

CALIFORNIA
ASSOCIATION
OF REALTORS®

santa cruz real estate market outlook



Santa Cruz County AOR
Seascape Golf Club
April 4, 2019
Leslie Appleton-Young
SVP & Chief Economist



value of strategic thinking:

*“you will be surprised by the future,
but you won't be surprised
that you are surprised”*



overview



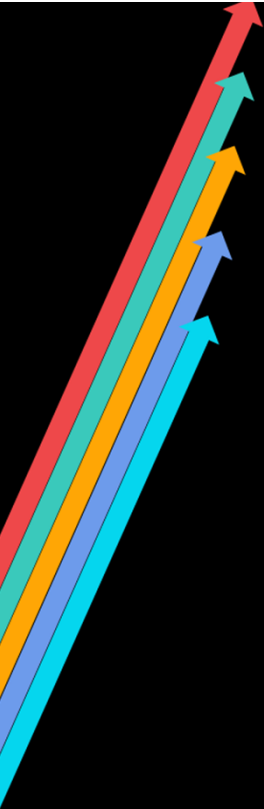
Not As Bad As You've Heard

- Economic fundamentals solid
- Sales Bounced Back Modestly
- Listings Growth Decelerating
- Price Growth Stabilizing

But Don't Pop the Champagne Just Yet

- Sales Still Falling From Last Year
- Price Growth Poised For Slower Growth
- Affordability has eroded a LOT
- Market Much Less Competitive

2019: Tough But Manageable



macro outlook



fundamentals remain strong but...

2.6%



GDP 2018-Q4

2.8%



Consumption
2018-Q4

2.1%



Core CPI
February 2019

3.8%



Unemployment
February 2019

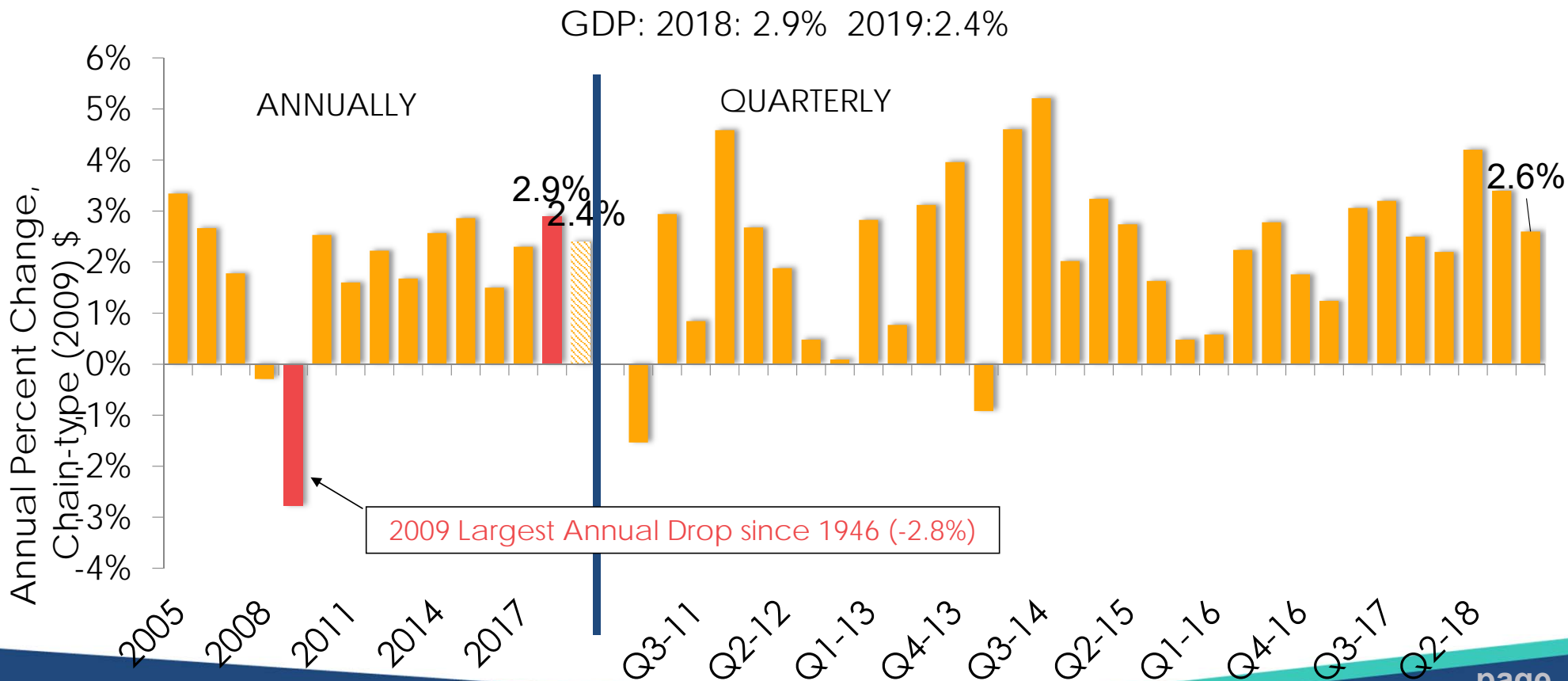
1.7%



Job Growth
February 2019



growth slowed at the end of 2018

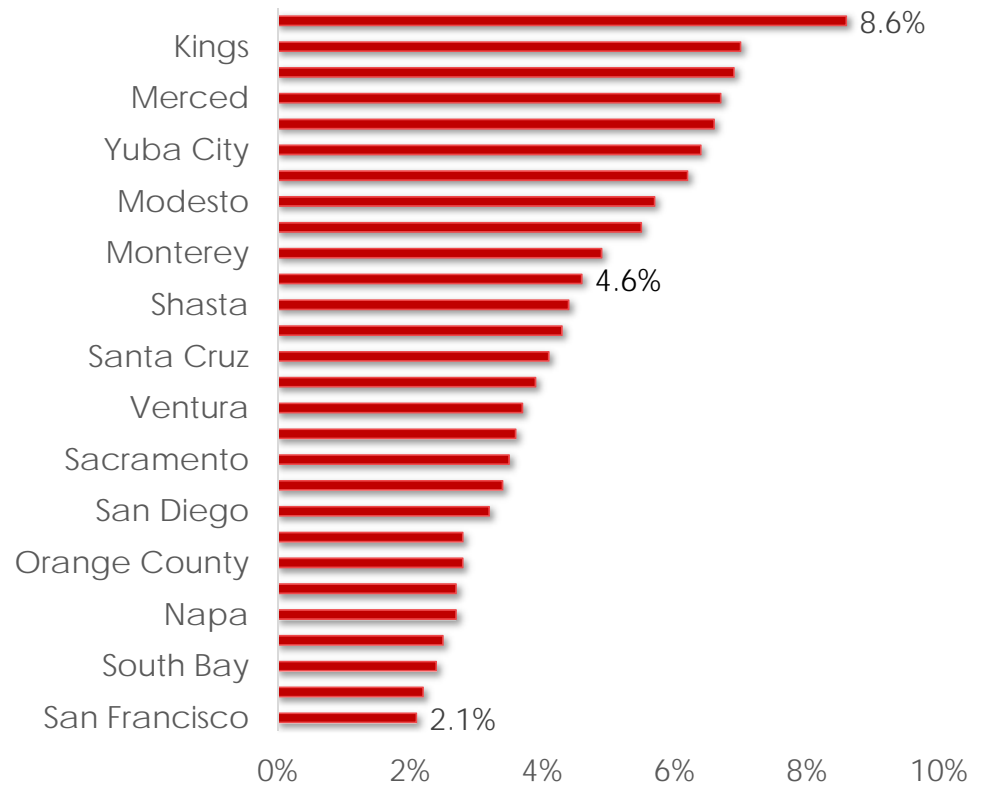
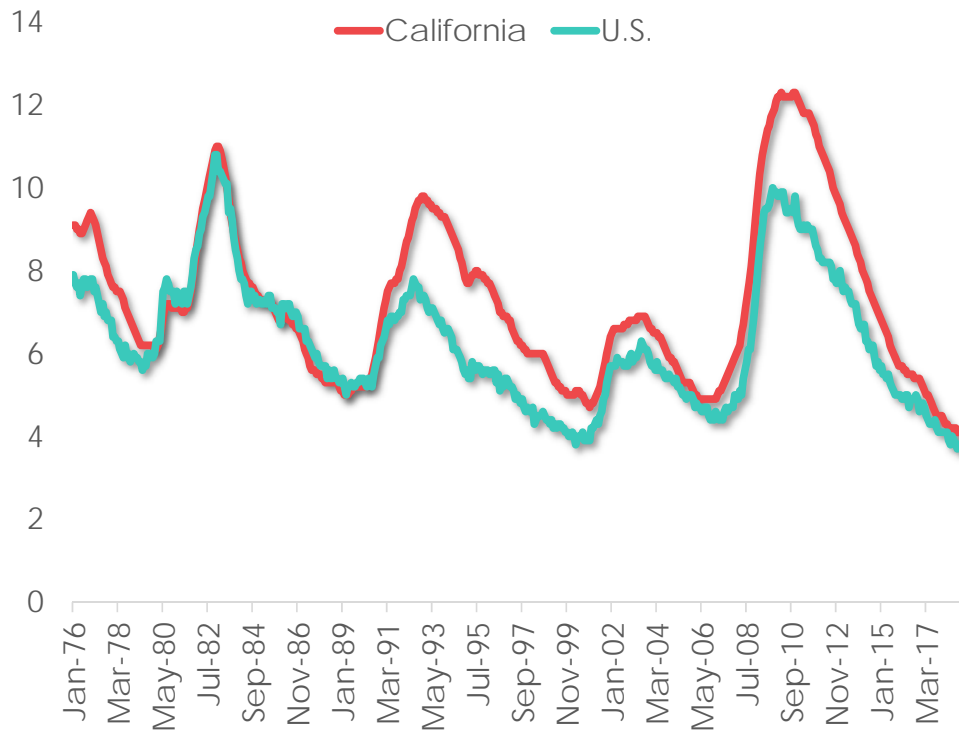


SEIRES: GDP
SOURCE: US Dept. of Commerce, Bureau of Economic Analysis



labor market tightest in bay area

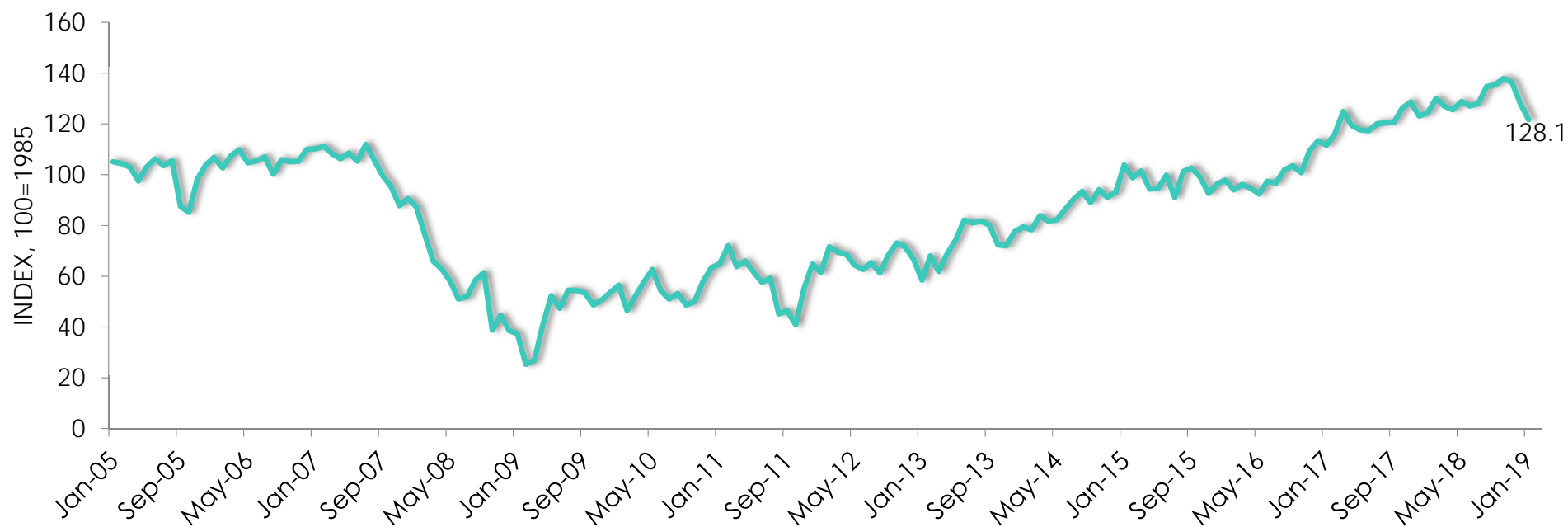
Unemployment Rate





anxiety attack! confidence fell sharply in march

2019: feb 131.4 march 124.1



SERIES: Consumer Confidence
SOURCE: The Conference Board



good news: mortgage rates @ 10 month low



April 4: 4.08%

SERIES: Average 30 Yr. Fixed Mortgage Rates
SOURCE: Mortgage News Daily

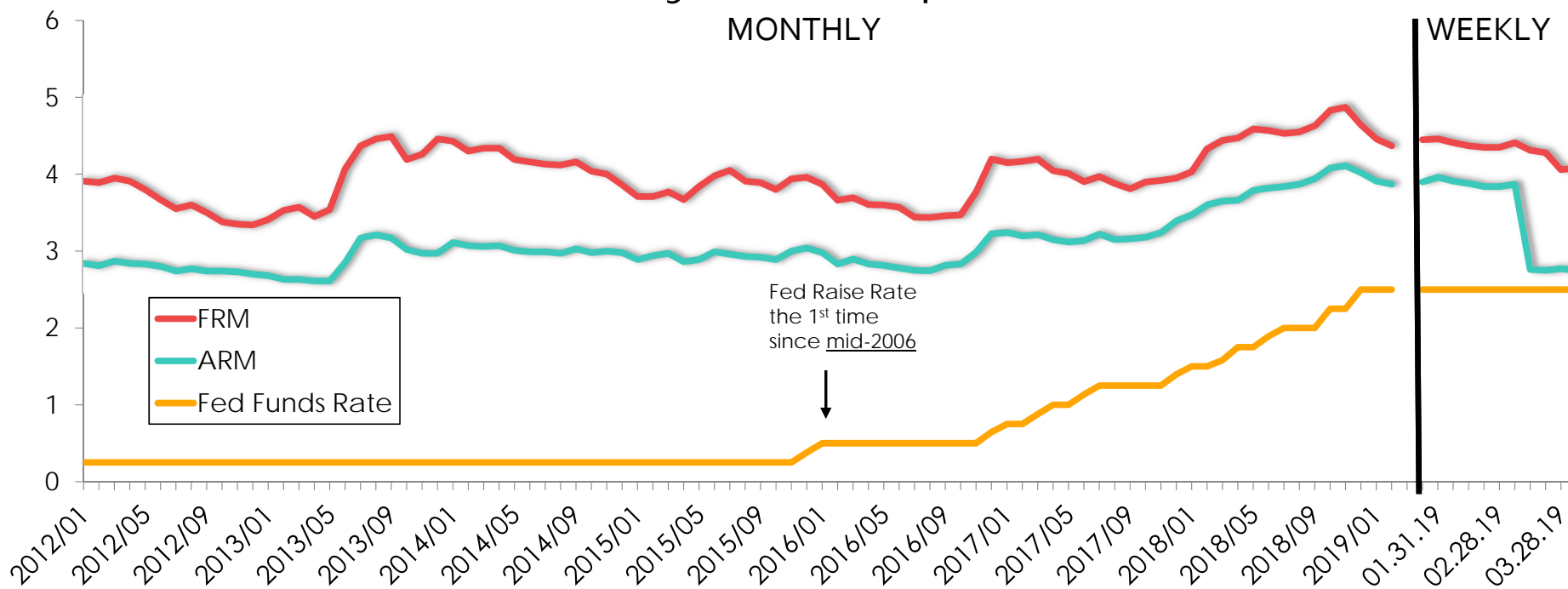


reprieve – no more fed hikes this year

January 2012 – April 2019

MONTHLY

WEEKLY



SERIES: 30Yr FRM, 5Yr ARM, Fed Funds Rate (Target Rate)

SOURCE: Freddie Mac, St. Louis Fed



always lots of wildcards

- escalating trade war
- stock/financial market volatility
- federal overshoot on reducing portfolio
- gse reform
- tax bill
- 2019 ipo's: uber, lyft, airbnb, slack, wework, planatir tech, pinterest, postmates, robinhood



Bay Area Economic Profile

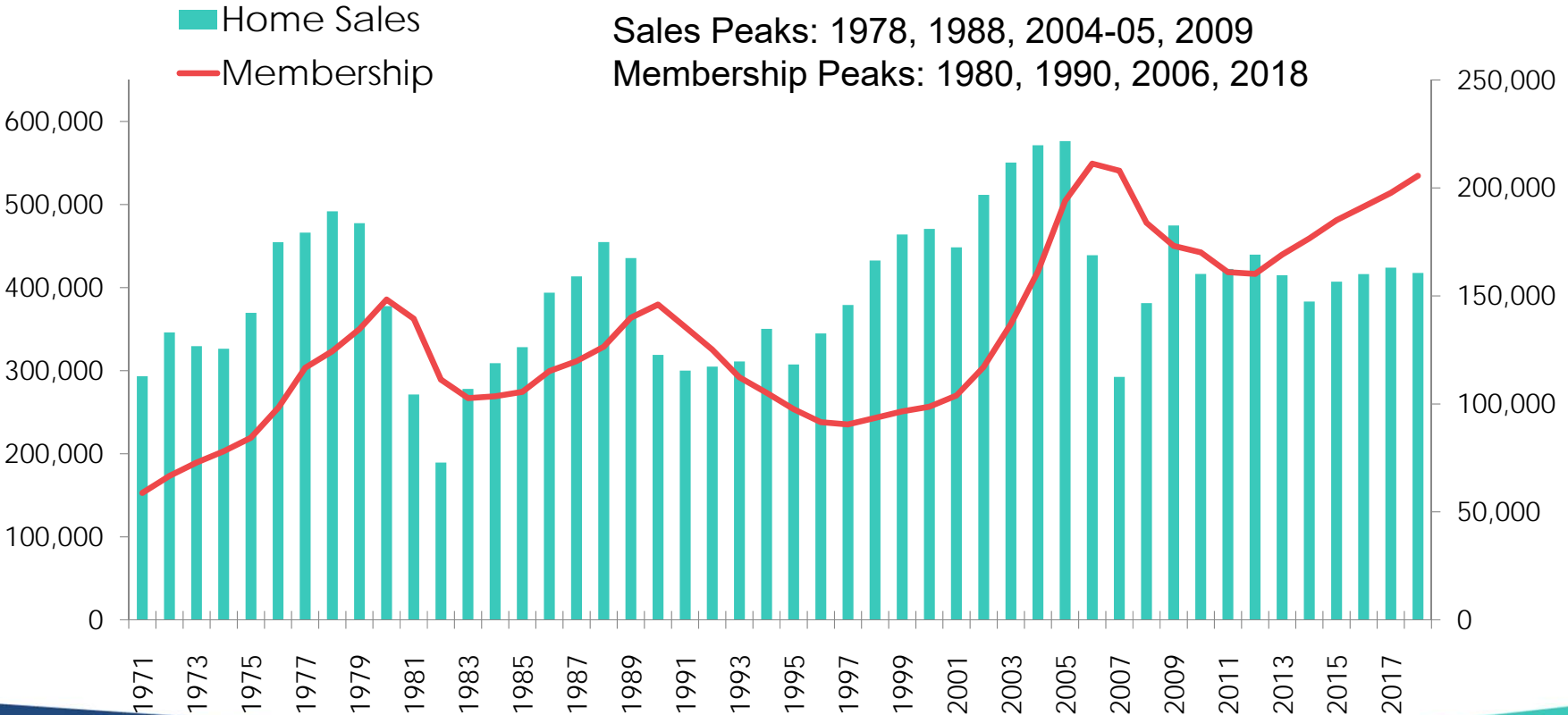
- 19th largest economy - \$748b gdp
- per capital gdp = \$80,000 highest of any similar msa
- 4.3% job growth over last 3 years -- 2x as fast as u.s.
- +26% employment growth since last recession
- 750,000 tech workers as of july 2017
- Migration is net positive: july 2016-july 2017
 - net outflow o 45,670 to other parts of u.s.
 - net inflow of 58,156 from outside of the u.s.
 - ECONOMIC JUGGERNAUT (a huge, powerful, and overwhelming force)



california realtors
& the real estate industry



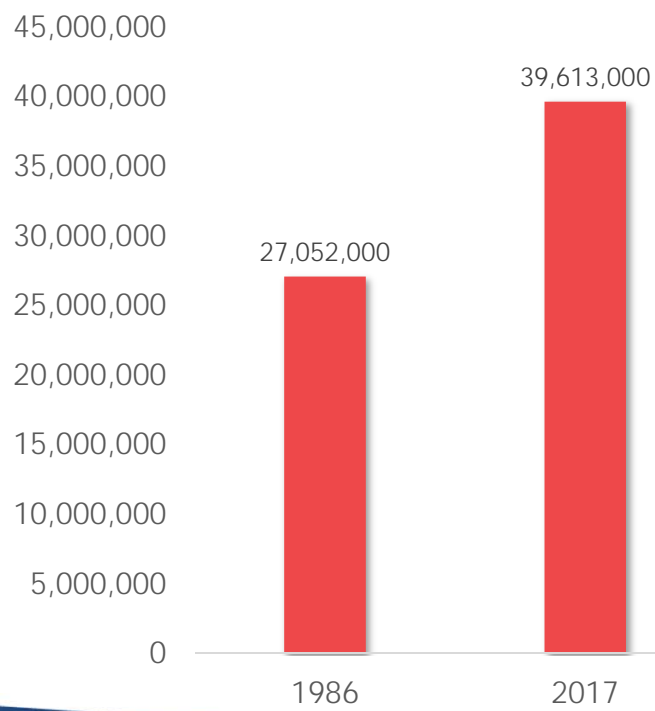
c.a.r. membership disconnect from sales



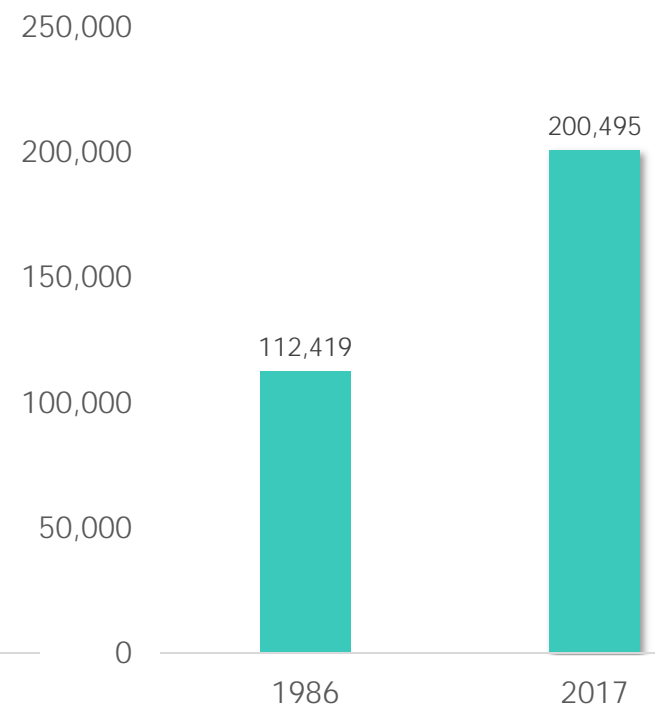


more of everything, except home sales...

