

There Are Competing Forces at Work

June 7, 2022 / Chuck Lech

When you study Econ 101 in school, they list only three variables, interdependent on one another. Supply, Demand, and Price.

We always talk about those three.

But the real estate market is not that simple.

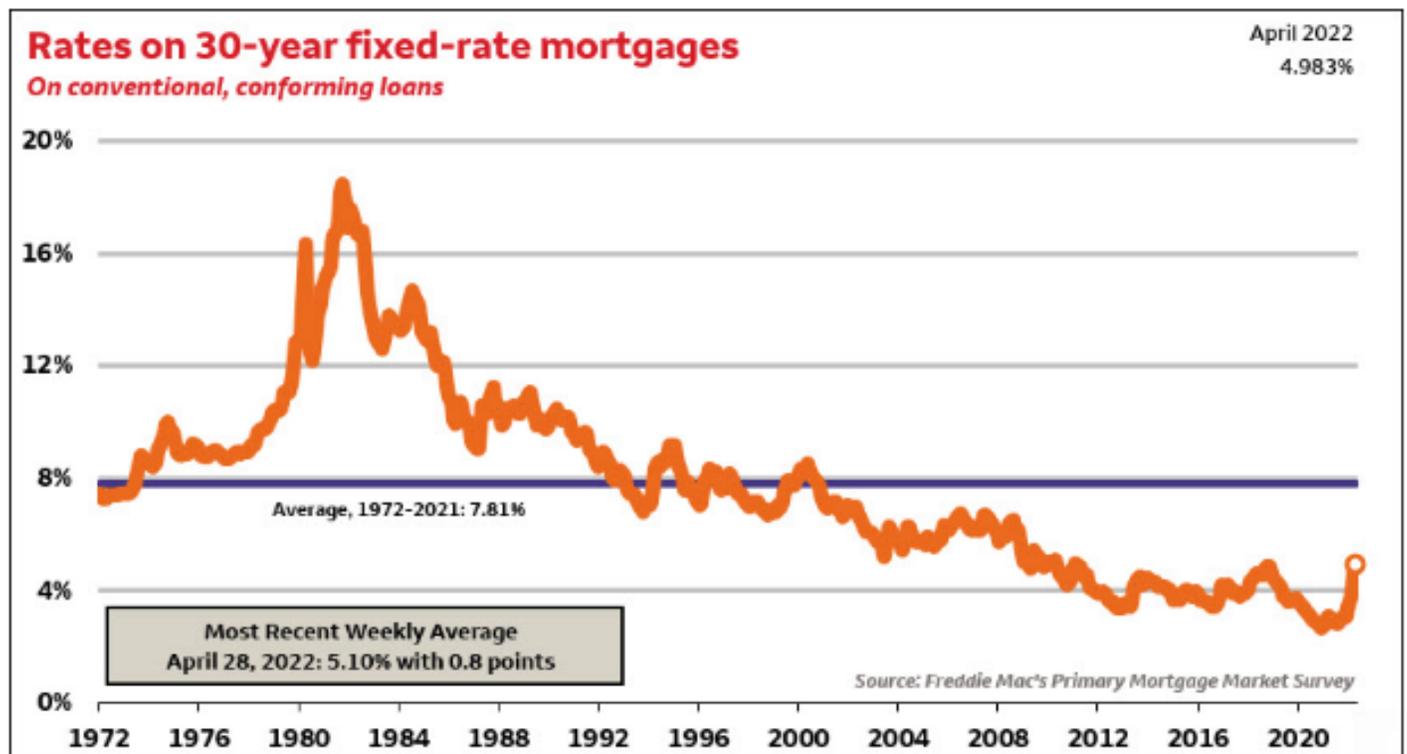
Let's begin by discussing some of the other influencers.

First, Mortgage Rates. According to the chart below, rates are way below the 50-year average of 7.8%. Mortgage rates are around 5%, almost three percentage points below the average. That's very good news.

But mortgage rates at the start of this year were only 3%. And now they are 5%. That's not good news. Home affordability just took a major hit because mortgage rates took a giant leap, and more increases are in the FED forecast. Also, the FED is selling off their inventory of mortgage-backed-securities, and not buying new securities. The FED previously helped push mortgage rates lower, now they are pushing them higher.

Historical Mortgage Rates

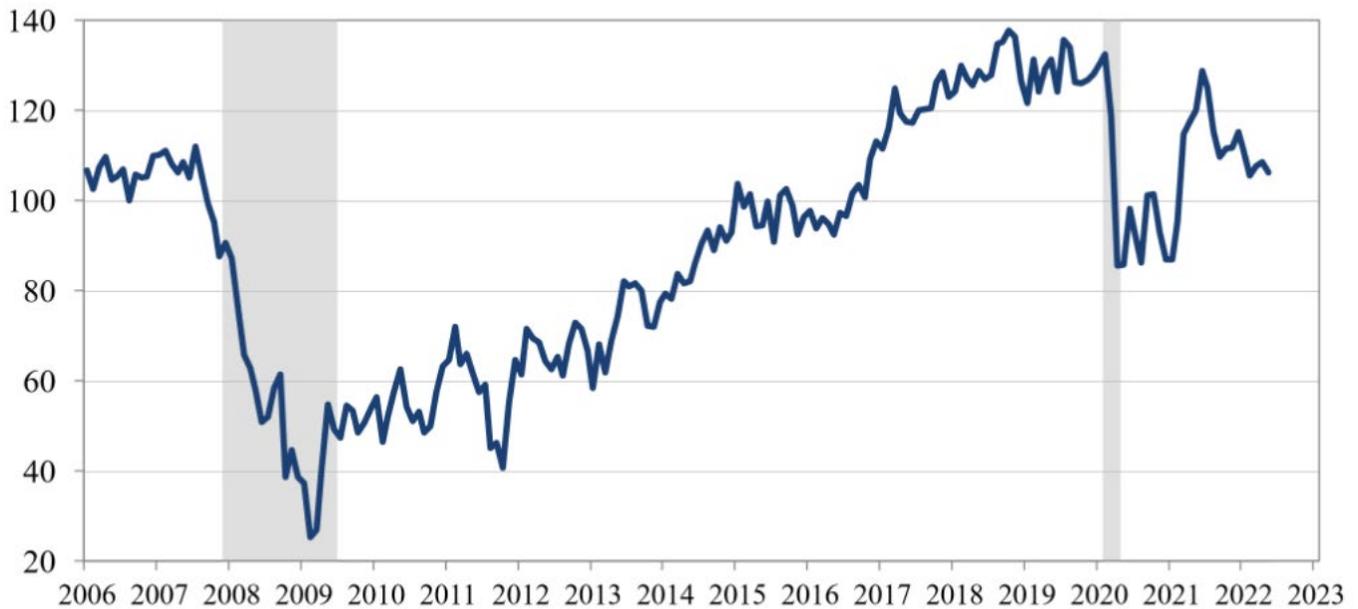
May 2022



But the FED is not in total control of the economy. One of the most influential factors is consumer confidence. When consumers feel things will continue to go well, they spend. When they are concerned about the future, they start holding back on spending. The recent readings on consumer confidence do not forecast a bright future.

