

Understanding the Charts and the Market

January 18, 2023 / Chuck Lech

A picture is worth a thousand words. But sometimes pictures need some additional words to better understand what is happening.

PRICE

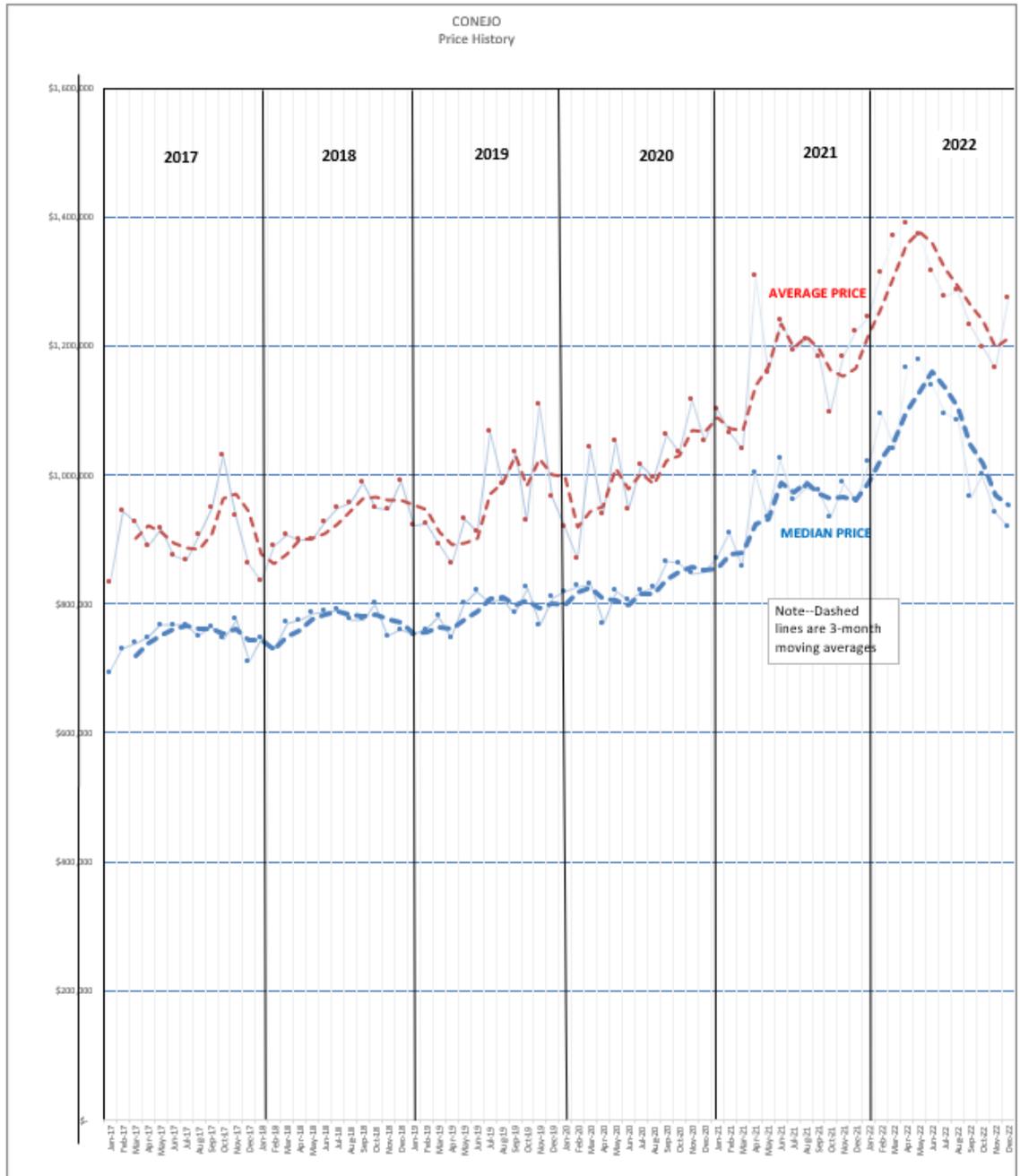
Pricing will be THE hot topic in the coming year. Prices will show a decline. But how much of a decline needs further investigation and explanation. This will probably need more than one reading to understand my message. It may at first be confusing.

Let's start with the statistics table to show you what I mean. For the year, prices are up 4%. More fully explained, prices for the last three months of 2022 are up 4% over the same three months in 2021. (The 3-month average in this table tends to smooth out changes). All this while the number of sales in those periods is down 47% and active inventory doubled. Something seems out of whack. Logically, prices should be going down, not up. In reality, prices have been decreasing, but not according to the year-to-year comparison used in this table.

STATS CONEJO VALLEY	1/2/2023		
	2022	2021	
3-month Period	10/1/2022 - 12/31/2022	10/1/2021 - 12/31/2021	Versus Same Period Last Yr.
Total Active Residential Listings	181	92	Double
Median Sold Price	\$ 995,000	\$ 958,000	Up 4%
Average Sold Price	\$ 1,205,756	\$ 1,158,896	Up 4%
Average Days On MLS	39	28	6 weeks to sell
Number of sales	360	681	Down 47%
Total Dollar Value of Solds	\$ 434,072,160	\$ 789,208,176	Down 45%
Months of Inventory	1.5	0.4	Sales -47%, inventory +97%
Listings under \$750,000	26		
Avg Monthly Sales under \$750,000	28		
Months of under \$750,000 Inventory	0.92		VERY TIGHT INVENTORY
Bracket Sales for Last 3-Month Period	2022	2021	
Total Number of Sales	360	681	Down 47%
Under \$750,000	84	166	Down 49%
\$750,000 - \$1,000,000	105	210	Down 50%
\$1,000,000 - \$1,500,000	110	187	Down 41%
Over \$1,500,000	61	118	Down 48%

Let's see how prices have been doing by analyzing the pricing graph below. In particular, look at the pricing curve for 2022. We ended this year at pretty much the same price we began the year at, although prices peaked mid-year. According to the monthly numbers in the chart below, we could say prices actually declined year to year. Compare the Median December 2021 price (\$1,020,000) to the Median December 2022 price (\$920,000), down 10%, not up 4%, as shown in the table. The table above utilizes a 3-month average figure, while with the chart below we can compare a single month versus the same individual month last year. **It all depends on which numbers you use.**

