

2021 CA Economic & Housing Market Forecast



Palos Verdes Peninsula AOR
October 28, 2020
Leslie Appleton-Young
Chief Economist + SVP
California Association of REALTORS®



CALIFORNIA
ASSOCIATION
OF REALTORS®

Preamble



Over half have experienced a loss of employment income

Q: Have you, or has anyone in your household experienced a loss of employment income since March 13, 2020?

51%

of **Americans**
have lost
employment
income since
March 13

55%

of **CA**
REALTORS®
have lost
employment
income since
March 13

REALTORS® are feeling the stress

Q: Do you feel that worry or stress related to Coronavirus has had a negative impact on your mental health, or not?

53%

of **Americans**
say stress
related to
COVID-19 has
had a negative
impact on their
mental health

64%

of **CA**
REALTORS® say
stress related to
COVID-19 has
had a negative
impact on their
mental health



The Economy

RECAP

AVOID GATHERINGS
REDUCE CROWDING
WASH YOUR HANDS

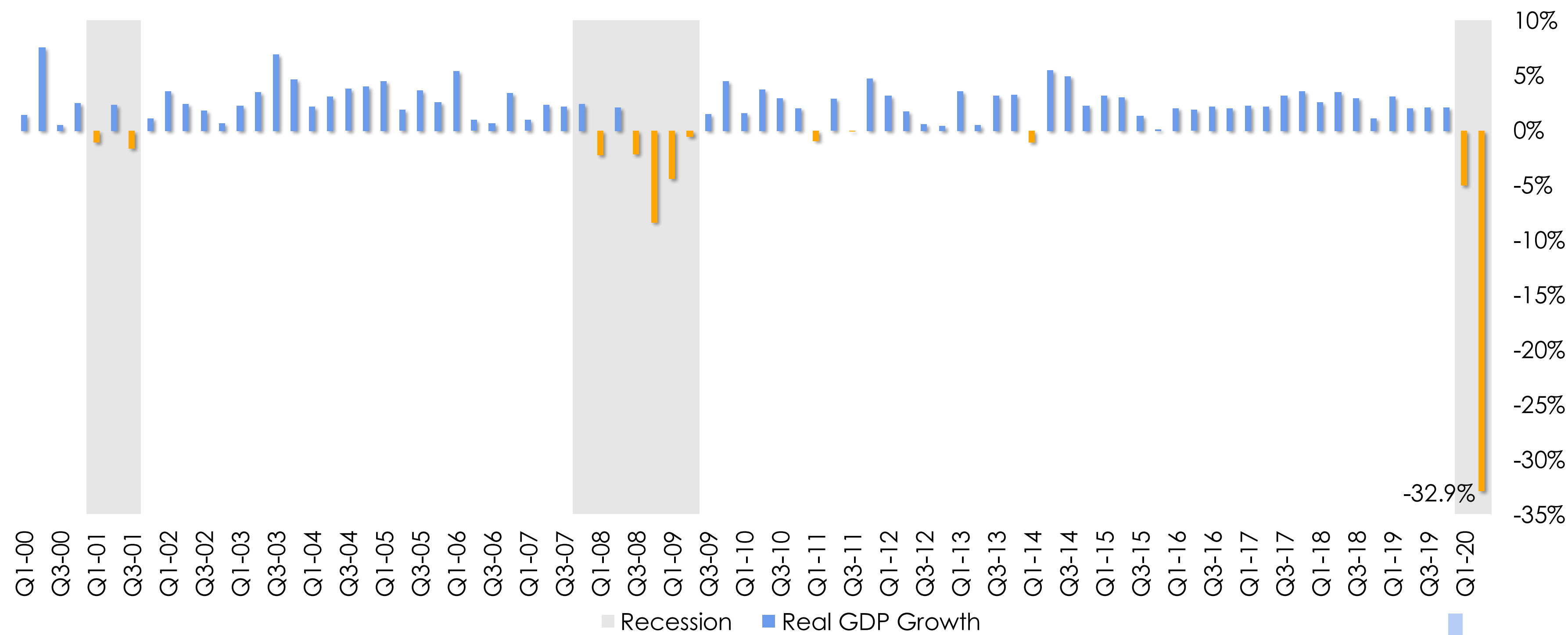
Manhattan Bridge
Holland Tunnel
Canal St W
Bowling
2 LEFT LANES
RIGHT LANE

ROAD
WORK
AHEAD
20
M.P.

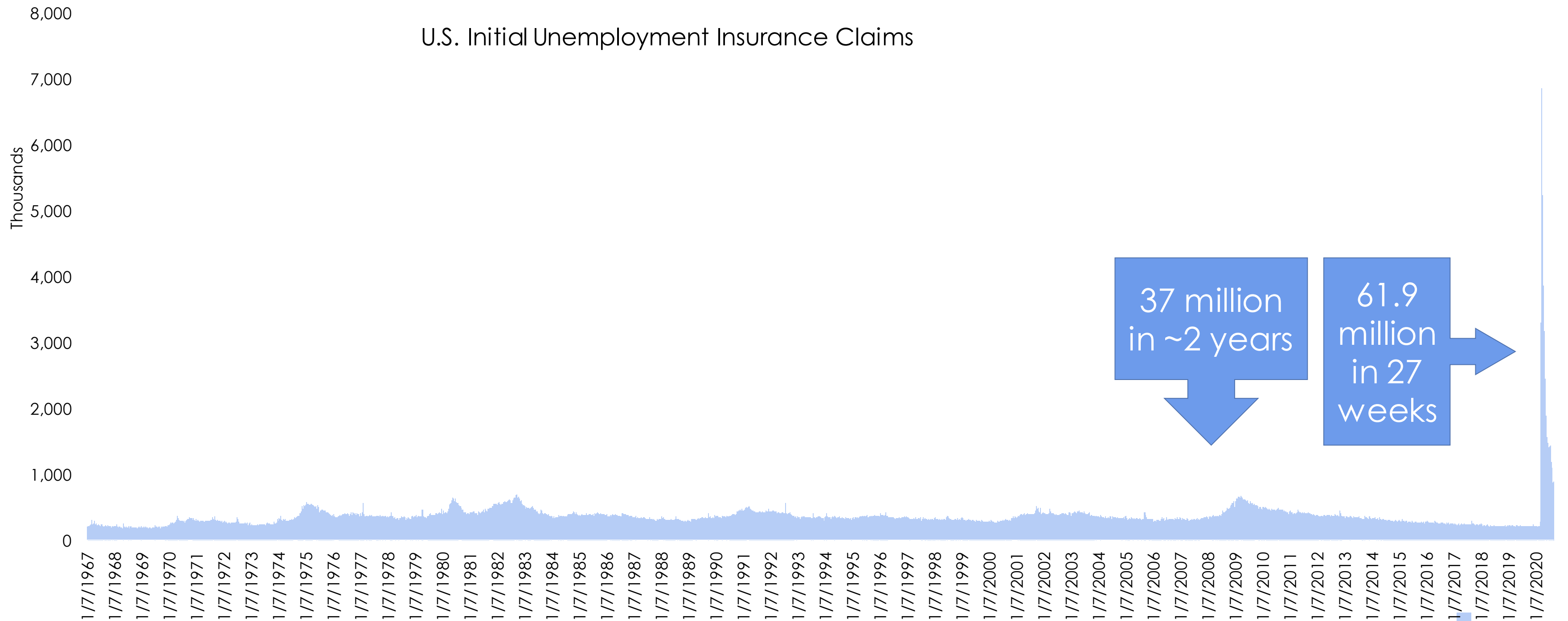
Manhattan Bridge
Holland Tunnel
Canal St W
Bowling
2 LEFT LANES
RIGHT LANE

U.S. economy contracted at the sharpest rate on record

Real GDP Growth



SPEED: Over the past 6 months, nearly **62 million** Americans have filed for unemployment insurance







An environment of highs and lows

The Highs

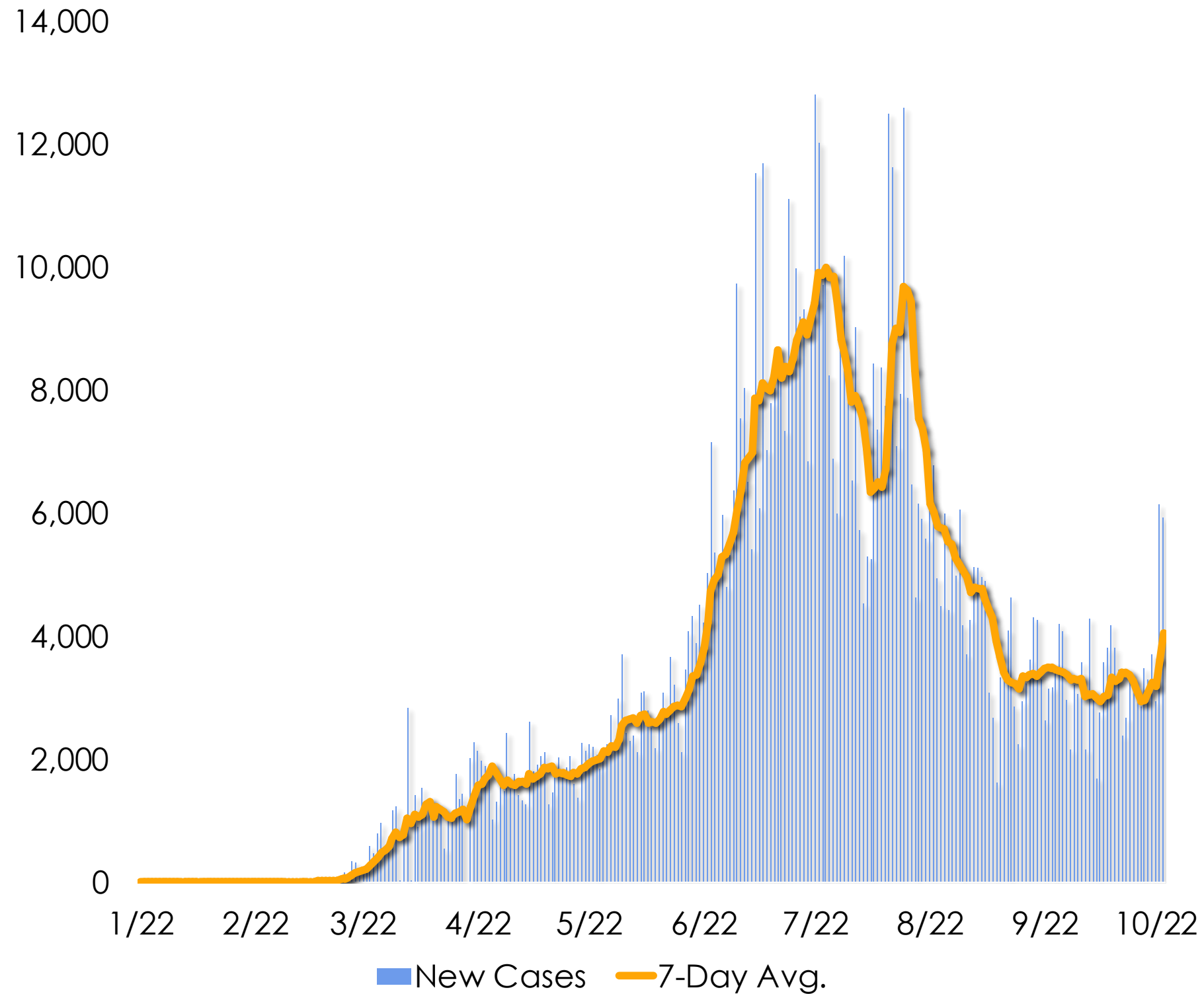
- Economy healing broadly
- Buyer demand robust
- Home sales rising, prices at all-time high levels
- Fewer homeowners in forbearance
- COVID-19 numbers trending down consistently

The Lows

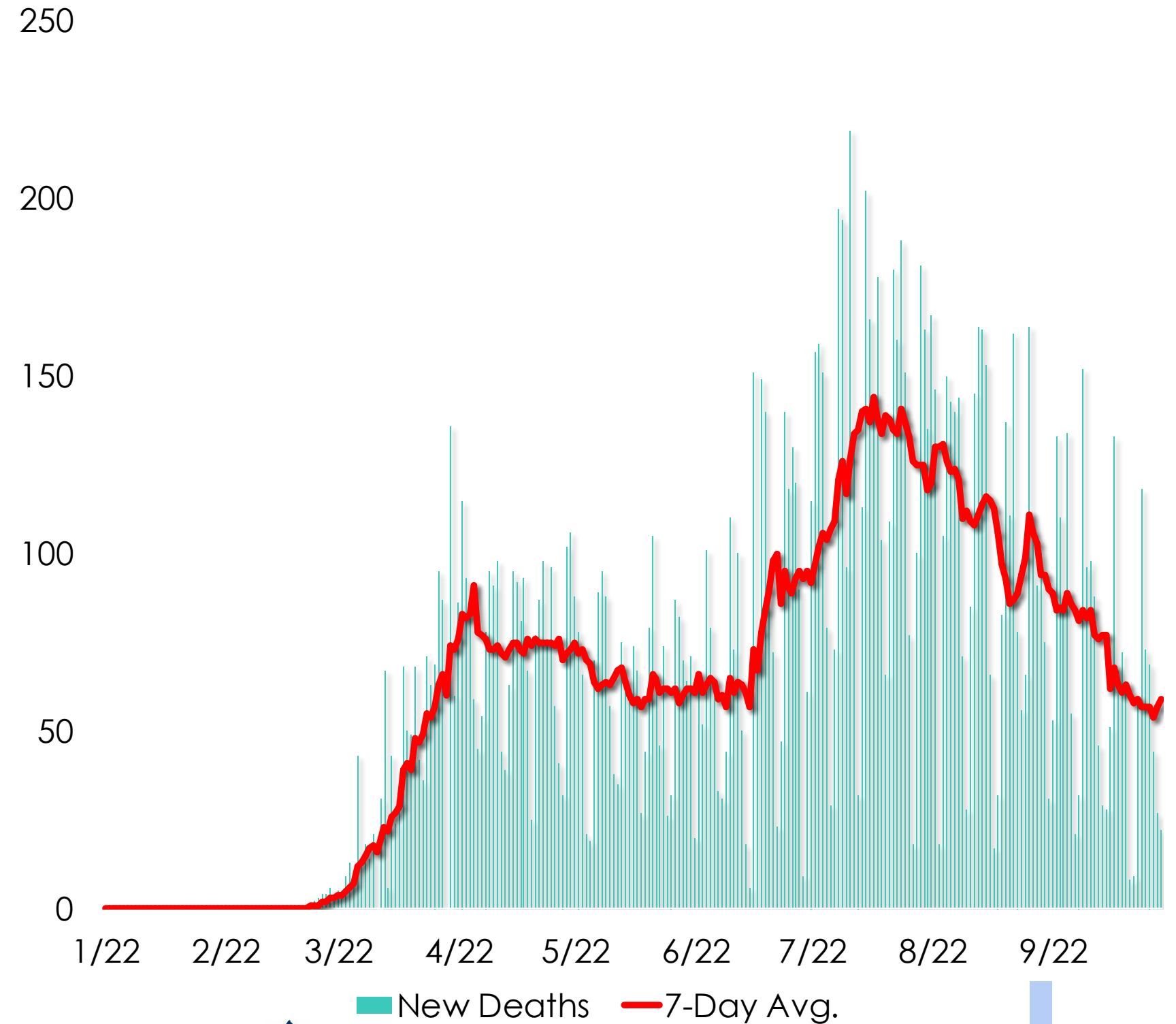
- 20+ million people on unemployment
- 350K delinquencies here in California
- Less than half as much inventory as 2019
- Pending sales suggest party winding down
- Rents falling, implications for prices?

Daily California COVID-19 trends

Daily COVID-19 Cases in California

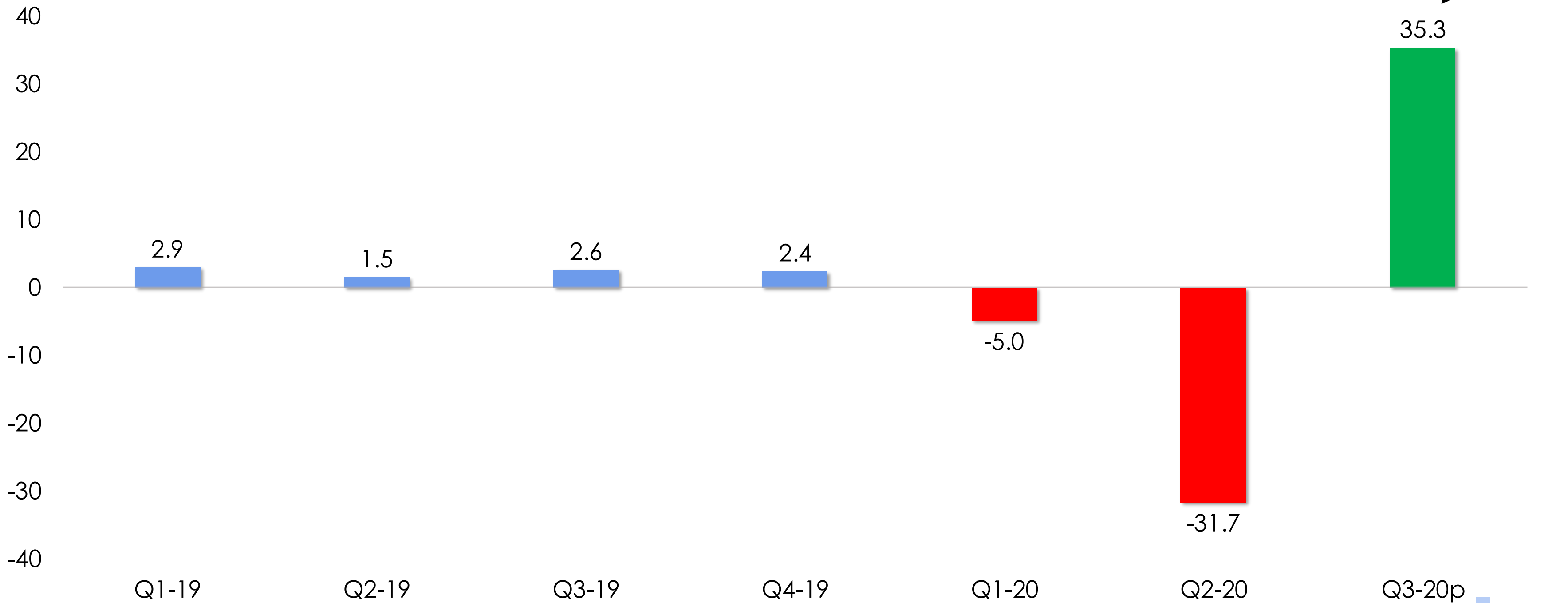


Daily COVID-19 Deaths in California

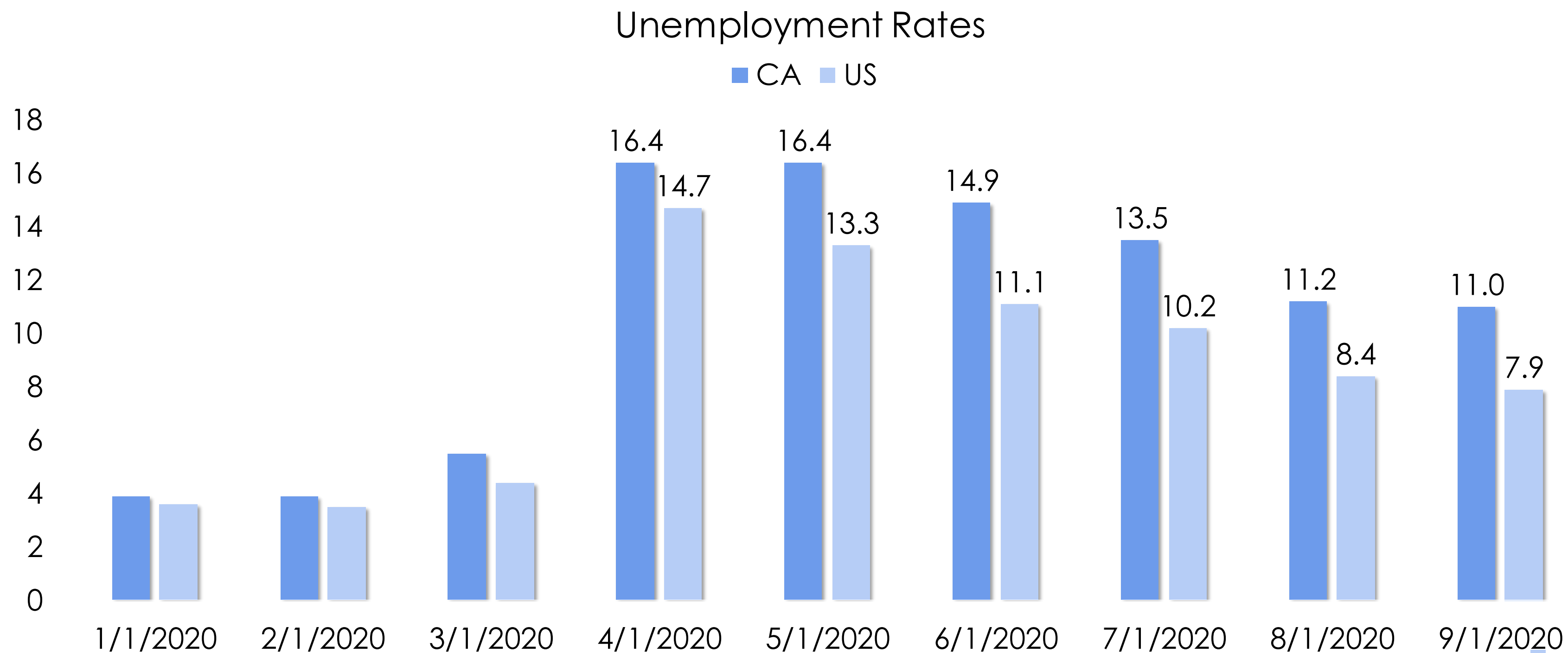


Most models predicting sharp rebound in Q3

U.S. Real GDP Growth by Quarter (SAAR)

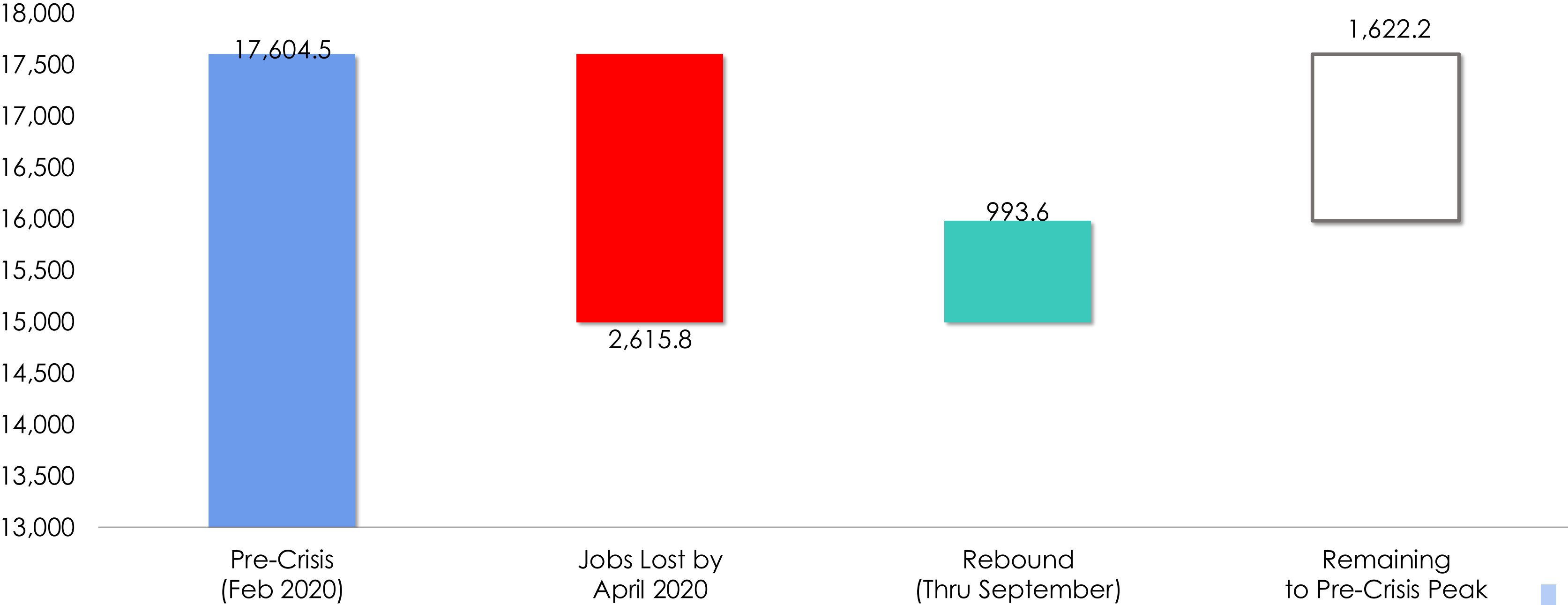


Unemployment rate **down consistently as well**



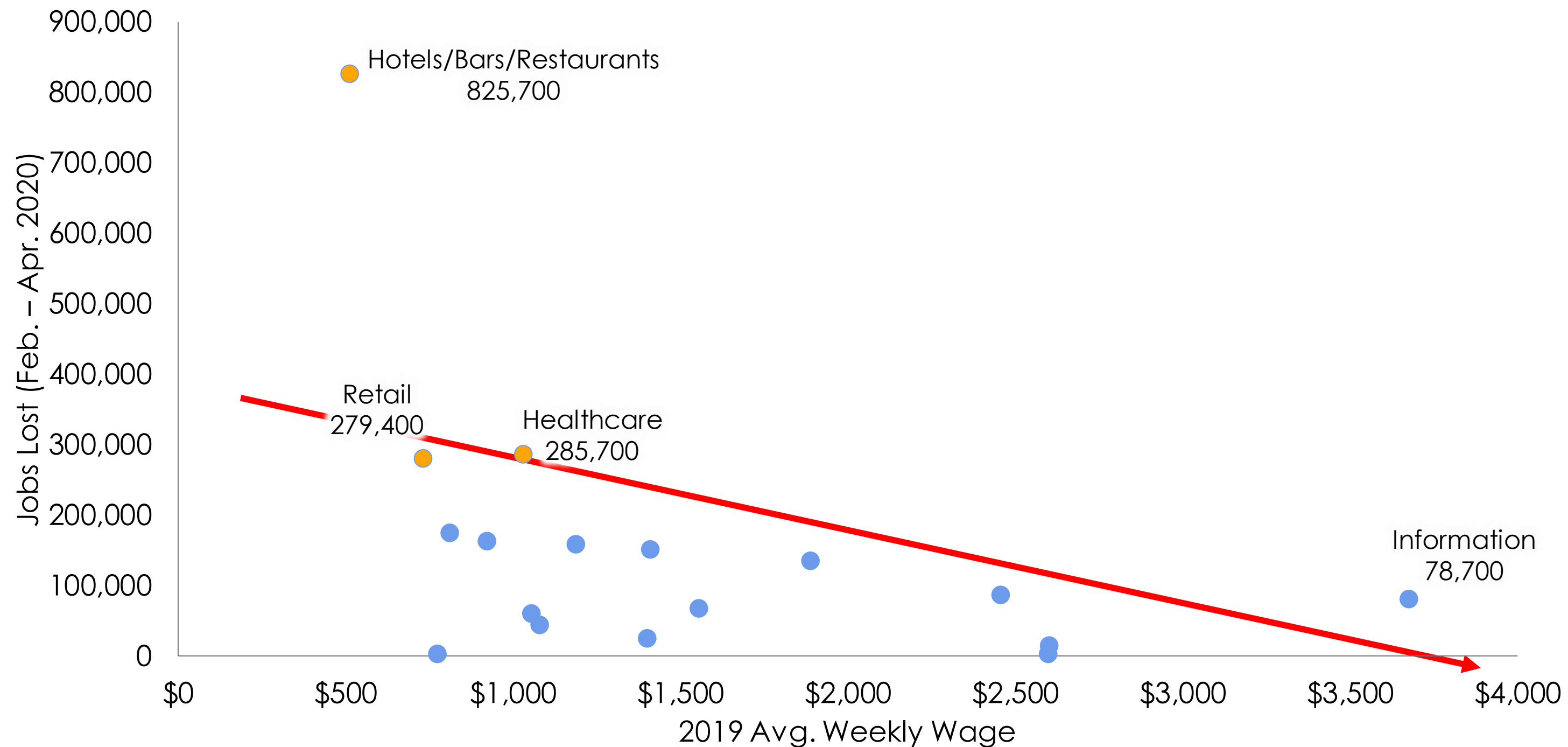
Snapshot of California labor markets

California Nonfarm Jobs



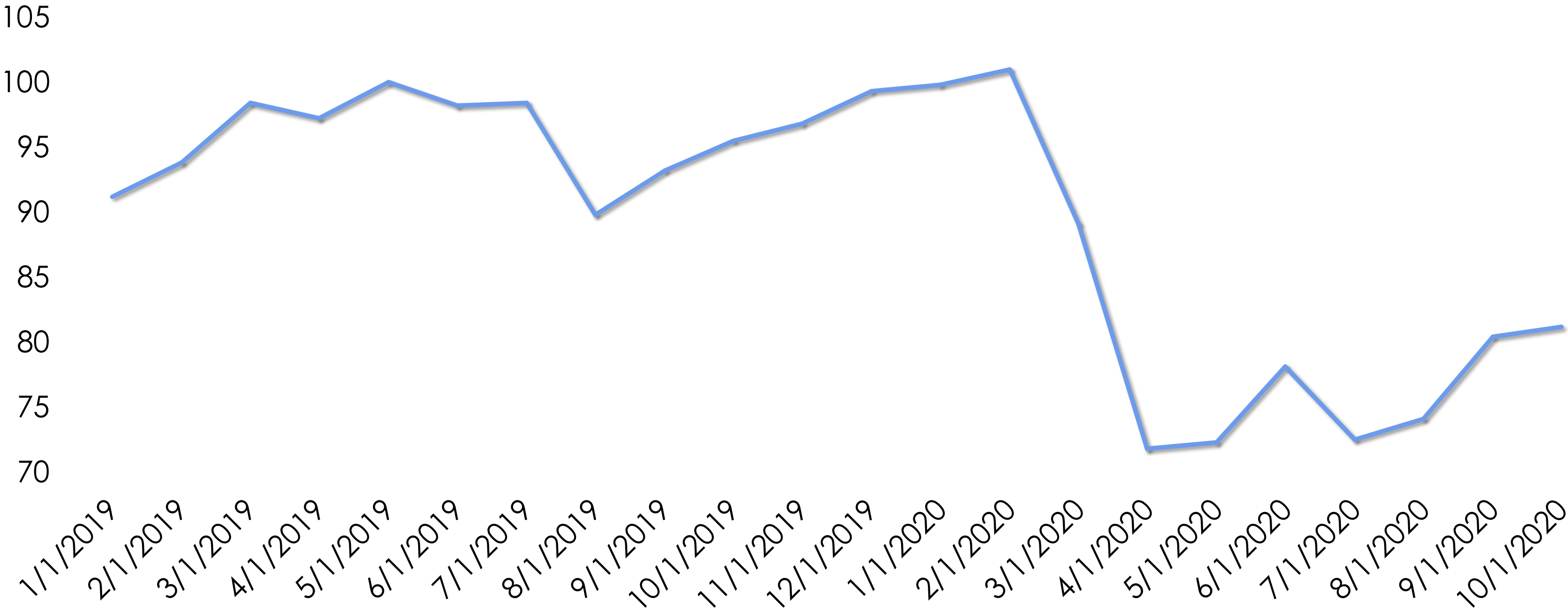
Job losses haven't hit potential homebuyers as hard

