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C.A.R.'s Housing Market Forecast for 2006: Moderate price increase, slight cooling in home sales next year

SAN DIEGO (Sept. 21) – The rate of home price appreciation will moderate next year following four years of steep increases, while sales in 2006 will decline slightly from this year's record pace, according to the California Association of REALTORS® (C.A.R.) "2006 Housing Market Forecast" released today. The forecast was presented during the C.A.R. Centennial REALTOR® EXPO (<http://www.realtorexpo.org>), running from Sept. 20 - 22 at the San Diego Convention Center.

The median home price in California will increase 10 percent to \$575,500 in 2006 compared with a projected median of \$523,150 this year, while sales for 2006 are projected to reach 630,610 units, falling 2 percent compared with 2005. The double-digit gain in the median price of a home, which California has experienced for most of the past five years, will again be fueled by the continuing shortage of housing across much of the state, according to C.A.R. economists. California typically gains nearly 250,000 new households, yet only will build about 200,000 new housing units this year, creating a shortfall of about 50,000 units.

"We expect the fixed mortgage interest rate to rise to 6.4 percent next year, and the adjustable rate to hit 5.1 percent, which will make it more difficult for many families in California to be able to afford a home," said C.A.R. President Jim Hamilton. "While still near their historic lows, up-ticks in interest rates coupled with the continued increase in the median home price will push affordability in California to a new all-time annual low of 15 percent next year."



"The economic fundamentals at both the state and national level continue to support a strong housing market in the Golden State for the foreseeable future," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. "However, we also expect that the wave of new loan products that have flooded the market over the past several years have injected a higher level of risk into the market, while affordability barriers to homeownership will continue to push residents inland and even out of state.

"Declining affordability will constrain sales in 2006 at a greater rate than we've previously experienced, especially in markets where there are higher price points compared with the state as a whole," she said. "Not all areas of the state will continue to experience the unprecedented double-digit median price increases of the past five years. Some high-cost areas, especially those in the more costly coastal regions, face a potential leveling off of median price gains compared with the 10 percent gain we expect for the state as a whole."

Home sales for California in 2005 are expected to reach a record 643,480 units, surpassing the prior sales record of 624,740 set in 2004, according to C.A.R. economists.

Leading the Way...® in California real estate for 100 years, the California Association of REALTORS® (www.car.org) is one of the largest state trade organizations in the United States, with more than 180,000 members dedicated to the advancement of professionalism in real estate. C.A.R. is headquartered in Los Angeles.

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