



Marin County Real Estate
May 2022 Report

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Amid Dramatic Home-Price Gains to New Peaks, Preliminary Signs of Markets Shifting Cooler

In April 2022, the Bay Area continued to see appreciation, overbidding and days-on-market reflecting *extremely* intense demand. But sales are a lagging indicator reflecting *offers accepted* 3-6 weeks earlier. April sales mostly reflect buyers who locked in mortgage rates *before* the big late-March/April jumps, buyers highly motivated to buy before their interest rate locks expired, adding short-term pressure to demand.

Declining interest rates stimulate demand: In recent years, large rate declines subsidized much of the surge in home prices. Escalating interest rates initially fueled demand in early 2022 as buyers rushed to avoid further rises, but at a certain point, big increases, especially if coupled with peak prices, batter affordability. And all buyers – even all-cash buyers – can be affected financially and psychologically by stock market declines and economic uncertainty. If continuing, these factors can be expected to dampen purchase activity.

As of May 5, mortgage rates were up 69% in 2022, and the scale and speed of the increase make it difficult to predict precise effects; inflation is at a 40-year high; the S&P 500 is down 14% and the Nasdaq, 22%.^{*} The housing market is beginning to show *preliminary*, but not universal reactions. Accounts of less crowded open houses and fewer offers on new listings are becoming more common. Some buyers are dropping out or becoming more selective; some sellers are moving listing dates forward. In many markets, declines in listings going into contract occurred in April. But some agents report no change, so far, in client plans or motivation. Due to the time involved in the home search/closing process, and the extremely heated conditions of early 2022, substantial changes in closed-sales statistics, if coming, won't appear until later in Q2 or Q3.

Even the hottest markets eventually cool. This does not necessarily imply a large “bubble and crash” (terms much overused). Over the past 4 decades, a cooling shift has typically meant a gradual decline in sales activity, then either a leveling off in appreciation or price declines of 5% to 10%: More like a slow leak in an over-pressurized tire than a blowout at high speed. The 2008 subprime crisis – a true bubble & crash – was *an extreme event* brought about by a massive failure of ethics, underwriting standards and risk management in the loan, banking, investment and ratings industries.

^{*}Markets have been volatile: Interest rates and stock markets are subject to sudden, dramatic changes.

When hot markets shift cooler, effects are typically first reflected in reductions in multiple offers, overbidding and the number of homes going into contract; gradual increases in active listings and time-on-market; and gradual declines in year-over-year appreciation rates. Historically, after a down cycle runs its course, the market moves into the next upcycle and home prices climb (often relatively quickly) above previous peaks. Over the longer term, past appreciation trends – magnified by tax breaks & financing options – have *typically* made Bay Area real estate an excellent, and often spectacular investment.

Looking back to spring 2018, 6 years into the market recovery from the foreclosure crisis, after an enormous boom in high-tech hiring, immigration and wealth, and dramatic home-price appreciation, Bay Area markets generally hit an intense peak in demand. In the *second half* of 2018, interest rates climbed 31% over the 2017 low, the S&P 500 dropped almost 20%, and supply and demand indicators cooled. By spring 2019, Bay Area median house sales prices were typically down 2% - 7%: Not a huge drop, but after the high appreciation rates of previous years, a distinct shift in the psychology of the market. In Q3 2019, the Fed began lowering interest rates again. Then the pandemic struck in spring 2020, with profound social/economic effects, interest rates plunged, stock markets soared, and house prices rapidly climbed far above 2018 peaks. (Condo markets saw somewhat different pandemic-era dynamics.)

Many economic, political and demographic factors affect housing markets. What occurs with inflation, interest rates and stock markets will certainly be important. How the media *covers the market* will influence buyer and seller psychology. And major events often arise from off the radar (e.g. the pandemic, the war in Ukraine). The speed and scale of market changes often vary by region, price segment and property type. Less expensive homes may be more affected initially by rising interest rates, while affluent markets tend to be more influenced by sustained changes in financial markets. But over time, broad market trends tend to end up running roughly parallel across the Bay Area.

As always, analysts, economists and industry commentators are making diverging forecasts. Sales data in coming months should soon provide more concrete indications of market direction.

Not intended to convince anyone to take a specific course of action, or to predict the future, but only to provide, to the best of our ability, a straightforward analysis of market conditions and trends.

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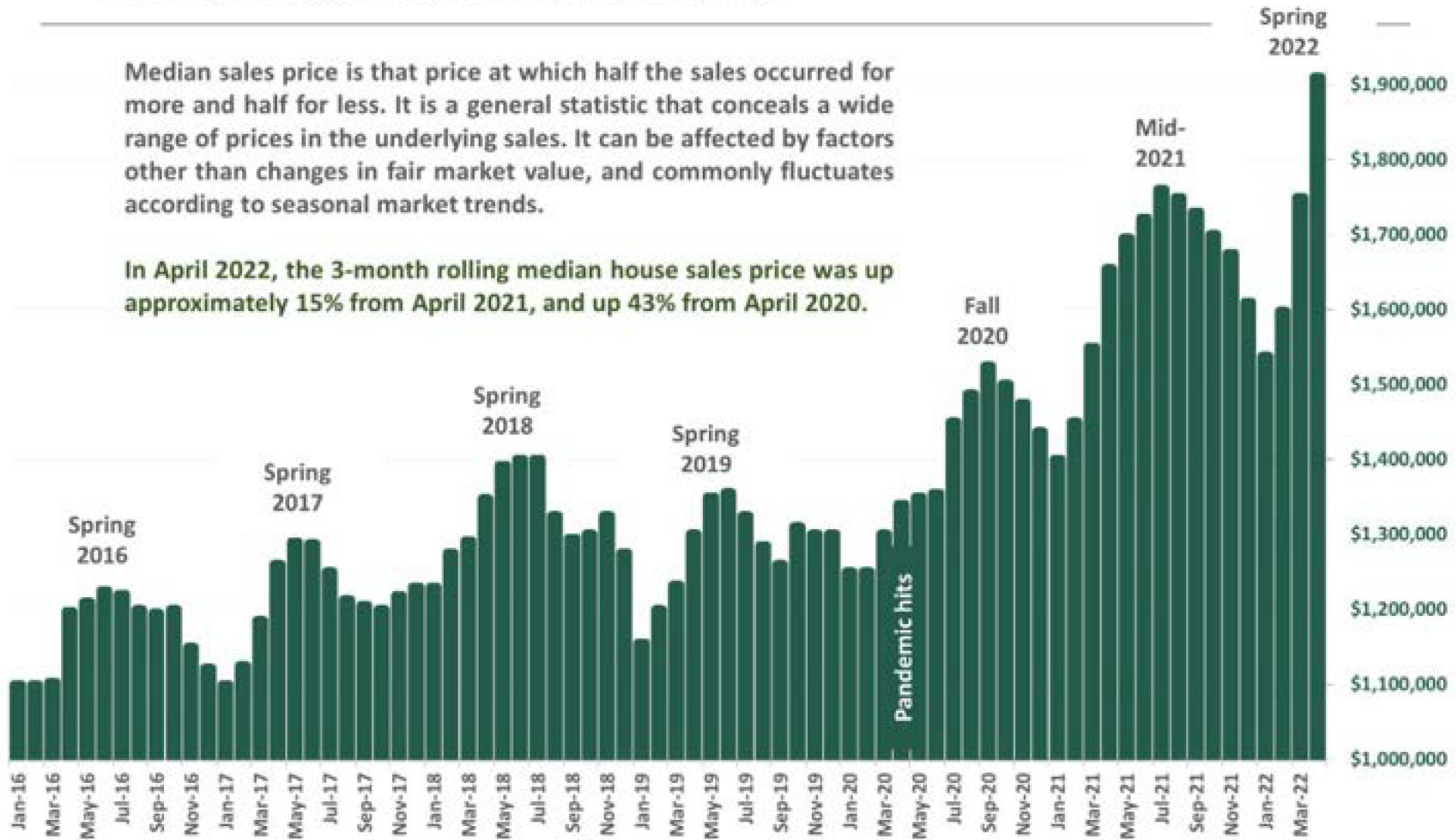
Marin County Median House Sales Price