California Jobs Losses vs. 2019 Avg. Weekly Wage by Industry



Consumers are feeling more confident

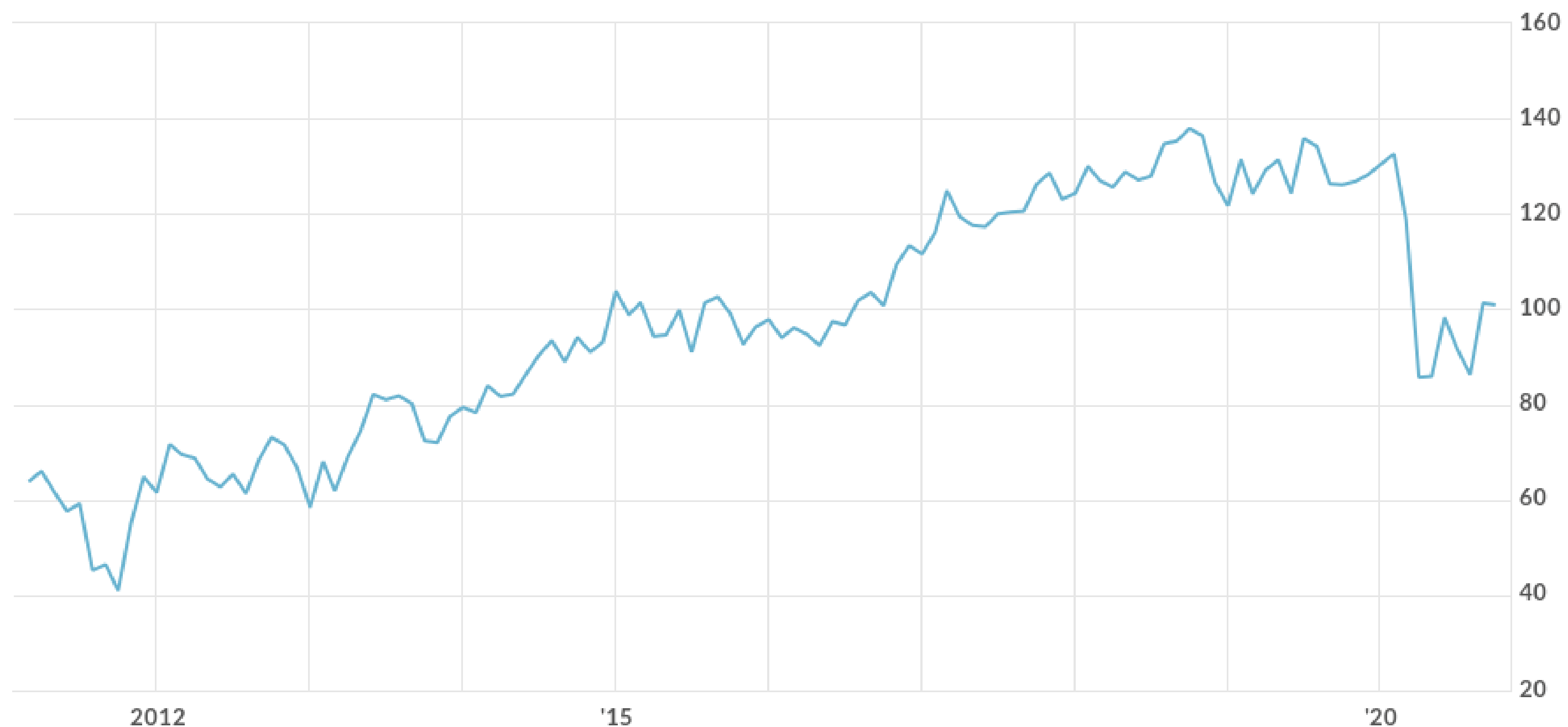
University of Michigan Index



Confidence Took a Small Step Back in October

Consumer confidence takes small step back

Index of consumer confidence slips to 100.9 in October from 101.3

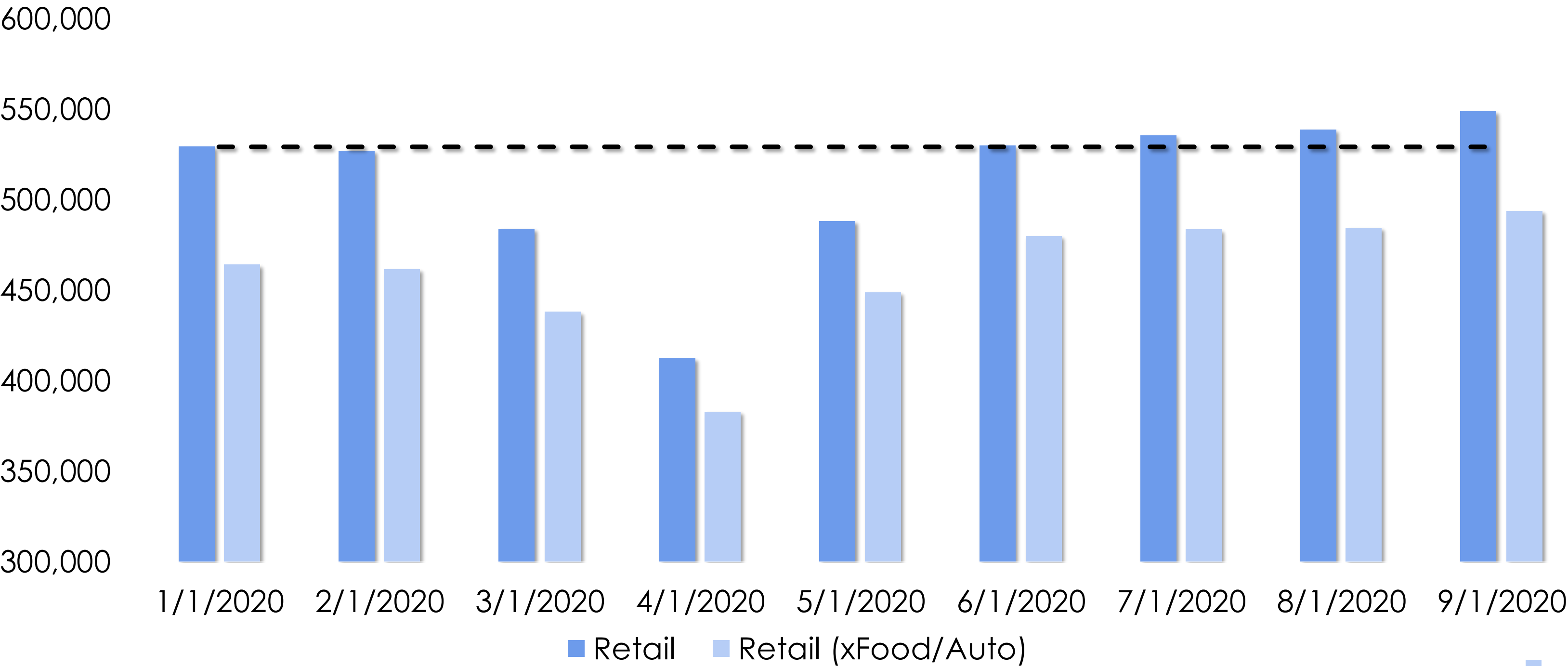


Source: Conference Board



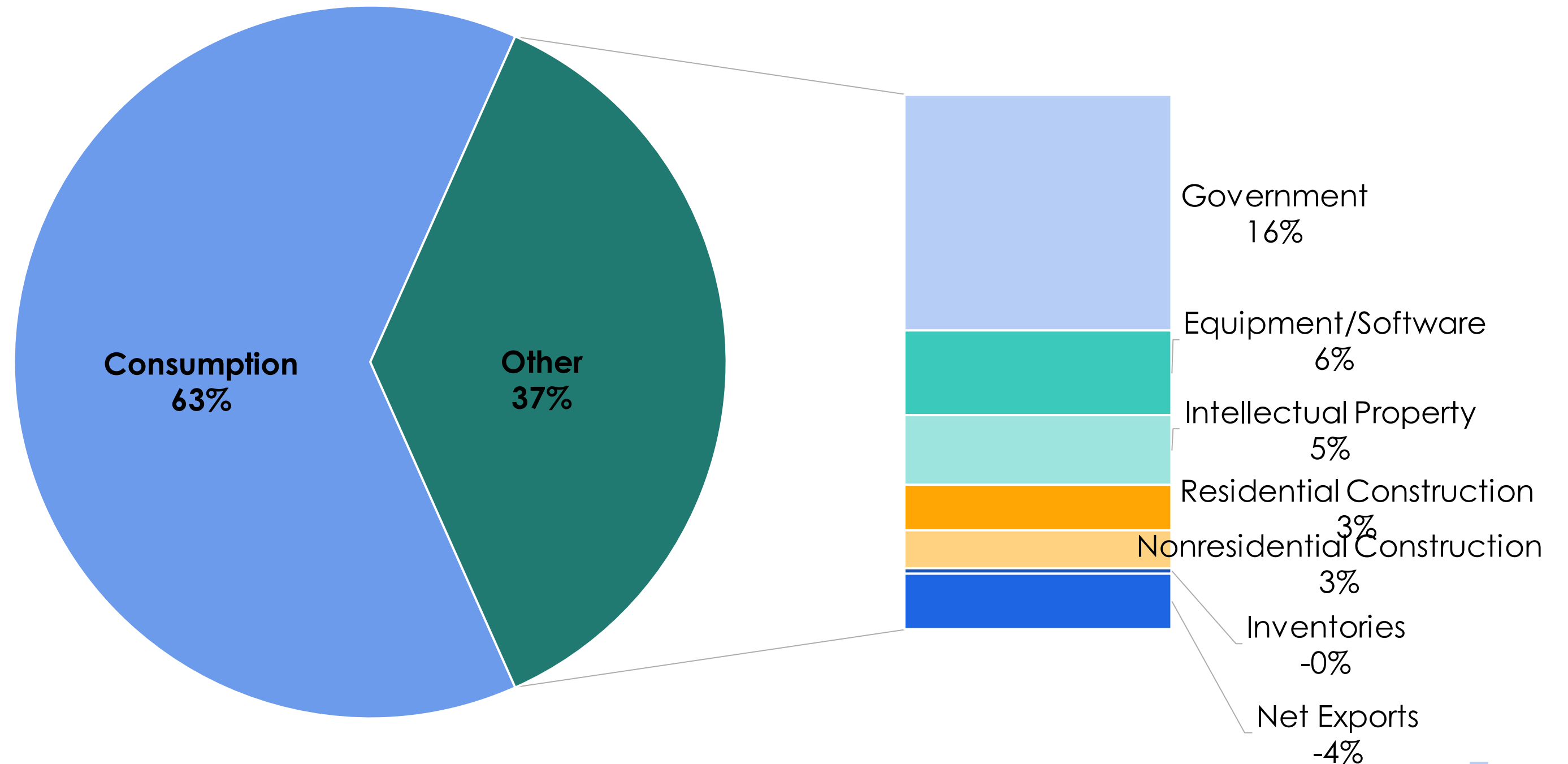
Consumers spending *accelerates* in September

U.S. Retail Sales

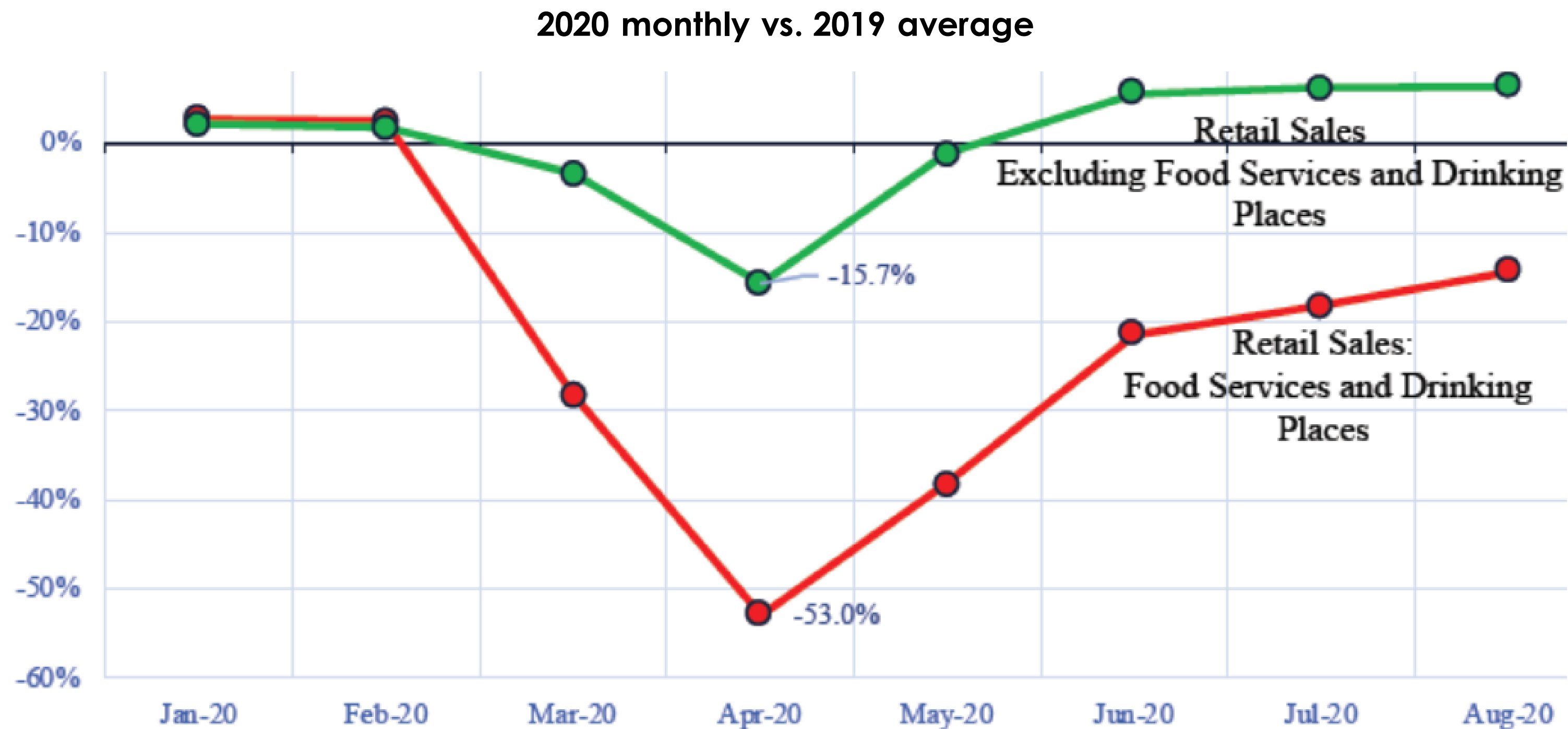


Why consumer spending matters so much: 63% GDP

U.S. Real GDP by Component

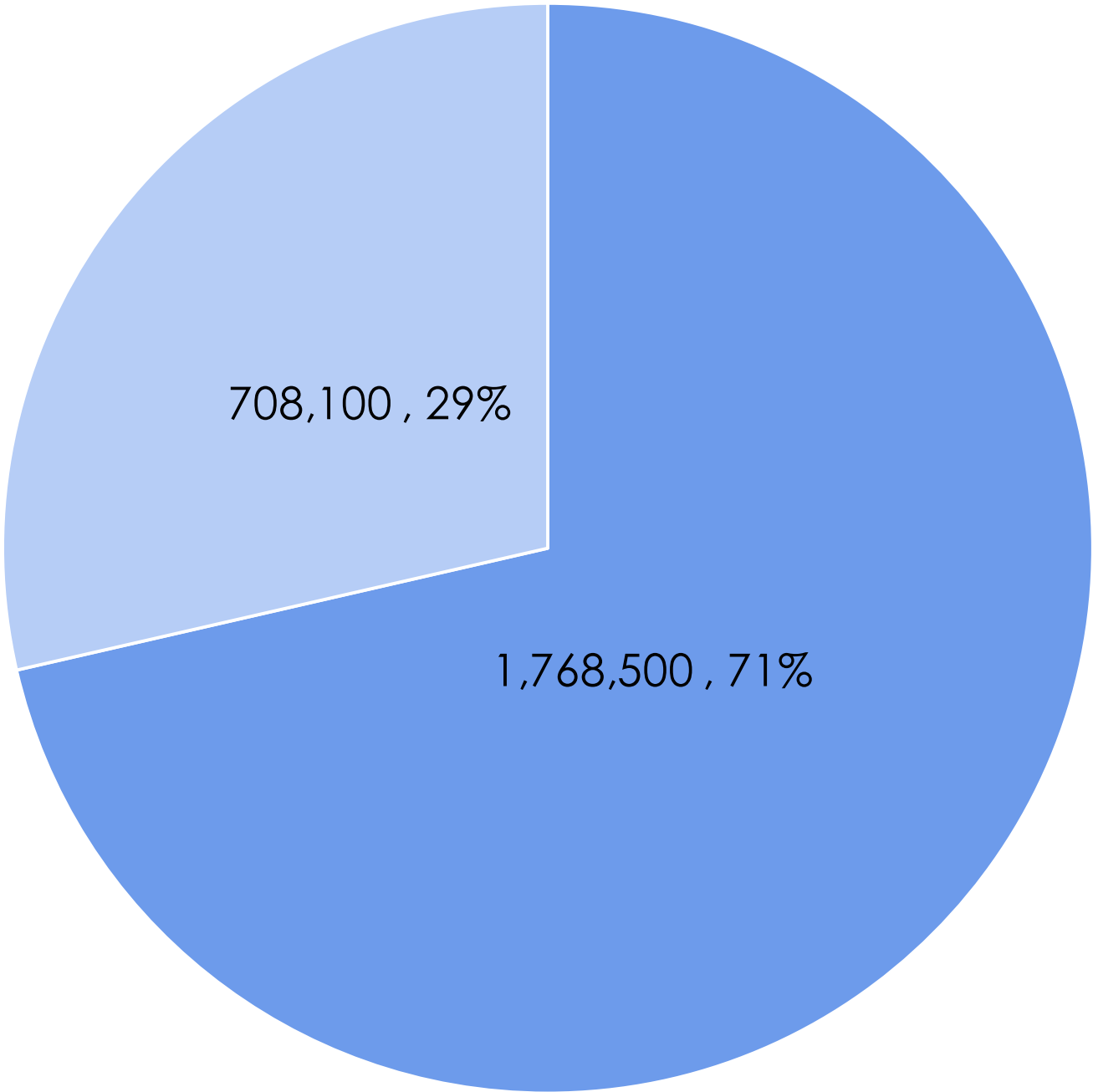


Retail recovery: Restaurants are Struggling



Job losses concentrated in lower-wage industries

California Job Losses by Wage Category



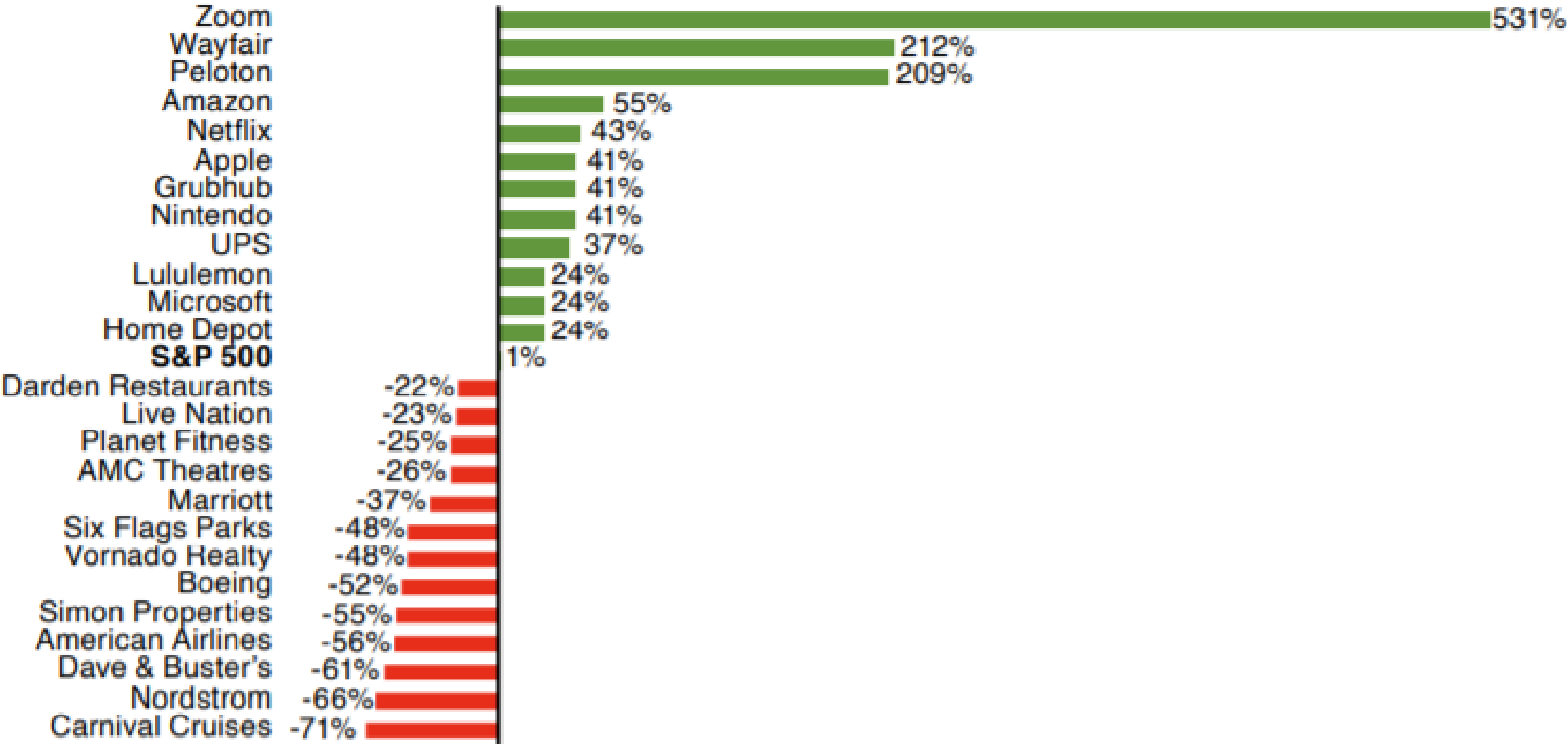
■ Under \$1,100/week ■ Over \$1,100/week

Industry	Avg. Weekly Wage	Jobs Lost (Feb.-Apr.)
Total Nonfarm	\$ 1,368	2,625,500
Accom./Food Svcs.	\$ 513	825,700
Health Care	\$ 1,030	285,700
Retail	\$ 733	279,400
Other Svcs.	\$ 813	172,700
Admin. Support	\$ 924	161,800
Arts/Entertainment	\$ 1,190	156,700
Construction	\$ 1,410	150,000
Manufacturing	\$ 1,889	133,800
Prof./Sci./Tech. Svcs.	\$ 2,459	84,400
Information	\$ 3,678	78,700
Wholesale	\$ 1,557	66,200
Education	\$ 1,082	42,200
Real Estate	\$ 1,403	23,400
Management	\$ 2,604	13,400
Finance/Insurance	\$ 2,599	1,500
NR/Mining	\$ 774	1,000



Leaders and laggards of the economic recovery

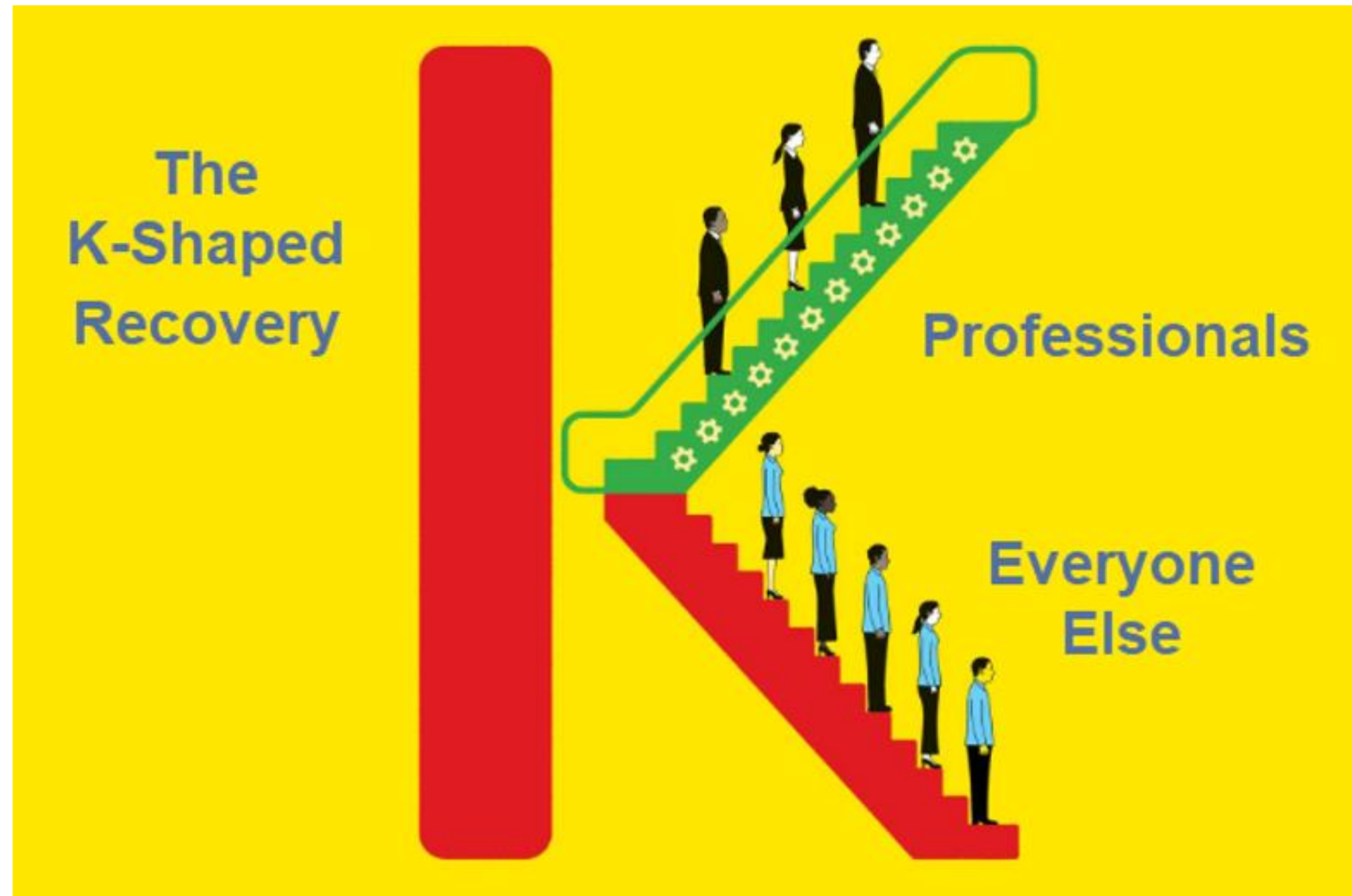
% change in stock prices (1/2/2020 to 9/21/2020)



Pandemic Winners

The Amazon logo, featuring the word "amazon" in white lowercase letters with a curved orange arrow underneath it, set against a dark blue background.The Netflix logo, featuring the word "NETFLIX" in a bold, red, sans-serif font on a black background.

