2018 Cali housing will be ‘a tale of two markets’

Strong demand tempered by lack of supply and limited access to affordable housing will define 2018’s housing market, reported California Association of Realtors (C.A.R.) Chief Economist Leslie Appleton-Young today at the association’s 2018 Market Forecast.

	2012	2013	2014	2015	2016	2017p	2018f
SFH Resales (000s)	439.8	414.9	382.7	409.4	416.7	421.9	426.2
% Change	4.1%	-5.9%	-7.8%	7.0%	1.8%	1.3%	1.0%
Median Price ($000s)	$319.3	$407.2	$446.9	$476.3	$502.3	$538.5	$561.0
% Change	11.6%	27.5%	9.8%	6.6%	5.4%	7.2%	4.2%
Housing Affordability Index	51%	36%	30%	31%	31%	29%	26%
30-Yr FRM	3.7%	4.0%	4.2%	3.9%	3.6%	4.0%	4.3%

Like many markets across the nation, California is experiencing positive jobs growth (+1.2 percent year-over-year), low unemployment rates (4.6 percent) and historically low interest rates (4.3 percent).

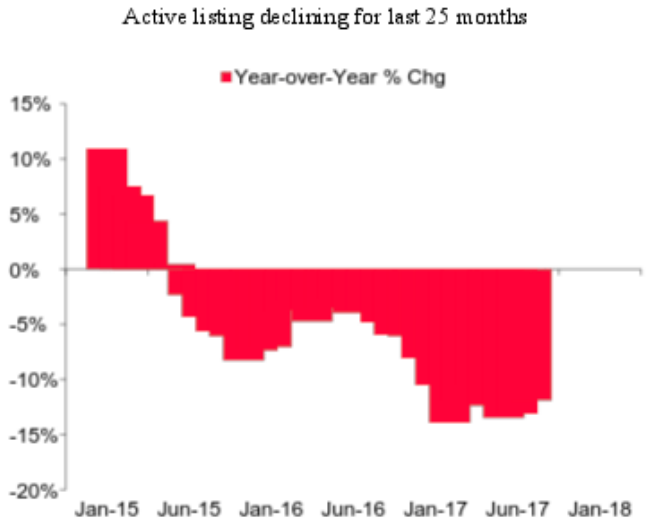
Even with those solid numbers, existing single-family home sales are projected to increase only 1.0 percent in 2018 to 426,200 units.

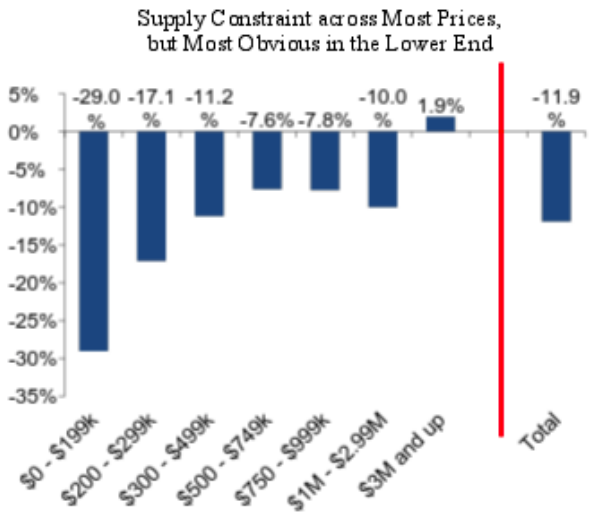
Appleton-Young says the issue lies in continued inventory issues and a lack of affordable housing that’s making it nearly impossible for would-be first-time buyers to break into the market. Furthermore, current homeowners are staying put.

This year, active listings were at a 2.9-month supply — less than the average 7-month supply seen before 2010. Southern California has been hardest hit by the supply shortage, with active listings declining 39.8 percent. The San Francisco Bay and Central Valley areas didn’t fare well either, with a 19.9 percent and 7.8 percent drop in active listings, respectively.

