

C.A.R. releases housing market report

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C.A.R. reports increased home sales, declining home values, and credit crunch impacted California's housing market in 2008

Approximately one in five home sales due to foreclosure, short sale, or default

LOS ANGELES (Dec. 16) – Rising home sales, declining home prices, stricter loan underwriting standards, and the financial market meltdown contributed to a turbulent year in California's housing market, according to the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) "State of the California Housing Market 2008-2009" report released today.

Sales generally improved over last year in all parts of the state, with significant price declines leading to sharp increases in the Central Valley and Southern California. Sales of existing detached homes hit bottom in the last quarter of 2007, and have since risen in year to year comparisons. Following two years of steep declines exceeding 20 percent, annual sales in the California housing market are expected to increase 12 percent to 395,600 in 2008, with a further 12.5 percent annual increase projected for 2009. The increase in sales is largely attributed to the growth in the absorption of distressed properties with mark-downs in prices.

Consistent with the increasing trend of distressed sales, almost one of five (19.8 percent) sellers sold their property because the property was in foreclosure, short sales, or default, an increase of 6 percent from 2007.

"Many home sellers sold their properties at a loss, as price declines eliminated equity gains," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. "The number of sellers who sold their home with a loss almost doubled from 11.9 percent in 2007 to a record-setting 22.2 percent in 2008, well above 1.9 percent in 2006, and almost triple the long-term average of 7.7 percent."

Homes in the mid-to-upper price range were less likely than lower-priced homes to suffer a loss from a sale. Twenty-eight percent of sellers with homes valued under \$500,000 had a net cash loss in 2008, an increase from 16 percent in 2007; twenty percent with homes valued between \$500,000 and \$999,999 had a net cash loss in 2008, an increase from 9 percent in 2007; and million-dollar home sellers who had a net cash loss from their home sale dropped from 8 percent in 2007 to 5 percent in

2008.

The long-term value of homeownership again was demonstrated in 2008. Home sellers who owned their properties for a longer period of time, and did not refinance or cash out, were less likely to experience a loss from their home sale. While only 3 percent of sellers who owned their homes for more than five years had a net cash loss from their home sale – unchanged from 2007 --47 percent of sellers who owned their homes for less than three years had a net cash loss in 2008, an increase from 34 percent in 2007; thirty-three percent of sellers who owned their homes between three to five years had a net cash loss in 2008, a jump from 7 percent in 2007.

The median price of existing homes, including single-family homes, condos, and townhomes, declined by 17.8 percent to \$440,000 in 2008, compared with \$535,000 a year earlier. The decline is the largest drop in price since the inception of the study, surpassing the record decline of 10.2 percent set in 1995.

“The market will continue to experience large year-to-year decreases in the coming months before leveling out in 2009. The statewide median price is expected to decline 31.7 percent to \$381,000 for 2008, the first decline since 1996. The statewide median price will further decline by 6 percent in 2009 to \$358,000,” Appleton-Young added.

Affordability increased dramatically in 2008 resulting from the decline in median home prices. C.A.R.’s First-Time Buyer Housing Affordability Index (FTB-HAI) rose to 53 percent during the third quarter. The FTB-HAI measures the percentage of households that can afford to purchase an entry-level home in California. C.A.R. also reports first-time buyer indexes for regions and select counties within the state. The Index is the most fundamental measure of housing well-being for first-time buyers in the state. To view the assumptions and methodology used to calculate C.A.R.’s FTB-HAI, please visit <http://www.car.org/economics/marketdata/ftbhaimethodology/>.

“The share of first-time buyers increased from 30.4 percent in 2007 to 35.9 percent in 2008, below the long-run average of 38.3 percent and well below the peak levels of the mid-1990s when half the market consisted of first-timers,” said C.A.R. President James Liptak.

Despite an increase in affordability, the ratio of homes prices to household income remained high for many first-time home buyers. More restrictive lending standards and the credit crunch also resulted in many first-time home buyers’ inability to qualify for a mortgage loan.

Resulting from the ongoing turmoil in the financial market, many financial institutions

declined loans that were deemed risky, especially jumbo loans with amounts too big to be guaranteed by Fannie Mae and Freddie Mac.

Restrictive loan underwriting standards led to a decrease in the use of second mortgages. Second mortgages dropped from 32.7 percent in 2007 to 9.3 percent in 2008, the first time it was below 10 percent since 1999 and well below the high of 43.4 percent reached in 2006.

As conventional loans became more difficult to obtain, the percentage of FHA loans as a first mortgage increased significantly in 2008. The percentage of home buyers utilizing an FHA loan increased to 18.8 percent in 2008, compared with 1.2 percent in 2007, partially a result of the Economic Stimulus Act of 2008, which temporarily raised the conforming loan limit in high-cost areas to \$729,750 from \$417,000 until December 31, 2008. FHA loans typically require lower down payments and have less rigid credit-qualifying guidelines than conventional loans. VA loans also increased from 0.3 percent in 2007 to 2.7 percent in 2008.

Reflecting the fall out from the subprime mortgage meltdown, the share of adjustable rate and hybrid loans among all new first mortgages continued to decrease, declining for the third consecutive year. The market share of these mortgages tumbled from 20.2 percent in 2007 to 7.5 percent in 2008. The market share of fixed-rate mortgages increased sharply from last year's 74 percent to 91 percent in 2008.

Other key findings from C.A.R.'s "2008-2009 State of the Housing Market" report include:

- Distressed properties sold during 2008 had a median sales price of \$330,000, a median price per square foot of \$197, and a median size of 1,600 square feet.
- More than half of the distressed properties sold were Real Estate Owned (REO) (54.8 percent), almost one-third were short sales (31.2 percent) and the remainder were foreclosures (14.1 percent).
- Non-distressed properties had a median price of \$541,000, a median price per square foot of \$315, and a median size of 1,766 square feet.
- Four of five homes (80 percent) sold were discounted in 2008, an increase from 76 percent in 2007. The discount between sales price and list price increased from 4.3 percent in 2007 to a record setting 7.5 percent in 2008, more than double the long-run average of 2.8 percent.

· One of five properties (20.3 percent) fell out of escrow in 2008. Primary reasons include: buyers could not secure a mortgage (33.3 percent); buyer changed mind and decided not to buy (33.3 percent); and buyer could not come up with the down payment (10.8 percent). This question was not asked in previous surveys.

C.A.R.'s "State of the California Housing Market 2008-2009" report is available for purchase for \$29.95 in electronic format at <http://www.rebsonline.com/product/530/2008-2009-State-of-the-California-Housing-Market-Report-%28PDF-Electronic-Download%29>. The survey is no longer available in hard copy format. Journalists who would like a complimentary copy of the report should e-mail markg@car.org or call (213) 739-8304.

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