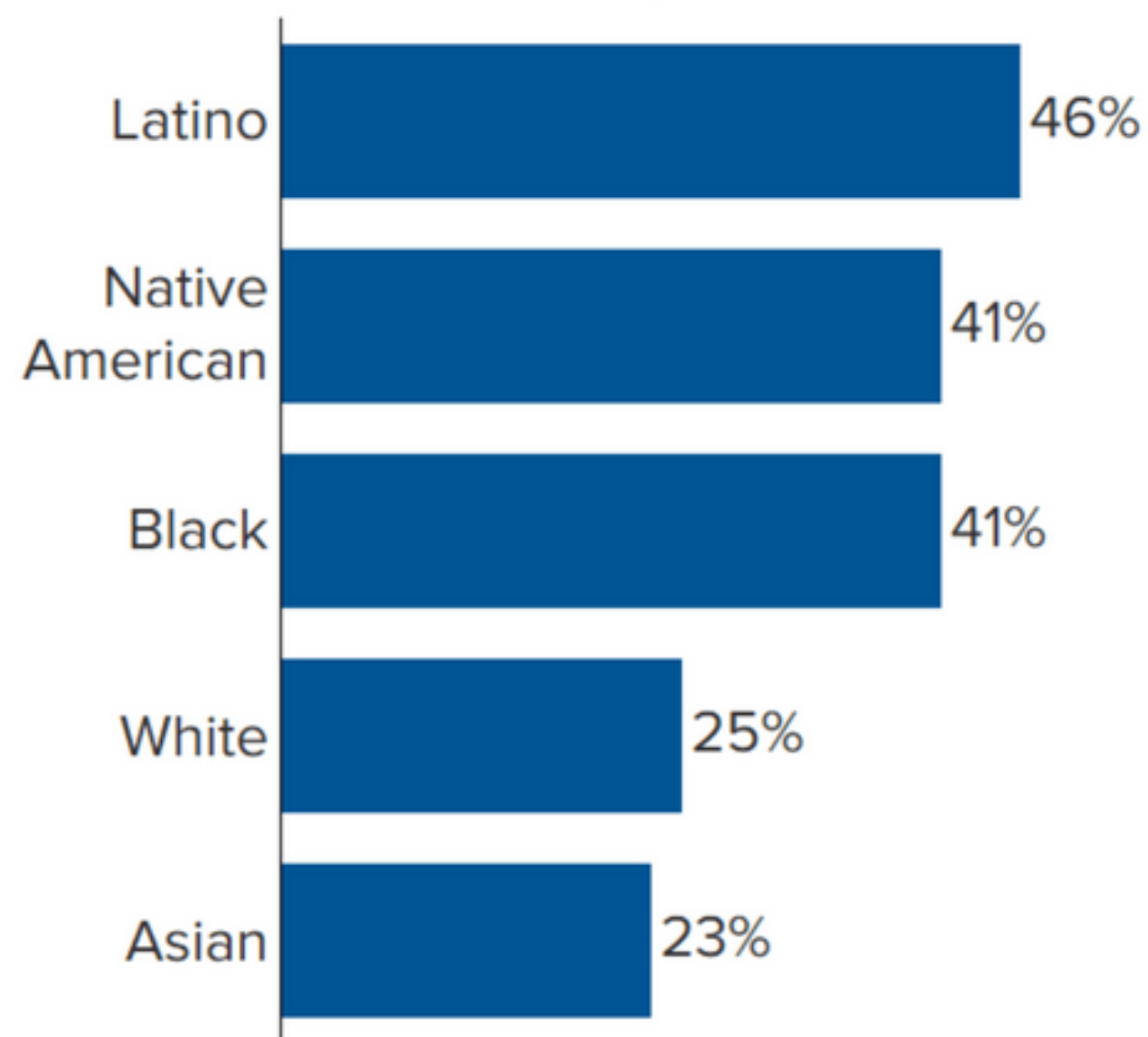
The K-Shaped Recovery



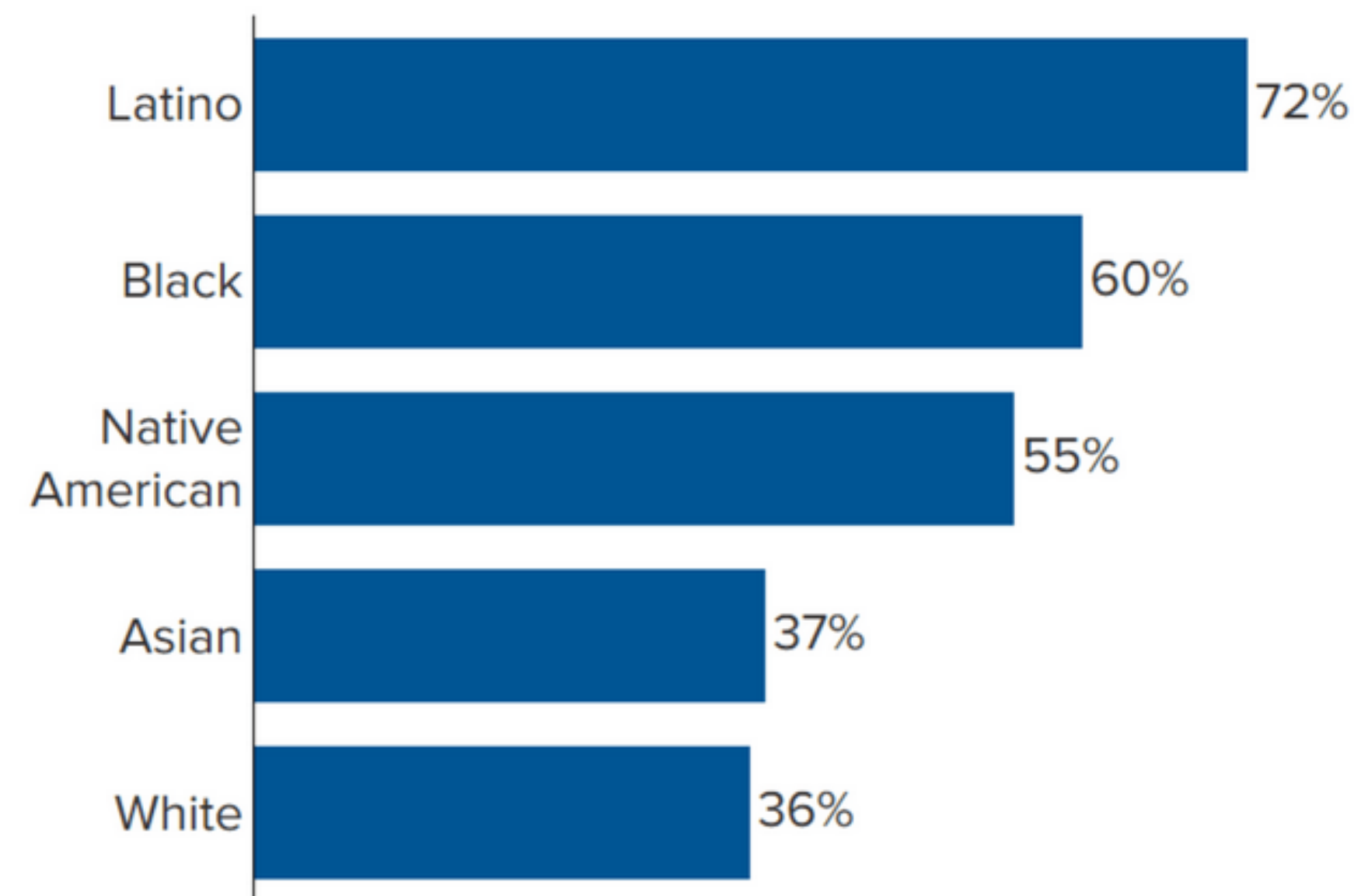
SOURCE: <https://www.thestreet.com/mishtalk/economics/its-professionals-vs-everyone-else-in-the-k-shaped-recovery>

Financial Hardship Greatest for Latinos, Blacks, Native Americans

Share of individuals/household members who have used up all or most of their savings since the start of the pandemic.



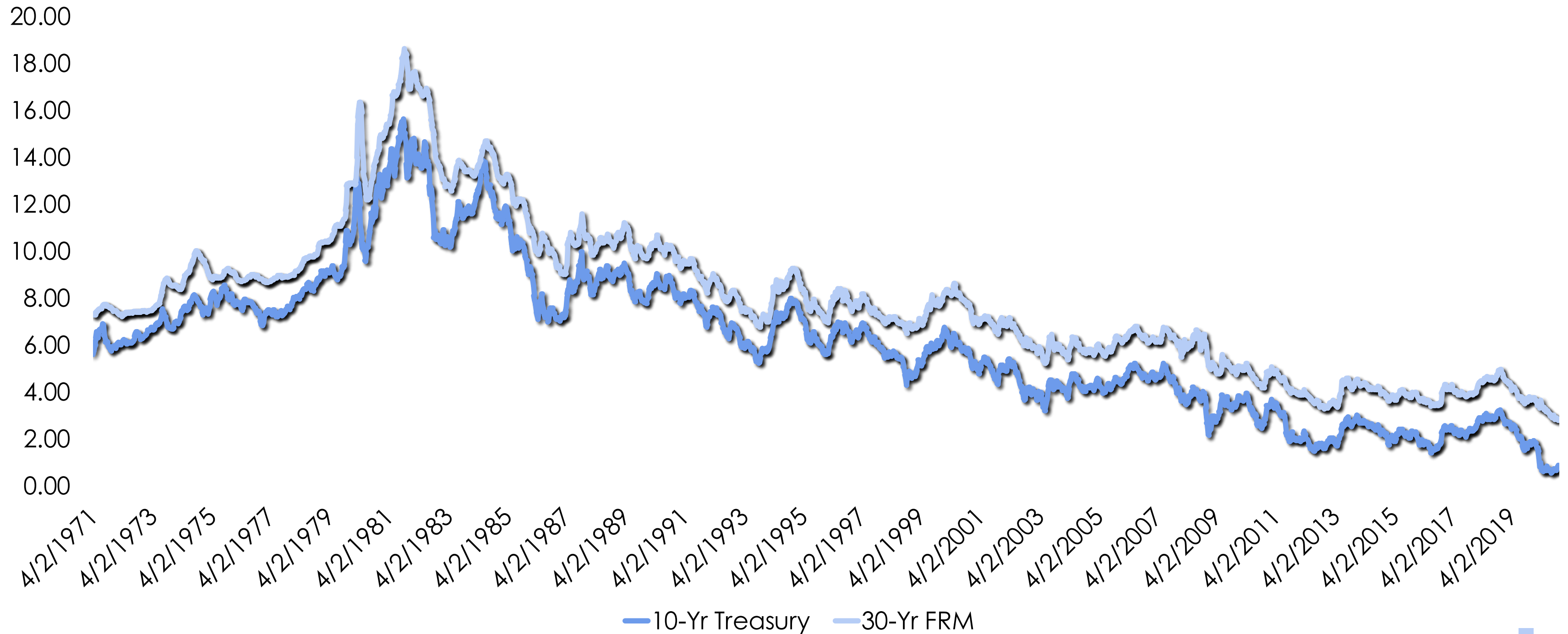
Share of people who have experienced serious financial problems since the start of the coronavirus outbreak.



Survey of 3,454 U.S. adults between July 1 and August 3

Interest rates have **NEVER** been lower

Key Interest Rates

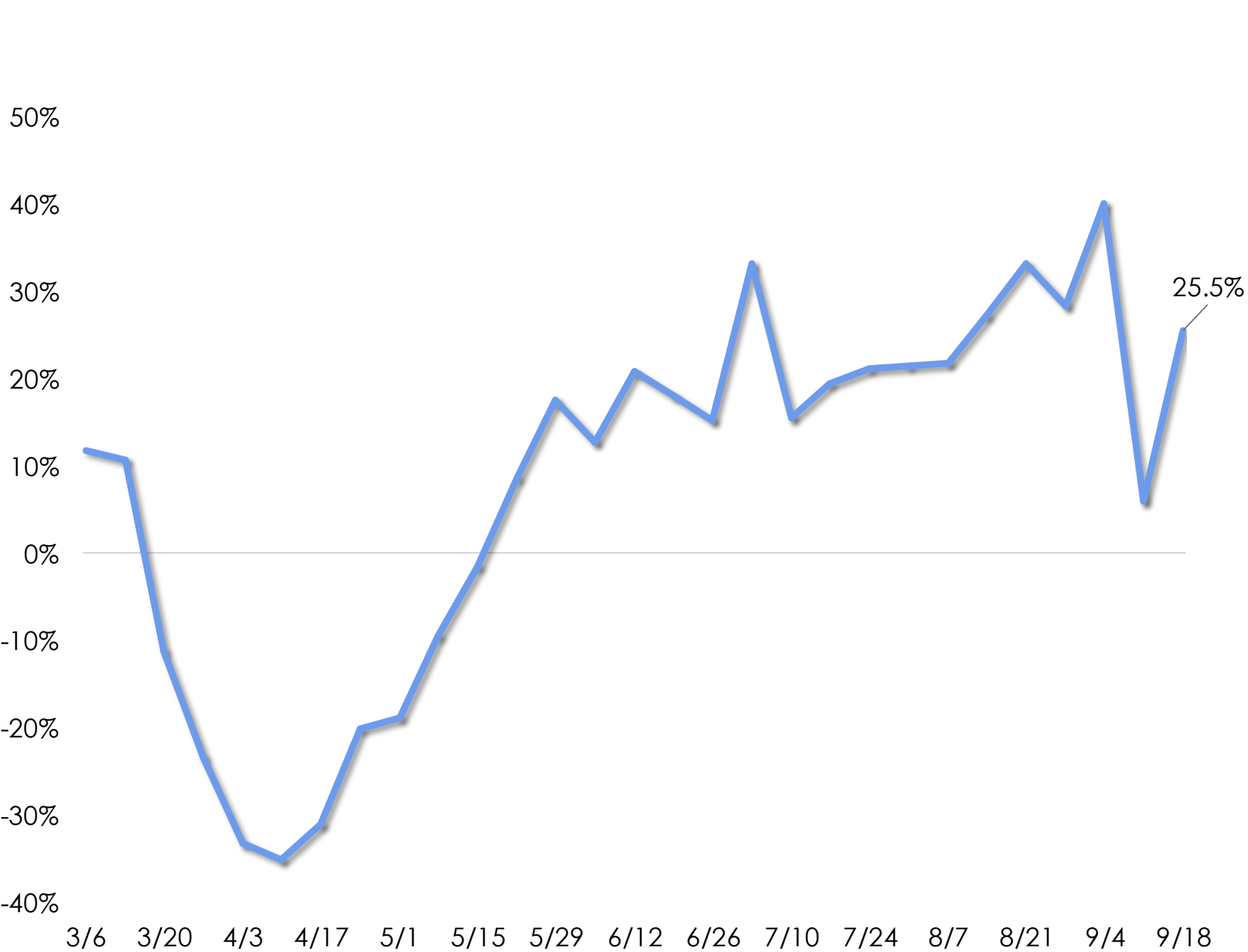


Buyers fueling strong demand for mortgages

Weekly Change in New Mortgage Purchase Applications



Year-to-Year Change in New Mortgage Purchase Applications



HOUSING SNAPSHOT

EXISTING-HOME SALES

SEPTEMBER 2020

SALES
6.54*
MILLION

MoM **↑ 9.4%**

YoY **↑ 20.9%**

MEDIAN SALES PRICE

\$311,800

YoY **↑ 14.8%**

INVENTORY

2.7 months

4.0 months

IN SEPTEMBER 2019

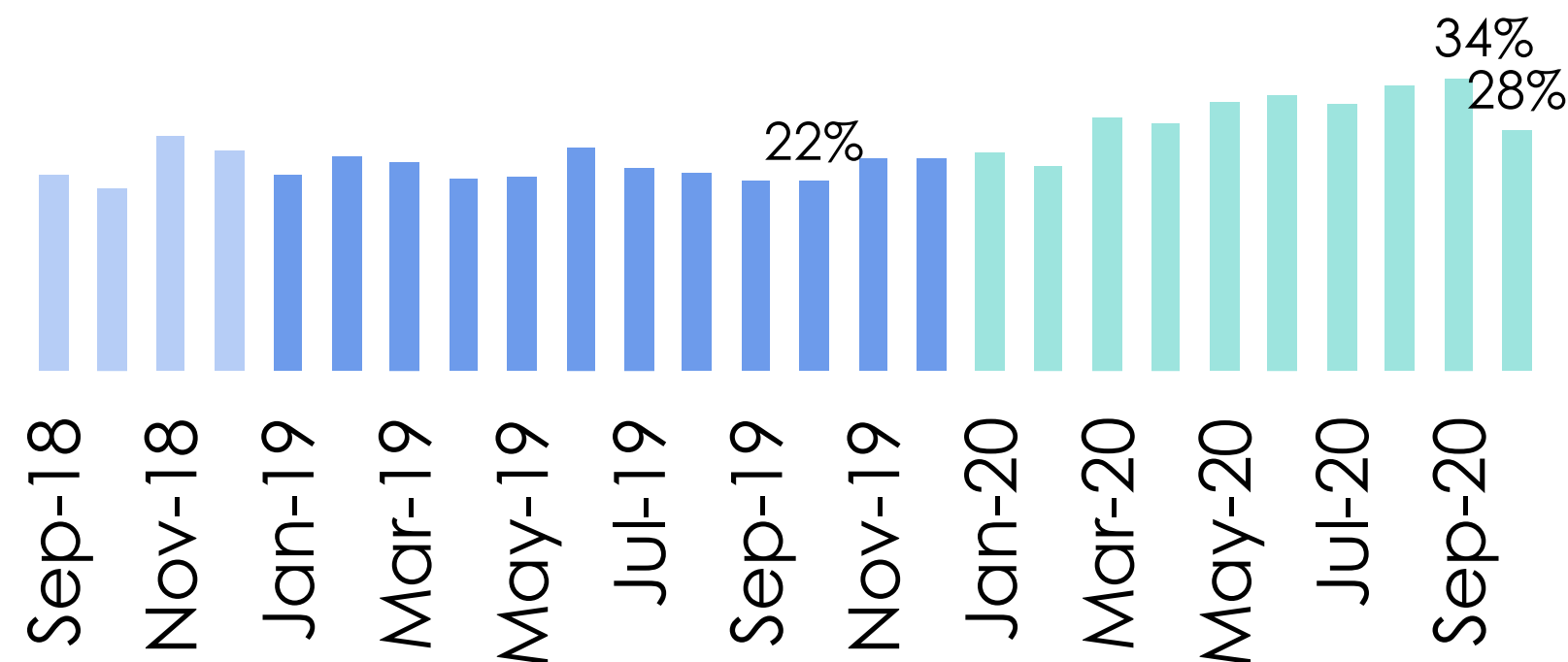
*Seasonally Adjusted Annual Rate



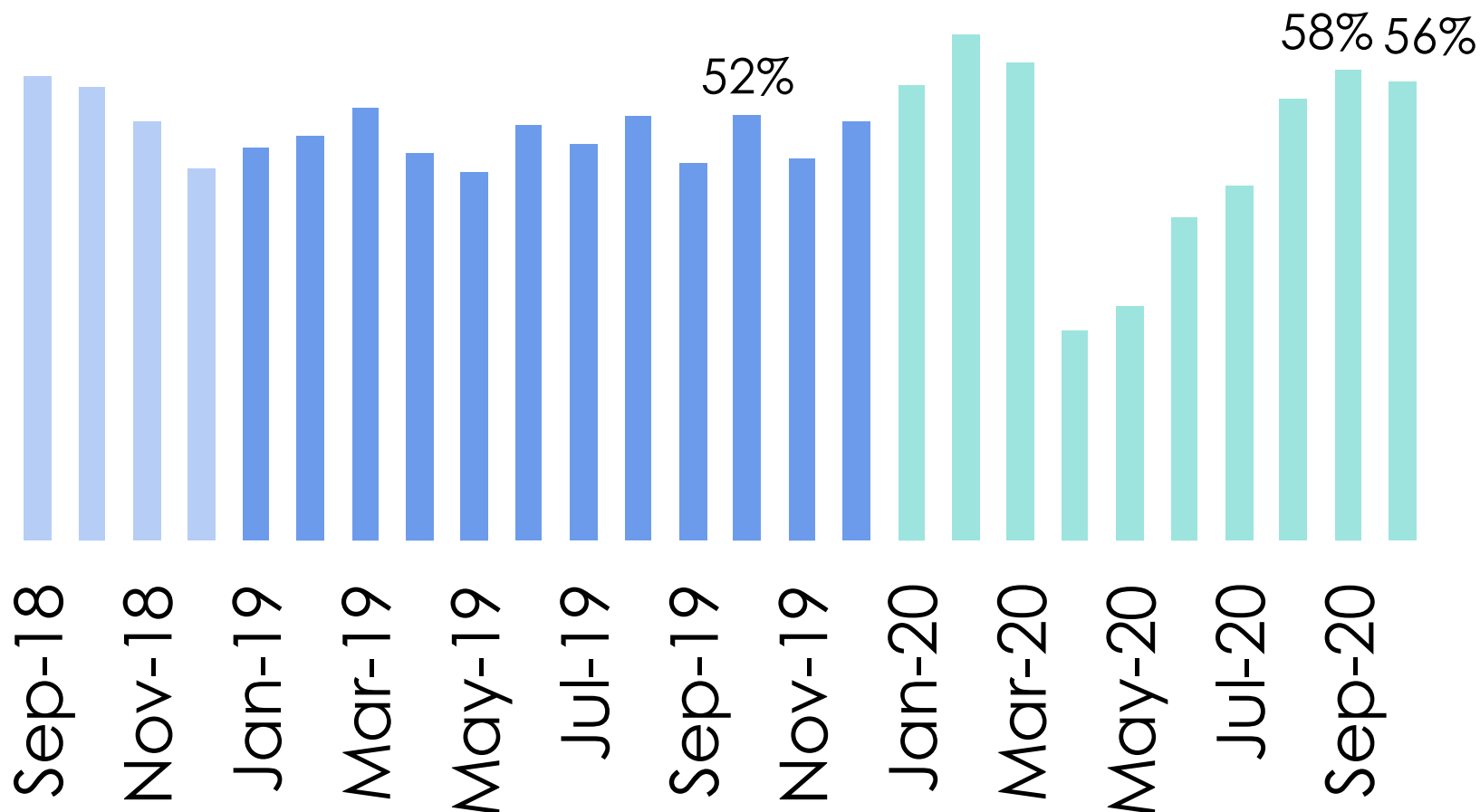
CA Housing Market

October 2020: Is it a good time to **buy** or **sell**?

Do you think it's a good time to **buy** a home in California?



Do you think it's a good time to **sell** a home in California?