Consumer Confidence Index®

Index, 1985 = 100



*Shaded areas represent periods of recession.

Sources: The Conference Board; NBER

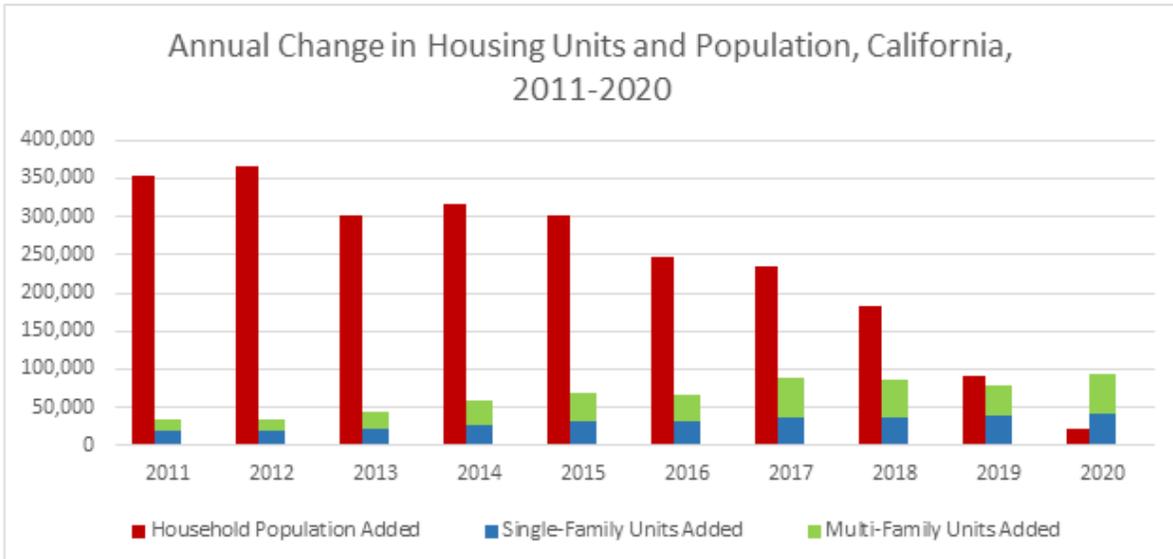
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These factors would lead us to assume that home prices will be falling. That would increase the inventory, and reduce demand. But we have to balance the fact that people need a place to live and California has not seen the number of homes built that are needed. This factor balances a price-based reduction in demand because we don't have enough houses. That pushes buyers to bid up the price of homes.

Let's include another group of factors. Why do people sell their homes? There are many reasons. Life happens, and the death of a homeowner brings their home to the market. Job transfers happen, and owners list their homes to buy another miles or states away. Divorce means a breakup of the two homeowners, and usually results in a sale. Younger couples want a home with more room for their growing families. Older couples don't need all the room they previously needed. Some want a new home because they want one, they can afford one, and they want to improve. And many more reasons, each one a personal reason.

Are these reasons to sell still occurring? Of course, but some not as often as previously. Homeowners wanting to move up really like the looks of their new home, but they don't like the looks of their new 5% mortgage as compared to their current 3% mortgage.

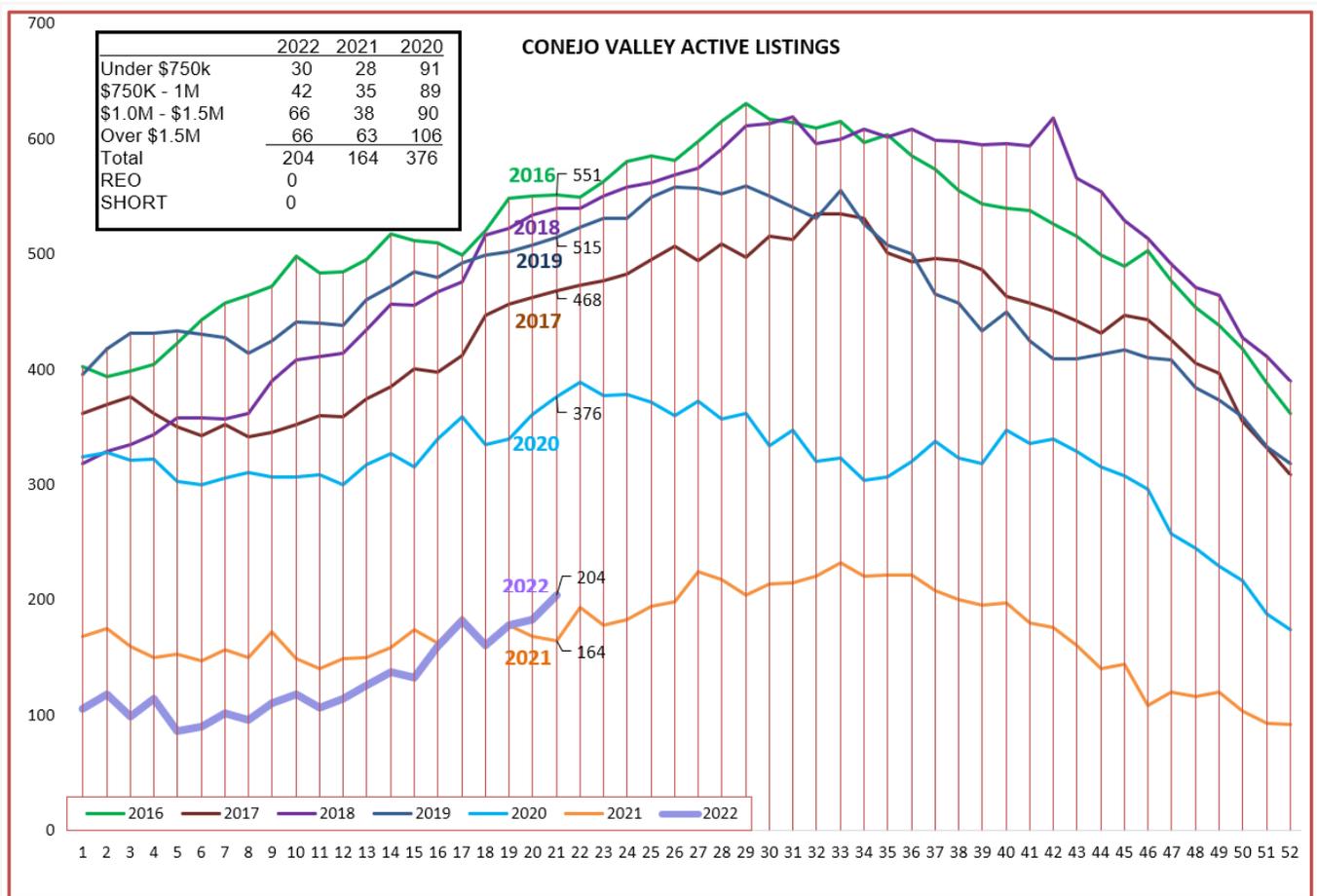
All of these factors point to a slowdown in price appreciation, an increase in inventory, and a lower number of sales. Add this influence to the strict rules of supply and demand, and these factors also act as moderators. Too few homes on the market have caused prices to grow strongly. Too many homes on the market could reduce prices. But we may not see too many homes on the market because homeowners will not list their home in order to buy another due to mortgage rates. Will higher mortgage rates cause sales to slow down? Yes. But too few homes are available because not enough homes were built. The chart below shows the annual increase in households (demand) versus the annual increase in housing units (supply). An overall lack of housing will cause demand to continue to be a strong force.



