THE SCOOP

YOUR MONTHLY HOUSING SNAPSHOT

SOUTHERN CALIFORNIA

DECEMBER 2022

2022 RECAP

INVENTORY

The year started off with an active inventory of 11,689 homes, the lowest level to start a year since tracking began in 2004. After starting 2022 at 3.25%, rates eventually surpassed 5% in May and eclipsed 6% in June. As a result, the inventory rapidly grew from mid-April until it peaked at the beginning of August at 31,169 homes, a rise of 167% from January 1st. From August through year's end, the number of available homes decreased to 24,569, 26% below the 3-year average end to December of 33,479.

DEMAND

To start the year, demand (the number of pending sales over the prior month) was muted compared to 2021, down 18%. It was like the start of 2020, prior to COVID impacting housing. At first, demand was muted due to the lack of available homes to purchase. There were simply not enough homes on the market compared to the sea of buyers looking to purchase. But that dramatically shifted as the year progressed and mortgage rates spiked, considerably impacting home affordability. Even with additional purchase options, more and more homeowners accumulating and stagnating on the market without success, demand did not climb much.

EXPECTED MARKET TIME

The Expected Market Time started the year at a swift pace of only 33 days. It was an insane market that heavily favored sellers, and reached a record low level of 24 days at the beginning of March. Yet, as mortgage rates continued to climb, demand receded, the inventory rose, and the Expected Market Time grew. It surpassed 40 days in May, after nearly 16 months below 40 days, an insane, nearly instant pace. It eclipsed 50 days in June, and 70 days by July. It retreated slightly in August when rates dropped back below 6% but then increased as rates soared in September and October. It hit 101 days in November before retreating to 96 days by year's end as rates eased to the low 6s to finish the year.

LUXURY

During the pandemic, the luxury market evolved at an incomprehensible fast pace. Luxury homes that typically took months upon months to sell were selling almost instantly. In 2022 the luxury home market started off extremely strong. In the first quarter of 2022, there was 17% more luxury sales year over year. The second quarter of 2022 was down 8%. It was down by 11% during the third quarter, and down substantially during the fourth quarter, off 47%.

HERE'S THE SCOOP

The Federal Reserve intervened to reverse engineer severe inflation after two years of skyrocketing home prices and has been exploiting the housing market as one of the key economic engines to accomplish its goal. The Federal Funds Rate was raised from close to 0% at the beginning of the year to 4.5% in December, marking its highest level since 2007 and the fastest increase in more than 40 years. In response, long-term mortgage rates increased, more than tripling from 3.25% at the beginning of the year to over 7.25% in October. As the inflation rate declined for the second consecutive month in December, mortgage rates dropped below 6.5%.

Core inflation, which excludes the volatile costs of food and energy, was at 5.96% in December, down from a September high of 6.7%. The core inflation target set by the Federal Reserve is 2%, so there is still a long way to go. Supported by a very robust labor market, astronomically high job opportunities, low unemployment, and rising consumer spending, the US economy as a whole has remained resilient. However, the financial markets have been shaken by the environment of high-interest rates. The relentless Federal Reserve policies will finally lead to a recession in the economy in 2023, which will most likely start by the middle of the year.

Housing will remain exceedingly sluggish in 2023, as it left off in 2022. The market is highly susceptible to interest rate changes, where prices will still decline due to severe affordability concerns even with low inventory levels. Only when mortgage rates fall below 5.5% will values stop declining, spurring increased demand and more homeowners to stop "Hunkering Down" and opt to sell. The housing market has stabilized, there is far less activity and buyer competition, and homes are typically not selling beyond their asking price, immediately, or with multiple offers.

WARNING TO SELLERS: If you are holding out for the Spring Market in anticipation of a quick sale and a higher price, that simply will not happen. Instead, sellers will be looking at a much more sluggish market with muted demand and buyers taking their time to purchase. Proper pricing is crucial to find success.

WARNING TO BUYERS: While home values may be falling right now, lowball offers are a waste of everybody's time including your own. Distressed sellers, foreclosures, and short sales are NOT components of today's market. There is a real lack of panic selling. Most sellers do not have to sell, so there will not be major "deals" like there were during the Great Recession.

SOUTHERN CALIFORNIA YEAR IN REVIEW

The number of homes sold in 2022 was down 24% compared to the prior year, largely due to the steep rise in mortgage rates. In past years with rising rates, the inventory typically peaks later during the Autumn Market, however, 2022 peaked in August at 31,169. The peak for Demand, the last 30 days pendings, also came early this year in March at 16,311. A typical peak in Southern California occurs from the end of April to early May.

