

# 2023 California Economic & Housing Market Forecast

Palos Verdes Peninsula Association of REALTORS®

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California Association of REALTORS®



# Return of the two-handed economist

## 01 The bad news

- Market down significantly after a strong run
- The economy may dip into modest recession

## 02 The better news

- Market showing signs of searching for bottom
- Not seeing the bottom fall out & inventory is tight

## 03 The even better news

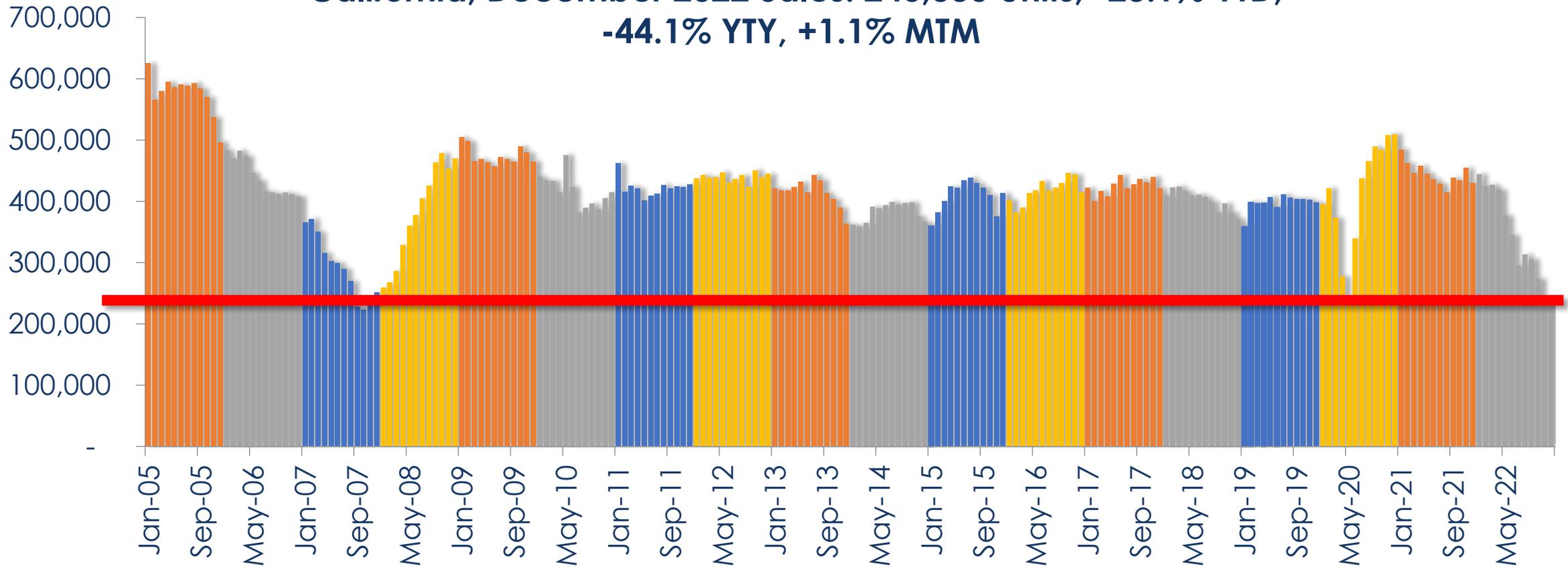
- We're not on the precipice like we were in 2008
- Sales will remain low, and prices will fall some

## 04 Bottom line for buyers & sellers

- Buy for the long run, benefits of ownership alive & well
- Shifting markets create opportunities for home buyers

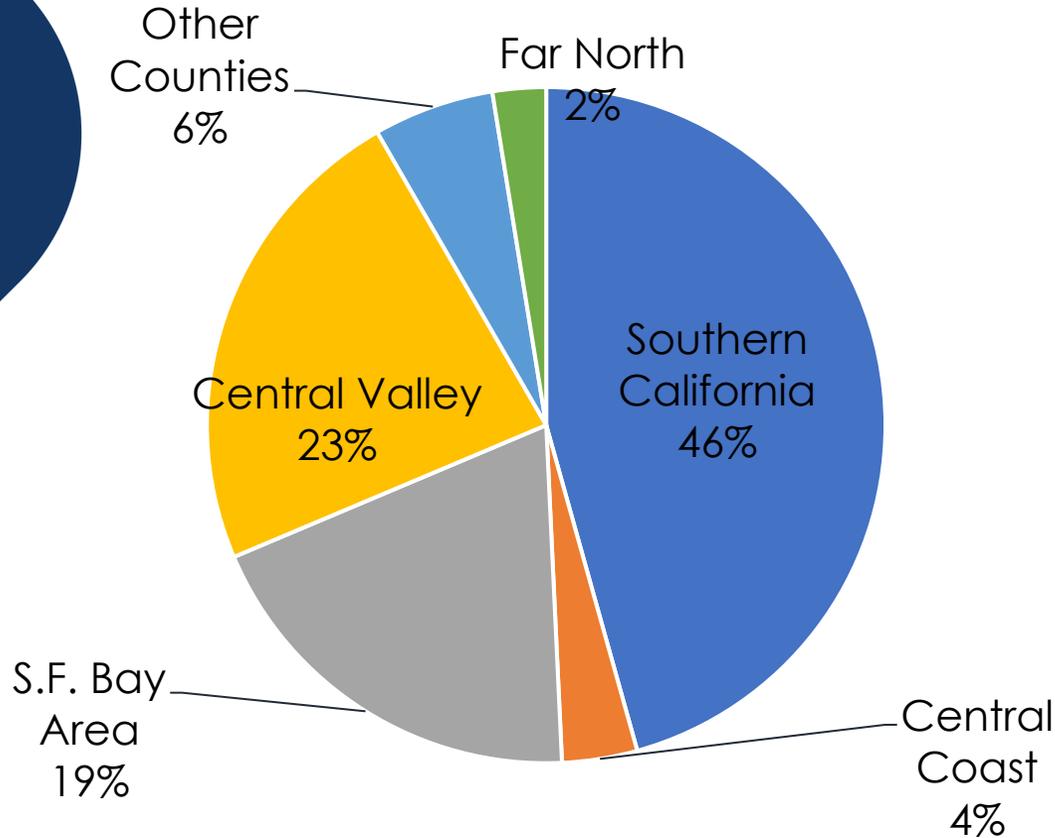
# Entire 4<sup>th</sup> quarter spent below 300,000 transactions

