Market Data Report

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Prepared by Elliot Eisenberg, PhD., MLSListings Partner Economist

MLSListings Quarterly Market Overview - Q4 2020

Q4 2020 National Economic Overview

Nationally, the economy is likely to have closed out 2020 with strong Q4 GDP growth of about 4%. As a result, 2020 GDP is likely to come in at no worse than -3%, a very strong showing given where we were back in the spring. However, the forecast for 21Q1 is substantially more subdued, with growth expected to be no greater than a disappointing 2%, due to a combination of colder weather, rising coronavirus caseloads, and a concomitant increase in government-mandated lockdowns. Economic growth should improve over the remaining three quarters of 2021 such that by late this year GDP is back to where it was before the onset of the pandemic. As for employment, it will probably take until mid- to late 2023 for employment to fully recover. Inflation is likely to remain subdued through at least 2021, and the Fed is not expected to raise rates for at least several years. If long-term rates start to rise, the Fed will probably shift to purchasing more long-term bonds to push rates down. Turning our attention to politics, with Democrats controlling both ends of Pennsylvania Avenue, expect somewhat higher levels of government spending, an attempt to increase taxes on the wealthy and those with higher incomes, and more generally, passage of a modified or scaled-back version of President Biden's broader policy platform.

The housing market is expected to remain strong through 2021 due to a combination of favorable demographics, continued low interest rates, easier access to credit, and a continued lack of new and existing inventory. That said, existing and new sales are very unlikely to exceed the very strong levels of activity they have exhibited over the last five months. They should, however, be able to maintain or come very close to maintaining that level of activity during the year. Home prices should continue to rise, but by at most half the rate they experienced in 2020. Concerns about the expiration of the mortgage forbearance program should be discounted as the number of properties enrolled is low, and unlike during the Great Recession, the number of homes with negative equity is very low. Housing is a bright spot in our recovering economy and should remain so going forward.

Q4 2020 Regional Economic Overview

Among the many things that 2020 will be known for, one of those will be as a year that upended the traditional real estate seasonal cycles. In the Silicon Valley, as elsewhere, we saw a fourth quarter with sales and price levels normally seen in the height of the spring season, not in the traditionally slow months of the year. With work-from-home here to stay (at least in some form), some of that is likely to remain, especially for families without children, but as we see the end of coronavirus and a return to in-person schooling and normal holidays, we are likely to see at least some return to seasonality later in 2021. We will also likely see a continuing effect as buyers move away from the downtown corridors and into the suburbs and rural areas. A fundamental change resulting from covid may also manifest in a preference for single-family homes over multi-family units. These trends are likely to show up first in the rental market and then in the buyer market, as renters are generally more mobile and able to move more easily. We may have seen just a hint of these emerging trends in the higher price appreciation levels we saw in Santa Cruz and Monterey counties compared to San Mateo and Santa Clara counties and in the strength of the single-family market compared to the ever-so-slightly cooler multi-family market.

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As we move through this "K-shaped" economic recovery, we will see some sectors rebound much more quickly than others. We have already seen how the Silicon Valley, with its focus on tech and professional services saw very little in the way of employment losses, although restaurants and small businesses have suffered significantly. As a result, the rental market is likely to see moderate impact over the next six-to-twelve months as eviction rates climb but will likely recover by late 2021; the single-family residential market is likely to experience very little negative effect. The biggest challenge in the Silicon Valley is the ongoing lack of available inventory. The lack of inventory pre-covid has been exacerbated during the pandemic, as potential sellers hold off listing their home because they don't want strangers in their home and they themselves don't want to traipse out and view other houses. Real estate professionals have already pivoted to using technology to address that concern by offering virtual showings and open houses, and buyers and sellers are still likely to want to take advantage of that convenience. As the vaccine begins to turn the battle against covid, I hope we see a rise in inventory that marks another sign on the road to normalcy. If, however, we see inventory levels rise without a concomitant rise in sales, then that could be reflective of out-migration. We will also need to see if Prop 19 has the intended effect of creating some turnover in the housing market and thus encouraging the more efficient allocation of residential real estate. All-in-all, notwithstanding the overhyped fears of mass out-migration, the Silicon Valley market shows no reason for concern.

Q4 2020 Market Overview by County

San Mateo County

- With a median sale price of $1,680,840, San Mateo County saw a record fourth quarter price and the third highest overall quarterly median price. Prices gained 8.7% or $133,840 over last year. Dr. Eisenberg notes, "Price data show no evidence of any sort of an exodus from San Mateo County."
- Closed sales are up 30.6% over last year, the largest year-over-year gain since Q3 of 2003, and are at an almost 20-year high. For the year-to-date, sales are up 1.6% over 2019, a bit amazing when you consider the covid-related shutdowns of the spring of 2020. Dollar sales volume has skyrocketed over the last two quarters, and for the year, gained 11.5% over last year. Dr. Eisenberg notes that "I think we see signs that in 2020 at least, seasonality has gone out of the window. With work-from-home, online schooling and smaller or non-existent holiday gatherings, the traditional Q4 slowdown in the real estate market mostly disappeared. It may partially reassert itself in 2021, but I think that to some extent, this is part of our new normal."
- Q4 new listings were up substantially, but with an even higher level of sales, inventories continue to tighten. Although the actual number of available listings is higher than it normally is in December, there is still just 0.8 month's supply of inventory available.
- We saw plenty of activity in the common interest market in San Mateo County, with sales and new listings up considerably. The market is tight, but not as much as the single-family market.

