

California COVID-19 Economic/Market Update

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North Solano Association of REALTORS®

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Overview

01 The Data is UGLY

- Big hits to unemployment, consumers, & GDP
- Seeing the impacts across California housing

02 Where is the Bottom?

- Declines in major indicators losing steam
- Some nascent signs of a bottom in housing

03 Short-Run Outlook

- Estimates starting to converge at -30% for Q2
- Still expecting several more challenging months

04 Housing Long Term

- Housing a potential bright spot once dust settles
- Long-term benefits of ownership improved by crisis

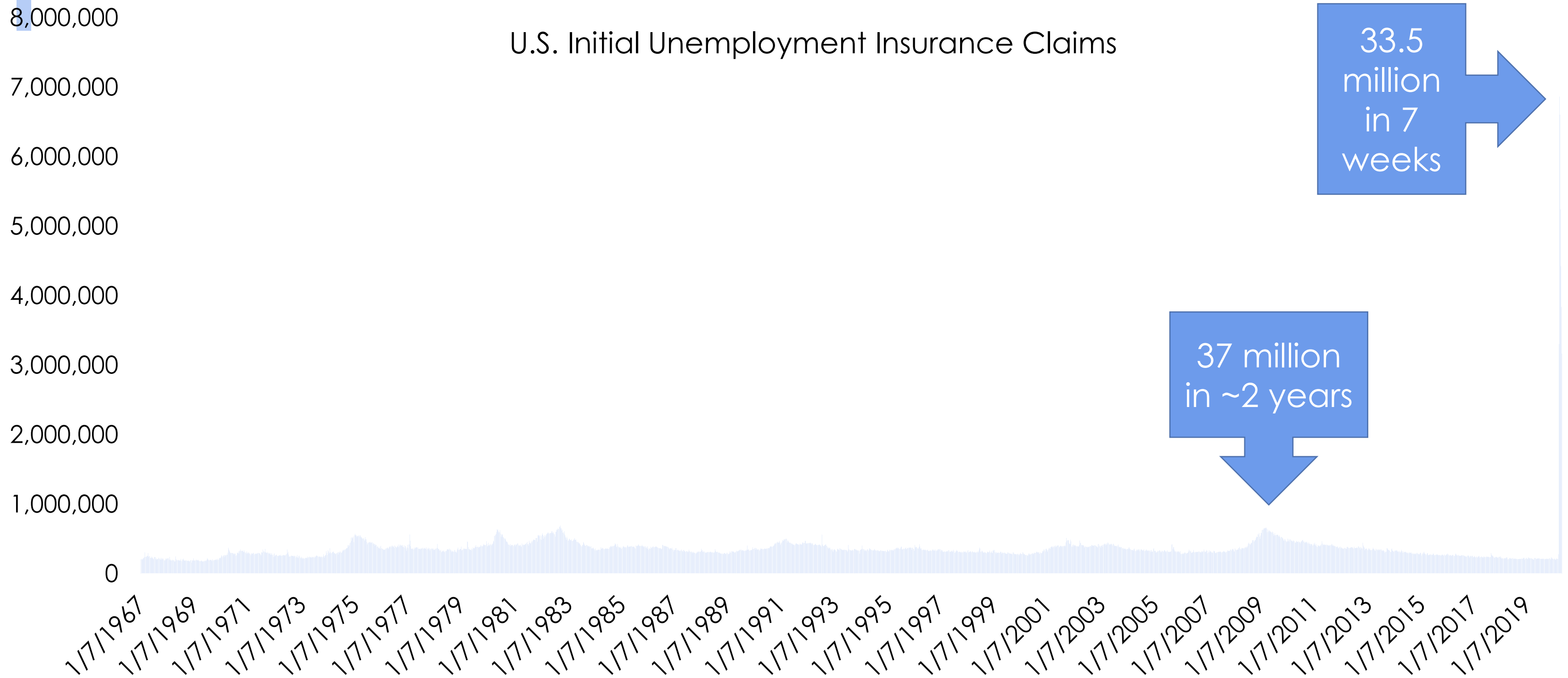




The Economy & Housing Market
Feeling the Impacts of SIP

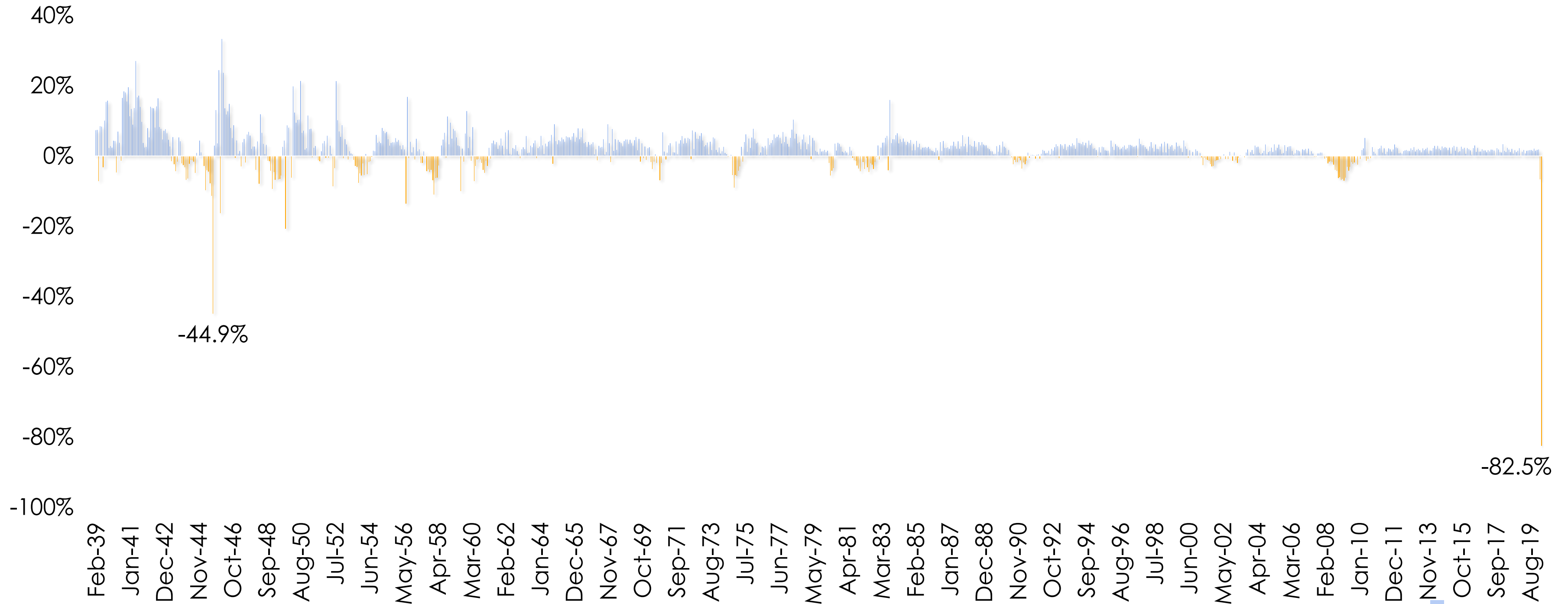


Where the rubber meets the road...



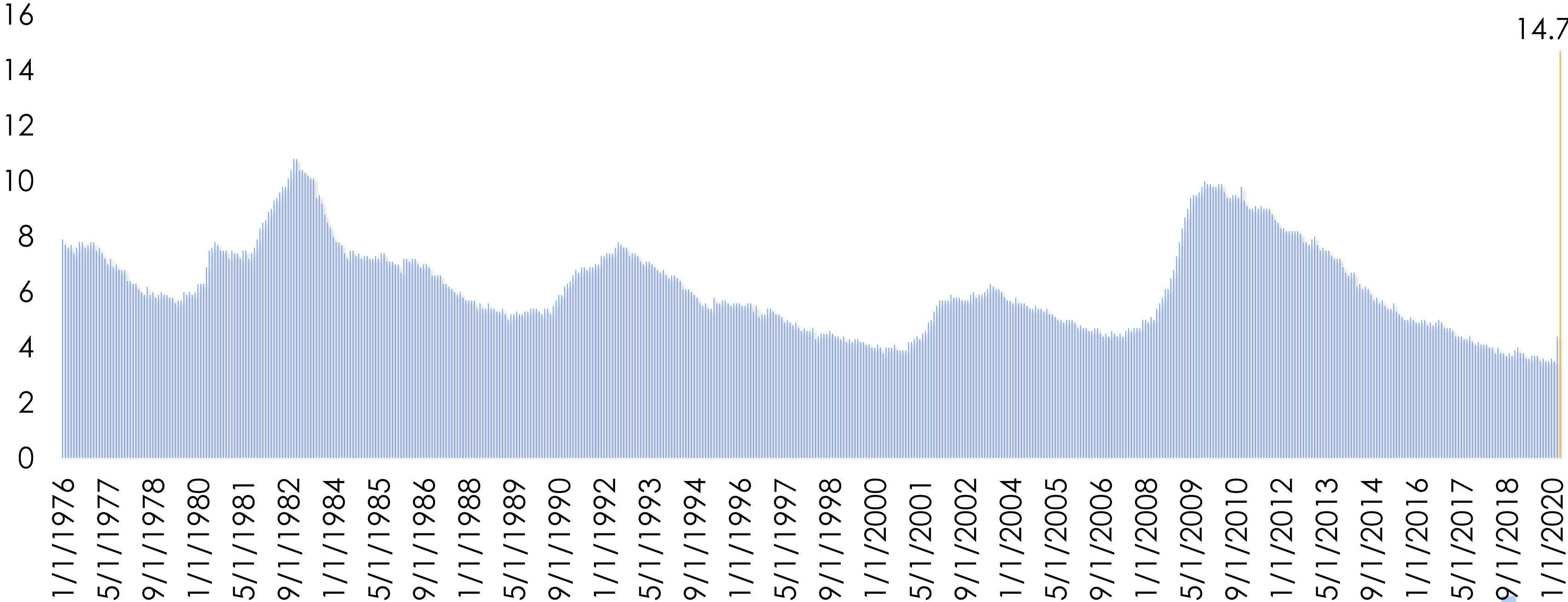
Biggest employment decline..... **EVER!**

