

SPARK REAL ESTATE

SAN DIEGO STATE OF THE MARKET



Buying and Selling Guide to Real Estate in San Diego

As a top-producing local real estate team, we're committed to giving you excellent, personalized service. This guide offers a timely analysis of the single-family home and condo markets for San Diego, CA, that will answer your questions and help you develop a winning buying or selling strategy.

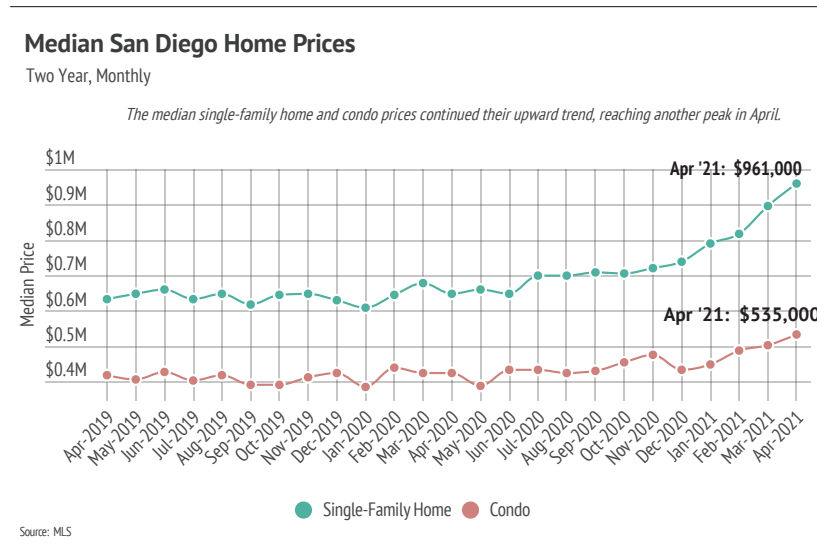
As we write this guide, we're still navigating through the COVID-19 pandemic. It impacts the real estate market in several key ways, which we'll discuss in the first section below. Interest rates remain historically low, but they have begun to rise as uncertainty around the pandemic has waned. Lower interest rates encourage potential buyers to take advantage of low-interest financing, make real estate investments safer compared to other assets like stocks, offer a higher return than government bonds, and offset many of the pandemic's negative economic effects.

While the fundamentals of developing a winning buying and selling strategy remain the same, you should also take into account the current housing market indicators in the local market. With that aim in mind, this guide will cover the following topics:

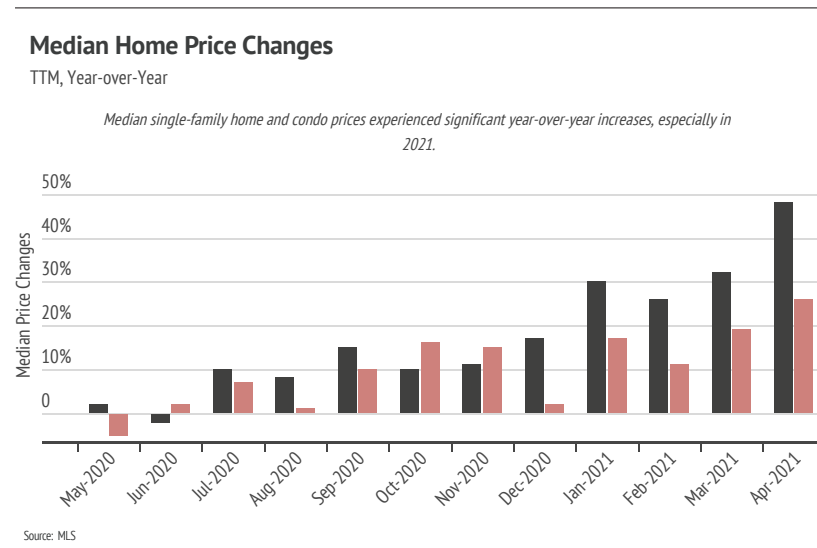
- Housing Market Behavior During the Pandemic
- San Diego Housing Trends for Single-Family Homes and Condos
- Key Housing Market Indicators for San Diego's 92069 Zip Code
- The Importance of Listing a Home at the Right Price

