



THE SCOOP

YOUR MONTHLY HOUSING SNAPSHOT

SOUTHERN
CALIFORNIA

FEBRUARY 2023



FEBRUARY RECAP



February is for lovers. It's also a great time to fall in love with a new home. The only problem is that the portfolio of potential suitors has run rather dry, an issue that has been prevalent since the start of the pandemic. Buyers who are not turned off by the elevated mortgage rates are only left with a few options to choose from. Instead, they are left to pick over the anemic amount of options on the table, creating a more competitive market.

The trend that evolved in February was rapidly increasing demand matched up against a lack of available homes to purchase, typical for the Winter Market. The supply of available homes dropped throughout the 2023 winter. As a result, market times have plunged. Homes have been selling at a faster pace, even over the asking price at times, a fundamental change for buyers trying to secure a home.

It is crucial to remember that demand is still at shallow levels for this time of year. Due to affordability constraints, the high mortgage rate environment still precludes many would-be purchasers from isolating a home. Demand would be much stronger if rates dropped to the mid-5s.

Inventory numbers measured in at roughly 22,000 homes at the start of February, and by month's end, had dipped just under 20,000 homes for the first time since May 2022. The inventory typically slowly rises following the Super Bowl; however, we have yet to see that occur in 2023. Expect the inventory levels to remain flat and eventually pick up as housing transitions into the Spring Market in mid-March.

February demand started with about 9,600 pending sales, a much higher level compared to the start of the year. The surge continued in February, and demand climbed to nearly 11,000 pending sales by the month's end. Demand will slowly rise as we head toward the peak season for housing, Spring.

From 69 days on February 1st to 54 days on the 28th, the Expected Market Time has continued to drop as demand rocketed upward despite the limited supply. This is another change in the pace of the market, with the balance between buyers and sellers tilting slightly more towards sellers. Expected Market Times will continue to fall until peaking sometime in March.

HERE'S THE SCOOP



Last year's giant jump in rates significantly impacted affordability, ultimately sidelining many buyers and sellers. Yet, since November, mortgage rates have remained below 7% with duration, inviting many buyers to begin their search for a home again. They averaged 6.3% in December and 6.2% in January. In February, mortgage rates spiked above 7% with stronger than expected economic readings.

Many homeowners who may be interested in making a move are opting to "hunker down" and stay put instead. Their current underlying low, fixed-rate mortgage is preventing them from selling. Since 89% of all California homeowners with a mortgage have a rate at or below 5%, and 71% have a rate at or below 4%, the higher rate environment limits the number of sellers coming on the market. As rates drop, the gap between a homeowner's underlying rate decreases. When rates drop below 5.5%, that gap will narrow enough to entice many homeowners to sell, and fewer homeowners will continue to hunker down.

Mortgage rates pave the path for housing. Substantially higher rates have been limiting supply and demand, constraining the number of closed sales. As rates drop, demand rises, more homeowners opt to sell, and more closed sales will occur.

The February market felt exceptionally hot even with higher rates with an Expected Market Time, the time between listing and successfully negotiating a contract to sell, of only 54 days. The 3-year pre-COVID average was 70 days. Today's hotter market is a function of the low supply and fewer homeowners coming to market, not record-breaking demand.

Sellers must exercise caution when handling today's housing market. Homes priced according to their Fair Market Value and in good shape will attract plenty of interest and, in many cases, multiple offers. However, even with today's stronger market times, homes in poor condition with deferred maintenance, homes in poor locations, and overpriced homes will remain on the market for a long time without selling.

Essentially, there are not enough choices for buyers looking to secure a home in today's housing market. Even with fewer buyers willing to participate due to higher mortgage rates, the housing scene feels exceptionally hot because of the supply dilemma. Keep an eye on fluctuating mortgage rates and their causal effects as we dive into the Spring Market.

