

Orange County Housing Report: Housing Abloom

March 11, 2019

Good morning!

Not only have the clocks changed, so has the housing market.

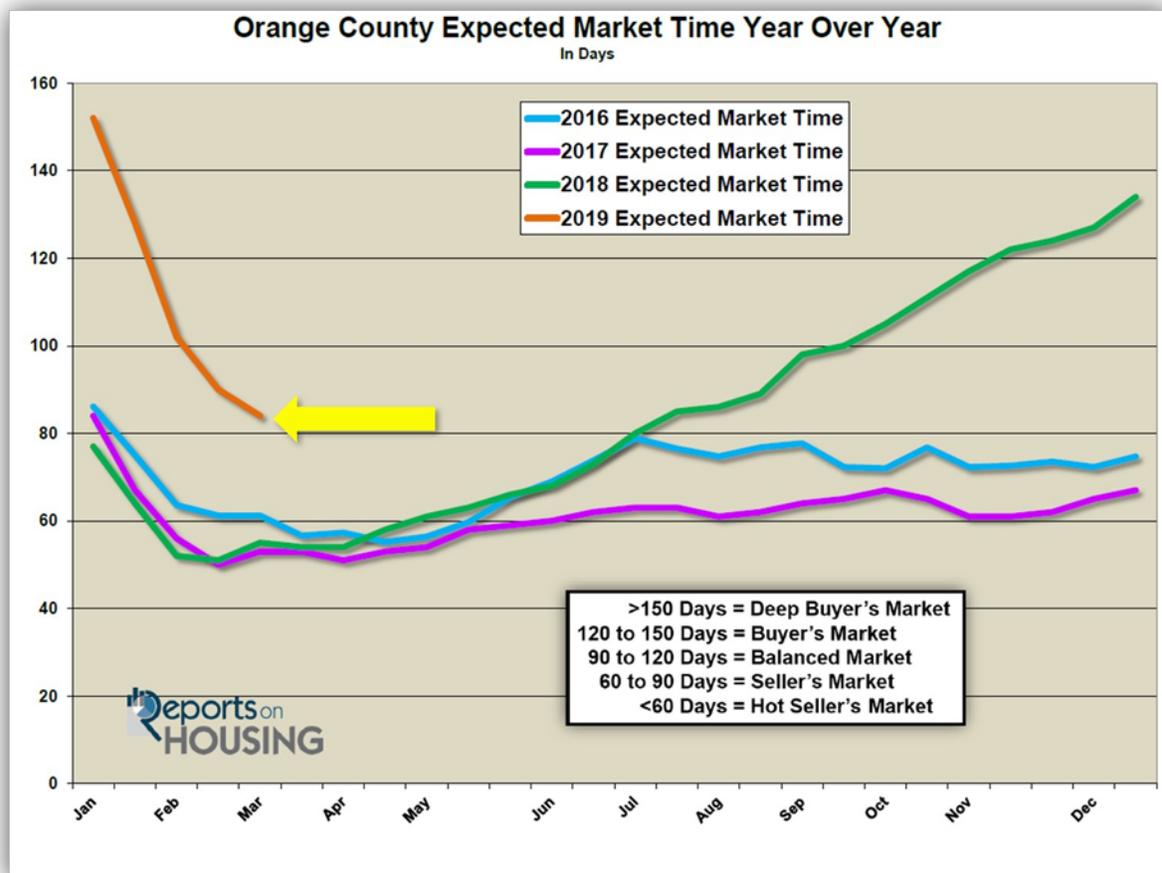


The Spring Market: The best conditions to sell a home are right now.

It is that time of the year again. The hills are a dazzling green. Trees are beginning to bud new leaves. Flowers are opening their petals for the first time. Hummingbirds are feeding on the sweet nectar from birds-of-paradise. The season is changing and so is the housing market.

