

## RESIDENTIAL REAL ESTATE

The Existing Home Market

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The New Home Market

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The Forecast

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## RESIDENTIAL REAL ESTATE

### The Existing Home Market

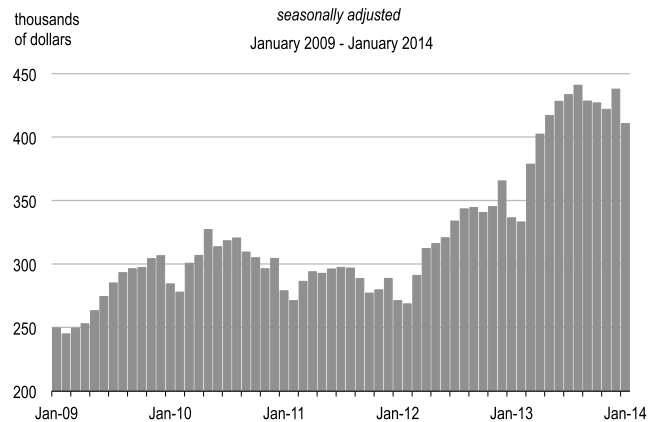
#### The Greater California Market

During 2013, home prices appreciated rapidly in California. In January 2014, the statewide median price was \$410,990, an increase of 22 percent since January 2013. However, prices have been in a downtrend since August.

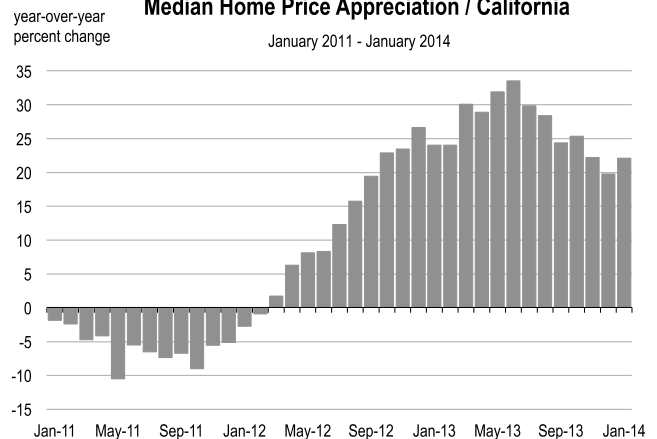
Sales are down sharply since mid-year. On a seasonally-adjusted basis, there were fewer sales in January 2014 than during any month since early 2008. On an annual basis, sales declined by 6 percent in 2013.

In part, price appreciation in 2013 was driven by a reduction in distressed sales. Distressed transactions now account for just 16 percent of the market, down from 55 percent in early 2012. This shift has put upward pressure on the median price, as distressed properties typically sell at deep discounts.

**Median Home Selling Price / California**



**Median Home Price Appreciation / California**



## BloombergBusinessweek News

AP News

### Southern California home prices hit 70-month high

January 14, 2014

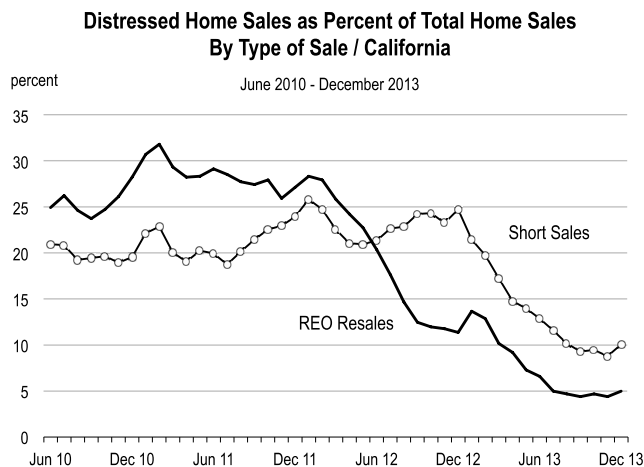
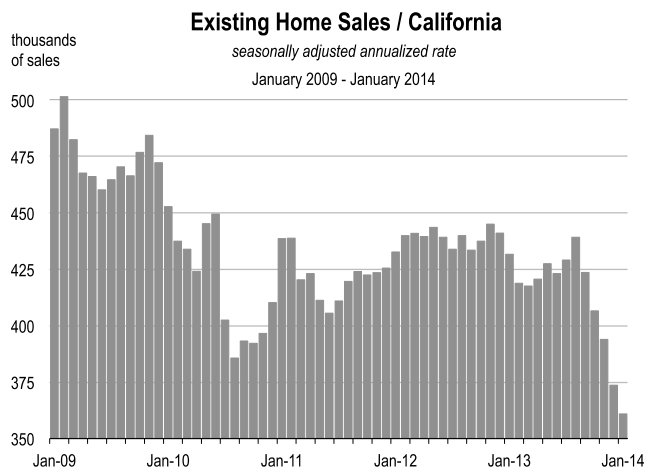
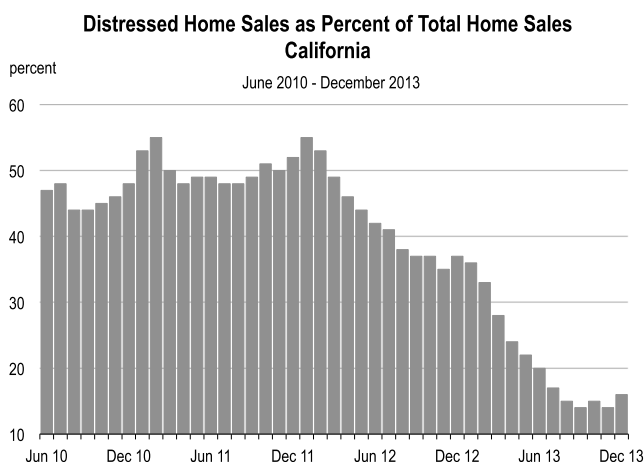
SAN DIEGO (AP) — Southern California home prices reached a 70-month high in December as sales fell and buyers competed for scant inventories, a research firm said Tuesday.

*Bloomberg BusinessWeek, January 14th, 2014*

However, falling levels of distress are responsible for only a portion of the rise in prices. Other factors have also had an effect, such as low levels of inventory and favorable mortgage rates. Evidence of this can be seen in the Case/Shiller Index. The Case/Shiller Index tracks the prices of individual properties over time, and uses this information to determine changes in overall property values. Because of this, it removes most of the influence of a reduction in distressed sales.

In the three California markets that are tracked by Case/Shiller – Los Angeles, San Diego, and San Francisco – index values have risen in tandem with median prices.