**California, December 2022 Sales: 240,330 Units, -23.1% YTD, -44.1% YTY, +1.1% MTM**

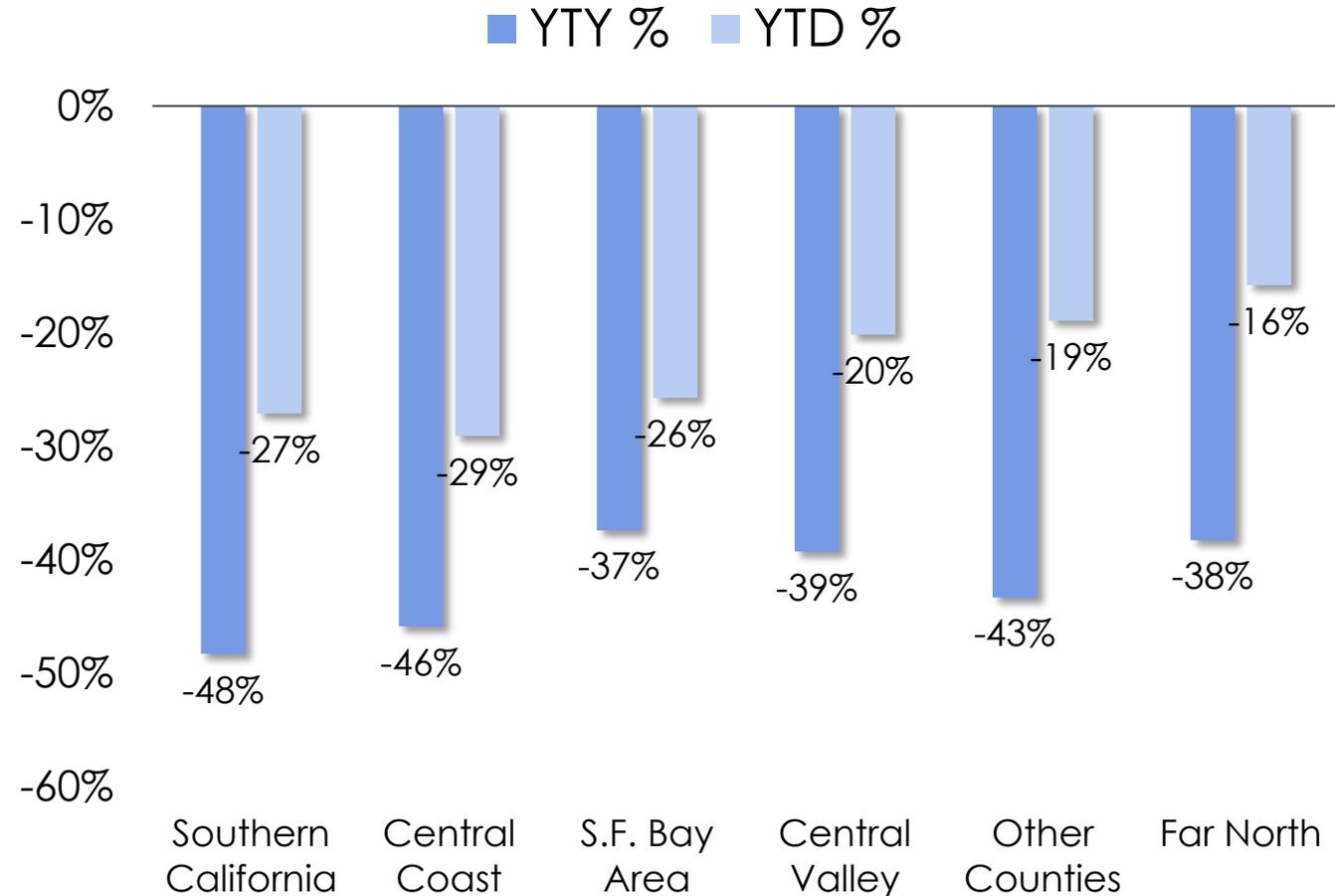


# Every major region in California seeing similar trends

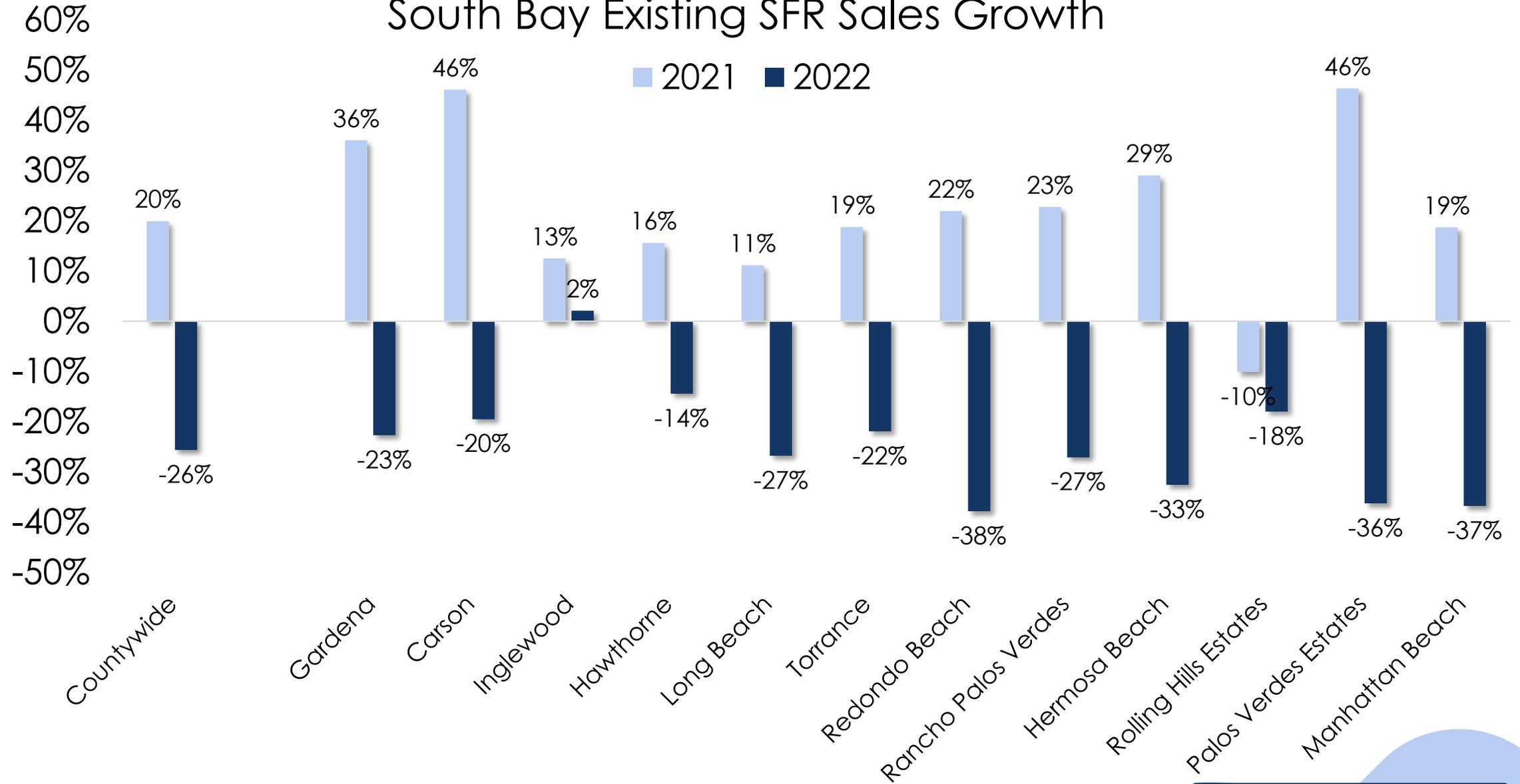
## December 2022 Home Sales by Region



## December 2022 Home Sales Growth by Region

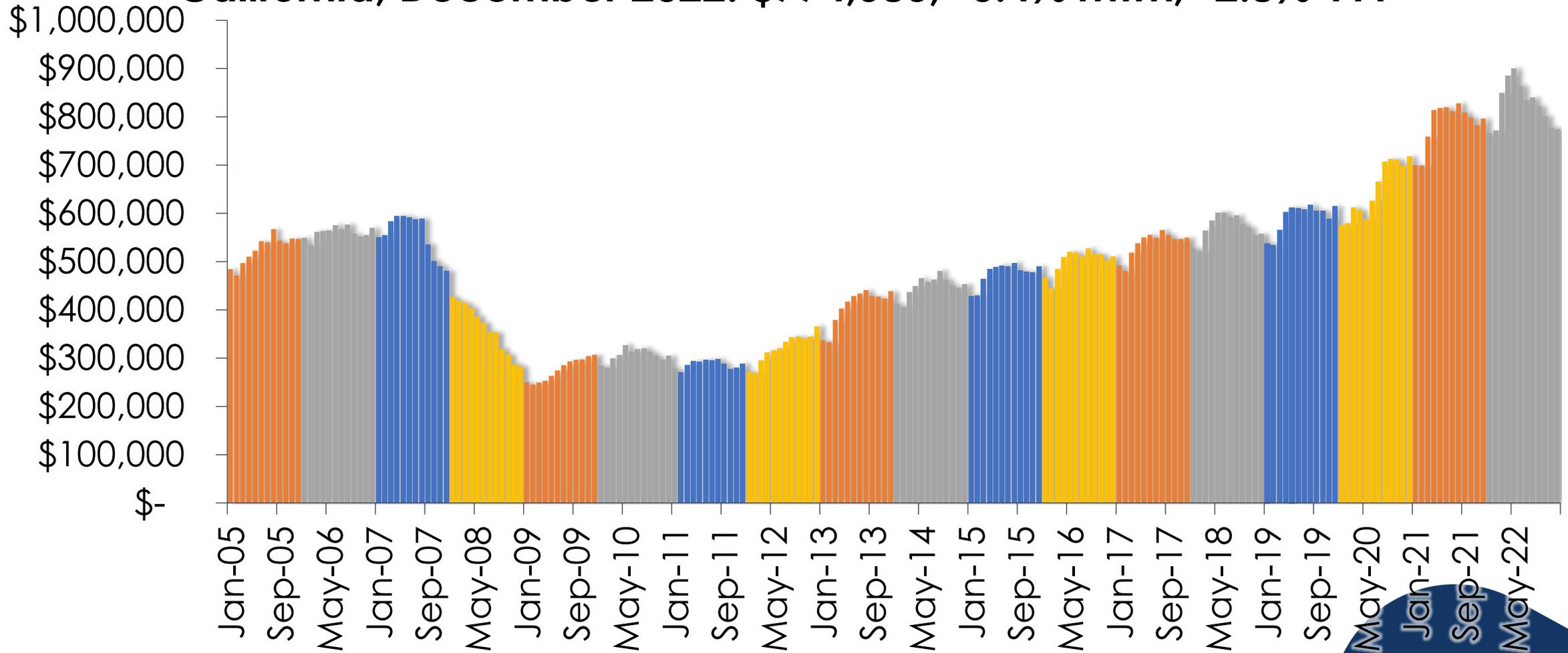


# South Bay Existing SFR Sales Growth



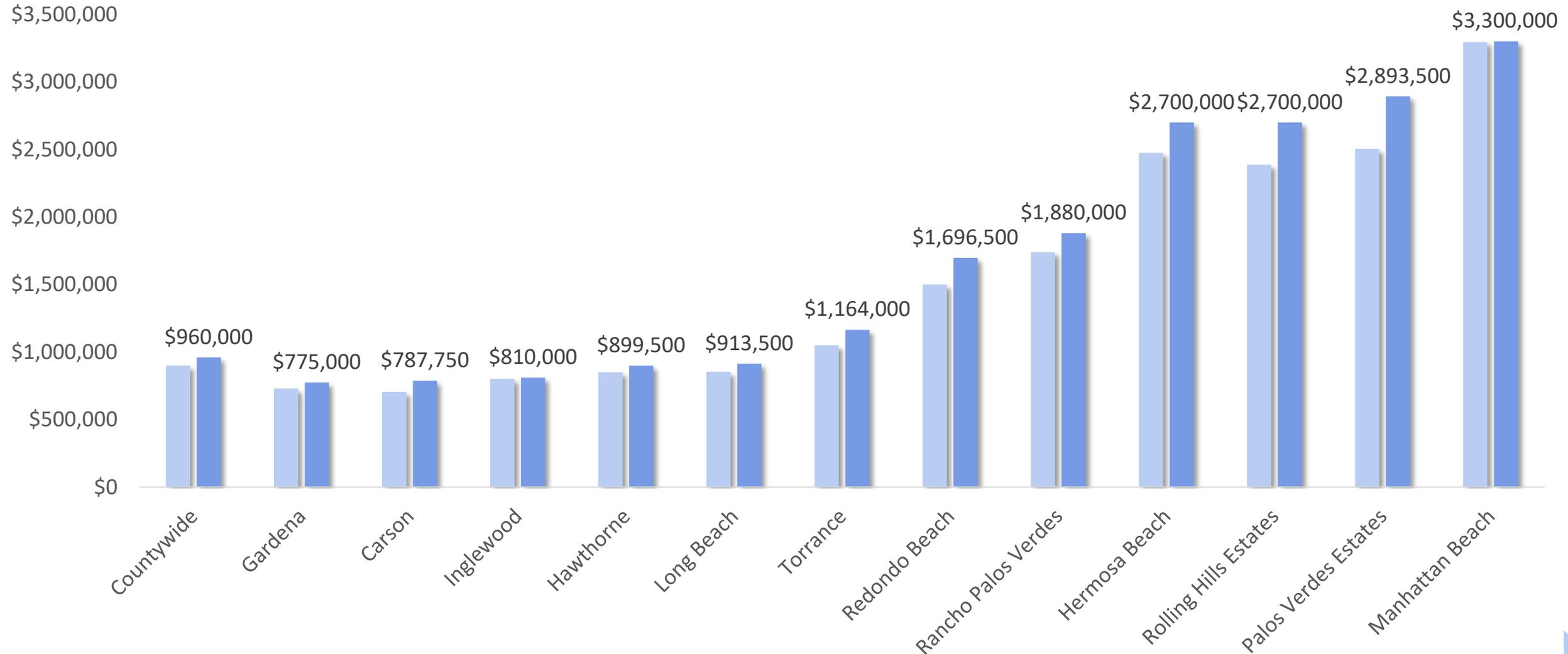
# First median price decline in California since 2011

**California, December 2022: \$774,580, -0.4% MTM, -2.8% YTY**



# Prices still up across the board locally despite recent slowing

South Bay Existing SFR Median Price



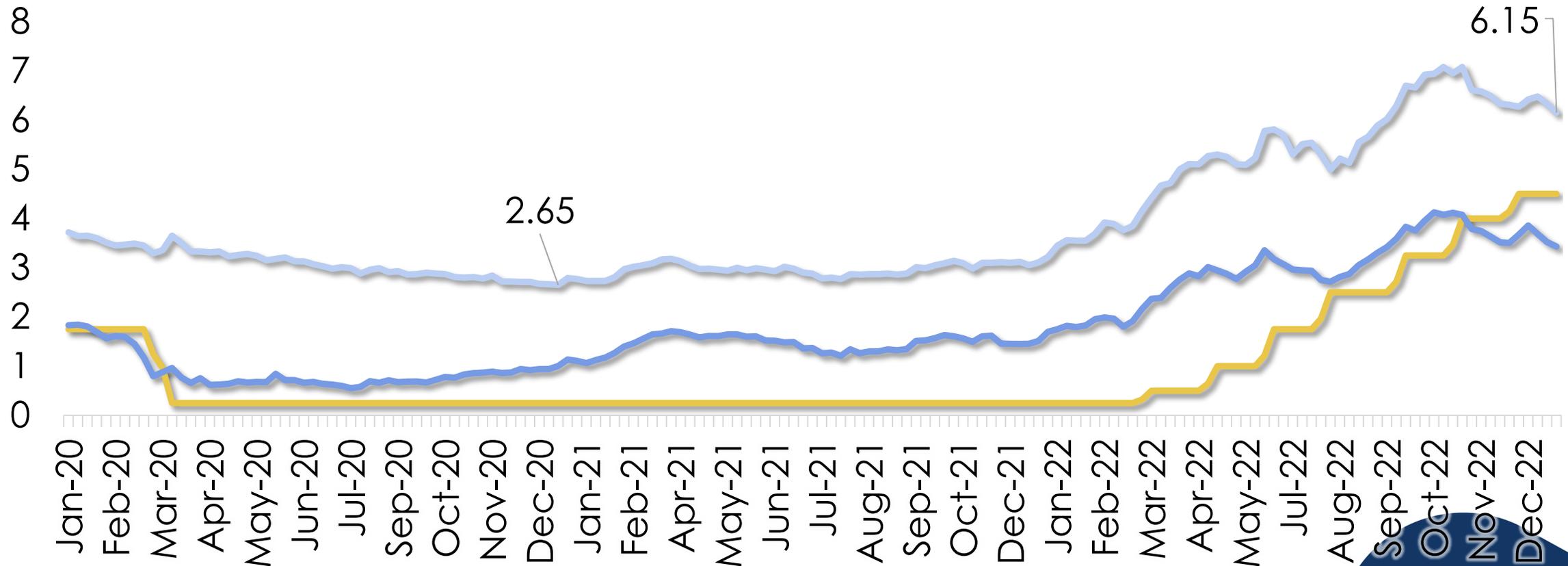
B. Rich  
HEDGEYE



# Rates are down for now and that helps buyers

## Key Interest Rates

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



## Step 1: Define Buyer's Profile

### Select County of Residence

Los Angeles

### Select Annual Household Income

\$500,000

### 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

\$13K

Target Monthly Payment (PITI)

\$2,763,755

Price Cutoff At Selected Rate

\$552,751

Downpayment Amount

## Impact on Number of Listings Below Cutoff

Dec-22

Listings As Of Month

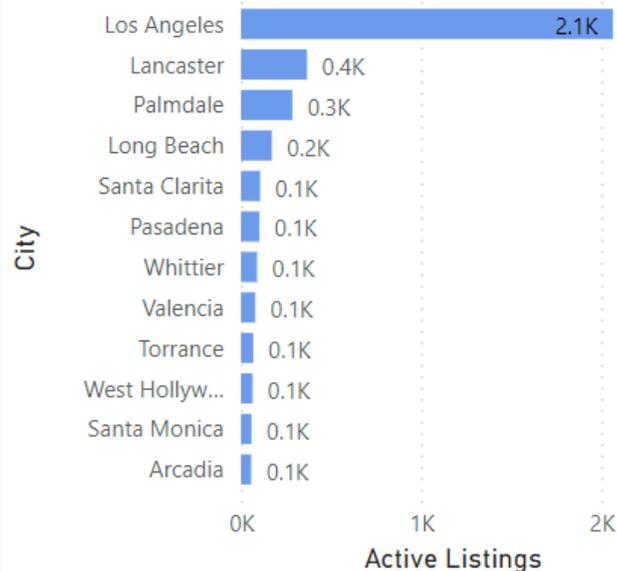
5,365

Listings At/Below Price Cutoff

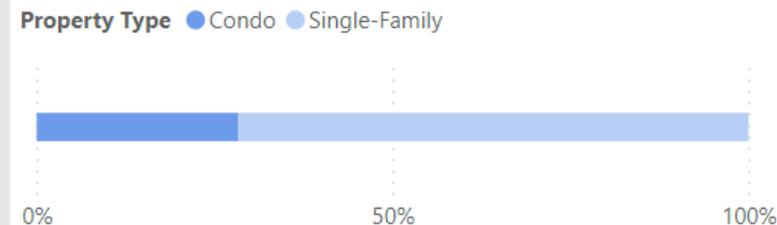
82%

Share At/Below Price Cutoff

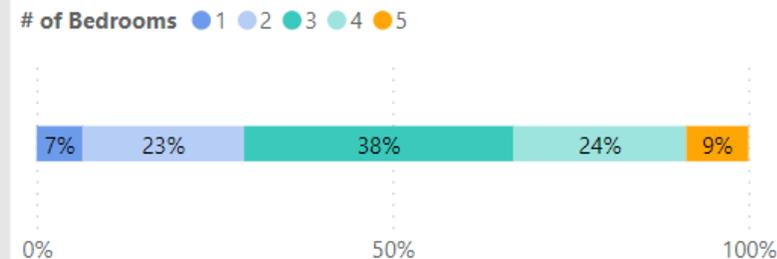
### Active Listings by City



### Share of Active Listings by Property Type



### Share of Active Listings by # of Bedrooms



## Step 1: Define Buyer's Profile

### Select County of Residence

Los Angeles

### Select Annual Household Income

\$500,000

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3.5%

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20.0%

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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

\$13K

Target Monthly Payment (PITI)

\$2,102,111

Price Cutoff At Selected Rate

\$420,422

Downpayment Amount

## Impact on Number of Listings Below Cutoff

Dec-22

Listings As Of Month

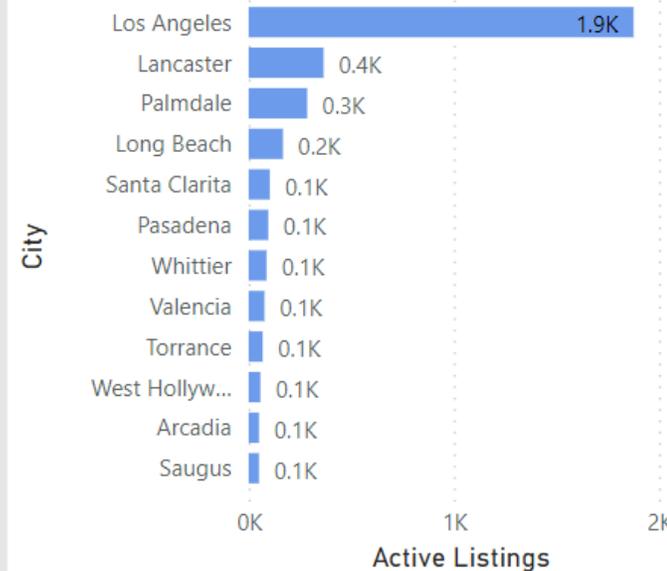
5,031

Listings At/Below Price Cutoff

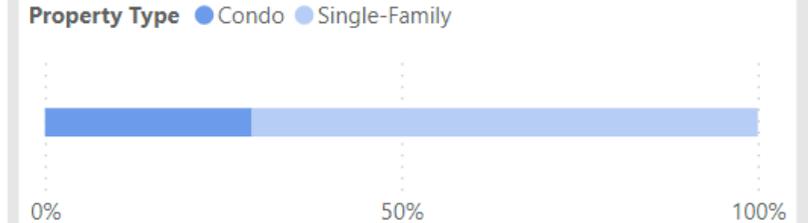
77%

Share At/Below Price Cutoff

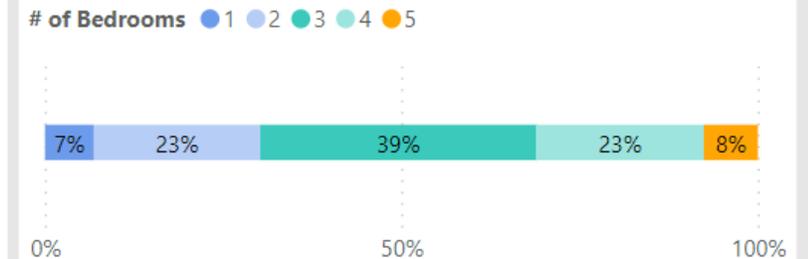
### Active Listings by City



### Share of Active Listings by Property Type



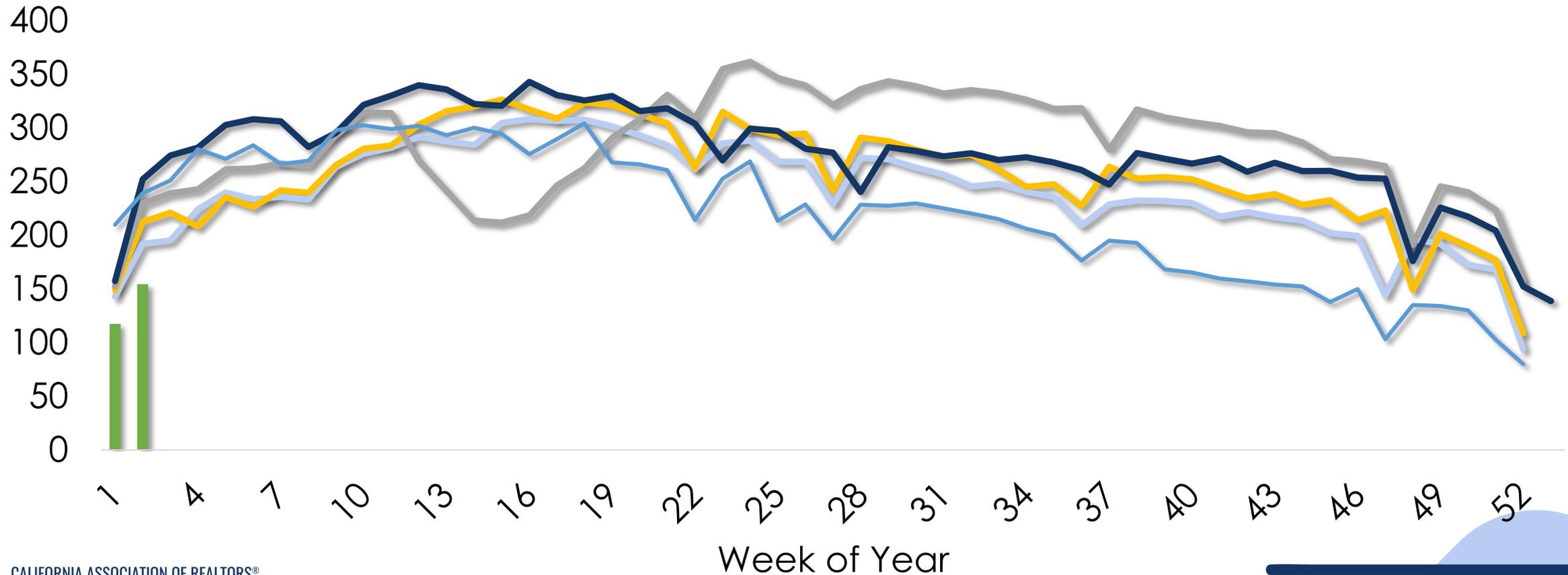
### Share of Active Listings by # of Bedrooms