3-Month-Rolling Median House Price since 2016

House sales reported to NorCal Regional MLS, per Infosparks

Median sales price is that price at which half the sales occurred for more and half for less. It is a general statistic that conceals a wide range of prices in the underlying sales. It can be affected by factors other than changes in fair market value, and commonly fluctuates according to seasonal market trends.

In April 2022, the 3-month rolling median house sales price was up approximately 15% from April 2021, and up 43% from April 2020.

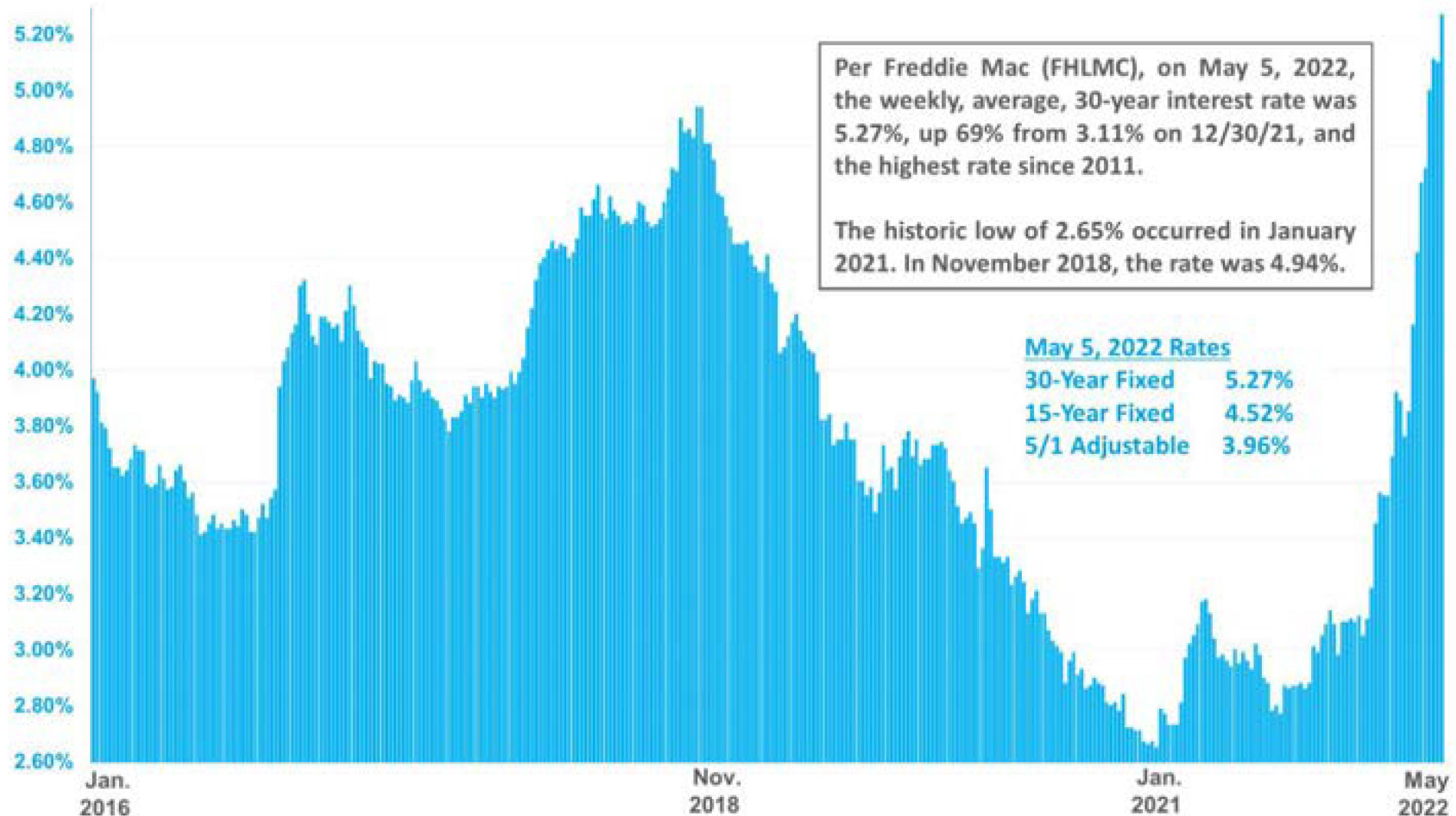


Median Prices can be affected by other factors besides changes in fair market value, such as seasonal trends and changes in the luxury segment. Sales prices in one month generally reflect deals negotiated in the prior month or two. This analysis was performed in good faith with data derived from sources deemed reliable, but may contain errors and is subject to revision. Late reported sales may alter the last entry. All numbers approximate.

Mortgage Interest Rate Trends, 2016 – Present

30-Year Conforming Fixed-Rate Loans, Weekly Average Readings

Rates published by the FHLMC



Interest rates may fluctuate suddenly and dramatically, and it is very difficult to predict rate changes. Data from sources deemed reliable but not guaranteed. Anyone interested in residential home loans should consult with a qualified mortgage professional and their accountant.