Housing Market Behavior During the Pandemic

Overall, the single-family home market has experienced high demand over the last 10 months, causing prices to climb higher—especially in the last four months. After prices briefly declined early in the pandemic (April–June 2020), they quickly began moving higher starting in the summer of 2020. In April 2021, the San Diego median single-family home price rose to an all-time high for the sixth month in a row. Condo prices, which had remained relatively stable over the last two years, began to trend upward starting in 2021 and are now at peak prices as well.



Year-over-year, the median single-family home and condo prices have been positive over the last 10 months. As we enter into spring, the high demand in the area will likely drive prices even higher.

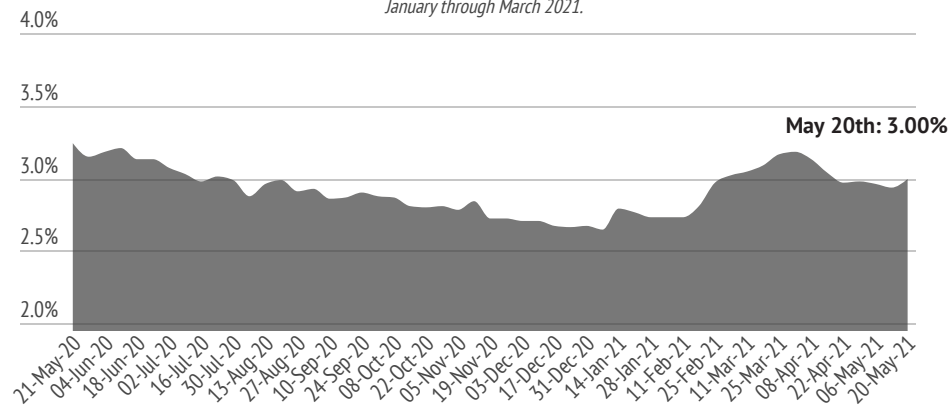


Supply/demand and mortgage rates have significantly driven prices over the last year. The Mortgage Bankers Association, for instance, reports a 31% year-over-year increase in new home applications nationwide. Locally, San Diego is experiencing a 6% decline in homes sold year-over-year. The caveat to San Diego's year-over-year decrease in sales is that there are so few homes to buy. Total inventory is still hovering at record lows, and homes are staying on the market less than two weeks on average. At the same time, mortgage rates are at record lows—at 3%—making houses potentially more affordable even though their prices are higher.

30-Year Fixed Interest Rate

TTM, Weekly

The upward trend for the average 30-year mortgage interest rate reversed in April, halving the increase from January through March 2021.



Source: Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States

Because of the low-rate environment, homeowners are using this time to refinance. If you bought a home in the last five years, your borrowing rate was likely around 4%; therefore, refinancing would drop your rate by around 1%. In general, homeowners benefit from refinancing if they can lower their rates by at least 1%. For example, dropping a homeowner's rate by 1% would save them over \$500 per month on a \$1,000,000 30-year mortgage. Since mortgage rates dropped so quickly, the number of homeowners who could benefit from refinancing has skyrocketed.

Refinancing also saves homeowners money by providing an opportunity for them to drop private mortgage insurance (PMI), which is the required insurance homeowners pay if they put less than 20% down. Homeowners currently paying for PMI might be able to eliminate the extra monthly payment as long as the value of their home has risen, and they have enough equity in the home. As rates continue to move higher, however, the benefits of refinancing dwindle, so now is better than later if you are thinking about or planning to refinance.