CONEJO VALLEY		
	MEDIAN	AVERAGE
Jan-17	\$ 633,000	\$ 833,505
Feb-17	\$ 730,000	\$ 944,801
Mar-17	\$ 733,000	\$ 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	\$ 943,037
Oct-17	\$ 745,750	\$ 1,029,831
Nov-17	\$ 775,500	\$ 936,473
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	\$ 968,026
Oct-18	\$ 800,000	\$ 943,636
Nov-18	\$ 750,000	\$ 945,902
Dec-18	\$ 760,000	\$ 930,409
Jan-19	\$ 752,500	\$ 922,235
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	\$ 986,783
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	\$ 1,042,630
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	\$ 960,500	\$ 1,210,621
Sep-21	\$ 975,000	\$ 1,183,644
Oct-21	\$ 935,000	\$ 1,095,313
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	\$ 1,104,000	\$ 1,368,832
Apr-22	\$ 1,165,000	\$ 1,388,774
May-22	\$ 1,177,000	\$ 1,372,918
Jun-22	\$ 1,137,250	\$ 1,315,114
Jul-22	\$ 1,095,000	\$ 1,275,512
Aug-22	\$ 1,085,000	\$ 1,286,371
Sep-22	\$ 965,000	\$ 1,231,131
Oct-22	\$ 1,000,000	\$ 1,196,810
Nov-22	\$ 942,000	\$ 1,166,528
Dec-22	\$ 920,000	\$ 1,274,046



Which one is right? They are both right. Statistics lets you choose how you look at the numbers. (I remember a book titled "How to Lie with Statistics"). People often choose the numbers that support the story they want to tell.

We need to look into how prices reacted while 2022 was progressing. If all we do is compare December 2021 to December 2022, we do not really see what is happening. **This will be important to remember as this 2023 year progresses.**

I predict 2023 will start off showing prices declining compared to 2022. That is because in early 2022 monthly prices were increasing, while prices currently are not. A year-to-year comparison will look as if prices are falling dramatically, a decline much worse than reality. **This overview needs to be kept in mind as we move forward.** According to the statistics table, prices appear to be up 4% when comparing December 2021 to December 2022.

However, if you compare the highest price recorded in 2022 to the price at the end of the year, you could argue that prices have already declined by 10%.

Confused? **It all depends on which numbers you use.**

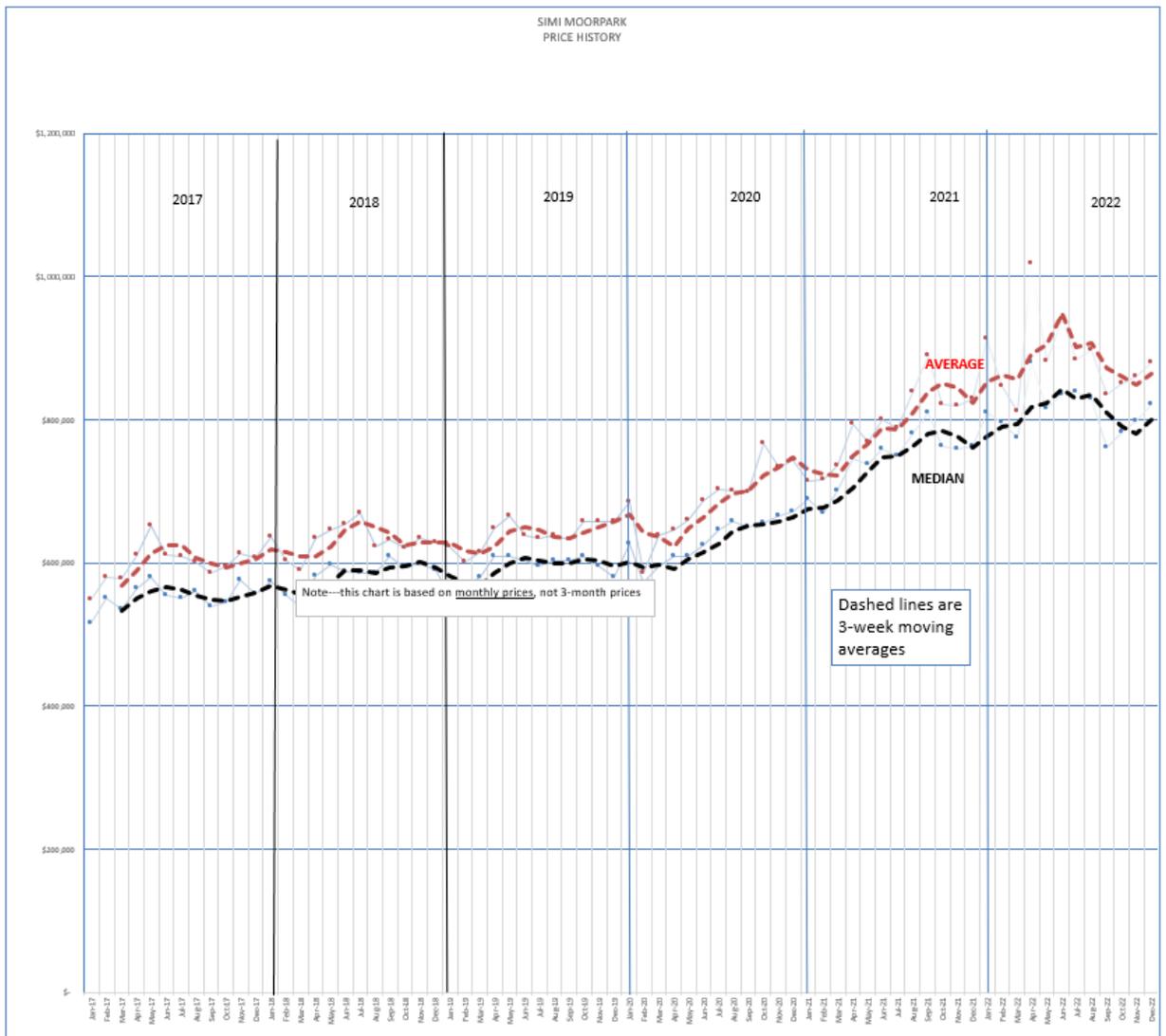
Let's look at the same information for Simi Valley and Moorpark.

For the year, the table shows prices up 1-2%. More accurately, prices for the last three months of 2022 are up 1-2% over the same three months in 2021. (The 3-month average in this table tends to smooth out changes). All this while the number of sales in those periods is down 43% and active inventory has increased an enormous 249%. The numbers don't jive. Prices should logically have fallen. Right?

