



Posted: July 13, 2021

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MLSListings Quarterly Market Overview - Q2 2021

Q2 2021 National Economic Overview

2021Q2 GDP growth will most likely exceed 9%, and possibly even a mind-blowing 10%, encouraged by the residual effects of the \$1.9 trillion American Rescue Plan, improving vaccination rates, steady if unspectacular improvement in job creation, high levels of savings, and a strong demand for dining out, travel and other services that were largely off-limits until recently. 2021Q3 GDP growth should weigh in at close to 8%, and 2021Q4 should close out the year at better than 6%. At worst, this year will experience the highest rate of growth since the recovery from the double-dip recession of the early 1980s, and at best, it could be the strongest since the very early 1950s!

As for inflation, while it has certainly made its presence felt over the last few months by quickly doubling from 2% to 4%, the Fed has been absolutely masterful in reassuring investors and markets that this inflationary pressure is short-term and will subside over the next year. In addition, bond markets are beginning to factor in the realization that GDP growth in 2022 and 2023 will steadily slow and end up no greater than 2.5%. As a result, interest rates have remained pleasantly unchanged despite rising inflation. Next on the Fed's agenda is tapering of their purchases of \$80 billion/month in Treasuries and \$40 billion/month in mortgage-backed securities, which should commence in early 2022, with interest rate hikes starting in 2023. I suspect the 10-year Treasury rate will end 2021 up by a quarter point.

As the economy returns to a post-pandemic normal, spending patterns are undergoing change. To wit, real consumer spending in May fell 0.4% M-o-M. This decline was not across the board; real durable goods spending declined 4.3%, while real spending on non-durables eased 0.5%. In a preview of coming attractions, real spending on services, which is 60% of overall spending, rose 0.4%, showing a strong shift away from purchases of goods and towards services. This increased spending on services is being driven largely by households with incomes greater than \$200,000, who boosted restaurant spending by 16%. And with savings rates 50% above pre-pandemic levels, there is clearly more gas in the tank. Add strong job creation the rest of the year of between 500,000 and 750,000 new jobs/month and the unemployment rate should decline from the current 5.9% to 4.6%. As for housing, I expect both existing sales and housing starts to remain unchanged through the end of 2021.

Legislatively, the \$300 billion, five-year Surface Transportation Investment Act of 2021 is working its way through Congress. Moreover, it also seems that a much larger bipartisan "hard" infrastructure bill, which will include spending on bridges, broadband, airports, and rail, among other things, totaling \$1 trillion has the votes to also become law. Moreover, efforts are being made to pass a similar sized if not much larger "soft" infrastructure bill along strictly partisan lines. Clearly, Congress is in a mood to spend money, which will boost GDP growth some over the next five to eight years. Lastly, Congress must also soon vote to increase the debt ceiling, which they will do, and ideally pass a budget before the new fiscal year starts on October 1, 2021. If a budget is not passed, Congress will do what it usually does and pass a Continuing Resolution to keep the government operating. There appears to be no stomach for any budget or debt ceiling antics.



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Q2 2021 Regional Economic Overview

In examining the MLSListings service area real estate market for the second quarter of 2021, Dr. Eisenberg comments: “In a surprise to absolutely no one, prices across the MLSListings service area continue to appreciate at levels generally exceeding the national average. Driven by low interest rates and despite incredibly limited inventories of available homes, buyers show no signs of pulling back from the market, in fact, their willingness to pay more than listing price across the board, and to make buying decisions in less than 10 days, shows the tenacity of buyers.” The compelling story of this quarter is the amazing amount of real estate that changed hands across the region - with \$16.5 billion in combined sales volume across the five counties, while an imperfect comparison, the MLSListings service area alone would have had an annualized GDP greater than Costa Rica or Panama.

Despite the headlines about wildfires, gubernatorial politics, and mass out-migration, a recently released study by the University of California confirms what multiple other studies have shown, namely that there is no evidence of an abnormal exodus out of the State, particularly amongst high wealth individuals. Further, California remains a highly attractive state for technology and venture capitalists. Most interestingly from a MLSListings service area perspective, the study reveals that two-thirds of individuals leaving San Francisco move to the neighboring eleven counties.

Dr. Eisenberg notes that “At this point, buyers are still looking to leafy areas for their post-pandemic lifestyle and the MLSListings service area, with its proximity to San Francisco, checks the boxes for many tech workers who want to take advantage of employers’ work-from-home policies but may still need to go into the office periodically.” As has been the case since nearly the beginning of the pandemic, the stock market has performed well, which has aided the region. While interest rates went up early in 2021, which portended bad news for tech stocks, the recent decline has given additional fuel to tech stock valuations. Dr. Eisenberg notes: “It appears as though the interest rate fears of early 2021 are firmly in the rearview mirror, giving added fuel to the MLSListings service area real estate market.”

