Monthly Real Estate Statistical Update

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

July 2023 • Vol. 13 • Issue 7 • ***Hitting 2023 mortgage rate obstacles, construction starts return to pandemic lows***

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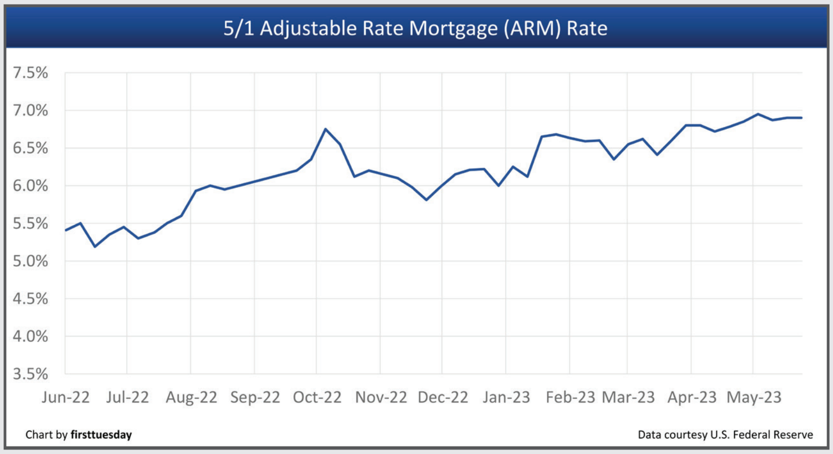
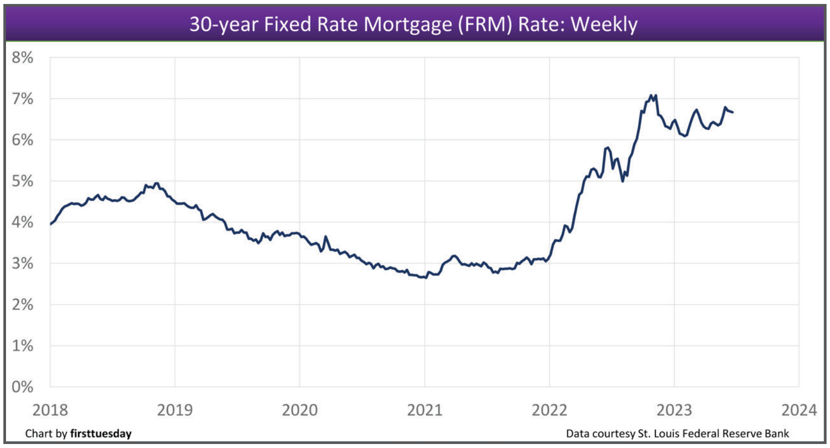
ARM rates too high — nonsense for homebuyers

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

ARM rates continued to edge higher in June 2023, averaging over 6.9%. Since the end of 2022, the interest rate on the ARM rate has been higher — and in 2023 will remain higher — than both the 15- and 30-year fixed rate mortgage (FRM) rate. Thus, a riskier ARM is even less appealing to buyers seeking to increase their **borrowing capacity** beyond the amount normally allowed by an FRM.

This rate inversion has completely eliminated the appeal of ARMs — and their home price support. Worse, homebuyers who used ARM funding to extend their purchasing power in 2022 will be confronted with higher payments when the **teaser rate** period ends. Any increase in ARM use adds a degree of instability to real estate markets when ARMs reset — five years forward.





As FRM rates slip, purchasing power damage lives on

This chart shows the average monthly interest rate on a 30-year **fixed rate mortgage (FRM)**.

The 30-year FRM rate averaged 6.7% in June 2023, up from 5.5% a year earlier. When the pandemic set in, the average 30-year FRM rate had risen to almost 4.0%, which gradually **slowed price increases** — until the pandemic sales boost. Now, today's post-pandemic rise in the FRM to 6.7% inflicts a significant reduction in **buyer purchasing power** — which controls property pricing. During the initial post-pandemic rate bump of 2022, some homebuyers turned to ARMs to compete.

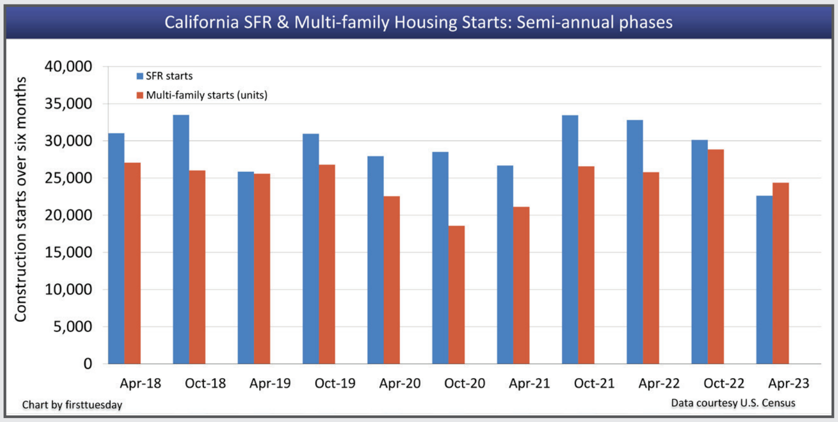
Now that ARMs are no longer a viable option, buyers need to consider a home in a lower price tier (unlikely), or simply wait out the drop in seller asking prices — now well underway.

Residential construction falls, without a backstop

This chart shows the number of single family residential (SFR) and multi-family **construction starts** in California in semi-annual phases.

Residential construction continues to fall back in 2023, with **SFR starts** a steep 31% below one year earlier in the six-month phase ending April 2023. During those same six months, **multi-family starts** were down 5% from the six-month phase a year earlier. While builders were beginning to cash in on legislative incentives to add to the low- and mid-tier housing stock and rising homebuyer demand, leaping mortgage rates and spiraling sales volume and prices in 2022 crushed **builder sentiment**, causing starts to plummet to 2020 levels.

Residential construction starts will not reach their full potential until after the 2023 recession when prices bottom around 2026 and the recovery picks up steam, expected around 2027.



Click on any chart for more information!

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