Housing Market: Uncharted Territory

We are in uncharted territory according to Joel Singer, California Association of REALTORS® (C.A.R.) Executive Vice President. This is our opportunity to build for the future and recreate or reconsider behavioral and cultural changes.

This is the worst California housing downturn since the Great depression. Singer said, "Unlike the 1930's, we seem to have averted a true economic meltdown." However, the Great Depression prompted behavioral changes. He doesn't think what people have gone through this time has impacted them in the same way.

What we have seen is an unparalleled breakdown of the finance industry in general, resulting in millions of foreclosures and short sales and a market where 90 percent of sales are distressed. Consequently, we have unprecedented price drops. We used to say prices are sticky going downward. Though, as we have seen recently, reduction in prices can move quickly.

Singer said, "When things are the gloomiest and the bleakest, you are usually past the crisis of most severity, and the last 3 to 6 months are part of an ugly but necessary process."

The situation now is an improvement in the housing market and one in the economy as well. Housing is up 50 to 100 percent from last year. It is not accidental that prices have stabilized over the last few months in the low end. The concern is that the bottom is still forming in the high end.

Singer believes that with the available mortgage rates and depreciation of prices that the bottom is solid and in place. He said we won't see a V-shape recovery; although, it makes more sense to purchase a home today than it did 3 years ago. Also, if you look at investment potential and where we are in the cycle, California is a great place to be.

The Consumer Confidence Index was at an all-time low for the last 6 months, which has now bounced up—but we have a long way to go to get it to normal. Consumer confidence suggests that the economic "bottom" is approaching, if not past, and that people have a great deal of confidence in our market; more than we give them credit for.

"We have to recognize that California paid a higher price than many other places. In California, we still have a problem because we don't produce enough housing," said Singer. "Affordability is the problem. What has occurred is probably in our best interest. This brings California in line with the nation as a whole. This will help heal California and make us more competitive. Something we need for long-term growth."

In the 1980's, the market collapsed 61% over a four-year period. In the 1990's, the market was down 25%. This time, the market went down 44% in a three-year period. On the surface it doesn't look different, but it is radically different. Singer said he'd like to think of what happened as a one-time occurrence—a perfect storm. "In 2004 to 2006, first-time buyers had no skin in the game. It was a zero-downpayment world."

Singer noted that most industries don't survive 50 percent downturns, and our prices are down 53 percent on average. Some areas reached as low as 46 percent and other areas as high as 69 percent (Monterey region). No area was spared this time; unlike in the 1990's when prices in some areas didn't go down at all. About 82 percent of sales are now below $500,000, unlike 2007 when only 40 percent of sales were below $500,000. Now, our high-end market is problematic.

Our inventory situation has improved. Singer said about a year ago we had a 16-month supply. Now, for the state, it is 4 months. Thus, he said, pricing should be going up. However, inventory of million-dollar homes is 17 months with inventory of homes below $300,000 averaging 2.5 months.

Price discounting has increased with distressed properties seeing multiple offers and cash buyers. Distressed sales are making the market place. About 88 percent of the sales in the Solano area are distressed. It is estimated that 22.2 percent of all homes are sold at a loss. This does not include homes that were foreclosed on.

During the last downturn in the 1990's, the proportion of first-time homebuyers was about 50 percent nationwide. Now, that proportion is less than 30 percent. Singer said that percentage is going up and in 3 to 4 years it will approach 50 percent.

Singer said there is an under distribution of REO properties. How quickly will lenders pull them out? "We need to get the properties out quickly," he said. "If not, they will be listed as the sale season slows." He added that from a financial perspective, the REO problem should end in the next 6 months and optimistically our market should turn around by 2011.

NOTE: The information included in this article is from a C.A.R. presentation I attended June 11, 2009, entitled "2009 and Beyond."

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