STATS SIMI MOORPARK	1/2/2023		Versus Same Period Last Year
	2022	2021	
	10/01/2022-12/31/2022	10/01/2021-12/31/2021	
Total Active Residential Listings	178	51	Up 249%
Median Sold Price	\$ 775,000	\$ 763,000	Up 2%
Average Sold Price	\$ 837,645	\$ 828,800	Up 1%
Average Days On MLS	41	24	6 weeks to sell
Number of sales	332	585	Down 43%
Total Dollar Value of Solds	\$ 278,098,140	\$ 484,848,000	Down 43%
Months of Inventory	1.6	0.3	Sales -43%, Inventory +249%
Listings under \$750,000	77		<u>SALES DECLINING</u> <u>INVENTORY GROWING</u>
Avg Monthly Sales under \$750,000	52		
Months of under \$750,000 Inventory	1.47		
Bracket Sales for Last 3-Month Period	2022	2021	
Total Number of Sales	332	585	Down 43%
Under \$750,000	154	268	Down 43%
\$750,000 - \$1,000,000	113	218	Down 48%
\$1,000,000 - \$1,500,000	56	82	Down 32%
Over \$1,500,000	9	17	Down 47%

Now let's view how Simi/Moorpark prices have been doing by looking at the pricing graph below. In particular, look at how pricing changed during 2022. We ended the year a little higher than we began the year. According to this chart, prices rose in the first half of the year and declined in the latter half of the year. However, if we compare the Median December 2021 price of \$810,000 to the Median December 2022 price of \$822,000, we can say prices increased 1.4%, similar to the numbers in the table.

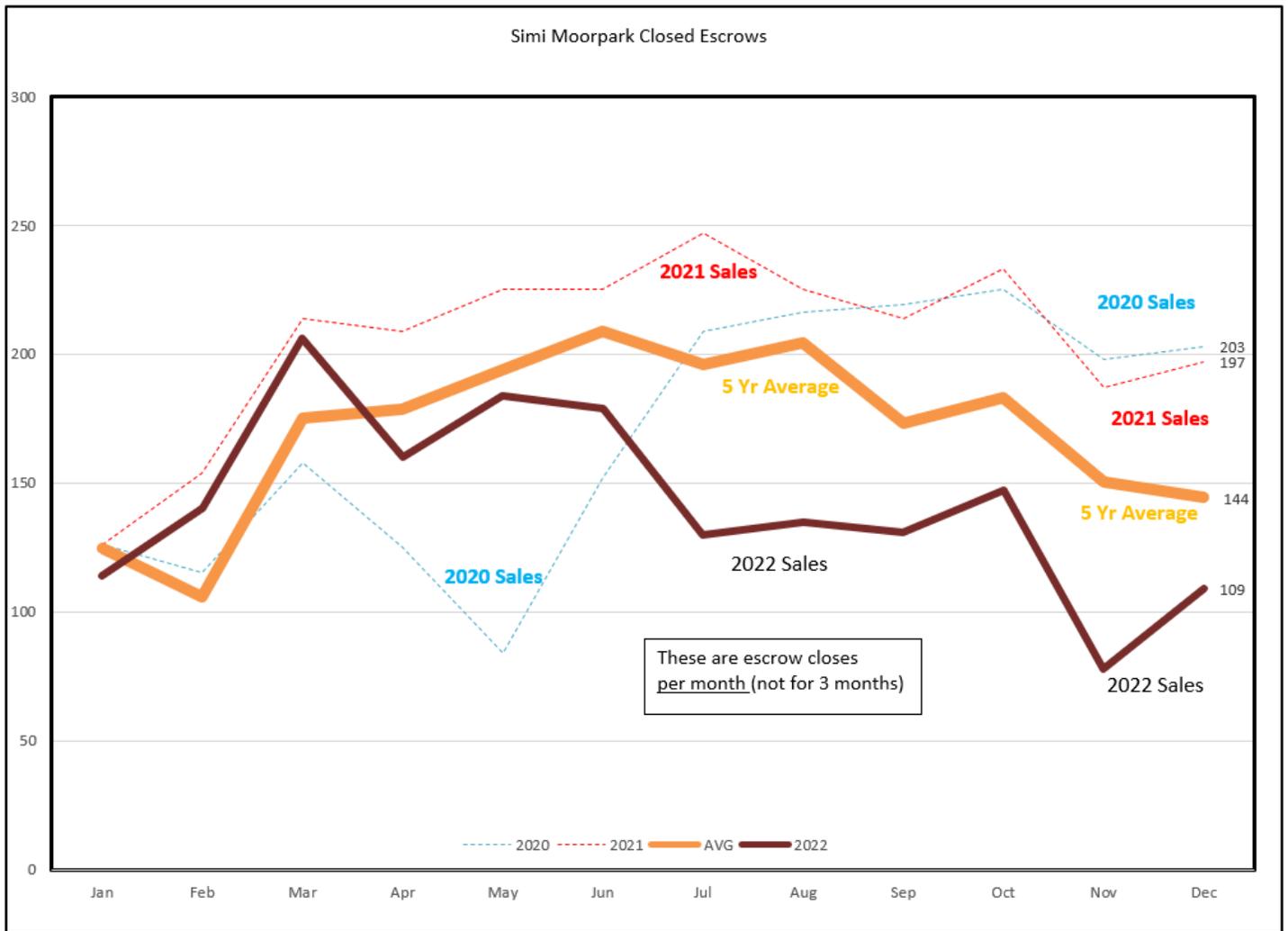
SIMI/MOORPARK		
	MEDIAN	AVERAGE
Jan-17	\$ 515,000	\$ 549,351
Feb-17	\$ 550,000	\$ 579,449
Mar-17	\$ 535,000	\$ 573,049
Apr-17	\$ 565,000	\$ 611,396
May-17	\$ 579,950	\$ 651,621
Jun-17	\$ 555,000	\$ 610,839
Jul-17	\$ 650,000	\$ 609,521
Aug-17	\$ 560,000	\$ 600,525
Sep-17	\$ 538,500	\$ 585,616
Oct-17	\$ 545,000	\$ 596,587
Nov-17	\$ 575,250	\$ 614,067
Dec-17	\$ 586,500	\$ 607,912
Jan-18	\$ 575,000	\$ 626,963
Feb-18	\$ 555,000	\$ 602,219
Mar-18	\$ 579,000	\$ 589,222
Apr-18	\$ 582,500	\$ 635,306
May-18	\$ 597,000	\$ 646,954
Jun-18	\$ 588,000	\$ 653,952
Jul-18	\$ 585,000	\$ 670,336
Aug-18	\$ 585,000	\$ 622,610
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	\$ 597,525	\$ 623,397
Feb-19	\$ 563,250	\$ 602,159
Mar-19	\$ 578,450	\$ 615,714
Apr-19	\$ 609,990	\$ 649,777
May-19	\$ 610,000	\$ 664,010
Jun-19	\$ 602,500	\$ 638,214
Jul-19	\$ 594,950	\$ 634,247
Aug-19	\$ 602,625	\$ 639,864
Sep-19	\$ 602,000	\$ 632,155
Oct-19	\$ 610,000	\$ 658,002
Nov-19	\$ 595,000	\$ 657,806
Dec-19	\$ 580,000	\$ 658,715
Jan-20	\$ 627,500	\$ 685,494
Feb-20	\$ 572,000	\$ 584,992
Mar-20	\$ 595,000	\$ 625,210
Apr-20	\$ 609,000	\$ 645,457
May-20	\$ 610,000	\$ 659,276
Jun-20	\$ 625,000	\$ 681,950
Jul-20	\$ 647,000	\$ 702,500
Aug-20	\$ 658,750	\$ 700,640
Sep-20	\$ 650,000	\$ 699,845
Oct-20	\$ 656,000	\$ 767,301
Nov-20	\$ 665,000	\$ 734,048
Dec-20	\$ 672,000	\$ 742,228
Jan-21	\$ 690,000	\$ 713,852
Feb-21	\$ 670,000	\$ 716,670
Mar-21	\$ 700,000	\$ 736,423
Apr-21	\$ 745,000	\$ 792,945
May-21	\$ 727,500	\$ 763,041
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	\$ 762,125	\$ 822,497
Nov-21	\$ 759,000	\$ 819,558
Dec-21	\$ 764,000	\$ 828,508
Jan-22	\$ 810,000	\$ 913,119
Feb-22	\$ 795,500	\$ 846,199
Mar-22	\$ 775,000	\$ 811,624
Apr-22	\$ 879,750	\$ 1,019,855
May-22	\$ 915,000	\$ 882,906
Jun-22	\$ 836,000	\$ 940,373
Jul-22	\$ 840,000	\$ 832,101
Aug-22	\$ 830,000	\$ 896,724
Sep-22	\$ 762,000	\$ 835,443
Oct-22	\$ 782,000	\$ 850,586
Nov-22	\$ 799,000	\$ 860,838
Dec-22	\$ 822,000	\$ 880,872



