

Sacramento Area Market Update

A report and analysis of the current real estate market in the Sacramento region.

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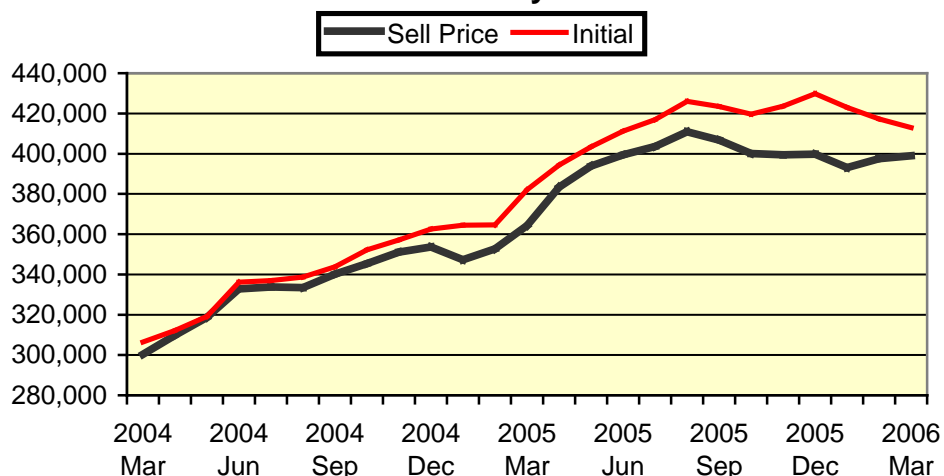
by **James Swanson**

I am asked every day about the real estate market and whether prices are going down or even crashing. We hear a lot of noise from national media and local sources about "The Bubble". In this updated report we see that the market has gone through a strong price adjustment to the up side and is now leveling off into what economists call an "equilibrium" where prices will stabilize over a long period increasing as demand continues to climb through population growth and demographics. Through a few graphs we can see some classic economics at work and can therefore expect a rational response in the months to come.

Two-Year Ask-Sell Price Trend:

This first graph shows the initial offering price and final sales price of homes over the past couple of years. What is interesting in this picture is the effect of higher offering prices early in this period compared to recent months. We see that the offering price 'dragged' up the selling price and the market as demand outstripped supply. Now that supply is more robust, those offering prices were actually pulled down by what the buyers were willing to pay. Asking prices peaked in December, but the buyers were having none of it. With the increase of inventory, sellers have to make more concessions and agents have to work harder to make a sale at or near the expected price.

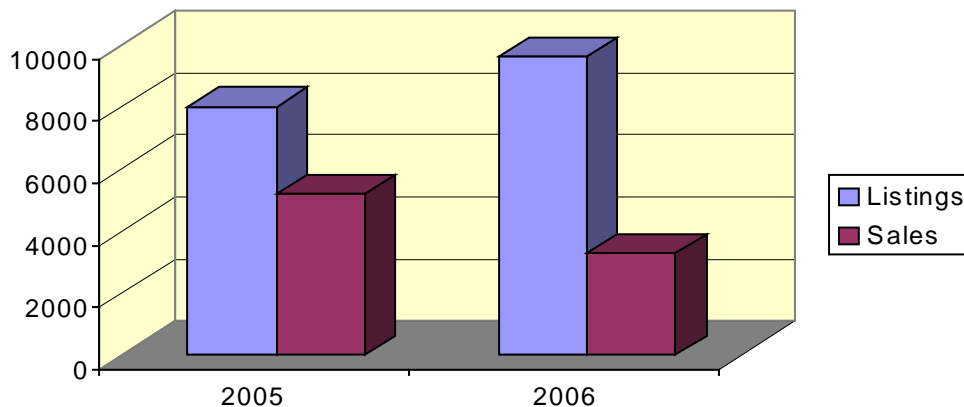
Average Residential Home Sale Price in Sacramento County



Year-Over-Year Comparisons:

We now have data for the entire first quarter of 2006 showing that what we saw in the first two months continues even stronger with the Q1 data. New listings continued to grow to 20% above last year's data while sales moved down by 4% to a decline of 37% from Q1 2005. What is significant is the ratio of about 3:1 of new listings and sales which marks the end of the three-year long "Sellers' Market". Generally, a ratio of 3:1 to 3.5:1 is an indication of a balanced market.