Housing has been accelerating all year and is officially moving at full speed. It took a while to ramp up, starting the year with an Expected Market Time of 140 days, a slight Buyer's Market. [The Expected Market Time is the amount of time it would take for a home that comes on the market today to open up escrow down the road]. The market has improved dramatically since, on the backs of dropping interest rates. Back in November, rates nearly reached 5%. They dropped to 4.5% by the start of 2019. They recovered even more, dipping to 4.35% by the end of February. As a result, more buyers entered the fray and demand increased by 91% since January 1st. Last year, it improved by 61%.

As the New Year unfolded, the market sped up. By February, it transitioned to a Balanced Market, one that does not favor buyers or sellers. It continued to develop, and the Expected Market Time just dipped to 84 days, a slight Seller's Market.



Before sellers jump up and down celebrating a return to the housing run, this is not a market with rapid appreciation and multiple offers on every home regardless of the condition. This is not a market where sellers get away with stretching the asking price, where eager buyers are willing to pay a lot more than the most recent comparable sale. The Spring Markets of 2012 through 2018 were all HOT Seller's Market. The Expected Market Time dropped down to as low as 33 days. That is significantly different than today's 84 days.

From here, the Expected Market Time will flatten and not change as much as the first couple of months. Do not anticipate a lot more improvement unless interest rates miraculously drop further. The odds of that happening are currently slim to

none. Today's lower interest rates are a gift to prospective buyers. For buyers who are looking at obtaining a \$750,000 mortgage, their payment has dropped from a height of \$4,026 last November to \$3,734 today, a drop of \$292 per month, or \$3,504 per year.

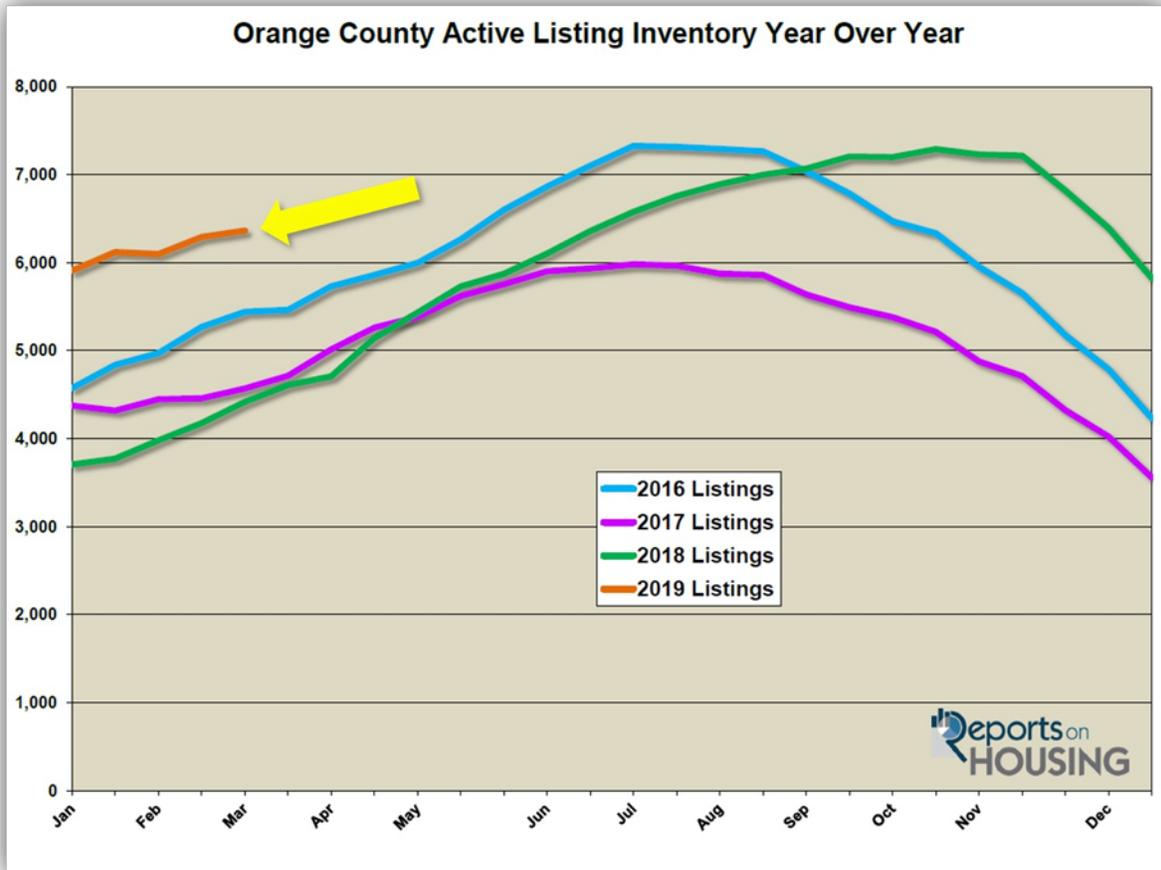
	1/11/2018	Current Rates	1/3/2019	12/6/2018	11/15/2018	2007 - Prior to Recession
Mortgage Amount	4%	4.35%	4.5%	4.75%	5%	6.35%
\$500,000	\$2,387	\$2,489	\$2,533	\$2,608	\$2,684	\$3,111
\$750,000	\$3,581	\$3,734	\$3,800	\$3,912	\$4,026	\$4,667
\$1,000,000	\$4,774	\$4,978	\$5,066	\$5,216	\$5,368	\$6,222

