

Monthly Real Estate Statistical Update

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

November 2022 • Vol. 12 • Issue 11 • **2023 recession demands discipline from investors**



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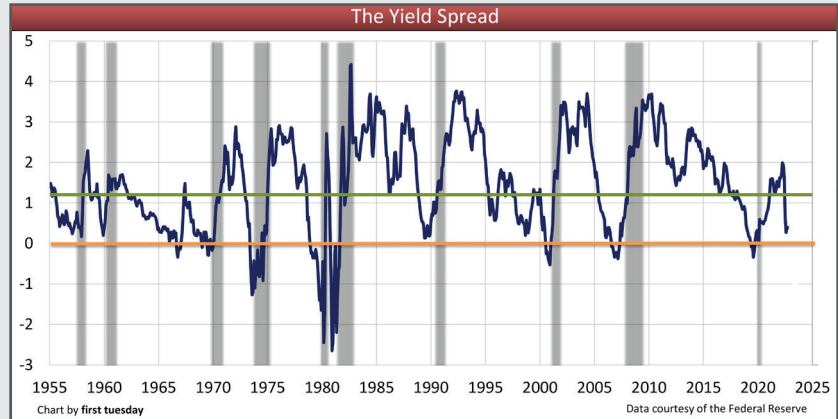
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Today's weak yield spread reflects 2023's poor economic outlook

This chart displays the **yield spread**, which forecasts the likelihood of a recession or recovery within the following 12 months. The gray bars indicate economic recessions. When the yield spread dips below the green line, a recession is likely. When it dips below the orange line, a recession is imminent.

In September 2022, the yield spread was barely positive, at +0.39, and falling. When it turns negative, it will be due to **the Federal Reserve's (the Fed's)** short-term interest rate rising above the long-term rate.

Expect the yield spread to turn negative in Q4 2022 as the undeclared 2022 recession settles over the economy — and the property market. Skyrocketing **mortgage interest rates** and cap rates have seriously dampened sales volume and prices, both of which began to plummet earlier in 2022.

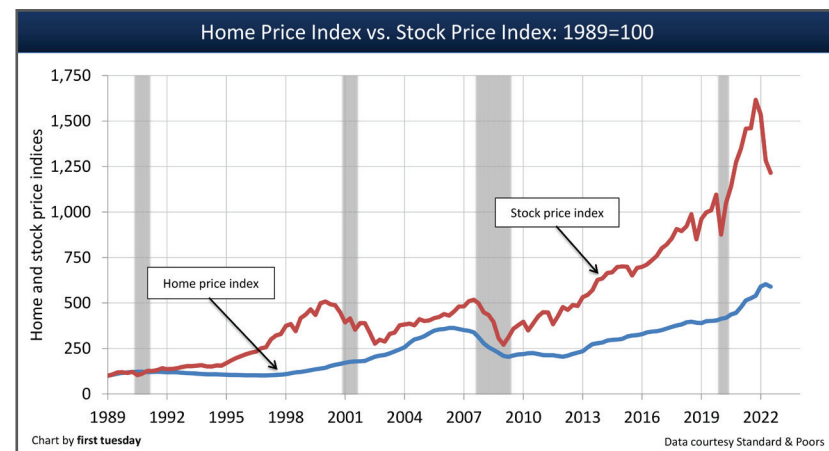


Investors abandon risk in favor of safe havens

This chart shows how the **stock price index** and the **home price index** changed over time in relation to each other.

Stock prices have fallen from pandemic distorted heights, down 17% from a year earlier in the third quarter of 2022. This rapid stock price tumble reflects the U.S. economy exiting the pandemic period into **2022's undeclared recession**. In response, investors are tightening their grip on cash, choosing to wait out the slump before buying.

California home prices have also begun a nosedive in 2022 following a decade of ascent. While real estate of quality remains a solid long-term investment, the 2020-2022 pricing picture makes this the worst time to buy for at least a decade. Current property owners intending to sell in the next few years will not soon see a return to today's prices. For future property buyers, look beyond the 2023 recession, to the upturn in real estate sales volume expected to arrive around 2026.

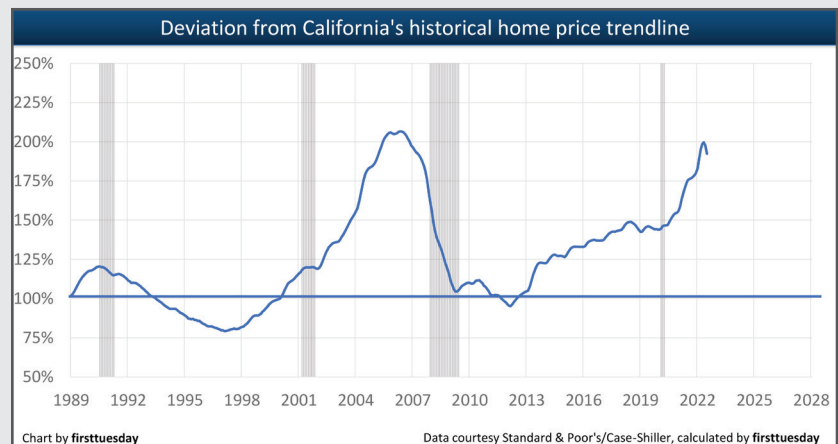


Property prices have a long way to fall in 2023-2025

This chart shows how far home prices have deviated from their **long-term value**. The black line of 100% is adjusted for a 3.5% annual property inflation comprising 2% consumer inflation and a 1.5% California premium.

Home prices in July 2022 were priced at 192% of their long-term value, down from their pandemic period peak. The fast and furious pandemic stimulus of 2020 fueled a surge in consumer and asset **price inflation**. To counteract this excess, the Fed pulled back mortgage funding. The bond market reacted by demanding hugely elevated rates to fund mortgages — and buyer purchasing power collapsed.

In the coming decades, rising **mortgage rates** will limit price increases. In the near term, watch for prices to continue to fall back, slumping below 2019 levels by 2024 until they reach a price level consistent with long-term home values, likely in 2025.



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