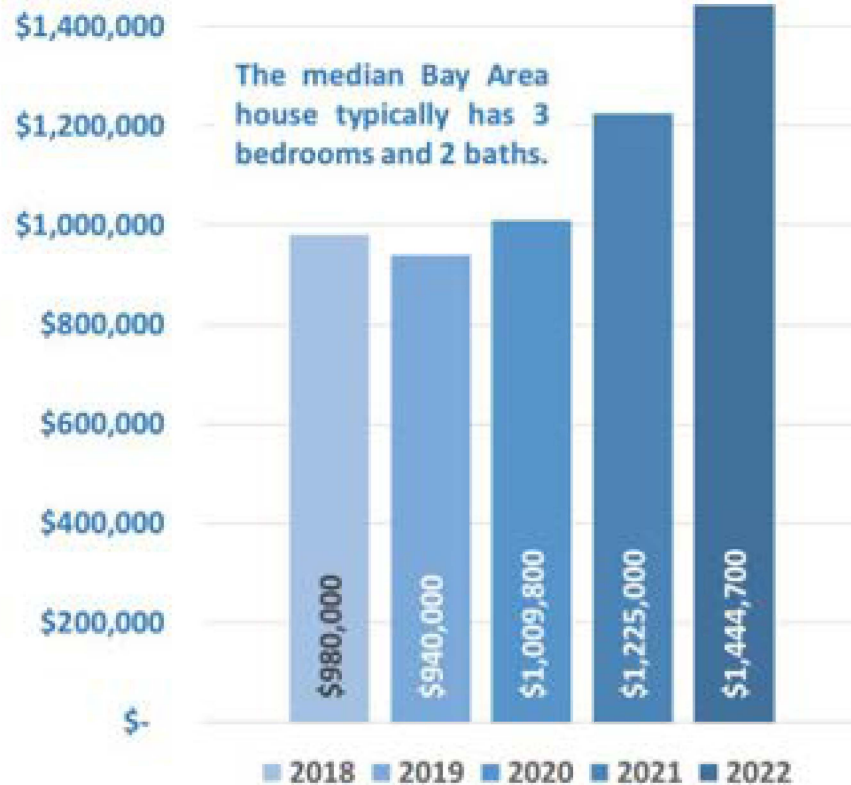
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Bay Area Housing Costs – A Sample Illustration

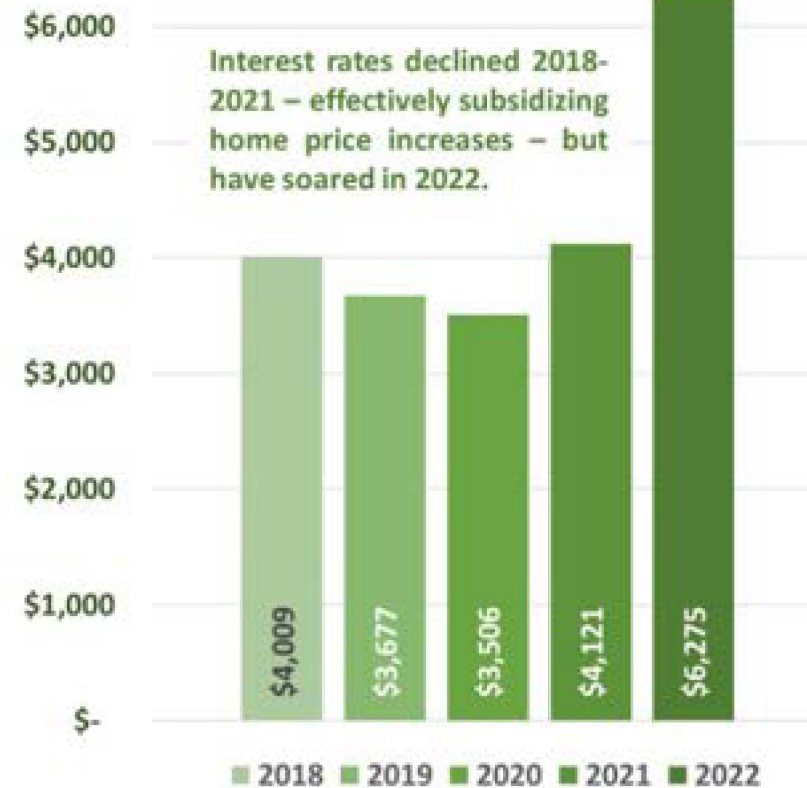
2018-2022, Median House Sales Price & Monthly Principal/Interest Payment

Median Bay Area house sales price in March of each year. Monthly principal and interest payments, based on 80% loan at the prevailing, 30-year fixed, conforming loan rate. *This is a sample illustration only: Bay Area Q1 2022 median house sales prices ranged from \$475,000 to \$10 million, and appreciation rates varied by community, price segment and property type.**

