Market Data Report

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Prepared by Elliot Eisenberg, PhD., MLSListings Partner Economist

MLSListings Quarterly Market Overview – Q3 2021

Q3 2021 National Economic Overview

Despite early hopes for a spectacular Q3, cases of the Delta variant of Covid-19 began to rise throughout July and August and economic projections progressively worsened. We are likely to end up with 21Q3 GDP growth around 3%, which is quite disappointing compared to the 7% we initially forecast. Some of the pent-up demand for consumer spending that we were unable to satisfy in 21Q3 will shift forward into 21Q4, so all is not lost. I expect that 21Q4 GDP growth will be around 5%, supported by continuing job growth and pent-up demand. We also are hopefully seeing something of a “end” to the pandemic phase of covid, and while it will undoubtedly remain an ongoing public health concern, with a full 56% of the population vaccinated and a considerable number with at least some level of natural immunity due to prior covid infections, the chances of a wintertime surge again this year look unlikely. Overall, for 2021, I expect GDP growth to come in around 5%, well above our pre-covid trend of around 2-2.25%. Looking even further into the future, GDP growth for 2022 and 2023 will continue to slow toward normal such that by the end of 2023, we should be back around 2-2.25%.

Job growth, while solid, is uninspiring but is likely to improve somewhat as covid numbers steadily recede. I expect to see monthly job growth on average of about 350,000 jobs per month through the end of 2022. Inflation remains a real problem, although there are signs that we may have seen the peak. Still, since the inflation we are experiencing appears likely to linger somewhat longer, calling it transitory may no longer be justified and the term “ephemeral” may be more applicable. Supply chain bottlenecks continue to be complicated and widespread, and “just-in-time” supply chain management has become “just-in-case” hoarding. The trajectory of inflation now appears to be higher for longer than we previously anticipated.

In terms of Federal Reserve Bank actions, expansionary monetary policy will begin coming to an end as early as November of this year, and no later than January of 2022 when the Fed begins to taper its purchases of Treasuries and mortgage-backed securities. The tapering process will presumably end in either Q2 or Q3 of 2022, and sometime after that, the Fed will begin raising interest rates, which could be as early as late 2022. Similarly, fiscal policy is now quite contractionary, and starting in 21Q2, began reducing GDP by about 2.5%/annum, the most contractionary stance in decades. This is likely to last at least another 12 months.

Nationally, the housing market continues to do very well and is unquestionably strong. That said, we may be seeing some slight signs of slowing as inventories finally begin to rise just a bit. This is more indicative of a market that is settling into a normal, healthy pattern instead of the frenetic pace we saw in the last half of 2020 and the first quarter of 2021. Year-over-year metrics are already suffering simply in comparison to the overheated market we experienced last summer and fall. Prices will remain strong, although likely with single-digit price appreciation going forward. As covid case rates continue to improve, consumer spending is going to continue to shift from goods to services and interest in housing will slow. However, as single-family residential housing continues to become a full-fledged investment asset class, capital and Wall Street money will continue to pour in, ensuring that the housing market remains solid. With all this demand, it is clear that a replay of the 2008 housing crises is not in store.

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Q3 2021 Regional Economic Overview

An analysis of the MLSListings real estate market area quickly shows that little has changed in this supercharged market. Many jurisdictions are seeing comparable price appreciation to what we have seen nationally, in the range of 16-17%. Most properties still sell at a premium above the original listing price and generally properties remain on the market for 10 days or less. What we have seen over the last few months, however, are hints of a return to seasonality and some slight gains in inventory. Of note, this quarter there were instances of significant differences in price appreciation, ranging from small gains in price in Monterey County to much higher levels in Santa Clara and San Benito. Because we are still trying to sort out the noise caused by last year's heavily pandemic-influenced data, it is difficult to determine if there is indeed real meaning in the differing price appreciation levels. This is certainly something that bears watching, especially as the market continues to return to a "normal" seasonal pattern.