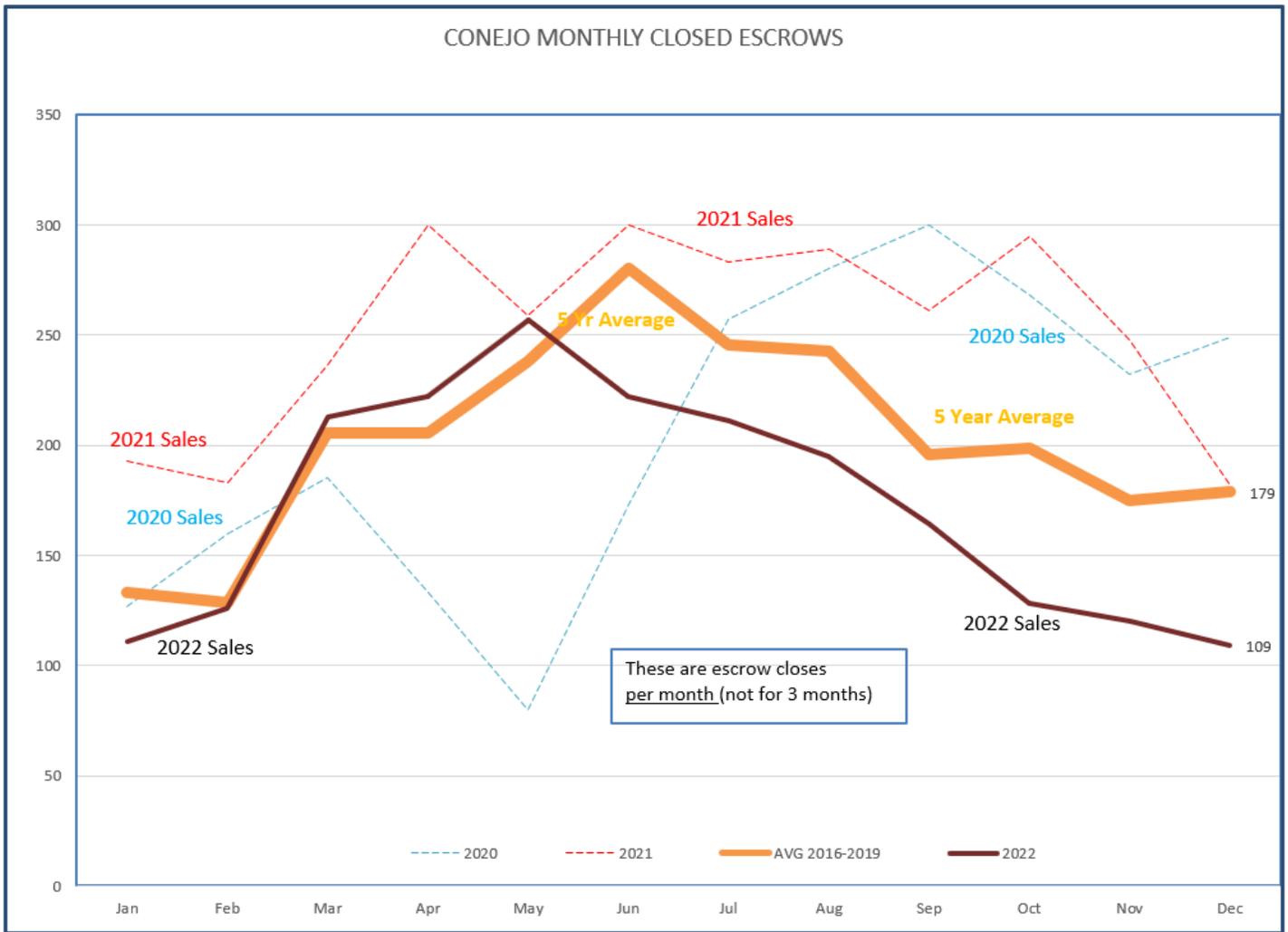
We need to look at how prices were reacting while 2022 was progressing. The beginning of the year saw prices increase about 5% until May 2022, then began falling back 5% by the end of the year. For 2022, prices at the end of the year were very near prices when the year began. It could lead you to say prices did not rise at all. But they did, especially prior to mid-year. Then they declined.

