



Housing Affordability: Solution = Supply

Solution = supply was the tagline carried by over 2,500 Realtors® to our Legislators in Sacramento last week. Speakers ranging from Governor Jerry Brown to demographic wizard [Joel Kotkin](#) reinforced the message that California is in the midst of an unprecedented housing crisis, including an **overall lack of housing and a specific lack of affordable and workforce housing**. Our children are increasingly unable to make the transition to homeownership and our workforce, especially our urban workforce, is increasingly being forced to extreme commutes by high rents and higher housing prices.

With a record 130 bills impacting housing in some form being considered this session, Realtors® departed from our customary **'Hot Issue'** approach to our legislative meetings to request that our elected officials evaluate every one of these bill through the prism of **'does it make housing more available and/or more affordable?'** Many of the bills, especially those involving **rent control, prevailing wage, inclusionary zoning and CEQA expansion**, would deleteriously impact the supply of available housing by making it even more difficult and less economically feasible to develop new stock.

We did address two bills specifically. **SB 640** (Hertzberg) lays the groundwork to extend our state sales tax to include services. As one of the most service oriented transactions in the state, real estate would be disproportionately impacted by this tax on such services as brokerage fees, title and escrow fees, home inspections, and the myriad of other services in a housing transaction. For every \$1,000 increase in the cost of a home, nearly 15,000 potential buyers are eliminated from the market so estimates of the impact of this tax range from a **low of 37,200 buyers to well over 60,000 buyers a year who would not be able to buy as a result**. This in an environment already unfriendly to buyers.

AB 1059 (Gonzalez-Fletcher) would **prohibit dual agency for commercial brokers**. While at this stage the bill does not impact residential brokers (that would come in the next phased attack), it would result in increased costs and reduced consumer choice as businesses look for suitable sites to start or grow their enterprise.

As usual our local legislators, specifically Assembly Members Melendez, Waldron and Mayes, and Senator Stone – get it! Others? Meh...not so much.

In local housing news, April was a pretty good month. **Sales** for the region fell 6% from the March spike (1,023 / 963) but **remained 1% ahead of last April** (951). Pending sales were up slightly meaning May should be a stronger month hopefully leading to a robust summer season – IF we can get some supply.

Median price for the region was up 1% over March (\$339,161 / \$342,488) and maintained a 7% advantage over last April (\$318,079). We added about 80 units to our inventory, up 5% over March (1,549 / 1,629), but had nearly **400 fewer homes for buyers to choose from than we did last April** (2,006). Homes are also flying off the market in record time with the median time a home remains unsold dropping 31% from last month (39 days / 27 days) and down a whopping 58% from last April when homes took 65 days to sell. Compared to the rest of the state, our region has even less inventory (1.8 months v. 3 months) but our mean time on market is virtually identical (26.7 days state v. 27 days local)

Housing affordability continues to suffer as prices rise so if you already own a home, you're a happy camper. If you don't – well, **solution = supply**.

Gene

SW Market @ A Glance

Southwest California

	Reporting Period	Current Period	Last Period	Year Ago	Change from Last Period	Change from Year Ago
Existing Home Sales <i>(SFR Detached)</i>	April 2017	963	1,023	951	6% ↓	1% ↑
Median Home Price		\$342,488	\$339,161	\$318,079	1% ↑	7% ↑
Unsold Inventory Index <i>(SFR Units)</i>		1,629	1,549	2,006	5% ↑	19% ↓
Unsold Inventory Index <i>(Months)</i>		1.8	1.7	2.7	6% ↑	41% ↓
Median Days to Sale		27	39	65	31% ↓	58% ↓

Source: CRMLS

Market At A Glance

- March 2017 -

416,580

Existing Home Sales*

▲ 6.9% YTY



\$517,020

Median Price*

▲ 6.8% YTY



3.0 Months

Unsold Inventory*

▼ 15.0% YTY



26.7 Days

Median Time on Market*

▼ 10.7% YTY



\$252

Price Per SQ. Feet*

▲ 8.4% YTY



99.3%

Sales to List Ratio*

▲ 0.4% YTY



31%

Affordability Index*

▼ 1.0% YTY



4.20%

30 Year Fixed Rate.**

▲ 0.51% YTY



C.A.R. closely monitors and analyzes trends in the residential real estate industry. The above information contains the latest reported existing home sales series, median home prices, unsold inventory index, median time on market, price per square feet, sales to list ratio, quarterly housing affordability index, and the latest mortgage rates.



CALIFORNIA
ASSOCIATION
OF REALTORS*

www.car.org/marketdata

March 2017 SFR Transaction Value*:

Temecula	\$87,852,647	Lake Elsinore	\$35,158,545
Murrieta	\$75,685,389	Wildomar	\$13,191,835
Menifee	\$54,634,665	Canyon Lake	\$10,334,499
Hemet	\$41,833,664	<u>San Jacinto</u>	<u>\$15,616,900</u>
Perris	\$25,300,340	Total	\$359,608,484

* Revenue generated by single family residential transactions for the year.

April 2017 SFR Transaction Value*:

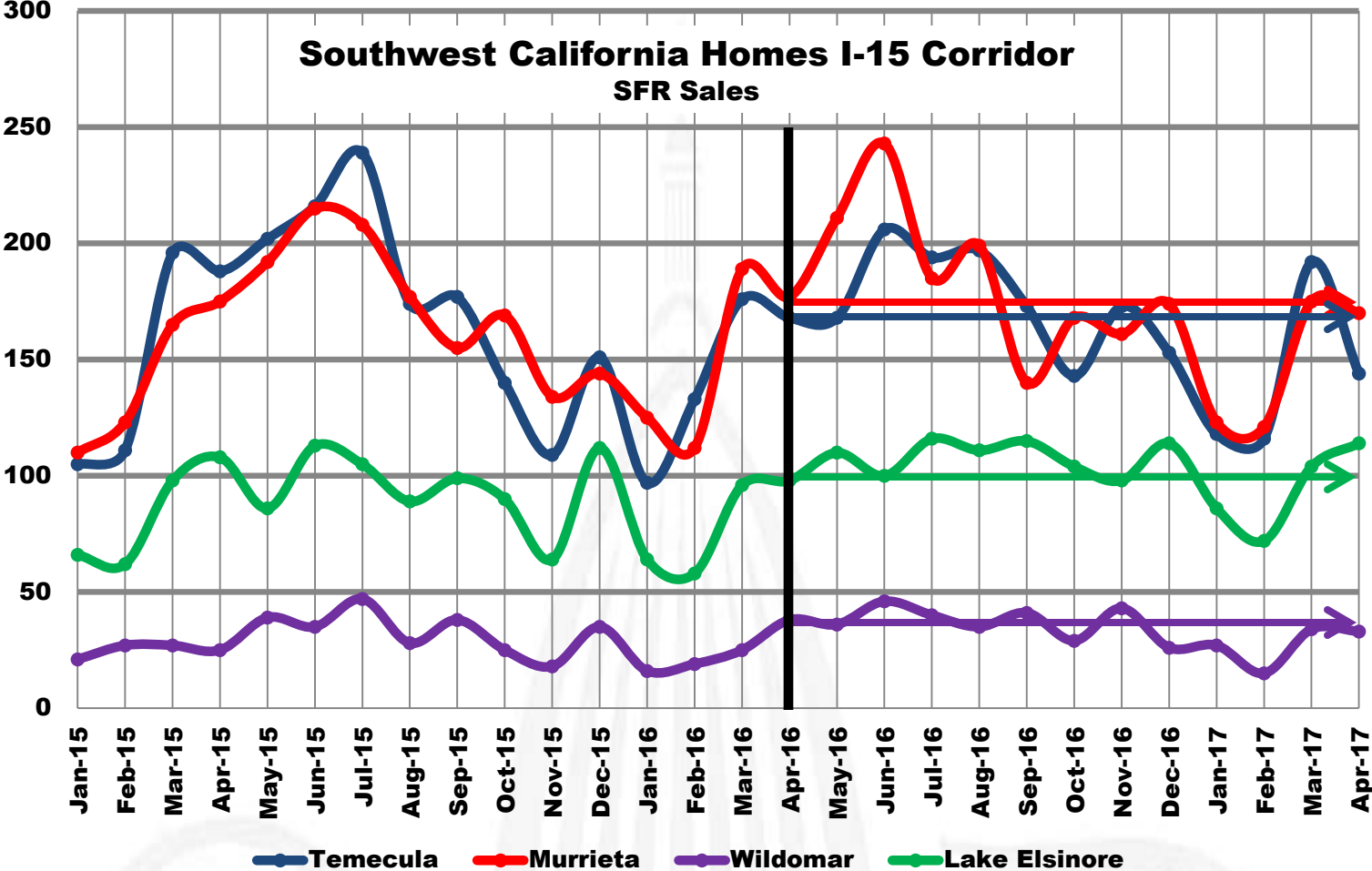
Temecula	\$68,768,130	Lake Elsinore	\$39,053,417
Murrieta	\$79,828,581	Wildomar	\$12,079,215
Menifee	\$56,386,663	Canyon Lake	\$11,565,265
Hemet	\$37,297,285	<u>San Jacinto</u>	<u>\$17,618,250</u>
Perris	\$22,599,240	Total	\$345,195,046

* Revenue generated by single family residential transactions for the year.

