

# HCM Property Management Monthly Newsletter - August 2023



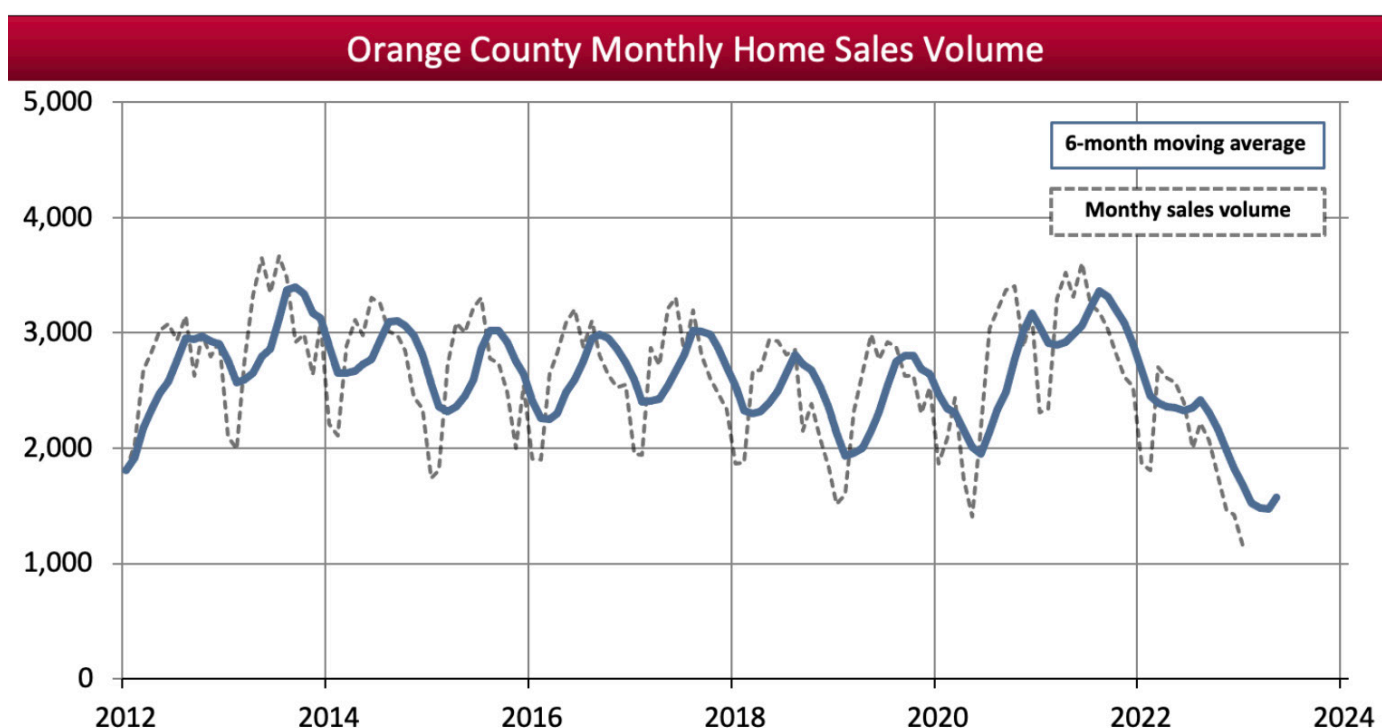
## Orange County Housing Indicators

As California's housing market dives deeper into the recession in 2023, it's important to note that **Orange County's housing market** never fully recovered from the 2008 recession. Home sales volume remained low throughout the elongated recovery of the 2010's, as did job creation. Residential construction of all types continues to struggle in this region, leaving would-be homebuyers wanting for more and helping push prices into bubble territory over the past decade.

The **Pandemic Economy** of 2020-2021 briefly distorted sales, inflating both sales volume and prices. However, as the effects of pandemic stimulus are now behind us and mortgage rates skyrocketed in 2022, homebuyers have backed off from acquisitions. Expect to see sales volume continue to plummet compared to pre-recession numbers, interrupted by a brief seasonal bump during the spring buying season.

