

Monthly Real Estate Statistical Update

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

June 2023 • Vol. 13 • Issue 6 • **Ten-year rate hikes freeze up sellers in property markets**



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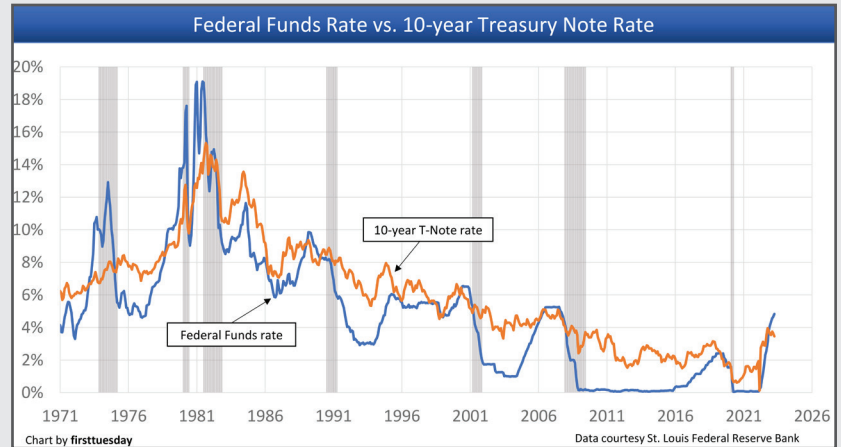
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The seesaw of mortgage market and Fed funds rates

This chart shows the Federal Funds rate alongside the 10-year Treasury Note rate. The gray lines represent **recessions**.

The Federal Funds rate directly affects **adjustable rate mortgage (ARM)** rates paid on most commercial and some high-tier residential mortgages, new or existing. In contrast, the 10-year T-Note prompts moves for fixed rate mortgage (FRM) rates.

In the short term, real estate agents can expect FRM rates to slip in 2023 as the Fed Funds rate increases to knock down excess inflation before the recession sets in. But mortgage interest rates will rise gradually over the next two decades causing **buyer purchasing power** to decline, unlike the decades prior to 2013. With less money available to borrowers, expect downward pressure on all property sales and prices — until sellers of real estate adjust their listing prices to offset the value-taxing force of rising interest.

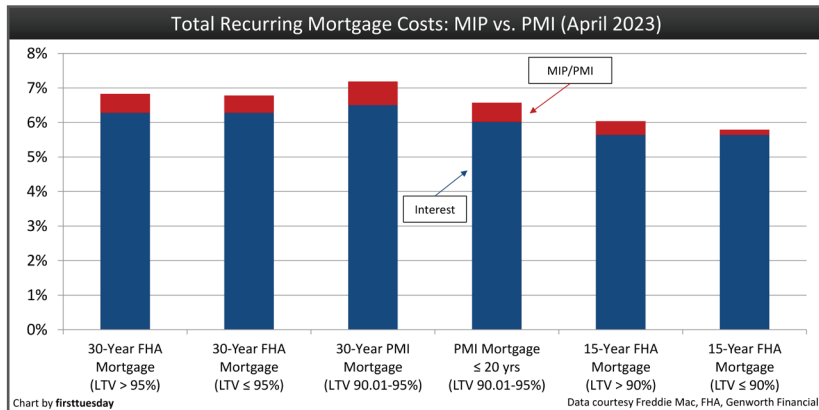


Mortgage insurance also constricts homebuyer purchasing power

This chart displays **mortgage insurance premiums (MIPs)**, set by the Federal Housing Administration (FHA), and **private mortgage insurance (PMI)**, available from private insurers.

As of April 2023, the FHA mortgage **MIP** rate for a 3.5% down payment decreased to 0.55%, while the **PMI** rate for a similar mortgage with a 5% down payment remains at 0.68%. While FHA-insured mortgage default insurance is less expensive, MIP for mortgages originated with less than 10% down payment may not be canceled. In contrast, PMI may be canceled once the homeowner achieves 20% equity.

In today's era of rising interest rates, refinancing to remove MIP is unobtainable for owners. Prudent **first-time homebuyers**, will wait until prices bottom, expected to occur around 2025. In the meantime, they need to save for a down payment to eliminate mortgage insurance and expand their purchasing power.

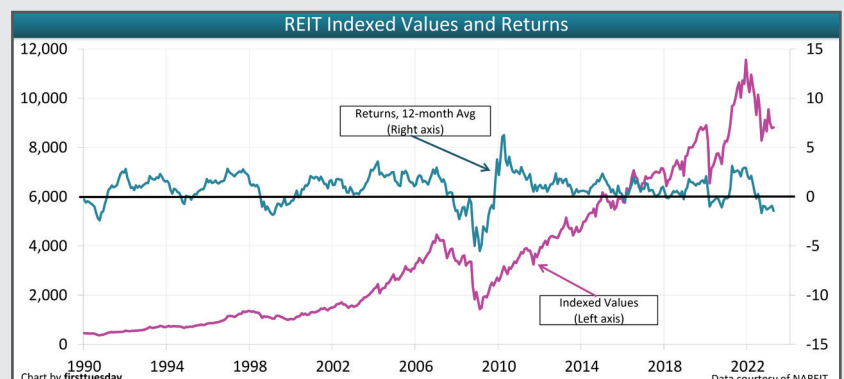


REIT values, returns fall back in 2023

This chart shows the values and returns of **real estate investment trusts (REITs)**.

REIT shares were indexed at 8,800 in April 2023, **16% below** the index figure of a year earlier. Like property values, REIT values plunged after long-term capitalization rates increased following the pandemic-era economy. REIT values are now roughly level with the values reached before the pandemic disruption. Further adjustments are in store through 2025.

The long-term outlook for REITs will find support from the strength of the multi-family and industrial sector, not city-center commercial properties. But REIT investors have become cautious in 2023 as the **real estate recession** reshapes the commercial market. The past 18 months of deceleration in job growth forecasts more business closings and rising commercial vacancies. To regain stability, REITs need an economic recovery to begin, likely around 2026.



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for more information!