

## Market Trends

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### **California Housing Market Shifts to Off Peak**

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The California housing market began its transition from peak to off-peak season, as the median price fell in September compared to a month earlier. The median price of an existing detached single family home in September was \$543,980, down 4.4 percent from the current record of \$568,730 that was set in August. This marked the twelfth year in a row that the median registered an August-to-September decrease, signaling that the market has moved into the off-peak period of the year that occurs roughly from September through February. However, the posted a 17.3 percent increase compared to the September 2004 median of \$463,630. The California median price has seen consecutive year-to-year increases of at least 10 percent every month since December 2001.

Market activity throughout the year has been robust, and September was no exception. With sales of 650,780 units on a seasonally adjusted and annualized basis, September 2005 had the fifth highest monthly sales figure on record. Sales rose 2.9 percent over the August 2005 sales figure of 632,240 and advanced 3.9 percent compared to September 2004 sales of 626,210 homes. Year-to-date sales were 3.7 percent higher than the same period a year ago, suggesting that 2005 will likely surpass the annual record of 624,740 sales that was established in 2004.

Real estate agents around the state have offered anecdotal observations of rapidly increasing inventories during the past couple of months. These observations have triggered concerns that a slowdown in sales lies ahead. C.A.R. recently examined trends in the unsold inventory index and in listings to determine whether these observations were borne out by market data.

The unsold inventory index stood at 3.3 months as of September. This represented a slight increase over the August figure of 2.9 months and slightly higher than the September 2004 index of 3.0 months. Inventories have averaged roughly 3 months for most of 2005, well below the long term average of 6.4 months for the state. Low inventory levels generally contribute to price appreciation: Since 1982, when the statewide unsold inventory index averaged 7 months or less, the statewide median increased by a moderately large average of 12.9 percent.

While the unsold inventory index has shown little upward movement since the start of the year, statewide listings have generally risen throughout the year. In fact, listings have risen over the past 2 years, since reaching record low levels in 2003. Listings on a year-to-date basis in 2005 are more than 50 percent higher than in 2003, but remain 20 percent below the long-run average dating back to 1982.

Is the increase in listings a sign of a market in transition? It may be, but it is too early to offer a conclusive statement. Regardless, economic and market fundamentals are expected to remain favorable in the coming year. Thus, even if 2005 turns out to be the market peak, 2006 will likely shape up as a strong year as well.

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