Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from first tuesday

October 2016 • Vol. 5 • Issue 10 • *Mortgage rate movement impacts homebuyers and owners*

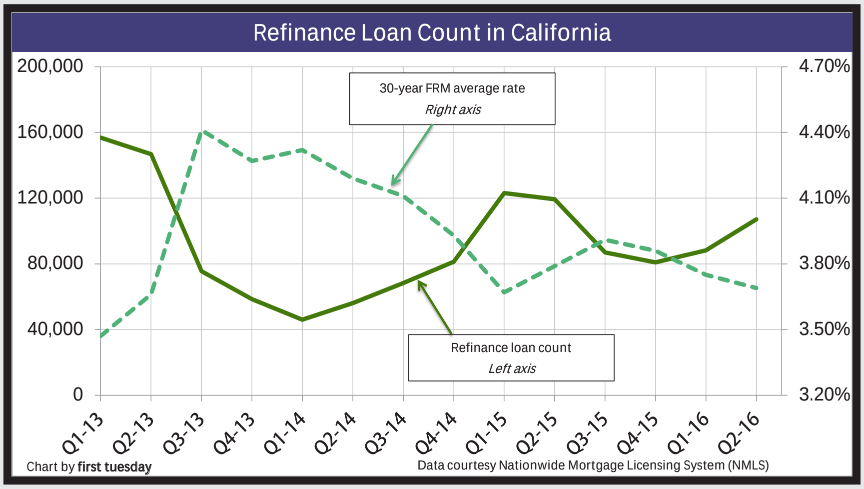
Presented by
Name
CalBRE #
Phone
Email

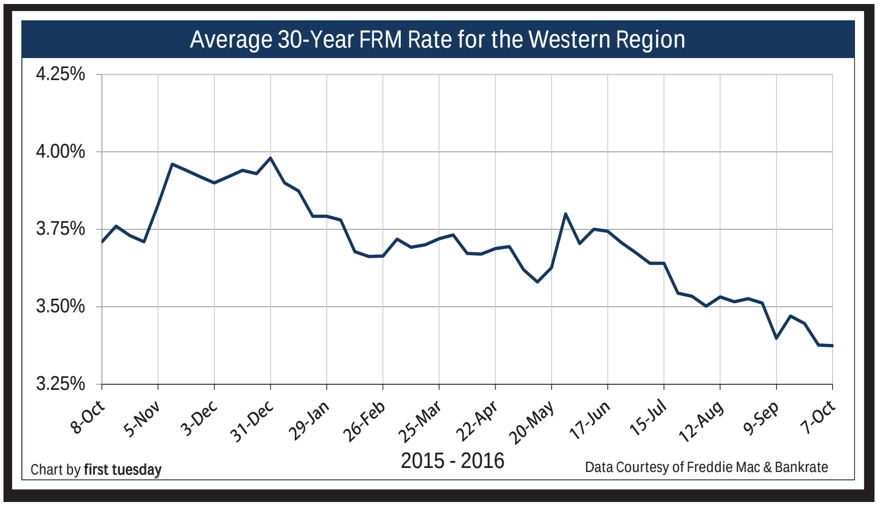
Refinances rise with low rates

This chart shows the number of **refinances** occurring each quarter in California alongside the average 30-year fixed rate mortgage (FRM) rate.

Refinancing activity shares an inverse relationship with **mortgage rates**. When rates are declining, as they are in 2016, refinances rise. In the second quarter (Q2) of 2016, 107,000 refinance transactions closed in California. At the time, the average FRM rate was about 3.7%. Q3 2016 saw mortgage rates fall even further. Thus, expect refinance reports to show an additional increase this quarter.

Looking forward, refinances will trend down once FRM rates increase as the attraction of a **lower rate** removes the impetus for most homeowners to refinance. Rates are expected to rise in early- to mid-2017.





FRM rates continue to decrease, for now

This chart displays the average weekly **30-year fixed rate mortgage (FRM)** rate in the Western Region of the U.S., including California.

The average FRM rate hit 3.37% in the first week of October 2016, its **lowest point** since it bottomed in 2012. FRM rates have remained relatively low during the recovery from the Great Recession due to near-zero short-term borrowing rates set by the Federal Reserve (the Fed). But the Fed raised the short-term rate by 0.25% at the end of 2015 following seven years at essentially zero.

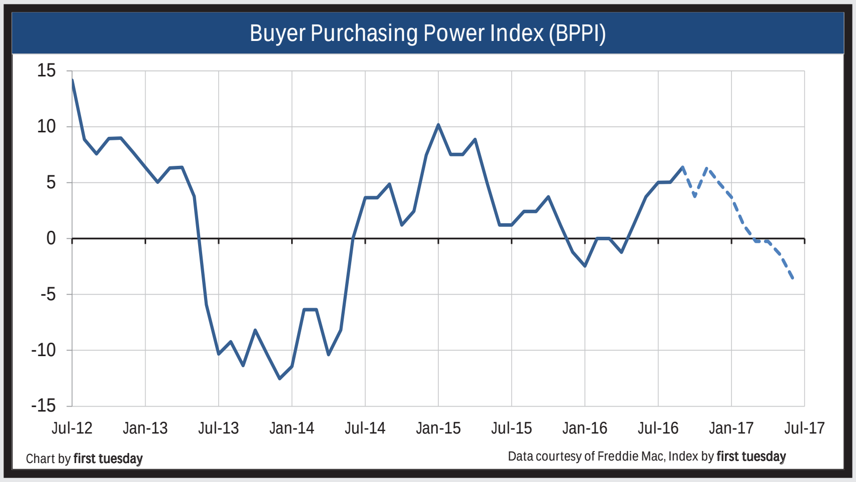
However, FRM rates have not seen the ripple effects of the rate hike due to increased investment in U.S. Treasuries and a lack of other **safe investments** in 2016's tumultuous global economy. FRM rates will likely rise in 2017 when the Fed feels it is safe enough for the economy — jobs and inflation — to induce the next rate bump.

Rate decrease impacts buyer purchasing power

This chart shows California's **Buyer Purchasing Power Index (BPPI)**. The BPPI is calculated by comparing the amount of mortgage money available to today's homebuyers compared to one year earlier. A positive figure indicates more money is available to buyers and a negative figure indicates less money is available.

The two influences on buyer purchasing power are **homebuyer income** and **mortgage rates**. Therefore, while mortgage rates declined throughout 2016, the BPPI figure continues to rise, at +6.37 in Q3 2016. Homebuyers can qualify for **higher principal amounts** today due to less of their monthly mortgage payment being spent on interest. Since buyers qualify to pay more for a house, home prices sympathetically rise.

In 2017, the BPPI will trend down once **mortgage rates** begin to increase. When homebuyers find they are able to qualify for less principal, many will put off purchasing. In turn, home sales volume and prices will suffer in 2017, going into 2018.



Click on any chart for more information!

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