# Mortgage applications consistently below pre-pandemic

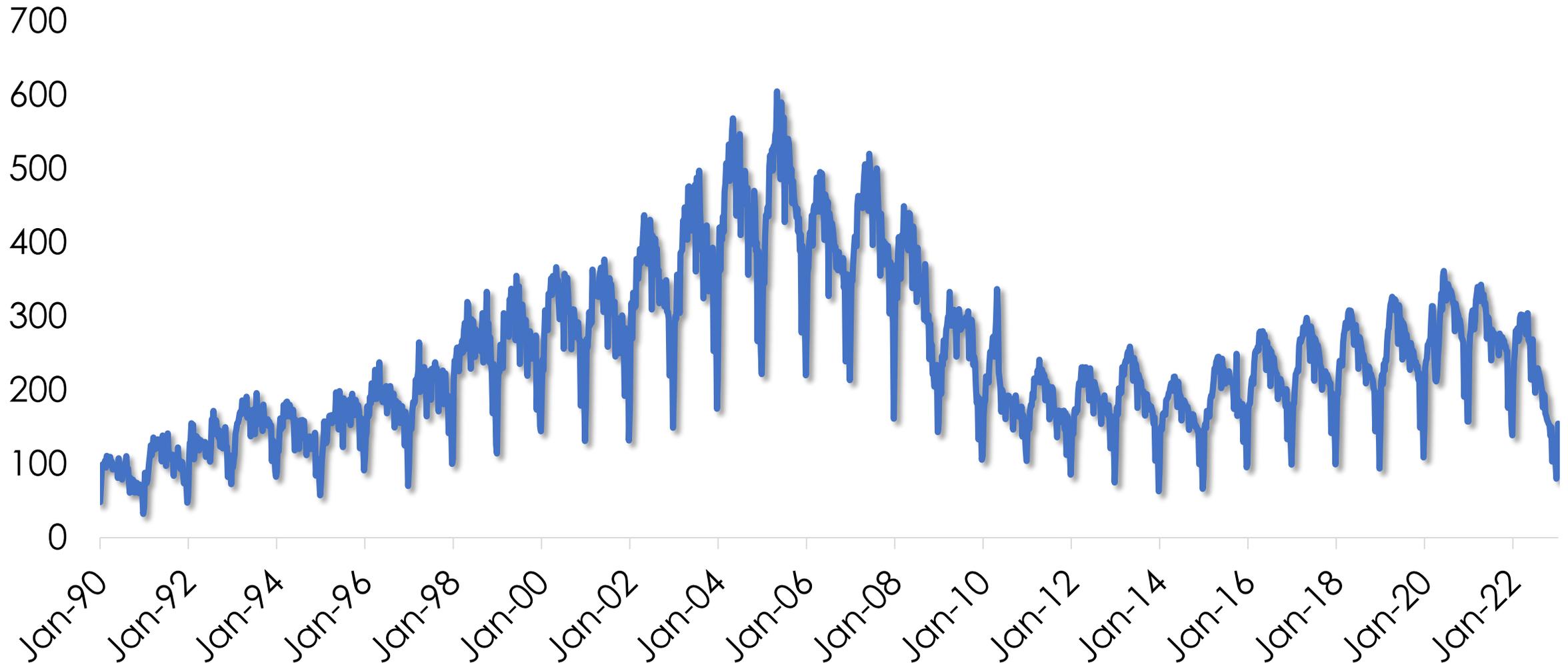
## Mortgage Purchase Applications Index

■ 2023 — 2018 — 2019 — 2020 — 2021 — 2022



But also, at lowest level since reaching bottom in 2014

MBA Mortgage Purchase Index



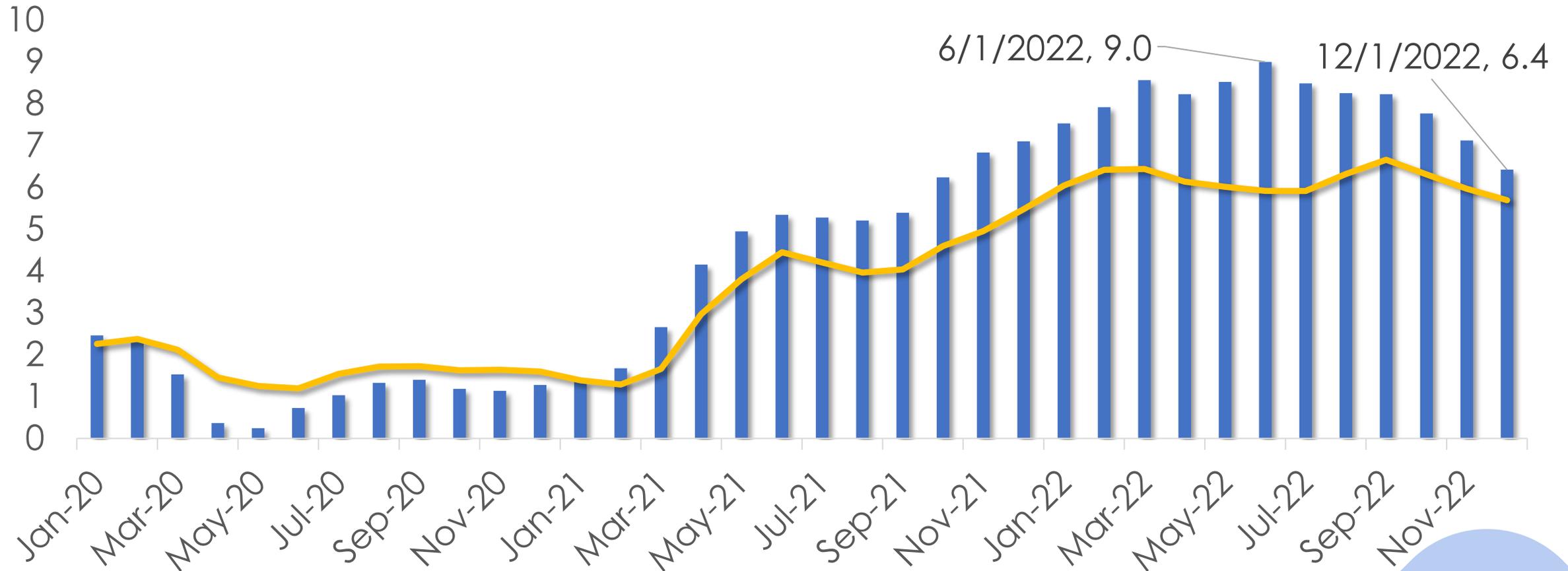
# Median Days on Market for Closed Sales (Month-to-Date for Current Month)



# Good news—we're probably past peak inflation

## U.S. Consumer Price Index

■ CPI YoY Growth    — Core CPI YoY Growth

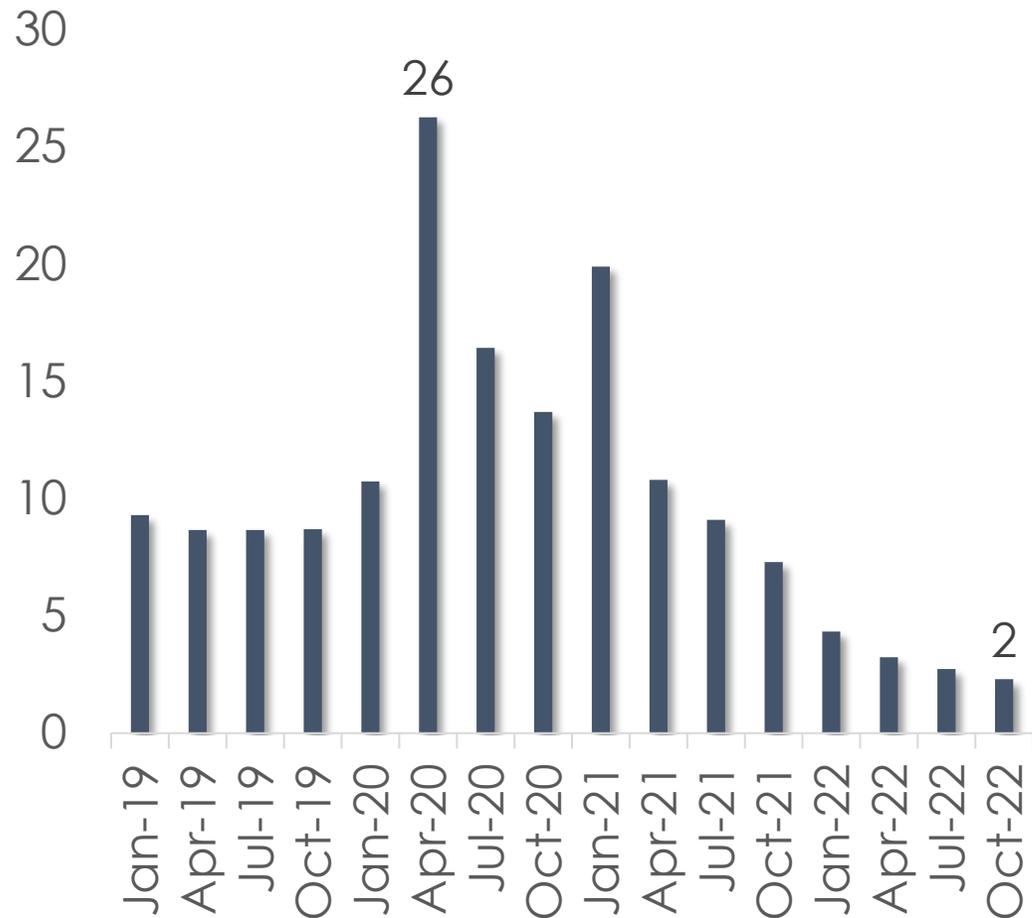




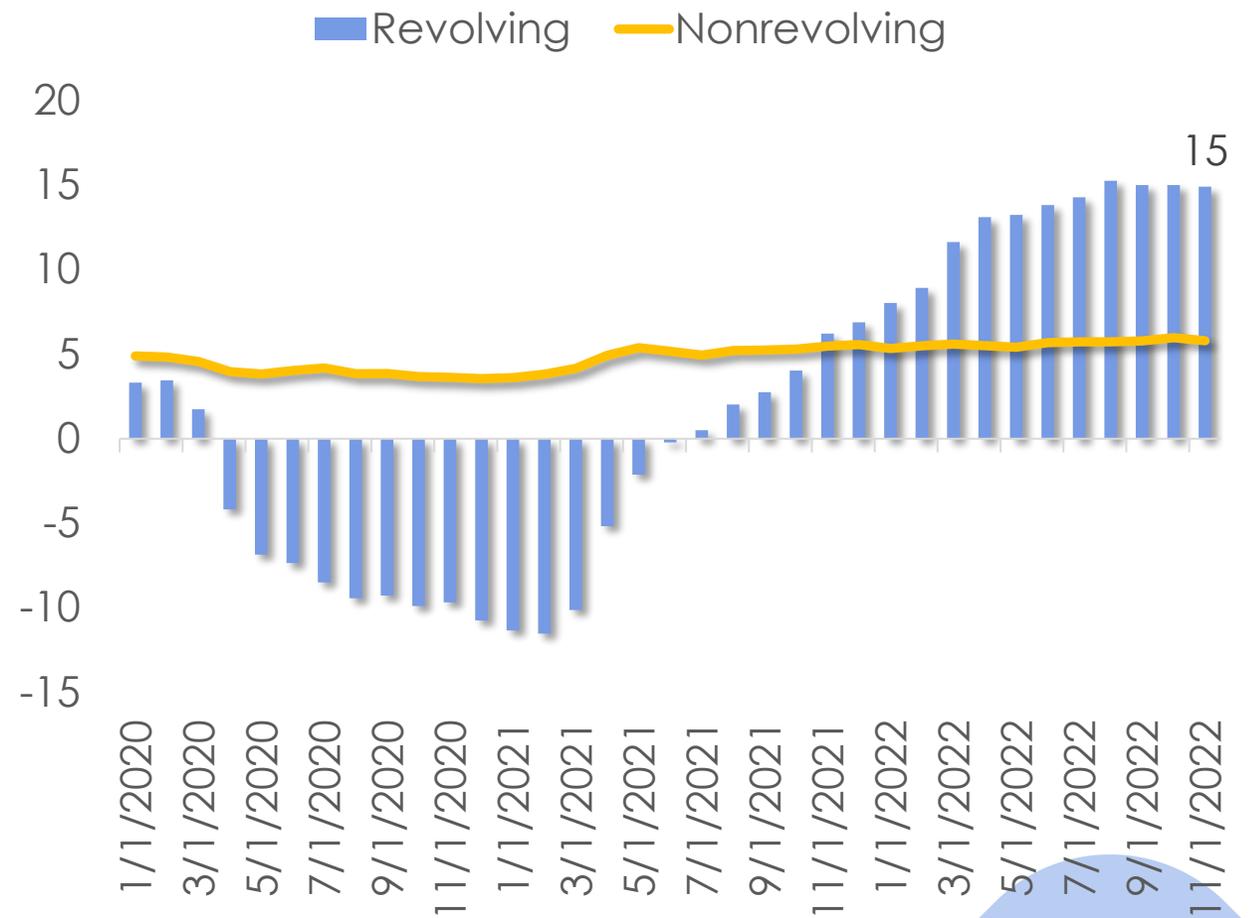
This Photo by Unknown Author is licensed under [CC BY](#)

