Weekly Real Estate Statistical Update

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

December 9, 2013 • Vol. 2 • Issue 47 • *Tightened mortgage funds influence home pricing*

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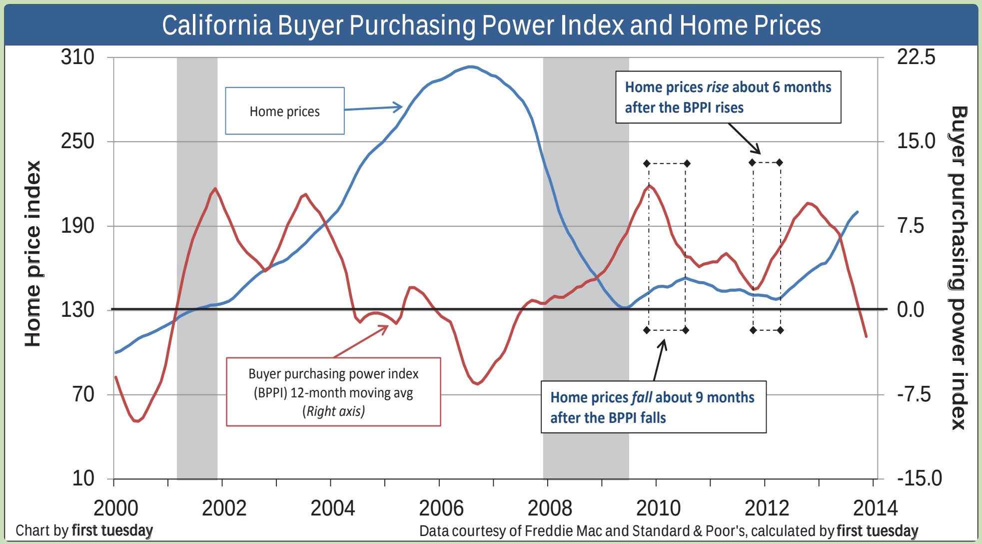
Buyer purchasing power sways home prices

This chart compares the **buyer purchasing power index (BPPI)** and **home prices**. The BPPI is based on California's average gross income and the 30-year FRM rate. The BPPI, the largest influence on home prices, is used to predict upward or downward movement in future pricing.

As the BPPI trends downward, prices dip approximately nine months later, unless other influential factors exist, such as the increased use of adjustable rate mortgages (ARMs). As BPPI trends upward, prices rise quicker, usually in six months. The time difference is due to home sellers holding onto their **sticky price delusions** when the BPPI drops and home sales volume declines.

Since December 2012, the BPPI has fallen consistently, indicating a dip in home prices in 2014. Both the BPPI and home prices will remain stunted until **mortgage rates** fall back or incomes from **jobs** catch up.

