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Reports on HOUSING
Your Local Real Estate Snapshot

THE LOS ANGELES COUNTY HOUSING REPORT

THE TIME IS NOW

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DESPITE MORTGAGE RATES ECLIPSING 7%, THERE ARE VERY FEW AVAILABLE HOMES, MULTIPLE OFFERS ARE THE NORM, AND HOME VALUES ARE ON THE RISE.

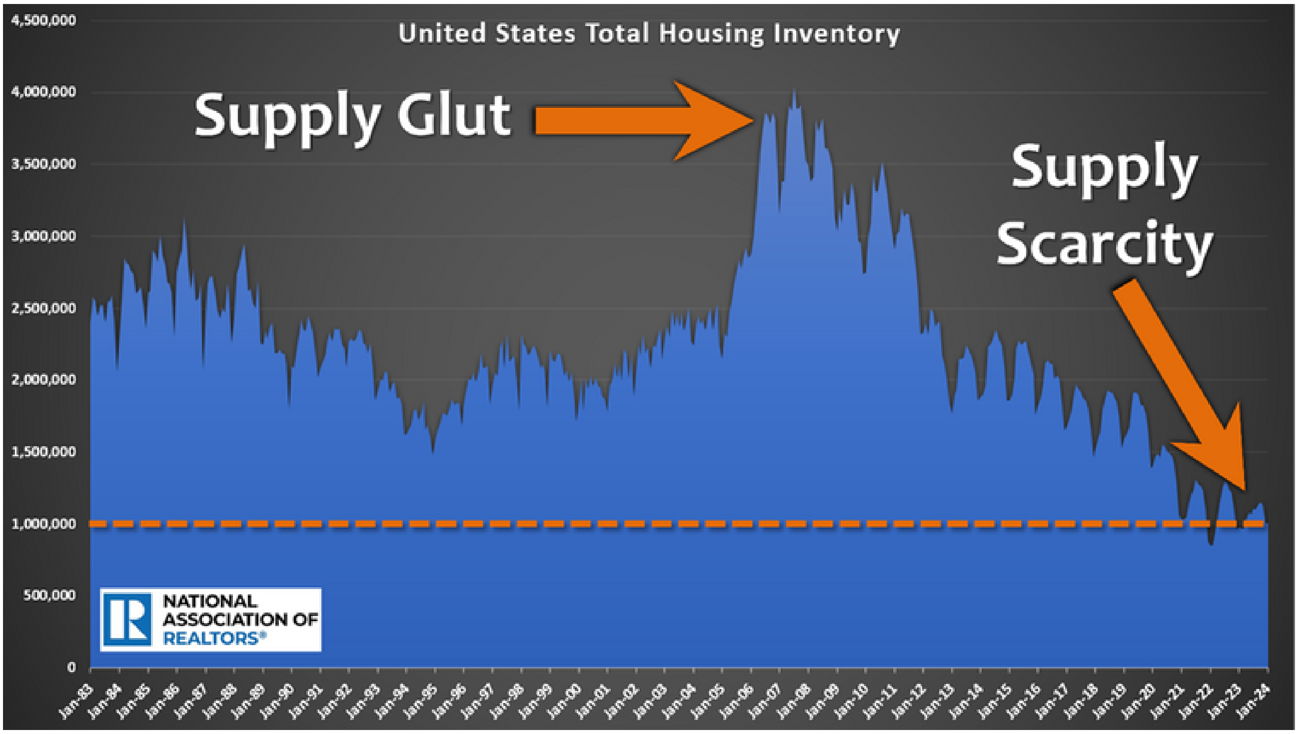
WAITING IS RISKY

AS THE ECONOMY EVENTUALLY COOLS, MORTGAGE RATES WILL DROP, FUELING DEMAND AND LEADING TO AN EVEN HOTTER HOUSING MARKET.

Many potential buyers are sitting on the sidelines, waiting for the market to become more affordable. Combining high home values and significantly higher mortgage rates, the expectation was for home values to plunge. Home affordability has collapsed due to rates rising from 3.25% in January 2022 to 7% today. Purchasing a home is out of reach for so many Americans. The logic is simple: either incomes rise substantially, interest rates significantly fall, or home values tumble. They believe that the only proper solution is for home values to collapse.