U.S. Nonfarm Job Growth (MTM, SAAR)



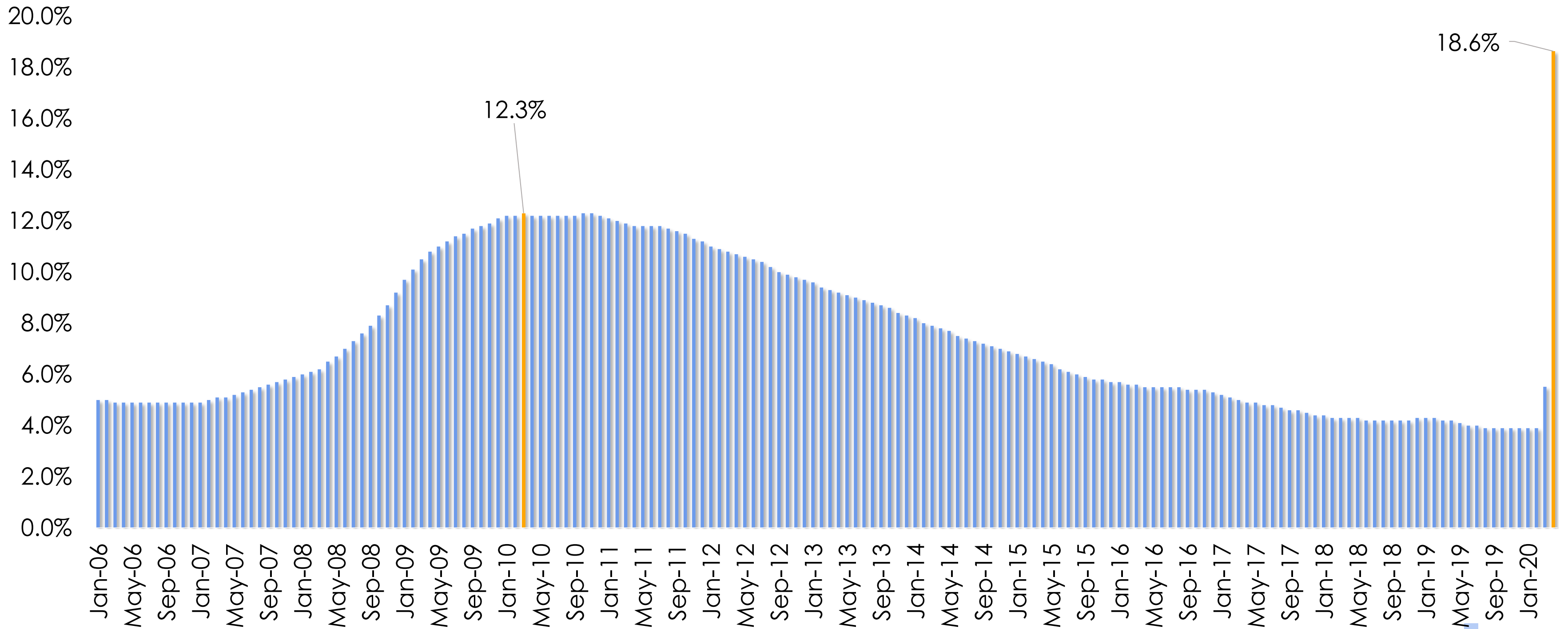
Great Depression levels of unemployment

U.S. Unemployment Rate



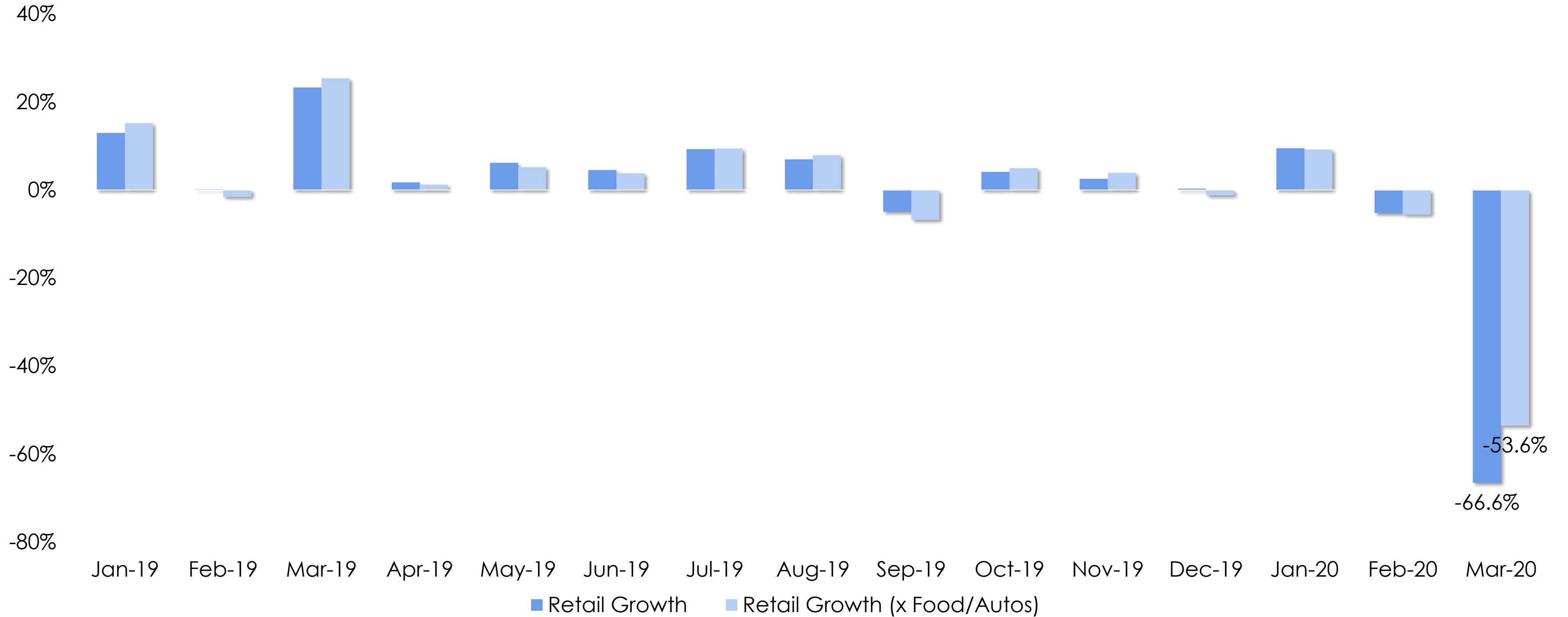
Numbers likely to be worse here in CA

California Unemployment Rate Estimates



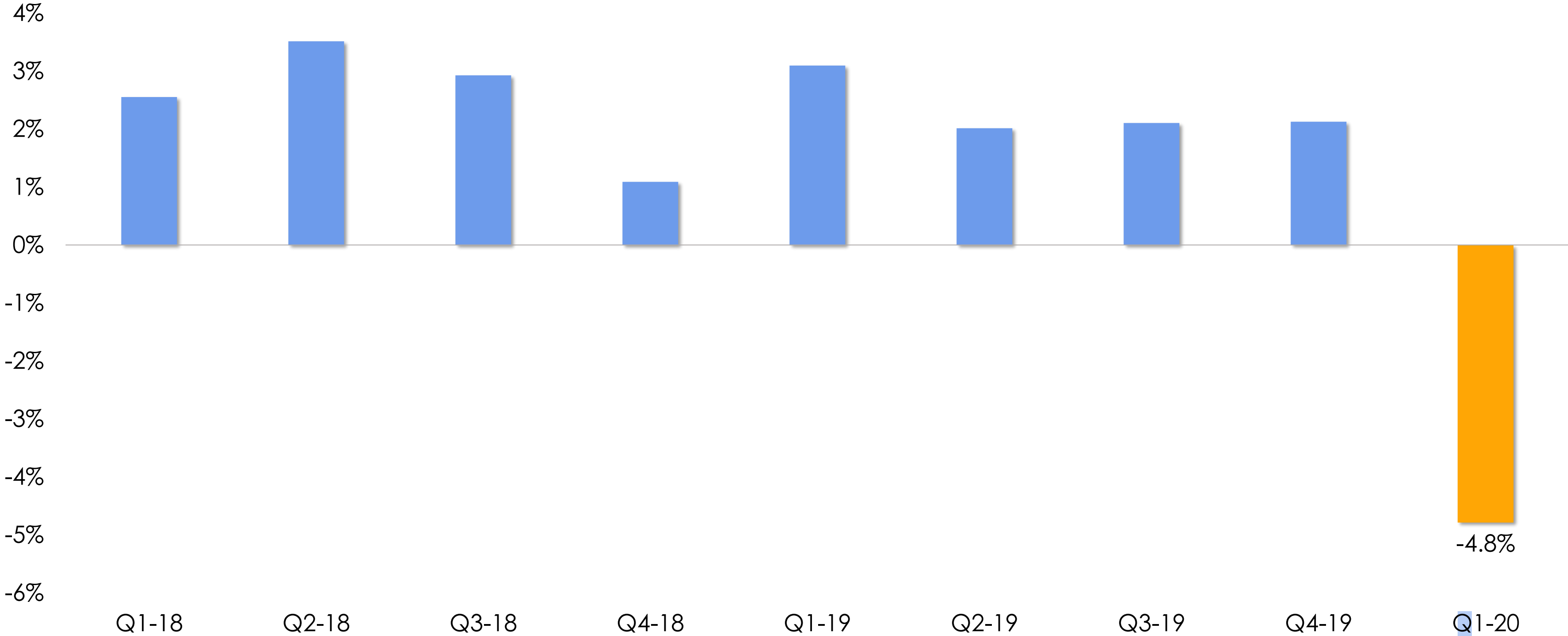
New record for retail sales declines

U.S. Retail Sales Growth



Worse than expected Q1 for economic growth

Real GDP Growth



Other records we're breaking

- Biggest drop in housing starts since 1984
- Largest decline in builder sentiment – ever
- Empire manufacturing index drops to lowest level – ever
- Industrial production at lowest level since 1946
- Philly Fed index at lowest level in 40 years
- Nearly 5 million households in forbearance