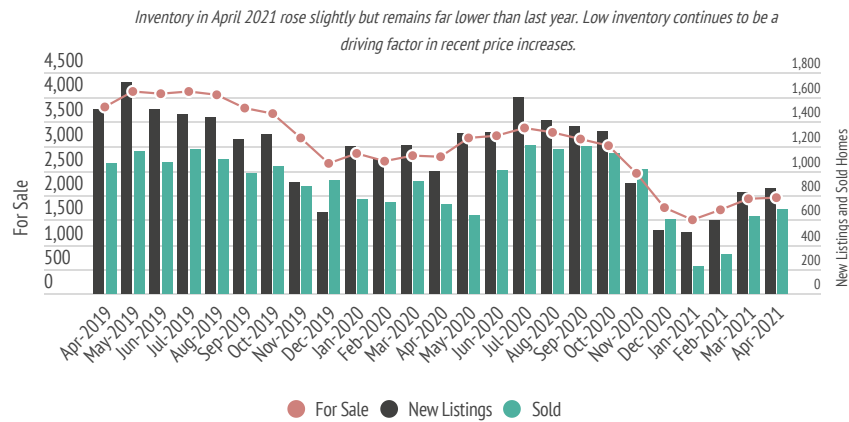
We expect demand to remain high through 2021. Nationally, homes are undersupplied, and we could see a much-needed increase in inventory as sellers try to take advantage of high demand. Whether you're planning to buy, sell, or stay in your home, we can guide you through the options that best fit your needs.

San Diego Housing Trends for Single-Family Homes and Condos

In 2020, single-family home inventory trended lower than a normal (non-pandemic) year. New listings were slightly lower than usual, while sales were higher. Entering into 2021, total inventory dropped to historically low levels. Before the massive drop in inventory, San Diego struggled to meet demand. Even though new listings are starting to increase lately, demand remains far higher, which will likely cause prices to continue to appreciate throughout 2021.

San Diego Inventory - Single-Family Homes

Two Year, Monthly

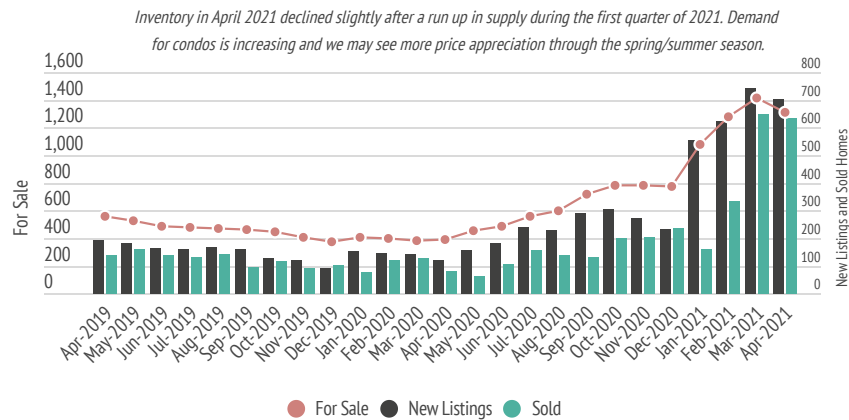


Source: MLS

Condo inventory increased dramatically starting in January 2021. Typically, a large jump in inventory would drive prices down, but the demand is so high in San Diego that prices have increased over the last four months.