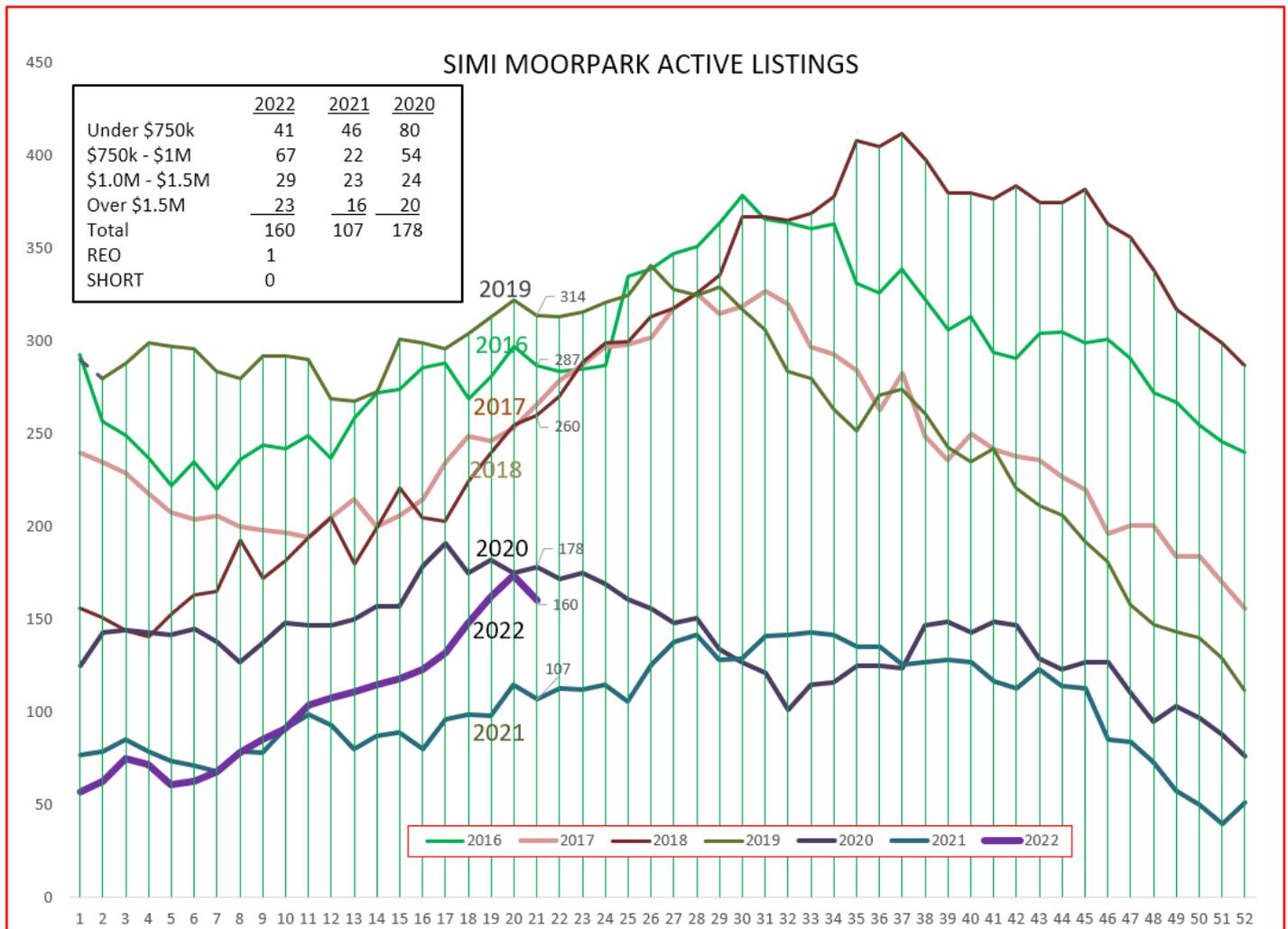
Source: California Department of Finance

Have you noticed the market changing in our areas? Some changes we can see quickly (inventory) while some changes take a while to be felt. For example, we track closed escrows, but those sales took place 45-60 days ago. As you see inventory rise now, you will see sales begin to decline about two months from now.

