Monthly Real Estate Statistical Update

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

September 2020 • Vol. 10 • Issue 9 • ***Low interest rates have inflated prices, but the boost is coming to an end***

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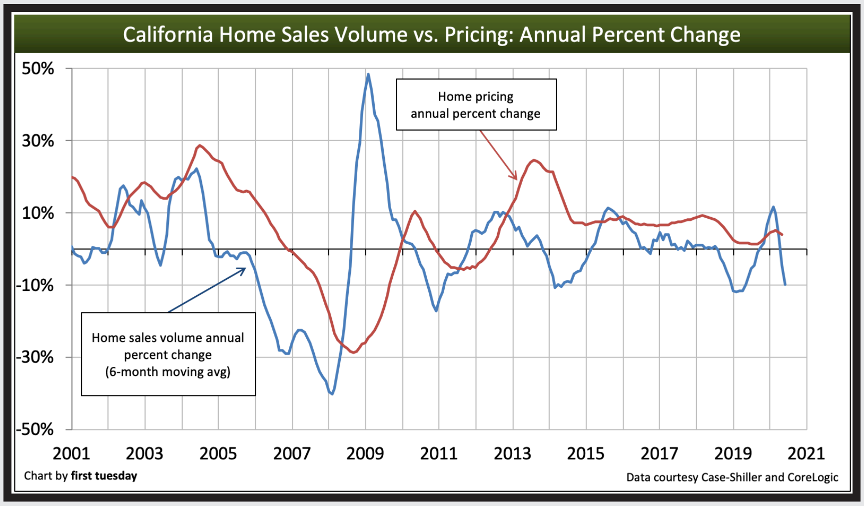
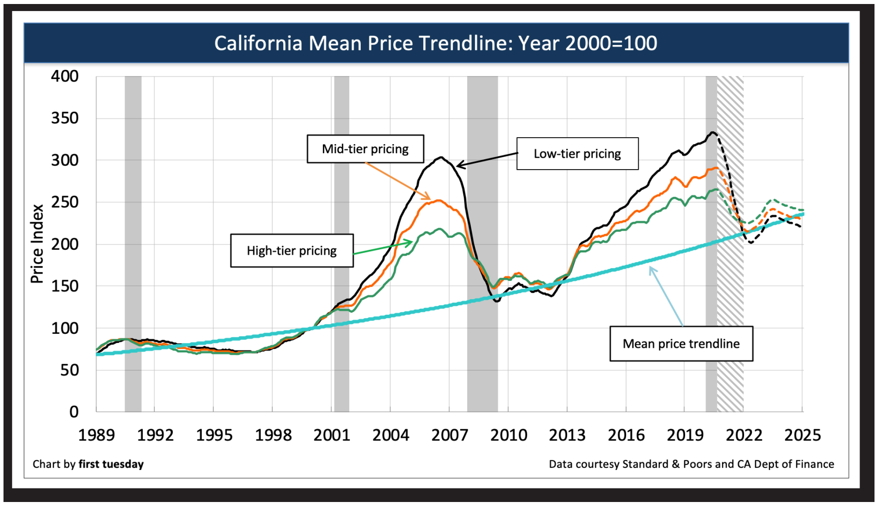
Sales volume's magnetic pull on home prices



This chart shows the **annual percent change** in average California home prices (the red line) alongside a 6-month average of annual home sales volume change (the blue line).

In the second quarter (Q2) of 2020, home sales volume was 30% below a year earlier (a decline softened in the chart by the 6-month moving average), while prices remained 3.5% higher than a year earlier. Price trends typically follow consistent sales volume movement by about 12 months. The delay is due to **sticky pricing**, and today also includes spare inventory and lower interest rates. These combined forces have raised home prices in 2020 despite dropping sales volume.

Beneath both sales volume and price movement is that all-important factor: **jobs**. Homebuyers need a reliable source of income before they can purchase. But 2020 has experienced record permanent job losses. **Employment** was 14% below the December 2019 peak in May 2020. Until job loss ends and a permanent upturn begins — likely around 2022-2023 — expect sales volume to slide further. Prices will follow quickly.



The mean price trendline: the home price anchor

This chart shows California's three home price tiers (the solid black, orange and green lines), while the dashed lines show **first tuesday's** forecast of future home price movement. The blue line represents the **mean price trendline**, the historical level to which home prices cyclically return.

Home prices recently bottomed in 2011, then increased rapidly from 2013 through 2018. Recently, home prices have continued to rise at a steadier 3%-5% annual pace closer to the inflation rate. However, today they are far removed from the mean price trendline. This means willing homebuyers with a job are less able to purchase.

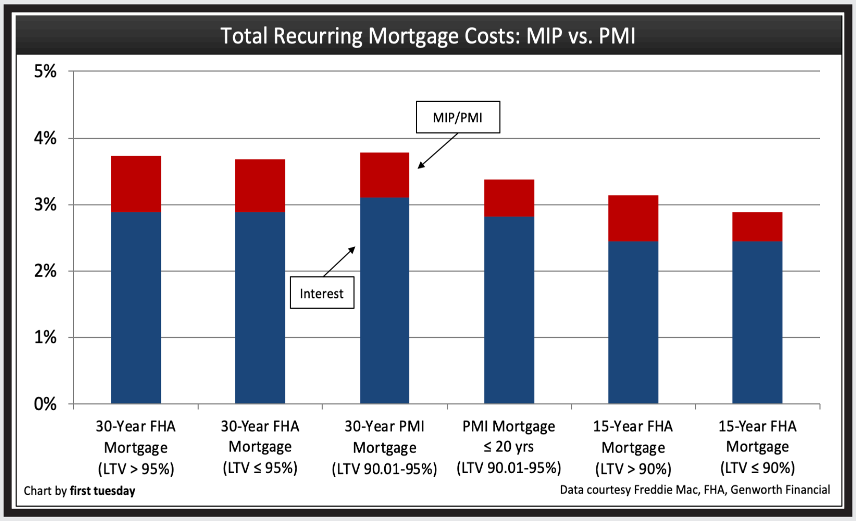
first tuesday expects home prices to fall in the second half of 2020. They will first bottom in 2022 followed by an initial rebound from the 2020 recession before backsliding again, likely in 2024. High demand for low-tier properties may keep this tier somewhat inflated. Still, the support has fallen for housing with 2020's deep job losses. And with the downward pull of the mean price trendline, all price tiers will drop.

The higher risk and lower purchasing power of a small down payment

This chart shows the average mortgage interest rate (blue portion of each bar), sorted by length of loan term and type of **mortgage insurance**. The red portion of each bar represents the cost of the mortgage insurance premium (MIP) required by the Federal Housing Administration (FHA) or private mortgage insurance (PMI) required by conventional mortgage lenders.

Mortgage insurance is required when the down payment is less than 20% of the purchase price. The insurance covers losses due to the higher risk of default present when buyers have less **skin in the game**. Thus, buyers lacking a 20% down payment end up borrowing less purchase-assist money.

As home prices increased far faster than wage growth over the past decade, homebuyers have been unable to muster the full **20% down payment** needed to avoid mortgage insurance. In turn, high loan-to-value (LTV) ratios are more common — not a big concern when prices rise. But in today's very unstable price environment, high LTVs spell trouble. As prices fall, recent homebuyers quickly go underwater. Look for foreclosures to flourish in 2021-2022 as home equity fast evaporates.



Click on any chart for more information!

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