

REAL ESTATE MARKET UPDATE

Will home prices rise or drop in 2019? Here's the scoop from Sacramento housing experts

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BY TONY BIZJAK

Our team: Dean Wehrli is an analyst for John Burns Real Estate Consulting. Erin Stumpf is a Realtor with Coldwell Banker. Greg Paquin heads The Gregory Group, a real estate research and data firm. Pat Shea is president of Lyon Real Estate. And Ryan Lundquist is an appraiser and author of the Sacramento Appraisal Blog.

WHAT HAPPENED TO SACRAMENTO REAL ESTATE IN THE LAST HALF OF 2018?

<u>County</u>	<u>Escrows closed</u>	<u>Yr/yr % chng</u>	<u>Median price</u>	<u>Yr/yr % chng</u>
Amador	61	-4.7	\$263,250	-19
El Dorado	241	-38.7	\$450,000	-4.4
Nevada	184	-13.6	\$450,000	-1.1
Placer	693	-16.4	\$480,000	5.1
Sacramento	1812	-8.9	\$360,000	7.5
Sutter	88	-8.3	\$285,000	7.5
Yolo	148	-24.5	\$442,500	0.6
Yuba	106	6	\$292,000	10.8

Lundquist: In one word, the market has been in a slump. Sales volume was down 11 percent from the last year. There have been (homes) on the market that haven't sold. Prices have been more flat. We had the lowest December in sales volume in the last 11 years.

Stumpf: I think the market was just so crazy in the spring of 2018 that many buyers gave up after being beaten out in competitive offer situations. Interest rates ticked up slightly — though they have fallen back a bit now — so buyers could not afford quite as much as before.

Paquin: Even though we have a strong economy that includes wages beginning to increase more significantly, there has been a faster increase in home values as compared to incomes. (Since late) 2011 new-home values have increased 71 percent and median incomes have increased approximately 15 percent.

Shea: Trade war commotion, elections, interest rate movements, tax considerations and market fatigue all likely contributed to sales tapering off at year end.

Wehrli: Construction and labor costs continue to push pricing (up) in the new home sector. This exacerbated already-high prices which are probably the biggest reason for the slowdown. Stock fluctuations haven't helped, particularly for buyers with jobs based in the Bay Area. Many potential home buyers figured prices were at a peak, or about to peak. These buyers are trying to time the market. They ... are willing to wait to see how low sellers can go.

WHAT'S YOUR 2019 FORECAST?

Stumpf: I believe Sacramento will see a slight increase in home prices in 2019. I foresee a balanced market between buyers and sellers, and that is great news as far as I am concerned. The number of homes available on the market will be slightly higher than in past years, and homes will take slightly longer to sell on average. Appealing homes that are appropriately priced ... will still see competitive multiple offers and sell quickly.

Wehrli: Home prices are likely to be pretty stable, rising modestly by year end. I expect a decent spring selling season, particularly if mortgage rates remain lower as they have been very recently. Inventory is likely to rise a bit, but, remember, we are coming from a few years now of extraordinarily low levels of inventory.

Shea: Look for a very predictable sales pattern once again in 2019. One can expect (house price) appreciation to (be in) the 4 percent to 6 percent range. Continued job growth and upward pressure on employee compensation appear to remain in play for the foreseeable future in Northern California. Mortgage rates remain incredibly favorable.

Lundquist: If buyers put their foot back on the gas pedal, with mortgages rates going down now, there is room in the market to see values increase. It all boils down right now to what buyers are going to do. It's a blank canvas.

Paquin: We are optimistic for sales and pricing in 2019. There is a real possibility that sales will equal and perhaps exceed 2018 numbers. (Newly constructed homes) should see a modest increase of between 2 percent and 3.5 percent.

ARE WE IN A BUBBLE, LIKE THE ONE THAT BURST IN 2008?

All five experts: No

Wehrli: The factors that led to a bubble last time — easy money boosting demand artificially and very high levels of supply — are not present now. That is not to say we are not in for a slowdown when the economy cools, but it should be nothing like last time.

Shea: A respectable number of homes in greater Sacramento are free and clear, and the majority with mortgages have significant equity. Payments are very manageable, due to low interest rates and salary escalations.

Stumpf: Previous buyers (a decade-plus ago) hyper-extended themselves and could not actually afford those homes, and when the market declined many had to short sell or were foreclosed. We just do not have those lending products anymore, and buyers have to qualify for loans. Your average buyer today cannot get a loan without a “skin in the game” down payment, good credit, and verifiable income and employment.

Paquin: As compared to the last housing boom-bust cycle of 2008, there has not been the rapid or significant price increases, the artificial lending that helped facilitate the rapid price increases and lenders have become much more diligent in who can or cannot receive a new-home loan.

WHAT'S YOUR ADVICE FOR PEOPLE THINKING ABOUT SELLING AND PEOPLE THINKING ABOUT BUYING?