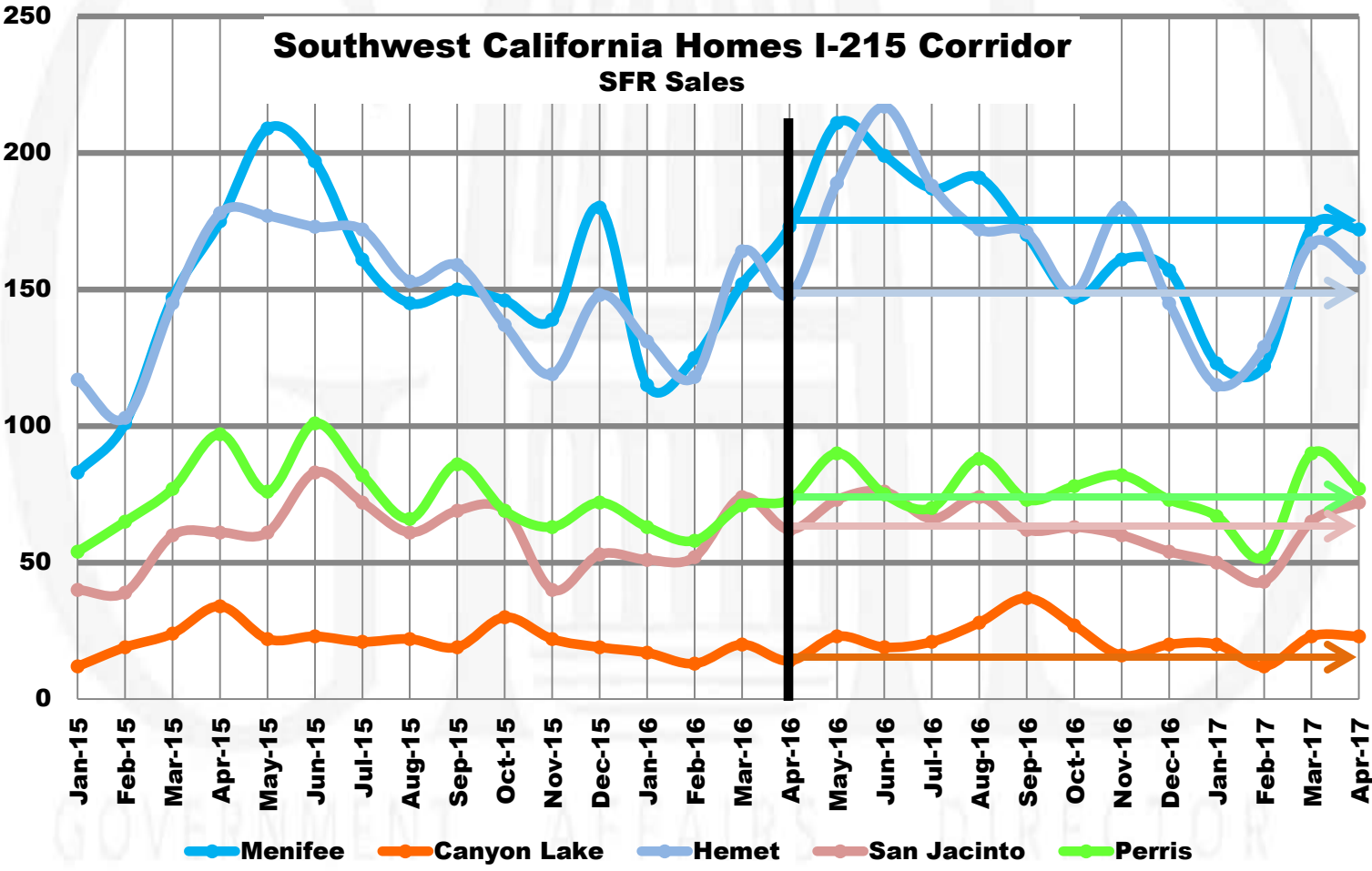
April Median Price:

	<u>2016</u>	<u>2017</u>	%
<u>Temecula</u>	\$417,755	\$435,000	4%
<u>Murrieta</u>	\$390,000	\$409,000	5%
<u>Menifee</u>	\$307,000	\$335,500	8%
<u>Lake Elsinore</u>	\$319,350	\$344,850	8%
<u>Wildomar</u>	\$359,065	\$380,000	6%
<u>Canyon Lake</u>	\$344,500	\$417,000	18%
<u>Hemet</u>	\$220,500	\$231,000	5%
<u>San Jacinto</u>	\$235,000	\$245,000	4%
<u>Perris</u>	\$269,000	\$284,950	6%

