Monthly Real Estate Statistical Update

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

September 2022 • Vol. 12 • Issue 9 • ***Homebuyers now lean on ARMs to cover lost purchasing power — and that crutch is about to vanish***

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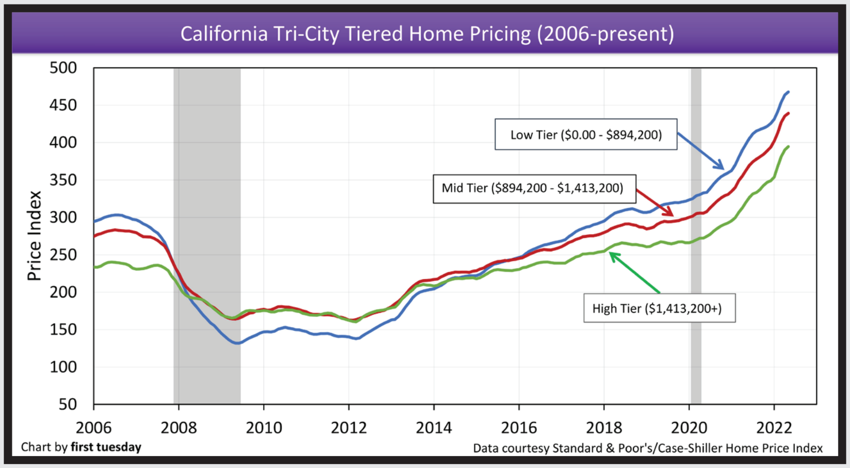
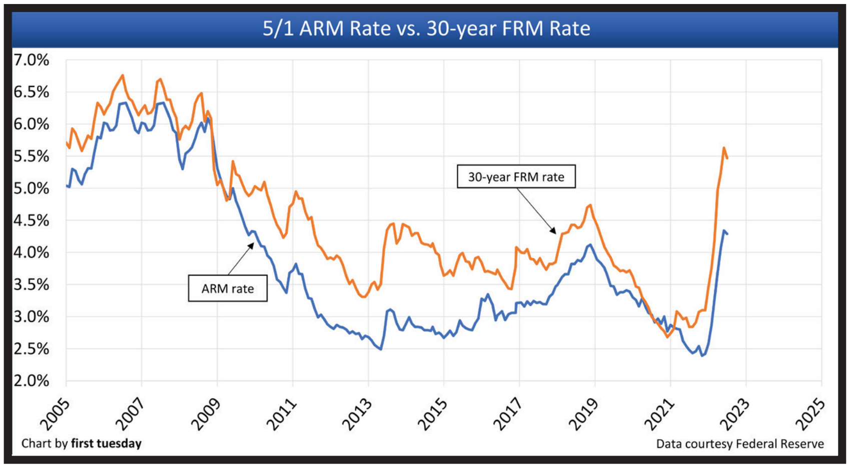
California's increasing home prices ended mid-2022

This chart shows **home price movement** averaged across California's three major metros in the low, mid and high tiers. The gray bars represent economic recessions.

On a monthly basis, home prices **barely increased** during May 2022 in all tiers across Los Angeles, San Francisco and San Diego, the signal that today's high home prices have peaked and reversed course. The average year-over-year price change is +18% for low-tier prices, +22% for mid-tier prices and +25% for high-tier prices.

Expect prices in all tiers to steadily decline through 2023 as homebuyer enthusiasm is exhausted and pandemic distorted pricing is cleared out by the **2022 recession.** Expect government intervention to be limited until the Fed controls inflation, likely by 2024. Further, while home prices rose like a rocket in 2020-2021, they will fall like a feather, finding a bottom around 2025.





ARMs boost purchasing power — for now

This chart displays the average interest rate on a **5/1 adjustable rate mortgage (ARM)** versus a 30-year fixed rate mortgage (FRM).

After a startling jump for all mortgage rates in the first half of 2022, the ARM rate slipped to an average rate of 4.29% in July 2022. ARM rates increased as a direct result of **the Federal Reserve's (the Fed's)** actions to combat excess inflation. Likewise, the average 30-year FRM rate averaged a detrimental 5.47% in July 2022 as dictated by the 10-year bond market rate.

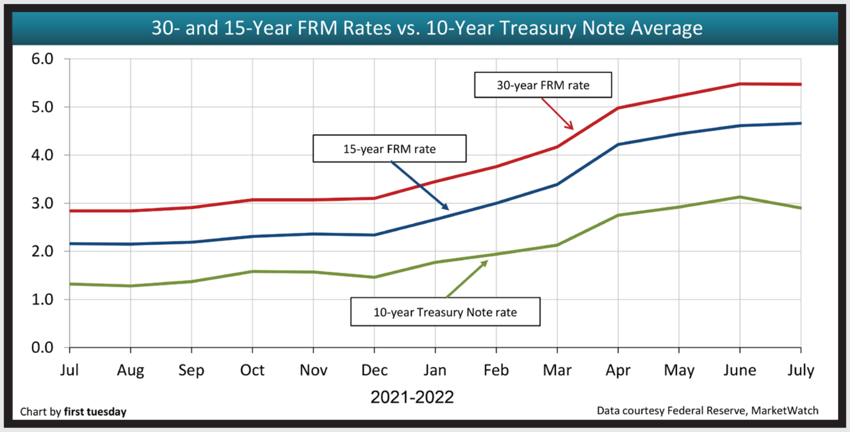
The lower rate on ARMs makes these far riskier products more appealing to homebuyers who seek to retain the purchasing power they lost to FRM rate increases and seller resistance to offsetting home price reductions. As the undeclared 2022 recession intensifies in the months ahead, expect the ARM rate to rise and exceed FRM rates, likely before 2023. This crossover will instantly slash homebuyer appeal of ARMs to further destabilize pricing.

Widening interest rate spread exposes lender mortgage default anxiety

This chart shows the average rates on 15- and 30-year **fixed rate mortgages (FRMs)** alongside the average 10-year Treasury Note rate.

FRM rates leveled out in July 2022, even as the average 10-year T-Note fell back. FRM rates usually move in tandem with the 10-year T-Note, with an added **risk premium** spread between the 30-year FRM and 10-year T-Note averaging 1.5 percentage points. But the spread has widened to 2.57 in July 2022, a significantly higher risk premium than the historical average.

Today's high spread indicates mortgage lenders are padding their risk premiums in anticipation of foreclosures due to defaults — and future rate increases. Watch for **mortgage defaults** to pile on in 2023 as home equities go negative following the drop in home prices. The next sustainable recovery will gain steam with the return of end user homebuyers once they sense prices have fully bottomed, likely around 2026.



Click on any chart for more information!

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