California housing market: sales up, price set new record, supply lowest in years

September 2020

489,590 | Existing Home Sales
+21.2% YTY -3.7% YTD % change



Price

\$712,430
+17.6% Y2Y



Unsold Inventory Index

2.0 months
-44.4% Y2Y



Median Days on Market

11 days
-54.2% Y2Y

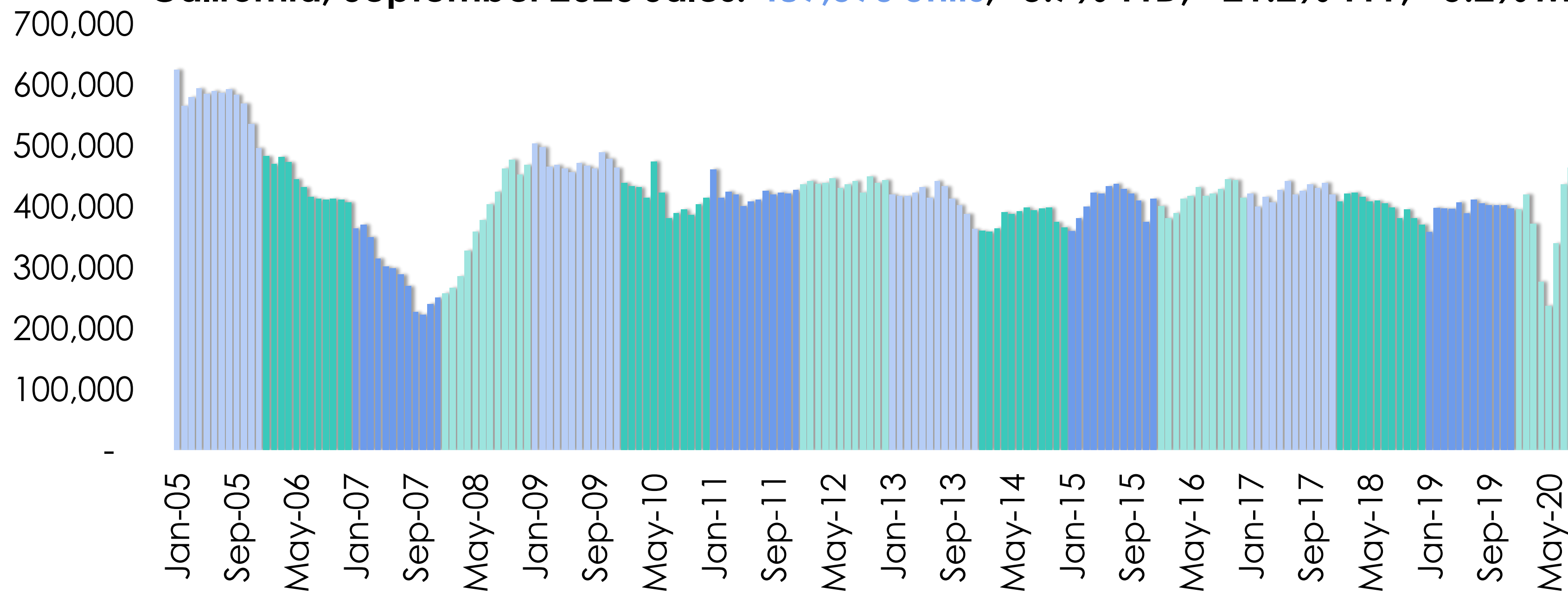


Sales Price to List Price Ratio

100.0%
+1.5% Y2Y

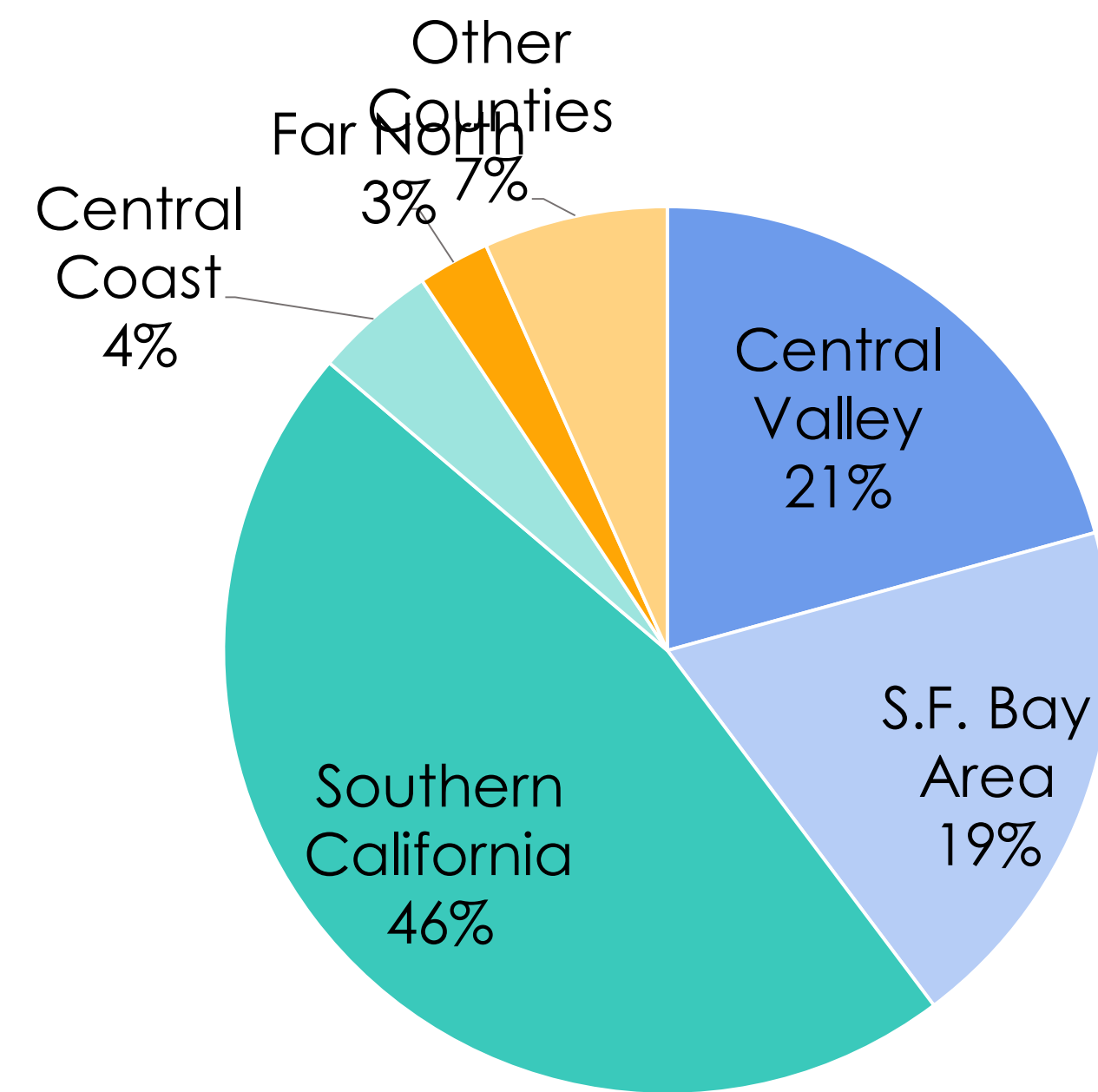
Sales gained momentum and grew to a level not seen in over 10 years.

California, September 2020 Sales: 489,590 Units, -3.7% YTD, +21.2% YTY, +5.2% MTM

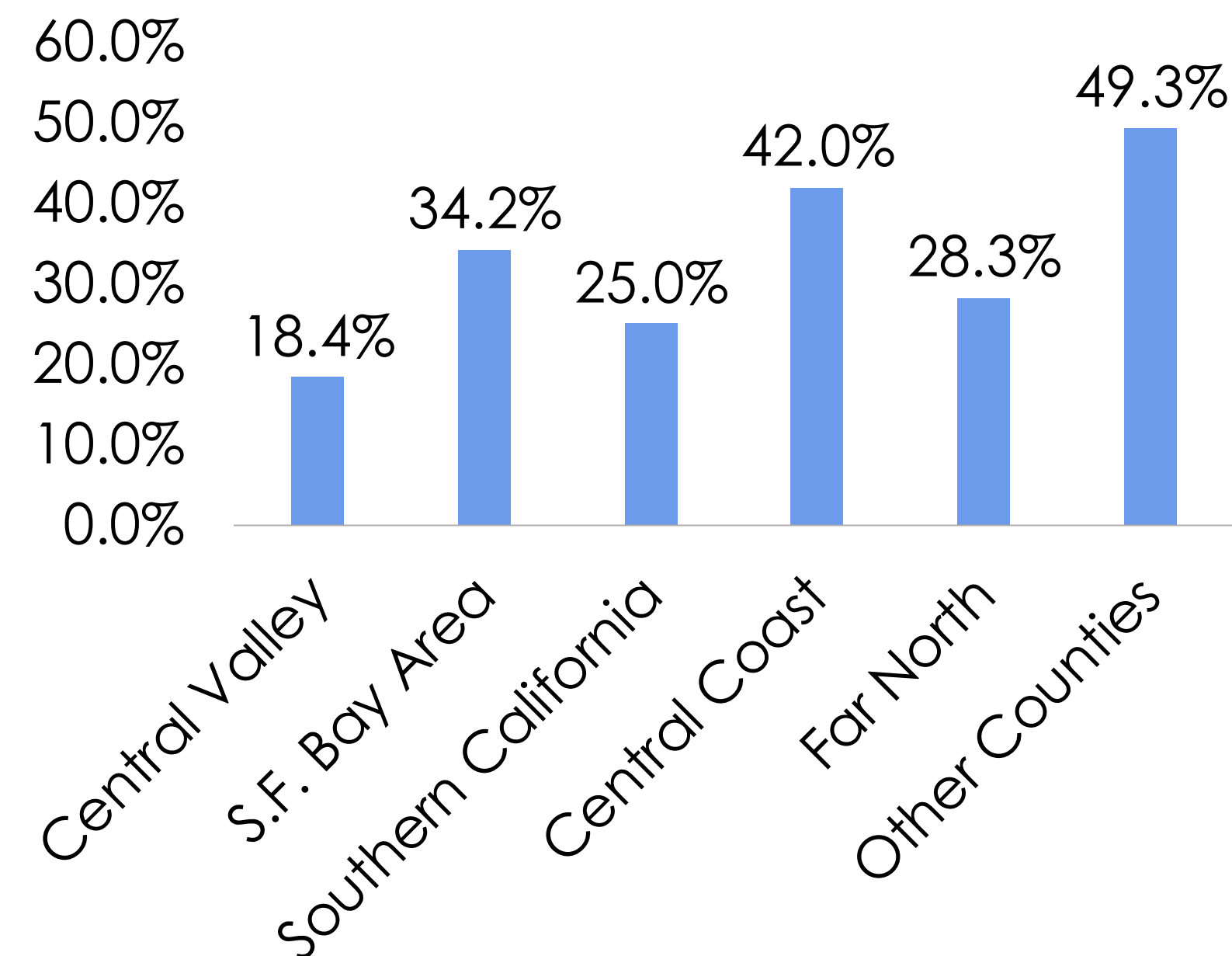


Sales by Region

**September 2020
Home Sales by Region**

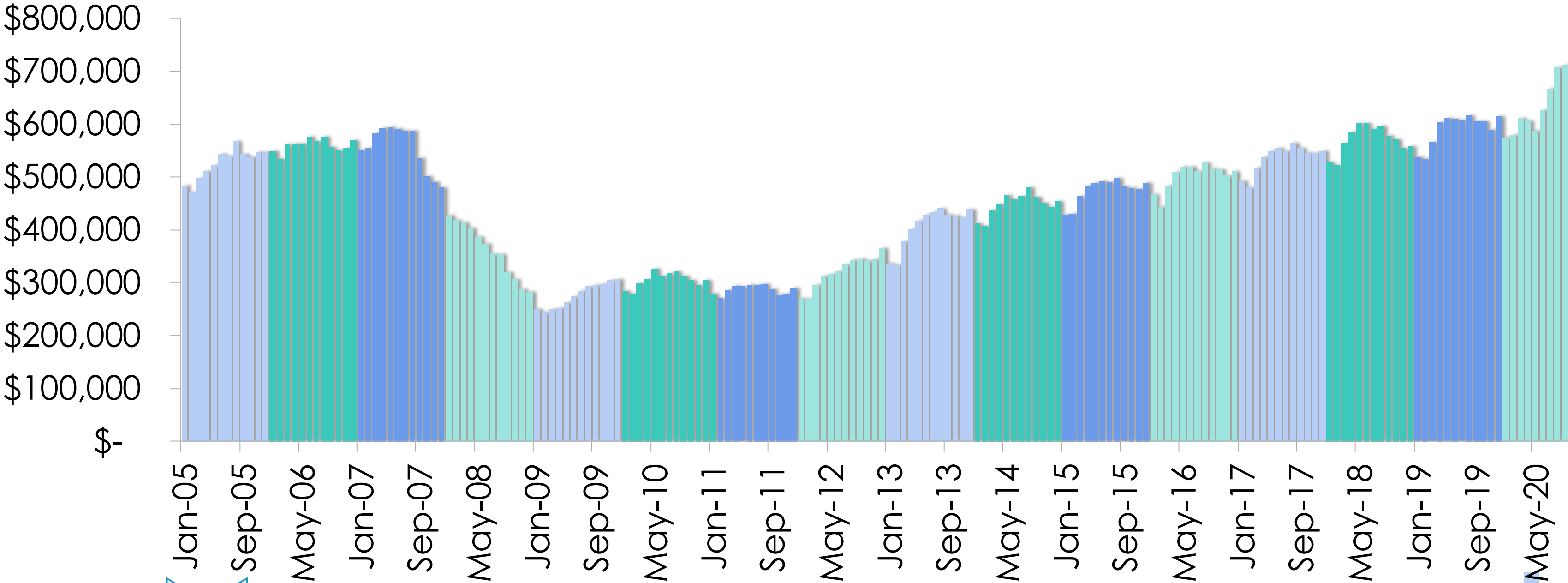


**September 2020 Home Sales
Growth by Region**

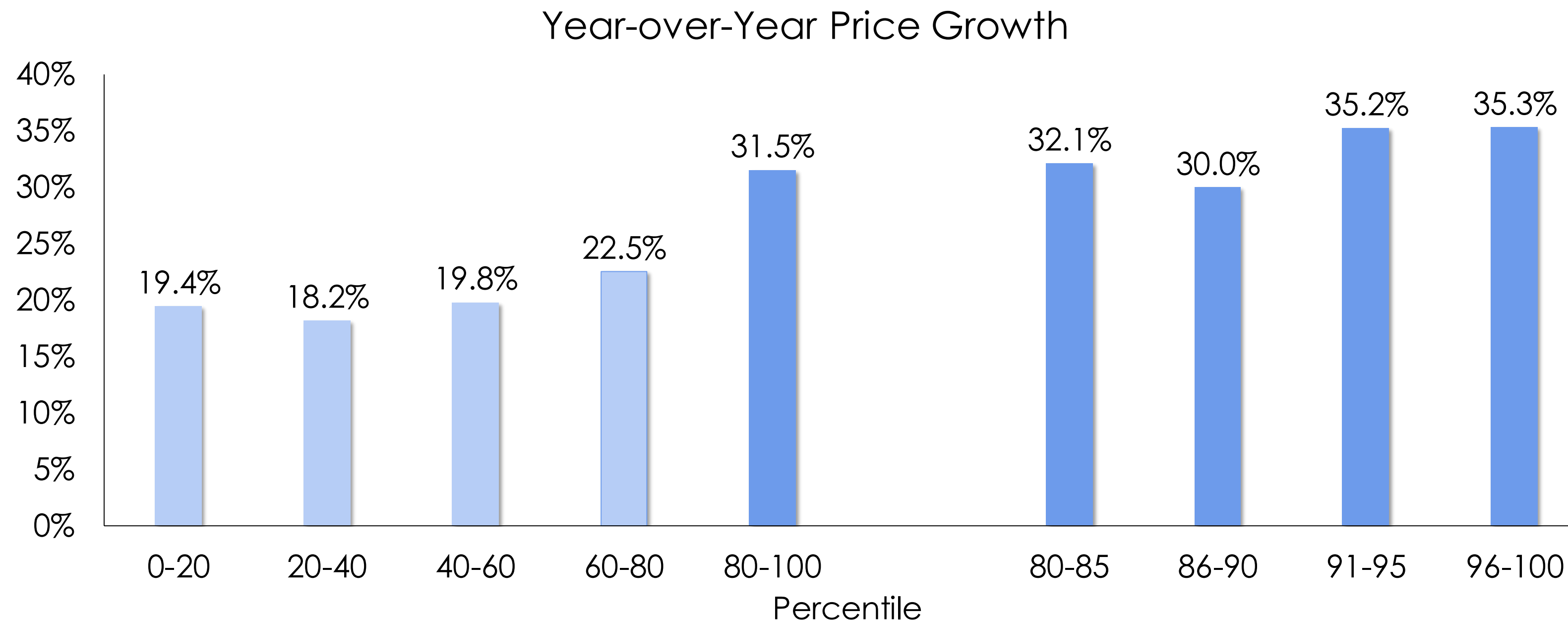


California median price set another new record

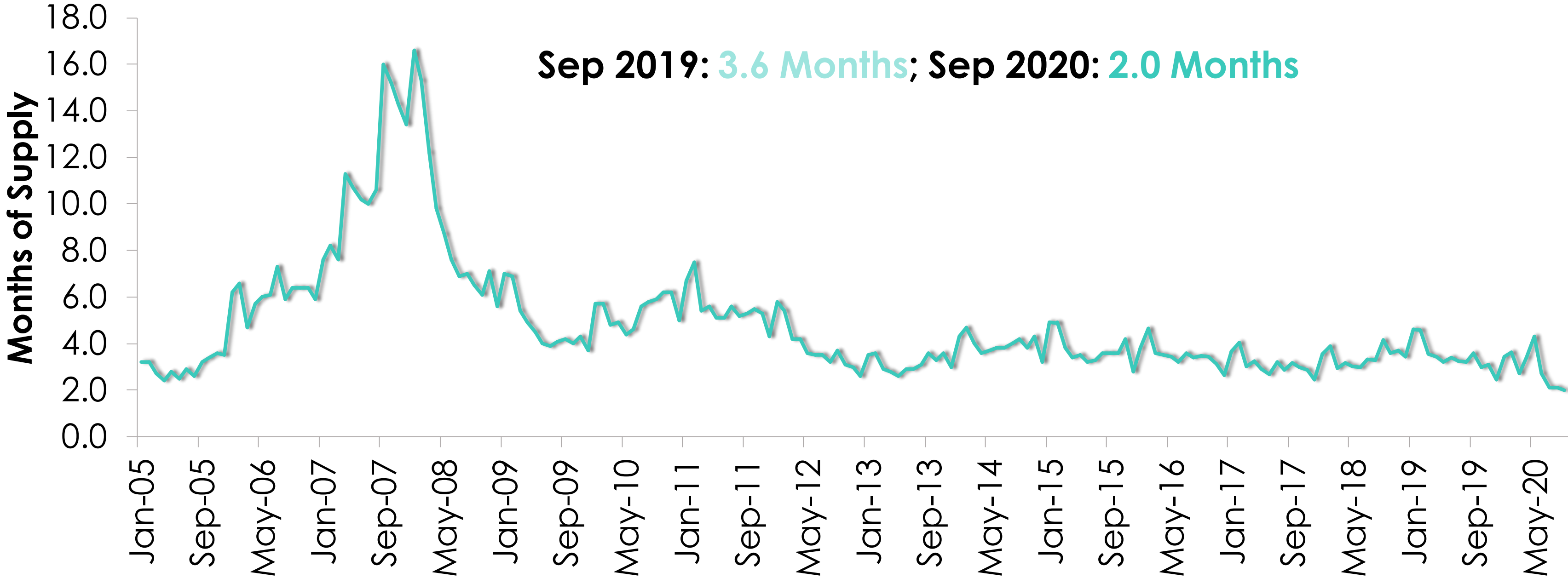
California, September 2020: **\$712,430**, +0.8% MTM, +17.6% YTY



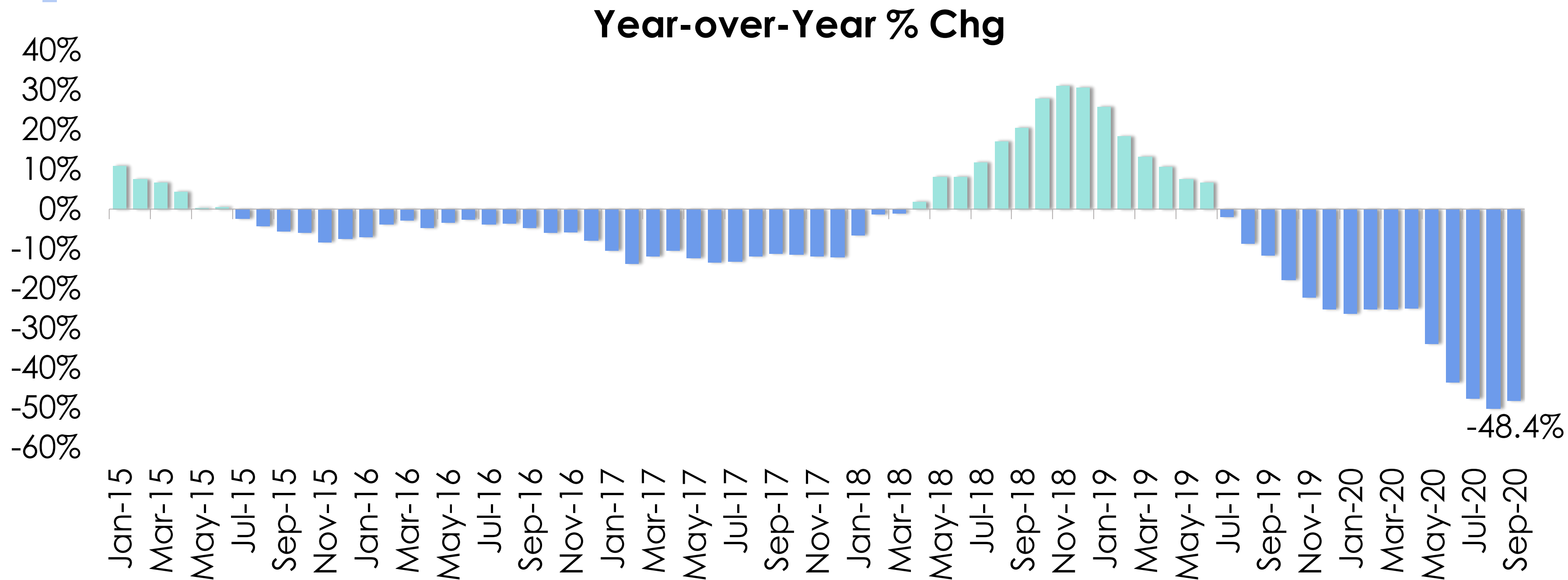
Price growth up by double digits in all percentiles; strongest gain in the top end



Inventory at the lowest level since Nov 2004

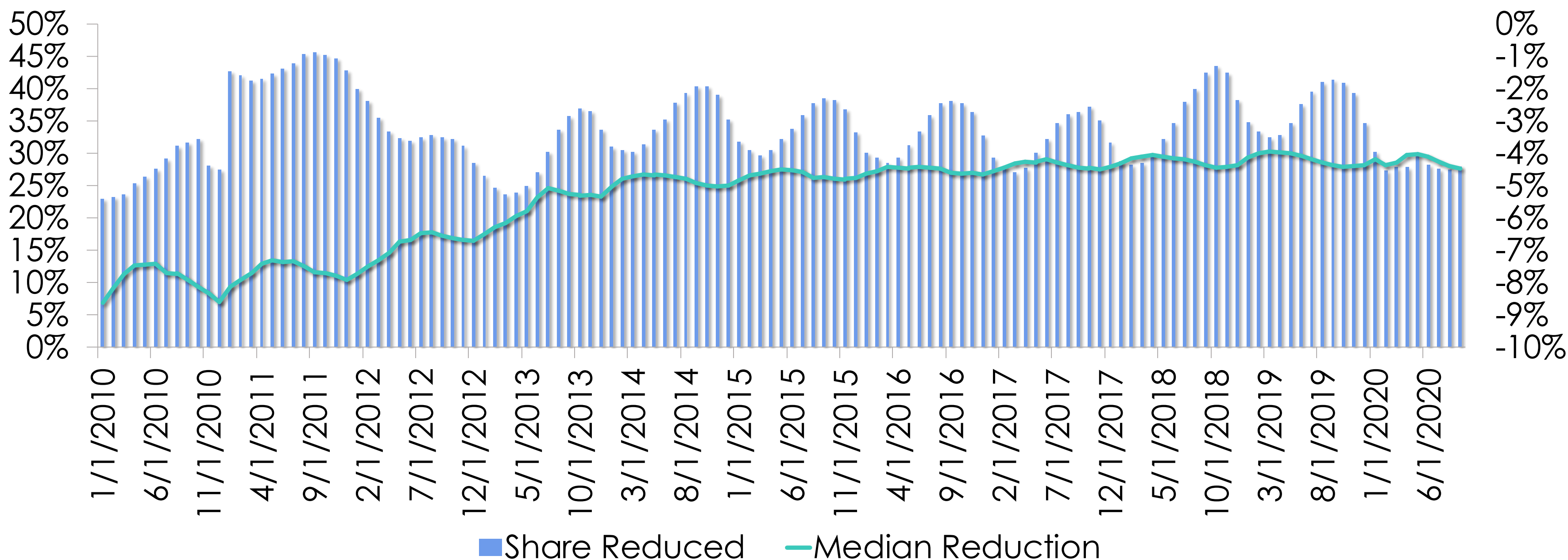


Active listings plunged as pent up demand remained robust



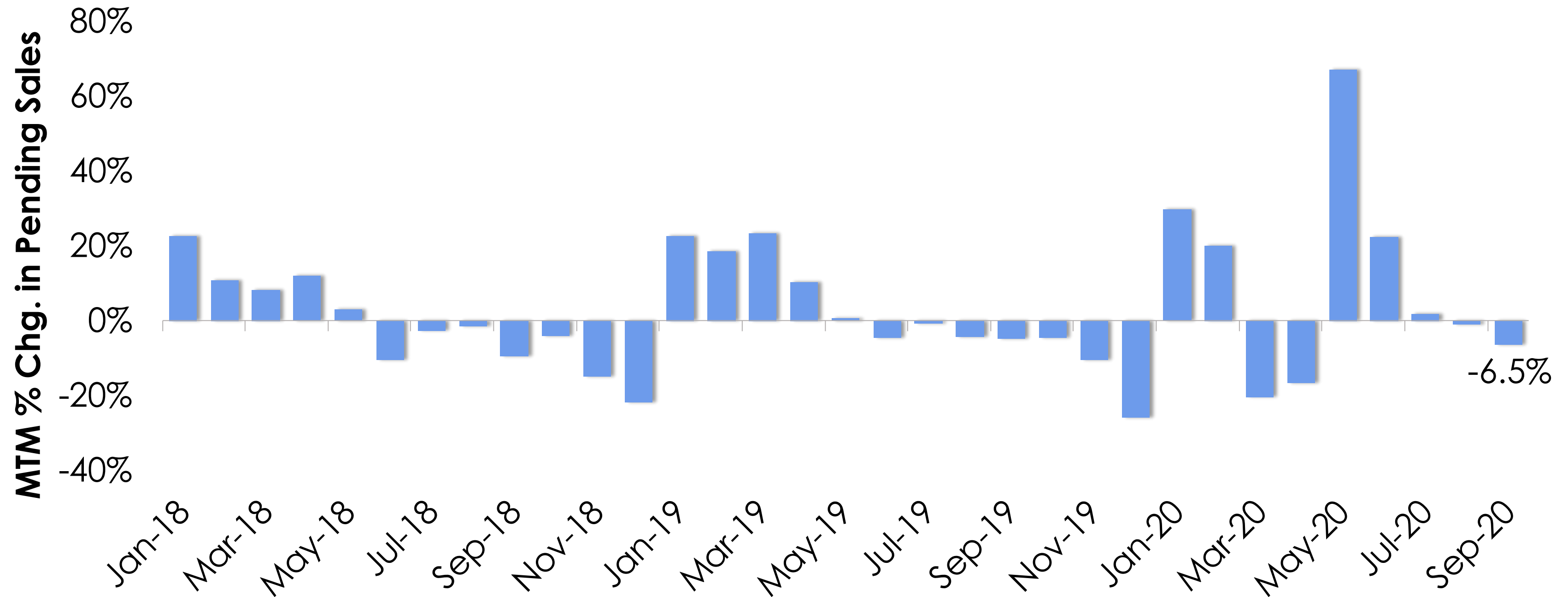
Reduced-Price Listings

Share of Listings with a Reduced Price: **28.0%**; Median Reduction Amount: **-4.5%**



Where do we go from here?

