

Supply Shortage Intensifies Market Competition

While the California housing market continued to show strong sales growth since early 2012, the lack of inventory remained an issue throughout the year. In October, the California Association of REALTORS® (C.A.R.) reported a supply of inventory at 3.1 months, which was less than half of the norm of about seven months, and was at the lowest level since Aug 2005. The shortage of supply was across the board, but the decline was especially pronounced for distressed properties, as short sales inventory and bank-owned (REO) inventory declined from last October by 42 percent and 58 percent respectively, while equity sales decreased 15 percent from last year.

With an imbalance between supply and demand, home buyers have been fiercely competing with each other. The market competitiveness is evident in the increase in the number of sales with multiple offers, as reported in C.A.R.'s latest 2012 Annual Housing Market Survey. Nearly six of ten home sales (57 percent) received multiple offers, and the percent of sales with multiple offers was the highest in the last 12 years. On average, each home sale received 4.2 offers, a slight increase from 3.5 offers in 2011.

The intense market competition led to more properties being sold above the asking price. In 2012, the share of homes sold with a price above the list price increased to 33.1 percent, more than doubled the long-run average of 15 percent over the last 20 years. It was also the highest since 2005 when the housing market was extremely competitive. One third (33.6 percent) of the REO properties in 2012 were sold above the asking price, as compared to 30.4 percent for short sales and 19 percent for equity sales.

Properties also stay on the market for a much shorter time than they did in 2011 because of the increased market competition. As shown in the graph on the right in Table 2, a residential property typically stayed on a multiple listing service (MLS) for five weeks in 2012. That's a significant drop from 10.5 weeks in 2011, and was the lowest since 2005. Historically, a property stayed on the market for an average of 6.4 weeks.

With the tight supply conditions not expected to disappear anytime soon, the intense market competition is here to stay. Multiple offers and above-asking-price offers most likely will continue to be the norm of the market in the upcoming year.



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Adam Pergament
 REALTOR®
 SOTHEBY'S Int'l Realty -Sunset
 9255 Sunset Blvd-Mezzanine
 Los Angeles, CA 90069

Office: 310-205-0305
 Cellular: 323-899-1819
 Email: adam@adampergament.com
 Website: www.adampergament.com
 DRE License: 01089193