CALIFORNIA ASSOCIATION OF REALTORS®

Market Snapshot

A Tale of Two Markets

With the Federal Reserve signaling an impending scale back of its quantitative easing program, interest rates soared in recent months. The average 30 year fixed rate jumped more than 100 basis points from 3.35 percent in early May to 4.46 percent in late June, and reached its highest level since July 2011. The increase in mortgage rates had an impact on the housing market as home sales in California pulled back slightly in June. Sales dropped on a month-to-month basis for the first time in the last four months, and were down 3.7 percent when compared to June 2012.

Despite the decline in overall sales, higher-end markets continued to show strong growth on a year-over-year basis. Sales above $500,000 increased 33.6 percent when compared to June 2012, and sales of million dollar plus homes jumped 31.7 percent from last year. This was evident in coastal markets such as San Francisco County, Marin County, and Santa Cruz as all of them experienced double-digit sales increase in June. Lower price segments of the housing market, however, continued to decline with sales under $200,000 dropping 43.6 percent from last June and sales between $200,000 – 300,000 decreasing 25.7 percent year-over-year.

The vast difference in sales trends between the lower and the upper price ranges was due in part to the constraint in the housing supply. Overall housing supply in June improved slightly from the previous month but remained tight by historical standards. Inventory levels, however, vary across the board with a significant shortage in lower-price segments but are less constrained in higher-priced markets. The supply of homes priced under $300,000, for example, dropped 47.1 percent from last June, while inventory for million dollar plus properties increased 7.5 percent when compared to last year.

The steep decline in inventory for the lower price segment is partly attributed to the lack of supply in distressed properties, as REO and short sales tend to concentrate in the lower-priced markets. The supply shortage in distressed properties is due primarily to government intervention in recent years, which slowed the flow of foreclosed properties to the market place. Bank-owned/REO inventory, in fact, has been declining by an average of over 50 percent year-over-year for the past twelve months. The recent surge in home prices has also turned some of the previously underwater properties into homes with positive equity, and led to fewer short sale listings on the market. Equity sales, on the other hand, improved 7.8 percent in June from last year as home prices continued to climb and more homeowners started putting their house on the market.

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