Pending sales decelerating for 4 months





Local Housing Market **Stats**

monthly
market
report
September
2020

Palos Verdes Estates, California

Median Price



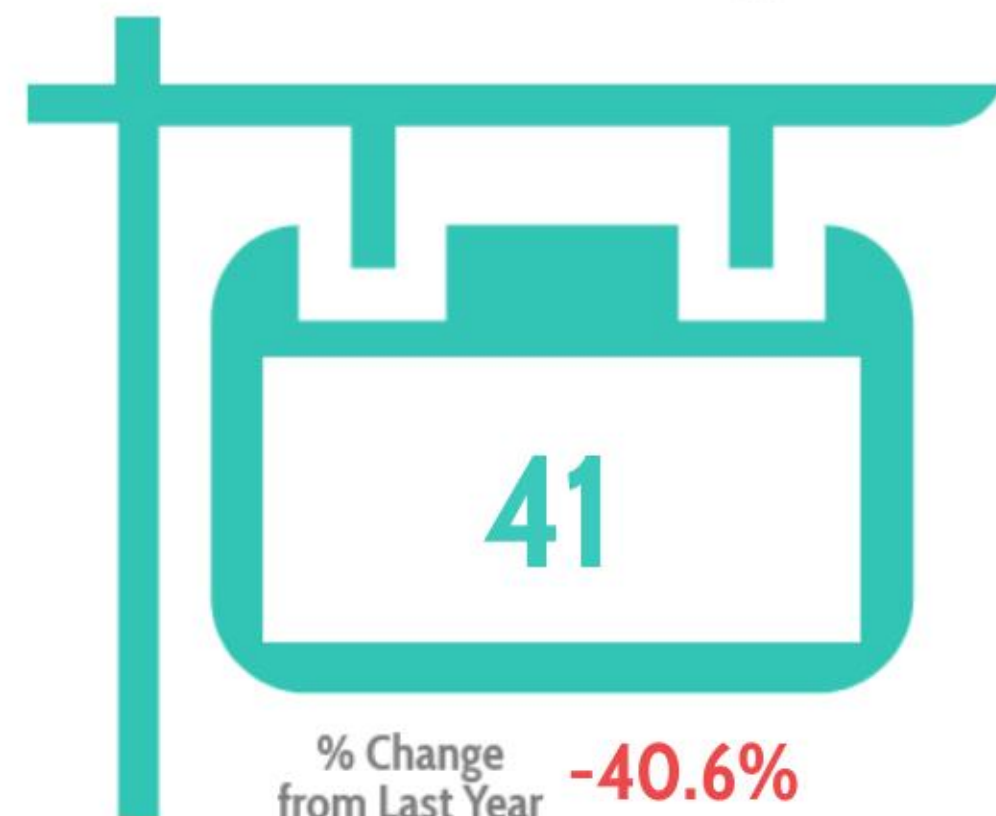
% Change
from Last Year **+12.6%**

Home Sales



% Change
from Last Year **+109.1%**

Active Listings



% Change
from Last Year **-40.6%**

Market Competition

Median
Days on
Market

30

Sales to
List Price %

98.5%

% of Active
Listings with
Reduced Prices

36.6%

monthly
market
report
September
2020

Rancho Palos Verdes, California

Median Price



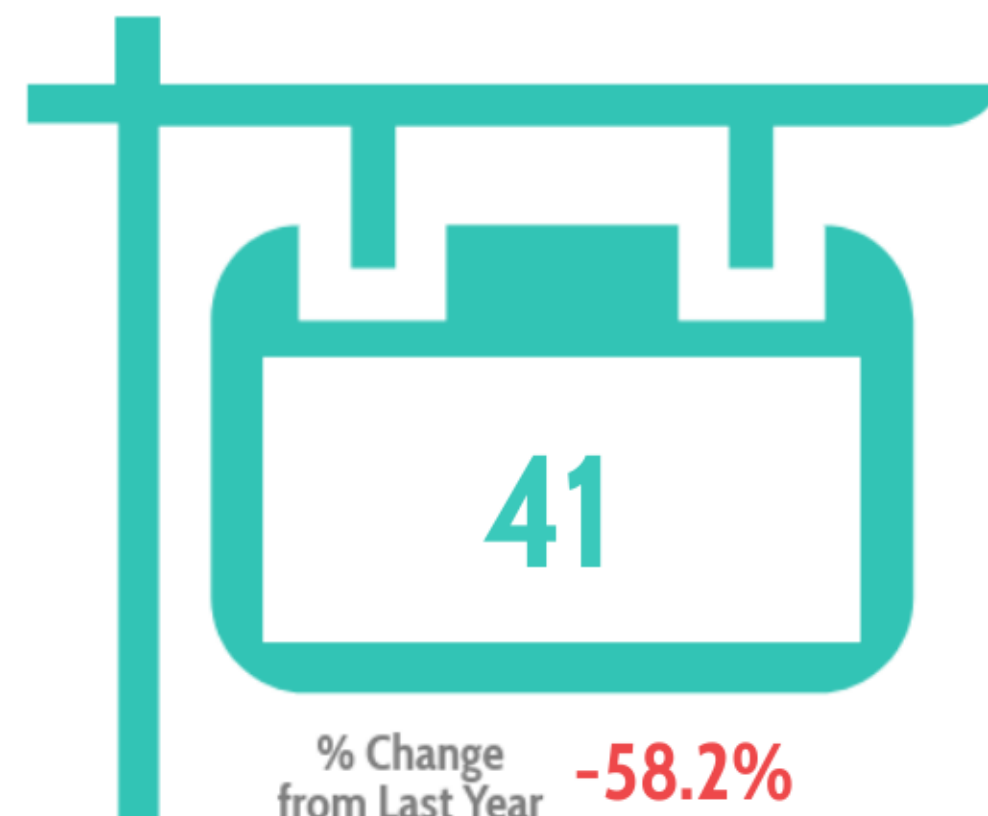
% Change
from Last Year **+22.0%**

Home Sales



% Change
from Last Year **+11.1%**

Active Listings



% Change
from Last Year **-58.2%**

Market Competition

Median
Days on
Market

17

Sales to
List Price %

98.9%

% of Active
Listings with
Reduced Prices

24.4%

monthly
market
report
September
2020

Redondo Beach, California

Median Price



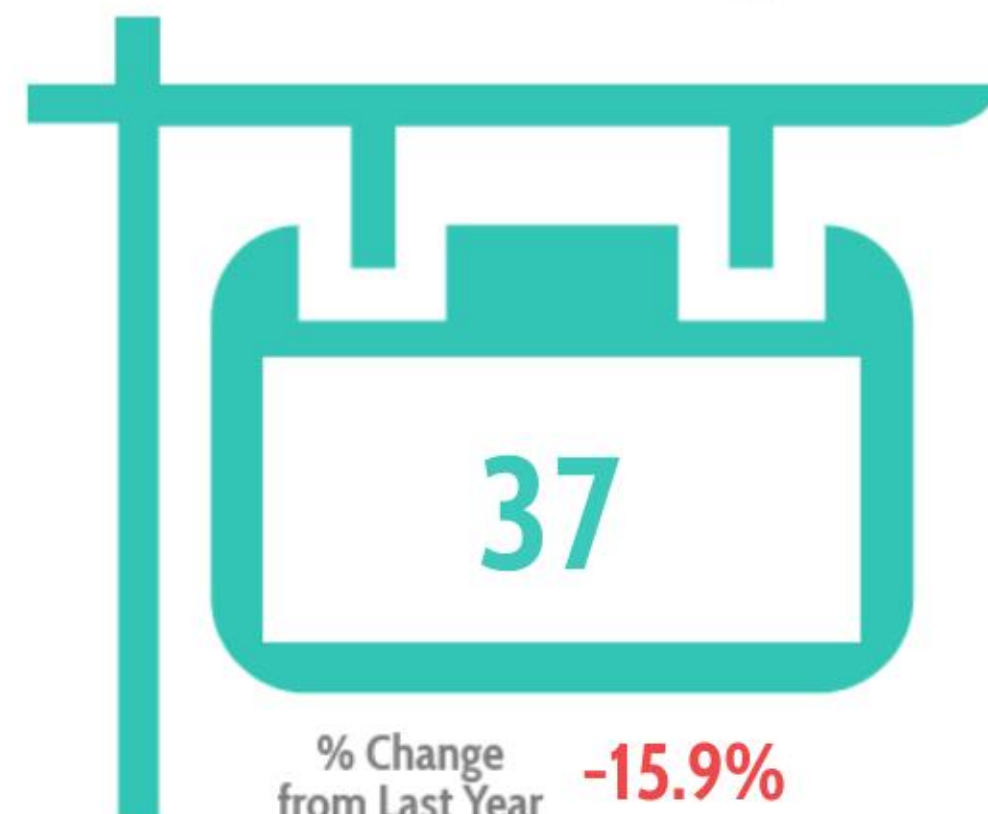
% Change
from Last Year **+24.8%**

Home Sales



% Change
from Last Year **+140.0%**

Active Listings



% Change
from Last Year **-15.9%**

Market Competition

Median
Days on
Market

9

Sales to
List Price %

100.0%

% of Active
Listings with
Reduced Prices

35.1%

monthly
market
report
September
2020

Manhattan Beach, California

Median Price



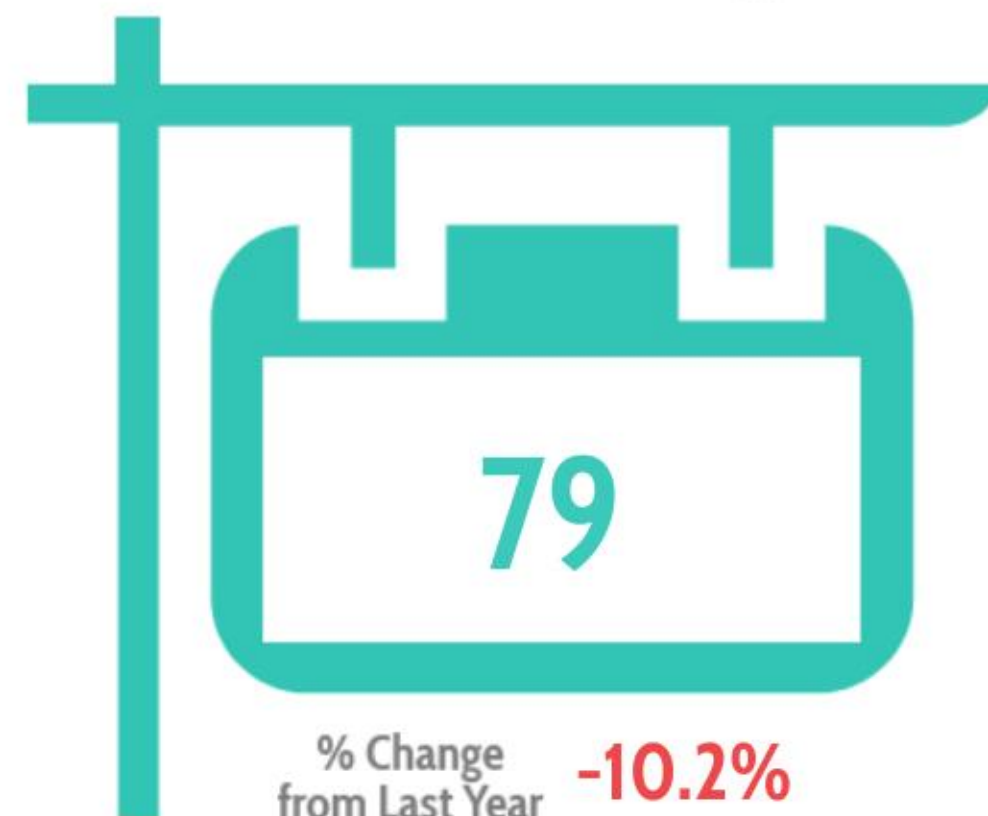
% Change
from Last Year **+13.1%**

Home Sales



% Change
from Last Year **+183.3%**

Active Listings



% Change
from Last Year **-10.2%**

Market Competition

Median
Days on
Market

19

Sales to
List Price %

98.9%

% of Active
Listings with
Reduced Prices

36.7%

monthly
market
report
September
2020

Torrance, California

Median Price



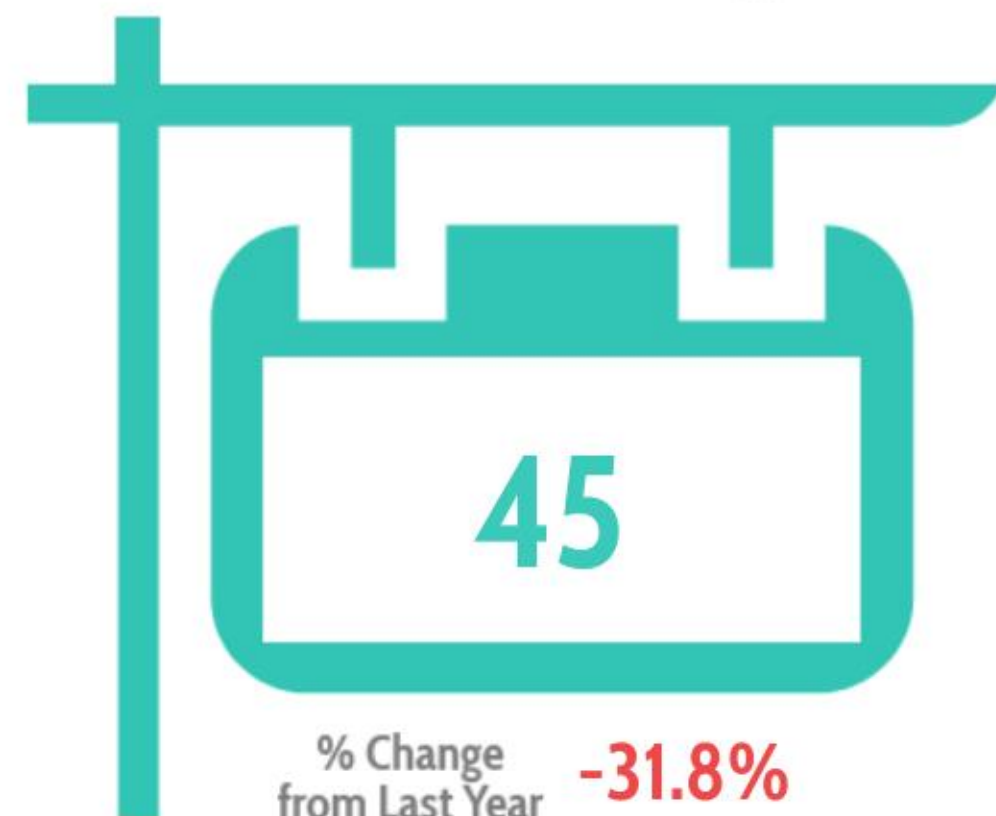
% Change
from Last Year **+8.1%**

Home Sales



% Change
from Last Year **+4.5%**

Active Listings



% Change
from Last Year **-31.8%**

Market Competition

Median
Days on
Market

7

Sales to
List Price %

102.1%

% of Active
Listings with
Reduced Prices

24.4%

monthly
market
report
September
2020

Hawthorne, California

Median Price



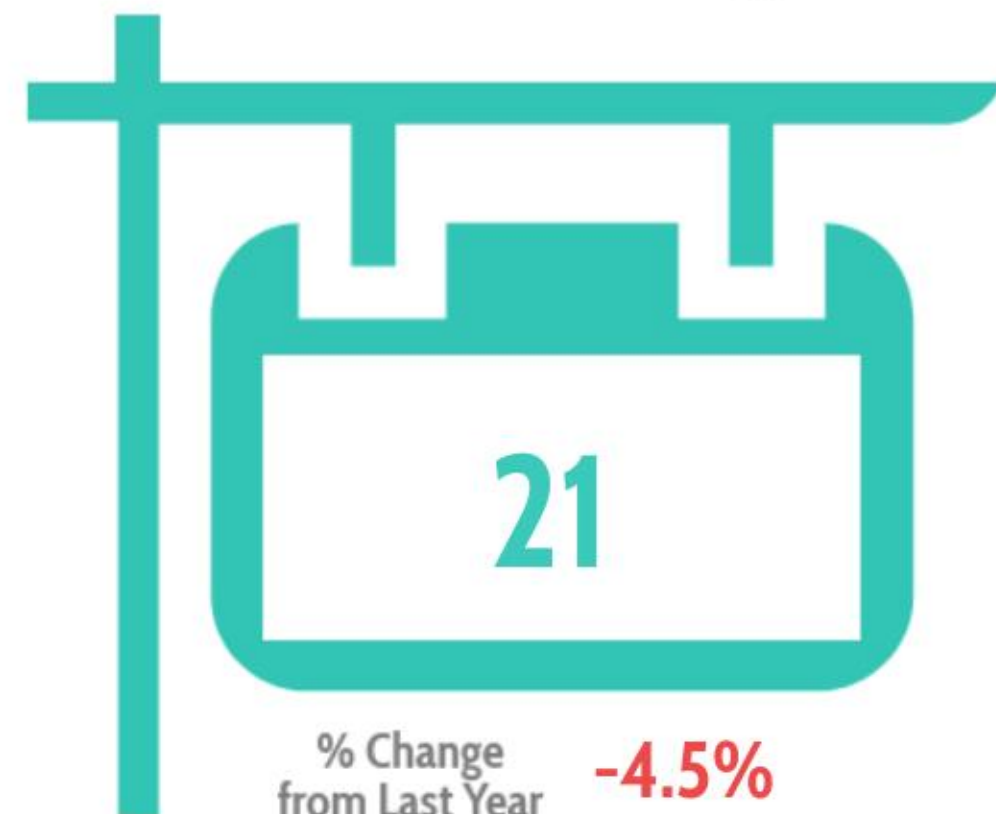
% Change
from Last Year **+3.2%**

Home Sales



% Change
from Last Year **+16.7%**

Active Listings



% Change
from Last Year **-4.5%**

Market Competition

Median
Days on
Market

12

Sales to
List Price %

100.0%

% of Active
Listings with
Reduced Prices

4.8%

monthly
market
report

September
2020

Long Beach, California

Median Price



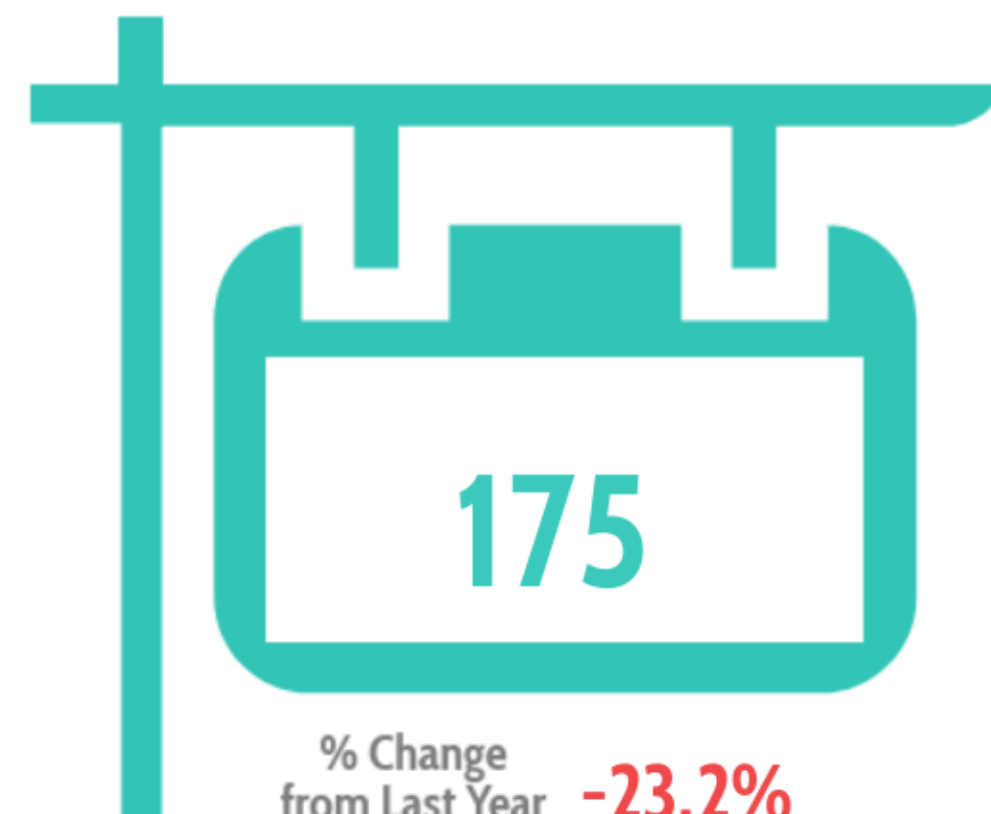
% Change
from Last Year **+8.5%**

Home Sales



% Change
from Last Year **+10.5%**

Active Listings



% Change
from Last Year **-23.2%**

Market Competition

Median
Days on
Market

9

Sales to
List Price %

100.0%

% of Active
Listings with
Reduced Prices

26.3%

2020 Annual Housing Market Survey: Highlights

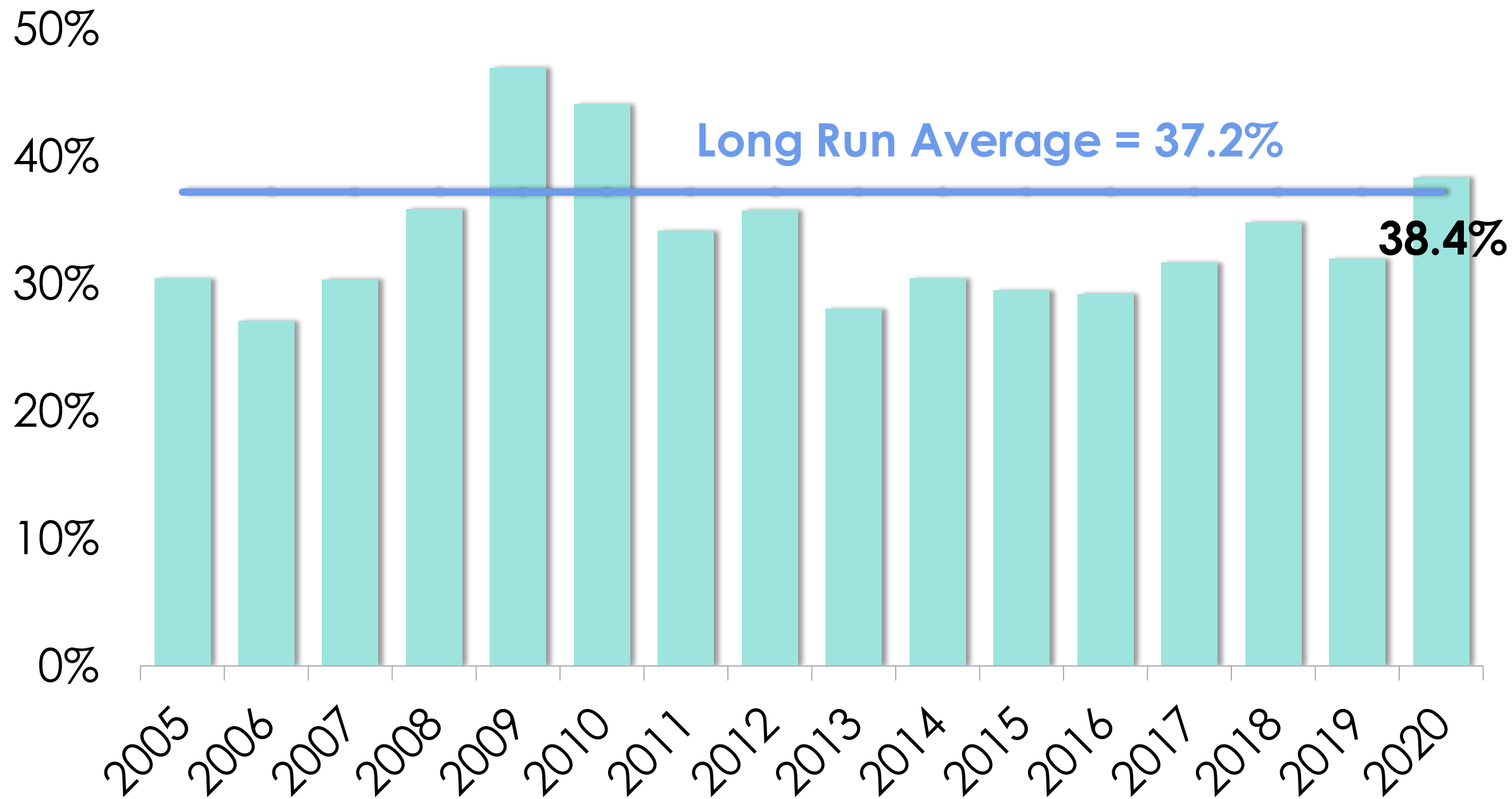


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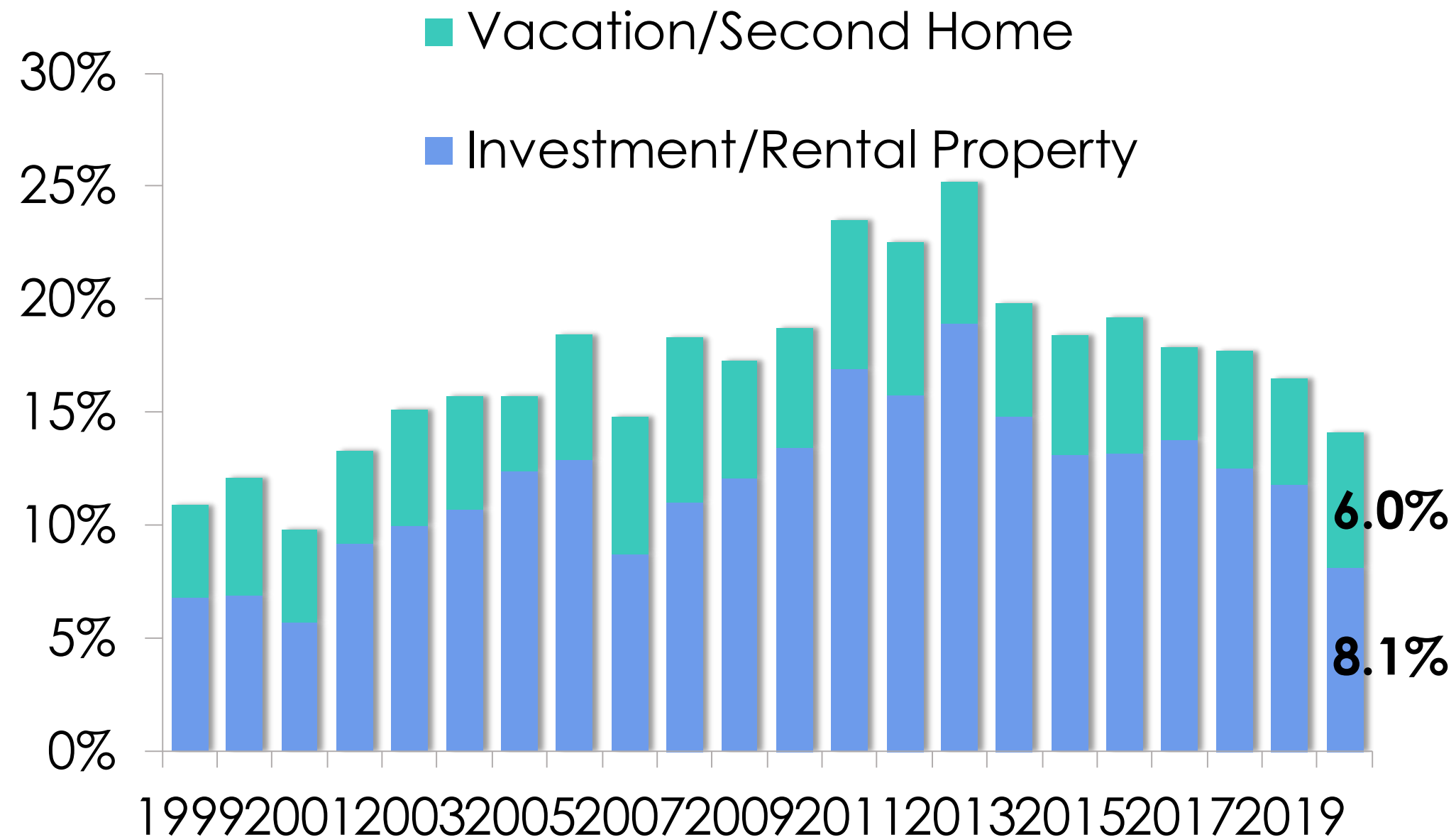
Share of First Time Buyers Highest in 10 years



■ % First-Time Home Buyers — Long Run Average

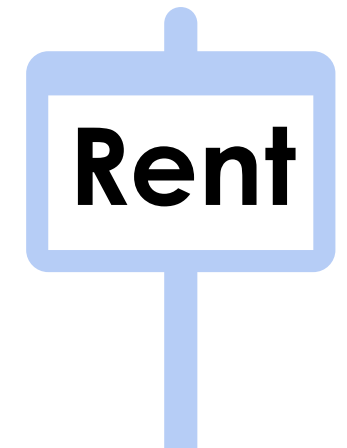


Investor Buyers lowest since 2001 Vacation/Second Home share up



Flip

VS.