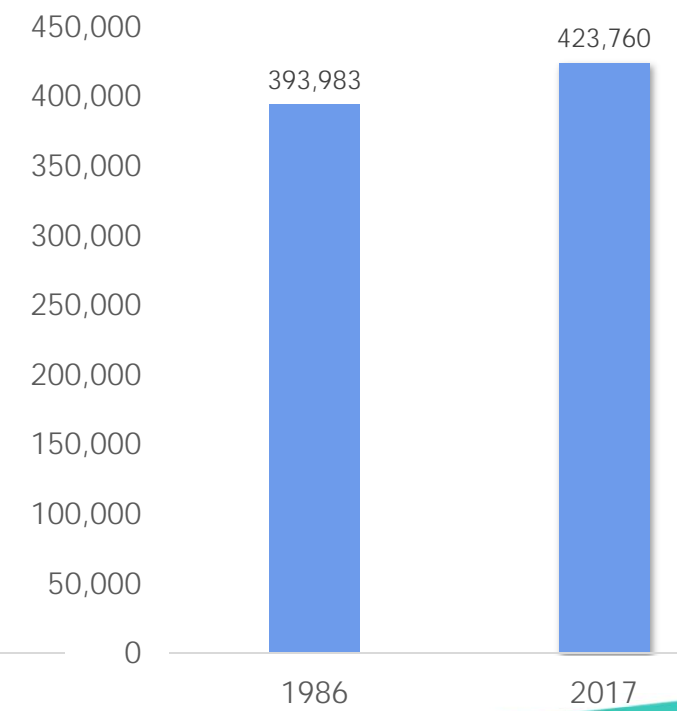
California Population



California REALTORS®

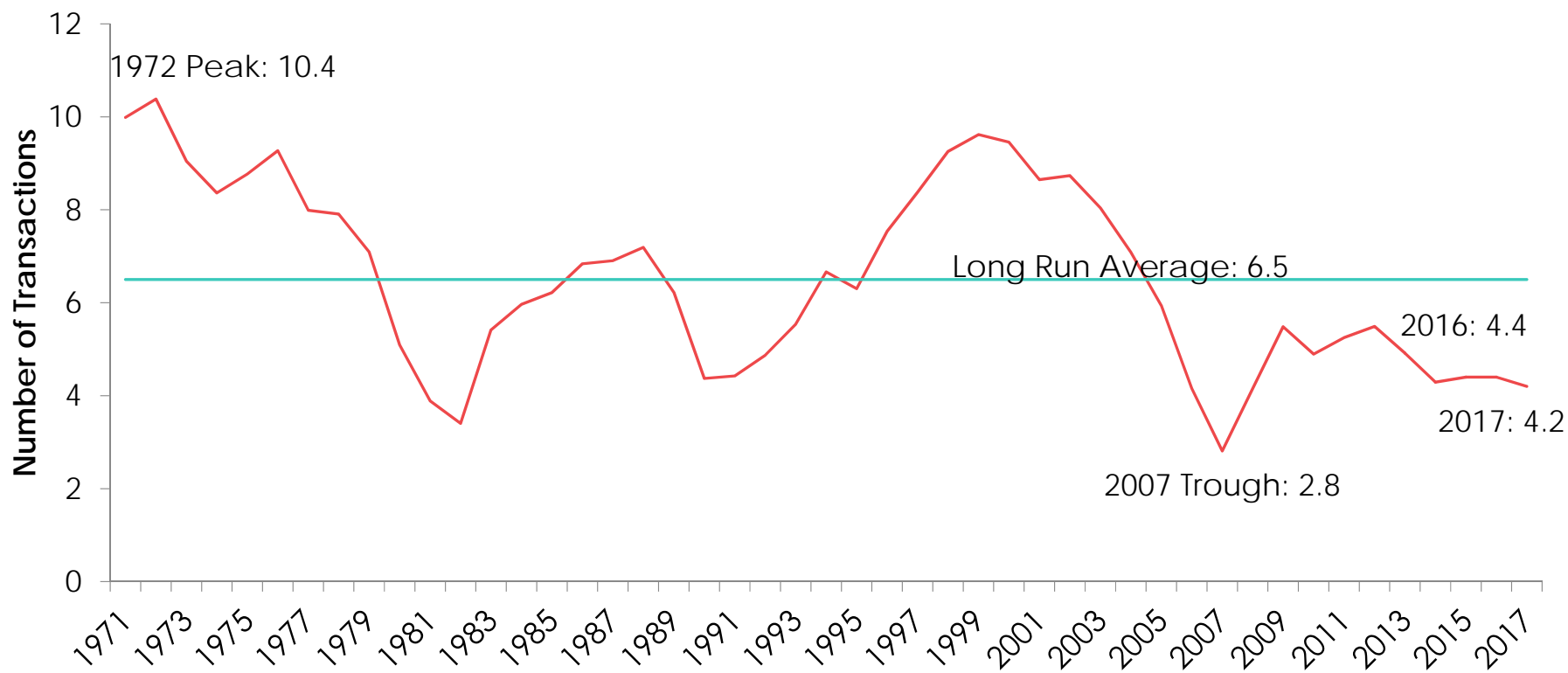


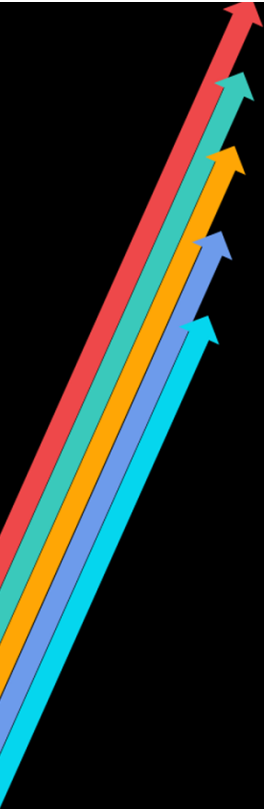
California Home Sales



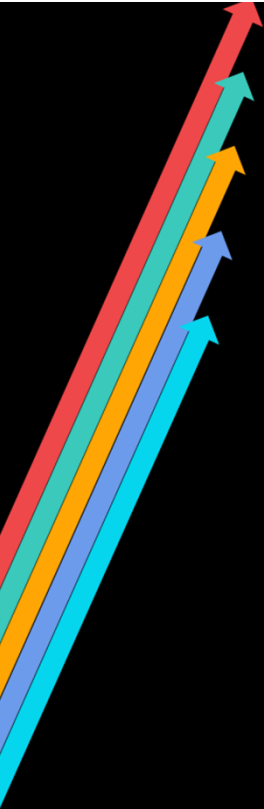


significant drop in sides per member





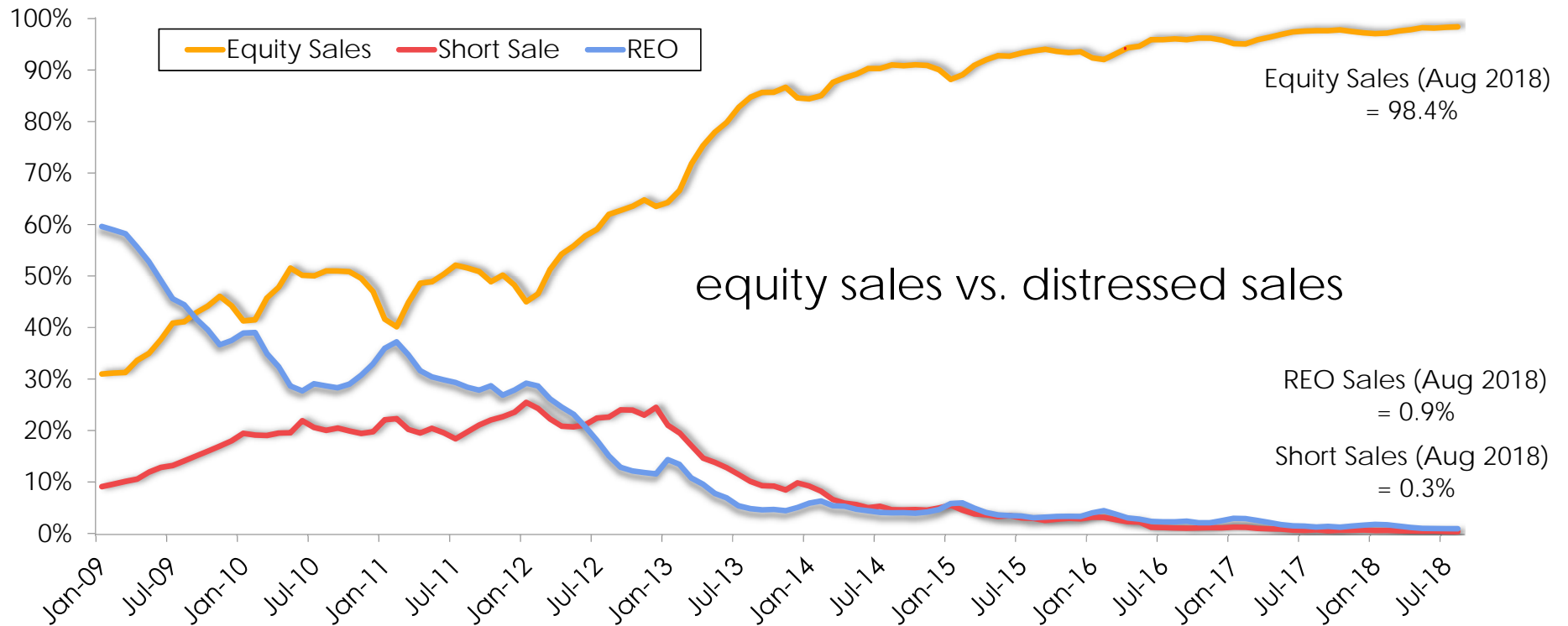
your competition:
you yesterday and every
agent working just as hard
as you do



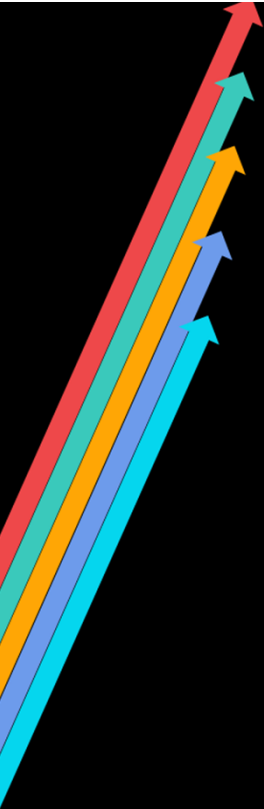
2009



what is a normal market ?



SERIES: Distressed Sales, Not Seasonally Adjusted
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

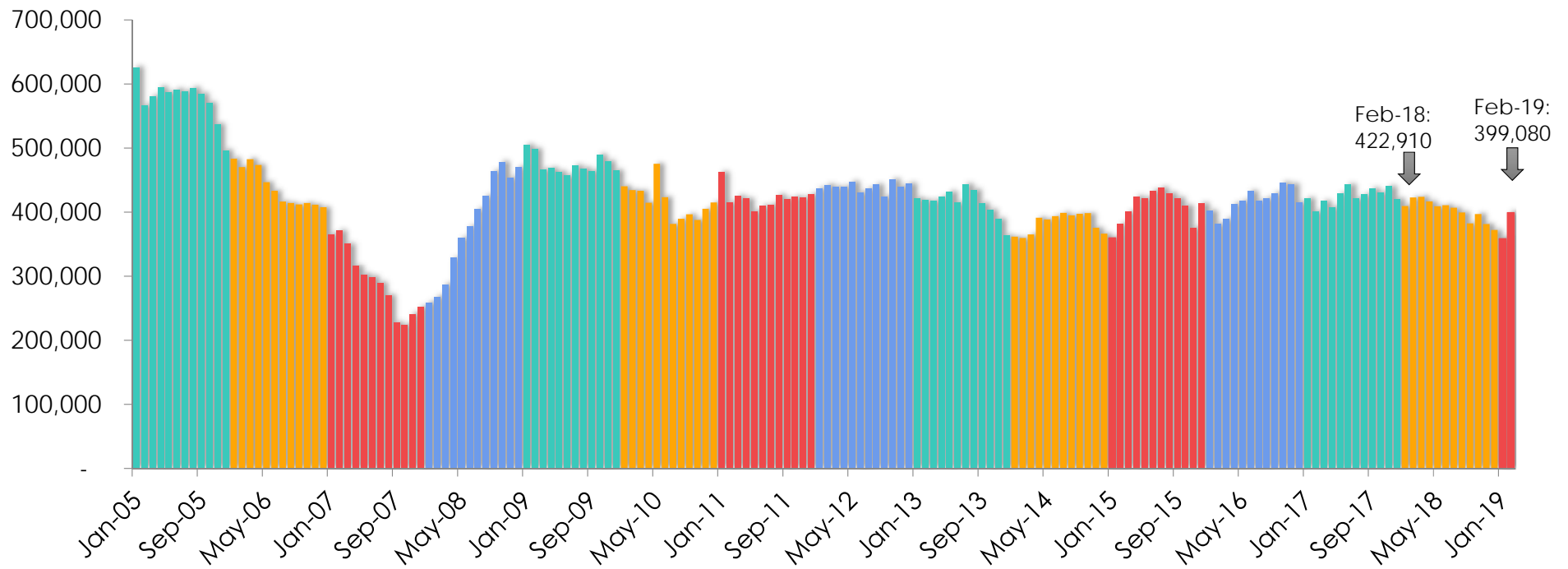


“market shift”



march rebound!

CA, February 2019 Sales: 399,080 Units, -9.0% YTD, -5.6% YTY

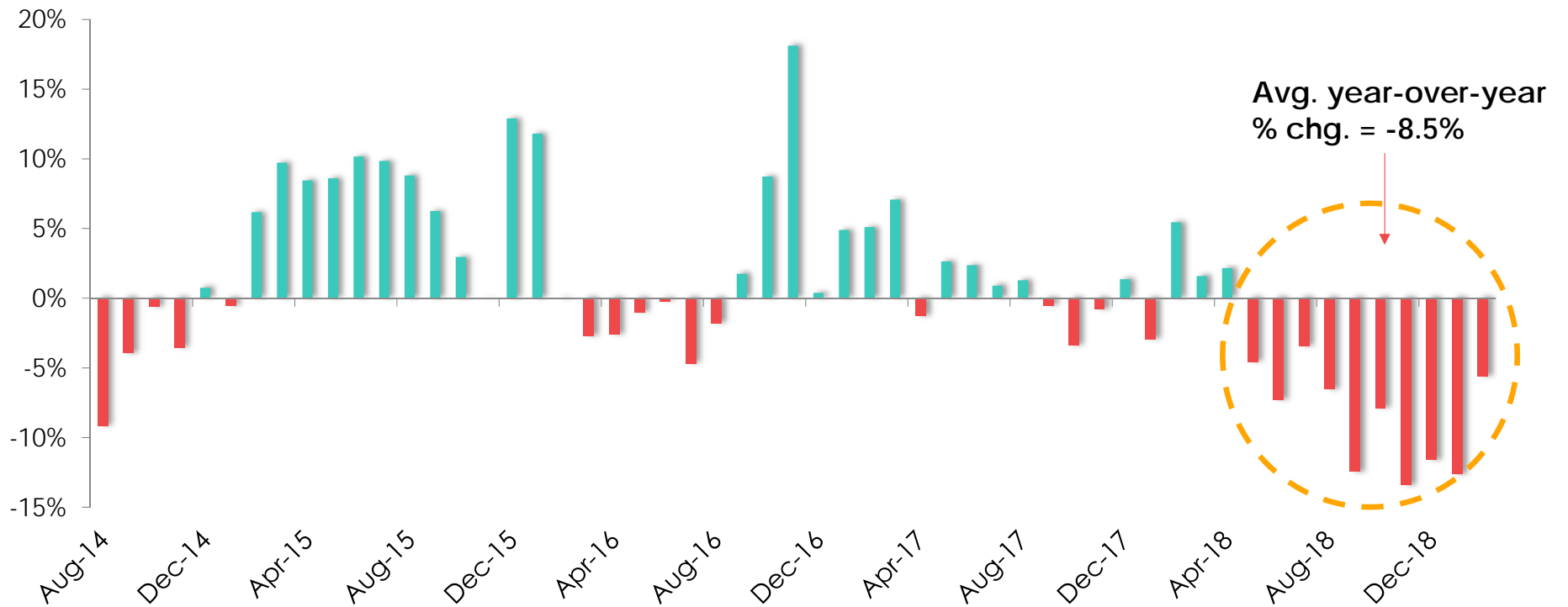


SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized



ca sales down 10 months in a row

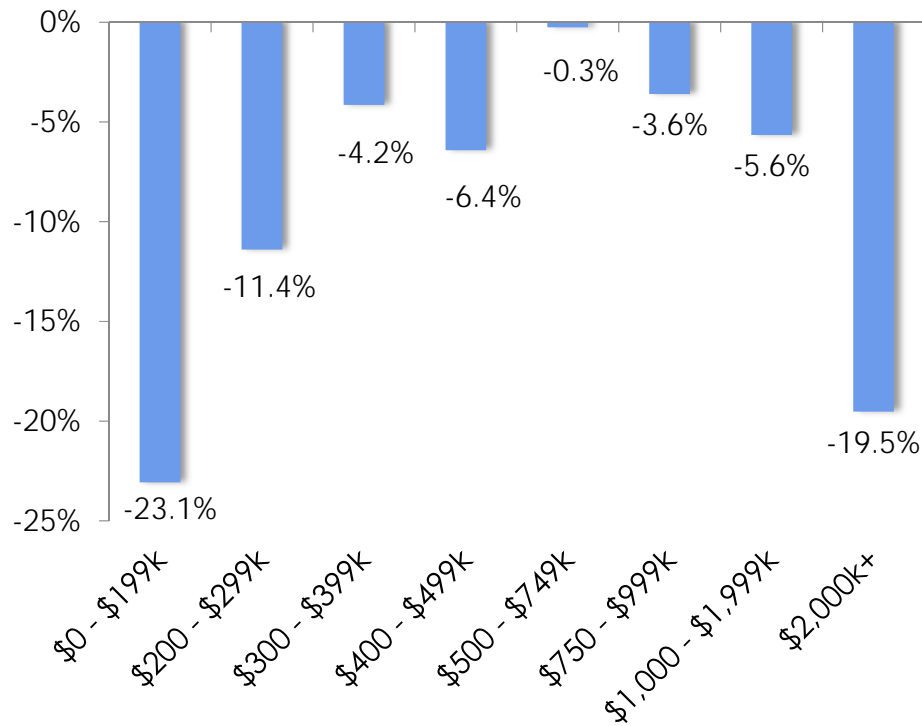


*Sales are seasonally adjusted and annualized

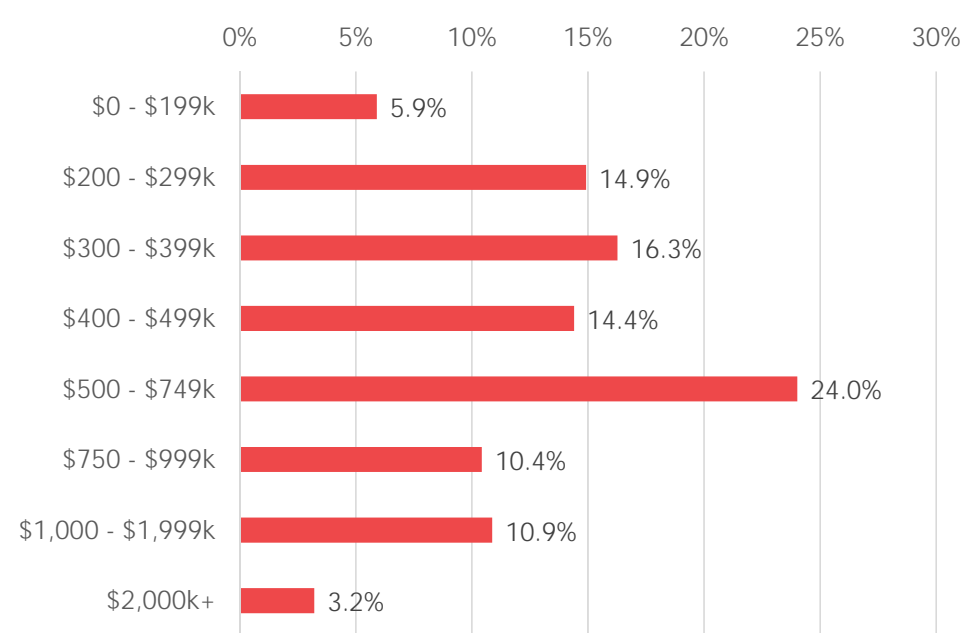


Here's the twist: sales off at all price points

february 2019 (yty% chg.)



