

2022 Housing Market & Economic Forecast

Pacific Southwest Association of REALTORS®
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Jordan G. Levine
Vice President & Chief Economist
California Association of REALTORS®



Tempered optimism amidst increasing headwinds

01 Looking good from 30K feet

- Economy improving despite recent turmoil
- Housing market holding up remarkably well

02 Many headwinds brewing

- Acceleration of structural challenges due to COVID
- Inflation, rates, geopolitics, & industry stuff

03 Outlook for supply

- Not building enough—not likely to change much
- People staying in homes longer and minimal REOs

04 What does it all mean?

- The broad outlook for economy & market is positive
- But individual REALTORS® need foot on gas pedal





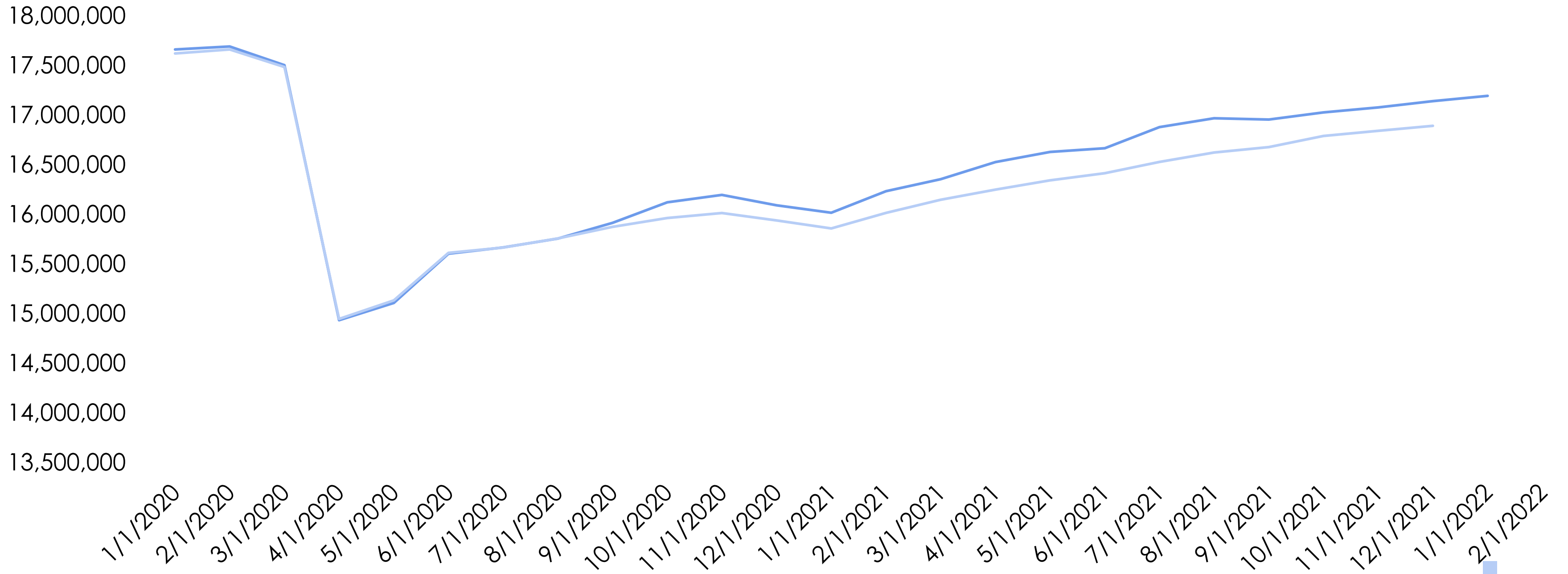
**Why We Are Still
Fairly Optimistic**



Employment recovery thus far even stronger than reported

California Nonfarm Employment

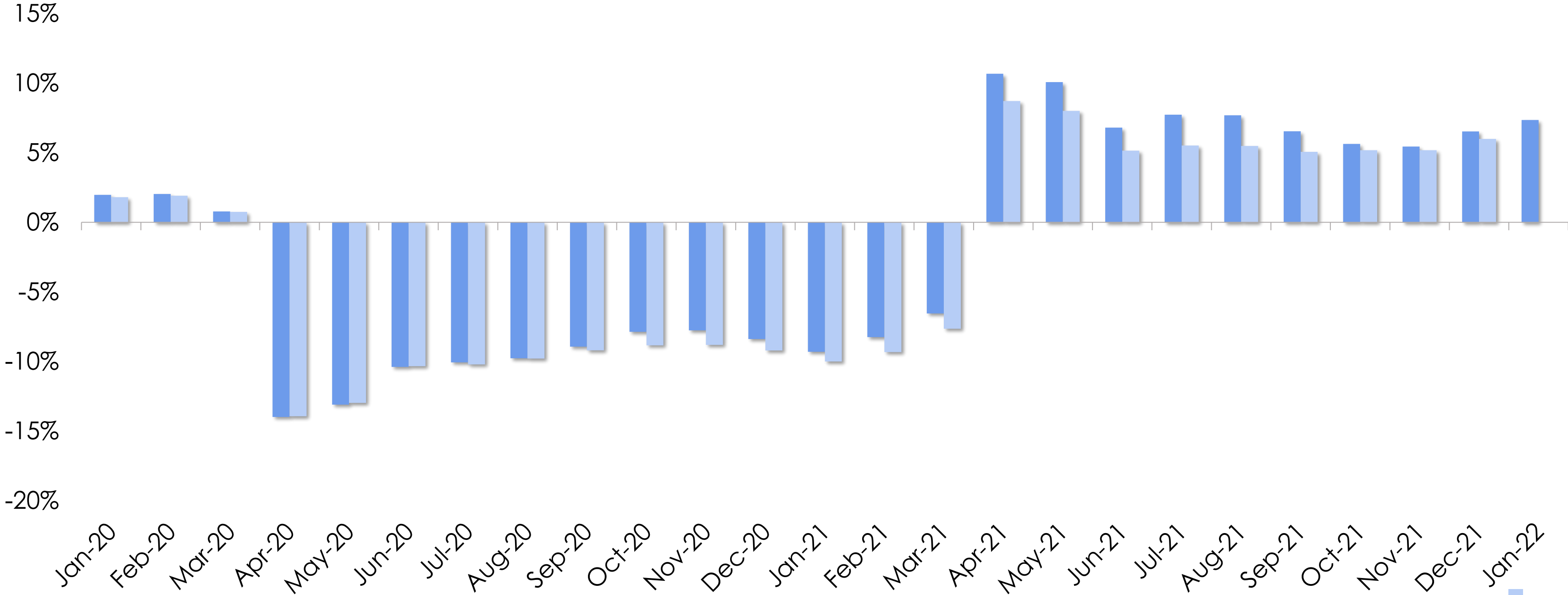
— 2022 BM — 2020 BM



2020 wasn't as bad; 2021 much better w/new estimates

California Nonfarm Employment Growth (YTY %)

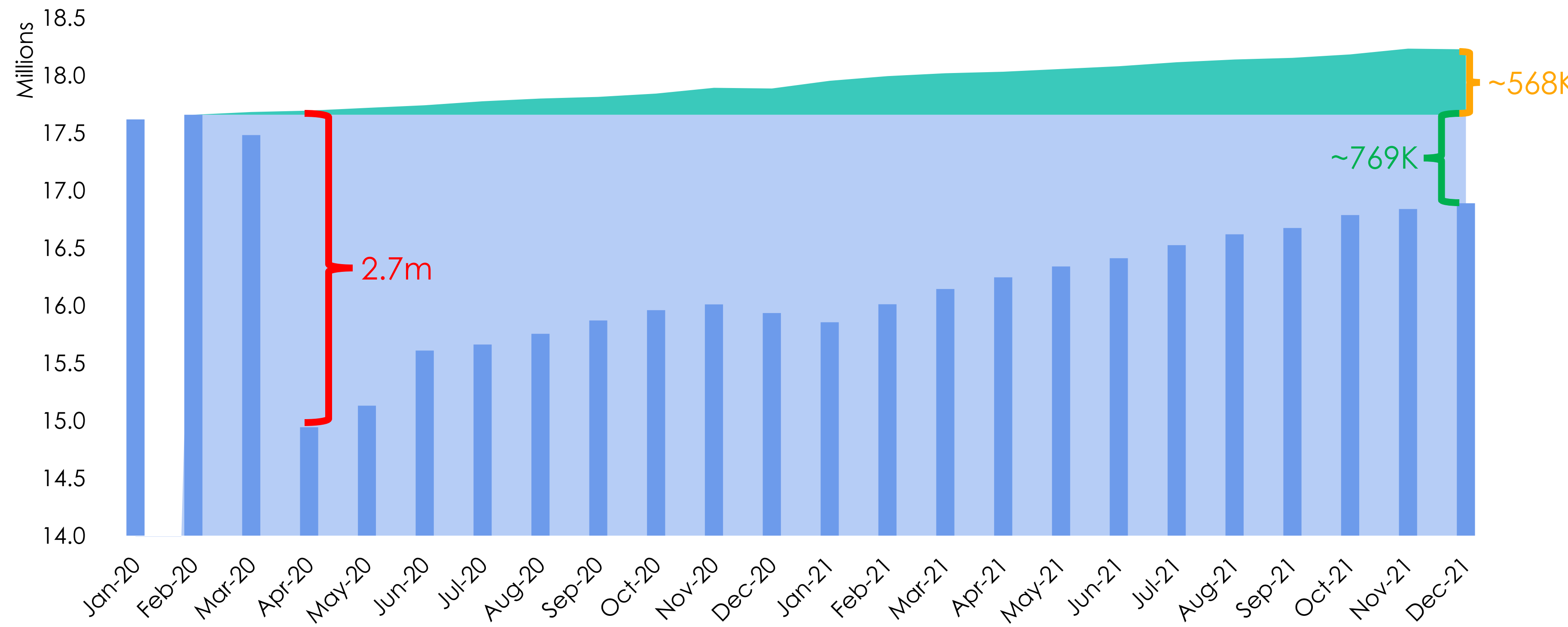
■ 2022 BM ■ 2020 BM



Previous snapshot of employment recovery

California Employment Trends

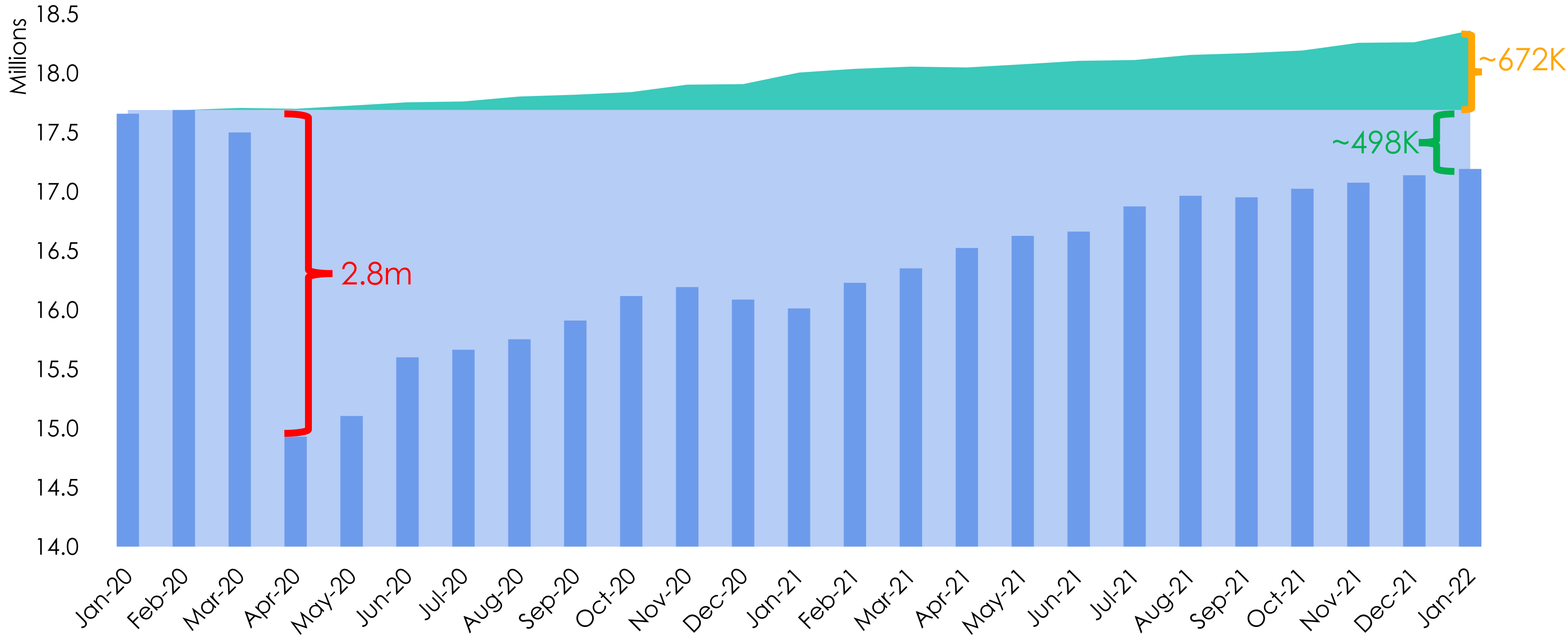
Pre-Crisis Peak Long-Run Trend Actual Employment



Previous snapshot of employment recovery

Chart Title

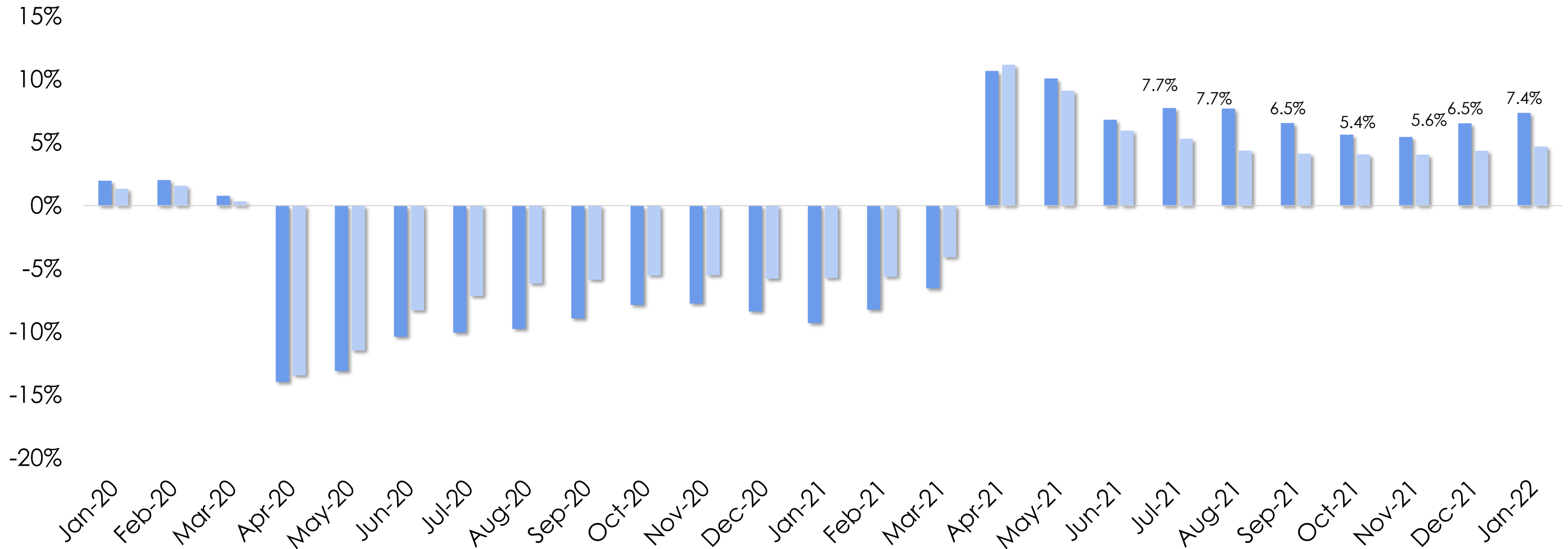
Series2 Series3 Series1



Bigger hole to climb out of... but growing faster now

Nonfarm Employment Growth (YTY %)

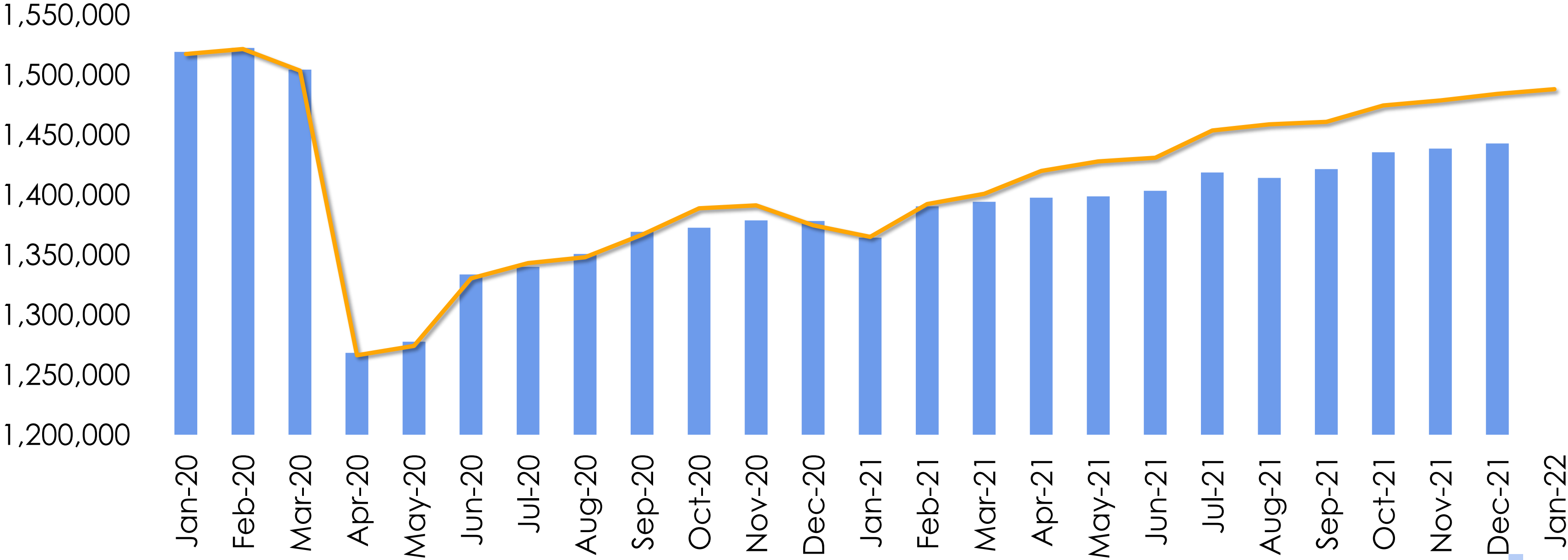
■ CA ■ Rest of US



San Diego experienced similar favorable revision

San Diego County Nonfarm Employment

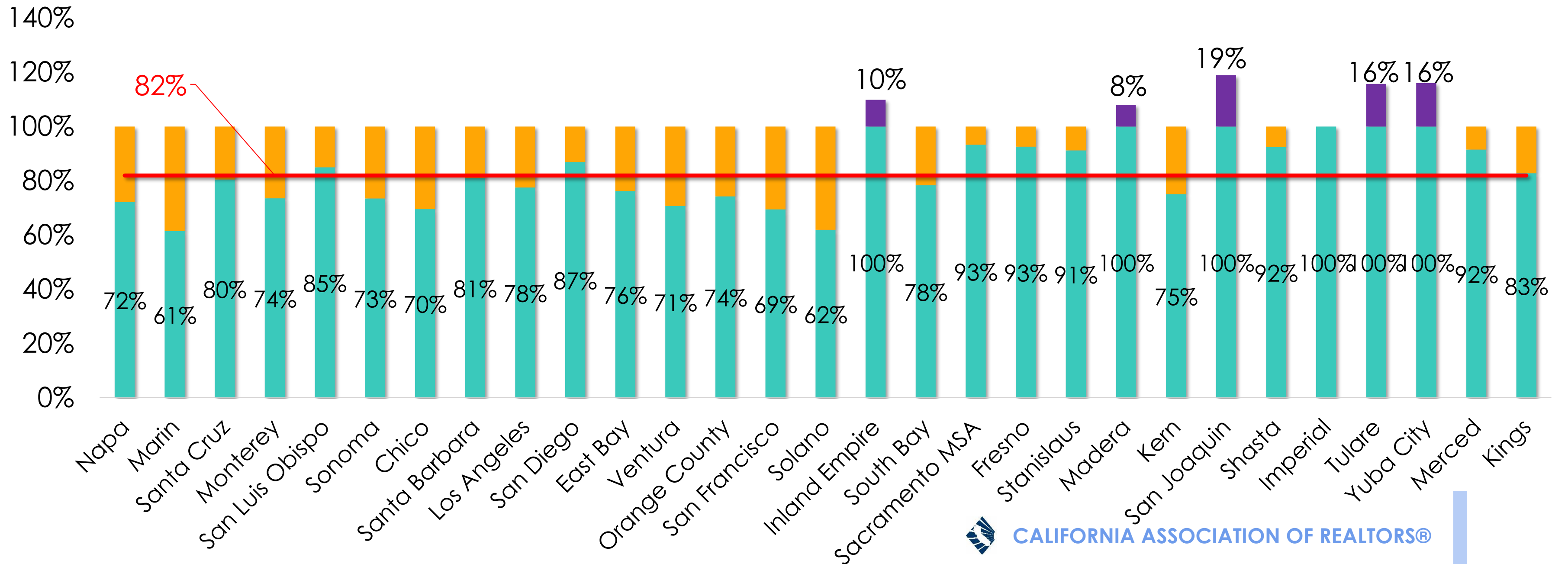
■ 2022 BM — 2020 BM



Broad-based jobs recovery thus far—even resort areas

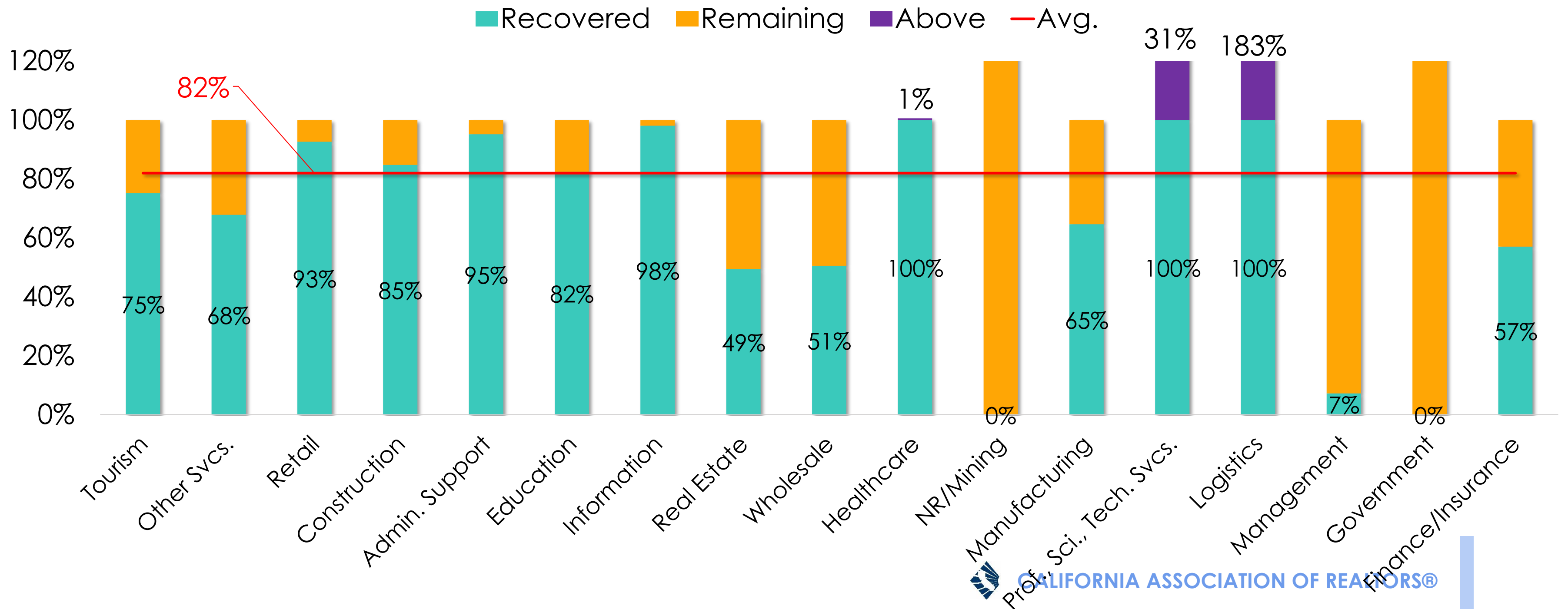
California Jobs Recovery To-Date by Metro
(April 2020 to January 2022)

Recovered Remaining Above Avg.



