

PALOMARES HILLS STATE OF THE MARKET



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BUYING AND SELLING GUIDE TO REAL ESTATE IN PALOMARES HILLS

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 market for the Palomares Hills neighborhood in Castro Valley, 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
- Castro Valley Housing Trends for Single-Family Homes
- Key Housing Market Indicators for Palomares Hills (94552 Zip Code)
- The Importance of Listing a Home at the Right Price

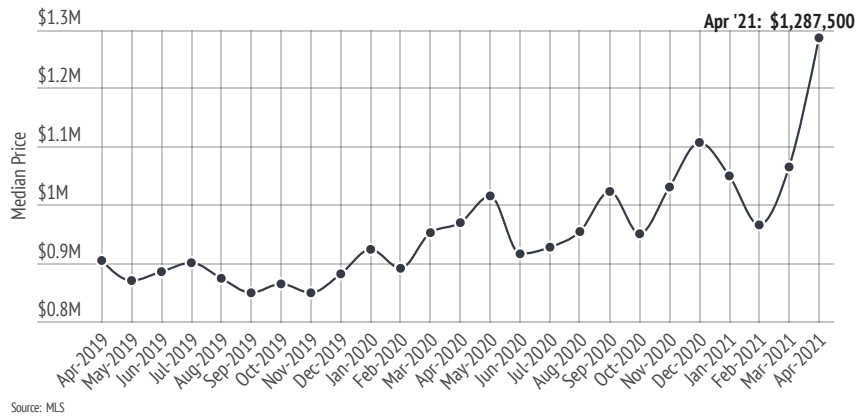
HOUSING MARKET BEHAVIOR DURING THE PANDEMIC

Overall, the single-family home market has experienced high demand over the last 12 months, causing prices to climb higher. After prices briefly declined early in the pandemic, they quickly began moving higher starting in the summer of 2020. In April 2021, the Castro Valley median single-family home price rose massively to an all-time high.

Median Castro Valley Single-Family Home Price

Two Year, Monthly

In April, the median Castro Valley home price rose considerably to its all-time high in April.

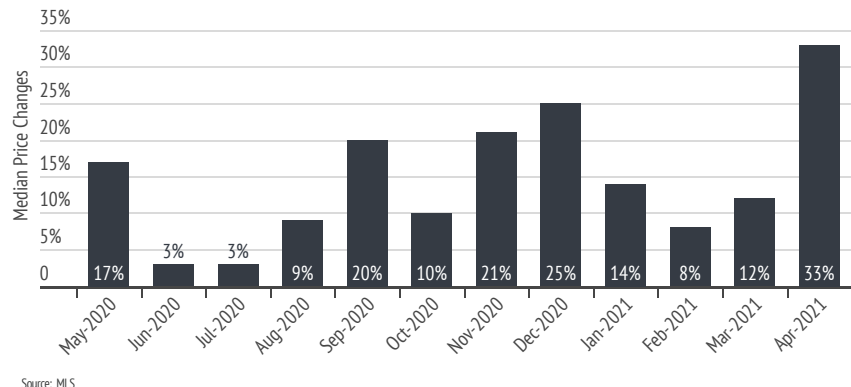


Year-over-year, the median single-family home price has been positive over the last 12 months, and price gains in 2021 have been particularly high. As we enter into the spring and summer months, demand will likely increase in the area, driving prices even higher.

Median Single-Family Home Price Changes

TTM, Year-over-Year

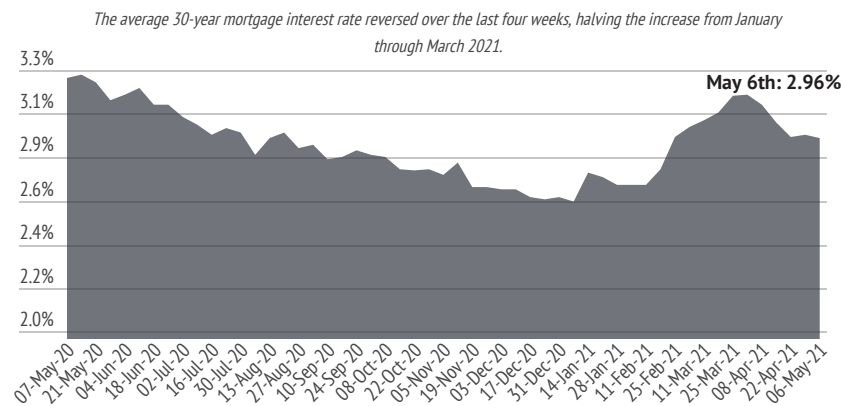
The year-over-year price gains have been strong for the last 12 months. With the persistent low inventory, we will likely see further price appreciation throughout the year.



