


Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from **RPI (Realty Publications, Inc.)**
May 2022 • Vol. 12 • Issue 5 • **Fast rising mortgage rates chill real estate for all participants**

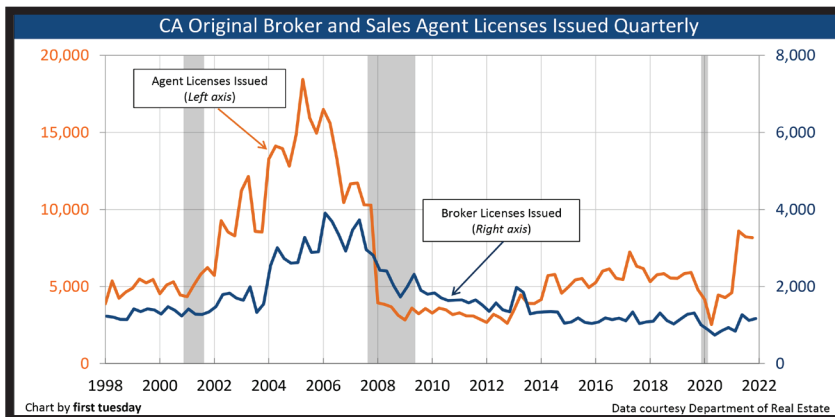
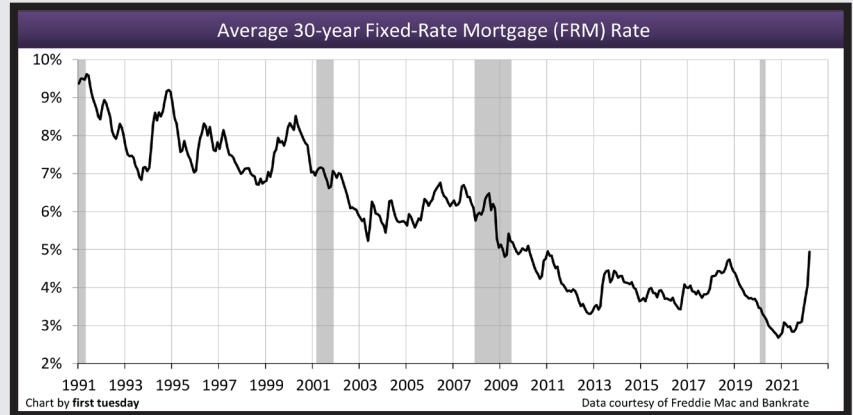
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Mortgage interest rates leap, toppling buyers until prices drop

This chart displays the average interest rate on a 30-year **fixed rate mortgage (FRM)**. The gray bars indicate economic recessions.

The average 30-year FRM rate leaped to 4.94% in April 2022, up from 3.03% a year earlier. This two-percentage-point annual increase devastates **buyer purchasing power**. For reference, this one-year interest rate increase translates into a 21% reduction in mortgage principal available to the typical homebuyer.

FRM rates will continue to rise in 2022-2023 as the Federal Reserve (the Fed) sells off its mortgage-backed bond (MBB) holdings to cool off asset price increases by returning the control of rates to the bond market. Rate increases quickly devolve into downward pressure on real estate sales volume, then prices.



Lured by temporary price reports, new agents pour in during 2021

This chart shows the number of new California real estate agent and broker **licenses issued** each quarter. The gray columns represent periods of economic recession.

8,200 new real estate agents and 1,200 new brokers received their licenses from the California **Department of Real Estate (DRE)** in the fourth quarter (Q4) of 2021. For perspective, 2021 saw the highest number of individuals obtaining their real estate license since the record highs of the Millennium Boom.

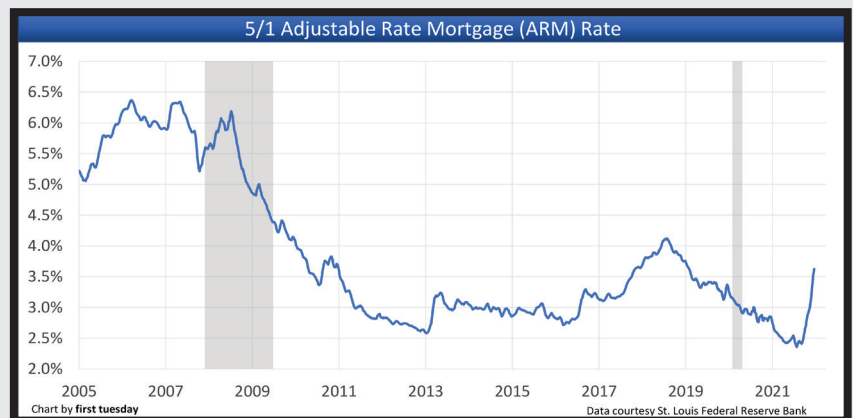
While 2021 was a banner year for new licensees, don't expect the high numbers to continue. Sales agent licensing will fall off with the decrease in real estate sales volume and prices. Now that the housing market must stand on its own without government support, the decline in real estate licensing has arrived.

ARM use to rise with FRM rate jump

This chart shows the average rate on a **5/1 adjustable rate mortgage (ARM)**. The grey bars are periods of economic recession.

The average ARM rate continued to jump in April 2022, averaging 3.67% and rising. Still, interest rates on both 15- and 30-year FRM rates are currently higher than the average ARM rate, making these **riskier mortgage products** more appealing to homebuyers and investors seeking to increase their borrowing capacity.

As rising FRM rates cause persistent homebuyers to turn to ARMs to make up the lost purchasing power in an FRM, the market tips away from stability. With increased ARM use, today's homebuyers will be in for a rate reset once the **teaser period** is over, at which point interest rates will trend even higher.



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