



Q2 2023 Northern California

GARDNER

REPORT

This analysis of select Northern California real estate markets is provided by Windermere Real Estate Chief Economist Matthew Gardner to help you make informed real estate decisions.


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ECONOMIC OVERVIEW

Total employment in the counties covered by this report was flat year over year. Job gains in Placer, San Luis Obispo, and Santa Clara counties were offset by job losses in the rest of the region.

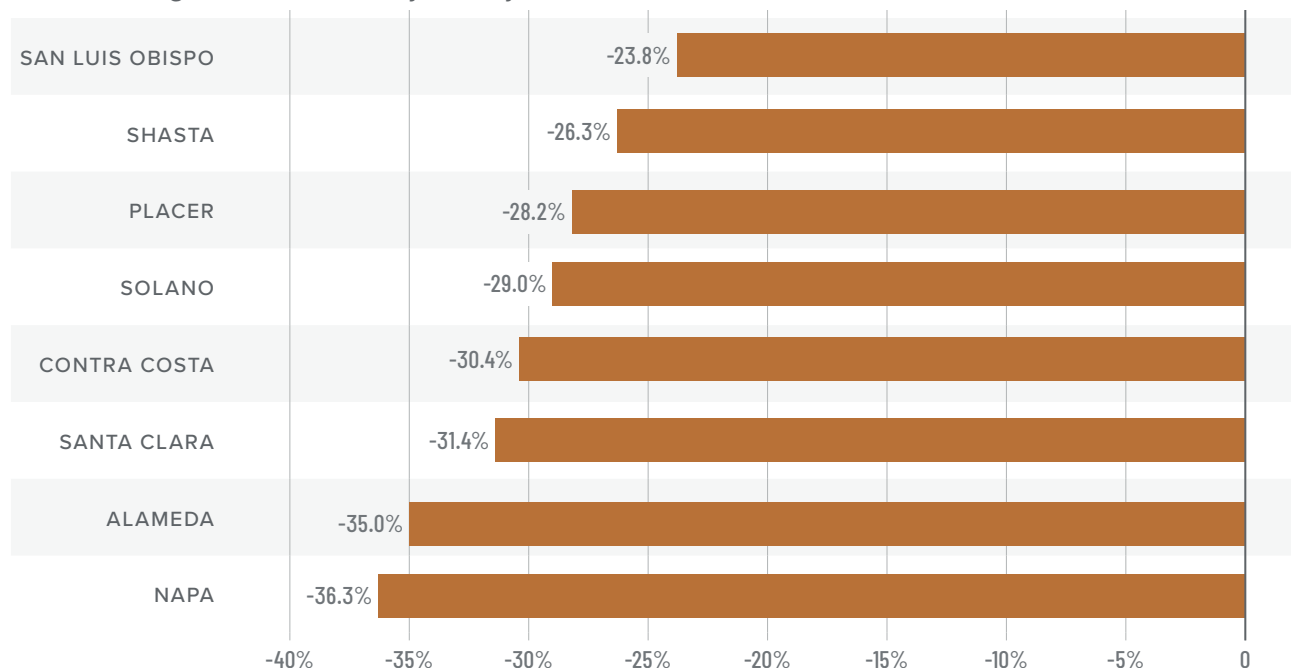
That said, the regional unemployment rate was a reasonable 3.5%. The lowest jobless rate was in San Luis Obispo County (3%), and the highest rate was in Shasta County (4.9%).

Home Sales



- › In the second quarter of 2023, 9,999 homes sold, which was a significant decrease from the more than 14,500 homes that sold in the second quarter of 2022. However, sales were up almost 50% compared to the first quarter of this year.
- › Year over year, sales fell across the board, but there was significant growth in all market areas compared to the first quarter of 2023.
- › Listing inventory was up 15.2% from the first quarter, which likely contributed to better sales volume despite higher mortgage rates.
- › Pending home sales were up 33.1% from the first quarter of 2023, which suggests that the growth in sales may continue into the summer.

