THE Orange County HOUSING REPORT
REPORTS ON HOUSING

Orange County Housing Report:
Extra! Extra! Inventory Rising!

April 19, 2021

Now that the Spring Market has finally arrived, a new trend has emerged, a rising active listing inventory.

A Rising Inventory

After continuously dropping since last October, the active listing inventory rose by 6%.

There have been years where sunny Southern California sees very little rain. Sometimes those years accumulate, and the drought becomes severe. Unfortunately, this February was the driest February on record, dating back 127 years. Southern California only received a "trace" of rain. Normally it rains nearly 4 inches during the shortest month of the year. When it finally did rain on March 3rd, the precipitation was a welcome relief.

The supply of available homes has been experiencing its own severe drought, dropping to levels not seen since records were properly maintained. At this point, any additional FOR-SALE signs hammered into the ground is a welcome relief. In the past two weeks, that is precisely what occurred in Orange County. The active listing inventory rose for the first time since last October, rising from 2,240 to 2,384 homes. The addition of 144 homes was the largest increase since May of last year.

Other than the luxury end, every price range experienced a rise in the number of homes available. The largest increases occurred in the hottest price ranges. Home priced between $500,000 to $750,000 increased by 41 additional homes, up 13%. From $750,000 to $1 million, there were 86 additional homes, up 25%. Below $500,000 and between $1 million and $1.25 million, the price ranges increased by 4%. That may not be a lot of extra homes, but for buyers, it is welcomed with open arms. The luxury price ranges above $1.5 million dropped by 13 homes, or down 1%.

	Active Listing Inventory 4/15/2021	Active Listing Inventory 4/1/2021	Inventory Change	% Change
$0 - $500k	357	343	+14	+4%
$500k - $750k	346	305	+41	+13%
$750k - $1m	435	349	+86	+25%
$1m - $1.5m	372	356	+16	+4%
$1.5m+	874	887	-13	-1%
Overall	2,384	2,240	+144	+6%

Undoubtedly, for the countless buyers struggling to find a home, the extra inventory is a healthy step in the right direction. It is a new trend that should continue until it reaches a peak later in the year. In Orange County, the inventory typically does not peak until July or August. This year, it may peak even later in the year as mortgage rates are anticipated to rise from 3%, where they stand today, to as high as 3.75% by year's end. Higher rates will decelerate the housing market and many sellers will languish on the market for a much longer period of time when they overprice. This will ultimately delay the peak. It will remain a Hot Seller's Market, just not as nutty.

The inventory typically rises during the Spring and Summer market, but that is only part of the story behind the new evolving trend. Demand also dropped in the past couple of weeks. Escalating prices, pending and closed sales fetching values grossly over the list price, and way too many multiple offer situations is starting to influence the psyche of some buyers. The current environment is sidelining some buyers after being on the losing end of multiple attempts at securing a home.

In California, for the month of March, nearly two-thirds of all closed sales sold above their list price. Multiple offers and above list sales prices is now the norm. Watching values quickly rise after writing a dozen offers can be disconcerting. As a result, demand, a snapshot of the last 30-days of pending sales, declined by 92 in the past two weeks, down 3%, dropping from 3,162 to 3,070. With fewer pending sales, the housing market can catch its breath as the inventory rises and homes linger on the market just a bit longer than they have been.

As a result of an increasing supply of homes and a slight drop in demand, the overall Expected Market Time (the time between hammering in the FOR-SALE sign to opening escrow) increased in the past couple of weeks from 21 to 23 days. Currently, the increase may not be that detectable within the real estate trenches, but over time, as more homes accumulate on the market, the market will continue to slowly decelerate. Housing will move away from its crazy, nutty, grossly overheated pace, to a more normal, Hot Seller's Market. That is a market where sellers need to do a bit more prep work and careful pricing is mandatory.

A Note to Sellers: It is a great time to get ahead of the curve and accurately price a home right out of the starting gates. Overpricing a home is not a sound strategy. Sellers want to expose their properties to as many potential buyers as possible. Accurately pricing permits a seller to obtain as many offers as possible. Multiple offer situations allow offers to be pit against each other and, ultimately, it maximizes the price obtained on a home. Later this year, as the market decelerates, overpricing can lead to fewer multiple offers situations and may even result in remaining on the market without success.

A Note to Buyers: Yes, the current market can be very frustrating, but waiting until more homes come on the market down the road is not the answer. With home values rapidly appreciating and mortgage rates slated to increase as well, buyers who sit on the sideline will ultimately pay more when they reenter down the road. Higher values and higher rates equate to a larger monthly payment. The market is frustrating, but staying the course and continuing to pursue paydirt is the wisest course of action for a buyer in today's housing market.

The increase in the inventory, whatever the reason, is a much-needed welcome relief to the drought in the supply of homes. This is a new trend that will persist for the next four to six months. There will finally be more choices for buyers.