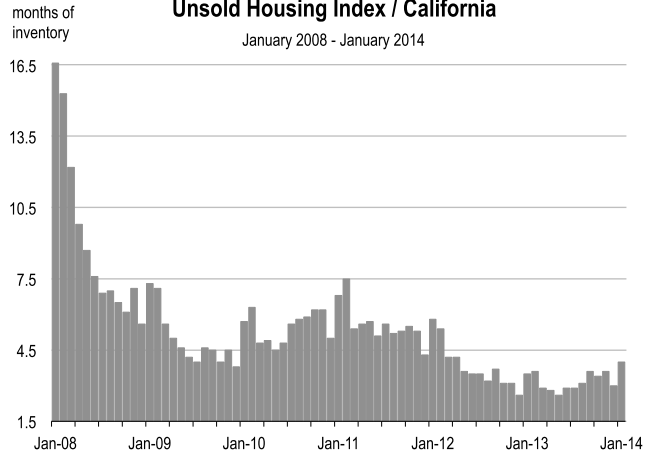
In California, inventory is at its lowest level since 2005 – when the housing bubble was at its peak. With only 4.0 months of supply, the market is relatively tight. With low levels of construction activity and few homeowners looking to sell, buyers have had to compete for a limited number of available properties.



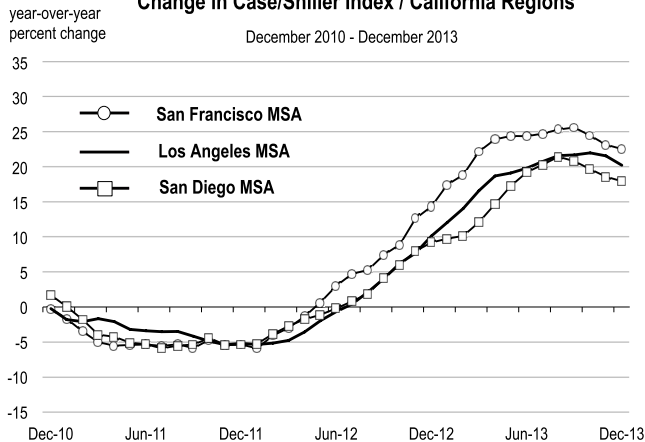
In addition, mortgage rates have been near the lowest levels on record. As of mid-2013, conforming fixed-rate loans were going for less than 3.5 percent, while jumbo fixed-rate loans were being offered for less than 4.0 percent.

Since June, however, rates have risen sharply. This was the result of changes to Federal Reserve policy. Recently, the Fed began to reduce its purchases of mortgage and Treasury bonds – known as “Quantitative Easing” –

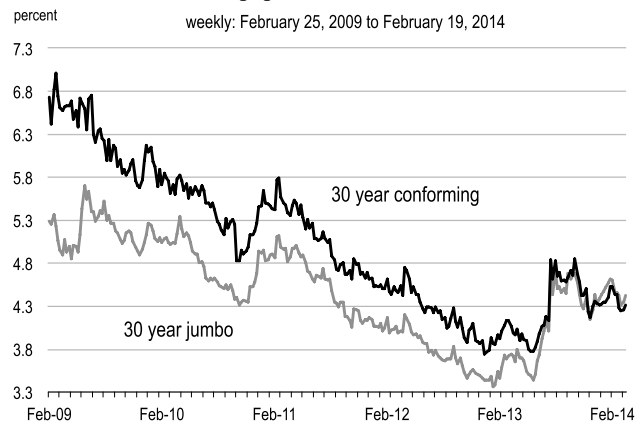
### Unsold Housing Index / California



### Change in Case/Shiller Index / California Regions



### Fixed Mortgage Rates / Southern California



# Fed to scale back bond purchases

## ■ Bernanke plays up priority of low rates

By Martin Crutsinger  
Associated Press

WASHINGTON—The Federal Reserve has sent its strongest signal of confidence in the U.S. economy since the Great Recession struck six years ago: It's decided the economy is finally strong

enough to withstand a slight pullback in its stimulus.

Yet the Fed also made clear it's hardly withdrawing its support for an economy that remains below full health. Chairman Ben Bernanke stressed that the Fed would still work to

keep borrowing rates low to try to spur spending and growth and increase very low inflation.

At his final news conference as chairman before he leaves in January, Bernanke managed a delicate balance: He announced a long-awaited

### INSIDE

CSJCI economist expects soft rise in interest rates. 2A

and long-feared pullback in the Fed's stimulus. Yet he did so while convincing investors that the Fed would continue to bolster the economy indefinitely. Wall Street roared its approval.

The Fed said in a statement after its policy meeting ended Wednesday that it will trim its \$85 billion a month in bond purchases by \$10 billion starting in January. Bernanke said the Fed expects to make "similar moderate" cuts in its purchases if economic gains continue.

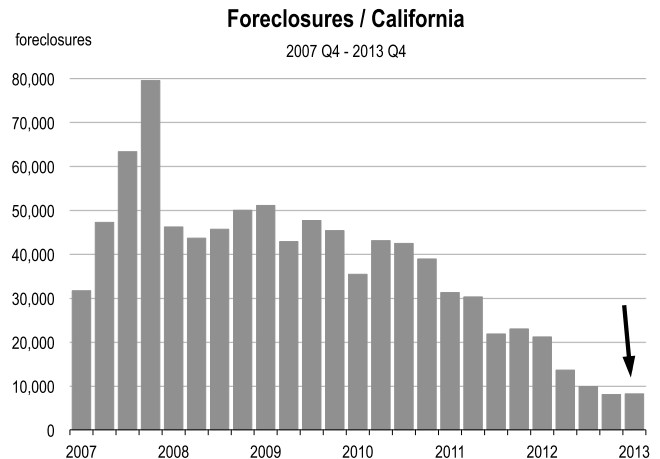
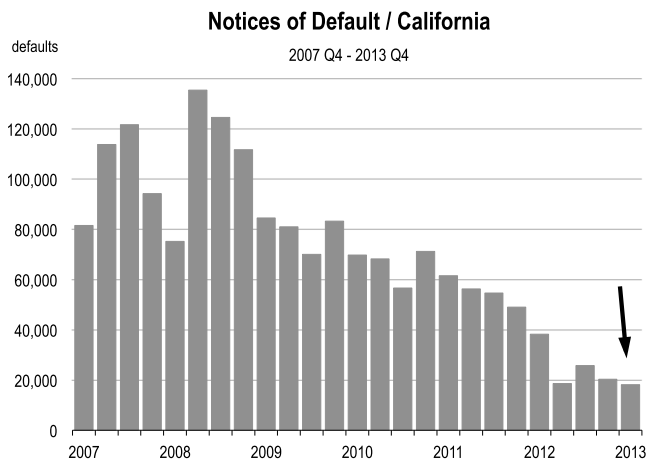
See FED, 2A

Ventura County Star, December 19th, 2013, Front Page

and will continue to reduce these purchases throughout 2014. As this process unfolds, rates should continue to increase.