# Bad news—inflation will likely lead us into recession

## U.S. Savings Rate

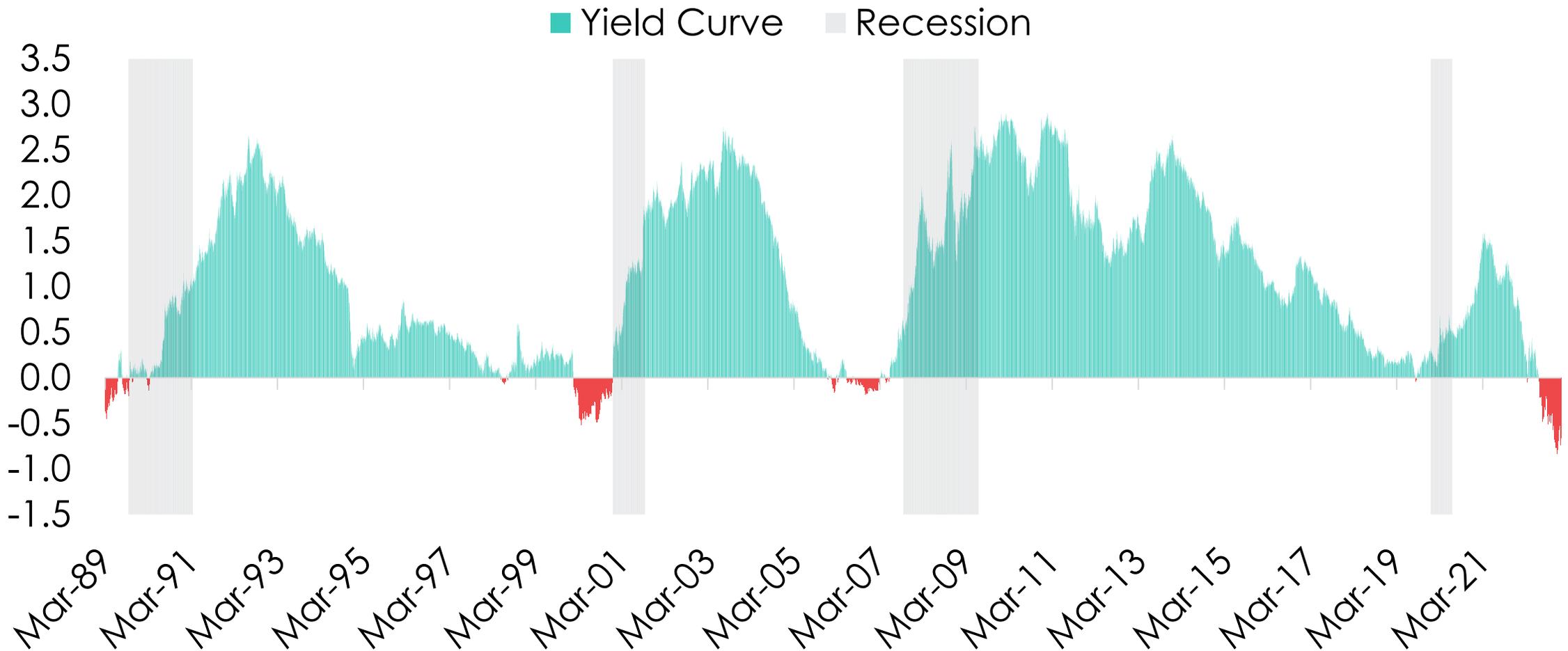


## U.S. Consumer Credit Growth (YTY %)



Yield curve, typically predictive of recession: 6-month inversion...

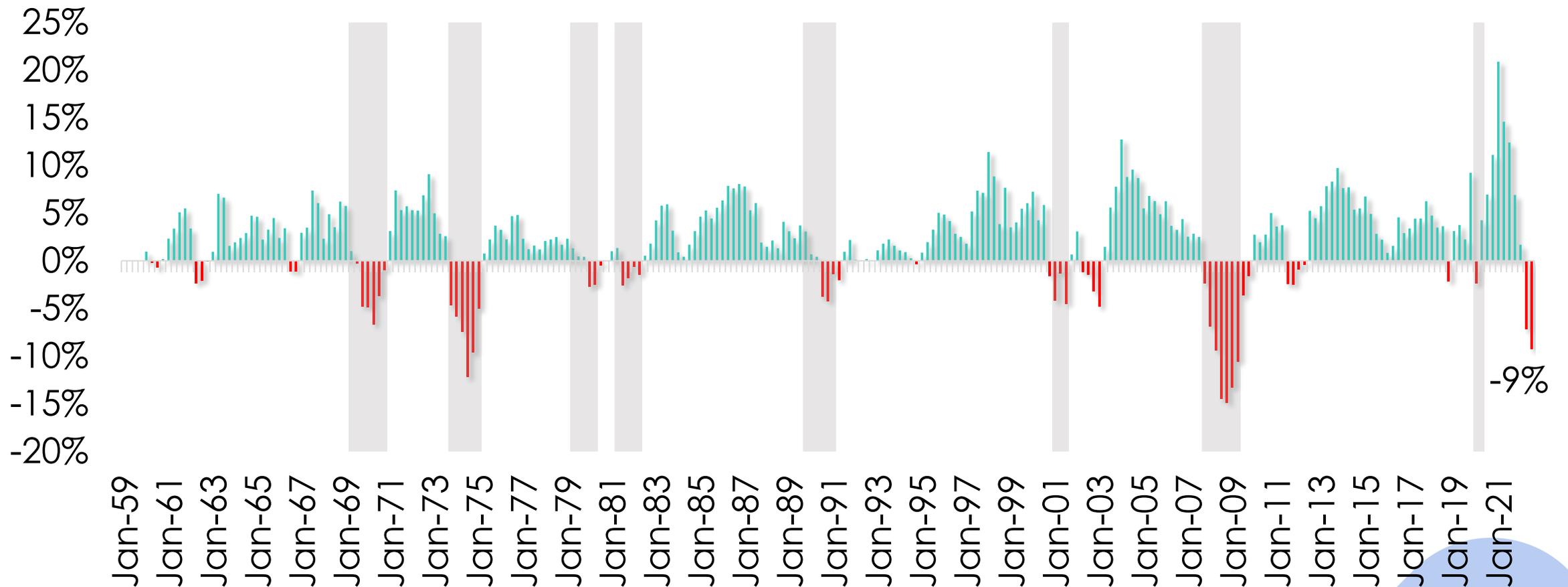
U.S. Yield Curve (10yr. - 2yr.)

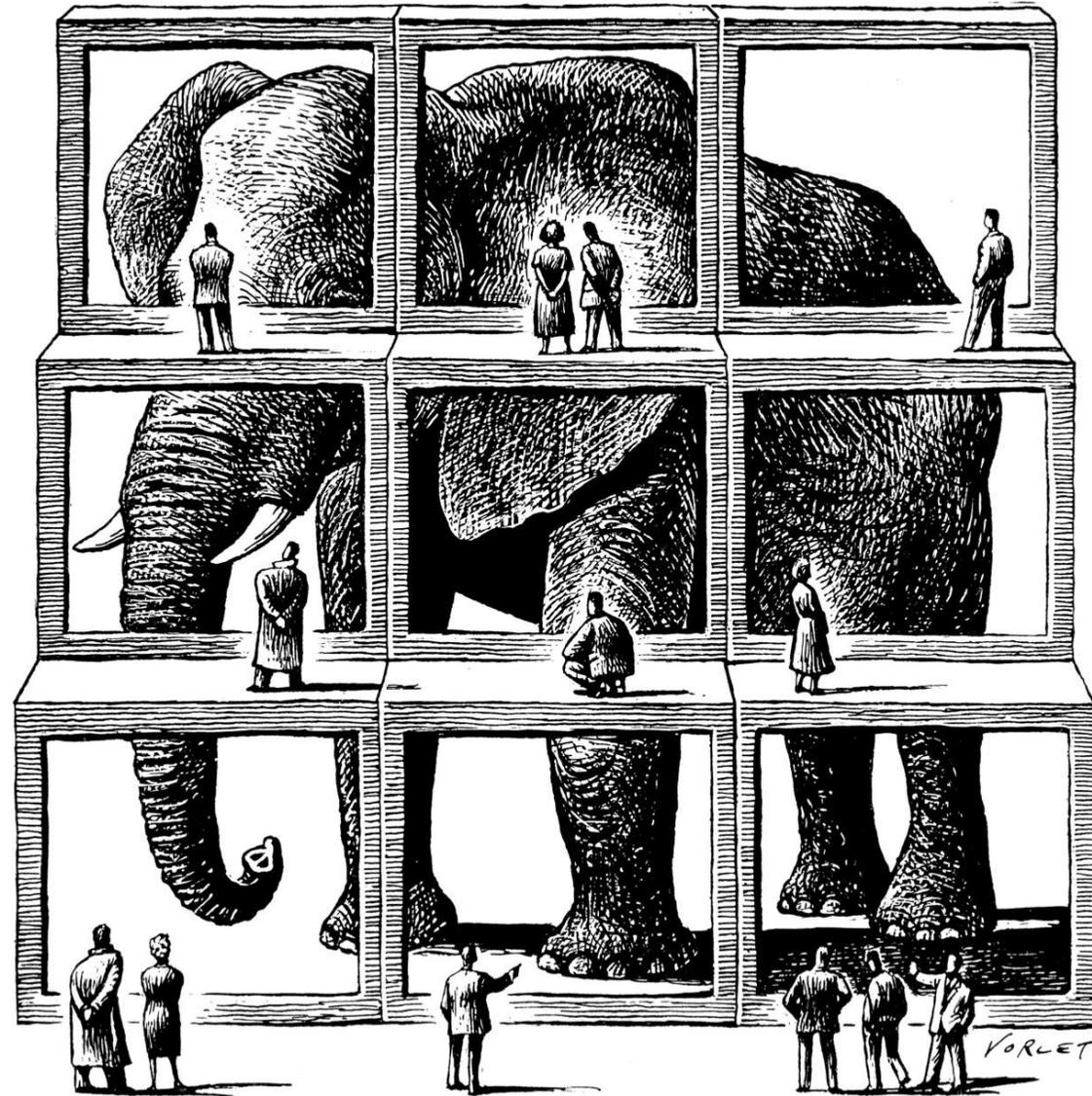


# Household wealth: a predictive indicator of recession

## Growth in Real Net Worth Per Capita (YTY %)

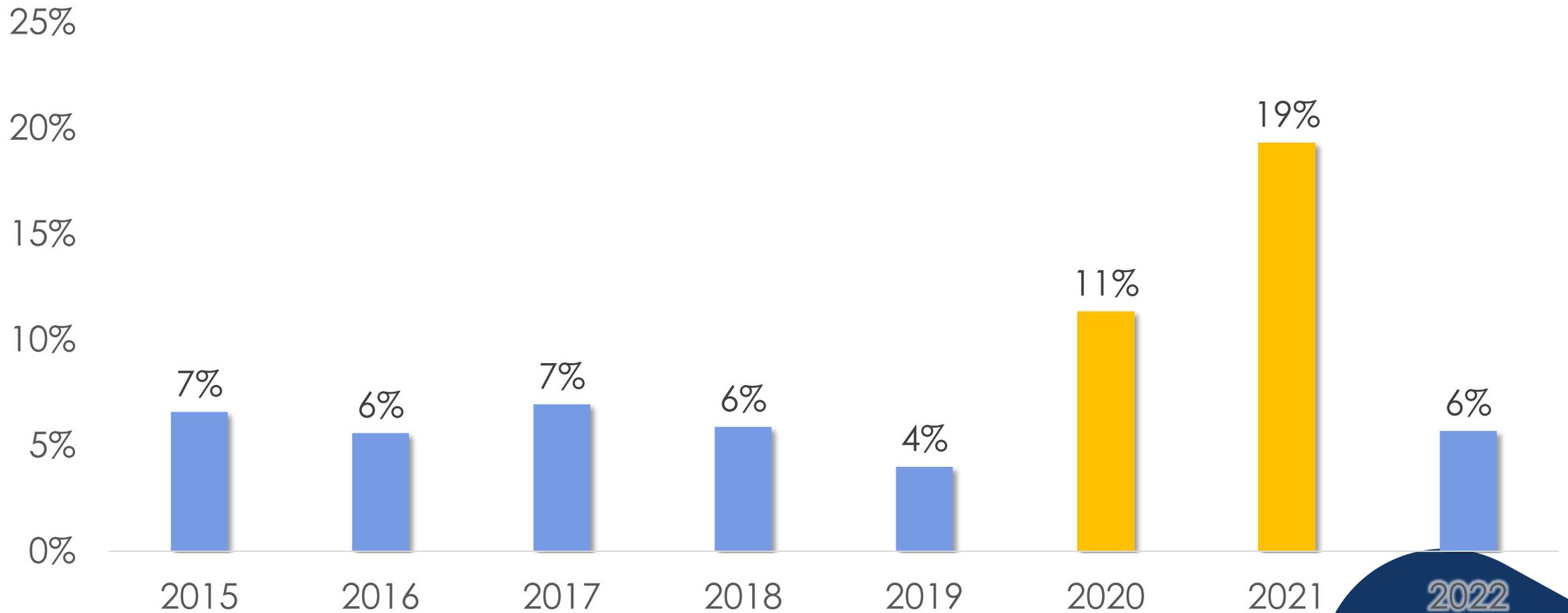
■ Growth Real Net Worth Per Capita    ■ Recession





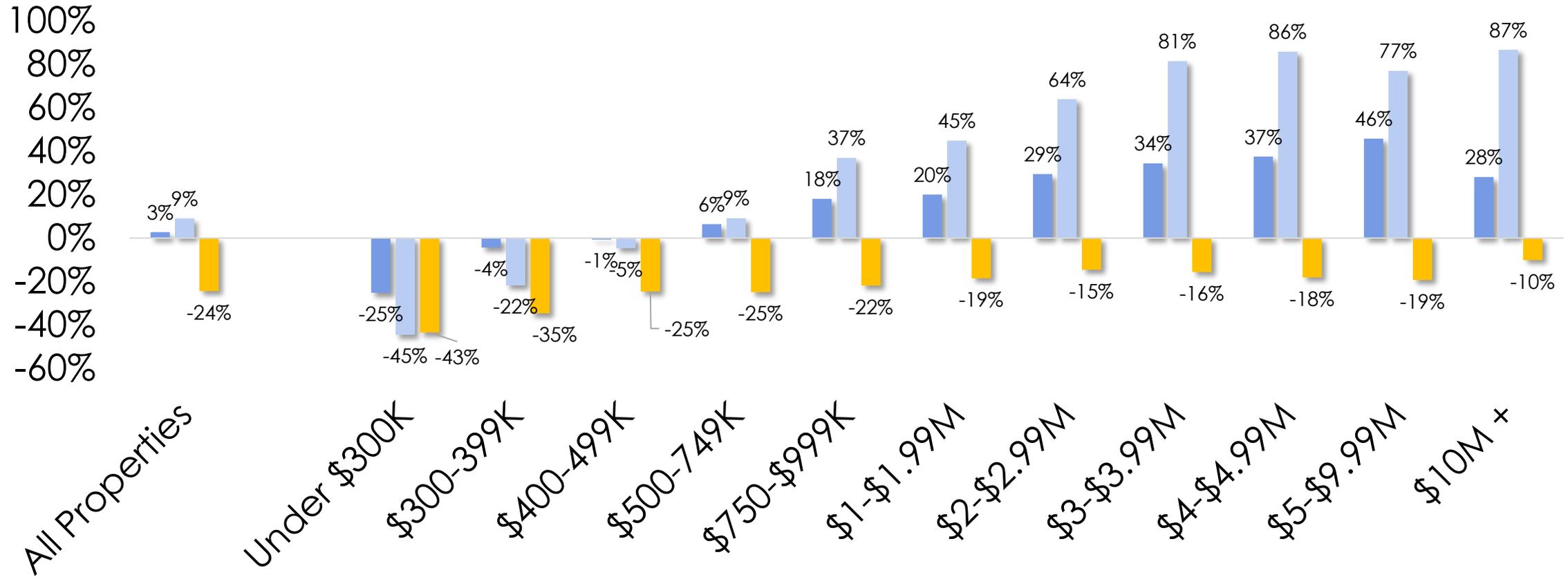
# Coming off 2 years of very strong price growth

California Existing SFR Annual Median Price Growth (%)



