

A Closer Look at Mix of CA Home Sales

California home sales continue to stay strong with seasonally adjusted annualized sales in July increasing 8.1 percent to 553,910 from 512,530 in June and 12 percent above the revised year-ago figure of 494,390. The year-to-year percentage gains in sales have moderated in recent months, and the 12 percent increase over the prior year was the smallest increase since April 2008. Year-to-date sales, nevertheless, remained well above the sales level of last year with a 43.4 percent increase over the same period of 2008.

The statewide median price at \$285,480 in July increased for the fifth consecutive month with a 3.9 percent increase over the prior month median price of \$274,740. The yearly decline of 19.6 percent was also the smallest in the last 19 months.

The recent increase in the median price is attributed in part to the change in the mix of sales since the beginning of this year. Since reaching a peak of 85 percent in January 2009, the market share of homes sold under the price range of \$500,000 (the low-end market) has been gradually declining and was down to 74 percent in July. Meanwhile, the market share of homes sold between \$500,000 and \$1 million (the middle tier) surged from 12 percent in January 2009 to 20 percent in July, and homes sold above \$1 million (the high-end market) improved from 3 percent to 6 percent for the same period.

The shift in the market share was due primarily to the slow down in the sales for lower-priced homes, and a gain in the sales of higher-priced homes throughout the first half of the year. In January, the low-end tier registered a year-to-year increase of 177.7 percent in home sales, but had since come down to a smaller gain of 23.0 percent in July. In the same time frame, the middle tier went from an annual decrease of 11.8 percent to an annual gain of 1.1 percent, while the high-end tier improved from an annual decline of 47.2 percent to a year-over-year drop of 4.2 percent.

The gain in sales has softened at the low-end market because of low inventories. Statewide, inventory has shown a steady decline since the start of the year, with the unsold inventory index dropping from 6.6 months in January 2009 to 3.9 months in July 2009. Inventory levels, however, differ between price tiers and are tighter at the low-end market. The unsold inventory index for the low-end market has been around 3 to 4 months since the beginning of the year, and was 3.2 months for July 2009, as compared to 6.9 months for the same month last year. The middle tier had an inventory level of around 9 months early this year, but had dropped to 4.3 months in July, and was lower than 6.6 months a year ago. The inventory level of the high-end segment has declined since the start of this year, but continued to experience elevated inventories. The unsold inventory index for high-end homes was at 9.6 months in July 2009, slightly below 9.8 months for the same month last year.

With inventory levels well below the long-run average, a supply shortage at the low to middle-tiers may have constrained sales in lower-priced homes and led to an increase in the median price. The supply of homes is expected to increase later this year as the number of foreclosures continues to rise from last year. However, the government and lenders' efforts in modifying loans, combined with delays in processing the backlog of delinquencies may ease the number of defaulted loans, thus making a prediction on the number and timing of the flow of distressed properties less certain.

Much of the current market activity is being financed by the government sponsored enterprises Fannie Mae and Freddie Mac (GSEs) and the Federal Housing Administration (FHA), such that making permanent the current loan limits for high cost areas in California will be essential to the absorption of these impending foreclosures and to a recovering housing market.

Information from California Association of REALTORS® Oscar Wei, Senior Research Analyst and Sara Sutachan, Senior Research Analyst.

Beverly Scott, President
Yosemite Gateway Association of REALTORS®
www.ygaor.com – *Your Gateway to Real Estate*