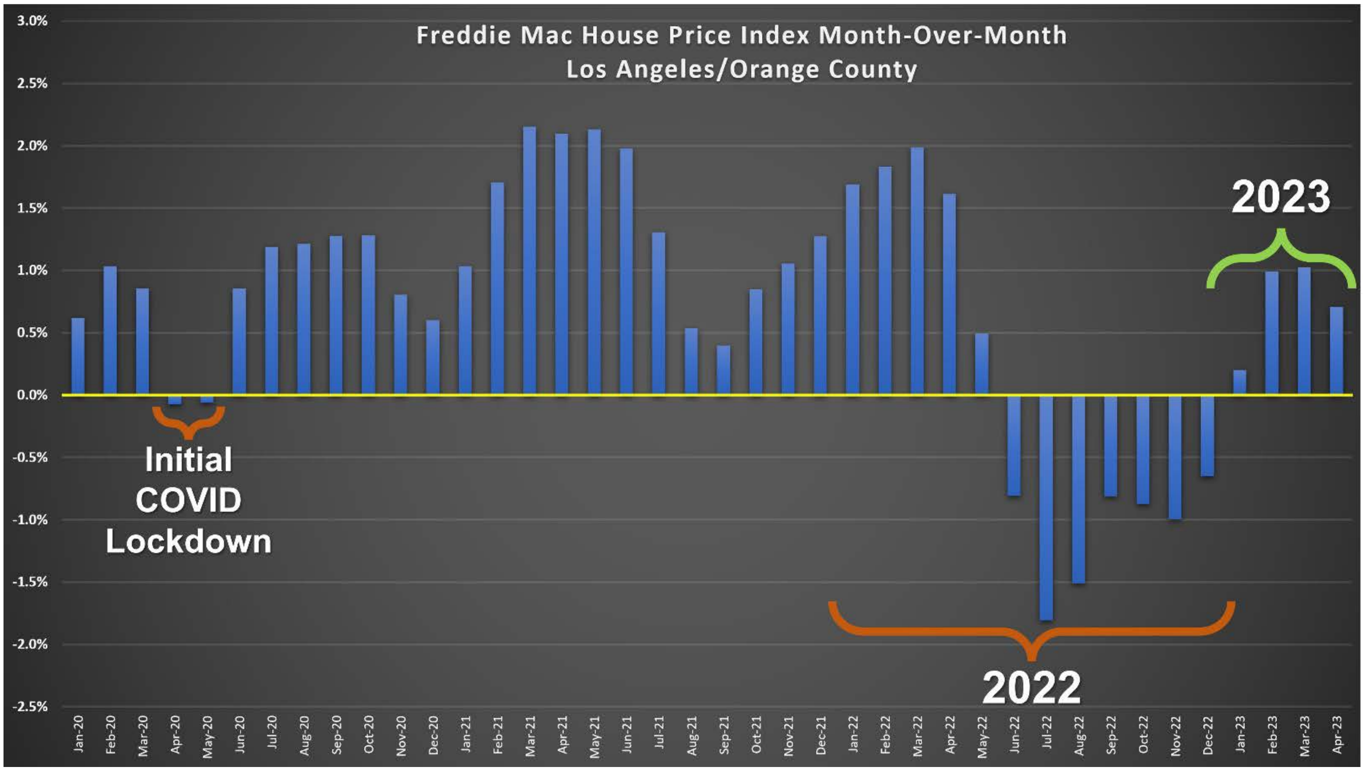
OC Housing Report: Values Rising   June 27, 2023

Despite the high mortgage rate environment eroding home affordability, home values in Orange County have been on the rise after bottoming in December.

Home Price Appreciation

A *catastrophically* low supply of available homes will continue to propel a rise in home values.

Plenty of housing naysayers have been calling for a severe market correction ever since home values skyrocketed higher after the initial COVID lockdowns. From June 2020 through May 2022, we saw two years of rapid appreciation. Then with mortgage rates climbing sharply from 3.25% in January of last year to 7.37% in October, their chorus grew louder.



