

Momentum Continues in the California Housing Market

Improved economic conditions and more job availability throughout the state benefited the housing market and continued to push sales higher. Mortgage rates returning back to near record-low levels in the first half of the year, coupled with an anticipated rise in the fed funds rate later this year, may also have prompted prospective buyers to feel a sense of urgency to enter the market.

The statewide sales in July exceeded 400,000 for the fourth consecutive month, and July 2015 was the month with the highest sales level since Oct 2012. The strong momentum in the first half of 2015 elevated sales in the first seven months to 407,060 (seasonally adjusted and annualized), an increase of 7.1 percent when compared to the same period of last year.

After reaching the peak in nearly eight years, the statewide median price in July dipped slightly to \$488,260 from the previous month, but remained close to the recent high reached in June. The median price continued to improve at a moderate rate from the previous year, with a year-over-year gain of 5.4 percent in July 2015. While the median price continued to improve from the previous year, the rate of increase has been decelerating steadily in the last twelve months.

The combination of modest price appreciations and low interest rates kept housing affordability from declining further this year in most areas, despite higher prices. In fact, the statewide Housing Affordability Index (HAI) actually rose in the first quarter of this year to 34 percent before dropping

back to 30 percent in the second quarter. With interest rates expected to rise in the second half of 2015, housing affordability will become a bigger challenge for many potential home buyers, particularly for those who reside in high-cost areas such as the Bay Area.

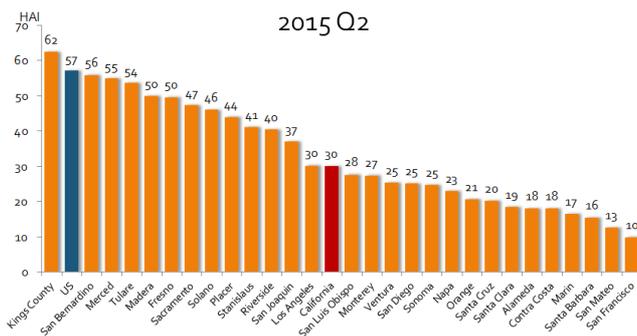
The California housing market should continue its momentum and have a solid performance throughout the rest of the year. Sales, however, could cool off slightly in the fall as mortgage rates gradually rise. With the economy growing faster and the labor market improving next year, more households will be formed as consumer confidence continues to rise. As a result, sales activity is expected to inch up in 2016.

Inadequate supply in high-end areas such as the Bay Area is exerting upward pressure on prices, but home sales in those regions are simultaneously being constrained. The constraint in home sales in the Bay Area could eventually lead to a decline in the share of high-end homes sales to overall home sales, which could also lead to a further slow-down in the appreciation in the statewide median price. As such, the statewide median price is expected to increase only modestly this year and in 2016.

HOUSING AFFORDABILITY IN CA: BY COUNTY

% able to purchase median-priced home

2015 Q2



SERIES: Housing Affordability Index
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