Market Data Report

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MLSListings Quarterly Market Overview - Q1 2021

Q1 2021 National Economic Overview

Despite early predictions of a soft first quarter, economic forecasts have steadily improved and 21Q1 GDP growth is likely to now exceed 6%! With the combination of the $1.9 trillion American Rescue Plan, improving vaccination rates, substantial pent-up demand from the last year, and sizable amounts of forced savings in the trillions, there is every reason to expect growth of over 8% in 21Q2 and 21Q3. By 21Q4, we will likely see growth slow to a still remarkable 7% as we begin to slowly return to normal trend growth by the end of 2022 or early 2023. The only caveat to these spectacular growth forecasts is the potential for a new coronavirus mutation that is resistant to the current vaccines, as that is likely to cause new lockdowns and slow the recovery. That said, by the end of CY2021 or early CY2022, the economy should be back on its pre-Sars-Cov-2 growth path, an utterly amazing accomplishment.

While the Federal Reserve has revised their 2021 forecasts for inflation, GDP, and unemployment, they have barely modified their 2022/23 forecasts. This means the Fed very much thinks the latest stimulus monies will lead to a short-term boost to the economy but nothing more. They are essentially looking through this short-term growth and any corresponding inflationary effects. As such, they remain strongly wedded to their existing inflation-fighting plans and do not anticipate raising short-term rates before 2023 and are unlikely to commence their tapering of $80 billion/month in Treasuries and $40 billion/month in mortgage-backed securities before the start of 2022.

While consumer spending data in February was disappointing due to the combination of unusually harsh weather, the gap between stimulus packages, and payback for very strong growth in prior months, consumer spending will undoubtedly improve in March. Relatedly, job growth is clearly turning the corner. After a slight decline in employment in December, job creation has steadily improved and topped 900,000 in March. Over the rest of this year, the economy should easily create between 500,000 and a million new jobs a month. Despite this unusually strong employment growth, the unemployment rate will be hard pressed to decline by more than one percentage point as more people will be drawn to the increasingly vibrant job market. As a result, it will be important to focus more on job creation rather than the slowly declining monthly unemployment rate. The housing sector continues to look good and construction activity will likely rise by a modest 5-6% pace over 2020 given the many capacity constraints (labor and input prices).

Legislatively, the long-awaited-for “hard” infrastructure bill is now moving to center stage and will shortly be accompanied by a “soft” infrastructure bill. Despite bi-partisan agreement on need for improvements to the nation’s “hard” infrastructure including highways, bridges, broadband, and infrastructure, these bills will be passed along strictly partisan lines due to disagreements about the size of the bills, and how to pay for them. Passage must occur prior to Thanksgiving and unlike the stimulus packages, this legislative effort will boost economic activity over an extended period of between five and eight years.

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Q1 2021 Regional Economic Overview

The most impressive single statistic coming from the Silicon Valley is, without a doubt, the rapid and sustained rise in home prices due to many factors, some of which are largely unique to this region. Across the country, we see home buyers expressing a desire for more space due to being at home more, as well as the ability to work from home even post-pandemic. However, Silicon Valley is unique in that a higher percentage of employees can work from home here than in almost any other geography. To wit, high tech firms were early adopters in allowing their employees to work from home, and moreover gave them early guidance about future work arrangements. In addition, tech as an industry has not just survived but thrived during the pandemic, and thus has benefited more than almost any other sector. As a result, tech stocks have largely outperformed other traditionally strong sectors such as energy, banking, and healthcare. Lastly, the equity outperformance has been enhanced due to the widespread practice of granting stock options to employees. As a result, the increase in wealth in and around San Jose has been very impressive and has enabled home prices to easily rise at levels outpacing much of the nation.

Another factor impacting the local housing market is undoubtedly emigration from San Francisco. While there is no evidence of any wholesale out-migration from the city, there is evidence of a small but meaningful decamping of households to other areas. As noted in a recent article in The Chronicle, net out-migration from San Francisco rose from roughly 17,000 in March-December 2019 to approximately 53,000 over the same period in 2020. Importantly, a sizable number of those 2020 out-bound migrations reported a new address in San Mateo (6,637), Santa Clara (2,592), or Santa Cruz (286) Counties. While these numbers are not large, in a tight housing market exhibiting little if any new construction, an inflow of very wealthy buyers can easily alter house price dynamics given the general lack of inventory. However, it is reasonable to think that we have witnessed “Peak Migration” as prices keep rising and life in the city reverts to a new version of normal.

Lastly, 21Q1 data, here and everywhere else, suffers from a serious signal-to-noise ratio problem. Comparisons to a year ago tend to show very large changes. The difficulty is determining how much of that change is purely attributable to the pandemic and the associated closures that began in mid-March 2020, and how much is a result of current conditions and represents the real current underlying trend. Still, there is no denying that all counties in the Silicon Valley saw new all-time price records for single-family homes and with pending sales up sharply across the board and credit conditions very tight, this is not a housing bubble.

Q1 2021 Market Overview by County

San Mateo County

- San Mateo County saw an all-time high price of $1,850,000, a 15.6% gain over the pre-pandemic first quarter of 2020. Dr. Eisenberg notes, “In and of itself, the price appreciation we’ve seen in San Mateo County speaks volumes about the increases in wealth enjoyed by the many tech workers in the Silicon Valley. Given that we are just now approaching the normal high-selling season, we may not have yet seen the peak of the market for this year.”
- New listings in Q1 were surprisingly strong, gaining 24.5% over last year, although last year’s data is somewhat affected by the mid-March 2020 pandemic slowdown. Sales data for Q1 was excellent, with closed sales up 24.9% to 852 and pending sales up 126.7% to 399. Per Dr. Eisenberg, “The last time we saw Q1 sales data that was this good was in 2013. If you were to normalize the data and factor out the pandemic effect, we are still looking at pending sales that are about 30% above recent normal. I see no signs of a slowdown in the San Mateo housing market anytime soon.”

