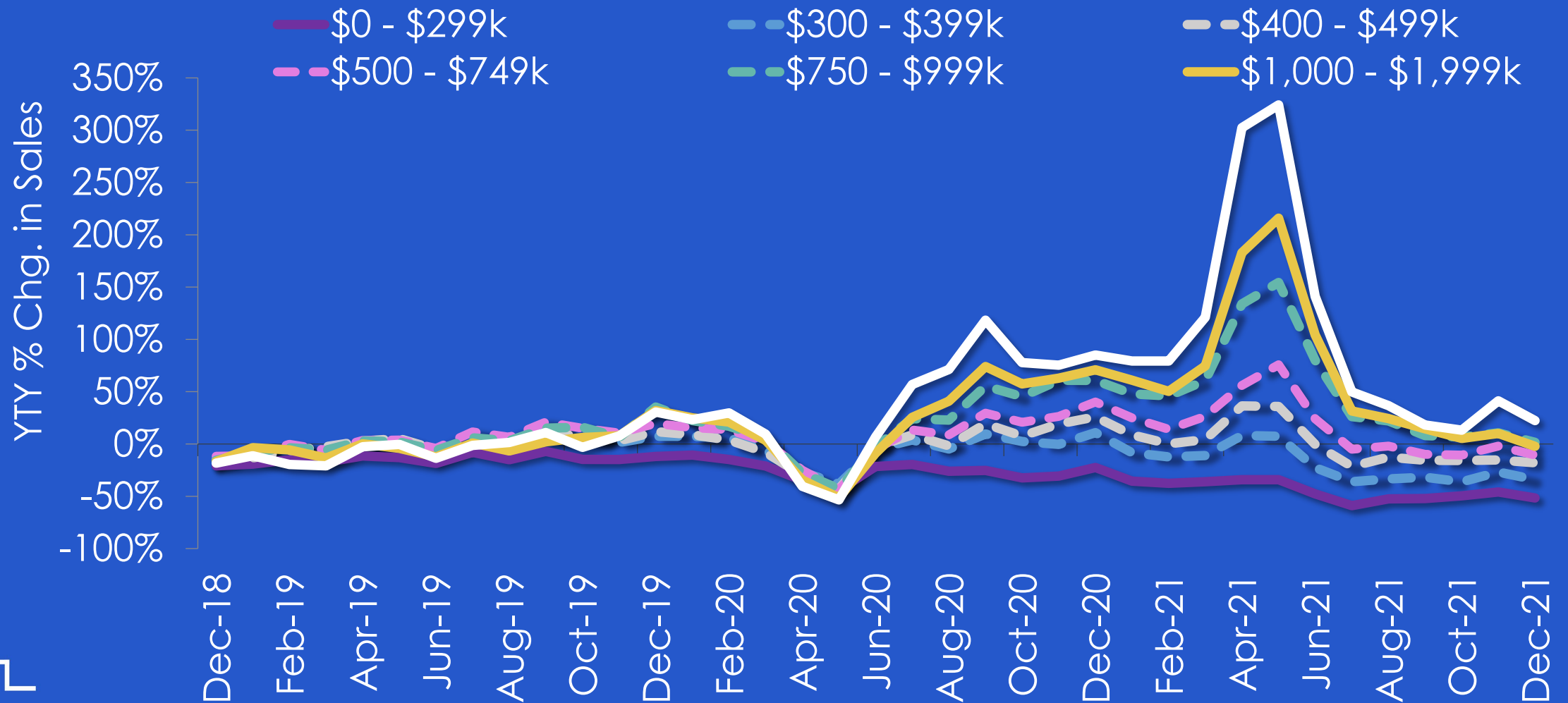
California sales shot up—rising to 12-year high



California Existing SFR Home Sales



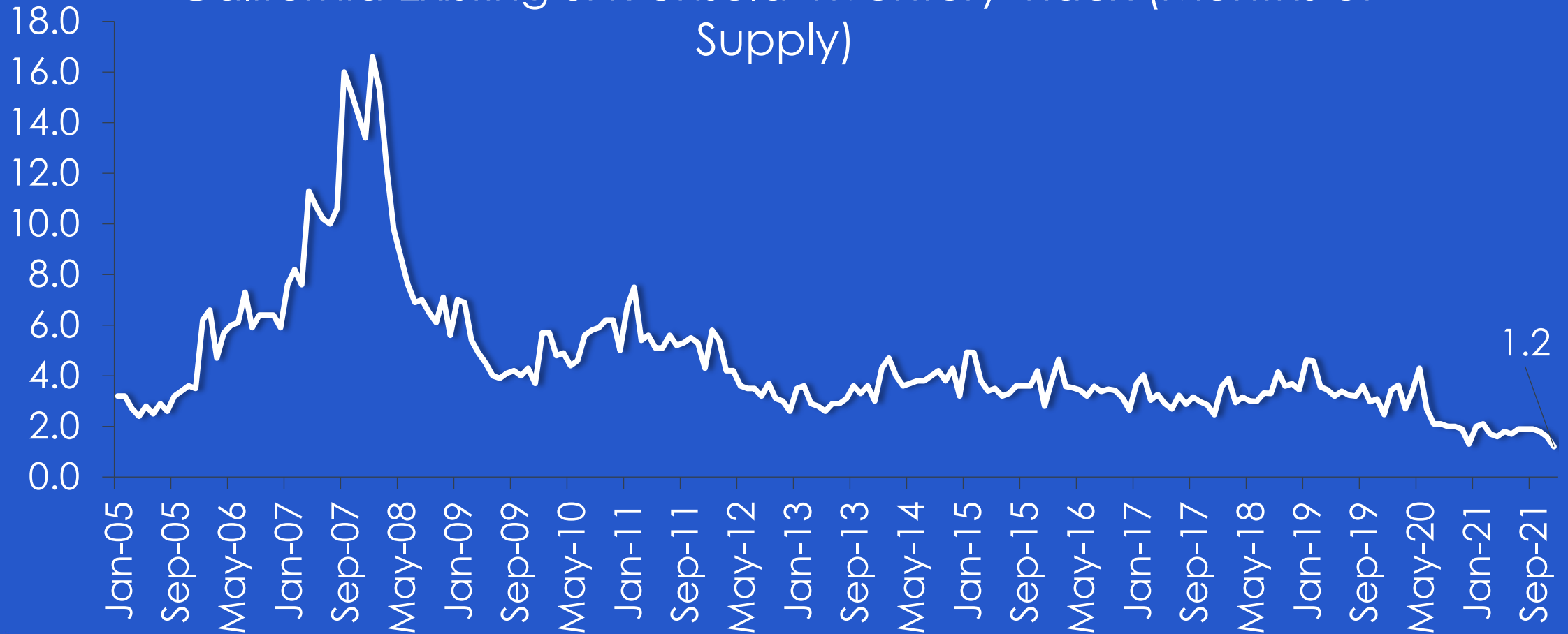
Tope end of the market shot through the roof too!



Unsold inventory fell to all-time low of 1.2 months



California Existing SFR Unsold Inventory Index (Months of Supply)

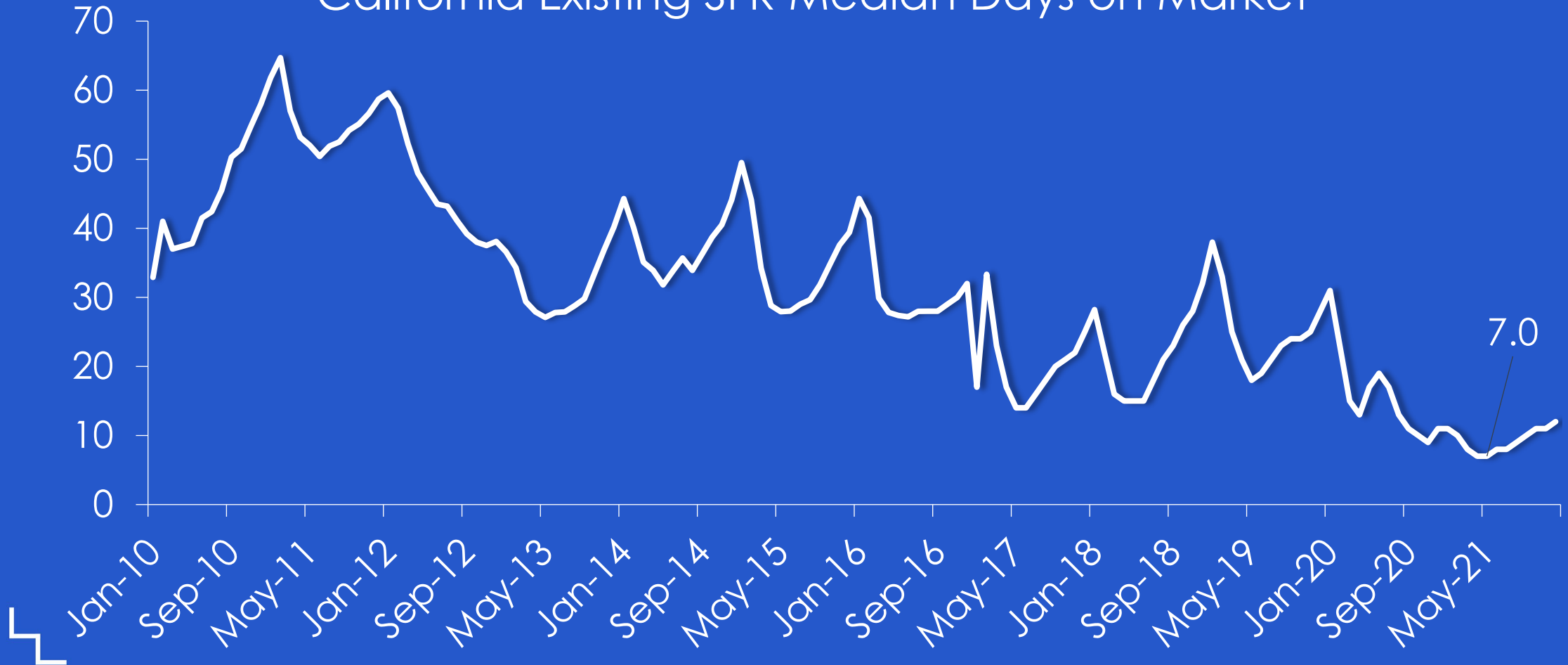




Consequences of the supply/demand imbalance

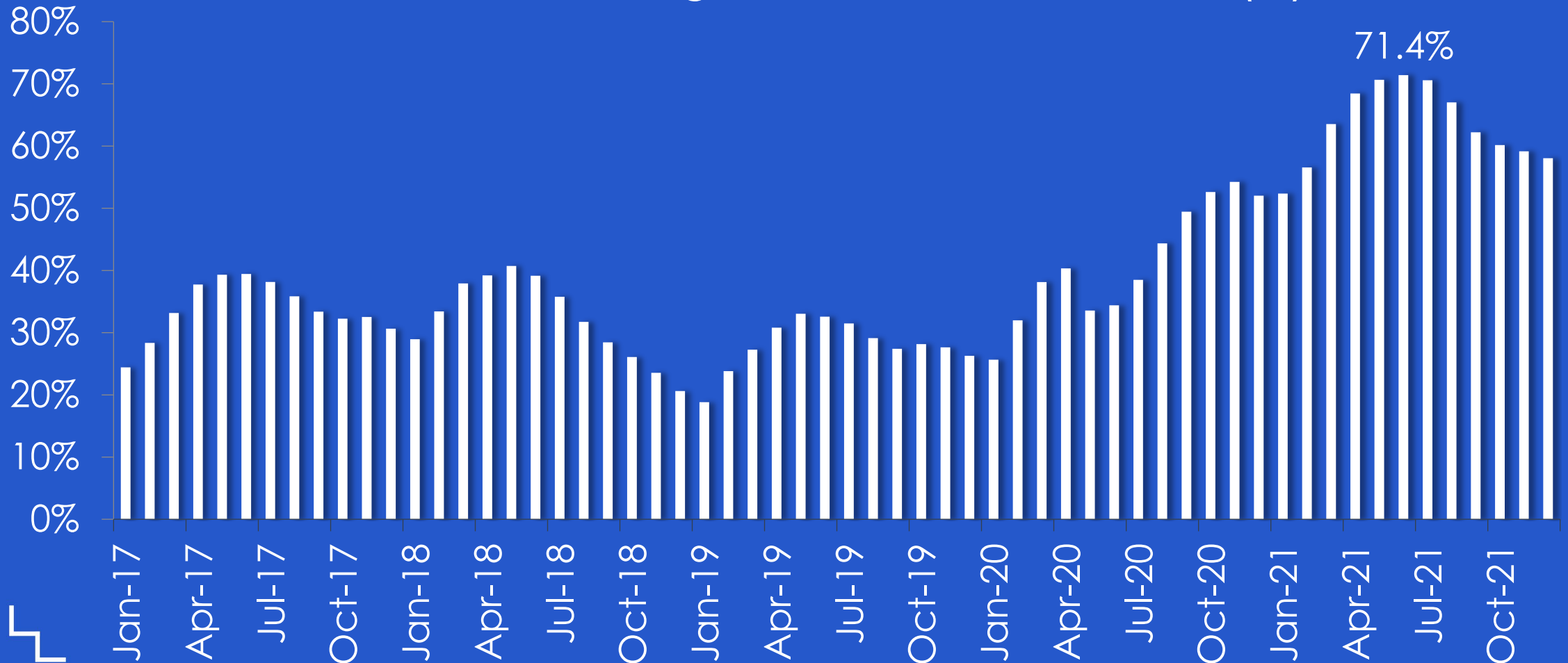
Homes were selling more quickly than ever before