Mike Gerard, Broker | Berkshire Hathaway HomeServices California Properties
DRE# 01034441 | 714.883.2943. | GerardTeam.com | mgerard@gerardteam.com

Many anticipated a sharp decline in home values that rivaled the Great Recession. After all, after the swift rise in home values (reminiscent of 2000 through 2005) and then the massive erosion in affordability last year, it's understandable that many would conclude that prices would fall. And they actually did fall for seven months last year; **but that all changed after they bottomed out in December.**

It's time to push the emotions aside and consider the facts, basic economic principles, and irrefutable data.

According to the Freddie Mac Home Price Index, home values in the Los Angeles/Orange County region dropped by only .01% in March and April of 2020 during the initial COVID lockdown. They then reversed course and rose consistently for the remainder of 2020.

In 2021, home values rose by 2% or more monthly from March through June. This level had only been achieved a few times since the year 2000 and before the pandemic. It occurred again in March 2022.

Values peaked in May 2022 and then dropped from June through December. With rapidly rising rates and affordability reaching record lows, they fell by 1% or more in July, August, and November.

Year-over-year home values are down 4%, but the focus should be on the current monthly trend. Home values turned positive in January and have continued rising ever since. Why are home prices not plunging with high mortgage rates and severe affordability issues? It all boils down to a *catastrophically* low supply of available homes.

Last year values dropped even though the inventory was at low levels. It rose from 1,100 homes in January until it peaked at the start of August at 4,069 homes, a 269% rise. Yet, the 3-year average peak before COVID (2017 to 2019) was 71% more homes. There were not many homes last year; nonetheless, values dropped as affordability continued to erode with rising rates. It was not a supply and demand issue but strictly a home affordability issue.

In 2023, the year started with very little inventory, which bottomed out in April and has added only 228 homes since, **its lowest end-of-June level since tracking began in 2004**. Last year at this time, there were 53% more available homes. The 3-year average before COVID was 191% higher than today. While demand remains at Great Recession levels, unlike last year, it is matched against a catastrophically low supply.

Today's lack of supply and stabilized higher mortgage rate environment has resulted in an extremely hot real estate market that favors sellers in the negotiation process.

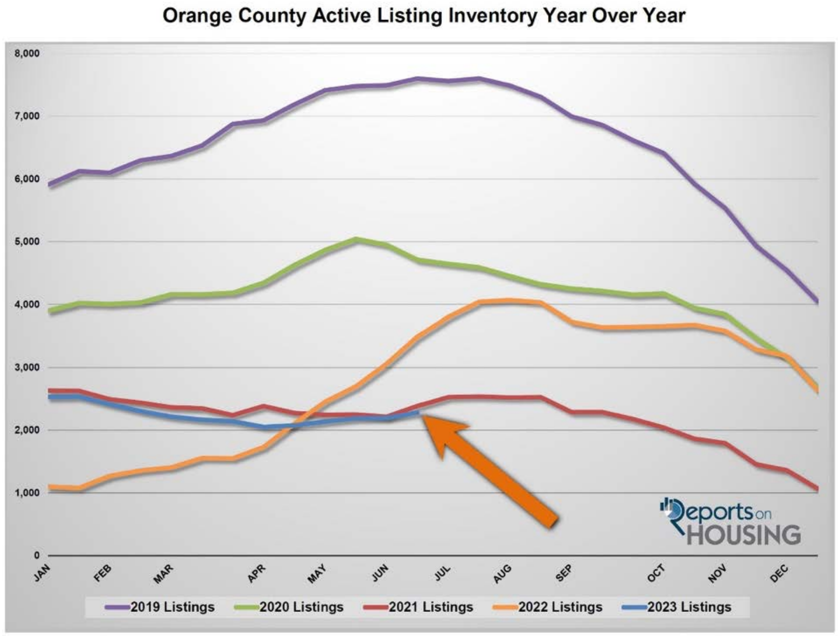
For all homes priced below $1.5 million, the market is ***NUTS*** with an Expected Market Time of less than 40 days. Homes priced at or near their **Fair Market Value** are being inundated with buyer showings and receiving an avalanche of multiple offers within the first couple of weeks and often days. They are selling at or above their asking prices. Upon writing an offer, buyers quickly find that they are one of many, sometimes over ten offers on a home.