Southwest California Homes I-15 Corridor SFR Sales

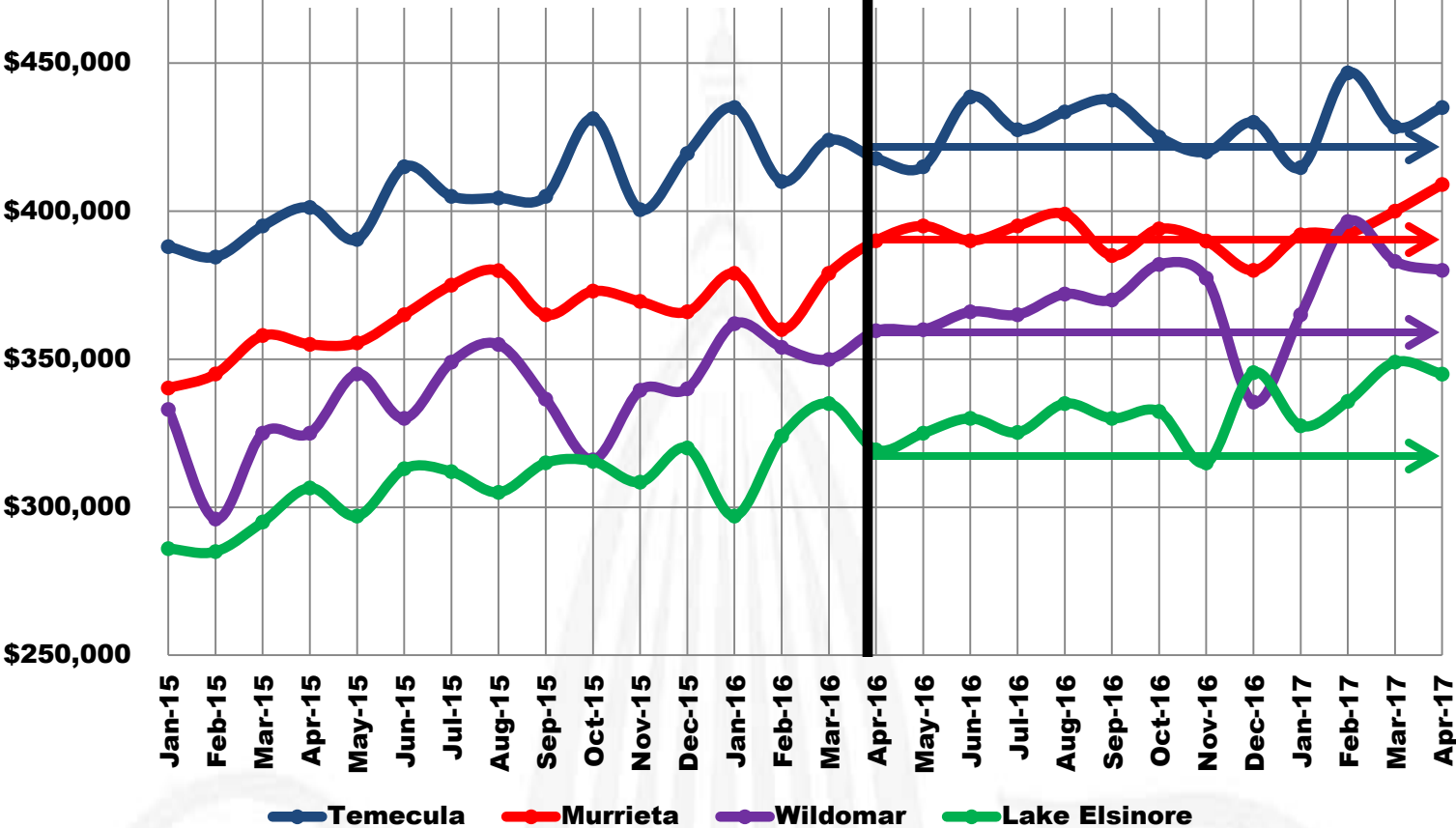


Southwest California Homes I-215 Corridor SFR Sales



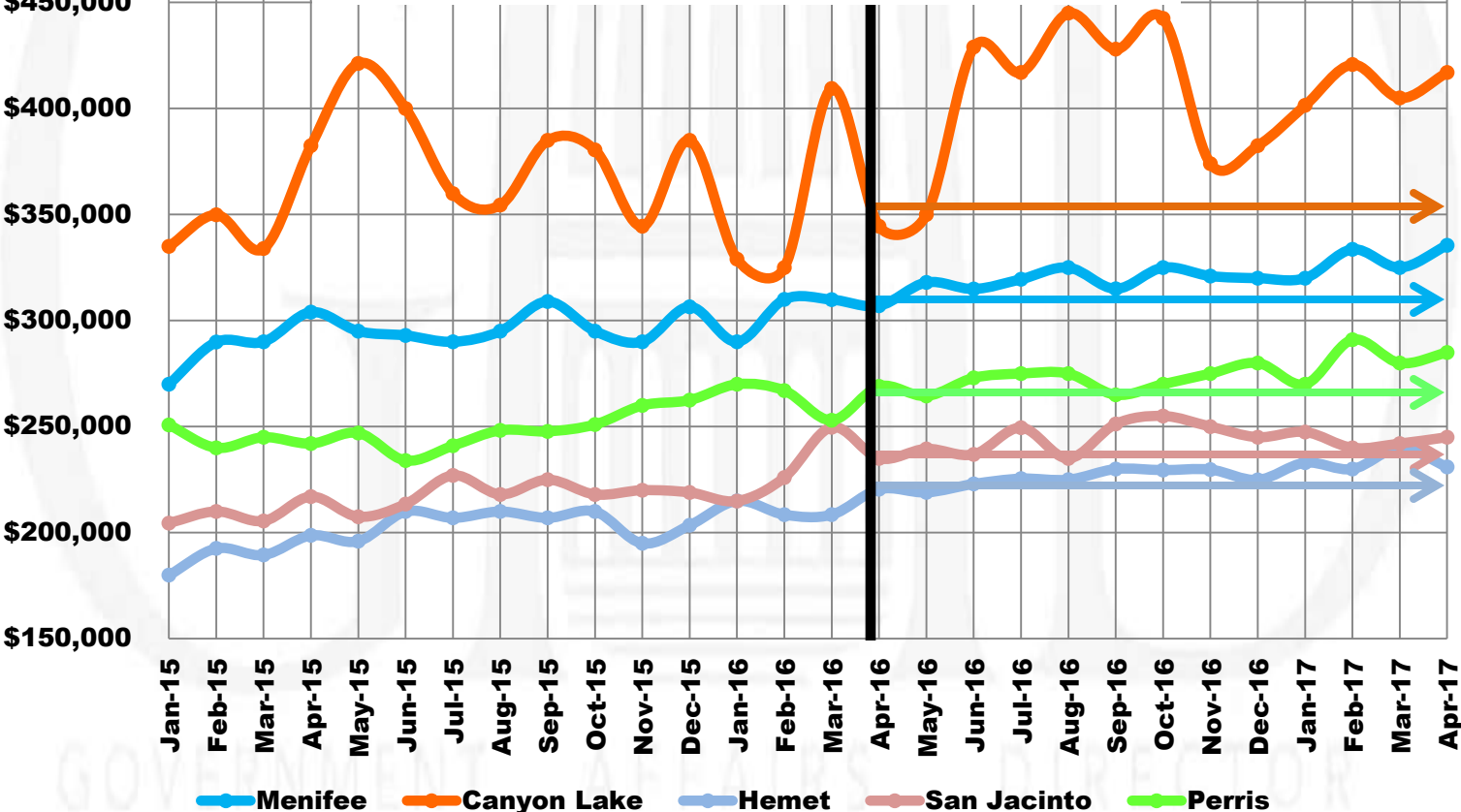
Southwest California Homes I-15 Corridor

Median Price



Southwest California Homes I-215 Corridor

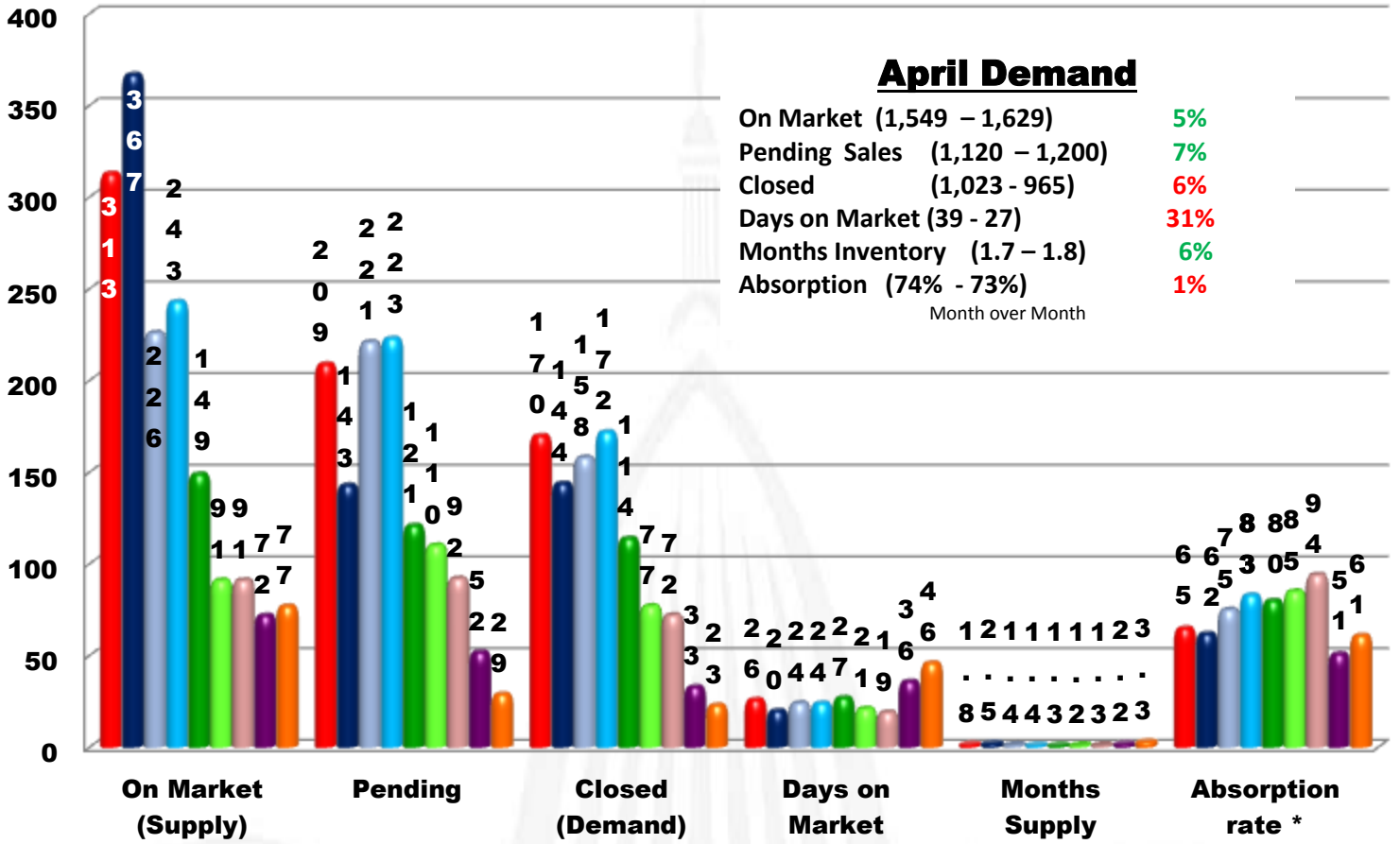
Median Price



April Demand

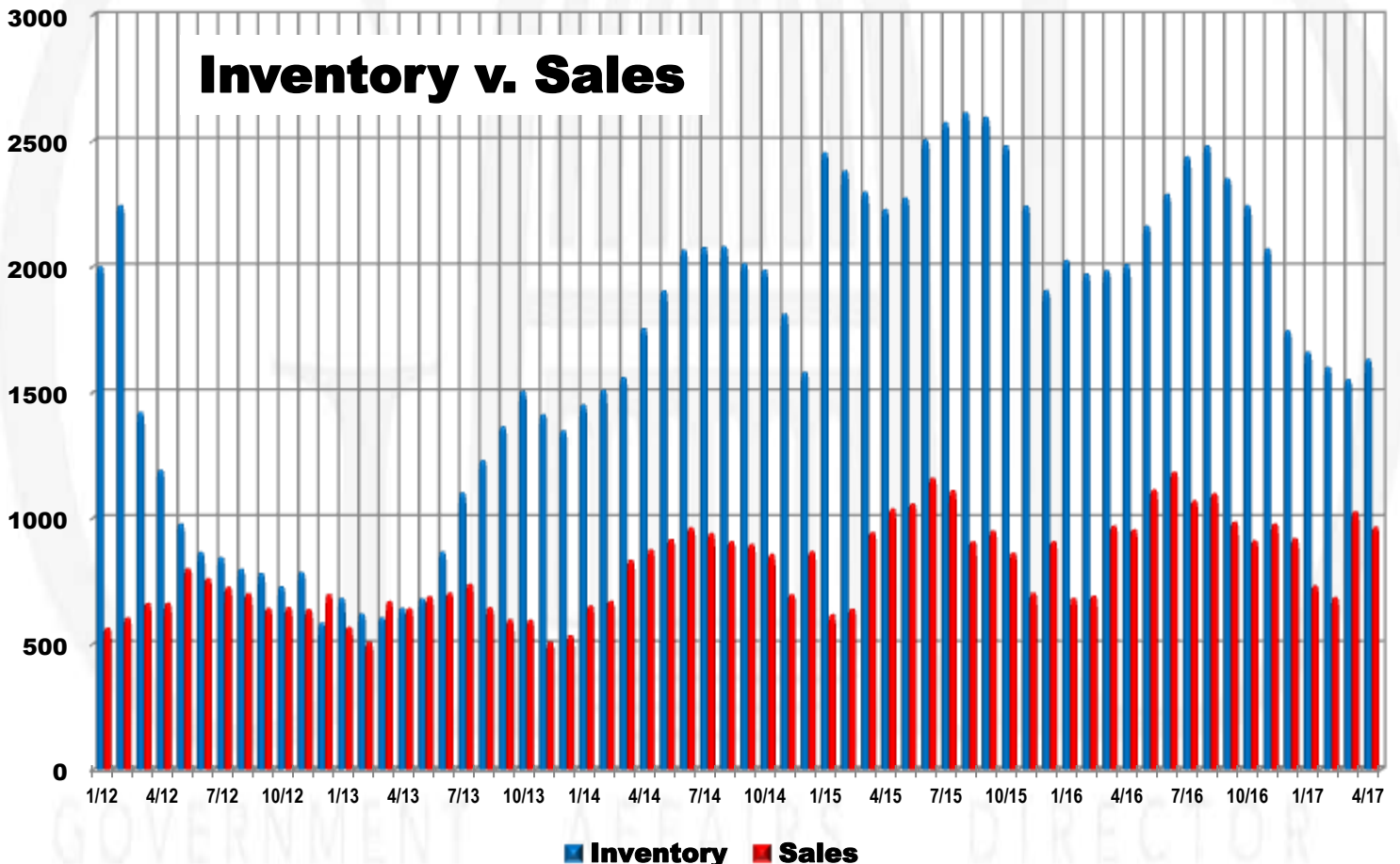
On Market (1,549 - 1,629) 5%
 Pending Sales (1,120 - 1,200) 7%
 Closed (1,023 - 965) 6%
 Days on Market (39 - 27) 31%
 Months Inventory (1.7 - 1.8) 6%
 Absorption (74% - 73%) 1%