In tandem with fewer distressed sales, California has been characterized by much

lower levels of defaults and foreclosures. In the fourth quarter of 2013, a total of 18,120 NODs (Notices of Default) were issued, and a total of 8,205 foreclosures were processed. These represent declines of 53 percent and 61 percent, respectively, from the fourth quarter of 2012.



#### Median Single-Family Home Selling Price Selected California Counties:

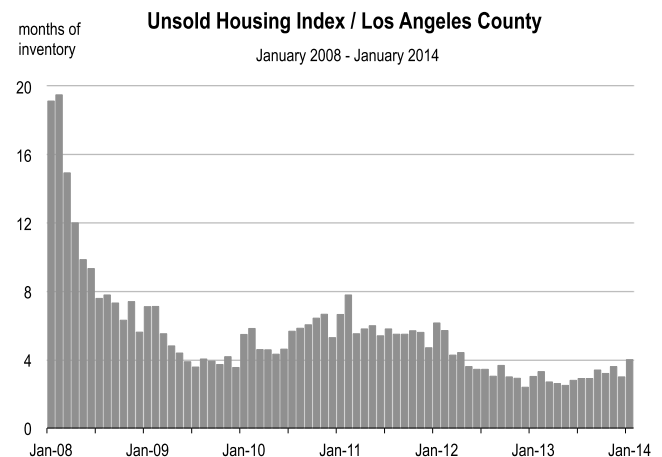
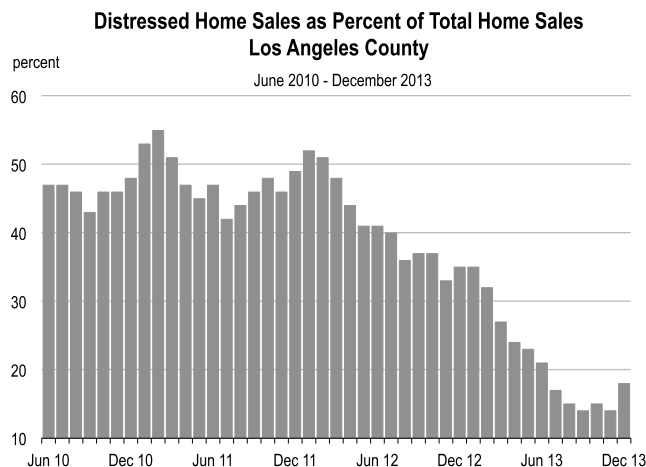
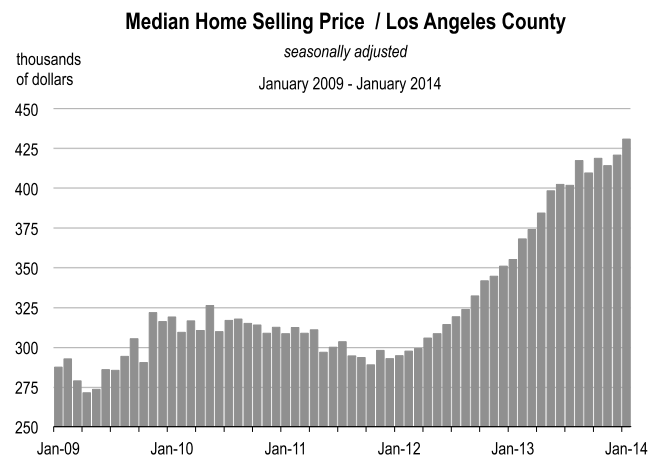
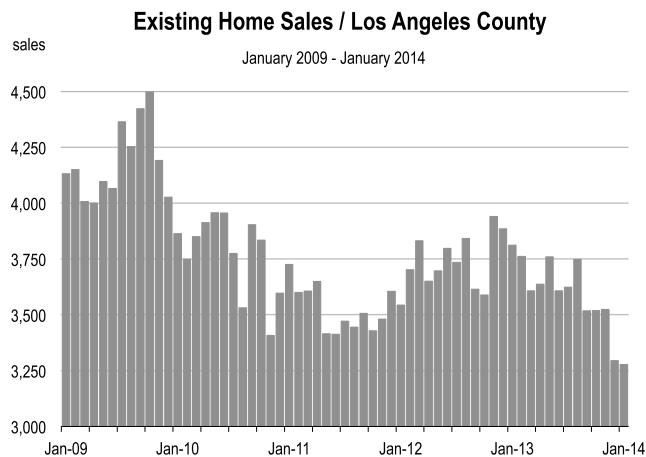
2013 - 2014

	January 2013 Sales	January 2014 Sales	% Change	January 2013 Median Price	January 2014 Median Price	% Change	% Change from Peak	% Change from Trough
<b>Southern California</b>								
— dollars —								
San Diego County	1,619	1,265	-21.9	\$390,890	\$479,340	22.6	-23.0	46.7
Orange County	1,202	972	-19.1	\$566,500	\$653,850	15.4	-15.7	47.9
Los Angeles County	3,125	2,709	-13.3	\$349,720	\$423,570	21.1	-32.3	70.2
Inland Empire	2,754	2,682	-2.6	\$207,530	\$267,200	28.8	-31.4	77.1
Ventura County	391	356	-9.0	\$440,670	\$533,730	21.1	-24.9	48.4
San Fernando Valley	851	778	-8.6	\$366,180	\$442,750	20.9	-20.4	46.3
<b>Santa Clarita Valley</b>	<b>256</b>	<b>243</b>	<b>-5.1</b>	<b>\$333,240</b>	<b>\$395,000</b>	<b>18.5</b>	<b>-29.6</b>	<b>36.5</b>
<b>Northern California</b>								
Monterey County	206	142	-31.1	\$339,500	\$428,500	26.2	-44.9	110.6
San Francisco Bay Area	2,370	2,308	-2.6	\$548,890	\$630,470	14.9	-23.3	66.6
Santa Clara County	557	505	-9.3	\$652,500	\$731,000	12.0	-15.5	64.3
Sacramento County	1,148	947	-17.5	\$201,010	\$242,510	20.6	-38.5	50.6
<b>California</b>	<b>35,023</b>	<b>30,094</b>	<b>-14.1</b>	<b>\$336,650</b>	<b>\$410,990</b>	<b>22.1</b>	<b>-30.9</b>	<b>67.6</b>