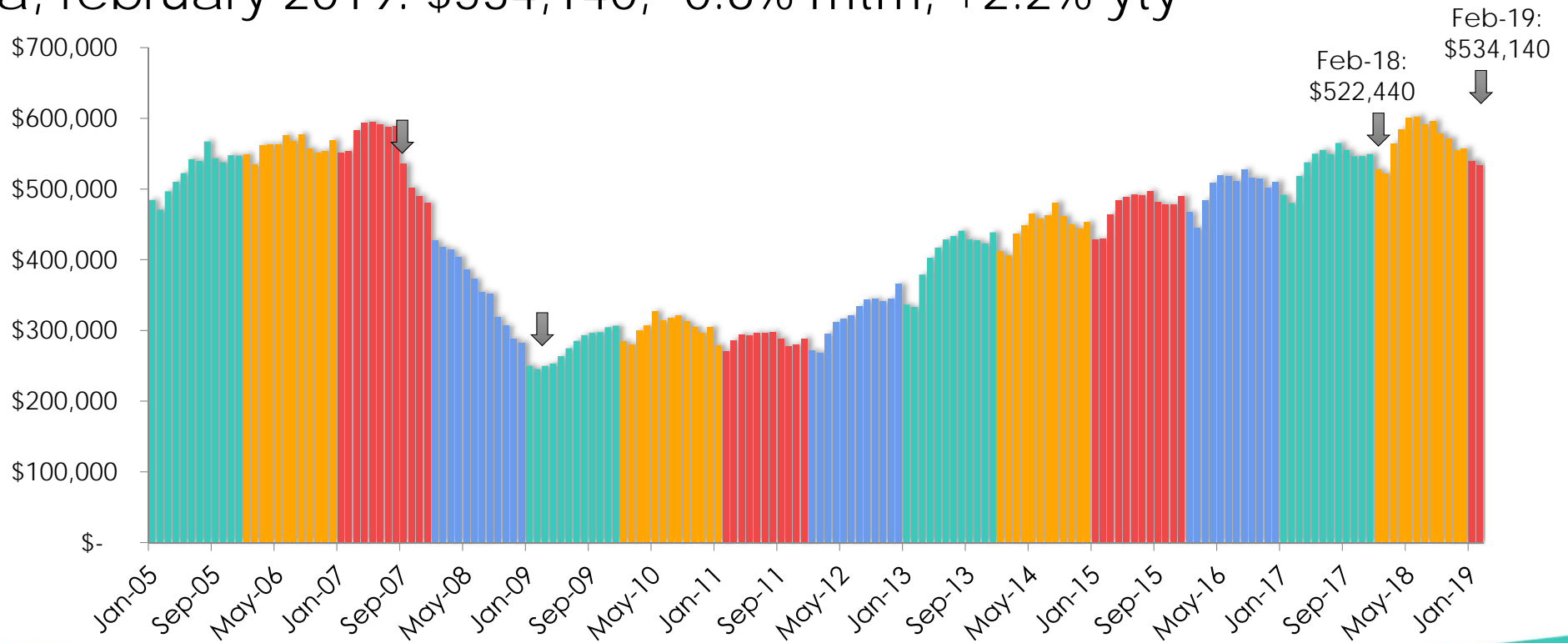
share by price segment





prices growing modestly

ca, february 2019: \$534,140, -0.6% mtm, +2.2% yty



SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Bay Area: Peak v. Current Price

Region	Peak Month	Peak Price	Oct-18	%Chg Fr Peak
Alameda	May-07	\$709,420	\$900,000	26.9%
Contra Costa	May-07	\$698,420	\$657,000	-5.9%
Marin	Jun-07	\$1,149,390	\$1,450,000	26.2%
Napa	Jun-07	\$729,170	\$709,500	-2.7%
San Francisco	May-07	\$972,010	\$1,600,000	64.6%
San Mateo	Oct-07	\$1,020,000	\$1,588,000	55.7%
Santa Clara	Oct-07	\$865,000	\$1,290,000	49.1%
Solano	Jun-07	\$492,800	\$430,000	-12.7%
Sonoma	Jan-06	\$650,330	\$650,000	-0.1%
Bay Area	May-07	\$789,250	\$958,800	21.5%



So Cal: Orange & SD Above Prior Peak

Region	Peak Month	Peak Price	Aug-18	%Chg Fr Peak
Orange	Jun-07	\$775,420	\$838,500	8.1%
San Diego	May-06	\$622,380	\$660,000	6.0%
Los Angeles	Sep-07	\$625,812	\$607,490	-2.9%
So CA	Jun-07	\$589,710	\$555,000	-5.9%
Ventura	Aug-06	\$710,910	\$660,000	-7.2%
Riverside	Jun-06	\$431,710	\$400,750	-7.2%
San Bernardino	Aug-06	\$350,290	\$290,000	-17.2%



Central Coast: SC & SLO

Region	Peak Month	Peak Price	Aug-18	%Chg Fr Peak
Santa Cruz	Oct-07	\$865,000	\$917,500	6.1%
San Luis Obispo	Oct-05	\$619,950	\$630,000	1.6%
Monterey	Aug-07	\$777,000	\$599,000	-22.9%
Santa Barbara	Jul-07	\$878,120	\$572,500	-34.8%



Central Valley: All Below Prior Peak

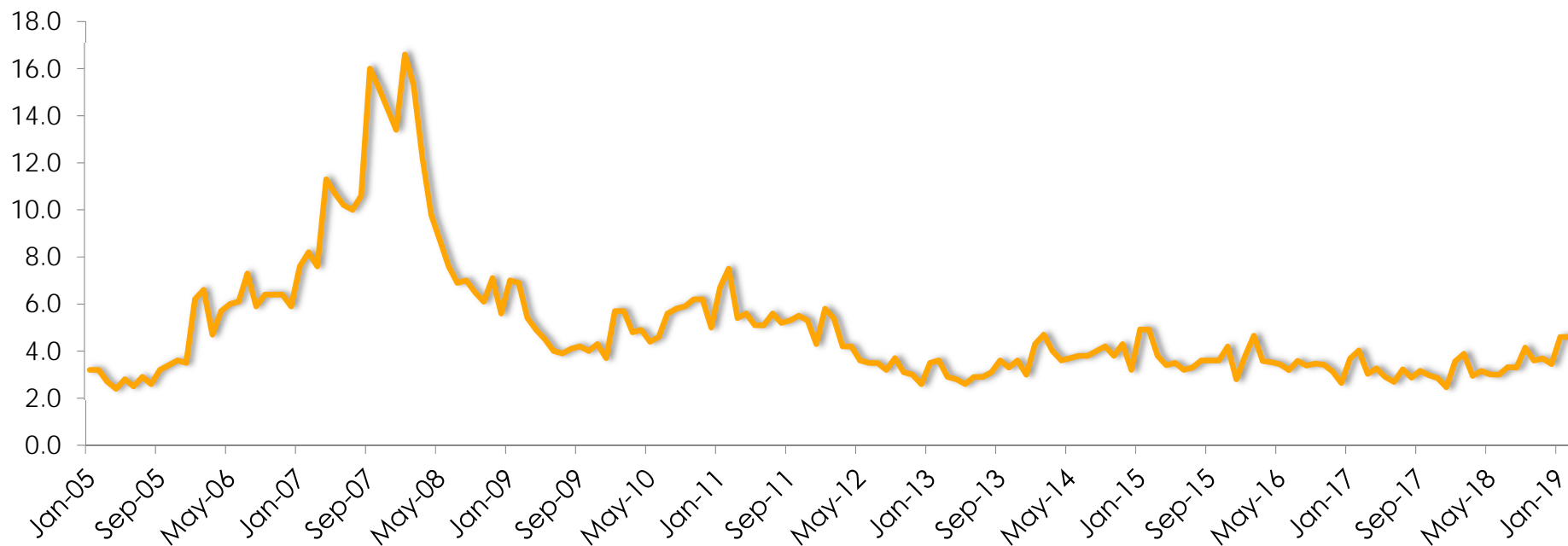
Region	Peak Month	Peak Price	Aug-18	%Chg Fr Peak
Sacramento County	Aug-05	\$394,450	\$369,950	-6.2%
Madera County	Feb-08	\$275,000	\$254,900	-7.3%
Placer County	Aug-05	\$527,990	\$475,000	-10.0%
Fresno County	Jun-06	\$313,500	\$280,000	-10.7%
San Joaquin County	Jun-06	\$426,830	\$380,000	-11.0%
Tulare County	Dec-05	\$269,710	\$239,000	-11.4%
Stanislaus County	Sep-05	\$370,100	\$319,900	-13.6%
San Benito County	May-05	\$671,190	\$575,000	-14.3%
Kings County	Mar-06	\$268,050	\$227,750	-15.0%
Merced County	Oct-05	\$344,610	\$288,396	-16.3%
Kern County	Jun-06	\$299,920	\$247,000	-17.6%
Glenn County	Feb-07	\$312,500	\$225,500	-27.8%

SERIES: Median Price of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



inventory (sales/listings) highest point in 3 years

february 2018: 3.9 months; 2019: 4.6 months



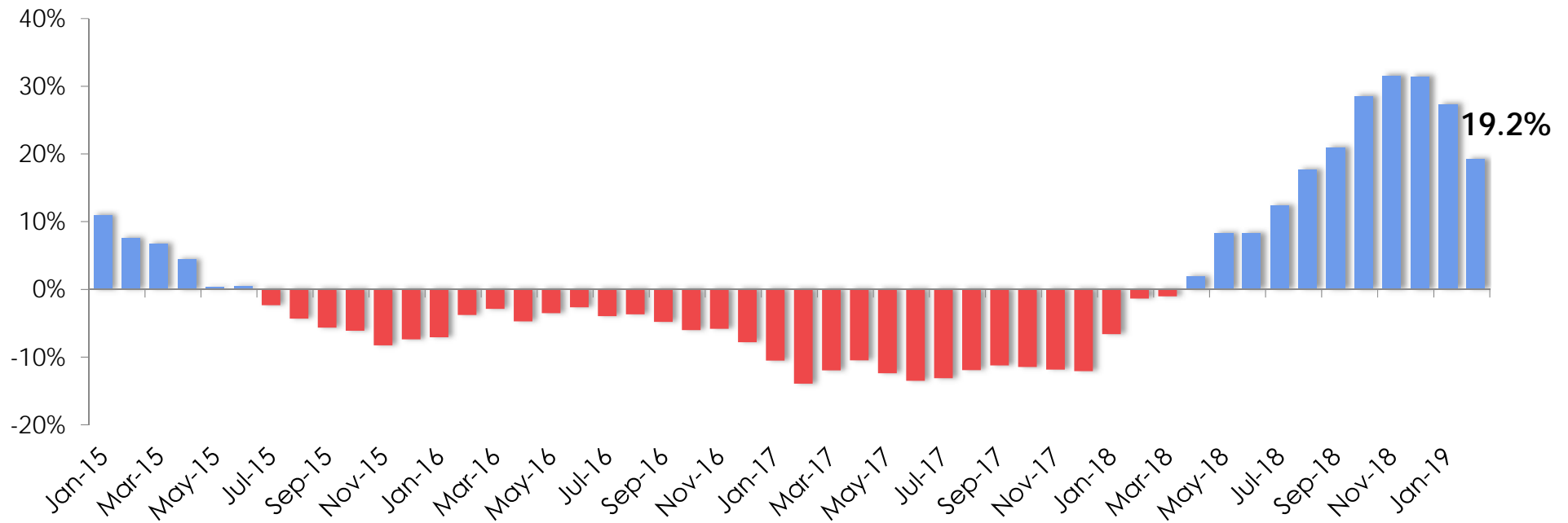
Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the number of "Sold" properties for the month in question.

SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



and...gain in yty active listings is slowing

Year-over-Year % Chg

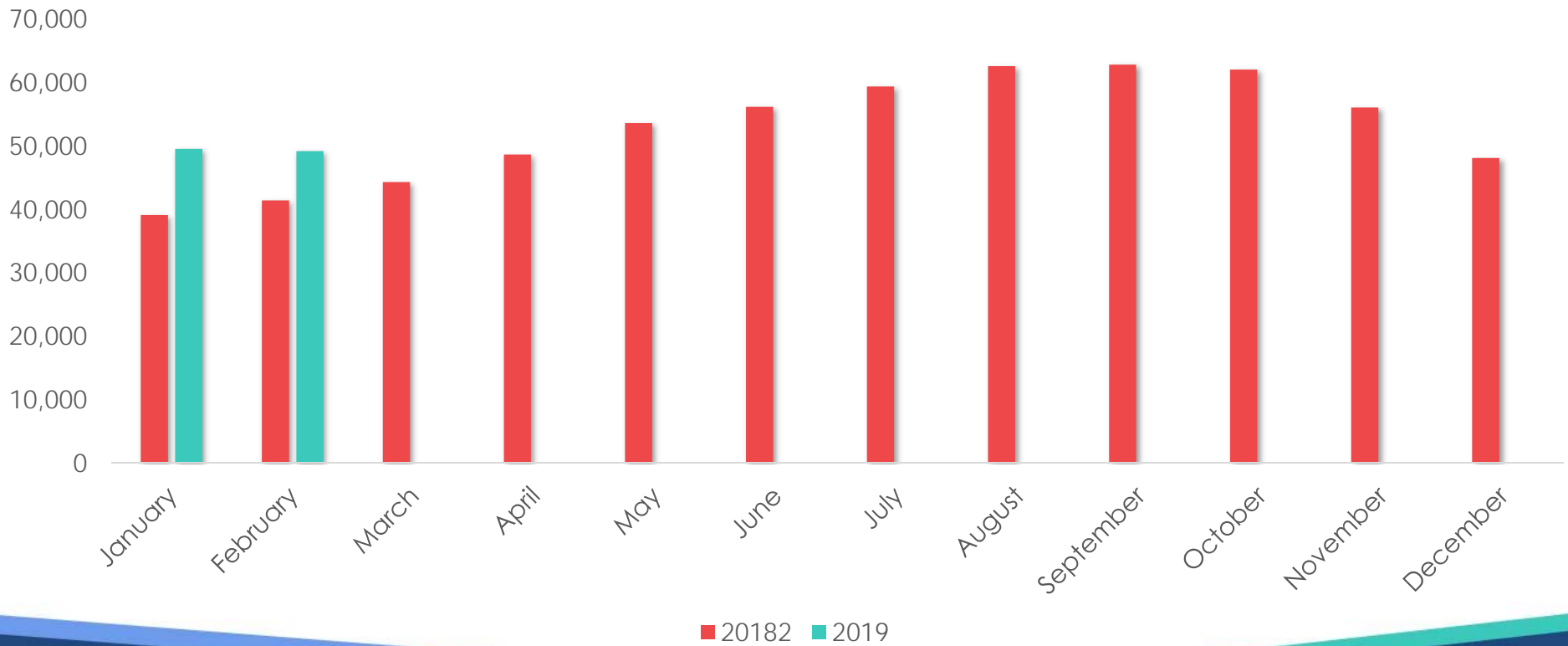


SERIES: Active Listing of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



active listings by month

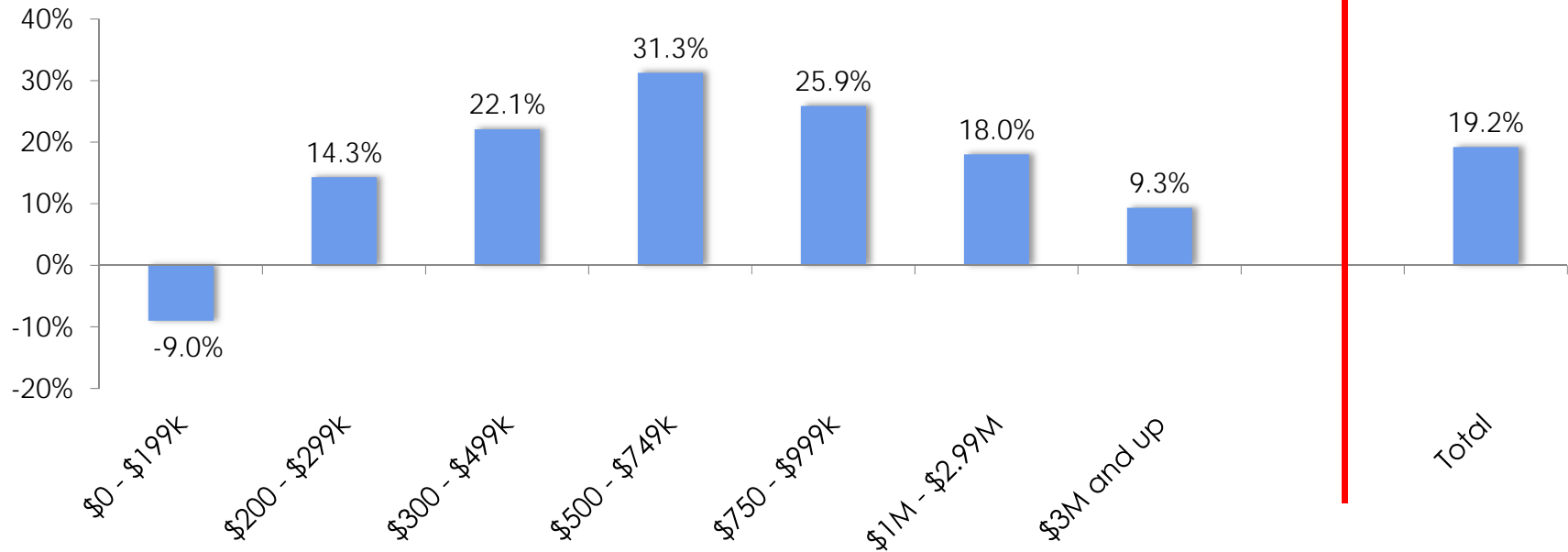
California Active Listings by Month





inventory up in most segments

Feb 2019
active listings

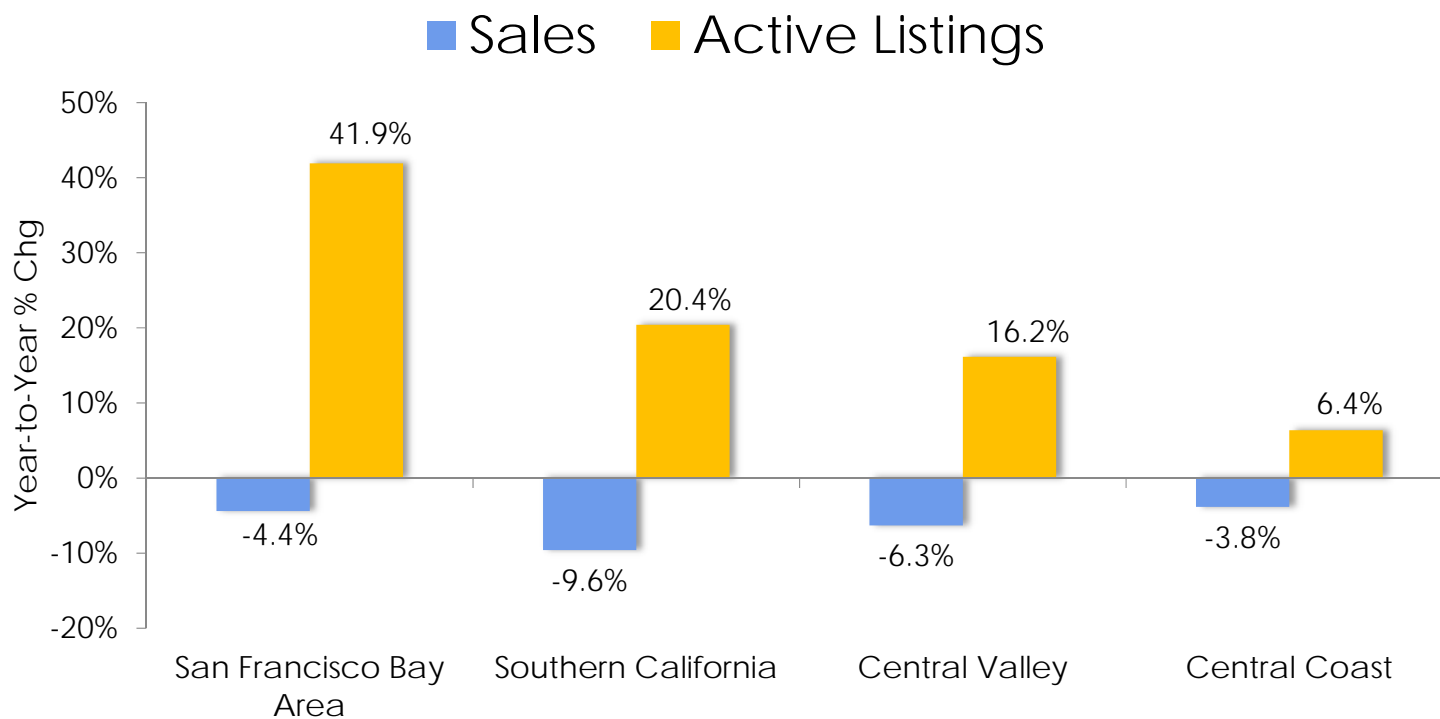


SERIES: Active Listings of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



more listings = more sales?