California Existing SFR Median Days on Market

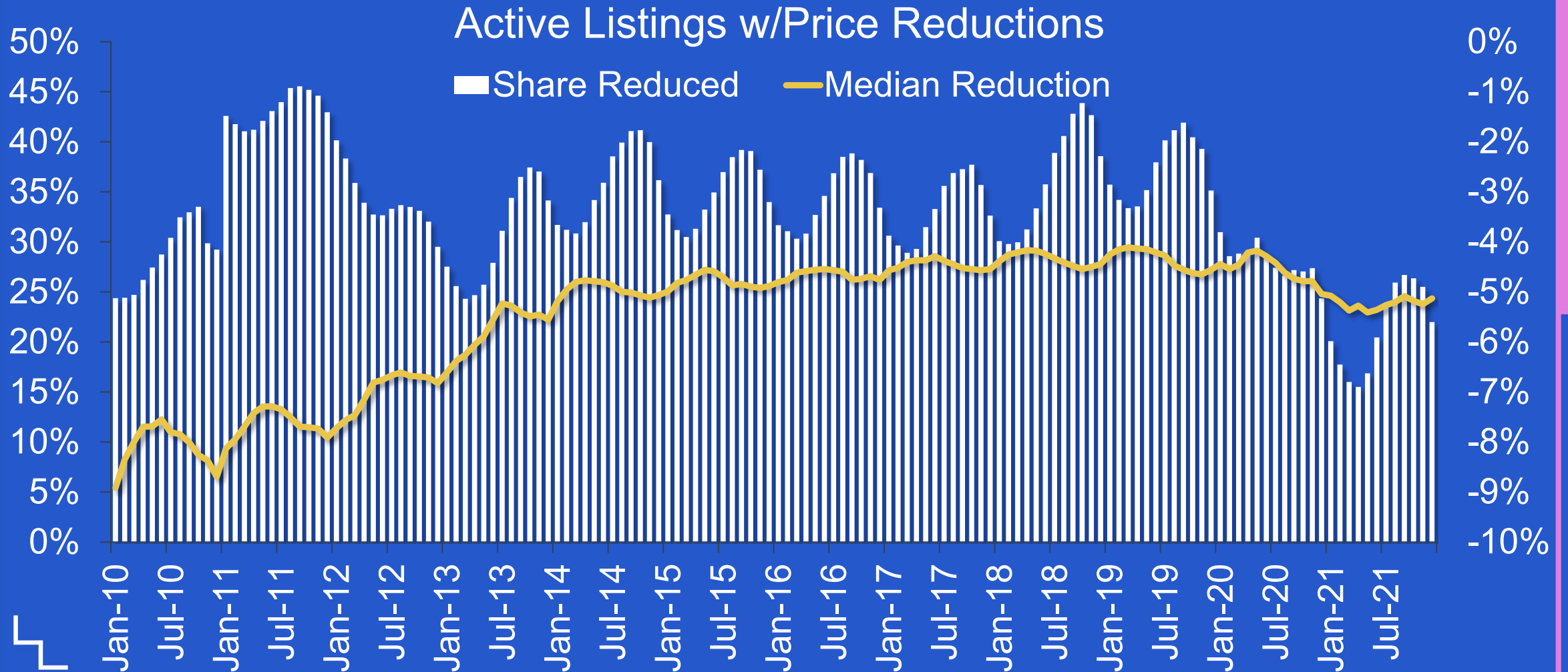


Vast majority of homes selling over asking price

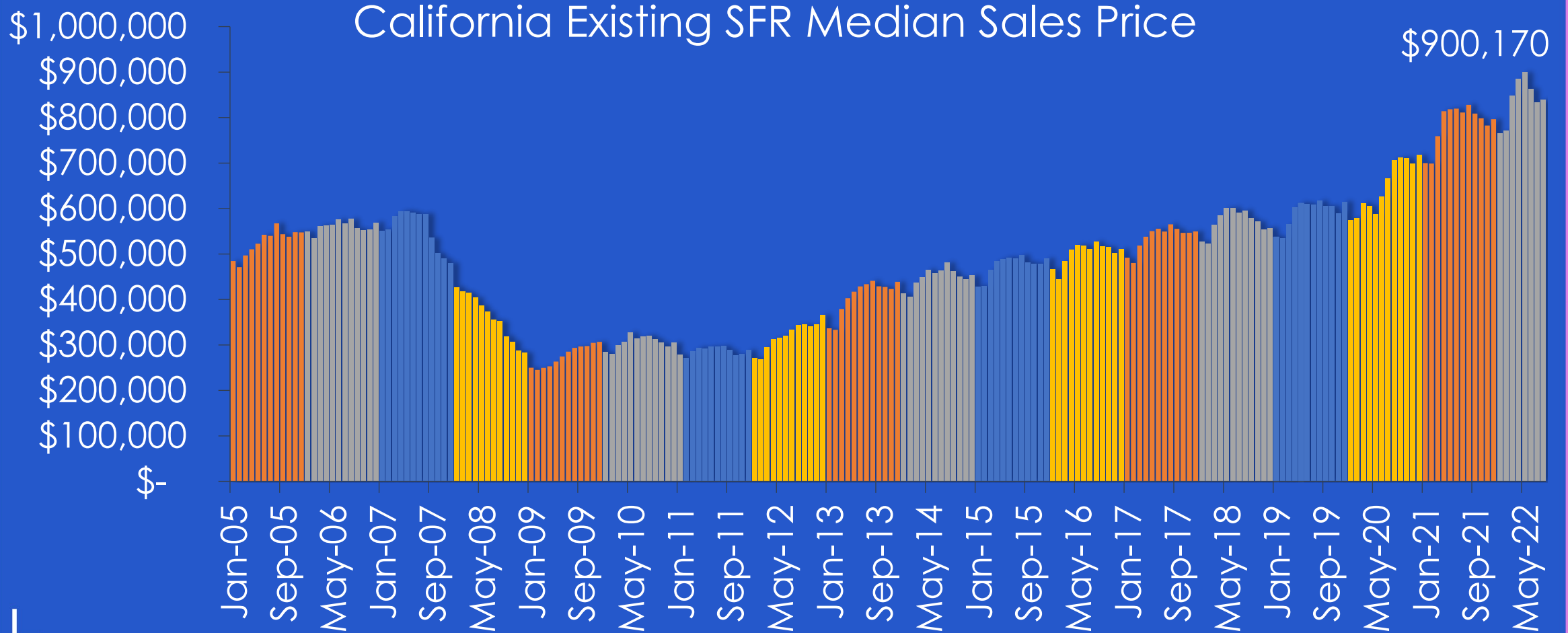
California Existing SFR Sales Bove List Price (%)



Sellers were not having to negotiate much



hi demand + no supply + low rates = higher prices ↗

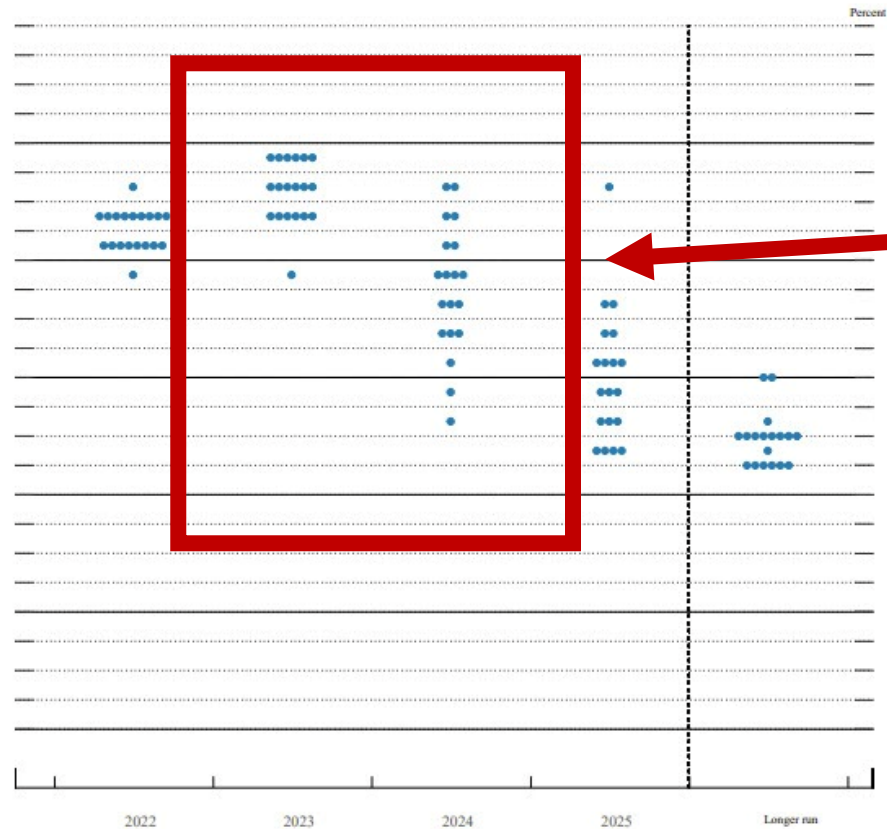


B. Rich
HEDGEYE



Fed not taking their foot off the gas any time soon

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

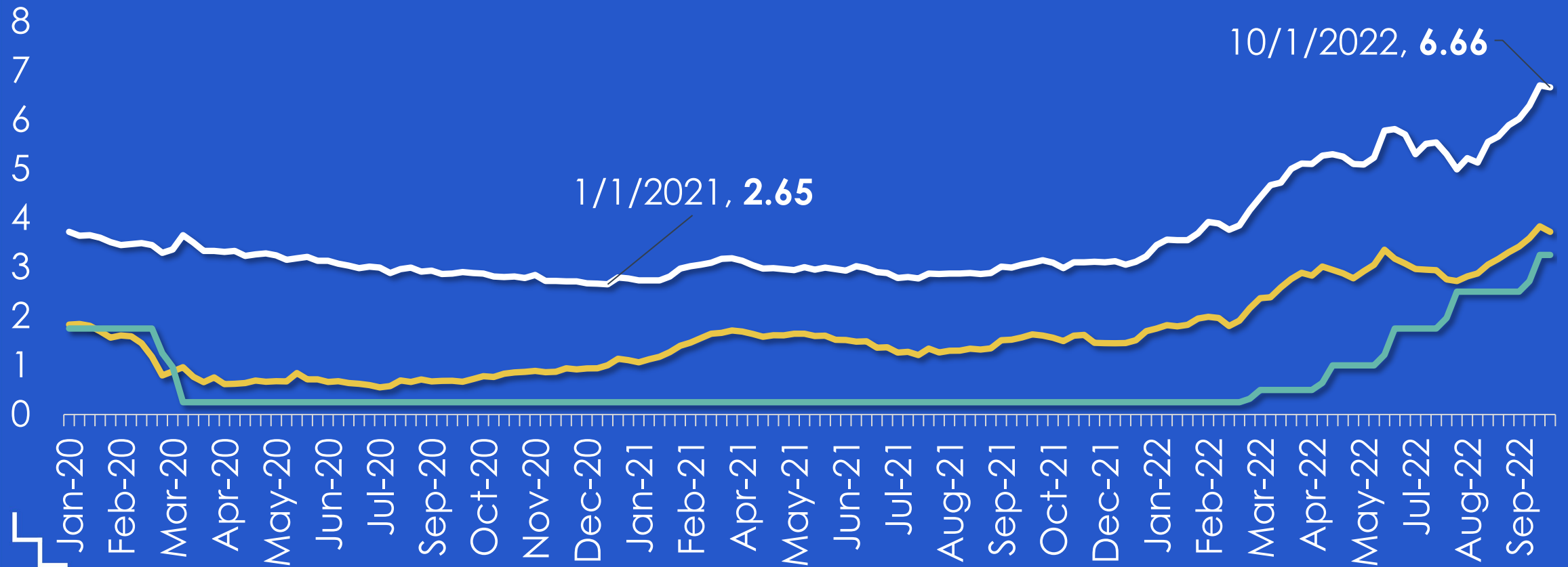


4.6% Fed Funds Rate – Up From 3.8% in June 2022

Fed's war on inflation hurts purchasing power

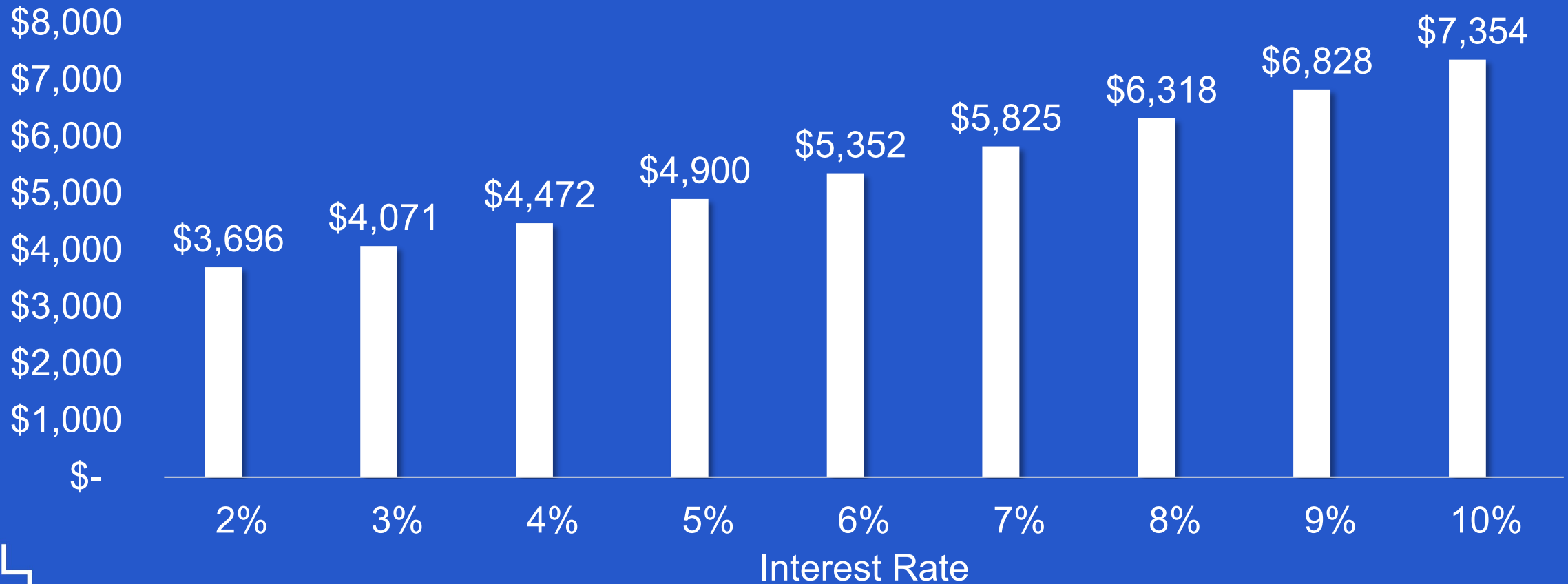
Key Interest Rates

— 10-Yr Treasury — 30-Yr FRM — Fed. Funds Target



Effect of rising rates on mortgage payments

Mortgage Payment on \$900,000 Home At Different Rates
Assumes 20% Down and 1.38% Annual Taxes and Insurance



Step 1: Define Buyer's Profile

Select County of Residence

Ventura

Select Annual Household Income

\$150,000

Select Desired Downpayment (% of Purchase Price)

3.5%

5.0%

10.0%

20.0%

Select Desired Monthly Payment (% of Income)

Low (30%)

Medium (35%)

High (40%)

Step 2: Toggle Interest Rate for Buyer Impacts

Select Rate for Purchasing Power & Inventory Below Cutoff

3.0%

3.5%

4.0%

4.5%

5.0%

5.5%

6.0%

6.5%

7.0%

7.5%

8.0%

8.5%

9.0%

9.5%

10.0%

Impact on Homebuyer's Purchasing Power

\$3,750

Target Monthly Payment (PITI)

\$829,127

Price Cutoff At Selected Rate

\$165,825

Downpayment Amount

Impact on Number of Listings Below Cutoff

August 2022

Listings As Of Month

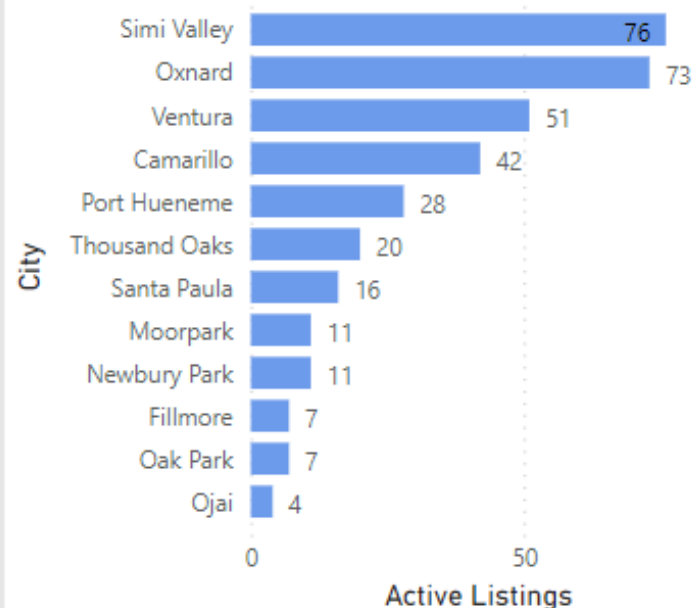
350

Listings At/Below Price Cutoff

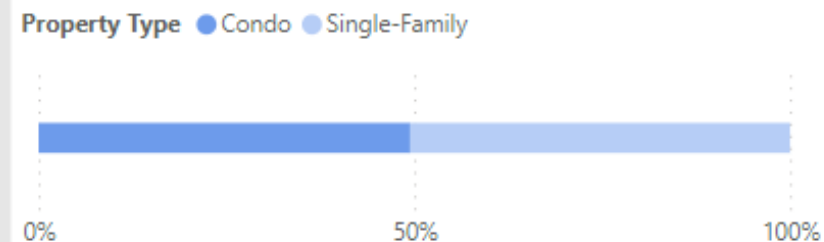
43%

Share At/Below Price Cutoff

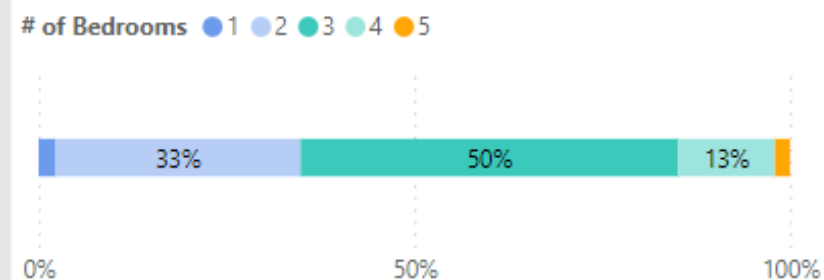
Active Listings by City



Share of Active Listings by Property Type



Share of Active Listings by # of Bedrooms



Step 1: Define Buyer's Profile

Select County of Residence
Ventura

Select Annual Household Income
\$150,000

Select Desired Downpayment (% of Purchase Price)
3.5% 5.0% 10.0% 20.0%

Select Desired Monthly Payment (% of Income)
Low (30%) Medium (35%) High (40%)