Broad-based jobs recovery across sectors as well

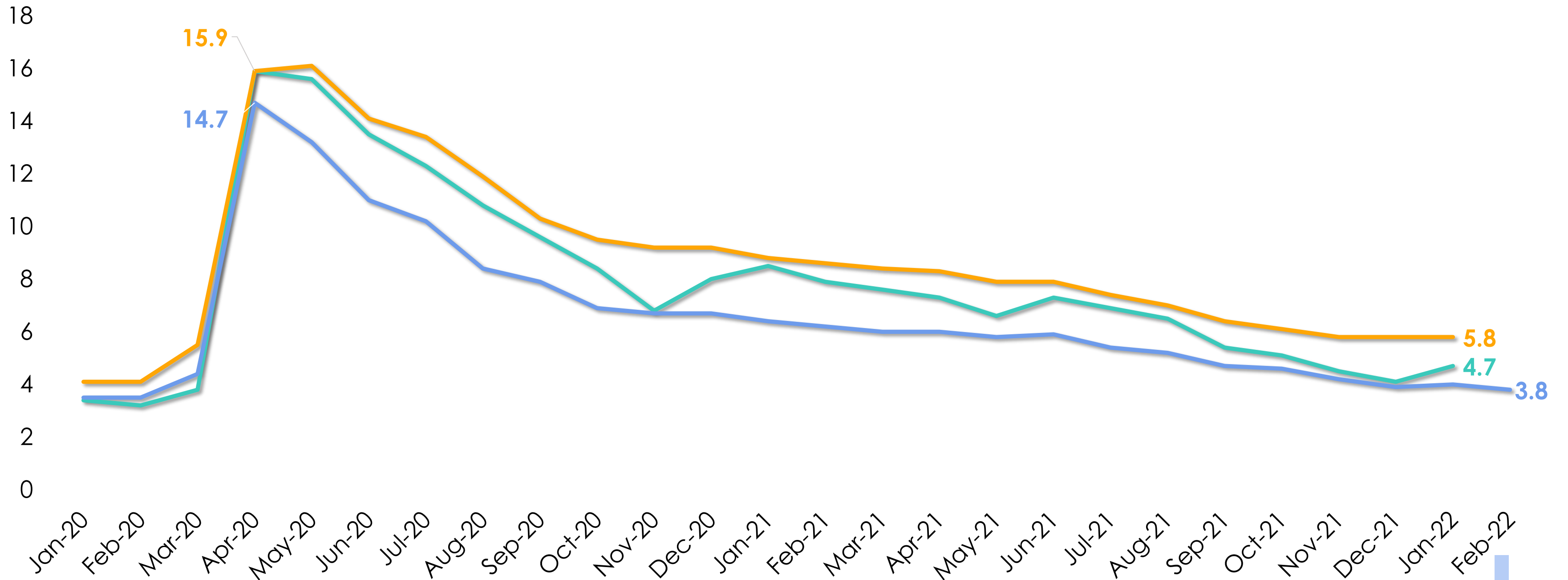
California Jobs Recovery To-Date by Metro
(April 2020 to January 2022)



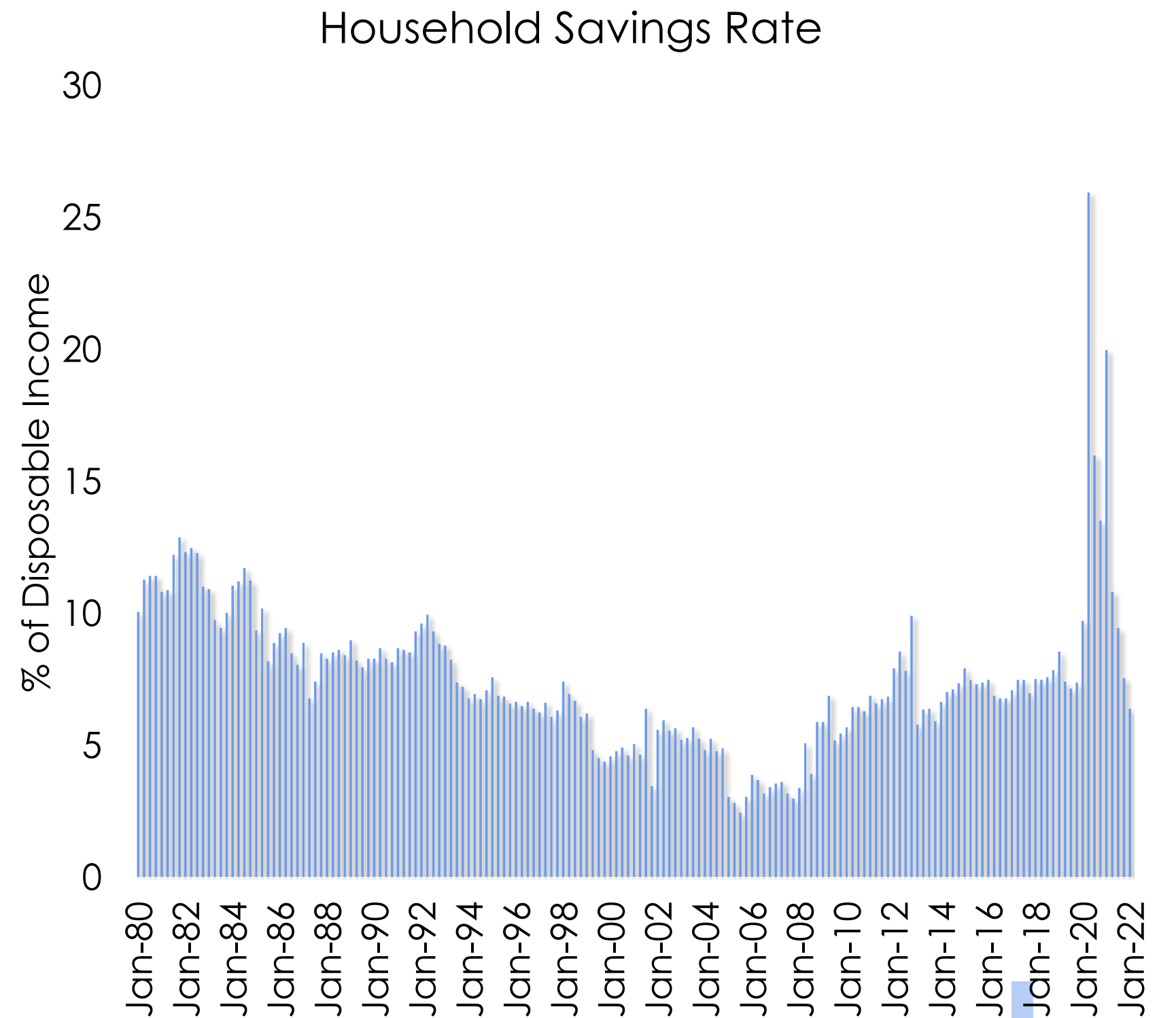
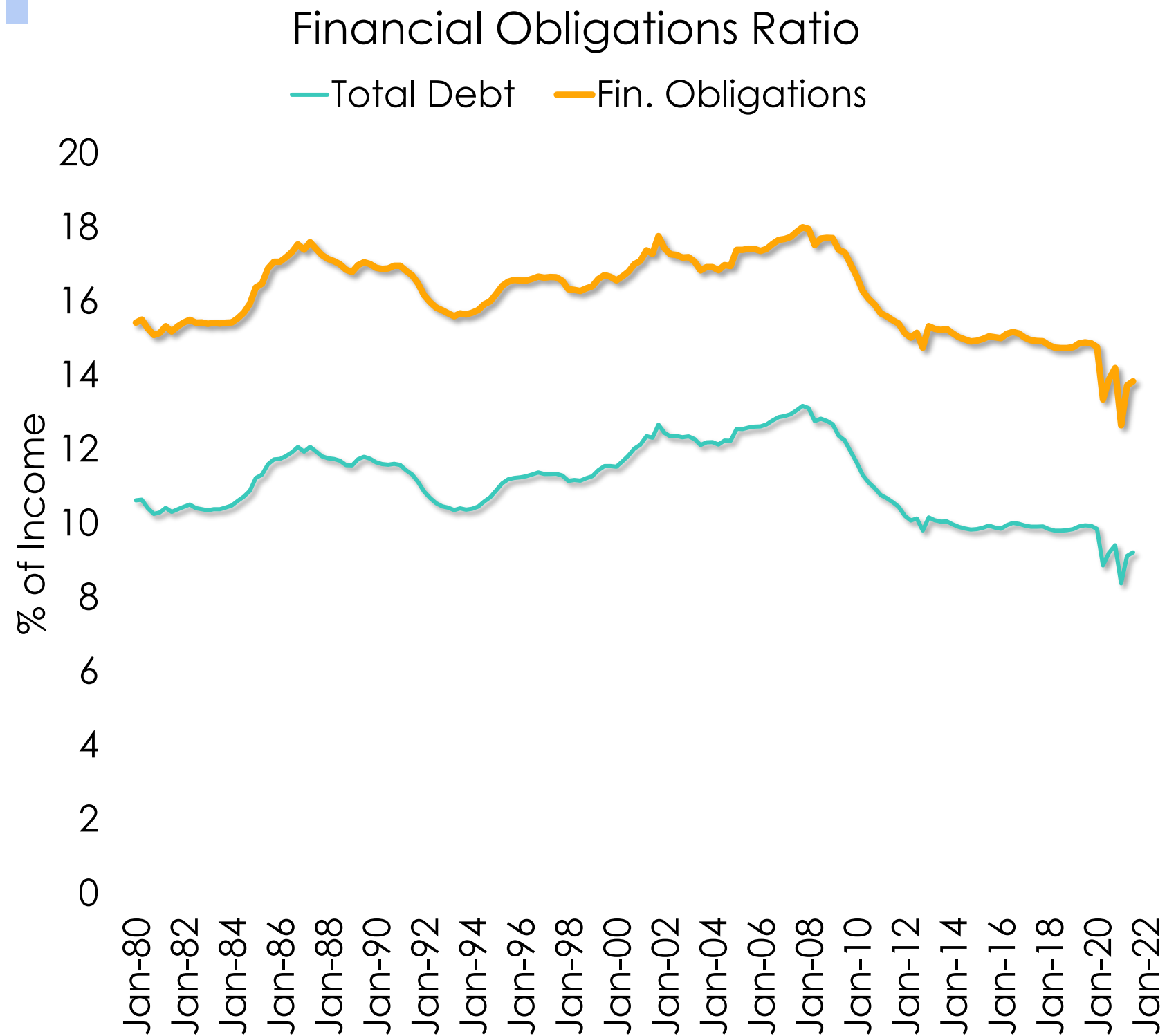
Dramatic improvements in unemployment rate

Unemployment Rate

—SD —CA —U.S.



Balance sheets in much better shape to weather a storm





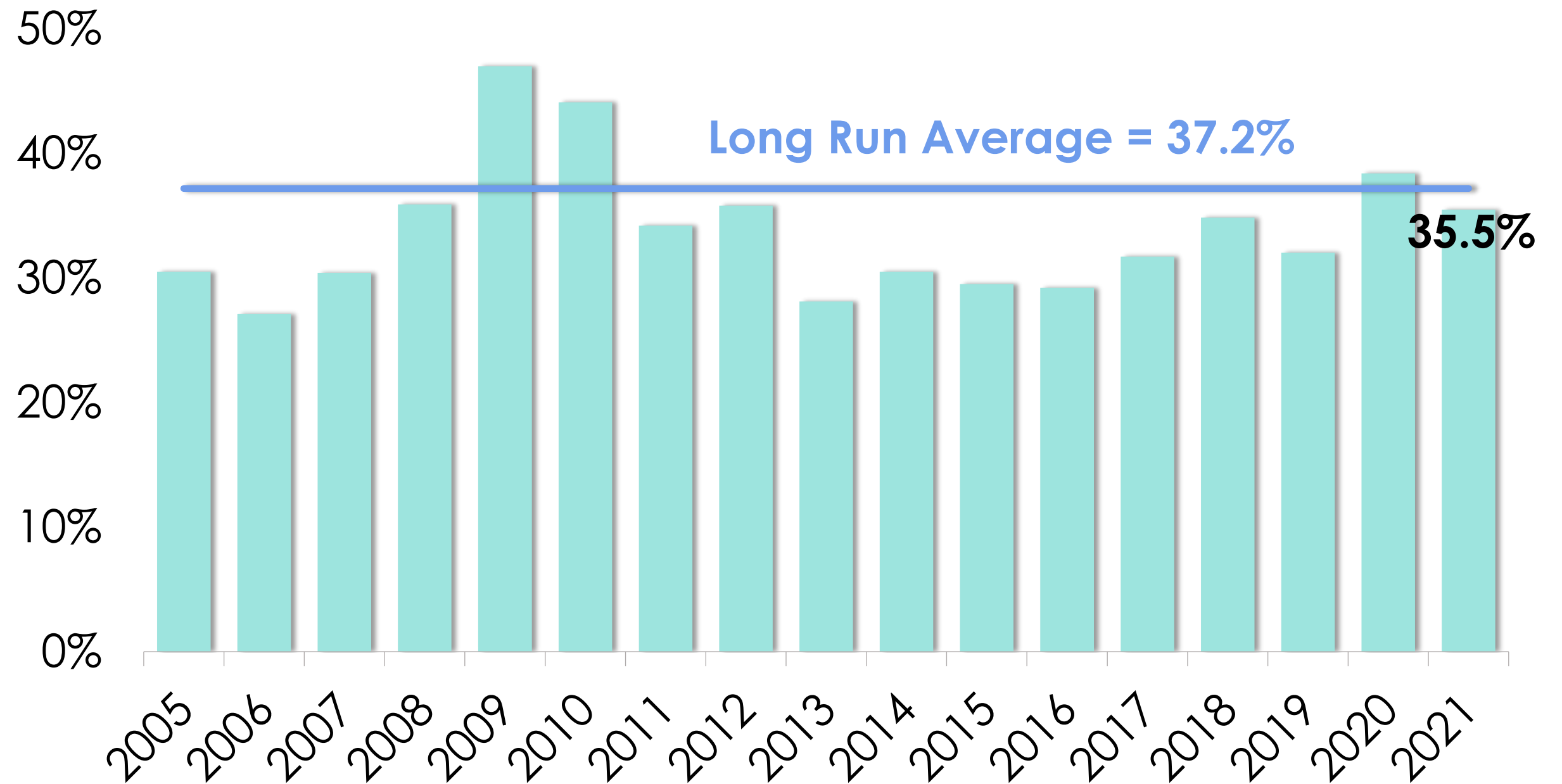
Renewed Passion
For Homeownership



First-time buyers still near decade-highs

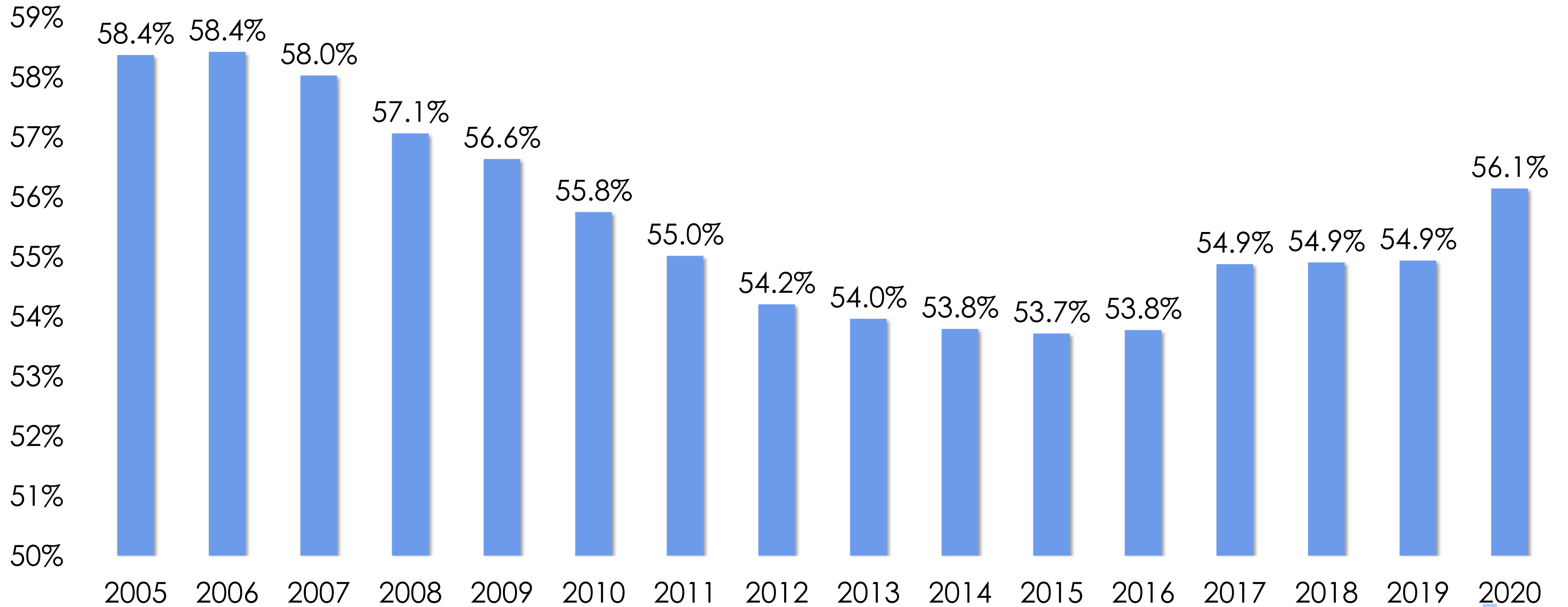


■ % First-Time Home Buyers — Long Run Average



Homeownership rate finally shows some progress

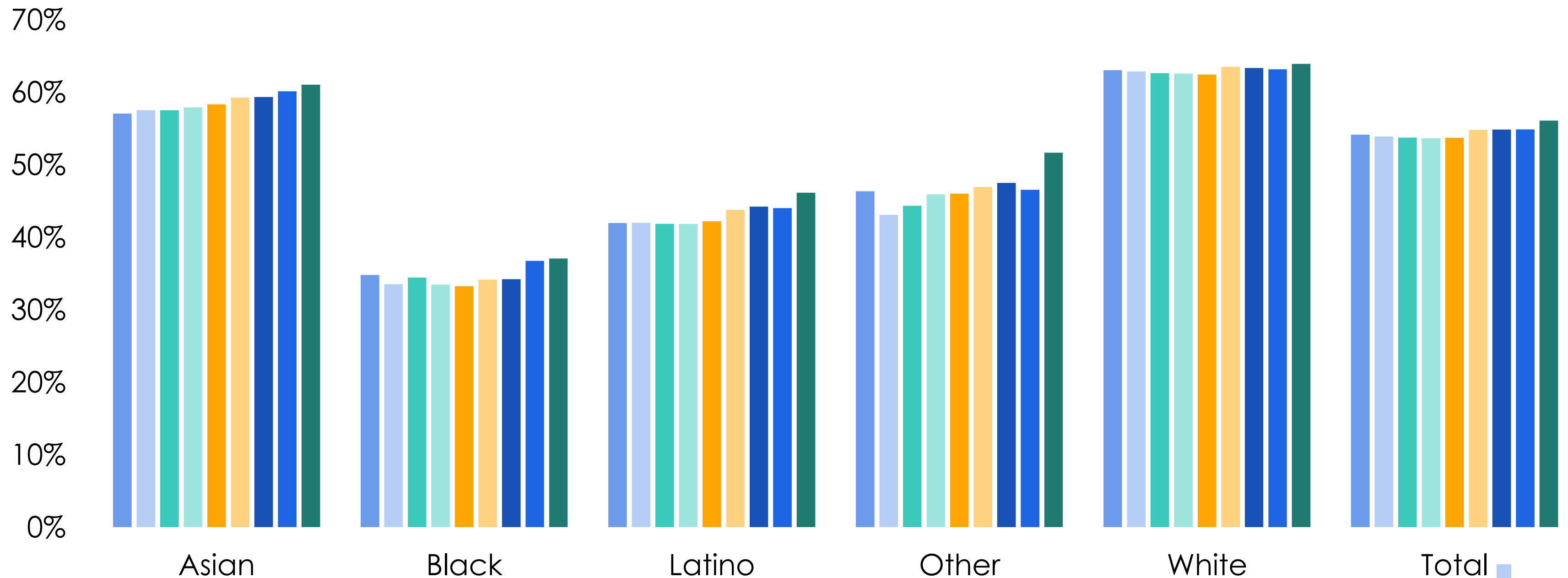
California Homeownership Rate



Homeownership improving for every group

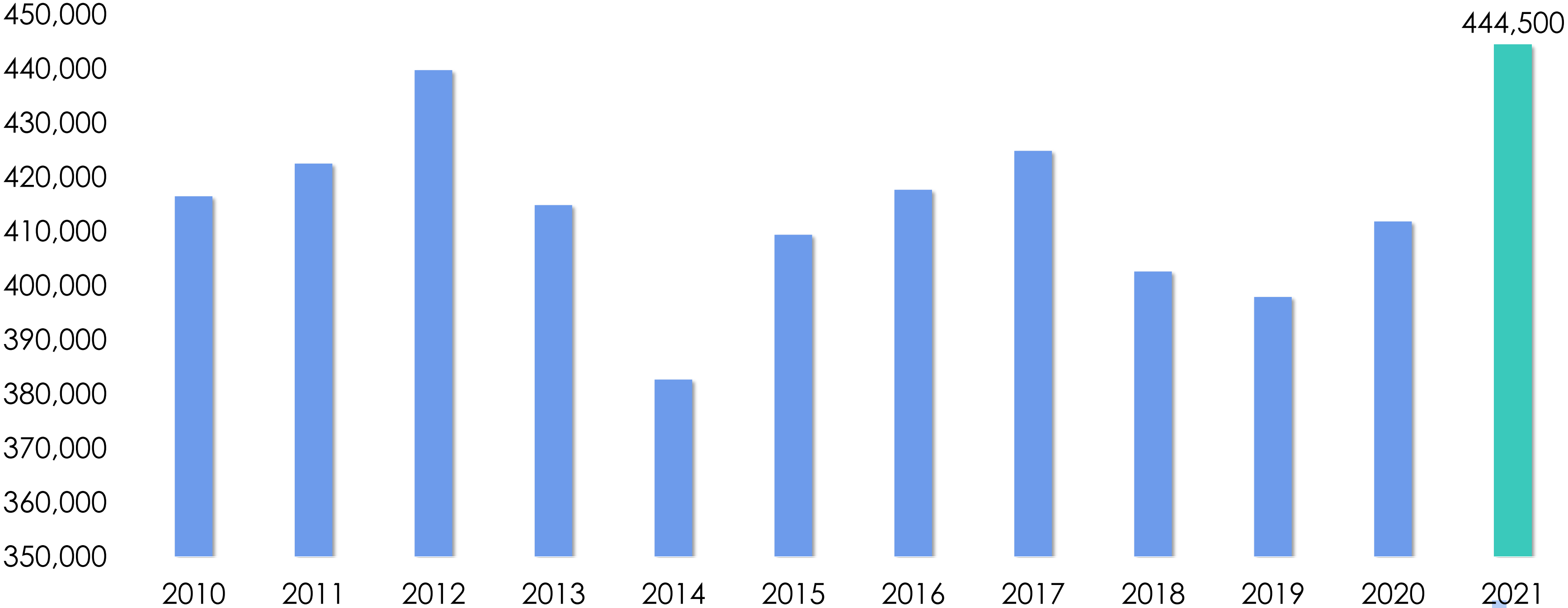
California Homeownership Rates by Race/Ethnicity

■ 2012 ■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020



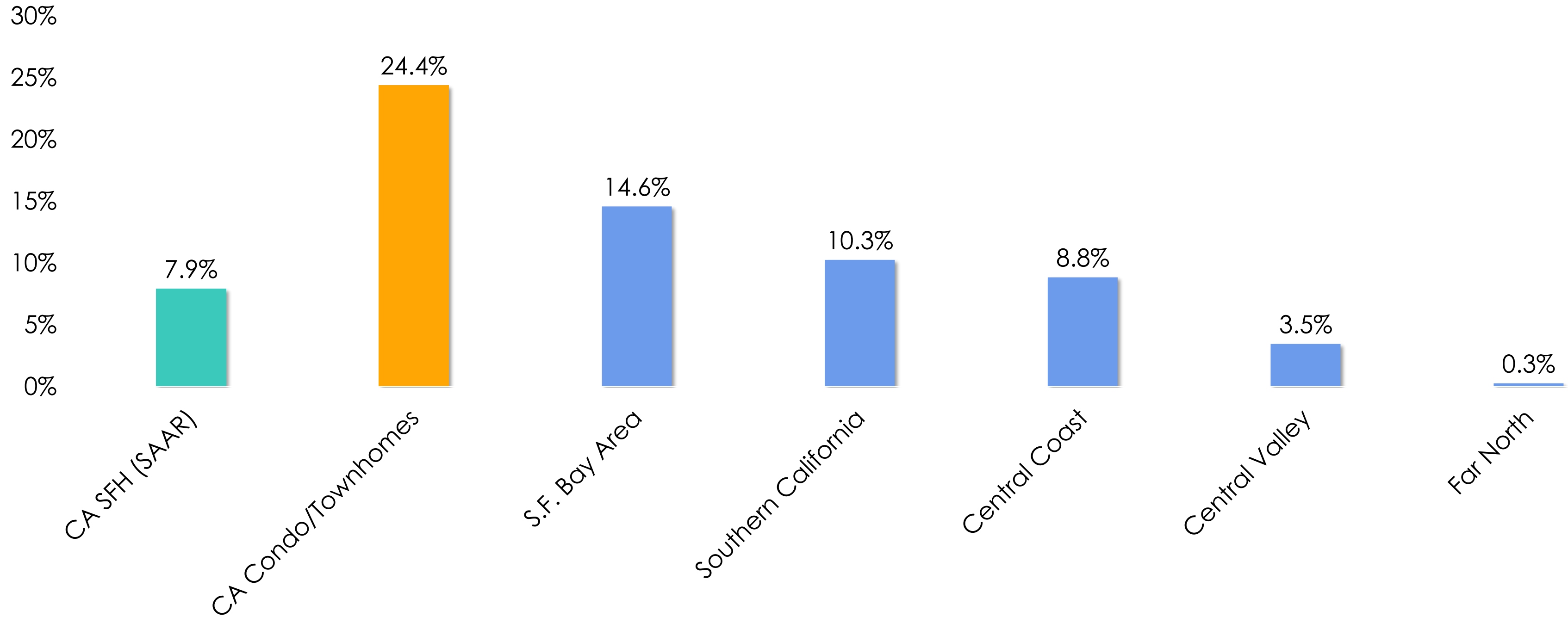
2021 was the best year for home sales in a decade