Feb 2019

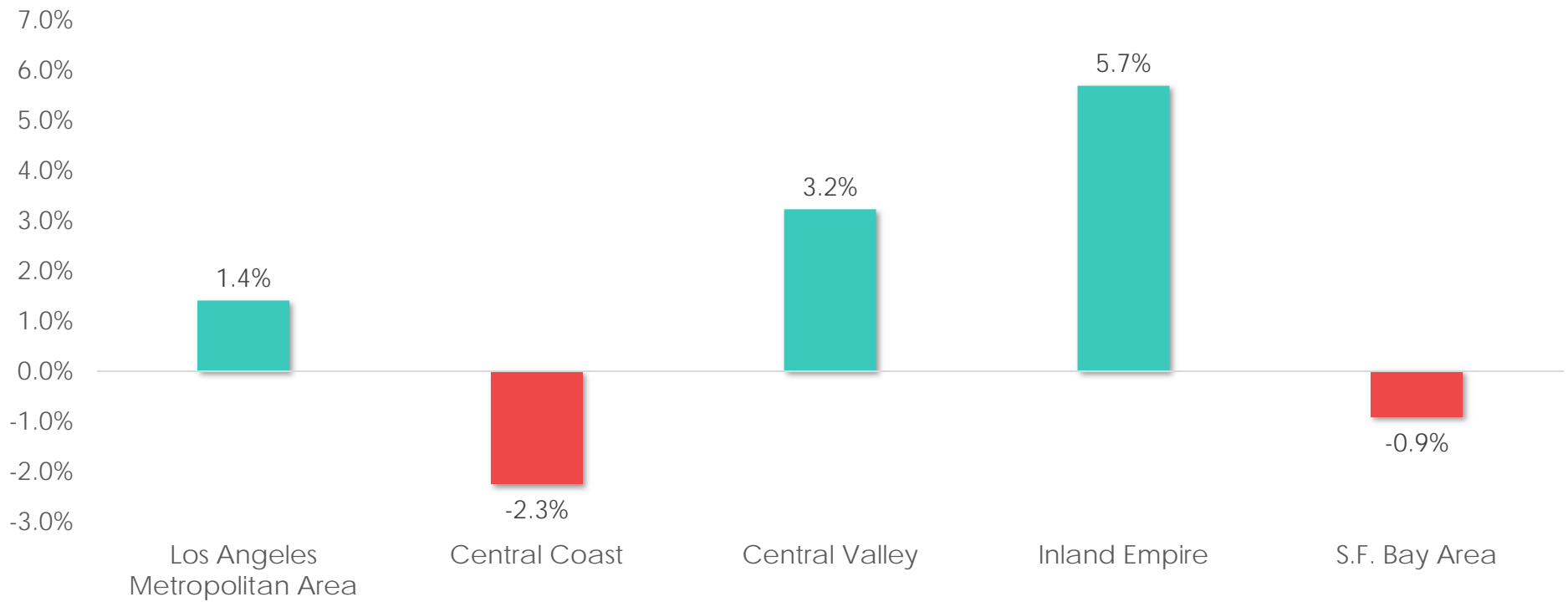


SERIES: Sales and Listings of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



price movement varies by region

Existing SFR Price Growth, February 2019

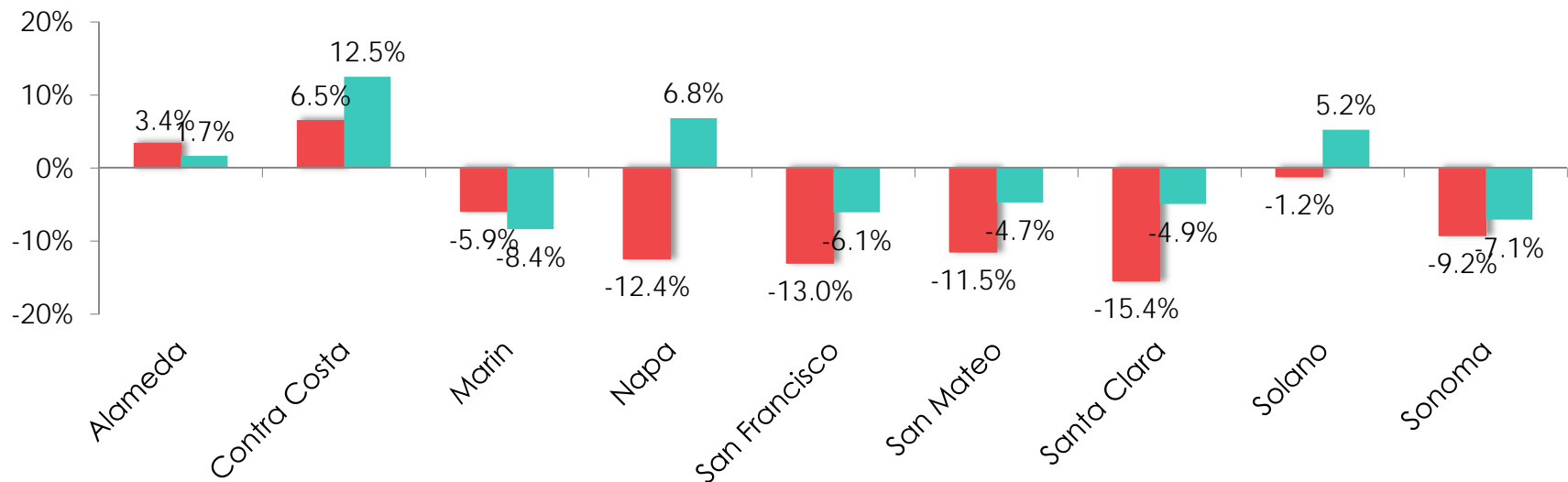




bay area -.9% price drop reflects shifting mix

Feb 2019

■ Median Price (YTY% Chg.)
■ Median Price/Sq. Ft. (YTY% Chg.)

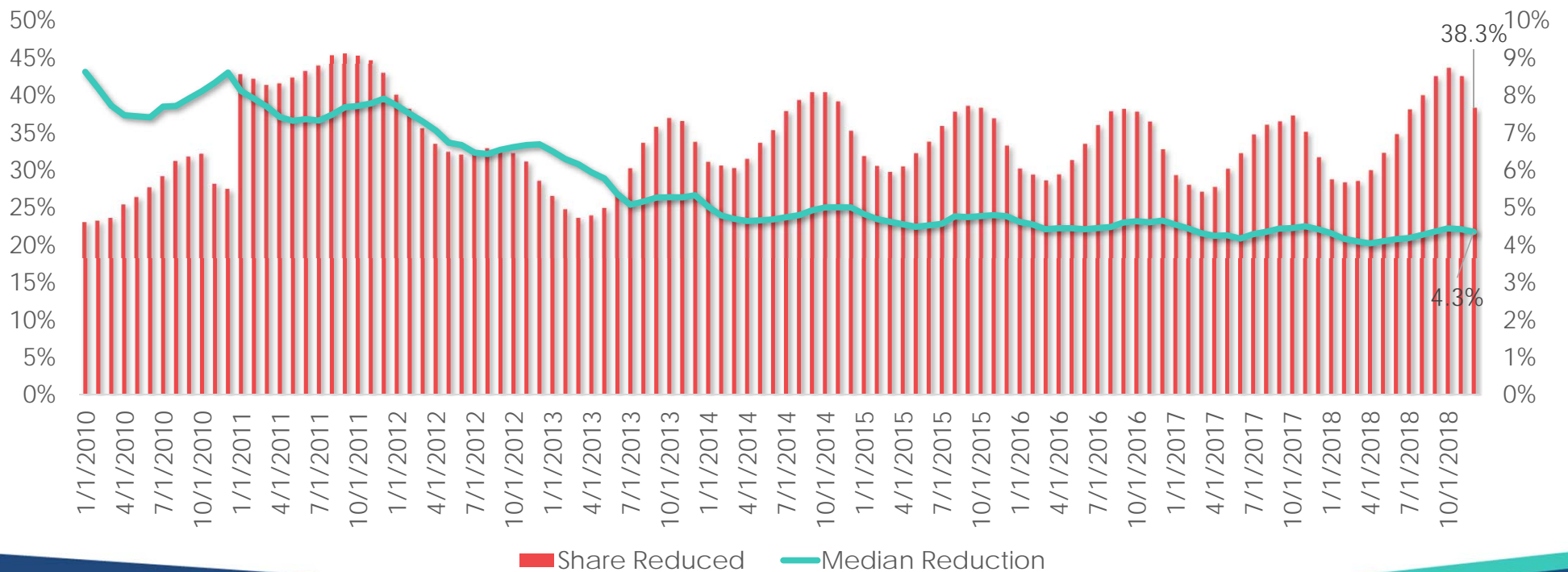




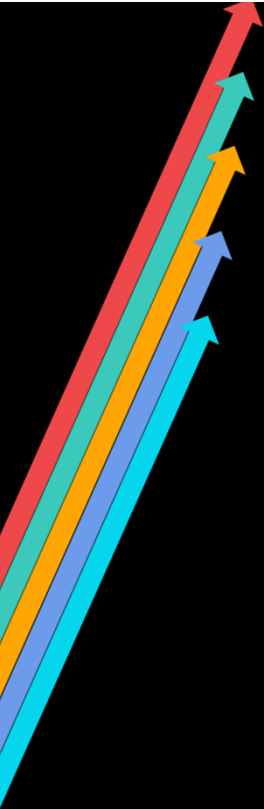
price reductions reflect new realities

Listings with a Reduced Price: 38.3%; Median Drop: -4.3%

California Reduced-Price Listings



SERIES: Listing Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

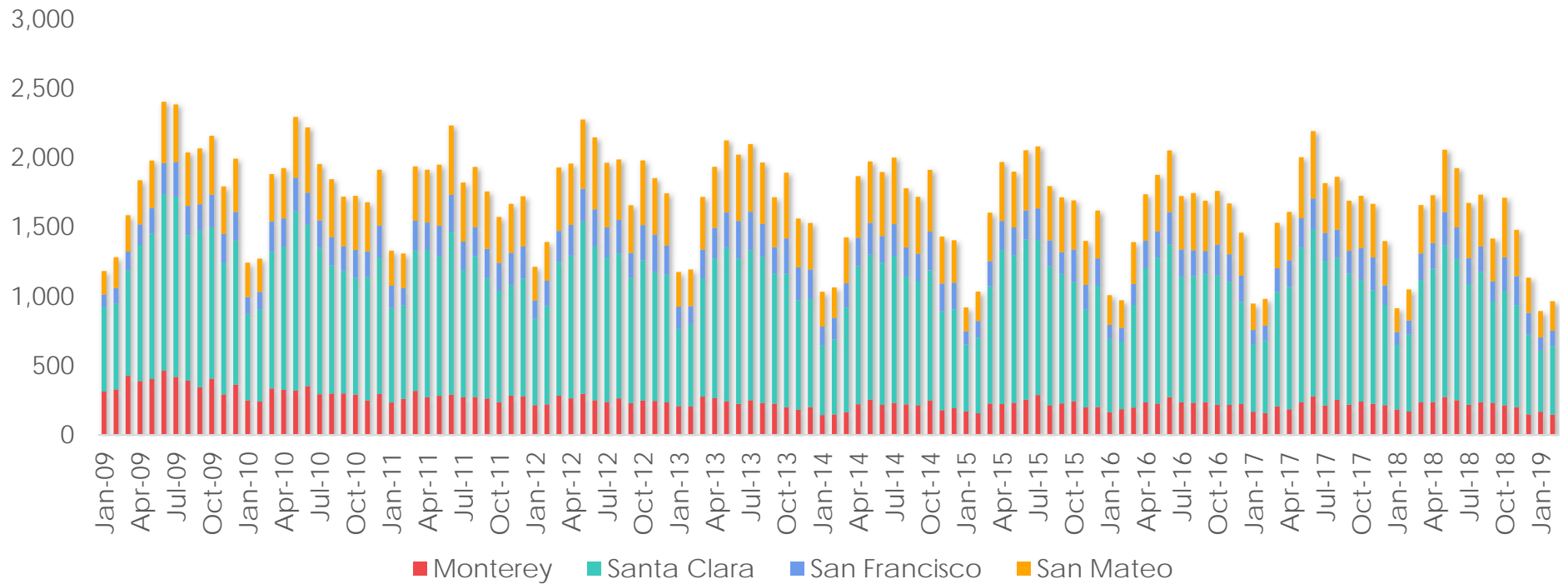


regional housing market update



sales down throughout region

Silicon Valley Existing SFR Sales

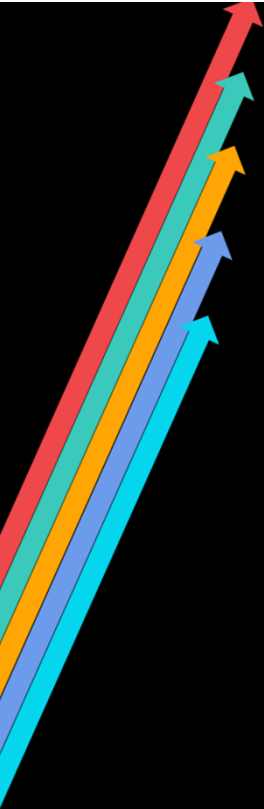




larger declines than rest of the state

Silicon Valley Existing SFR Sales Growth



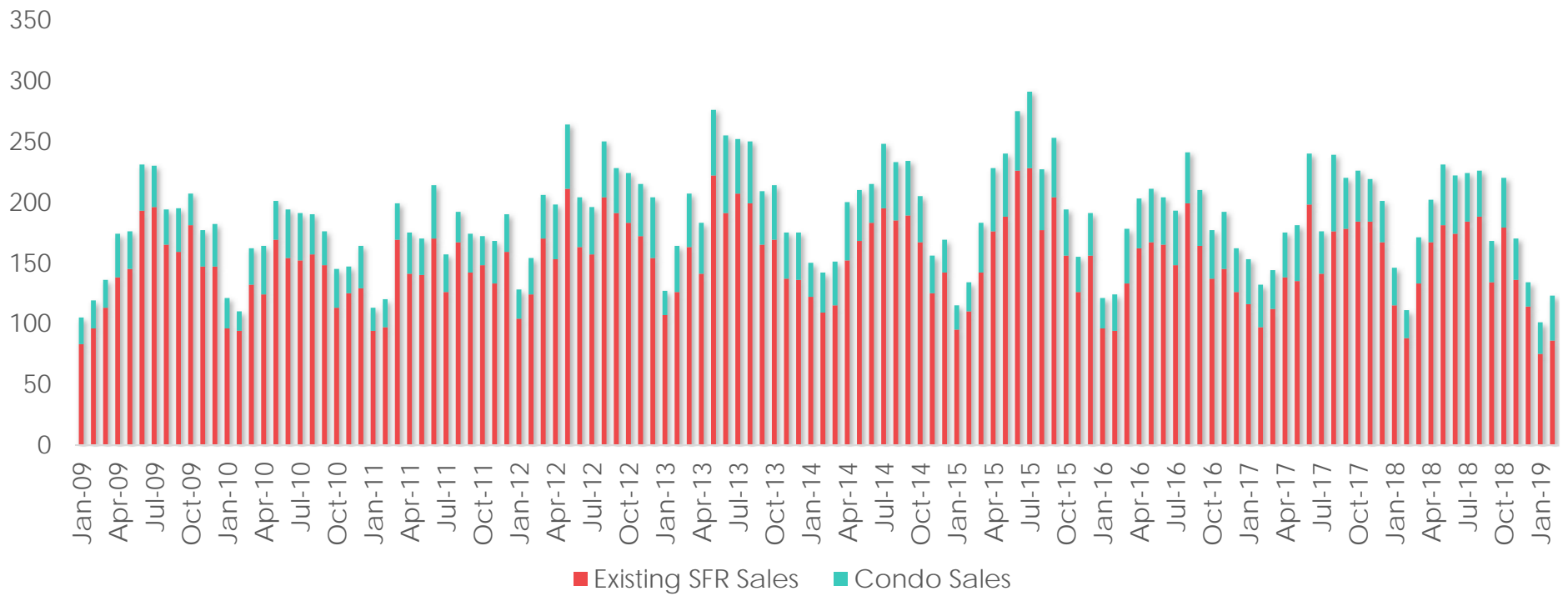


santa cruz



sales off sharply H2 2018/ feb rebound

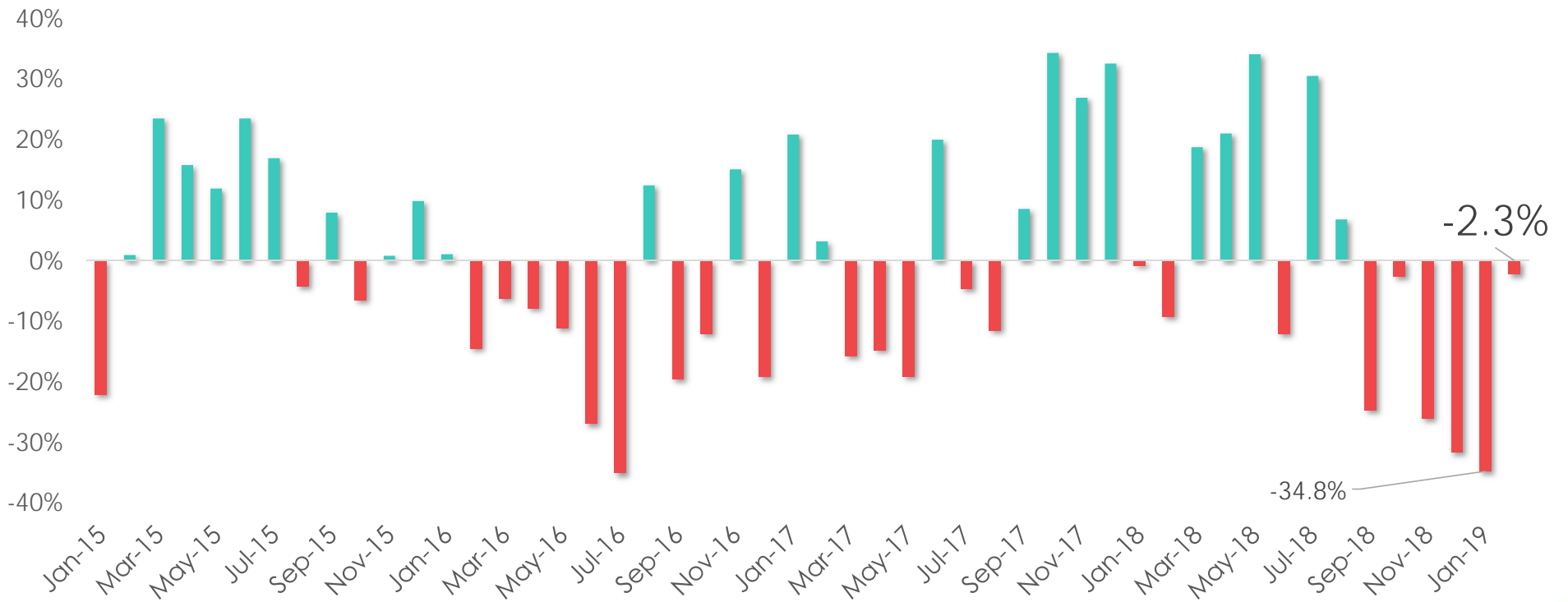
Santa Cruz AOR Home Sales





and feb was better

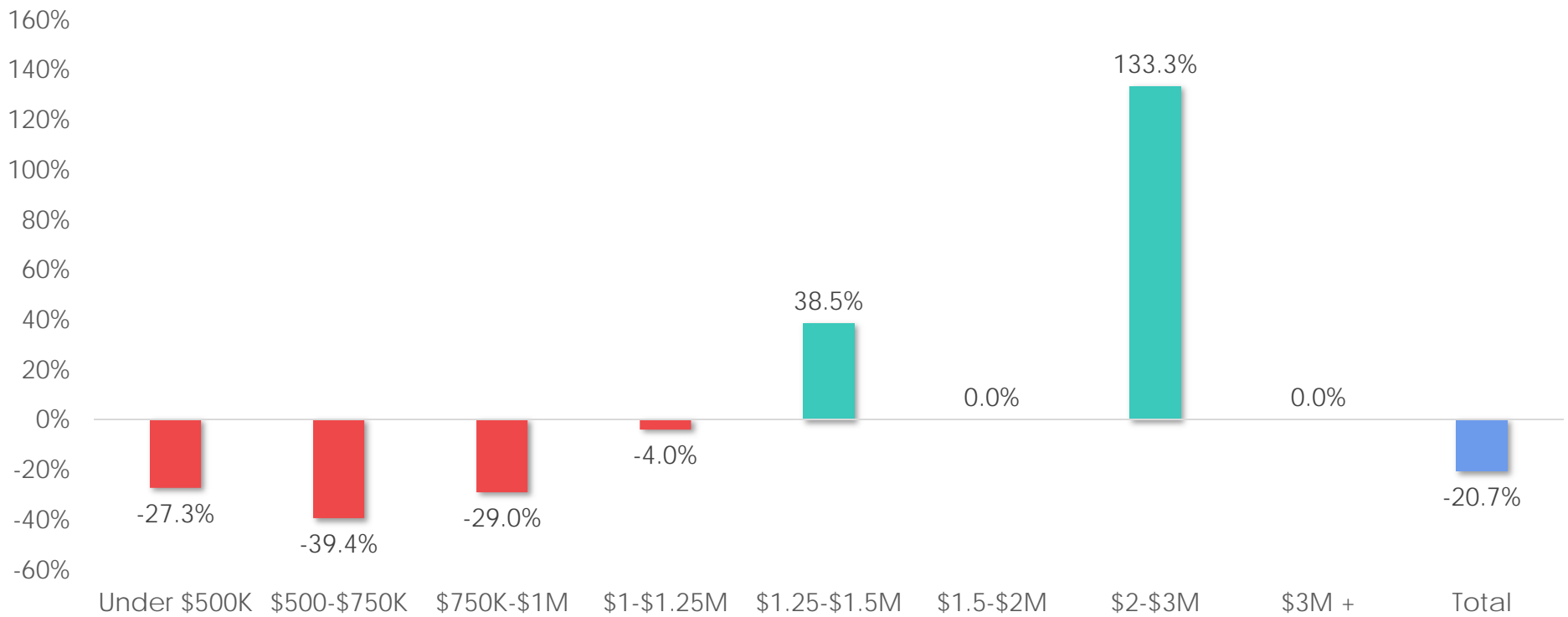
Santa Cruz AOR Existing SFR Sales Growth





lower-priced homes hit hardest- what?