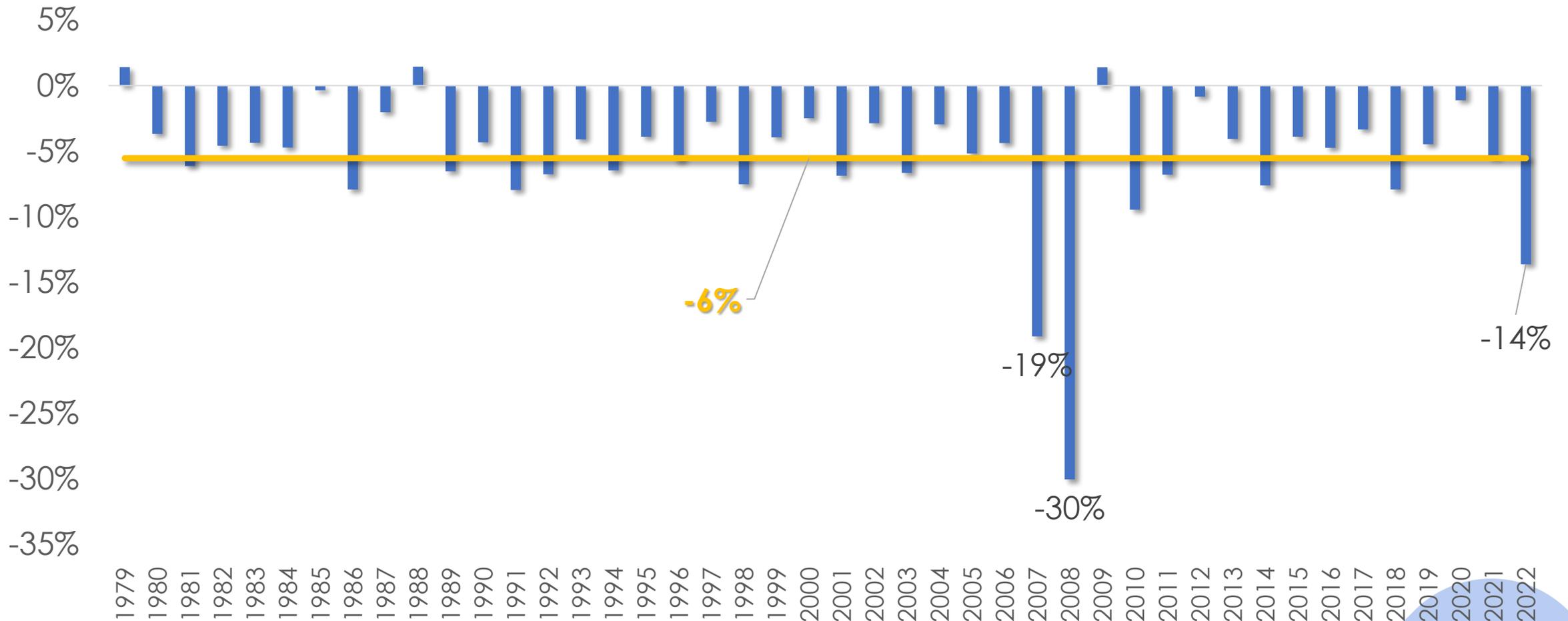
# California Existing SFR Sales Growth

■ 2020 ■ 2021 ■ 2022



# Seasonality exaggerates recent price declines

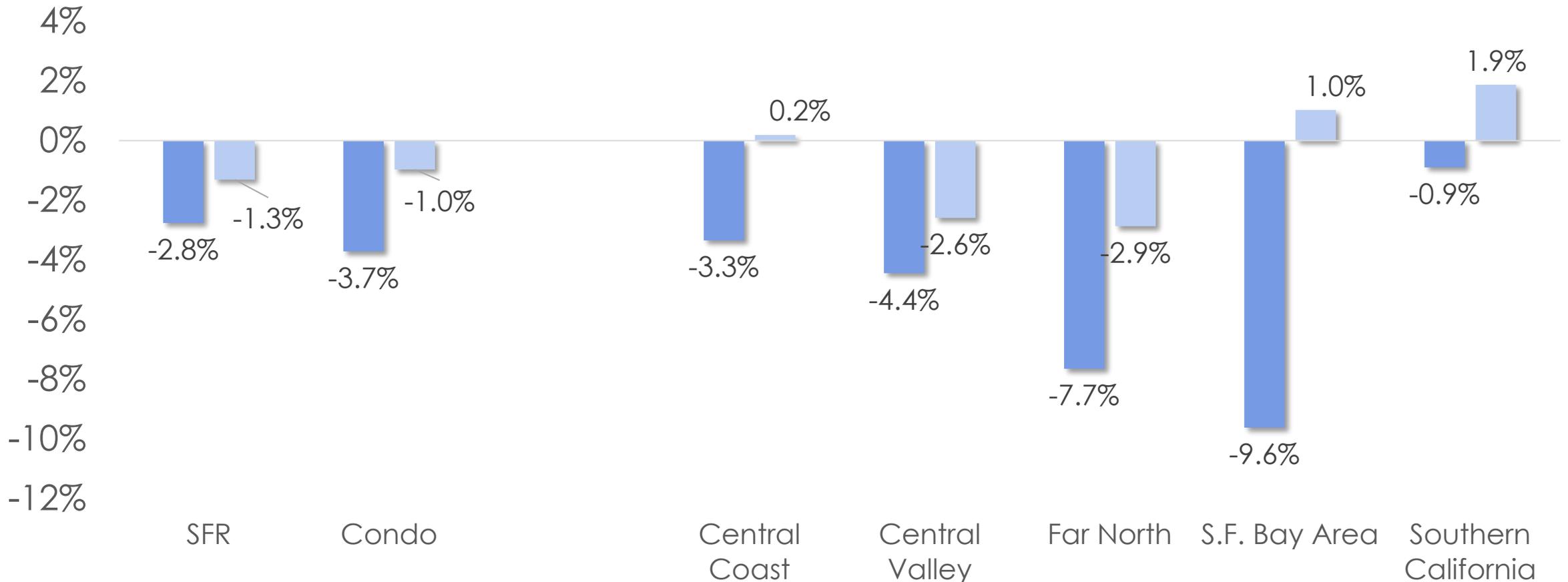
Annual Seasonal Peak to Winter Trough in Existing SFR Median Price



# Per sq. ft. prices are down much less

## Year to Year Change in Existing SFR Prices (November 2022)

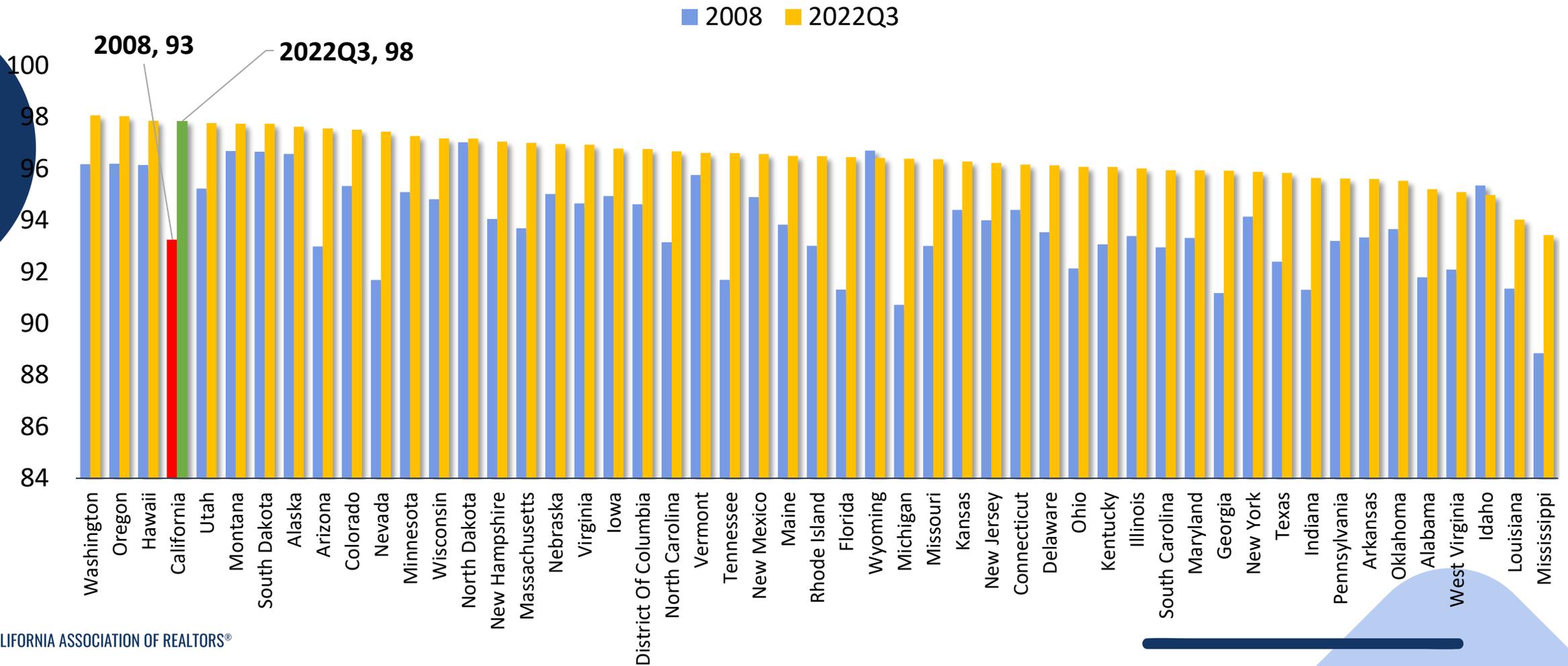
■ Median Price ■ \$/Sq. Ft.