Wehrli: Be patient. Buyers can wait for great offers, but maybe have to be more realistic at times. The same goes for sellers. The market is what it is and no buyer cares that your costs have gone up or what you paid for your home. But there is still not a lot of inventory out there so sellers have not lost all leverage.

Lundquist: I say to anyone not to get trapped into thinking buying is about where prices are at. Just know the market, be in tune with interest rates, the neighborhood and the schools. Are you going to be comfortable with this mortgage payment? For anyone considering selling, if you're are going to buy again, prices are also high. That's the struggle many people face. Be aware the rental market has been tight, so if they plan on renting, they better line up a rental in advance.

Stumpf: Sellers should be carefully reviewing the most recent, relevant, like-kind comparable nearby home sales and set their listing prices in line with those properties. If a home sits on the market with no offers after a few weeks, your price is probably too high. Sellers should also carefully consider pre-listing repairs, cosmetic improvements, and staging to present their properties in the best possible light. Buyers should get pre-approved for their home financing, and stay in touch with their lender and Realtor in case there are any changes in interest rates. And while overall buyers may have a little more time on their side for decision-making, the good properties will go quickly, so be prepared to pounce.

WHAT IMPACT WILL THE SF BAY AREA MARKET HAVE ON US THIS YEAR?

Paquin: We have seen a strong influence of Bay Area buyers to Sacramento that has been increasing during the past 12 to 24 months, with some projects (depending on the location) achieving between 40 percent and 60 percent of their buyers from the Bay Area. (Paquin's data shows that, in 2003, new home prices in the Sacramento area were 64 percent of Bay Area prices. Now they're just 49 percent of Bay prices.) Sacramento provides a significant opportunity for Bay Area refugees who desire to stay close and connected to the coast, but choose a more affordable and, perhaps, better quality of life.

Stumpf: I get inquiries from people wanting to relocate to Sacramento from the Bay Area every week, fueled by the desires for a better quality of life and more affordable housing costs. This additional demand is part of the reason why I just do not see any real estate "bubble" in Sacramento's immediate future. Another important question is: What will the impact of the Butte County wildfires be on Sacramento real estate this coming year? I think many of those households will look to relocate to the greater Sacramento area.

Lundquist: This is not a new phenomenon. We've always been less expensive. We've been getting "cooler" lately and getting more notice. There will be heightened focus on our market. (But) we don't have a market where rich cash buyers are buying everything up.

Shea: Those with equity (in the Bay Area) can sell and find tremendous home values in our region. They can often place a nice chunk of residual equity in other investments for a more secure retirement. Many, many others must simply find employment in Sacramento, commute, tele-commute, etc. to have any opportunity for home ownership in Northern California. They are priced out of their current housing markets and that will not change. The population is certain to grow in the Greater Sacramento region and housing will not be able to keep up thus, prices will continue to rise.

ARE THERE ANY TRENDS EMERGING THIS YEAR THAT WE SHOULD KEEP OUR EYE ON?

Lundquist: I think the market is poised for buyers to gain more power than sellers. But not total control. Buyers are making the mistake that sellers were making. Sellers thought they could command whatever price they want. Buyers are making an equal mistake of saying I can offer whatever I want.

Wehrli: Smart home technology is going to continue to grow. It will become less something to impress a potential buyer and more something a potential buyer expects. Google Home and Amazon Echo will be in more homes, but it will also be smart locks and smart security and, yes, smart toilets, but, no, I don't want to go into details on that. Also, factory-built homes will gradually become a bigger part of the market — though maybe more over the next five or 10 years than the next year. Factory-built can cut costs and time lines.

Shea: Upper end sales, \$750,000 and above, have increased measurably over the last few years. Look for that trend to continue considering the persistent migration patterns from our coastal regions.

Paquin: There are several developers that are trying to provide more affordable housing in the Sacramento Region. These homes are generally smaller, situated on smaller lots and offer basic features and amenities; however, sales have been strong at pricing that is generally less than \$450,000. Secondly, there is a lot of conversation about ... development of single-family homes as rental units. It is worth keeping an eye on, as it provides a way for people to live in single-family homes without the added costs (down payments, taxes, etc.).

Stumpf: Gov. Gavin Newsom has some lofty goals for housing production during his administration. I would like to think that the legislature will take up housing as a key issue during this session, and we should hopefully see some new policy that enables builders to build, creates zoning that permits dense housing construction near transit, allows more existing property owners to construct accessory dwelling units, and creates funding mechanisms to finance affordable housing.

Lundquist Appraisal Company

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Slumping volume & the Superbowl: Last week [CNBC](#) published a story stating national sales volume was down 6.4% in December. This is something we saw in many markets across the country, though the Sacramento region was down a whopping 25%. Right now we're watching closely to understand [how this will play out in the new year](#). The market is starting to wake up, but it still has a subdued feeling as early January is usually slow.