Source: California Association of Realtors, DataQuick,  
and the California Economic Forecast

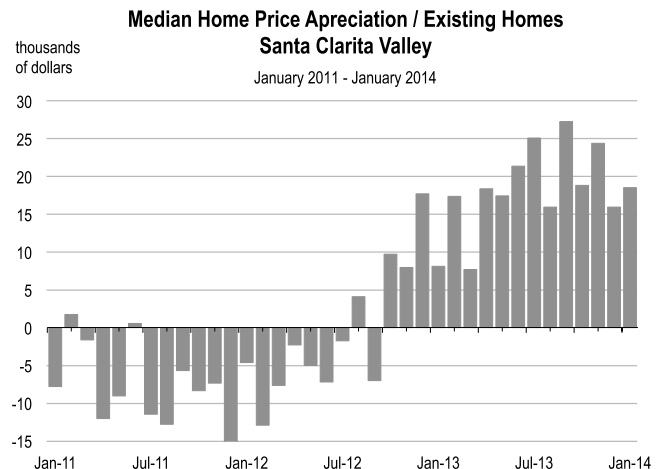
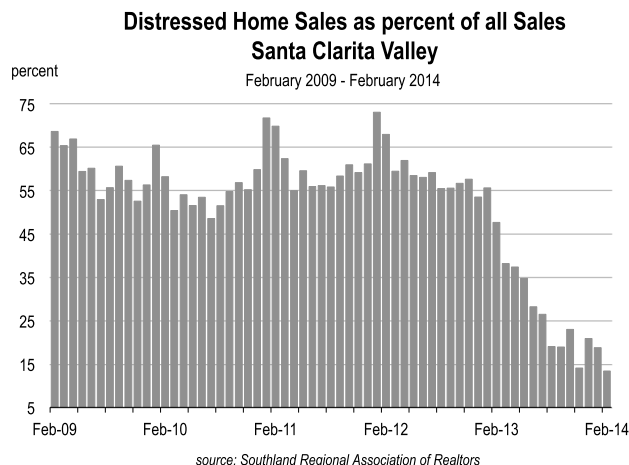
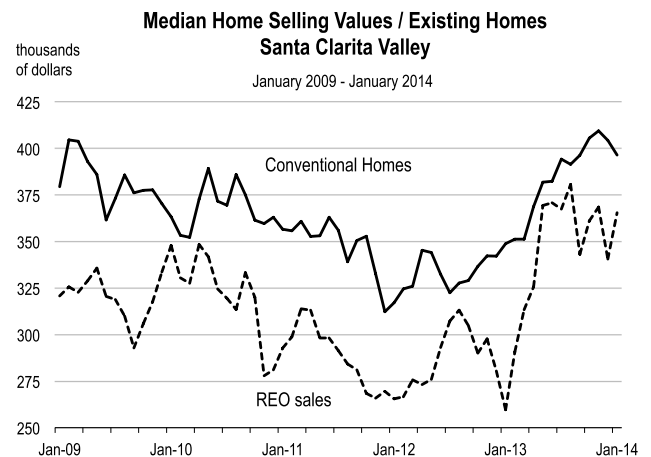
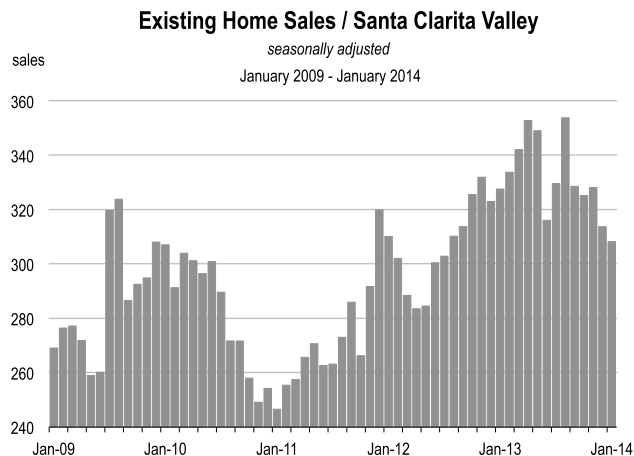
## Los Angeles County

- In Los Angeles County, sales have followed the same pattern as the broader state.
- As of January 2014, sales were down by 13 percent from January 2013. On an annual average basis, sales declined by 4.2 percent between 2012 and 2013.
- In Los Angeles County, distressed sales have become much less common. Distressed properties accounted for 49 percent of all sales in December of 2011, but only 18 percent in December of 2013.
- The median selling price increased by 21.1 percent from January 2013 to January 2014.
- As with the broader state, price gains in Los Angeles County have been driven by lower levels of distress, a limited amount of supply, and growing demand.
- Also like the broader state, the inventory of unsold units remains low, standing at 4.0 months in January 2014.
- Unlike the broader state, prices continued to increase in the second half of 2013.



## Santa Clarita Valley

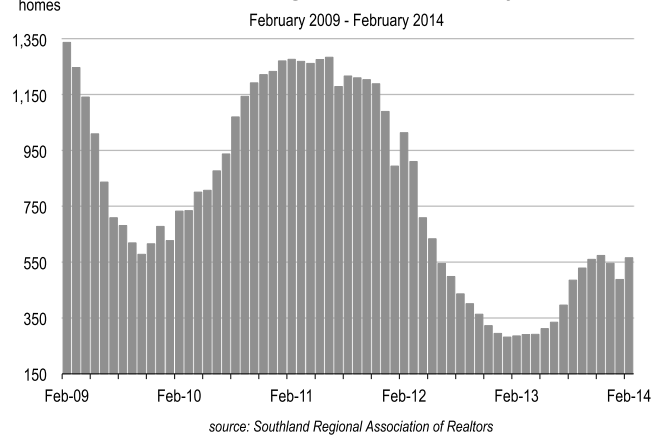
- In 2013, there were 3,988 existing home sales in the Santa Clarita Valley – an increase of 8 percent over 2012. However, sales softened in the second half of the year.
- As with the broader California market, distressed sales declined precipitously throughout the year. Distressed sales accounted for 68 percent of all homes sales in February 2012, but had improved to 13 percent by February 2014.
- From January 2013 to January 2014, prices for existing homes increased by 19 percent. This is generally lower than neighboring regions, but represents a significant improvement over the previous few years.
- In the second half of 2013, the rate of appreciation began to slow, generally in-line with state and county trends.
- On a year-over-year basis, price increases were similar for REO resales and conventional (existing, non-REO) sales.