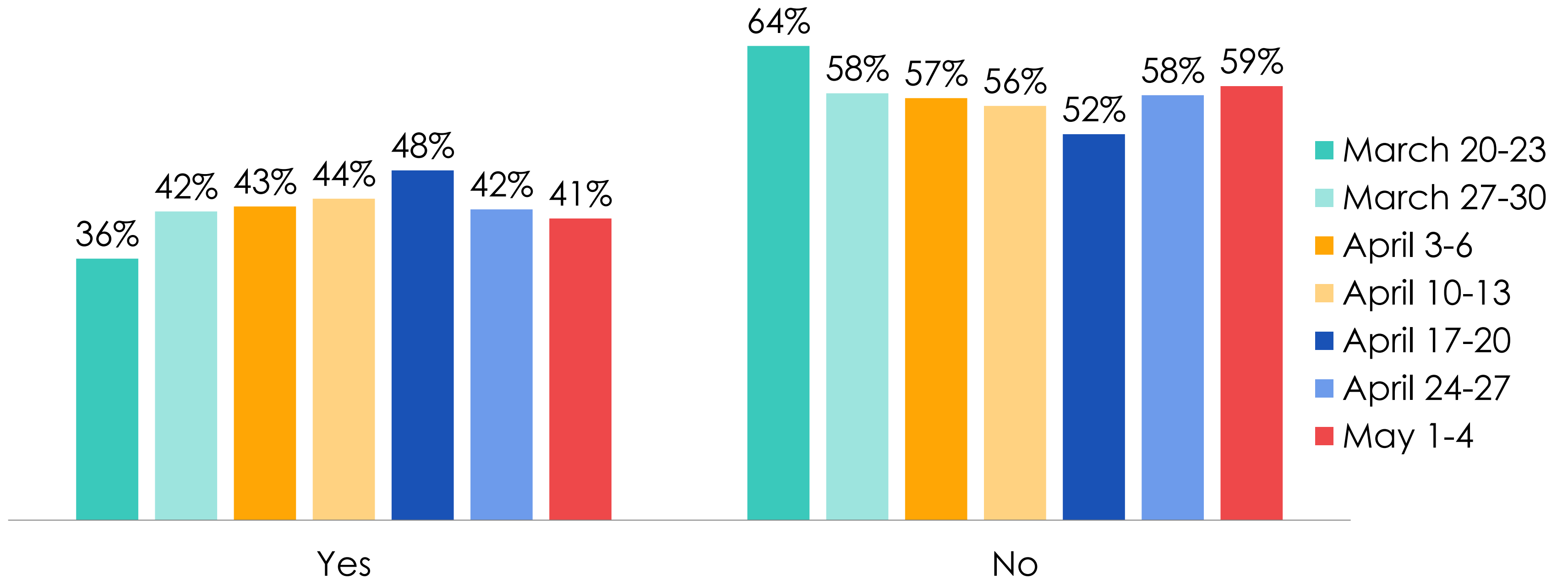


REALTORS® Are Feeling
The Effects on Their Business



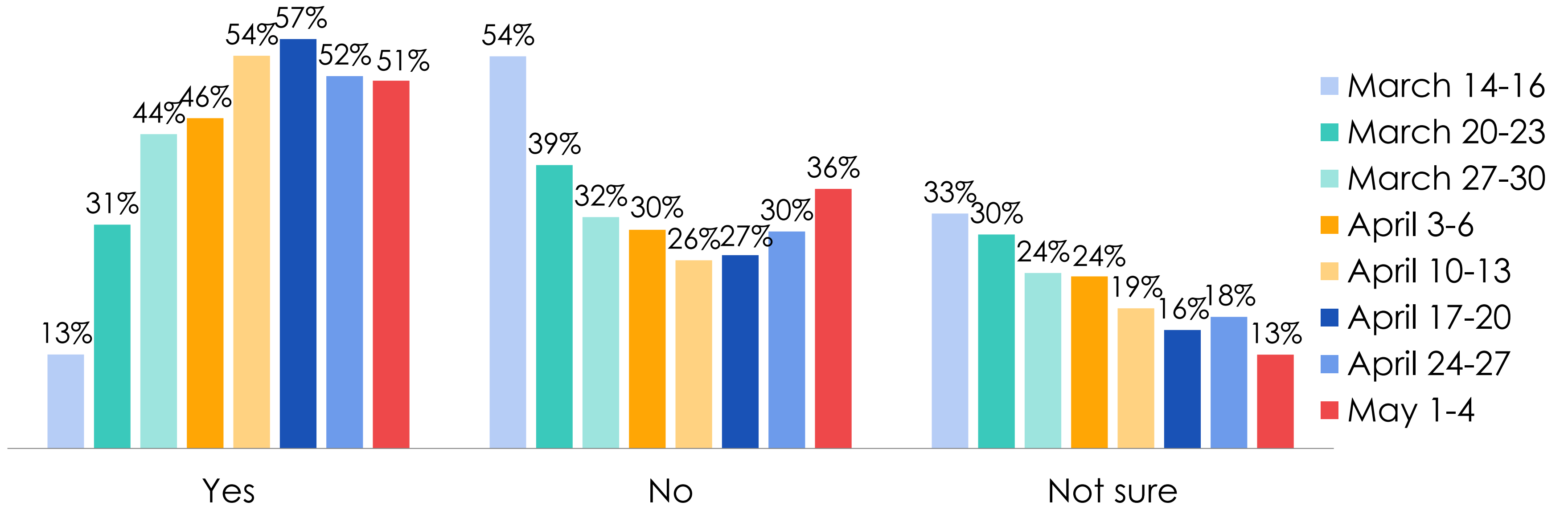
Still seeing buyers withdrawing offers

Q: Have you had any buyers withdraw an offer due to Coronavirus?



