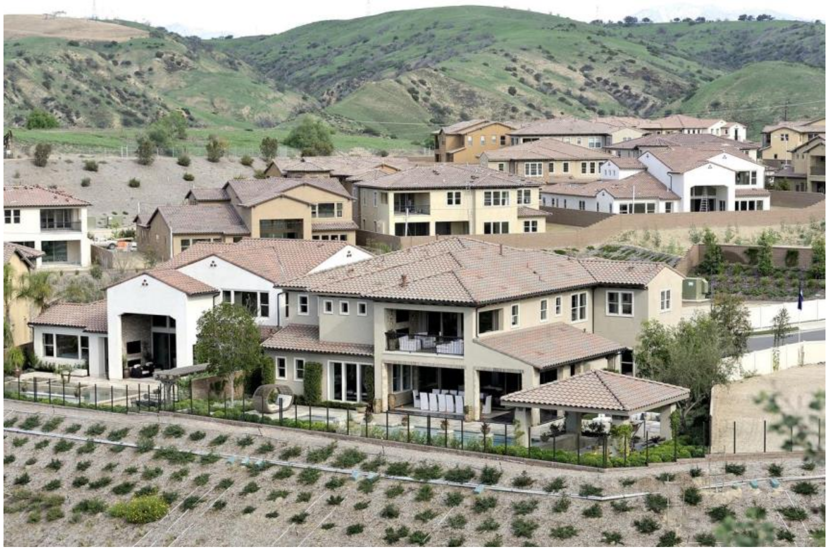
CALIFORNIA HOUSING MARKET FORECAST 2017



California housing forecast

Year	House sales	% Change
2011	422,600	1.4%
2012	439,800	4.1%
2013	414,900	-5.9%
2014	382,700	-7.8%
2015	408,800	6.8%
2016p	407,300	-0.4%
2017f	413,000	1.4%
Year	**Median Price**	**% Change**
2011	$286,000	-6.2%
2012	$319,300	11.6%
2013	$407,200	27.5%
2014	$446,900	9.8%
2015	$474,400	6.2%
2016p	$503,900	6.2%
2017f	$525,600	4.3%

p=projected; f=forecast
Source: California Association of Realtors 2017 Forecast

California's housing market will post modest gains next year amid tight supplies and the lowest housing affordability in six years, as forecast by the California Association of Realtors.

Home sales are leveling off. Prices are rising more slowly. And even with mortgage rates near all-time lows, the California housing market is making a lackluster recovery from the Great Recession, said Realtor Chief Economist Leslie Appleton-Young.

“I think we’re getting close to the peak of the market, but we haven’t really had a stellar recovery either said Appleton-Young. “What you’re seeing in the California housing market is not what I would consider robust activity.”

Even though the market is approaching its peak, she said, it’s not edging toward a crash – barring a major catastrophe like sudden mortgage rate hikes or a stock market meltdown.

“It’s really going to be more of a slow squeeze than a big drop,” Appleton-Young said. “We’re living that right now.”

As for 2017, the Realtor forecast predicted:

• Sales of existing single-family homes – which make up about 68 percent of the overall market – will increase 1.4 percent in 2017 to 413,000 transactions.

• That tally will be up from a projected sales drop this year of 0.4 percent to 407,300 deals, down from 408,800 in 2015.

• Meanwhile, the median house price – or price at the midpoint of all sales – is projected to rise 4.3 percent to $525,600, the smallest percentage gain in six years.

• By comparison, 2016 house prices are projected to be up 6.2 percent to $503,900 by the end of December.

Market fundamentals support increased sales, Appleton-Young said. But global economic uncertainty and increasingly unaffordable prices will temper that growth.

For example, just 29 percent of California homebuyers will be able to afford a median-priced house next year, the association predicted. By comparison, a third could afford that mid-priced home this year and half could afford it in 2011-12**,** when the statewide median was under $320,000.

In Orange County, just 22 percent could afford the median-priced home by mid-2016, Realtor data show. Affordability stood at 30 percent in Los Angeles County, 41 percent in Riverside County and 56 percent in San Bernardino County.

Southern California sales are projected to remain virtually unchanged: Sales are projected to rise 0.4 percent this year and 0.7 percent next year.

The median Southern California house price is projected to increase 5.4 percent by the end of 2016 and 3.2 percent next year, rising to $501,500 in 2017.

The state’s hottest housing market – the San Francisco Bay Area – will see larger price jumps amid falling sales as buyers flee to more affordable areas. The forecast projected sales declines of 6.4 percent and 5.6 percent in 2016 and 2017, respectively.

Bay Area prices, meanwhile, are forecast to increase by more than 6 percent both this year and next, rising to $833,600 in 2017.

Mortgage interest rates are forecast to rise next year, but not by much. The average rate for a 30-year fixed mortgage is expected to be 4 percent in 2017, compared with this year’s near-record low of 3.6 percent.

What’s holding back the market?

Baby boomers, Appleton-Young said. Data show 71 percent of homeowners age 55 and older haven’t moved since 1999. The typical seller now waits an average of 10 years to move vs. an average of under seven years since 2000.

Instead, homeowners are making their current residences a dream home, spending $3.9 billion on home remodels during the first seven months of 2016. That’s the highest amount in numbers dating to 1988, industry figures show.

Millennials, meanwhile, are more likely to rent than buy, Appleton-Young said, and many are forced to leave the state to find more affordable housing. First-time buyers made up just under 30 percent of those purchasing a home vs. a long-run average of nearly 38 percent.

As a result, the supply of homes for sale averages three to four months, compared with an average of five or six months before 2011.

That, said Appleton-Young, is “the new normal.”

“The level of unsold inventory for the foreseeable future is going to be lower,” she said.