The Real Estate Report

Silicon Valley market trends report

How Absorption Rate Affects Prices

Absorption rate, also known as months of inventory, is the number of months it would take to sell all the homes currently for sale in the market.

Absorption rate is calculated by dividing the number of homes currently for sale by the number of homes that were sold in the previous month.

The National Association of REALTORS® consider a six month supply of homes as a balanced market. That's for the country as a whole. As you narrow the market, down to states or cities, a balanced market will be peculiar to that market.

In San Mateo County, the average number of months of inventory since 2003 is 3.1 months.

As you can see in the chart below, there is a pretty direct inverse relationship between absorption rate and the median price of homes. During the recent recession, the absorption rate spiked to 7.6 months, the blue line, while the median price, the black line, plunged to just over $550,000.

Where are we now? Well, the absorption rate last month was at 0.8 months, up from the 0.7 of a month that was at its low. What happens this spring will tell us where the market is heading.

The absorption rate is also helpful in calculating how much to list your home for when you sell. If the absorption rate is rising, then prices will soon soften. If it is falling, then prices will start to rise.

MARCH MARKET STATISTICS

Year-Over-Year
- Median home prices increased by 12.5% year-over-year to $1,290,000 from $1,147,000.
- The average home sales price rose by 7.2% year-over-year to $1,603,060 from $1,486,050.
- Home sales fell by 2.4% year-over-year to 328 from 336.
- Total inventory* fell 30.9% year-over-year to 692 from 998.
- Sales price vs. list price ratio rose by 2.8% year-over-year to 109.4% from 106.4%.

CONDOMINIUMS

Year-Over-Year
- Median condo prices increased by 5.8% year-over-year to $665,000 from $628,500.
- The average condo sales price rose by 11.9% year-over-year to $721,306 from $644,405.
- Condo sales fell by 22.4% year-over-year to 111 from 143.
- Total inventory* fell 30.9% year-over-year to 199 from 288.
- Sales price vs. list price ratio rose by 2.5% year-over-year to 106.9% from 104.3%.

* Total inventory is active listings plus contingent or pending listings. Active listings do not include contingent listings.

San Mateo County Price Differences from January 2013 & Peak & Trough

From January 2013 & Peak & Trough

Homes: detached
3-month | Peak % | Trough % | Peak | Trough
---|---|---|---|---
Mar-15 | 60% | 0% | 111% | Jul-14
Jan-12 | 61% | 0% | 72% | Feb-15

Homes: attached
3-month | 52% | 0% | 107% | Feb-14
Jan-12 | 75% | 0% | 81% | Feb-14

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SMC SFR: Absorption Rate & Median Price - 3-month moving average, prices in $1,000s

Is NOW a good time to buy your Silicon Valley Home?
For more information go to the “Seminars” tab on my web site http://www.650and408homes.com
MORTGAGE RATE OUTLOOK

Economy Not Cooperating, Mortgage Rates To Ease

Apr 3, 2015 — HSH.com’s broad-market mortgage tracker -- our weekly Fixed-Rate Mortgage Indicator (FRMI) -- found that the overall average rate for 30-year fixed-rate mortgages remained unchanged this week, holding steady at an average 3.81 percent. The FRMI’s 15-year companion managed the barest of declines, easing by a single basis point to slide to an average rate of 3.15 percent. Popular with first-time homebuyers, rates on fully-insured FHA-backed 30-year FRMs remain well below their conforming counterparts but sported a decline of just two basis points this week, easing to an average rate of 3.63 percent. Finally, the overall 5/1 Hybrid ARM fell by four basis points (0.04%), slumping to 2.93 percent on average for the week. All these mortgage products are either at or very near 2015 lows as the traditional spring home buying season begins to kick in.

Construction spending failed to ignite in February, declining by 0.1 percent, so the year began with two consecutive declines in outlays. There was a 0.2 percent fall in spending for residential projects during the month, and an 0.8 percent slide in public works spending, but commercial building managed a 0.5 percent gain after a tough January. Total spending is modestly above last at this time, revealing a 2.1 percent gain when comparing the two periods. With sales of new homes appearing to pick up in recent months, we should start to see a larger contribution from residential spending to the total as we move into the spring.