Step 2: Toggle Interest Rate for Buyer Impacts

Select Rate for Purchasing Power & Inventory Below Cutoff

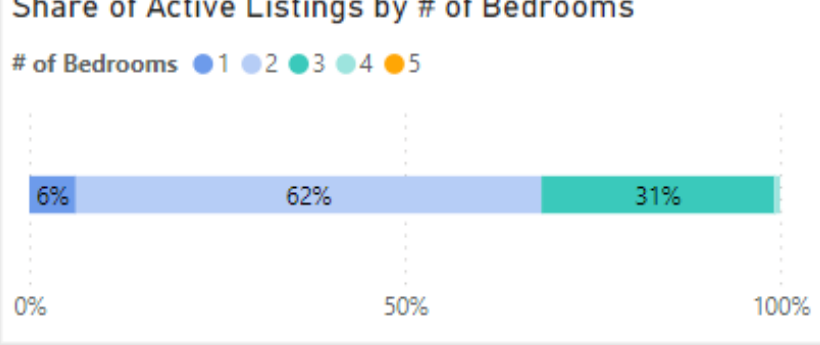
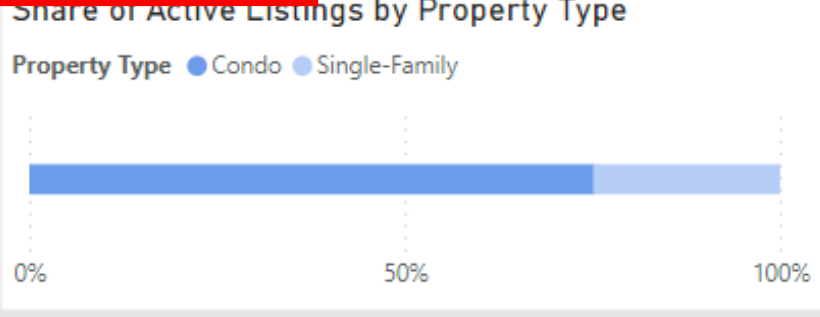
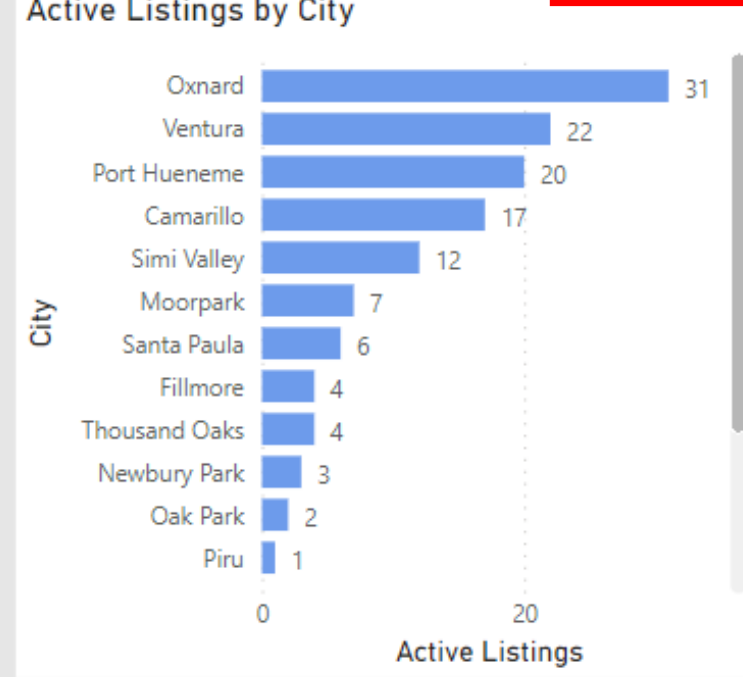
3.0%	3.5%	4.0%
4.5%	5.0%	5.5%
6.0%	6.5%	7.0%
7.5%	8.0%	8.5%
9.0%	9.5%	10.0%

Impact on Homebuyer's Purchasing Power

\$3,750 Target Monthly Payment (PITI)	\$630,633 Price Cutoff At Selected Rate	\$126,127 Downpayment Amount
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Impact on Number of Listings Below Cutoff

August 2022 Listings As Of Month	129 Listings At/Below Price Cutoff	16% Share At/Below Price Cutoff
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Step 1: Define Buyer's Profile

Select County of Residence

Ventura

Select Annual Household Income

\$150,000

Select Desired Downpayment (% of Purchase Price)

3.5% 5.0% 10.0% 20.0%

Select Desired Monthly Payment (% of Income)

Low (30%) Medium (35%) High (40%)

Step 2: Toggle Interest Rate for Buyer Impacts

Select Rate for Purchasing Power & Inventory Below Cutoff

3.0%	3.5%	4.0%
4.5%	5.0%	5.5%
6.0%	6.5%	7.0%
7.5%	8.0%	8.5%
9.0%	9.5%	10.0%

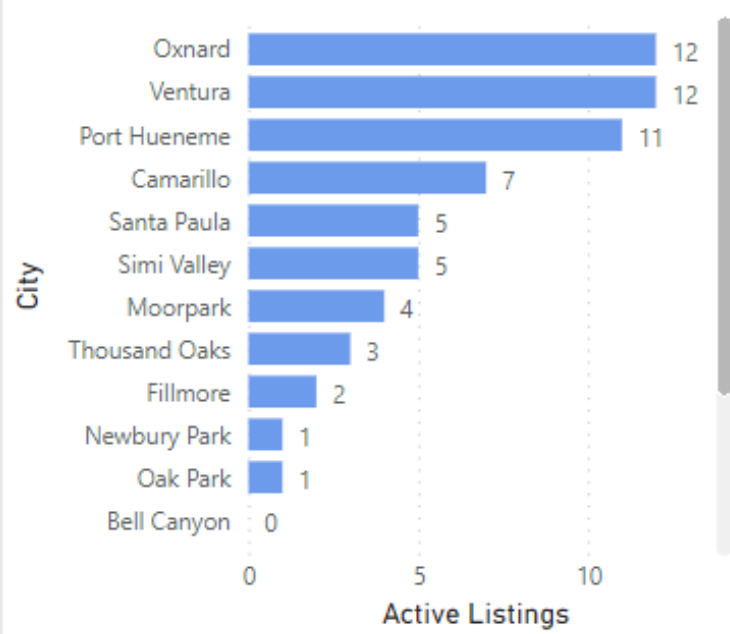
Impact on Homebuyer's Purchasing Power

\$3,750 Target Monthly Payment (PITI)	\$534,179 Price Cutoff At Selected Rate	\$106,836 Downpayment Amount
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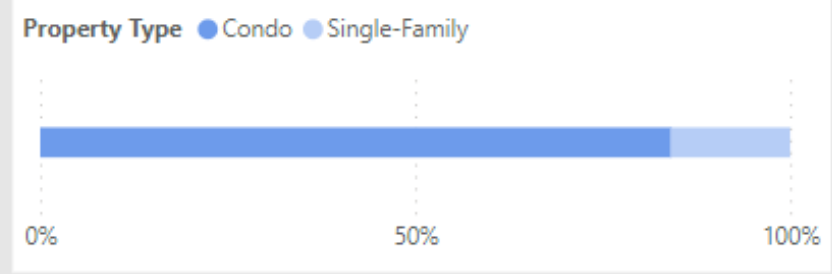
Impact on Number of Listings Below Cutoff

August 2022 Listings As Of Month	63 Listings At/Below Price Cutoff	8% Share At/Below Price Cutoff
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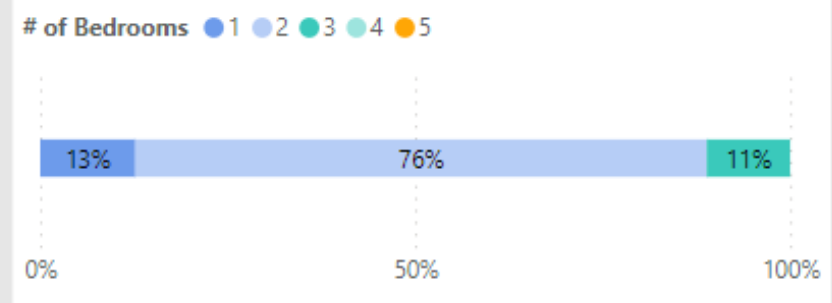
Active Listings by City



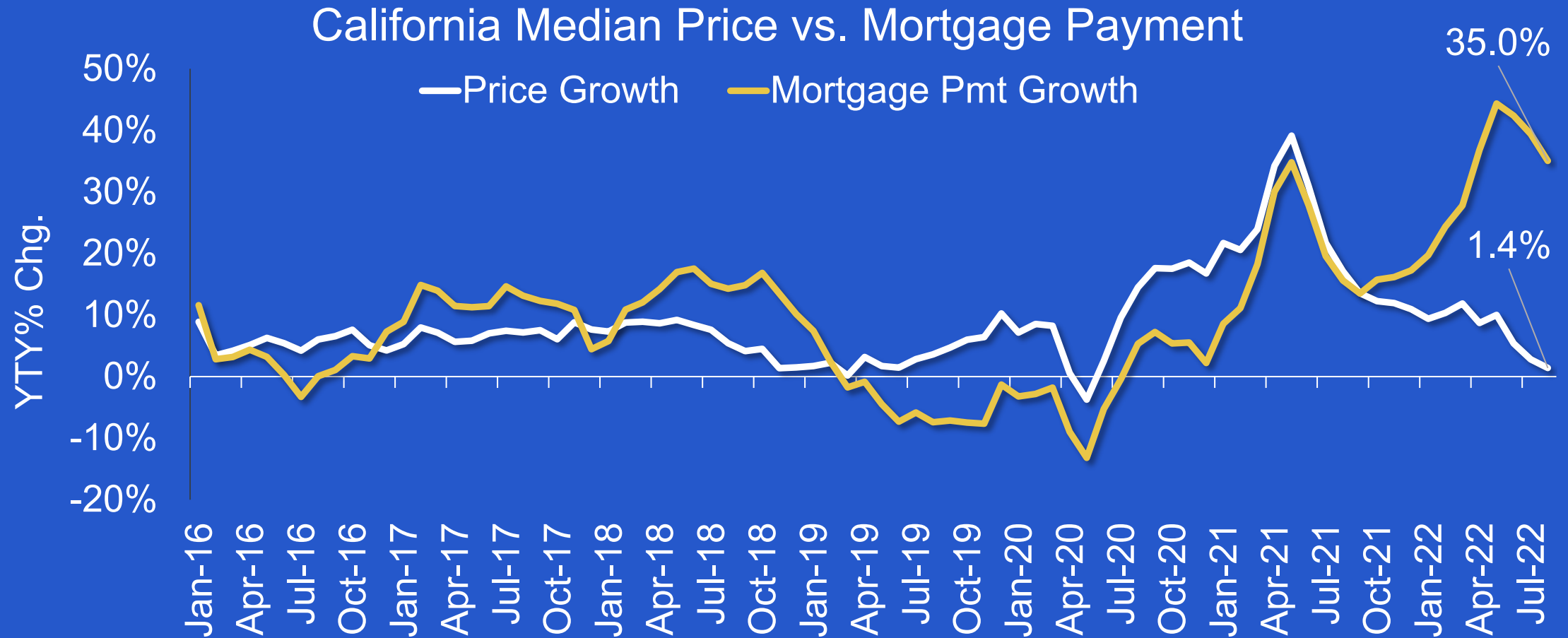
Share of Active Listings by Property Type



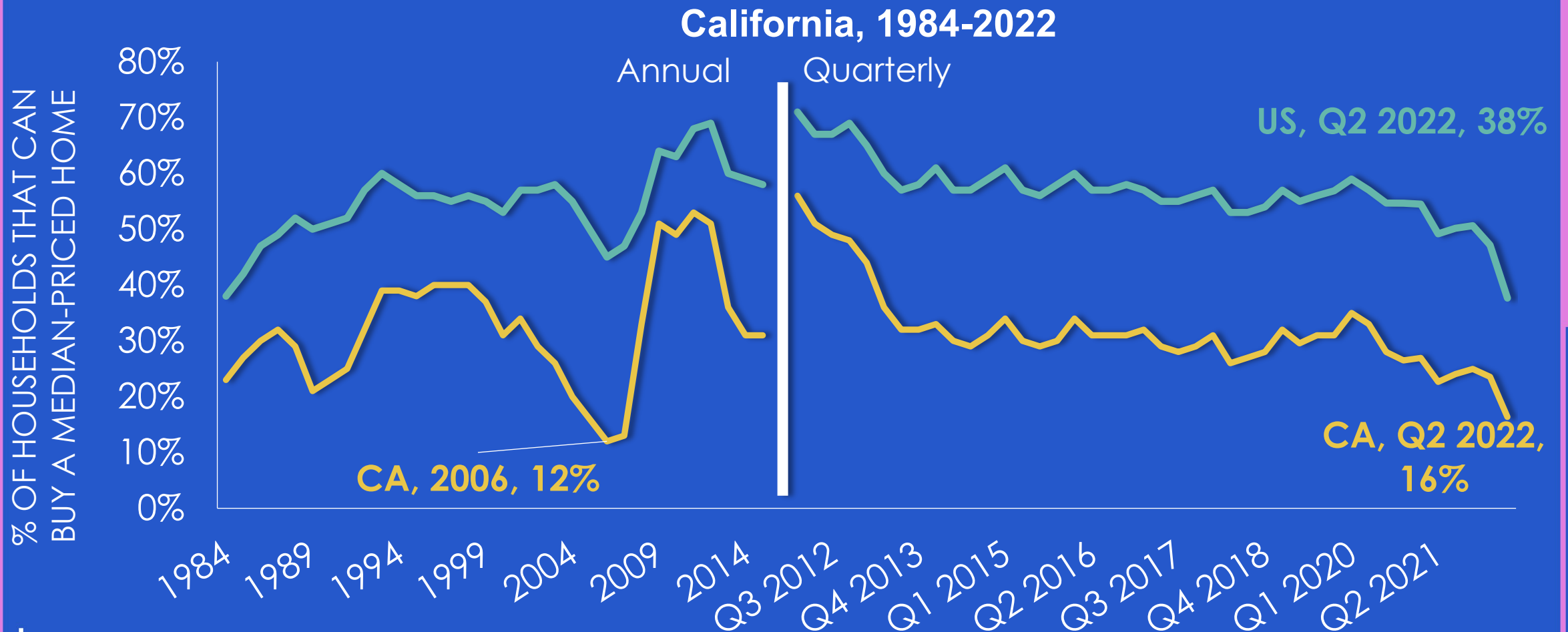
Share of Active Listings by # of Bedrooms



Slower prices canceled out by higher rates



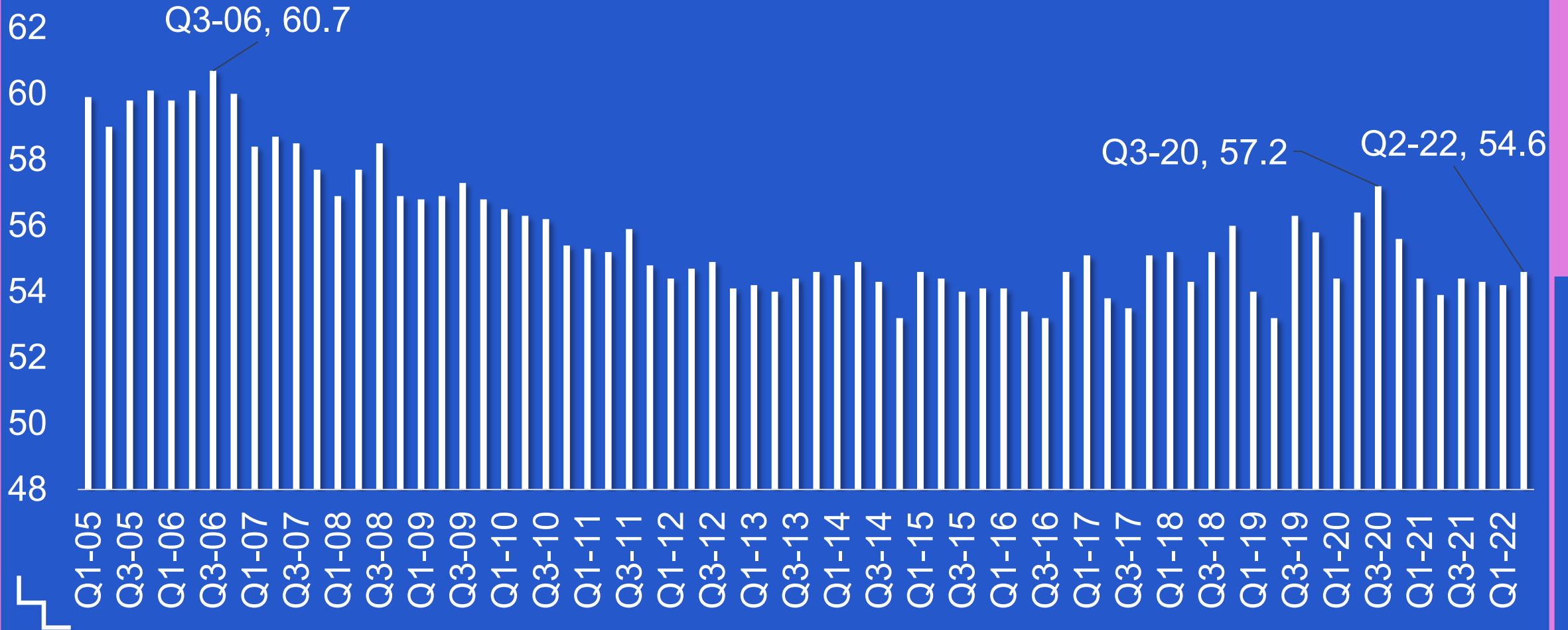
Affordability has plunged into the teens as a result ↴

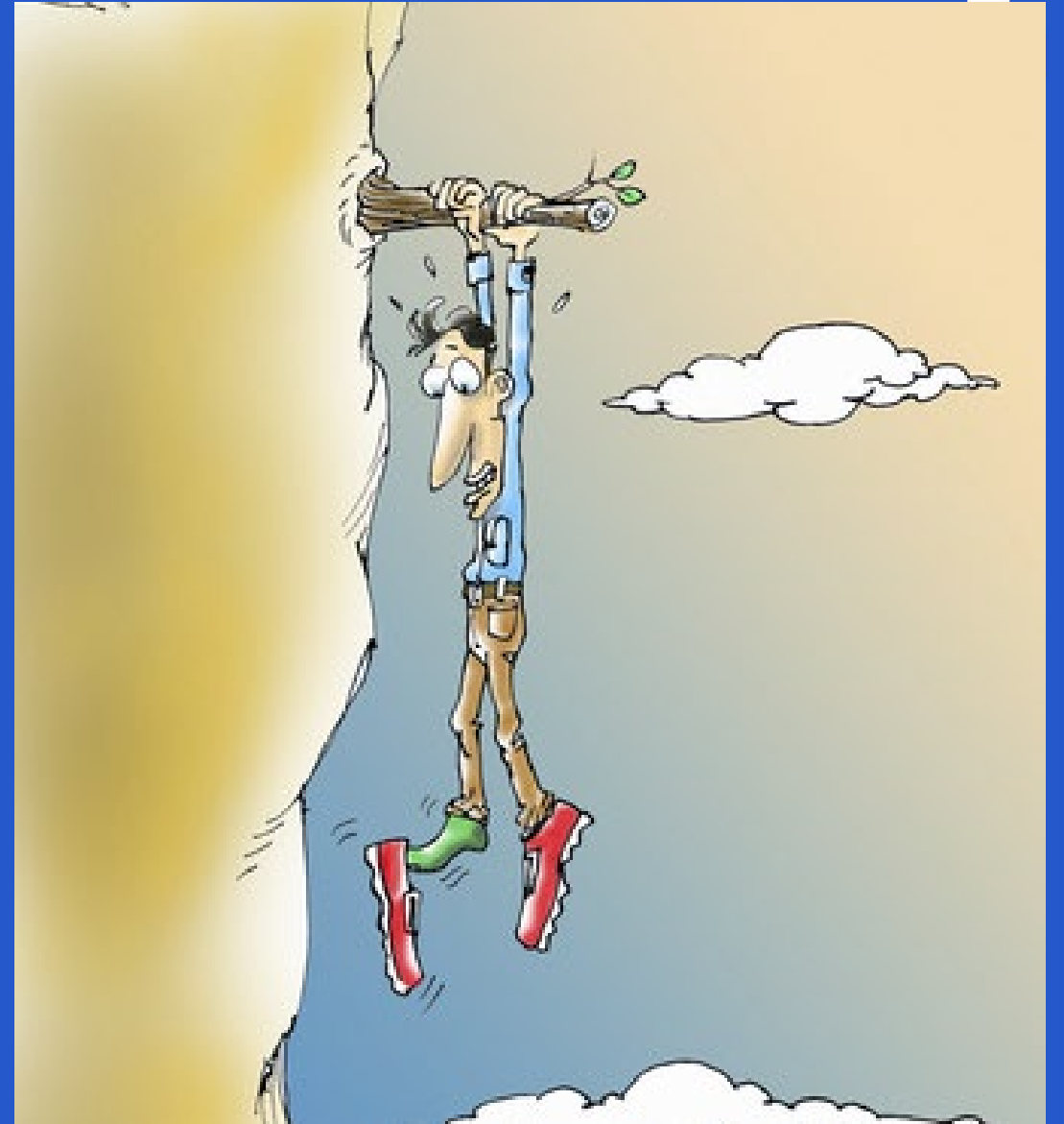


CA homeownership subsides after rising in 2020



California Homeownership Rate by Quarter





A big chunk of this is econ 101 stuff...

