THE SCOOP

YOUR MONTHLY HOUSING SNAPSHOT

SOUTHERN CALIFORNIA

SEPTEMBER 2022

SEPTEMBER RECAP

The month of September marks the transitional period between the Summer and Fall housing markets. It is no secret that rates climbed steadily in the month of September, and really have been doing so all year. While the market was moving at an insane pace until May of this year, the September market is obviously different, given the more than doubling of rates since the start of the year.

Unprecedented interest rate levels have had a wide range of negative effects on the housing market. The amount of demand has drastically decreased. Because there are fewer buyers in the market, there is significantly less foot traffic, less interest in OPEN HOUSES, fewer multiple offers, sales prices that are typically below the asking price, and longer market times. No longer do buyers waive inspections, waive appraisals, give sellers free rent backs, or offer to pay significantly more than the asking price. The few remaining purchasers are taking their time and approaching the market with extreme caution.

Usually, the inventory rises significantly during years when mortgage rates surge. Since there are fewer success stories, the sellers that do enter the market accumulate, and the inventory rises. As supply grows and demand declines, market periods lengthen and it takes longer to sell. Normal peak months are between July and August, but when rates significantly increase, the peak is postponed until the autumn market since there are more sellers who are not able to find success and achieve their goal of moving.

September inventory numbers measured around 30,150 homes on the first of the month, and by month's end had climbed to just over 30,450 homes. Inventory levels are still 56% higher compared to last year. September demand started the month with roughly 12,500 pending sales and plunged by nearly 1,500 pending sales as the month finished with roughly 11,000 homes in escrow. That is still by far the lowest demand reading measured for this time of year since tracking began in 2012. From 72 days on September 1st to 83 days on September 30th, the Expected Market Time has increased steadily. It is now at its highest level since early-May 2020, during the original COVID shutdown, and is heading for a more '*Balanced*' market.

HERE'S THE SCOOP

The current levels of affordability have rendered the Expected Market Time scale invalid. The pool of potential purchasers shrank the more rates rose beyond 5% and the buyers who are still interested are not eager to pay the exorbitant amounts from earlier in the year. They simply do not want to overpay.

Today, sellers no longer get away with stretching the asking price. Those days are gone. In fact, they must be extremely careful in arriving at a home's Fair Market Value, or they will not find success. It is not as easy as pricing it right at the most recent comparable sale either. Rarely are two homes completely identical. There is a lot more that goes into the value of a home: location, condition, upgrades, amenities, age, décor, and overall appeal.

Buyers today expect a turnkey, model-quality home. In the event of a shortcoming, buyers will deduct it from the value. Buyers will severely reduce value if a home lacks carpet, has dirty walls, an outdated kitchen, a yard that needs work, a cracked patio, obsolete light fixtures, outdated bathrooms, and a lot of unfinished maintenance. Many buyers will just pass over these properties and wait for one that is already finished and available for immediate occupancy.

Due to sky-high mortgage rates, homeowners are now choosing not to sell. More than two-thirds of homeowners who have a mortgage benefit from rates at or below 4%, and they do not want to sacrifice their relatively low monthly mortgage payment by making a move. In many cases, even when they want to relocate, many homeowners are choosing to stay put. In reality, there were 17% fewer FOR-SALE signs in July (4,160), 24% fewer signs in August (6,015), and 23% fewer signs in September (5,091).

To find success, sellers must price their homes according to their Fair Market Value. Negotiations are now leaning in favor of buyers, prices are slowly falling, and with affordability taking a drastic hit, buyers are unwilling to stretch, and they will do their due diligence in approaching any offer to purchase. Sellers also must be patient. The housing market is no longer instantaneous. The closer a home looks to a model, the faster it will sell. With the market leaning in the buyers' favor and values slowly falling, careful pricing is crucial.

As long the sky-high mortgage rate environment continues, expect demand to remain muted, values to slowly drop, and fewer homeowners willing to participate in today's housing market as they continue to hunker down.

SOUTHERN CALIFORNIA BY THE NUMBERS

	ACTIVE LISTINGS	DEMAND (last 30 days pendings)	EXPECTED MARKET TIME	CLOSED SALES (September)	OFF THE MARKET
LA	10,996	3,355	98 DAYS	4,058	2,060
OC	3,634	1,328	82 DAYS	2,011	741
RC	6,531	1,624	121 DAYS	2,365	1,004
SB	5,240	1,433	110 DAYS	1,834	1,014
SD	4,386	1,657	79 DAYS	2,340	1,045

AS OF OCTOBER 20TH, 2022

SOUTHERN CALIFORNIA

MARKET TIME

The Expected Market Time is the speed of the market, the lower the number, the faster homes are being placed into escrow. Anything between 60-days and 90-days is considered a Slight Seller's Market where sellers are still in control of the market place, however multiple offer situations is no longer the norm, and pricing according to Fair Market Value is crucial to a successful sale. Between 90 and 120-days is a market that is considered a Balanced Market. No upper hand in the negotiating process, and pricing correctly becomes even more crucial. Between 120-days and 150-days is considered a Slight Buyer's Market, where buyers have a small advantage in the process, homes often sell for under asking price, and depreciation is possible. The Southern California market remained in the Slight Seller's Market Range, however due to sky-high interest rates, affordability is squeezing the Expected Market Time scale. What would usually be considered a Slight Seller's Market is behaving more closely to a Slight Buyer's Market, where buyers today are not as willing to stretch their dollar or pay over asking price given the current mortgage rates.

1ST 30TH

72 DAYS .... 83 DAYS

BUYER'S

~~SLIGHT SELLER'S MARKET~~

SOUTHERN CALIFORNIA
AFFORDABILITY IMPACT

INTEREST RATE IMPACT ON HOME AFFORDABILITY BASED ON A $650,000 LOAN

Payment	$3,489	$3,691	$3,898	$4,108	$4,324	$4,545
Extra Annual Cost $$	$7,920	$10,344	$12,828	$15,348	$17,940	$20,592

*EXTRA ANNUAL COST COMPARED TO JANUARY 1, 2022 AT 3.25% INTEREST

PRICE OF A HOME ABLE TO AFFORD AT EACH MORTGAGE RATE WITH DESIRED MONTHLY PAYMENT

$2,500 Desired Monthly Payment	5%	5.5%	6%	6.5%	7%	7.5%
	$517,778	$488,889	$463,333	$440,000	$417,778	$397,778

*MORTGAGE PAYMENT & INTEREST ONLY & 10% DOWN PAYMENT

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