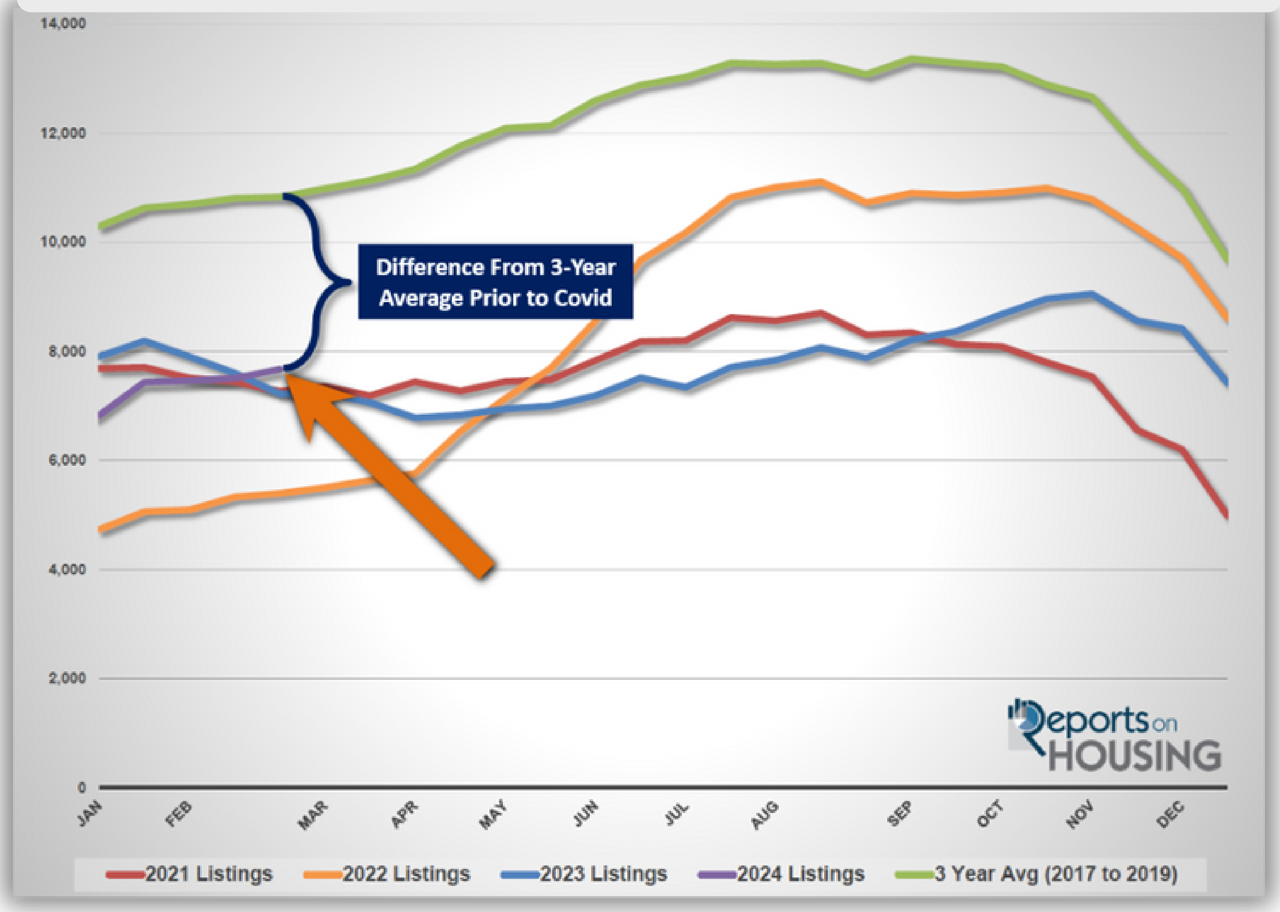
Yet, the housing market has proven to be exceedingly resilient despite higher rates and low home affordability. Incomes have not suddenly spiked, mortgage rates have not plunged, and home values have risen year over year. Housing has played out much differently than expected. Buyers new to the housing arena are shocked to find tremendous competition. Jam-packed open houses, multiple offer bidding wars, and sales prices at or above the asking prices are the norm, especially in the lower price ranges.