California Existing SFR Sales Growth (YTD Through August)

■ 2020 ■ 2021 ■ 2022

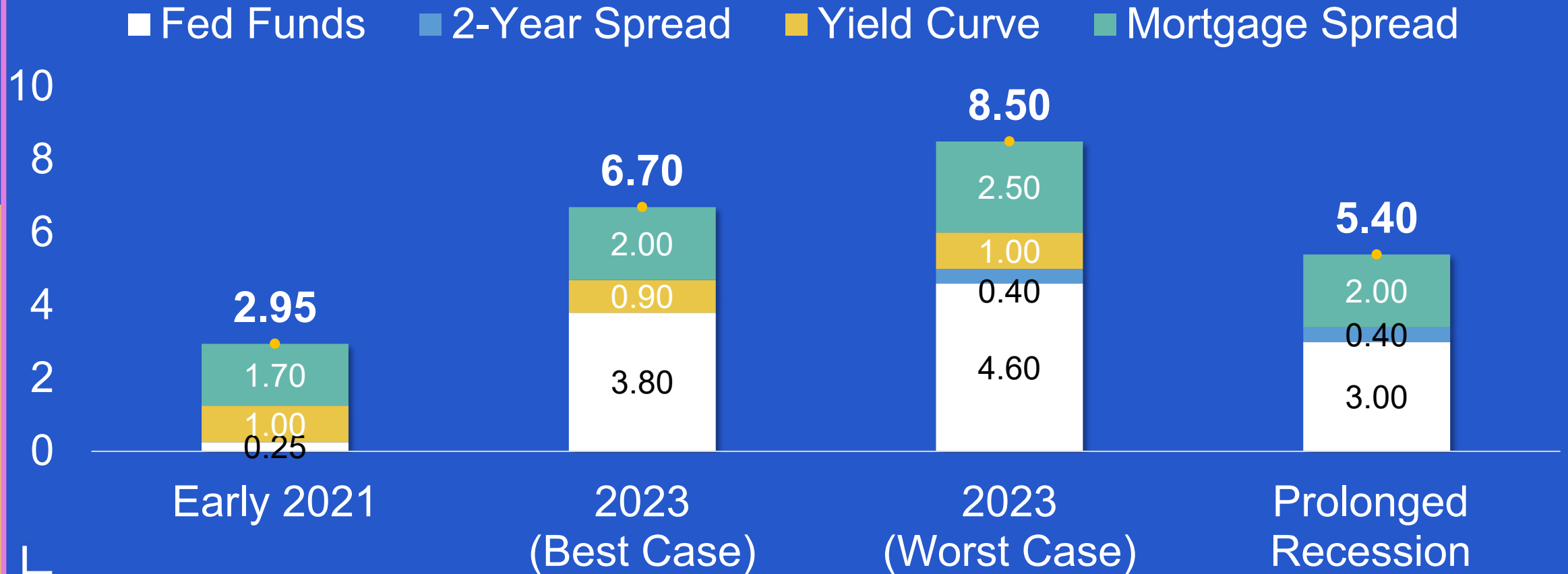


B. Rich
HEDGEYE



Likely rising higher unless deeper recession arrives

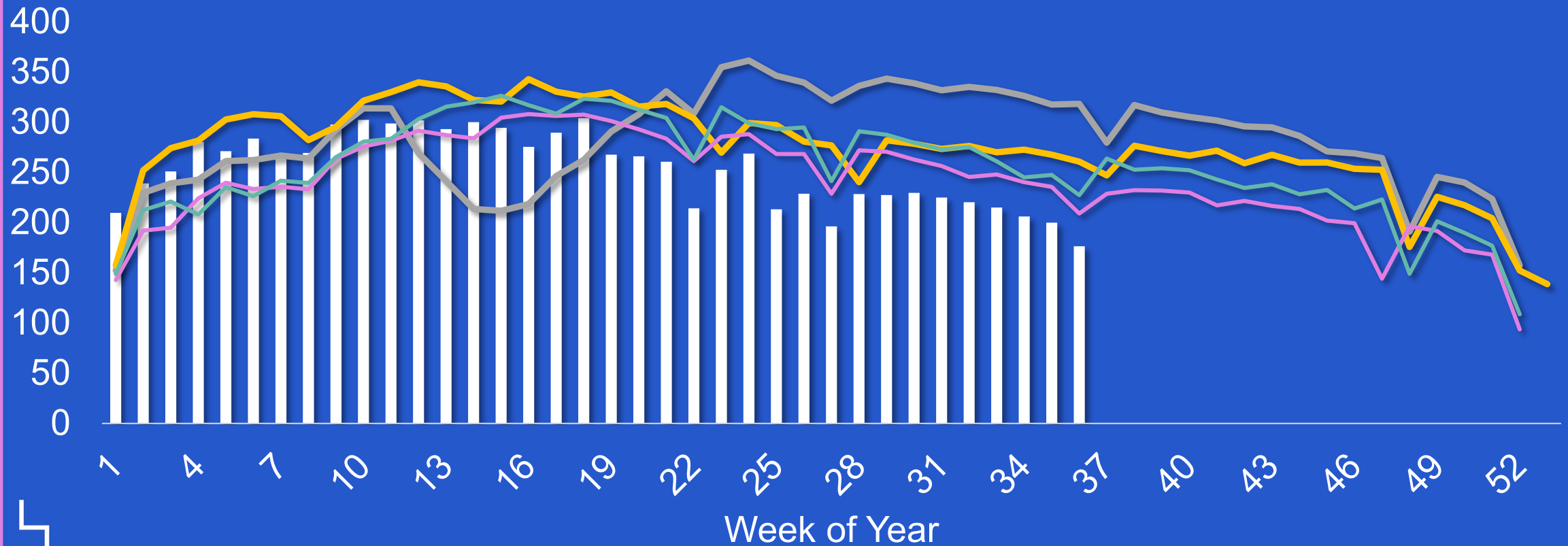
Mortgage Rate Implications



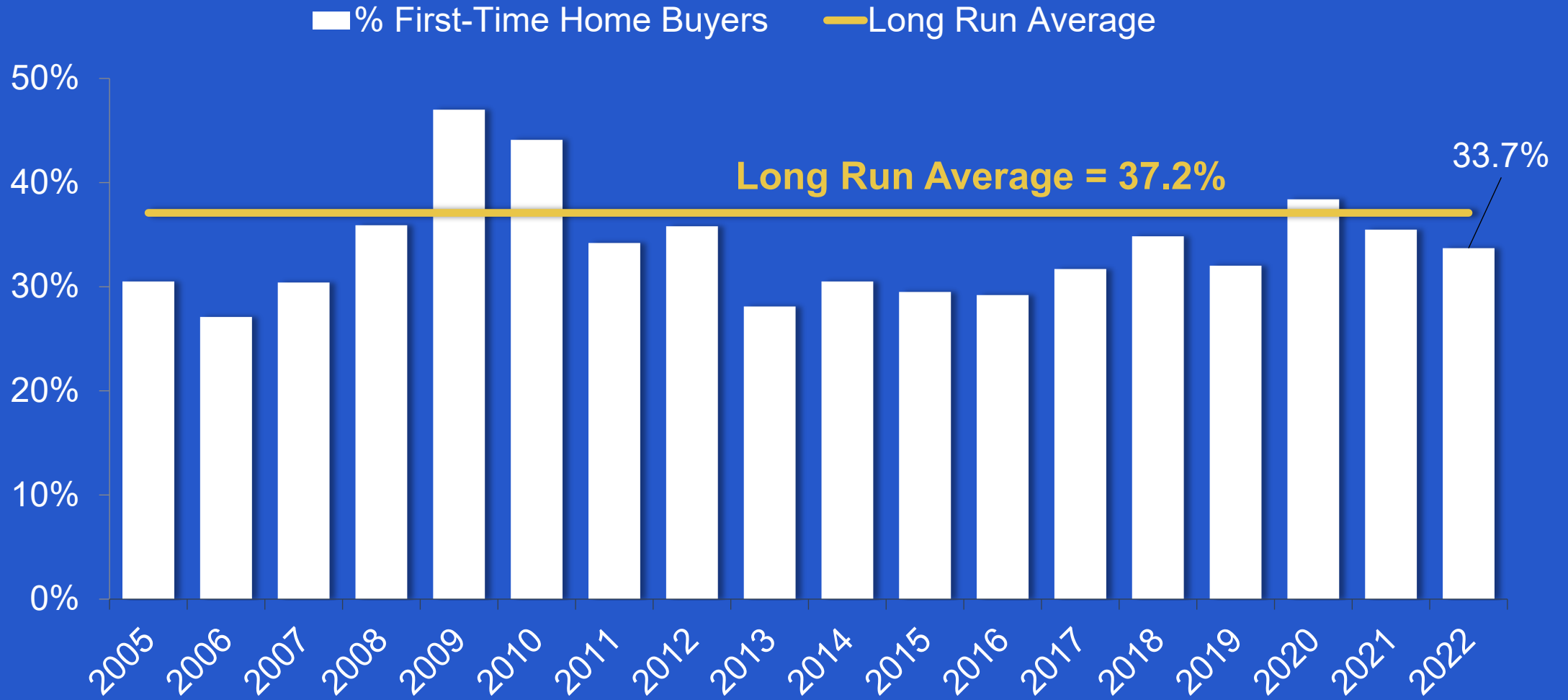
Buyer demand dipping below pre-pandemic levels ↴

Mortgage Purchase Applications Index

■ 2022 — 2020 — 2021 — 2018 — 2019

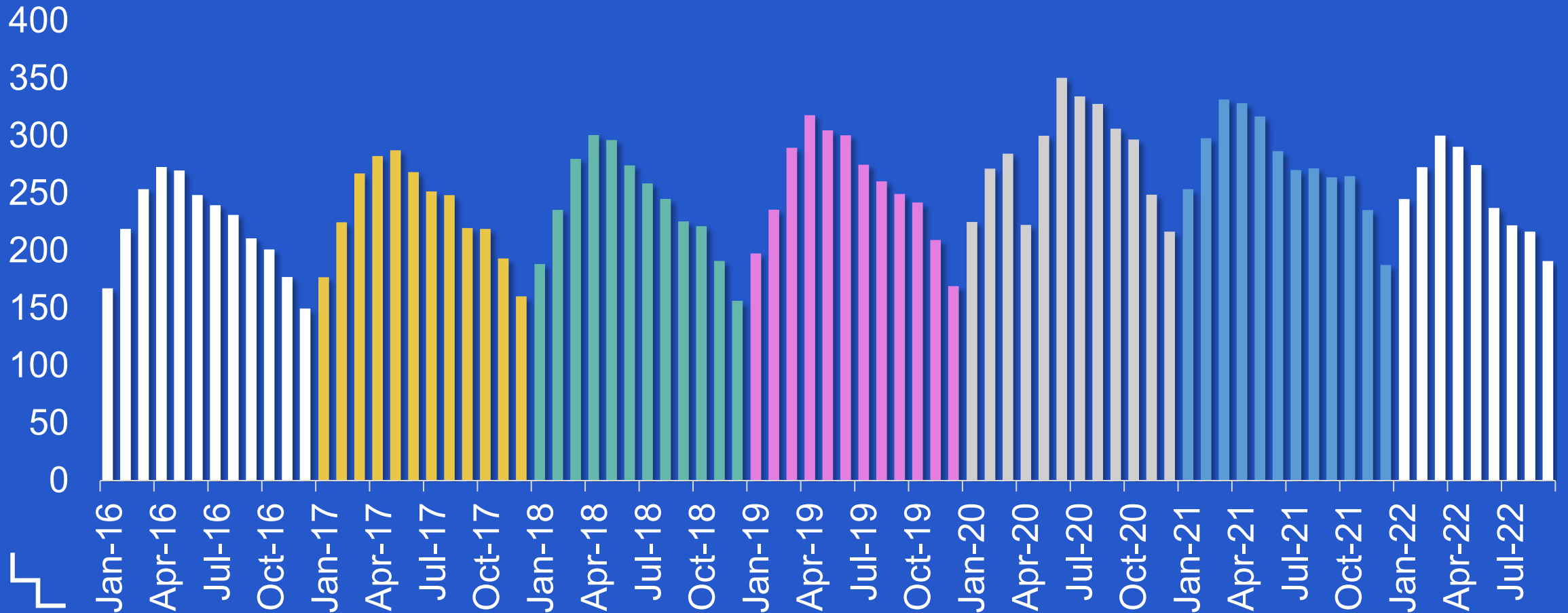


First-time buyers struggling to make numbers pencil



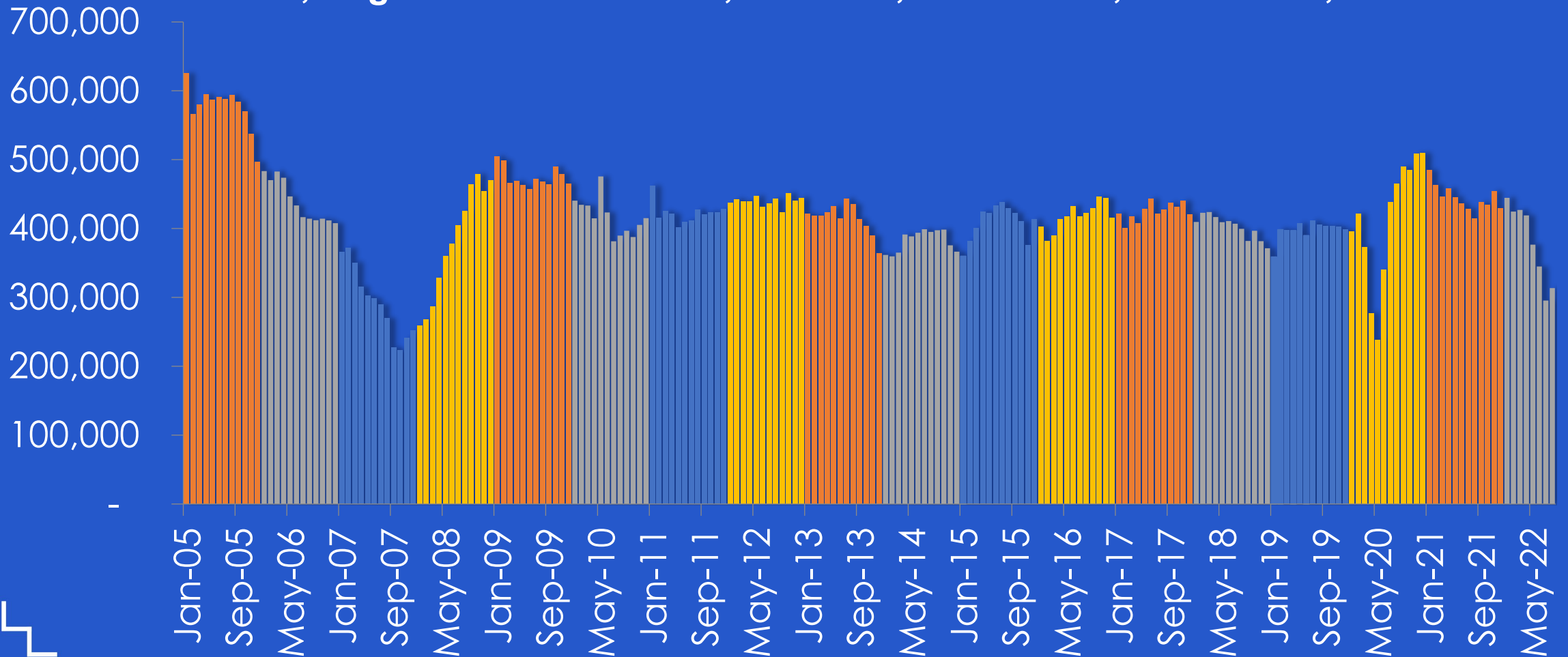
Demand slips, but not too scary beside 2016-2019