The **second act to the 2020 recession** has now arrived, causing devastating waves in the housing market. This has included depressed sales volume, prices and inventory for sale. Watch for a return of real estate speculators in 2025 to provide a "dead cat" bounce during the sales slump, with a sustainable recovery taking off with the return of end user homebuyers around 2026-2027.

## Home Sales Volume Dips



	<u>2022</u>	<u>2021</u>	<u>2019</u>	<u>2003: Peak Year</u>
<b>Orange County home sales volume</b>	24,900	35,800	29,700	53,900

Home sales volume in **Orange County** remains weak and somewhat stuck at just over half the heights seen during the Millennium Boom. Echoing state trends, Orange County saw a decrease in total home sales volume in 2018, ending the year 9% lower than in 2017. In 2019, home sales volume was a further 3% below 2018. But in 2020, home sales volume began to reverse course, and 2021 ended a significant 17% above a year earlier.

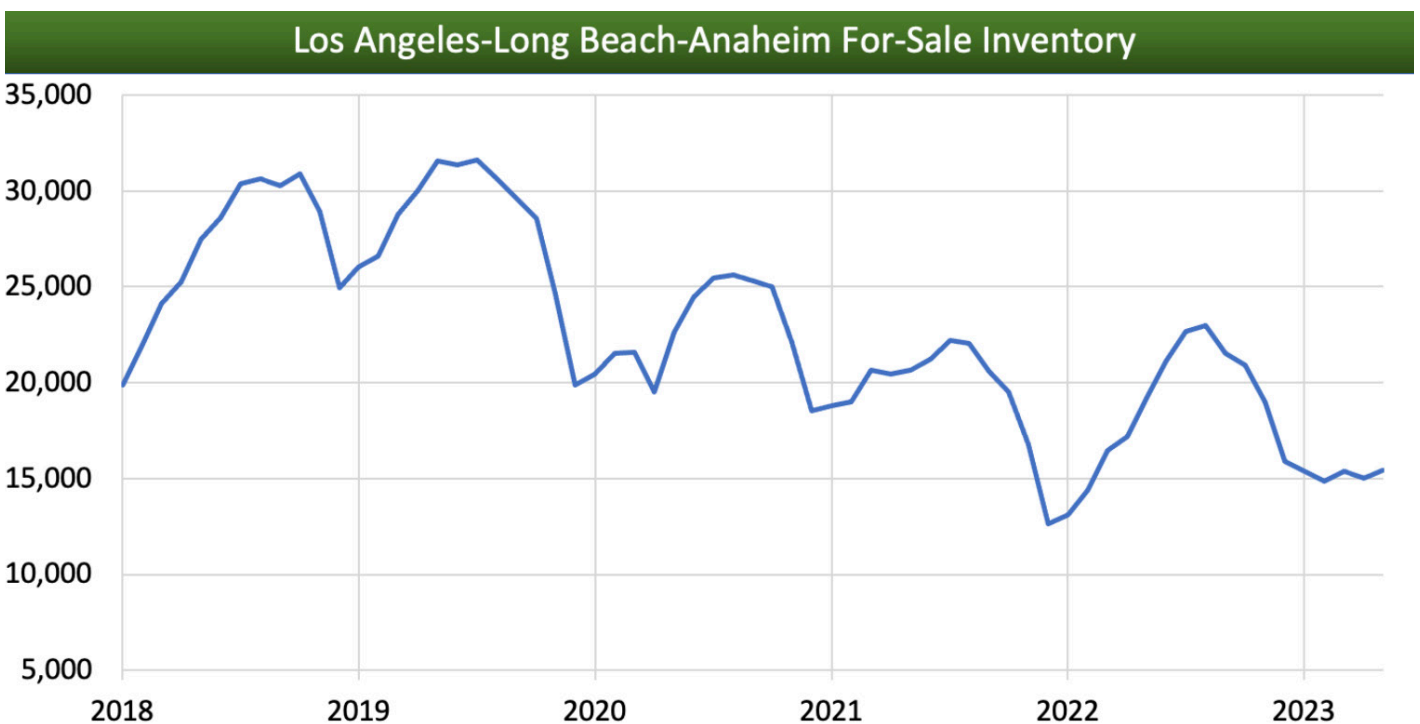
But the rising action of the past two years is at an end, as sales volume crashed in 2022. In total, 31% fewer sales closed escrow in Orange County during 2022 compared to 2021, and 16% fewer sales closed than during 2019 (the last “normal” year for sales volume). Year-to-date, 2023 sales volume is 31% below the prior year and a whopping 46% below 2019 as of May 2023.