Annual Change in Home Sales by County / Q2 2022 to Q2 2023

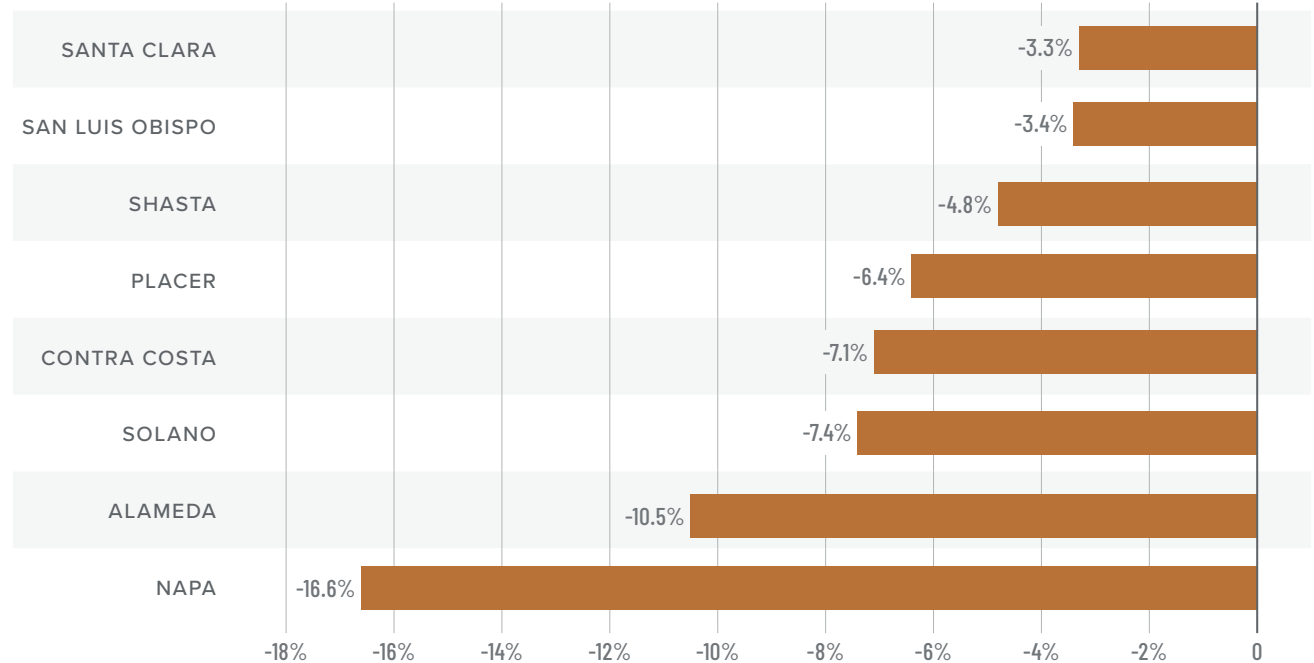


Home Prices



- Higher mortgage rates continue to impact home prices. The average price of a home sold in the region dropped 7.1% from the second quarter of 2022, but sale prices were up 16.1% compared to the first quarter of this year.
- Median list prices in the region rose 5.6% compared to the previous quarter. However, all markets were not equal: median asking prices dropped in Santa Clara, Placer, Shasta, and San Luis Obispo counties.
- Prices fell across the board from the second quarter of 2022, with double-digit drops in Napa and Alameda counties. Compared to the first quarter of 2023, sale prices were higher in all market areas, with double-digit growth in Alameda, Contra Costa, Napa, and Santa Clara counties.
- I predicted in the first quarter *Gardner Report* that the worst of the price drops were behind us, and the data suggests that this is true. Stability is returning, even in the face of higher mortgage rates.