Santa Clara County

- In Santa Clara County, single-family home median prices of $1.4 million tied last quarter's all-time median high, confirming that this remains a very strong market, and 2020 prices were above comparable prices in 2019 throughout the year. Dr. Eisenberg says, "Home prices in Santa Clara County continue to appreciate at levels just slightly above the national trend."
- Single-family home sales have recovered nicely from a weak Q1 and a disastrous Q2, and in an interesting twist, Q4 was the strongest quarter of the year in terms of sales. Dr. Eisenberg notes that you saw nearly one third of your total 2020 sales in Q4 when normally that would be your slowest quarter of the year. It appears that, for now at least, seasonality disappeared due to covid. For all of 2020, sales are just barely over 2019 levels, but the number of pending sales at year-end is double what was in the queue at the end of 2019.

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Q4 2020 Market Overview by County (cont'd)

- While the available units for sale are up 21.5% compared to last December, months of inventory is at a near record low of 0.7. Overall, Santa Clara County is a super strong market being driven by very strong demand.
- In the common interest market in Santa Clara County, the median sales price of $835,000 is up 6.4% year-over-year but is well off the highs seen in mid-2018 through mid-2019. Q4 sales were at the highest level since Q2 of 2018 and pending sales are well above last December levels, preparing for a good first quarter of 2021. New listings are well above normal for this time of year, bumping inventory above the same point last year, but inventories are still very tight, especially given the number of sales.

Santa Cruz County

- Median sale prices rose to an all-time high price of $1,055,000 in Q4 in Santa Cruz County. Dr. Eisenberg comments "We've seen two consecutive quarters of double-digit price appreciation in Santa Cruz County, coupled with big gains in sales. I speculate that perhaps this is being driven by some families moving within the Silicon Valley to slightly more affordable areas as part of the work-from-home phenomenon. If your employer is now allowing more remote work and you are no longer facing a daily commute but still want to stay close enough for periodic trips to the office, Santa Cruz and Monterey Counties give you proximity without the price."
- Closed sales rose 7.8% in 2020 compared to 2019 and sales volume of single-family homes gained 18.9% over 2019. Inventory levels declined in Q4 (in contrast to Santa Cruz and San Mateo Counties, where they rose) and percent of list price received at sale tapped 102%, the highest level in recent memory, while days-on-market were half what they were a year ago.
- In the Santa Cruz area, prices for multi-family homes of $649,000 were at a record high for Q4 and were up 9.8% from last year, but they were down from the all-time high set last quarter. Closed sales were up 30.2%, but pending sales compared to last year were down 11.1%. For all of 2020, closed sales were up 8.3% and dollar volume was up 18.0% compared to last year. The common interest market in Santa Cruz remains a strong market, but not quite as strong as the single-family market.

Monterey County

- Monterey County saw incredible price appreciation, to all-time highs, with median sales prices rising 27.8% to $829,995 and the average price rising 31.4% to $1,346,111. Dr. Eisenberg says, "We may be seeing the work-from-home effect at play here in Monterey County. With a median sales price of $830,000 in Monterey County, compared to $1.68 million in San Mateo County and $1.4 million in Santa Cruz County, Monterey County provides an affordable option for someone who is not commuting into the office as frequently as before. The challenge will be limited inventory, especially with both closed and pending sales up significantly over 2019 for the last half of 2020."
- For all of 2020, closed sales were up 2.6% while total sales volume was up a staggering 32.3% over 2019, by far the largest year-over-year percentage gain in the Valley.
- The common interest market in Monterey County is very solid but is certainly not seeing the frothiness of the single-family market. Prices slipped from the all-time high of $575,000 seen in 20Q3 to $539,000, still the second highest level in recent memory. Q4 sales were up a solid 20.2%, but for the year were down 2.2% compared to last year, and 2020 sales volume compared to 2019 was nearly flat. The data here is good, but just not as strong as the single-family market.

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Q4 2020 Market Overview by County (cont'd)

San Benito County

- In San Benito County, median sales prices rose to their highest all-time level of $675,000, while closed sales rose by double-digits for the second quarter in a row. Dr. Eisenberg comments, "You should see price appreciation like this in the summer, not around the holidays! Clearly, we are seeing a tempering of seasonality and I don't see this changing until perhaps next fall as vaccination rates rise and we go back to a normal school schedule."
- For the year, closed sales are up 4.3% and sales volume was up 11.5% compared to 2019. Dr. Eisenberg notes this may be reflective of some intra-Valley movement if buyers are moving from the more expensive areas to more affordable San Benito County.
- In the common interest market in San Benito, there is a limited amount of sales data to analyze, but clearly the 17.1% year-over-year increase in closed sales and 23.8% gain in sales volume are signs of a good, solid market.