Sellers still removing their homes from the market

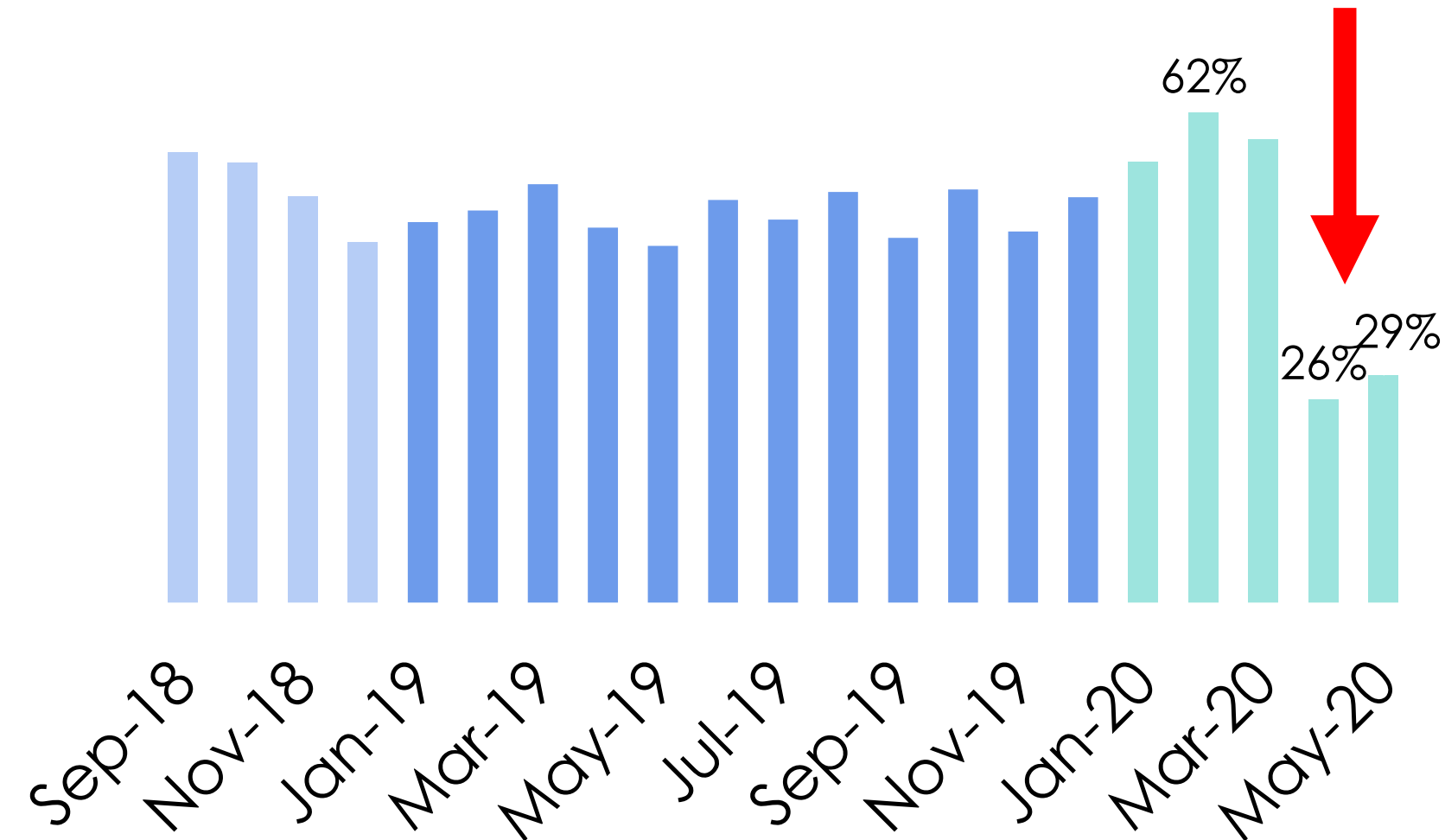
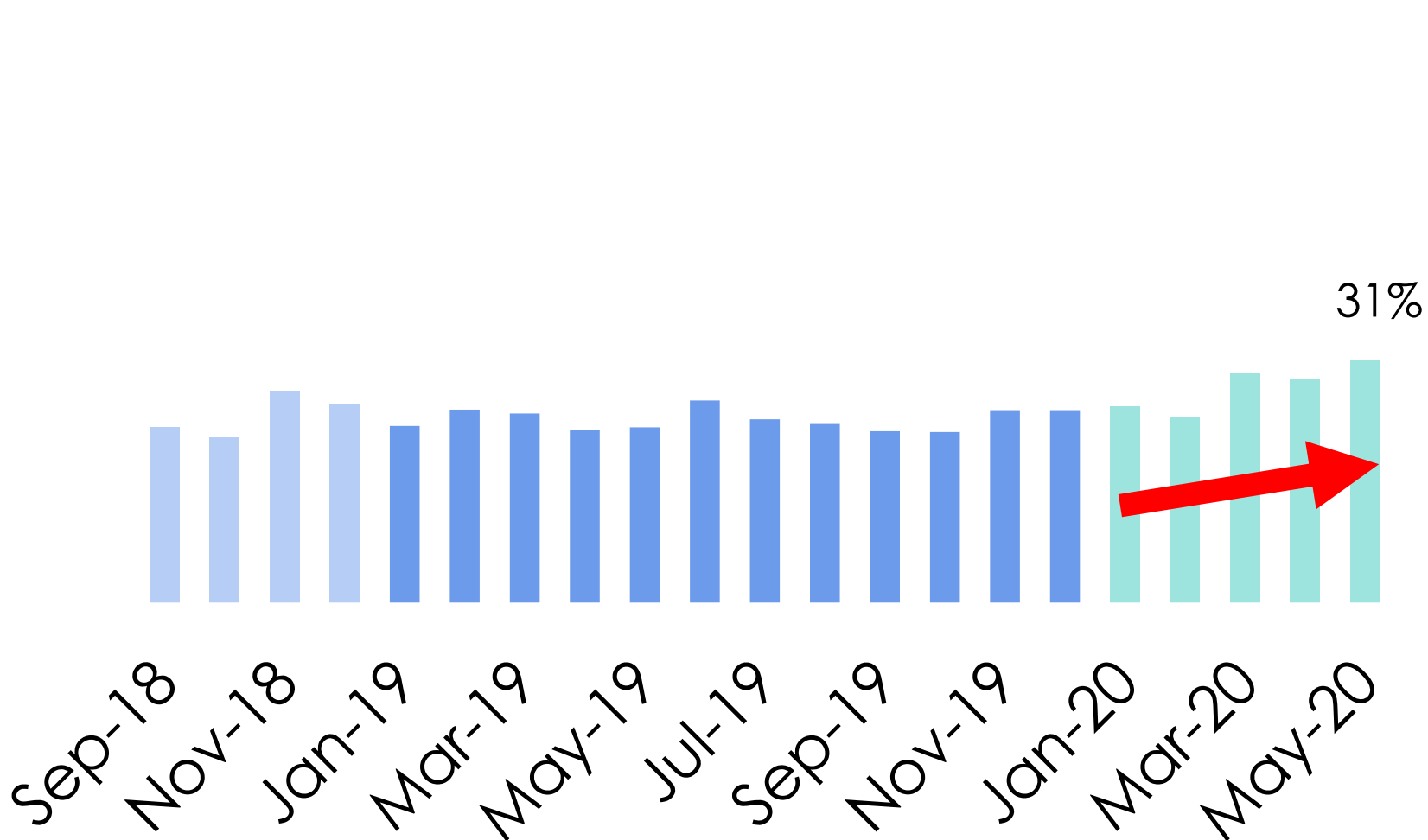
Q: Have you seen any sellers remove their home from the market completely due to Coronavirus?



Consumers reflect REALTORS® experience

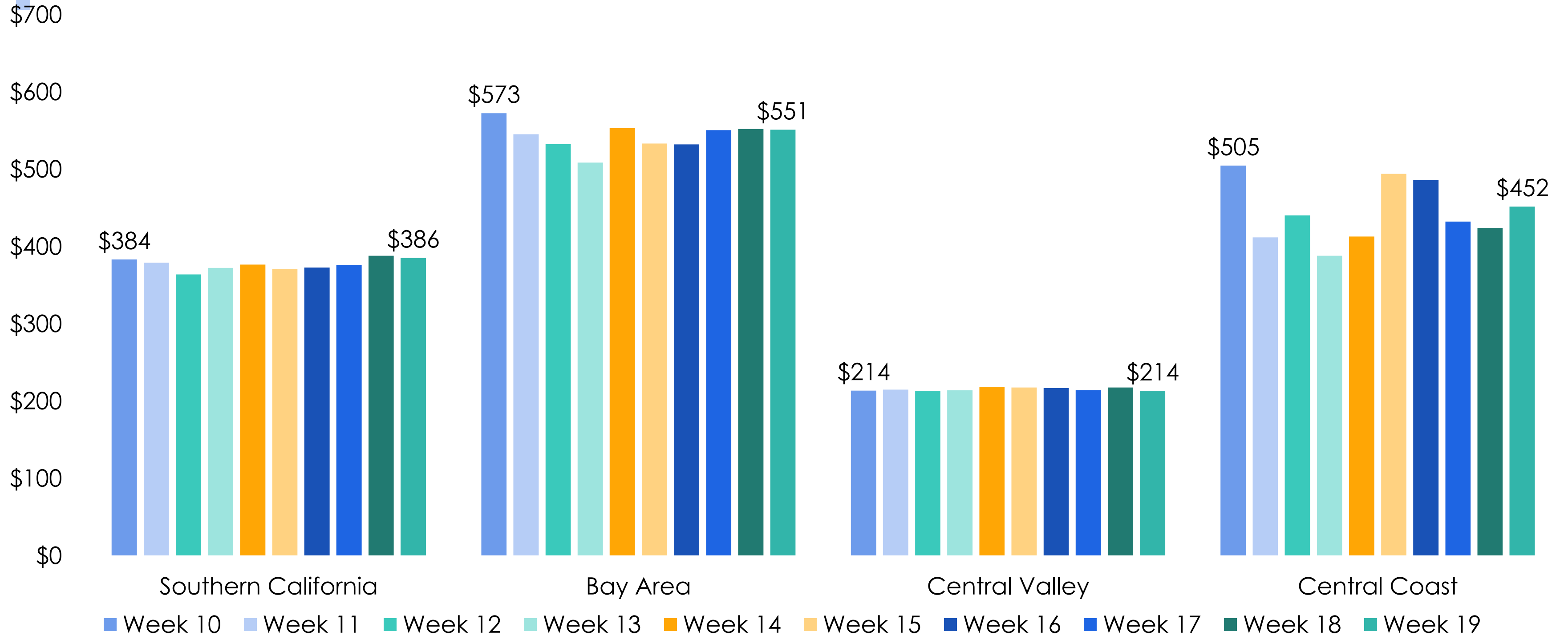
Do you think it's a good time to **buy** a home in California?

Do you think it's a good time to **sell** a home in California?



