

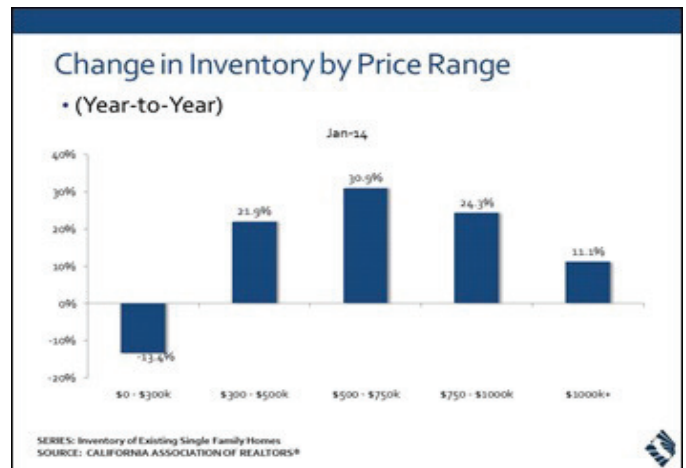
Already strong spring home buying season in sight

Following the winter lull, forward looking market indicators suggest we may be seeing a strong spring home-buying season. Data on pending home sales from the California Association of Realtors (C.A.R.) shows a 23 percent increase in activity between December and January. Pending home sales are forward-looking indicators of future home sales activity, offering solid information on future changes in the direction of the market. A sale is listed as pending after a seller has accepted a sales contract on a property. The majority of pending home sales usually become closed sales transactions one to two months later.

Where is demand coming from? There has been a significant pent-up demand for homes. Following the recession, household formation in California fell dramatically. The latest estimate from C.A.R. shows that some 575,000 fewer households were formed in California between 2008 and 2012 due to economic hardship. If the household formation trends continued at the pace seen before the recession, California would have not only that many new households, but 60 percent of those households would be homeowners. That means we are missing about 345,000 new homeowners in California. With improving economic conditions and solid employment growth across the state, pent-up demand for homes is evident in the pending sales index for January that C.A.R. recently released.

There are obstacles, however, that potential buyers may be facing. For one, inventory of homes listed for sale is still at historical lows. Despite an increase in inventory in January by 12.1 percent from December of 2013 and by 6.7 percent from a year ago, the supply of homes in the lower price segment of the market continues to fall, while the inventory of homes priced at million dollars and higher went up.

Why is the inventory so low? There are several reasons worth mentioning. On one hand, following the collapse of the housing market, home prices along with historically low interest rate led to a very affordable housing market. Those who were able to take advantage certainly did and absorbed a great share of the lower-priced inventory. In the meantime, the supply side of the inventory did not see any progress. California has seen a dramatic decline in new constructions, as permits for new housing units are only half of what is needed to meet the household creation trend. Secondly, there are still about 15 percent or nearly 1.3 million of California's 8.65 million homeowners being underwater. Thirdly, foreclosure pipeline which comprised a large share of home sold over the last few years has dried up and not many foreclosures are available for sales. And lastly, investors of both large and small scale, who recently bought properties, are renting them instead of flipping them. That may change as prices continue to improve. The low inventory environment, however, may be good news for sellers. Potential sellers who have been contemplating of putting their home up for sale may want to take advantage of the low inventory of homes available for sale and list their homes.



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