163,577

Homes Sold in 2022

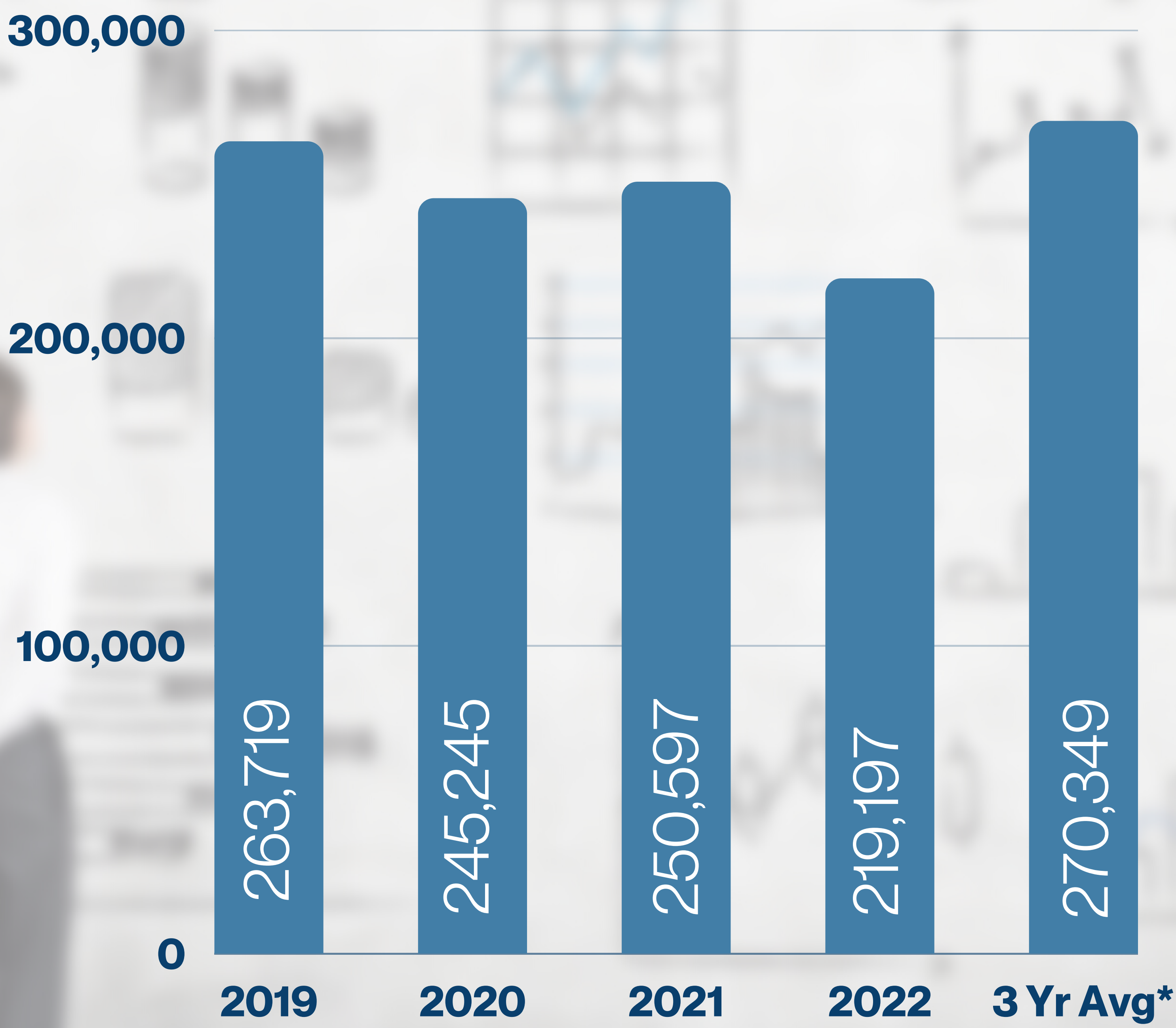
-24% Y-O-Y

Top Selling Month: **March 18,000**	Inventory Peak: **August 31,169**
Demand Peak: **March 16,311**	Interest Rate Peak: **October 7.1%**

Reports on HOUSING
Your Local Real Estate Snapshot

SOUTHERN CALIFORNIA

HOMES COMING ON THE MARKET



The 2022 Southern Californian housing market experienced 8 months of missing For-Sale Signs compared to the 3-Yr Avg from 2017 - 2019. For-Sale signs in 2022 were down 19% compared to the 3-Yr Avg.

STACKING UP THE START TO 2023

While the Southern California inventory start to this year is nearly double that of last year, it still remains 32% lower than the 3 Yr-Avg* start, a much more typical start to the year.

2023	22,838
2022	11,689
2021	17,831
2020	29,145
2019	40,701
3 YR AVG	33,812

***3 Yr Avg represents 2017 - 2019**

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