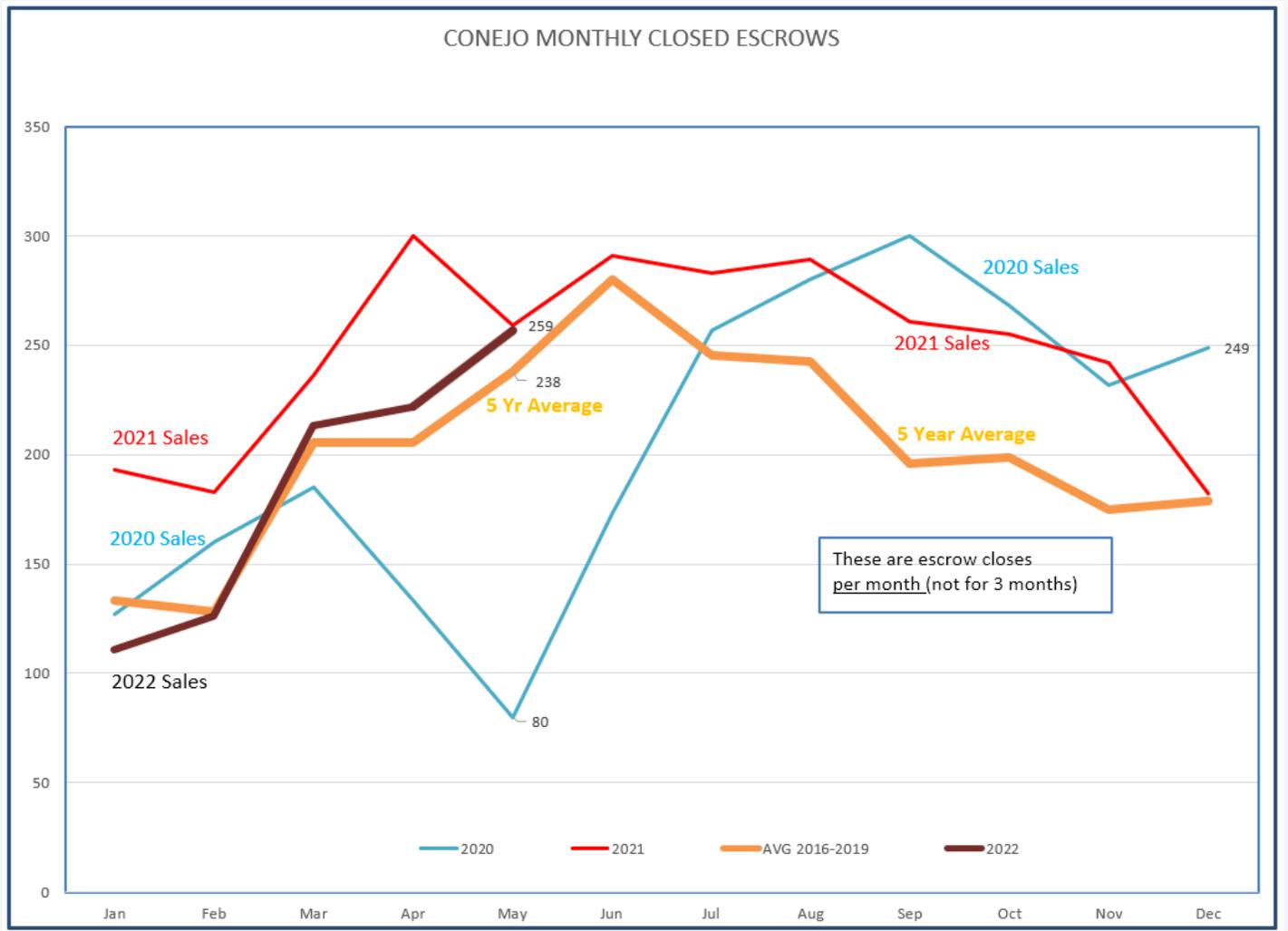
In 2021, inventory was basically flat, even during the summer months when inventories historically rise. However, 2022 is beginning to behave a lot like a “normal” year. Normal years do not have 70% of homes selling for above asking, and prices increasing in double digits. But a normal growth in inventory is the first indication that “normal” is coming.



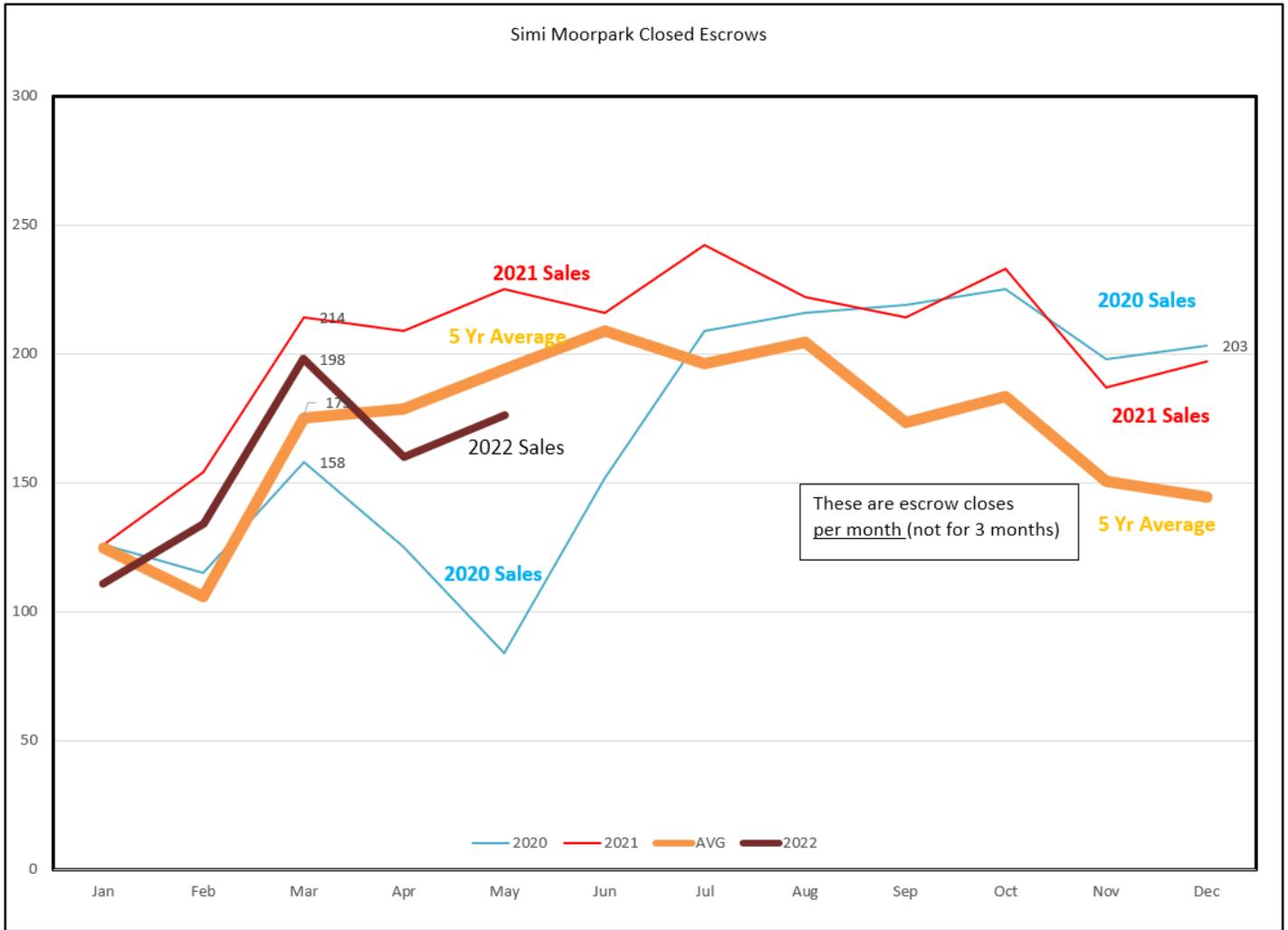
In Simi Valley/Moorpark, the same is holding true. The last two weeks showed a dip, but I believe that will return to a “normal” pattern. Mortgage rates have a lot to do with that. Buyers have seen mortgage rates increase significantly with the promise of more to come, so many decided to stretch and buy now while they feel they still can, and that increased weekly sales for a short period of time.



