CALIFORNIA ASSOCIATION OF REALTORS®

Update on Coronavirus Market Impacts

May 13, 2020

The full severity of the COVID-19 outbreak on the economy and housing market has yet to be fully tallied. And even as the economy begins to reopen and several key indicators suggest hopeful signs that the bottom is within sight, the forward-looking indicators suggest that the road to recovery will be bumpy and punctuated by fits and starts. As activity in segments of the economy are phased in over time, many industries will face ongoing restrictions beyond the shelter-in-place (SIP), and the toll on the labor market will continue to ripple through consumer spending and economic growth.

1. **Economy begins to reopen in California:** Governor Newsom has ordered the gradual reopening of the California economy beginning May 5. Select retailers with curbside pickup options will be allowed to reopen, but in-store shopping is still not permitted. In addition, some industries—with proper distance between workers, protective gear, and sanitizing equipment—will also be able to open, including logistics, manufacturing, and construction. However, many businesses will remain closed, including offices and gyms, and other restrictions remain in effect in the major cities. The Bay Area has decided to hold off on reopening completely for at least another week or two.

2. **Members seeing effects fade very slightly in weekly survey:** Although the percentage of REALTORS® experiencing buyers withdrawing offers and sellers removing their homes from the market remains elevated, the numbers have been declining modestly for the past three weeks. Between May 8 and May 11, 39% of REALTORS® reported having a buyer withdraw an offer on a home that they had been ready to purchase—down from a peak of 48% four weeks prior. Similarly, the percentage of REALTORS® that have had a seller remove a listing from the MLS was down to 52% over the weekend from a peak of 57% four weeks earlier.

3. **Market data shows ongoing improvement but remains depressed:** After dropping by between 40-60% after the SIP orders were issued in California, both new listings and the number of listings entering the escrow process have stabilized in recent weeks. In fact, pending sales have increased for five consecutive weeks through May 8, and new listings experienced their fourth consecutive increase last year. This is a positive sign that the housing market is nearing bottom, but levels remain depressed relative to pre-crisis levels—particularly in the listings category—so an eventual uptick is still expected to be gradual even

as we begin to move in the right direction.

4. **Other housing indicators show signs of life, but not time to celebrate:** In addition to growth in pending sales and new listings, the housing market is also showing signs of life in other areas. The number of showings, which had dropped by nearly 75% immediately after the SIP, has increased in recent weeks with the current gap between 2020 and 2019 below 10%. Showings are still down relative to last year but by a far smaller margin than right after the SIP was announced.

5. **Long-term benefit of housing still intact and may have improved due to COVID-19:** Although the housing market is expected to show fewer home sales in 2020 and slightly lower prices, COVID-19 has done little to undermine the long-term benefits of homeownership. It is still the primary way households build wealth. The myriad benefits to health, education, social engagement, and intergenerational social mobility—which are well documented in the academic literature—remain important features of homeownership. In addition, with rates near historic lows and individuals spending far more time in their homes, the long-term value of housing may in fact increase when the economy eventually stabilizes.

6. **20 million jobs lost as unemployment shoots to Great Depression levels:** The Bureau of Labor Statistics released the April employment report last week, which showed that the economy shed a record 20.5 million jobs last month as the unemployment rate shot up to nearly 15%. That is the biggest one-month decline in jobs ever and unemployment is now at levels not seen since the Great Depression. Nearly 78% of unemployed reported that their job loss is expected to be temporary, but the magnitude of the problem will continue to weigh on the economy over the short run.

7. **Most job losses in sectors with persistent impacts expected:** In addition to the magnitude of the decline, 53% of the 20.5 million jobs lost are in sectors that are expected to continue to face ongoing restrictions even as the economy opens back up. More than 11 million lost jobs were in retail, bars/restaurants, arts/entertainment/recreation, hotels/conference centers, and personal care industries like barbershops and nail salons. Thus, even as some sectors can begin adding jobs back, most of the jobs have been lost in industries that will face much more prolonged recovery periods.

8. **Economy expected to shrink by 30%+ for Q2, which is painful:** Although the economy in general and the housing market specifically are beginning to show signs of reaching bottom, the magnitude of that decline will mean several more months of difficulties. Even with government assistance, many businesses will not be able to survive the extended period of lost economic activity. As such, the rebound in employment is also expected to be slow, which will result in gradual recovery for the economy.

9. **Double digit decline for California home sales, even as economy begins to reopen:** Home sales are expected to remain depressed in April and May even as the economy begins

to reopen. Pending sales do appear to have reached bottom and have even increased in recent weeks. However, pending sales remain depressed relative to pre-outbreak levels. In addition, it will take between 30 and 45 days before this nascent uptick in pending sales can turn into closed sales. As such, the current expectation is for at least two additional months of double-digit declines for transactions with the annual total expected to be down by more than 10% for 2020.

10. **Worst-case (second wave) scenarios would see much different recovery trajectory:** The current forecast of a 10-15% decline in closed transactions in California is predicated on a gradual reopening of the economy beginning now and continuing through the end of the year without a major second wave of additional months of SIP being ordered. If California experiences a second wave, the estimates for home sales and home prices will likely be revised down sharply. C.A.R. will continue to monitor the number of new cases in order to keep economic and market projections in line with the number of infections and consequent economic impacts.

We are beginning to see light at the end of the tunnel as the housing market, which dropped off precipitously in the wake of the SIP orders of mid-March, begins to see both new listings and the number of homes entering the escrow process start to stabilize. However, it is also far too early to begin celebrating, as that same data also suggests the road to recovery will play out over the course of months rather than weeks. The full extent of coronavirus' impact on the economy is becoming clearer every day, but those impacts are severe and will take time to dissipate.