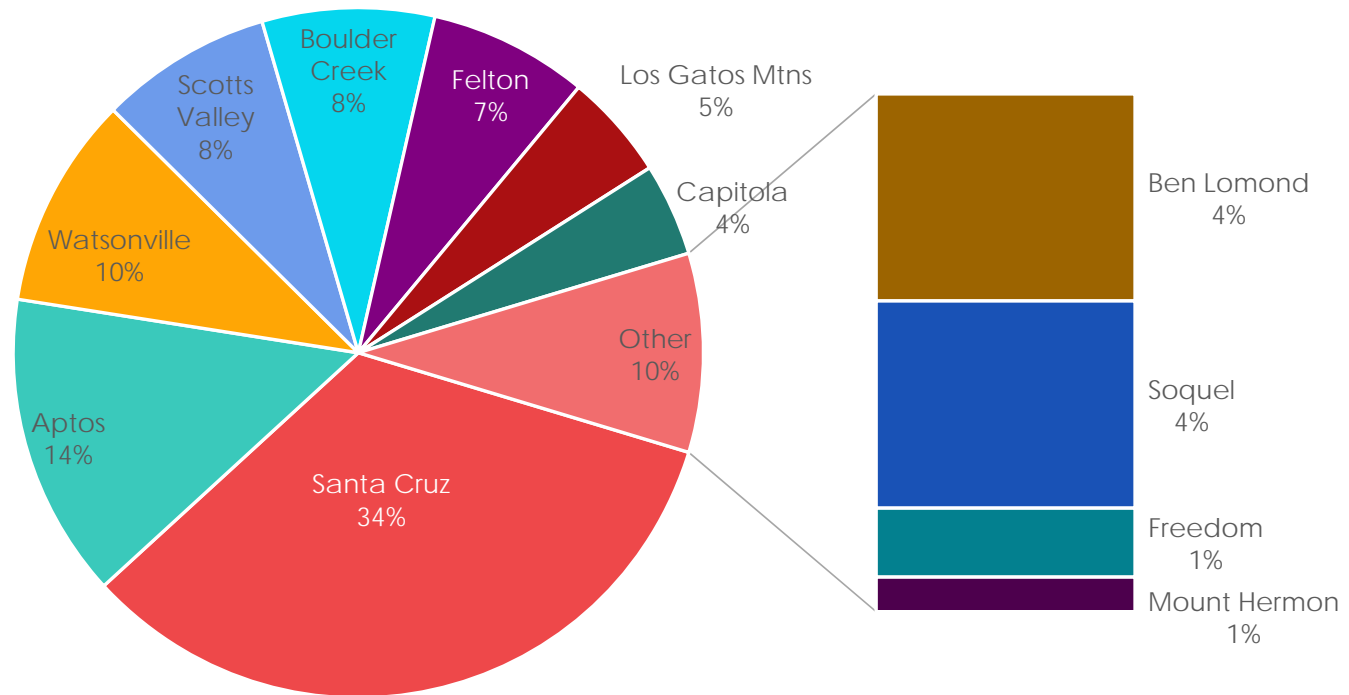
Santa Cruz AOR Existing SFR Sales Growth





5 cities = 75% of sales

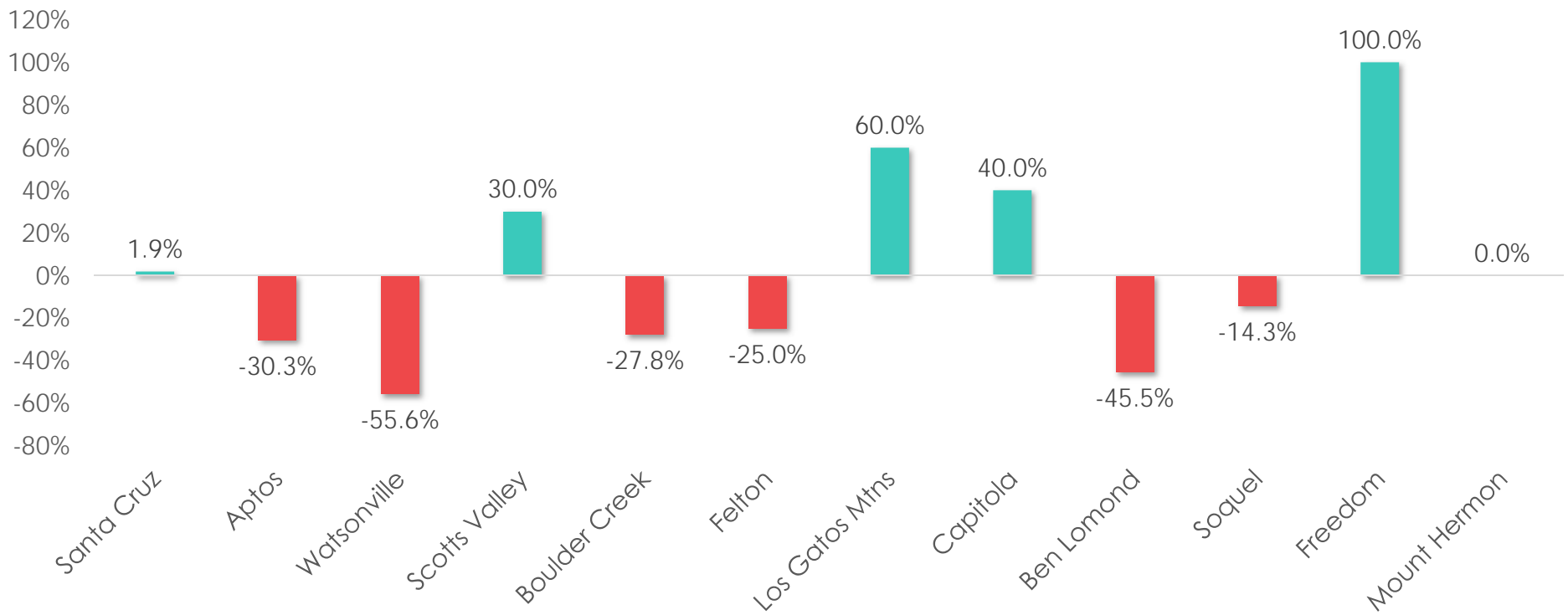
2019 Santa Cruz AOR Existing SFR Sales





not all markets trending together

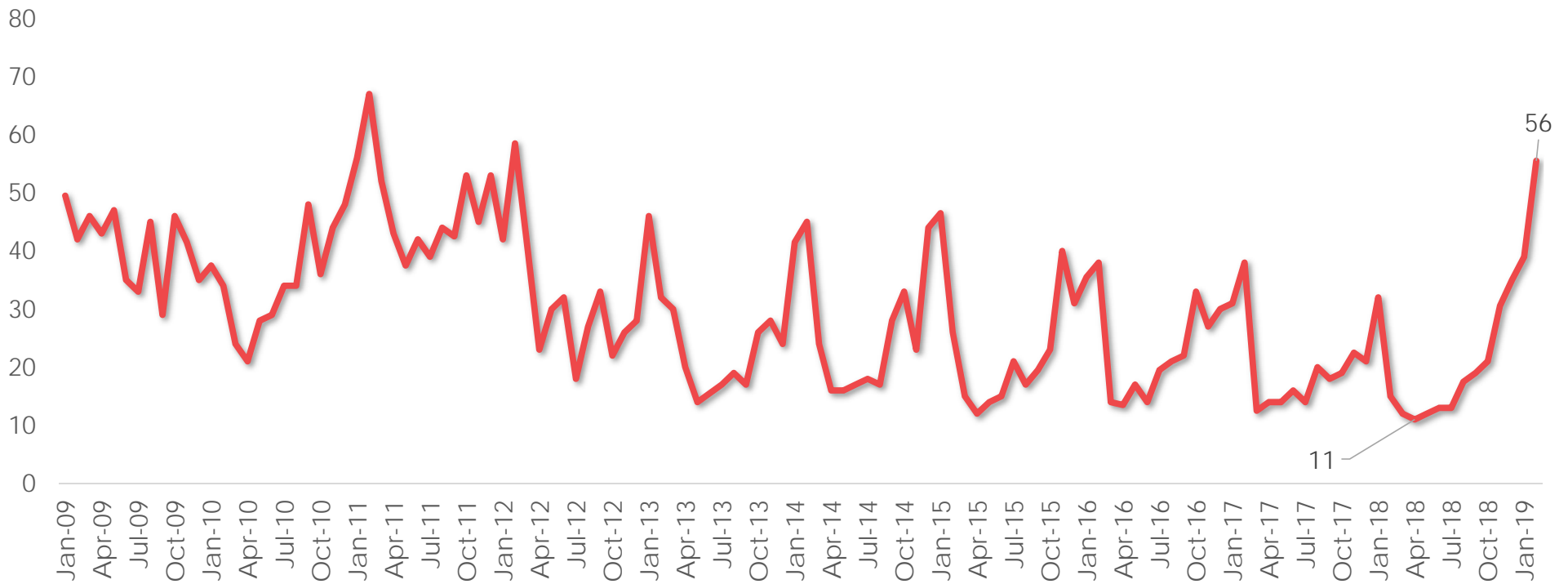
Santa Cruz AOR Existing SFR Sales Growth