U.S. New Mortgage Purchase Applications



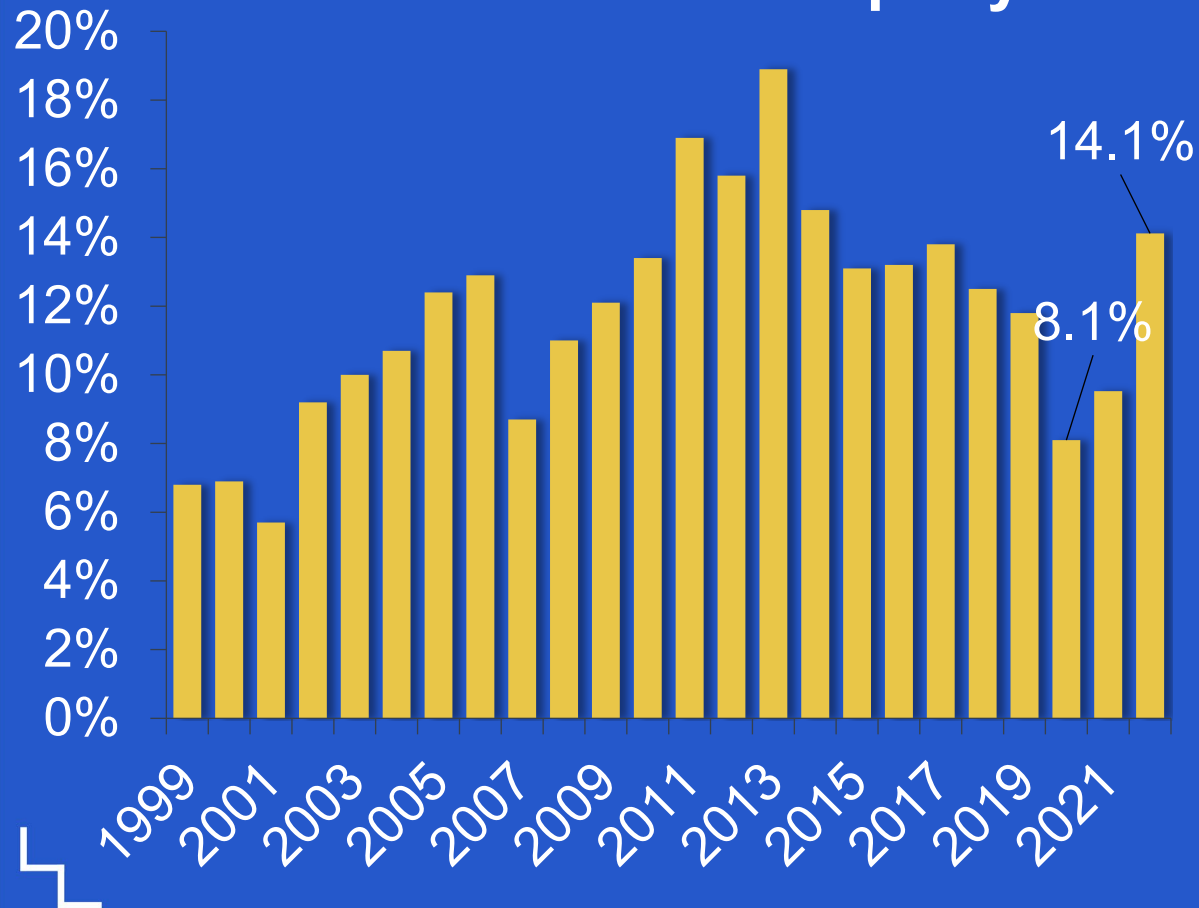
Sales are down, but may be nearing bottom already ↴

California, August 2022 Sales: 313,540 Units, -14.9% YTD, -24.4% YTY, +6.1% MTM



Investors are back to rentals as moratoriums expire

Investment/Rental Property



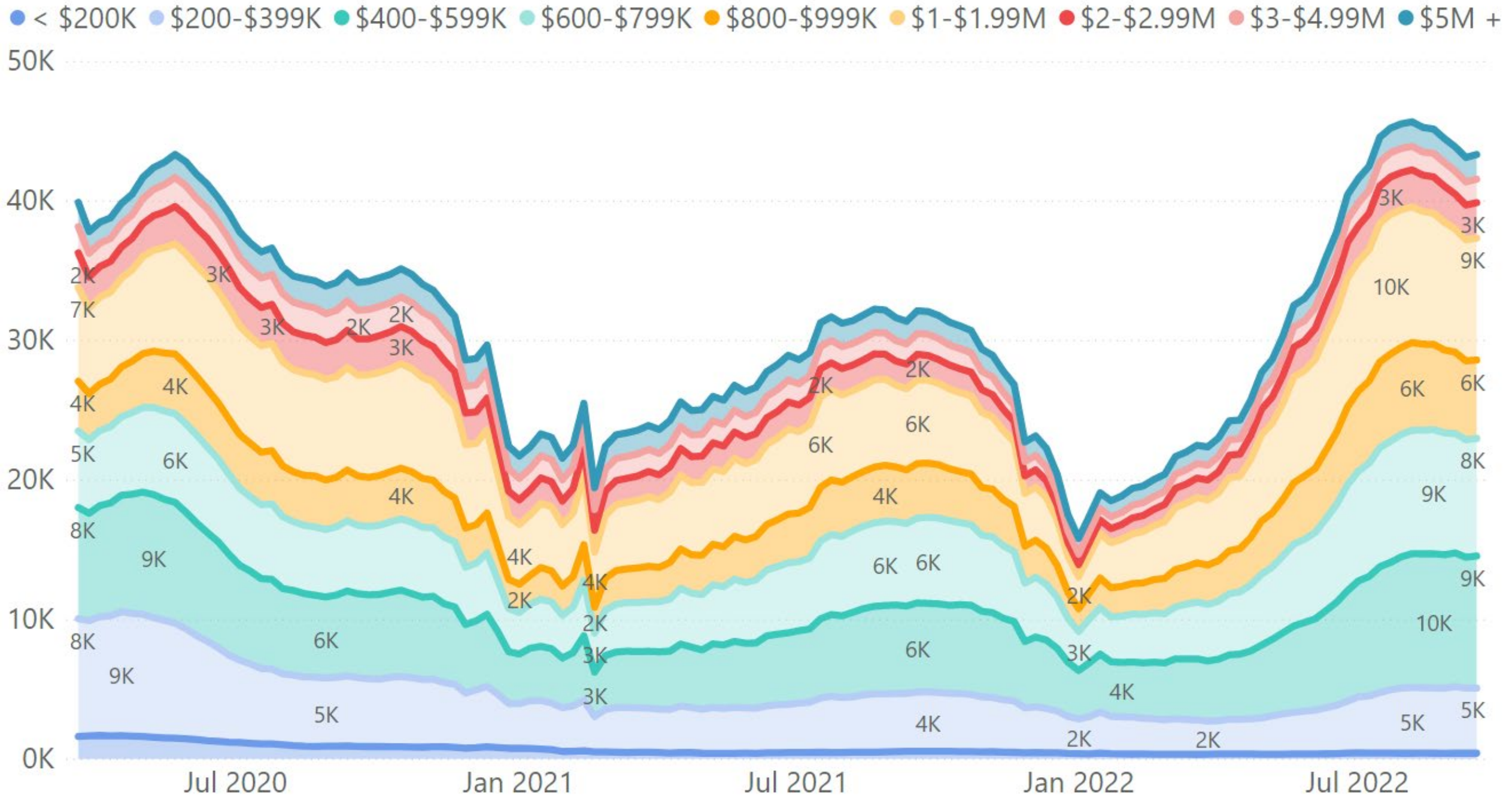
Vs.



2014: 30%
 2015: 26%
 2016: 20%
 2017: 24%
 2018: 26%
 2019: 18%
 2020: 27%
 2021: 29%
 2022: 18%

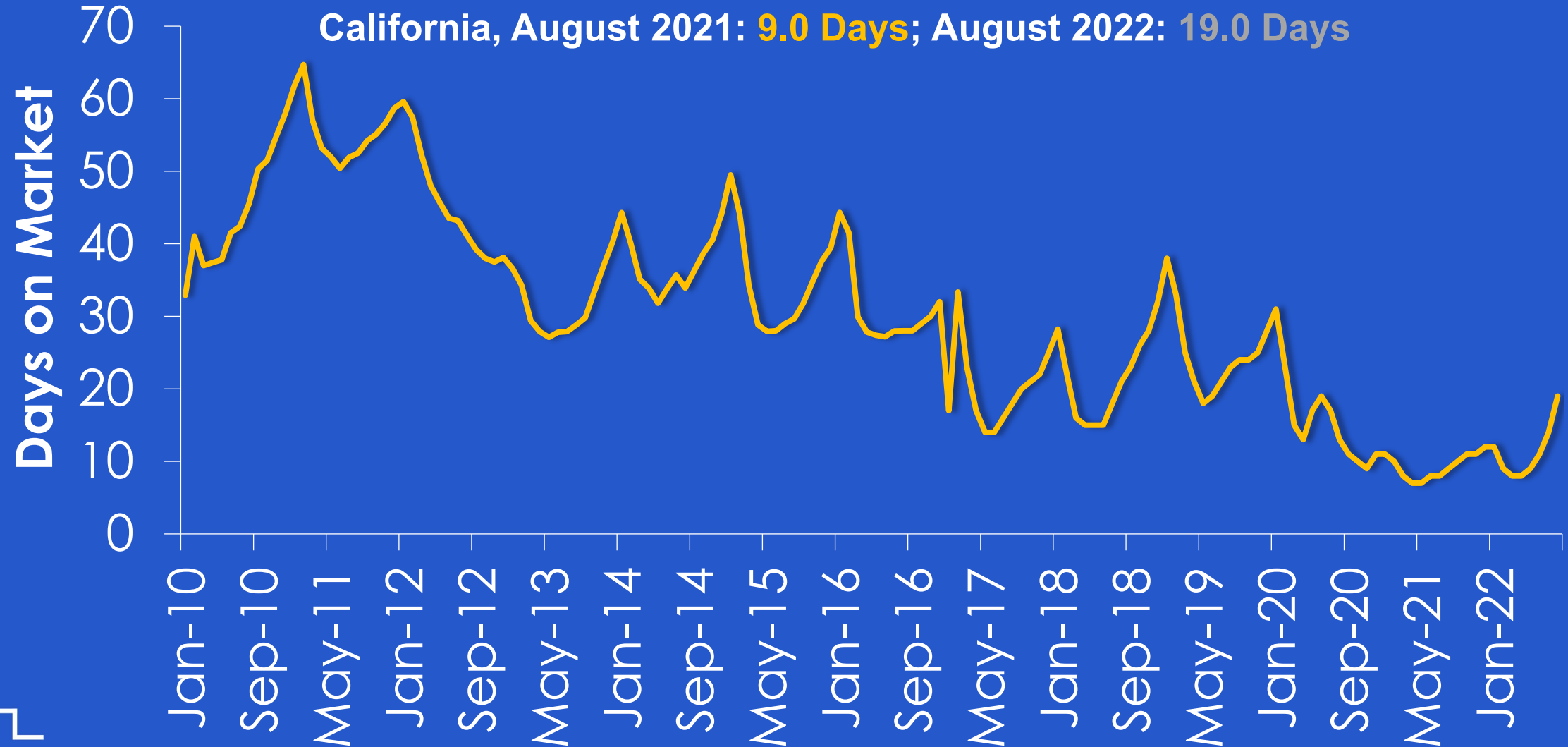
2014: 70%
 2015: 74%
 2016: 80%
 2017: 76%
 2018: 74%
 2019: 82%
 2020: 73%
 2021: 71%
 2022: 82%

Existing SFR Active Listings by Price Bucket



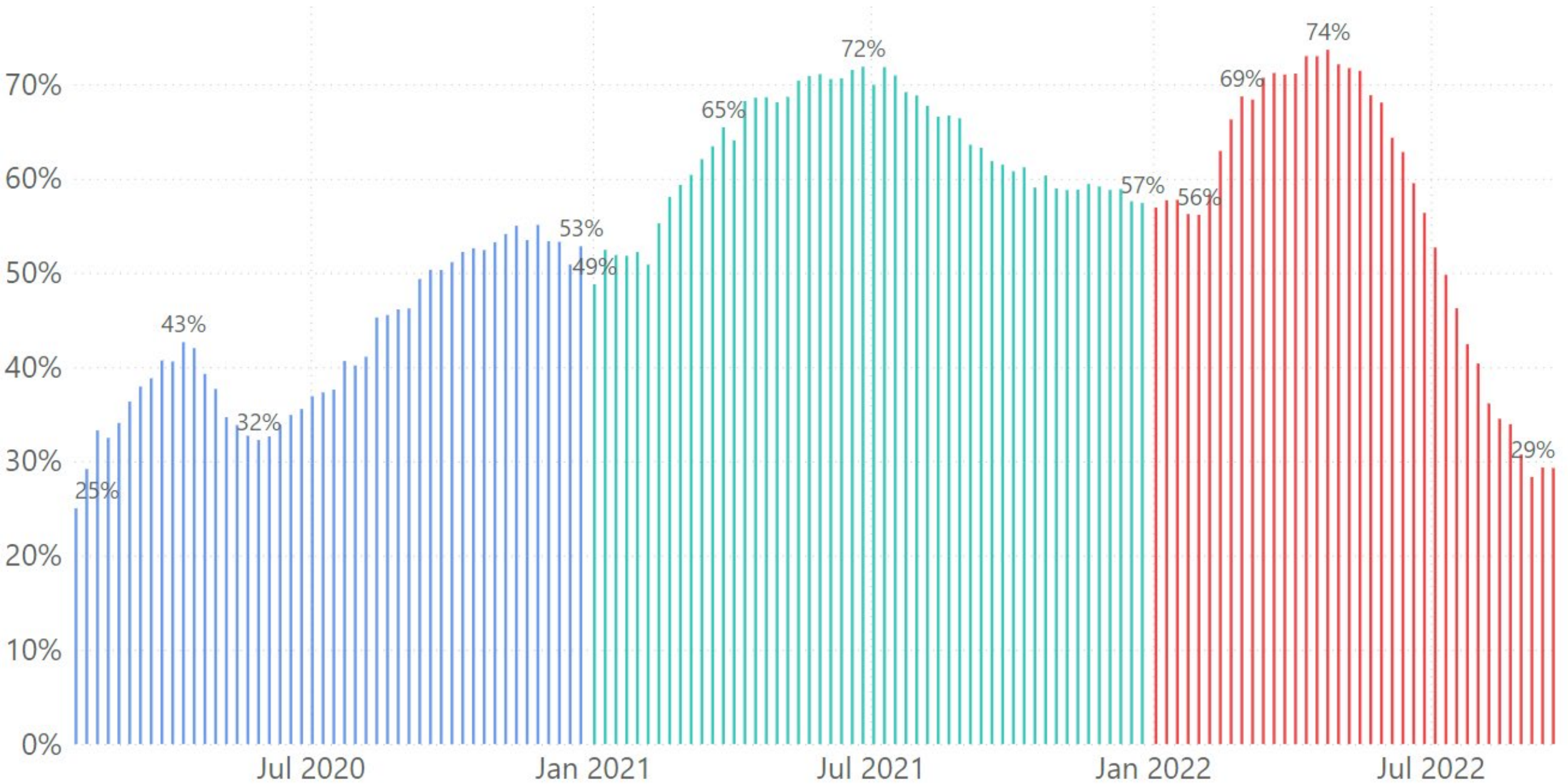
DOM goes up as supply improves/demand subsides