California Existing SFR Sales



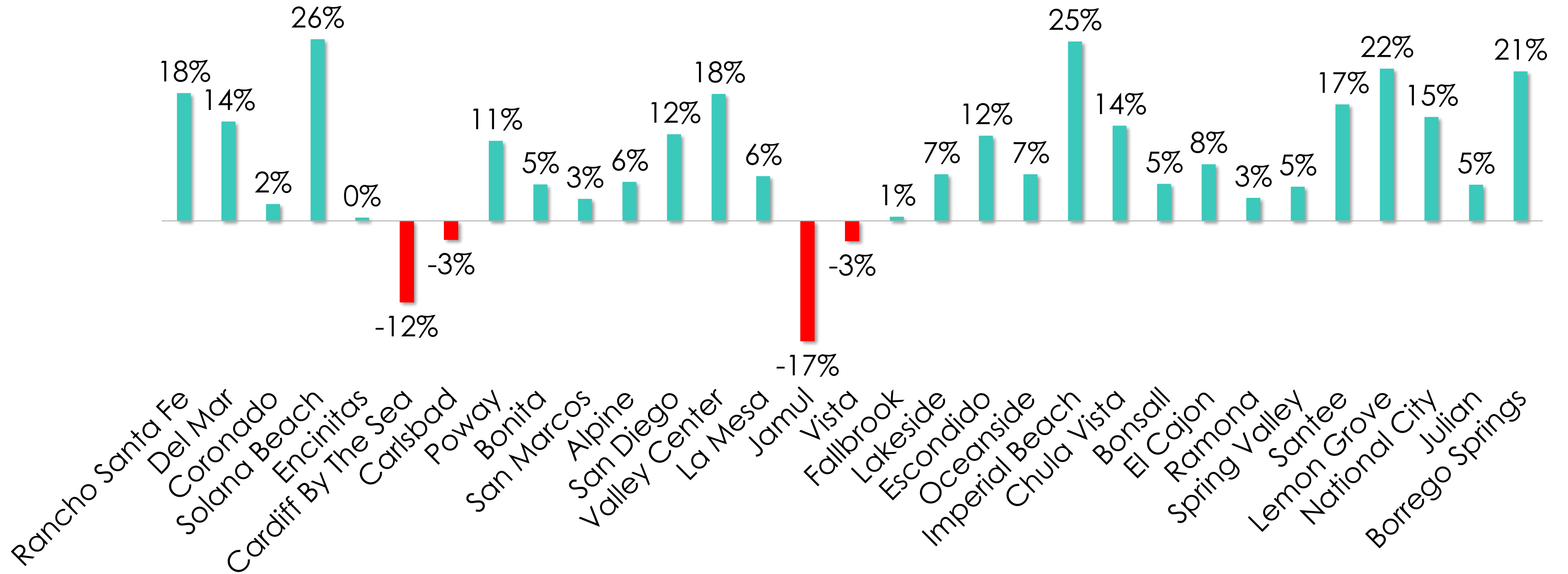
Core markets punching above their weight

2021 California Existing SFR Sales Growth (%)



Yolo County was right in line with statewide average

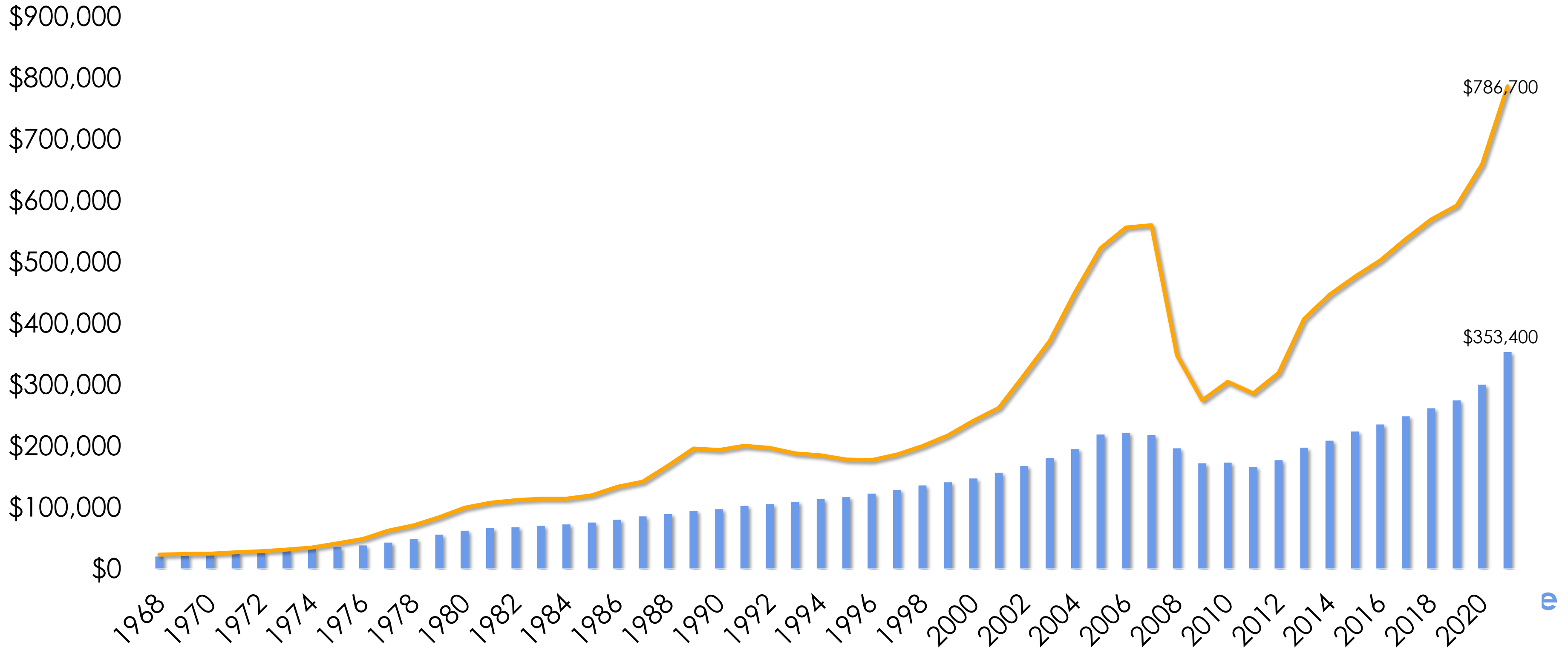
2021 San Diego County Existing SFR Sales Growth



Median home price rose to new record highs

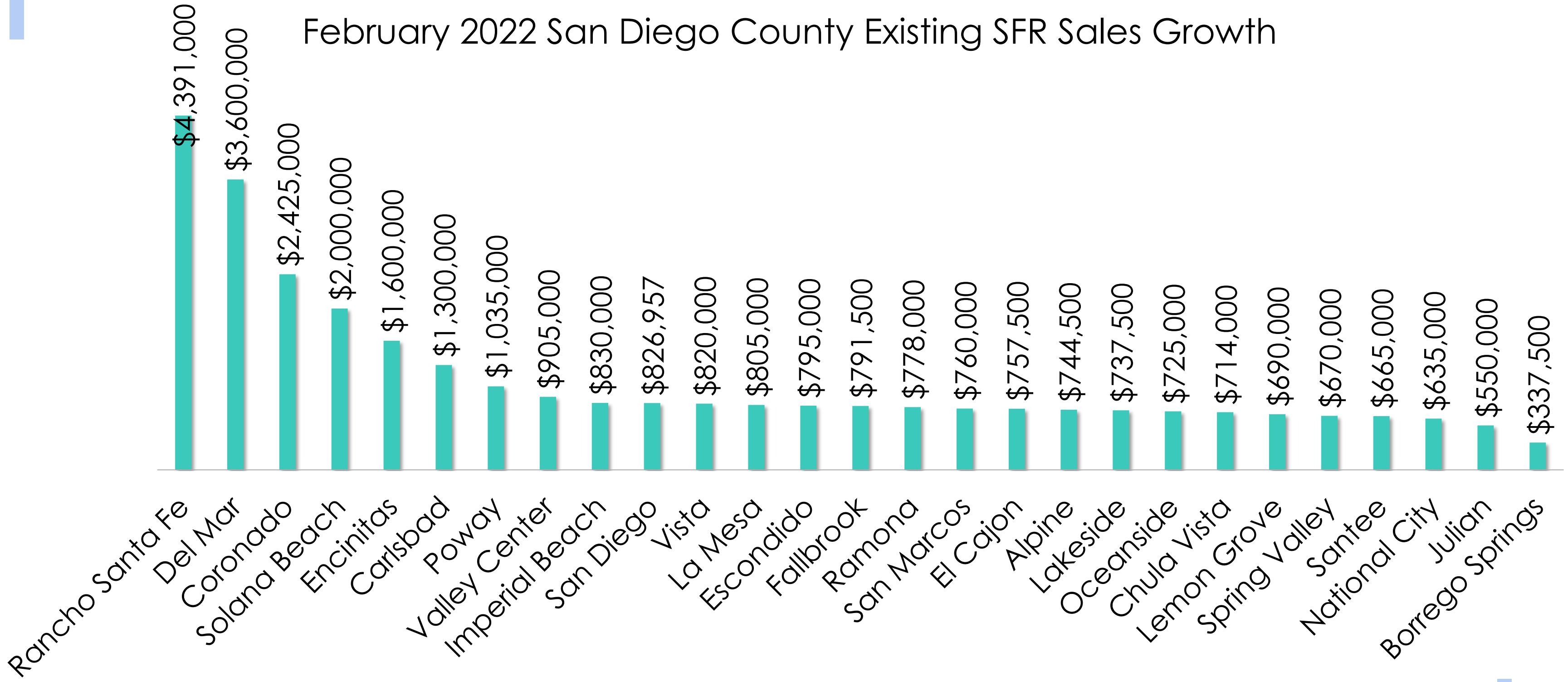
Existing SFR Median Prices

■ U.S. — CA



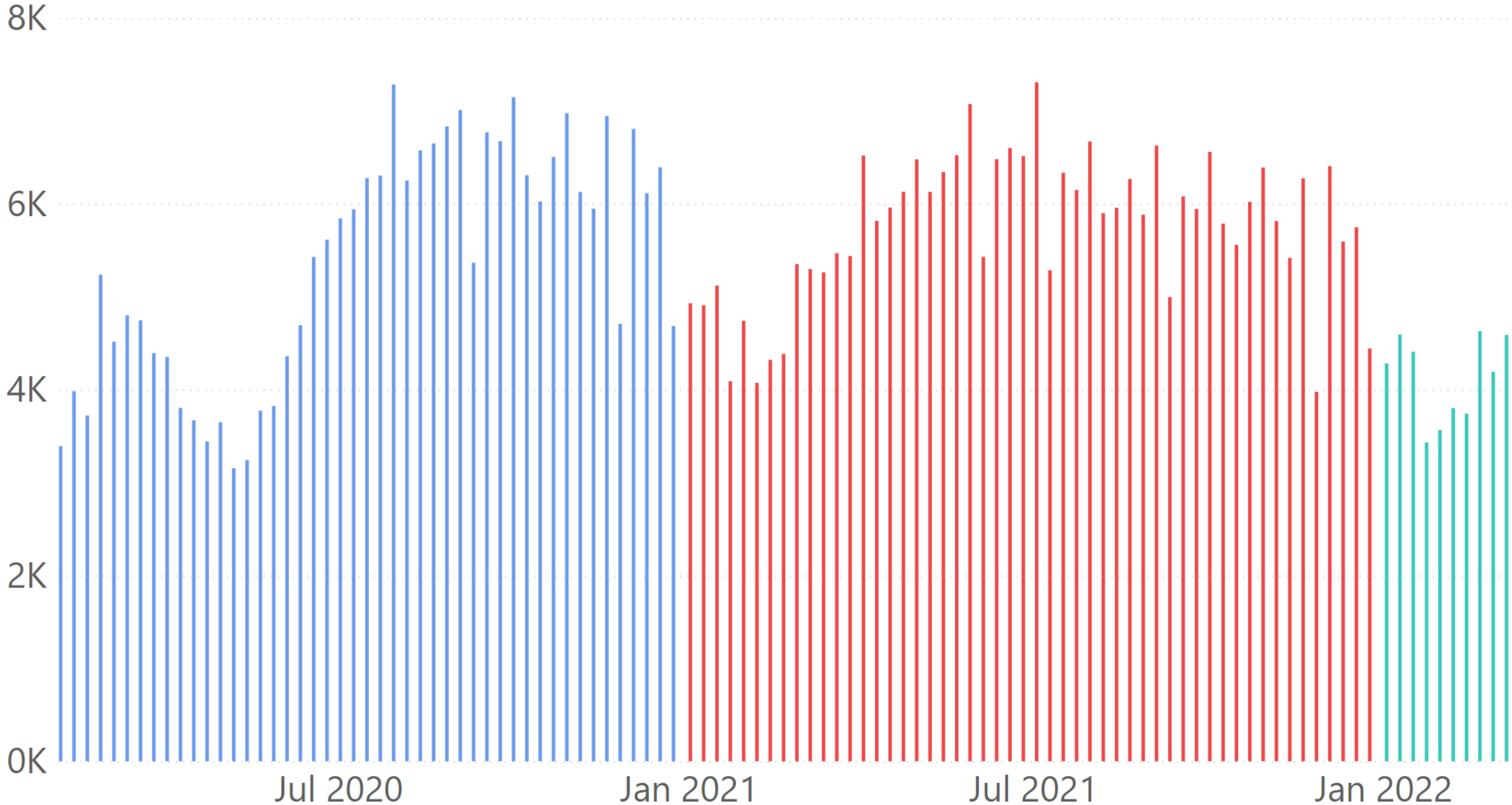
Not quite as affordable here as we used to be

February 2022 San Diego County Existing SFR Sales Growth



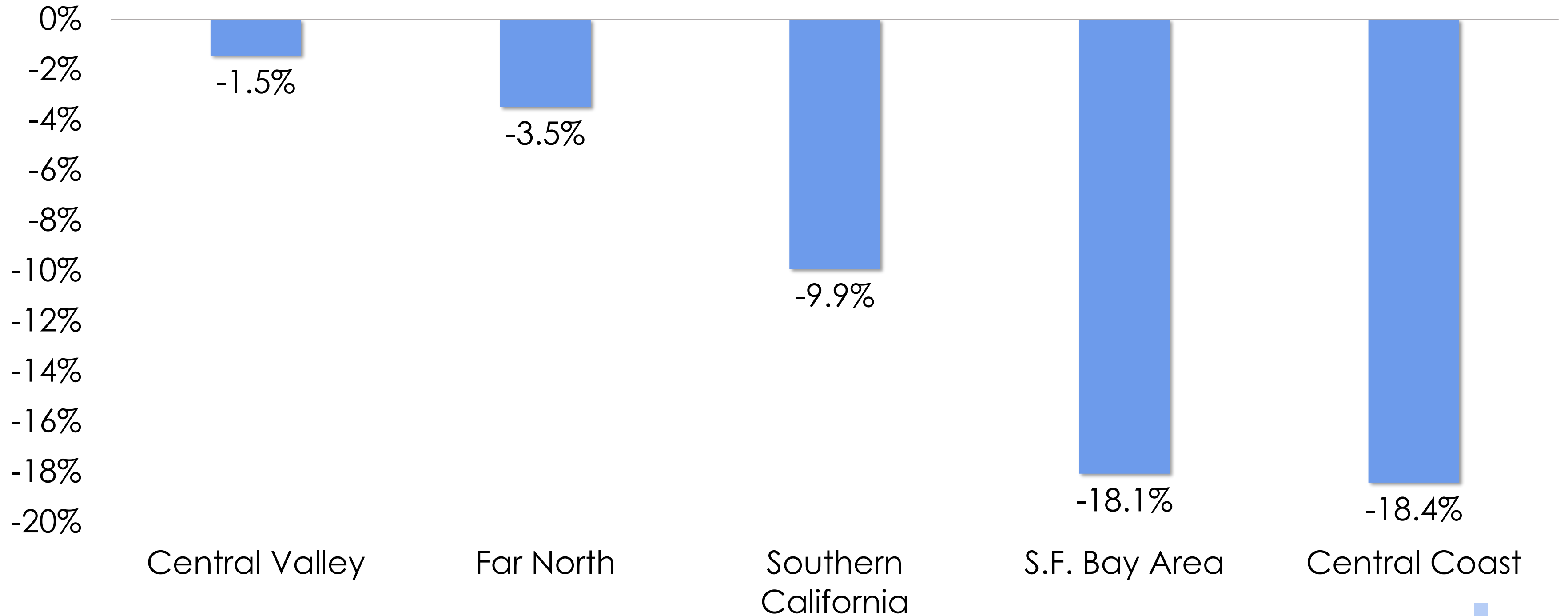
Sales holding up remarkably well despite higher rates

Existing SFR Closed Sales Weekly



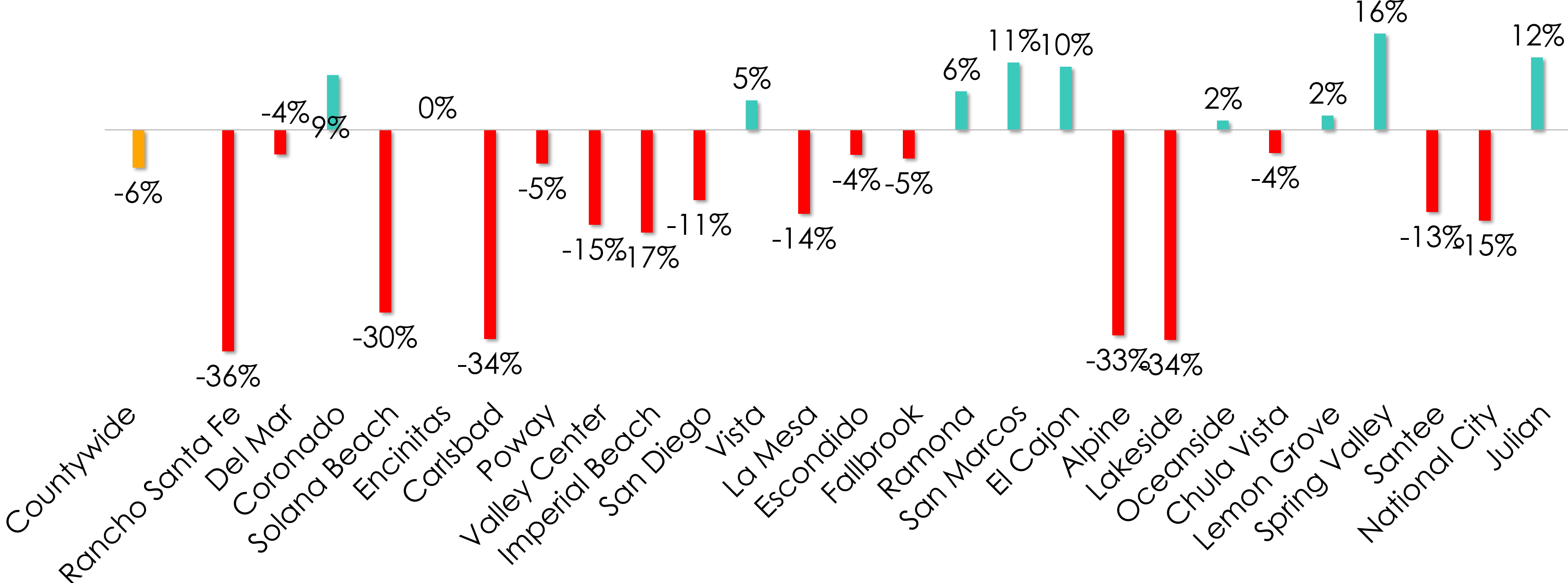
Regional breakdown of existing SFR sales growth

February 2022 YTD Existing SFR Sales Growth by Region



Similar giveback locally, but outperforming rest of SoCal

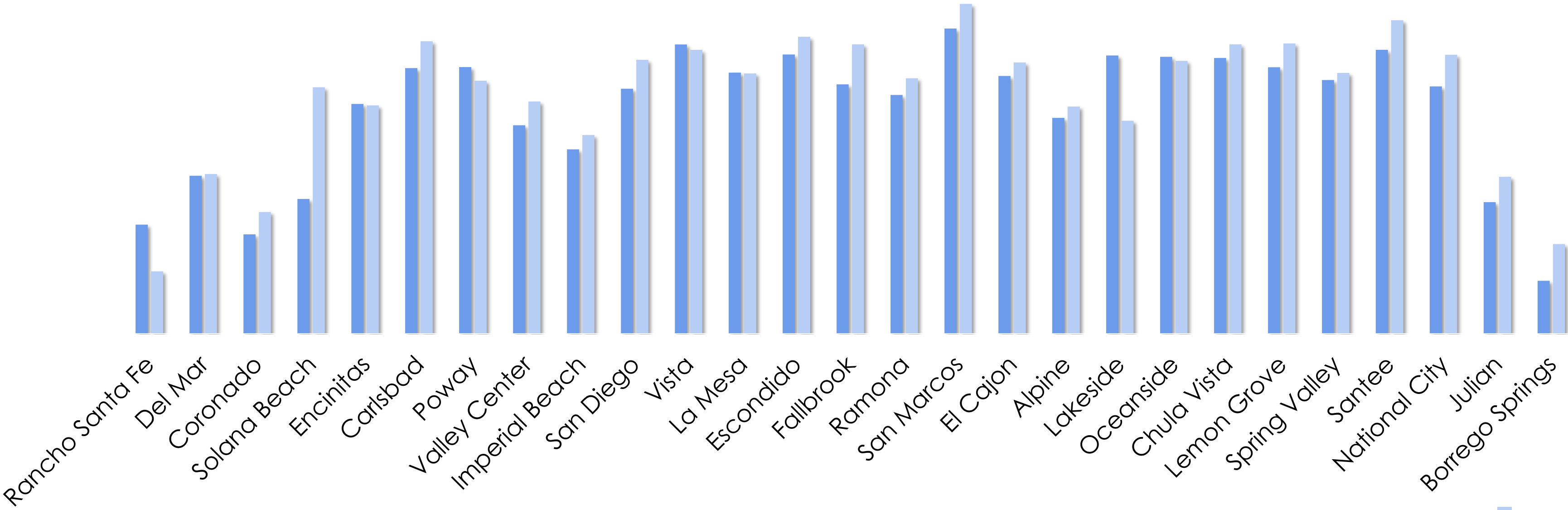
February 2022 San Diego County Existing SFR Sales Growth



This year starting out even more competitive already

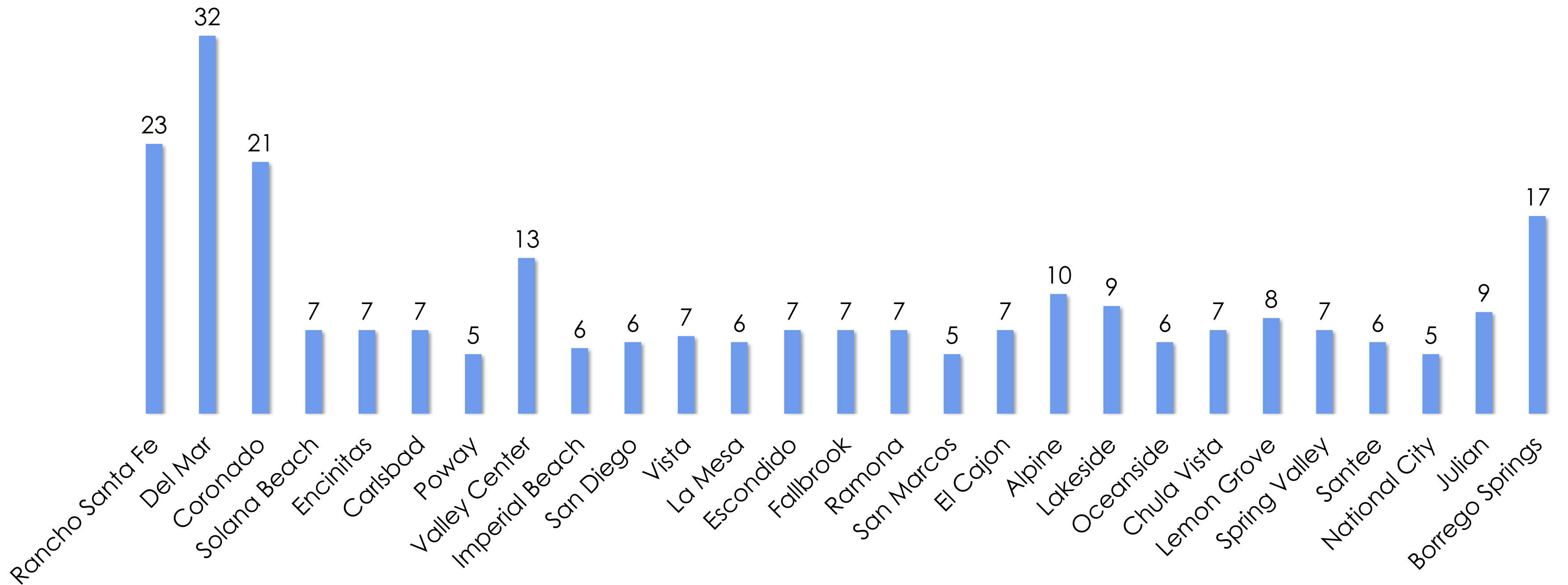
San Diego County Existing SFR Sales Over List Price (%)