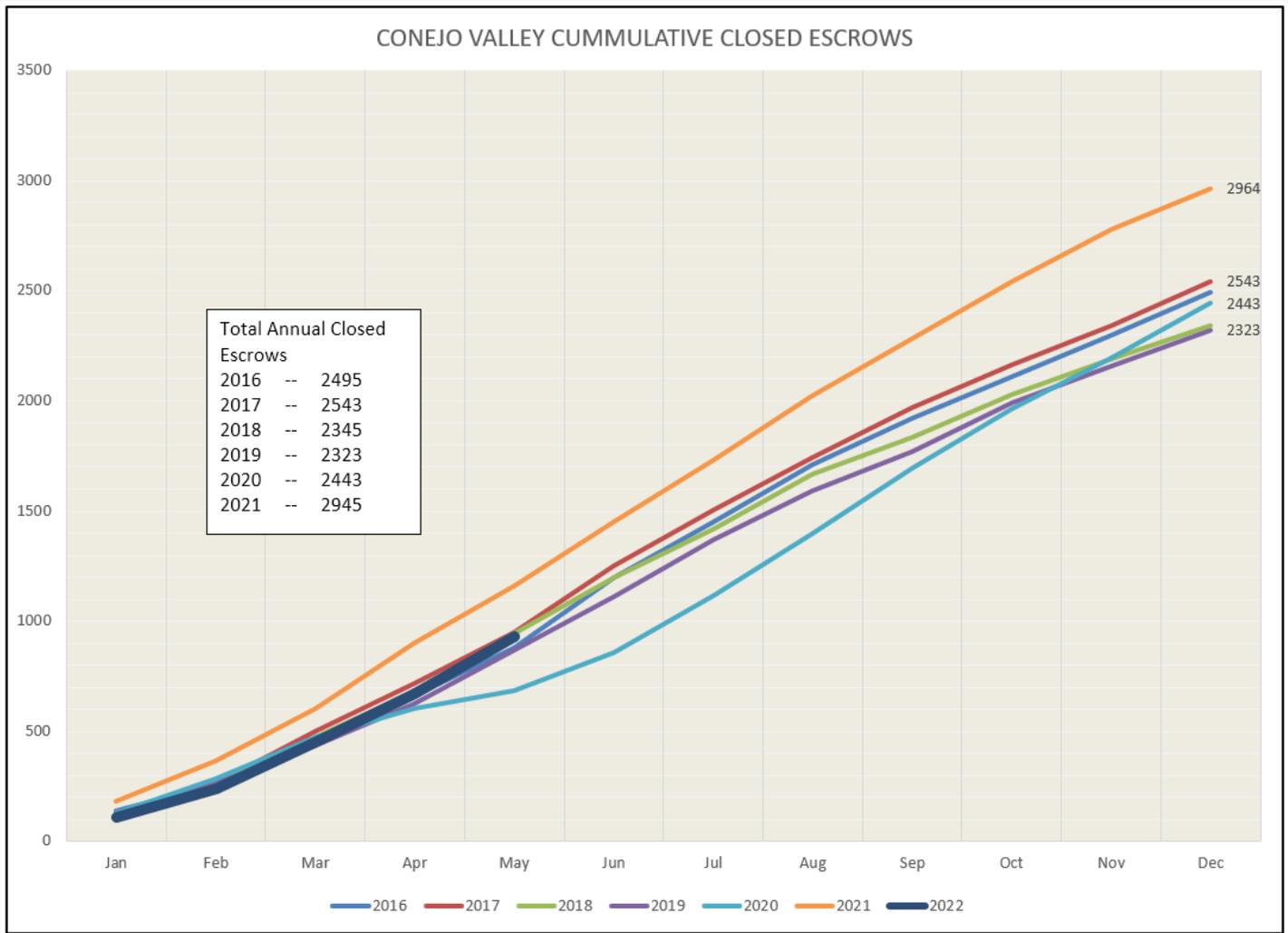
What about closed escrows? Remember, these figures show what was happening two months ago. In the Conejo chart below, if I removed the red 2021 line and the blue 2020 line, 2022 seems to be behaving a lot like the 5-year average. That is good. Sales still continue to be strong, but not too strong, a goldilocks chart.



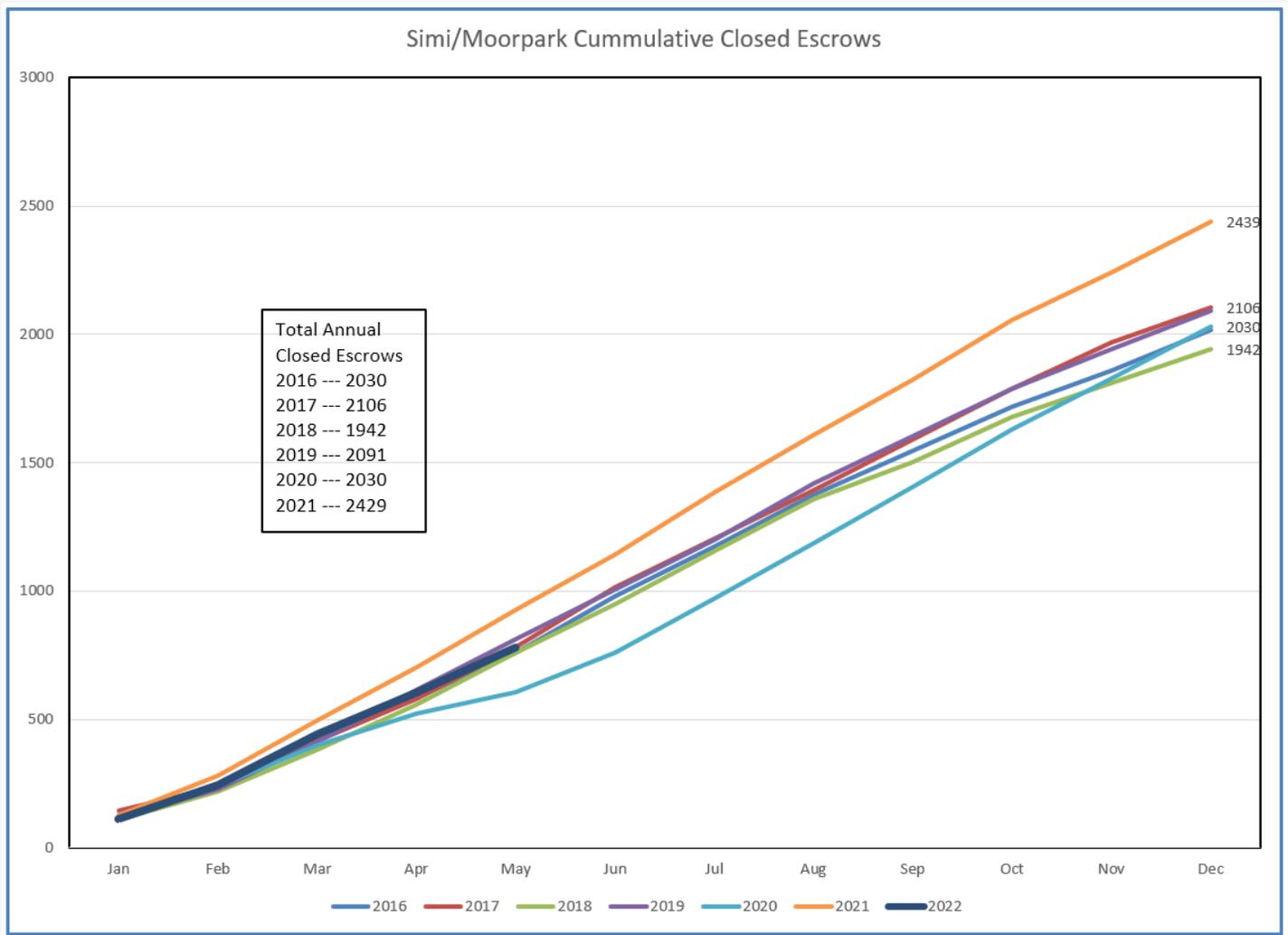
Slmi Valley/Moorpark is similarly behaving like the 5-year average. In the chart below, look past the red 2021 line and the blue 2020 line, and 2022 sales are beginning to act a lot like what we would expect.