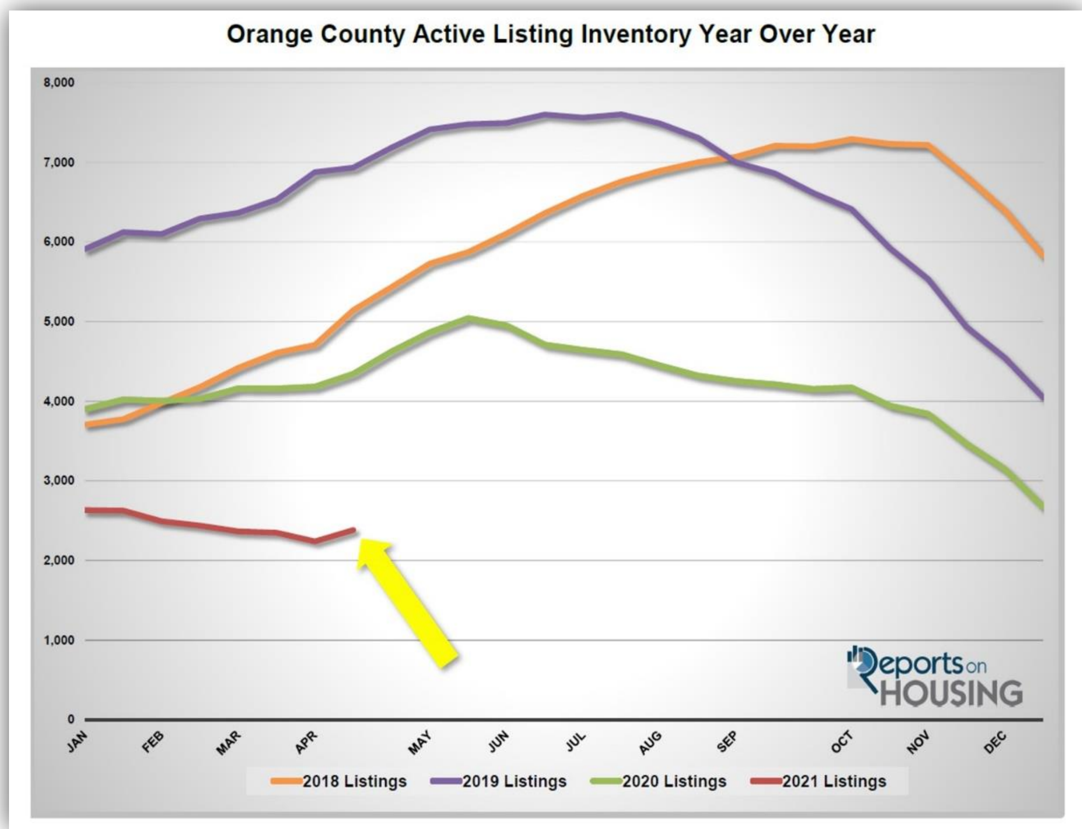
Active Listings

The current active inventory had its largest gain since May of last year.

The active listing inventory is finally coming off its record low level, adding 144 homes in the past couple of weeks, up 6%, and now sits at 2,384. Expect the supply of available homes to purchase to continue to rise throughout the Spring and Summer Markets. More homes come on the market next month in Orange County than any other month, followed by April. As demand reaches a peak and more homes come on the market, the supply will continue to climb. While the extra homes hitting the market may not be immediately noticeable, in time the accumulation will be felt and a welcome relief to its current anemic levels.

Since comparing year over year data in housing is not accurate this year due to COVID-19 skewing all housing data last year, it is much better to compare current levels to the 5-year average from 2015 to 2019. During March, there were 179 fewer new FOR-SALE signs in Orange County, 5% less than that 5-year average. This trend started in January and has resulted in 400 fewer homes on the market during the first quarter of 2021, 4% less. It is due to the lack of available replacement homes that have many homeowners alarmed about selling. They are fearful that there will be "nothing to buy," limiting the number willing to participate in a market with such an anemic level of available homes to purchase. Yet there are strategies to avoid getting burned in selling and then purchasing a replacement home.

Last year in mid-April there were 4,344 homes on the market, 1,960 additional homes, or 82% more. The 5-year average from 2015 to 2019 is 5,765, an extra 3,381 homes, or 142% more. There were a lot more choices for buyers compared to today.



Demand

Demand dropped by 3% in past couple of weeks.

Demand, a snapshot of the number of new pending sales over the prior month, dropped from 3,162 to 3,070 in the past couple of weeks, shedding 92 pending sales, down 3%. According to Freddie Mac's Primary Mortgage Market Survey®, rates have dropped from 3.18% on April 1st to 3.04% on April 15th. Even with the drop in interest rates, demand still dropped. A drop in demand accompanied by a drop in rates is not typical for the Spring Market and is a strong indicator that buyers are beginning to get turned off by rapidly increasing prices and are not biting on properties that are clearly overpriced. It is too soon to tell if this trend will evolve further. Typically demand continues to rise during the Spring Market and peaks anywhere from the start of April to mid-May. The peak may have already occurred two weeks ago.

Last year, demand was at 1,080, its lowest point since the Great Recession and was entirely **due to the start of the pandemic.** The 5-year average for demand from 2015 through 2019 was at 2,924 pending sales, 146 fewer pending sales, or 5% less.