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This Article

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California real estate market 'struggling to gain momentum'

CAR forecast: Home prices, sales to rise slightly in 2012

BY INMAN NEWS

California home sales are expected to remain essentially flat this year and rise slightly in 2012, according to a housing market forecast from the California Association of Realtors.

The trade group predicted California home sales this year will stay roughly flat compared to 2010, at 491,100 units -- a relative improvement given the 10 percent drop in sales in 2010.

In 2012, CAR expects a 1 percent rise, to 496,200 units. CAR projects the median home price in the state will fall 4 percent this year, to $291,000, followed by a modest 1.7 percent rise in 2012, to $296,000, as the lackluster economy continues to weigh on the minds of consumers.

"It's very clear that this market is struggling to gain momentum and move forward, and the pain is being felt in the consumer sector as far as consumer demand," said Leslie Appleton-Young, CAR's chief economist.

"Looking ahead, the fundamentals of the housing market -- such as low mortgage rates, high housing affordability, and favorable home prices -- are expected to continue, but at this point a strong housing recovery will depend on consumer confidence, job creation, and the availability and cost of home loans," said Beth L. Peerce, CAR's president, in a press release.

Several global events have taken their toll on consumer confidence this year, including the European sovereign debt crisis, politics on Capitol Hill, the downgrade of U.S. debt, and the resulting stock market volatility, Appleton-Young said.

Unemployment is also "one of the huge drags on the market" and is considerably higher in California than in the nation as a whole (12.1 percent vs. 9.1 percent in August), she said. She projects the state's unemployment rate this year will average out at 12 percent and decline to 11.2 percent in 2012.

Since January 2010, the nation as a whole has gained back 21.4 percent of the 8.4 million jobs lost during the recession. Meanwhile, California has gained back 14.5 percent of the 1.3 million jobs lost in the state during the recession.

California Housing Market Outlook

	2005	2006	2007	2008	2009	2010	2011f	2012f
SFH Resales (000s)	625.0	477.5	346.9	441.8	546.9	491.5	491.1	496.2
% Change	0.03%	-23.6%	-27.3%	27.3%	23.8%	-10.1%	-0.1%	1.0%
Median Price ($000s)	$522.7	$556.4	$560.3	$348.5	$275.0	$303.1	$291.0	$296.0
% Change	16.0%	6.5%	0.7%	-37.8%	-21.1%	10.2%	-4.0%	1.7%
30-Yr FRM	5.9%	6.4%	6.3%	6.0%	5.1%	4.7%	4.5%	4.7%
1-Yr ARM	4.5%	5.5%	5.6%	5.2%	4.7%	3.5%	3.0%	3.1%

Source: California Association of Realtors.

"The biggest issue that I'm concerned about right now (is) the state of the overall state economy and its slow recovery. The overall recovery is being hampered in part by (the loss of) tens of thousands of (government) jobs because of the budget situation. That has been the biggest drain on our labor market," said Robert Kleinhenz, CAR's deputy chief economist.

California has lost 46,900 government-sector jobs so far this year -- more than any other industry.

As of August, unsold inventory levels in California had fallen to a lean five-month supply. As the reality of the housing market sinks in, more sellers will likely decide to list their homes next year, improving the mix of homes for sale, Appleton-Young said.

REO (bank-owned property) inventory has been especially tight this year, at a 2.7-month supply, year to date.

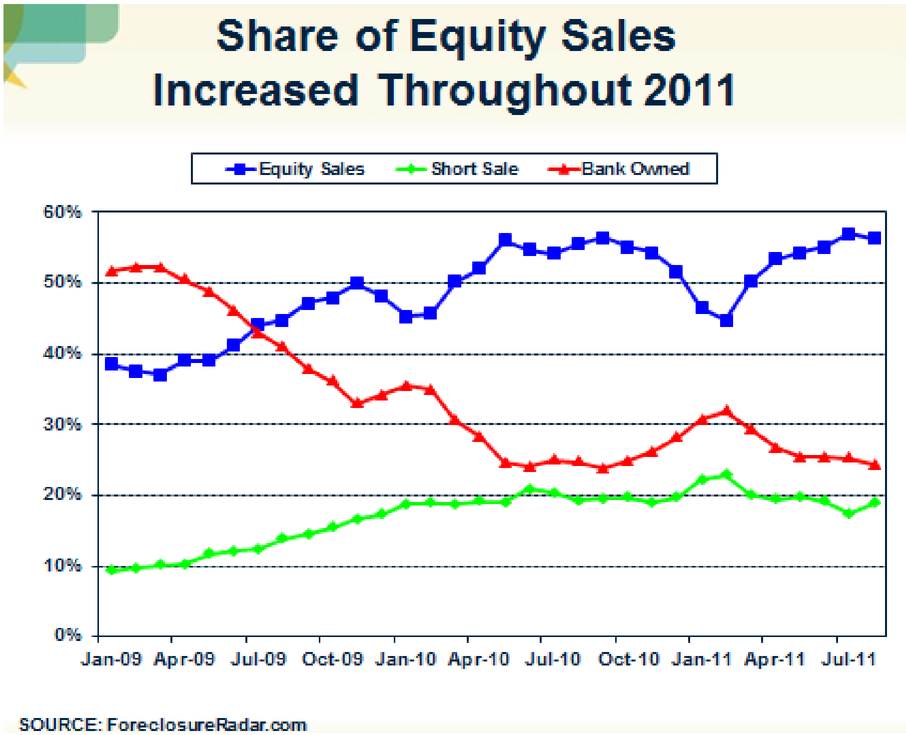
"We could probably absorb more REO sales without a huge impact on the price of homes," Kleinhenz said.

Source: California Association of Realtors

Appleton-Young expects distressed sales to remain a significant chunk of total real estate listings and sales for the next three to five years. The hard-hit inland areas, in particular, will see even more distressed activity in the future, due to shadow inventory and homeowners with negative equity currently "in a holding pattern," she said.

In the second quarter, almost a third (30.2 percent) of California households with mortgages owed more on their home than it was worth, CAR said.

In the last several months, the market's share of distressed properties, especially REOs, has declined, resulting in a balance between traditional "equity" sales and distressed sales, Kleinhenz said.



Next year, "there's a whole closetful of wild cards that could change the environment," including federal housing policies, election-year politics, and the strength of the nation's economic recovery, Appleton-Young said.

One policy the forecast has already taken into account is the lowering of conforming loan limits for Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA), set to go into effect Oct. 1.

"It's going to make financing more expensive ... and put a dent in (high-cost) markets," Appleton-Young said.

"This is a housing market that is struggling to improve and gain ground, and we're very concerned about any measure that points us in the opposite direction," Kleinhenz added.