taking longer to sell

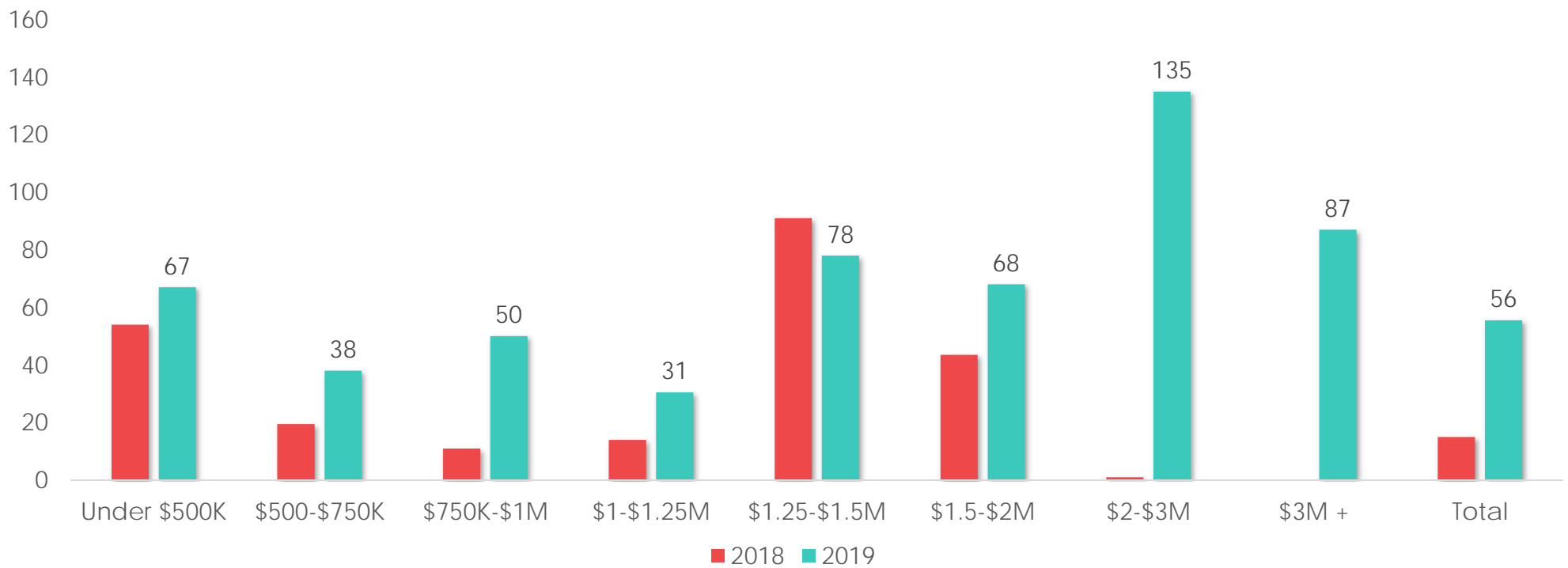
Santa Cruz AOR Median Time on Market





True across most price points

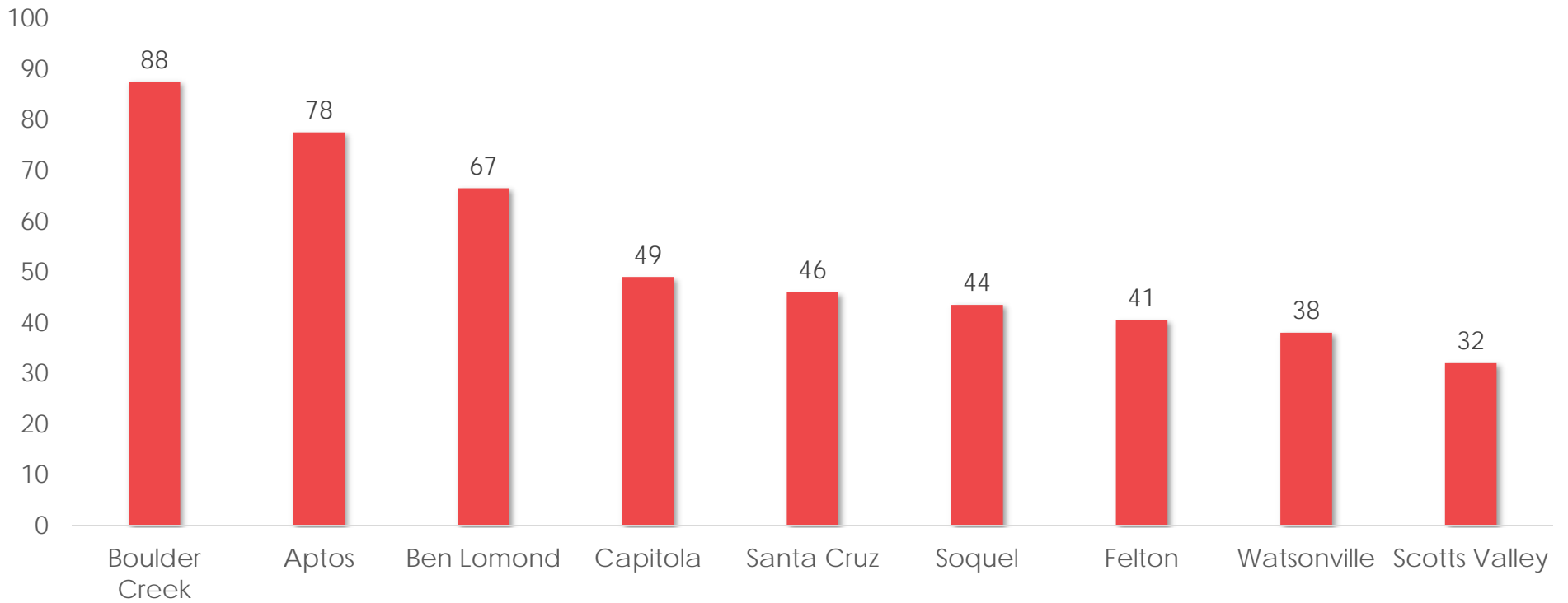
Santa Cruz AOR Median Time on Market





again, not all markets created equal

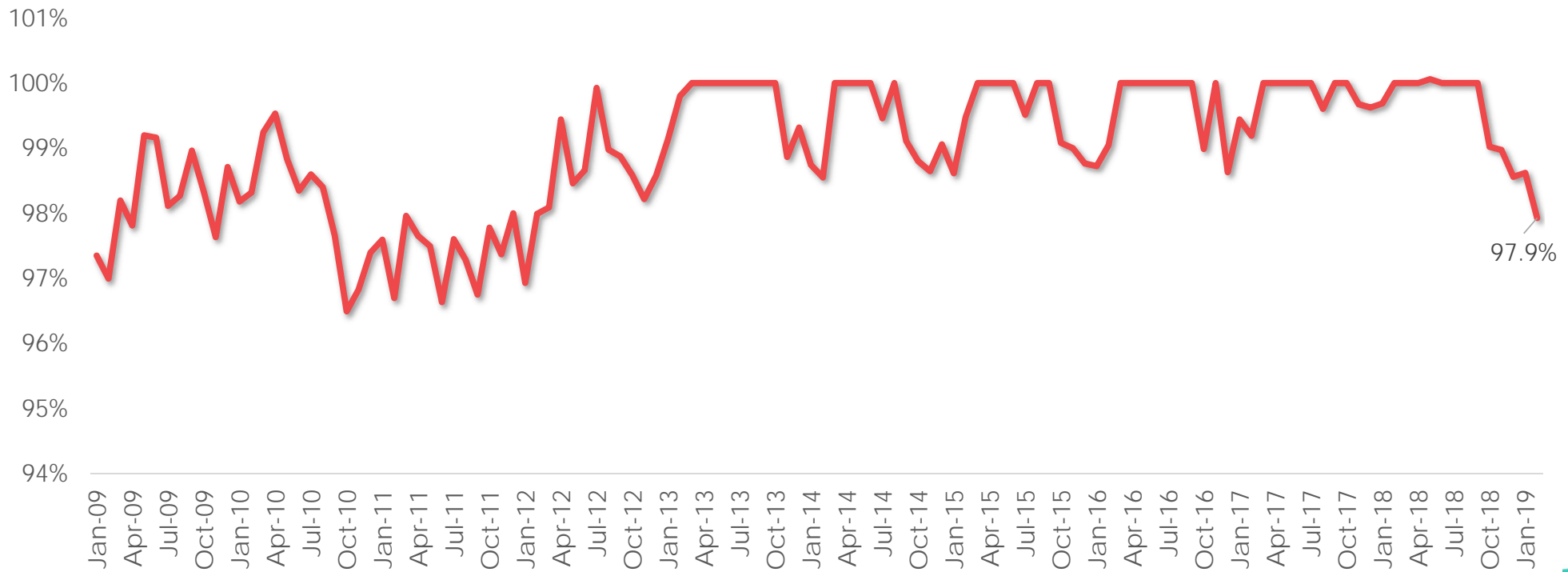
Santa Cruz AOR Median Time on Market





sales/list price ratio dropping

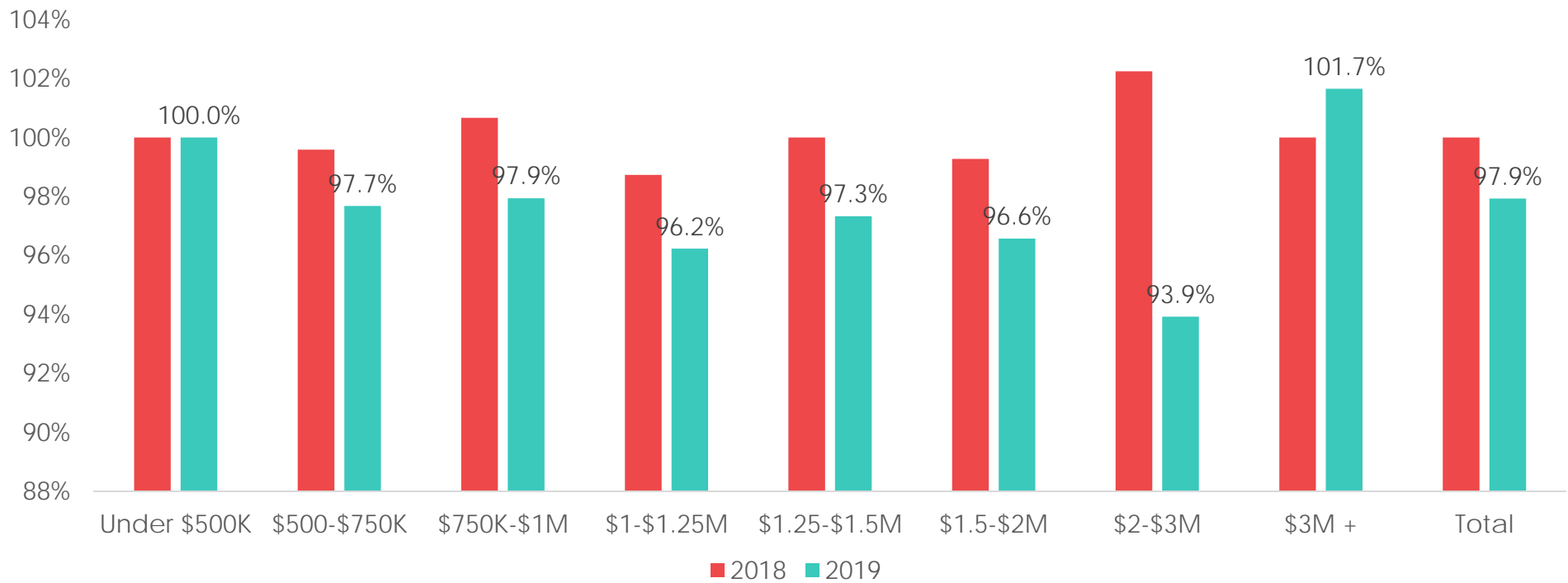
Santa Cruz AOR Sales/List Price Ratio





also across many price points

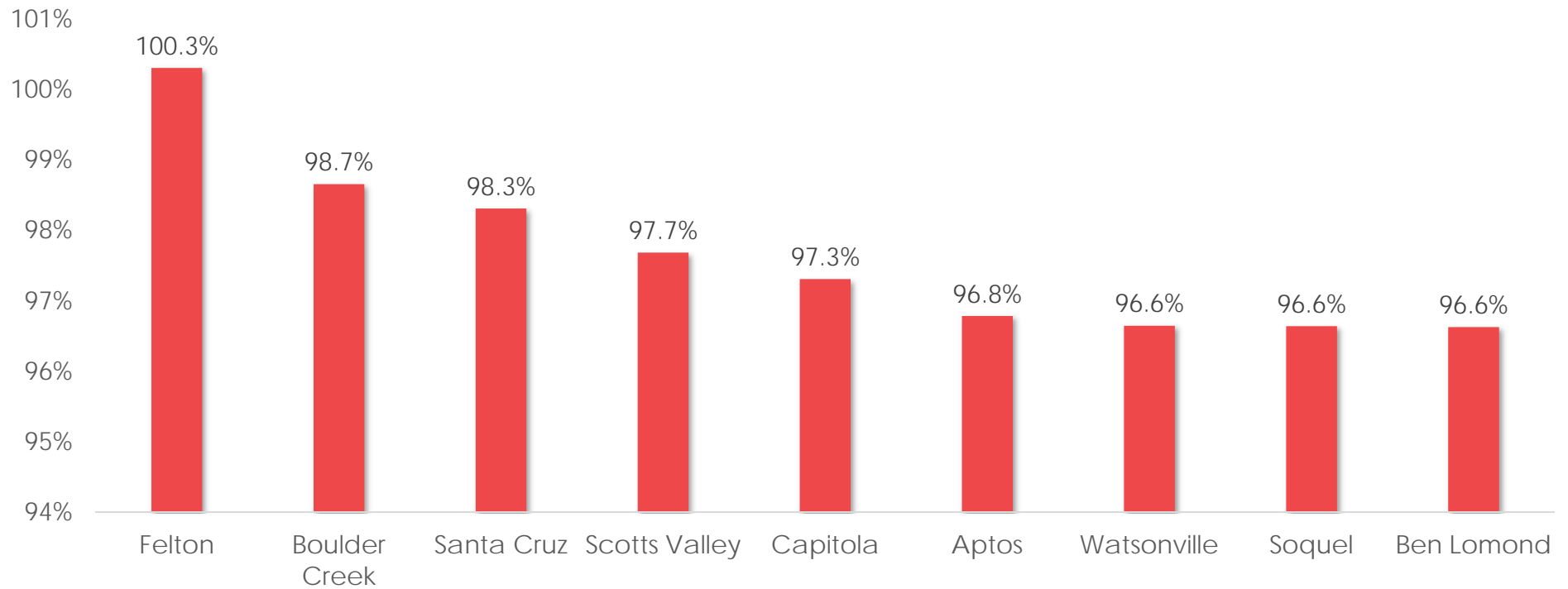
Santa Cruz AOR Sales/List Price Ratio





again, not all markets created equal

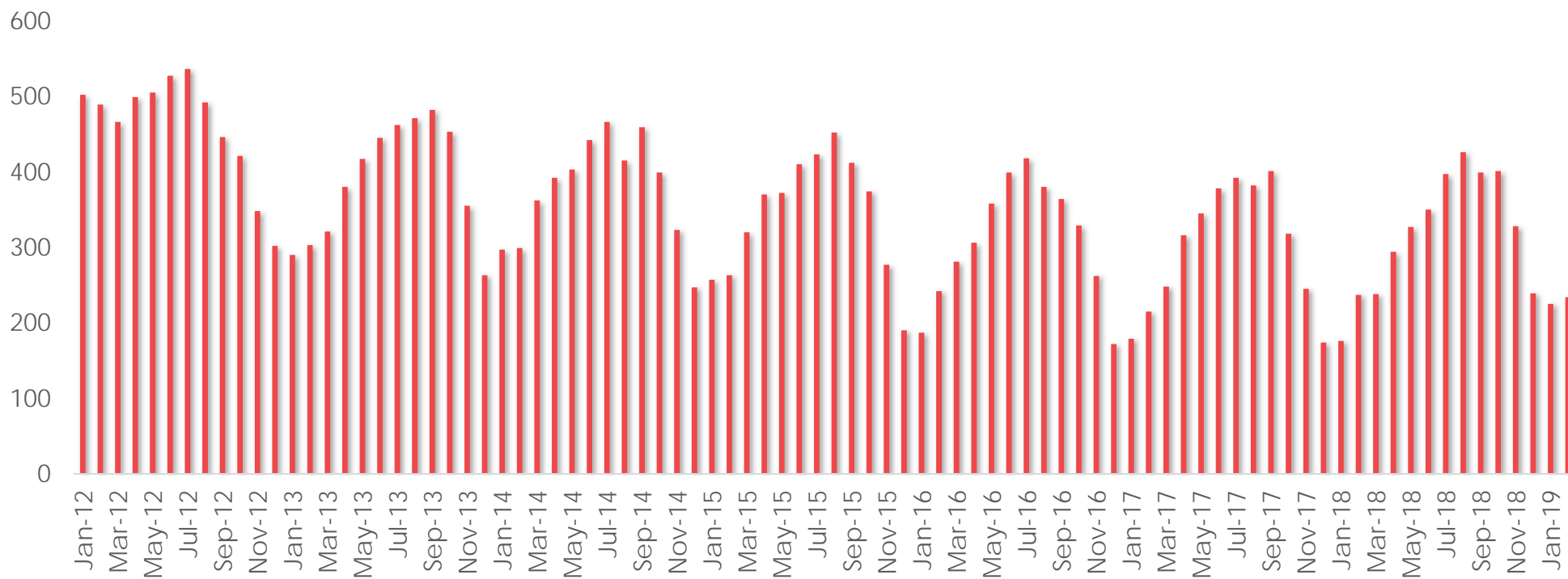
Santa Cruz AOR Sales/List Price Ratio





buyers have more to chose from

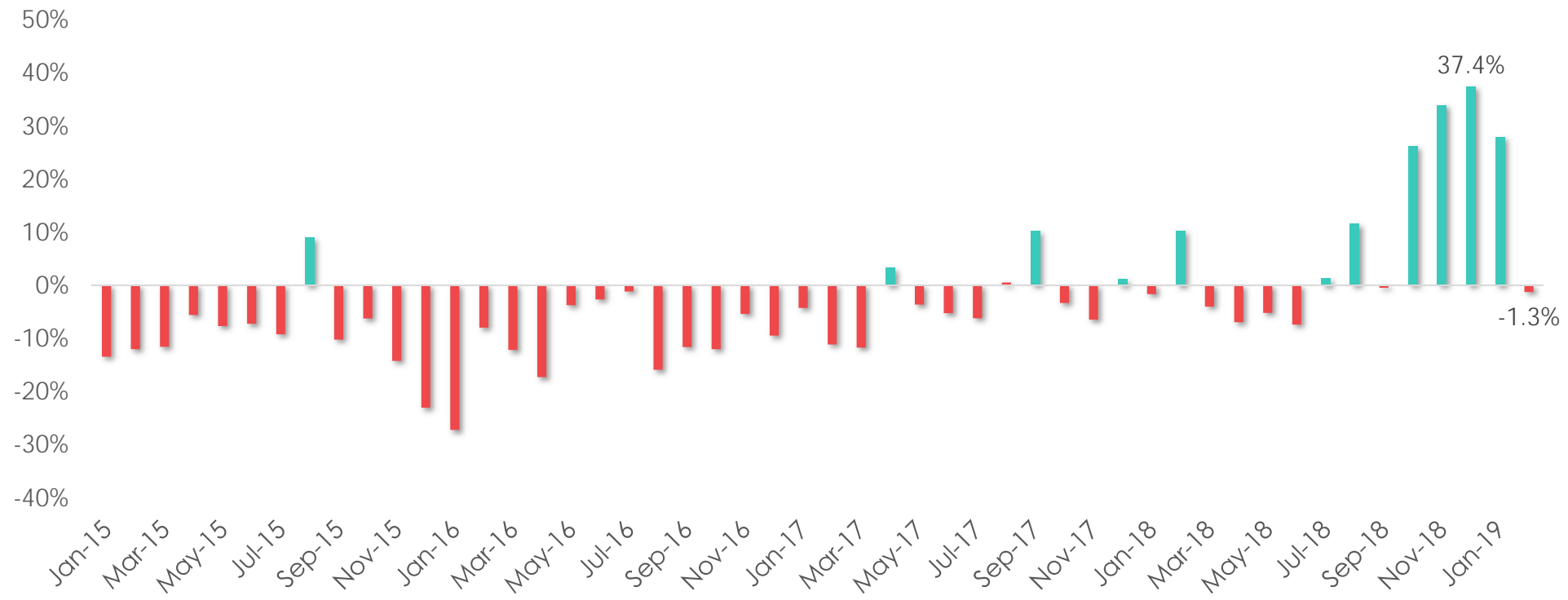
Santa Cruz AOR Active Listings





tide appears to be turning

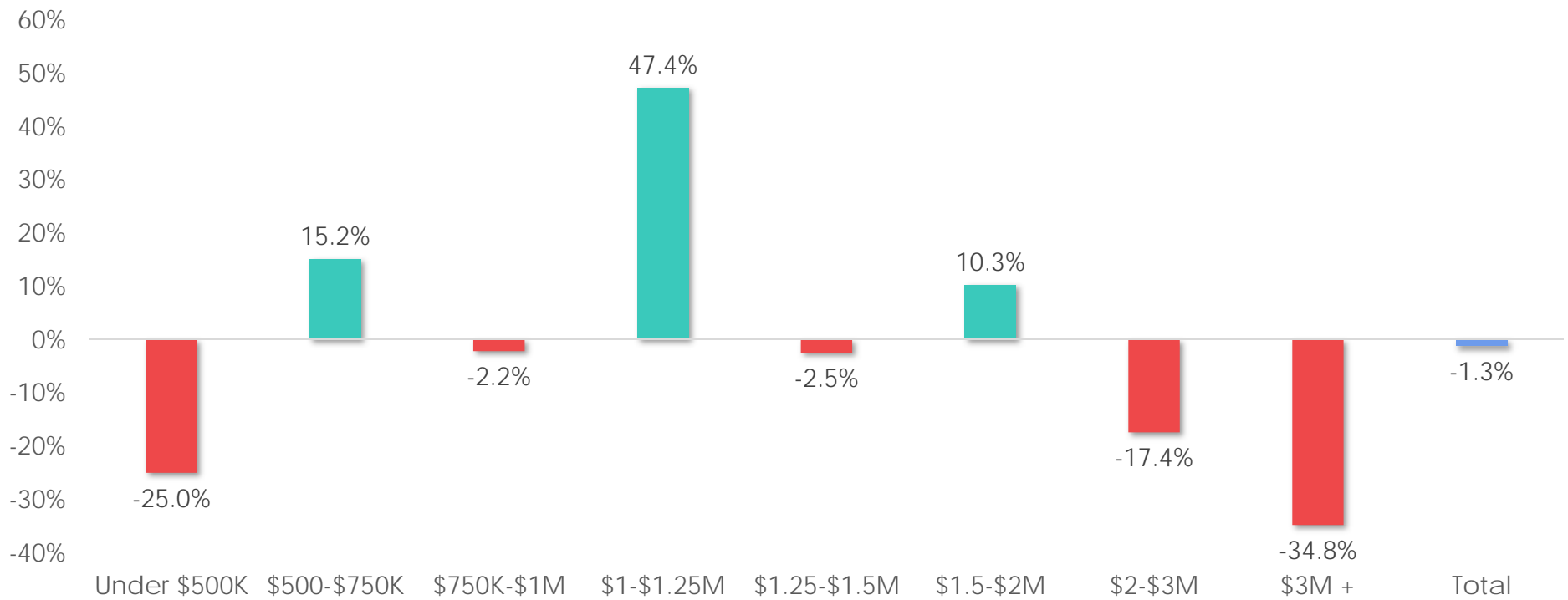
Santa Cruz AOR Active Listings Growth





strongest growth in the middle

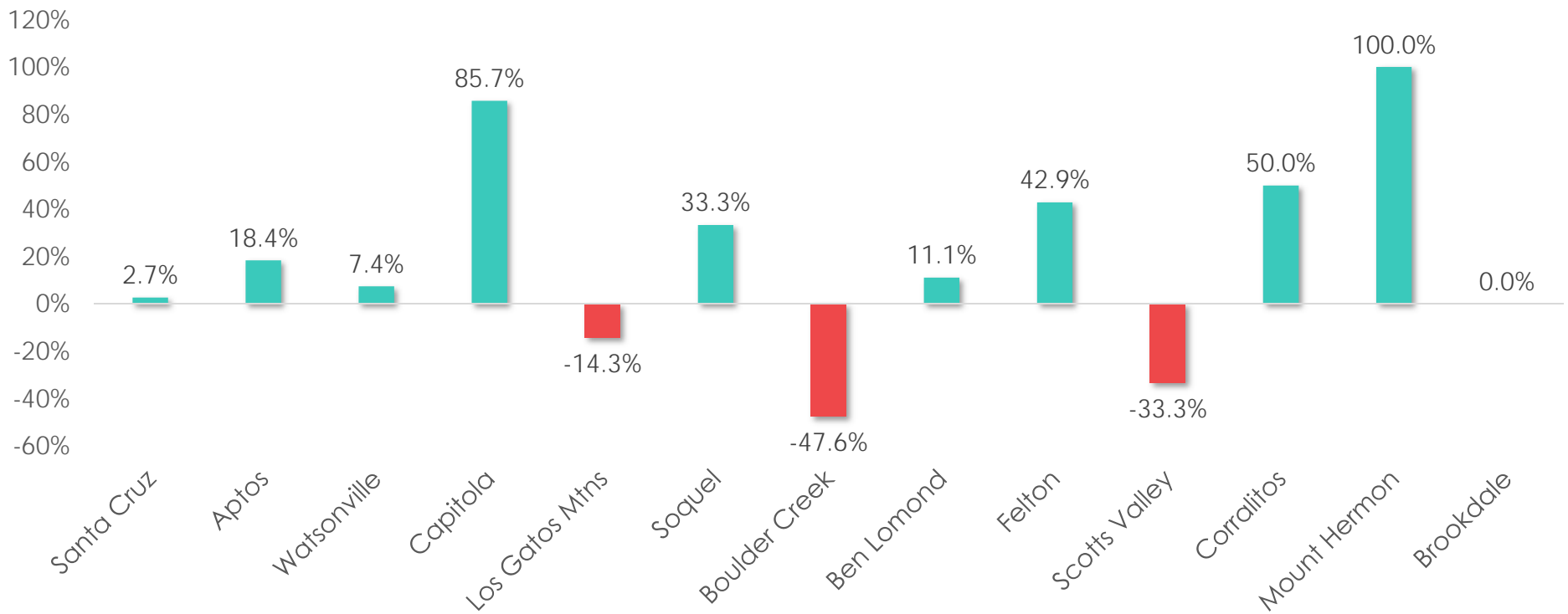
Santa Cruz AOR Active Listings Growth





listings up across most of the county

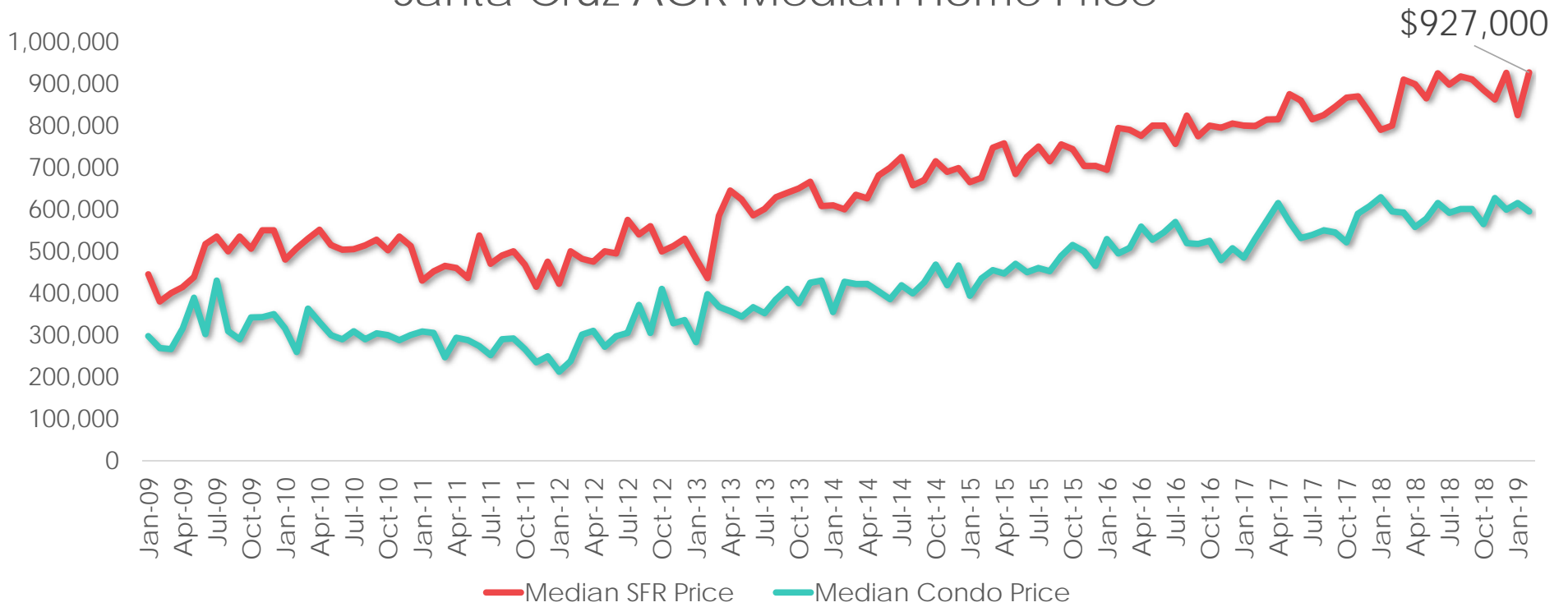
Santa Cruz AOR Active Listings Growth





median price bounced back in feb

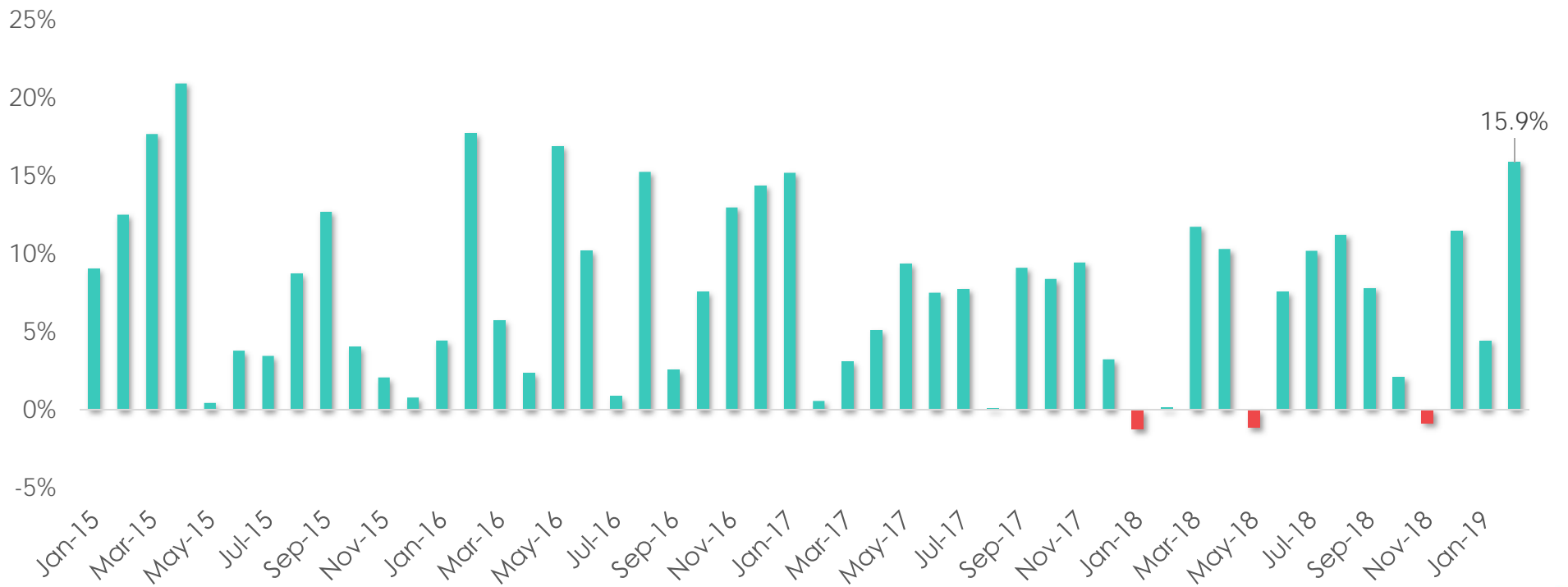
Santa Cruz AOR Median Home Price





appreciaiton has been strong

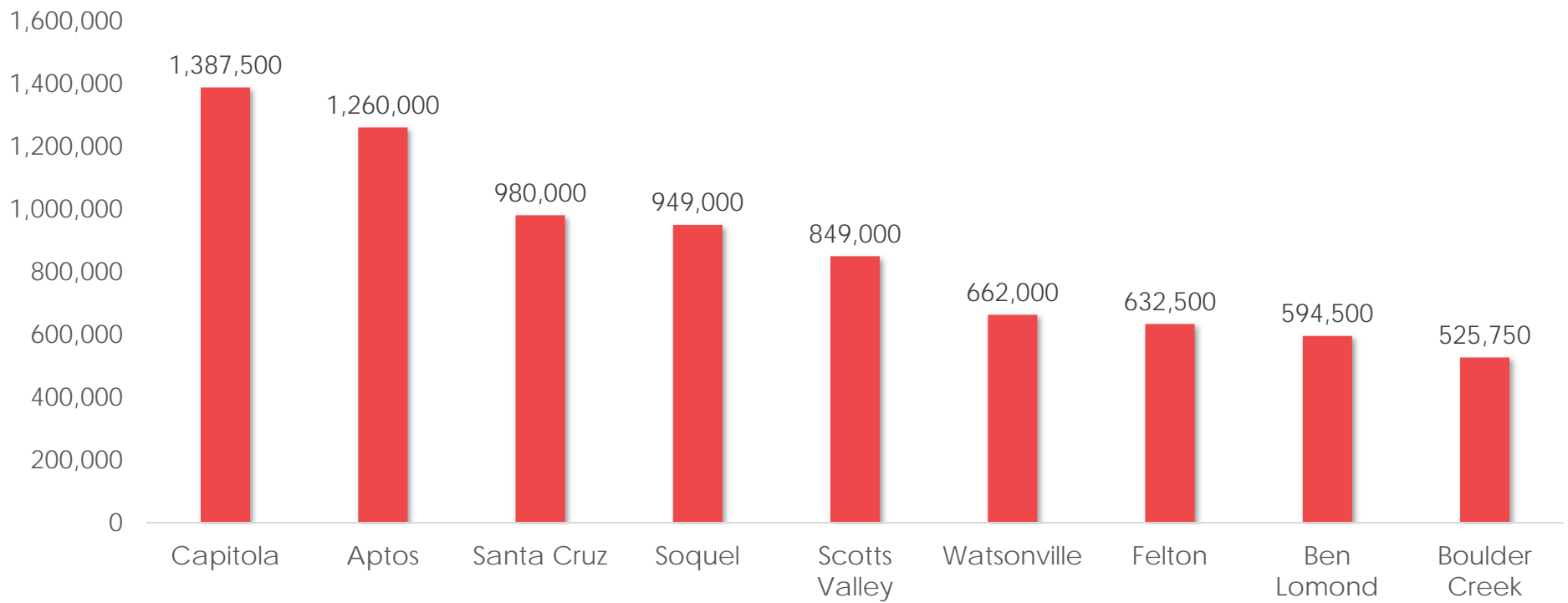
Santa Cruz AOR Existing SFR Price Growth





the beach makes the difference

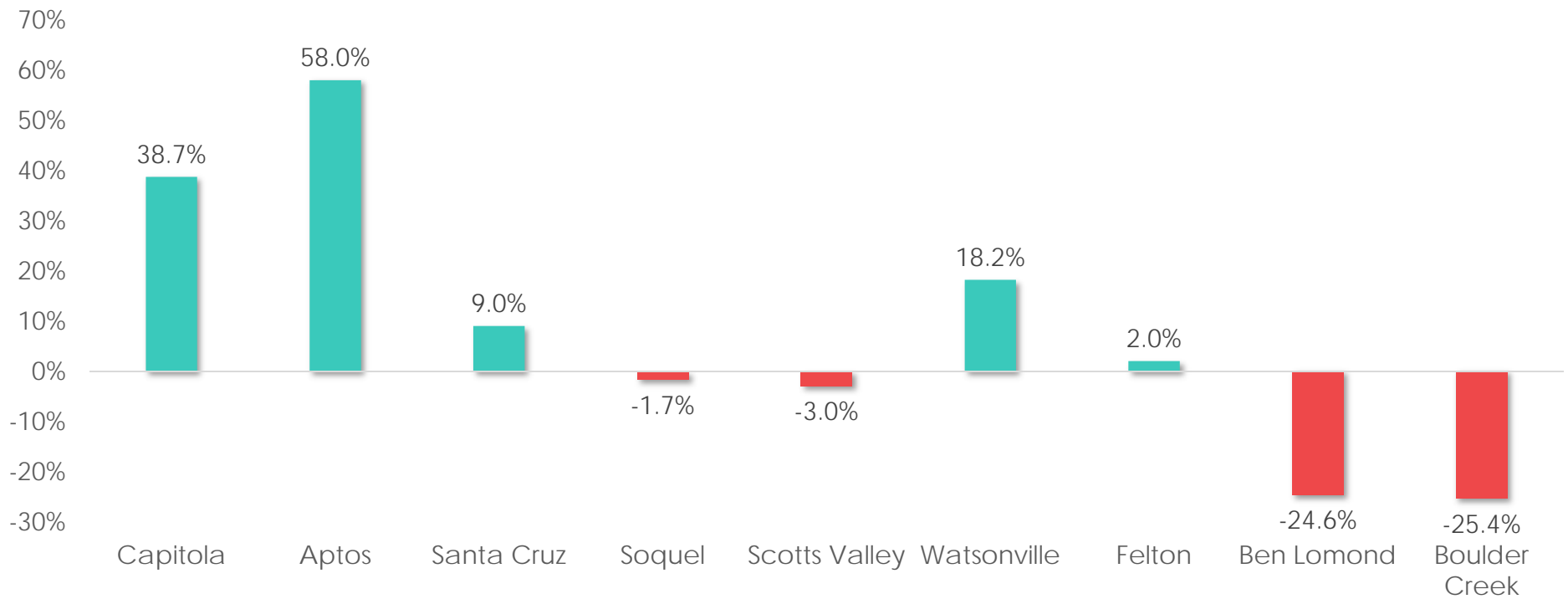
Santa Cruz AOR Median Price





lower-priced areas seeing growth slow

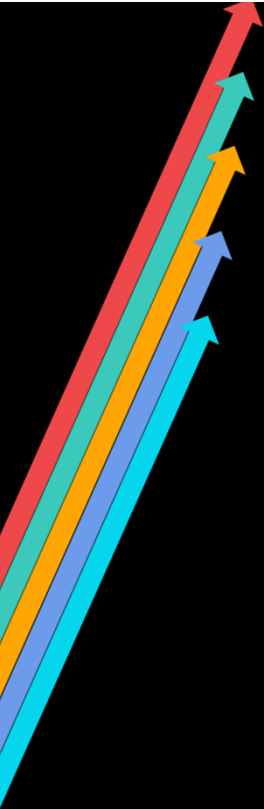
Santa Cruz AOR Median Price





2/19: how is the santa cruz market?