San Diego Inventory - Condo

Two-Year, Monthly



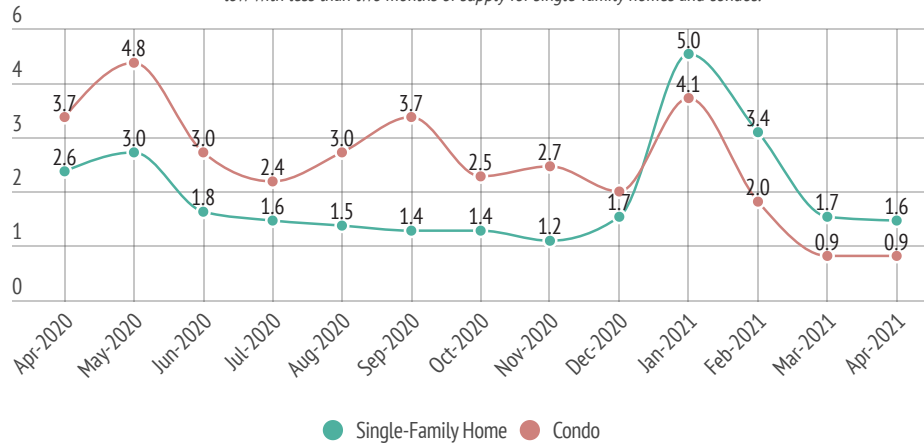
Source: MLS

Months of Supply Inventory (MSI)—the measure of how many months it would take for all current homes for sale on the market to sell at the current rate of sales—has fallen steeply since January 2021. In California, average MSI is around three months of supply, which implies a balanced market that doesn't favor buyers or sellers. On average, the single-family home and condo markets in San Diego tend to favor sellers. Currently, single-family homes have 1.6 months of supply, and condos have 0.9 months of supply, both of which strongly favor sellers.

Months of Supply Inventory

TTM, Monthly

Months of Supply Inventory has dropped significantly over the last three months in San Diego; currently, it is particularly low with less than two months of supply for single-family homes and condos.



Source: MLS

Key Housing Market Indicators for San Diego's 92069 Zip Code

In this section, we analyze the 92069 housing markets in April 2021 across several key indicators in order to provide the necessary information for you to refine your winning buying and/or selling strategy. As market conditions change, we can look at the data in real time to make the best decisions.

Home Prices, Sales, and Inventory

April 2021, 92069 Zip Code

	Median Sold Price	Average Sq Ft Price	Sales	Inventory
Single-Family Home	\$812,500 +36% <small>Median Price for SFH Sold, Y-o-Y percentage change</small>	\$376 +21% <small>Avg Sq Ft Price for SFH Sold, Y-o-Y percentage change</small>	36 -10% <small>Number of Sales of SFH, Y-o-Y percentage change</small>	83 -12% <small>Inventory of SFH, Y-o-Y percentage change</small>
Condo	\$490,000 <small>Median Price for Condo and Townhouse Sold, Y-o-Y percentage change</small>	\$398 <small>Avg Sq Ft Price for Condo and Townhouse Sold, Y-o-Y percentage change</small>	4 <small>Number of Sales of Condo and Townhouse, Y-o-Y percentage change</small>	13 -23% <small>Inventory of Condo and Townhouse, Y-o-Y percentage change</small>

Source: MLS

In April, the median single-family home price rose 36% year-over-year. Sales declined year-over-year as buyers had fewer homes from which to choose. Fewer condos sell in the 92069 zip code, and no condos were sold in April 2020, so year-over-year data is unavailable for several metrics. However, we can see that the average price per square foot is higher for condos than for single-family homes, and inventory is far lower than last year.

Buyer's vs. Seller's Market

April 2021, 92069 Zip Code

Single-Family Home	<p>Months of Supply Inventory</p> <p>1.0</p> <p>Average months of supply inventory, includes homes under contract</p>	<p>Days on Market</p> <p>8</p> <p>The number of days spent on the market before coming under contract</p>	<p>Sale-to-List Price</p> <p>107%</p> <p>Sold price compared to the original listing price</p>
Condo	<p>Months of Supply Inventory</p> <p>1.2</p> <p>Average months of supply inventory, includes homes under contract</p>	<p>Days on Market</p> <p>8</p> <p>The number of days spent on the market before coming under contract</p>	<p>Sale-to-List Price</p> <p>103%</p> <p>Sold price compared to the original listing price</p>

Source: MLS

In April, the housing market for the 92069 zip code favored sellers.