As we look to influences on the housing market over the next year or so, there are several that stand out as having an outsized impact on the MLSListings area. Let's begin with the work-from-home phenomenon. Across the nation, many employers (with a few notable exceptions) are calling employees back into the office on at least a part-time basis. Pre-covid, about 5% of employees worked from home; most estimates are that we will ultimately settle out at around 15% work-from-home. What is important is that we will see some shifting in the job market as employees who are committed to working from home on a permanent basis look for an employer who will accommodate. We may call this the "great sorting" that followed the "great lockdown." This may be more of a factor in the MLSListings area, where a higher percentage of work can be conducted from home. This suggests, all else equal, that the MLSListings area should continue to benefit from work-from-home because of proximity to the tech hubs in the San Francisco Bay and Silicon Valley areas. Another factor is that data through 21Q2, the most recent we have, shows that household net worth continues to increase for a variety of reasons. These increases are even greater in households with ties to tech industries, as tech has done extremely well during the pandemic, leaving many families with healthy retirement accounts and good investment portfolios.

In summary, Dr. Eisenberg comments: "This market continues to surprise and delight despite tight inventories and simply staggering levels of price appreciation over the last several years. We see little, if any, let up in buyer demand for homes, regardless of the obstacles they must overcome. This may be due, at least in part, to a general acknowledgement that work-from-home, in some form, is here to stay, and that the communities included in the MLSListings area provide excellent opportunities for work-from-home employees who want the ability to easily go into the office on a hybrid basis."

Q3 2021 Market Overview by County

San Mateo County

- Single-family home prices in San Mateo County slipped just slightly below last quarter's all-time high, but with a median sale price of $1,909,000, remain 9.7% higher than 20Q3. Average prices also rose compared to last year, gaining 8.0% to $2,393,127.
- Closed sales were up 11.6% over 20Q3, although they were down from last quarter's all-time high. Sales volume of more than $3.5 billion was second only to last quarter's all-time high and was up 20.4% over last year. Dr. Eisenberg comments: "It's hard to discern any material weakness in San Mateo; it looks as though the market, at most, has gone from frenzied to just very strong."
- Single-family new listings in San Mateo County slipped just a bit and were down 5.4% compared to last year. Active listings compared to last year declined by 28.0%, although month's supply of inventory compared to 21Q2 rose from 1.0 months to 1.2 months. Median days on market for this past quarter was just nine days, and homes sold, on average, for 109% of list price, up from 102% in 20Q3 but down from 110% last quarter.

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Q3 2021 Market Overview by County (cont'd)

- In the San Mateo common interest market, year-over-year median price rose 1.9% to $947,500, and the average price of $1,039,829 was 3.5% more than last year. Closed sales were up 32.6% above last year, while new listings declined by 6.2%. Inventory levels remain limited, with just 1.6 months' supply of inventory.

Santa Clara County

- Santa Clara County saw the highest Y-o-Y median price appreciation in the region, rising 18.8% to $1,650,000, while the average sale price rose 17.9% to $2,035,253. Sales rose 12.7% compared to last year's already overheated number, and sales volume of nearly $7 billion, up 32.9% over last year, was easily the second highest quarter on record, eclipsed only by 21Q2's record-setting level. Homes sold for about 9% above listing price and with a median days-on-market of just eight. Dr. Eisenberg says: "This is a market that shows absolutely no signs of slowing down. The slight price declines compared to last quarter are undoubtedly just a return to seasonality, as children return to classes for the first time in more than a year."
- New listings rose 3.3% over last year to 3,669, but inventory levels remain incredibly tight, with just 0.8 months' supply of inventory and only 917 active listings.
- In the common interest market in Santa Clara County, prices logged solid year-over-year gains of 11.2% to $910,000 (median) and 9.5% to $977,702 (average). Closed sales were up by a staggering 45.6% to 1,604, just slightly below last quarter's record level, and new listings also rose, gaining 9.3% over last year to 1,806. Overall inventory levels remain tight at just 1.2 month's supply.