California, August 2021: **9.0 Days**; August 2022: **19.0 Days**



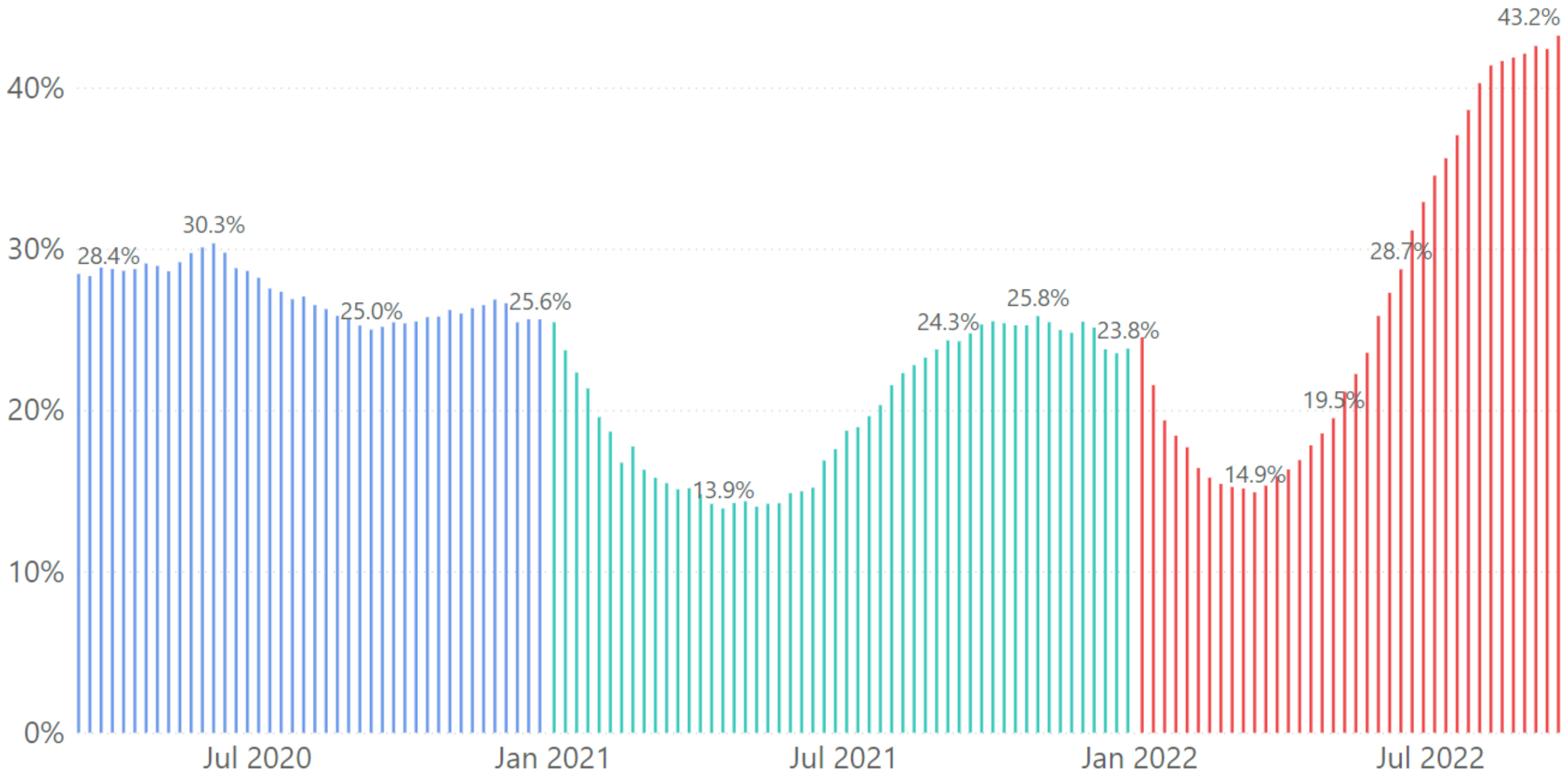
% of Homes Closed Above List Price

Year ● 2020 ● 2021 ● 2022



% of Active Listings w/Reduced Price

Year ● 2020 ● 2021 ● 2022



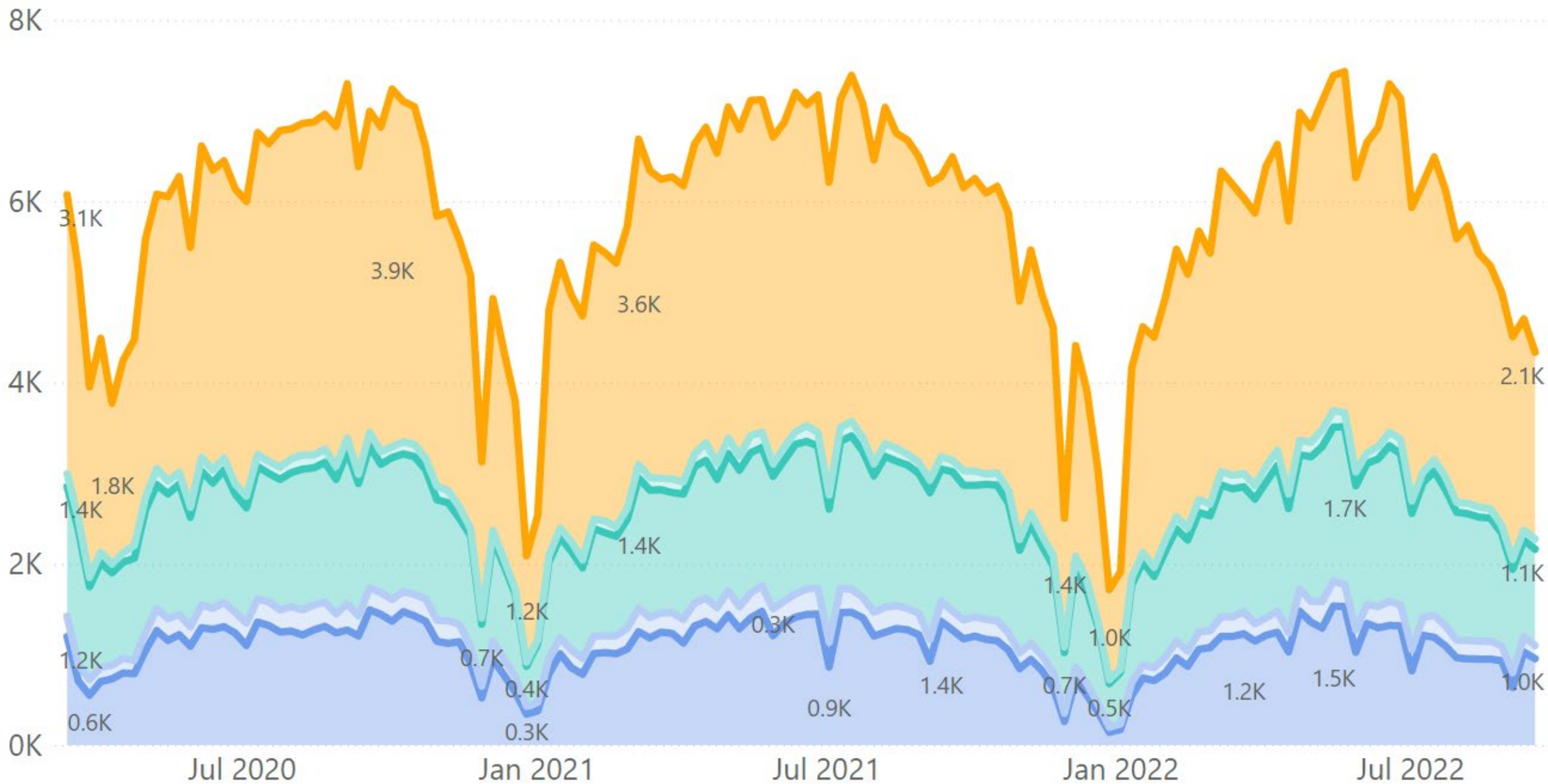


Problem

Opportunity

New Existing SFR Listings by Region

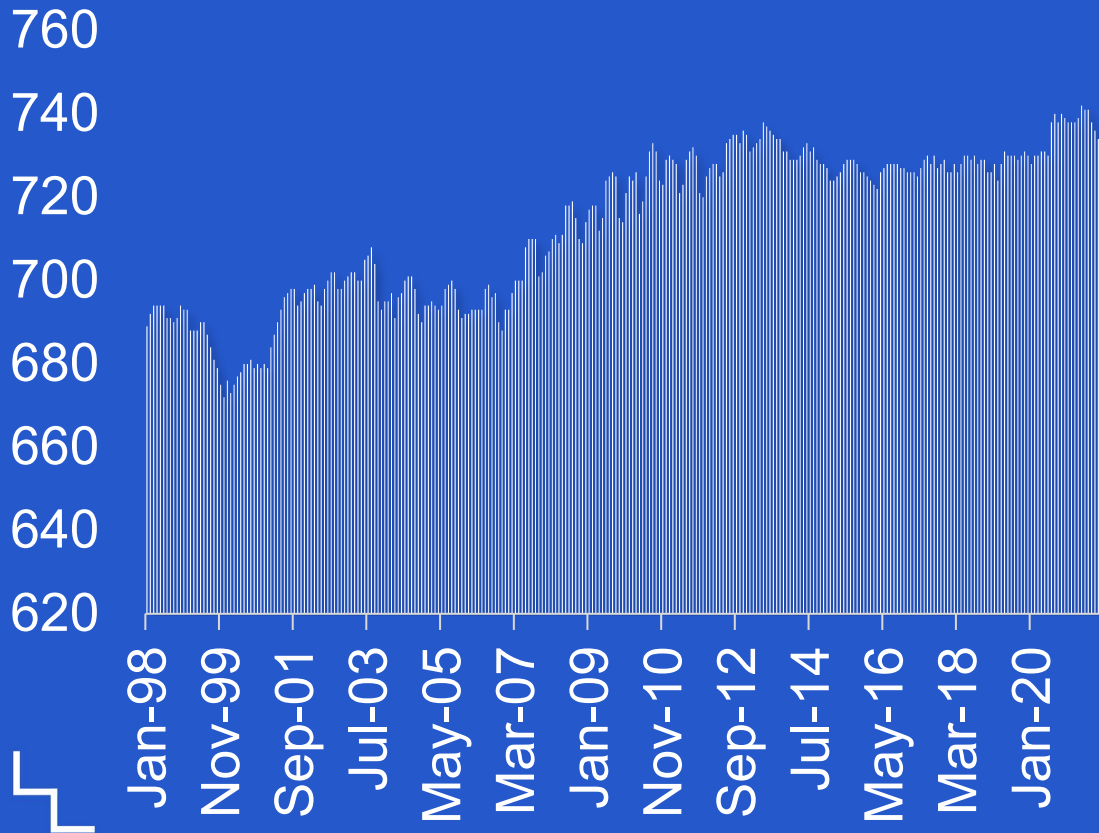
● Bay Area ● Central Coast ● Central Valley ● Far North ● SoCal



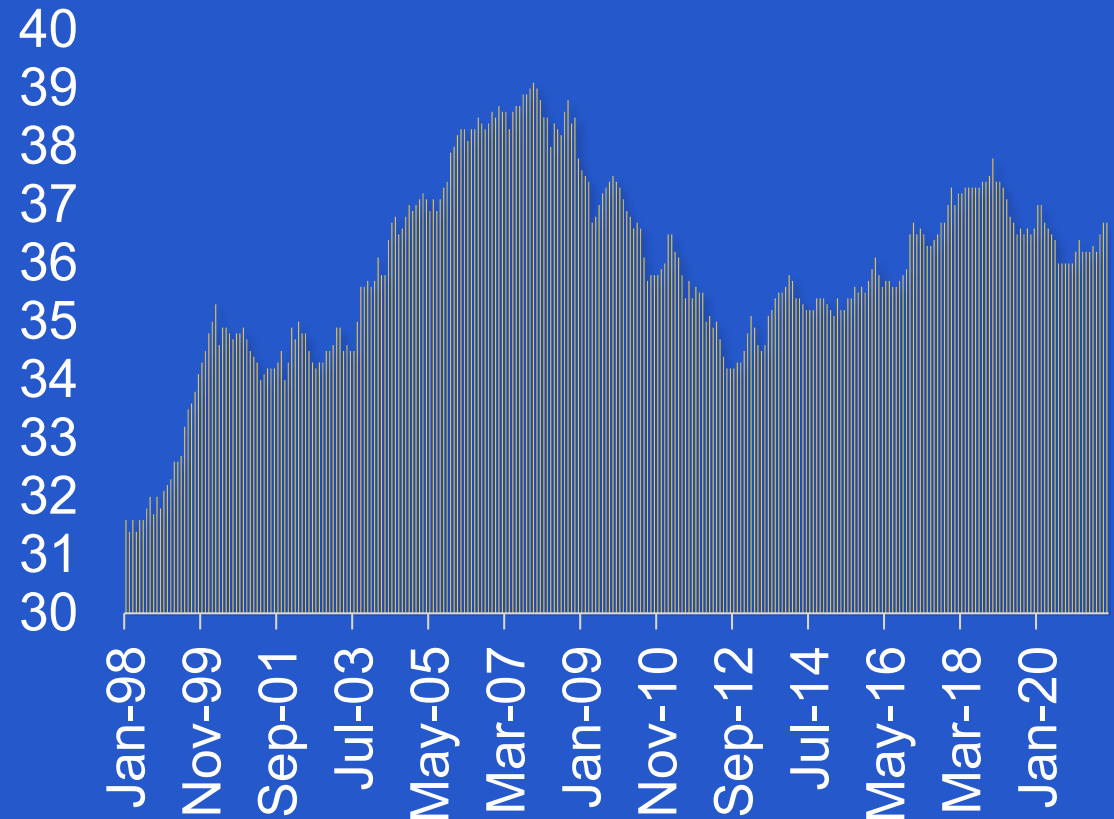
Not as much risky lending/borrowing this time



Average FICO Score:
New Purchase Loans

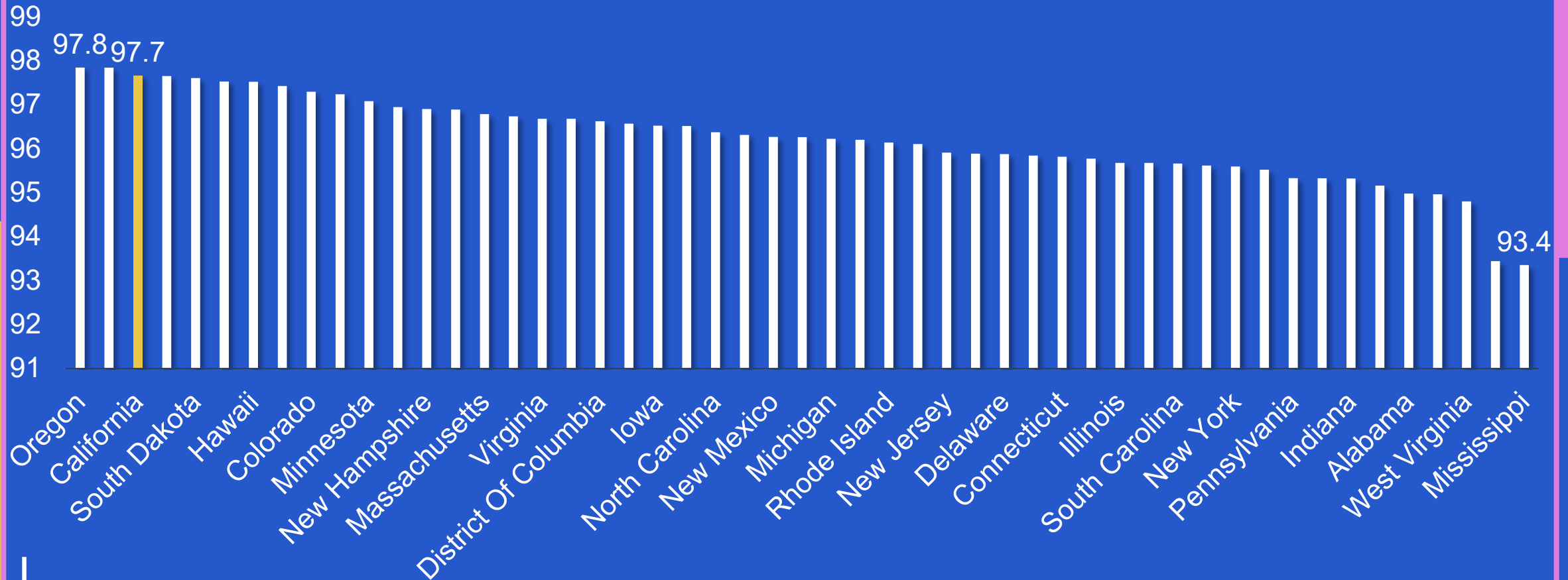


Average DTI:
New Purchase Loans



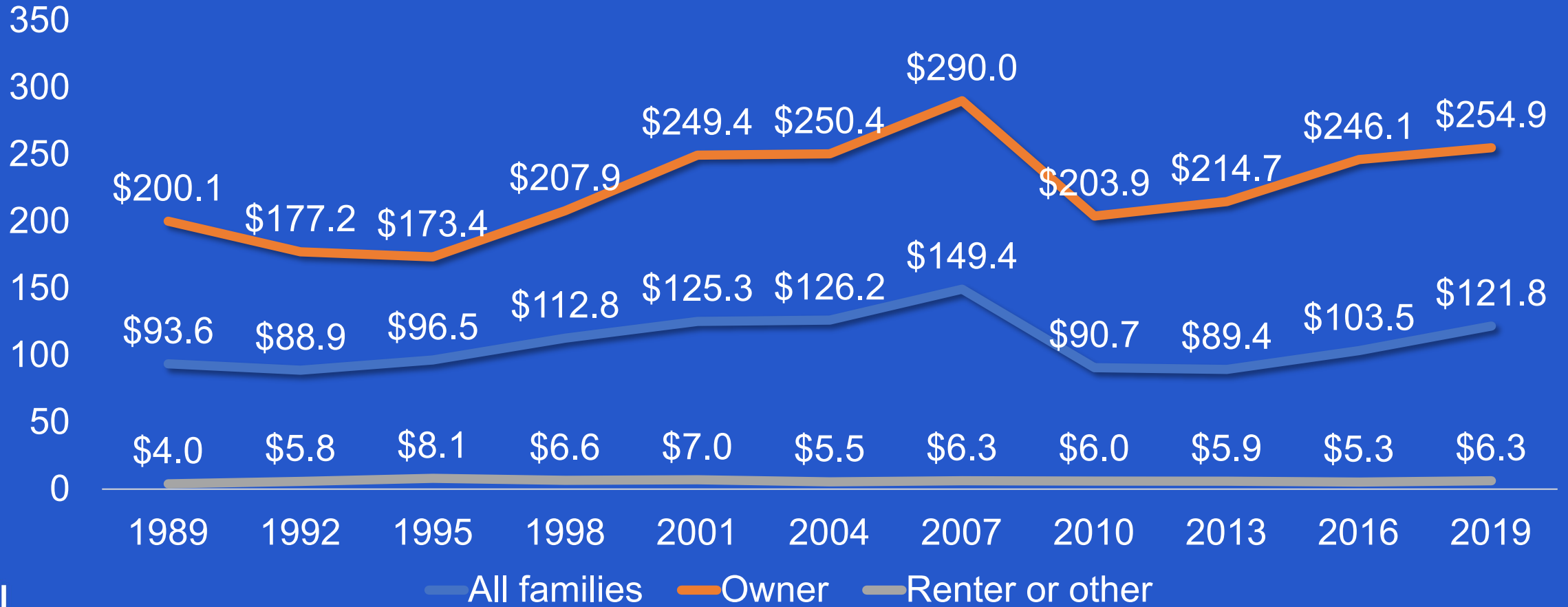
California doing better on delinquency than the rest