Month over Month



■ Murrieta ■ Temecula ■ Hemet ■ Menifee ■ Lake Elsinore ■ Perris ■ San Jacinto ■ Wildomar ■ Canyon Lake
 * Absorption rate - # of new listings for the month/# of sold listings for the month

Inventory v. Sales



Looking at the April Demand Chart it's easy to spot the current 'hot' markets – Menifee and Hemet. Menifee sales outstripped the traditionally larger markets of Temecula and Murrieta last month while Hemet was close behind. Pending sales are well up in both cities as well portending a strong May. The only cloud on the horizon is lack of inventory. Both cities lag their larger market by a significant amount which will dampen future sales if agents in those cities don't get busy listing properties.

Why are sales in those cities so robust? Affordability! Menifee's median price was \$100,000 lower than Temecula's in April and Hemet's was \$200,000 lower. For larger population centers this is significant. Buyers already resigned to a commute will spend some extra time on the road offset by a larger home. And with all our communities focused on economic development, there are more local jobs in those communities to attract buyers.

Those communities, plus Lake Elsinore, are also increasing new housing stock at a faster rate than some other cities, making move-up easier and freeing up more entry level housing. As other cities approach build-out, or rely on in-fill development, these cities have more land available, more affordable land peripheral to the core for lower cost development.

Our region continues to be an affordable housing mecca for landlocked coastal communities, but we appear to be developing regional strata as well where Menifee is more affordable than Temecula, Hemet more affordable than Menifee. As John Husing frequently reminds us, 'We have the dirt'! That will continue to drive residents our way and eventually more and higher paying jobs will follow.

April Market Activity												
By Sales Type												
	Standard Sale				Bank Owned				Short Sale			
	Active	% of MKT	Sold	% of MKT	Active	% of MKT	Sold	% of MKT	Active	% of MKT	Sold	% of MKT
Temecula	353	96%	137	95%	4	1%	2	1%	11	3%	3	2%
Murrieta	305	97%	161	95%	3	1%	2	1%	4	1%	5	3%
Wildomar	70	97%	31	94%	0	0%	0	0%	3	4%	1	3%
Lake Elsinore	139	93%	109	96%	3	2%	1	1%	5	3%	3	3%
Menifee	229	94%	166	97%	8	3%	3	2%	4	2%	0	0%
Canyon Lake	76	99%	23	100%	0	0%	0	0%	1	1%	0	0%
Hemet	205	91%	146	92%	8	4%	4	3%	9	4%	5	3%
San Jacinto	87	96%	63	88%	0	0%	3	4%	5	5%	5	7%
Perris	81	89%	77	100%	3	3%	2	3%	4	4%	2	3%
Regional Total	1545	95%	913	95%	29	2%	17	2%	46	3%	24	2%

Following are few slides from Joel Kotkin's presentation to us last week.

California's Fading Dream



Presentation by Joel Kotkin,
Presidential Fellow in Urban Futures, Chapman University
Executive Director, Center for Opportunity Urbanism
Sacramento CAR event May 2, 2017

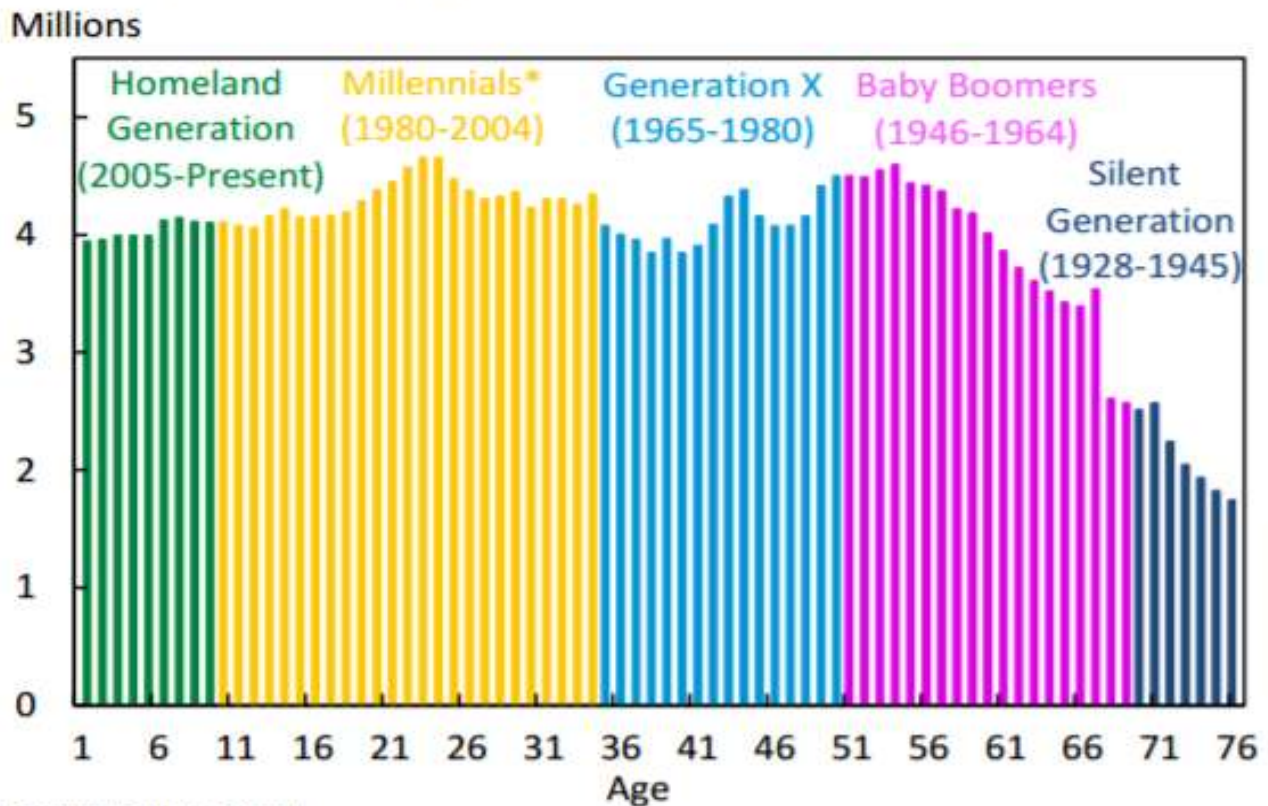
Grand Delusions won't save California: Business Needs to Change the Debate

California State Development Priorities

- Green Jobs and forced density
- High-Speed Rail and transit
- Social engineering away from families and middle class housing and jobs