It is best to look at supply and demand to understand why home values have not collapsed. Before and during the Great Recession, there was a glut of homes available across the U.S. Before 1995, the inventory averaged 2,250,000 homes, according to the National Association of REALTORS® (1982 to 2005). From 2006 to 2010, it averaged 3,430,000, 52% higher, and even eclipsed 4,000,000 homes in July 2007. During the Great Recession, demand plunged. With a glut of homes available and very low demand, home values crashed. Yet, since 2021, the U.S. inventory has averaged 1,100,000. In January, it was at 1,010,000. There is a scarcity of homes available to purchase. With higher rates, demand has plunged once again. This time, low demand is matched up against a chronically low inventory. This has resulted in rising home values.



In Los Angeles County, there are only 7,671 homes available to purchase today. The 3-year average before COVID (2017 to 2019) was 10,828, 41% higher than today, or an extra 3,157 homes. That is when housing was appreciating methodically from year to year. Home values continuously appreciated annually from 2012 through 2019. The housing market was not out of control, and the supply of available homes to purchase before COVID was at normal levels. On the other hand, today's inventory is at chronically low, anemic levels.

LOS ANGELES COUNTY ACTIVE LISTINGS YEAR OVER YEAR (2020 - 2024)

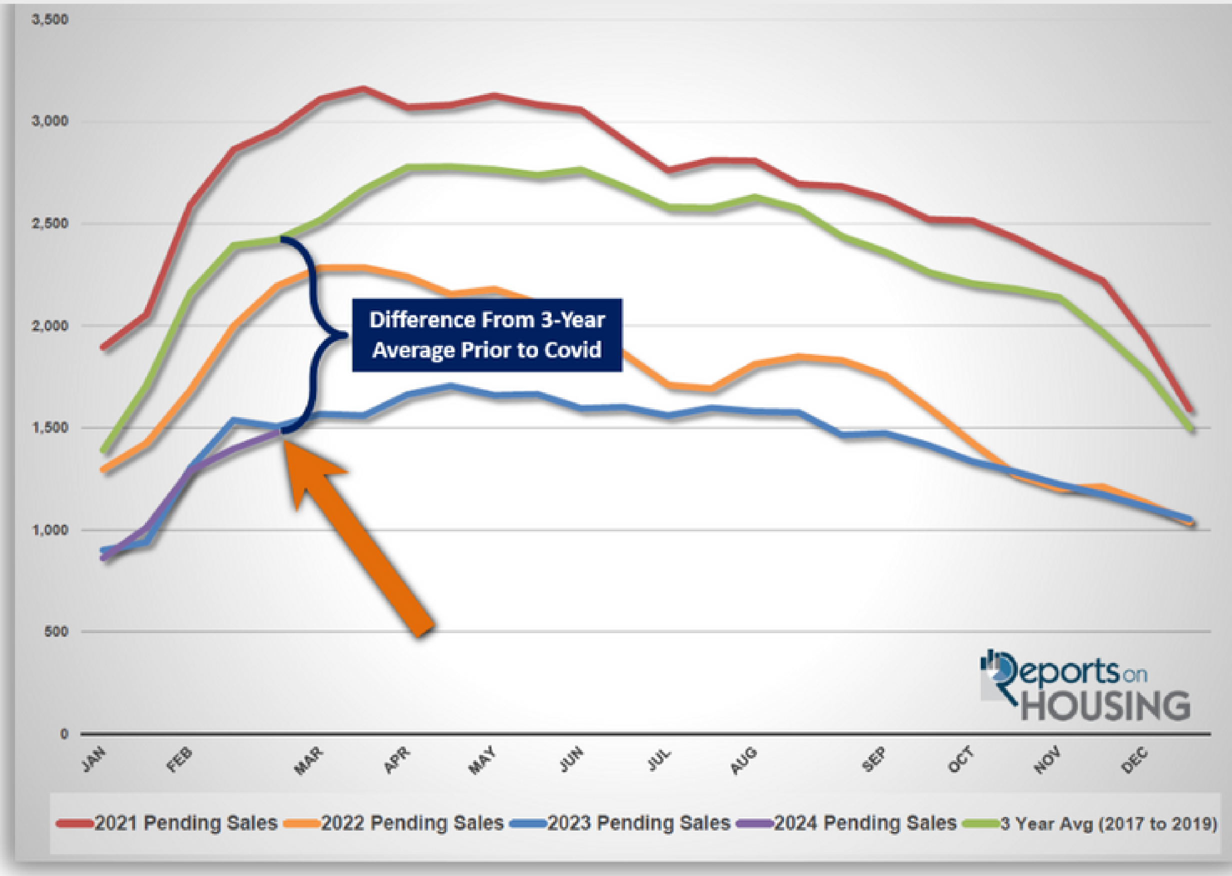


Even with limited demand, the Los Angeles County inventory has struggled to grow. The main culprit is the lack of homes coming on the market. When there are fewer FOR-SALE signs, it is challenging for homes to accumulate to grow inventory. In 2023, there were 33% fewer sellers than the 3-year average before COVID. That is over 30,000 missing signs. So far this year, through February, there are 25% fewer sellers or over 3,500 missing signs.

Los Angeles County demand, a snapshot of the number of new pending sales over the prior month, has been exceedingly low. This is partly due to the lack of homes available in the lower price ranges. Today's demand is at 3,456 pending sales, slightly less than last year's 3,723 pending sales. The 3-year average before COVID was 5,116, 48% higher than today, or an extra 1,660 pending sales.

