Weekly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from first tuesday

Feb. 24, 2014 • Vol. 3 • Issue 8 • ***Rise in mortgage rates unmatched by income increases***

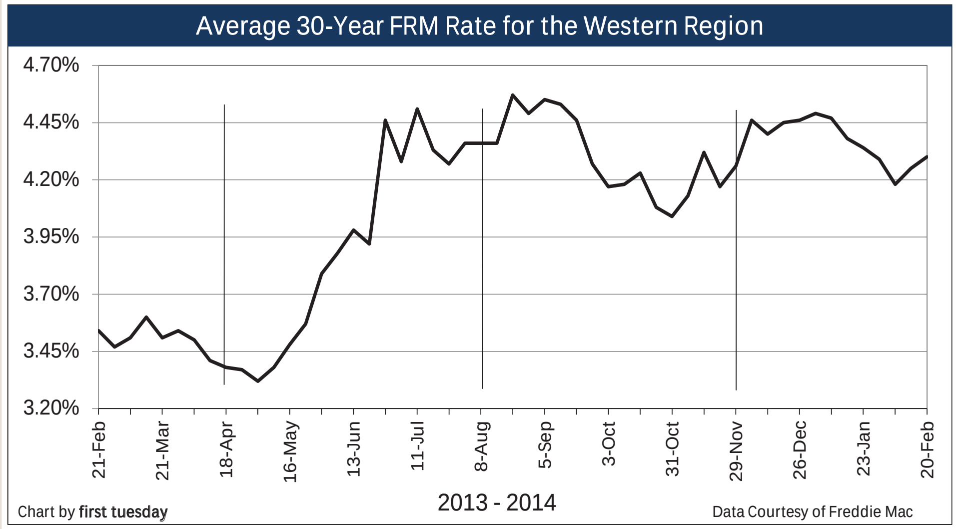
Presented by
Name
BRE License #
Phone
Email

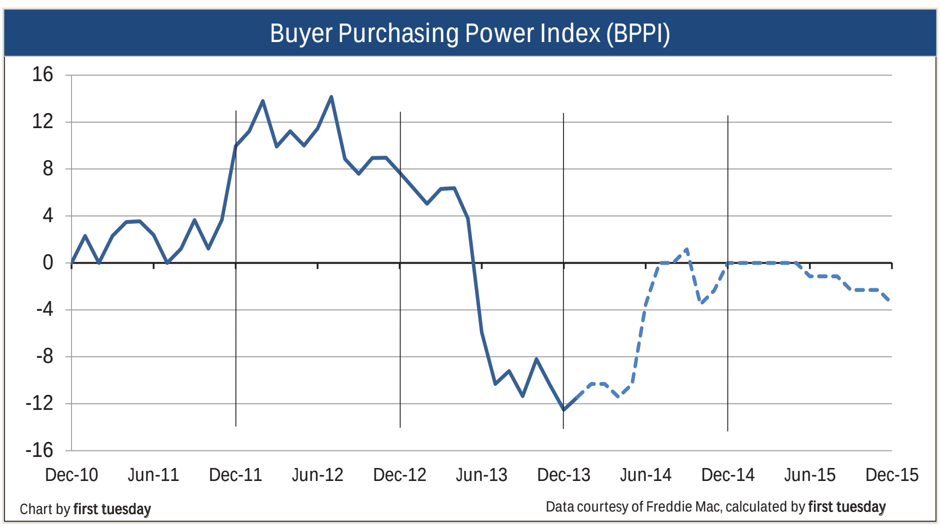
Mortgage rate conditions stabilize – for 2014

This chart tracks the **30-year fixed rate mortgage (FRM)** rate in California.

The average 30-year FRM rate increased slightly to 4.3% for the week ending February 21st. This is up from 3.54% one year ago, but just below the **two-year high** experienced in mid-August, 2013. The spread between the 10-year Treasury Note rate, used to set FRM rates, and the 30-year FRM rate rose to 1.55%. This is still above the **historical spread** of 1.4%. The moral of the story? Homebuyers continue to overpay for mortgages.

Looking forward, FRM rates will likely remain at their current level for several months, then inevitably increase as the Federal Reserve raises rates, likely in 2015. Rising rates will push completion of the already **lengthy housing recovery** further down the road.





Buyer purchasing power remains negative

This chart tracks the **buyer purchasing power index (BPPI)**. The BPPI is based on the **30-year FRM** rate and California's **median income**.

The BPPI rose slightly to negative 11.44 in January. This represents a year-over-year decrease of 11.44% in **mortgage funds available** to today's homebuyers. This is up from negative 12.53 in December and down from positive 6.37 one year ago, when BPPI was near its height. The BPPI drop experienced in the second half of 2013 was due to the steep rise in mortgage rates which lingers on today. In effect, homebuyers are unable to borrow as much today as one year earlier without a parallel increase in their income to offset the rise in rates.

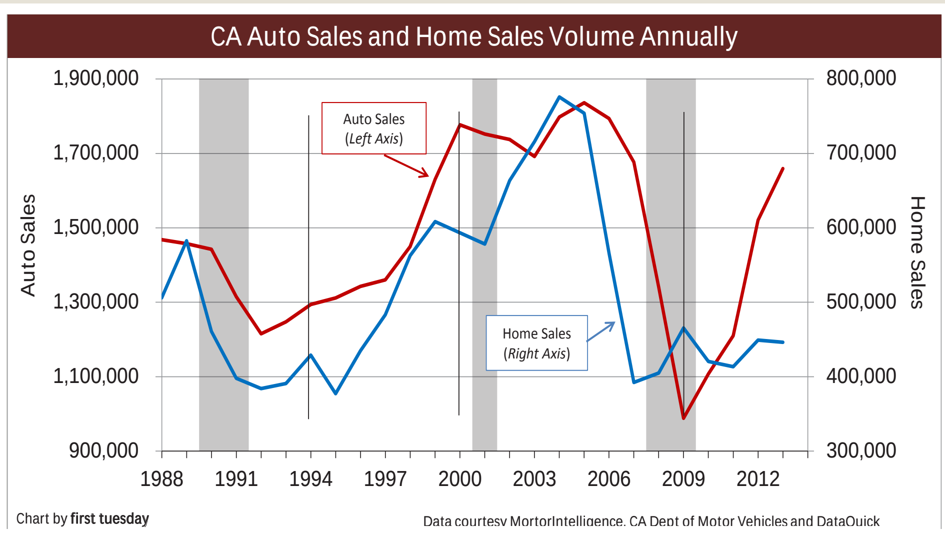
Home price increases in 2013 rose beyond the rate of consumer inflation. For 2014, home pricing will trend downward. This is a result of reduced purchasing power and waning market participation by **end users**.

Auto sales pave the highway to a real estate recovery

This chart plots the volume of new **auto sales** and leases, and **home sales** in California. Upward movement in auto sales volume **forecasts future increases** in home sales volume 12 to 24 months hence. However, when the market reverses, home sales volume drops first, followed by a delayed drop in auto sales.

Since 2009, auto sales volume trends have indicated the public's increased willingness to buy a **big ticket item**. In 2013, auto sales volume in California was up 9%. However, this reflects a deceleration from the 25% growth in 2012. The rise in auto sales over the past two years did not foster an increase in home sales volume during 2013, as forecast.

Speculator over-activity and a **premature jump in mortgage rates**, both unexpected going into 2013, caused a year-long stall in home sales volume and price increases in the second half of 2013. Looking forward, home sales volume is expected to continue slipping until late 2014. Home sales volume will pick up when prices cool sufficiently to lure **end users** back to the home buying market.



Click on any chart for more information!

Click to Print