

Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from **RPI (Realty Publications, Inc.)**
August 2022 • Vol. 12 • Issue 8 • **Sharply climbing long-term yields put real estate buyers, sellers on notice**



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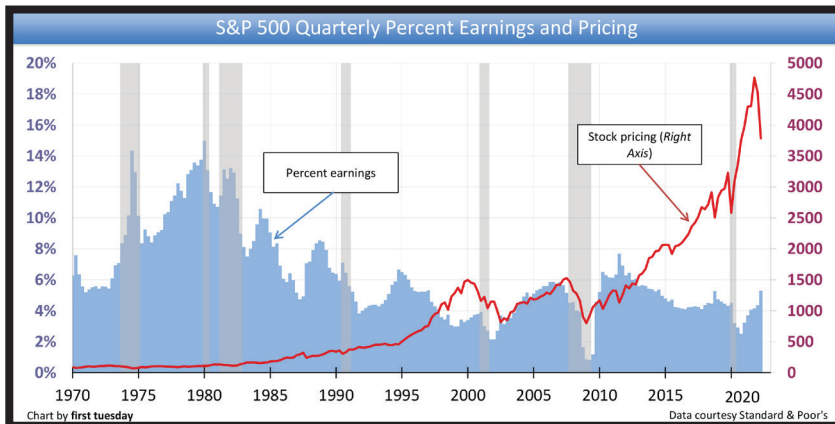
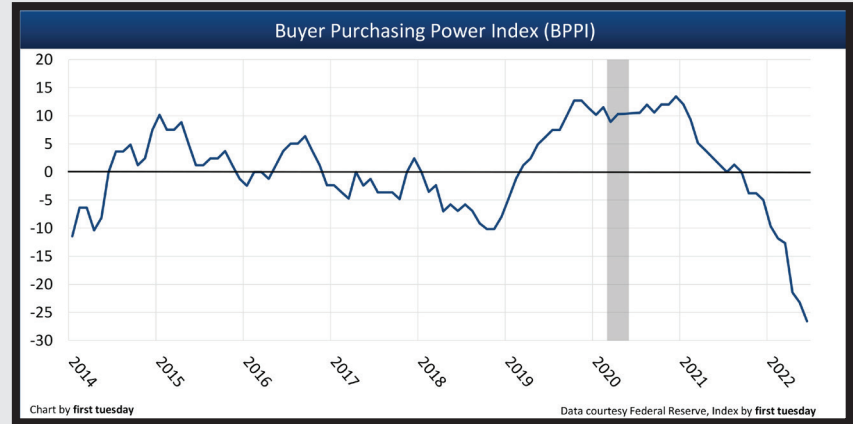
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Punishing mortgage rates drop Buyer Purchasing Power to the basement

This chart shows the **California Buyer Purchasing Power Index (BPPI)**, calculated by firsttuesday. This figure tells us how much mortgage principal a homebuyer can borrow today compared to a year earlier based on changes in mortgage rates.

The BPPI figure declined to -26.6 in June 2022. This figure tells us a homebuyer with the same income is able to borrow 26.6% less mortgage money than a year ago. Since homebuyers qualify for a mortgage amount based on their incomes, any rise in **mortgage rates** instantly cuts the amount they can borrow — pay — for a home.

The BPPI will remain negative in the coming years, though the decline won't be as dramatic as during 2022. We are facing years of a cyclical upward rise in mortgage rates and restrained mortgage borrowing which began in 2013, briefly interrupted in 2020-2021. Expect all **property prices** to take a hit as interest rates resume their upward march.



Stock market price restructuring — investors prepare for decay to ripple into property prices

This chart displays **stock pricing** on the S&P 500 index (the red line) and the price-to-earnings (P/E) ratio (the blue columns) which is stated as the capitalization rate — how real estate investors price property. Recessions are gray columns.

Stock prices descended in the second quarter (Q2) of 2022 from record highs. The **price-to-earnings (P/E)** ratio has fallen back to 18.9, equal to a cap rate of 5.3% — not great, but an improvement over 2020 when the cap rate equivalent was a meager 2.5% return.

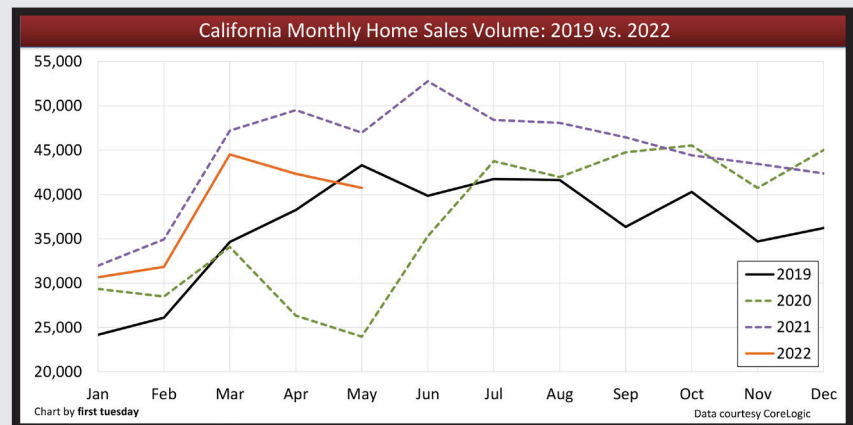
The stock market has declined over 20% from the January 2022 peak. After years of being detached from reality, stock market speculators are finally reigning it in as they take huge losses in value. For cash-heavy **real estate investors**, look ahead to the next buyer's market when property prices have fully declined, to arrive around 2025.

California home sales volume has taken an unseasonably downward trend

This chart shows the path of **home sales volume** in 2019 (the black line) alongside sales volume thus far in 2022 (the orange line). The pandemic economy distorted the 2020 and 2021 annual sales figures (dashed lines).

As of May 2022, year-to-date sales volume is 10% below 2021 — and falling. However, comparing 2022 sales volume to 2019 sales volume — the last most relevant year — presents a more accurate picture of sales volume trends. While sales volume started off 2022 at a faster pace than 2019, volume **prematurely peaked** in March, quickly tapering off to below 2019 pre-recession levels.

The deep cut to available mortgage funds caused by 2022's rapidly **rising interest rates** predicted slowing homebuyer acquisitions. Thus, after two pandemic years of volatile, atypical surges in home sales volume, expect sales volume in 2022 to end the year slightly below 2019, then continue downward in 2023-2024



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