For some historical context, 2009–2010 Orange County sales volume rose slightly with the introduction of the housing tax credit, falling back in 2011 for lack of end user demand. From the latter half of 2012 through most of 2013, **speculator** hyper-activity bumped sales volume artificially yet again, as it did in all of California. The speculator buying wave receded and sales volume slumped in 2016–2019.

Looking forward, expect a similar dynamic in the years that follow the 2023 recession. In 2020–2021, federal stimulus, Federal Reserve-induced low interest rates and the eviction and foreclosure moratorium provided a temporary boost to the housing market. Thus, the housing market continued its progress despite the economic recession. But as the government has now fully removed its support, will housing be able to stand on its own, in an organic recovery?

No. A complete recovery with annual sales volume of around 46,000 in Orange County will be reached only after **end user** demand is buttressed by labor force participation and normalized job levels, expected in the 2025+ recovery period from the 2023 recession.

## Inventory Climbs



	<u>May 2023</u>	<u>May 2022</u>	<u>Annual change</u>
<b>LA-OC County for-sale inventory</b>	15,400	19,200	-20%

**Multiple listing service (MLS) inventory** has risen from the historic low reached at the end of 2021. After two years of steep decline, for-sale inventory in the Los Angeles-Orange County metro area bounced slightly in 2022, now falling back to a 20% decline from a year earlier as of May 2023. The winter months typically see the lowest inventory of homes for sale, peaking around mid-year.

Looking forward, expect inventory to climb in 2024. The significant interest rate increases of 2022 slashed **buyer purchasing power**, making it nigh on impossible for mortgaged homebuyers to compete. Along with high inflation, the signs are pointing to an ongoing downturn in the housing market (absent a brief spring seasonal bounce for home prices) – of which homebuyers and sellers are well aware. Today’s sellers are increasingly reluctant to list while prices are dropping and rates are rising, resulting in an anemic inventory of homes for sale.



## New Cap On Rent Hikes Takes Effect For Tenants In LA And Orange Counties

Under state law, **a new 8.8% limit** on annual rent hikes takes effect Tuesday for many, though not all, tenants in Los Angeles and Orange counties.

The change comes as Southern California renters have seen their housing costs rise **as much as 10%** over the past year.

### What’s changing

The statewide Tenant Protection Act covers renters living in most apartment buildings constructed more than 15 years ago. The law links allowable annual rent hikes with inflation. Because inflation has been cooling in the L.A. area, the legal limit on rent hikes for covered tenants is declining slightly, from 10% to 8.8%.

### Why now

The law draws on the **local consumer price index** from April each year in order to determine new limits every August.

Landlords can add an additional 5% to the local consumer price index (a common measure of inflation) in order to determine legal rent hike limits, so long as the figure doesn’t exceed 10%.