Has not had much impact on prices yet

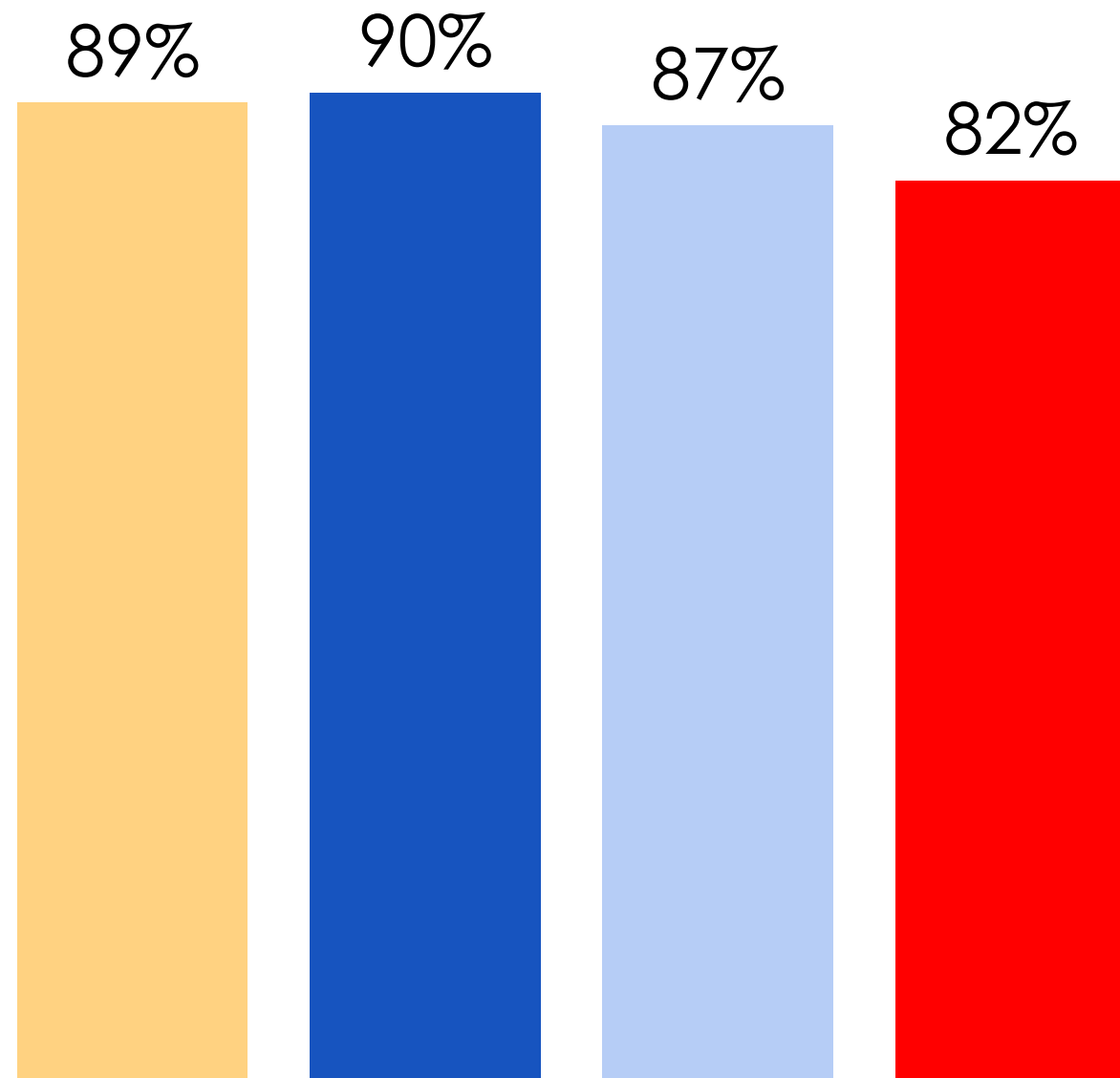
California Median Prices Per Square Foot by Week



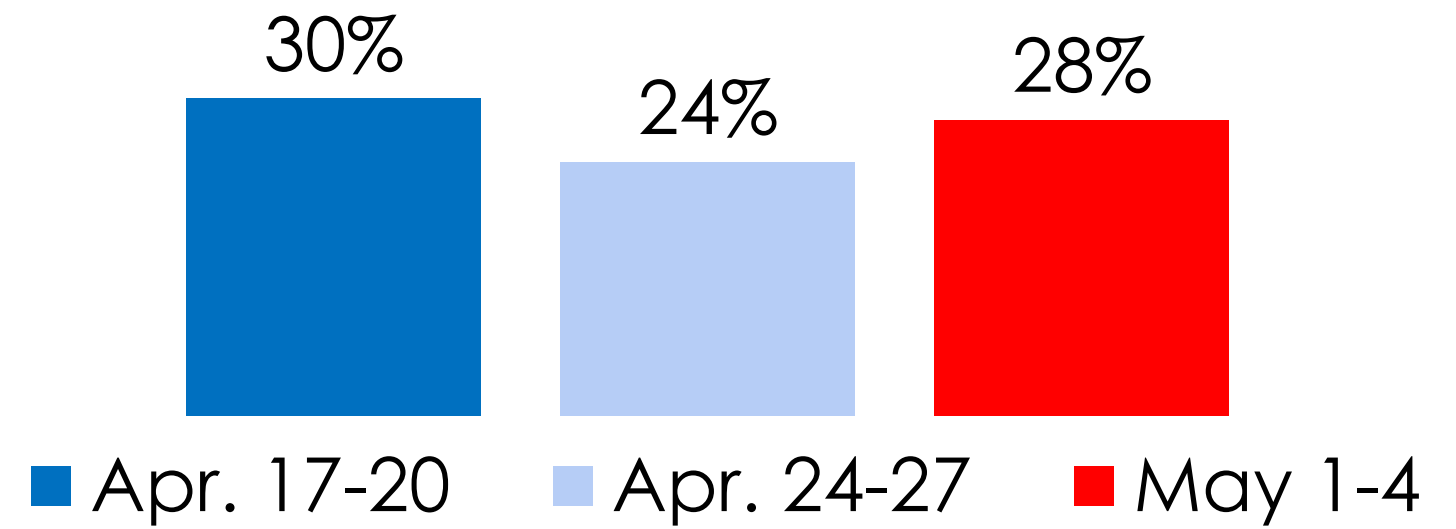
BUT, buyers think there has been

Q: In general, are home buyers expecting lower prices now? A: Yes

Q: Have you had a buyer attempt to renegotiate the purchase price prior to close? A: Yes



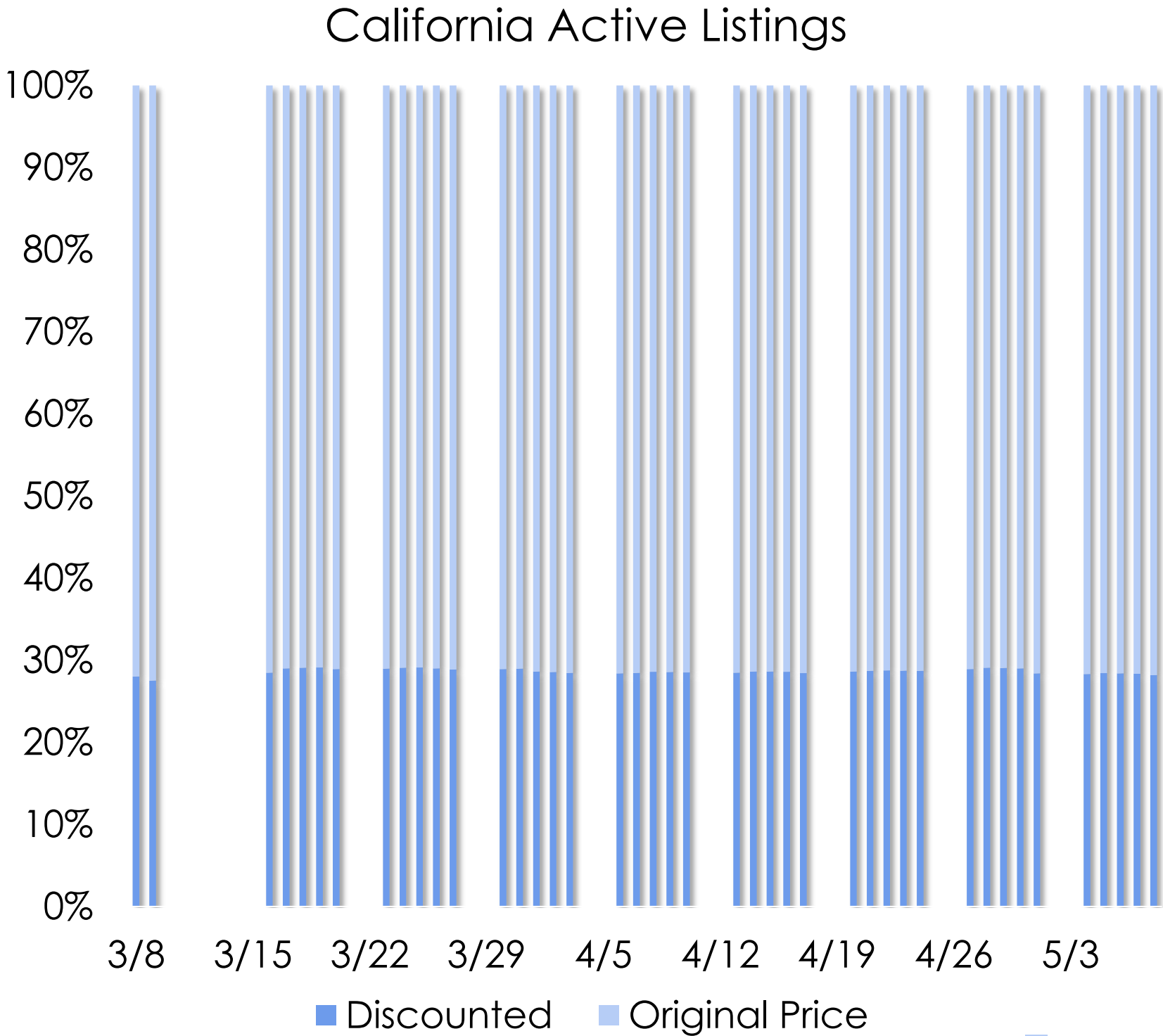
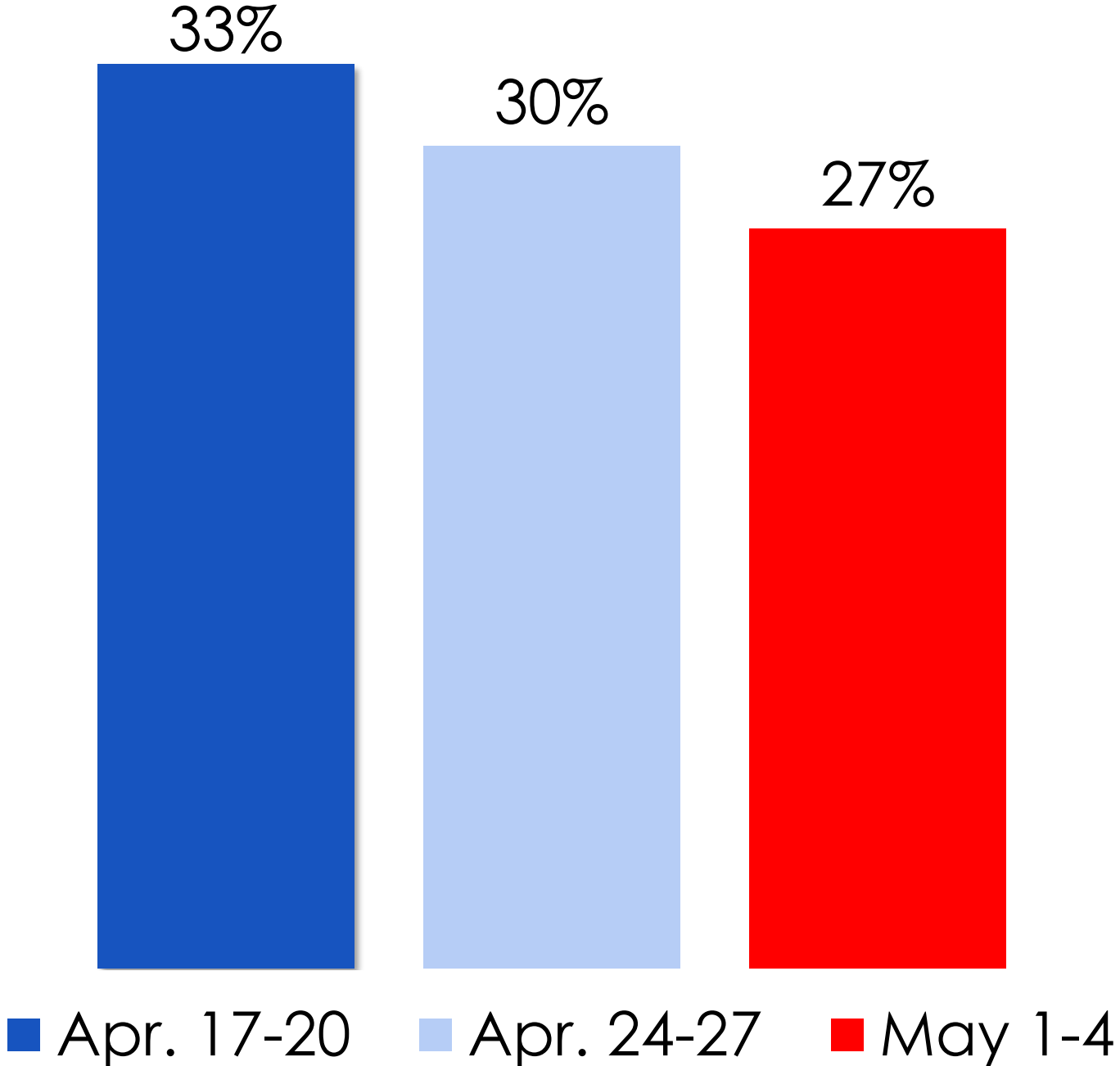
■ Apr. 10-13 ■ Apr. 17-20 ■ Apr. 24-27 ■ May 1-4