Bay Area: March Median House Sales Price*



Monthly Principal & Interest Payment*

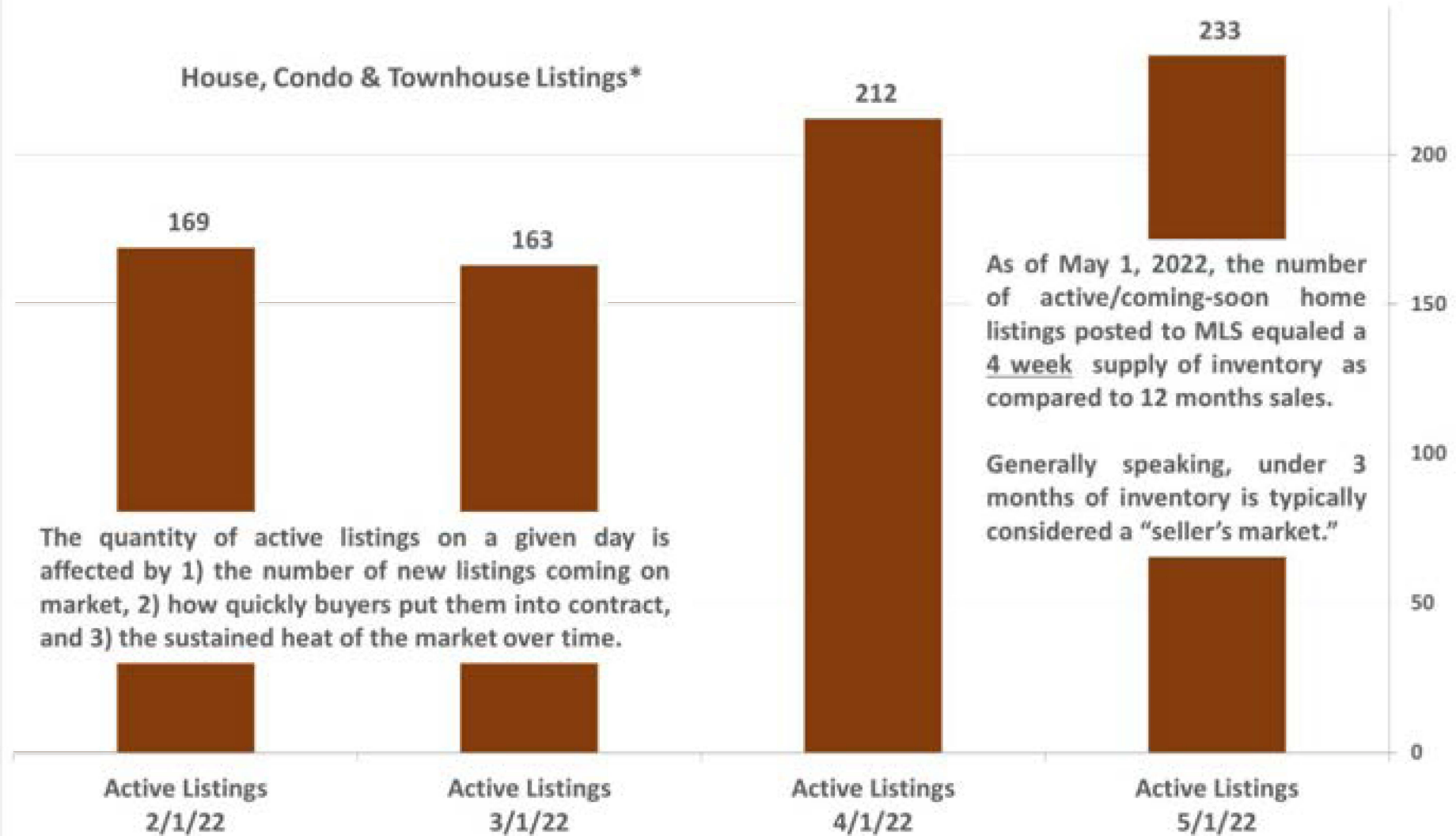


*Median sales prices for "existing single family dwellings" in March of each year for 9-county Bay Area, per CA Association of Realtors. Approx. 30-year fixed interest rates per FHLMC, at end of April of each year. Approx. monthly principal and interest payments per Bankrate.com. 20% downpayments would increase proportionally to sales prices. Data from sources deemed reliable, but may contain errors and subject to revision. All numbers are approximate.

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Marin County Homes Market

Active & Coming-Soon Listings on 1st of Month*



* Active/Coming-Soon listings posted to NorCal MLS Alliance vs. 12 months sales of MLS home listings through 2/28/22. Data from sources deemed reliable, but may contain errors and subject to revision. Not all listings are posted to MLS. All numbers approximate. The number of active listings constantly changes.

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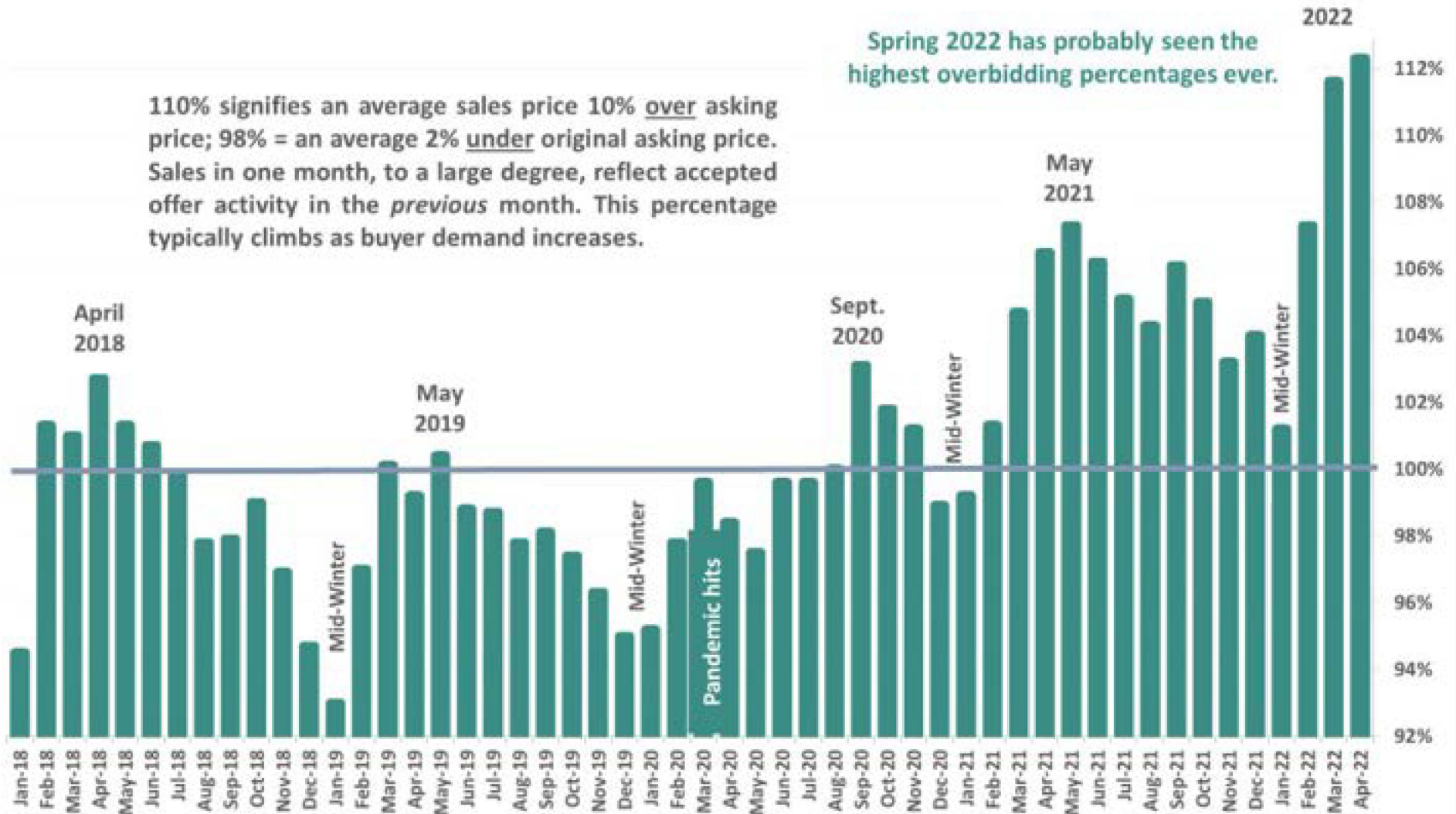
Average Sales Price to Original List Price Percentage

Marin County Market Dynamics & Seasonality

MLS sales of houses, townhouses and condos up to \$3m, per Broker Metrics

110% signifies an average sales price 10% over asking price; 98% = an average 2% under original asking price. Sales in one month, to a large degree, reflect accepted offer activity in the *previous* month. This percentage typically climbs as buyer demand increases.