The inventory is about to hit its cyclical peak between July and August, not much time for the inventory to grow. After reaching a peak, the inventory will slowly and methodically decline through the end of the year. Orange County home values are on the rise.

Mike Gerard, Broker Associate | Berkshire Hathaway HomeServices California Properties
DRE# 01034441 | 714.883.2943 | michaelgerard@bhhscal.com

Active Listings

The active listing inventory increased by 4% in the past two weeks, and now sits at its lowest level for an end to June since tracking began in 2004. Housing is now knee-deep into the Summer Market, where the inventory will rise until peaking between July and August. That is not enough time to change much at all from today's extremely anemic crisis level. The extremely low inventory is a trend that will continue for quite some time.
Buyers anxiously await anything new to hit the market. With an imminent peak just around the corner, the hot market will not change much for the rest of the year.



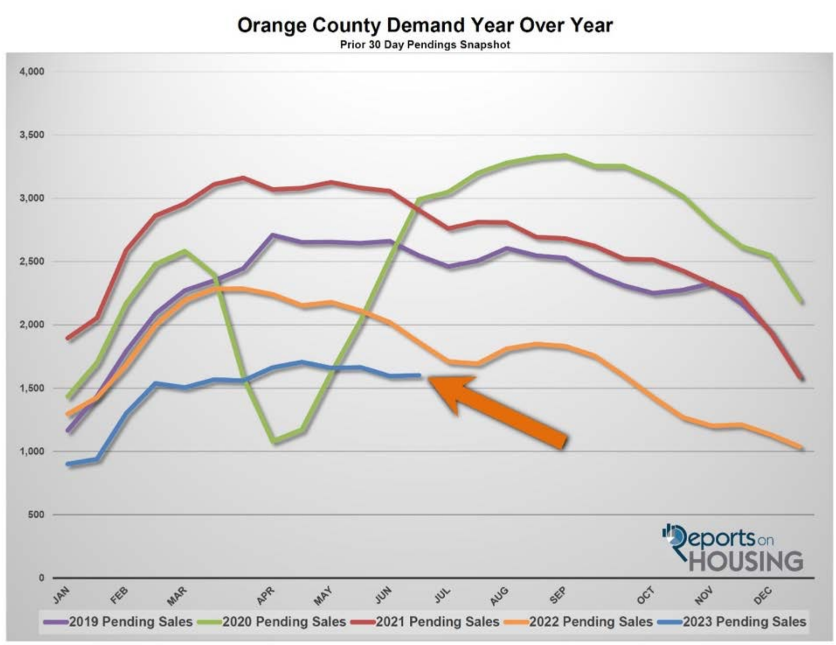
Last year, the inventory was **53% higher**. The 3-year average before COVID (2017 through 2019) was 191% higher, nearly triple where it stands today.

Homeowners continue to "hunker down" in their homes, unwilling to move due to their current underlying, locked-in, low fixed-rate mortgage. The difference between their underlying rate and today's prevailing rate is significant. This will continue until mortgage rates drop.

Demand

Demand did not change much in the past couple of weeks.

Demand in the past couple of weeks was nearly unchanged. Last year demand plummeted by 8%. Yet, mortgage rates were at 5.81% in June 2022 versus 6.67% today, according to Freddie Mac's Primary Mortgage Market Survey®.



Why has demand stabilized this year versus tumbling lower like it did last year? Although mortgage rates are stubbornly high, they have not changed much this year. They have been bouncing between 6% to 7% this year, much more stable than last year. Higher mortgage rates are frustrating, but buyers are getting more accustomed to them.

From here, expect demand to slowly drift downward until the overall U.S. economy slows along with inflation. When that occurs, rates will ease, and demand will rise.

Luxury End

The luxury market slowed in the past couple of weeks.

In the past couple of weeks, the luxury inventory of homes priced above $2 million increased by 8%. It is the highest level since November. Luxury demand decreased by 6%, and now sits at 189, its lowest level since April.

With supply rising and demand falling, the Expected Market Time for luxury homes priced above $2 million increased from 107 to 122 days, its highest level since February. The gap between the lower end and luxury is widening.