Low demand levels do not mean that the market is not exceptionally hot. Today's Expected Market Time (the number of days to sell all Los Angeles County listings at the current buying pace) for all homes priced below $1.5 million, 83% of all demand, is 49 days. At 49 days, buyers compete, bidding wars are the norm, and home values are rising. This occurs with a scarcity of supply, which is precisely what the housing market is experiencing today.

LOS ANGELES COUNTY DEMAND YEAR OVER YEAR (LAST 30 DAYS PENDING)



Why is right now a good time to buy rather than waiting for qualified buyers? Rates are expected to drop this year. In December, the Federal Reserve projected reducing the Federal Funds Rate three times this year. Their dual mandate is for both maximum employment and stable prices. The job market has been robust, and inflation is coming down nicely towards their 2% target. Despite plenty of positive numbers, the U.S. economy is facing many headwinds. Personal savings rates are low. Pandemic-era excess savings from government stimulus checks are running out. Credit card debt is growing at an abnormally fast rate. Credit card, automobile, and multi-family delinquencies have been rising rapidly. Eventually, the economy will slow from its current brisk pace. Most economists agree that a recession is not in the mix, but economic growth will slow. When this occurs, investors move their money to the safe haven of 10-year treasuries and mortgage-backed securities, resulting in a substantial drop in mortgage rates. At first, rates will drop between 6% to 6.5%. Eventually, if the economy remains cool with duration, rates could fall below 6% for the first time since August 2022.

Lower rates will result in an immediate boost in the number of buyers looking to purchase. Affordability will drastically improve. Demand readings will improve virtually overnight. Eventually, as rates drop, the number of homeowners willing to sell will increase. But remember, 85% of all California homeowners with a mortgage are enjoying a fixed rate at or below 5%. Not everyone will be inclined to trade their low rates for a higher one. The dramatic increase in demand will outpace the number of additional homeowners willing to sell. As a result of this mismatch, the housing market will get even hotter, the number of multiple offers will increase, bidding wars will get more fierce, and home values will rise.

It was true a year ago, and it is true today: The time is now. Buyers who wait will face increased competition, and purchasing a home will become even more challenging.