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Q1 2021 Market Overview by County (cont'd)

- Inventory levels in San Mateo County, while somewhat low, are actually very close to the national average of 2 month's supply of inventory at 1.5 months. Days on market are near a Q1 low and percent of list price received at sale is 105%, approaching levels last seen in 2017/2018.
- Overall, the metrics in San Mateo County indicate a very strong and solid single-family housing market despite low inventories and very high prices, undoubtedly benefiting from the success of the tech industry in weathering the pandemic.
- In the common interest market, median sale prices of $872,000 dipped somewhat from the highs we saw over the last few years and are back in 2017 territory. Both closed sales and pending sales remain very solid. New listings were up sharply, leading to a surprising increase in active inventories compared to this time last year. In San Mateo County, multi-family properties usually sell for just slightly over their listing prices and remain on the market for just 15 days, a sign of a strong and steady market.

Santa Clara County

- Median home prices in Santa Clara County were at an all-time high of $1,500,000, up 11.1% from the same period last year, and easily outpacing the record highs we saw throughout last year. Average prices were also at a new all-time high of $1,818,546, up 14.4% from last year.
- New listings rose to 3,267, the highest Q1 since 2012. Closed sales were up almost 39% and pending sales of 1,109 are nearly double the number at the end of Q1 of 2020, and are easily 20% above any prior Q1 numbers. Dr. Eisenberg says, "Buckle up folks, with the number of pending sales you have in the queue at the end of March, I think you are going to see a staggeringly busy second quarter and possibly another new price record!"
- Active inventory is on the lower end in Santa Clara County, with just 933 active listings and 1.3 month's supply of available inventory. Homes sell at a substantial premium of 107% and average days on market is 23 days, down significantly from last year's 30 and the second lowest Q1 DOM in recent memory.
- In the Santa Clara common interest market, the median sale price of $855,000 is a Q1 high, but nowhere near the all-time high price of $930,000 set in summer 2018. New listings were up by nearly 50% over last year, which prevented inventory levels from collapsing, as closed sales were up nearly 40% over the first quarter of 2020 and pending sales are more than double last March. Inventory levels bumped up to 602 active listings, a 57% gain over the same point last year, and month's of inventory rose to 1.7, up from 1.5.

Santa Cruz County

- Median sales prices in Santa Cruz County jumped to an all-time high of $1,100,000, a 21.2% gain over last year, and average prices rose 27.0% to $1,223,877. Dr. Eisenberg says "Santa Cruz County is apparently capturing a meaningful number of migrants from San Francisco. Your prices rose like they had a rocket assist!"
- New listings are close to normal for this time of year at 510, while closed sales rose 35.5% over last year. New pending sales are nearly double the level we saw at the end of March 2020 and are at the highest level since mid-2015.
- Single-family inventories in Santa Cruz County are near all-time lows with just 259 active single-family residential listings. Dr. Eisenberg notes that "Whereas Santa Cruz County used to be relatively inventory-rich compared to neighboring counties, inventory levels have declined to where they are at the national average at two month's supply of inventory."
- The sales-price-to-original-list-price ratio rose this month to 103%, the highest level in recent memory and average days on market declined to 42, the lowest Q1 in decades.

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Q1 2021 Market Overview by County (cont'd)

- The Santa Cruz common interest market saw a Q1 high of $636,000, a 7.7% gain over last year. Average sales prices rose by a comparable 6.2% to $681,318, both healthy price gains. New listings were slightly below normal at 133, while closed sales rose by nearly 43% to 120 and pending sales more than doubled to 23, a sign of a good 21Q2 to come. Active inventories of just 57 units represent a 1.4 month's supply of inventory, well down from historic levels.

Monterey County

- Monterey County saw the highest levels of price appreciation in the region, with median sales prices of $869,000 gaining 30.7% over last year and average prices up 37.7% to $1,415,617. Dr. Eisenberg commented, "I am simply stunned by the price appreciation you saw in Monterey County over this past year. At the end of 2019, your median sales price was just $649,500 and now it is $869,000! Everything I see in your data tells me that Monterey County is moving steadily up in desirability."
- Sales activity in Monterey County is close to normal levels, with 563 closed sales in Q1. Pending sales at the end of the quarter are 144, a level normally seen in summer, although not near all-time highs. New listings slipped by 4.1% compared to last year, helping to push inventories down by 34.9% to just 421 active listings, or a 2.2 month's supply of inventory.
- In the common interest market in Monterey County, median sales prices of $505,000 are solid but nowhere near record levels. Inventories continue to plummet and average sales-price-to-original-list price rose above 100% for the first time since 2013, suggesting healthy demand.

San Benito County

- Single-family home prices in San Benito County rose to all-time highs, with a median price of $718,000 (up 20.7% over last year) and an average price of $783,247 (up 23.8% over last year). Homes sold for an average of 102% of their listing price and days on market plummeted to just 25 days. Dr. Eisenberg notes that, "San Benito has benefited from relative affordability, but price appreciation here is comparable to other counties in the region."
- New listings were up slightly from last year, but since both closed and pending sales also rose, inventory levels dipped by 22.2% compared to last year to just 105 active listings. Still, that is a 2.3 month's supply of inventory, just slightly above the national average.
- Common interest prices in San Benito County, at $450,000, are just a bit below the all-time 20Q1 record of $451,250. There is a 2.6 month's supply of inventory and units sold for 102% of their listing price, the highest level since mid-2013.

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