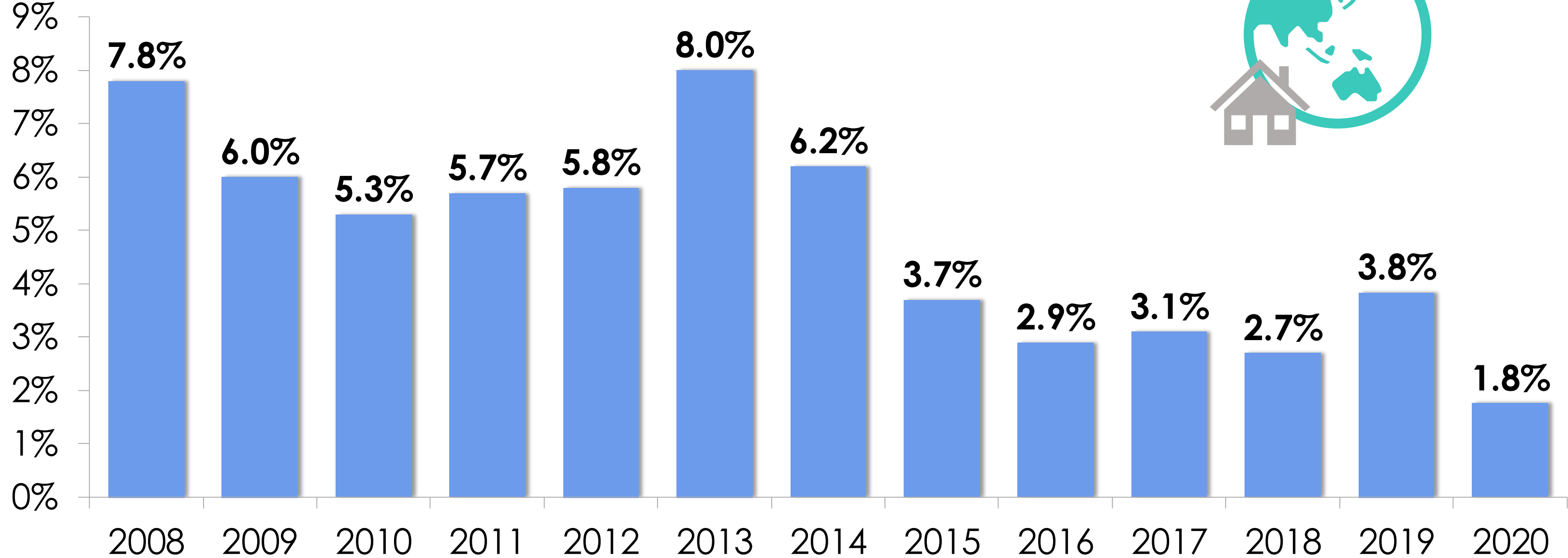


Rent

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

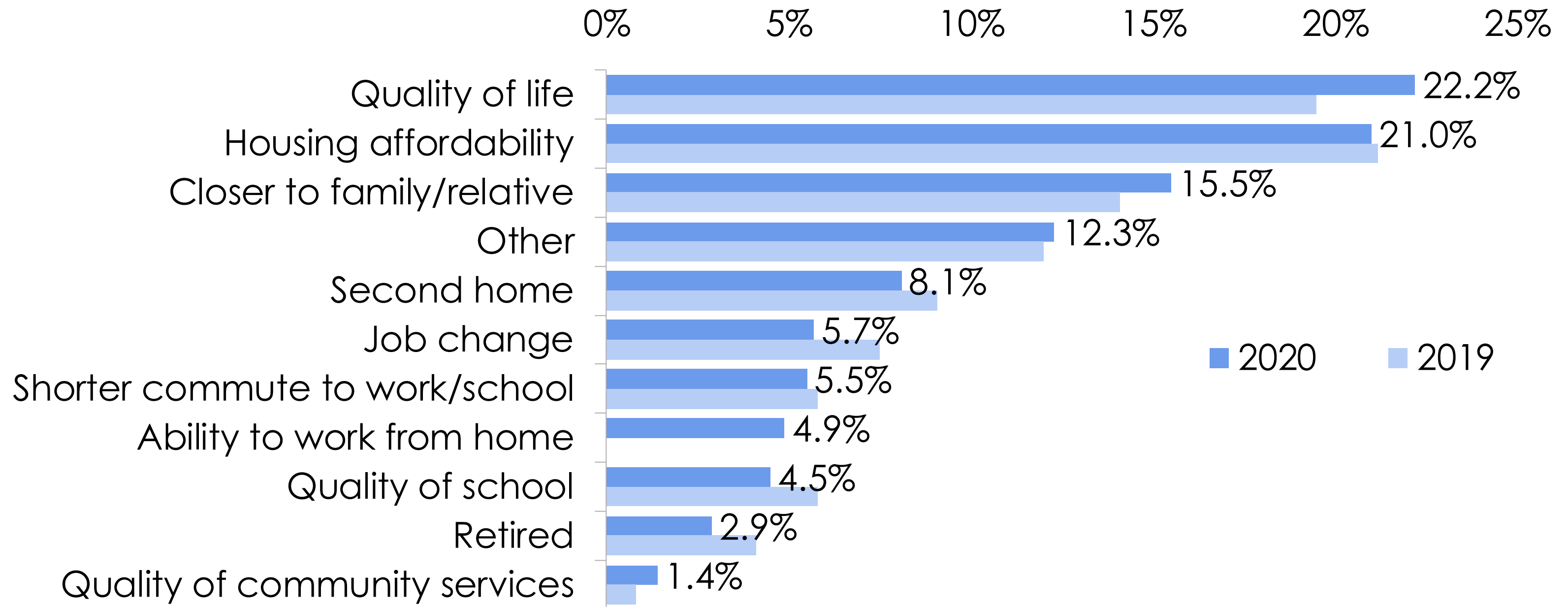
2014: 70%
 2015: 74%
 2016: 80%
 2017: 76%
 2018: 74%
2019: 82%
2020: 73%

International Buyers down sharply



Quality of life overtook housing affordability as buyer's main reason for relocating

Q. What was the primary reason for changing county?



More Sellers Continue to Move out of California; Highest since 2005

Location of Seller's New Home

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Within the same county	38%	41%	37%	45%	47%	42%	49%	49%	46%	44%	44%	40%	38%	36%	35%	36%
In another county in California	23%	18%	24%	17%	21%	21%	19%	18%	20%	21%	20%	21%	20%	21%	20%	18%
In another state	31%	28%	29%	27%	19%	20%	20%	22%	19%	22%	22%	25%	28%	29%	30%	30%
Out of US	1%	2%	1%	1%	2%	1%	1%	1%	0%	1%	1%	1%	1%	1%	0%	1%
Don't Know/Not sure	7%	11%	9%	10%	12%	16%	10%	10%	15%	13%	13%	13%	14%	13%	14%	15%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Migration Trends: Who is going, where are they headed & why?





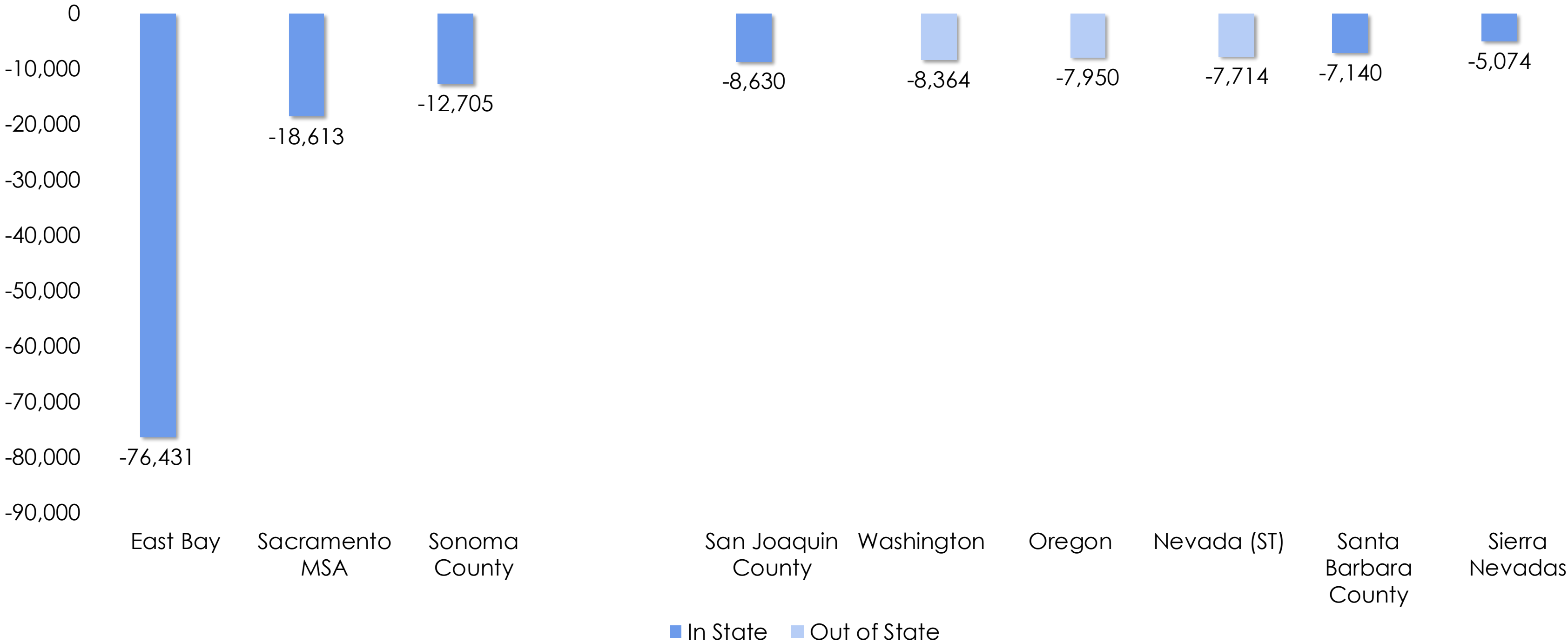
San Francisco

Bay Area Migration

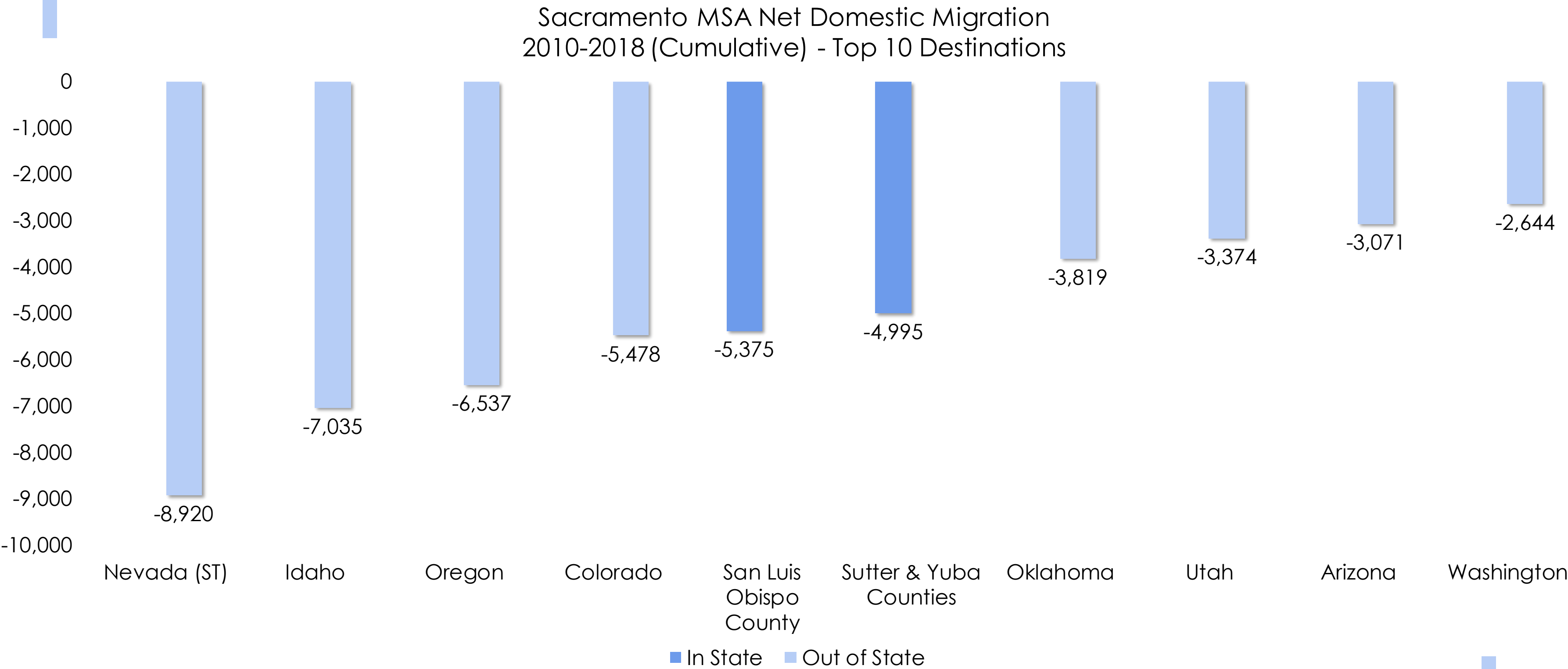


Step 1: Core Bay Area to Cheaper Counties

San Francisco-Marín-San Mateo Net Domestic Migration
2010-2018 (Cumulative) - Top 10 Destinations



Step 2: Cheaper Counties Leaving the State



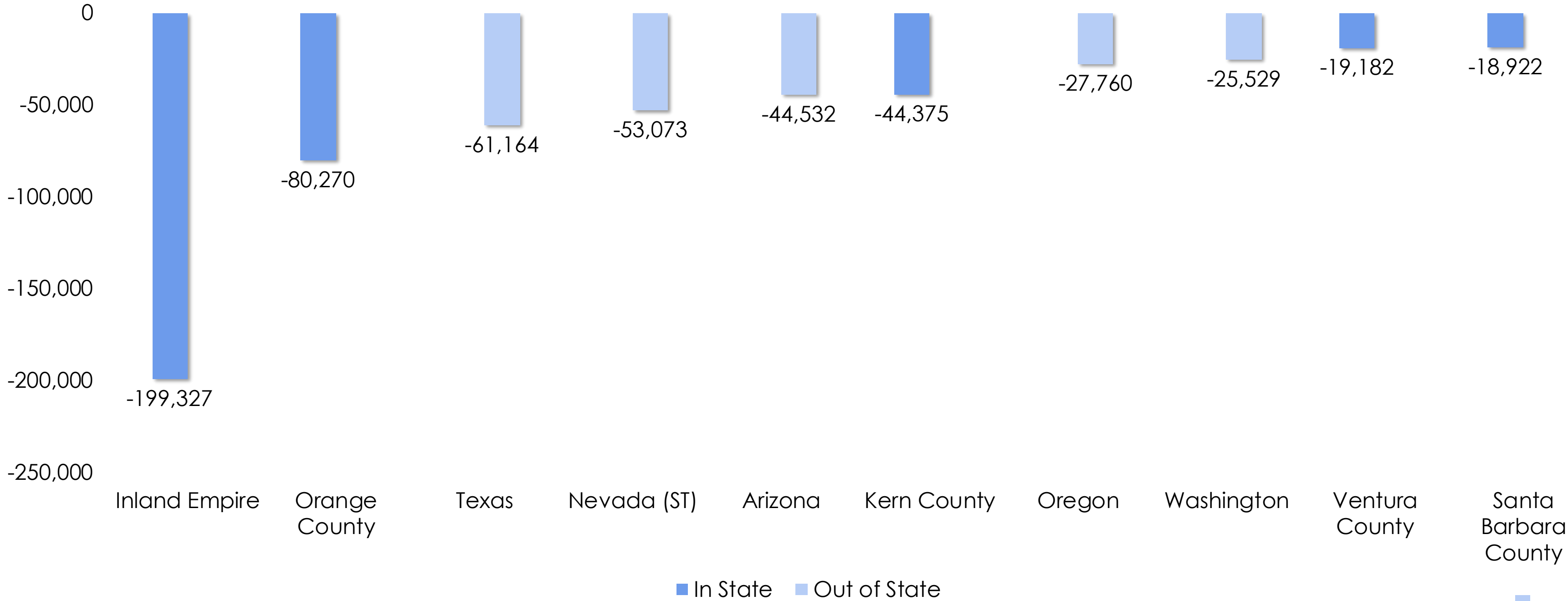


Southern **California Migration**



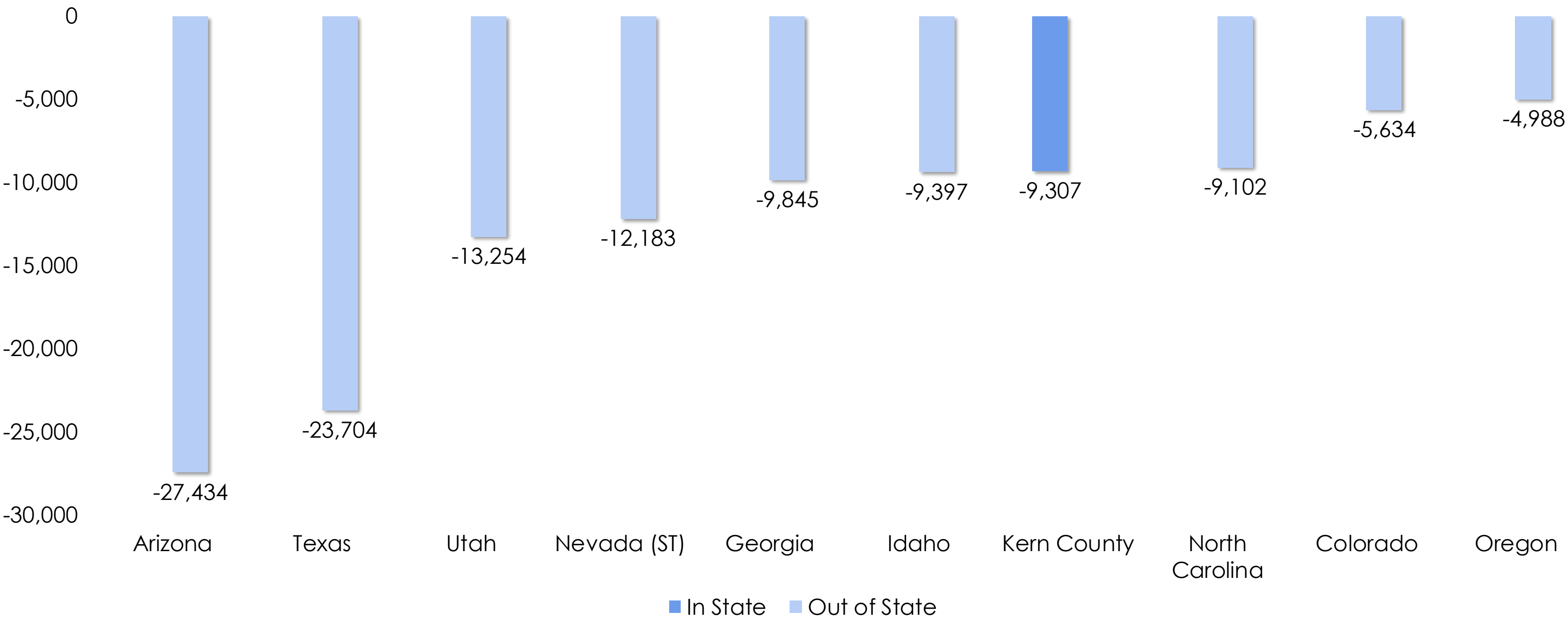
Step 1: Los Angeles mostly to the Inland Empire

Los Angeles County Net Domestic Migration
2010-2018 (Cumulative) - Top 10 Destinations



Step 2: Inland Empire mostly out of state

Inland Empire Net Domestic Migration
2010-2018 (Cumulative) - Top 10 Destinations

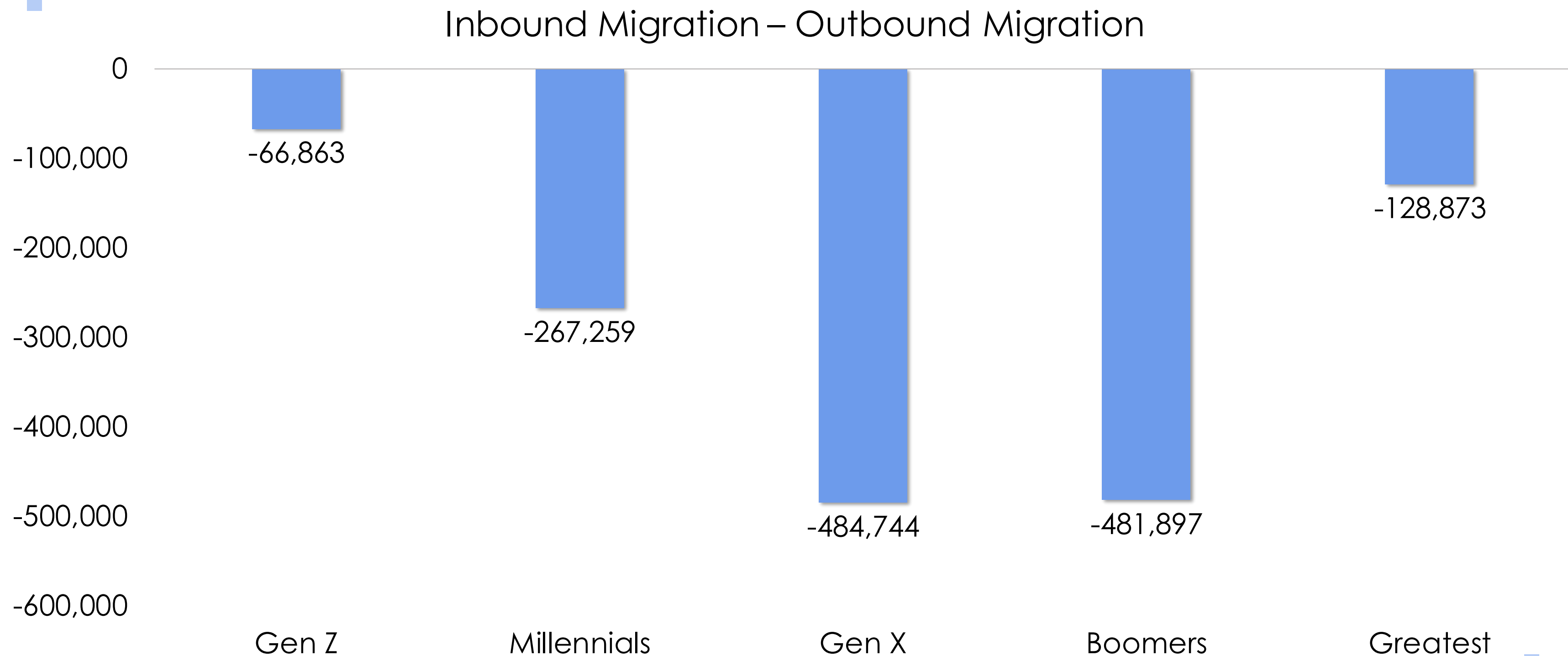


California net domestic migration (2005-2018 cumulative)

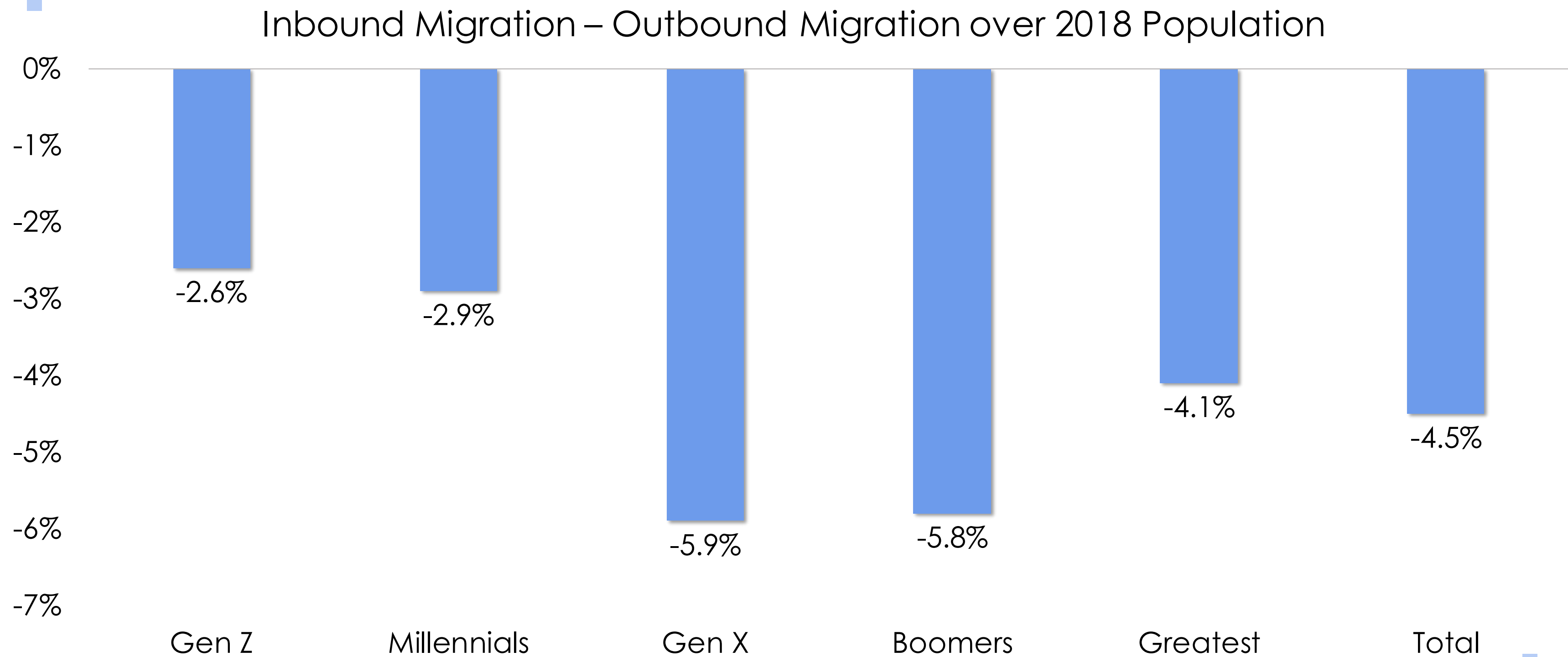
Age	Inbound	Outbound	Net Migration	Population (Aged 16+)	% of Cohort
Gen Z	122,173	189,036	-66,863	2,584,842	-2.6%
Millennials	2,683,257	2,950,516	-267,259	9,373,310	-2.9%
Gen X	1,638,418	2,123,162	-484,744	8,175,491	-5.9%
Boomers	933,124	1,415,021	-481,897	8,322,362	-5.8%
Greatest	398,397	527,270	-128,873	3,120,695	-4.1%
Total	5,775,369	7,205,005	-1,429,636	31,576,700	-4.5%



