FACTORS AND WILD CARDS IN BAY AREA REAL ESTATE MARKETS

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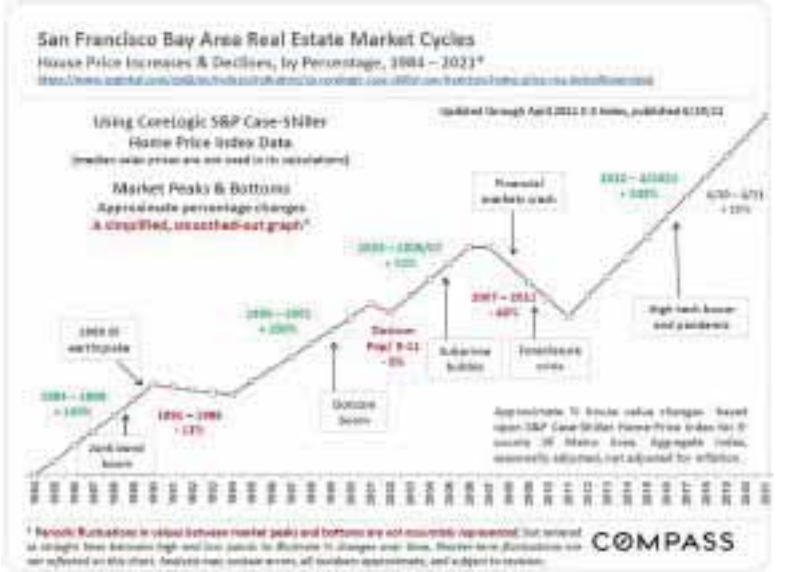
Bay Area real estate markets are affected by an enormous mix of economic, demographic, social, political, and environmental issues – local, national, and international – all constantly interacting with each other.

KEY MARKET INFLUENCERS

- The Bay Area remains the high-tech capital of the world during a period of high-tech boom, and a major economic and cultural center located in one of the most beautiful settings on the planet
- Interest rates, which have a huge impact on affordability whether rising or declining
- High stock markets: vast wealth creation (for some)
- Highest housing cost in the nation
- Natural disasters: pandemic, fires, drought, earthquakes, mudslides, floods
- Highest state income taxes in the nation; increasing anti-business environment
- Negative domestic migration; plunging foreign immigration; business migration
- Debt levels of all kinds at fantastic, all-time highs, albeit currently at extremely low interest rates
- Local quality of life issues (cost of living, crime, commute, homelessness)
- International instability/conflict/hacking

EVENTS CAUSING SIGNIFICANT NEGATIVE MARKET ADJUSTMENTS IN THE PAST

- Financial market crashes caused by irrational investor exuberance, runaway societal greed, dangerous over-leveraging of investments, and/or irresponsible and dishonest financial engineering such as junk bonds, collateralized debt obligations and subprime lending in the late 1980's, late 1990's, & 2006-2007
- International economic events such as the Chinese stock market crash, oil price crash of 2015-2016
- International political events such as the Yom Kippur War leading to a Mideast oil embargo in 1973 or 9/11 occurring in 2001
- Sudden, significant increases in interest rates that occurred in the early 1980's and 2018
- Runaway inflation that happened in the late 1970's and early 1980's
- Natural disasters in 1989 and 2020



- Consumer reaction/fatigue due to sudden, extreme increases in home prices

In summary, it is extremely difficult to predict the timing or magnitude of market cycles either up or down. More often than not, significant downturns in the market are caused by unexpected events and unforeseen crises.

Source: Patrick Carlisle, Compass

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