Confidence: I like what NAR Chief Economist Lawrence Yun had to say about sales volume in this [CNBC article](#): "The latest decline is harder to explain. Perhaps it is the decline in consumer confidence that's been occurring in the latter half of 2018." As Yun mentions and we've been talking about, interest rates going up really slowed down the market last year. But is it more than just rate changes? Could it be consumers losing confidence in the market? That's something we have to explore and watch over time. How do you think we'd gauge that? I'd love to hear your take in the comments.

I'm expecting really dull January stats: I imagine we'll see dull sales stats in many markets in January, and that'll be the case in Sacramento where it looks like sales volume could easily be down 15-20%+ again. I'll know more in two weeks for sure when I pull my stats. In short, it's a big deal if we don't start to see this trend turn around over the next few months. It would be a sign the market has changed. Let's remember though that January stats don't actually tell us about the market in January. In fact, January sales tell us what the market used to be like in November and December when these properties got into contract (and then closed in January).

Preview of 2019 trends right now: The big question right now is what the market is going to do in 2019. We'll begin to see that in sales stats in March and beyond, but right now we're getting a preview in the listings and pendings of today that'll eventually become sales.

California Association of Realtors

2019 California Housing Market Forecast

Market shift underway as housing shortage issue becomes demand issue

LOS ANGELES (Oct. 11 2018) – A combination of high home prices and eroding affordability is expected to cut into housing demand and contribute to a weaker housing market in 2019, and 2018 home sales will register lower for the first time in four years, according to a housing and economic forecast released today by the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.).

C.A.R.'s "2019 California Housing Market Forecast" sees a modest decline in existing single-family home sales of 3.3 percent next year to reach 396,800 units, down from the projected 2018 sales figure of 410,460. The 2018 figure is 3.2 percent lower compared with the 424,100 pace of homes sold in 2017.

"While home prices are predicted to temper next year, interest rates will likely rise and compound housing affordability issues," said C.A.R. President Steve White. "Would-be buyers who are concerned that home prices may have peaked will wait on the sidelines until they have more clarity on where the housing market is headed. This could hold back housing demand and hamper home sales in 2019."

C.A.R.'s forecast projects growth in the U.S. Gross Domestic Product of 2.4 percent in 2019, after a projected gain of 3.0 percent in 2018. With California's nonfarm job growth at 1.4 percent, down from a projected 2.0 percent in 2018, the state's unemployment rate will remain at 4.3 percent in 2019, unchanged from 2018's figure but down from and 4.8 percent in 2017.

The average for 30-year, fixed mortgage interest rates will rise to 5.2 percent in 2019, up from 4.7 percent in 2018 and 4.0 percent in 2017, but will still remain low by historical standards.

The California median home price is forecast to increase 3.1 percent to \$593,450 in 2019, following a projected 7.0 percent increase in 2018 to \$575,800.

"The surge in home prices over the past few years due to the housing supply shortage has finally taken a toll on the market," said C.A.R. Senior Vice President and Chief Economist Leslie Appleton-Young. "Despite an improvement in supply conditions, there is a high level of uncertainty about the direction of the market that is affecting homebuying decisions. This psychological effect is creating a mismatch in price expectations between buyers and sellers and will limit price growth in the upcoming year."

Outmigration, which is a result of the state’s housing affordability issue, will also be a primary concern for the California housing market in 2019 as interest rates are expected to rise further next year. The high housing cost is driving Californians to leave their current county or even the state. According to C.A.R.’s 2018 State of the Housing Market/Study of Housing: Insight, Forecast, Trends (SHIFT) report, 28 percent of homebuyers moved out of the county in which they previously resided, up from 21 percent in 2017. The outmigration trend was even worse in the Bay Area, where housing was the least affordable, with 35 percent of homebuyers moving out because of affordability constraints. Southern California did not fare any better as 35 percent of homebuyers moved out of their county for the same reason, a significant jump from 21 percent in 2017. The substantial surge in homebuyers fleeing the state is reflected by the home sales decline in Southern California, which was down on a year-over-year basis for the first eight months of 2018. Outmigration will not abate as long as home prices are out of reach and interest rates rise in the upcoming year.

2019 CALIFORNIA HOUSING FORECAST

	2013	2014	2015	2016	2017	2018p	2019f
SFH Resales (000s)	414.9	382.7	409.4	417.7	424.1	410.5	396.8
% Change	-5.9%	-7.8%	7.0%	2.0%	1.5%	-3.2%	-3.3%
Median Price (\$000s)	\$407.2	\$446.9	\$476.3	\$502.3	\$538.0	\$575.8	\$593.4
% Change	27.5%	9.8%	6.6%	5.4%	7.2%	7.0%	3.1%
Housing Affordability Index*	36%	30%	31%	31%	29%	28%	25%
30-year fixed rate	4.0%	4.2%	3.9%	3.6%	4.0%	4.7%	5.2%

p = projected

f = forecast

* = % of households who can afford median-priced home