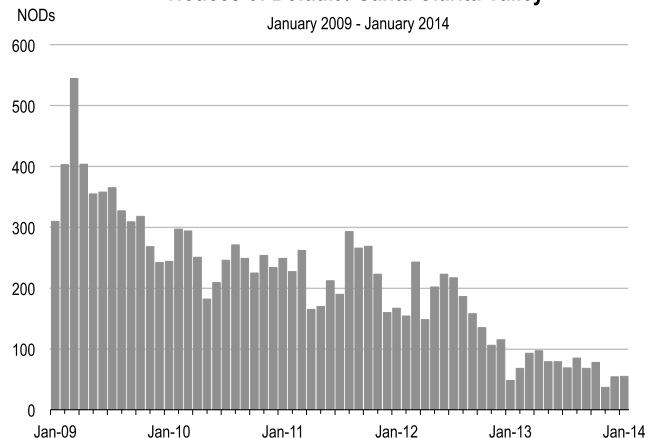


- Condo prices also increased precipitously, rising by 21 percent from February 2013 to February 2014. On an annual basis, prices were up by 34 percent in 2014.
- In the Santa Clarita Valley, housing inventory remains tight, but conditions have loosened over the past year.
- In February, there were approximately 570 active listings. This is almost double the listings of February 2013, but is low by historical standards.
- At the current rate of sales, there are only 2.1 months of inventory on the market.
- Both NODs and foreclosures continue to subside.
- Defaults declined from 2,054 in 2012 to 855 in 2013, a decrease of 58 percent.
- Foreclosures fell from 781 to 329, also a decrease of 58 percent.

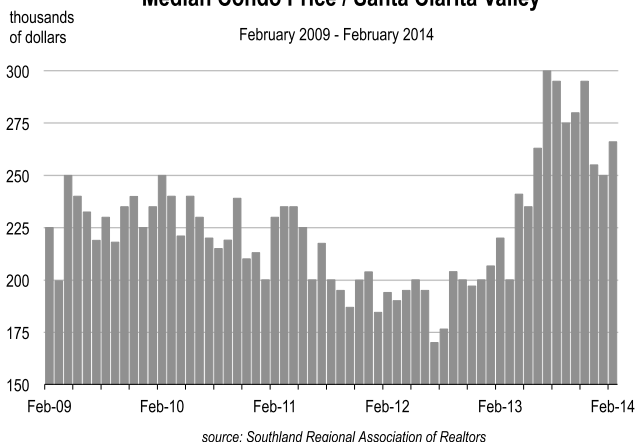
### Active Listings / Santa Clarita Valley



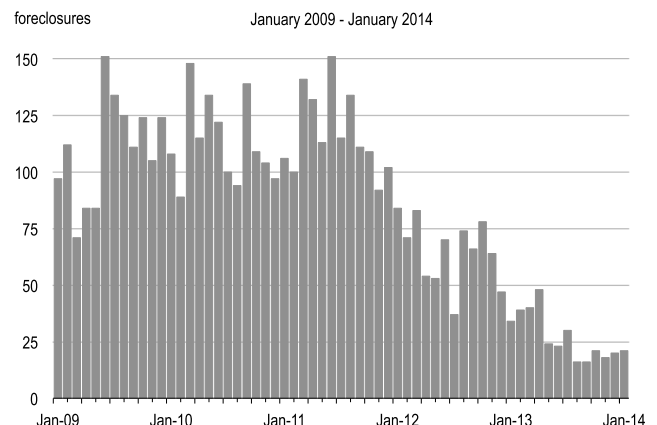
### Notices of Default / Santa Clarita Valley



### Median Condo Price / Santa Clarita Valley



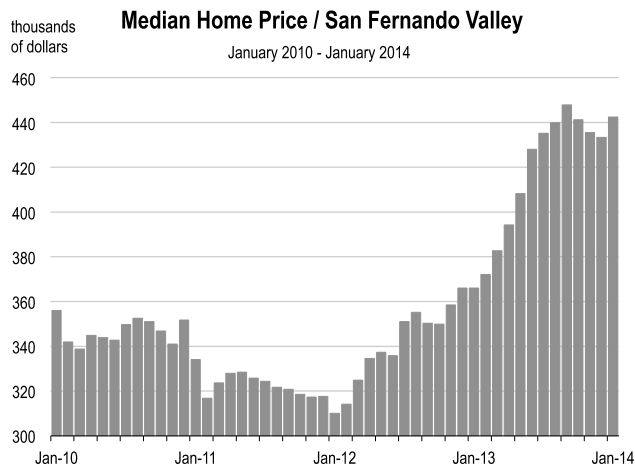
### Foreclosures / Santa Clarita Valley





## San Fernando Valley

- Throughout 2013, the median home price in the San Fernando Valley was \$421,020. This is an increase of 22 percent over the level that prevailed in 2012.
- As of January 2014, the median price was \$442,700.
- In 2013, there were 11,298 home sales in the San Fernando Valley, which is largely unchanged since 2012. However, sales began to decline near the end of the year, and as of January 2014, sales were nine percent below the total from January 2013.



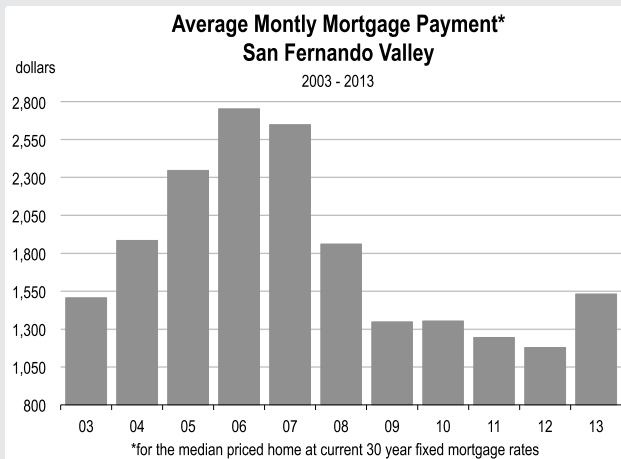
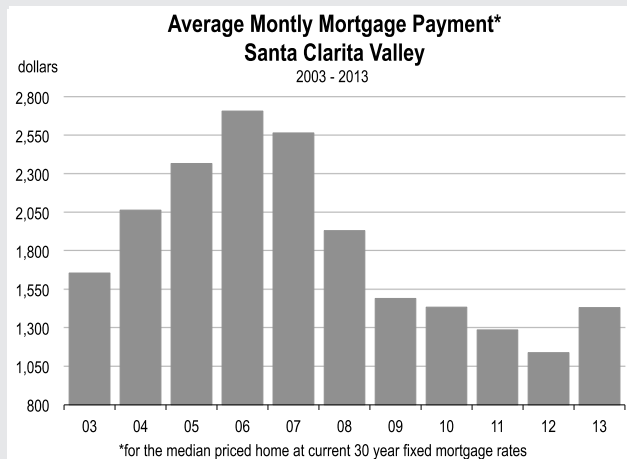
## Housing Affordability

In 2013, housing affordability deteriorated in North Los Angeles County. Rising home prices, combined with higher mortgage rates, have increased the cost of homeownership.