■ 2021 ■ 2022 YTD



Local homes selling very quickly—especially for February

San Diego County Existing SFR Median Days on Market



Fierce competition, and not just on price

Contingencies Waived on Offer Accepted

	\$500k or below	\$501k - \$1M	Over \$1M	All
Non-Contingent Offer	55.6%	61.4%	64.7%	60.5%
Appraisal	35.4%	53.7%	60.4%	49.8%
Property inspection	23.5%	28.3%	41.3%	29.9%
Financing	19.3%	24.7%	46.5%	28.7%
Selling of another house	12.2%	18.0%	27.4%	18.6%
Purchase of another house	6.8%	8.8%	14.2%	9.5%
Transfer disclosure statement post offer	4.8%	6.3%	10.9%	6.9%



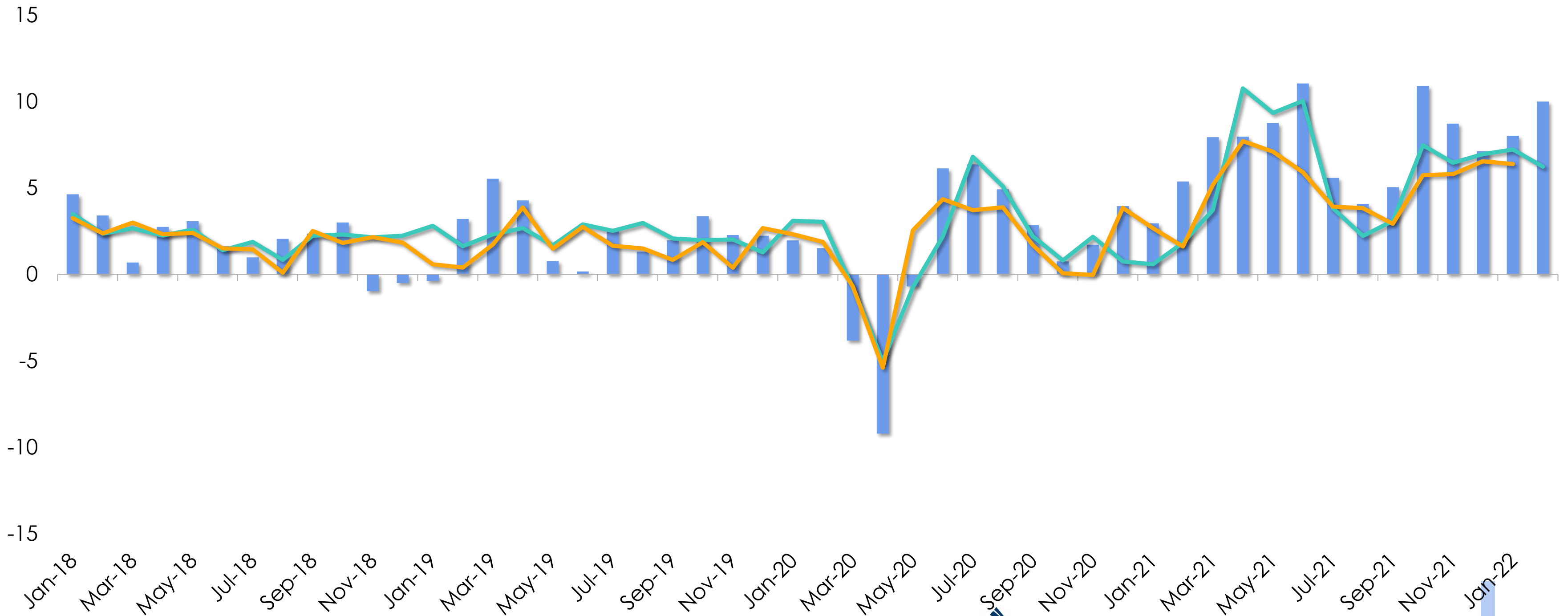
Economic Headwinds
Introduce Future Risk



Primary measures of inflation for consumers

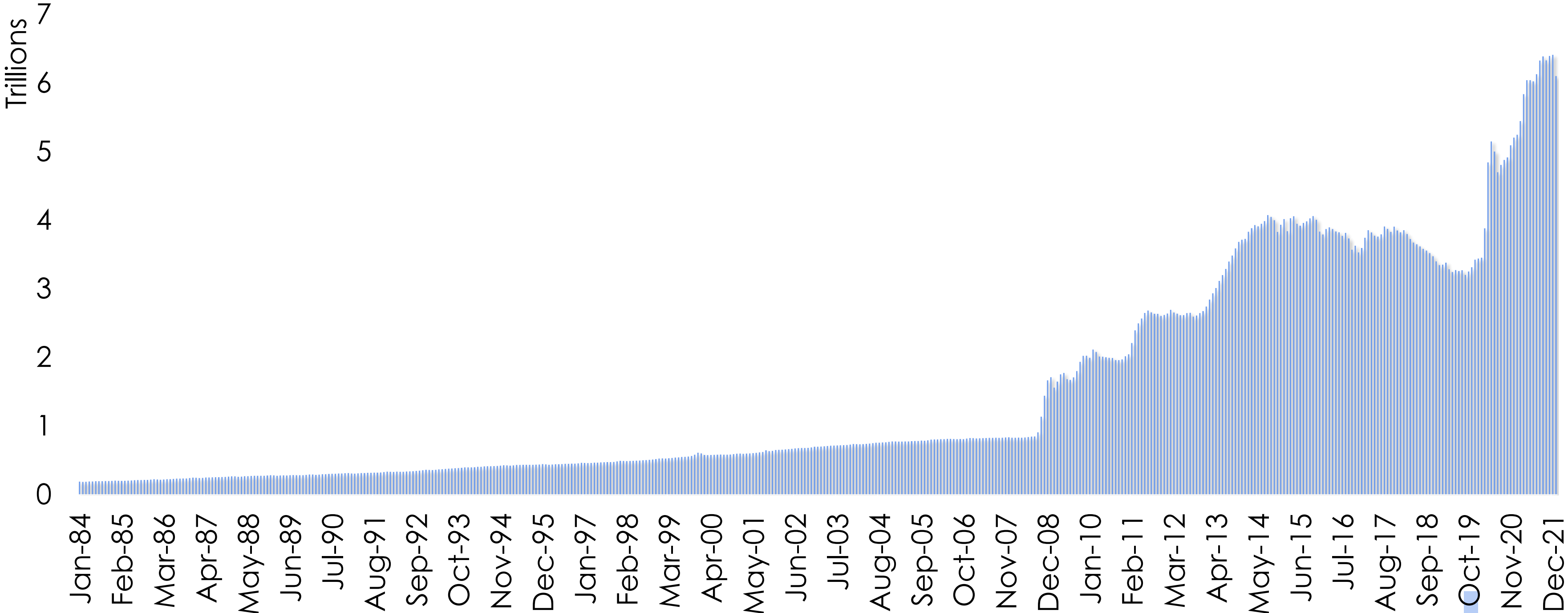
U.S. Consumer Prices Inflation

■ CPI Growth — Core CPI Growth — Core PCE Growth



Money supply: the other side of monetary policy

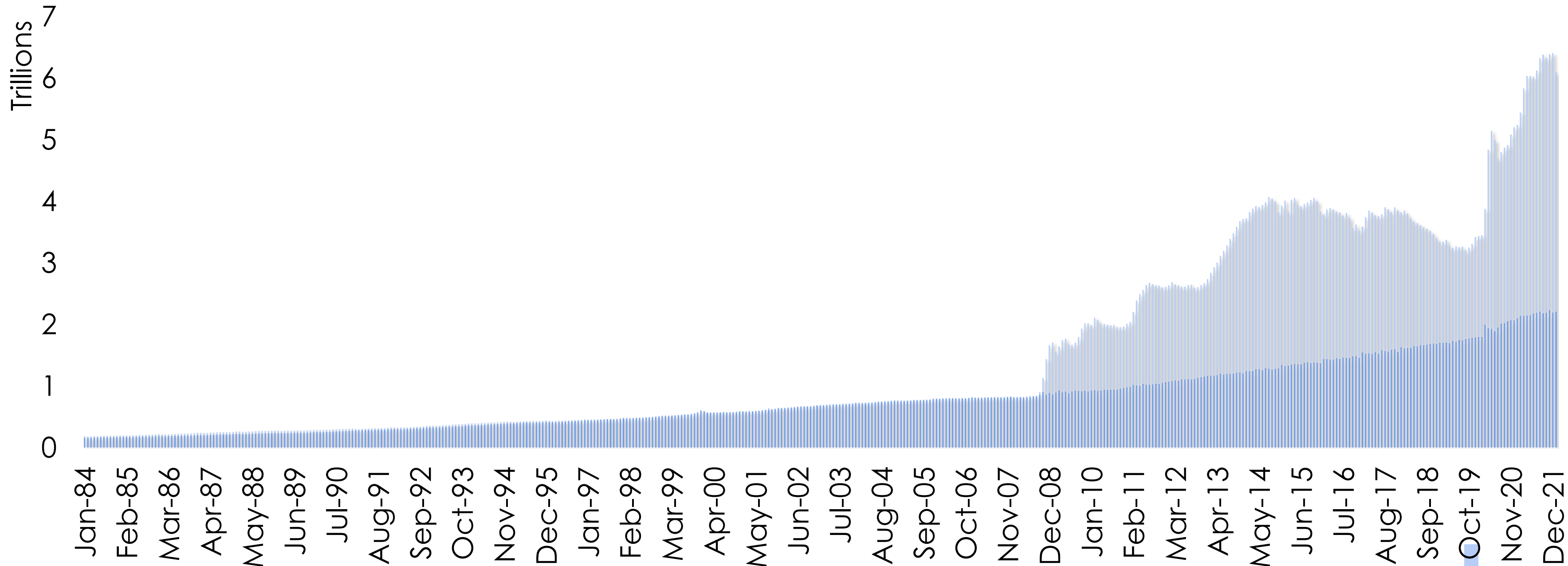
Base Money Supply



Deconstructing the base money supply

Base Money Supply

■ Net Money Supply ■ Reserve Balances at Fed



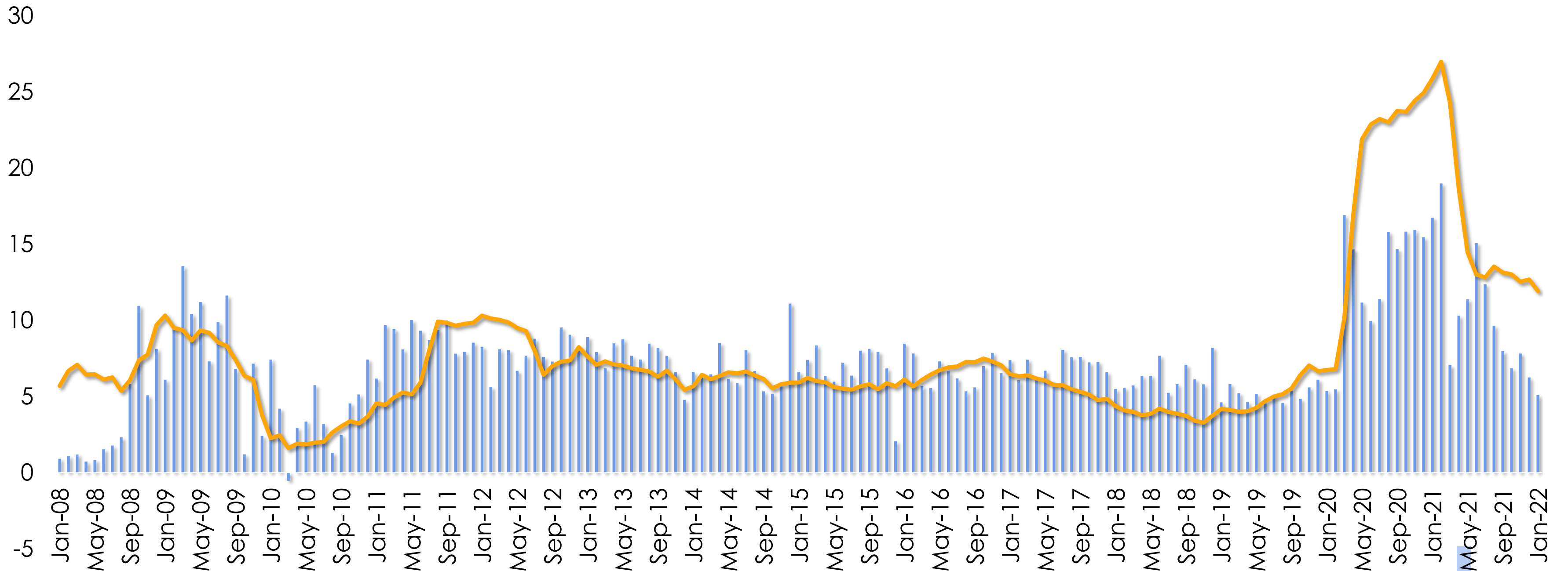
How inflationary will Fed policy end up being?

What is M2?

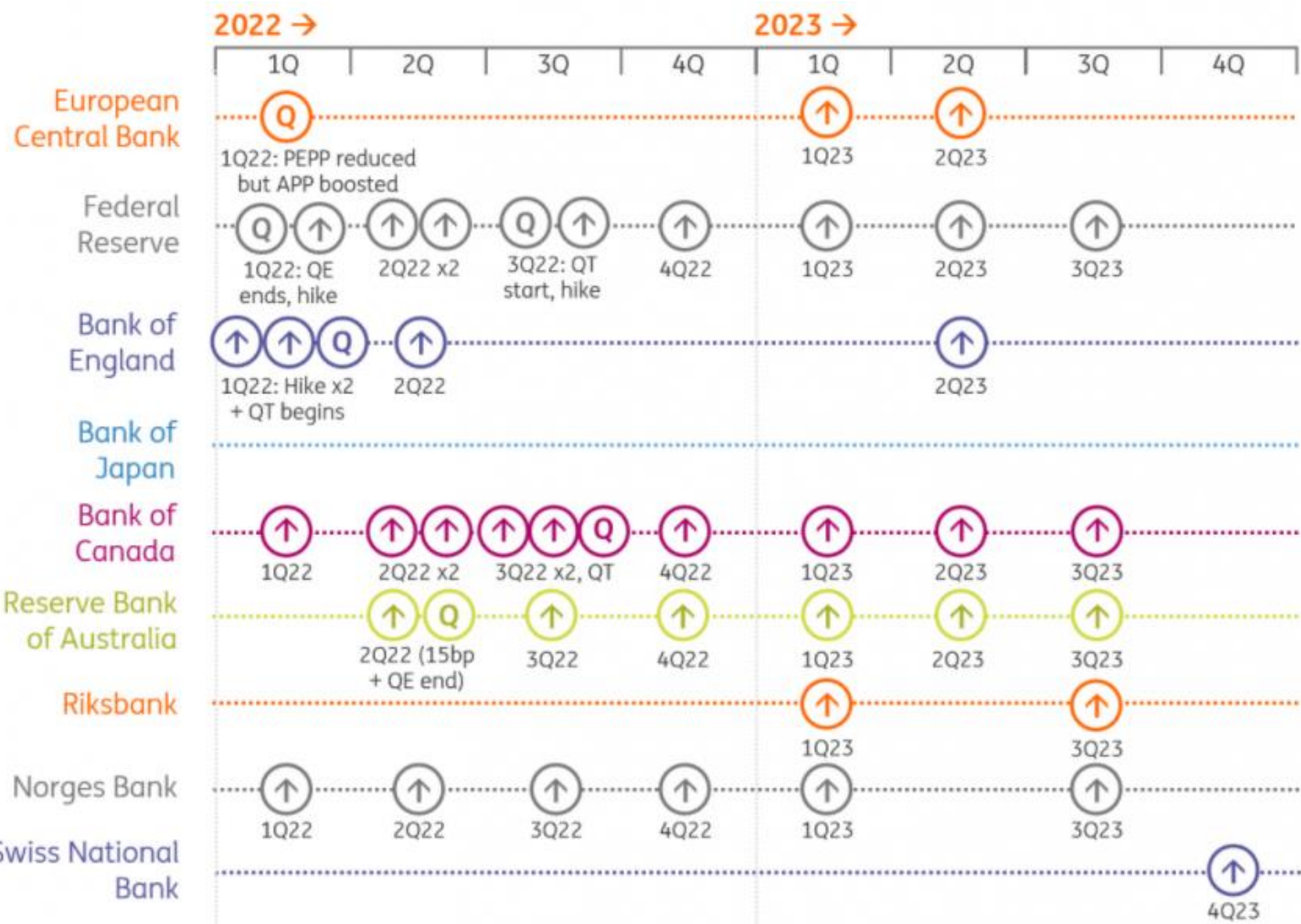
Currency
Checking Accts.
Savings Deposits
Money Market

Growth in Net Money Supply and M2 (YTY%)

■ Net Money Growth — M2 Growth



Timing of rate hikes



Economic impacts of the Russia-Ukraine conflict

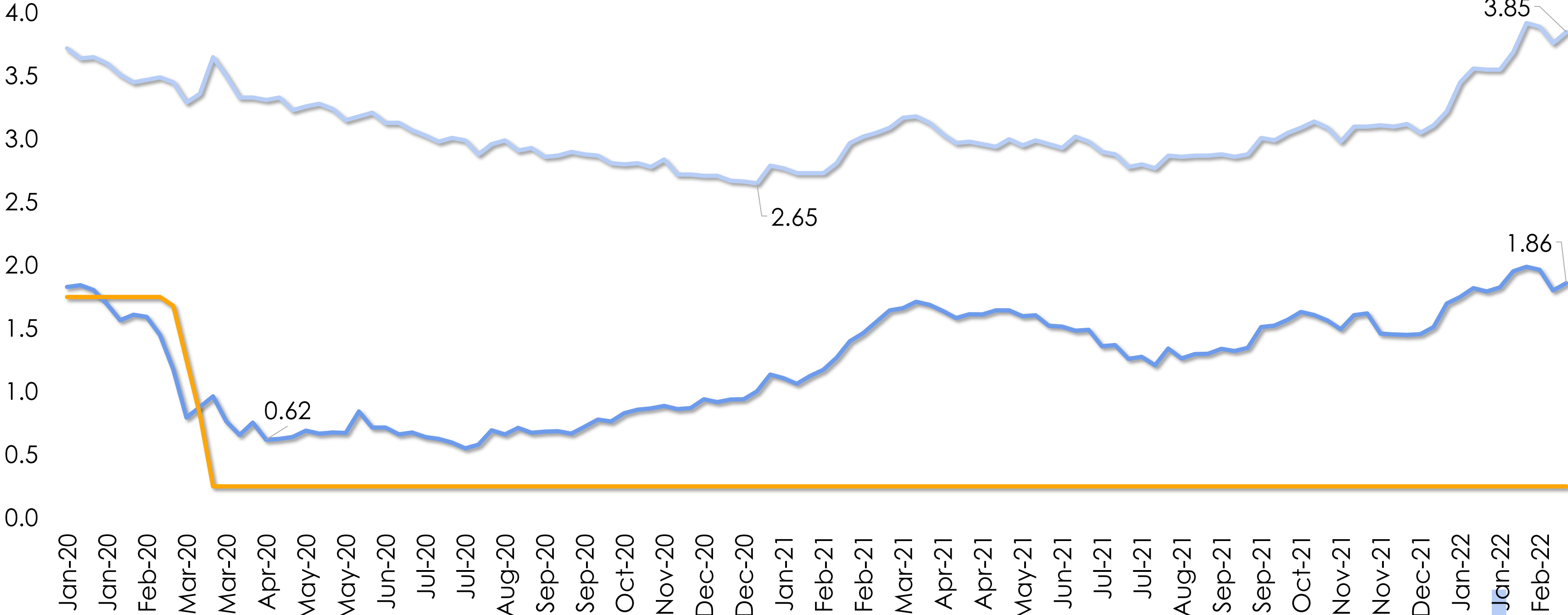
- Higher oil prices
- More inflation
- Financial market turbulence
- Slow economic growth
- Safe-haven effect on rates?
- Strong dollar, higher bond prices
- Less pressure on Federal Reserve?



Some of the anticipated hikes are already priced in

Key Interest Rates

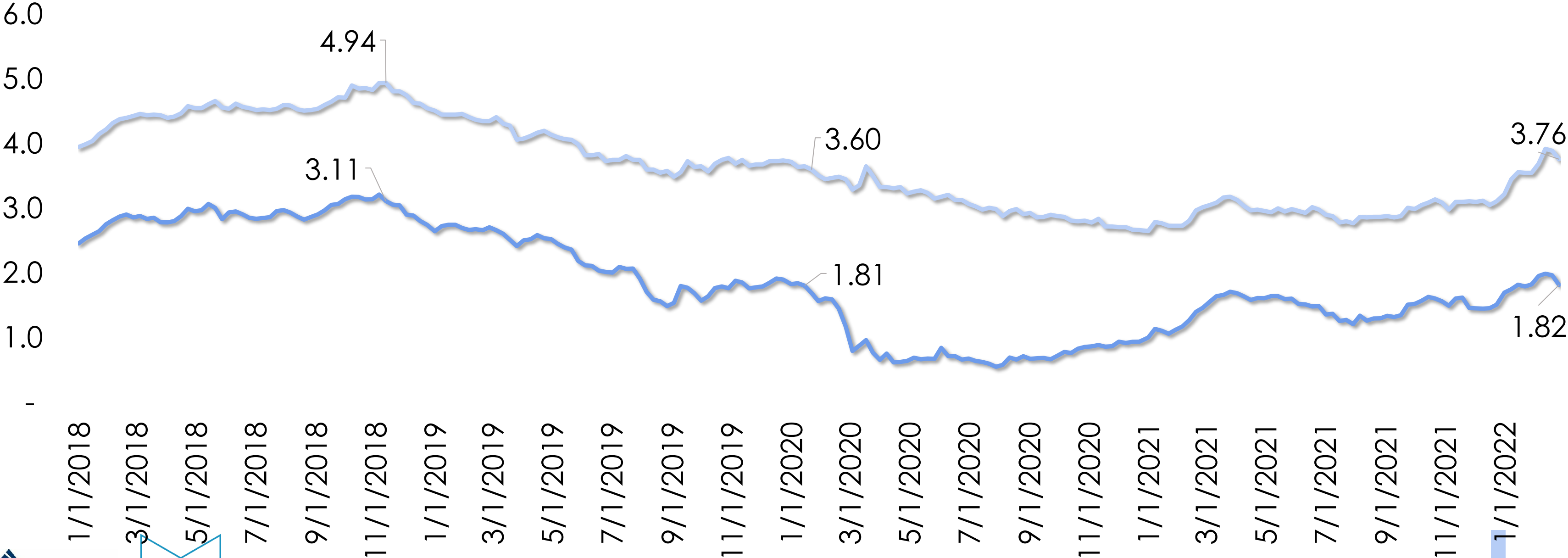
10-Year 30-Year FRM Fed. Funds Target



Where will rates end up when the dust settles?