The pricing peak coincides with the FED rate increases. Although the FED often changes only one rate, the overnight borrowing rate, all rates are eventually affected, including mortgage rates. If all we do is compare December 2021 to December 2022, we do not really see what is happening, and what is about to happen. **This will be important to understand as this 2023 year progresses.** 2023 will probably start off showing year-to-year price declines. Even if 2023 prices remain constant, it will look as if 2023 prices are dropping, because 2022 prices will be rising.

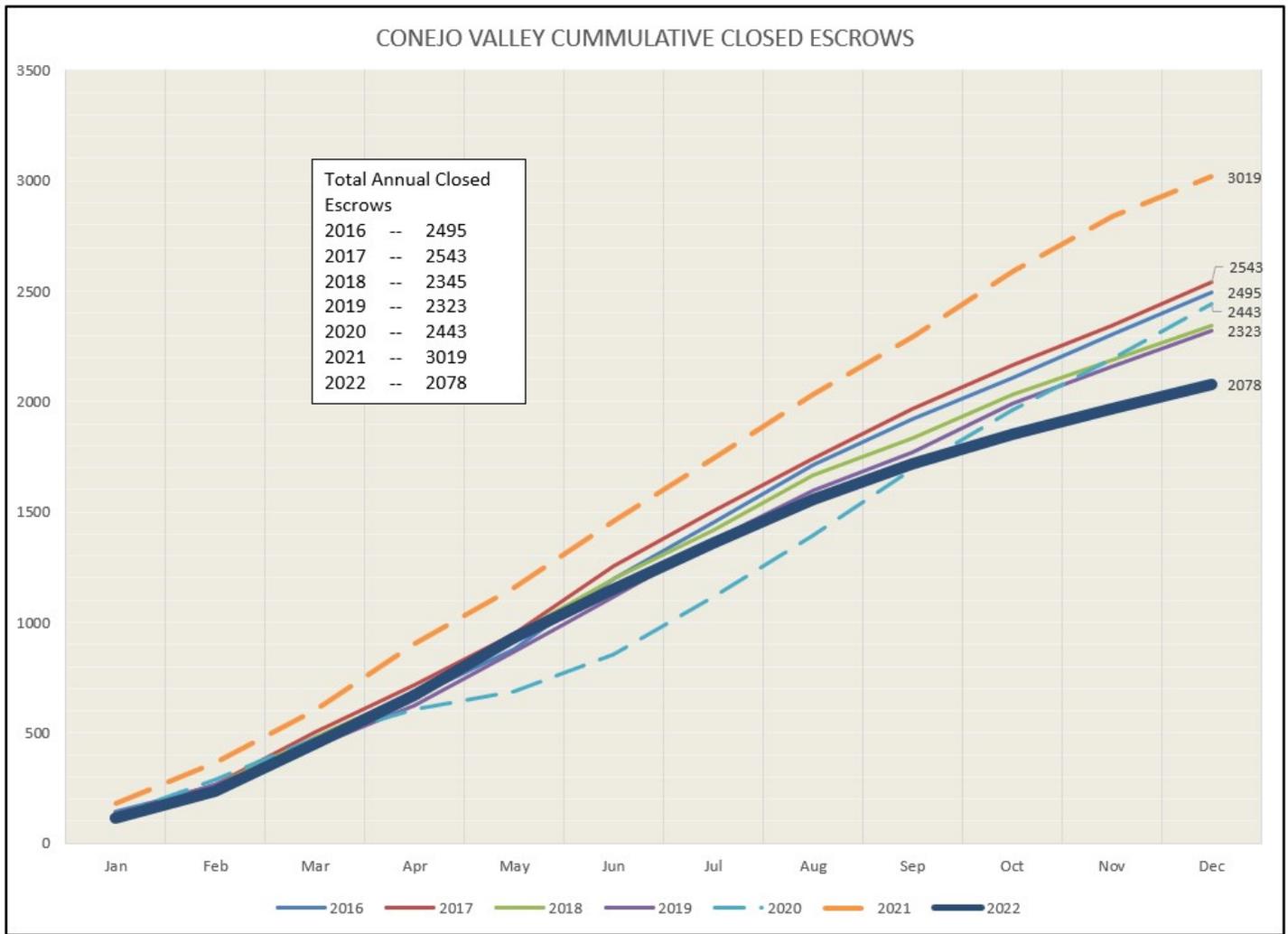
Next, let's look at how the year can be described using the Closed Escrows chart. The dotted lines represent monthly closes for 2020 and 2021. These were anomalies, heavily influenced by and an unexpected benefit of Covid — the move to the suburbs and working from home. The plot for 2022 more closely follows our historical average graph while reflecting the lower number of closed escrows. A more normal curve.



The experience in Conejo was similar. Both graphs seem to follow the historical average plot, although at a lower level, because of fewer closings. Quoting the statistics tables, a 43-45% lower level.