Spring 2022 has probably seen the highest overbidding percentages ever.



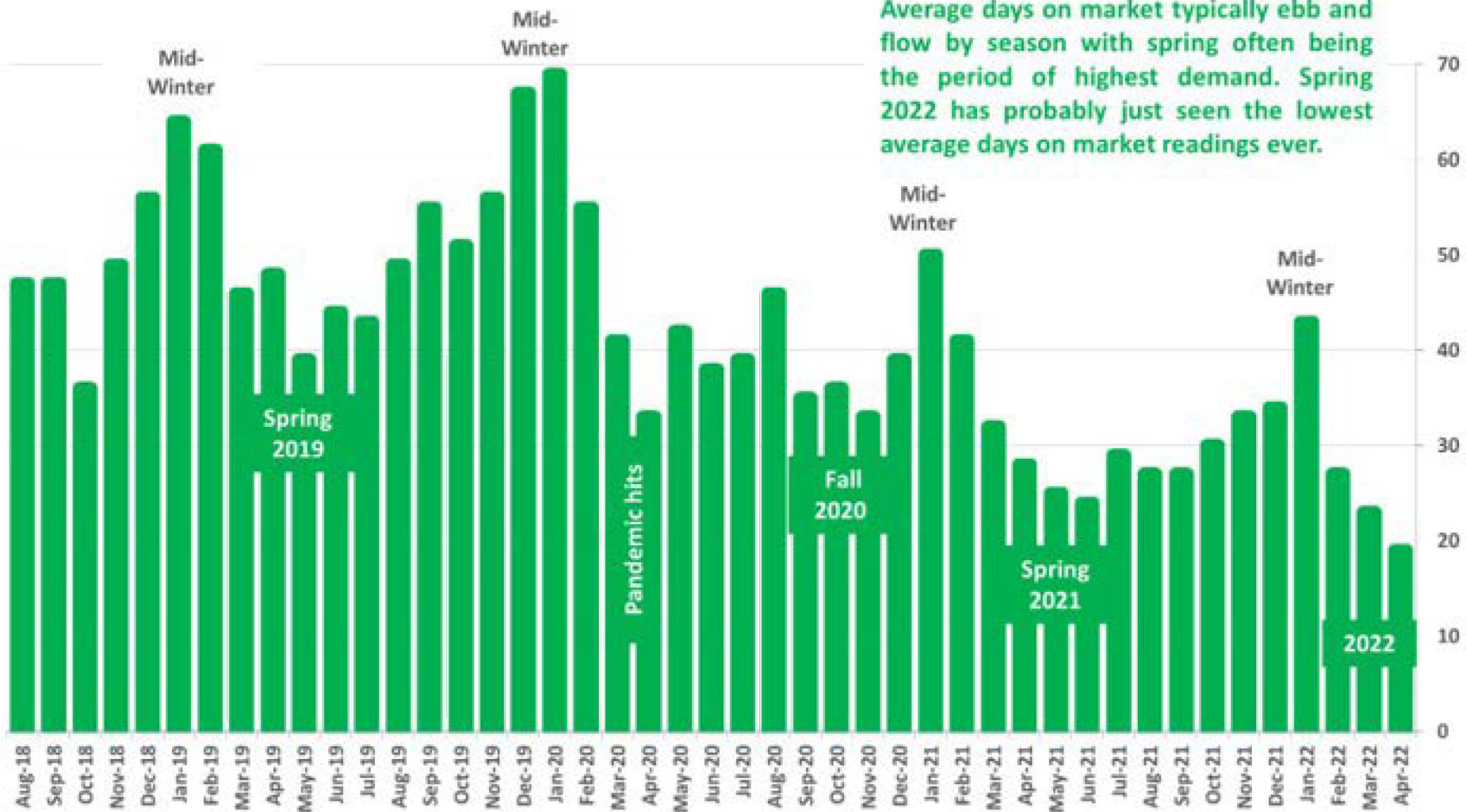
As reported to Bareis MLS. These analyses were performed in good faith with data derived from sources deemed reliable, but they may contain errors and are subject to revision. All numbers are approximate.



