

Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from [first tuesday](http://firsttuesday.us)

June 2018 • Vol. 7 • Issue 6 • **Home prices temporarily outrun California's flat home sales volume**



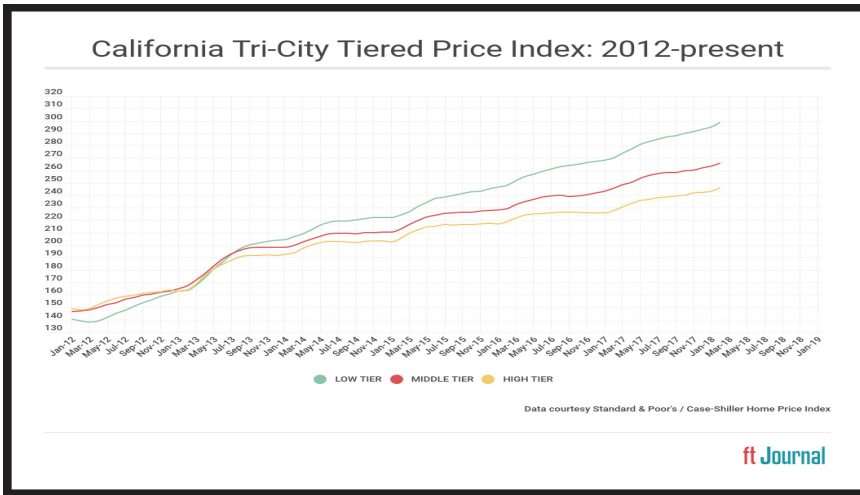
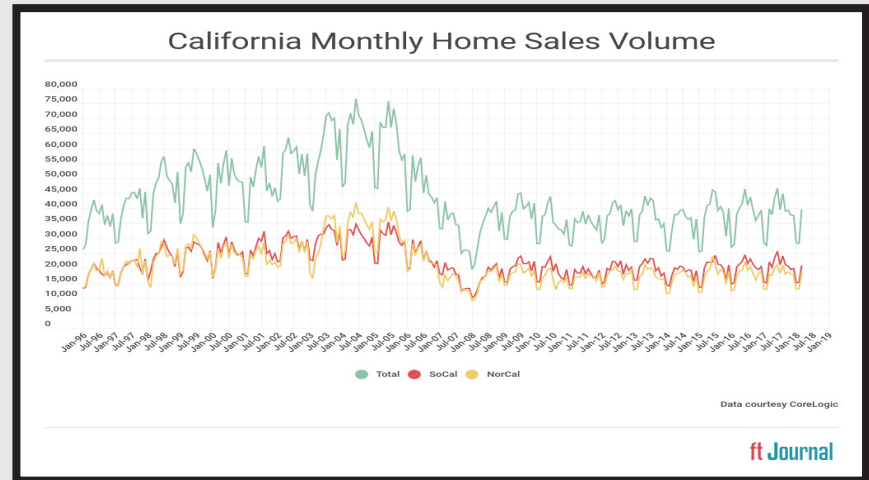
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Home sales volume has pancaked

This chart shows **monthly home sales volume** in California, including homes sold in Southern California (the red line), Northern California (the yellow line) and statewide (the green line).

The number of homes sold in the first quarter (Q1) of 2018 is almost exactly the same as Q1 2017. This continues 2017's overall **flat performance**, which saw home sales volume increase less than 1% over 2016. Overall, California home sales volume has been flat since 2014.

Expect much of the same through the rest of 2018. Rising mortgage interest rates and low for-sale inventory are both a negative influence on sales volume. But **homebuyer demand** persists. Expect home sales volume to finally pick up in 2019 and continue in 2020 as we head into the next housing peak.



Home prices are outrunning capacity to buy

This chart shows the average **price change** in California's three largest cities: Los Angeles, San Diego and San Francisco. This price change is individualized by price tier, including the low tier (green line), middle tier (red line) and high tier (yellow line).

At the end of Q1 2018, home prices were 11% higher in the low tier and 8% higher in both the middle and high tier. Since 2012, low-tier home prices have increased faster than higher-priced homes. This is due primarily to **more competition** in the low tier for a shrinking for-sale inventory.

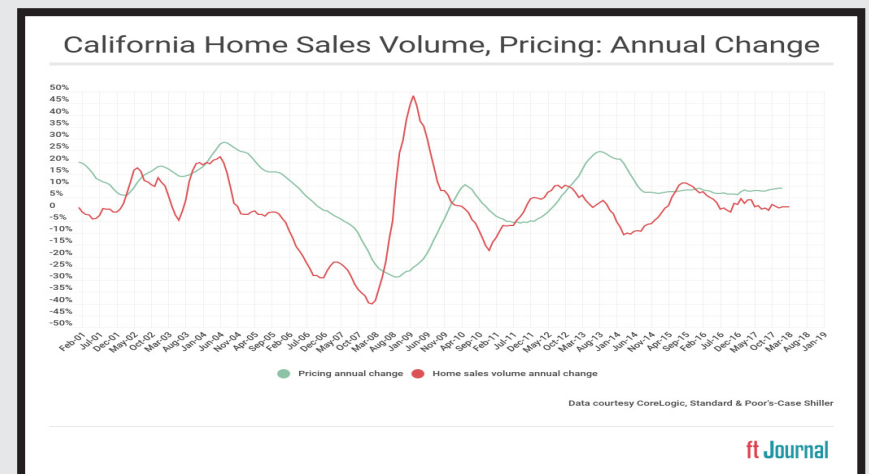
Home prices will continue to rise in all tiers until **residential construction** picks up. New home sales produce turnover, which alleviates the inventory squeeze. Rising mortgage interest rates will also adversely affect prices, likely restraining the pace of rise in 2019.

The pull of slipping home sales volume on prices

This chart shows the **annual percent change** of home sales volume and home prices in California.

At the end of Q1 2018, home sales volume was 1% higher than a year earlier, while home prices were 9% higher than a year earlier. In a normally functioning housing market, the low level of sales volume over the past two years ought to have pulled back home prices. But **prices persist** at their annual 8%-10% rising pace.

Historically **low inventory** is complicating the sales volume and pricing relationship. Lack of construction is the culprit. Once starts pick up, likely around 2019, more turnover will take place. Home sales volume and pricing will then fall in step once again.



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