AFFORDABILITY IN TODAY'S MARKET

SOUTHERN CALIFORNIA

HOME PRICE

\$1,250,000

- \$4,000/month Desired Monthly Payment
- \$2,500/month Desired Monthly Payment

\$1,000,000

\$750,000

\$500,000

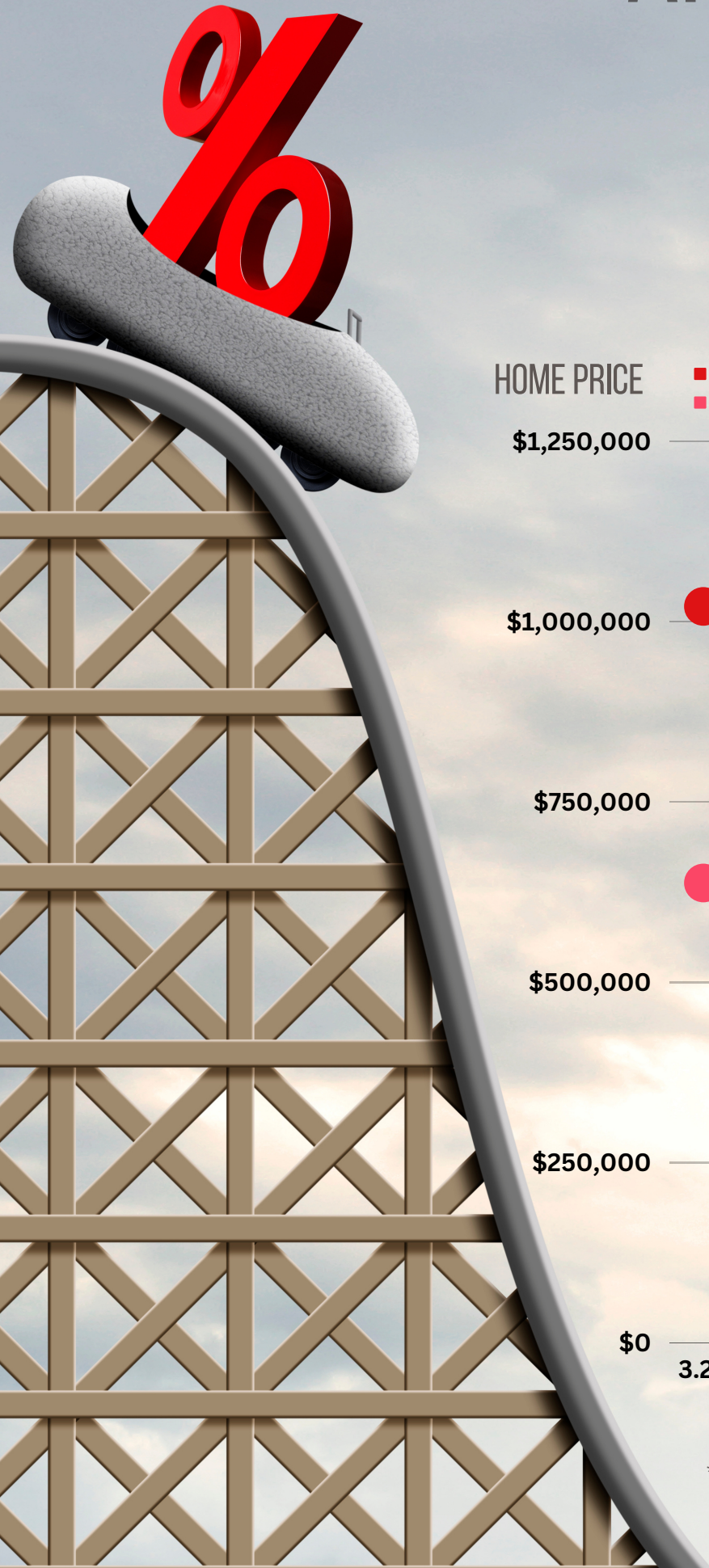
\$250,000

\$0

3.25 4 4.5 5 5.5 6 6.5 7 7.5

INTEREST RATES

*MORTGAGE PAYMENT IS PRINCIPAL & INTEREST ONLY & 10% DOWN PAYMENT



INTEREST RATE IMPACT ON DEMAND

SOUTHERN CALIFORNIA

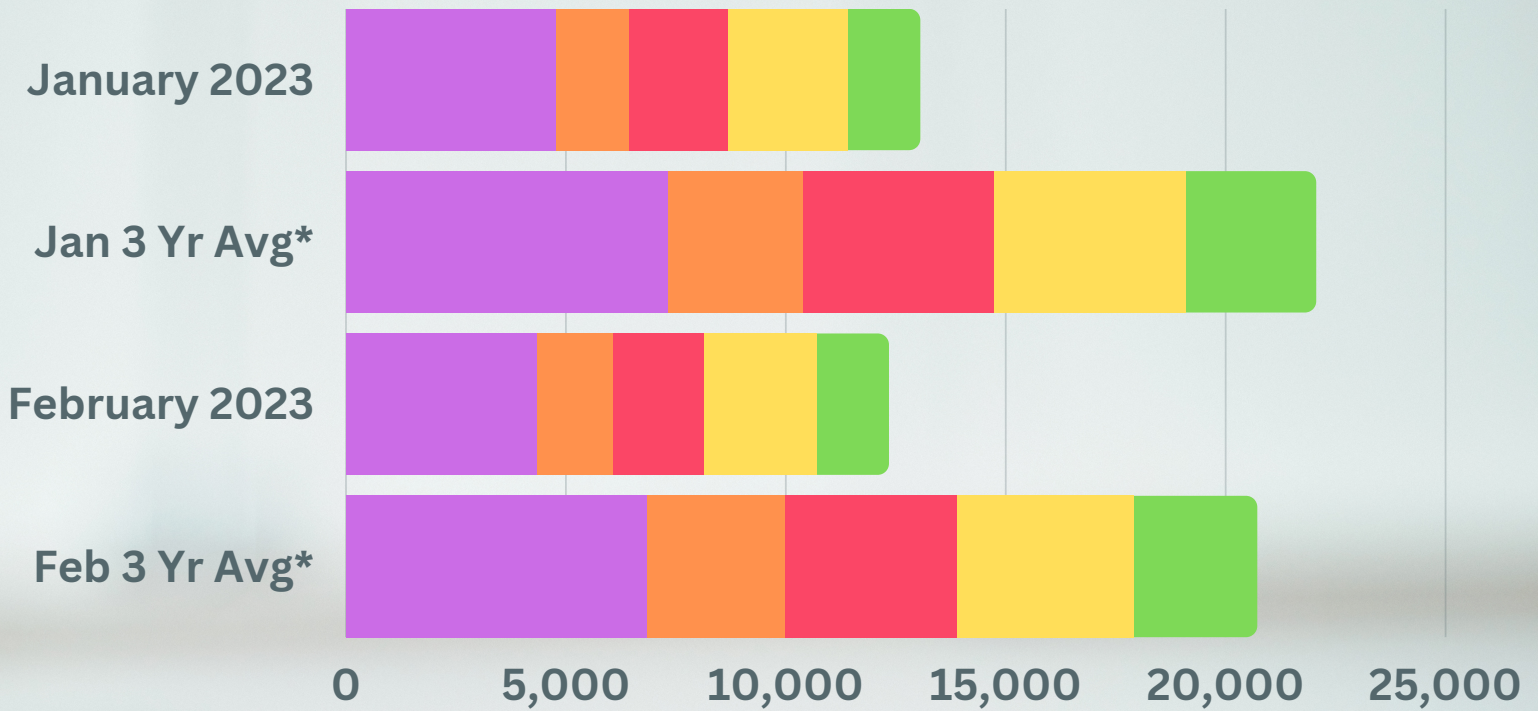
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While demand across the region shot up by over 50% in the first two months of the year, recent rate hikes and economic uncertainty have caused a plateau in demand over the last month. Demand typically rises in March until peaking sometime in April or May.

LA OC SD RV SB



NEW LISTINGS: 2023

The inventory crisis continues into 2023. In January, there were 9,000 fewer sellers in Southern California compared to the 3-year average from 2017 to 2019, down 41%. In February, there were nearly 8,400 fewer homes for sale, down 40%. Expect this trend to continue further into 2023.





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