But Appleton-Young says it's important to note the inventory shortage isn't impacting everyone the same — those who are able to afford high-priced luxury homes have a plethora of options to choose from while those looking for moderately-priced starter homes have essentially been locked into renting.

"This year's housing market can be told as a tale of two markets — the inventory constrained lower end and the upper end that's non-inventory constrained," she said. "This trend is likely to continue into 2018 as active listings have declined across all price ranges for the past two years, but is most obvious at the lower end."

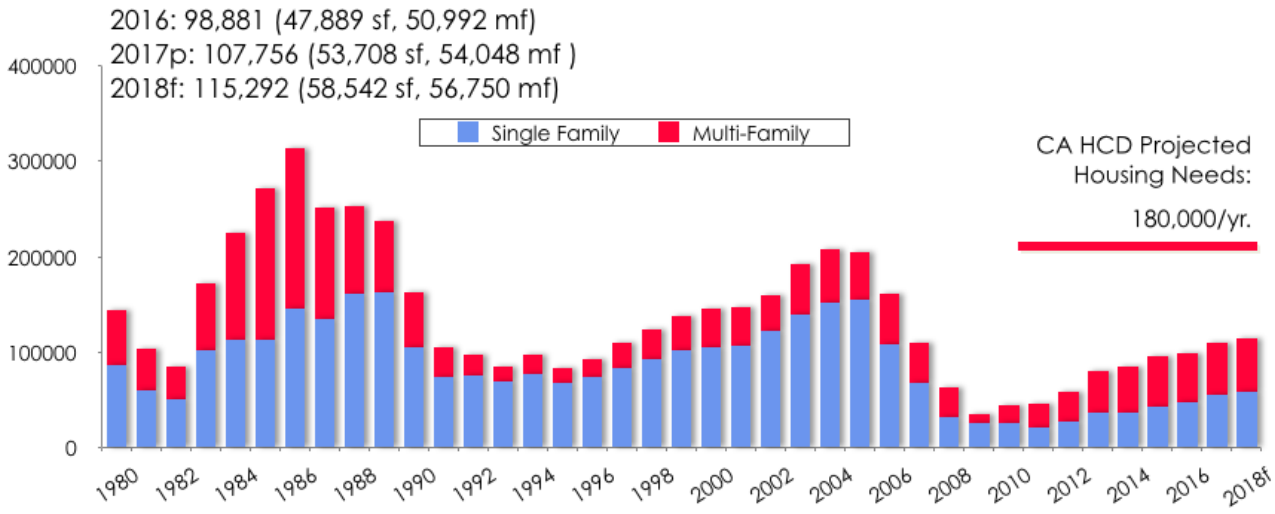




In 2018, the median home price in California is expected to increase 4.2 percent year-over-year to $561,000, which makes it impossible for lower-to-middle class Californians to become homeowners, something Appleton-Young and a panel of experts warned about at the "The California Series: State of the State" panel in March.

Currently, active listings in the $0-199,000 range are down 29 percent, the price range that most first-time buyers would be vying for. Meanwhile, active listings in the $1-2.99 million range are only down 10 percent and the number of listings in the $3 million and up range is actually up by 1.9 percent.

Appleton-Young says this trend will impact millennials quite hard, especially those who don't have the luxury of financial support from family.



Looking forward, the inventory shortage isn't expected to get much better. C.A.R. predicts only 115,292 new homes will be built in 2018 — 72,000 homes short of what's needed.

Moreover, Appleton-Young says 3.3 million more homes will need to be built by 2030 to get the supply back up to the 2005 level. But at this pace, she says, California will be backlogged by 2 million homes at that time.

In the short term, Appleton-Young says the California real estate and housing industries are keeping a close eye on the Northern California wildfires and how they may impact 2018.

Appleton-Young points to the 1991 Berkeley-Oakland fire as an example of what the recovery process in Northern California might look like. She says much like the Berkeley-Oakland area, the market in the wine country will slow down in the coming months, but the rebuilding efforts will stimulate the California economy.

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