Average Days on Market

Marin County Market Dynamics & Seasonality

MLS sales of houses, townhouses and condos up to \$3m, per Broker Metrics

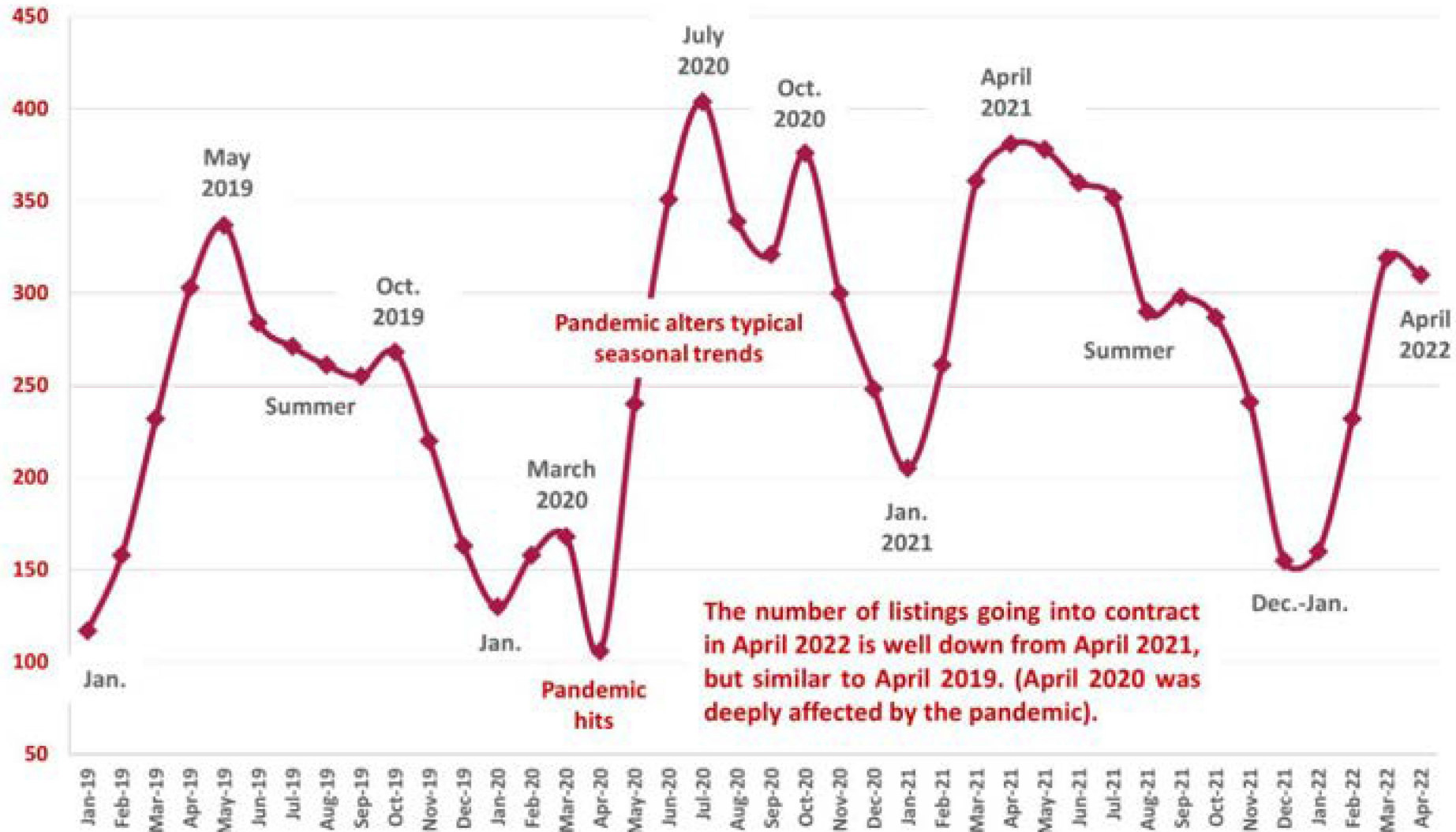


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Listings Accepting Offers (Going into Contract)

Marin County Market Dynamics by Month

House, condo, townhouse listings reported to NorCal MLS Alliance, per Infosparks



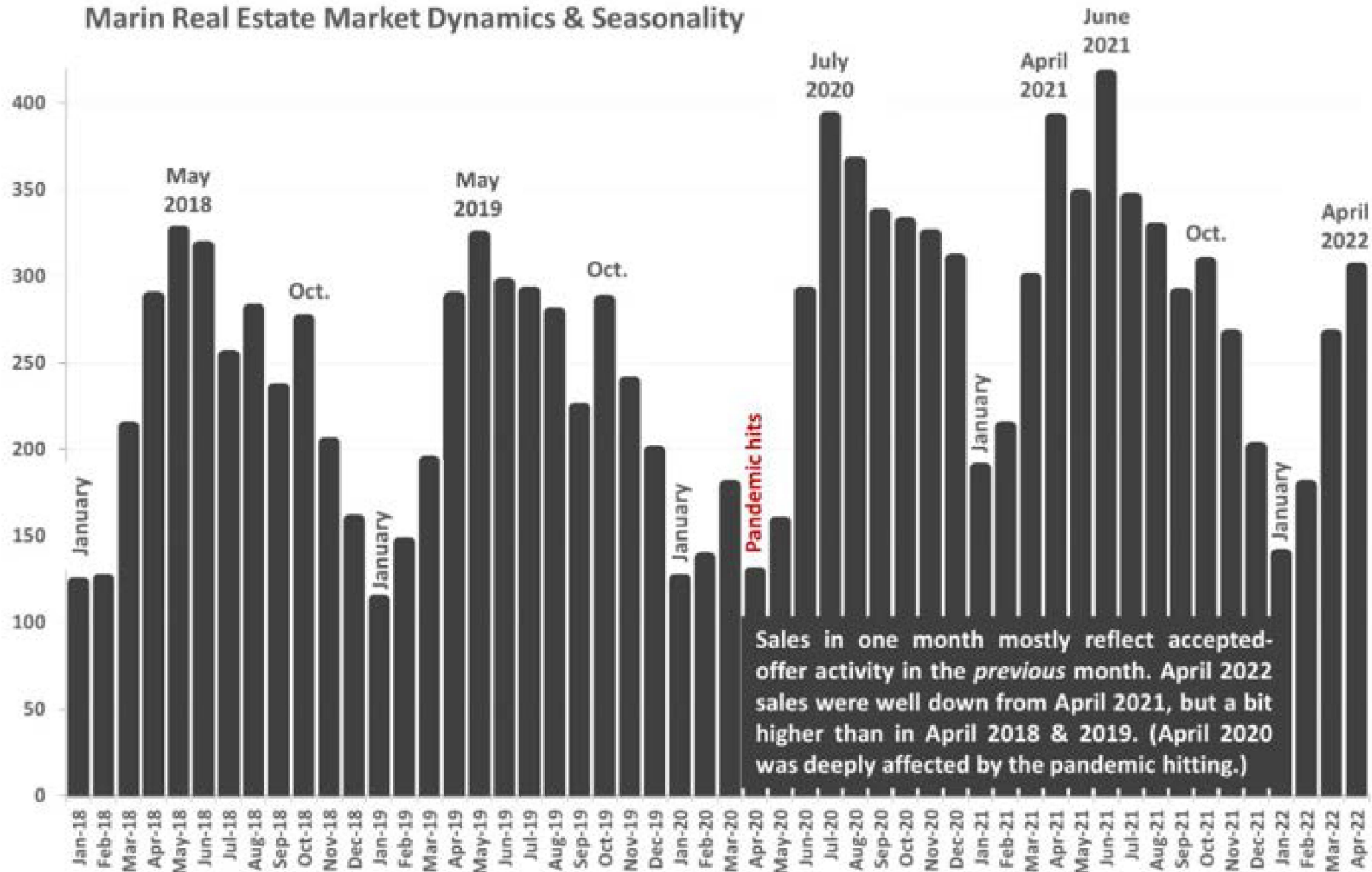
The number of listings going into contract in April 2022 is well down from April 2021, but similar to April 2019. (April 2020 was deeply affected by the pandemic).

Data from sources deemed reliable but may contain errors and subject to revision. All numbers approximate. Last month numbers estimated based on available data, and may change with late reported activity.