MBA Servicing Portfolio: % of Mortgages Current by State, Q2-2022



Renters have never managed to generate wealth ↗

Real Household Net Worth Per Capita

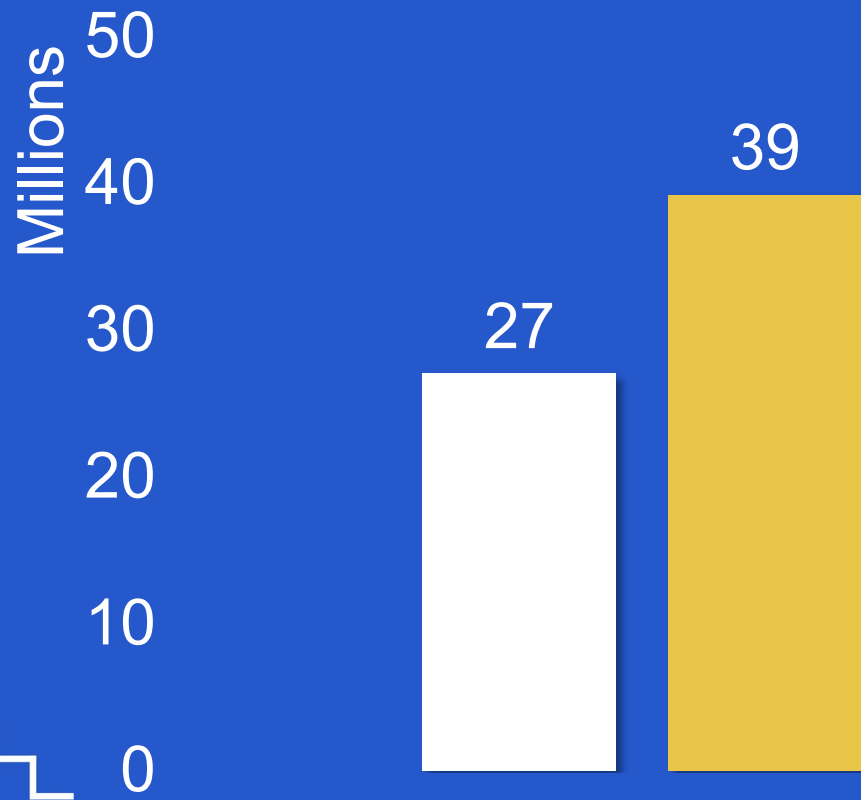


Owning California real estate is still a good idea!



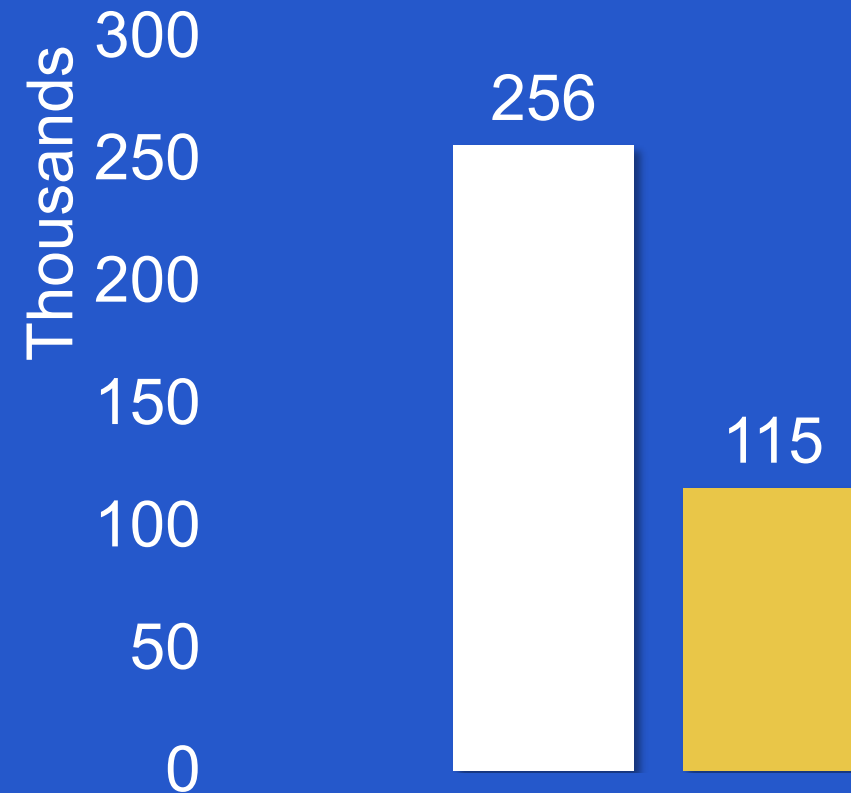
CA Population

■ 1986 ■ 2021



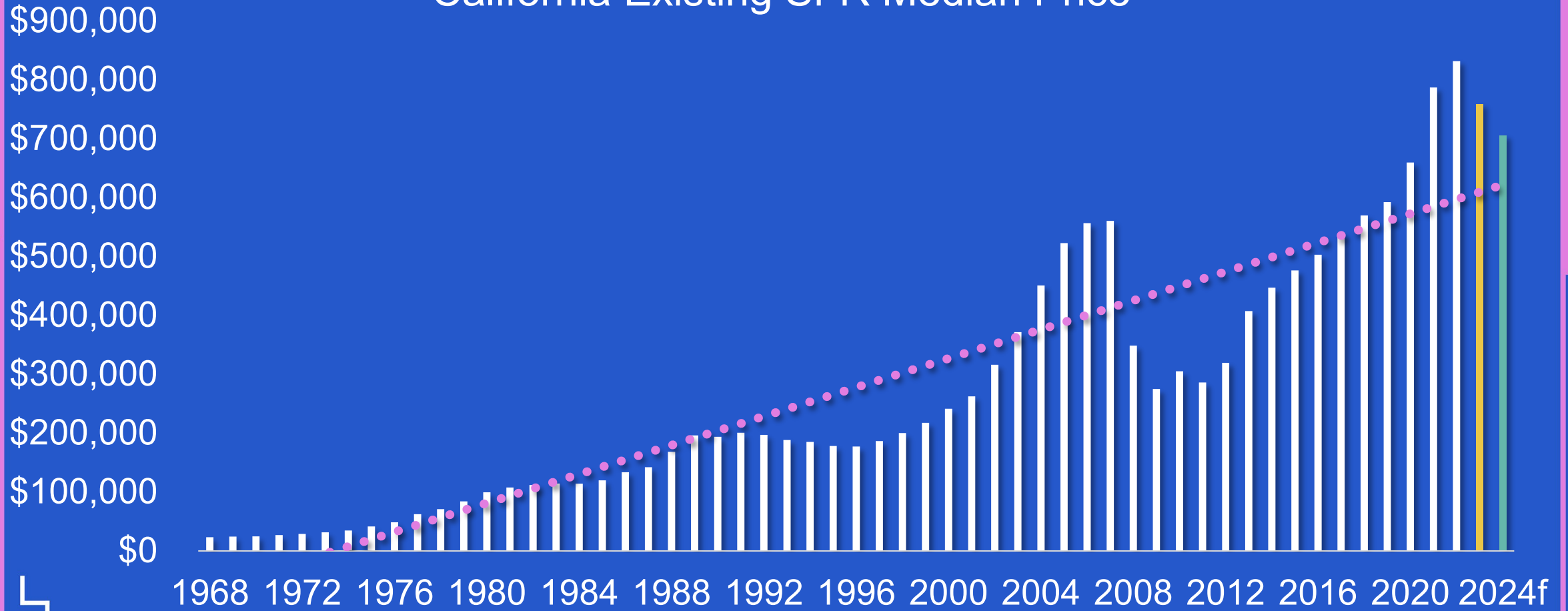
CA Building Permits

■ 1986 ■ 2021



Price volatility, if any, will be temporary

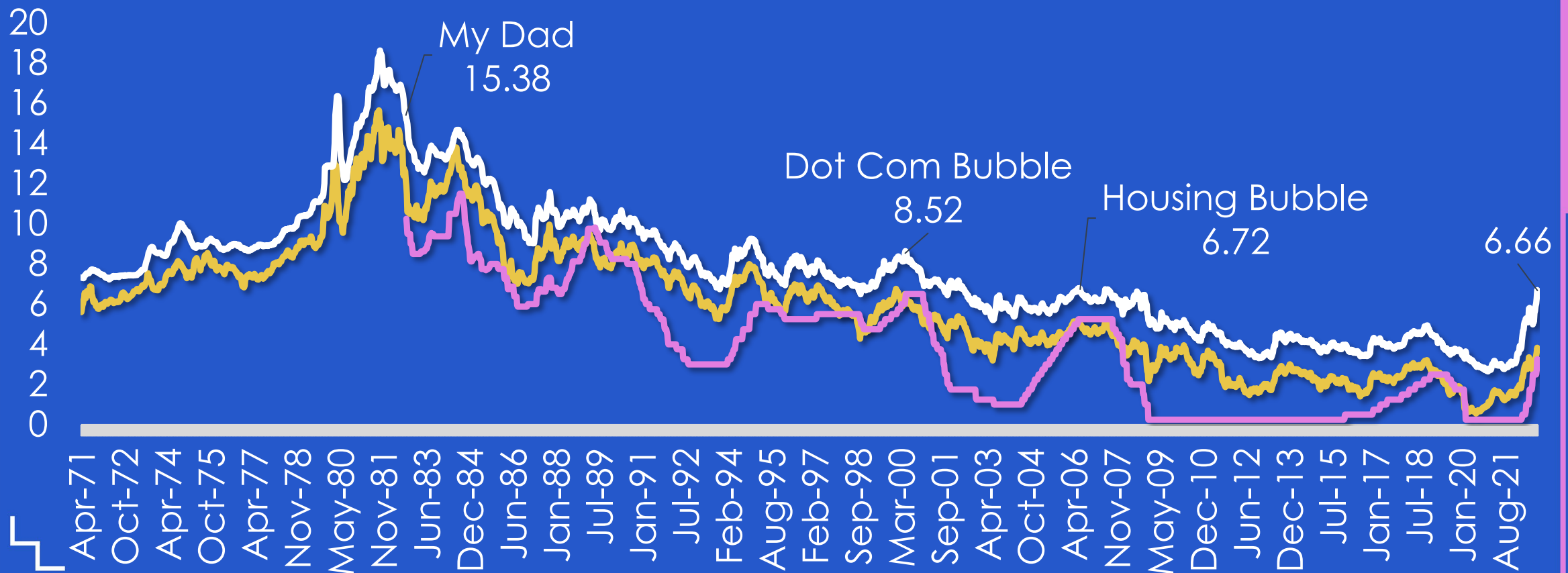
California Existing SFR Median Price



Rates still low by historical standards, and set to rise

Key Interest Rates

— 10-Yr Treasury — 30-Yr FRM — Fed. Funds Target



MON



RAINSTORMS

99%
PRECIPITATION

HIGH: 88°F

LOW: 64°F

TUE

HIGH: 80°F

LOW: 62°F

THU

HIGH: 85°F

LOW: 63°F

FRI



RAINSTORMS

96%
PRECIPITATION

HIGH: 81°F

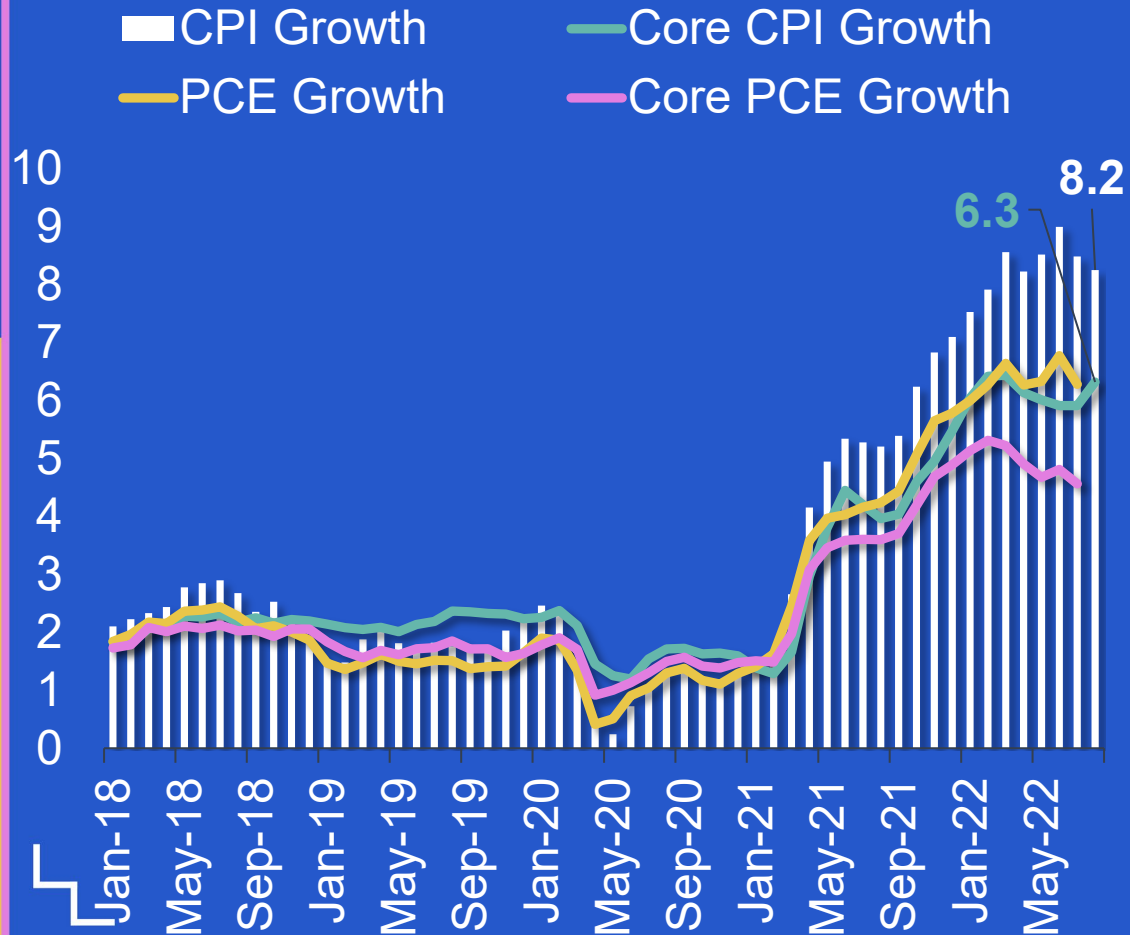
LOW: 61°F

FORECAST: CHANCE OF RAIN

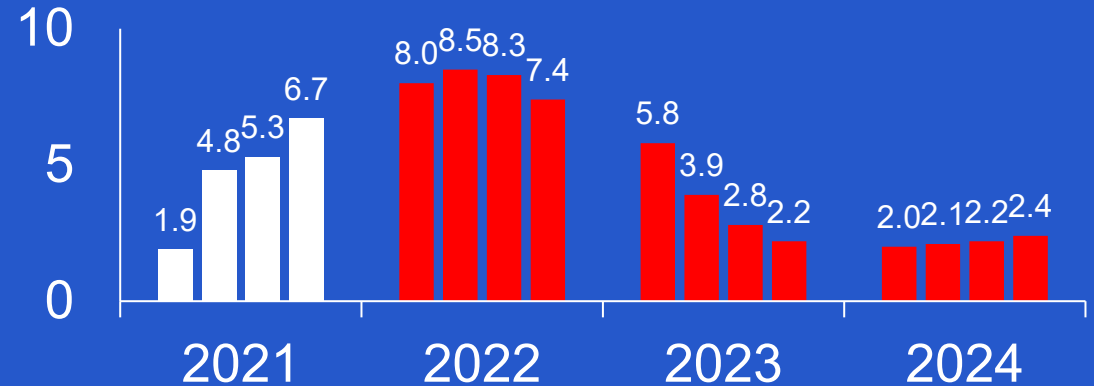
Inflation cools but expected to stay elevated