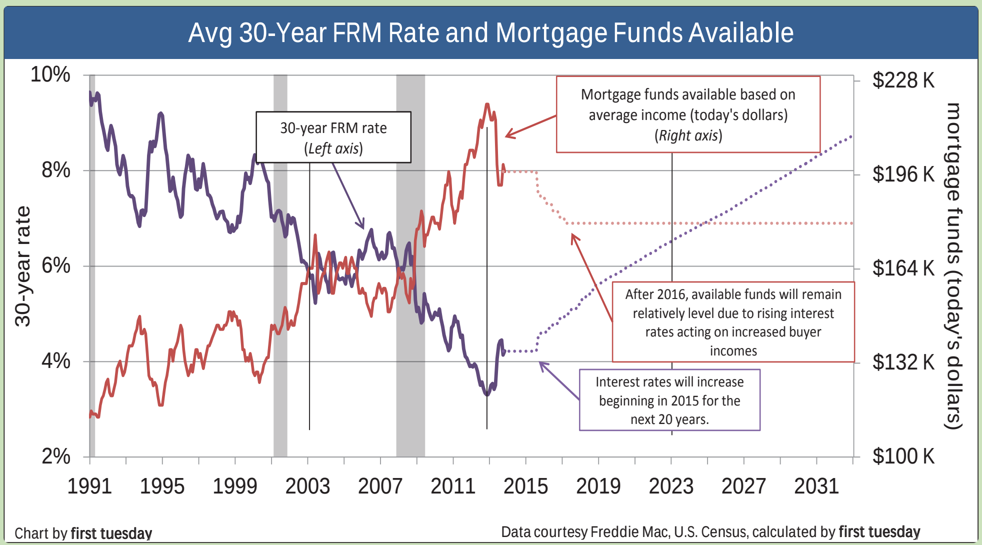


Higher interest rates hamper ability to borrow

This chart contrasts the average **30-year fixed rate mortgage (FRM)** rate with the corresponding availability of mortgage funds, stated in today's dollars. It displays how **falling interest rates** for 30 years prior to 2013 constantly increased the mortgage funds available to buyers, driving up prices.

As interest rates rise over the next 20-plus years, this principle will work in reverse. Thus, prices will move down before going flat in today's dollars. Looking forward, **mortgage funds available** to buyers will generally decrease, ushering in the attractiveness of **seller financing**.

Over the next 12 months, FRM rates need to fall back below 4% and remain there through 2014 to stabilize sales volume. This will allow the **housing recovery** to gain some momentum before the FRM rates inevitably rise further, probably in 2015.

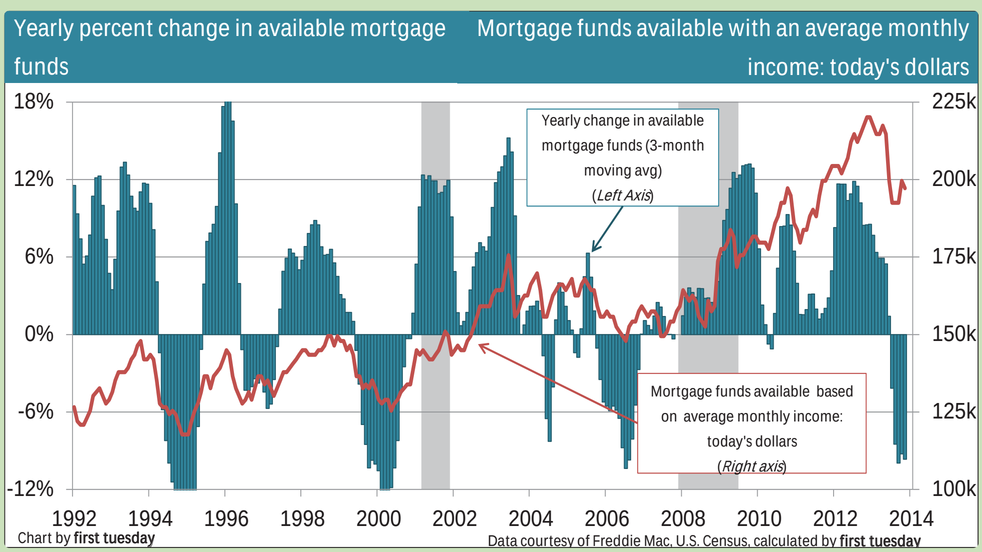


Mortgage funds available stay tight

This chart measures the year-over-year change in the amount of mortgage money available to a homebuyer, known as the **buyer purchasing power index (BPPI)**.

30-year FRM rates in California averaged 4.22% in November. One year earlier, the rate was 3.31%. As a result, the BPPI figure fell to negative 10.4 in November. This translates into a 10.4% decrease in **mortgage funds available** to today's buyers compared to funds available one year earlier. In turn, the maximum price buyers are able to pay for property is reduced by an equal percentage.

As a result, **pricing** is feeling downward pressure. Expect home prices to level off and drop going into 2014 as **end user** purchasing power becomes further constrained and **speculators** continue to exit the market en masse.



Click on any chart for more information!

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