Key Interest Rates

— 10-Yr Treasury — 30-Yr FRM



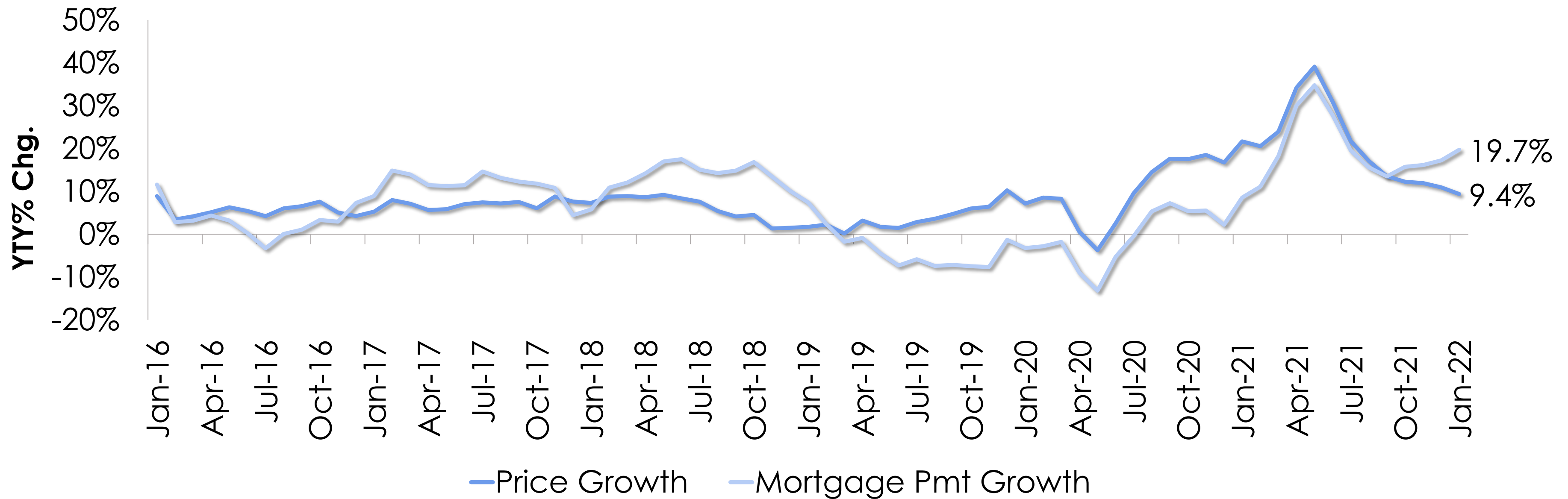


**Already Expecting
Further Moderation**



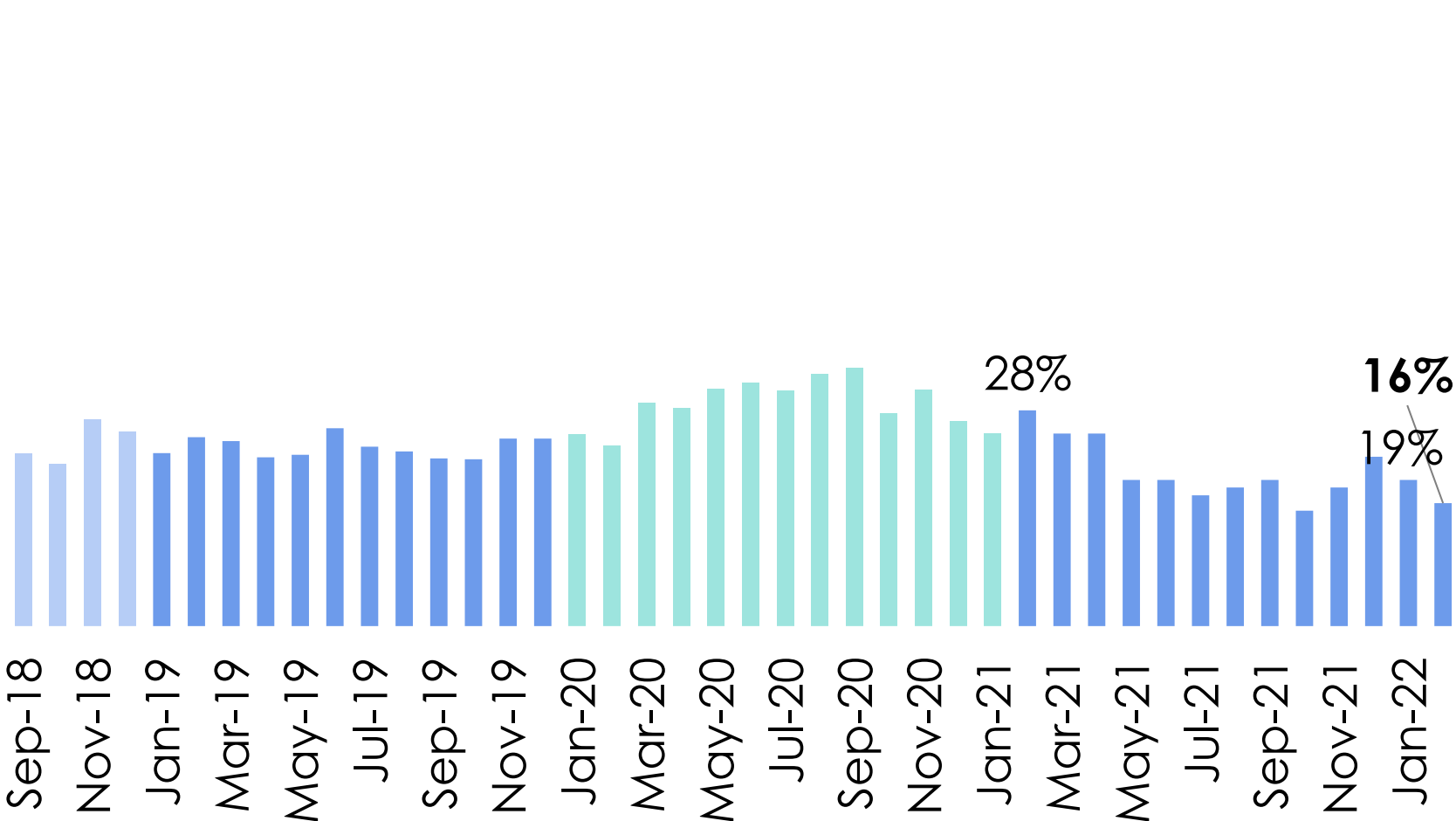
Rising rates compounds the effect of rising prices

California Median Price vs. Mortgage Payment

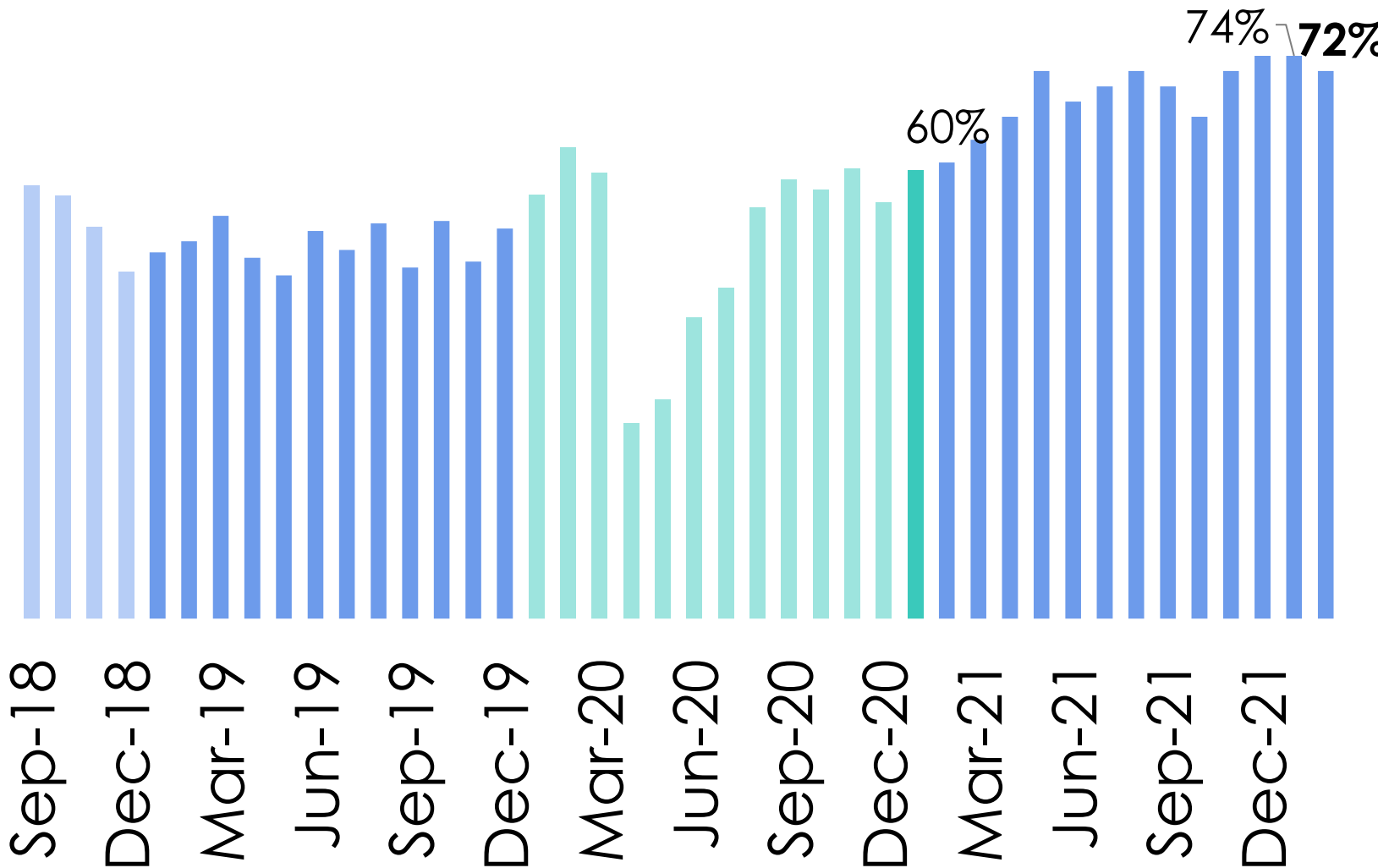


Is it a good time to buy or sell?

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?



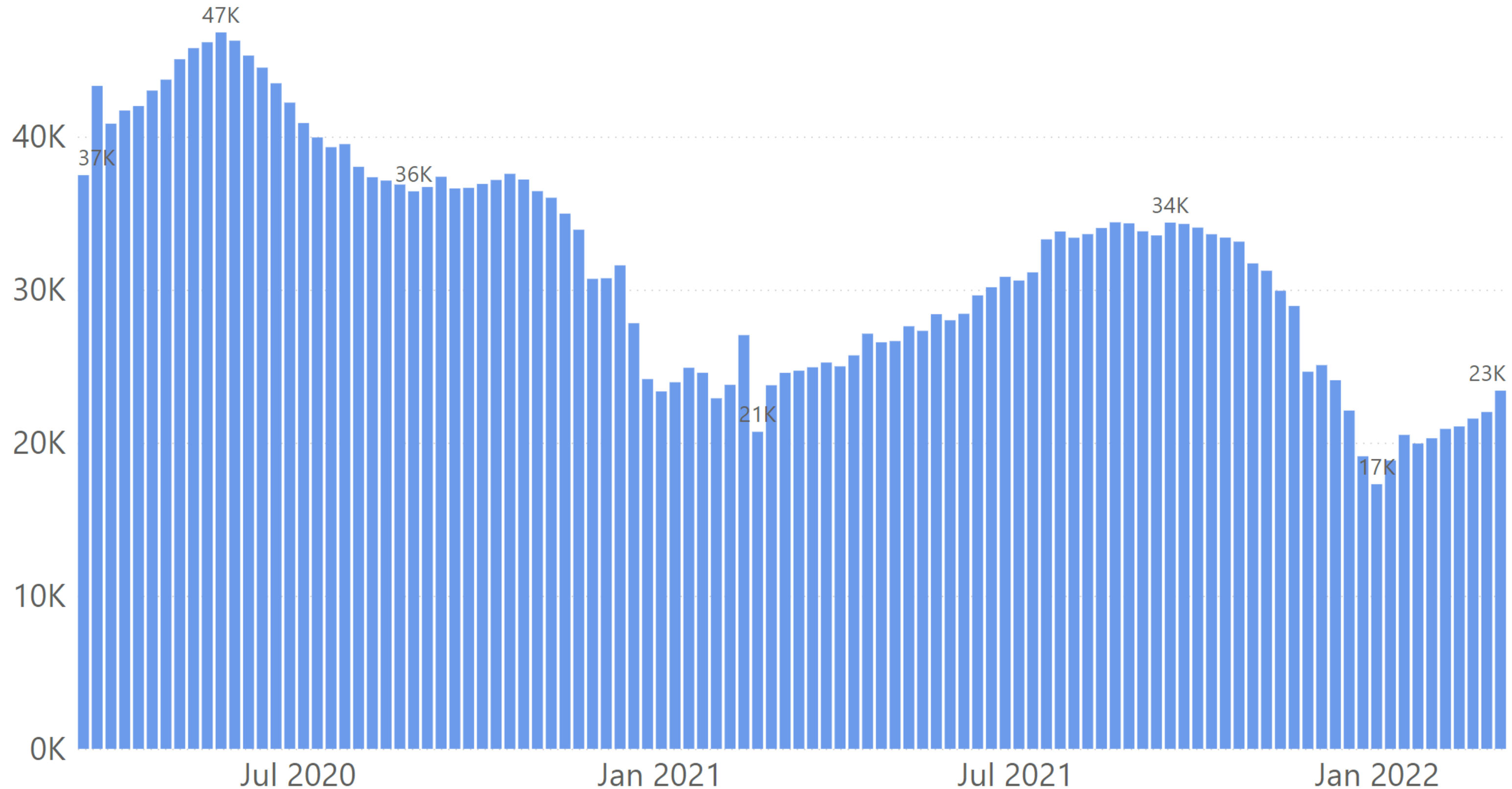


Supply Remains
THE Challenge



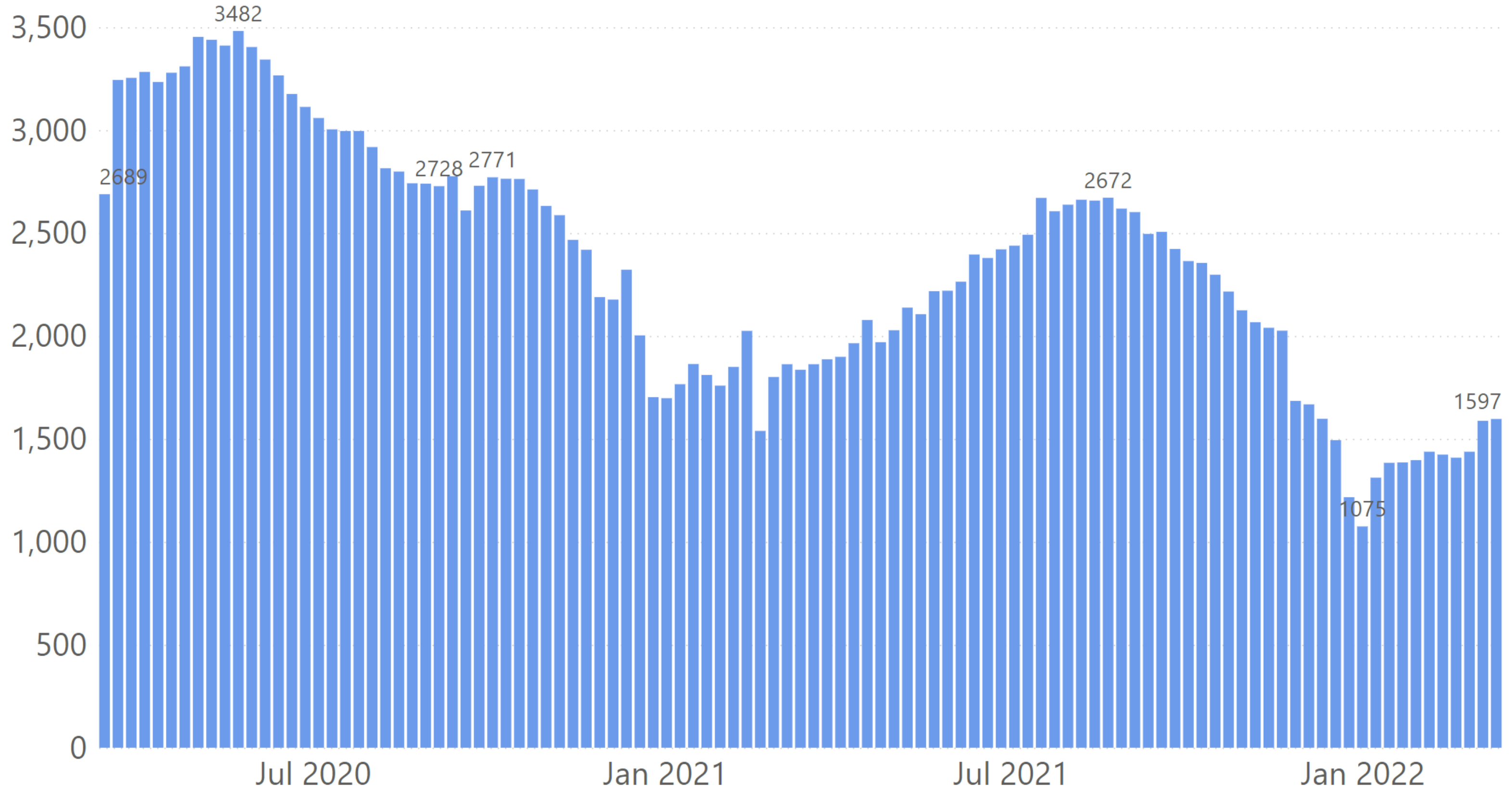
Big increases this year, but still way below normal

Active Listings



Unfortunately, not much to distinguish us...

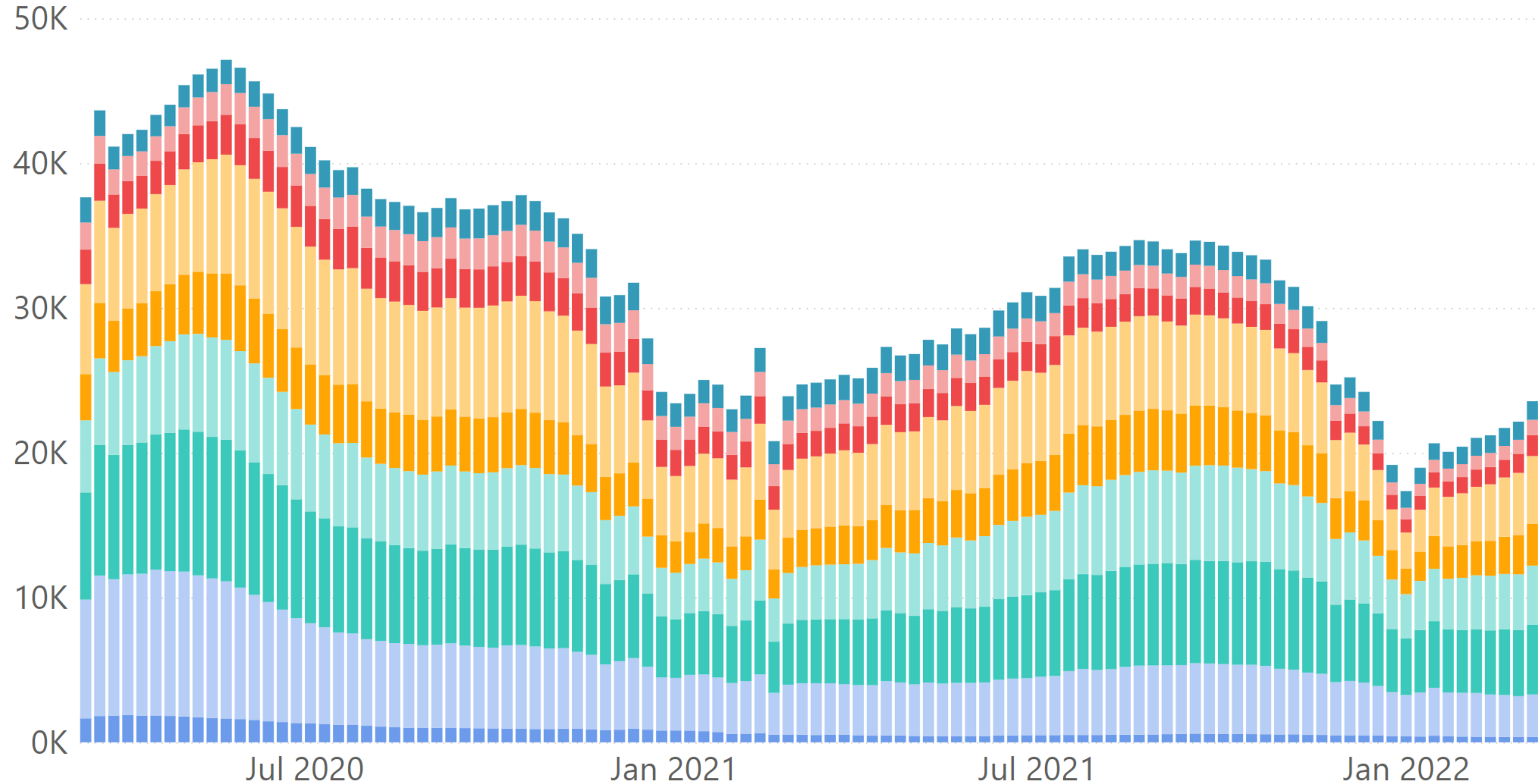
Active Listings



Especially units that regular people can actually afford

Active Listings

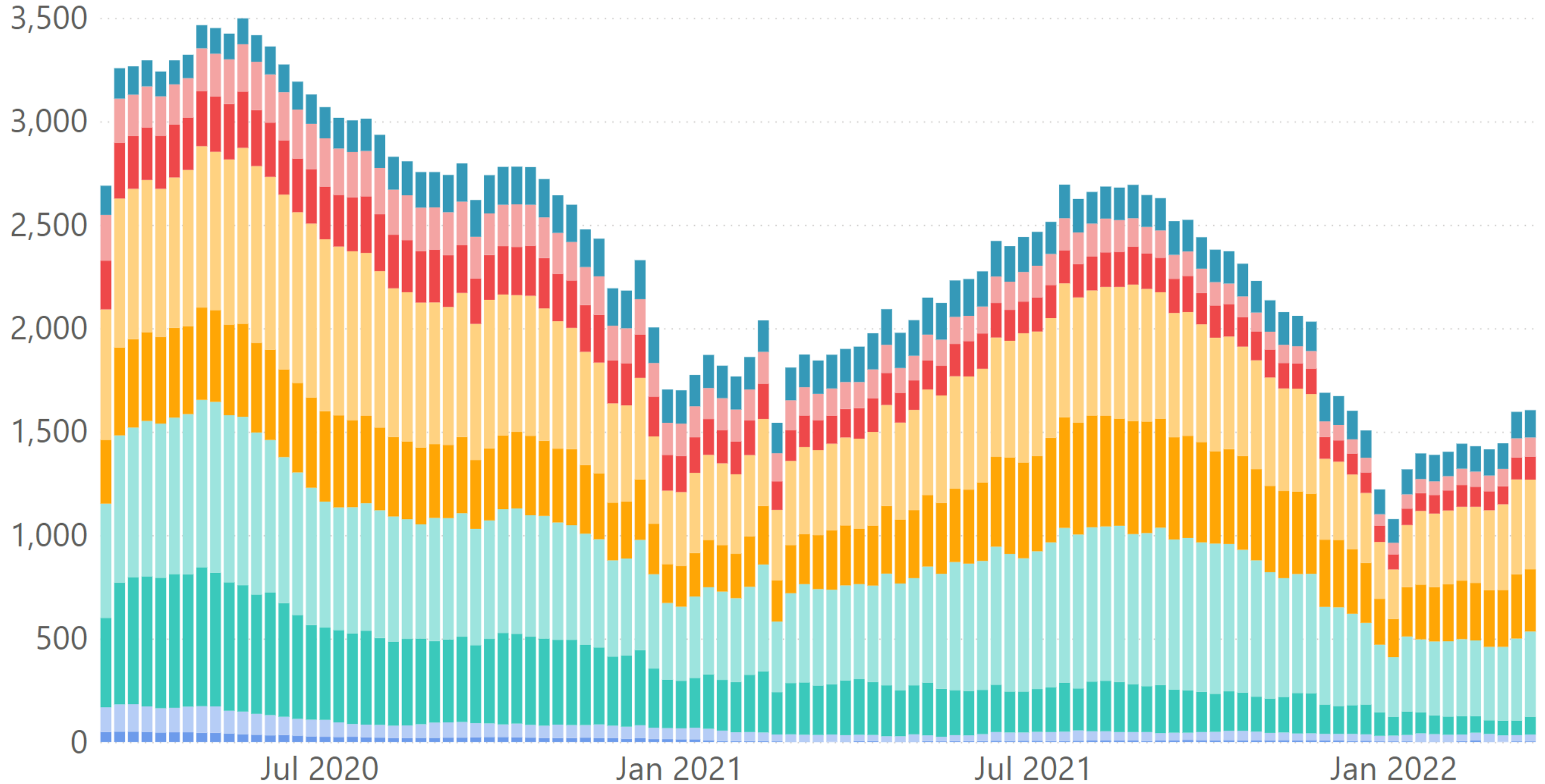
price_bucket ● < \$200K ● \$200-\$399K ● \$400-\$599K ● \$600-\$799K ● \$800-\$999K ● \$1-\$1.99M ● \$2-\$2.99M ● \$3-\$4.99M ● \$5M +



Less than 50 homes under \$600k last week

Active Listings

price_bucket ● < \$200K ● \$200-\$399K ● \$400-\$599K ● \$600-\$799K ● \$800-\$999K ● \$1-\$1.99M ● \$2-\$2.99M ● \$3-\$4.99M ● \$5M +



