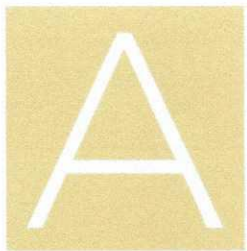


# CONFRONTING THE INVENTORY CONUNDRUM



Are low housing inventories the new normal? California REALTORS® continue to contend with low supplies of new and existing housing across the state. “We’ve had a reduction in what I would consider to be normal inventory,” CALIFORNIA ASSOCIATION OF REALTORS® Chief Economist Leslie Appleton-Young observed in a recent C.A.R. Housing Matters podcast. • When C.A.R. began calculating its unsold inventory

index back in the 1980s, there was a six or seven month backlog of available housing, she said. “But if you look at the last four years, the average is between three and four months.”

## The Generational Showdown

Appleton-Young noted that part of the decline can be attributed to the fact that long-time homeowners (baby boomers) are staying in their homes much longer, taking their time in putting their properties on the market. In the 1970s, the existing homes turnover rate was in the 8 to 9 percent range, according to C.A.R. data. Today, the turnover rate is about half that.

“The boomers are staying put longer in part because they are finding it too expensive to move,” Appleton-Young explained. “Between a great mortgage, low property taxes and the capital gains hit, it just makes more sense to stay put. In other words, they are doing the math.”

A shortage in new construction represents the other side of

the low inventory coin. Between 2003 and 2014, local governments approved only 45 percent of applications for permits to build new housing units, according to the California Department of Housing and Community Development. That has translated to housing construction dropping significantly in coastal communities, including the San Francisco Bay Area, Los Angeles, Orange and San Diego counties, where two-thirds of California’s population resides.

## REALTORS® Feel the Consequences

For C.A.R. members, the impact of low housing inventories depends on whether they represent buyers, sellers, or both.

Natalie Hatvany Kitchen is a Pacific Union broker-associate

*What REALTORS® are doing to address a growing issue*

**By Edward Segal**  
Illustrated by Eric Piatkowski





in San Francisco who represents clients in the purchase and sale of single-family homes, condominiums, Tenants In Common, and multi-unit buildings. “The especially low inventory of single-family homes has caused many buyers to exit San Francisco,” she explained, noting it has led to a lower volume of sales. “In terms of the impact on my business, it makes the purchase of single-family homes highly competitive for those who choose to remain in the city. Therefore, a buyer’s search often involves several failed attempts to buy homes where the homes get bid up in what is essentially an auction process.”

All of this means more work for agents in order to find a home for buyers, she observed. And sometimes the agents must advise the buyers “to forego their own inspections and diligence

period in order to make their offer more attractive to the sellers,” she said.

It’s a sentiment shared by other industry professionals. “Probably the most significant way I’ve seen our current lack of inventory affect my business is through buyer competition,” said Steve Clark, a REALTOR® with KW International–Portfolio in Pasadena, Calif. Clark explained that interest rates are great right now, “so buyers are itching to get their feet in the door.” However, there are dozens of buyers for every seller. “They’re competing really intensely and that’s pushing sales prices up,” he said.

Clark lamented that buyers are suffering more than anyone. He explained that his business hasn’t suffered because he pri-  
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## The Inventory Conundrum

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marily represents sellers. “Lack of supply is creating a weird environment of hungry and disheartened buyers who are submitting great offers on multiple properties and still walking away empty handed because there just aren’t enough available homes to go around,” he said.

### Efforts to Increase Inventory

C.A.R. has taken several steps to help address the low inventory situation. Some of these actions include:

- Supporting a “build by right” proposal by Gov. Jerry Brown that would have created a voluntary streamlined permit approval process for developers. The measure, designed to reduce development costs and help improve the pace of housing production, would have made exempt from detailed local government review any developments that are already zoned and approved for housing. Unfortunately, the proposal did not gain enough support to move out of the Legislature.

- Backing a \$1.3 billion proposal by the Assembly Housing and Community Development Committee to invest a portion of California’s budget surplus to address the state’s housing crisis. C.A.R. formed an Affordable Workforce Housing Task Force to examine existing policies in California that would help expand the availability of affordable housing and make recommendations to increase the availability of affordable workforce housing.

- Sponsoring legislation to encourage long-time residents who are 55 and older to put their homes on the market, thereby resulting in greater inventory. The measure would have allowed seniors to transfer the current property tax base on their existing home when they buy a more expensive property. The difference in the value of the two houses would be added to the property tax base of the home sold and that would become the property tax base of the new home or so-called “blended” basis.

Unfortunately, the legislation discussed above did not become law. But, as another indication of its commitment to

addressing the low inventory dilemma, C.A.R. is now exploring the idea of letting the voters decide the matter. Details of the ballot initiative, which could go before California voters in a future November general election, are now under consideration. Important aspects of the possible ballot measure, such as the qualifications and eligibility of home owners to receive the blended basis, still need to be decided.

### Help From Local Associations

To help bring more existing homes on the market, Kim Ott, president of the Bay East Association of REALTORS®, said the organization has provided their members “with skills and resources to get potential sellers off the fence. This strategy has leveraged the existing housing stock as a ready source of potential inventory.”

## C.A.R. HAS TAKEN SEVERAL STEPS TO HELP ADDRESS THE LOW INVENTORY SITUATION.

Among other things, the association has held a series of workshops on effective farming techniques. The events “resonated with both experienced agents who were able to share their success and new agents hungry for these basic skills,” Ott observed.

The Bay East Association held a “Digging Deep for Your Next Listing” event where agents shared their experience with farming resources provided by title companies, as well as ways to maintain and cultivate farmed leads. The organization also conducted a roundtable discussion on “Discovering Untapped Markets,” which focused on identifying untapped markets of current homeowners who may be considering selling and housing options for empty-nest baby boomers.

### Forming Partnerships

Sometimes the best way to tackle a problem is by joining forces and combining resources with others in the commu-

nity, including like-minded organizations and the local government.

To help find ways of increasing the local housing inventory in various price ranges, the Orange County Association of REALTORS® helped launch a Housing Futures Initiative earlier this year. The project was prepared and is being promoted in collaboration with the Building Industry Association/Orange County and the Orange County Business Council (BIA/OC).

The initiative won the support of the City of Mission Viejo, one of the largest cities in the county. “By considering the recommendations listed in the Housing Futures Initiative—many of which are specifically called out in the Housing Element of Mission Viejo’s General Plan—the Mission Viejo City Council has demonstrated its willingness to help ad-

dress the region’s housing shortage,” said BIA/OC CEO Mike Balsamo.

“Taking a look at initiatives like this one is extremely important,” said Mission Viejo Mayor Frank Ury. “The current cost to put a shovel in the ground to start building a house is \$130,000. Either Mission Viejo is part of the solution or we’re a bystander.”

By working in partnership with other stakeholders, C.A.R., local REALTOR® Associations, and their members have an important opportunity to help lead the way to long-lasting solutions for a persistent problem.

Otherwise, the low housing inventory that has plagued the state in recent years could become the new normal. ♦

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