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, Castro Valley is experiencing an 81% increase in homes sold year-over-year. The caveat to Castro Valley's huge year-over-year increase is that April and May 2020 saw a huge dip in sales due to the pandemic, but sales in April 2021 were still 30% higher than in 2019. At the same time, mortgage rates are at record lows—just under 3%—making houses potentially more affordable even though their prices are higher.

30-Year Fixed Interest Rate

TTM, Weekly



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

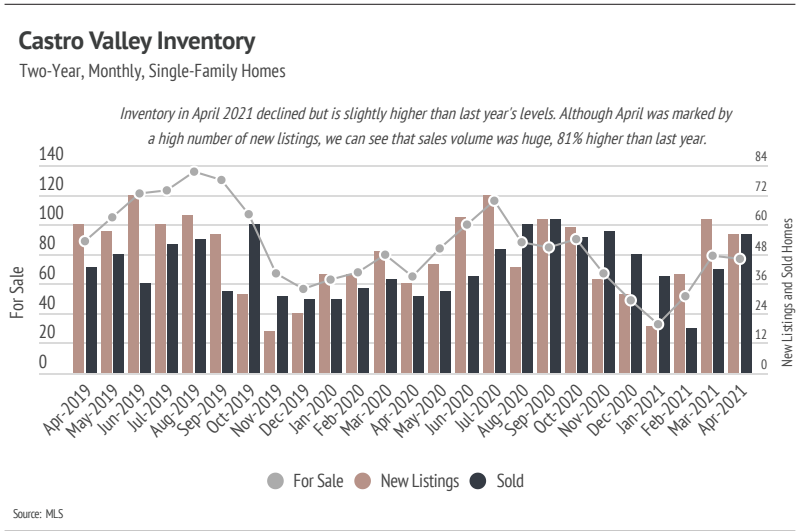
Because of the low-rate environment, homeowners are using this time to refinance. If you bought a home in the last five years, your borrowing rate was likely around 4%; therefore, refinancing would drop your rate by around 1%. In general, homeowners benefit from refinancing if they can lower their rates 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.

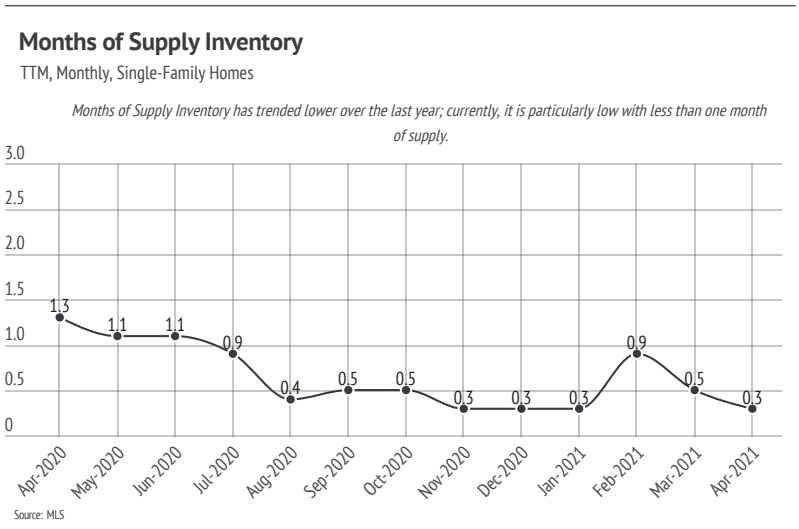
We expect demand to remain high through 2021. Nationally, homes are undersupplied, and we could see a much-needed increase in inventory as sellers try to take advantage of high demand. Whether you're planning to buy, sell, or stay in your home, we can guide you through the options that best fit your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

CASTRO VALLEY HOUSING TRENDS FOR SINGLE-FAMILY HOMES

Single-family home inventory began to climb at the start of 2021, but dipped lower in April due to the high sales. Total inventory trended lower over the last 12 months. In 2020, fewer people wanted to leave Castro Valley and more people wanted to move to the area, which drove inventory down to record low levels. New listings, therefore, improve the current market conditions. As we can see from April, the number of sales offset new listings. This pattern showcases the desirability of single-family homes in Castro Valley. With such a consistently high level of demand, prices will likely continue to appreciate throughout 2021.



