

Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from **RPI (Realty Publications, Inc.)**

February 2019 • Vol. 8 • Issue 2 • **California home prices anchored to incomes**



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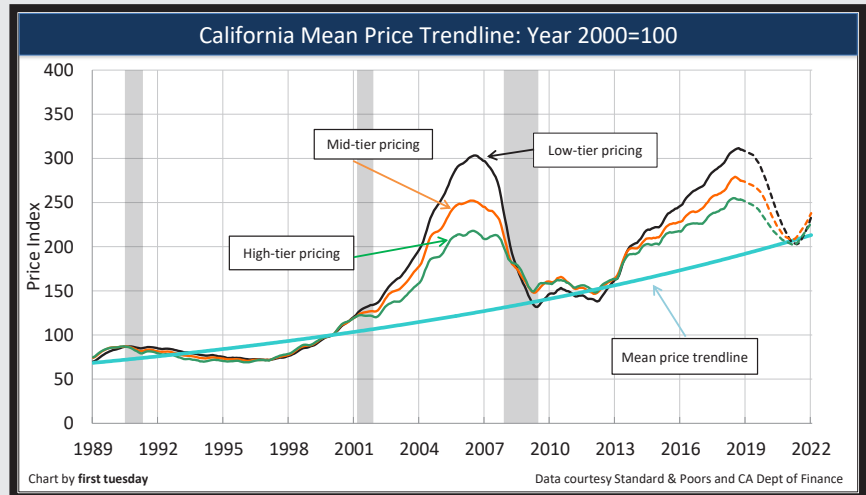
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Mean price trendline pulls prices down

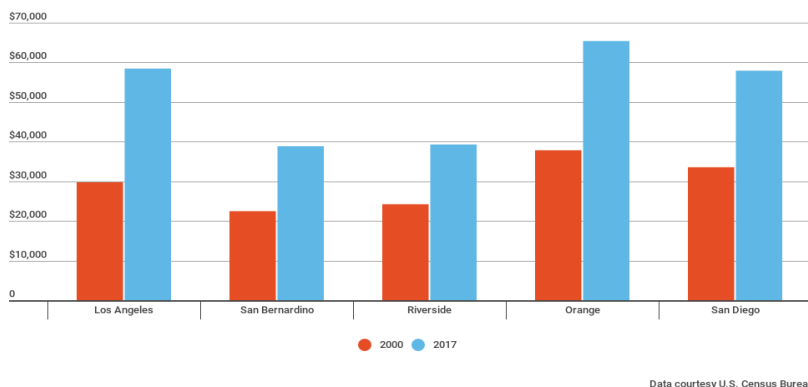
This chart shows home price movement in California's three price tiers (the black, orange and green lines), and the mean price trendline (the blue line). The dashed lines are **first tuesday's** forecast for home prices.

The **mean price trendline** represents the historical equilibrium to which prices consistently return. It is based on the ability of homebuyers to pay for housing, which boils down to how much they're being paid and how much prices on other consumer goods are rising. Home prices were far above mean price trendline in 2018, but the trend began to reverse course by year's end.

In 2019, the Federal Reserve is continuing their process of raising interest rates to cool off the economy, which will induce a **business recession** forecast to arrive in 2020. All of this action is expected to continue to pull prices down toward the mean price trendline in 2019 and 2020, bottoming in 2021.



Per Capita Income in Southern California



Rising SoCal incomes can't keep up with home prices

This chart shows **per capita income** in Southern California's largest counties in 2000 (the red bars) and 2017 (the blue bars).

Since 2000, per capita income has increased in each of California's major metros. The largest income increase in SoCal took place in **Los Angeles**, where incomes nearly doubled over 17 years. However, prices here increased on average over 170% during those same years. As home prices have increased at a quicker pace than incomes, this leaves the housing market in an unstable position.

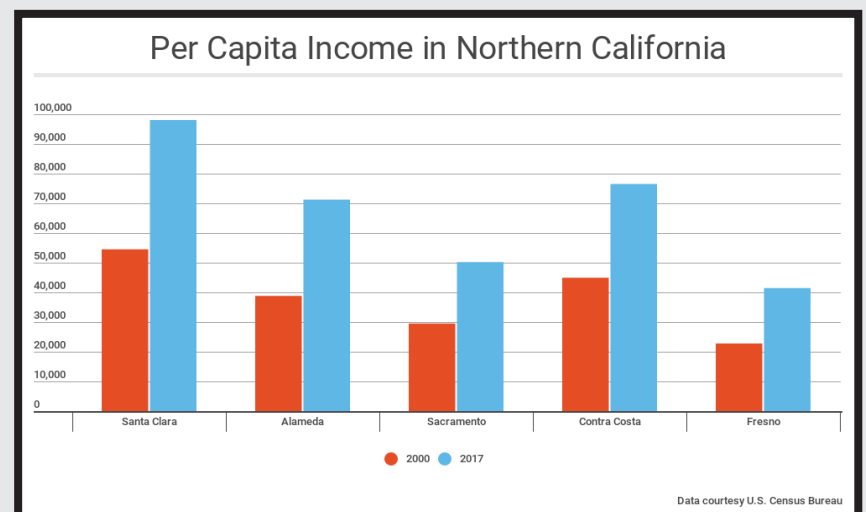
Not only do rising prices lack the support of incomes, but they are also up against slowing sales volume and rising interest rates. Thus, anticipate **home prices** to fall back in line with incomes over the next two-three years.

NorCal incomes rising quickly, but still lag behind prices

This chart shows **per capita income** in Northern California's largest counties in 2000 (the red bars) and 2017 (the blue bars).

Since 2000, per capita income has increased in each of California's major metros. The largest income increase in NorCal took place in Alameda County, where per capita income rose 84% from 2012-2017. Meanwhile, Bay Area home prices increased over 150% during this same period. Even though incomes are much higher in this part of the state than others, the **price-to-income imbalance** is clear.

Expect prices to fall back towards the **mean price trendline** in 2019, continuing in 2020 and bottoming in 2021. Real estate professionals who prepare for the slowdown now will experience less of an impact on their incomes in the years ahead.



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