■ Apr. 17-20 ■ Apr. 24-27 ■ May 1-4

Sellers aren't on the same page

Q: Have any of your home sellers recently reduced price to attract buyers?



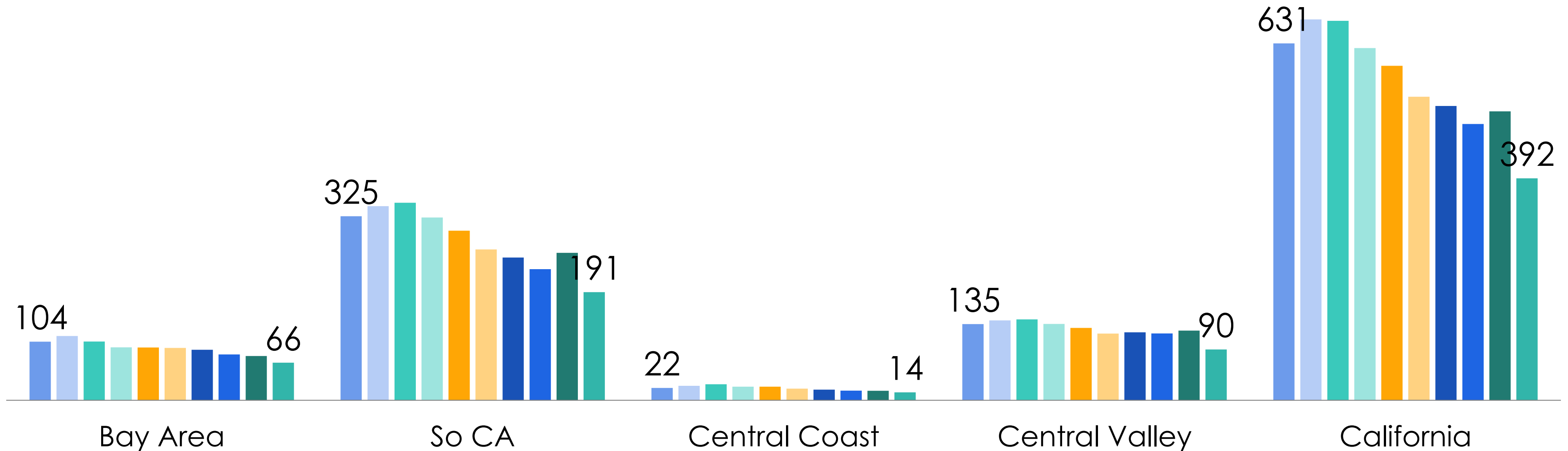
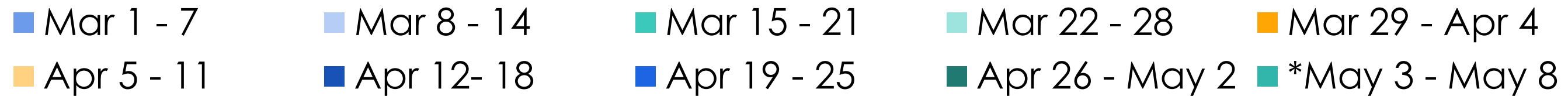


