



IS A HOUSING SUPPLY CRISIS LOOMING?

Tighter inventory driving home prices higher

By Betty J. Talbert

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Rising rents, regulatory pressures, legislative inaction, and low housing inventory present a seemingly intractable combination for California's real estate market. When one considers that the largest generation since the baby boomers—the millennial generation—has reached home buying age, the industry should be prepping for a business tidal wave. Instead, California faces the complex challenges of a strong sellers' market at low tide, especially in urban areas, which sets up fierce, possibly long-term, competition for buyers and REALTORS® alike. • Broker Associate Tony Trabucco from Orange Realty Inc. provided *California Real Estate* with a window into his late spring inventory situation. Orange Realty's niche is first-time buyers in the city of Orange, which includes Chapman University parents, couples settling down, and downsizing buyers. He pointed to only 169 active listings in the entire city. "During the crazy market of 2003 to 2004, we had 75 or 80 active listings per day," Trabucco explained. "When the market crashed, we had 800 to 825 active listings per day. About 300 to 400 active listings tend to be a more balanced market for us where neither buyer nor seller has the advantage."



Statistics from the CALIFORNIA ASSOCIATION OF REALTORS® show that 55 percent of first-time buyers purchase a home because they are tired of renting; 23 percent of repeat buyers want to trade up to a larger home. High rents would normally drive decisions to buy, but today's high rents mean first-time buyers can't save for down payments. Many renters who can buy can't find homes because so few are on the market, the data shows.

Historically, seniors tended to downsize after their kids would leave the proverbial nest. In the past, that has brought opportunity for younger buyers who needed a spacious property, such as a suburban home, for growing families. That isn't quite the case any longer. "Affordability issues arise for first-time buyers, existing homeowners and baby boomers who can't afford to move," explained C.A.R. Chief Economist Leslie Appleton-Young. "Many homeowners have lived in their homes 20 to 25 years. Their taxes are lower under Proposition 13, so they can't take the tax hit to trade up."

Add to affordability concerns, more rigorous mortgage qualifications, and a huge capital gains tax hit, and it is no wonder homeowners are opting to stay put. It's this homeowner reluctance to sell or condone high-density building in Northern California, Los Angeles, Orange County, and other urban areas that has hastened buyer migration to outlying counties along with calls for affordable housing pro-

grams, Appleton-Young suggested.

The 2016 Casden Multifamily Forecast reported that home prices in California are twice the national average. Astonishingly, the difference between California's prices and national home prices has increased from \$10,000 in 1970 to \$255,000 today.

Yet, "prices are not in a bubble," Economist Christopher Thornberg from Beacon Economics assured *California Real Estate*. "Foreclosures are at an all-time low, mortgages are low and prices affordable." He mused that "there are two ways of looking at tight inventory: 1) Too hot a market or 2) a market that is functionally constrained and less liquid. The market has a way to go before it heals."

So how might REALTORS® help clients cope? Dan Slater, broker and owner of Orange Realty Inc., said that agents must do their homework. "Proper pricing reduces multiple bids so you don't leave money on the table from the seller's perspective," Slater explained. His advice for the bidding process? "In a daily market like this, you could miss getting a house by an hour because the offer didn't make it in time. Stay on it daily."

Trabucco suggests REALTORS® and buyers should come in strong and persevere. "You can't worry about the deal if there are multiple offers," he argued. "Details count. I have had experienced listing agents take a well-written offer over a higher offer because they believe the buyer can follow through
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