**DON'T  
PANIC**

# California doing better on delinquency than the rest

MBA Servicing Portfolio: % of Mortgages Current by State, Q3-2022

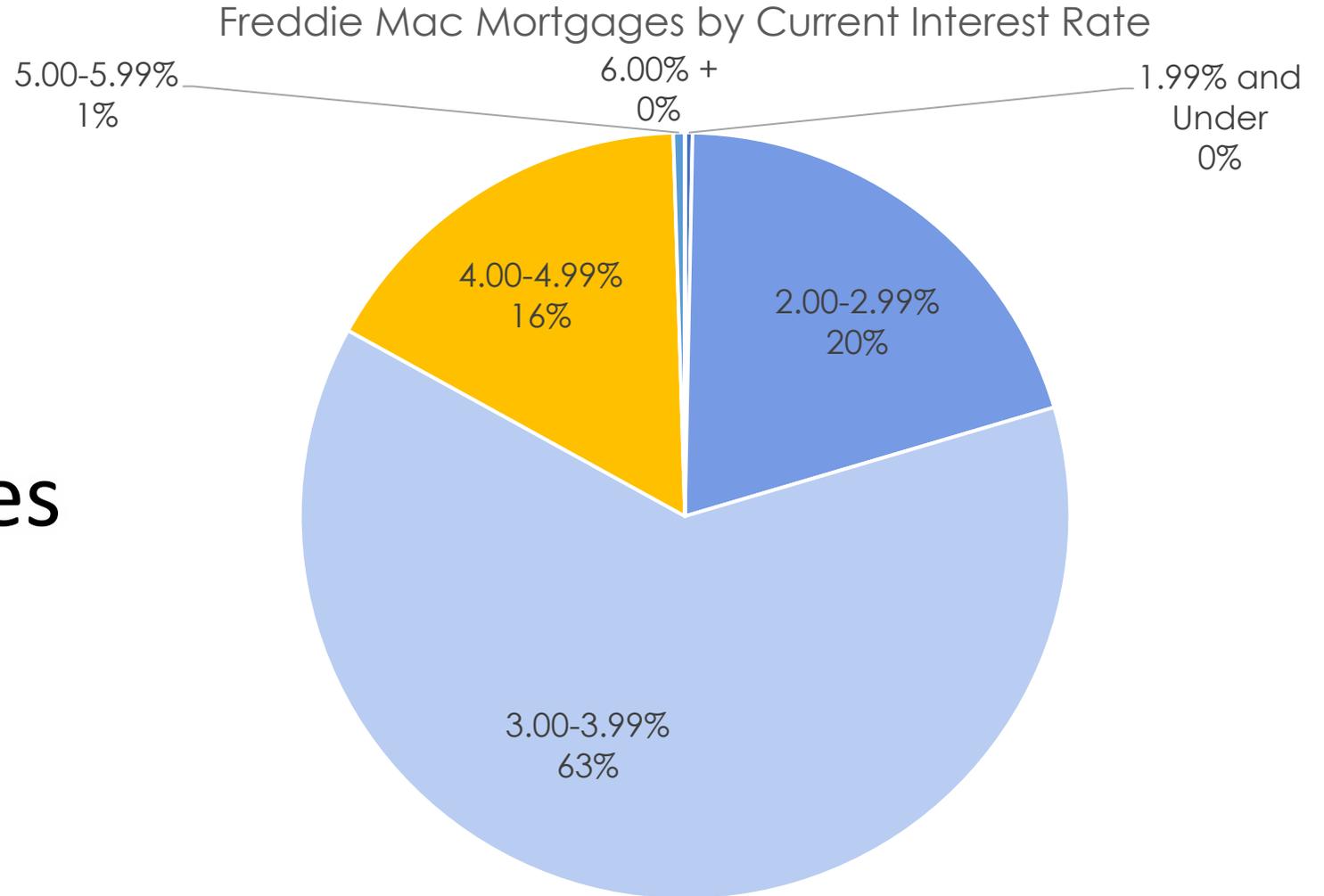


# Getting rid of your current mortgage will cost

## Freddie Mac Data As of June 2022

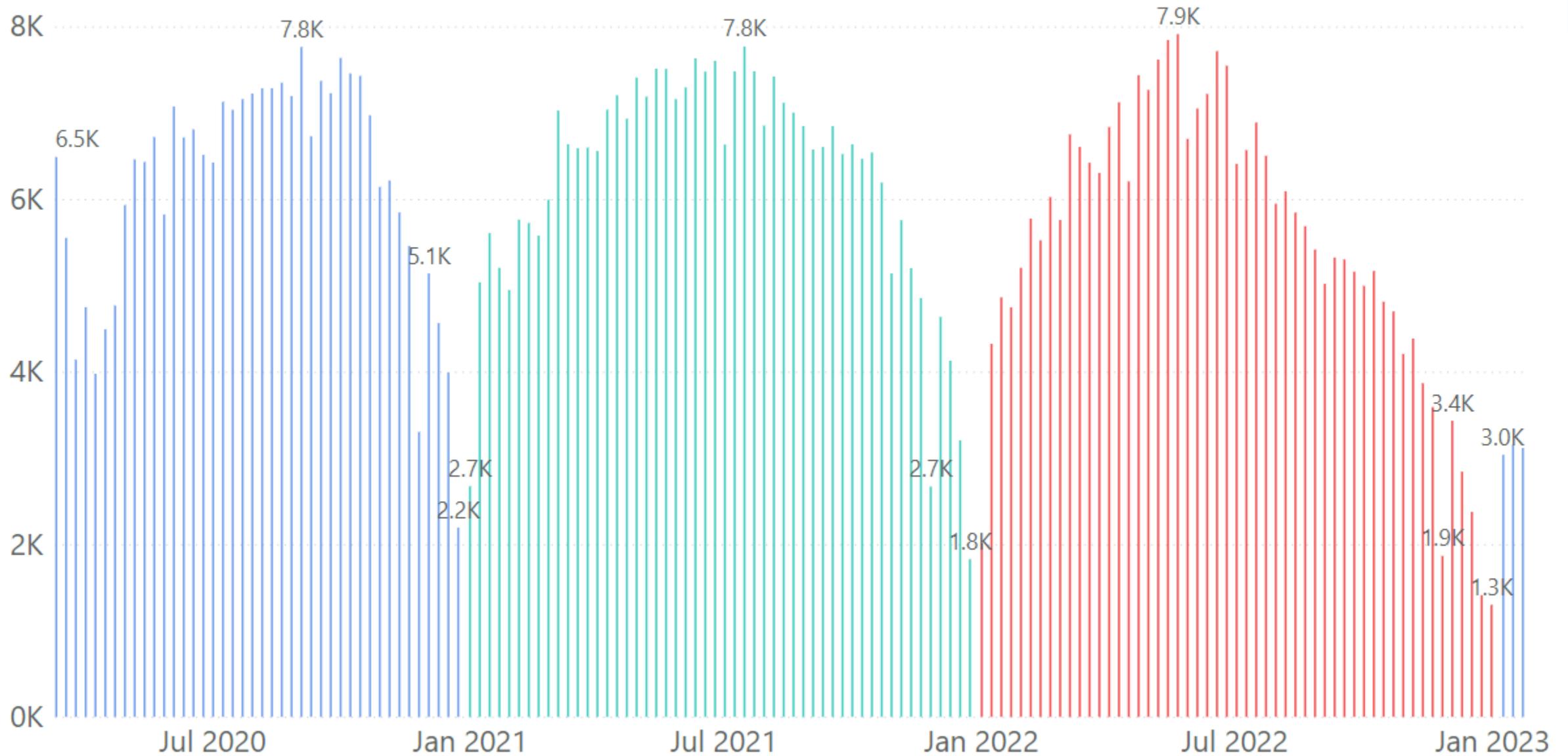
2,286,036 Mortgages

99% Current

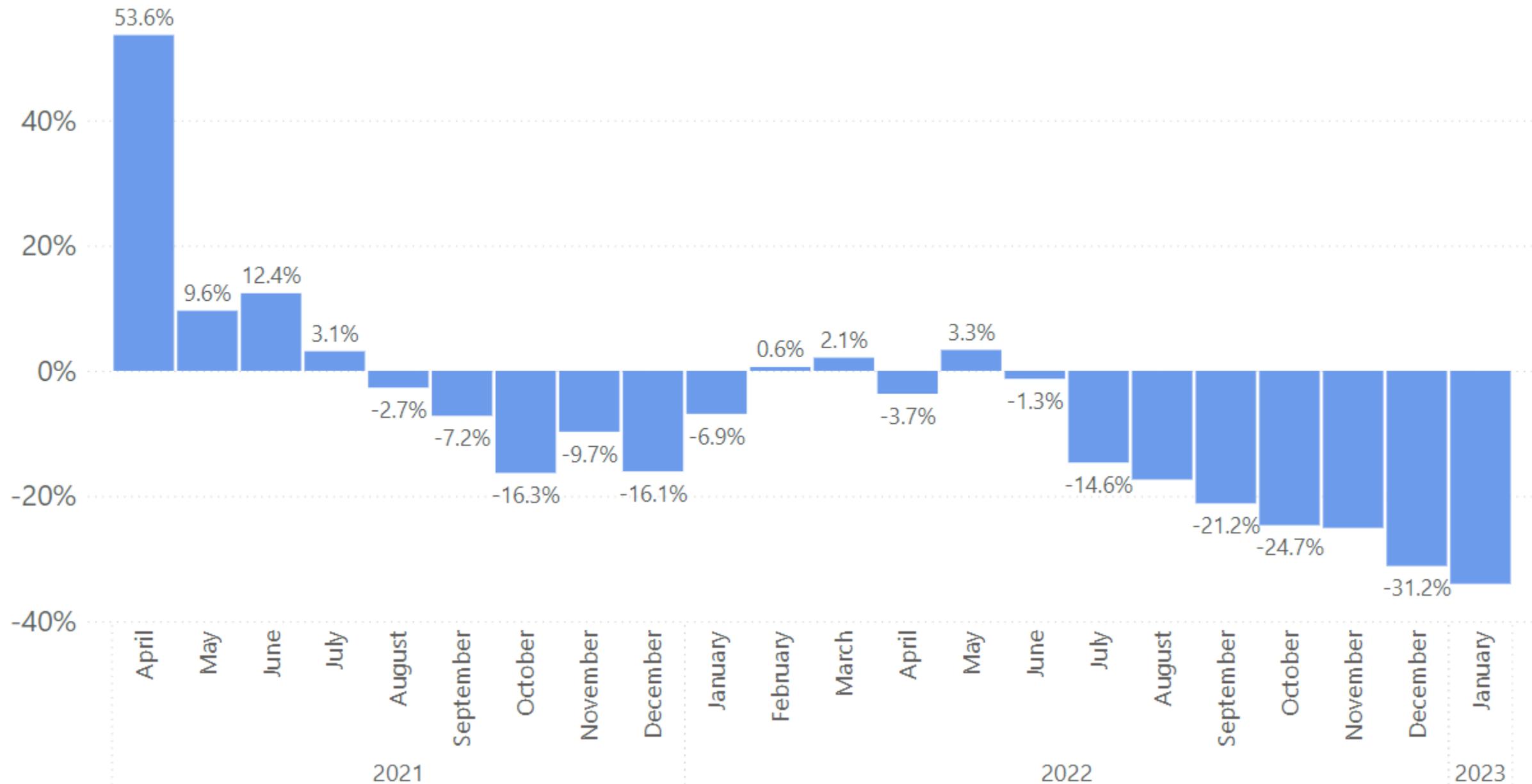


# New Existing SFR Listings Added to MLSs

Year ● 2020 ● 2021 ● 2022 ● 2023



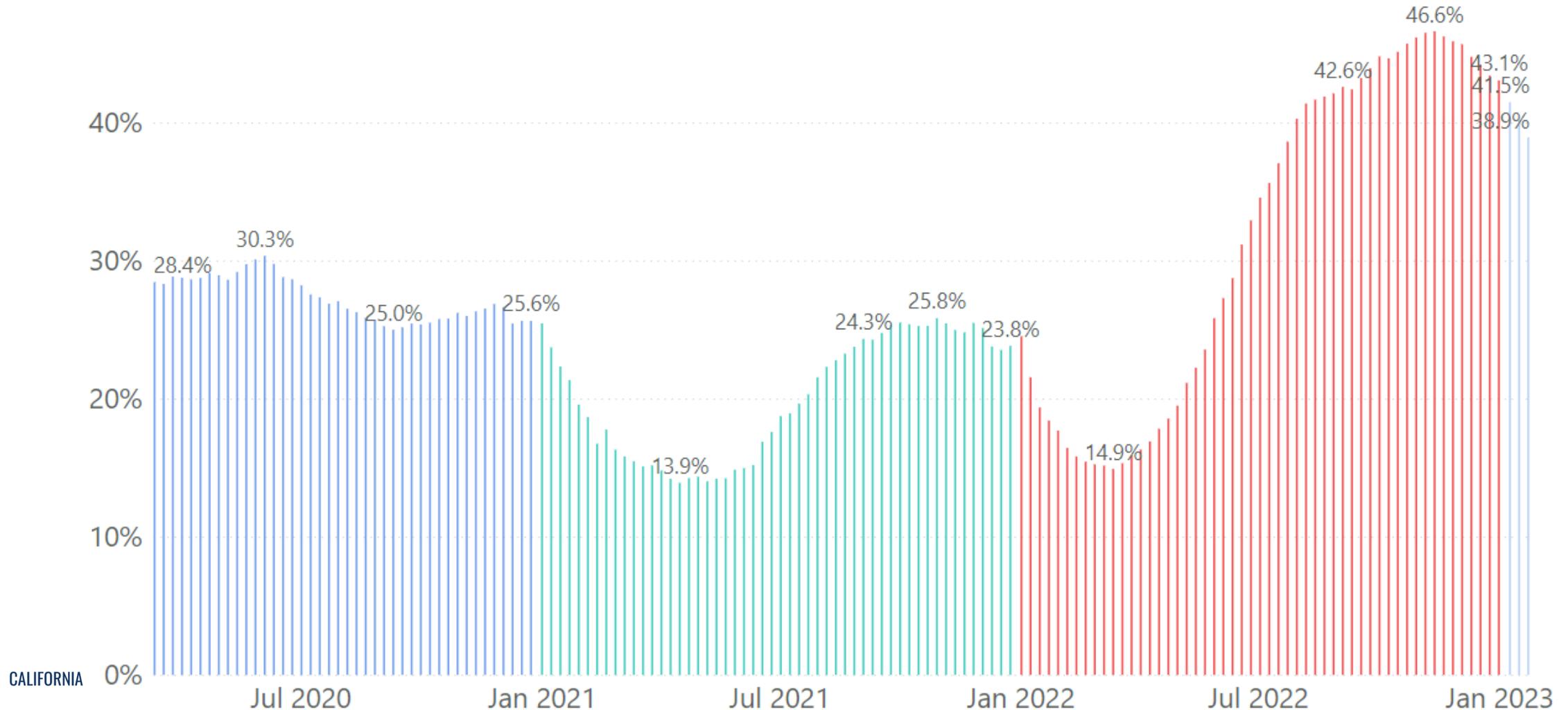
# Year-to-Year Existing SFR New Listings Growth (Month-to-Date for Current Month)



# More reductions, but bottom not falling out

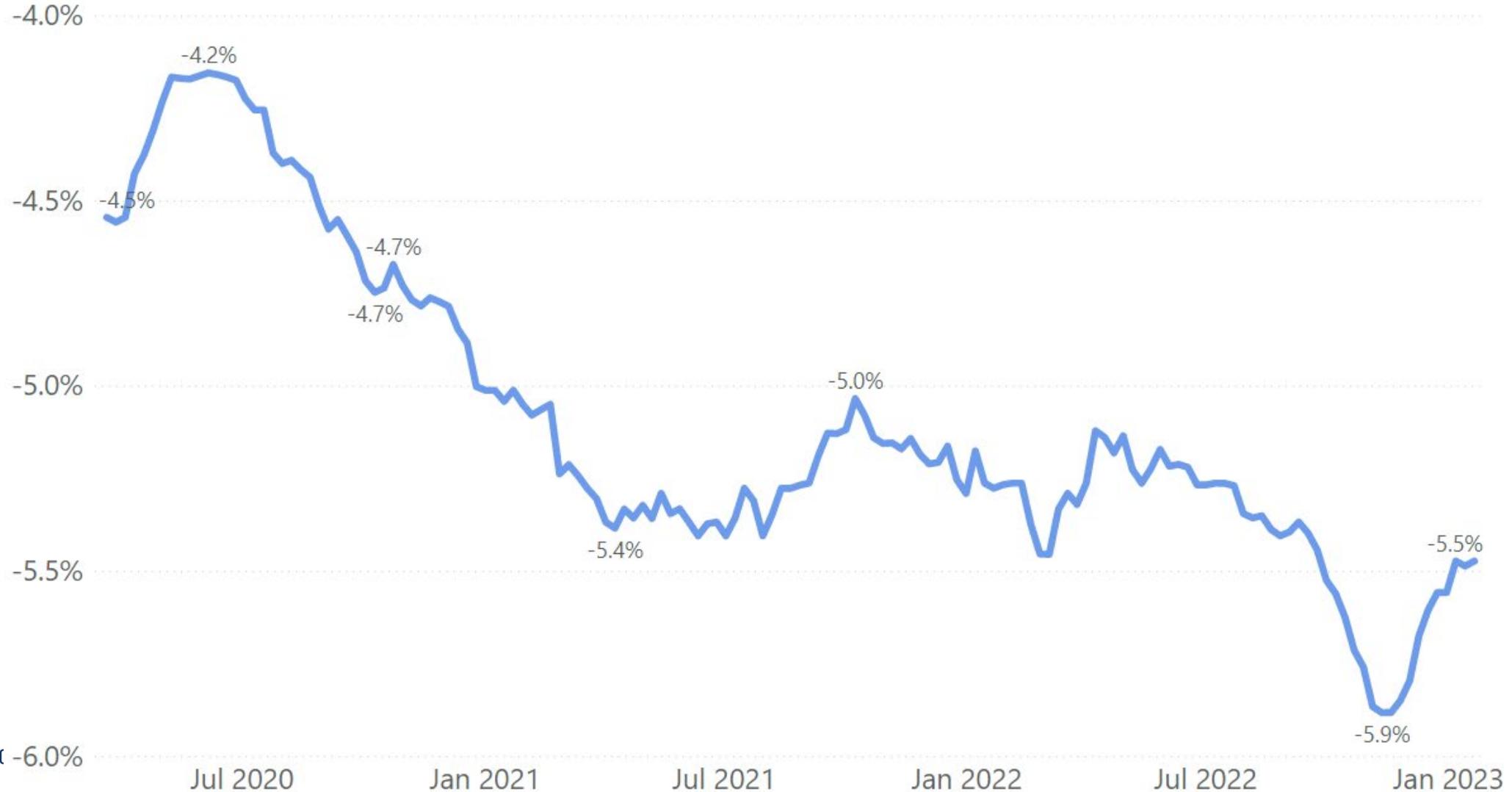
% of Active Listings w/Reduced Price

Year ● 2020 ● 2021 ● 2022 ● 2023



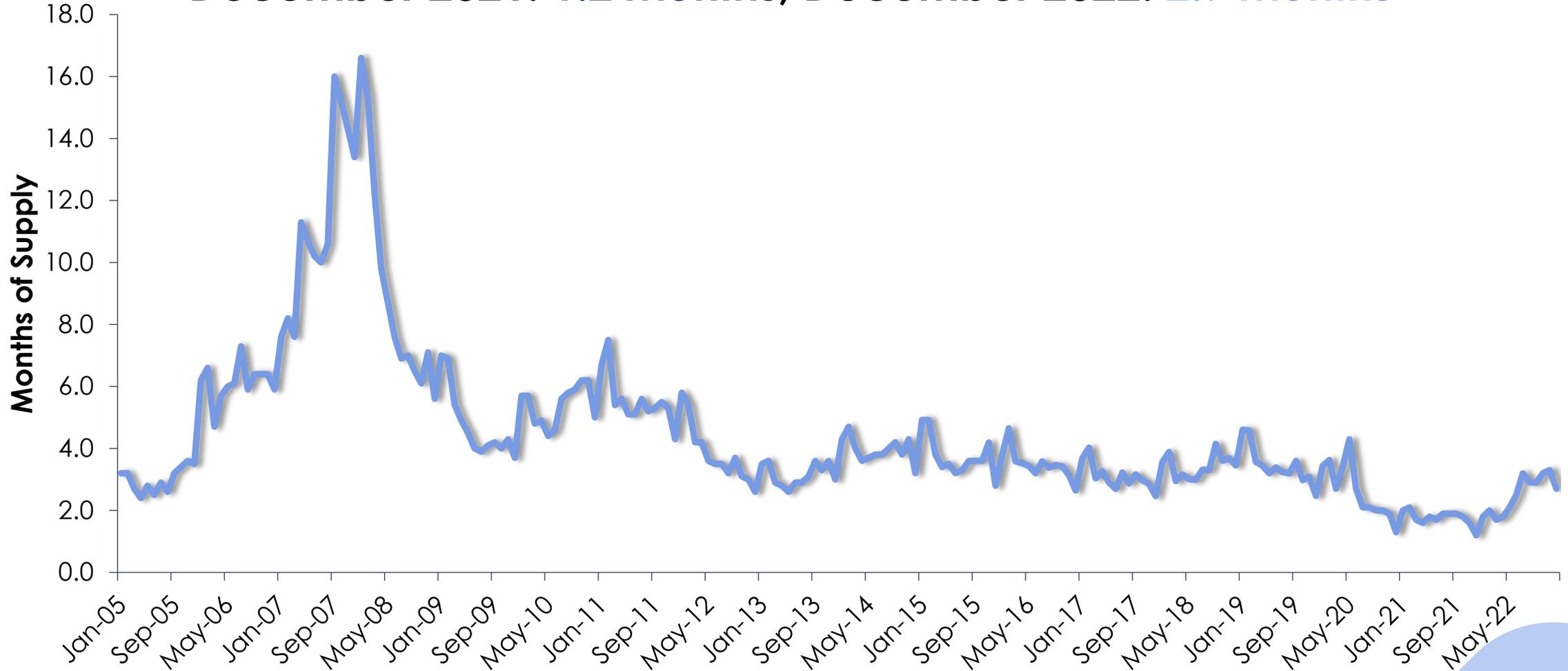
# Typical reduction stabilizing in the 5-6% range...