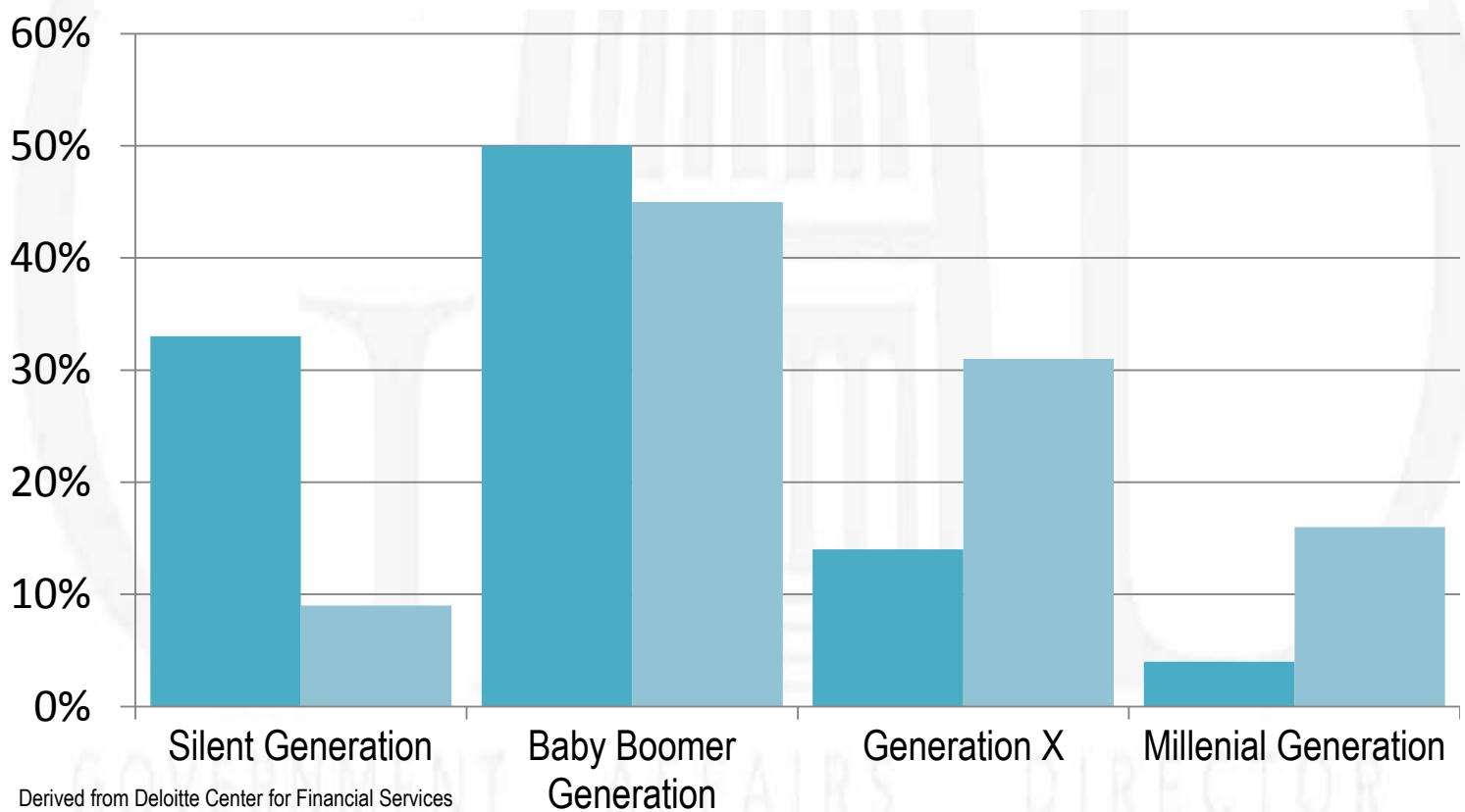


Figure 1: US Population Distribution by Age, 2013



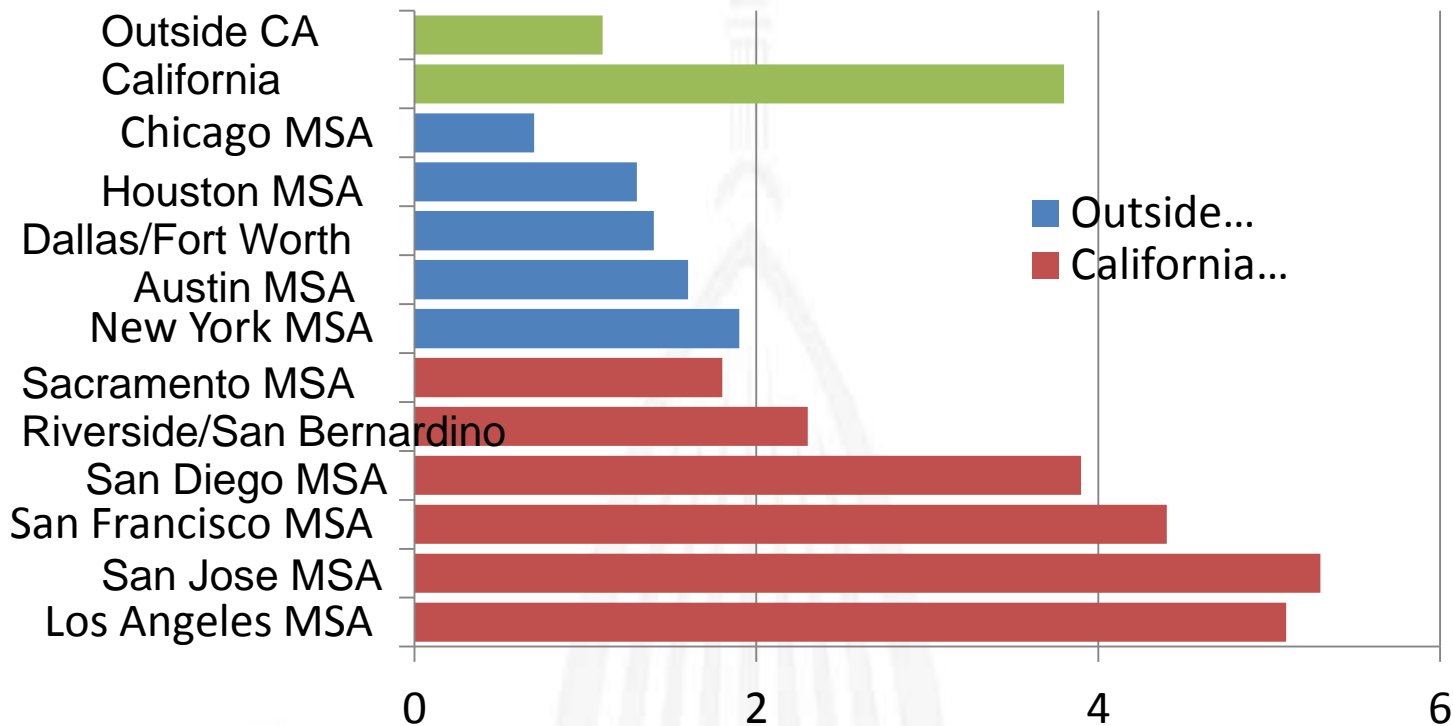
Wealth by Generation: 2015-2030

SHARE OF NATIONAL HOUSEHOLD WEALTH



House Price Increases Relative to Income

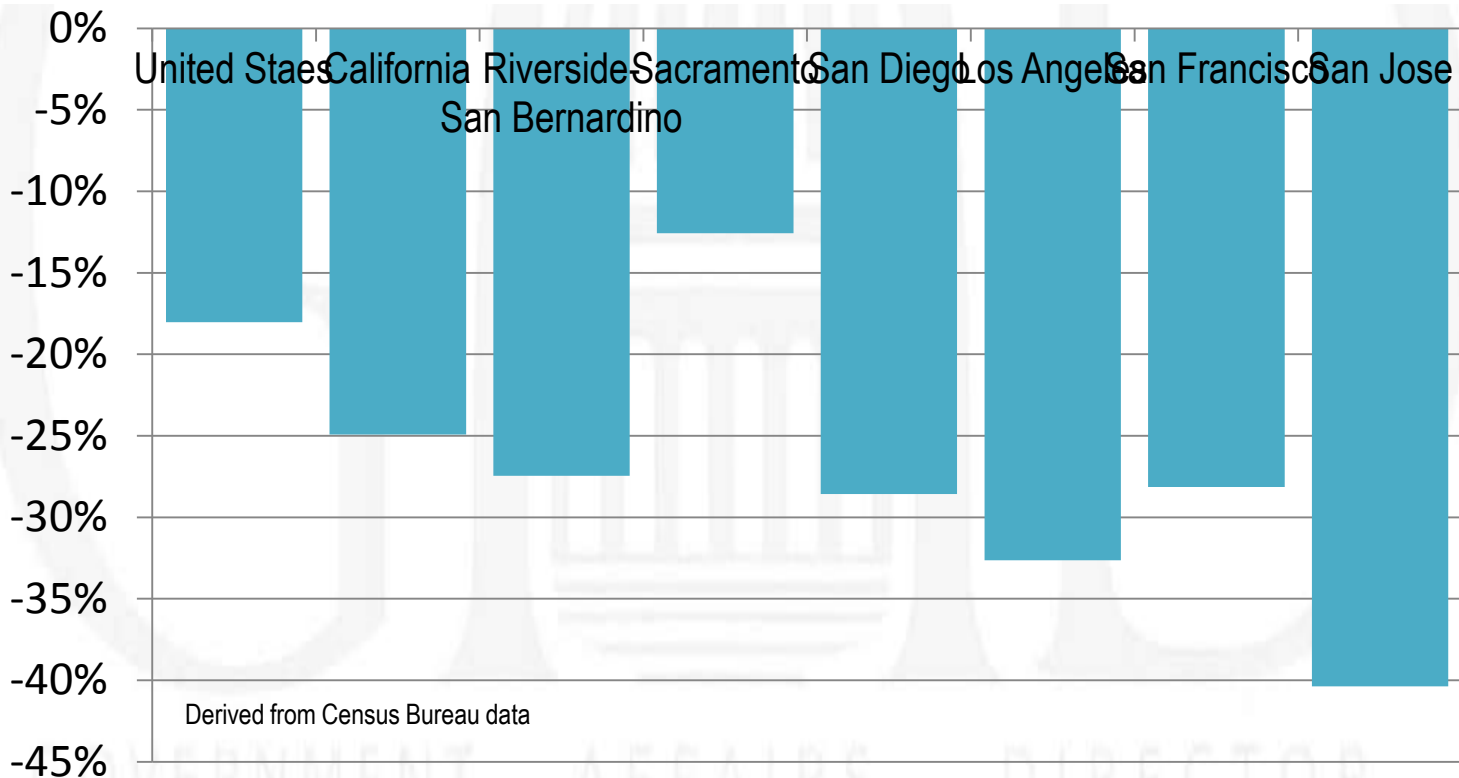
MAJOR METROPOLITAN AREAS, CALIFORNIA & US



