Orange County Housing Report: **A 2019 Forecast**

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HAPPY NEW YEAR!!! Now, what does that mean for Orange County real estate?

First, let's take a look back at what happened in 2018 in terms of the inventory, demand, luxury properties, and Expected Market Time.

Active Inventory – The active inventory climbed all year and peaked much later than normal.
The year started with an active inventory of 3,397 homes. It was the second lowest start to a year behind 2013's incredibly low 3,161 homes. This year's peak was more of a plateau, lingering around the 7,200 mark for an additional month. It was not until Thanksgiving week, the beginning of the Holiday Market, when the inventory really started to drop. That only left about six-weeks for it to descend, paving the way for a **higher** start to **2019**.In the past two weeks, the inventory has shed,566 homes, and now totals 5,829, the highest level for an end to a year since 2011.
SO< That will translate to an elevated supply of homes to start 2019. The overall temperature of the housing market has everything to do with supply and demand. **More homes will pave the way for a slower housing market**.

Demand: *With rising interest rates, demand was muted all year.*
Demand for Orange County homes :the bottom line: values had risen dramatically since 2012, substantially outstripping the rise in incomes. As a result, payments had risen too much, too fast. Fewer potential buyers were willing to pull the trigger as payments rose to unsustainable levels.
Luxury End: *Luxury homes dramatically slowed in the second half of 2018.*
2017 was a record-setting year for the most sales ever above $1.25 million. There were 30% more than 2016 and that year was a record-setting year as well
In **2018**, **Orange** County set yet another record, up 1% over 2017. There were 3,945 closed.Yet, a major crack emerged as the luxury market slowed considerably in the second half of the year.In the past two weeks, demand for homes above $1.25 million **decreased** from 186 to 176 pending sales, down 5%.
Expected Market Time: *As the market shifted from a supply problem to a demand problem, the market shifted from a Seller's Market to a Balanced market, and finally to a slight Buyer's Market.*
With rising rates, the supply problem morphed into a demand problem, and the market continued to **cool**.. Multiple offers are no longer the norm, buyers are not tripping over each other to purchase, and home values are no longer appreciating at all.
the expected market time for all of **Orange** County grew from 127 days two-weeks ago to 134 days today. *The start to 2019 may be the slowest in eight years, and it will initially be a slight Buyer's Market.*

The 2019 Forecast:: looks like .." *A sluggish year" ..(.as predicted by S. Thomas... our **Orange** county R.E. forecaster)*

- **Active Inventory** – the year will begin with around 5,500 homes, the highest start to the year since 2012. That will translate to a very slow start for housing. Just as in 2018, with muted demand, many homes that are marketed will linger. One out of every four homes will not find success. Actually, The number of homes that are placed on the market will not change much from prior years, but due to fewer closed sales, the inventory will rise. Expect the inventory to peak in August between 8,000 to 8,500 homes.
- **Demand** –. The market will improve from a slight Buyer's Market to a slight Seller's Market during the spring with very little appreciation. Buyers will not want to pay much more than the **Fair Market Value** for a home. Demand will drop from the June through the end of the year*. The market will quickly shift to a Balanced Market in the summer. During the Autumn Market, housing will slow to a slight Buyer's Market. By Thanksgiving, expect local housing to shift to a deep Buyer's Market where values drop. Appreciation will be negligible for the first three-quarters of the year before dropping between 2-3% by the end of the year.*
- **Housing Cycle** - the housing market will follow a normal housing cycle. The strongest demand coupled with plenty of fresh inventory will occur during the Spring Market. This will be followed by slightly less demand and a continued new supply of homes in the Summer Market. From there, demand will drop further along with fewer homes entering the fray in the Autumn Market. Finally, all the distractions of the Holiday Market will be punctuated with the lowest demand of the year and few homeowners opting to sell.
- **Luxury Market** – luxury sales will decrease from 2018's record by about 10%. The Spring Market will be the strongest for luxury, yet demand will still be muted. The second half of the year will be especially sluggish.
- **Interest Rates** – there is quite a bit of pressure for interest rates to rise, from Federal Reserve short-term interest rate increases, to quantitative tightening, to low unemployment, to an overall strong economy. Yet, there is quite a bit of turmoil abroad, which breeds uncertainty. Consequently, U.S. treasuries will continue to be a safe haven as a hedge against uncertainty. These two counter forces, pressure for interest rates to rise and uncertainty, work against each other, so there will not be a lot of movement in long-term rates. By year's end, expect interest rates to stretch to 5.125%.

The bottom line, 2019 will continue shifting away from sellers and line up more in favor of buyers. It will finally be the buyer's turn during the second half of the year. Sellers will not get away with overpricing just as buyers will not get away with lowball offers. Sellers will have to pack their patience in 2019. Gone are the days of multiple offers and instant gratification.

Charlene and I wish you ALL...a ..SAFE, & SUCESSFUL NEW YEAR OF 2019

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