Monthly Real Estate Statistical Update

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

November 2023 • Vol. 13 • Issue 11 • ***As mortgage rates rise, so must property prices retreat***

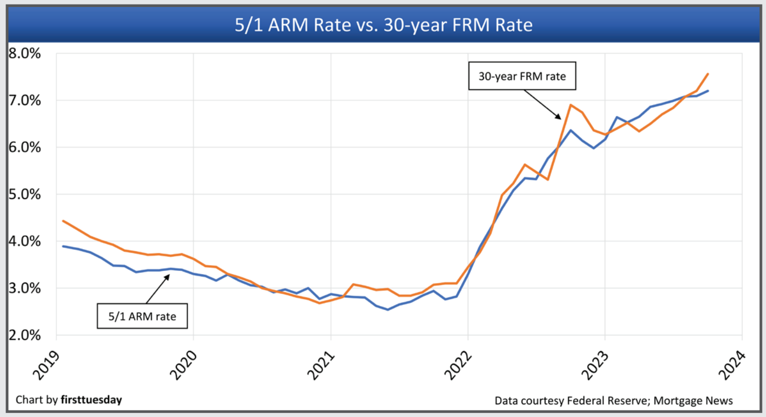
Presented by
Name
DRE #
Phone
Email

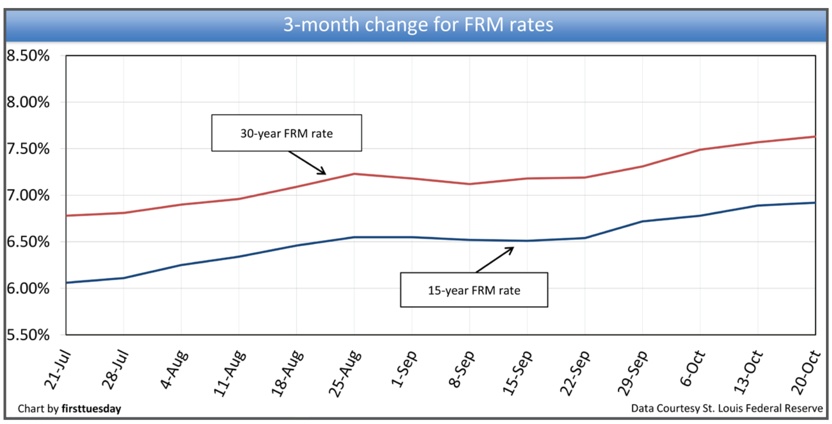
ARM rates inch higher, eliminating price support

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

ARM rates continued to edge higher in October 2023, averaging over 7.2%. In the first half of 2023, the ARM rate hovered above 30-year FRM rates, only recently falling slightly behind FRM rate increases. Thus, a riskier ARM is useless for buyers seeking to increase their **borrowing capacity** beyond the amount borrowed on an FRM.

This rate inversion has completely eliminated the appeal of ARMs — and their ability to support home prices. Worse, homebuyers who flocked to 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 instability to real estate markets when ARMs reset — five years forward.





Rising FRM rates slash buyer purchasing power

This chart shows the average monthly interest rates on a 30-year and 15-year **fixed rate mortgage (FRM)**.

The 30-year FRM rate averaged 7.6% in October 2023, up from 6.9% a year earlier. When the pandemic set in, the average 30-year FRM rate had risen to almost 4.0% which **slowed price increases** by reducing the amounts buyers were able to borrow.

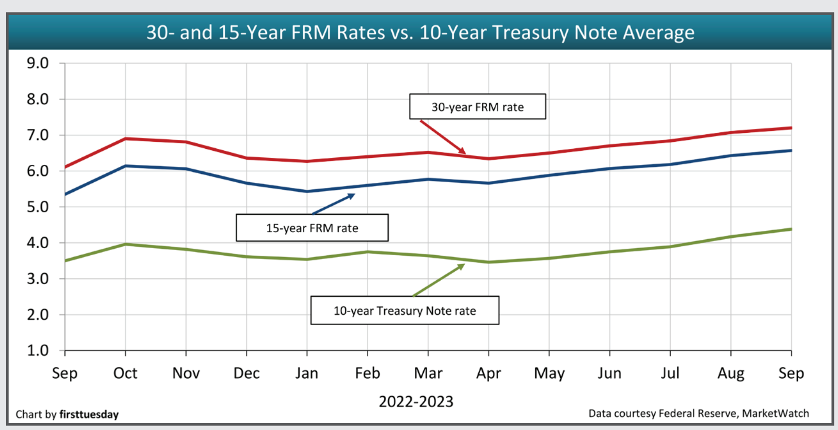
Today's post-pandemic rise in the FRM to 7.6% inflicts a further reduction in **buyer purchasing power** — which controls property price ceilings. During the rate bump of 2022, homebuyers turned to ARMs to meet seller pricing. Now that ARMs are no longer a viable option, buyers need to consider a home in a lower price tier (unlikely), or simply wait out the drop in seller asking prices. This price slump began in 2022, pausing in 2023 for a brief seasonal bump. Wait for prices to resume their plunge heading into 2024.

Lenders counter risks with higher mortgage rates

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

Rates on FRMs and the 10-year T-Note continue to increase each month in the second half of 2023. FRM rates tend to move in tandem with the 10-year T-Note. The historical average **risk premium** spread between the 30-year FRM and 10-year T-Note is around 1.5 percent. But the spread has widened significantly to over 2.7% in October 2023, as lenders anticipate rate increases — and foreclosures due to defaults.

Watch for **mortgage defaults** to pile on following the drop in jobs and home prices, to take place in 2024. The next sustainable recovery will gain steam with the return of end user homebuyers once they sense prices have fully bottomed, likely around 2026-2027.



Click on any chart for more information!

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