Even 6-figure households are severely impacted

\$50K Households
\$264,952

\$75K Households
\$397,428

\$100K Households
\$529,903

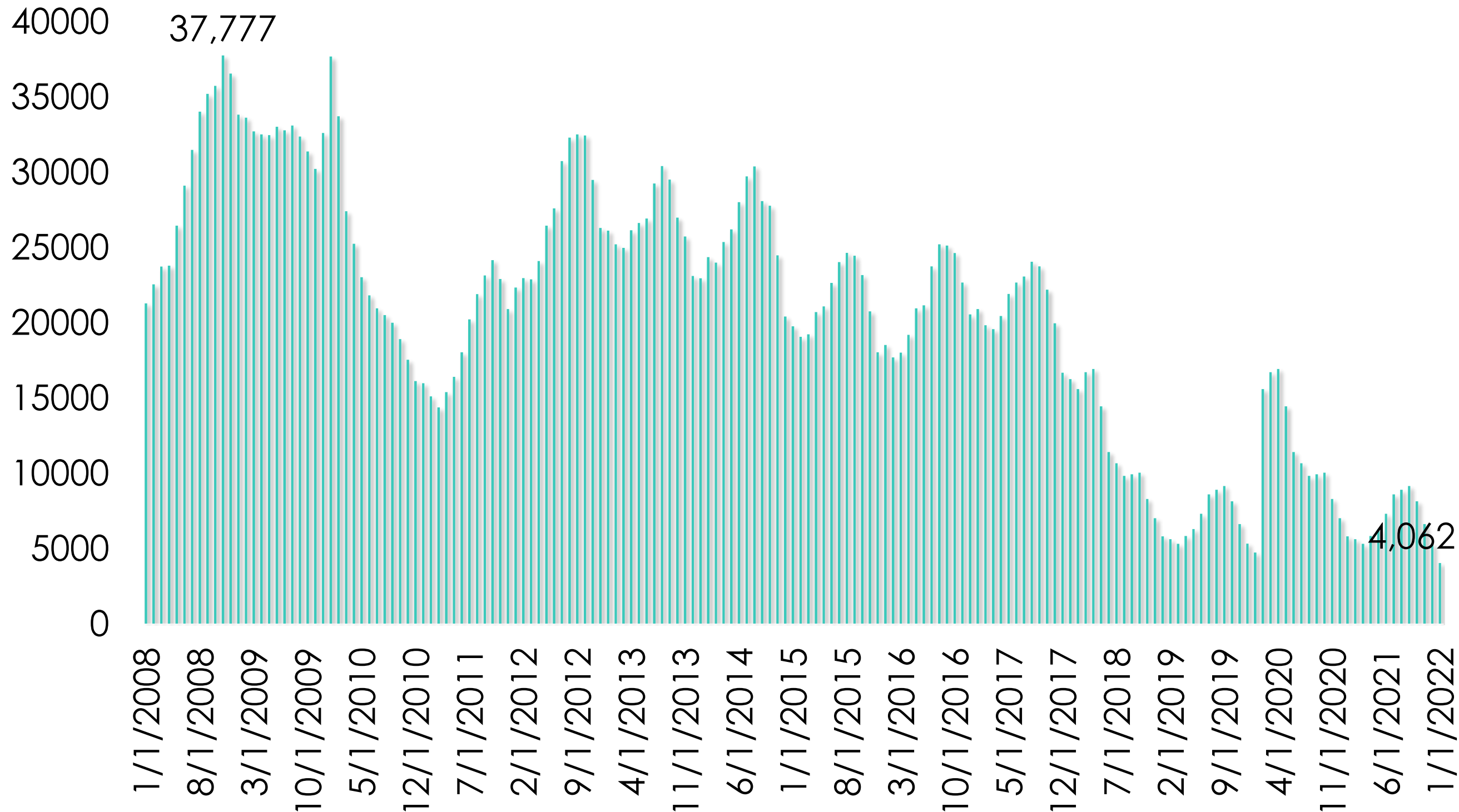
\$150K Households
\$794,855

\$200K Households
\$1,059,807

California Households by
Income Category

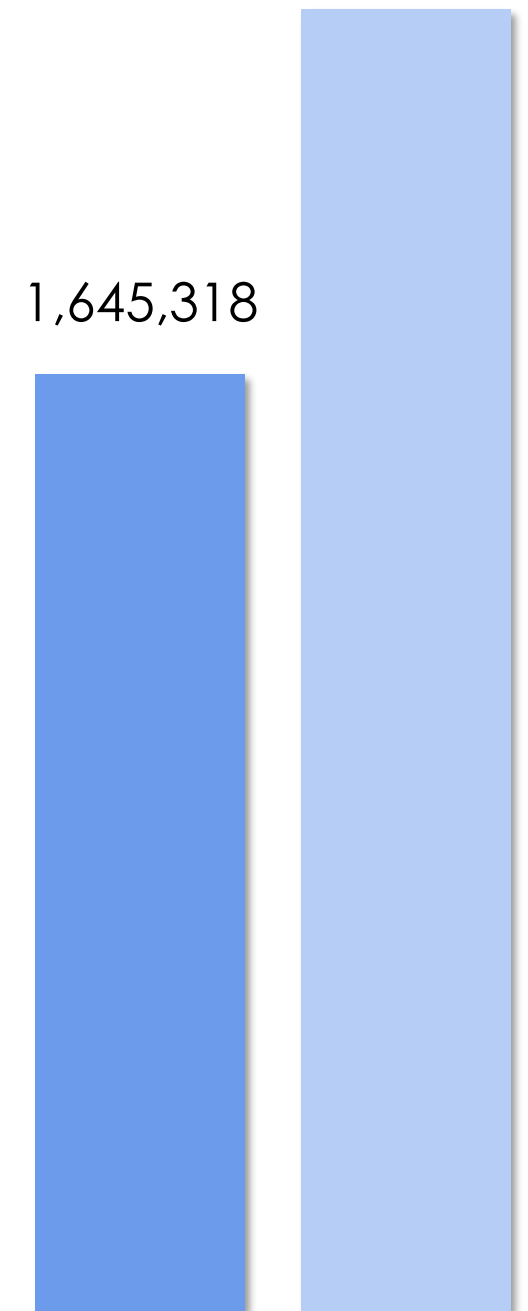
■ \$75-\$99K ■ \$100-\$149K

Listings Affordable to \$100K Households



2,284,679

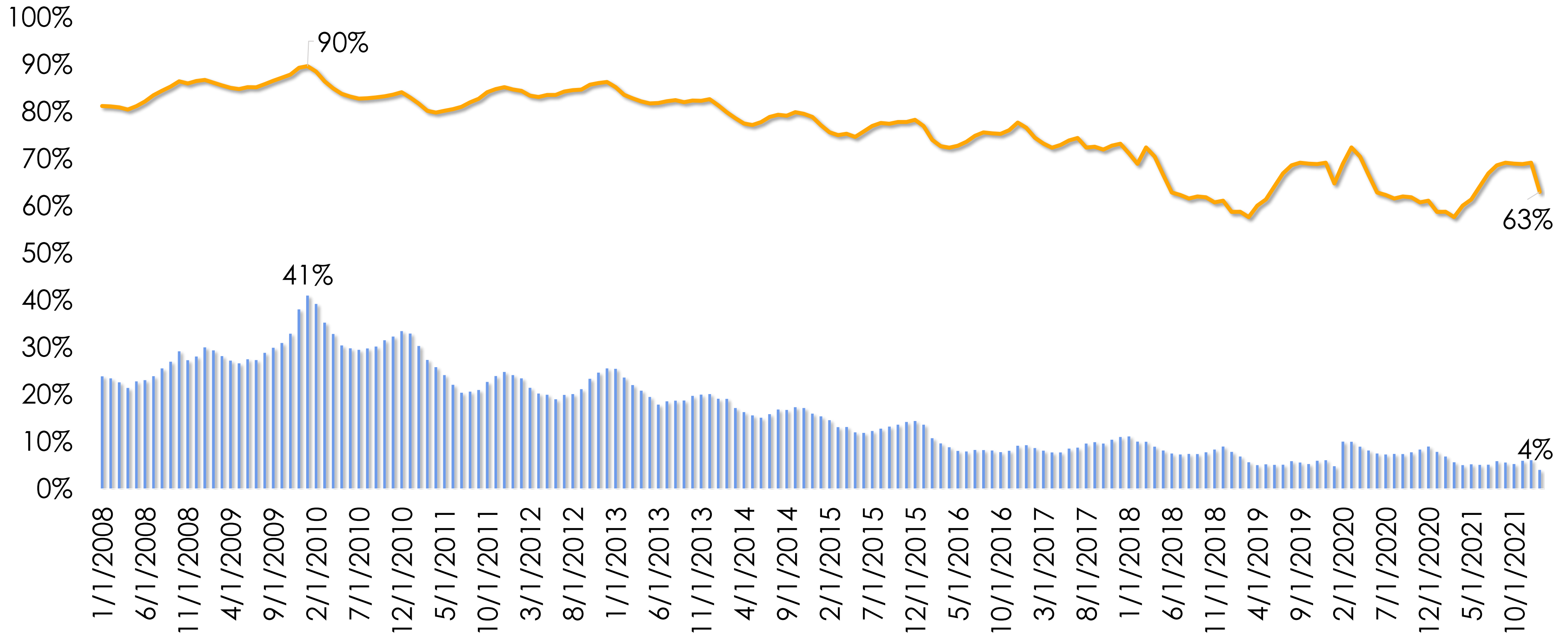
1,645,318



Homeownership opportunities hinge on adequate supply

Percentage of Active Listings Affordable to Different Income Levels

■ % of Listings Affordable to \$50K Households — % of Listings Affordable to \$200K Households



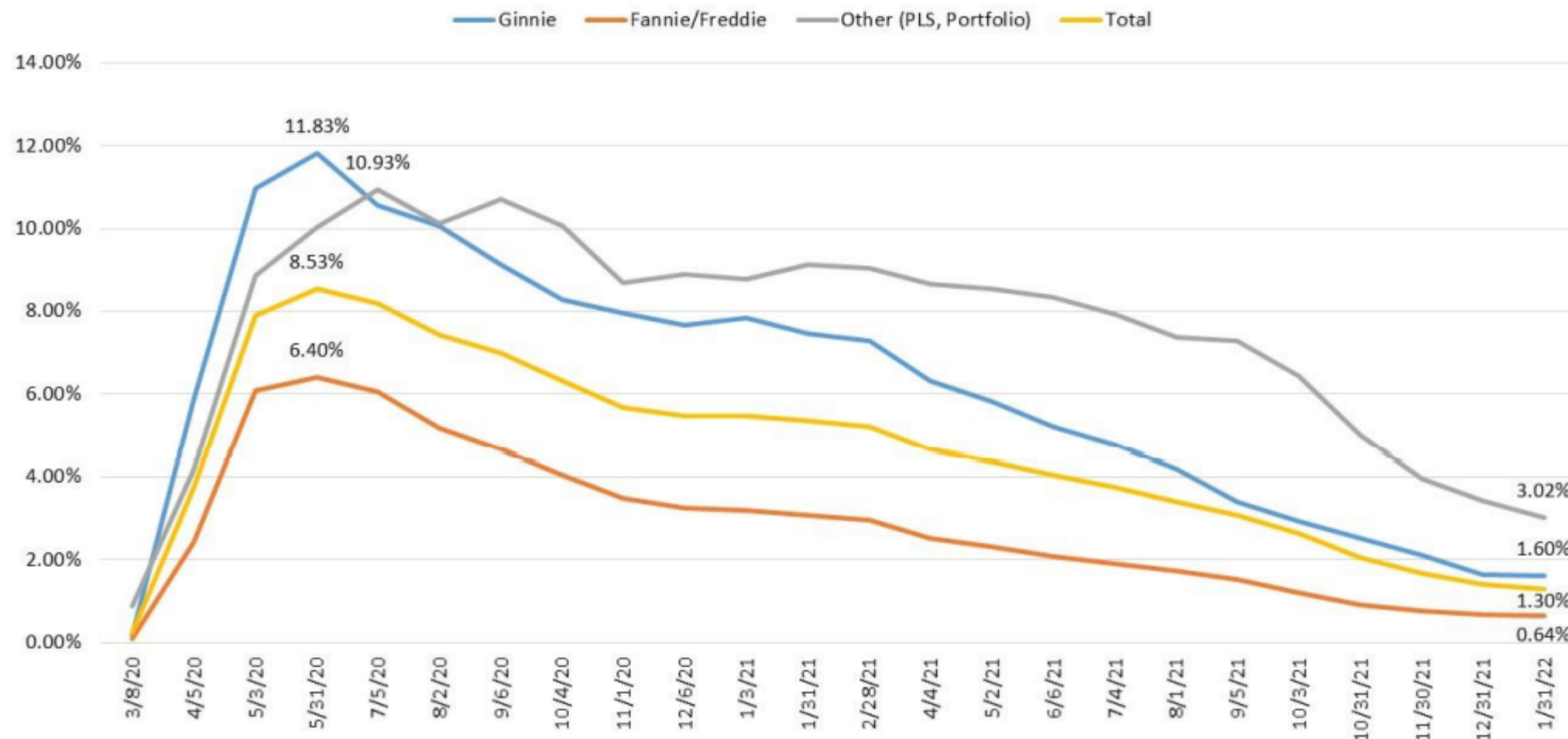


**What About
Distressed Inventory?**

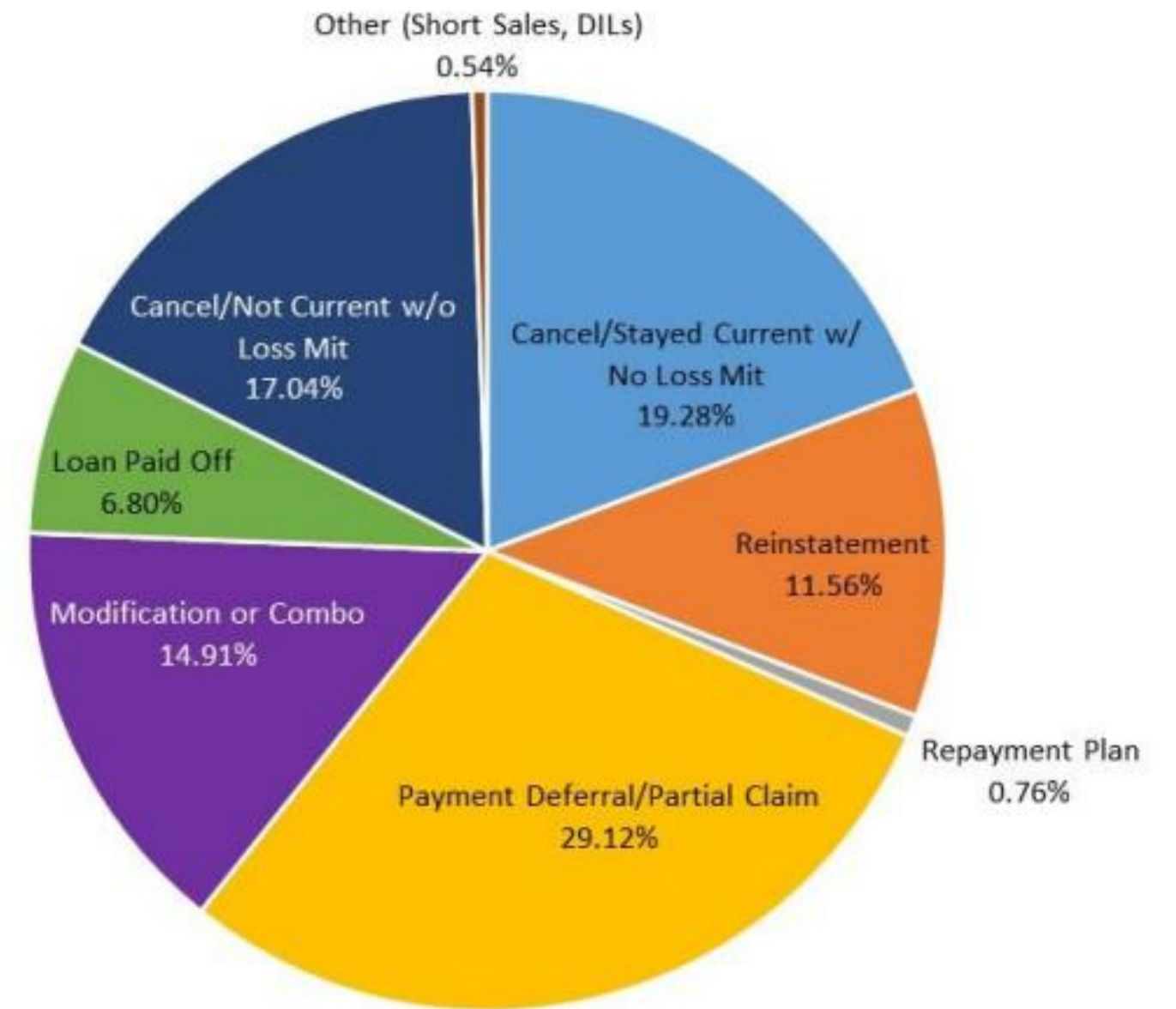


What about foreclosure inventory?

% of Servicing Portfolio in Forbearance by Investor Type Over Time (Full Sample)



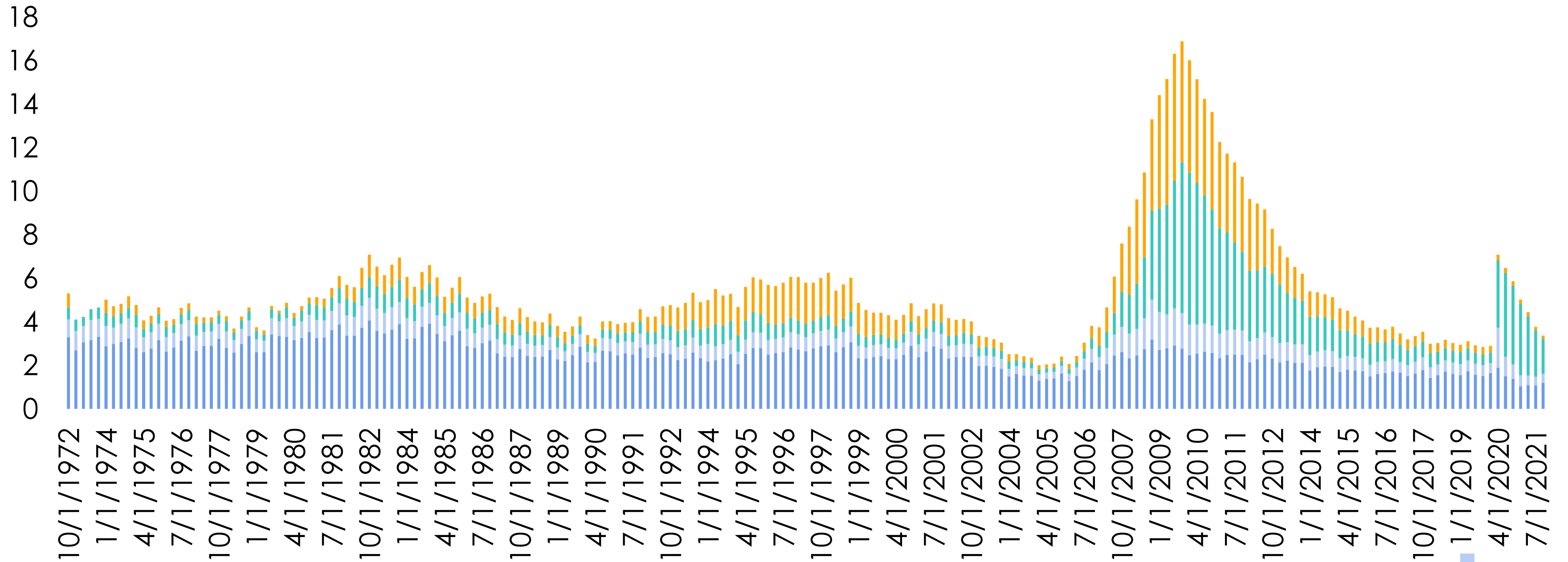
% of Cumulative Forbearance Exits by Reason,