The cumulative sales chart perhaps shows this better. Cumulative sales, represented by the heavy dark blue line, are following the normal pattern we have seen in past years. Not as strong as 2021, but normal strong.

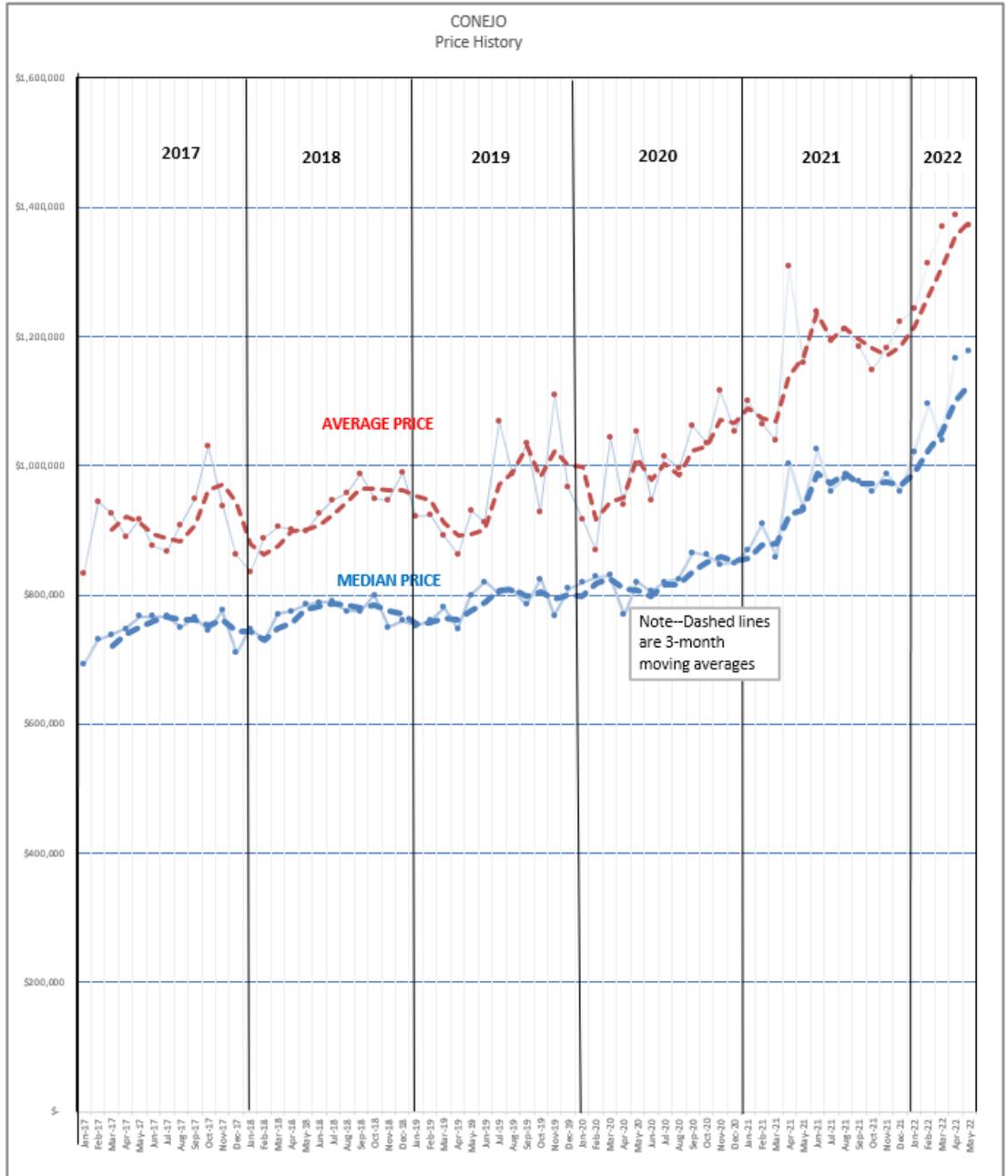


Simi Valley/Moorpark shows the same “normal” pattern.



