4th Quarter Year End 2013 Report : Second Straight Billion Dollar Year

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To understand the Peninsula real estate market today we need to look back to where the market was before the crash. The record year was 2005 when gross dollar volume reached an amazing $1,793,979,000. We now know that inflated figure was aided substantially by shoddy and in some cases criminal lending practices.

Still, for seven straight years, from 2002 to 2008, sales topped one billion dollars. Then for three consecutive years the volume dropped below that number.

Looking back a bit farther we find the first billion dollar market was in 2000 when gross dollar volume reached $1,185,455,000. The initial big jump was from 1998 to 1999 when dollar volume almost doubled from $459,330,783 to $837,643,188. Reflecting on those numbers we recall the bull market in real estate, which began in the fourth quarter of 1995, had little impact on prices the first few years.

We remember asking ourselves, how come? Activity was strong but prices were stuck. Then the inevitable happened with a vigor no one foresaw. Prices began to increase exponentially launching us into a fantasy land of unending double digit gains.

We hit the billion dollar level in 2000 only to be rudely set back by the dot.com bust in 2001 when the dollar volume fell back to $764,551,000. It turned out to be a short-lived down turn and everything was rosy again in 2002 and the billion dollar results continued for seven consecutive years.

That is where we have come from. The past two years have seen the return to the billion dollar market. The 2013 total, $1,282,164,184, beat 2012 by over $144 million or 13%. It was still way below the 2005 peak, but the upward trend feels good to home owners. More importantly, our current positive market is not fueled by fraudulent lending practices and should be sustainable. Some folks who were under water probably have moved into a situation of positive equity in their properties.

The 4th Quarter

We reported at the end of third quarter the market was in a pause and seemed to be quieter than earlier in the year. As it turned out the number of sales did drop from the 4th quarter of last year by 48 transactions, 346 in 2012 as opposed to 298 in 2013.

Homes sold, however, for higher prices than in 2012. With 48 fewer sales, dollar volume increased 31% from $230 million to more than $300 million. We feared the market might be entering a new period of weakness, but the robust dollar volume proved that fear to be groundless.

Median sales prices were up in all ten markets, a rare result as usually there is a market or two that are exceptions to the trend. The gross dollar volume numbers were up in all of the markets except for Pebble Beach which was narrowly down.

The distribution of sales chart deserves attention. The most active price range across the markets was $400,000 to $699,000 logging 99 of the 298 transactions. Peninsula wide 92, or 31% of sales, topped one million dollars. In the high end markets of Carmel, Carmel Highlands, Carmel Valley and Pebble Beach million dollar plus price points were the norm reaching 67%, 73%, 55% and 68% respective

Inventory is tightest at the low end which you can see clearly by studying our Market Barometer. On January 1, Carmel, Carmel Highlands and Carmel Valley all had readings under 20%, our minimal standard for reasonably good market. Pebble Beach edged over the Mendoza Line reaching 22%. Mark those as slow markets.

But check out the numbers of the low and medium priced markets: Marina 75%, Del Rey Oaks 67%, Monterey and Seaside 64%, Pacific Grove 55%. Those are not good markets, they are red hot. Going forward, will they have enough inventory to continue an upward swing?

The current problem in the sizzling Silicon Valley market is inventory. Multiple offers and over bids abound. We have not seen this kind of frenzy here so far.

Cultural Shift

Now we enter into the realm of pure speculation. In Paul's real estate career, stretching back to 1986, a common occurrence has been our local market following the Bay Area markets by about six months, both on the turns up and down.

We are not sure we can expect that to happen any more. In the hot San Francisco Peninsula market much of the demand is coming from abroad and from foreign-born high tech people whose major interests are 1) getting a real estate foothold in a desirable major metropolitan area and 2) establishing residence in a center of multiple higher education opportunities for their children. Our hunch is these folks are not looking for second and retirement homes. This hunch may be total nonsense, but we think it deserves attention.

The dollar volume dropped a slim three percent, basically a breakeven with last year. This contrasts with the robust second quarter numbers. Dollar volume jumped over ten million dollars in that quarter compared to a year earlier.

Prices made strong gains over last year, eight of the nine markets up and only Seaside with a small decrease.

The tight inventory contributed to a 25% decrease in the number of sales, dropping from 75 last year to 56 this year.

Seller prospects of getting good prices for their units have improved. The market is not back to the peak during the boom, but it has stabilized and it appears the distressed properties are mostly a thing of the past.

The charts are based in whole or in part on data supplied by the Monterey County Association of Realtors' Multiple Listing Service (MLS). Neither the Association nor the MLS guarantees or is responsible for their accuracy. Data maintained by the Association or its MLS may not reflect all real estate activity in the market.

Carmel Realty Company | NE Corner of Dolores and 8th) | Carmel, CA 93921 | P.O. Drawer C