In the Santa Clarita Valley, the average monthly mortgage is now \$1,432, compared to \$1,140 in 2012. In the San Fernando Valley, monthly

payments average \$1,532, which is a substantial jump from 1,178 last year.

But despite rising costs, mortgage payments have returned to levels that prevailed in the early 2000s. As such, homeownership remains within reach for many households.



## The New Home Market

### Santa Clarita Valley

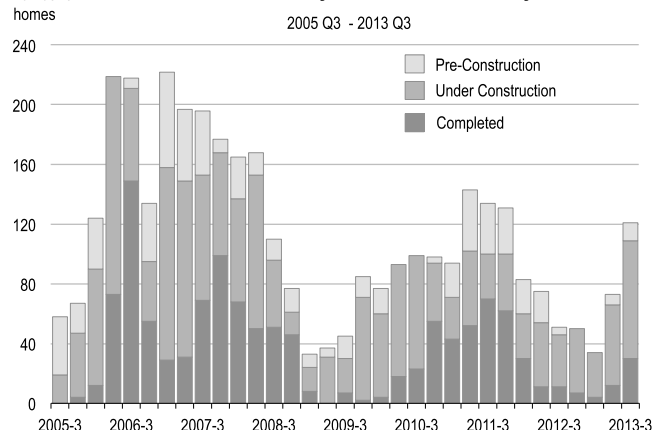
- During 2013, 399 new homes were sold in the Santa Clarita Valley. This is slightly below 2012, in which 417 new homes were sold.
- During the first three quarters of 2013, sales increased in Newhall and Valencia. Sales declined in Canyon Country and Saugus.
- During the fall quarter of 2013, there were 121 unsold homes. This is the highest total since 2011, but represents only 1.5 months of supply at the current rate of sales.
- Of the unsold units, 30 had been completed, 79 were under construction, and 12 were awaiting construction.
- Average new home selling values rose sharply during 2013. As of January 2014, prices were up by 44 percent compared to January 2013. On an annual basis, prices were up by 21 percent.

### New Detached Home Sales Santa Clarita and Antelope Valleys 2012 - 2013

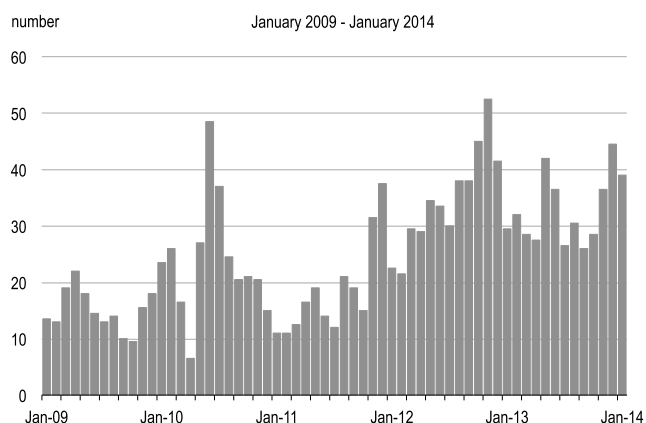
	Q1 to Q3	Q1 to Q3	Percent
Sub-Market	2012	2013	Change
Canyon Country	104	89	-14
Castaic	0	0	N/A
Newhall	0	28	N/A
Saugus	129	96	-26
Stevenson Ranch	0	0	N/A
Valencia	264	290	10

Source: The Siracusa Company

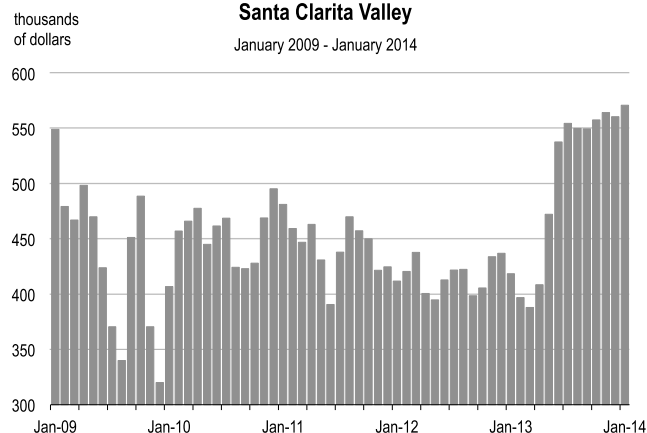
### Unsold Inventory / Santa Clarita Valley



### New Home Sales / Santa Clarita Valley



### Median Home Price / New Homes Santa Clarita Valley



### New Detached Home Average Selling Values

	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013	Last 12 Months % change
– average price –						
Canyon Country	489,452	504,776	492,940	594,452	528,069	-11.2
Castaic	N/A	N/A	N/A	N/A	N/A	N/A
Newhall	N/A	N/A	N/A	N/A	444,018	N/A
Saugus	N/A	N/A	395,727	403,269	527,490	30.8
Stevenson Ranch	N/A	N/A	N/A	N/A	N/A	N/A
Valencia	539,147	521,693	503,991	494,529	515,964	4.3

source: The Siracusa Company

note: The Fall Quarter is August through October

N/A = Not applicable because there were no sales

## Santa Clarita Valley Residential Overview

By Joyce Blackburn and Michael Regilio  
Realty Executives Santa Clarita

In the Santa Clarita Valley, 2013 was a year of recovery in the residential real estate market. By year's end there were 3,882 closed sales reported in the local MLS system. Although there were only 53 more closed sales in 2013 than there were in 2012, the type of sale and the sales prices both dramatically changed in 2013.

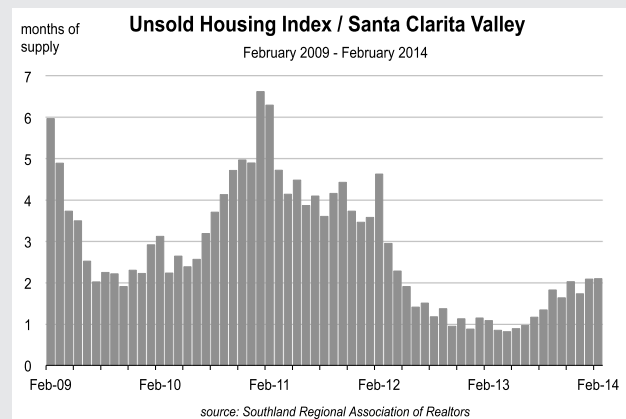
Of the 2012 sales, 21 percent were Bank Owned/REO sales and 38 percent were Short Sales. In 2013, 7 percent of the sales

were Bank Owned/REO and only 22 percent were Short Sales.