We lost more young residents than retirees

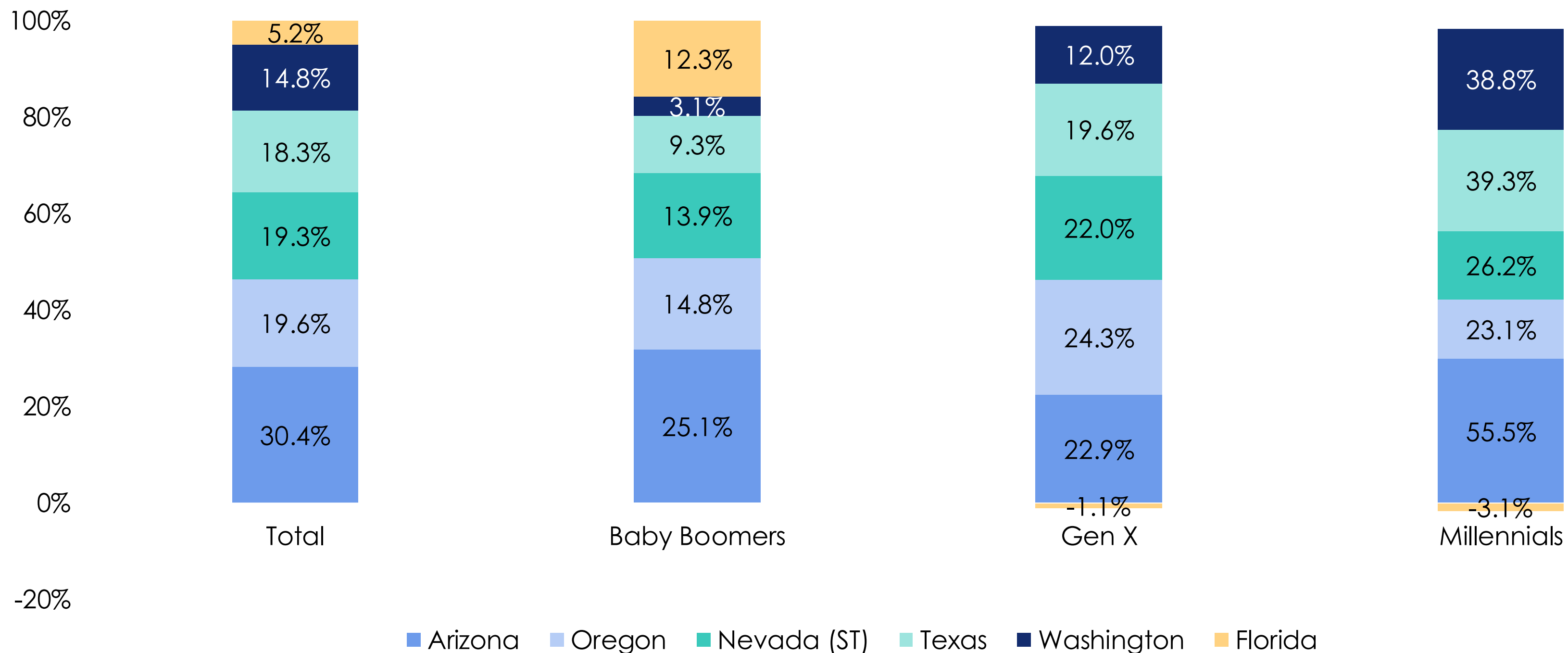


Surprisingly true even on a percentage basis



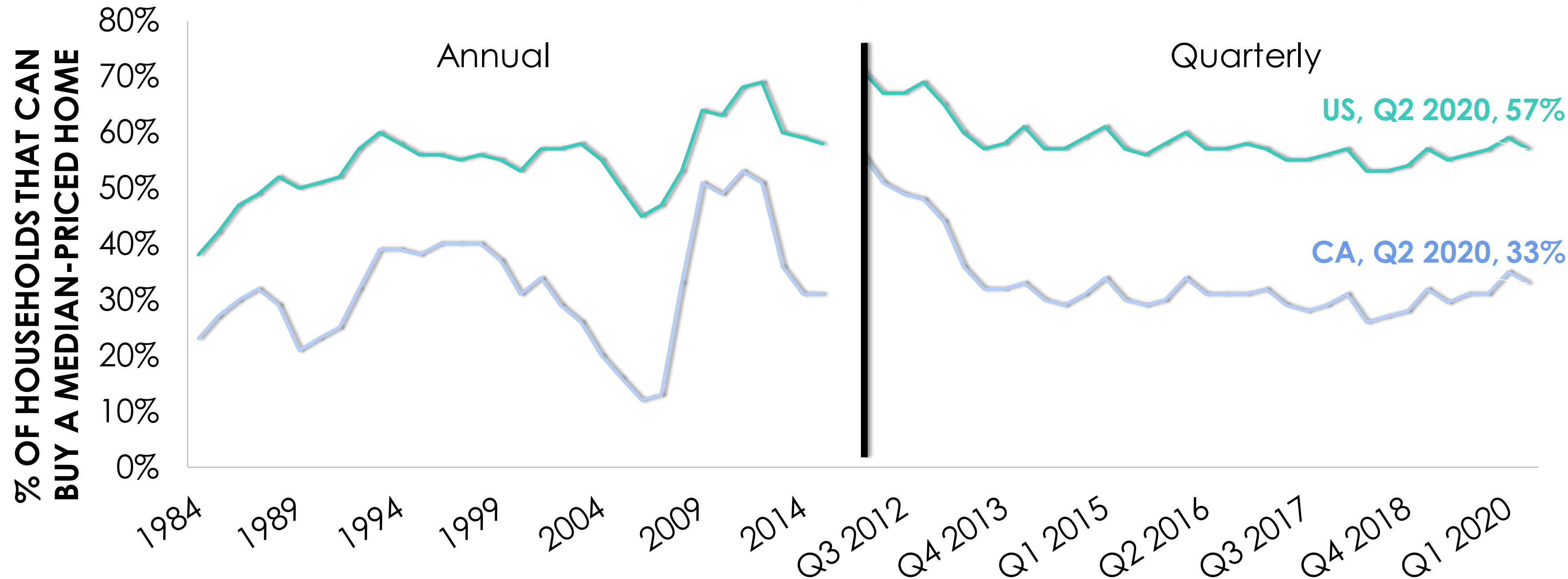
AZ, WA, and NV more popular for younger folks, FL completely divided by age!

Destinations as a Share of Total Cohort Out Migration



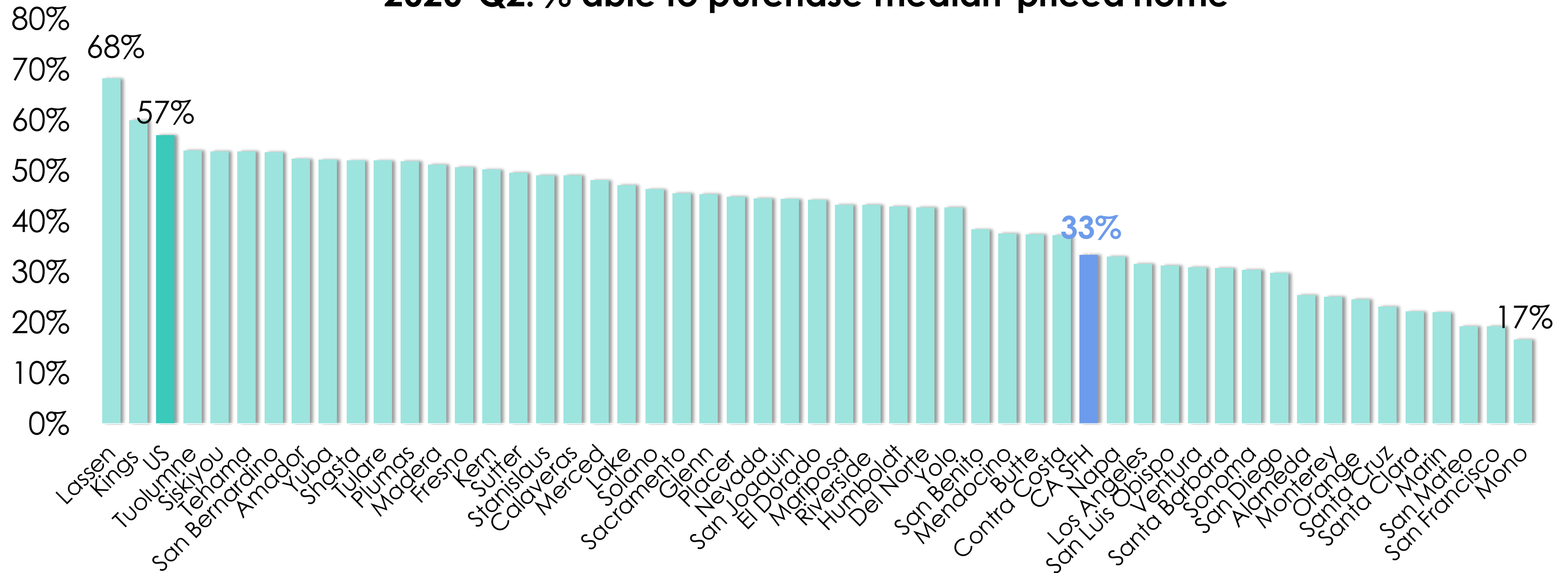
Housing affordability: Low rates vs. High prices

California, 1984-2020



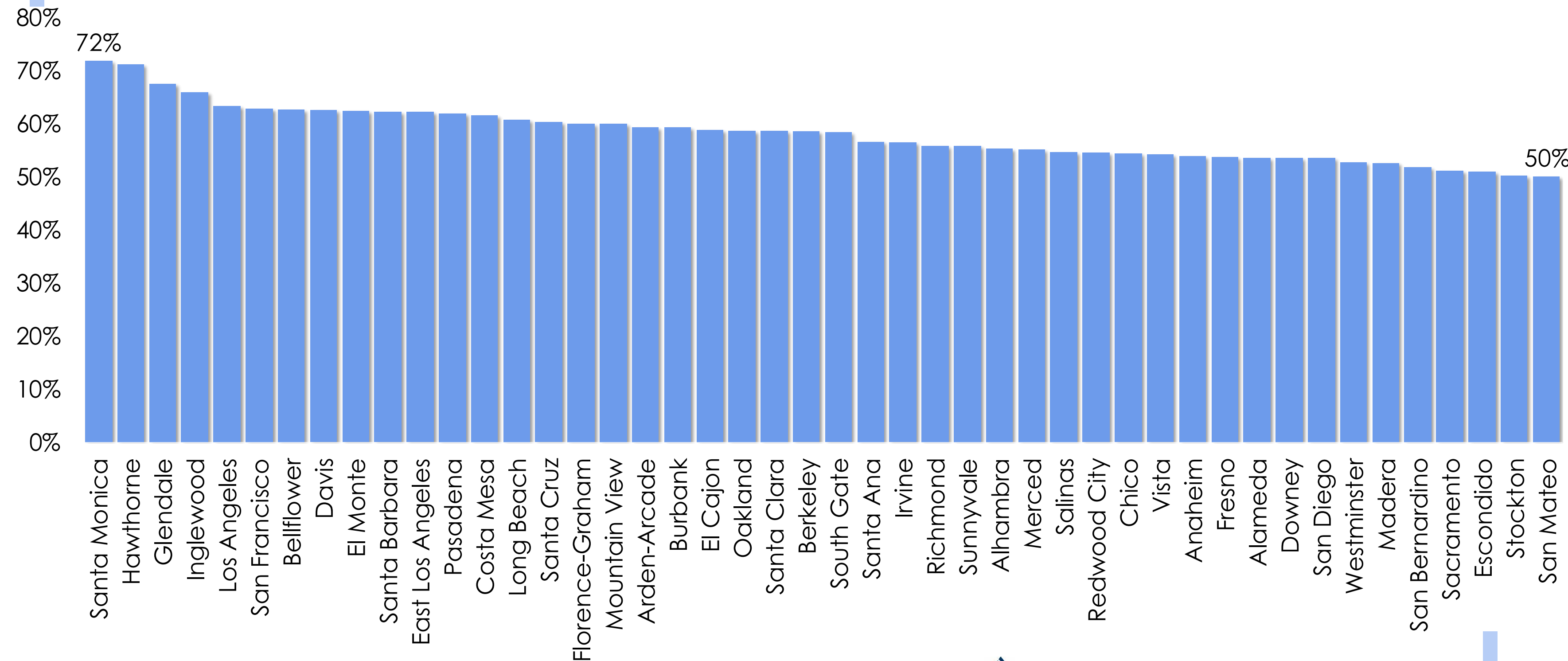
Housing Affordability in CA by county

2020-Q2: % able to purchase median-priced home

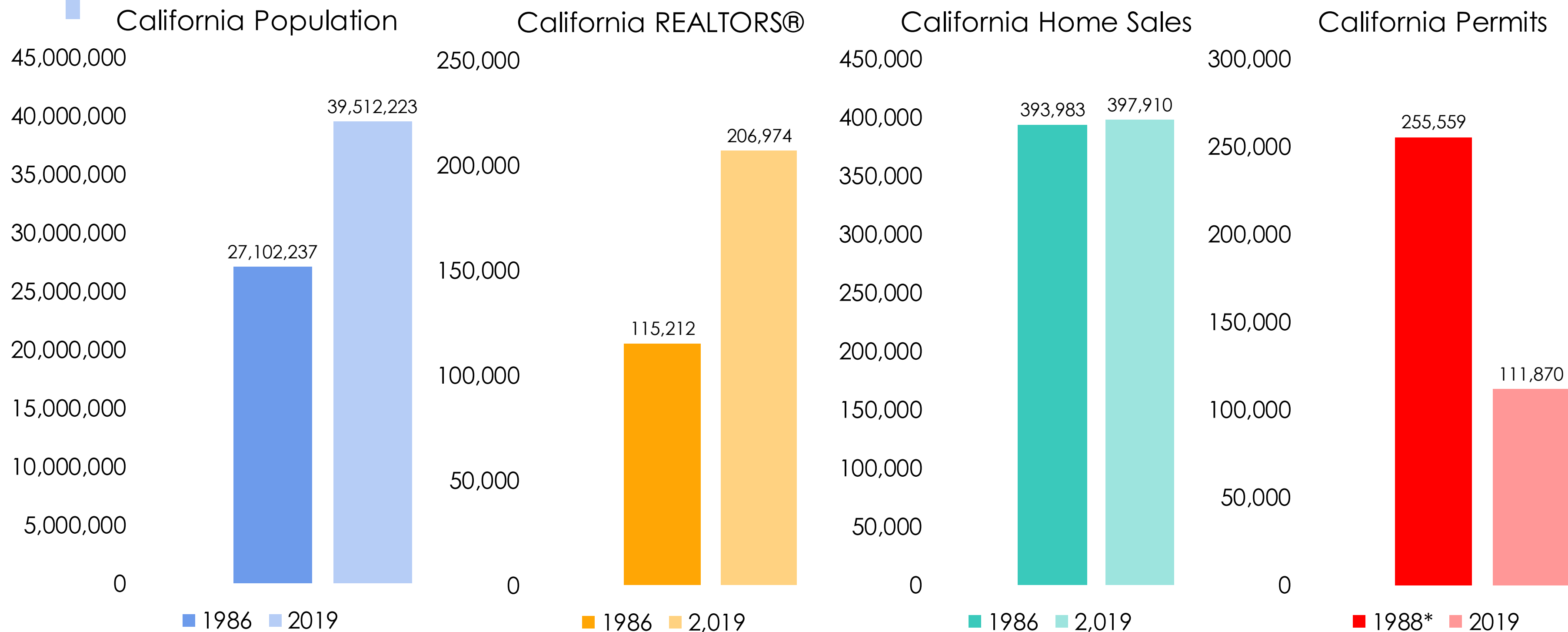


46 of 143 largest cities **already majority renter**

2019 California Renter Rate by City



More of everything, except...





The Forecast



U.S. economic outlook: ongoing recovery, but slower pace

	2015	2016	2017	2018	2019	2020p	2021f
US GDP	2.6%	1.6%	2.3%	3.0%	2.2%	-5.0%	4.2%
Nonfarm Job Growth	2.1%	1.8%	1.6%	1.6%	1.3%	-6.5%	3.0%
Unemployment	5.3%	4.9%	4.4%	3.9%	3.7%	8.8%	7.1%
CPI	0.1%	1.4%	2.1%	2.4%	1.8%	0.6%	1.7%
Real Disposable Income, % Change	3.4%	2.7%	2.9%	4.0%	2.9%	3.8%	-1.6%



Foreclosures could become a problem, size of impact will be more like 2015 than 2008

The Bad News:

- Potentially 600,000 foreclosures nationwide
- That suggests 60,000 in California
- Currently a moratorium through end of 2020
- Eventually delinquencies will be reckoned with
- Serious delinquencies up a lot in June
- Could impact prices (but single digit impacts)

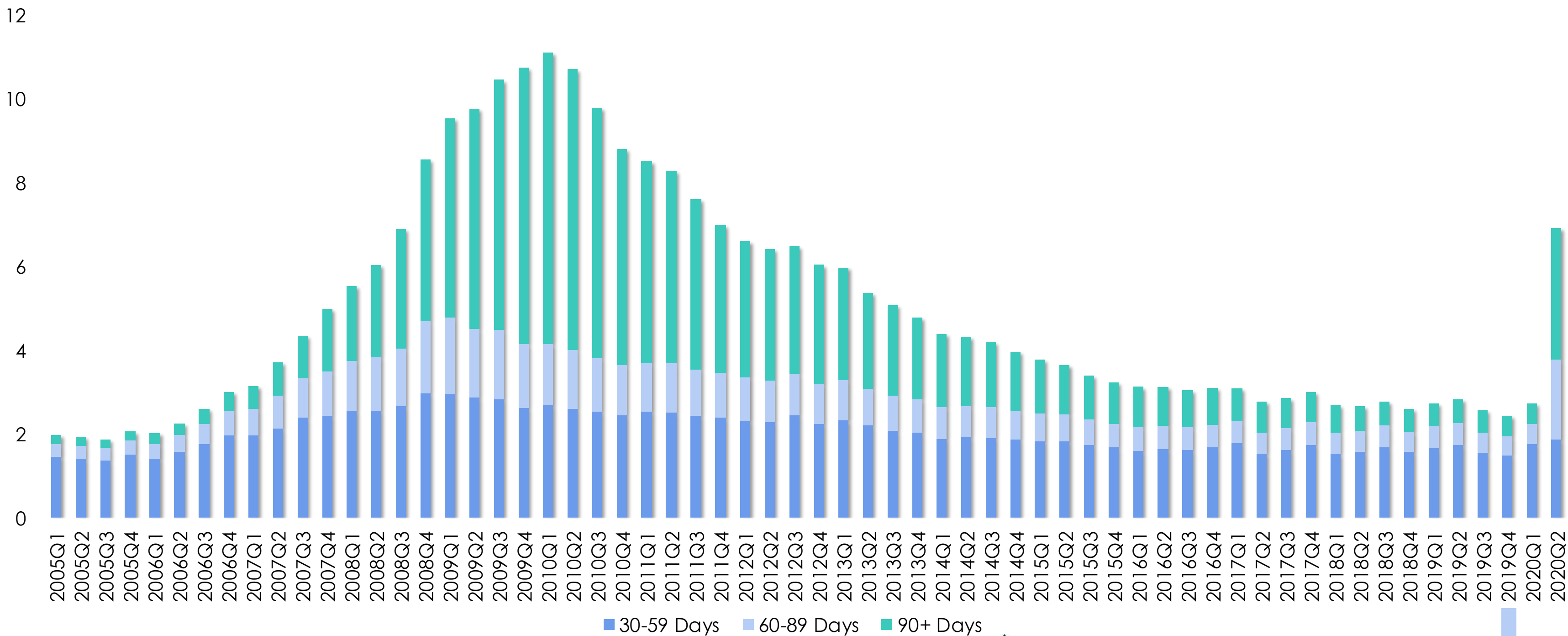
Reasons to Be Hopeful:

- Government on board this time
- 5-year + workouts
- Lots of home equity/minimal cashing out
- No NINJA loans/option ARMs



