

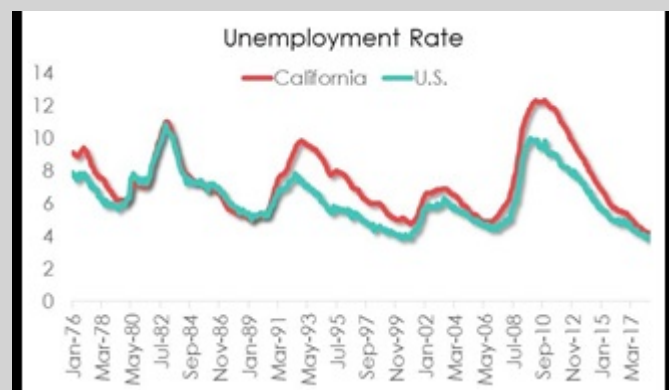
Market Snapshot

Market Shifting... But, Don't Panic

Over the past 5 months, the evidence for a shift in the market has mounted. Sales are on the decline, with September 2018 falling by the largest margin since March of 2014. Homes are staying on the market longer as the median number of days on market has risen to 23. Sellers are beginning to have to discount their properties again, with a median sales-to-list price of 98.5% and 42% of active listings having some form of a price reduction. Inventory was also up more than 20% last month, to the highest level in more than two years. As a result, price growth has slowed to just 4.2% in September—a marked deceleration from the 8-9% that prevailed during the first half of 2018.

However, there are many reasons to believe that the current slowdown will not lead to the dramatic climax California experienced back in 2008 and 2009. The risky financing of that era has largely been absent from the current cycle, with buyers putting some money down, securing fixed-rate mortgages, and needing high FICO scores. In addition, home equity borrowing is still subdued. More importantly, the broader economy remains strong, with California's unemployment rate hovering at 40+ year lows.

In addition, the current soft patch can potentially be used as an advantage to both buyers and sellers alike. For buyers, acting now could lead to significant savings on their monthly mortgage payments by getting into a mortgage before interest rates rise further in 2019.



Buyers also have the benefit of more options to choose from given the significant number of new properties on the market. Longer days on market and increasing discounts mean that buyers can begin to negotiate again, or at least enjoy a less competition from other buyers.

For sellers, things are not as bad as they seem. Prices are slowing down, and homes are taking longer to sell. However, with the median number of days on market at just 23, sellers can still sell quickly—just slightly slower than they could have 6 months ago. Similarly, with discounting: many active listings have had price reductions and the number of homes sold at a discount has begun to rise. However, the median discount is a modest 1.5%—prices remain near all-time high levels. And, to the extent that sellers will become buyers soon after they sell, they can also benefit by getting into their new home before interest rates rise further—even if they must accept a slightly lower price on their current home.

Ultimately, there IS clear evidence that the market continues to shift and that our supply problems have lingered for so long that they have begun to create problems on the demand side of the equation. However, there is also scant evidence to suggest California is on the brink of a severe downturn circa 2009. For many buyers and sellers, there is still plenty of reason to be in the market.

September 2018	
Single-Family Home Sales	-12.4%
Median Price Existing Single-Family Homes	+4.2%
Active Listings	+20.4%
Median Time on Market (Days)	23
Median Sales - To-List Price (%)	98.5%

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