

Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from RPI (Realty Publications, Inc.)

February 2023 • Vol. 13 • Issue 2 • **Lacking interest rate support, home sales volume crumbles heading into 2023**



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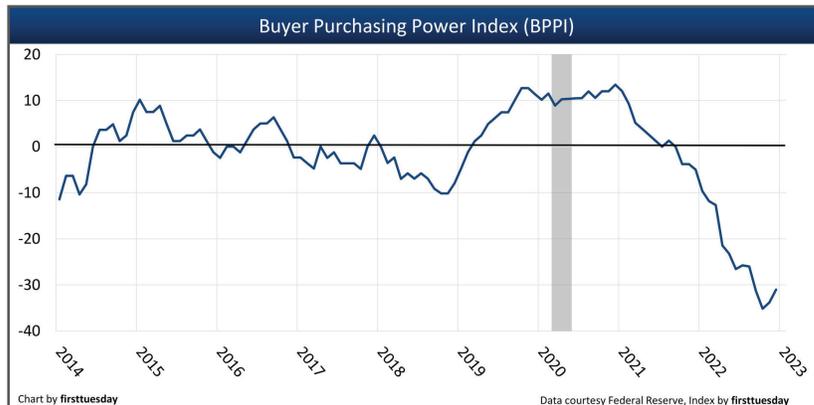
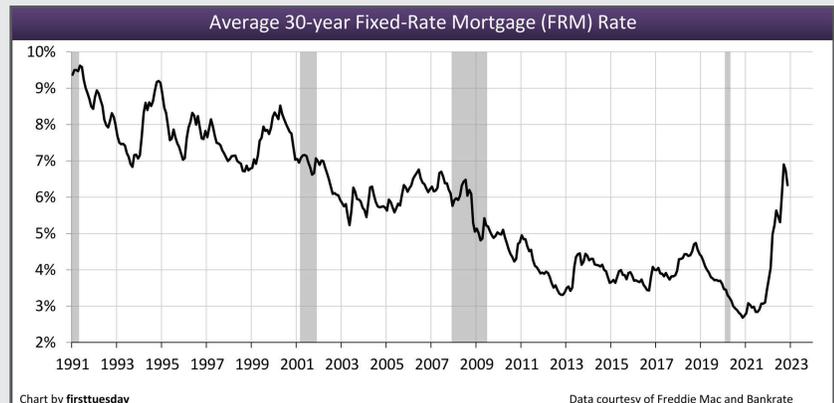
Presented by

A bird's eye view of destabilizing mortgage rates

This chart shows the average interest rate on a 30-year **fixed rate mortgage (FRM)**.

After a year of steeply rising rates, mortgage rates slipped back in January 2023, with the 30-year FRM rate leveling near 6.4%. The current upward phase in mortgage rates was briefly interrupted by government intervention during the pandemic.

As the pandemic set in, the average 30-year FRM rate had risen to almost 4.0%, reducing buyer purchasing power. Today's post-pandemic rise in the FRM to 6.4% further cut funding for buyers — which controls property pricing. Watch for mortgaged homes purchased in recent years to slip **underwater** in 2023-2024.



Homebuyers with less money to spend, spend less

This chart displays the California **Buyer Purchasing Power Index (BPPI)** figure, which tells us how much mortgage principal a homebuyer can borrow at today's mortgage rates compared to one year earlier.

The BPPI figure declined to -31.0 in December 2022. This figure tells us a homebuyer with the same income is able to borrow 31% less mortgage money than a year ago. Since homebuyers qualify for a mortgage amount based on their incomes, any rise in **mortgage rates** instantly cuts the amount they can borrow — pay — for a home.

This sent a shockwave through home prices in the second half of 2022, rapidly imploding prices. In the coming years, the BPPI will remain mostly negative, tempering home pricing as interest rates continue to rise, except for the 2025 period when the recession comes to an end.

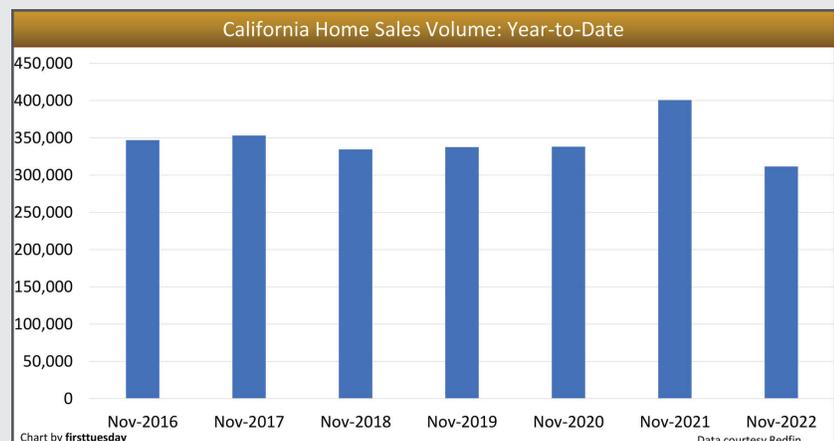
Home sales volume flops as sellers resist repricing

This chart shows the number of home sales completed **year-to-date (YTD)** in California.

YTD home sales volume continues to plummet, now 22% below a year earlier as of November 2022, and falling. Compared to 2019 — the last "normal" year for housing before the Pandemic Economy took over — home sales volume in 2022 is 8% lower. During 2021, historically low interest rates and buyer fear of missing out (FOMO) escalated home sale activity which inflated prices while **cannibalizing** future sales.

Now with the government pandemic fuel spent, sales volume has collapsed. Sales volume in 2023 will experience a slight upturn as the annual spring buying season emerges, peaking mid-year.

But on average, 2023 will see further weakening in home sales volume as sellers resist price adjustments imposed by mortgage rate changes and today's depleted **supply of homebuyers**. Buyers tend to wait to buy when prices stop dropping, forecasted to occur in California around 2025.



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