

Monthly Real Estate Statistical Update

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

July 2019 • Vol. 8 • Issue 7 • *The downward forces on California home prices*



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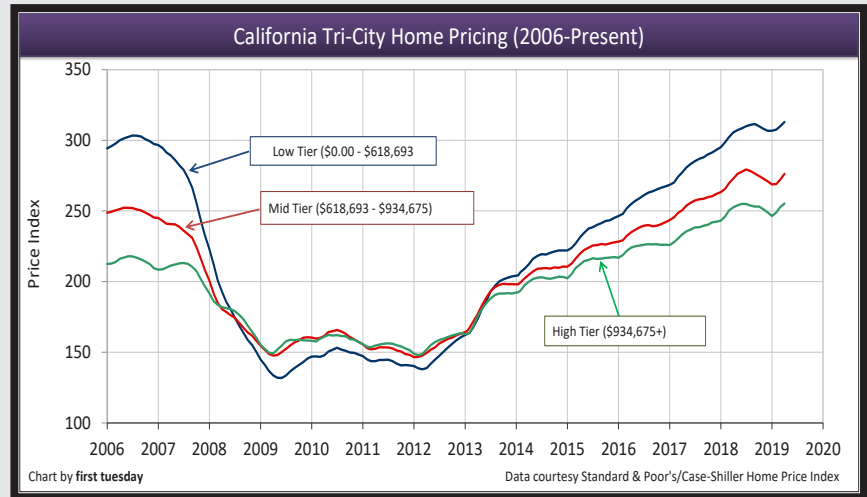
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Home prices rebound slightly in Q1 2019

This chart shows **home price movement** averaged for Los Angeles, San Diego and San Francisco across three price tiers: the low tier (the blue line), the mid tier (the red line) and the high tier (the green line).

After six years of rising, home prices began to fall back in all price tiers in the second half of 2018. This decline followed about a year after **mortgage interest rates** began rising in late-2017, which resulted in a significant decline in buyer purchasing power. Homebuyers, unable to qualify for as much mortgage as they used to with previously lower interest rates, demanded lower prices in return.

The first quarter (Q1) of 2019 saw home prices rebound slightly. But the rebound is unlikely to continue in the months ahead, as the rise is a **seasonal adjustment** from the extra momentum in the spring buying market. Expect home prices to decline further in the second half of 2019, continuing into 2020.

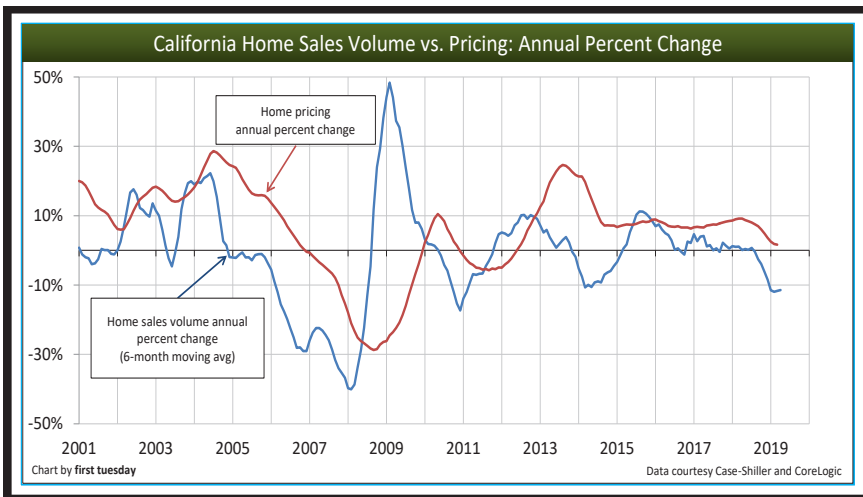


Sales volume: a powerful magnet for home prices

This chart shows the **annual percentage change** in home sales volume (the blue line) and home prices (the red line).

In a healthy housing market, home prices follow sales volume closely, as the number of homes sold reflects **homebuyer demand** and enthusiasm. But this relationship in California's housing market has been distorted in recent years, as prices continued to rise around 8% each year since 2014, despite a steadily weakening sales volume. This discrepancy was mostly due to record-low housing inventory.

In the second half of 2018, the relationship between sales volume and pricing began to normalize. In the first quarter of 2019, **home sales volume** averaged 13% below a year earlier, while prices averaged 2% above a year earlier, down from the 9% year-over-year price rise experienced in early 2018. Expect the pull of sales volume to continue to put downward pressure on prices in 2019 and 2020.

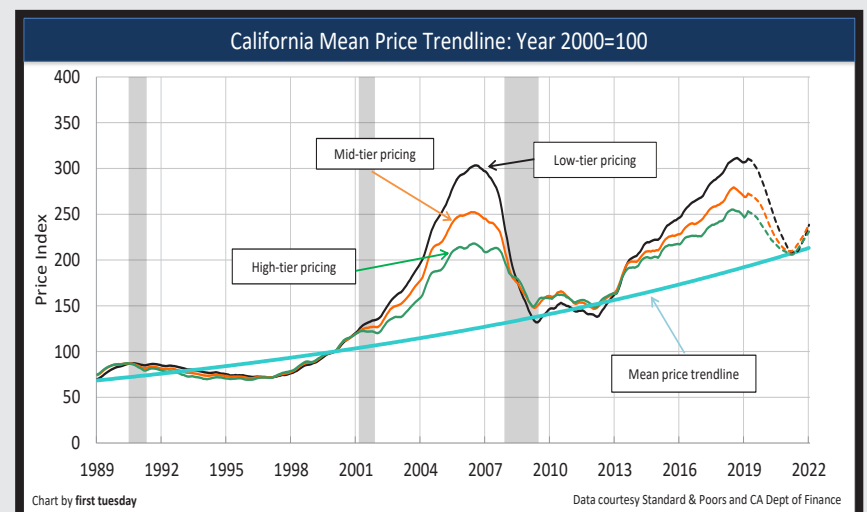


The pull of the mean price trendline on home prices

This chart displays average California home price movement in three tiers, alongside the mean price trendline (the blue line). The dashed lines are RPI forecasts for **future price movement**.

The **mean price trendline** represents the historical equilibrium level to which home prices cyclically return. Prices began to trend down in 2018 but will need to fall further to be brought in line with homebuyers' ability to pay. This tendency is reflected in the mean price trendline, which ties home prices to homebuyer incomes, typically increasing around 2%-3% each year.

Forecasters expect the next **recession** to arrive in 2020. Economic activity pushing the housing market toward the next recession also continues to pull home prices toward the mean price trendline in 2019-2020. Prices are expected to bottom in 2021 and rebound during the following recovery.



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