Today's housing market is exceptionally interest rate sensitive. Lower rates produce much higher demand, which is where the market is today. Higher rates slow demand. Buyers are enjoying much more favorable rates right now because of a perceived global slowdown, the trade war, uncertainty, and Wall Street volatility. But, that can change on a dime. If the trade war were to end, the stock market could get an enormous boost and interest rates would rise.

Advice to Sellers: approach pricing your home with extreme caution. Overpriced homes will sit without success. Currently, there are plenty of homes in every price range that have been sitting for quite some time already. It all boils down to pricing carefully based upon comparable pending and recent closed sales, condition, upgrades, and location. Buyers today want a home to be turnkey and ready to go. Homes with deferred maintenance, or a lack of upgrades, or a poor location, must be priced accordingly. The **SLIGHT** Seller's Market means that sellers are able to call more of the shots during negotiations; yet, prices are not appreciating much at all right now.

Active Inventory: *In the past couple of weeks, the active inventory increased by 1%.*

In the past two weeks, the active listing inventory increased by 72 homes, up 1%, and now totals 6,366. It is not rising that rapidly because demand has increased tremendously this year while the number of homeowners opting to sell is a bit subdued. So far this year, 4% fewer homeowners have opted to sell compared to 2018. The wet weather may have something to do with this recent trend. Only time will tell.



From here, expect the inventory to slowly rise until it starts picking up momentum at the end of this month. It will then increase at a higher rate with a lot more homeowners deciding to sell as housing rolls deeper into the Spring Market.

Last year at this time there were 4,420 homes on the market. That means that there are **44% more homes available today**. This is the highest level of homes on the market for this time of the year since 2012.

Demand: *In the past couple of weeks, demand increased by 9%.*

Demand, the number of new pending sales over the prior month, continued its rapid rise, increasing by 184 pending sales in the past two weeks, and now totals 2,272. The retreat in interest rates this year has helped demand considerably. Expect demand to continue to slowly rise before peaking sometime in May. From there, demand will slowly diminish through the rest of the Spring and Summer Markets.

Even with the strong increase in demand, it is important to note that the current demand reading continues to be the lowest for this time of the year since 2008. Expect persistent muted demand compared to recent years.

Last year at this time, there were 145 additional pending sales, 6% more than today.

The current Expected Market Time dropped from 90 days to 84 days in the past two weeks, a slight Seller's Market. It is still the highest reading for this time of the year since 2011. Last year, the Expected Market Time was at 55 days, a HOT Seller's Market.

Luxury End: *Luxury demand soared by 22%.*

In the past two-weeks, demand for homes above \$1.25 million increased by 62 pending sales, a 22% increase, and now totals 346, its highest level since the end of June 2018. The luxury home inventory increased by 77 homes and now totals 2,014, a 4% increase. The overall expected market time for homes priced above \$1.25 million dropped from 205 days to 175 over the past two-weeks, a considerable improvement.