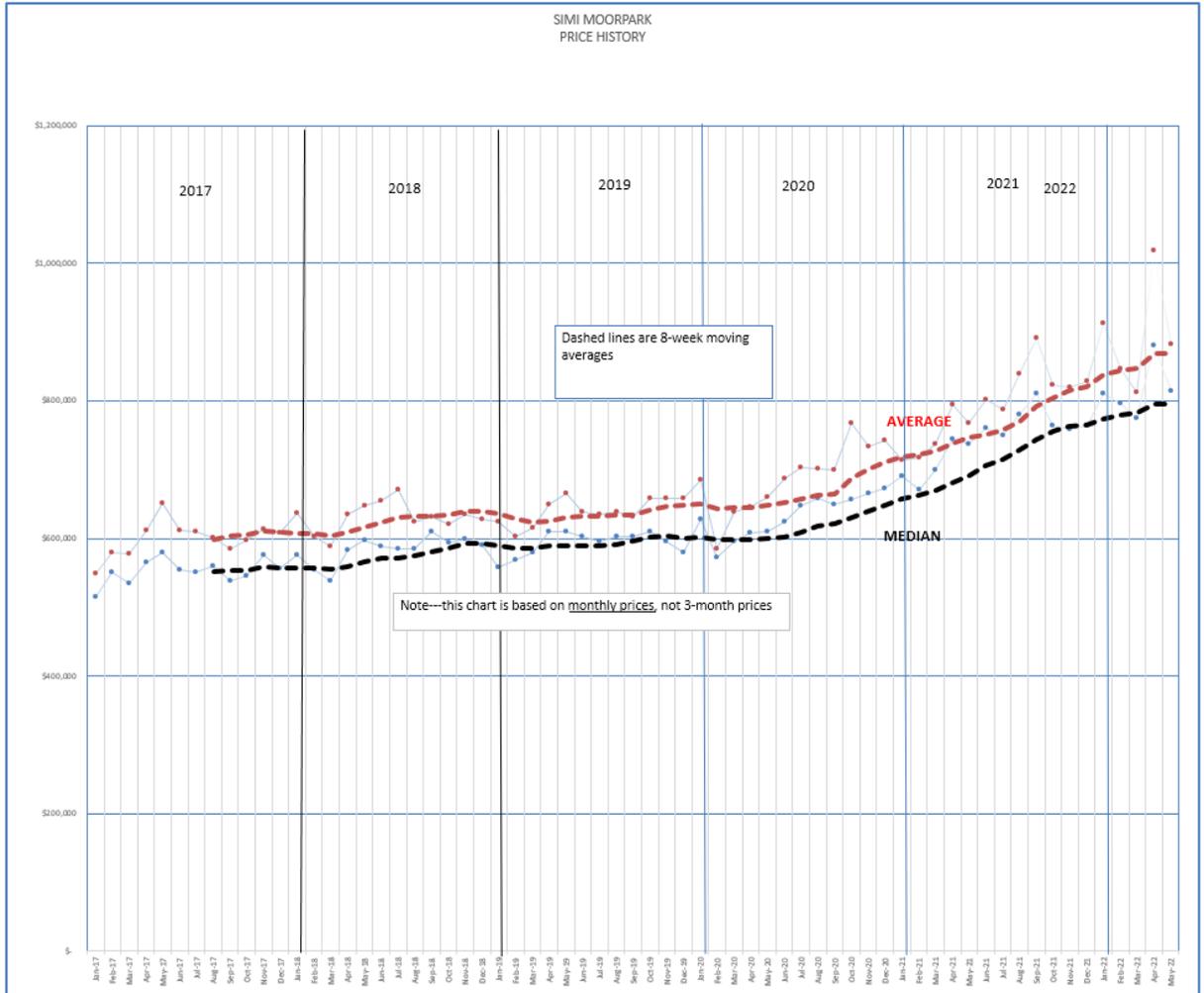
What about prices There is nothing about prices being normal, or slowing their climb. But remember, prices are based on closed escrows, and therefore are two months “behind”. I believe price increases are beginning to level out. At least that is what I expect based on the analysis at the beginning of this blog.

CONEJO VALLEY		
	MEDIAN	AVERAGE
Jan-17	\$ 693,000	\$ 833,505
Feb-17	\$ 730,000	\$ 944,801
Mar-17	\$ 739,000	\$ 926,804
Apr-17	\$ 747,000	\$ 890,111
May-17	\$ 766,500	\$ 917,196
Jun-17	\$ 767,000	\$ 875,586
Jul-17	\$ 766,900	\$ 867,574
Aug-17	\$ 750,000	\$ 907,669
Sep-17	\$ 765,000	\$ 949,097
Oct-17	\$ 745,750	\$ 1,029,891
Nov-17	\$ 775,500	\$ 936,479
Dec-17	\$ 710,000	\$ 862,565
Jan-18	\$ 747,500	\$ 835,575
Feb-18	\$ 730,000	\$ 888,357
Mar-18	\$ 770,000	\$ 906,240
Apr-18	\$ 774,900	\$ 900,068
May-18	\$ 785,000	\$ 898,481
Jun-18	\$ 788,200	\$ 926,918
Jul-18	\$ 790,000	\$ 947,440
Aug-18	\$ 775,000	\$ 957,017
Sep-18	\$ 775,000	\$ 988,026
Oct-18	\$ 800,000	\$ 949,636
Nov-18	\$ 750,000	\$ 945,902
Dec-18	\$ 760,000	\$ 990,409
Jan-19	\$ 752,500	\$ 922,295
Feb-19	\$ 760,000	\$ 924,258
Mar-19	\$ 780,000	\$ 891,026
Apr-19	\$ 747,000	\$ 862,369
May-19	\$ 800,000	\$ 930,176
Jun-19	\$ 820,000	\$ 912,404
Jul-19	\$ 802,500	\$ 1,067,988
Aug-19	\$ 806,000	\$ 986,789
Sep-19	\$ 785,000	\$ 1,034,622
Oct-19	\$ 825,000	\$ 927,955
Nov-19	\$ 767,500	\$ 1,108,783
Dec-19	\$ 810,000	\$ 965,586
Jan-20	\$ 818,700	\$ 917,906
Feb-20	\$ 827,400	\$ 870,226
Mar-20	\$ 830,000	\$ 1,042,890
Apr-20	\$ 769,000	\$ 938,795
May-20	\$ 820,000	\$ 1,051,872
Jun-20	\$ 805,000	\$ 945,644
Jul-20	\$ 820,000	\$ 1,014,336
Aug-20	\$ 825,000	\$ 995,356
Sep-20	\$ 865,000	\$ 1,060,749
Oct-20	\$ 862,500	\$ 1,033,982
Nov-20	\$ 847,500	\$ 1,115,324
Dec-20	\$ 850,000	\$ 1,052,577
Jan-21	\$ 870,000	\$ 1,101,123
Feb-21	\$ 910,000	\$ 1,064,590
Mar-21	\$ 858,000	\$ 1,039,843
Apr-21	\$ 1,003,750	\$ 1,308,864
May-21	\$ 935,000	\$ 1,158,744
Jun-21	\$ 1,025,000	\$ 1,238,194
Jul-21	\$ 960,000	\$ 1,192,702
Aug-21	\$ 980,500	\$ 1,210,621
Sep-21	\$ 975,000	\$ 1,183,644
Oct-21	\$ 960,000	\$ 1,148,478
Nov-21	\$ 987,500	\$ 1,181,805
Dec-21	\$ 960,000	\$ 1,222,485
Jan-22	\$ 1,020,000	\$ 1,243,839
Feb-22	\$ 1,094,975	\$ 1,313,957
Mar-22	\$ 1,040,000	\$ 1,368,892
Apr-22	\$ 1,165,000	\$ 1,388,774
May-22	\$ 1,177,000	\$ 1,372,918



Prices are leveling out in Simi Valley and Moorpark also.