Even in an appreciating real estate market, Bank Owned Properties and Short Sales will exist, but their impact on the market will diminish. Early sales for 2014 show 6 percent are Bank Owned/REO, 13 percent are Short Sales, and 82 percent are Standard Sales.

Condo and SFH Sales		Santa Clarita Valley		
Year	Total Sales	REO Sales	Short Sales	Standard Sales
– sales –		----- percent of total -----		
2011	3,409	29	31	41
2012	3,829	21	38	41
2013	3,882	7	22	71

source: CrisNET MLS system for the Santa Clarita Valley



### ***Inventory Crisis***

A “normal” real estate market typically consists of a six month supply of homes. The inventory of homes for sale in the Santa Clarita Valley has hovered at 1 to 1.5 months of inventory for at least the past 1 to 1.5 years. As the population increases in the Santa Clarita Valley, more homes are needed to fulfill the demand.

The bright side of 2014 is that with home values increasing, many home owners who wanted to make a move in the past but were underwater may now be able to sell their home and make that move. The increase in the number of new homes being built currently, and in the near future, will also provide more housing opportunities for buyers.

### ***Challenges for 2014***

- Current homeowners who want to move up and/or down from their current home are not putting themselves “in the market” based on a fear that a replacement property cannot be found in a realistic time frame, or that they will have to make a double move.
- First time homebuyers are challenged by the lack of condominium complexes that are approved for FHA Financing, which allows a buyer a minimum down payment requirement of 3.5 percent instead of 5 percent or more for traditional loans.

- As of January 10, 2014, the total debt to income ratio for home loan qualifying has been reduced from 46 percent to 43 percent of the buyer’s monthly income making it more difficult for some buyers to qualify.
- Jumbo mortgages prior to Jan 10, 2014, would allow for a conforming home loan up to \$729,950. Currently the maximum amount for the same “Jumbo Loan” is \$625,000. Buyers who want to “move-up” or purchase a home with a loan amount over \$625,000 will face tougher guidelines when obtaining a loan approval.
- Cash investor purchases have slowed down over the past six months due to rising prices, competition and low inventory.
- The forecast is that interest rates will increase after the first quarter of 2014. This will definitely impact buying power and consequently sellers competing for the best price for their current homes.

### ***Advantages in 2014***

- The “slowdown” in the market will be beneficial to buyers who tried to purchase in the past and who were met with “multiple offer competition.”
- Sellers and Buyers are able to negotiate a “contingent sale”, meaning a buyer will allow their seller time to find a replacement property, and close the transaction concurrently so the seller does not have to

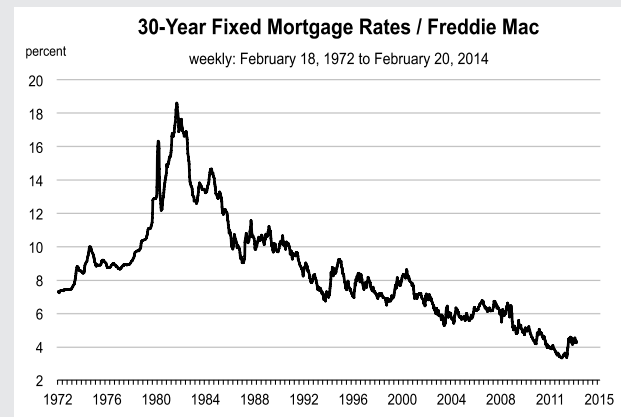
make a double move. This we considered NORMAL prior to the bubble market!

- Even if rates increase in 2014, as expected, interest rates are still historically low which gives buyers additional purchasing power. Do you remember the interest rate on your first home purchase?

### *In Summary*

The California Association of Realtors forecasts that California home sales will increase by 3.2 percent in 2014. They also forecast that California home prices will increase by 6 percent in 2014. All indications show that Santa Clarita should

fall within, or surpass, the same statewide expectations. The difference in the 2014 real estate market will be that Standard Sales will encompass an even larger share of the market, and a larger inventory of homes will be available to buyers.



## The Forecast

After remaining stagnant for several years, property values increased rapidly in 2013. Home sales have been soft in recent months, but foreclosures and defaults have declined convincingly.

Homeowner distress has been fundamentally important in predicting the evolution of the housing market during this real estate cycle. Distress has now returned to levels that are slightly above normal, and conditions will continue to improve. Going forward, distress will have little effect on prices or sales. In general, the foreclosure crisis is effectively over.

For several years, mortgage rates have been near historic lows. Rates began to rise in mid-

2013, however, due to expected changes in Federal Reserve policy. In January 2014, the Fed began to unwind its bond-buying program (known as “Quantitative Easing”), and will terminate the program completely by the end of the year. This, combined with a stronger economy, will lead to higher mortgage rates.

Home inventory remains constrained, but is expected to increase over the coming years. As prices rise and more properties regain positive equity, a larger number of homeowners will be able to sell. In addition, construction activity will continue to accelerate, bringing more new homes onto the market. This, combined with higher mortgage rates, should slow the rate of home price appreciation.

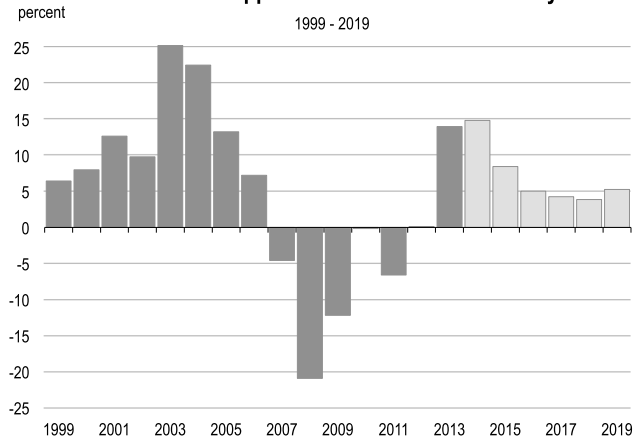
## Santa Clarita Valley

- In 2014, prices will rise by 14 percent. This will be driven, in part, by an improving labor market and continued population growth. These factors will lead to new household formation, which will put upward pressure on home values.
- In addition, homeowner distress will continue to diminish. Conventional sales will become increasingly more prevalent, altering the mix and leading to gains in the median price.
- In 2014, the median price will return to the levels that prevailed in 2003 and 2004. Over the entire 2014-2019 period, price appreciation will average 7 percent per year.
- Home sales are also expected to increase in 2014, surpassing 4,500. By 2017, sales will eclipse 5,000, but over the forecast horizon, sales will remain significantly below the bubble-era peak.