We're Seeing the Effects
In the Market Data



Closed sales dropped again in the latest week

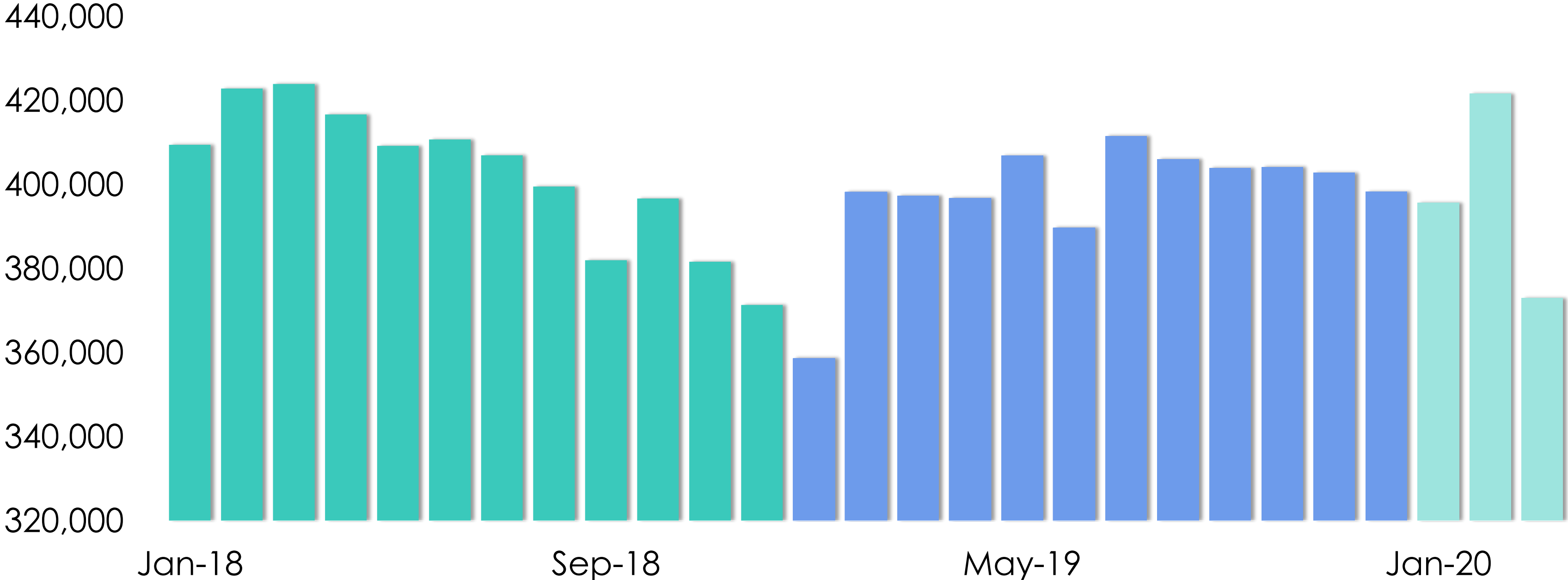
Average Daily Closed Sales



**Closed sales for the latest week will likely be revised upward due to recording delays.

Still, March data was tip of the iceberg

California, March 2020 Sales: **373,070 Units**, 3.1% YTD, -6.1% YTY



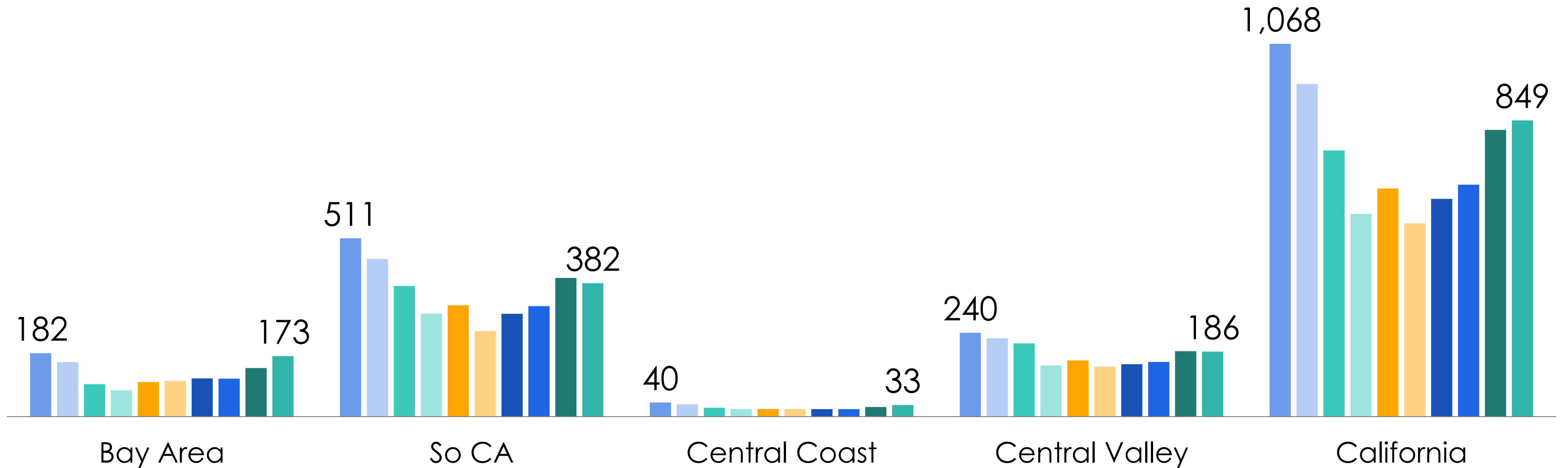
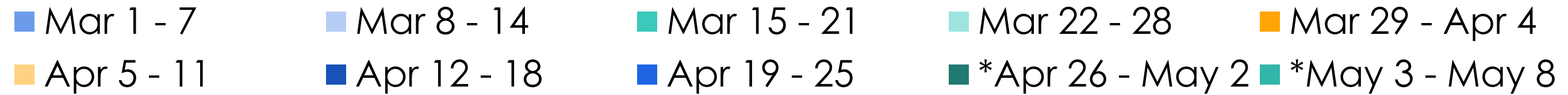


**Starting to Get a
Feel for the Bottom**



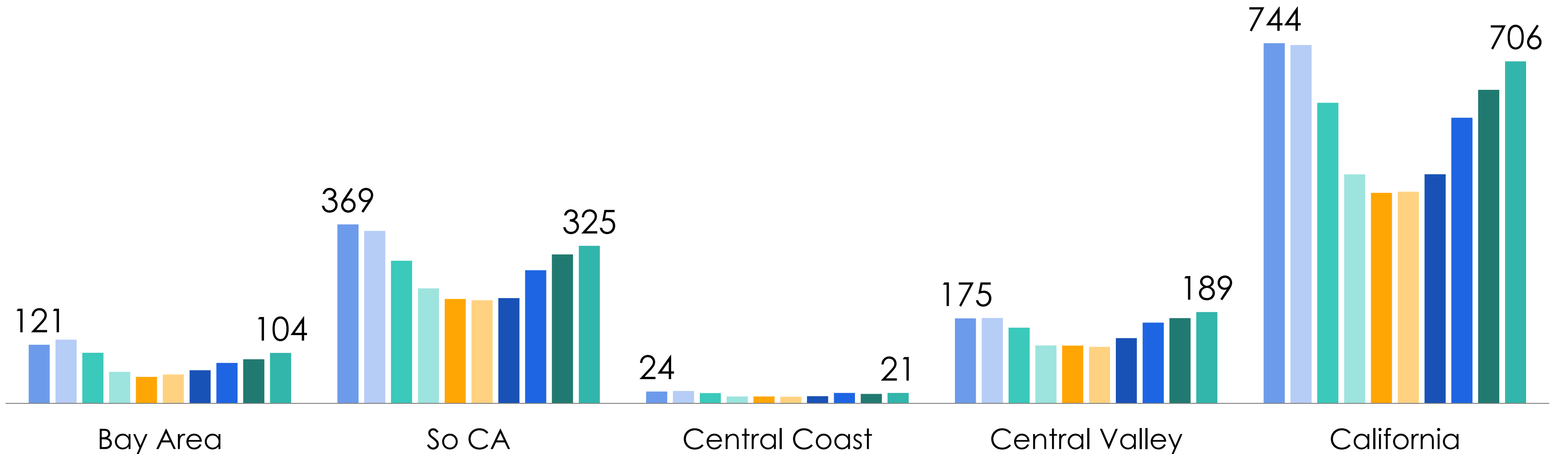
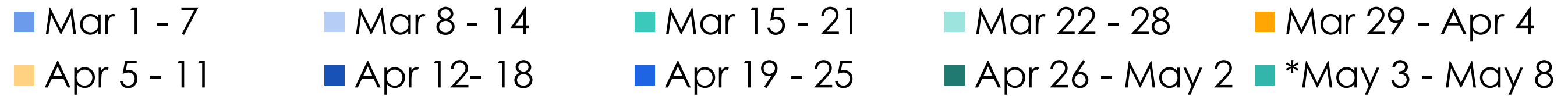
California new listings reached highest level since SIP

Average Daily New Listings



Pending sales highest since early March

Average Daily Pending Sales



Showings still declining, but much slower pace

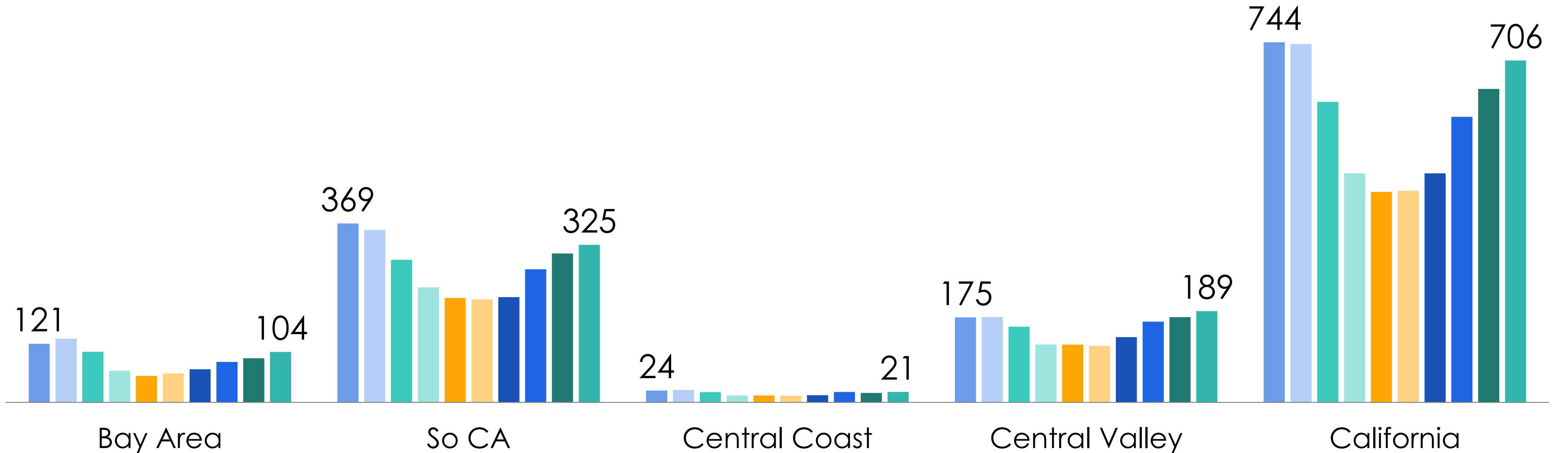
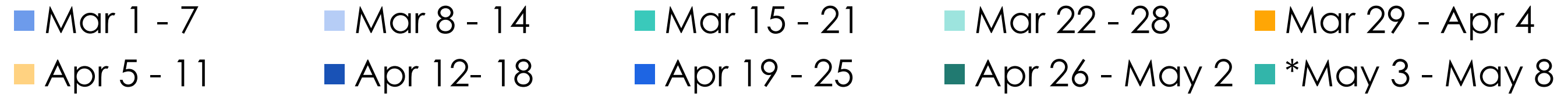
- Showings -9% vs. -75% 1st week of SIP
- Mortgage apps: similar flattening
- CA mortgage apps more responsive!
- Peaked for buyers/sellers backing out
- Deals falling out of escrow peaking
- State flattened the curve on the virus
- Unemployment claims slowing



Short Run Message:
Yes, We're Seeing Bottom
BUT, Going to Take a While to Rebound

Pending takes time to become closed sales

Average Daily Pending Sales



Economic contraction of -30% will hurt!