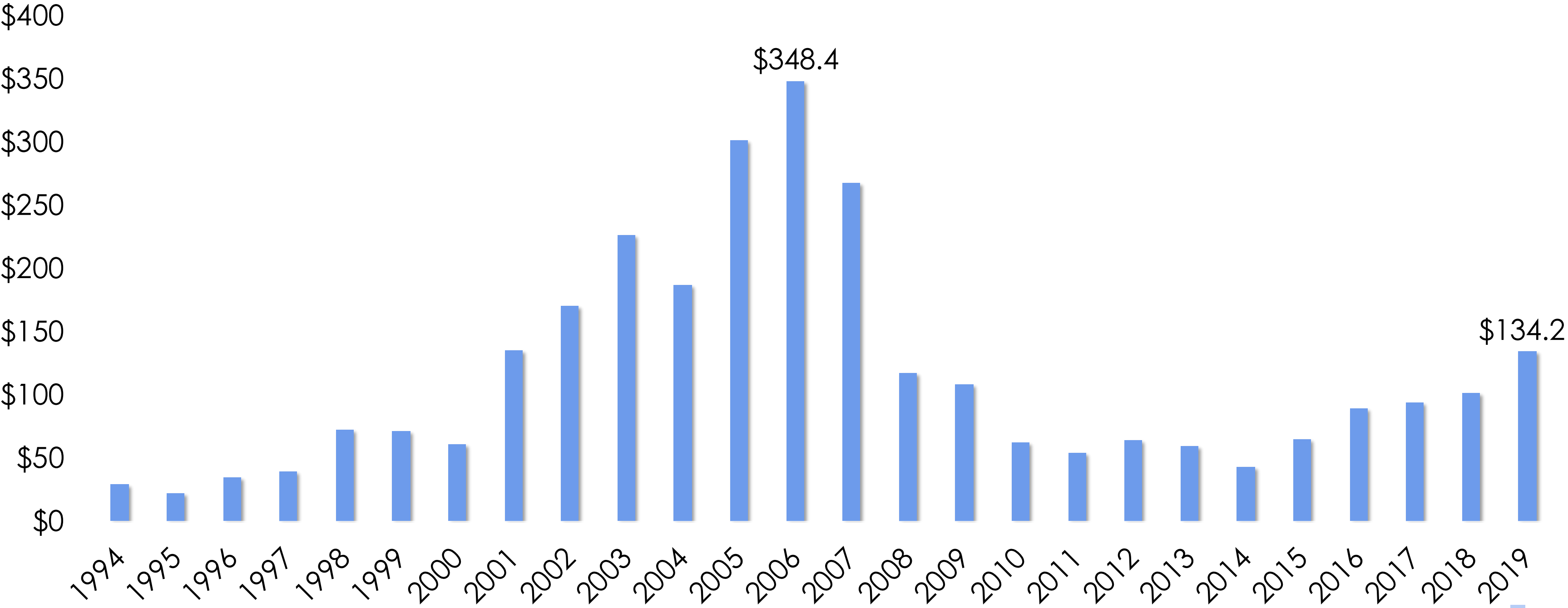
Delinquencies: Big jump in Q2 2020

California Mortgage Delinquencies

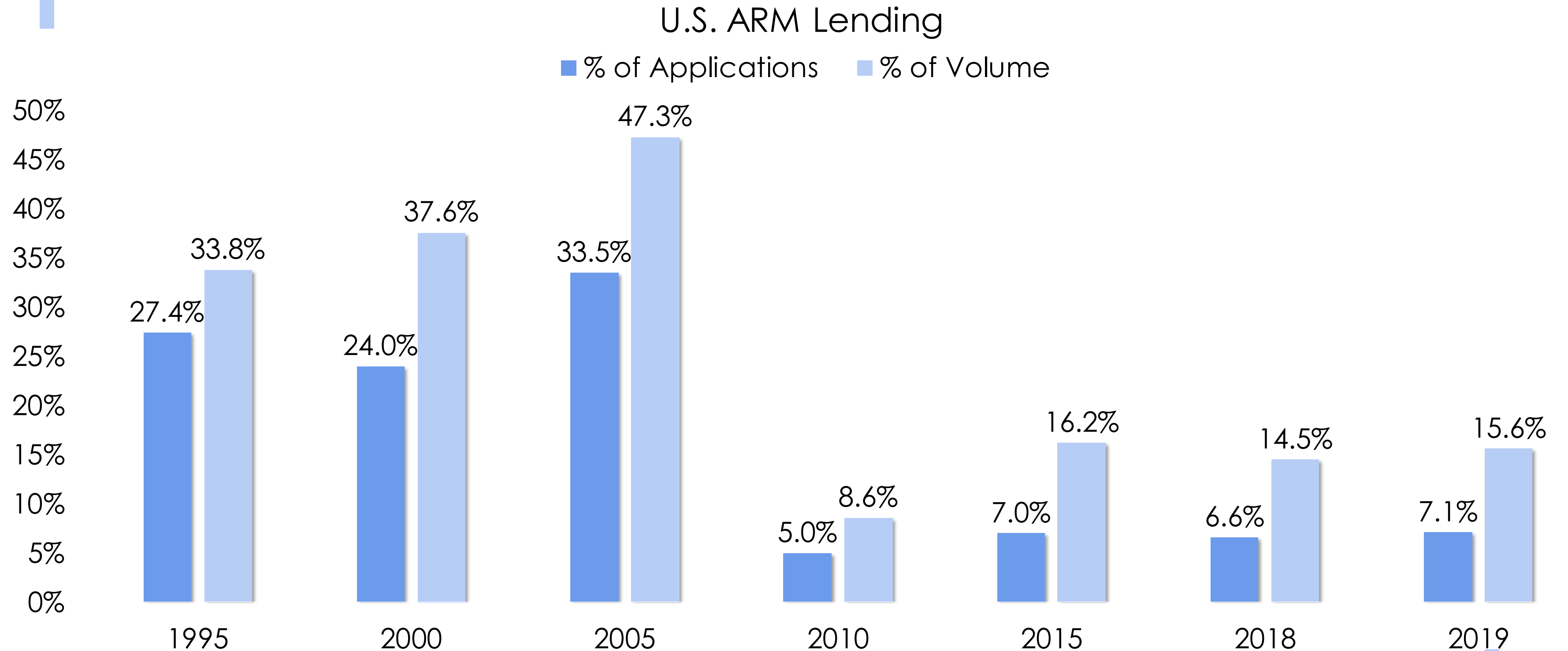


Cash-out volume remained relatively low

Combined Volume of Cash-out and 2nd Mortgages/HELOC Consolidation

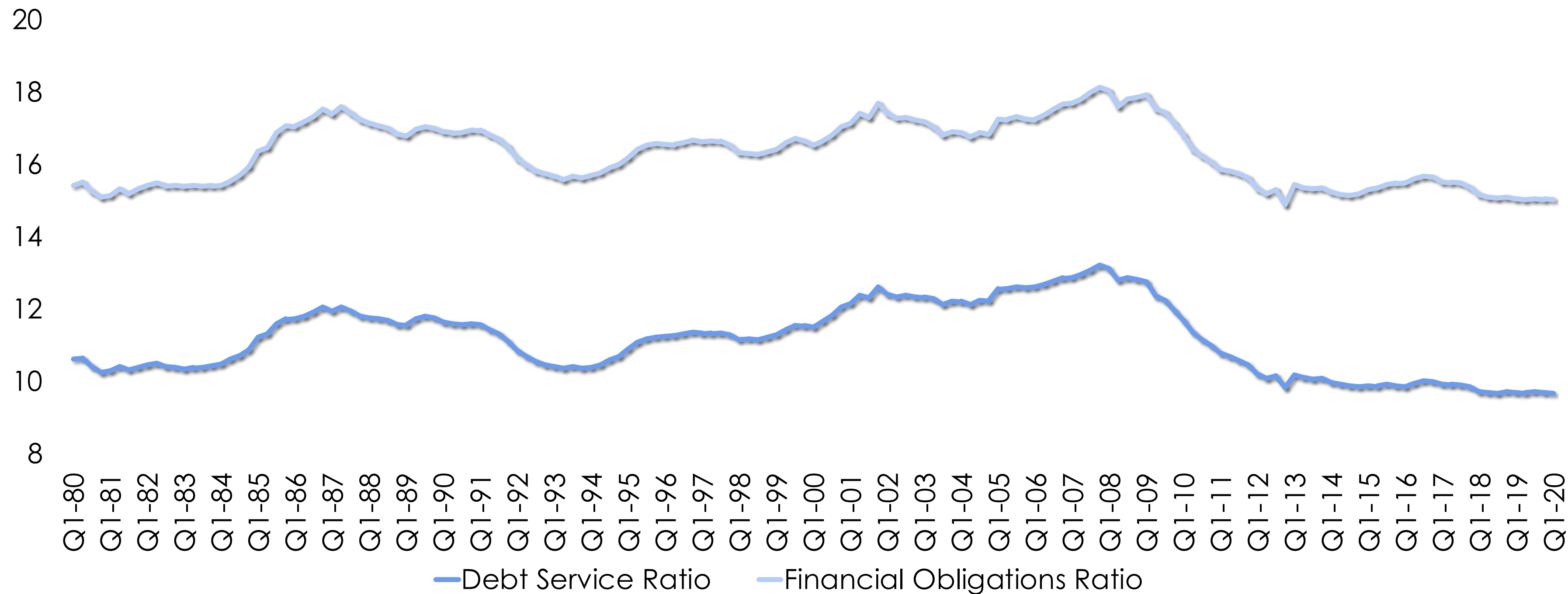


Not as many fundamental problems in mortgage market



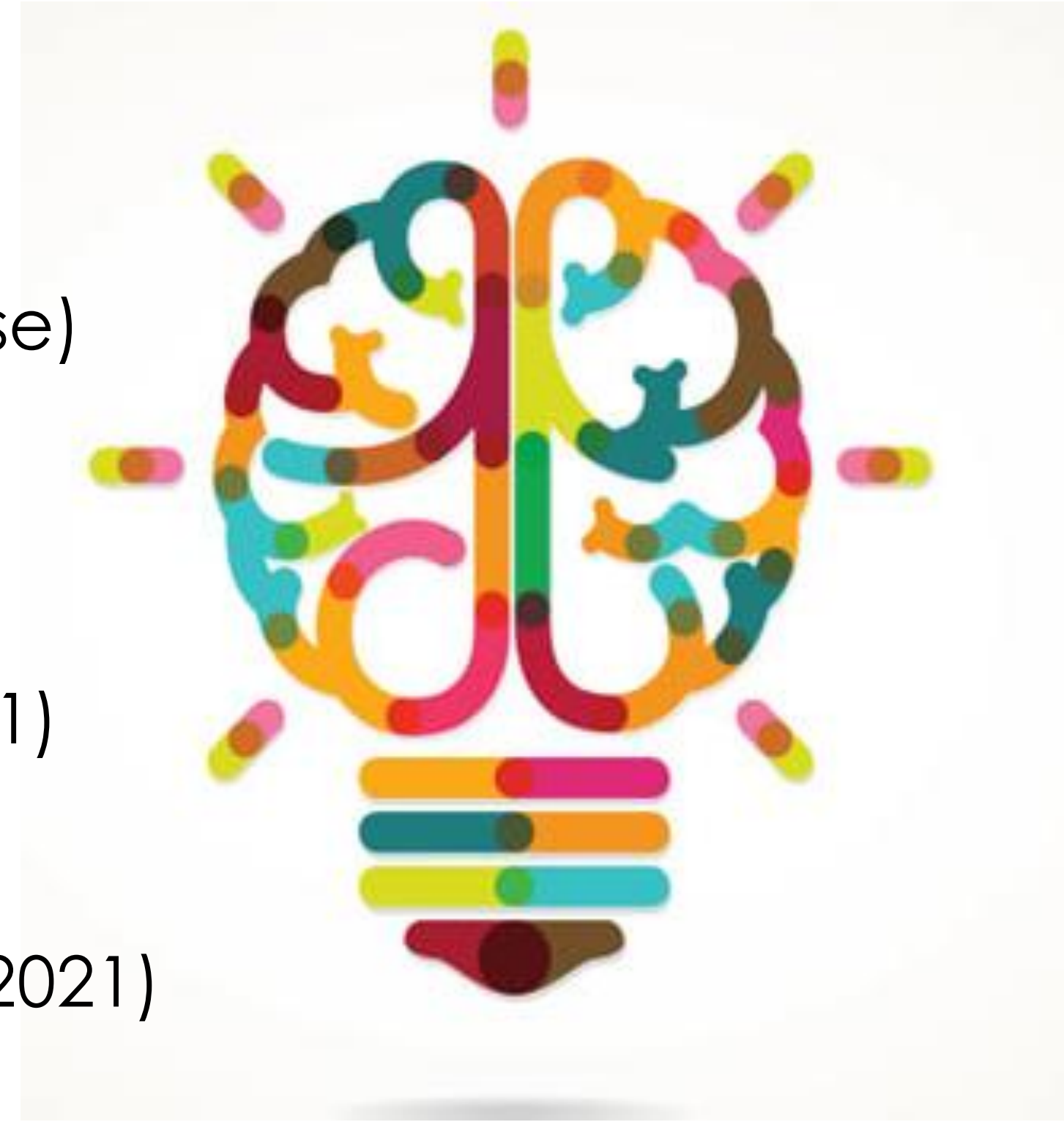
Household balance sheets **were in much better shape**

Household Debt and Financial Obligations



Baseline housing forecast **key assumptions**

- Vaccine available in H121
- No COVID surge this flu season (modest rise)
- GDP growth rate at 4.2% in 2021
- Household income growth at 3.3% in 2021
- Interest rates near record low (3.1% in 2021)
- 2021 inventory unchanged from 2020
- Foreclosures at low level (< 8% of sales in 2021)
- Foreclosures average <10% discount



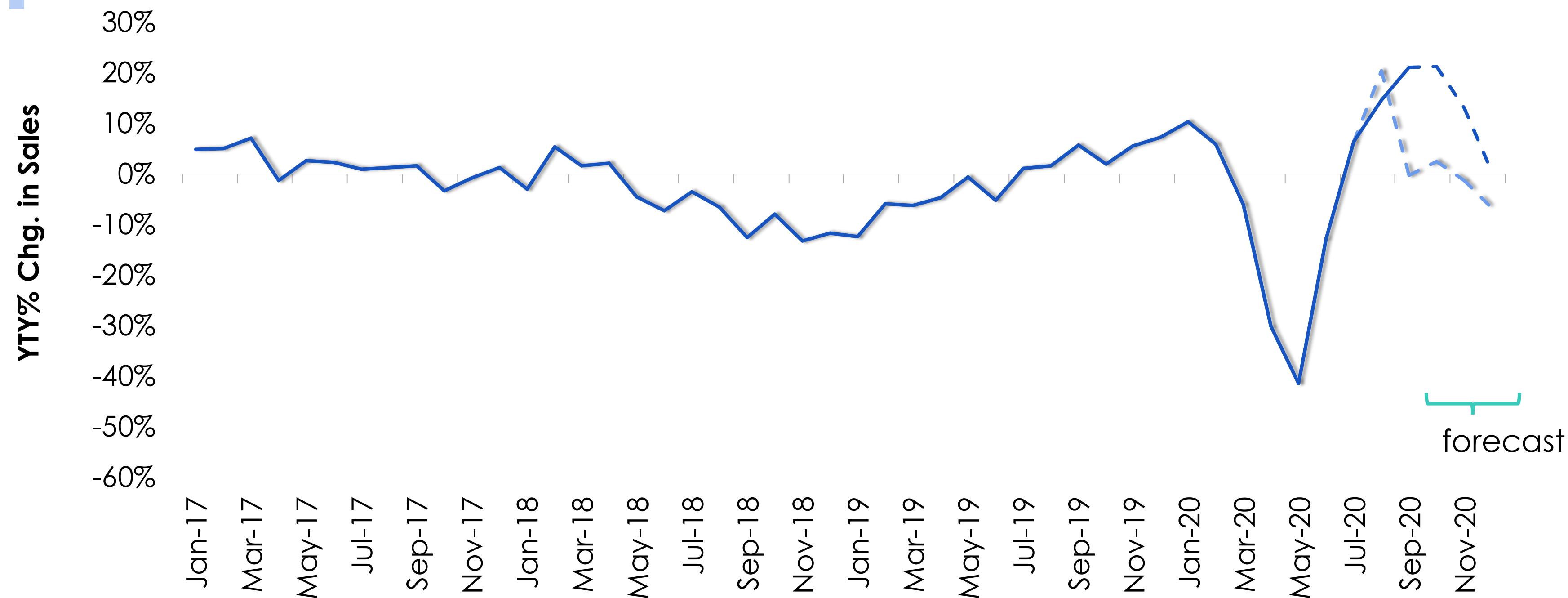
(old) California housing market outlook

Most Likely Scenario

	2015	2016	2017	2018	2019	2020p	2021f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	380.1	392.5
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	-4.5%	3.3%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$640.3	\$648.8
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	8.1%	1.3%
Housing Affordability Index	31%	31%	29%	28%	31%	32%	31%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.2%	3.1%



Sales projection



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

Median price projection



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

Housing Market Outlook for 2020/2021 (102720)

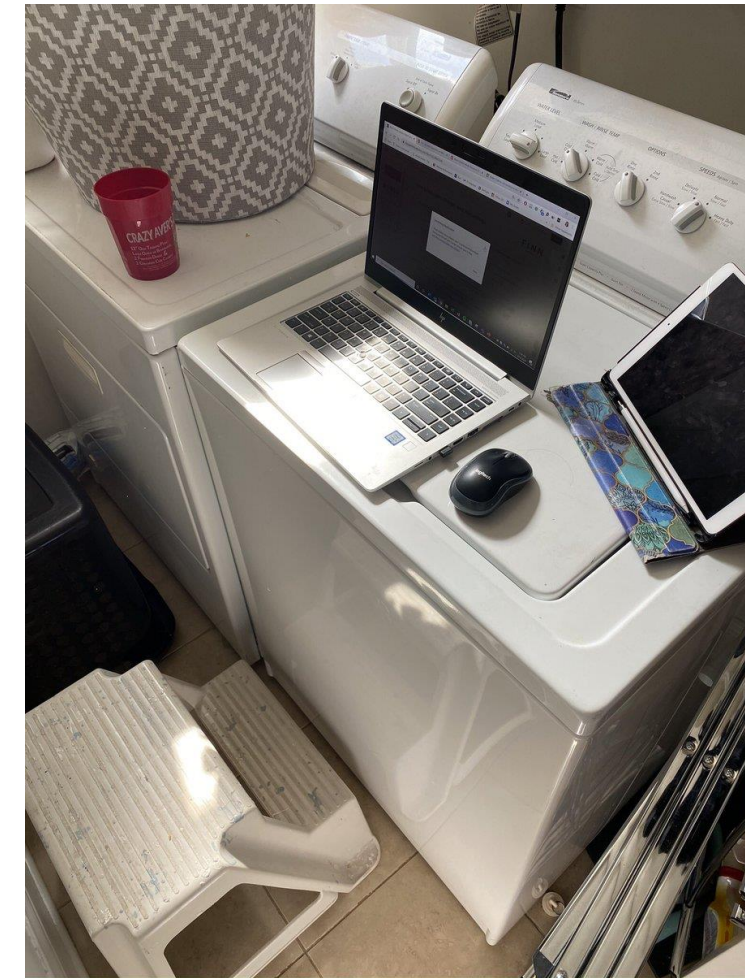
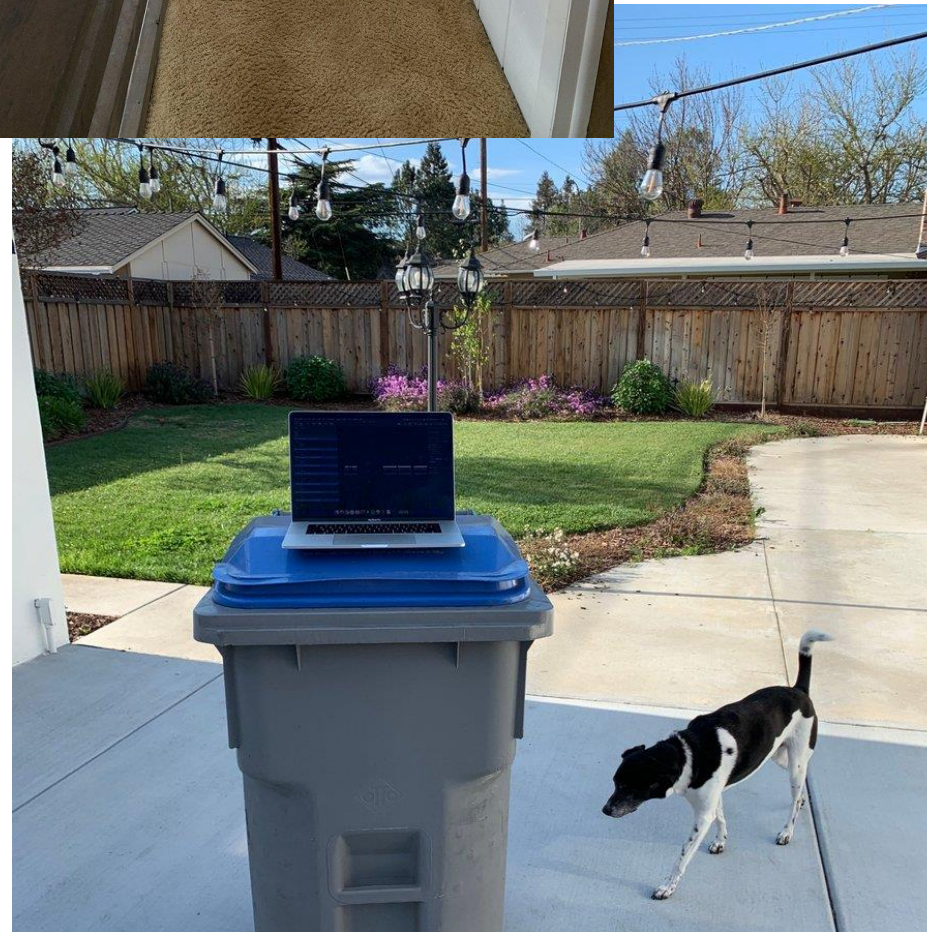
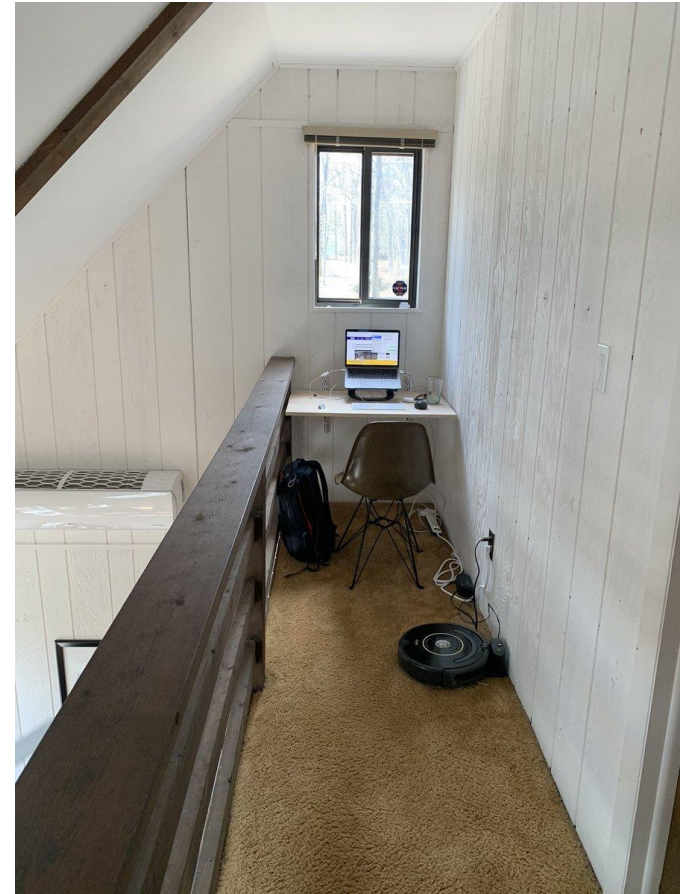
2020	GDP	Sales	Sales qtq% Chg.	Sales yty% Chg.	Home Price	Price qtq% Chg.	Price yty% Chg.
Q1	-5.0%	396,810	-1.2%	3.1%	\$589,200	-2.9%	8.0%
Q2	-31.4%	285,360	-28.1%	-28.3%	\$610,850	3.7%	0.4%
Q3	30.0%	464,290	62.7%	14.0%	\$693,680	13.6%	13.8%
Q4	3.0%	448,640	-3.4%	11.6%	\$709,080	2.2%	16.8%
2020p	-3.6%	398,780		0.2%	\$661,250		11.6%
2021f	4.2%	411,940		3.3%	\$690,400		4.4%

Q: Where do we go from here?

A: Home.



There's No Place Like Home

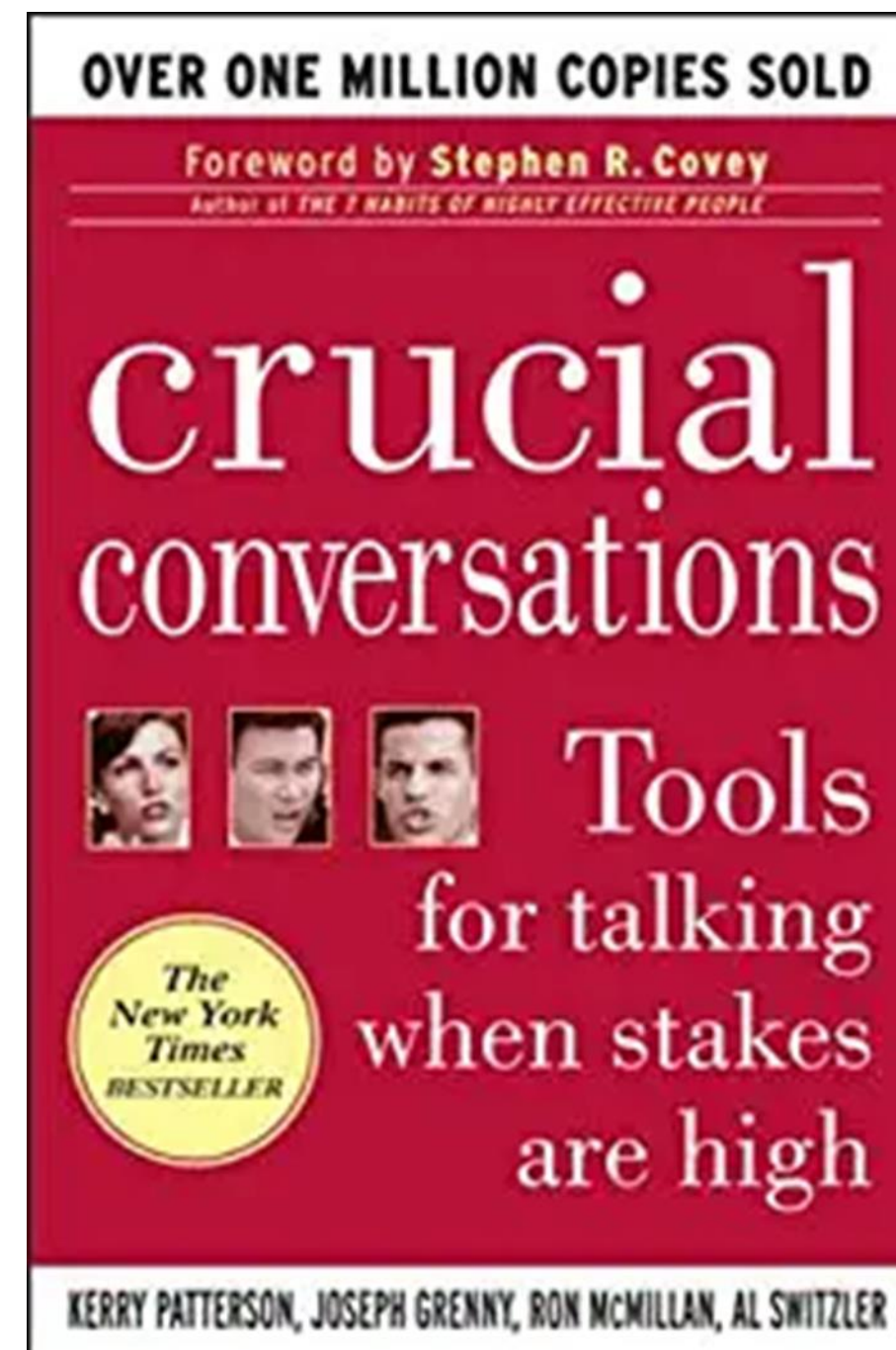
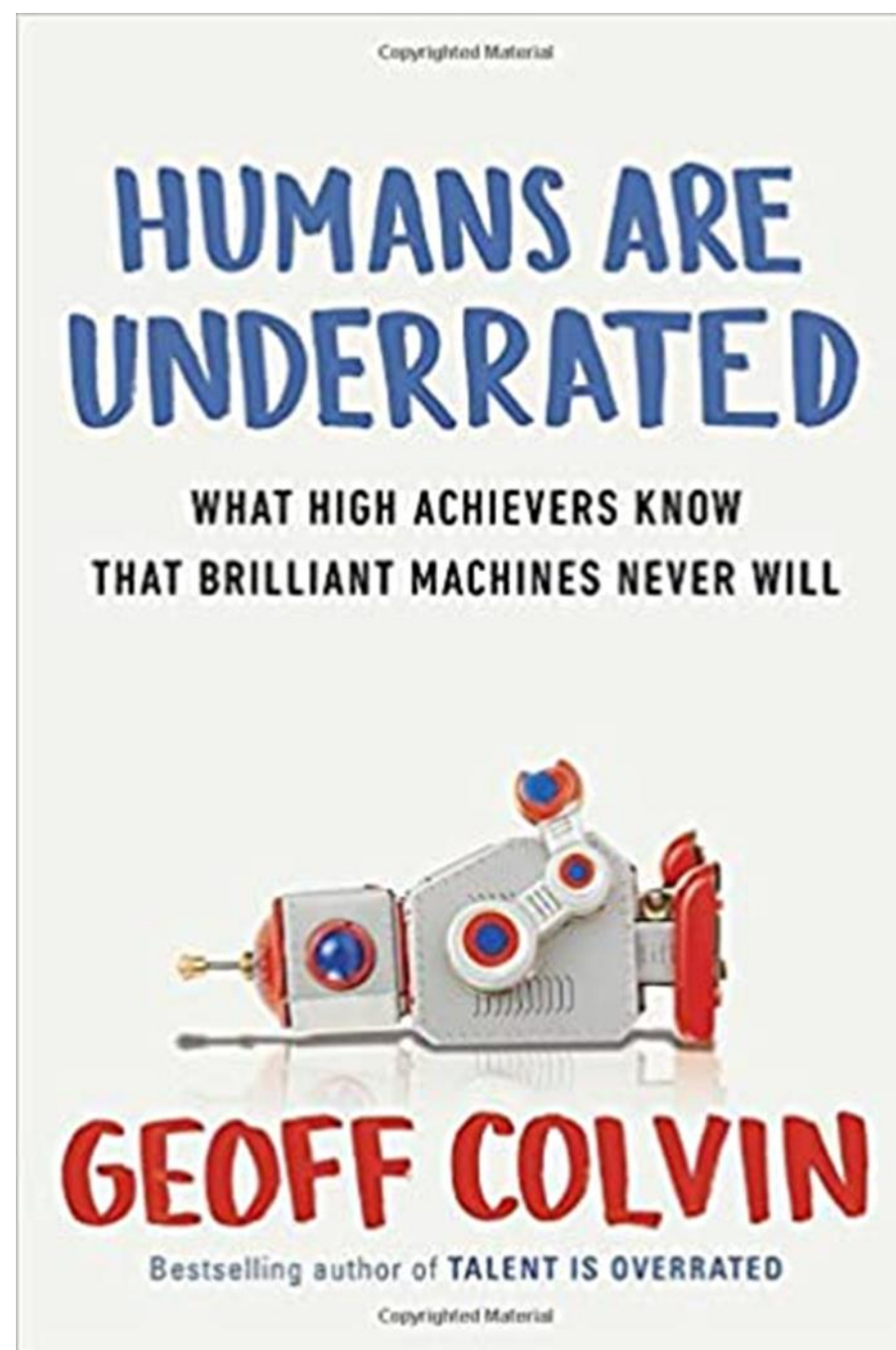
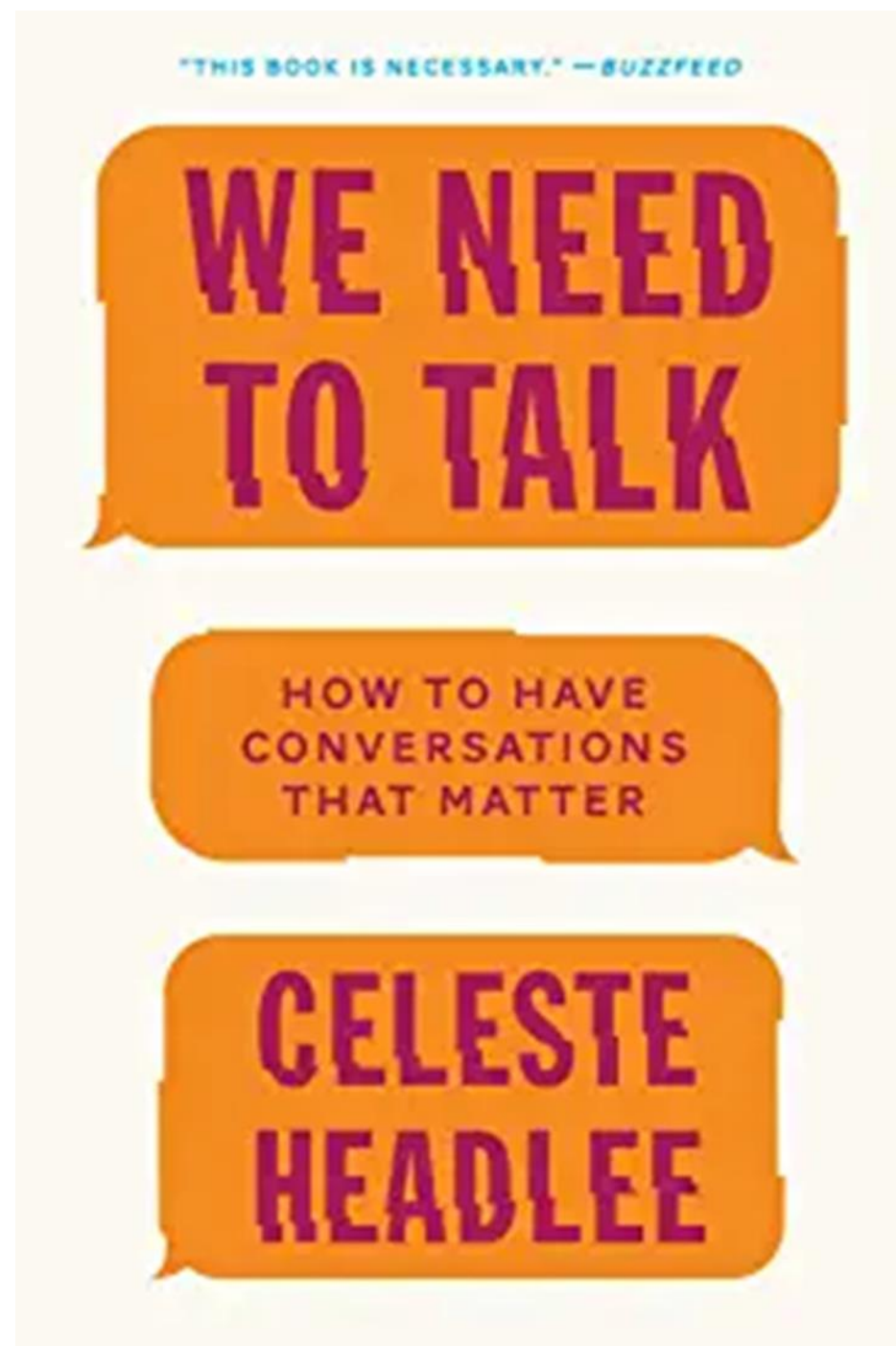


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2. The tech-enabled agent
3. The relationship – centered agent
4. Housing supply -- Transition commercial and retail spaces into affordable residential villages.





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