Santa Cruz County

- In Santa Cruz County, median single-family home prices rose 14.3% over 20Q3 to $1,200,000, while the average price rose 12.2% to $1,353,107. While closed sales were nearly flat compared to last year, rising prices pushed sales volume to nearly $800 million, a 14.3% year-over-year gain, and just slightly below last quarter's record level. Dr. Eisenberg comments: "It's remarkable that sales activity, despite the rapid increase in prices, has arguably logged the two best quarters since mid-2015, and the inventory count is slightly more than half of what levels were then."
- New listings compared to last year were up a meaningful 17.9%, but inventory levels remain challenging for potential buyers, with just 294 active listings, a 1.5 month's supply of inventory. Median days-on-market is 11 (up from nine last quarter but down from 13 last year), and homes generally sell for 6% more than their listing price.
- In the Santa Cruz common interest market, the median sale price of $705,000 was nearly flat compared to last year but was well below last quarter's $750,000. The average price was a strong $796,527, a 10.7% gain over last year and just a shade below last quarter. While closed sales declined by 15% compared to last year, they are still quite robust by historical standards. New listings rose 3.1% and inventories are nearly flat compared to last quarter, although they are well below this time last year at an all-time low of 52.

Monterey County

- Monterey County saw the lowest level of price appreciation across the region, with the median price up just 3.8% to $825,000. The average price of $1,319,479 was comparable to last year and well below last quarter's record of more than $1.5 million. Closed sales declined by 18.9% compared to last year and overall sales volume declined by 17.7% compared to last year, making Monterey County the only area in the MLSListings region where year-over-year sales volume declined.

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Q3 2021 Market Overview by County (cont'd)

- Still, homes sold for 102% of their listing price, the same as last quarter, and median days-on-market remained at nine, an all-time low. Dr. Eisenberg notes: "After a shockingly strong price ramp-up over the past year, price appreciation appears to be taking a bit of a breather in Monterey County. That said, in all other respects, the market remains extraordinarily strong."
- New listings in Monterey County were down 8.0% compared to last year, and active inventories declined 21.2% to just 464 available listings, a 1.9 month's supply of inventory.
- On the common interest side, median sale prices are at a record level of $665,000, up significantly from both last year and last quarter, and the average sale price of $769,875 was also up a significant 23.4%, also a record high. New listings were up 7.0% while sales were down 12.6%. Active inventories were down from both last quarter and last year and represent just a tight 1.4 month's supply of inventory. The sale-to-original-listing price ratio was at an all-time high of 103.0%. Dr. Eisenberg continues: "While the single-family market appears to be taking a bit of a break, some buyers seem to have shifted their attention to the common interest market, pushing prices to new records."

San Benito County

- The median sale price in San Benito County rose 16.8% to $777,000, while the average price rose 22.8% to $850,631, the largest gain in average price in the region. Dr. Eisenberg comments: "The record high prices in San Benito County may well be explained by its relative affordability, with a median price roughly 40% of homes in San Mateo. If a buyer has the flexibility to work from home, San Benito County is looking more and more appealing."
- Median days-on-market of ten was down from 16 last year but rose just slightly from eight days last quarter, and the sale-to-listing-price ratio of 102.0% also slipped just slightly from last quarter's record of 103% but is still well up from last year. Overall sales volume was up more than 11% from last year and remains near last quarter's record level at $164 million.
- Closed sales of 193 declined by 9.4% compared to last year and new listings of 215 rose 11.4%, making San Benito County the only area in the region where inventories showed meaningful growth. Active listings compared to last year rose by 25% to 135 and month's supply of inventory was 2.1, the highest in the region.
- The San Benito common interest market had the highest level of price appreciation across the region, with the median sale price rising 30.8% to $523,000 and the average price gaining 29.6% to $525,936, by far the highest prices on record. There were 15 homes listed during the quarter, and 11 sales, leaving four units on the market at the end of the month.