Median Reduction on Reduced-Price Listings %



# Inventory still very tight

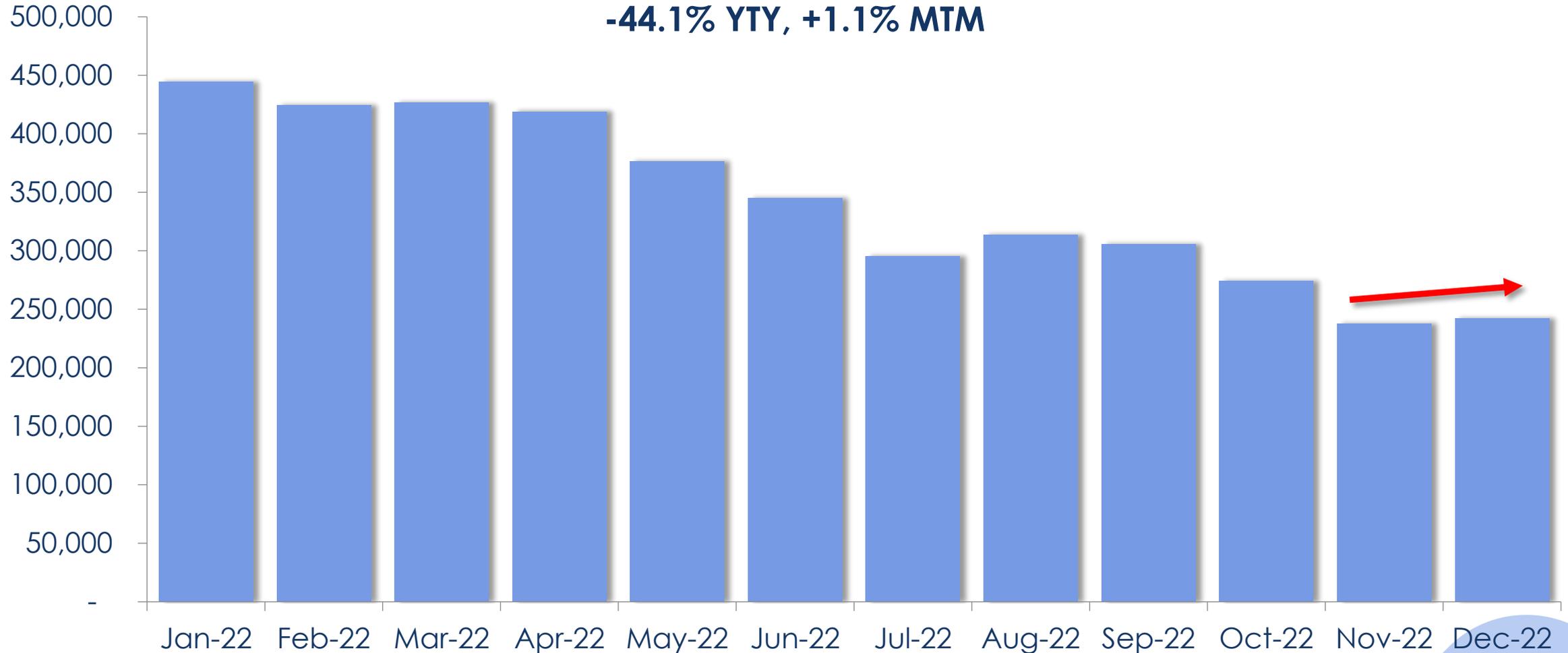
**December 2021: 1.2 Months; December 2022: 2.7 Months**





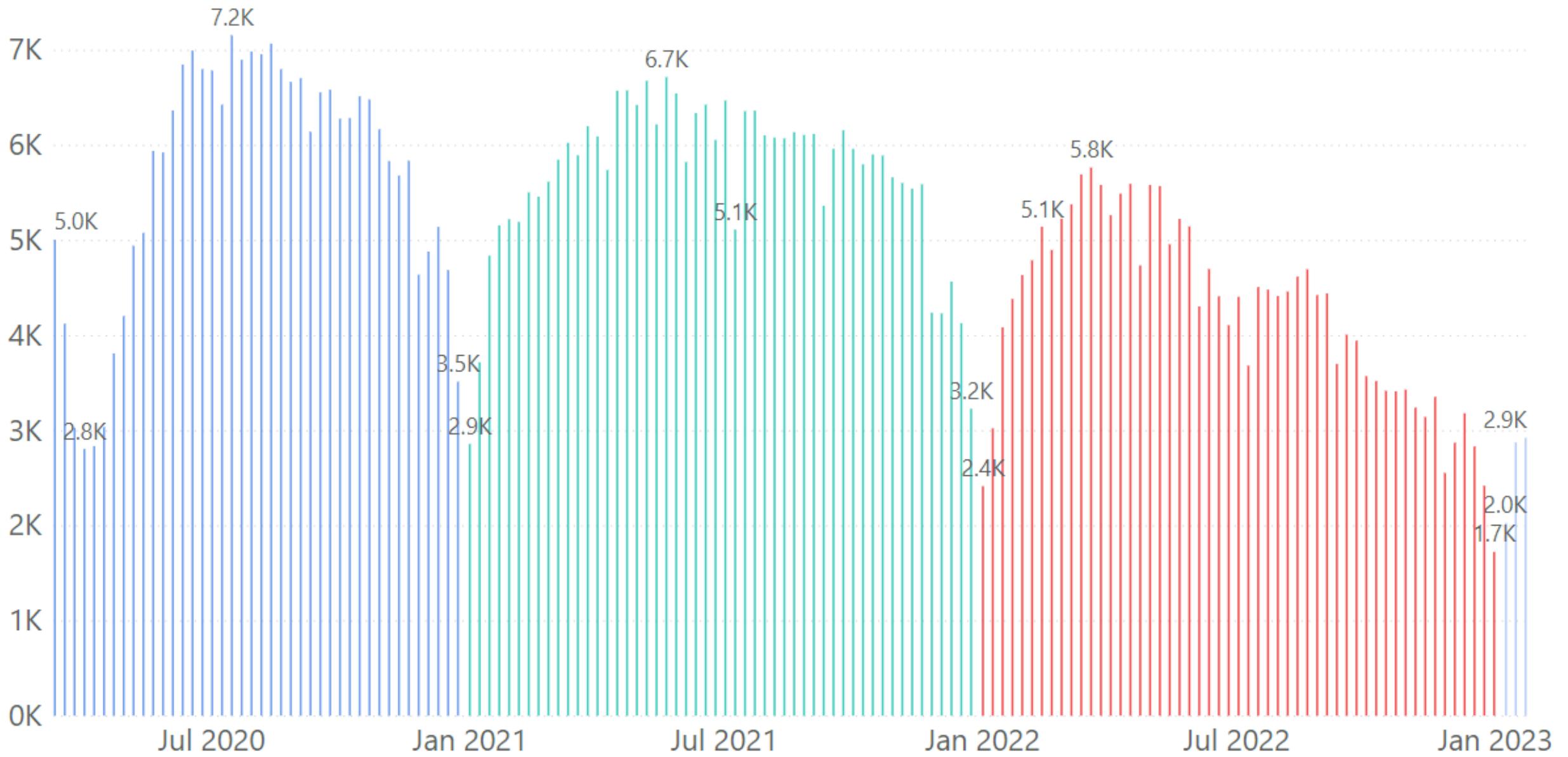
# Transactions actually went up a little bit in December

**California, December 2022 Sales: 240,330 Units, -23.1% YTD, -44.1% YTY, +1.1% MTM**



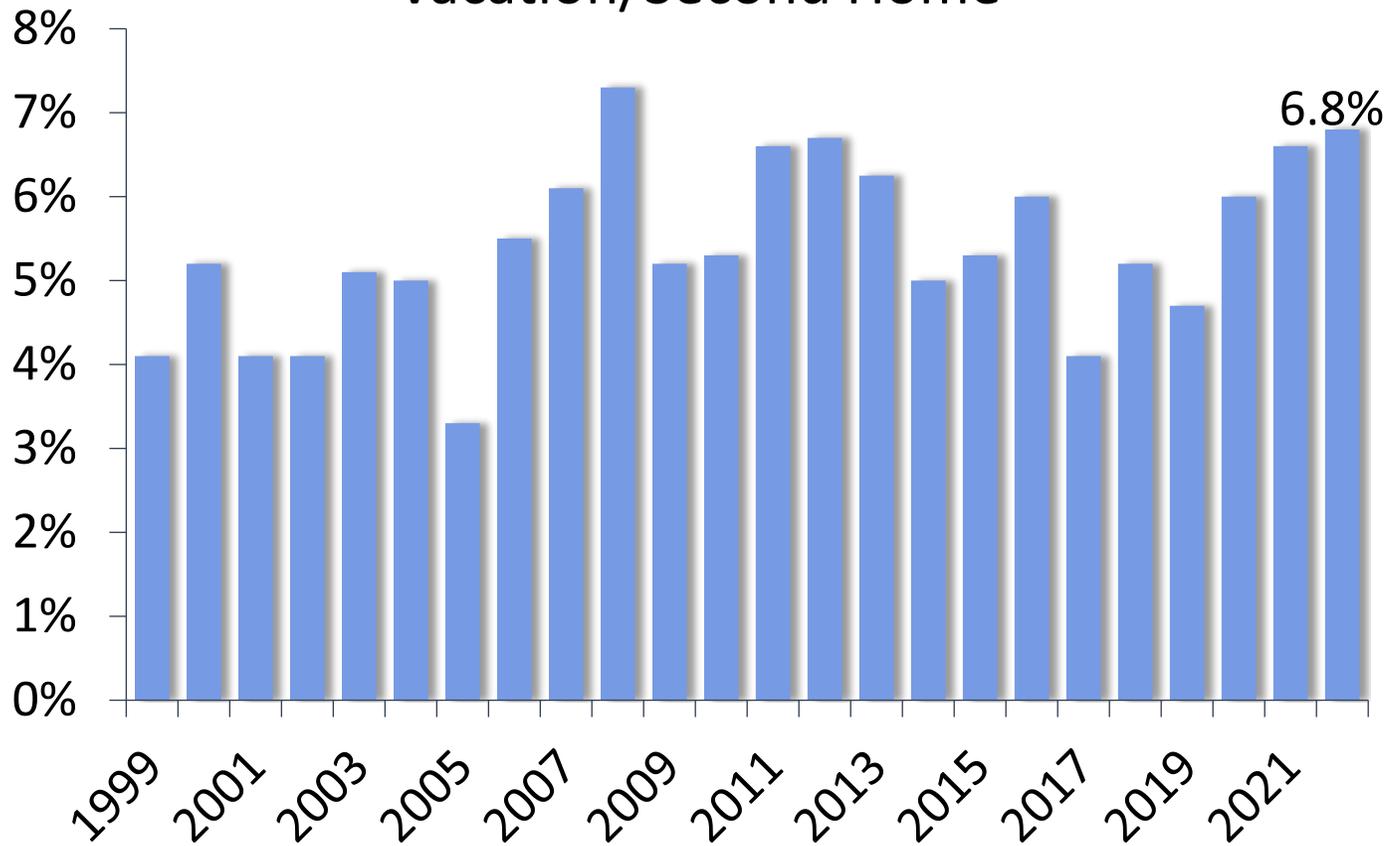
# Existing SFR Pending Sales

Year ● 2020 ● 2021 ● 2022 ● 2023

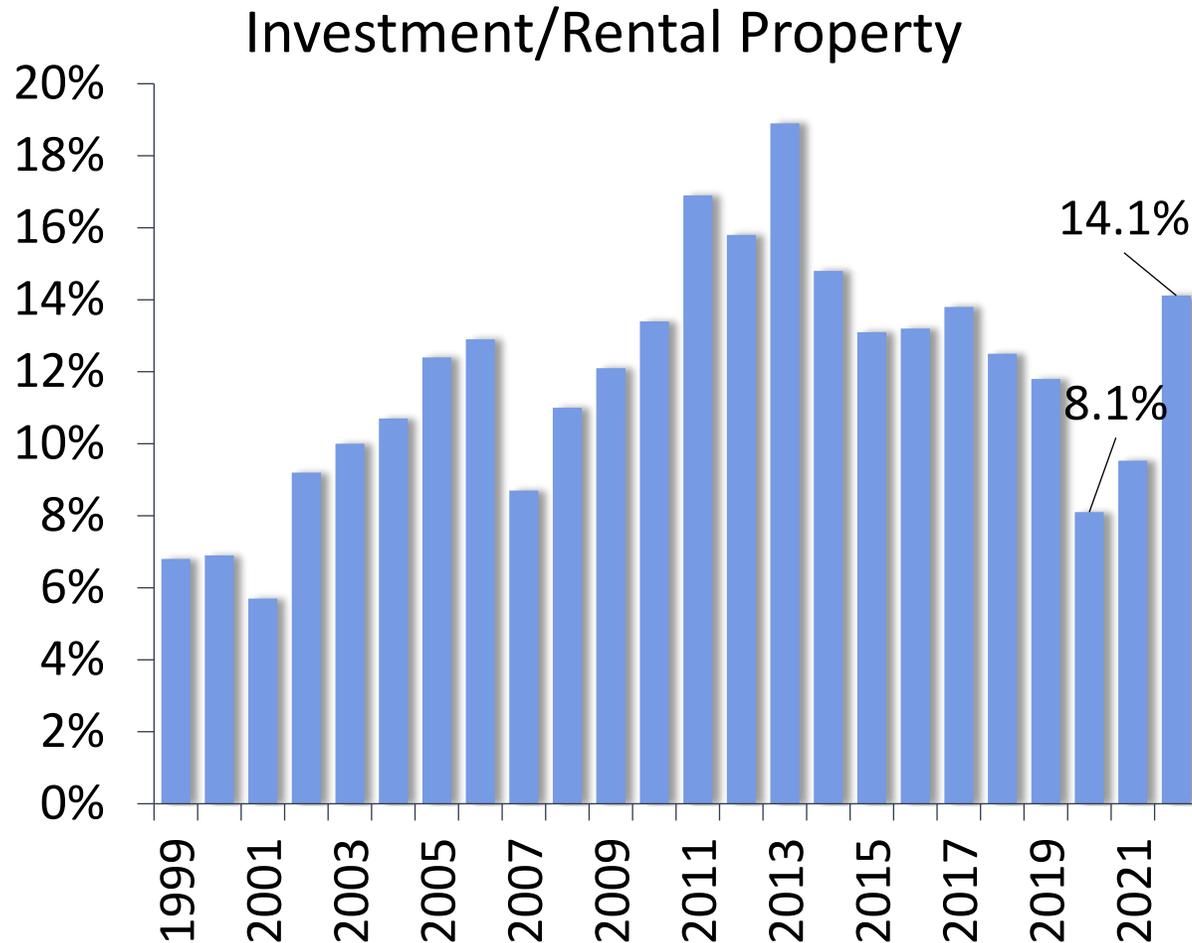


# Vacation and 2<sup>nd</sup> home demand holding up much better

Vacation/Second Home



# Investors are back to rentals as moratoriums expire



  
**Flip**

Vs.

