

Market Snapshot

Supply Crisis Begins to Wane?

Since the housing market began to turn around in earnest in the 2013 timeframe, the market has been characterized by a low level of inventory. In fact, the dearth of supply underlies much of the challenges in California's current housing environment. The supply shortage has caused home prices to rise much faster than incomes, which has led to a deterioration in affordability and an erosion of homeownership. At the same time, California's economy continues to pump out good jobs across the spectrum of wage and skill categories and indeed, across every geographic area in the state. This growth in demand has come into direct conflict with the shortage of homes such competition for the homes that do sell end up selling quickly, for a premium, and often go to the highest bidder.

However, there are some initial signs of optimism as we enter the busy homebuying season. In fact, for the first time in nearly 3 years, California has seen an increase in the number of active listings on the market. Overall, there was a 2% increase in the number of homes available for sale in April. While this is a proverbial drop in the bucket relative to the housing needs we have, it still represents an important milestone, which, taken together with a precipitous deceleration in the decline in listings during the first quarter of 2018, and it suggests that the housing supply crisis could be beginning to ease.

It is true that a single month does not form a trend, but consider this growth in the context of the past few years: In each and every month of 2017, the number

of active listings declined in California. What's more, they declined by double-digit percentages every single month last year. Fast forward to 2018, and active listings were down by just 6.6%; and active listings were down by just 6.6%; they fell 1.3% in February; and they declined by just 1.0% in March before beginning to rise in April. From this perspective, the recent uptick in listings does appear to be part of a broader shift where more homes are coming onto the market.

Interestingly, this shift in the market place is largely coming from the bottom end of the market. Homes priced above \$1 million have already been enjoying double-digit increases in listings for much of the past year. However, all of this growth was more than offset by declines in the number of active listings priced below \$750,000. In April, the bottom end of the market still shrunk, but with homes priced below \$300,000 declining by 13%, the pace of the decline has been roughly halved over the past 12 months. In addition, California finally saw an increase in the number of listings priced between \$300,000 and \$750,000. It was in the mid-single-digits, but the fact that the bottom was not falling as fast combined with modest growth in middle-priced segments and solid growth at the top end, caused the total number of listings to increase for the first time in years.

It is important to note that unsold inventory still declined because home sales increased by more than active listings, and that a few months of modest growth will not be enough to alleviate years of chronic undersupply, but it is a critical first step to being able to chip away at the overhand that has accumulated.

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