Marin Home Sales Volume

Marin Real Estate Market Dynamics & Seasonality



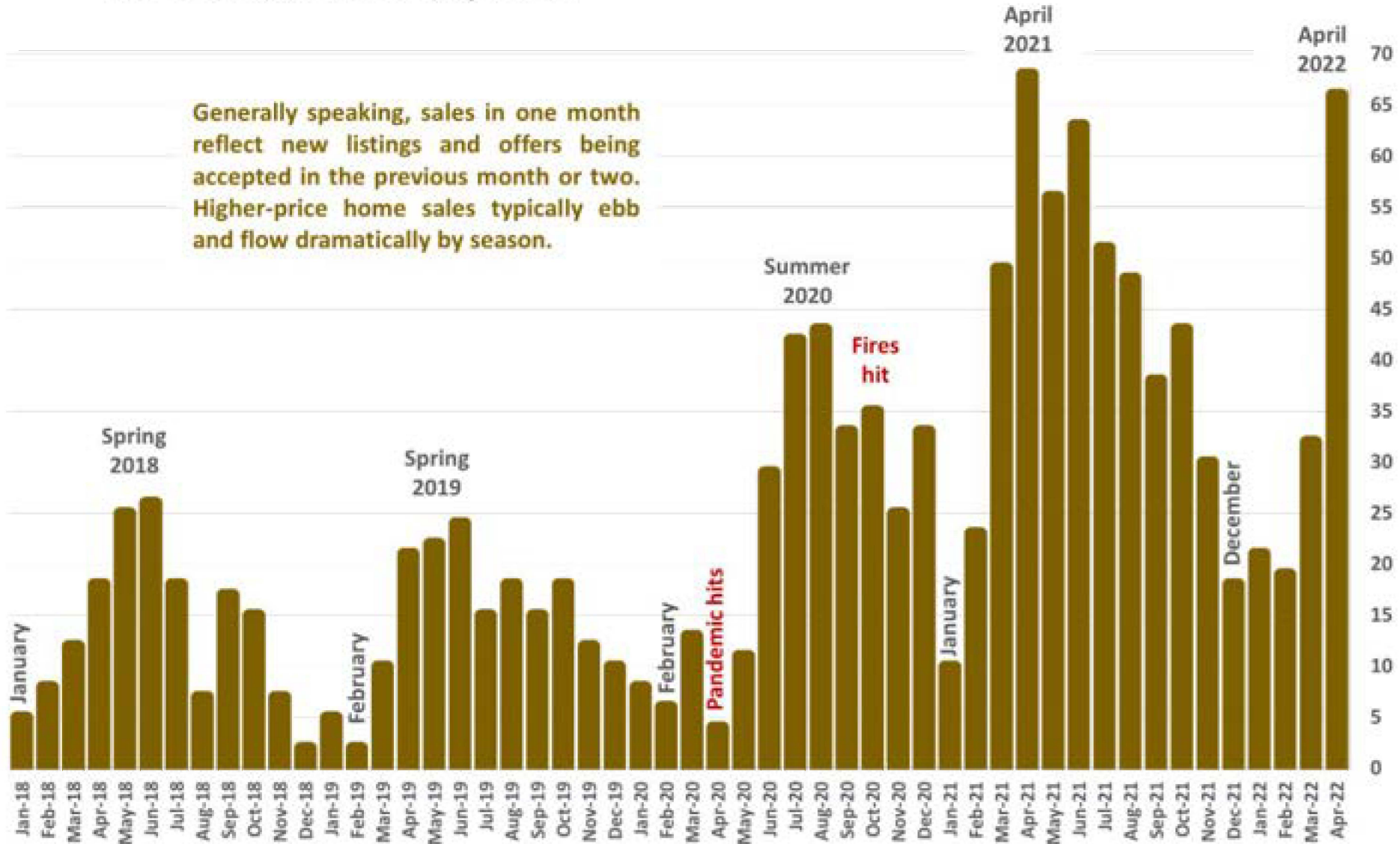
House, condo, townhouse sales reported to NorCal MLS Alliance, per Infosparks. Last month estimated and may change with late reported sales. Data from sources deemed reliable, but may contain errors and subject to revision. All numbers approximate.



Marin County Higher-Price Home Market

Home Sales, \$3 Million+, by Month

Generally speaking, sales in one month reflect new listings and offers being accepted in the previous month or two. Higher-price home sales typically ebb and flow dramatically by season.

