



Coronavirus Impacts on California's Housing Market

The rapid growth of COVID-19 ("Coronavirus") cases continues to create turbulence in the global economy and in domestic financial markets. However, C.A.R. is not revising its current 2020 housing market forecast, but will continue to monitor the market for negative macroeconomic impacts on the demand for housing as well as the supply chain impacts that could adversely affect the cost of new home construction in the coming months and quarters. C.A.R. has created a list of the Top 10 potential impacts that could elicit questions from buyers and sellers over the near term.

1. **Forecasts Have Been Downgraded, But Few Economists are Calling for Recession Yet:**

Last week, the International Monetary Fund (IMF) cut its forecast for global economic growth by 0.1%, but is still calling for an expansion in 2020, albeit at a slower pace. Similar orders of magnitude have been forecast for the domestic economy, with groups like Wells Fargo and others expecting GDP to grow by 10-20 basis points slower than their pre-Coronavirus forecast. Growth is expected to be slower, but the economy is still expected to grow.

2. **Mortgage Rates Will Likely Remain Low, Or Even Fall Further As A Result of**

Coronavirus: The Federal Reserve issued an emergency 50 basis point cut to their target interest rates, and guidance suggests that the Fed may be open to future reductions in order to counteract the negative impacts to financial markets. This should help to reduce the cost of borrowing and make housing more affordable over the near term, which should help to offset some of the negative impacts to housing demand associated with rising uncertainty.

3. **Domestic Buyers May Be Discouraged By Rising Uncertainty and Recession Risk, But Is It Still a Good Time to Buy?:**

This week, mortgage rates fell to an all-time low level of just 3.13%. That is down from 3.80% at the start of the year and represents significant cost savings over the life of a 30-year loan. For buyers who can afford their monthly payments, the economic uncertainty that is driving rates lower provides an opportunity to capitalize on significantly reduced borrowing costs that they will enjoy for years to come. Short-run risks to the economy exist but are arguably offset by long-run benefits of lower rates at the individual level.

4. **Financial Market Volatility Could Reduce Demand For Luxury Homes, But Also Create Potential Opportunities for Luxury Home Buyers:**

The recent turbulence in financial markets has already impacted household wealth. This could reduce demand for luxury homes in California in particular. However, with less luxury buyers, there could be opportunities for price discounts for buyers who choose to remain in the market for high-end properties. Real estate may also act as a buffer against potentially larger declines in the

financial markets.

5. **Demand From Foreign Home Buyers Could Be Curtailed Over the Near Term:** Reduced economic growth in China, specifically, could stifle demand for California real estate this year. However, foreign buyers represented just 3.9% of California's home sales last year, so the impacts statewide will be muted compared to 6 years ago, when foreign buyers represented 8.0% of the market. In addition, because domestic buyers typically finance their homes in much larger proportions to their foreign counterparts, low rates could stimulate more domestic demand that would help to offset the impact to foreign buyer demand.
6. **Foreign Home Sellers May Face Closing Delays:** Because the Embassy and many consulates are closed or may have limited hours in China, and elsewhere, there may be difficulty in providing a properly notarized deed to the property that escrow will accept and title will insure. Advise sellers to make efforts to obtain the deed early in the transaction. If sellers are currently in the U.S., make efforts to comply before returning to their foreign home country. If contract has not been accepted, foreign sellers might want to consider a contingency allowing a seller to cancel if they are unable to obtain notarized deed.
7. **New Home Construction in California Could Slow Further, Exacerbating Already-Tight Supply:** Many of the inputs to California's Building Industry are sourced from Asian countries including China. As the Coronavirus disrupts these supply chains, the cost of those materials may increase over the short run or become limited, which will increase the cost of construction and potentially reduce the pace of new residential development below its already-lackluster pace in 2020.
8. **Low Rates and Fewer New Homes Constructed Should Place Upward Pressure on Home Prices:** Improved affordability stemming from lower rates combined with fewer new homes being constructed as the construction supply chain is impacted could lead to more upward pressure on home prices in California. Unsold inventory is already at low levels, and reduced construction activity means that is likely to continue—especially if buyers respond to lower rates.
9. **Offsetting Effects Leave C.A.R.'s Housing Market Outlook Unchanged, For Now:** The situation remains fluid, and conditions could deteriorate beyond what is currently envisioned depending on the severity and duration of the outbreak, but if current economic forecasts of modest declines in GDP growth are realized, the effects of lower rates should help to offset the effects of a slower economy and increased economic uncertainty such that California would still achieve a modest improvement in both home sales and prices this year.
10. **Eventual Rebound Will Take Longer Than It Did With SARS in 2000:** At the turn of the century, the negative impact of the SARS virus began to fade within 6 months of the outbreak coming under control. However, unlike with the Coronavirus, SARS did not have significant impacts on either consumer spending or domestic financial markets. The size of

the impacted population and the death toll is also much larger with Coronavirus, which suggests that the eventual recovery will play out over a longer period of time.

It's clear that the Coronavirus will have an impact on the economy and the housing market in 2020, but it is also clear that it is not time to panic. The effect of lower rates will help to offset some of the headwinds in the housing market, and forecasts of economic growth by C.A.R. and others have been revised down, but only by 10s of basis points—not hundreds. The situation remains fluid and the California Association of REALTORS® will be monitoring this situation closely and providing updates as information comes to the fore.