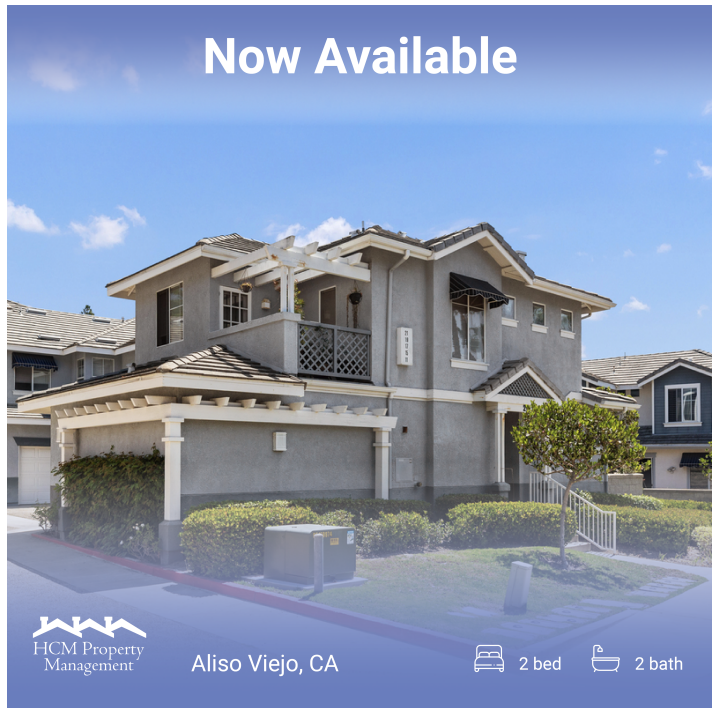
In April 2022, local inflation was running high at 7.9%, triggering the law’s maximum increase of 10%. But with inflation running lower at 3.8% this April, landlords must now observe a new 8.8% limit.

## Where to get help

Keep in mind, renters in L.A. and Orange counties who are covered by the Tenant Protection Act are not legally obligated to pay rent hikes exceeding 8.8% starting this month through the end of July 2024.

Also, many tenants in about a dozen SoCal cities have stronger protections under local rent control laws.

## HCMPM Off-Market Investment Opportunity



2 bedroom, 2 bathroom, 918 sq ft condo in Aliso Viejo with an existing tenant in place. The lease is expiring on 12/31/23, so there is upside for a rent increase. This would be a smooth transition since we are currently managing the property. Perfect for anyone looking to add to their portfolio.

Please contact Lenny Spangler, 949.212.3703, [lenny.spangler@hcmpm.com](mailto:lenny.spangler@hcmpm.com) for more information.

## Wear & Tear In An Irvine Rental Property; What's Considered Normal?

Defining wear and tear isn't always easy. You might look at a warped cabinet or a door that doesn't close properly and think it's damage that was caused by your Irvine tenant. But your tenant may consider those same issues simple wear and tear since nothing was done to intentionally harm the doors. Generally, normal wear and tear is the deterioration of your property and its functions simply from having someone occupy that property. In any rental home, areas and appliances will see their condition decline simply because of use. Tile floors will dull and discolor when multiple people and sometimes pets walk over them every day.

You have to consider time as well – the longer a tenant lives in your property, the more wear and tear is likely to be left behind. Let's talk about what you can consider normal wear and tear in your Irvine rental property.

## County Median Home Prices – Q1 2023



### Median Home Values

The map above allows you to see the median home price for each county. Applying the House Price Index growth from FHFA to the latest housing data from the American Community Survey (ACS), we calculated a median home value for 3,119 counties and county equivalents in the United States. Home values represent the value of all homes instead of home sales.

Here is the list of the counties with the highest median home values in the first quarter of 2023:

- San Mateo County, CA: \$1,582,170
- Nantucket County, MA: \$1,563,860
- Santa Clara County, CA: \$1,512,500
- Marin County, CA: \$1,473,510
- San Francisco County, CA: \$1,464,880

Home prices and mortgage rates have a direct impact on the size of a mortgage payment. Although prices fell in many areas, mortgage rates continue to hurt affordability. In the first quarter of 2023, mortgage rates were nearly double those of a year ago, increasing by nearly 3 percentage points. For example, in San Joaquin County, CA, home prices are about 2 percentage points higher compared to a year ago, while the monthly mortgage payment is more than \$840 higher compared to a year ago.

The tool below shows you the monthly mortgage payment for a 30-year fixed-rate mortgage as of now compared to a year earlier. Select a state and county to see how much the payment drops due to the low mortgage rates.



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