- great to good
- sales have turned the corner
- price gains moderating almost everywhere
- active listings increasing but not nearly as fast
- time on market increasing
- more price reductions & low rates = opportunity for buyers

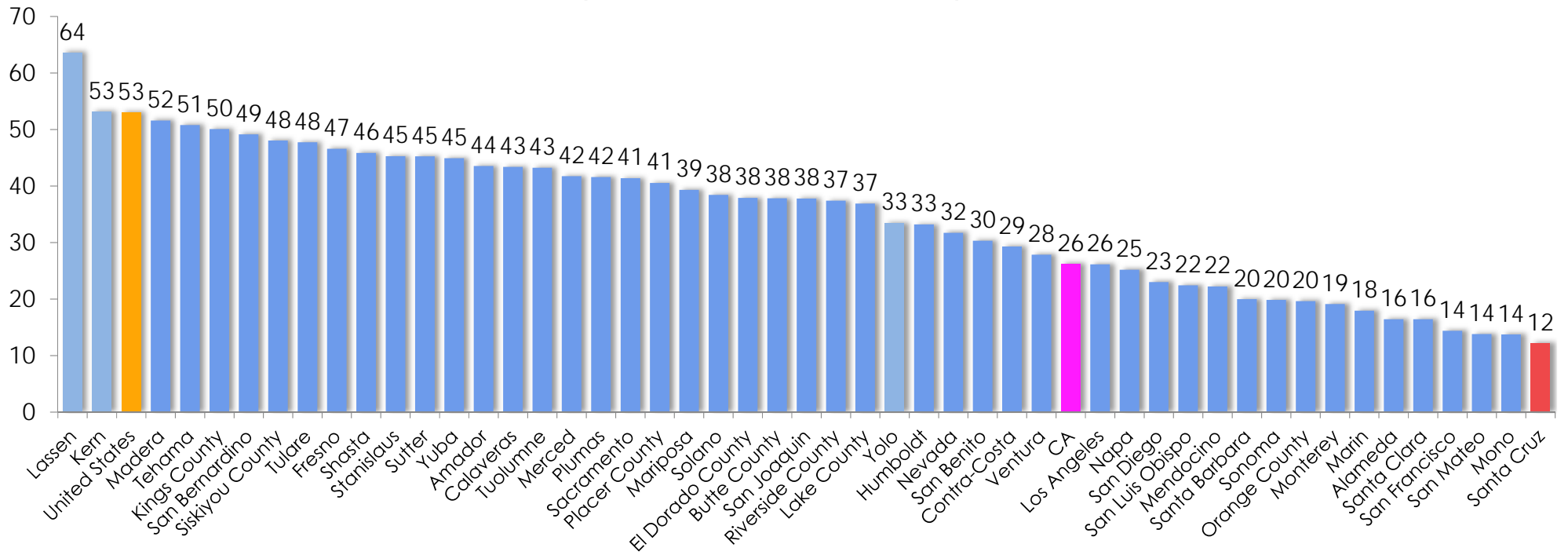


affordability is elusive



santa cruz: lowest in the state - 12%

2018-Q2: % able to purchase median-priced home

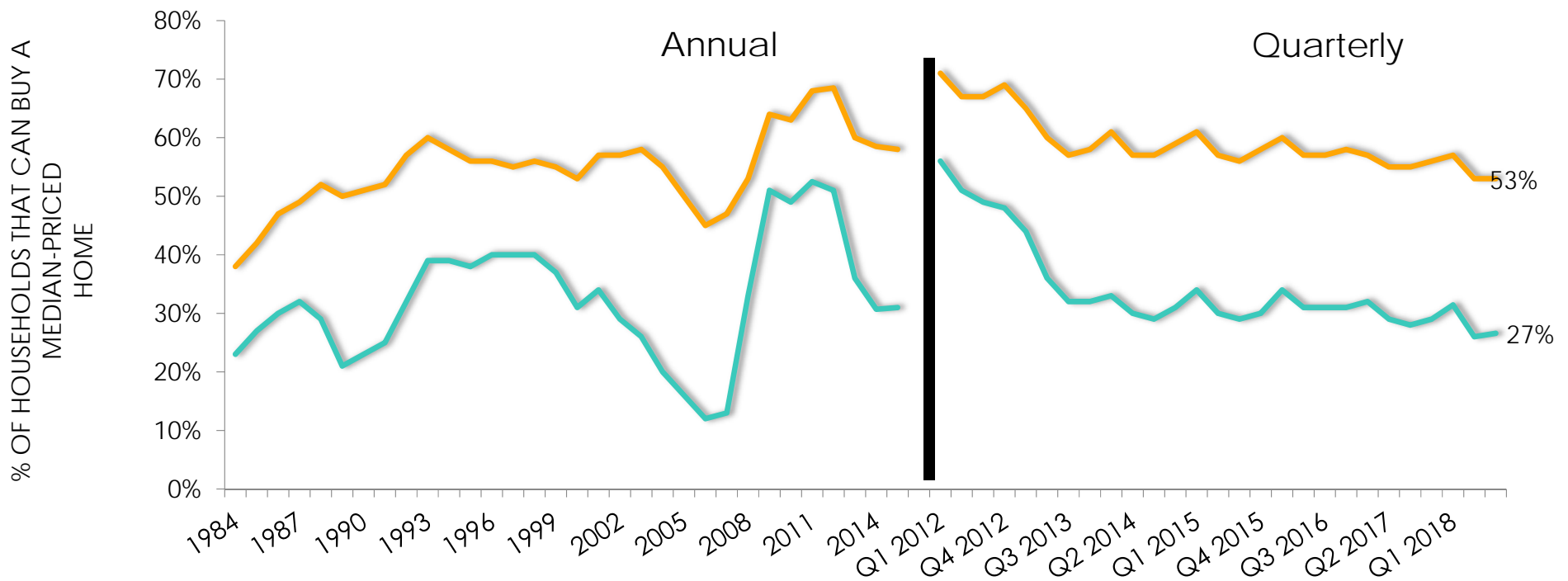


SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



ca housing affordability? it's not affordable

California, 1984-2018



SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



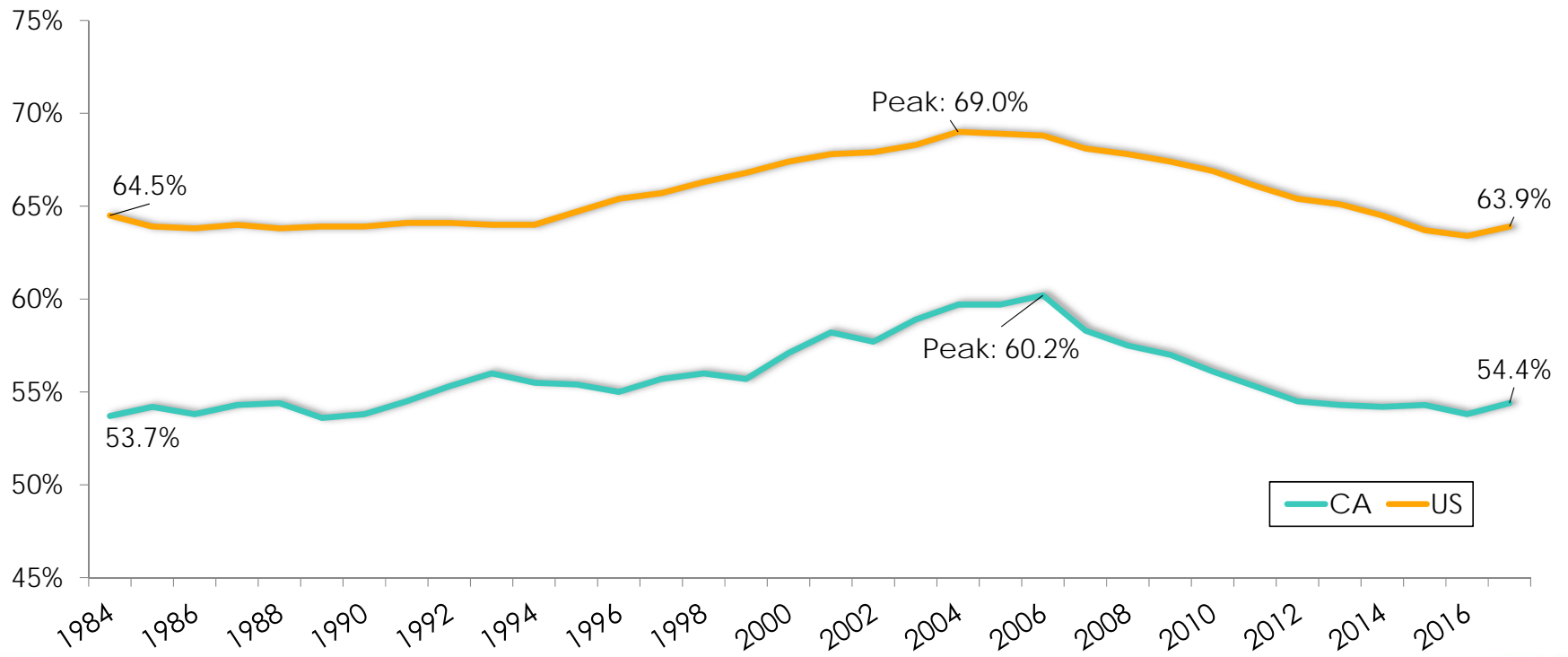
income required to buy has jumped - alot

Region	2012 Q1	2018 Q3	% CHG
CA SFH	\$56,320	\$125,540	122.9%
CA Condo/Townhomes	\$44,440	\$102,260	130.1%
Los Angeles Metropolitan Area	\$53,780	\$112,200	108.6%
Inland Empire	\$35,170	\$77,330	119.9%
S.F. Bay Area	\$90,370	\$202,650	124.2%
US	\$32,000	\$56,930	77.9%



u.s. v ca homeownership gap

"The Gap": 3.5% in 1960 9.5% in 2017

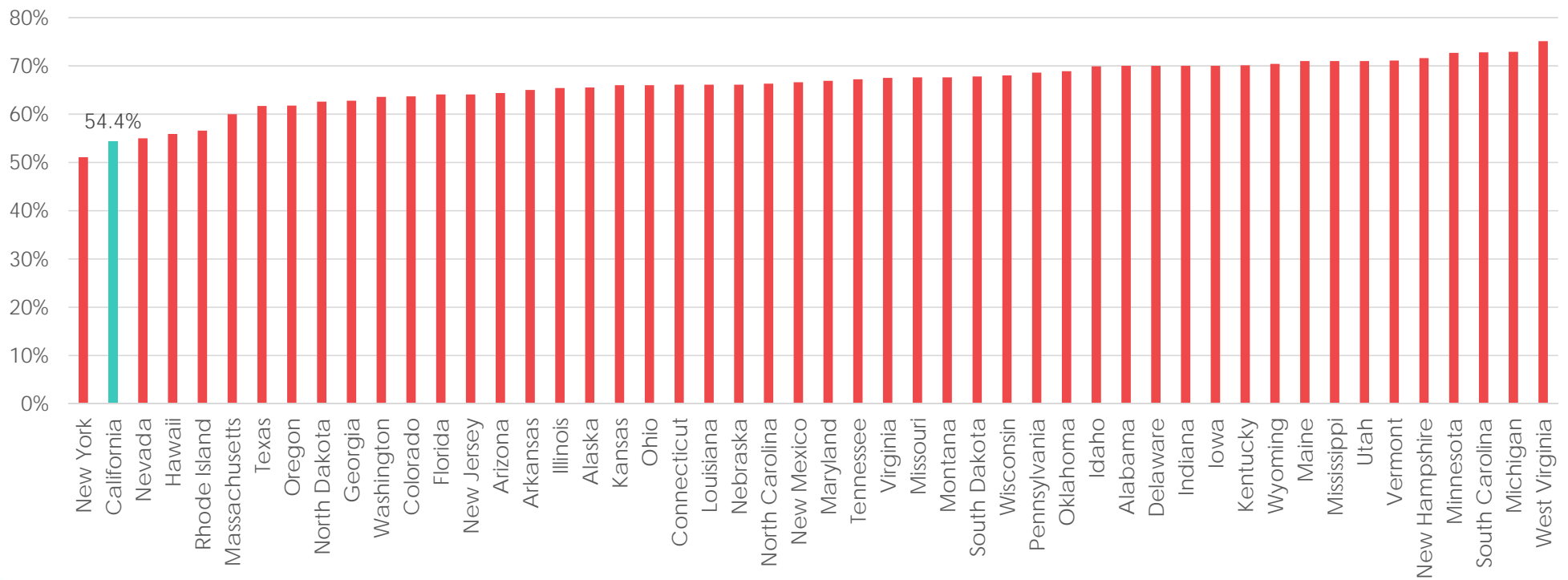


SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau



ca homeownership rate: 2nd lowest in nation

Homeownership Rate

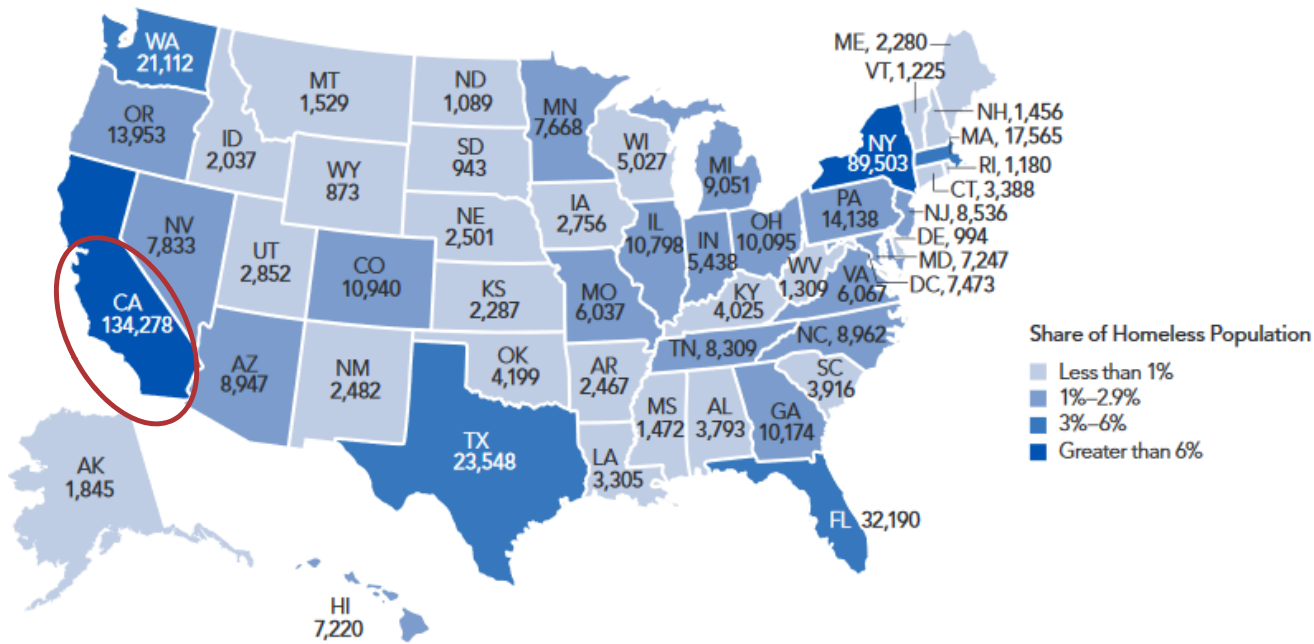


SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau (Current Population Survey)



Largest Number of Homeless People

Estimates of Homeless People – By State, 2017



Top 5 State with Largest Increases (2016 – 2017)

- California 16,136/13.7%
- New York 3,151/3.6%
- Oregon 715/5.4%
- Nevada 435/5.9%
- Texas 426/1.8%



by 2025 california will be a
majority renter state



Majority Renter Cities

2017 California Renter Rate by City





out-migration
"california two step"



More Sellers Continue to Move out of California; Highest since 2007

Location of Seller's New Home

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Within the same county	38%	41%	37%	45%	47%	42%	49%	49%	46%	44%	44%	40%	38%	36%
In another county in California	23%	18%	24%	17%	21%	21%	19%	18%	20%	21%	20%	21%	20%	21%
In another state	31%	28%	29%	27%	19%	20%	20%	22%	19%	22%	22%	25%	28%	29%
Out of US	1%	2%	1%	1%	2%	1%	1%	1%	0%	1%	1%	1%	1%	1%
Don't Know/Not sure	7%	11%	9%	10%	12%	16%	10%	10%	15%	13%	13%	13%	14%	13%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%



Case Study: Seller Leaving California

Seller's Profile

Age: 56
Marital Status: Married Couple with Dependents
Income: \$200,000
Yrs. Owned: 25
Net cash gain: \$1,050,000
Reason for selling: Desired larger home
State moving to: Utah

Characteristics of Home

Size: 1,948 sq. ft
Property Type: Single-Family Home
Location: Los Angeles County
Price: \$1,175,000

*"We doubled the size of our house and lowered our mortgage payment."**

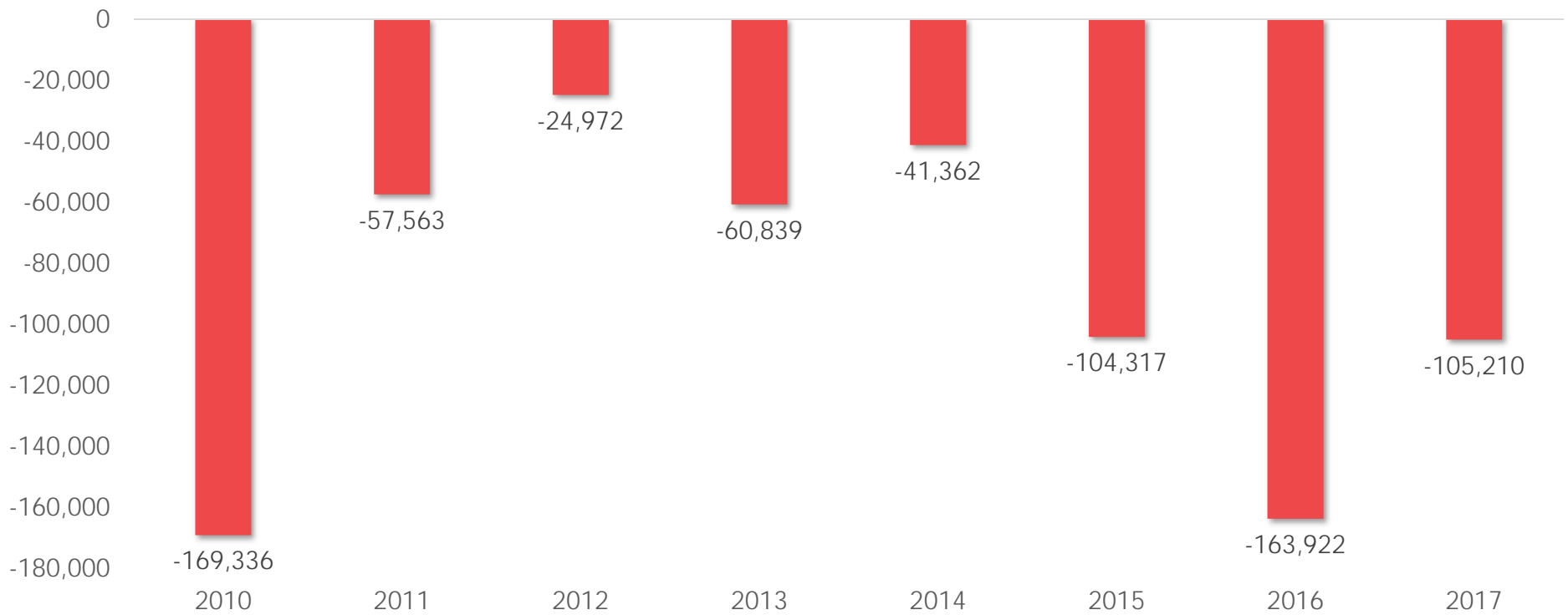
*"LA would have been my first choice, and I didn't want to have to leave California. I couldn't afford to stay there"**

*Lopez, S. (2017) 'They're leaving California for Las Vegas for find middle-class life that eluded them'. Los Angeles Times, 3 December



~750K People Have Left Since 2010

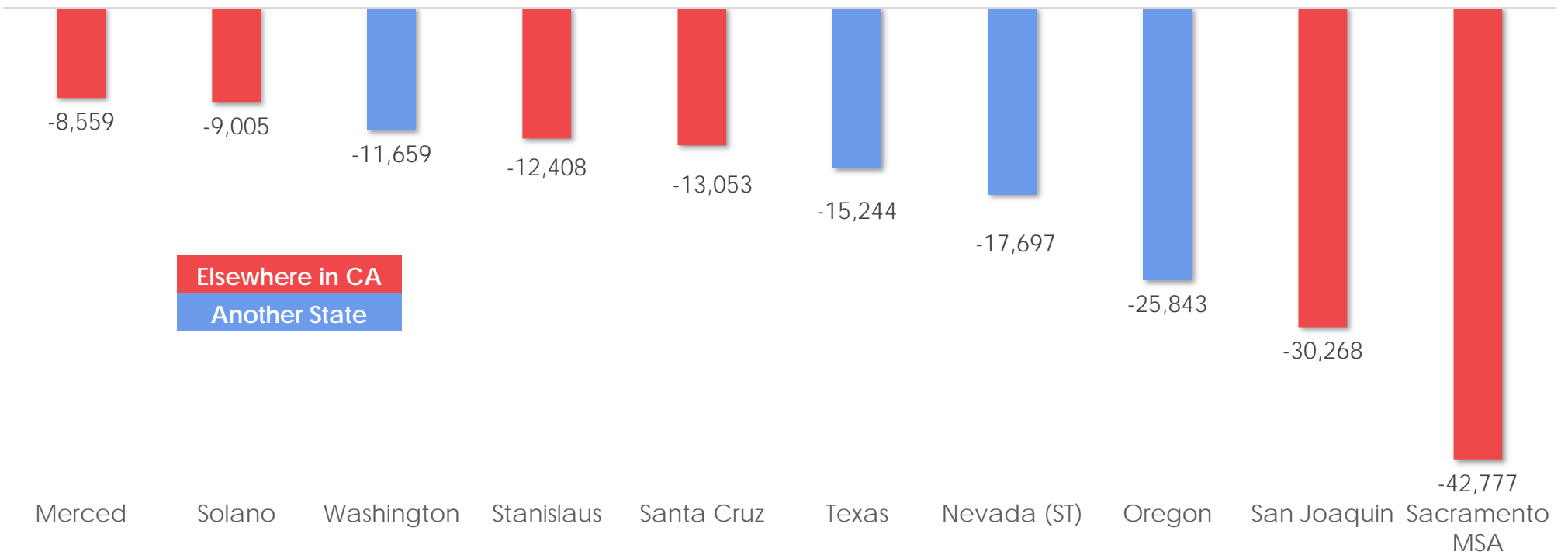
California Net Domestic Migration





Step 1: Coastal to Cheaper Markets

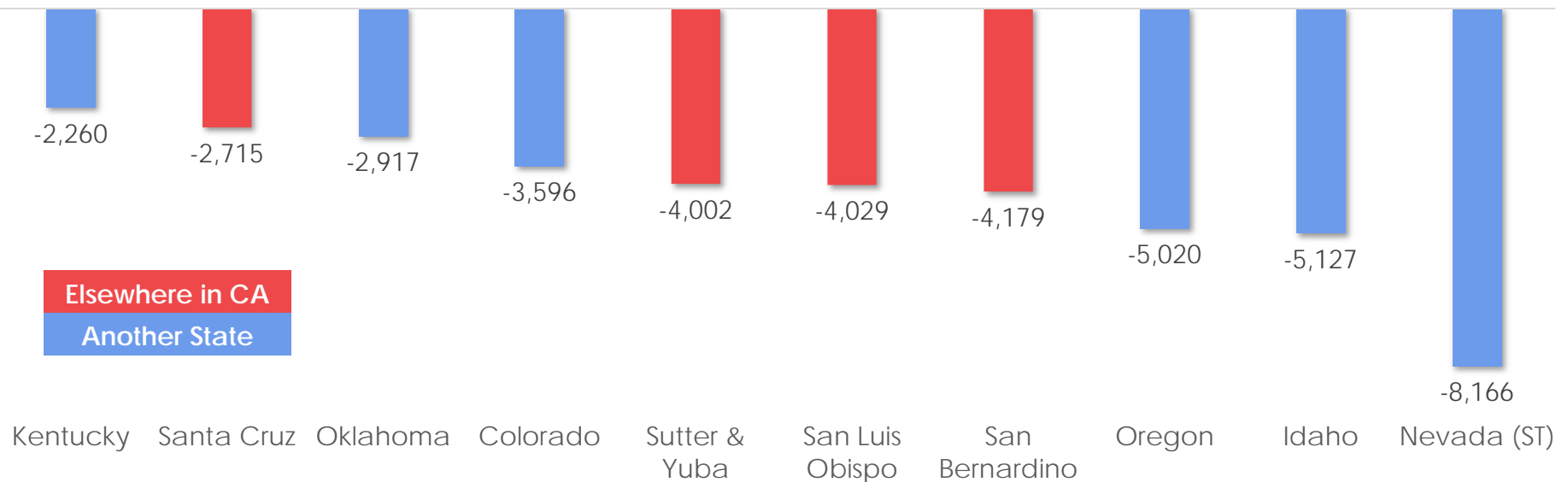
Core San Francisco Bay Area Out Migration (2010-2016)





Step 2: Pricing Prior Residents Out of State

Sacramento MSA Out Migration
(2010-2016)





Q: What needs to be
done?