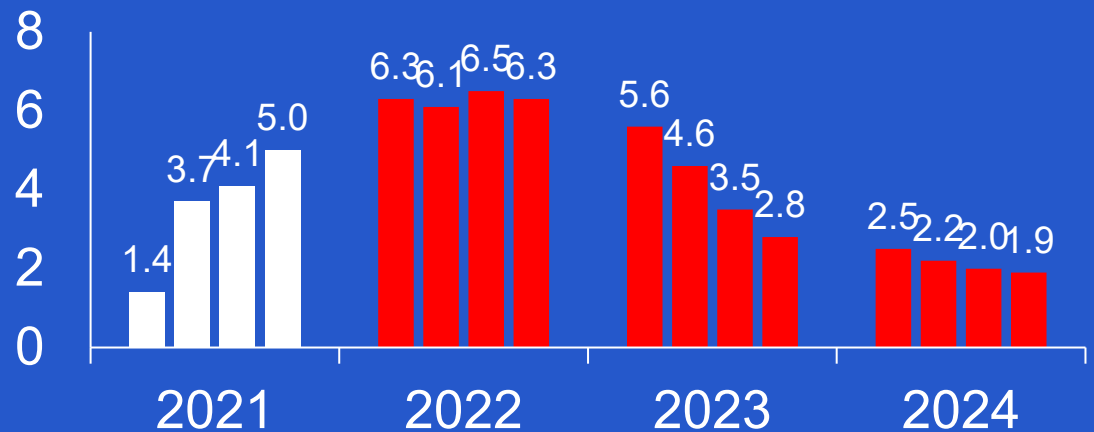
U.S. Consumer Prices Inflation



CPI



Core CPI

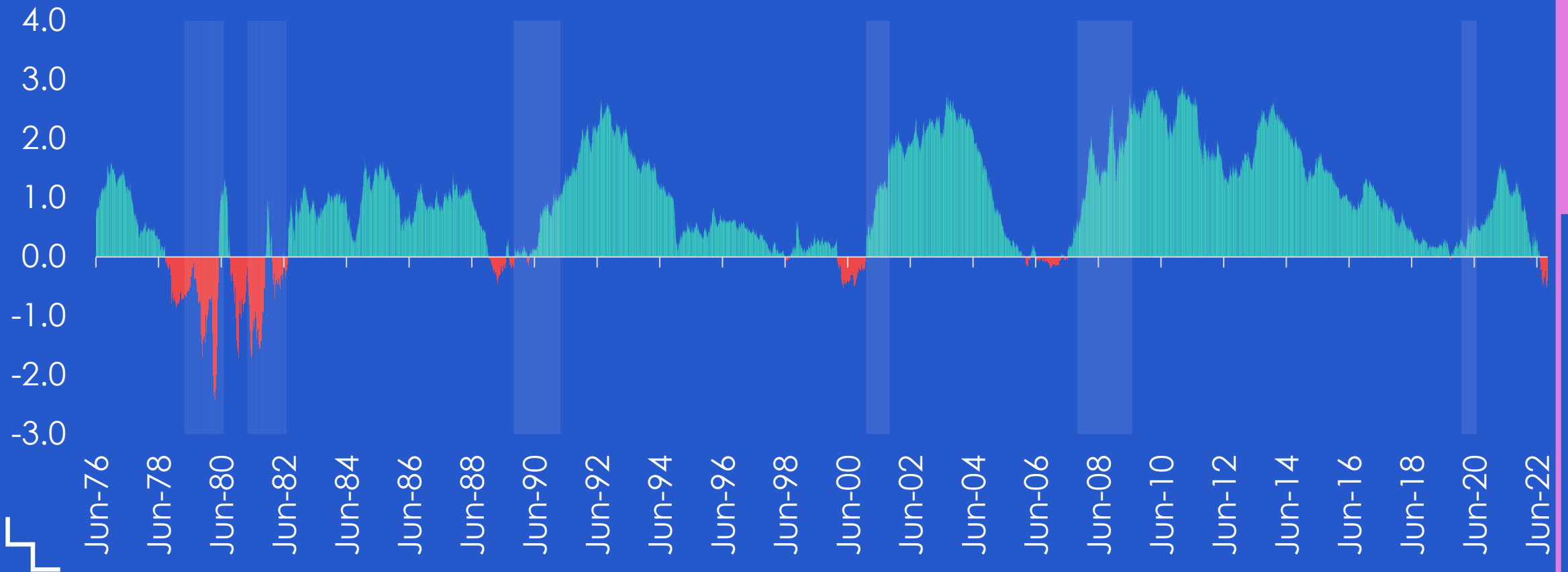


Yield curve typically predictive of recession



U.S. Yield Curve (10yr. - 2yr.)

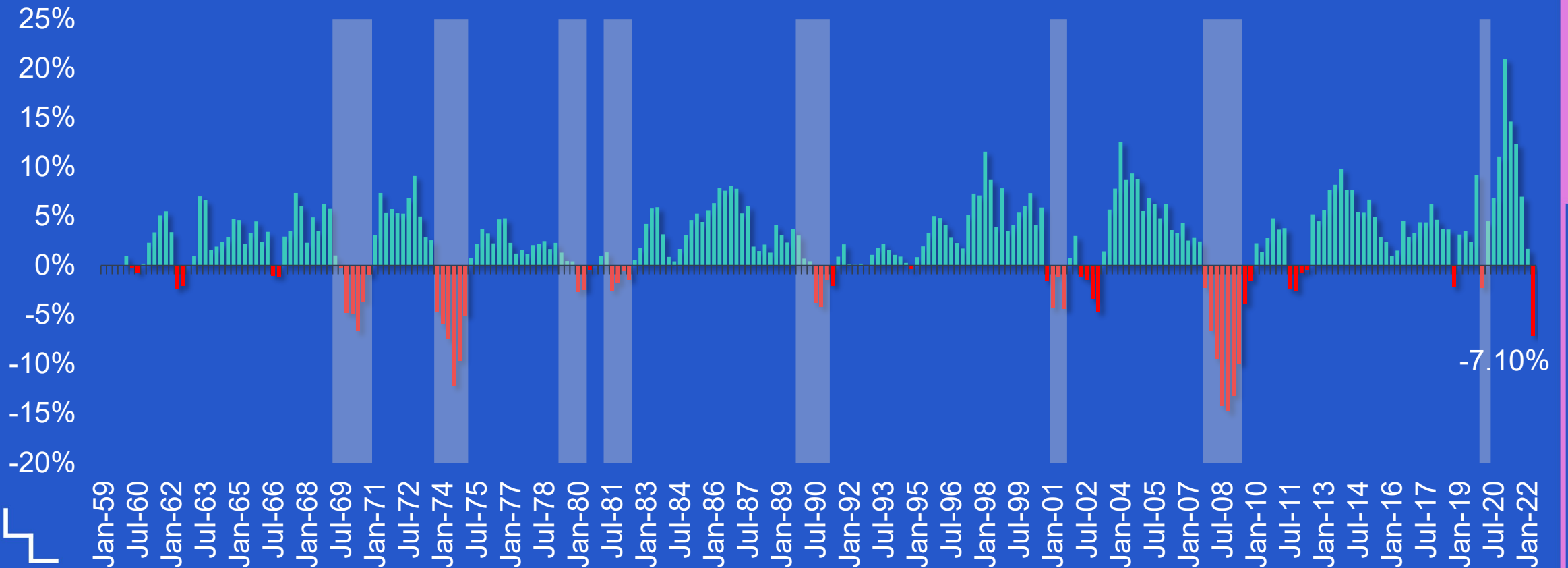
■ Yield Curve ■ Recession



Another big recession indicator flagging

Growth in U.S. Real Net Worth Per Capita

■ Growth Real Net Worth Per Capita ■ Recession



U.S. economic outlook

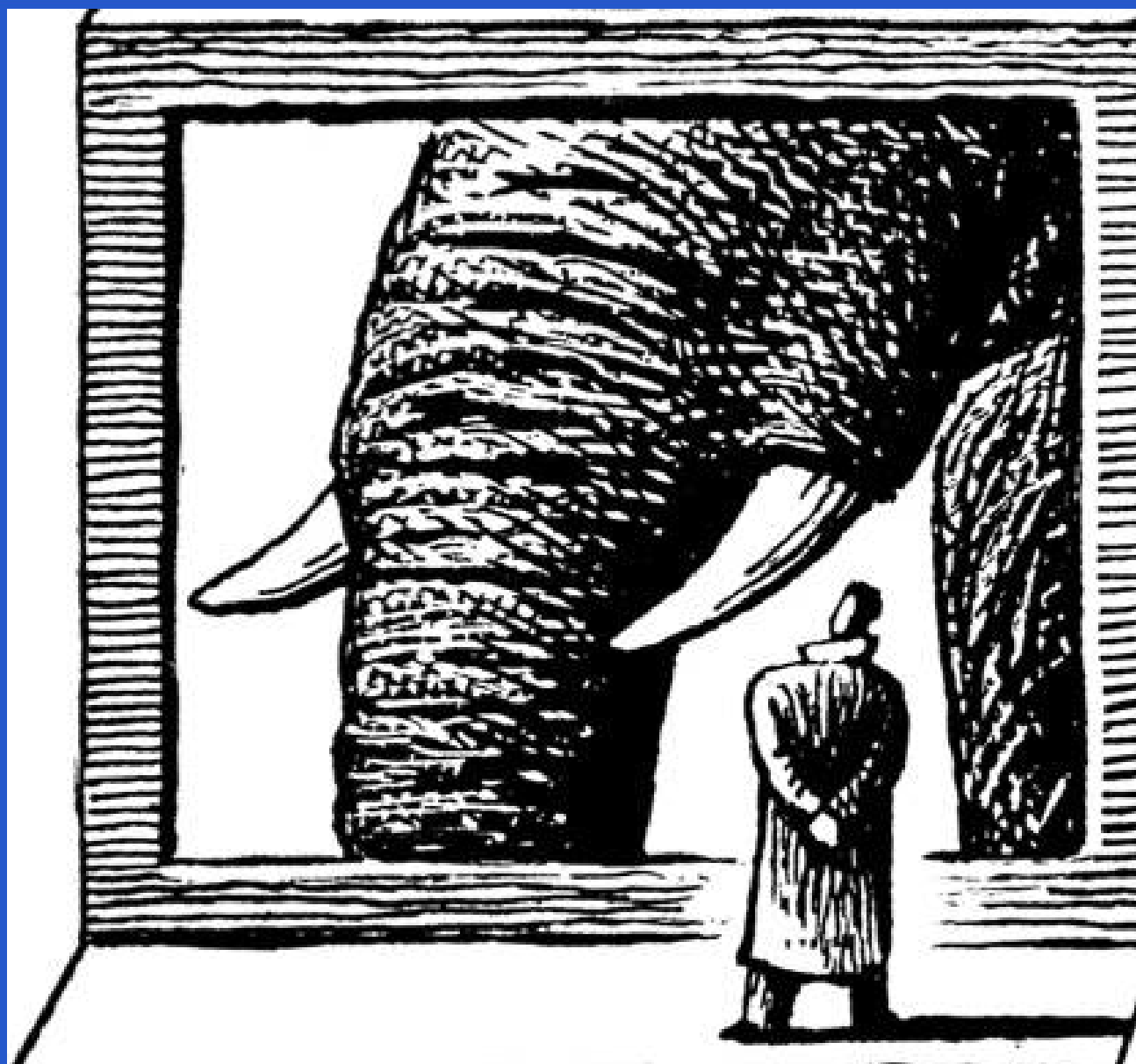
	2016	2017	2018	2019	2020	2021	2022p	2023f
US GDP	1.6%	2.3%	3.0%	2.2%	-3.5%	5.7%	0.9%	-0.5%
Nonfarm Job Growth	1.8%	1.6%	1.6%	1.3%	-5.7%	2.8%	3.4%	-0.5%
Unemployment	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.7%	4.4%
CPI	1.4%	2.1%	2.4%	1.8%	1.2%	4.7%	8.0%	4.4%
Real Disposable Income, % Change	2.7%	2.9%	4.0%	2.9%	5.8%	2.2%	-5.4%	0.2%

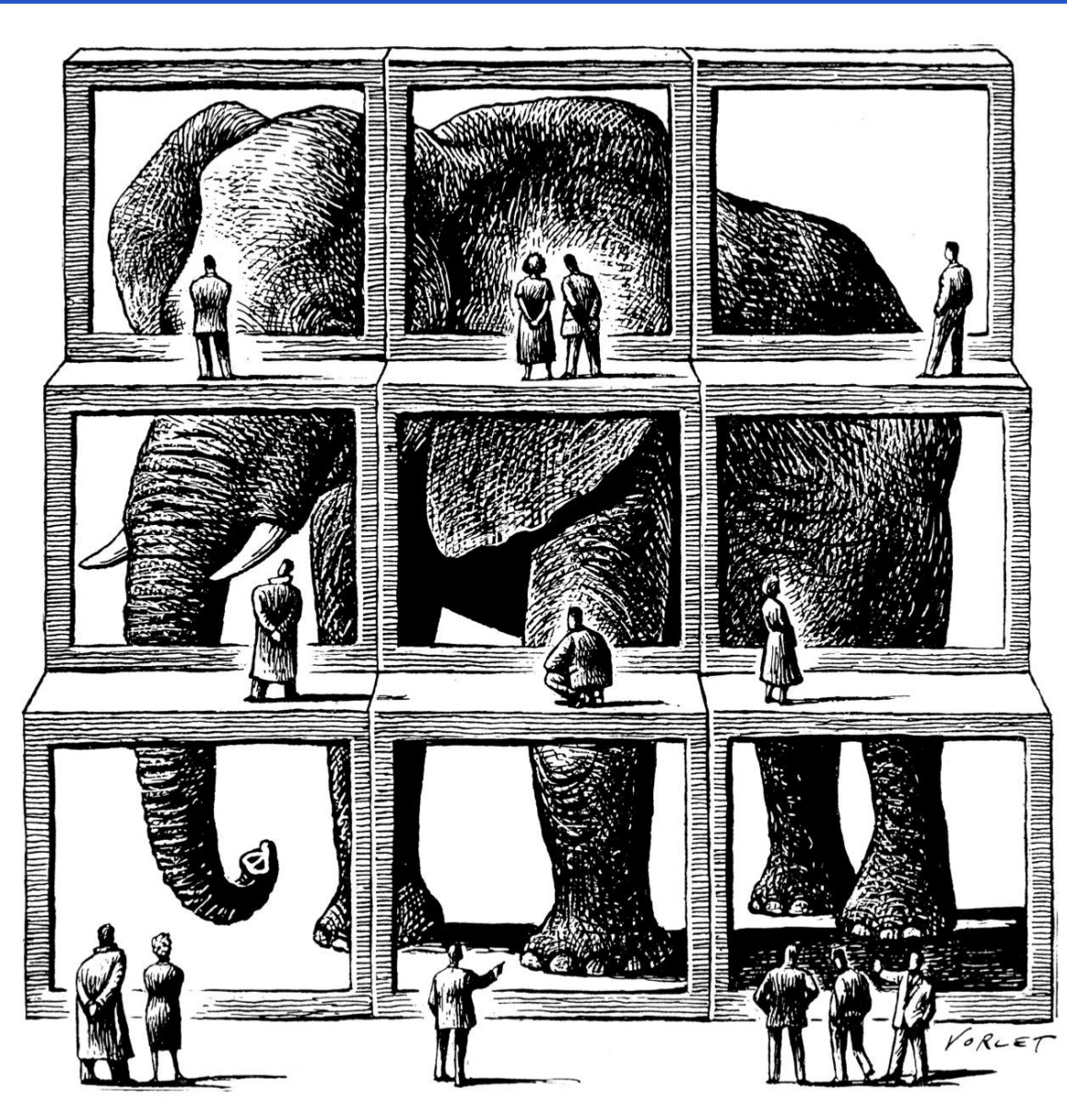
California economic outlook

	2016	2017	2018	2019	2020	2021	2022p	2023f
Nonfarm Job Growth	2.3%	2.1%	2.1%	1.5%	-6.9%	3.2%	4.9%	1.0%
Unemployment	5.5%	4.8%	4.3%	4.1%	10.3%	7.4%	4.4%	4.7%
CA Population (Million)	39.4	39.5	39.6	39.6	39.5	39.5	39.5	39.5
Population Growth	0.6%	0.4%	0.2%	0.1%	-0.5%	-0.1%	0.0%	0.0%

California housing market outlook

	2015	2016	2017	2018	2019	2020	2021	2022p	2023f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	411.9	444.5	359.2	333.4
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	3.5%	7.9%	-19.2%	-7.2%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$659.4	\$786.7	\$831.5	\$758.6
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	11.3%	19.3%	5.7%	-8.8%
Housing Affordability Index	31%	31%	29%	28%	31%	32%	26%	19%	18%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.1%	3.0%	5.2%	6.6%







Thank You

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