

Weekly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from *first tuesday*

March 24, 2014 • Vol. 3 • Issue 12 • **Low sales volume and high prices trigger hold phase**



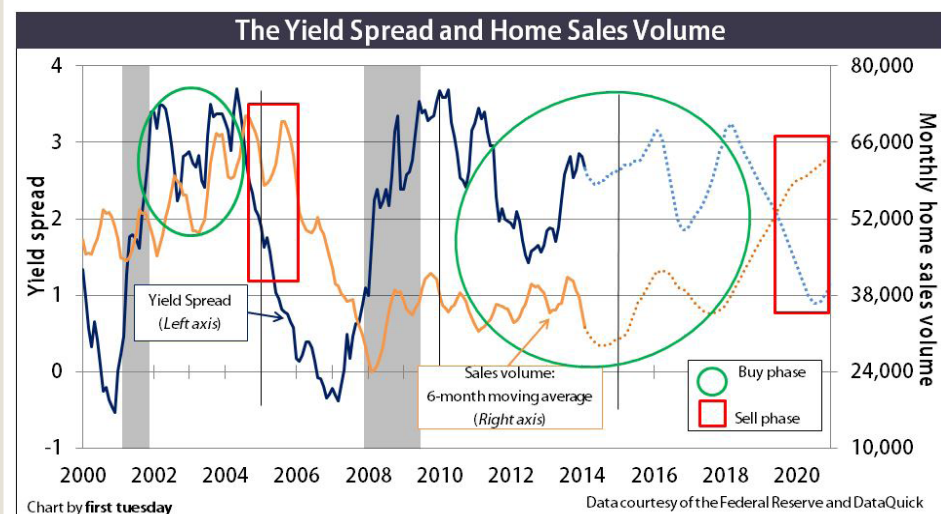
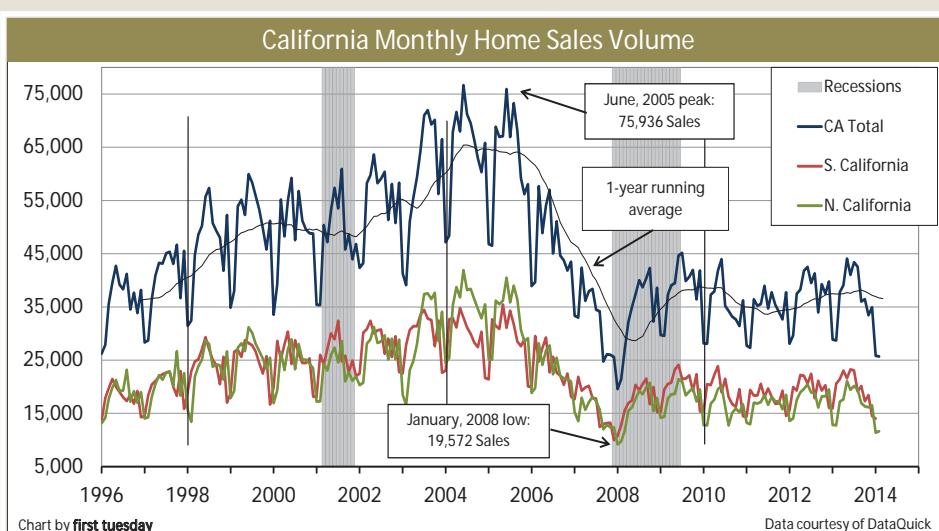
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California home sales volume reflects price rise

This chart tracks California's monthly **home sales volume**, excluding trustee's sales.

Statewide, 25,700 **new and resale home transactions** closed in February, roughly level with January. Both are down nearly 11% from a year earlier.

Expect annual sales volume to slip throughout most of 2014, bottoming in 2015. By then, home prices will be 15%-20% lower with sales volume supported primarily by **end users** – buyer-occupants and long-term income property investors. **Builder inventory** will sell well in 2014 as buyer-occupants continue to avoid the residual effects from the 2013 **MLS speculator frenzy**.



Yield spread and home sales volume ride the bumpy plateau

This chart examines the **yield spread** as your guide to anticipate the best time to **buy, sell or hold** real estate. The yield spread is the difference between the 10-year Treasury Note and the 3-Month Treasury Bill rates.

As of February 2014, the yield spread was 2.66, up from 1.88 one year earlier. A slightly more vigorous **general economic recovery** in the next 12 months is likely, but today's flat home sales volume and inflated home prices portends a flat housing market for the remainder of 2014.

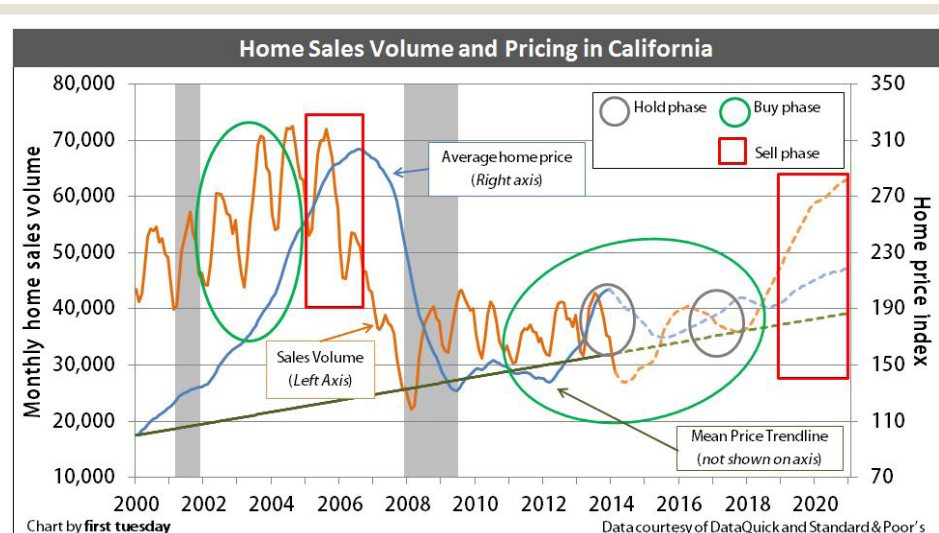
Home prices will not return to today's **speculator-driven levels** until the next peak in pricing, likely around 2019-2020, possibly later. However, the end of the 2013 price bump does not constitute a **sell phase**, as it is not supported by sales volume or yield spread trends. Rather, when the yield spread, sales volume and pricing together signal a slowdown during a recovery – as they do now – it constitutes a **hold phase** before resuming buying activities.

Home sales volume forecasts pricing

This chart helps you further anticipate the best time to **buy, sell or hold** real estate by examining **home sales volume** and **pricing**.

Current home sales volume and pricing declines confirm we are now in a **hold phase**. Home sales volume has experienced no long-term change since 2009 and will not until 2017. **Speculator interference** in 2012-2013 distorted pricing, driving out end user demand, and in turn, reducing sales volume. This suggests prices must fall. When they bottom, prices will remain relatively level for about 18 months.

Exuberant home price increases eventually return to the annual rate of **consumer inflation** and **wage increases**, generally 2.5%-3.5% for California. When home prices approach mean pricing in 2015, prices will then move in sympathy with the mean price trendline for a few years, held back by rising interest rates.



Click on any chart
for more information!