A: Build More Housing



Lakewood CA 1950





Global Capitals Do Density



#10 Shanghai



#43 London



#69 Paris



#35 Rio de Janeiro



#27 Mexico City



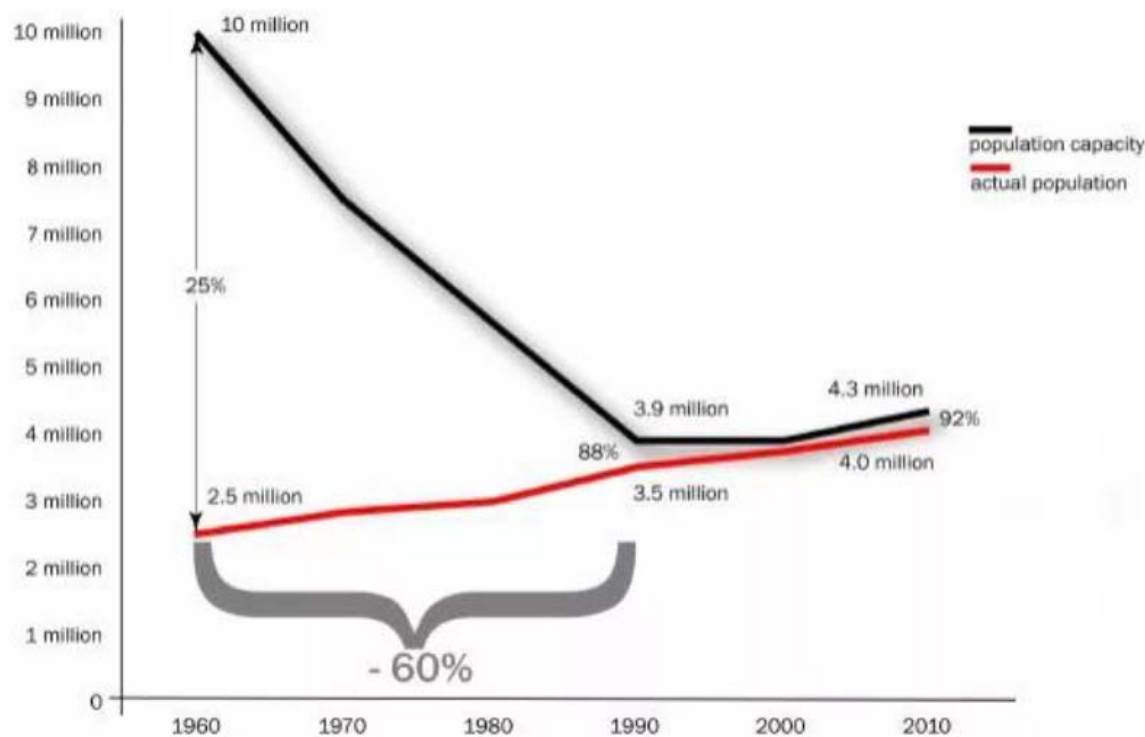
U.S. Cities Ranked by Density

- #90 Los Angeles
- #104 San Francisco/Oakland
- #107 San Jose
- #119 Honolulu
- #120 Las Vegas
- #121 Miami



Case Study: Restrictive Zoning in L.A.

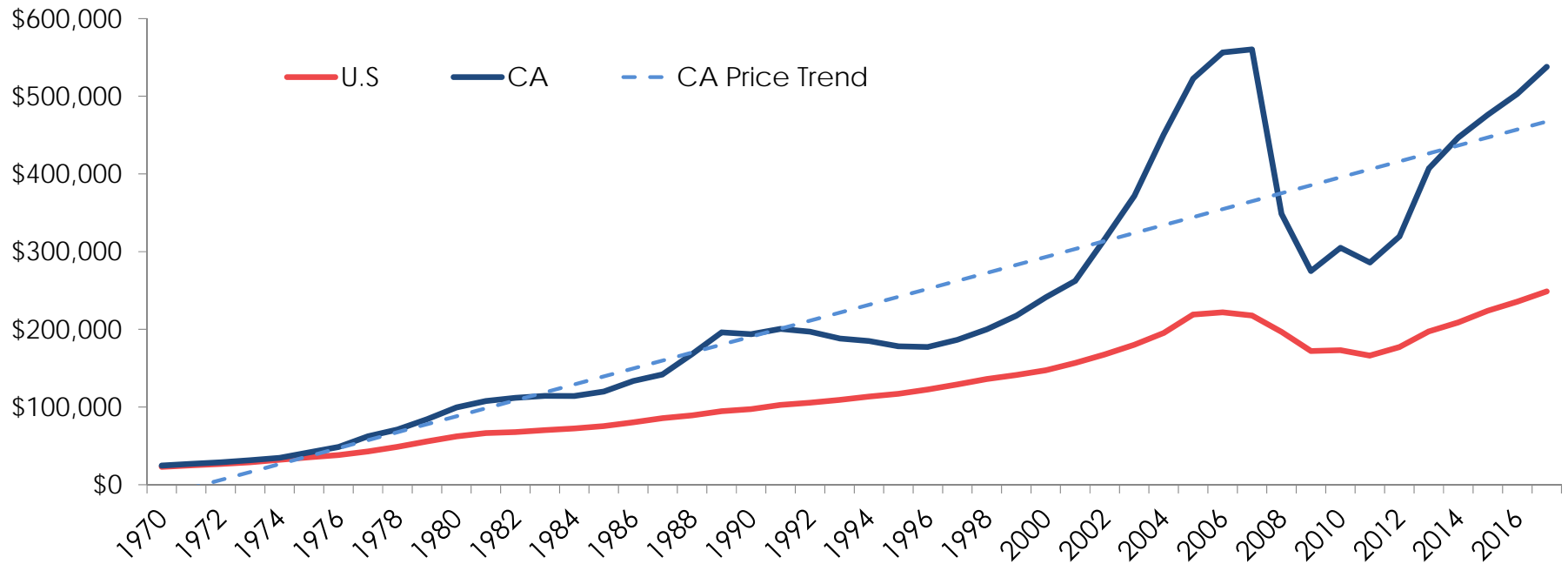
Los Angeles Zoned Residential Capacity



- 1960: Los Angeles zoned to accommodate 10 million people
- Today: LA is zoned for only 4.3 million people after decades of population growth and increase in housing demand.



CA vs US Median Price



SERIES: Median Price of Existing Single-Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



USC Dornsife/LA Times Poll (10/18)

Only 13% of CA voters think too little home building is a primary contributor to the state's affordability issues.



“ At some point a *supply* problem becomes a *demand* problem.”



What can I do to be
successful in this market?

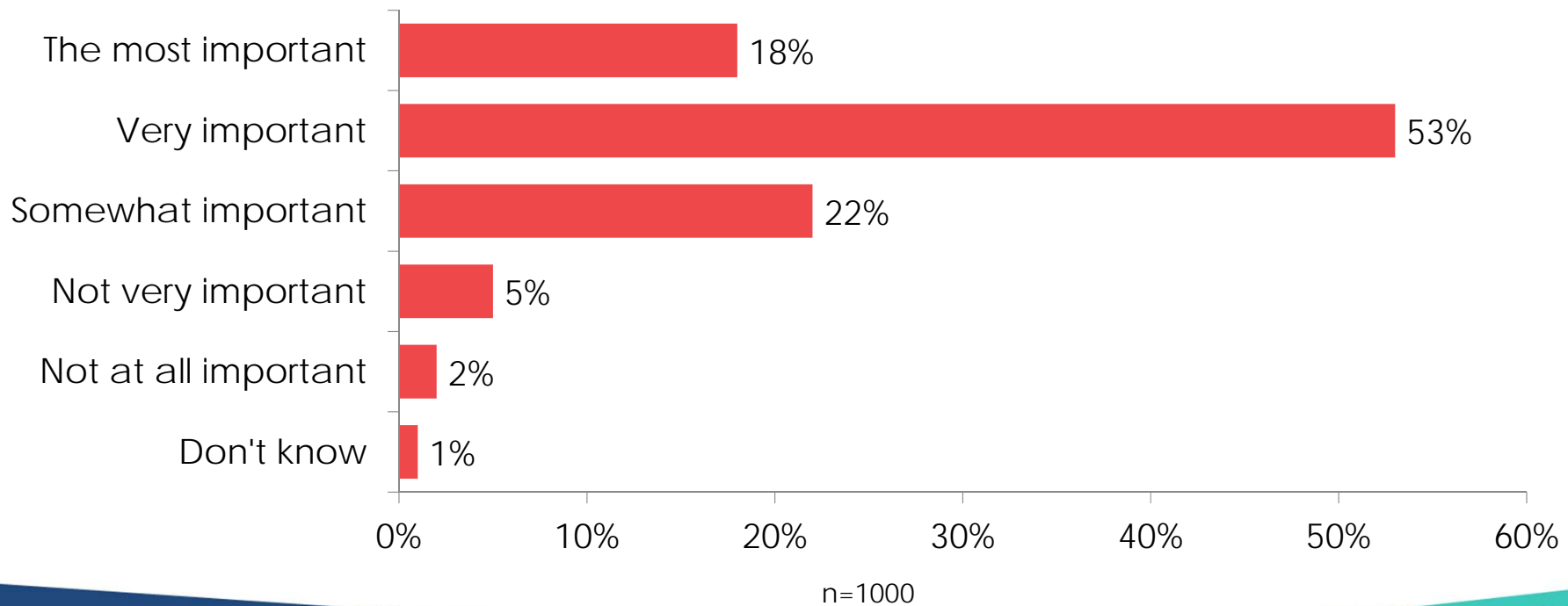


- educate your sellers
- staging – “pinterest” ready
- contact frustrated buyers
- contact renters who qualify
- be the financial literacy expert
- work out of state referrals
- take advantage of low rates
- always be selling homeownership



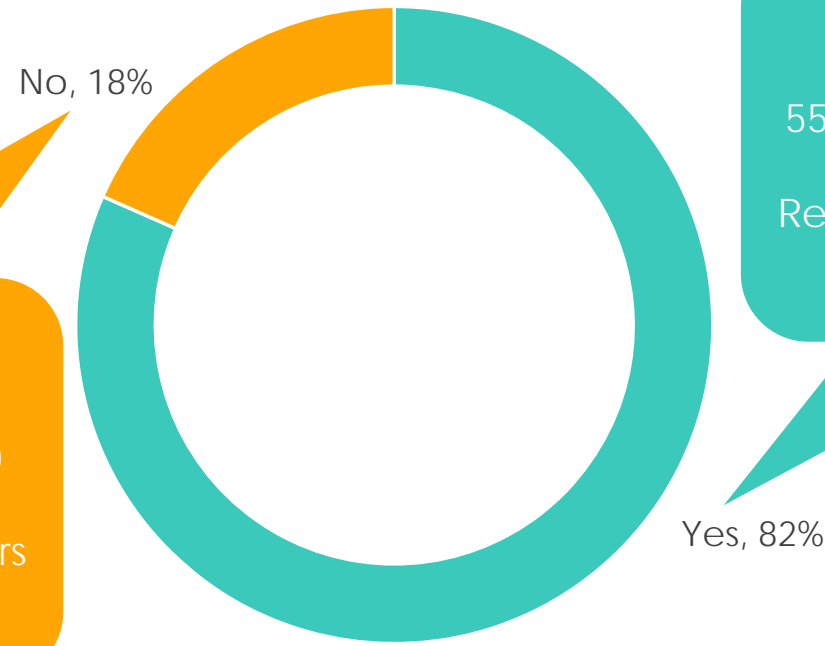
Seven out of ten: owning a home is an important part of the American Dream

How Important a Part of the American Dream Is Owning a Home?





4/5 of Renters Want to Own Someday

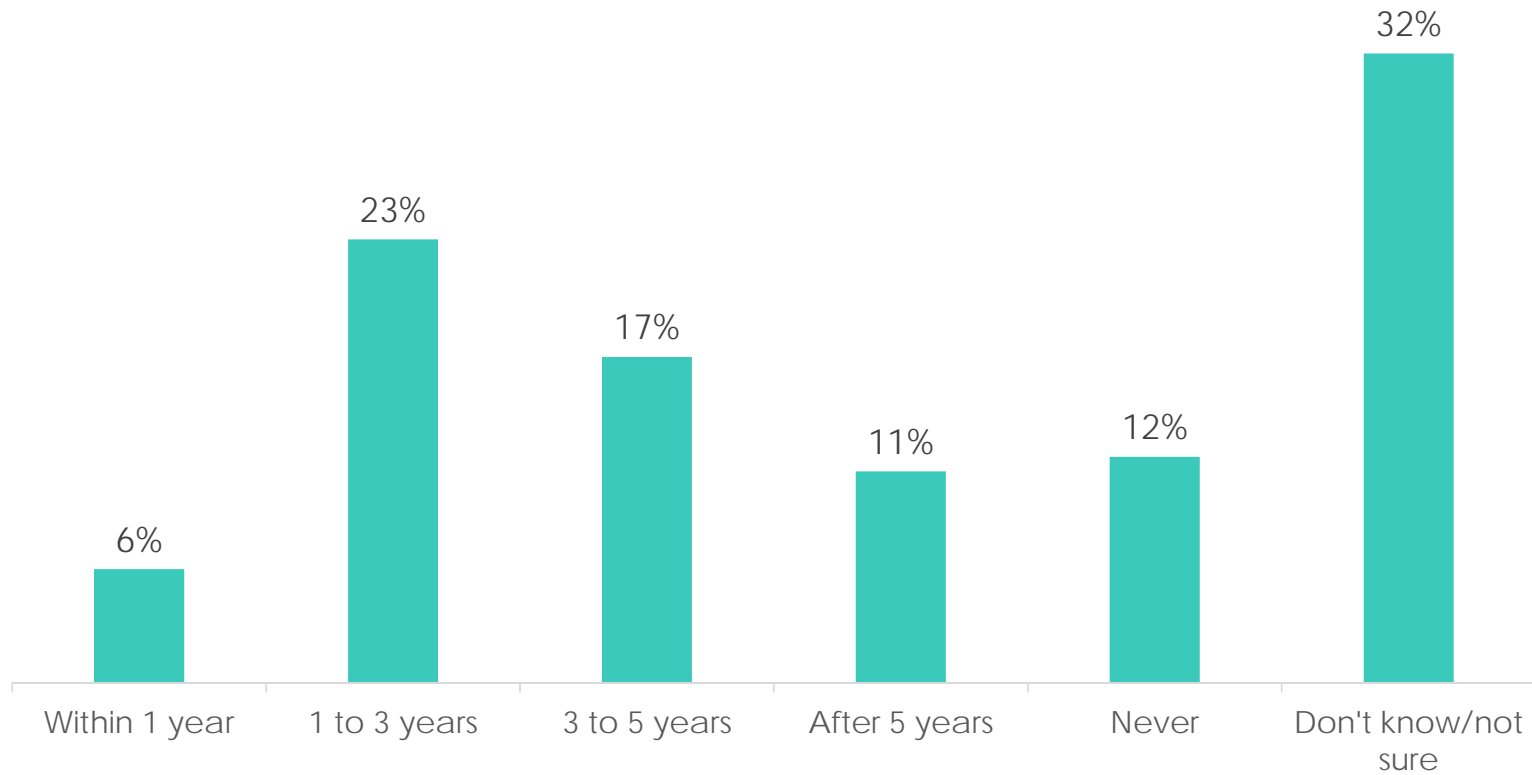


68% Female
44% Caucasian
42% Boomer (Median Age 55)
\$34,500 Household Income
Rented Current Property 5 Years
82% Plan to Rent Again

77% Female
46% Hispanic/Latino
55% Millennial (Median Age 35)
\$40,000 Household Income
Rented Current Property 3 Years
56% Plan to Rent Again

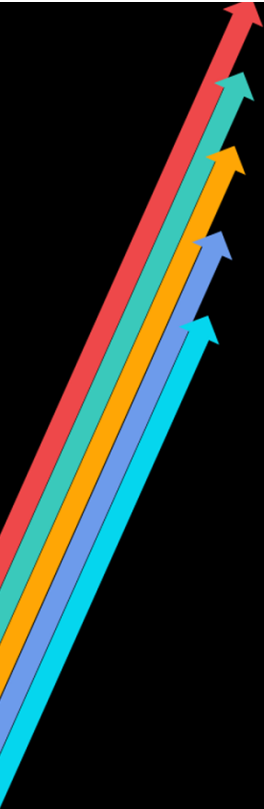


45% Plan to Purchase Within Next 5 Years



When do you plan to purchase your next house (either as a home or as an investment property)? (n=1,855)

SERIES: 2018 Consumer Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



the forecast



U.S. Economic Outlook

	2013	2014	2015	2016	2017	2018p	2019f
US GDP	1.7%	2.4%	2.6%	1.6%	2.3%	3.0%	2.4%
Nonfarm Job Growth	1.7%	1.9%	2.1%	1.8%	1.4%	1.6%	1.3%
Unemployment	7.4%	6.2%	5.3%	4.9%	4.4%	3.9%	3.7%
CPI	1.5%	1.6%	0.1%	1.4%	2.0%	2.5%	2.4%
Real Disposable Income, % Change	-1.4%	2.7%	3.4%	2.7%	2.1%	2.8%	2.6%
30-Yr FRM	4.0%	4.2%	3.9%	3.6%	4.0%	4.7%	4.6%



California Housing Market Outlook

	2013	2014	2015	2016	2017	2018p	2019f
SFH Resales (000s)	414.9	382.7	409.4	417.7	424.9	402.8	375.1
% Change	-5.9%	-7.8%	7.0%	2.0%	1.7%	-5.2%	-6.9%
Median Price (\$000s)	\$407.2	\$446.9	\$476.3	\$502.3	\$537.9	\$570.0	\$568.8
% Change	27.5%	9.8%	6.6%	5.4%	7.1%	6.0%	-0.2%
Housing Affordability Index	36%	30%	31%	31%	29%	28%	26%
30-Yr FRM	4.0%	4.2%	3.9%	3.6%	4.0%	4.7%	4.6%



santa cruz forecast: you are unique

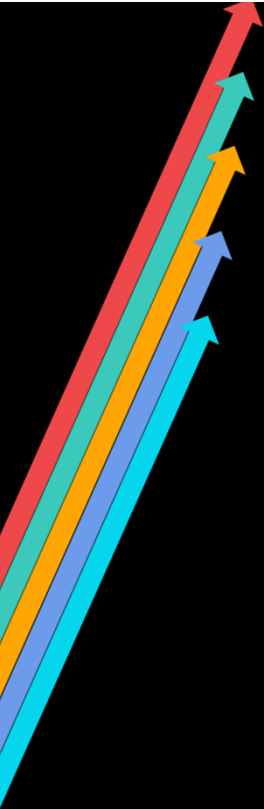
sales will be below last year

prices will be slightly below last year

buyers will be there but ready for a deal

sellers will be slow to accept change

competition for hot properties will be intense



conclusion



putting it all together

- economy still going strong
- people still want to own homes
- still demand for housing
- more listings for realtors®
- re moving relatively quick
- low rate window = urgency
- market not as competitive
- buyers can start to negotiate



parting advice

- **listen**
- initiate the “**Conversation**” about the market
- prepare **seller mindset** and **property**
- reach out to **millennials** with data
- know the **inventory**
- **up your game across the board**



Leslie's Book Recommendation

DOING JUSTICE

A PROSECUTOR'S THOUGHTS
ON CRIME, PUNISHMENT,
AND THE RULE OF LAW

PREET
BHARARA

READ BY THE AUTHOR • UNABRIDGED



your competition:
you yesterday and every
agent working just as hard as
you do

THANK YOU

