

Monthly Real Estate Statistical Update

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

April 2023 • Vol. 13 • Issue 4 • **Home sales volume finds a new low, ARMs no longer an option to extend purchasing power**



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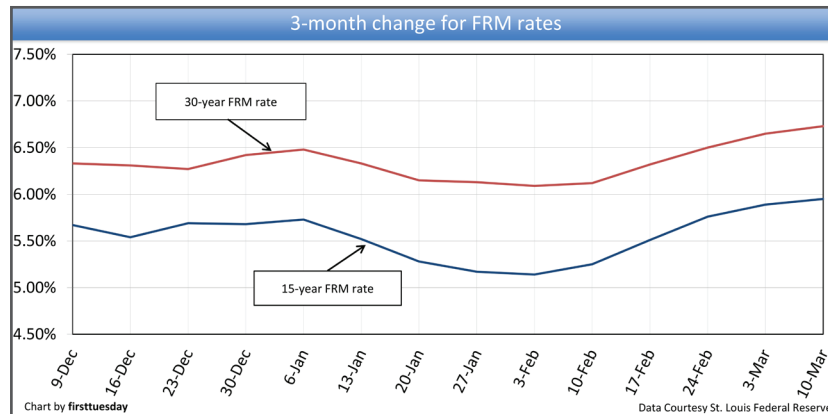
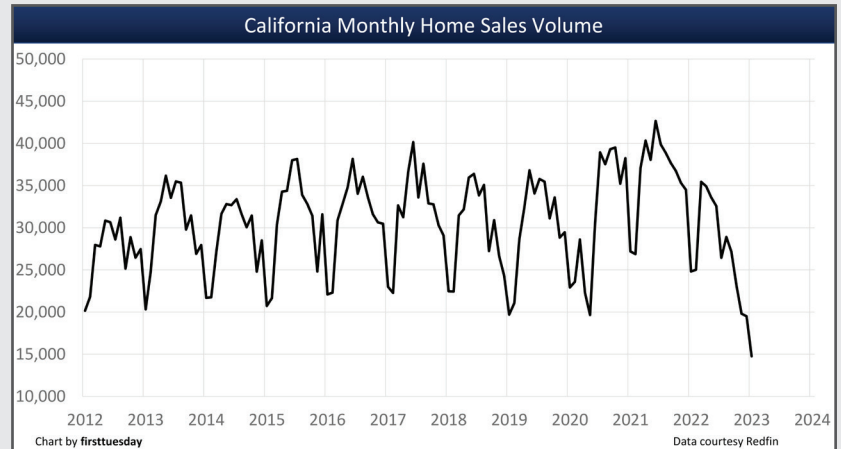
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Home sales volume in the basement

This chart shows the number of homes sold each month in California.

14,800 new and resale home transactions closed escrow in California during January 2023. **Home sales volume** was down from the prior month and a devastating 40% below a year earlier, the lowest figure since 2008. During 2021, historically low interest rates and buyer fear of missing out (FOMO) escalated housing market sales activity, cannibalizing future sales while inflating prices. Now that the pandemic fuel is gone, sales volume has collapsed.

2023 will be a year of overall weakening for California home sales volume as today's **supply of homebuyers** was depleted during the pandemic buying spree. Other buyers know the math and will only buy when prices stop dropping. Expect a return of real estate speculators in 2024, with a sustainable recovery taking off with the return of end user homebuyers around 2026-2027.



FRM rates to fall back in 2023 — but not yet

This chart displays the average interest rates on a **30-year fixed rate mortgage (FRM)** rate alongside the 15-year FRM rate.

The average 30-year FRM rate jumped to 6.7% in the first half of March 2023. The average 15-year FRM rate also continued to rise, now at 6.0%.

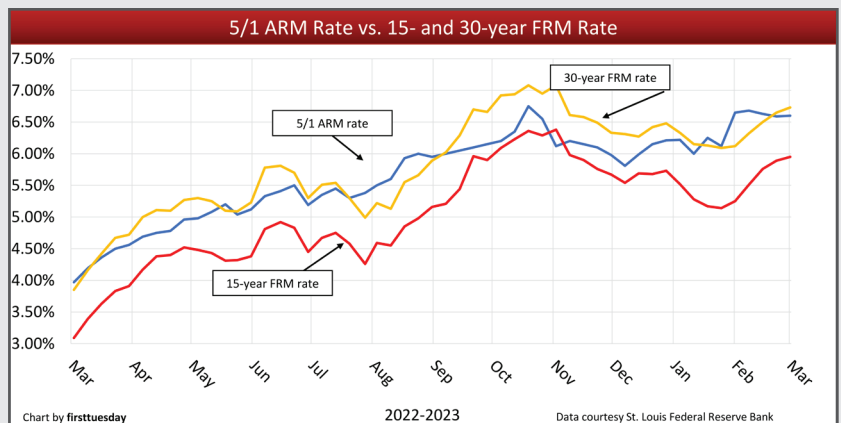
Expect to see FRM rates slip in 2023-2024 as the Fed knocks down **excess inflation** before FRM rates resume their long-term upward trend which, in 2013, introduced a half-cycle of some 30 years of rising FRM rates. However, while the 2020-2021 period of the Pandemic Economy saw FRM rates artificially reduced to their lowest rates ever — FRMs will not return to those historic lows in the 2023 recession.

ARM rates crossover the FRM rate

This chart shows the average interest rate on a 5/1 **adjustable rate mortgage (ARM)**.

The average ARM rate continues to climb, averaging 6.6% in March 2023. Currently, the interest rate on the ARM rate is higher than the 15-year FRM rate and roughly level with the 30-year FRM rate. Thus, a riskier ARM is even less appealing to buyers seeking to increase their **borrowing capacity** beyond the amount allowed by an FRM.

This **inversion in rates** has eliminated the appeal of ARMs and the price support ARMs provided before the inversion. Worse, homebuyers who previously used ARMs to extend their purchasing power will be met with higher payments when the initial teaser rate period ends, destabilizing real estate markets when these ARMs reset five years forward.



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