  
**Rent**

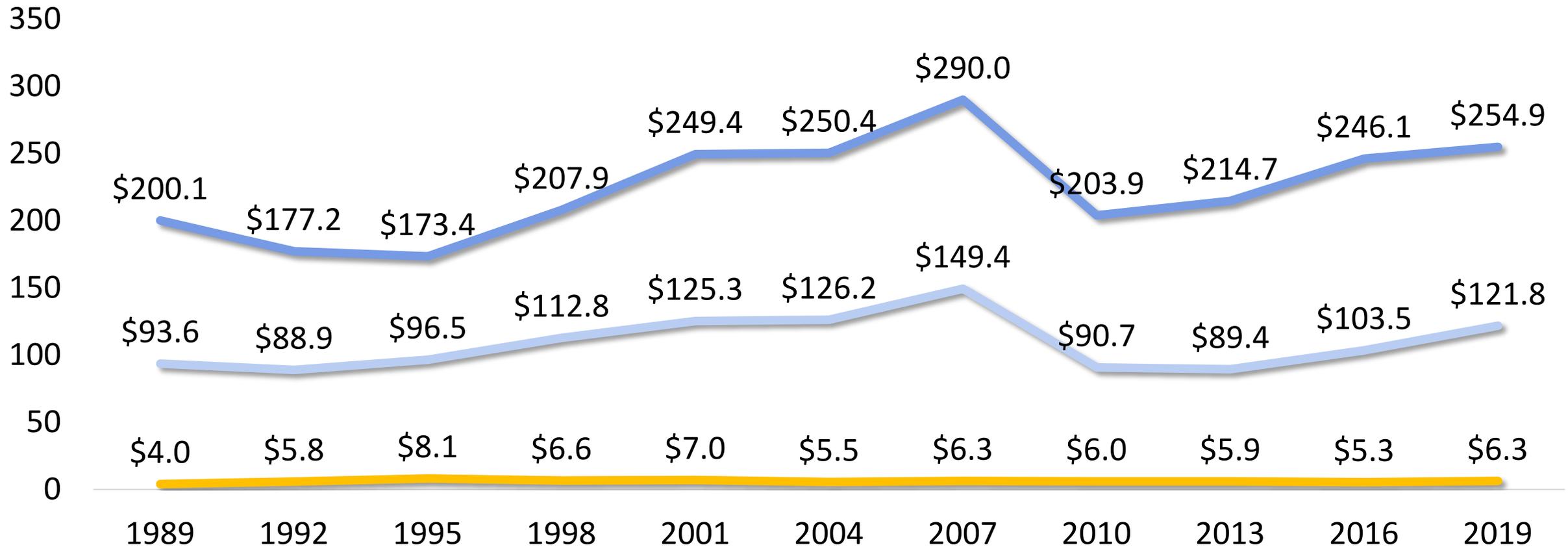
2014: 30%  
2015: 26%  
2016: 20%  
2017: 24%  
2018: 26%  
2019: 18%  
2020: 27%  
2021: 29%  
2022: 18%

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

# Homeownership: the 1 & only path to wealth accumulation

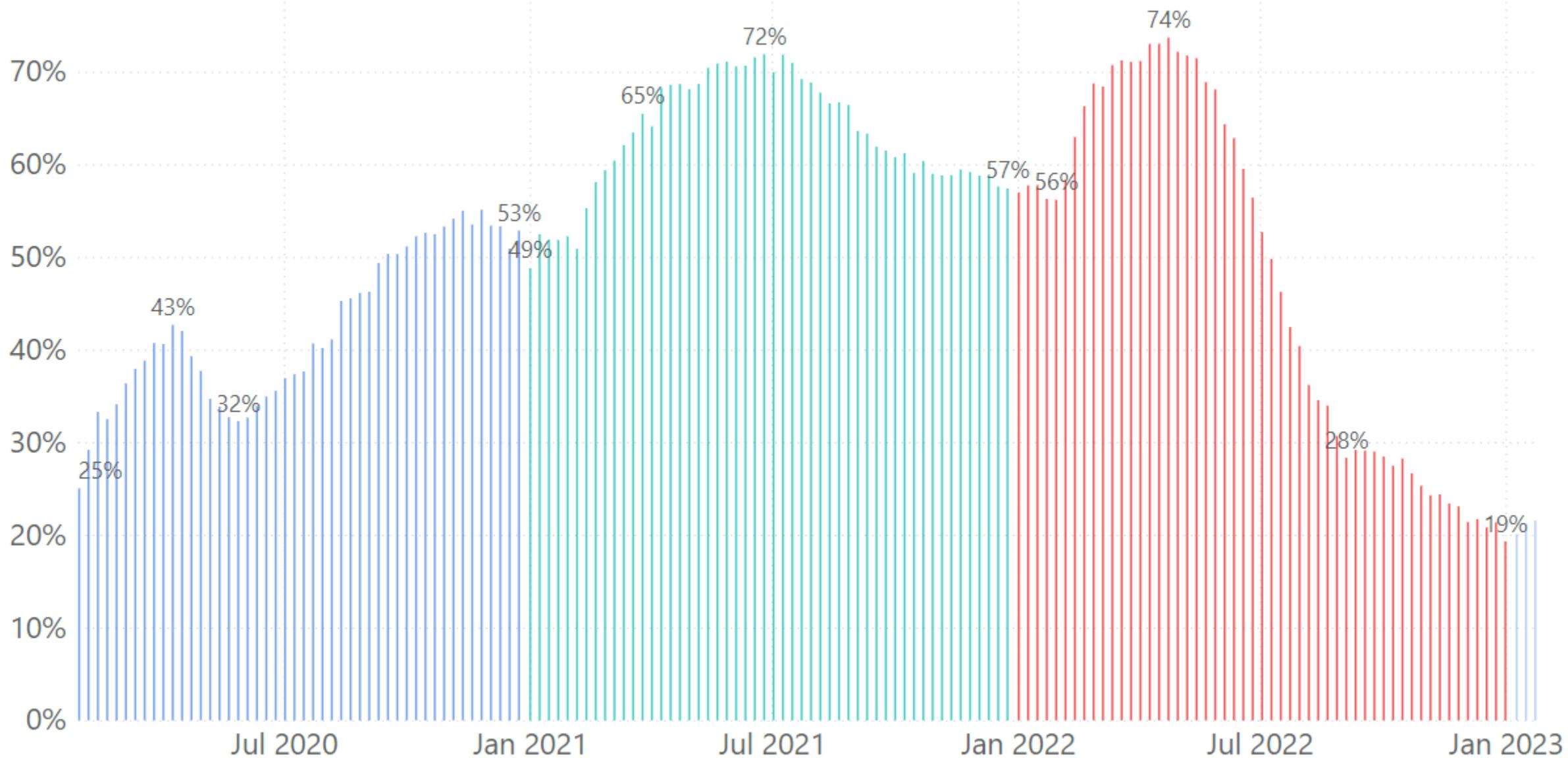
Real Household Net Worth Per Capita

— All families — Owner — Renter or other

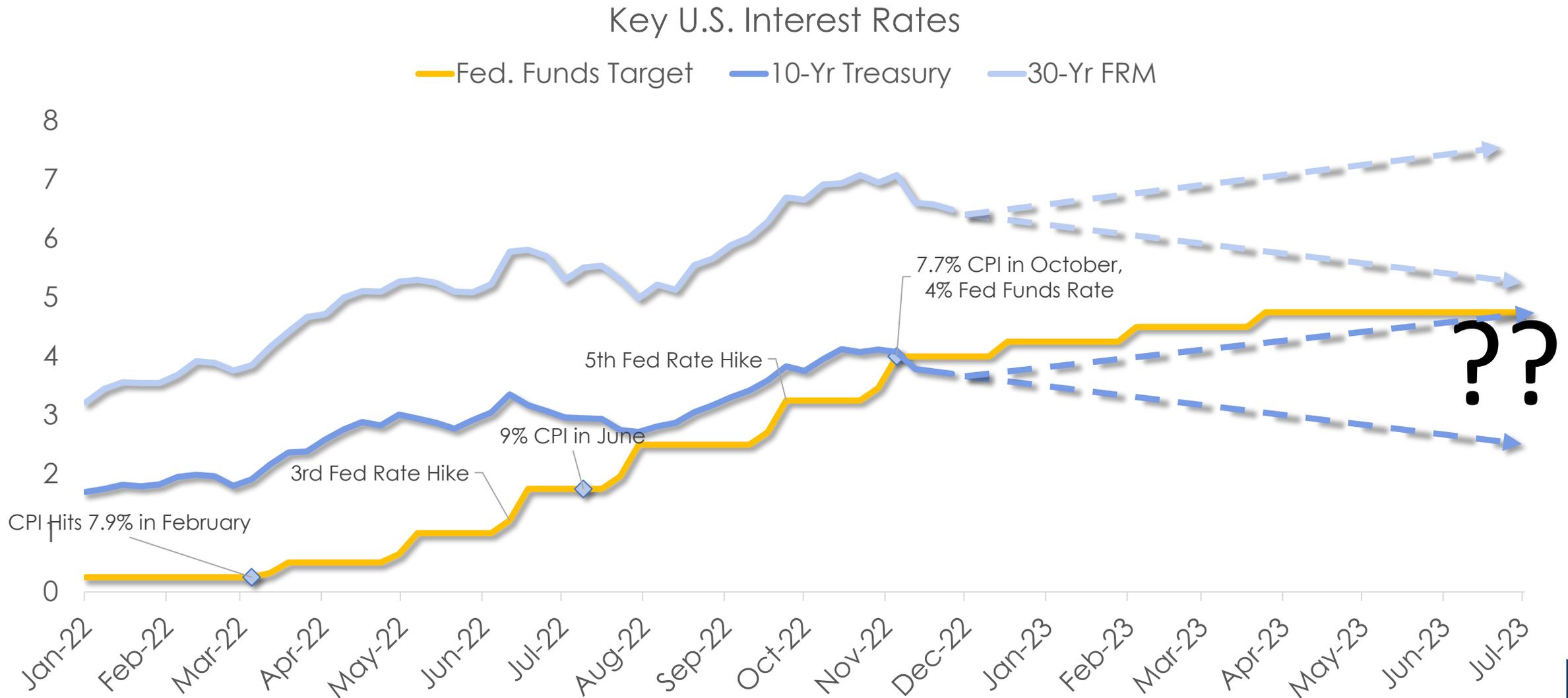


# % of Homes Closed Above List Price

Year ● 2020 ● 2021 ● 2022 ● 2023



# What is reasonable to expect given Fed guidance?



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### Select County of Residence

Los Angeles

### Select Annual Household Income

\$500,000

### 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

\$13K

Target Monthly Payment (PITI)

\$1,931,272

Price Cutoff At Selected Rate

\$386,254

Downpayment Amount

## Impact on Number of Listings Below Cutoff

Dec-22

Listings As Of Month

4,896

Listings At/Below Price Cutoff

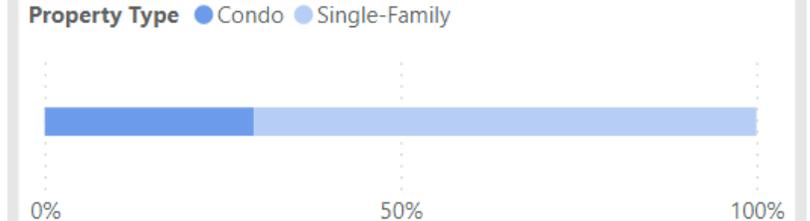
75%

Share At/Below Price Cutoff

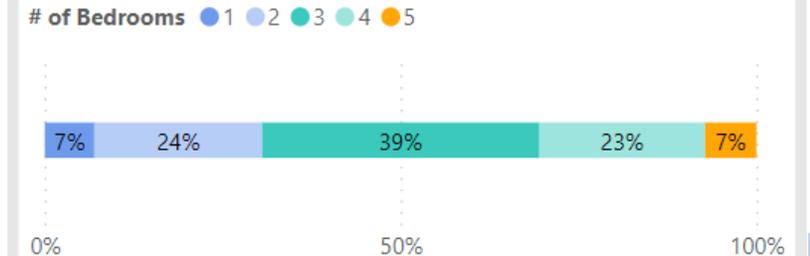
### Active Listings by City



### Share of Active Listings by Property Type



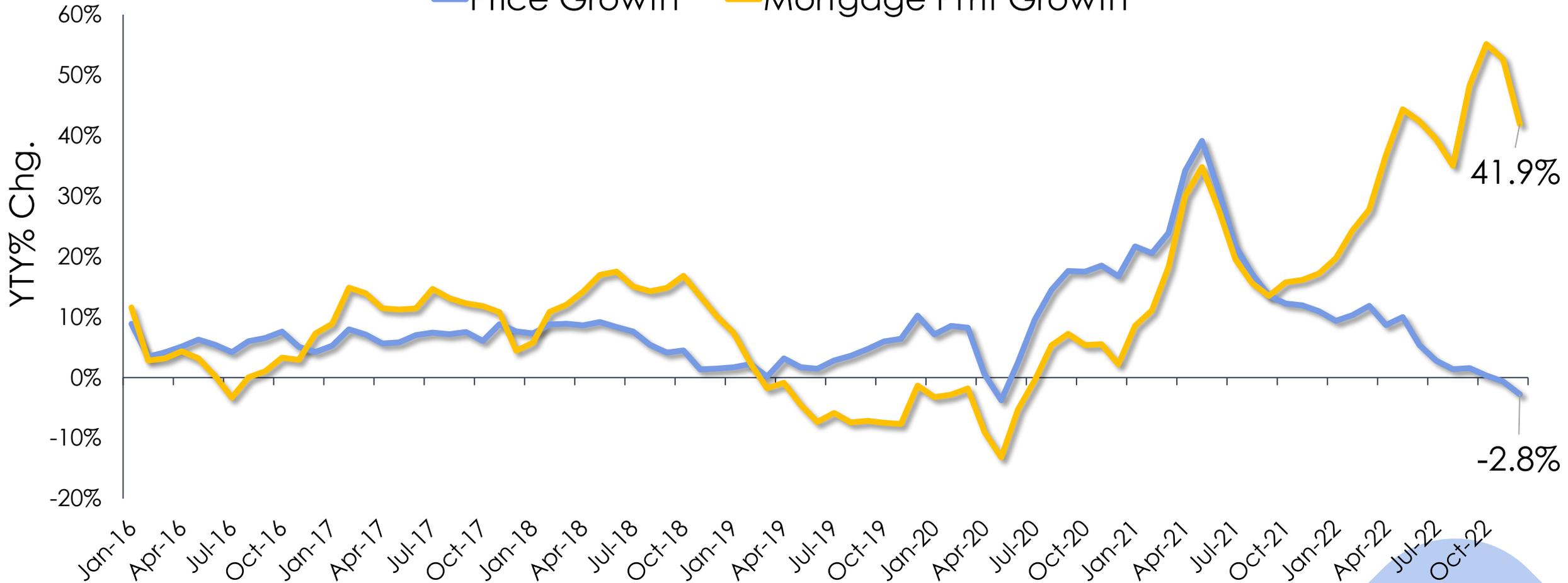
### Share of Active Listings by # of Bedrooms



# Slower prices canceled out by higher rates

## California Median Price vs. Mortgage Payment

— Price Growth — Mortgage Pmt Growth



# Recipe 4 Success: Expectations, Context, and Perspective

## For Buyers

- Rates Are Up
- Purchasing Power Down
- Economic Uncertainty
- Less Competitive Market
- More Homes For Sale
- Long-Term Ownership Benefits
- It's Not 2008 All Over Again

## For Sellers

- Fewer Buyers In Market
- Homes Sitting Longer
- More Discounting/Concessions
- Still A Good Market, Just Spoiled
- Homes Still Selling Fast
- Home Prices Remain High
- Many Selling Over List



# 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 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