CALIFORNIA ASSOCIATION OF REALTORS®
Market Snapshot

A Decent Year for 2016 but Outlook for 2017 Is Murky

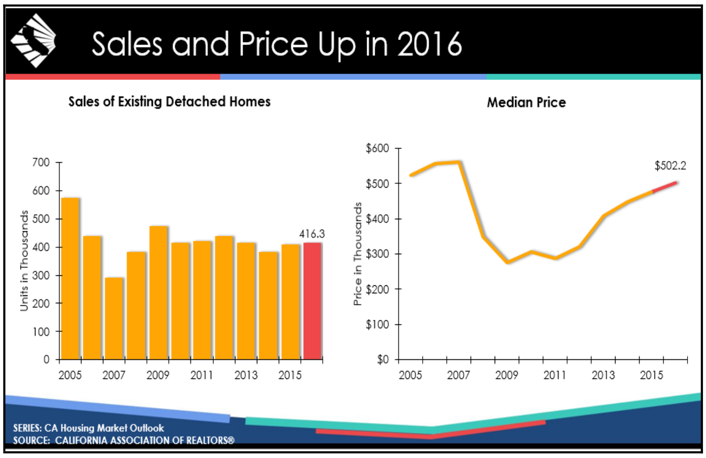
California home sales slowed down in December after experiencing strong year-over-year gains in October and November. Sales of existing single-family homes in the final month of 2016 dropped 7 percent from November, and declined 0.6 percent from the same month of 2015. Despite the declines, home sales in December were solid and on par with the two-year average sales-pace of 412,000 maintained since 2015. The rising trend in interest rates at the end of 2016 may have carried some sales forward, causing a stronger than normal December for the second year in a row, following an unusually strong sales-pace of December 2015 trigged by the effects of the Know Before You Owe mortgage disclosure rules (TRID).

Tight inventory remained an issue in California, as the statewide unsold inventory index dropped in December to 2.6 months, the lowest level since May 2013. Despite a decline in closed sales in December, the index worsened as the number of active listings dropped 8.5 percent from December 2015.

Scant housing inventory exerted upward pressure on home prices and the statewide median price climbed 3.9 percent in December from the previous year. The increase, however, was the smallest since February 2016. The modest increase was attributed partly to the change in the mix of sales between December 2016 and December 2015, as sales were much stronger in the high-end market last December with many non-conventional loans delayed closing due to TRID. This is also a primary reason for the more significant decline in sales in higher-priced regions in December than in other more affordable areas.

For the year 2016, California managed to edge out a marginal gain of 1.7 percent in existing home sales from last year to hit 416,250, as the state housing market wrapped up the year with a very strong quarter. In fact, the fourth quarter was the strongest we have seen since the last quarter of 2012 when we had our last presidential election. The statewide median price also increased 5.4 percent from 2015 to reach $502,250, and it was the first time since 2007 that the median price surpassed the $500,000 benchmark.

While the housing market closed out 2016 with a decent performance, it is by no means an indication that the environment will be easy in the upcoming year. As we move forward with a new president and a new administration in 2017, we are chartering into a territory with many uncertainties in the policy arena that will present challenges to the housing market. The future of Fannie and Freddie, the impact of tax reform, the changes to financial regulations such as the Dodd-Frank Act, and the risks of global trade wars are a few of the unknowns that the market will likely encounter in 2017 and beyond. Adding into the mix a rising trend in interest rates, a housing supply shortage, and a persistent affordability crunch, the 2017 housing market outlook will be the most unpredictable one in recent history.



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