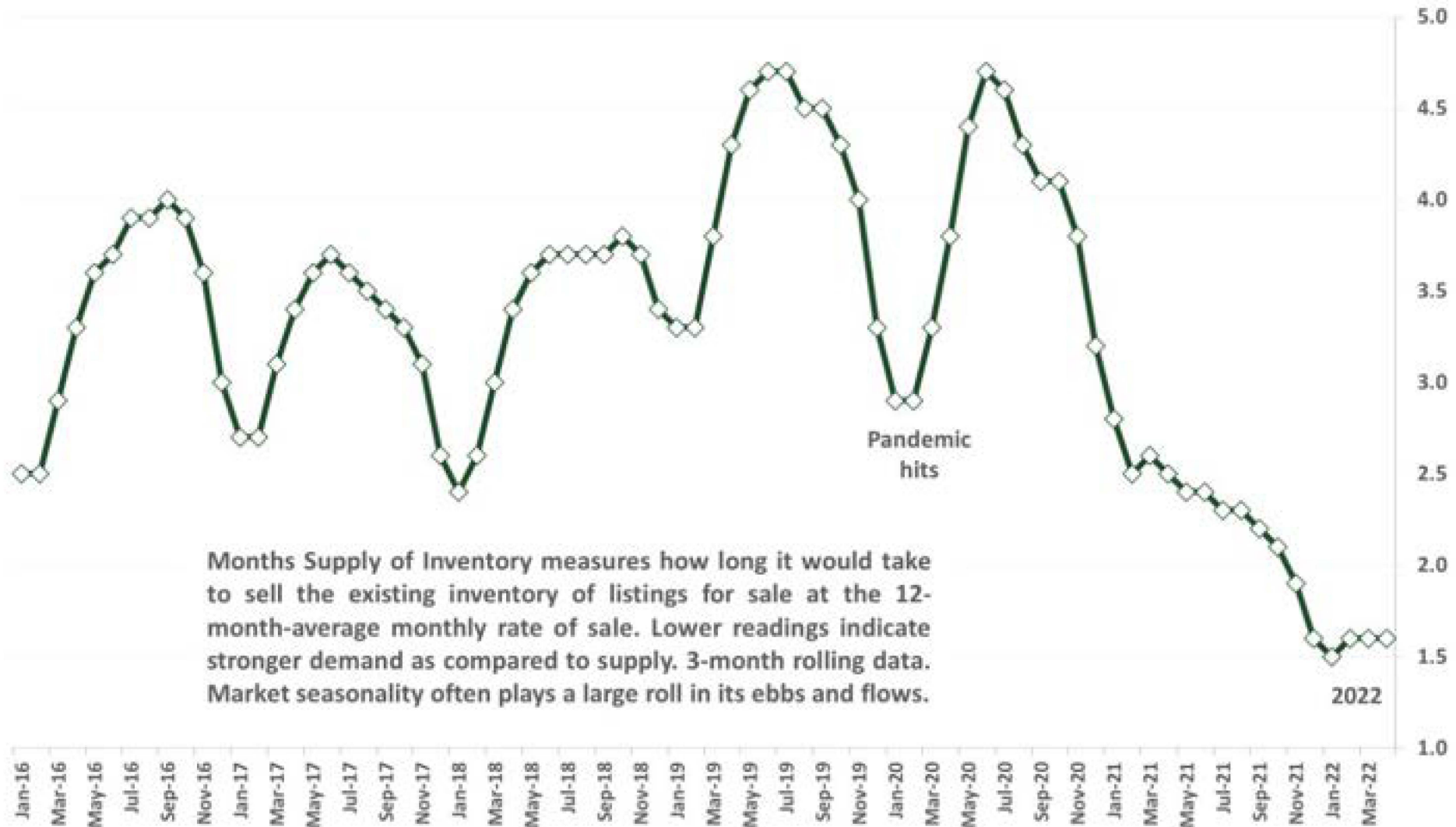


Sales reported to NorCal MLS Alliance, per Infosparks. Data from sources deemed reliable but may contain errors and subject to revision. All numbers approximate, and may change with late-reported sales.

Marin County Supply vs. Demand

Months Supply of Inventory, 2016 – Present

MLS activity of houses, condos and townhouses.



Months Supply of Inventory measures how long it would take to sell the existing inventory of listings for sale at the 12-month-average monthly rate of sale. Lower readings indicate stronger demand as compared to supply. 3-month rolling data. Market seasonality often plays a large roll in its ebbs and flows.

3-month rolling NorCal Regional MLS data per Infosparks. Last reading may change with late reported activity. Data from sources deemed reliable, but may contain errors and subject to revision. All numbers approximate.



National Housing Market Reports

Being the center of high-tech industry and other unique local factors have certainly had deep effects on Bay Area real estate markets, but over the past 20 years, the differences between local and national trends have generally been more of *degree* than direction: General economic conditions and market ups and downs run on *similar* tracks – which makes it useful to look at national data indicators as well.

“National housing market indicators available as of April showed activity in housing markets slowed overall... Sales of existing homes declined to the slowest pace since June 2020... The inventory of homes for sale rose [month over month, and year-over-year].” U.S. Department of Housing and Urban Development, Housing Market Indicators Monthly Update for April 2022, published May 5, 2022

“[In March 2022] All regions [of the country] reported decreases in year-over-year contract activity. Sales were down across each region year-over-year.” National Association of Realtors, April 27, 2022

“On the seller side, the number of new listings grew this week and there’s some evidence that the number of potential buyers is shrinking as high costs derail some buying plans. As new listings grow and home sales slow... we expect active inventory to surpass year ago levels in the next few months. [As] home sales lose momentum, price growth is likely to follow suit.” Realtor.com National Report, May 2, 2022

“The combination of swift home price growth and the fastest mortgage rate increase in over forty years is finally affecting purchase demand. Homebuyers... are coping in a variety of ways, including switching to adjustable-rate mortgages... We expect the decline in demand to soften home price growth... later this year.” Freddie Mac (FHLMC), April 28, 2022

“With mortgage rates increasing... [loan] applications continued to decline... to the lowest level since 2018.” Mortgage Bankers Association, April 27, 2022

Consumer Price Index 12-Month Percentage Change, since 1980

Over the past 20 years, the Fed has intervened repeatedly and sometimes very dramatically to lower interest rates and stimulate the economy. Soaring inflation means their likely actions in coming months – continuing to raise interest rates – are likely to have significant *cooling* effects on the economy.



Historically, one of the standard remedies for soaring inflation is to raise interest rates, and the Federal Reserve Bank began doing so in March 2022, with promises of more increases to come. "... Fed leaders, who all currently see the need to raise interest rates aggressively this year." 4/12/22, Reuters

Chart from Federal Reserve Bank, published early April 2022, All Urban Consumers, Seasonally adjusted: <https://fred.stlouisfed.org/series/CPIAUCSL#0>. Data from sources deemed reliable, but may contain errors and subject to revision. U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPIAUCSL>, April 13, 2022.

Statistics are generalities, essentially summaries of widely disparate data generated by dozens, hundreds or thousands of unique, individual sales occurring within different time periods. They are best seen not as precise measurements, but as broad, comparative indicators, with reasonable margins of error. Anomalous fluctuations in statistics are not uncommon, especially in smaller, expensive market segments. Last period data should be considered estimates that may change with late-reported data. Different analytics programs sometimes define statistics – such as “active listings,” “days on market,” and “months supply of inventory” – differently: what is most meaningful are not specific calculations but the *trends* they illustrate. Most listing and sales data derives from the local or regional multi-listing service (MLS) of the area specified in the analysis, but not all listings or sales are reported to MLS and these won’t be reflected in the data. “Homes” signifies real-property, single-household housing units: houses, condos, co-ops, townhouses, duets and TICs (but not mobile homes), as applicable to each market. City/town names refer specifically to the named cities and towns, unless otherwise delineated. Multi-county metro areas will be specified as such. Data from sources deemed reliable, but may contain errors and subject to revision. All numbers to be considered approximate.

Many aspects of value cannot be adequately reflected in median and average statistics: curb appeal, age, condition, amenities, views, lot size, quality of outdoor space, “bonus” rooms, additional parking, quality of location *within* the neighborhood, and so on. How any of these statistics apply to any particular home is unknown without a specific comparative market analysis.

Median Sales Price is that price at which half the properties sold for more and half for less. It may be affected by seasonality, “unusual” events, or changes in inventory and buying trends, as well as by changes in fair market value. The median sales price for an area will often conceal an enormous variety of sales prices in the underlying individual sales.

Dollar per Square Foot is based upon the home’s interior living space and does not include garages, unfinished attics and basements, rooms built without permit, patios, decks or yards (though all those can add value to a home). These figures are usually derived from appraisals or tax records, but are sometimes unreliable (especially for older homes) or unreported altogether. The calculation can only be made on those home sales that reported square footage.

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