

# Market Snapshot

## What is 2015 going to bring to our housing market?

If you have been following the housing market news in 2014, you may notice the status of the housing market recovery seems indeed uncertain. What happened?

Homes sales in 2014 slowed down from the year before. Total sales of existing single-family home sales in 2014 are projected to come in about 8 percent lower than 2013. In 2014, California's housing market moved away from being largely dominated by investor activity and strong competition to a more balanced market. Dramatic home price growth along with depleted inventory reduced profit margins for many of the investors. Investors consequently exited. Nevertheless, diminished investor activity has not been replaced by activity from traditional consumers. As a result, home price growth that soared in 2013 slowed down this year. After more than 20 months of double-digit year-over-year increases in home prices, we are now looking at normalized single-digit price growth. Homes are even being sold below listing price in some markets. Also, severely depleted inventory of homes available for sale finally improved. While still an issue in areas with high buyer demand, inventory has improved in all price segments and across most parts of the state. Furthermore, mortgage interest rates have remained steady and certainly below forecasts that were anticipated for this time of 2014. Taken together, housing fundamentals are good and buyers and sellers are adjusting their expectations.

What does that mean going forward? In 2015, housing market is expected to continue moving along a "normal" continuum. While it is difficult to define what "normal" means after a decade of volatility, improvements in housing fundamentals along with improvements in the economy and the job market indicate that a better balance will be achieved between traditional buyers and traditional sellers

Improvements in inventory of homes available for sale will help fuel demand for homes among buyers. Also, diminished competition from investors and cash buyers, and slower price appreciation, will restore some confidence back among buyers. Sellers on the other hand recognize that the market frenzy seen in 2013 no longer exists and home price growth has stabilized.

C.A.R. predicts that sales of existing single-family homes will increase in 2015, 5.8 percent, to about 403,000 sales. Median prices are also predicted to continue rising, with forecasted change of 5.2 percent to \$478,700. And lastly, interest rates on 30-year mortgages will increase at some point in 2015 and are expected to average about 4.5 percent for 2015. Increase in prices along with higher interest rates mean that housing affordability for the state will decline further. The decline of 3 percentage points will put housing affordability at 27 percent in 2015, suggesting that 27 percent of households will be able to qualify for a median priced home. One of the main constrains among potential buyers has been decreased affordability. Nonetheless, price stabilization, historically low mortgage rates and greater inventory should prop the market in 2015.

### CALIFORNIA HOUSING MARKET OUTLOOK

	2011	2012	2013	2014 P	2015 F
SFH Resales (000s)	422.6	439.8	413.3	380.5	402.5
% Change	1.4%	4.1%	-5.8%	-8.2%	5.8%
Median Price (\$000s)	\$286.0	\$319.3	\$407.2	\$455.0	\$478.7
% Change	-6.2%	11.6%	27.5%	11.8%	5.2%
Housing Affordability Index	53%	51%	36%	30%	27%
30-Yr FRM	4.5%	3.7%	4.0%	4.3%	4.5%



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