Delinquencies show significant improvement as well

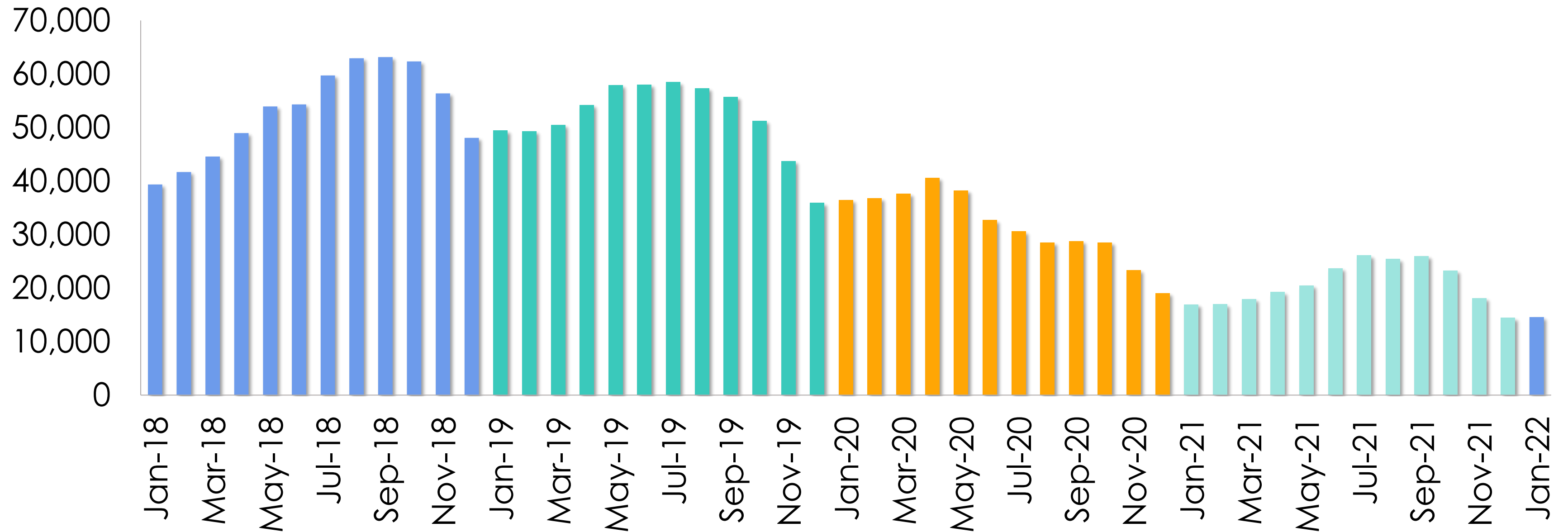
California Mortgage Delinquencies

■ 30-60 Days ■ 61-90 Days ■ 90+ Days ■ In Foreclosure



Inventory to improve enough to maintain, not grow, sales

California Active Listings by Month





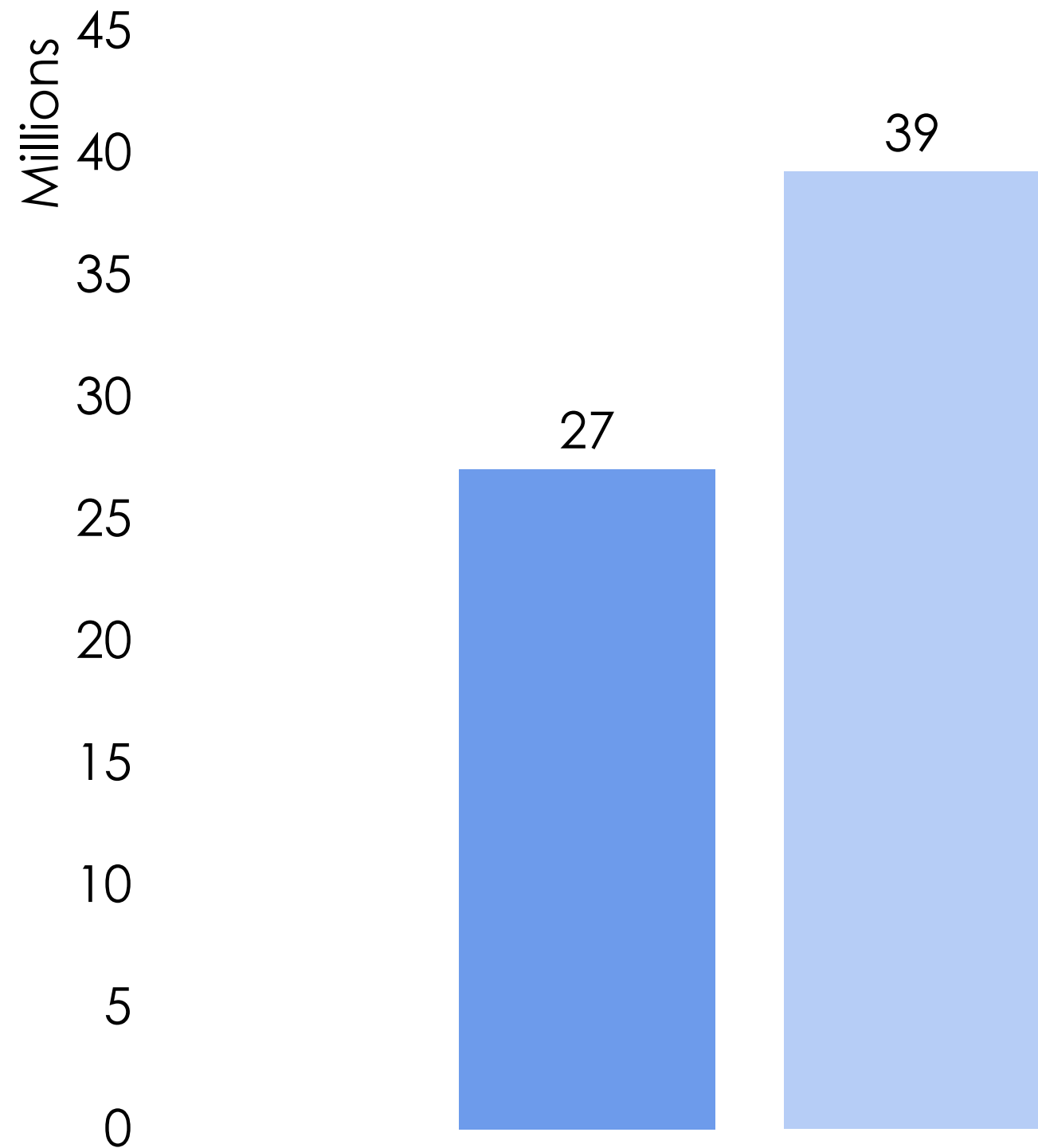
Supply Impacts
Housing Consumers



Roots of the California housing crisis

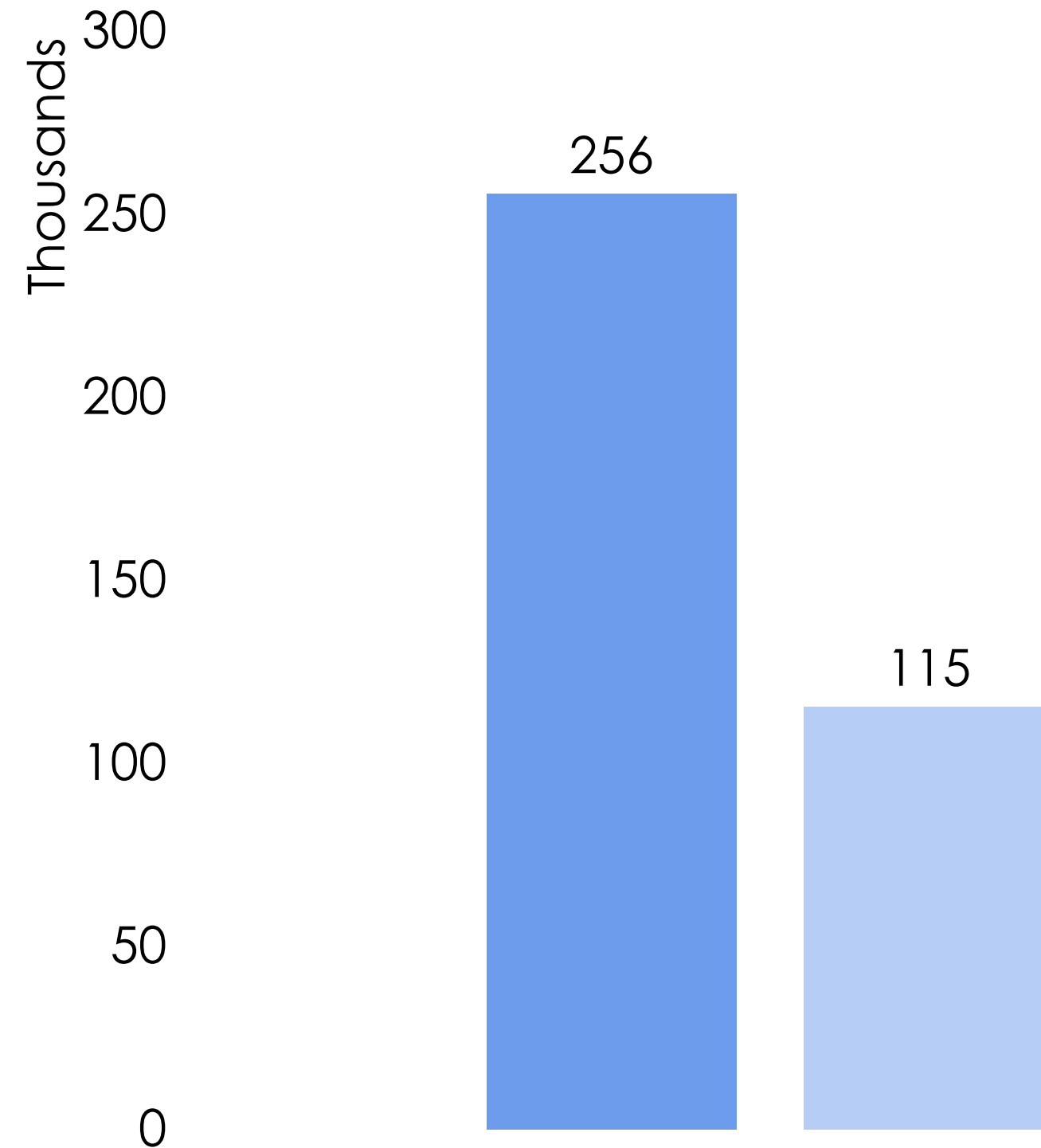
CA Population

■ 1986 ■ 2021

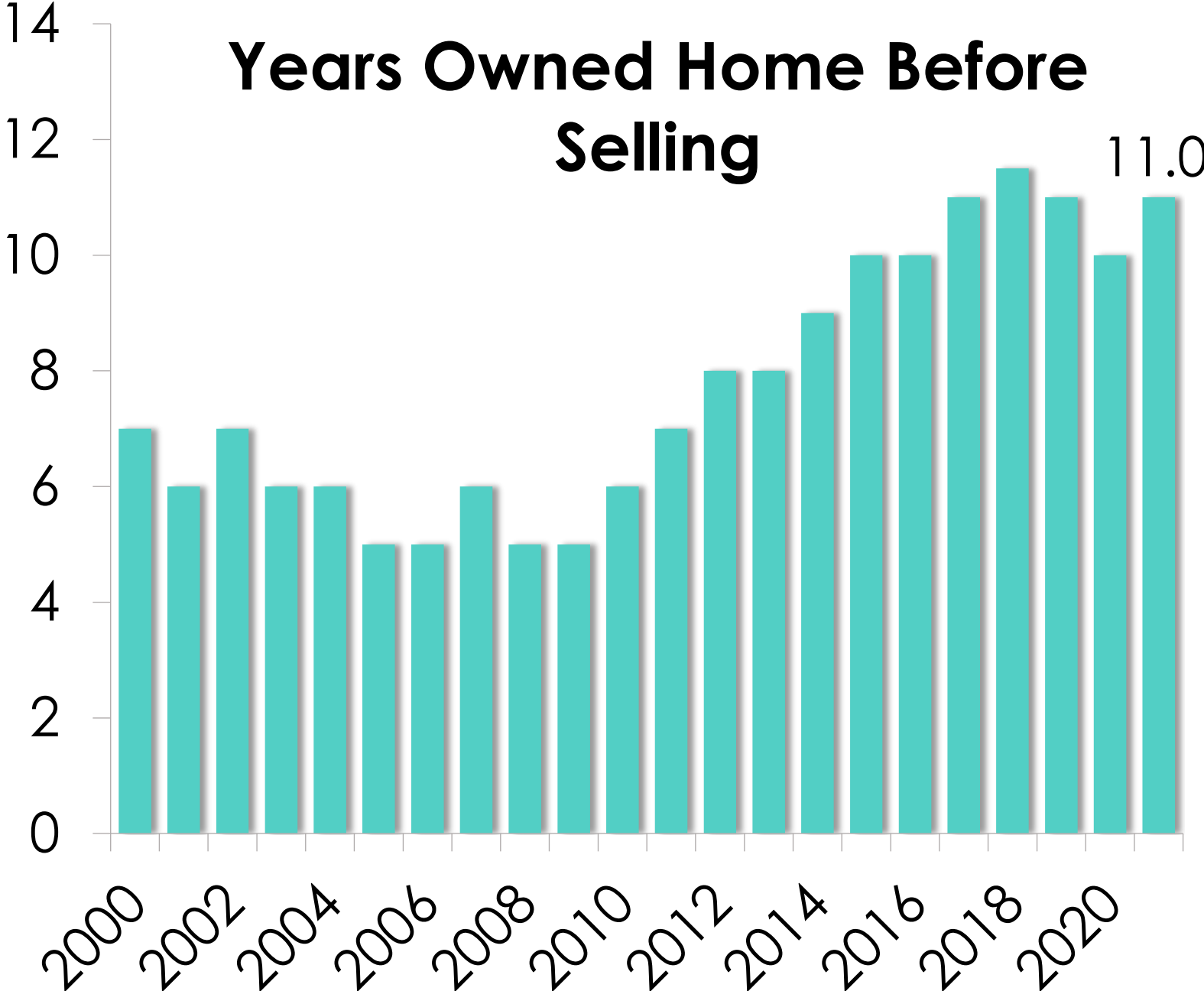


CA Building Permits

■ 1986 ■ 2021



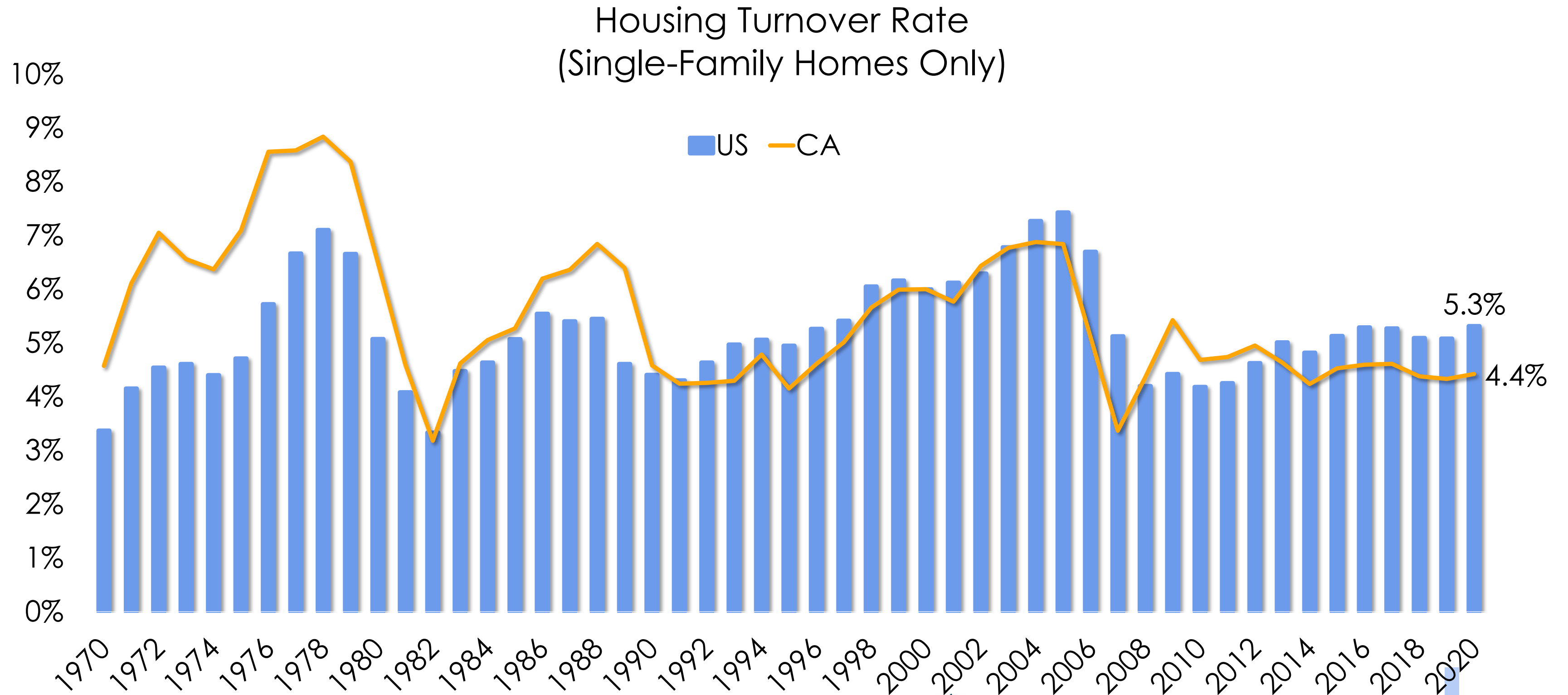
Sellers are not moving as often as before



Long-Time Homeowners are not moving as in the past because:

- Low rate on current mortgage
- Low property taxes
- Capital gains hit
- Where can I afford to go?
- Remodel and stay

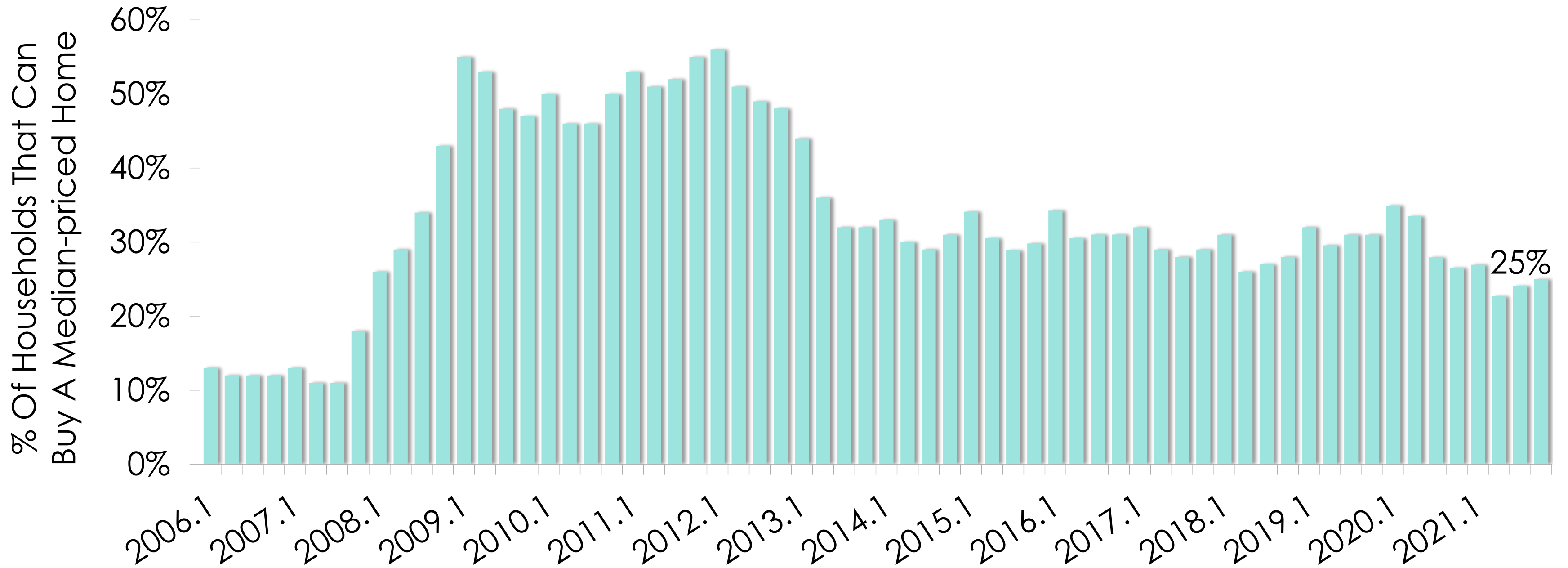
Not as many homes turning over each year



SERIES: Percent of existing single-family homes being sold
SOURCE: Census Bureau, American Community Survey, Moody's Analytics, C.A.R.

Housing affordability continues to deteriorate

California: 2006-2021



Vast majority of California less affordable than elsewhere

2021-Q4: % able to purchase median-priced home



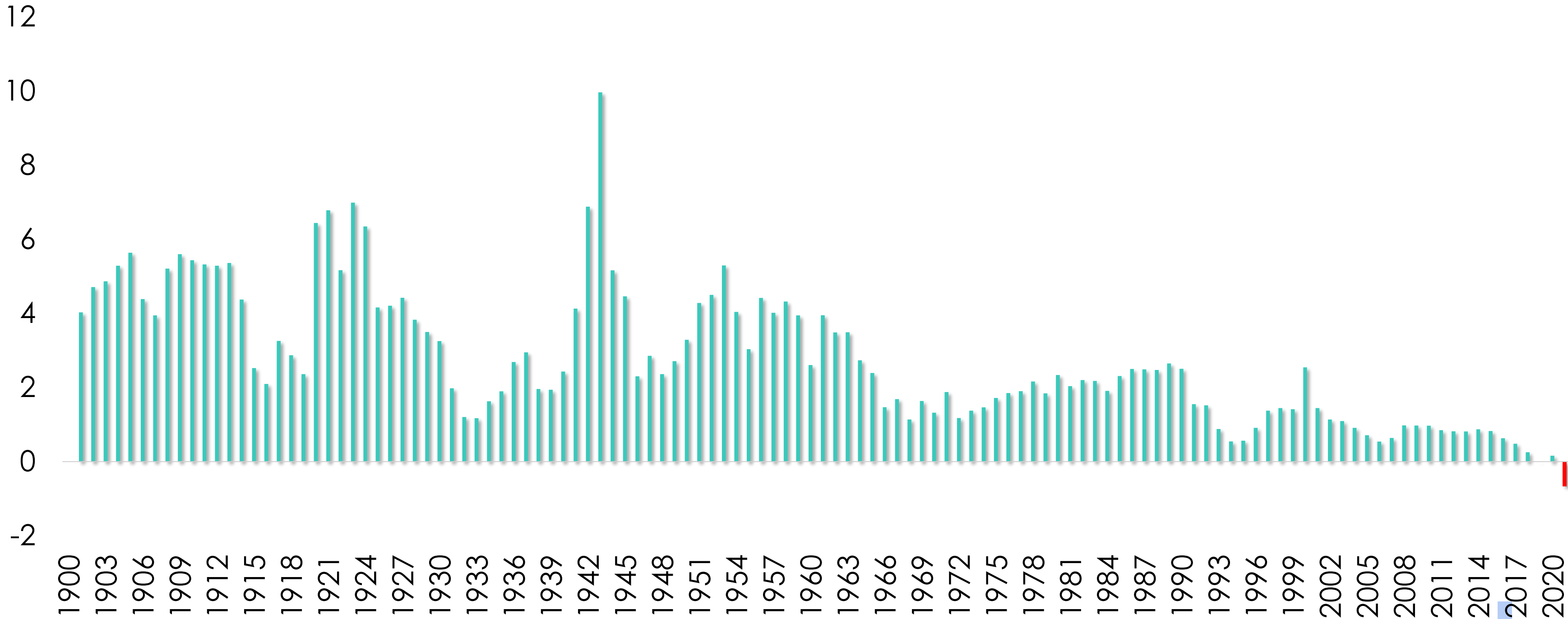


**Supply Accelerates
Structural Challenges**



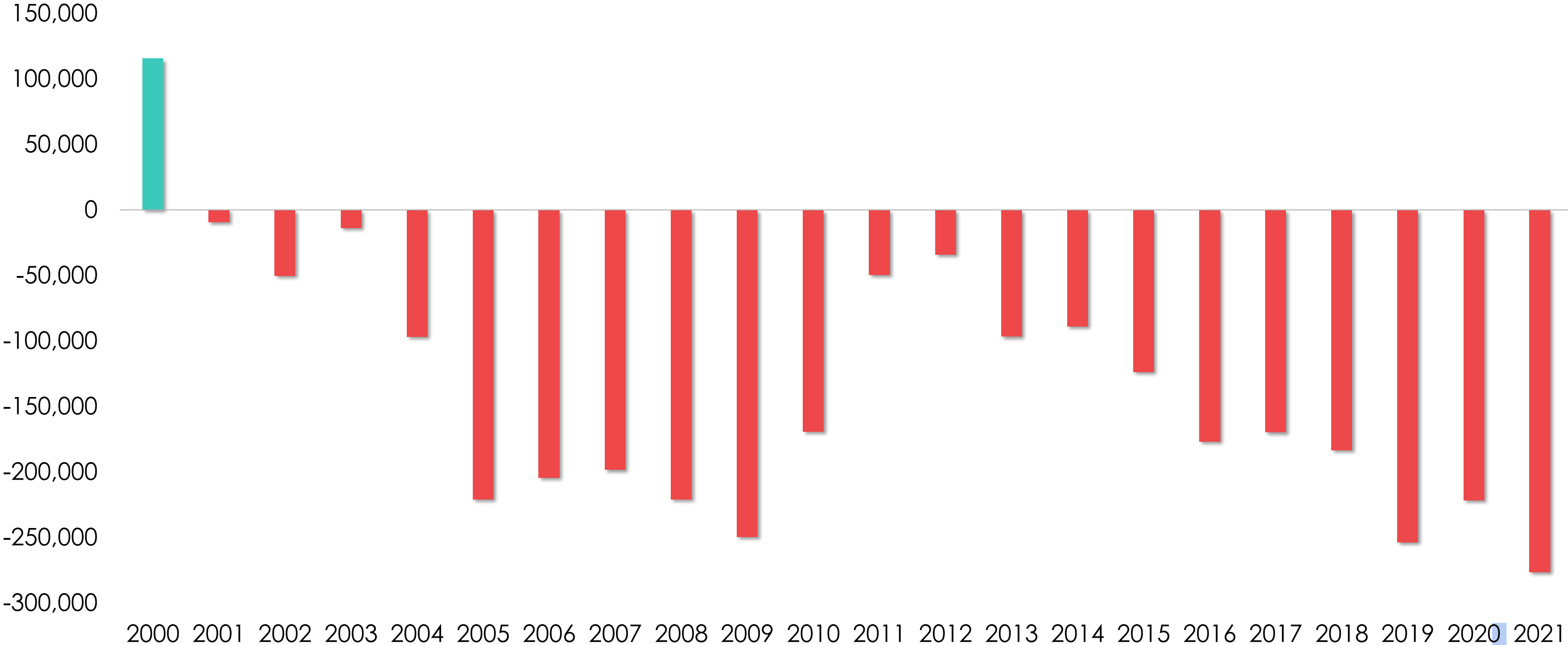
The knock-on effects of eroding affordability

California Annual Population Growth (%)

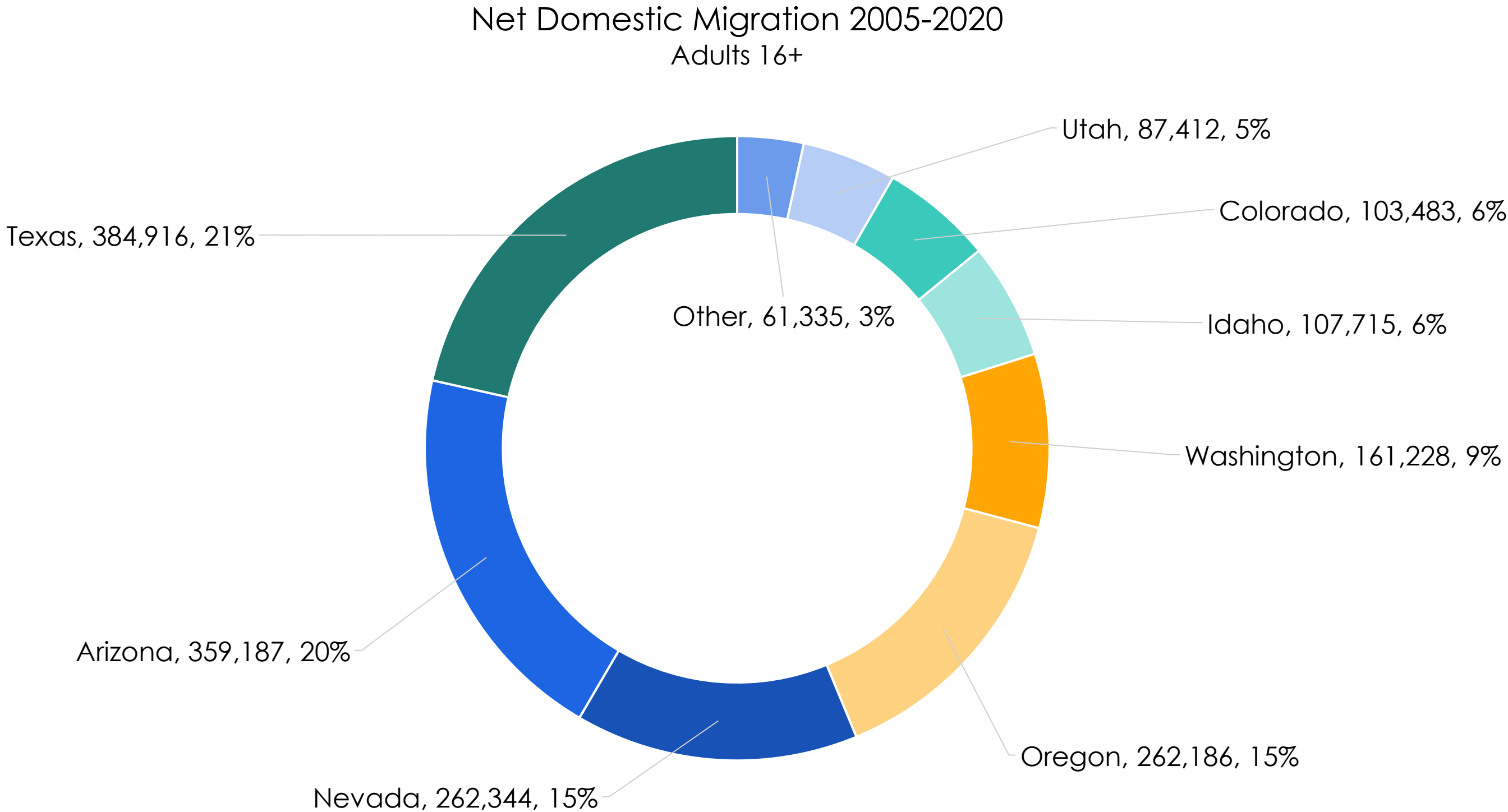


Out-migration ramping up at the same time

California Net Domestic Migration



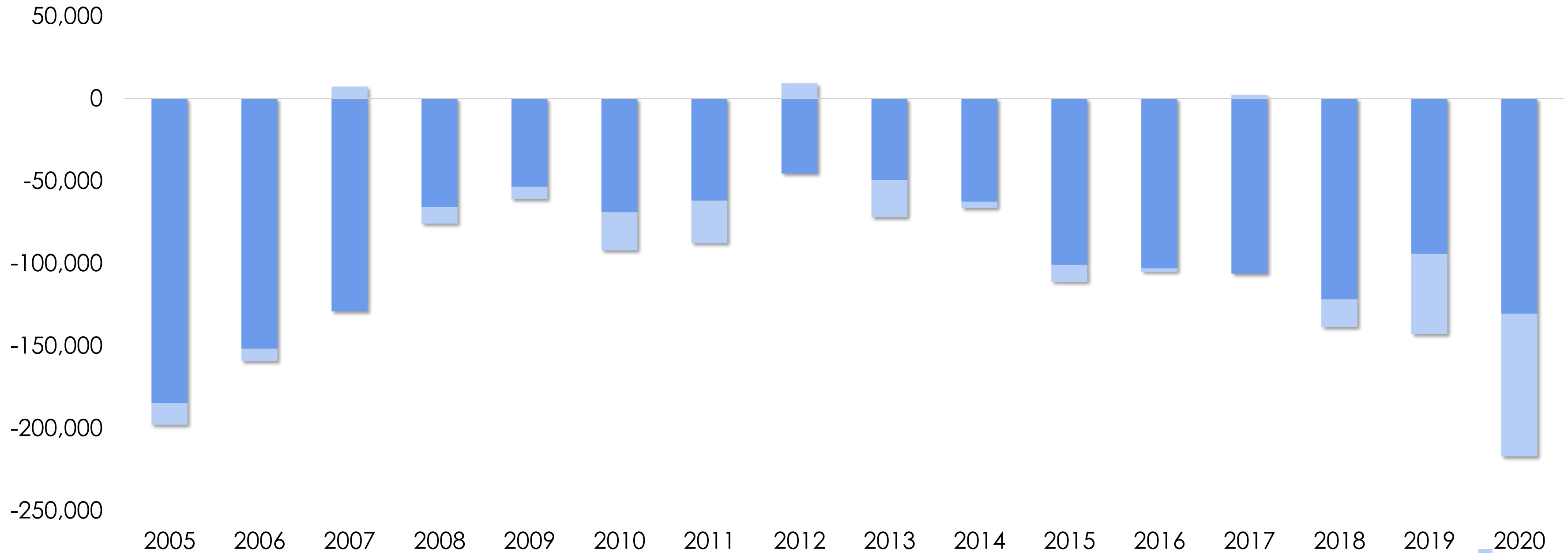
~1.8 million adults since 2005—97% to just 8 states