Year over year, luxury demand is **up** by 3 pending sales, or 1%, and the active luxury listing inventory is up by an additional 310 homes, or 18%. There is a lot more seller competition so far this year. The expected market time last year was at 149 days, better than today.

For homes priced between \$1.25 million and \$1.5 million, in the past two-weeks, the expected market time decreased from 132 to 95 days. For homes priced between \$1.5 million and \$2 million, the expected market time decreased from 173 to 140 days. For homes priced between \$2 million and \$4 million, the expected market time increased from 234 to 245 days. For homes priced above \$4 million, the expected market time increased from 573 to 650 days. At 650 days, a seller would be looking at placing their home into escrow around the **middle of December 2020**.

	Expected Market Time	Share of Housing Inventory	Share of Current Demand	Last Year
O.C. \$0-\$750k	65 Days	42%	54%	33 Days
O.C. \$750k-\$1m	63 Days	17%	23%	43 Days
O.C. \$1m-\$1.25m	102 Days	9%	7%	82 Days
O.C. \$1.25m-\$1.5m	95 Days	7%	6%	78 Days
O.C. \$1.5m-\$2m	140 Days	8%	5%	149 Days
O.C. \$2m-\$4m	245 Days	11%	4%	193 Days
O.C. \$4m+	650 Days	6%	1%	338 Days



Orange County Housing Market Summary:

- The active listing inventory increased by 72 homes in the past two weeks, up 1%, and now totals 6,366. Last year, there were 4,420 homes on the market, 1,946 fewer than today. There are 44% more homes than last year.
- So far this year, 4% fewer homes came on the market below \$500,000 compared to 2018, and there were 15% fewer closed sales. Fewer and fewer homes and condominiums are now priced below \$500,000. This price range is continuing to vanish.

- Demand, the number of pending sales over the prior month, continued its rapid rise in the past two-weeks, climbing by 184 pending sales, up 9%, and now totals 2,272, its lowest level for this time of the year since 2008. Last year, there were 2,417 pending sales, 6% more than today.
- The Expected Market Time for all of Orange County decreased from 90 days two weeks ago to 84 days today, a **slight** Seller's Market (between 60 to 90 days) and the highest level for this time of the year since 2011. It was at 55 days last year.
- For homes priced below \$750,000, the market is a slight Seller's Market (between 60 and 90 days) with an expected market time of 65 days. This range represents 42% of the active inventory and 54% of demand.
- For homes priced between \$750,000 and \$1 million, the expected market time is 63 days, a slight Seller's Market. This range represents 17% of the active inventory and 23% of demand.
- For homes priced between \$1 million to \$1.25 million, the expected market time is 102 days, a Balanced Market.
- For luxury homes priced between \$1.25 million and \$1.5 million, in the past two weeks, the expected market time decreased from 132 to 95 days. For homes priced between \$1.5 million and \$2 million, the expected market time decreased from 173 to 140 days. For luxury homes priced between \$2 million and \$4 million, the expected market time increased from 234 to 245 days. For luxury homes priced above \$4 million, the expected market time increased from 573 to 650 days.
- The luxury end, all homes above \$1.25 million, accounts for 32% of the inventory and only 16% of demand.
- Distressed homes, both short sales and foreclosures combined, made up only 0.8% of all listings and 1.9% of demand. There are only 17 foreclosures and 34 short sales available to purchase today in all of Orange County, 51 total distressed homes on the active market, down eight from two-weeks ago. Last year there were 39 total distressed homes on the market, slightly less than today.
- There were 1,543 closed residential resales in February, 15% fewer than February 2018's 1,820 closed sales. February marked a 6% increase from January 2019. The sales to list price ratio was 97.4% for all of Orange County. Foreclosures accounted for just 0.3% of all closed sales, and short sales accounted for 0.6%. That means that 99.1% of all sales were good ol' fashioned sellers with equity.

Have a great week.

Sincerely,

Steven Thomas

Quantitative Economics and Decision Sciences

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