MSI is low at one month of supply for single-family homes and 1.2 months of supply for condos, firmly favoring sellers and showing how the demand for homes in the area far outpaces supply. Because the environment favors sellers, we could see more inventory come to market. We anticipate that more potential sellers may try to capitalize on the current market conditions as we enter the spring selling season.

The current Days on Market (DOM) implies that sellers should expect offers to be accepted in about eight days for both single-family homes and condos. If it takes longer to receive offers, sellers should consider reducing their prices. Buyers should proceed with caution and consult with an experienced agent before making an offer on a home that has been on the market for longer than the average DOM, because the price may be too high, or something may be wrong with the property.

Sale-to-list-price ratio—a measure of the difference between the original list price of the home and the final sale price—reflects the negotiation power of homebuyers and home sellers under current market conditions. In April, the average single-family home sold for 107% of its original list price, and condos sold for 103% of list price, which means that buyers and sellers should expect to negotiate offers above list price.

While the indicators above favor sellers, buyers can take advantage of the current low-rate environment that makes homes much more affordable.

The Importance of Listing a Home at the Right Price

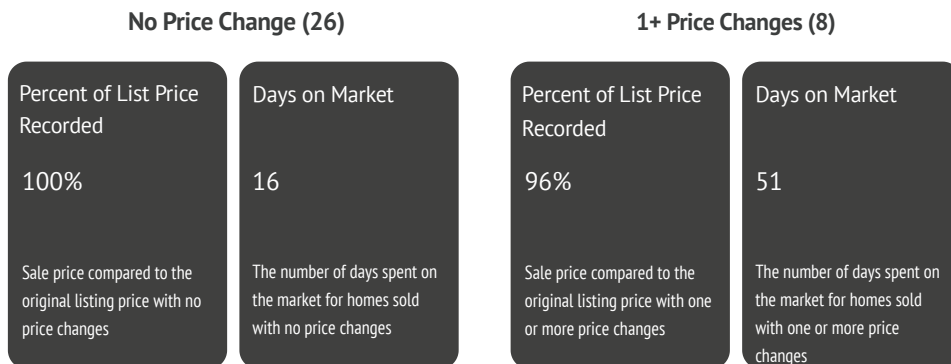
We can split homes sold into two categories: homes sold without price reductions and homes sold with one or more price reductions. Price reductions may indicate problems that need to be fixed, poor marketing, and/or bad showings. More often, however, price reductions occur because the home was overpriced and misaligned with market data from the time it was first listed.

Overpricing a home can create a negative feedback loop: initial offers fail to materialize because the home is overpriced, the Days on Market surpasses the average, and new potential buyers assume there's something wrong with the property. More price reductions and low offers may follow as the home sits on the market, which causes the final selling price to come in below what the property could have garnered had it been priced correctly in the first place.

For an example of such a scenario, we can look at the two-year average data for single-family homes in the 92069 zip code.

Impact of Price Changes

Two-Year Average, 92069 Zip Code, Single-Family Homes



Source: MLS

On average, 26 homes sell without price changes in a given month, recording an average of 100% of their original list prices and spending only 16 days on the market. In contrast, the eight homes that typically sell with one or more price reductions record just 96% of their original list prices and spend over three times as long (51 days) on the market. These numbers underscore the importance of a well-informed pricing strategy.

Conclusion

As we start the spring season, we anticipate more sellers and buyers coming to the market. Inventory for single-family homes will likely remain low this year, potentially lifting prices even higher. Overall, the housing market has shown its resilience through the pandemic and remains one of the most valuable asset classes. The data show that housing has remained consistently strong through this period.

As always, we remain committed to helping our clients achieve their current and future real estate goals. Our team of experienced professionals are happy to discuss the information we've shared in this newsletter. We welcome you to contact us with any questions about the current market or to request an evaluation of your home.