Year Over year for First Quarter

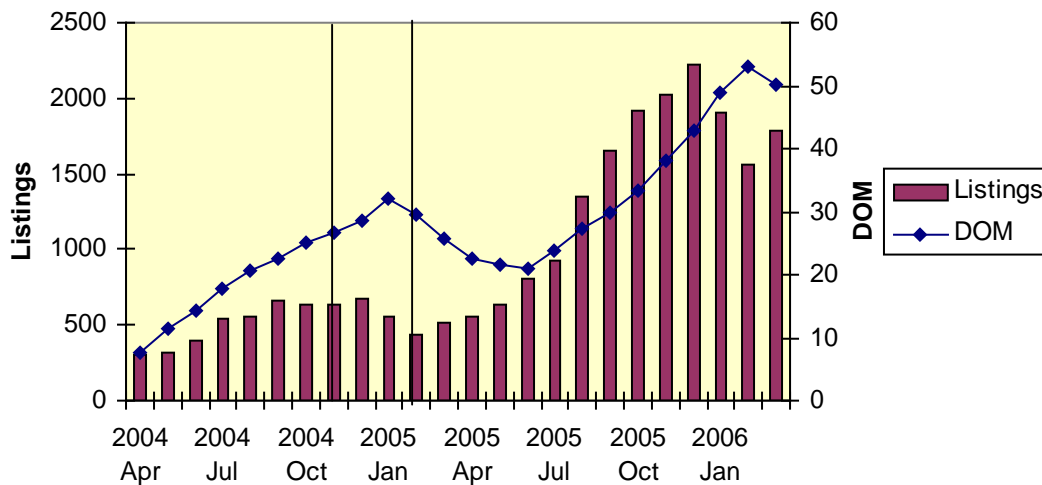


With so many homes to choose from, buyers are taking their time getting to any particular listing causing a change in Days On Market or **DOM**. The DOM has risen from an average of about 33 days for the first quarter of 2005 to nearly 51 days for Q1 of 2006 -- or a 65% increase in time to sell. The long-term average in the Sacramento area over the years has been as much as 60 days, so we are still not in unusual territory for days on market.

Why the Agent Really Does Matter:

Possibly because of these statistics (increased time to sell and fewer overall sales), sellers are getting discouraged. As a real estate agent, I see this as my job to make sure the seller understands what to expect out of today's market and help determine the true likelihood of success and at what price. The level of discouragement can be seen in this next chart. This chart shows the number of listings that did not sell from March 2004 through March 2006.

Listings That Failed to Sell



Notice the typical slowdown during the winter season (from about Halloween to the Super Bowl – vertical lines) in increased days on market in 2004-2005 that rebounded into the spring and summer. Remember that last summer we did begin to see that the market had not come back as resiliently as we had seen in the past. The DOM seemed to have reversed course between May and June where it began its climb which continued right through the Super Bowl on through the next month. March showed the first sign that the market might be gearing up for the summer selling season. Perhaps, if it stops raining, we may see a lot more activity.

In Conclusion:

Yes, we have gone through quite an adjustment in the housing market, but not a bubble burst. There are many factors that effect the housing market such as interest rates, consumer sentiment, and population growth. These statistics show that the market for housing in Sacramento remains healthy. A lot of the exuberance of the past few years is now a memory, but for most of us, buying a house is going to be a lot less stressful. We are getting very close to the typical mix of buyers and sellers with many other statistics coming into historical norms. Prices through the summer look like they will hold steady or rise slightly.



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