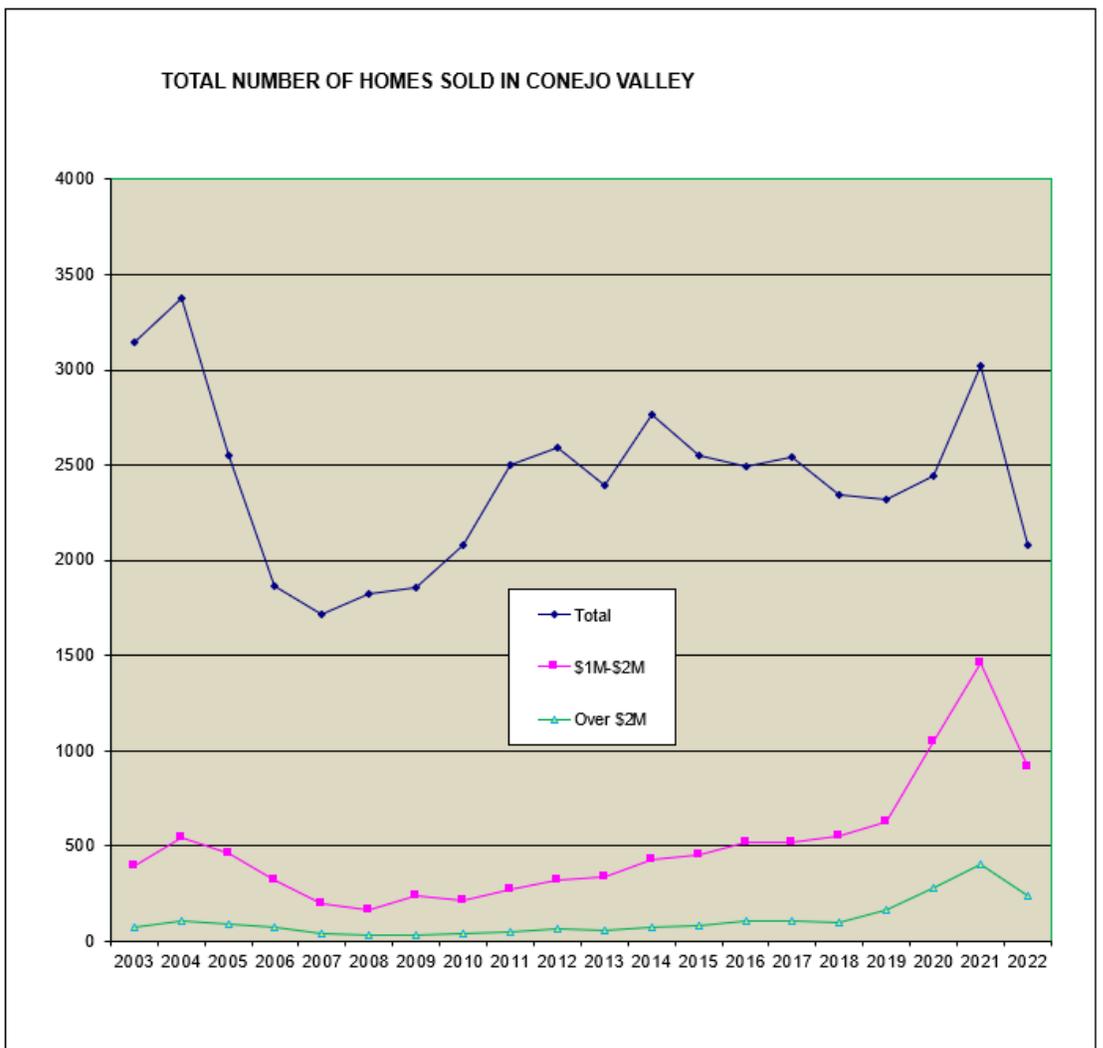
Looking at the same information in a different way, the charts below represent how the total number of closed escrows changed as the years progressed. In 2022, the number of closed escrows was proceeding as expected until May, but ended the year registering the lowest number of closes in the past 10 years.



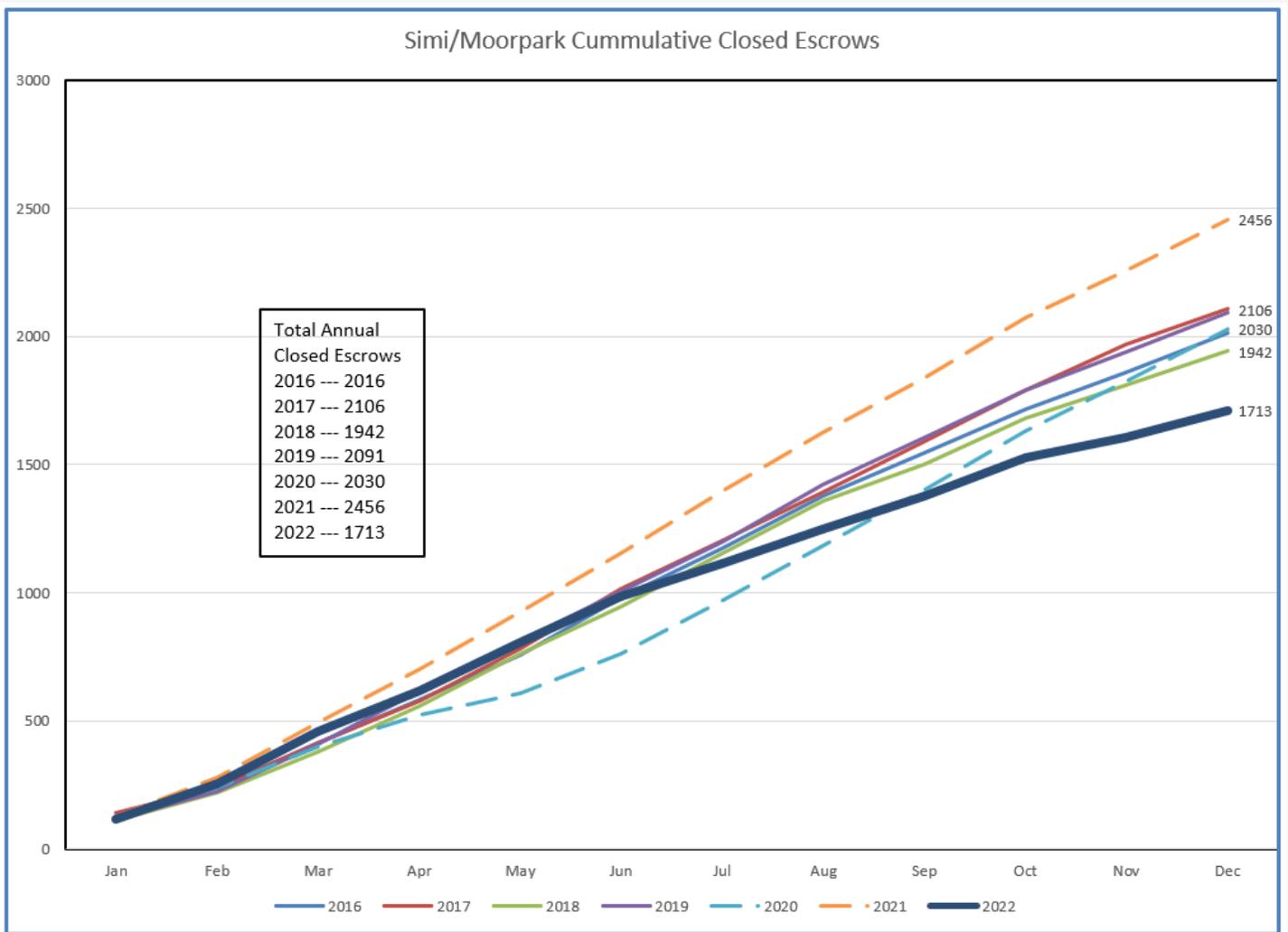
The chart above shows the statistics for the past 7 years, as each year progressed.