SIMI MOORPARK		
	MEDIAN	AVERAGE
Jan-17	\$ 515,000	\$ 543,361
Feb-17	\$ 550,000	\$ 579,449
Mar-17	\$ 535,000	\$ 578,049
Apr-17	\$ 565,000	\$ 611,836
May-17	\$ 579,950	\$ 651,621
Jun-17	\$ 555,000	\$ 610,839
Jul-17	\$ 550,000	\$ 609,521
Aug-17	\$ 560,000	\$ 600,525
Sep-17	\$ 538,500	\$ 585,616
Oct-17	\$ 545,000	\$ 596,587
Nov-17	\$ 575,250	\$ 614,967
Dec-17	\$ 558,500	\$ 607,312
Jan-18	\$ 575,000	\$ 636,968
Feb-18	\$ 555,000	\$ 602,319
Mar-18	\$ 539,000	\$ 589,222
Apr-18	\$ 582,500	\$ 635,306
May-18	\$ 597,000	\$ 646,954
Jun-18	\$ 588,000	\$ 653,952
Jul-18	\$ 585,000	\$ 670,386
Aug-18	\$ 585,000	\$ 623,610
Sep-18	\$ 610,000	\$ 632,187
Oct-18	\$ 593,750	\$ 620,047
Nov-18	\$ 600,000	\$ 635,252
Dec-18	\$ 590,000	\$ 628,393
Jan-19	\$ 557,538	\$ 623,387
Feb-19	\$ 568,250	\$ 602,159
Mar-19	\$ 579,450	\$ 615,764
Apr-19	\$ 609,990	\$ 649,177
May-19	\$ 610,000	\$ 655,010
Jun-19	\$ 602,500	\$ 638,214
Jul-19	\$ 594,950	\$ 634,267
Aug-19	\$ 602,625	\$ 638,864
Sep-19	\$ 603,000	\$ 632,155
Oct-19	\$ 610,000	\$ 658,002
Nov-19	\$ 595,000	\$ 657,806
Dec-19	\$ 580,000	\$ 658,715
Jan-20	\$ 627,500	\$ 685,434
Feb-20	\$ 572,000	\$ 584,992
Mar-20	\$ 595,000	\$ 638,210
Apr-20	\$ 609,000	\$ 645,457
May-20	\$ 610,000	\$ 659,376
Jun-20	\$ 625,000	\$ 686,950
Jul-20	\$ 647,000	\$ 702,500
Aug-20	\$ 658,750	\$ 700,840
Sep-20	\$ 650,000	\$ 699,845
Oct-20	\$ 656,000	\$ 767,301
Nov-20	\$ 685,000	\$ 734,048
Dec-20	\$ 672,000	\$ 743,228
Jan-21	\$ 690,000	\$ 713,852
Feb-21	\$ 670,000	\$ 716,670
Mar-21	\$ 700,000	\$ 736,423
Apr-21	\$ 745,000	\$ 793,945
May-21	\$ 737,500	\$ 768,061
Jun-21	\$ 760,000	\$ 801,057
Jul-21	\$ 750,000	\$ 787,708
Aug-21	\$ 780,000	\$ 839,154
Sep-21	\$ 810,000	\$ 890,600
Oct-21	\$ 763,125	\$ 822,497
Nov-21	\$ 753,000	\$ 819,558
Dec-21	\$ 784,000	\$ 828,508
Jan-22	\$ 810,000	\$ 912,119
Feb-22	\$ 795,500	\$ 846,199
Mar-22	\$ 775,000	\$ 811,634
Apr-22	\$ 879,750	\$ 1,018,855
May-22	\$ 815,000	\$ 882,906



And finally, I will finish with the statistical charts. Remember, the period of time covered in these charts are generally for a three-month period. As things slow down, and we consider three months of data, it will take a little time to show the slowdown.

For Conejo, inventory has finally climbed and surpassed the same period in 2021. (Up 24%) Why? Because prices were up between 16% and 21% year to year. Not as many homes are being sold (down 16%) As I look at previous blogs, price increases are experiencing a slight slowdown. Attractive inventory is still flying off the market, in approximately two weeks. Some price deductions are taking place. With the number of sales in the current 3-month period compared to last year being down 16%, the computed months of inventory figure has climbed. Inventory now represents almost one month of sales. The numerator (inventory) is higher while the denominator (sales) is lower. This measure is changing quickly.

STATS CONEJO VALLEY	6/6/2022		2021	Versus Same Period Last Yr.
	2022	3/1/2022 - 5/31/2022		
3-month Period		3/1/2022 - 5/31/2022	3/1/2021 - 5/31/2021	
Total Active Residential Listings		204	164	Up 24%
Median Sold Price	\$	1,125,000	\$ 930,000	Up 21%
Average Sold Price	\$	1,374,998	\$ 1,180,407	Up 16%
Average Days On MLS		15	25	3 weeks to sell
Number of sales		662	787	Down 16%
Total Dollar Value of Solds	\$	910,248,676	\$ 928,980,309	Down 2%
Months of Inventory		0.9	0.6	Sales -16%, inventory +24%
Listings under \$750,000		30		
Avg Monthly Sales under \$750,000		70		
Months of under \$750,000 Inventory		0.43		VERY TIGHT INVENTORY
Bracket Sales for Last 3-Month Period		2022	2021	
Total Number of Sales		662	787	Down 16%
Under \$750,000		102	202	Down 50%
\$750,000 - \$1,000,000		152	249	Down 39%
\$1,000,000 - \$1,500,000		232	198	Up 17%
Over \$1,500,000		176	138	Up 28%

For Simi Valley and Moorpark, a similar situation. Compared to last year, a whopping 51% increase in inventory, is coupled with a 17% decrease in number of sales. This has also caused the “months of inventory” computation to rise significantly. No bubble needs bursting, but the initial signs of a slowdown from the frantic pace of sales of the last year is becoming apparent.

STATS SIMI MOORPARK	6/6/2022		2021	Versus Same Period Last Year
	2022	3/1/2022-5/31/2022		
Total Active Residential Listings		160	107	Up 51%
Median Sold Price	\$	815,000	\$ 882,906	Up 13%
Average Sold Price	\$	725,000	\$ 762,182	Up 16%
Average Days On MLS		16	21	2 weeks to sell
Number of sales		541	649	Down 17%
Total Dollar Value of Solds	\$	392,225,000	\$ 494,656,118	Down 4%
Months of Inventory		0.9	0.5	Sales -17%, Inventory +51%
Listings under \$750,000		41		
Avg Monthly Sales under \$750,000		68		
Months of under \$750,000 Inventory		0.61		SALES DECLINING INVENTORY GROWING
Bracket Sales for Last 3-Month Period		2022	2021	
Total Number of Sales		541	649	Down 17%
Under \$750,000		199	367	Down 46%
\$750,000 - \$1,000,000		212	206	Up 3%
\$1,000,000 - \$1,500,000		108	65	Up 66%
Over \$1,500,000		22	11	Double

So this is what I think is going on. Lots of pressures, some keeping prices high, some pushing sales down. Eventually they will settle down, balance out, and achieve equilibrium. I think the wild ride is over. But I also feel there are enough

forces present to keep prices at or near these recently elevated levels. Homes will still be sold, for a variety of reasons. Homes will still be bought, for a variety of reasons. One thing I do not see in our near term is a lot of new construction. Building was stifled by shortages of material including lumber and appliances and changes being legislated to move away from natural gas, but was buoyed by recent legislation that hopefully makes construction a little easier. We need more of that. New constructions is strongly occurring in the rental unit market. Maybe that is where it needs to be. The other need is in the affordable market, homes that can be bought by working class families. A good start, but we have more to do.

Stay safe, stay healthy, and let me know what YOU think.

Chuck