Monthly Real Estate Statistical Update

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

August 2015 • Vol. 4 • Issue 8 • ***Purchasing power drives home prices***

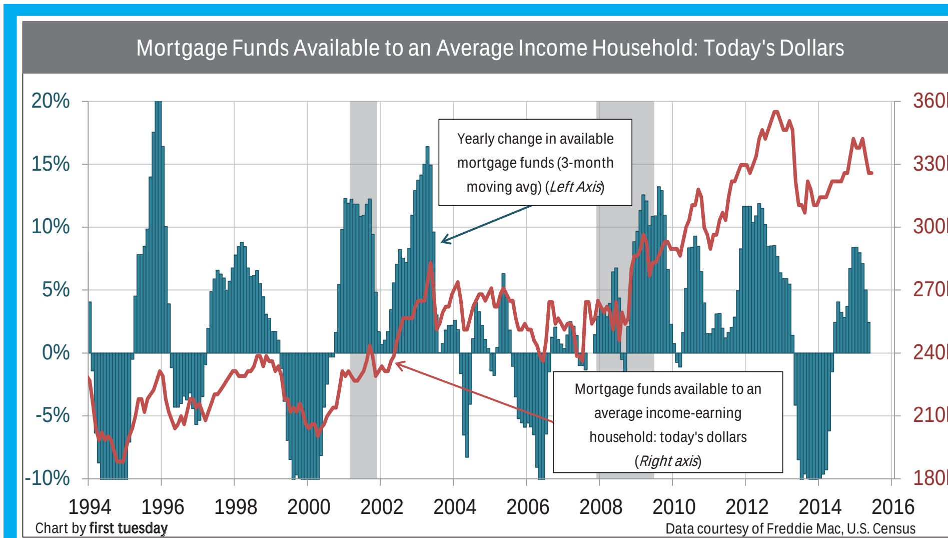
Presented by
Name
CalBRE License #
Phone
Email

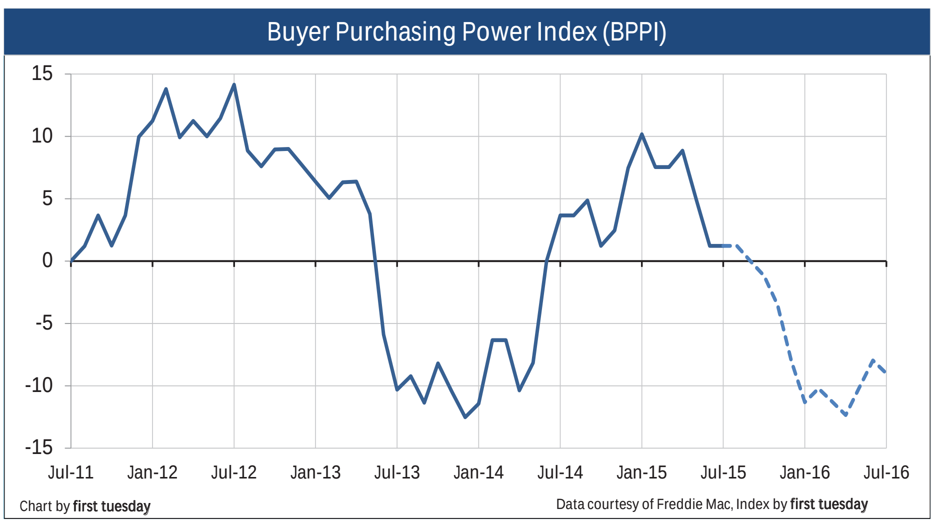
Rising mortgage rates suppress home prices

This chart measures the year-over-year change in the amount of mortgage money available to a homebuyer, known as the **buyer purchasing power index (BPPI)**.

30-year fixed rate mortgage (FRM) rates in California averaged 3.99% in July 2015. One year earlier, the rate was 4.12%. As a result, the BPPI figure was positive at 1.21 in July 2015. This represents a year-over-year increase of 1.21% in **mortgage funds available** to today's buyer. In turn, the price homebuyers are able to pay using purchase-assist financing increased by the same percentage.

Today's still positive BPPI figure is on a trend to zero and below. Mortgage rates are expected to rise in sympathy with the **Federal Reserve's (the Fed's)** imminent increase in short-term rates, likely by the end of 2015. Thus, downward pressure on **future home pricing** is inevitable in 2016.





Buyer purchasing power on the decline

This chart tracks the **buyer purchasing power index (BPPI)**. The BPPI is based on the **30-year fixed rate mortgage (FRM)** rate and California's **median income**.

The BPPI figure remains positive today at 1.21 as investors sit out the **tumultuous global economy** by holding government bonds. Bond rates, and thus mortgage rates, will eventually rise to drive the BPPI down now that our economy has recovered from the **Great Recession** and is expanding. The long-term outlook for the BPPI is a decades' long period of average **negative figures**, a reversal from the past 30-year trend.

Expect real estate prices to top out, and then start to slip 9-12 months after mortgage rates begin to rise. By late 2016, sellers will experience **downward pressure on home prices** as buyers' ability to borrow is reduced with the same income.

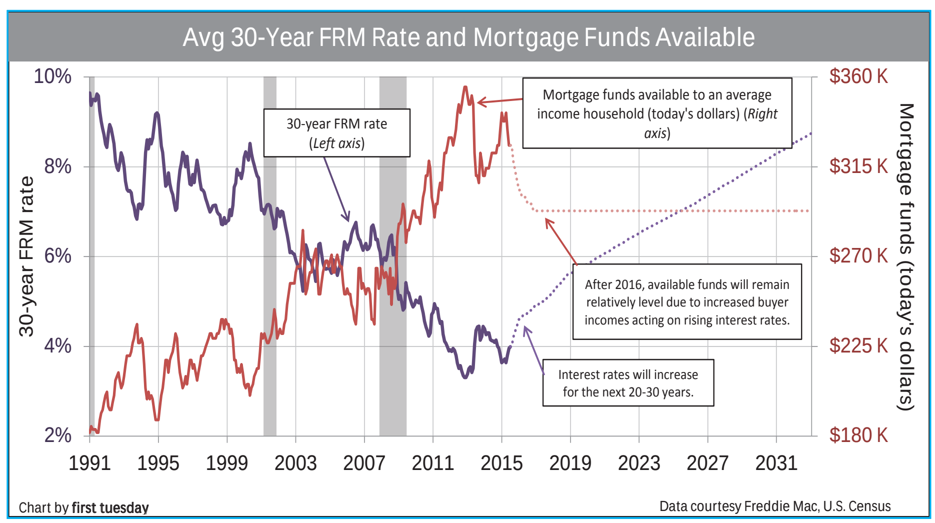
Ability to borrow will fall with rising rates

This chart demonstrates the effect changes in the **30-year fixed rate mortgage (FRM)** rate have on the amount of mortgage funds available to a homebuyer, stated in today's dollars.

Falling interest rates over the 30 years prior to 2013 directly increased the mortgage funds available to buyers. The excess funding drove sales prices up to the delight of sellers. As interest rates rise over the next 30 years, this trend will work in reverse. **Downward pressure** on prices will develop, flattening future pricing to the rate of consumer inflation.

Looking forward, mortgage rates will remain static into late 2015. By then, the 10-year bond market will have reacted to the rise in short-term rates. In turn, FRM rates will match the rise.

Increased mortgage rates will usher in **seller financing** and risky **adjustable rate mortgages (ARMs)** — if sellers hold on to their illusory pricing of yesterday.



Click on any chart for more information!

Click to Print