This chart below shows the total number of closed escrows for each of the years. Interesting to point out that the number of homes sold in 2021 was the third highest number of closed escrows this century. Conejo was also highly influenced by the number of very-high-priced homes.

TOTAL HOMES SOLD IN CONEJO VALLEY			
	Total	\$1M-\$2M	Over \$2M
2003	3141	394	72
2004	3372	543	108
2005	2548	464	87
2006	1866	318	72
2007	1719	198	41
2008	1822	165	33
2009	1861	242	35
2010	2077	213	38
2011	2503	270	47
2012	2592	320	64
2013	2394	335	55
2014	2762	426	76
2015	2548	453	78
2016	2495	521	103
2017	2543	518	106
2018	2345	552	95
2019	2323	626	162
2020	2443	1045	284
2021	3019	1464	406
2022	2078	916	238



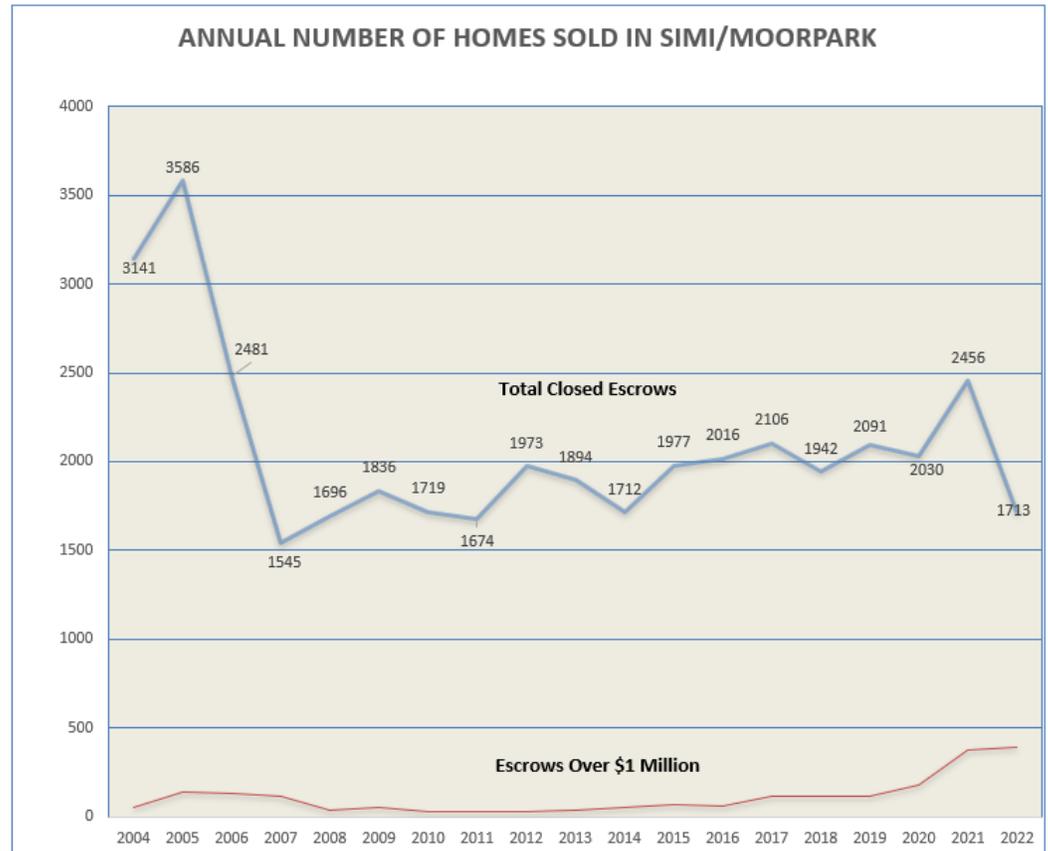
Simi/Moorpark shows the same change in direction beginning in May 2022.



For Simi/Moorpark, the number of homes sold in 2021 was not near the highest number of closed escrows this century. The high point for 2021 was much lower than the record set in 2005. While Conejo was highly influenced by the number of very-high-priced homes, Simi/Moorpark was likely influenced by the increasing number of new homes built. Those homes are not included in these graphics, at least not until they are re-sold.

TOTAL HOMES SOLD IN SIMI VALLEY/MOOPPARK

	Total	Over \$1 M
2004	3141	49
2005	3586	142
2006	2481	127
2007	1545	118
2008	1696	39
2009	1836	49
2010	1719	29
2011	1674	29
2012	1973	29
2013	1894	34
2014	1712	54
2015	1977	69
2016	2016	63
2017	2106	118
2018	1942	111
2019	2091	112
2020	2030	179
2021	2456	376
2022	1713	393



While I provide these figures and analysis for you to share with your buyers and sellers, it is important to point out one change in the market that is very personal to agents. Home owners may see their homes decline in value for a period of time, but when the market resumes its usual climb, that value will be retrieved.

Real estate agents and brokers are going to be affected both by the volume of homes sold and by the decrease in prices, as both directly influence total commissions. As the market price corrects and sales volume goes down, total commissions will go down by those combined factors. Our real estate business was very profitable during Covid, but the coming year will produce fewer and lower commissions than those Covid years. Like every business in the forecasted recession, our business will be more challenging. You can still do well, but you will have to work harder and smarter. You will need more transactions.

Let's look at what C.A.R. is forecasting.

For the State of California, the number of Single Family Home resales in 2021 was 444,000. The number forecasted for 2023 is only 333,000, a two-year drop of 25%. In addition, prices are forecast to recede by 8.8%.