Q2 2021 Market Overview by County

San Mateo County

- Once again, single-family home prices in San Mateo County were at all-time highs, with a median price of \$1,950,000 (up 20.0% from 2020Q2) and an average price of \$2,489,021 (up 19.2%). Dr. Eisenberg points out that “Home prices in San Mateo have nearly tripled since the housing bust, driven by two main factors - the continued strength of the tech industry and an overwhelming lack of new home construction in the region.” Closed sales were at the highest quarterly level since 2004, which drove overall sales volume to nearly \$4 billion, an almost 30% gain over 2020Q3, the previous high. Pending sales at the end of the quarter remain elevated, a sign that the market has not topped out yet.
- Single-family new listings in San Mateo County were up nicely this quarter (in fact, they were the best Q2 level in nearly 10 years), but with the increased level of sales, inventories remain very tight. There is just a 1.1 months’ supply of inventory, median days on market for this past quarter was just eight, and homes sold, on average, for 110% of list price.
- In the San Mateo common interest market, year-over-year median price rose 3.3% to \$950,000, just below 2018’s all-time high of \$1,010,000. Closed sales were the highest since the top of the housing boom, and while new listings also rose significantly, inventory levels remain very limited, with just 1.4 months’ supply of inventory. Despite lackluster price appreciation, perhaps Covid-induced, the market remains solid.

Santa Clara County

- In the Santa Clara County single-family residential market, the median sale price of \$1,665,000 and average sale price of \$2,035,916 set records and rose more than 20% over last year’s prices. Sales also skyrocketed to nearly double last year’s levels and were the highest since 2005. Resulting sales volume



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Q2 2021 Market Overview by County (cont'd)

nearing \$8 billion was far above 2020Q4's previous record of \$5.4 billion. Homes sold for about 10% above listing price and with a median days-on-market of just seven.

- Dr. Eisenberg notes that “New listings this quarter surged to nearly 4,500, the highest level since mid-2011. I suspect that we are perhaps starting to see something of a return to seasonality in the real estate market.” Still, inventory levels remain incredibly tight, with just over 1,100 single-family units on the market, less than a months' supply of inventory.
- In the common interest market in Santa Clara County, prices were near all-time highs at \$900,000 (median) and \$971,538 (average), just slightly below the highs of 2018Q2. Overall sales volume exceeded \$1.7 billion, an all-time high. New listings topped 2,000 for the first time since 2008. However, with nearly 1,800 closed sales (the best in 15 years), and pending sales in excess of 400, inventory levels dipped slightly and remain at just 1.2 months' supply of inventory.

Santa Cruz County

- Santa Cruz County saw the highest level of single-family median price appreciation across the region, with median sales price gaining 37.6% over last year to \$1,245,000, and average price up 32.5% to \$1,355,980. Dr. Eisenberg comments: “I suspect the Santa Cruz real estate market performed so well this quarter at least in part because home prices are meaningfully less here than in San Mateo and Santa Clara counties.” Median days-on-market in Santa Cruz slid below 10 for the first time, and homes generally sold for a strong 8% over listing price, a new record for the county.
- Closed sales were up significantly compared to last year and were at the highest level since 2015. New listings also rose to a more normal level of 774. Inventory levels declined compared to last year and just 1.6 months' supply of inventory is available.
- Common interest home prices in Santa Cruz were up smartly, with a median sale price of \$750,000 (up 17.2% over last year) and an average sale price of \$800,622 (up 19.6%). Properties generally sold for about 4% more than their listing price and, on average, in just 8 days, both all-time records. In terms of inventory, the common interest market is possibly tighter than the single-family market in Santa Cruz, with active inventory at the very low end of the range and with just 1.2 months' supply of inventory.

Monterey County

- In Monterey County, while average sale price for single-family homes soared to a record \$1,509,601, a 43.4% increase over last year (the largest average price increase in the region), median price dipped to \$850,000, just slightly below last quarter's record high. Dr. Eisenberg notes: “After a scorching first quarter, prices in Monterey County may be cooling just slightly from their eyeball-stretching gains of the last several quarters.” Still, homes sold for 102% of their listing price, quite easily a new record, and median days-on-market dipped to nine, an all-time low.
- Across the region, Monterey County has the highest months' supply of inventory at two months. However, inventories are down nearly 32% from the same time last year as sales remain solid, with quarterly sales on par with Q2 levels prior to Covid.
- On the common interest side, median sale prices are at a record level of \$610,000, up significantly from both last year and last quarter, and the average sale price of \$741,728 eked out a small gain over last quarter's previous record. New listings were at the highest level since 2009, while sales were the strongest since 2005 (except for 2020Q3, where sales were 129). There is a 1.5 months' supply of inventory of common interest properties in Monterey County and days-on-market is a record low of seven.



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Q2 2021 Market Overview by County (cont'd)

San Benito County

- In San Benito County, both median and average sale prices rose about 27.5% over last year's levels, to \$765,000 and \$833,457, respectively. Both the median days-on-market of eight and sale-to-listing-price ratio of 103.0% were new records. Overall sales volume was up more than 13% from the prior high seen in 2020Q3.
- New listings this quarter were meaningfully up from last year's pandemic-impacted numbers and closed sales nearly doubled. As a result, inventories were down compared to last year and there is just a 1.8 months' supply of inventory.
- The San Benito common interest market showed a relatively solid level of activity this month, with a median price of \$422,000, just slightly below last quarter's all-time high. The average price of \$453,818 was at a record high, and homes sold for 4% above listing price. Dr. Eisenberg comments: "I'd be cautious about reading too much into the median price decline in common interest properties in San Benito County this past quarter, especially since prices have been relatively stable in this segment over the last several years." There were 14 homes listed during the quarter, but with 19 sales, there was only one unit on the market at the end of the month.