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 since April 2020. In California, the 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 market in Castro Valley tends to favor sellers with about 0.9 months of supply. Currently, single-family homes have 0.3 months of supply, which heavily favors sellers.

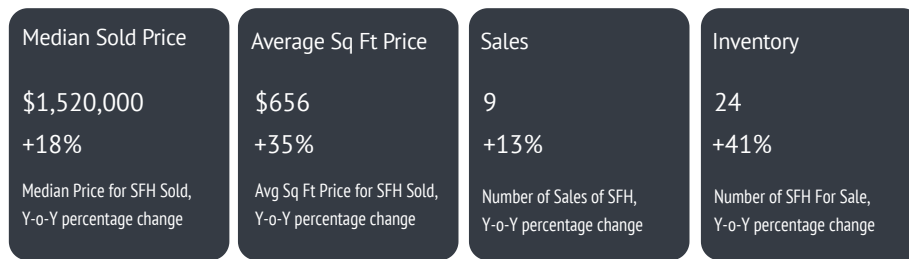


KEY HOUSING MARKET INDICATORS FOR PALOMARES HILLS (94552 ZIP CODE)

In this section, we analyze the Palomares Hills housing market 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, 94552 Zip Code, Single-Family Homes



Source: MLS

In April, the median single-family home price rose 18% year-over-year, and the average price per square foot rose 35%. We are seeing a mix of higher sales and higher inventory in the area, which benefits the market. Palomares Hills is in a near-perpetual state of housing undersupply, so more homes coming to market helps satiate the high demand.

Buyer's vs. Seller's Market

March 2021, 94552 Zip Code, Single-Family Homes



Source: MLS

In April, the housing market strongly favored sellers.

MSI is low with less than one month of supply for single-family homes, 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 nine days. 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 113% of its original list price, so 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

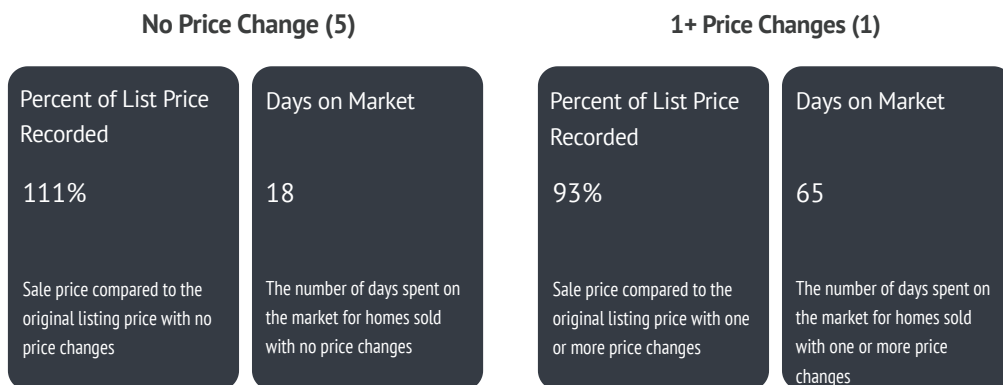
We can split homes sold into two categories: homes sold without price reductions and homes sold with one or more price reductions. Price reductions may indicate problems that need to be fixed, poor marketing, and/or bad showings. More often, however, price reductions occur because the home was overpriced 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 single-family home data in March (no homes sold with a price change in April).

Impact of Price Changes

March 2021, 94552 Zip Code, Single-Family Homes



Source: MLS

A total of five homes sold without price changes, recording an average of 111% of their original list prices and spending only 18 days on the market. In contrast, the one home that sold with one or more price reductions recorded just 93% of its original list price and spent over three times as long (65 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.