



Reviewing the Past ~ Predicting the Future

2015 proved to be another banner year in real estate. Local home prices were up everywhere with most cities still achieving or exceeding an average appreciation rate of 1% per month. This is great news for homeowners and sellers, but challenging for buyers.

The chart shows average sale prices and year-over-year price changes for many local cities. What the chart does not show is that *the majority of price increases occurred in the first half of 2015*. The most extreme example of this was Atherton which appreciated 28.5% in the first half of the year(!) and was flat in the second half. After years of extremely low inventory coupled with price increases at a rate of roughly 1% monthly, buyer fatigue appears to have played a significant role in this widespread price stabilization.

What does 2016 hold? Prices should continue to increase, albeit at a slower annual rate. I expect year-over-year appreciation to be in the 8-10% range – which is still very impressive except when compared to the last few years! There are several reasons for this:

1. Supply is still grossly insufficient to meet demand – with no relief in sight
2. The San Francisco and San Jose metropolitan areas are the two fastest growing in the state
3. Interest rate hikes by the Fed, though expected to be infrequent, may add to buyer urgency

A recent presentation by Leslie Appleton-Young, the California Association of Realtors Chief Economist, had some additional insights on our supply side problems, including:

- Homeowners are now waiting an average of 10 years before moving, the longest since 1985.
- The combination of low interest rates, taxable equity (e.g. equity above the \$250K/\$500K exclusion), and property tax increases constrained to 2% per year by Prop 13 all provide disincentives to move.
- Investors are increasingly choosing to hold properties and make money through appreciation.

These reasons coupled with a strong local economy provide some pretty compelling arguments for another strong year in real estate.

Janie and John Barman
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	2014 Avg Price (\$)	2015 Avg Price (\$)	2013-14 Price Chg	2014-15 Price Chg
Palo Alto	2,775,572	3,132,335	+17.2%	+12.9%
Menlo Park	2,057,025	2,307,461	+21.2%	+12.2%
Atherton	5,622,373	7,227,000	+37.8%	+28.5%
Redwood City	1,179,913	1,413,449	+12.4%	+19.8%
San Carlos	1,460,961	1,665,036	+15.8%	+14.0%
Belmont	1,317,961	1,521,008	+16.3%	+15.4%
Mountain View	1,504,320	1,774,932	+11.7%	+18.0%
Los Altos	2,589,614	2,951,749	+19.6%	+14.0%
Los Altos Hills	3,748,733	4,370,164	+19.8%	+16.6%
Portola Valley	2,727,000	3,029,258	-3.5%	+11.1%
Woodside	3,014,353	3,737,438	+13.7%	+24.0%
San Bruno	762,420	886,461	+12.6%	+16.3%
Half Moon Bay	1,094,593	1,246,963	+14.1%	+13.9%
Santa Clara	893,428	1,019,237	+14.9%	+14.1%
San Jose	836,320	926,535	+11.1%	+10.8%

Note: All data from MLS; only single family home sales data used