	Q120	Q220	Q320	Q420	2020
Bank of America	-7.0%	-30.0%	-1.00%	30.0%	-10.4%
Congressional Budget Office	-3.5%	-39.6%	23.5%	10.5%	-5.6%
Goldman Sachs	-9.0%	-34.0%	19.0%	NA	-6.2%
JP Morgan	-10.0%	-25.0%	8.0%	4.0%	NA
Morgan Stanley	-3.4%	-37.9%	20.7%	15.9%	-5.5%
UCLA	0.4%	-30.0%	-5.0%	4.0%	NA
Wells Fargo	-1.2%	-22.3%	7.2%	4.8%	-3.0%

* Latest updates as of 04/27/2020



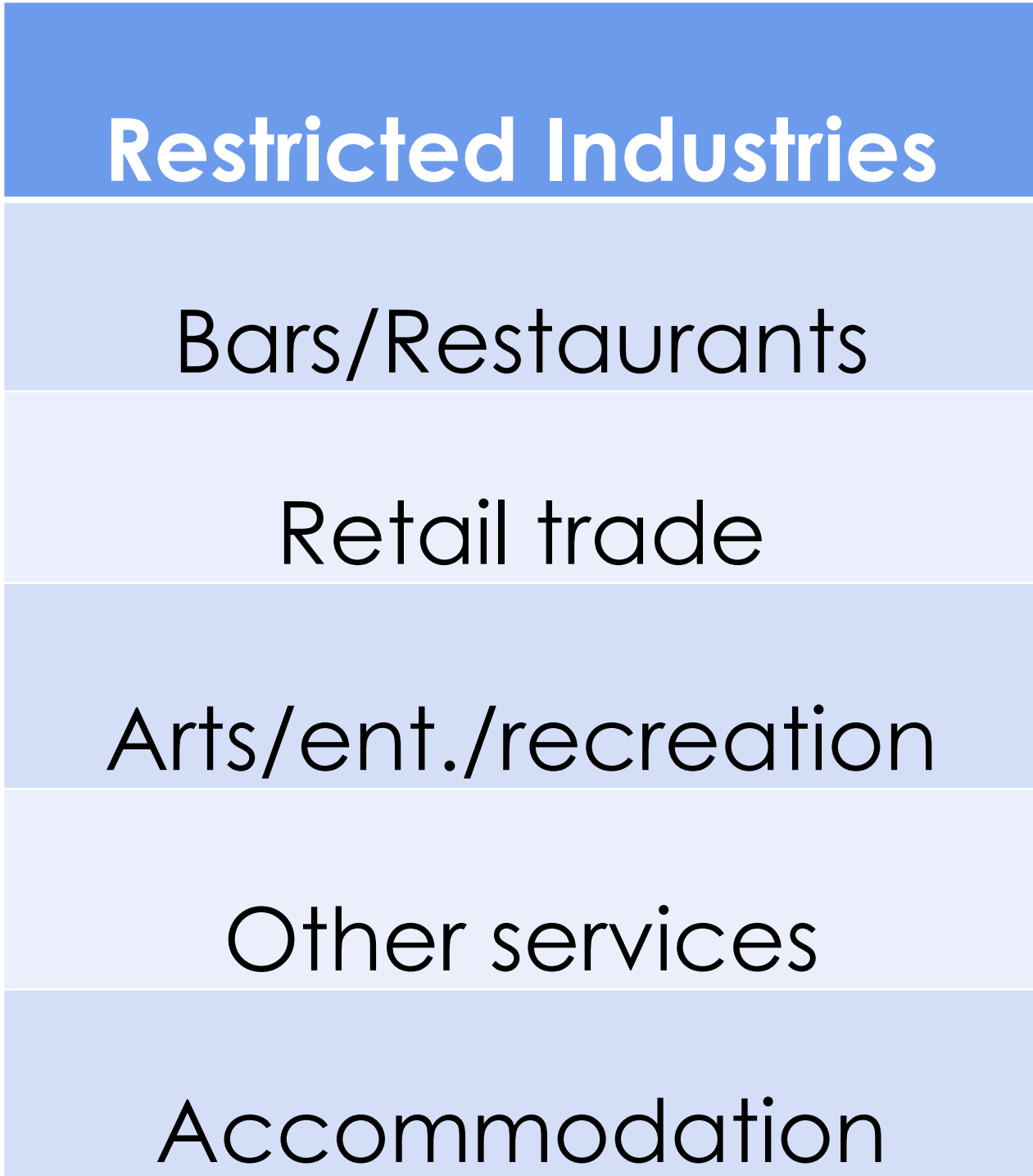
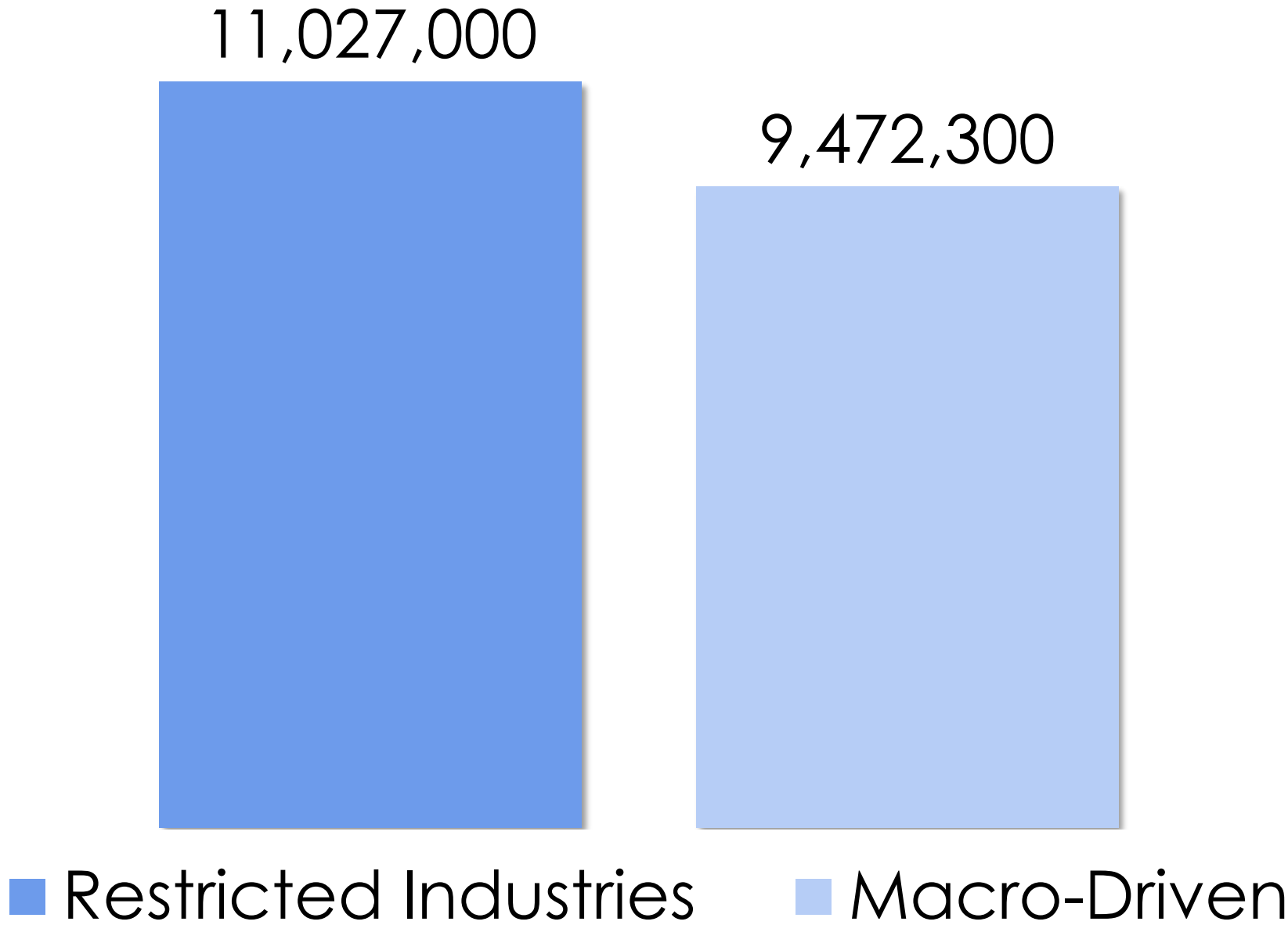
How quickly will we get back to 100%?

Sector	Mar-20 to Apr-20 (000s)	Sector	Mar-20 to Apr-20 (000s)
Total nonfarm	-20,500.0	Logistics	-584.1
Bars/restaurants*	-5,491.3	Prof./technical svcs.	-509.0
Retail trade*	-2,106.9	Educational svcs.	-457.1
Health care /social assist.	-2,086.9	Wholesale	-362.8
Admin. Support	-1,536.4	Information	-254.0
Manufacturing	-1,330.0	RE/rental/leasing	-221.9
Arts/ent./recreation*	-1,322.8	Management	-81.9
Other services*	-1,267.0	NR/mining	-50.0
State/Local Gov't	-981.0	Finance/insurance	-39.9
Construction	-975.0	Utilities	-3.3
Accommodation*	-839.0	Federal Gov't	1.0

* Restrictions expected beyond SIP

53% in sectors facing ongoing restrictions

U.S. Job Losses in April



Short-run estimates of COVID-19 impacts

- Economy will shrink by 30-40% in Q2
- Unemployment expected to exceed 20%
- Double-digit decline for California home sales
- Declines expected to persist for April & May (maybe June)
- Only single-digit price impacts expected, potentially negligible
- Mortgage credit remains sticking point for buyers in CA
- Big wildcard is the virus—second wave means worse #s



Also navigating the expectations gap

Distinguish from 2008

- Economy was on strong footing
- Healthy hhld. balance sheets
- Non-zero savings rates
- 30-yr FRMs, credit too tight
- All-time lows for unemployment
- 2020 accelerating into February

Keep it Real w/Clients

- Market IS tough, but...
- Inventory still relatively tight
- Less Inventory = minimal discounts
- Rates remain attractive
- Selling homeownership again
- Be the expert your clients need!





**Long-Term, Residential RE
Will Be a Bright Spot**



Why housing is poised to do well long term

- **Long term benefits of homeownership still there**
 - Health, wealth, lifestyle, and future generations
- **Structural shift/acceleration of recent trends**
 - Not as many commuters/more opportunities
 - Potential solutions for supply as a result
 - People still want ownership, maybe an option now
- **Our homes are more important to us than ever now!**



Concluding remarks



The Bad News

- The data is starting to roll in—and it's UGLY
- The economy and housing are feeling the effects
- Both market and expectations challenges to navigate

The Good News

- We **ARE** starting to see signs of a bottom
- Several housing indicators showing signs of life

Keeping it Real

- Expect ongoing challenges at least through May/June
- COVID-19 remains the wildcard (second wave?)
- Starting to see some light at the end of the tunnel



Thank You

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