House Price Increase in Years of Household Income

25-34 Change in Home Ownership %

MAJOR METROPOLITAN AREAS 1990-2015

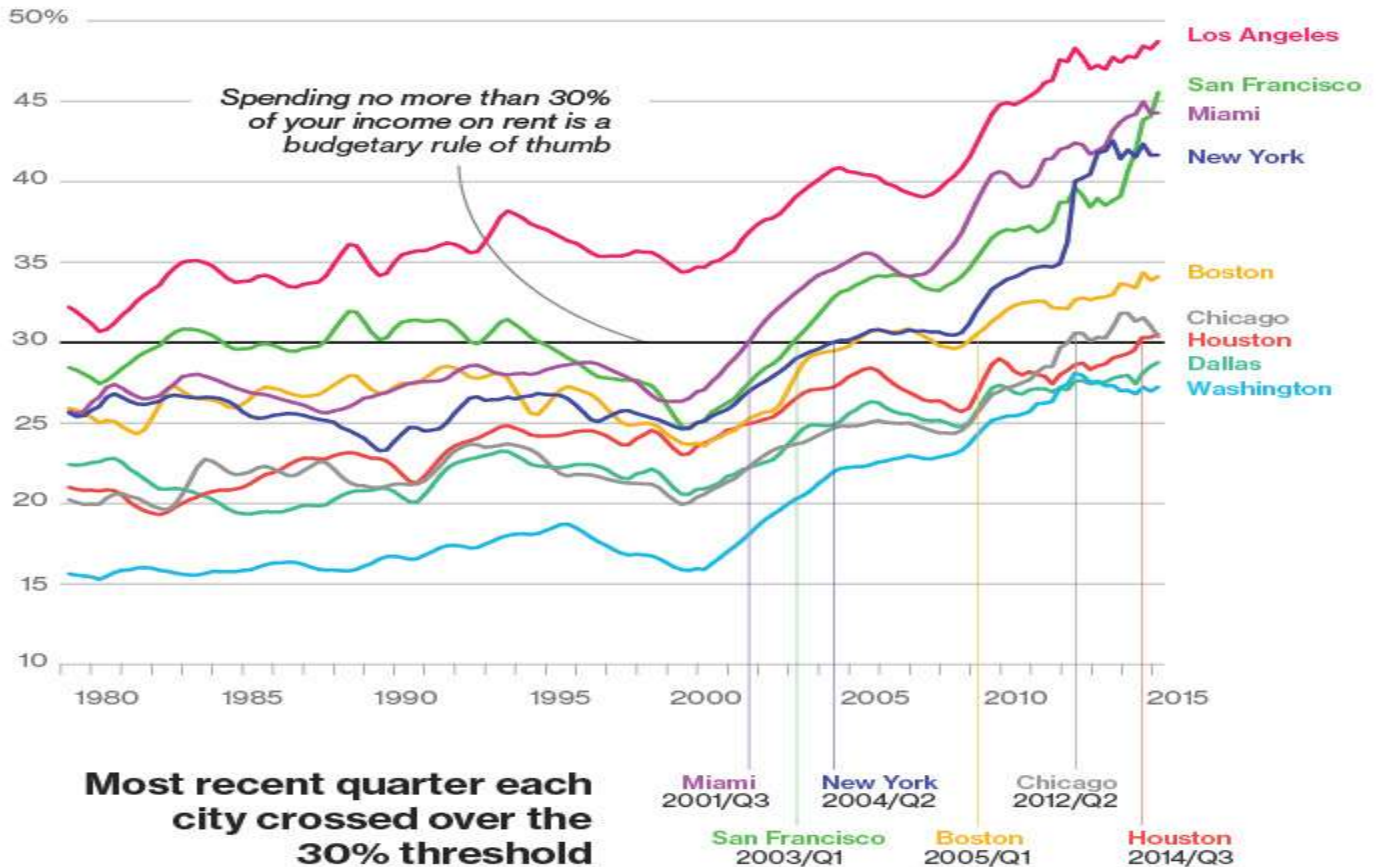


Rental Affordability

1980 – 2015

When Your City Became Unaffordable

The percentage of income that the typical young worker (age 22 to 34) paid in rent.



Note – Washington and Dallas have yet to cross the 30% threshold, Los Angeles's median rent has been unaffordable since before 1979.

Source: Zillow

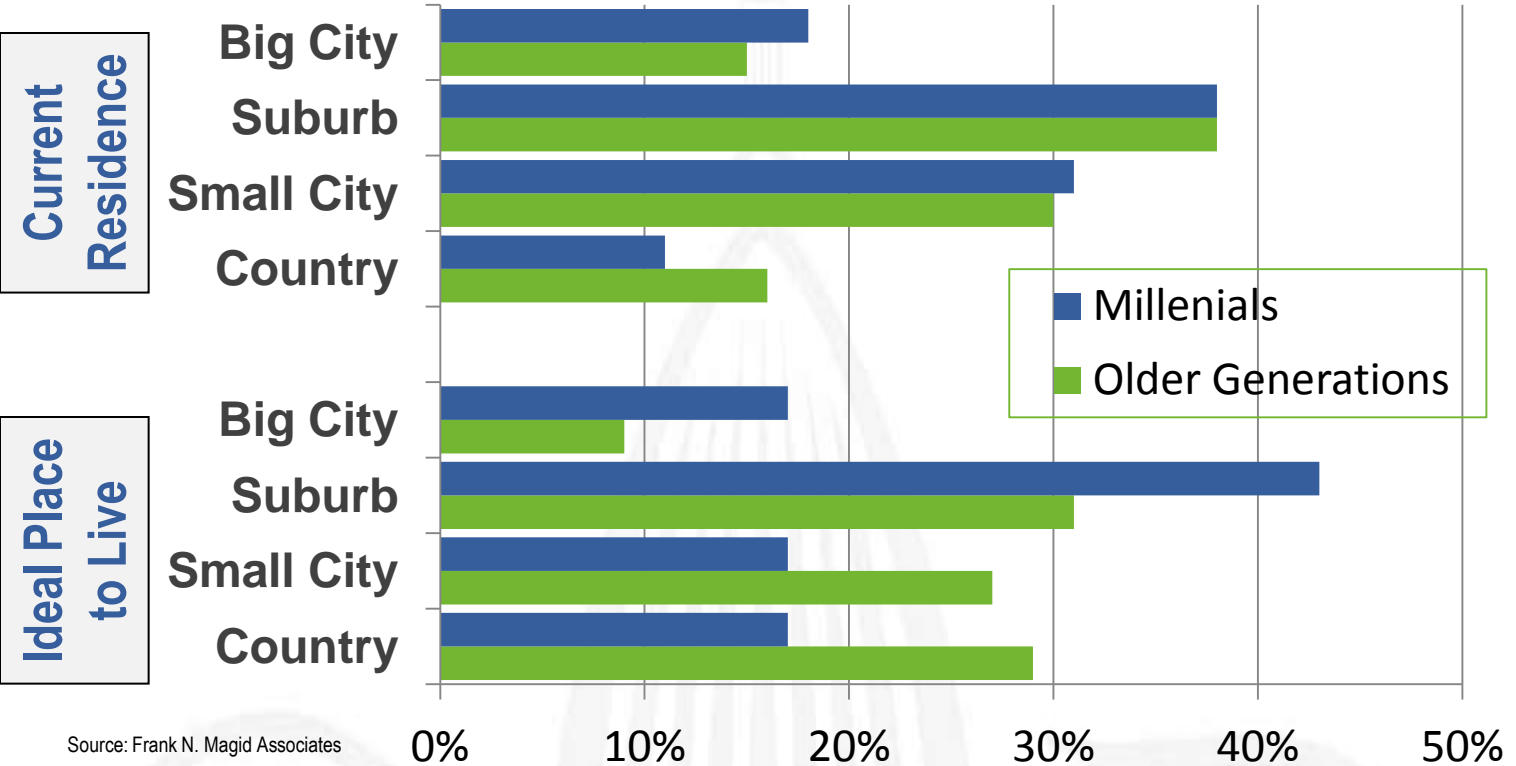
The US Experience: More Dispersion, More Denial by Planners, Pundits and some developers



“We’ve reached the limits of suburban development .People are beginning to vote with their feet and come back to the central cities.”
HUD Secretary Shaun Donovan Feb 2011

