

# Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from [first tuesday](#)  
 November 2015 • Vol. 4 • Issue 11 • *Inevitable rise in mortgage rates to hamper recovery*

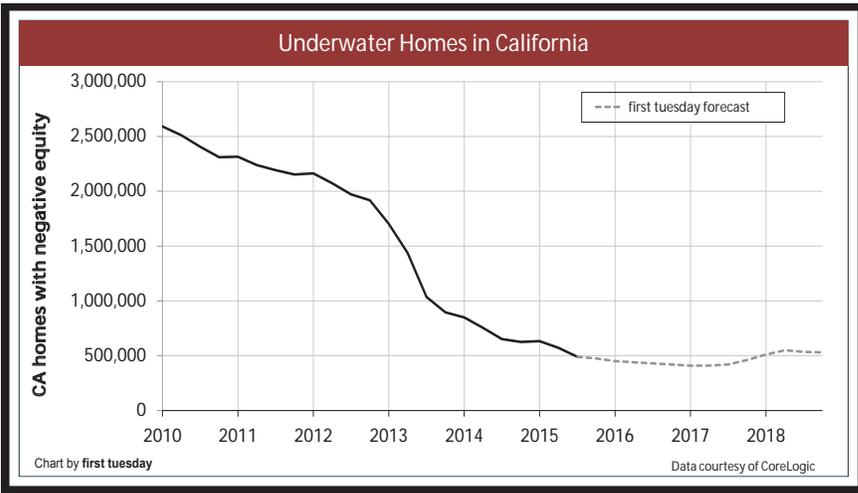
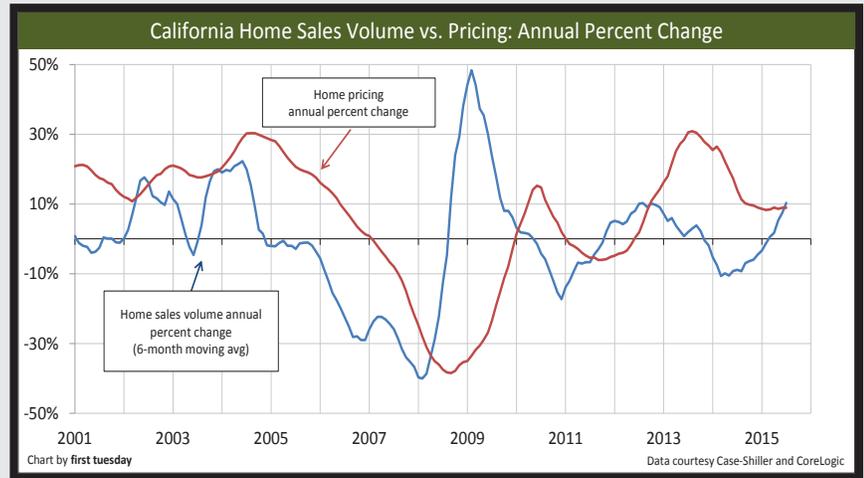

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## Sales volume is prophetic of home prices

This chart tracks the six-month moving average in **home sales volume** and in **home prices**, one following the path of the other in roughly nine to twelve months.

California home sales volume in the second quarter (Q2) of 2015 was up an average of 12% from a year earlier. This follows the flat-to-down sales volume experienced since 2013. Home prices also rose during Q2 2015, up 9% from a year earlier. The **price rise** has decelerated over the past year.

Looking forward, today's upward home sales volume trend will continue to fuel a higher-than-inflation annual increase in pricing in the coming months. However, an end to rising sales volume is in sight as **mortgage rates** will increase by mid-2016. This will decrease **buyer purchasing power** and in turn reduce sales volume, heralding a decrease in pricing 9-12 months later.



## Underwater homes diminish

This chart displays the number of **underwater homes** in California.

The number of **negative equity** homes declined to 490,000 in the second quarter (Q2) of 2015. The share of mortgaged homes stuck in negative equity remains just over 7%, down from about 10% a year earlier. The **disappearance of speculators** (and the rapid price lift they created in 2014) has led to a more gradual rise in home prices, ending the **sharp decline** in negative equity.

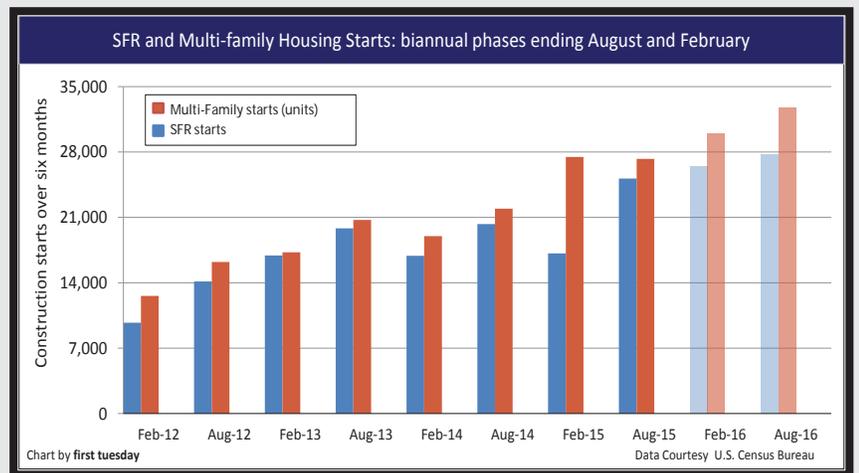
Expect to see a rise in the number of underwater homeowners as home prices begin to slip in 2017. The negative equity epidemic will finally cure itself around 2020 when **asset inflation** matches amortized **mortgage balances**.

## Single family starts up, but lag for lack of demand

This chart plots the number of single and multi-family **housing starts** in California over six-month periods ending each February and August.

**Single family residential (SFR)** and **multi-family** construction starts in the six-month phase ending August 2015 both rose 24% over the same period one year earlier. Demand for multi-family housing including rentals has been higher during this residential construction recovery compared to new SFRs. **Buyer-occupant demand** for SFRs and condo units is gradually increasing as jobs are recovered. However, **higher mortgage rates** in 2016 will damp down today's renewed interest in SFRs while fueling demand for rentals.

Expect construction of new SFRs to rise just slightly by the end of 2015. However, multi-family starts are expected to increase at an annual pace of roughly 20%, driven by a **demand shift** from ownership to rentals.



Click on any chart  
for more information!