Despite an on-going mixed bag of economic news, consumers were a bit more confident about their situations in March, according to the Conference Board. Their index of Consumer Confidence rose by 2.5 points during the month, recapturing half of February’s dip. Although assessments of current conditions were more pessimistic, optimism about the days yet to come rebounded, so there is some belief that there is more light at the end of a somewhat dimmer tunnel. Sending plans were mixed, with a gain in expectations for the purchase of a car, but a slump in those considering buying a home.

Whether June, July, September or even later, the Fed has made it as clear as it can that rates will be rising before long. Even with an indeterminate and changing expected starting point, that there will be a starting point before long is sufficient to keep mortgage rates from falling by much (absent some new economic calamity, domestically or elsewhere). There should be some softness for mortgage rates as we move into next week, when we’ll get a look at the strength of service business activity, measures of consumer borrowing and import prices and a couple of other items. On balance, and even if extraordinarily strong, there’s probably not enough data due out next week to cause a lift in rates, so we’re more likely to shed a couple more basis points from these levels.
**Keeping Your Property Tax Base**

Under Proposition 60, California homeowners 55 and older get a one-time chance to sell their primary residence and transfer its property-tax assessment to a new one, but the market value of the new home generally must be equal to or less than the market value of the old home.

Prop. 60 was designed to help longtime California homeowners who want to downsize but don’t want to give up the low property-tax assessment they enjoy in their existing home.

Under Proposition 13, homes are reassessed for property-tax purposes when there is a change in ownership or new construction. In between ownership changes, the assessed value can go up by an inflation rate not to exceed 2% a year. (Homeowners can get temporary reductions when property values go down.)

Prop. 60 lets homeowners 55 or older transfer their base-year value from an existing primary residence to a new primary residence, but there are restrictions.

The new home must be in the same county as the old one or in one of ten counties that accept transfers of base-year value from other counties. The ten counties are: Alameda, El Dorado, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, Santa Clara, and Ventura.

Also, the new home must be purchased or built within two years - before or after - the sale of the original property.

If the new house is purchased before the old house is sold, the market value of the new house on its purchase date cannot exceed 100% of the old home’s market value on the date it is sold.

**San Mateo County Condos - Prices & Sales**

(3-month moving average—prices in $000’s)

<table>
<thead>
<tr>
<th>Cities</th>
<th>Median</th>
<th>Average</th>
<th>Sales Pend</th>
<th>Inven DOI</th>
<th>SP/LP</th>
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<tbody>
<tr>
<td>County</td>
<td>$665,000</td>
<td>$721,306</td>
<td>111 119</td>
<td>80 22</td>
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<tr>
<td>Burlingame</td>
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<td>Redwood City</td>
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<td>10.7%</td>
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<tr>
<td>S. San Francisco</td>
<td>$605,000</td>
<td>$606,099</td>
<td>9 12 2 7</td>
<td>108.0%</td>
<td>27.4%</td>
</tr>
</tbody>
</table>

**Median Price**
The price at which 50% of prices were higher and 50% were lower.

**Average Price**
Add all prices and divide by the number of sales.

**SP/LP**
Sales price to list price ratio or the price paid for the property divided by the asking price.

**DOI**
Days of Inventory, or how many days it would take to sell all the property for sale at the current rate of sales.

**Pend**
Property under contract to sell that hasn’t closed escrow.

**Inven**
Number of properties actively for sale as of the last day of the month.
San Mateo County Homes: Sales Price/Listing Price Ratio

San Mateo County Homes: Year-Over-Year Median Price Change

Investors Corner

Rise in Home Prices Paced by Denver, Miami, and Dallas According to the S&P/Case Shiller Home Price Indices

New York, March 31, 2015 – S&P Dow Jones Indices today released the latest results for the S&P/Case-Shiller Home Price Indices, the leading measure of U.S. home prices. Data released today for January 2015 show that home prices continued their rise across the country over the last 12 months. However, monthly data reveal slowing increases and seasonal weakness. More than 27 years of history for these data series is available, and can be accessed in full by going to www.homeprice.spdji.com. Additional content on the housing market can also be found on S&P Dow Jones Indices’ housing blog: www.housingviews.com. Read more at http://goo.gl/yZ9J71

Is it time to seriously consider investing in real estate?

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