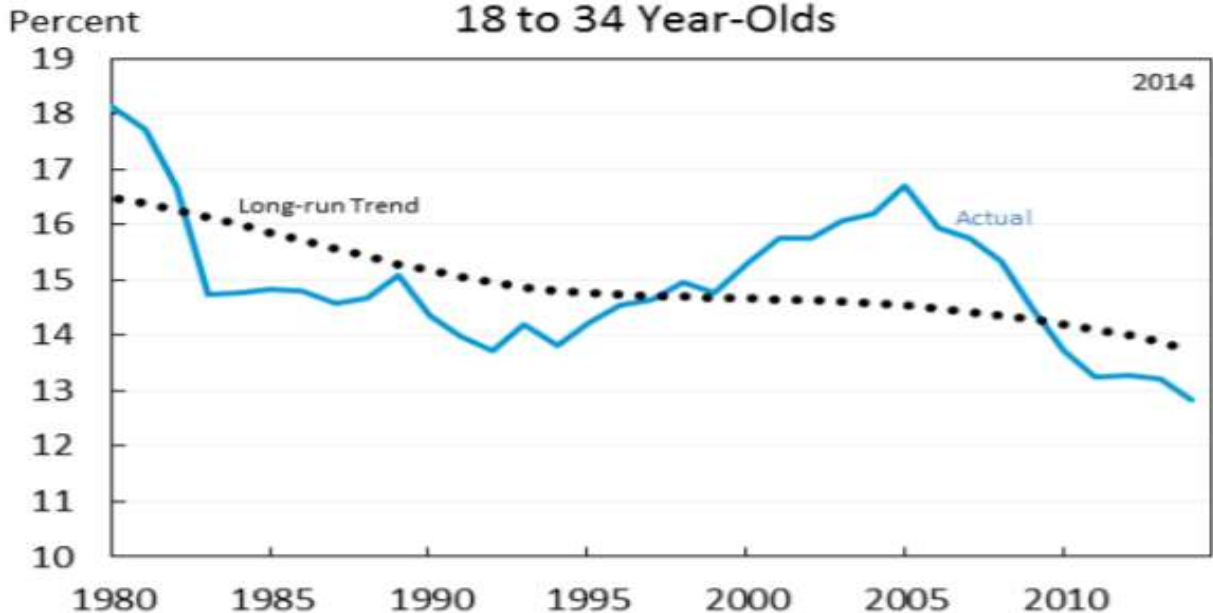
Millennial Life Style Choices

COMPARED TO OLDER GENERATIONS



Probability of 18-34 Year Olds Owning Homes 1980 – 2014

Figure 31: Probability of Owning a Home for 18 to 34 Year-Olds

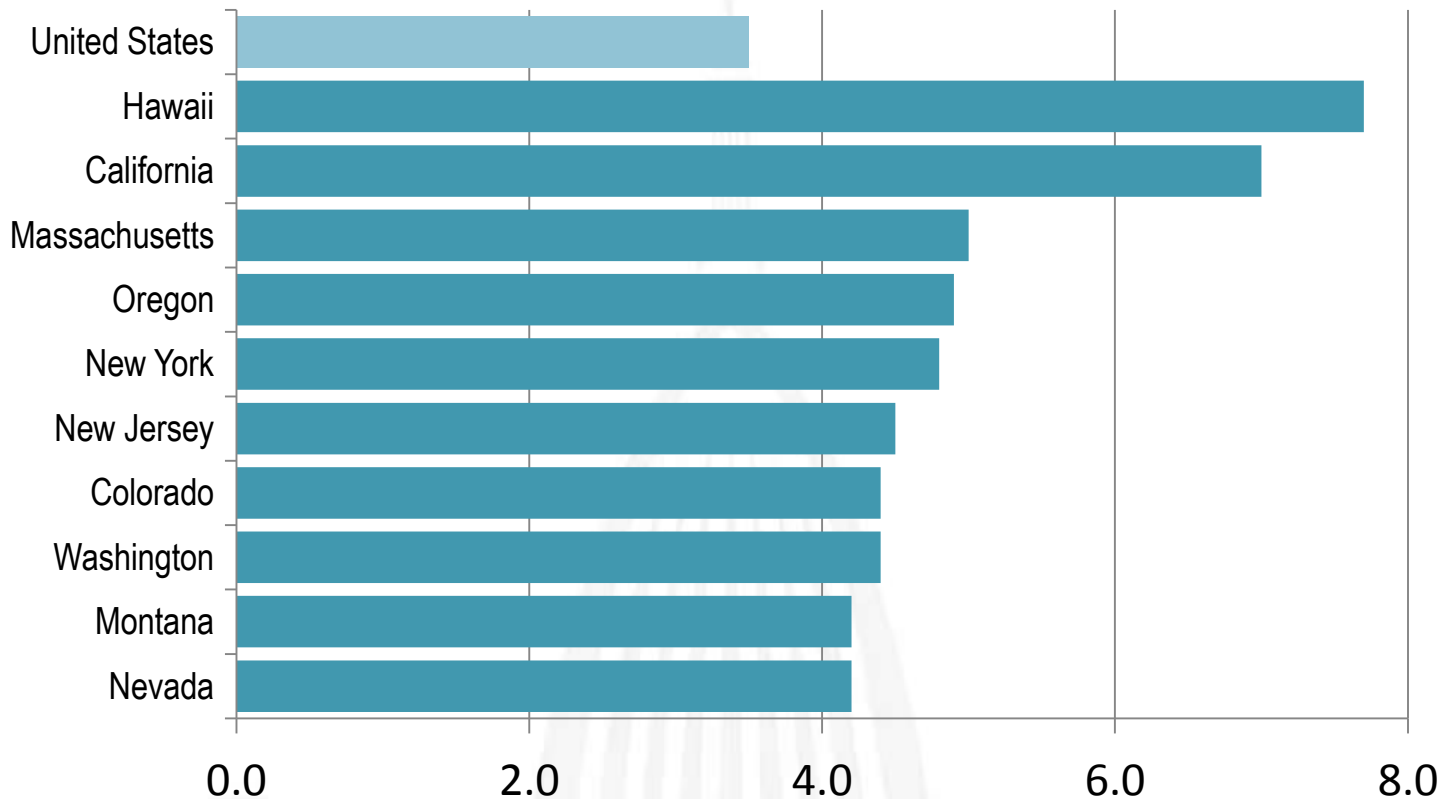


Source: Bureau of Labor Statistics; CEA calculations.

Note: Long-run trends are estimated using a smoothed weighted average over a 15-year moving window.

10 States with Least Housing Affordability

2015



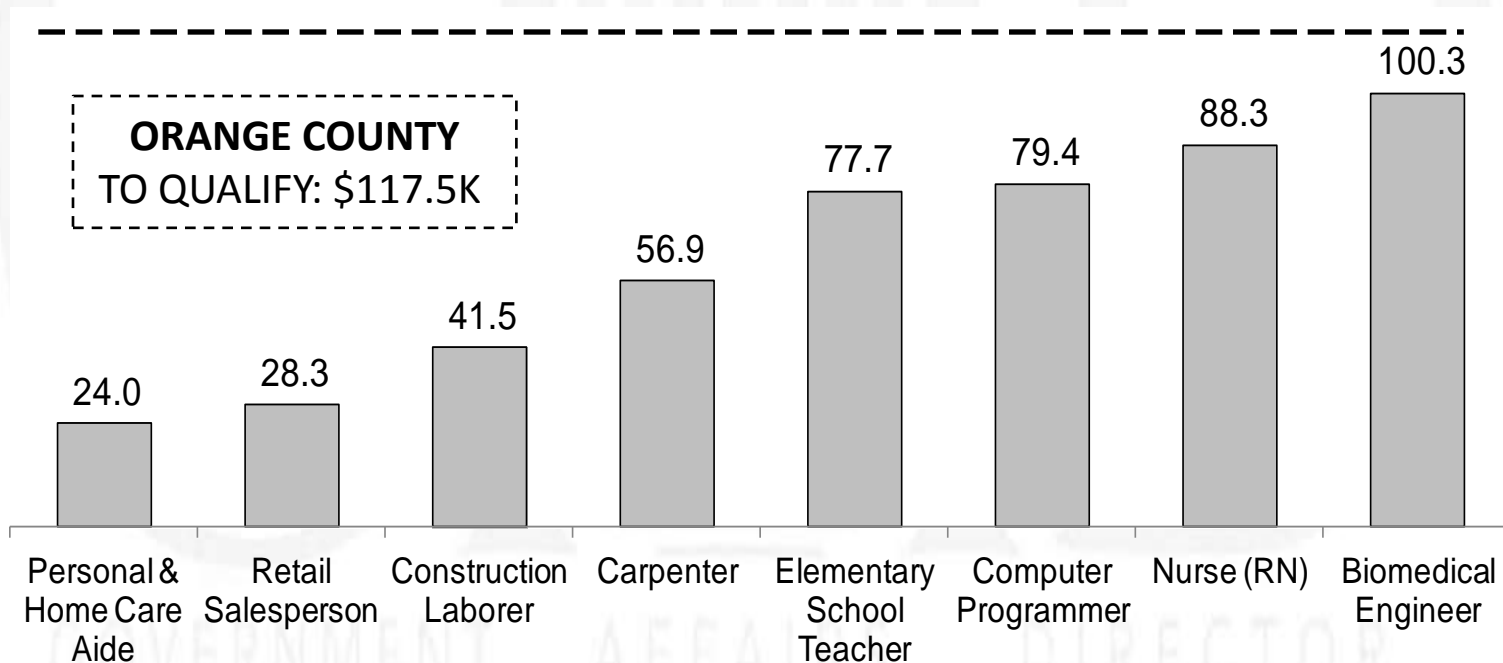
Derived from American Community Survey

Median Value to Household Income Ratio

Even High-Wage Workers Cannot Afford Housing

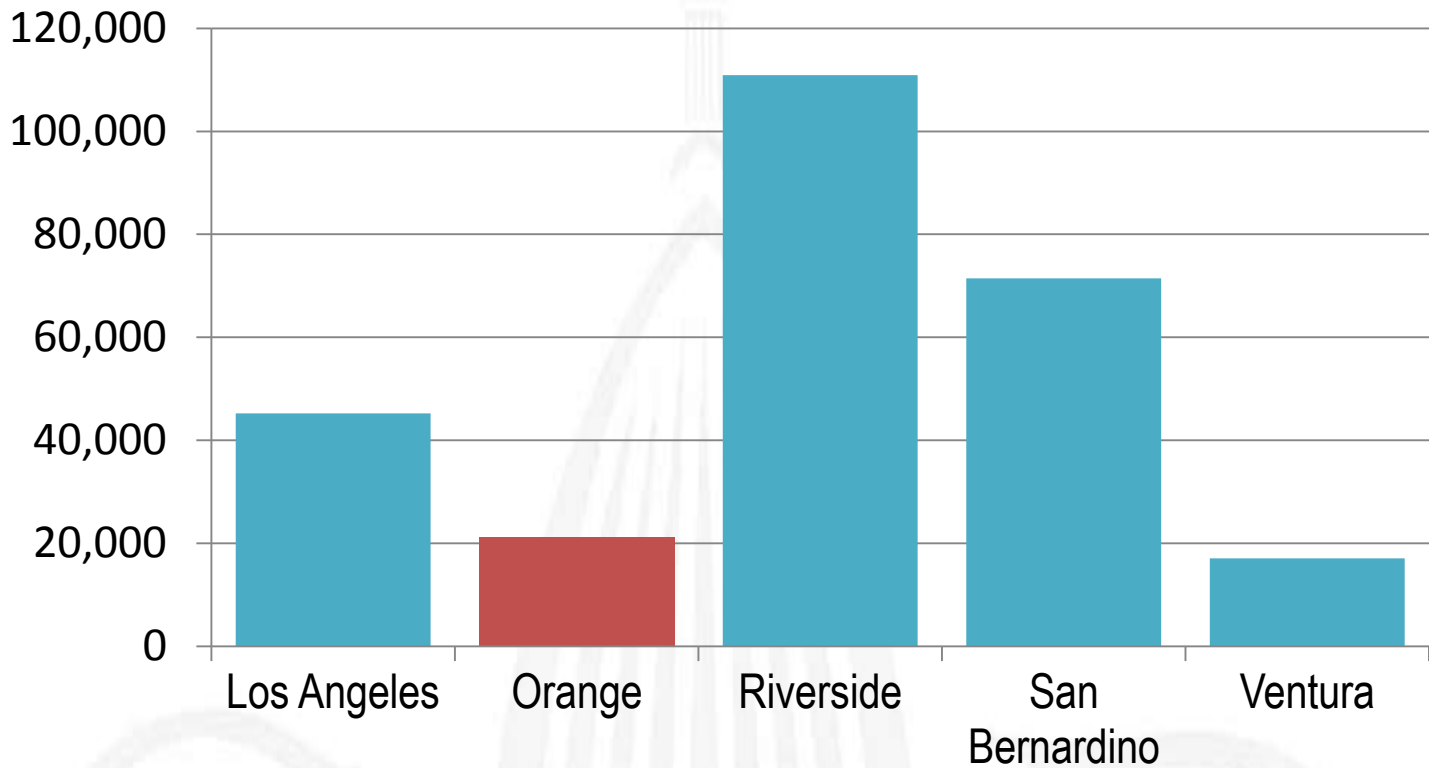
Orange County Wages v. Qualifying Income