California housing market outlook

	2015	2016	2017	2018	2019	2020	2021	2022p	2023f
SFH Resales (000s)	409.4	417.7	424.9	402.6	398.0	411.9	444.5	359.2	333.4
% Change	7.0%	2.0%	1.7%	-5.2%	-1.2%	3.5%	7.9%	-19.2%	-7.2%
Median Price (\$000s)	\$476.3	\$502.3	\$537.9	\$569.5	\$592.4	\$659.4	\$786.7	\$831.5	\$758.6
% Change	6.6%	5.4%	7.1%	5.9%	4.0%	11.3%	19.3%	5.7%	-8.8%
Housing Affordability Index	31%	31%	29%	28%	31%	32%	26%	19%	18%
30-Yr FRM	3.9%	3.6%	4.0%	4.5%	3.9%	3.1%	3.0%	5.2%	6.6%

SERIES: CA Housing Market Outlook
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

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One last thing I want to discuss for this year-end report is mortgage rates. I have spoken often about the FED and increasing rates. But there is good news here.

First, inflation appears to be coming under control, and the FED may not have to act so severely. Hopefully the end is in sight.

A second factor. When the FED raises rates, do mortgage rates go up in lockstep?

As the FED was increasing rates 0.75 points four times (April – October) and another 0.5 point in December, the expectation was that mortgage rates would also increase causing affordability to decline. That happened. However, the past few months of 2022 saw some stability in mortgage rates, and then an actual decline even while the FED continued to raise rates.

The FED makes rate decisions on very short term rates, actually overnight rates. This also affects other rates, but the longer the term, the less influence short term rates have. Many are forecasting that rates will decline in 2024, if not earlier, by the end of 2023. That expectation in the money marketplace has lessened the effect of these FED rate increases on longer term rates.

Historically, mortgage rates more closely follow the 10-year Treasury Bill, not the overnight FED rate. In the final months of 2022, the 10 year treasury rate has declined even as the FED continues to raise rates by 0.5% in December. Mortgage rates also declined, from over 7% to currently around 6%. That decline will begin to create more affordability in home buying. And buyers are now using points to lower mortgage rates to more reasonable levels. There are a lot of buyers who want to be creative, who want to buy a home. Your job is to help them.

30 Yr Fixed vs 10 Yr. US Treasury

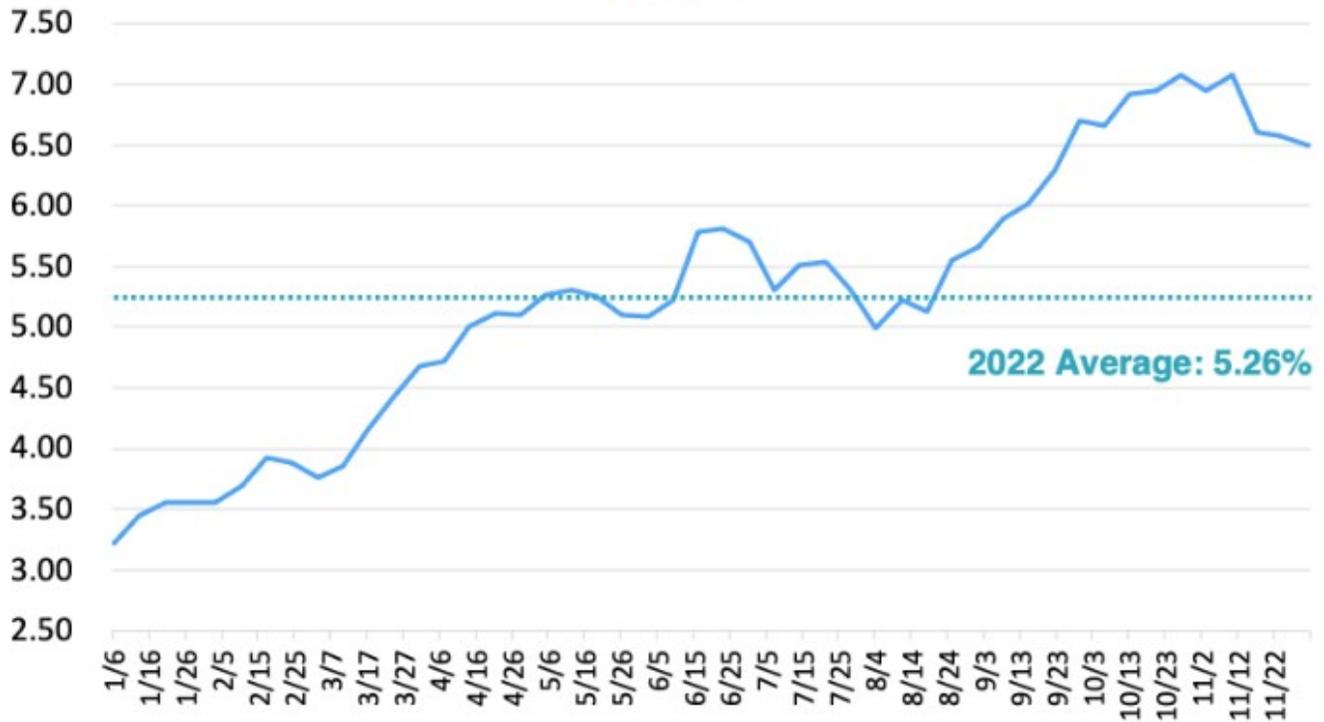
Zoom 1YR 5YR MAX

Jan 16, 2018 - Jan 16, 2023



Looking at the mortgage rate history in 2022, it is easier to see the decline in rates as the year ended.

Current 30-Year Mortgage Rates: 2022



Historical Data: Freddie Mac PMMS. (c) TheMortgageReports.com

I do not see 2023 becoming a banner year for real estate, not another 2020-2021. Home prices will settle as we transition from a sellers market to a more balanced market. A buyers market would be evidenced by high listing inventory, and that is not taking place. We are moving to balanced.

Prices grew too quickly as both sellers and buyers bought into overbidding as the new normal. The market is moving back to balance with negotiation on both sides. The continuing shortage of housing, combined with the law of supply and demand, will keep prices from freefall. In 2023, homes will likely sell for a little lower price than last year, and fewer homes will be sold. I think the C.A.R. market forecast will prove to be accurate. A year of adjustment.

As the market adjusts, you have to adjust how you do your business. It is your job to help your clients understand the market, to help them maneuver through the minefield of bad news and scary percentages that the news loves to publish. Open Houses are back in vogue. We can door-knock again, we can walk our farms. Negotiation is becoming common, as it should be. Home values are determined by an agreement between a willing buyer and a willing seller, with pricing finding a middle ground acceptable to both. We are working in a balanced market.

Stay safe and have a prosperous new year. Both require planning and execution. Plan your work and work your plan.

Chuck