Annual Change in Home Sale Prices by County / Q2 2022 to Q2 2023



Mortgage Rates

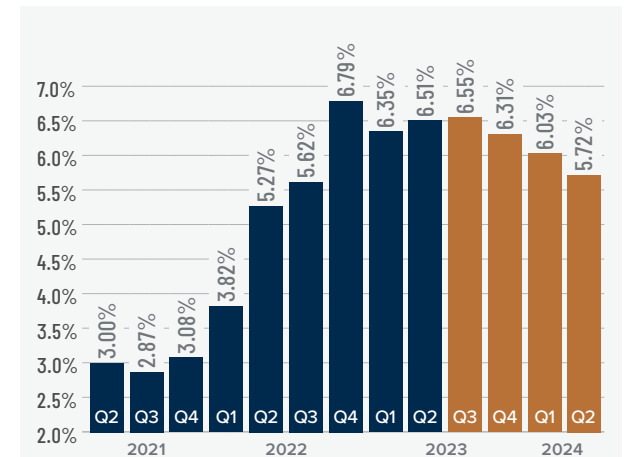


Although they were less erratic than the first quarter, mortgage rates unfortunately trended higher and ended the quarter above 7%.

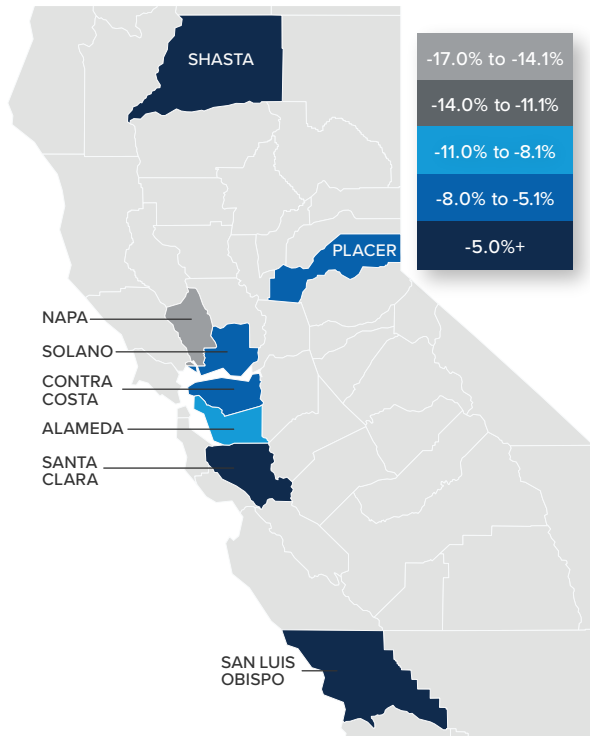
This was due to the short debt ceiling impasse, as well as several economic datasets that suggested the U.S. economy was not slowing at the speed required by the Federal Reserve.

While the June employment report showed fewer jobs created than earlier in the year, as well as downward revisions to prior gains, inflation has not sufficiently slowed. Until it does, rates cannot start to trend consistently lower.

With the economy not slowing as fast as expected, I have adjusted my forecast: Rates will hold at current levels in third quarter and then start to trend lower through the fall. Although there are sure to be occasional spikes, my model now shows the 30-year fixed rate breaking below 6% next spring.



NOTE: Our forecast excludes points and will therefore show rates that are lower than you may be quoted