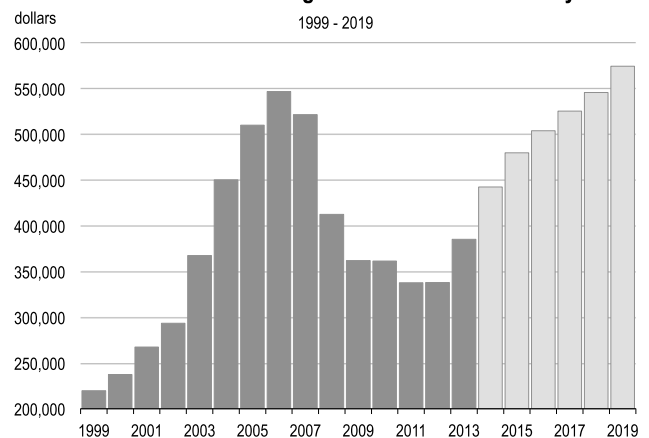
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Editor's note: Special thanks to Mike Regilio and Joyce Blackburn of Realty Executives Santa Clarita for guest authoring the short article in this chapter, and for providing the CRISNet Multiple Listing Service information that enabled us to produce charts of condo prices, home listings, and distressed sales for the Santa Clarita Valley.

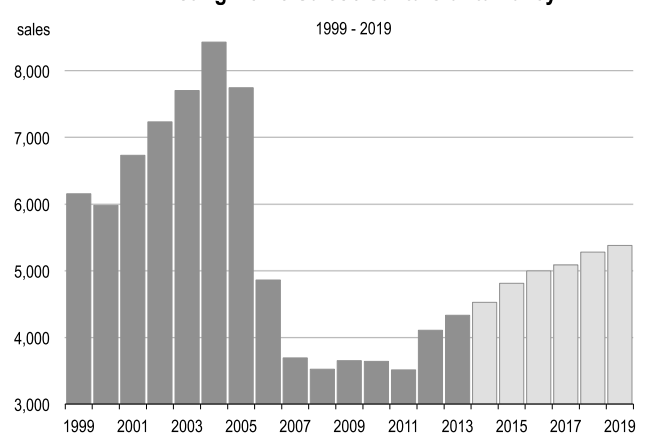
**Home Price Appreciation / Santa Clarita Valley**



**Median Home Selling Price / Santa Clarita Valley**



**Existing Home Sales / Santa Clarita Valley**



Home Sales, Prices, and Interest Rates				History 2008-2013		
	2008	2009	2010	2011	2012	2013
<b>Median Home Selling Price</b>						
Santa Clarita Valley	<i>--dollars--</i>					
current dollars	412,434	362,082	361,524	337,626	337,964	385,279
percent change	-21.0	-12.2	-0.2	-6.6	0.1	14.0
constant 2013 dollars	441,006	390,270	385,051	350,243	343,601	385,279
percent change	-23.6	-11.5	-1.3	-9.0	-1.9	12.1
California						
current dollars	351,194	276,492	305,520	287,418	321,787	412,685
percent change	-37.1	-21.3	10.5	-5.9	12.0	28.2
United States						
current dollars	230,409	214,500	221,242	224,317	242,109	264,009
percent change	-5.5	-6.9	3.1	1.4	7.9	9.0
<b>Existing Home Sales</b>						
Santa Clarita Valley	<i>--number of sales--</i>					
current dollars	3,521	3,649	3,638	3,511	4,105	4,331
percent change	-4.6	3.6	-0.3	-3.5	16.9	5.5
<b>Effective Mortgage Rates</b>						
Southern California	<i>--percent--</i>					
current dollars	6.4	5.4	4.9	4.7	3.9	4.1
Nation	6.0	5.0	4.7	4.5	3.7	4.0
<b>Inflation</b>						
Southern California	<i>--percent change in consumer price index--</i>					
current dollars	3.5	-0.8	1.2	2.7	2.0	1.1
California	3.4	-0.3	1.3	2.6	2.3	1.5
Nation	3.8	-0.3	1.6	3.2	2.1	1.4



Home Sales, Prices, and Interest Rates				Forecast 2014-2019		
	2014	2015	2016	2017	2018	2019
<b>Median Home Selling Price</b>						
Santa Clarita Valley	--dollars--					
current dollars	442,811	480,270	504,695	525,777	550,141	572,070
percent change	14.9	8.5	5.1	4.2	4.6	4.0
constant 2013 dollars	433,080	457,319	470,936	481,977	491,767	506,420
percent change	12.4	5.6	3.0	2.3	2.0	3.0
California						
current dollars	460,810	502,685	520,348	540,252	562,577	581,705
percent change	11.7	9.1	3.5	3.8	4.1	3.4
United States						
current dollars	267,804	270,444	273,234	285,211	294,306	308,662
percent change	1.4	1.0	1.0	4.4	3.2	4.9
<b>Existing Home Sales</b>						
Santa Clarita Valley	--number of sales--					
	4,525	4,811	4,998	5,086	5,279	5,379
percent change	4.5	6.3	3.9	1.8	3.8	1.9
<b>Effective Mortgage Rates</b>						
	--percent--					
Southern California	4.9	5.6	5.9	6.1	6.4	6.3
Nation	5.0	5.8	6.7	7.4	7.6	7.6
<b>Inflation</b>						
	--percent change in consumer price index--					
Southern California	2.2	2.7	2.0	1.9	1.8	2.2
California	2.0	2.5	1.8	1.6	1.5	1.6
Nation	1.5	2.4	2.4	2.3	2.3	2.3

Source: California Economic Forecast, March 2014

Data sources for this chapter are from the California Association of Realtors for the price and sales data by California County and for the state; from Case-Shiller for the home price indexes by U.S. Region, from the LA Times weekly mortgage rate survey for mortgage rates, from DataQuick for information on foreclosures; from DataQuick and the CRISNet Multiple Listing Service for information on housing prices, sales, listings, and distressed sales for the Santa Clarita Valley; from The Siracusa Report for New Home sales and prices in the Santa Clarita Valley; and from the Bureau of Labor Statistics for inflation statistics.