Demographics implicate housing in out-migration problem

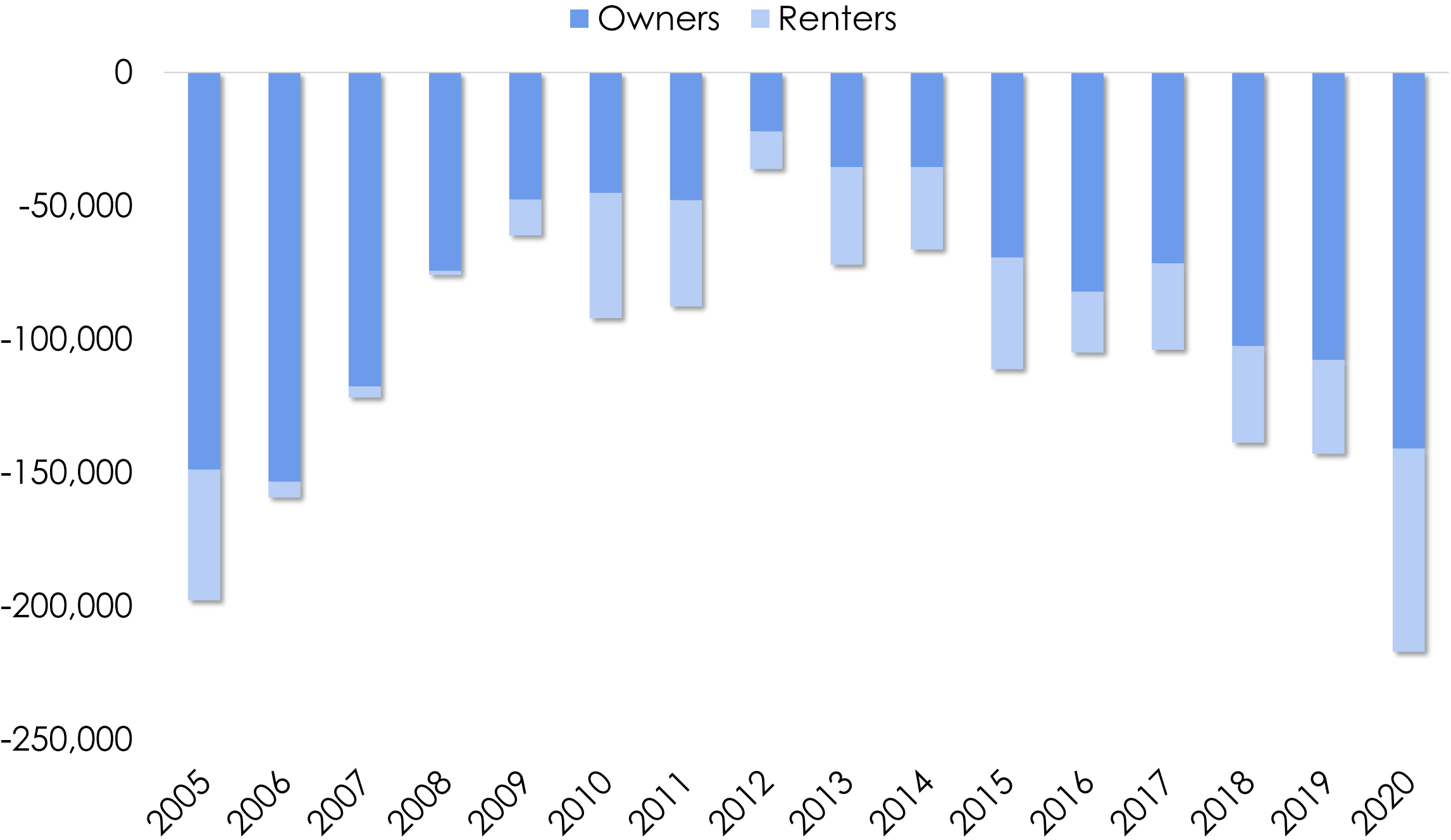
California Net Domestic Migration by Household Income

■ Under \$100K ■ Over \$100K

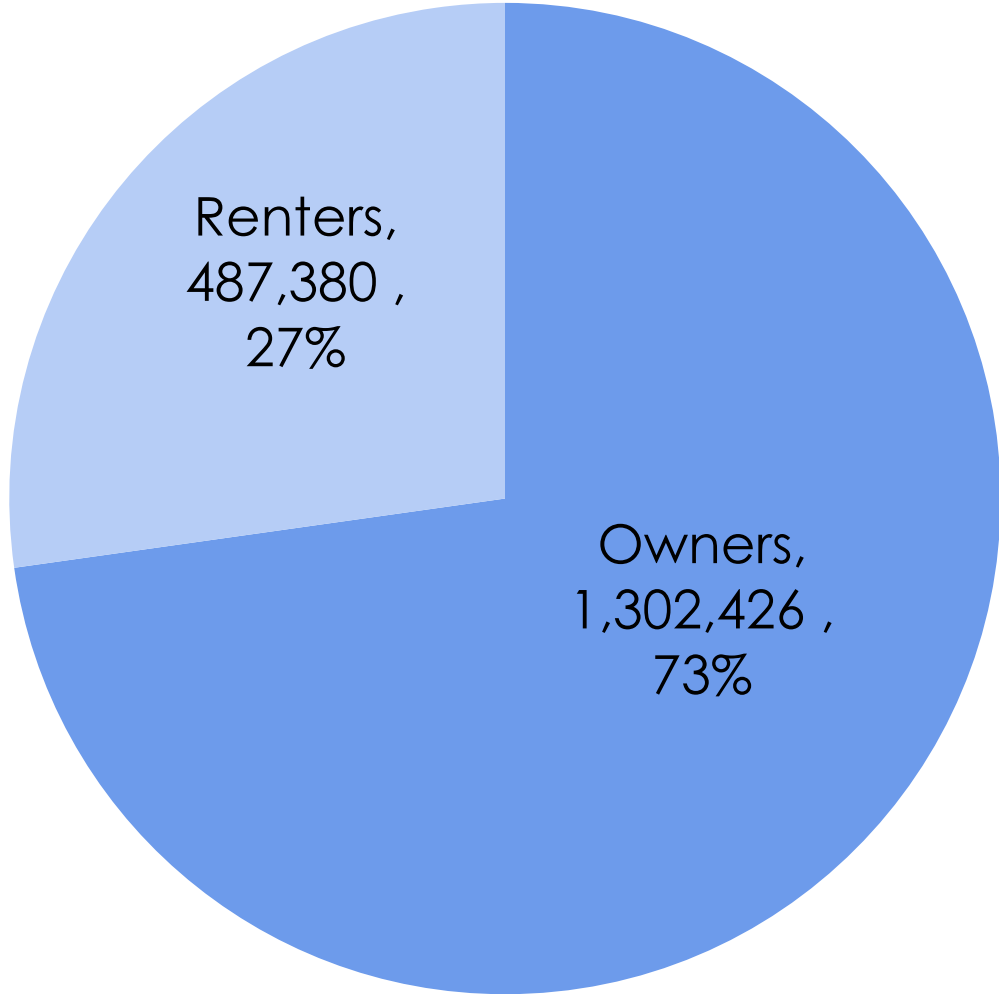


Most become homeowners after they leave California

California Net Domestic Migration by New Housing Tenure



California Net Domestic Migration by Housing Tenure Cumulative 2005-2020 (Adults Age 16+)



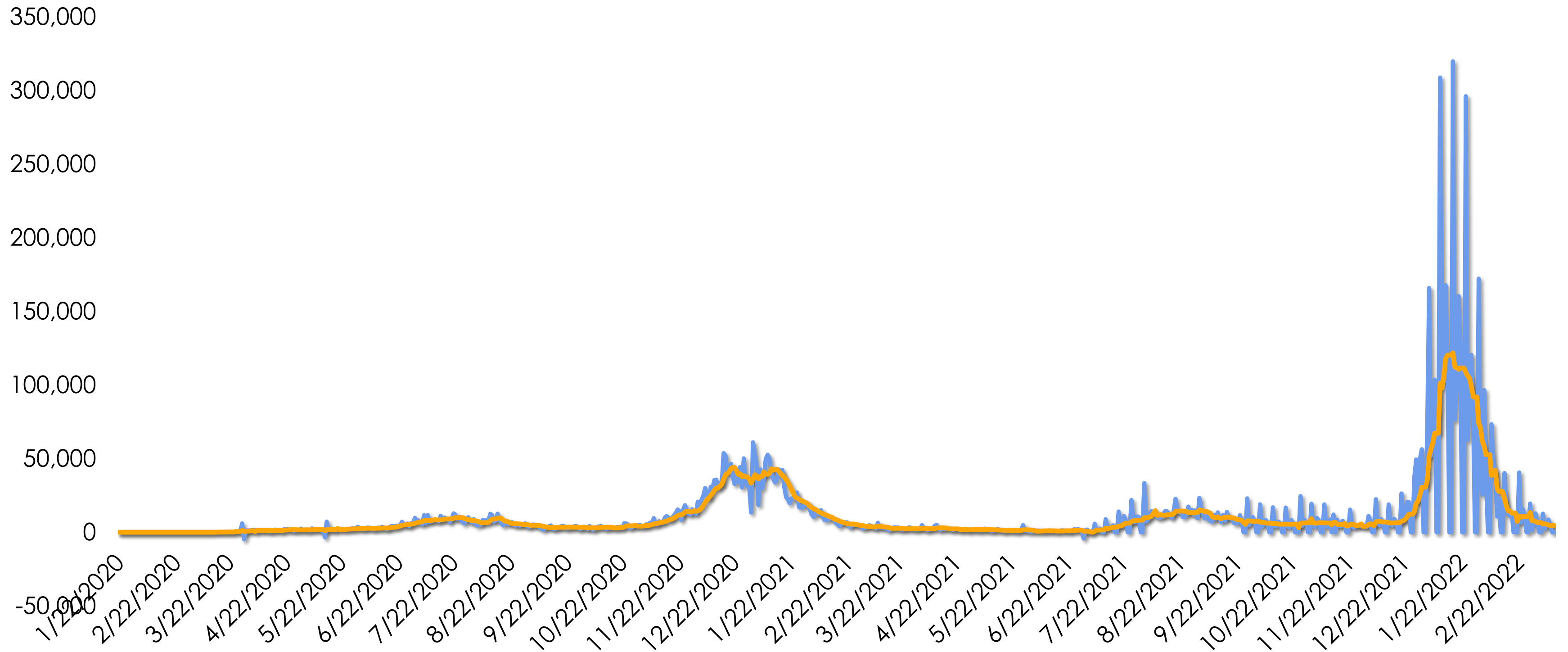


**Don't
Panic**

COVID numbers finally coming down for spring lull

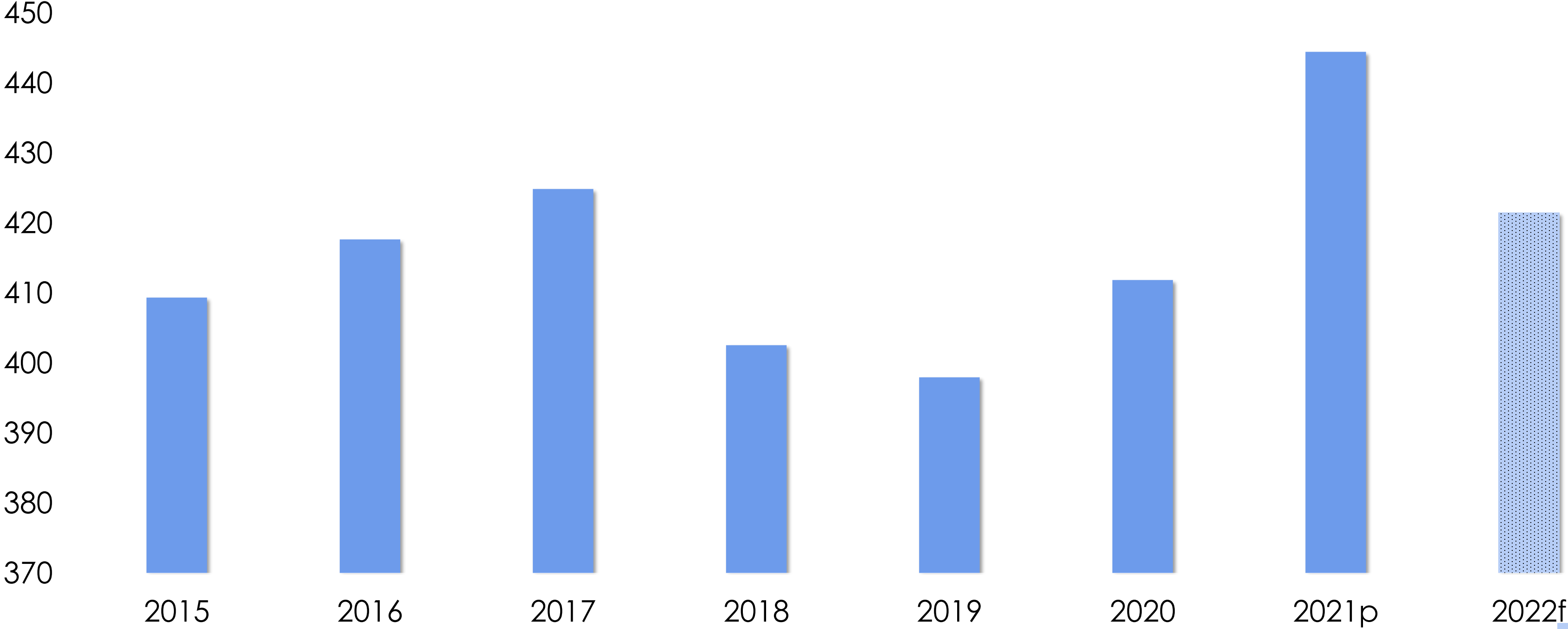
New Coronavirus Cases in California

— New Cases — 7-Day Avg.



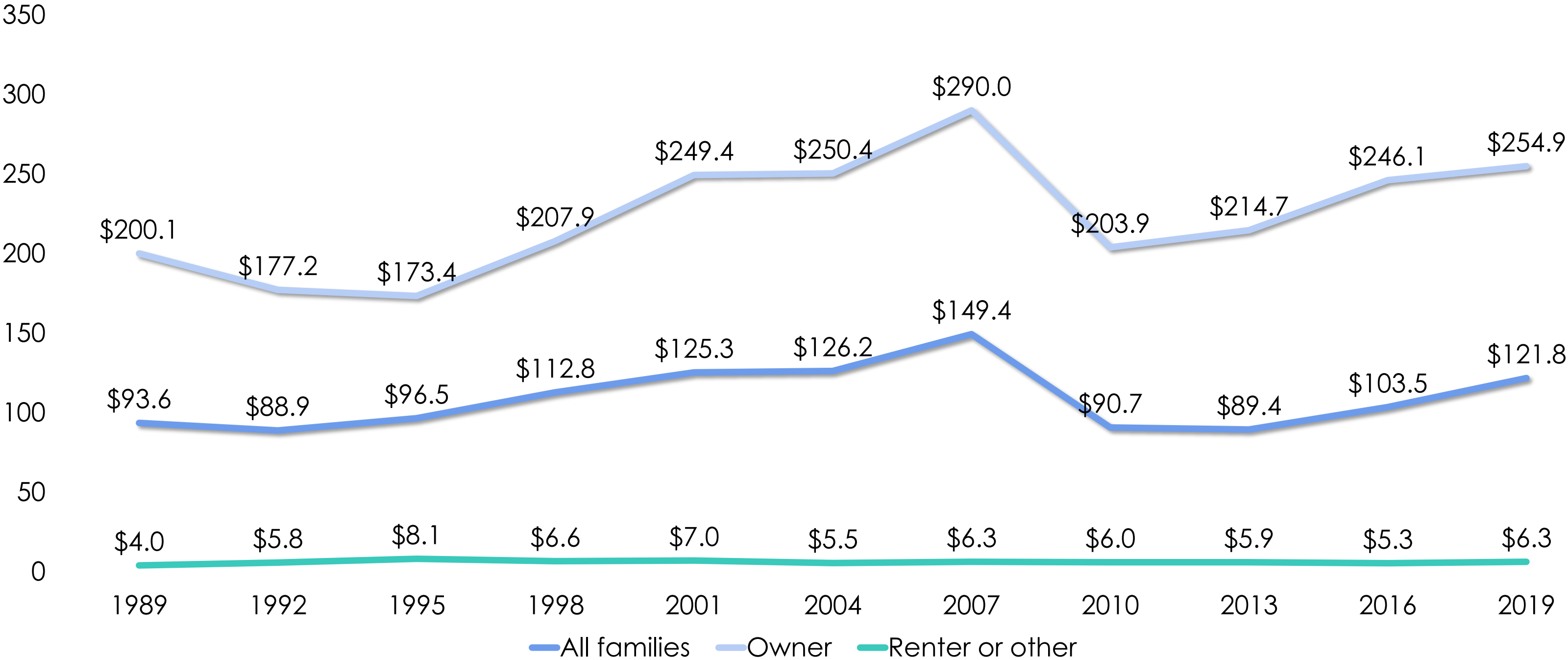
Sales expected to remain above pre-crisis levels

California Existing SFR Home Sales



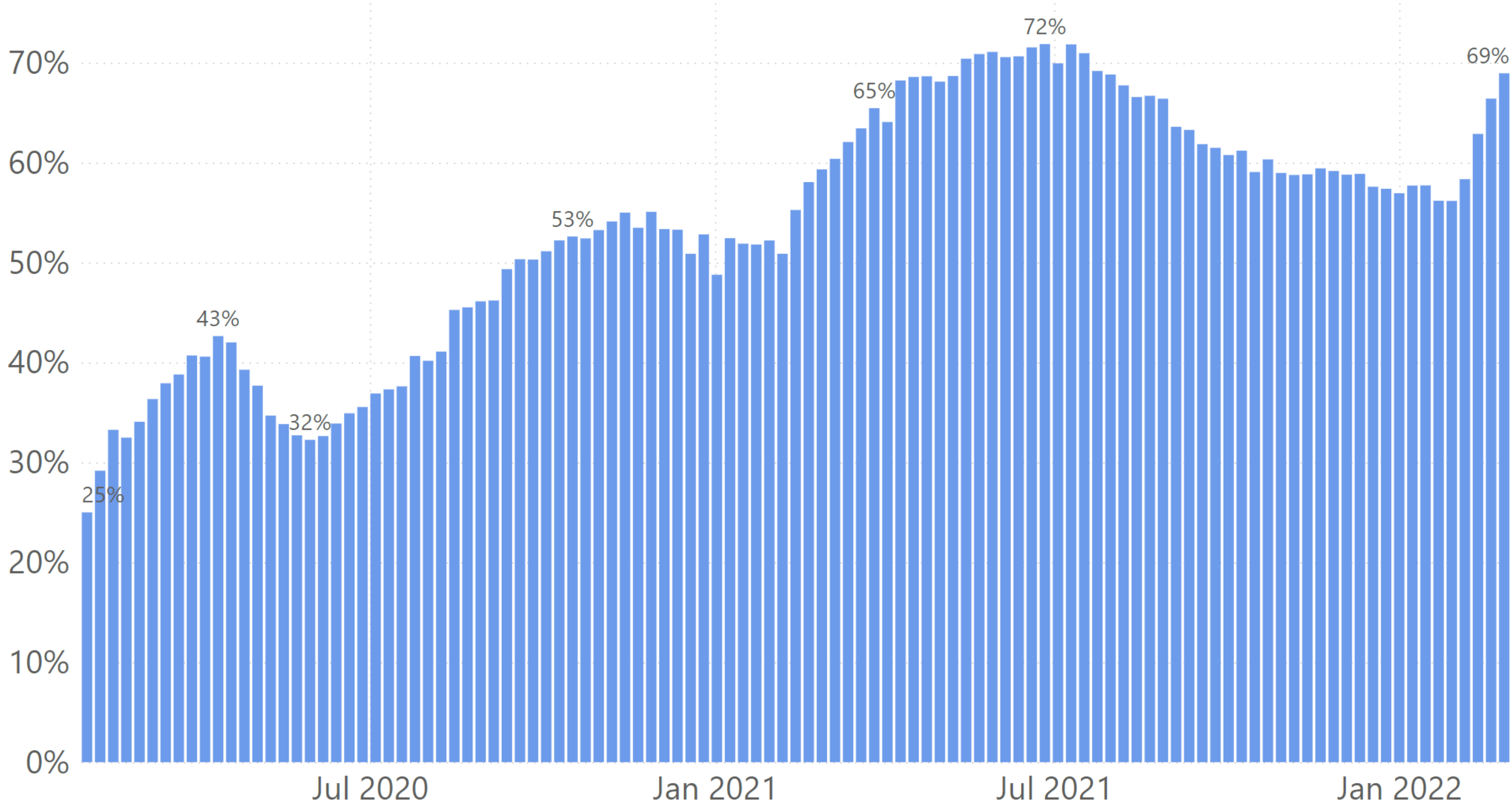
The only empirical way households have built wealth

Real Household Net Worth Per Capita



Still a good time to be a seller in 2022 too!

% of Homes Closed Above List Price



U.S. economic outlook

	2016	2017	2018	2019	2020	2021p	2022f
US GDP	1.6%	2.3%	3.0%	2.2%	-3.5%	5.7%	3.8%
Nonfarm Job Growth	1.8%	1.6%	1.6%	1.3%	-5.7%	3.7%	2.8%
Unemployment	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.8%
CPI	1.4%	2.1%	2.4%	1.8%	1.2%	4.7%	4.3%
Real Disposable Income, % Change	2.7%	2.9%	4.0%	2.9%	5.8%	2.1%	-3.1%



California economic outlook

	2016	2017	2018	2019	2020	2021p	2022f
Nonfarm Job Growth	2.3%	2.1%	2.1%	1.5%	-6.9%	2.0%	4.0%
Unemployment	5.5%	4.8%	4.3%	4.1%	10.3%	7.8%	5.9%
CA Population (Million)	39.4	39.5	39.6	39.6	39.5	39.5	39.5
Population Growth	0.6%	0.4%	0.2%	0.1%	-0.5%	0.0%	0.1%



California housing market outlook

	2015	2016	2017	2018	2019	2020	2021p	2022f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	411.9	444.5	421.5
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	3.5%	7.9%	-5.2%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$659.4	\$786.8	\$827.7
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	11.3%	19.3%	5.2%
Housing Affordability Index	31%	31%	29%	28%	31%	32%	26%	23%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.1%	3.0%	3.8%



Wrap

Up



Macro time continues to rise, but we must keep foot on gas

On the one hand...

- The econ. tide is rising
- Buyers want to buy (a lot)
- Need us more than ever
- Market still attractive for sellers
- Sales will stay solid next year
- Home prices will keep rising
- No big revisions to forecast (yet)

On the other hand...

- We still don't build enough
- Big challenges for FTBs/ownership
- Work harder + less to go around
- Geopolitics represent rising risk
- Industry disruption accelerating
- Rising tide lifting *some* boats
- Members need us more than ever





Thank You

This presentation can be found on
www.car.org/marketdata
Speeches & Presentations
jordanl@car.org