Year over year, luxury demand is down by 10%, and the active luxury listing inventory is down by 1%. Last year's Expected Market Time was 110 days, similar to today.

For homes priced between $2 million and $4 million, the Expected Market Time in the past two weeks increased from 76 to 89 days. For homes priced between $4 million and $6 million, the Expected Market Time decreased from 163 to 131 days. For homes priced above $6 million, the Expected Market Time increased from 274 to 435 days. At 435 days, a seller would be looking at placing their home into escrow around **September 2024**.

ORANGE COUNTY MARKET BREAKDOWN				
PRICE RANGES & MARKET SPEED	MARKET TIME	% OF CURRENT INVENTORY	% OF CURRENT DEMAND	LAST YEAR
$0-$750k	29 Days	18%	27%	35 Days
$750k-$1m	28 Days	15%	23%	51 Days
$1m-$1.25m	32 Days	11%	14%	53 Days
$1.25m-$1.5m	31 Days	10%	13%	53 Days
$1.5m-$2m	51 Days	13%	11%	78 Days
$2m-$4m	89 Days	19%	9%	88 Days
$4m-$6m	131 Days	6%	2%	143 Days
$6m+	435 Days	9%	1%	353 Days

Orange County Housing Summary

- The active listing inventory in the past couple of weeks increased by 4%. Regardless, it is the lowest level for an end to June since tracking began in 2004. Last year, there were **53% more homes on the market**. The 3-year average before COVID (2017 to 2019) was 6,633, or 191% more, nearly triple.
- Demand increased by 7 pending sales in the past two weeks, nearly unchanged, and the lowest level for an end to June since tracking began in 2004. Last year, there were **16% more pending sales than today**. The 3-year average before COVID (2017 to 2019) was 2,679, or **67% more**.
- With the supply rising, the Expected Market Time, the number of days to sell all Orange County listings at the current buying pace, increased from 41 to 43 days in the past couple of weeks. It was 56 days last year, slower than today and rapidly cooling as rates were rising.
- For homes priced below $750,000, the Expected Market Time increased from 28 to 29 days. This range represents 18% of the active inventory and 27% of demand.
- For homes priced between $1 million to $1.25 million, the Expected Market Time increased from 30 to 32 days. This range represents 11% of the active inventory and 14% of demand.
- For homes priced between $1.25 million to $1.5 million, the Expected Market Time decreased from 35 to 31 days. This range represents 10% of the active inventory and 13% of demand.
- For homes priced between $1.5 million to $2 million, the Expected Market Time increased from 50 to 51 days. This range represents 13% of the active inventory and 11% of demand.
- For homes priced between $2 million and $4 million, the Expected Market Time in the past two weeks increased from 76 to 89 days. For homes priced between $4 million and $6 million, the Expected Market Time decreased from 163 to 131 days. For homes priced above $6 million, the Expected Market Time increased from 274 to 435 days.
- The luxury end, all homes above $2 million, account for 34% of the inventory and 12% of demand.
- Distressed homes, both short sales and foreclosures combined, comprised only 0.3% of all listings and 0.1% of demand. Only two foreclosures and five short sales are available today in Orange County, with seven total distressed homes on the active market, down one from two weeks ago.
- There were 2,030 closed residential resales in May, 19% less than May 2022.

Don’t Just Buy Real Estate, Develop a Lifestyle Plan

No two people have the same lifestyle needs or financial situation. That’s why the Berkshire Hathaway HomeServices network of Real Estate Trusted Advisors helps you to determine which lifestyle factors are most important when making your future real estate decisions. Whether it’s health and wellness, estate planning, your career, or other crucial life events, plans provide clarity and utility. Berkshire Hathaway HomeServices Real Estate Lifestyle Planning Guide will help you take the first step in developing a plan that is right for you.

Contact me/us for your **Berkshire Hathaway HomeServices Real Estate Lifestyle Planning Guide** to discuss the lifestyle factors that will most likely influence your decision on your next real estate move.

Mike Gerard
Broker Associate
(714) 883-2943
mgerard@gerardteam.com
gerardteam.com

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BERKSHIRE HATHAWAY HOMESERVICES
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