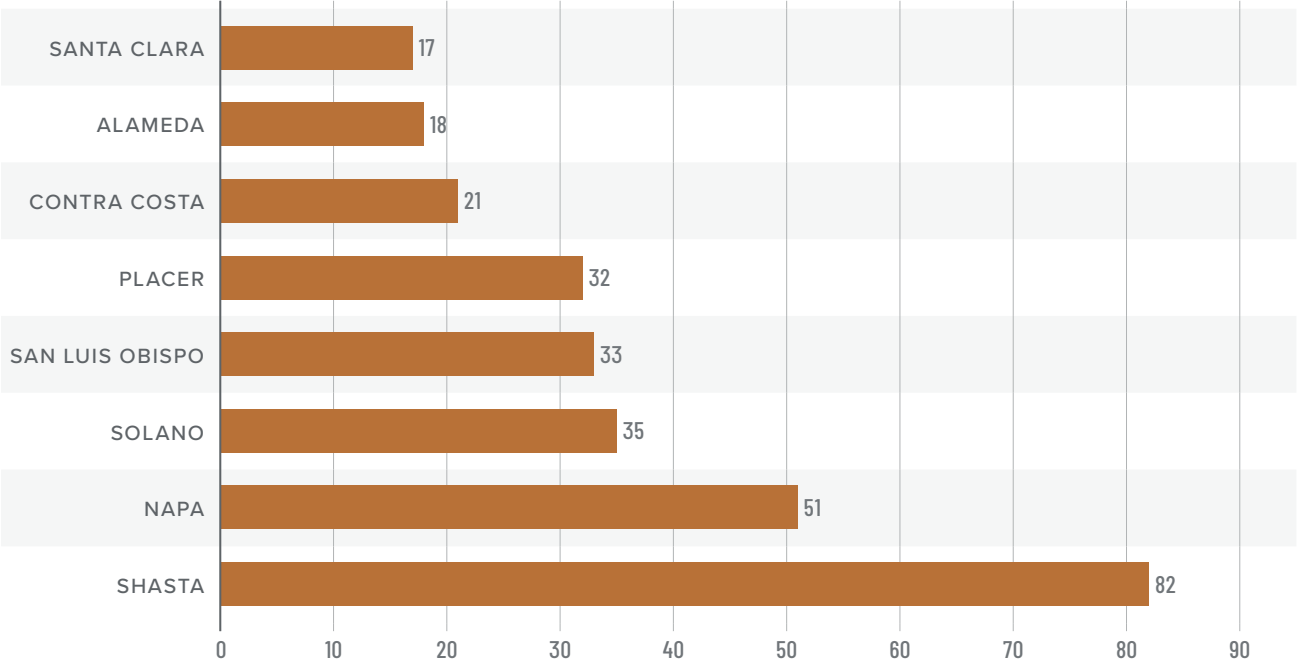


Days on Market



- › The average time it took to sell a home in the Northern California counties in this report rose ten days compared to the second quarter of 2022.
- › The length of time it took to sell a home rose across the region compared to the second quarter of 2022. However, market time fell across the board compared to the first quarter of this year.
- › In the second quarter, it took an average of 36 days to sell a home, which was 15 fewer days than in the first quarter of the year.
- › Homes sold the fastest in Santa Clara County and slowest in Shasta County. Compared to the first quarter of 2023, the greatest drop in market time was in Solano County (-27 days) and Placer County (-17 days).

Average Days on Market by County / Q2 2023



Conclusions



It was interesting to see the housing market pick back up even though the economy appears to be on pause and mortgage rates are high. The question is whether this can continue. Despite higher supply levels, they remain well below historic averages, which is causing prices to rise. The reason for this is that 30% of homeowners in California have a mortgage rate at or below 3%, so there is no incentive to sell if they don't have to.

Assuming that supply will not increase significantly and that my forecast for mortgage rates to fall modestly

through the rest of the year is accurate, I stand by my prediction that the worst of the price drops are over in the Northern California markets covered by this report.

Given all the above, I am moving the needle more in favor of sellers, but still holding in the balanced quadrant of the speedometer.



This speedometer reflects the state of the region's real estate market using housing inventory, price gains, home sales, interest rates, and larger economic factors.

About Matthew Gardner

As Chief Economist for Windermere Real Estate, Matthew Gardner is responsible for analyzing and interpreting economic data and its impact on the real estate market on both a local and national level. Matthew has over 30 years of professional experience both in the U.S. and U.K.