(\$000s)

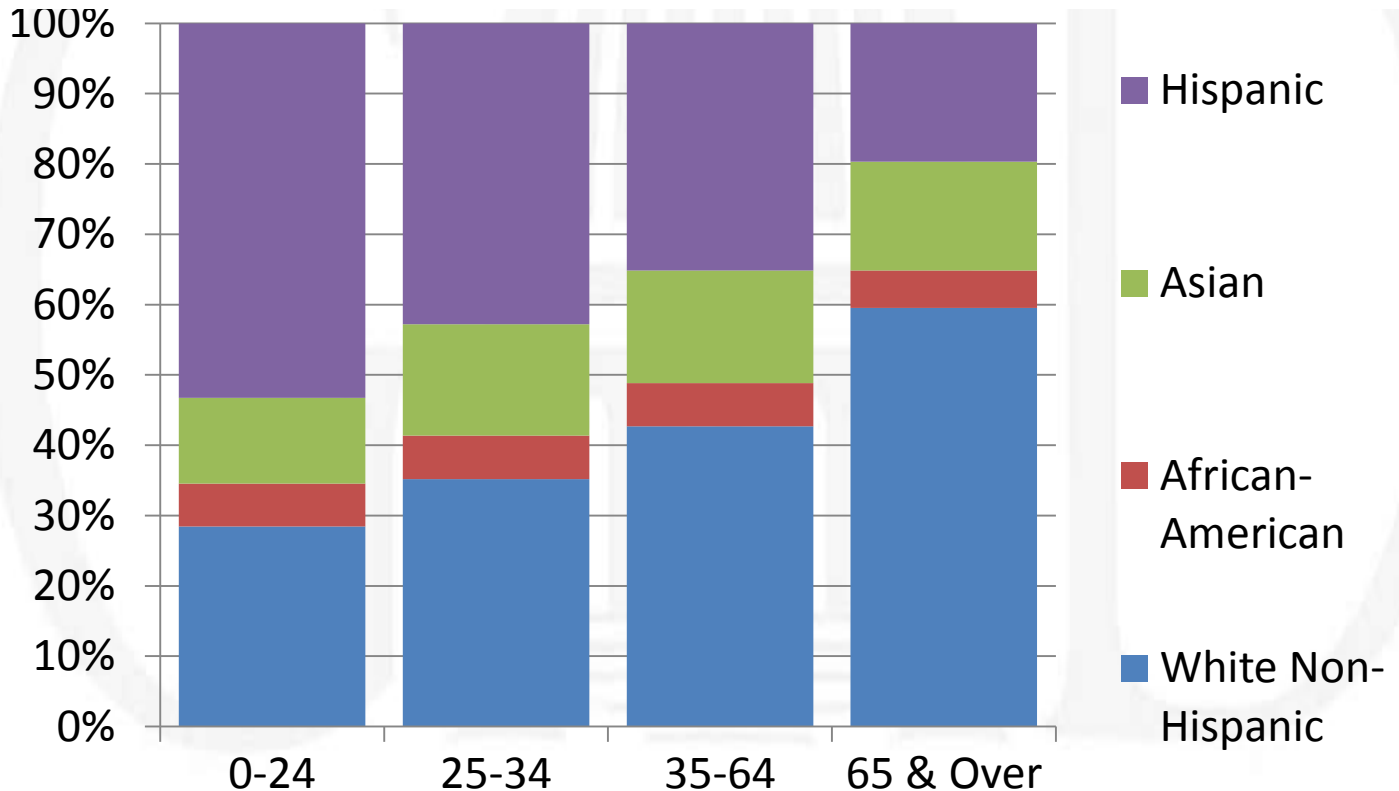


Change in 20-29 Population: 2000-2014

LA-RIVERSIDE CSA COUNTIES

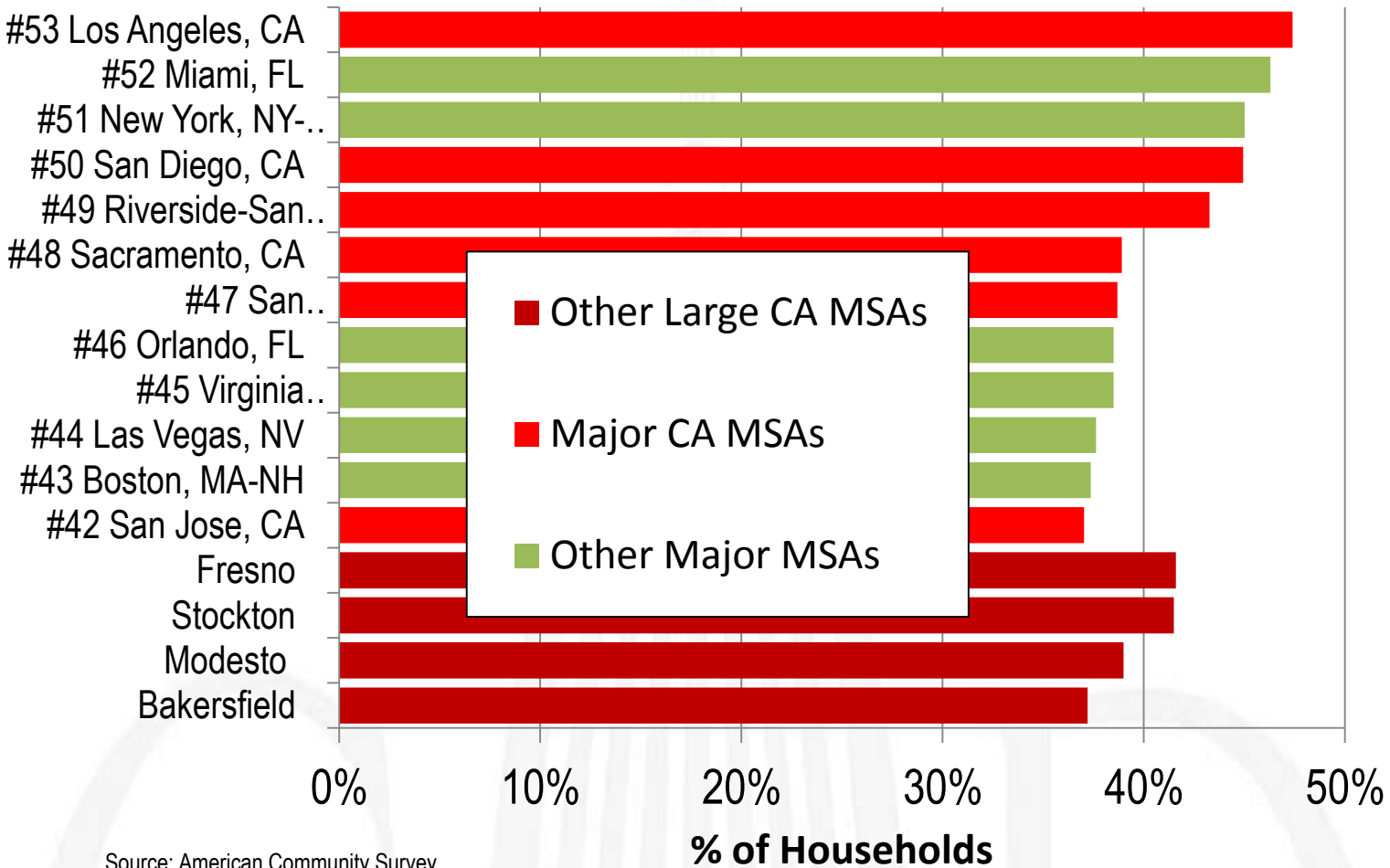


Age by Ethnicity: California



Housing Cost Burdened Households

12 WORST MAJOR MSAS & OTHER LARGE CA MSAS



Key Solutions and Recommendations

- Reform California regulatory rules to be friendly for middle class and family housing
- Focus development on higher paid employment options, particularly for new generation
- Transportation solutions should be 21st Century variety, not yet another failed attempt to recreate the 19th
- Keep GHG policies in line with national norms, not to try a fruitless symbolic campaign at the expense of the population