

Monthly Real Estate Statistical Update

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

August 2020 • Vol. 10 • Issue 8 • **Buyer purchasing power props up prices, for now**



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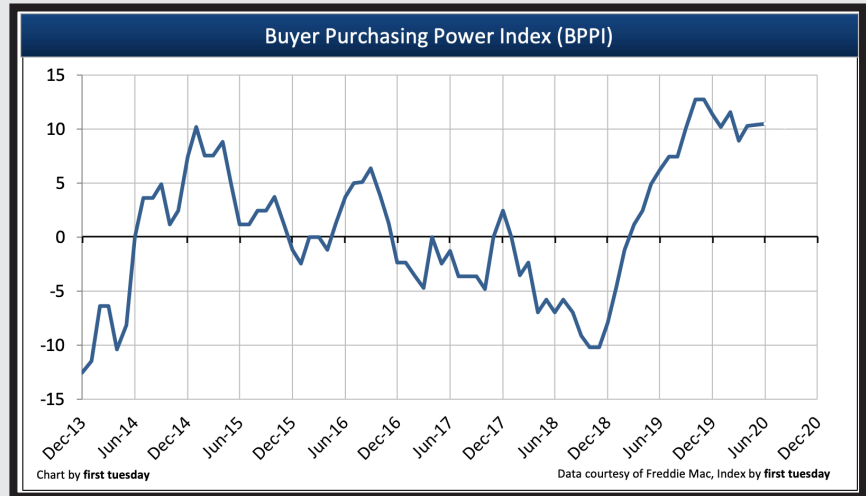
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Buyer Purchasing Power Index (BPPI) rises with falling interest rates

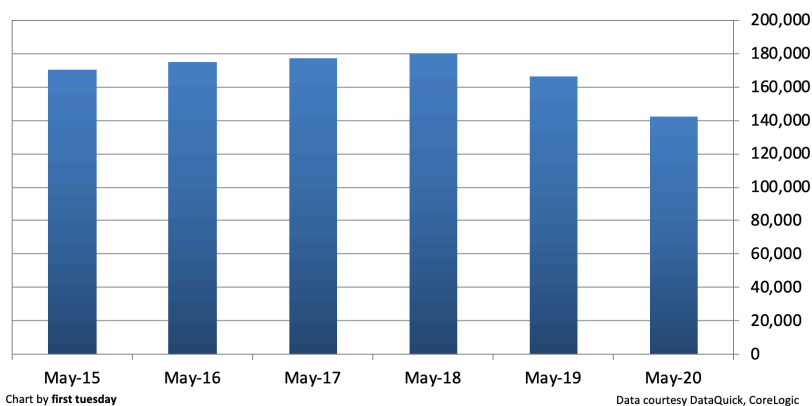
This chart shows the **Buyer Purchasing Power Index (BPPI)**, calculated using the average 30-year fixed rate mortgage (FRM) rate and California's median income. A positive number means homebuyers are able to borrow more money than a year earlier and a negative number translates to a reduced amount of mortgage funds available.

The BPPI figure was +10.5 in Q2 2020. This tells us a homebuyer can borrow 10.5% more today than a year ago due to **lower interest rates** alone. Sellers have raised prices less than half the additional amounts buyers can borrow.

Expect mortgage interest rates to remain at or below their present low level in the months ahead, causing the BPPI figure to remain positive in 2020 and into 2021. As we make our way through 2020, today's high BPPI will continue to keep home prices afloat, even as the **recession** places downward pressure on home sales volume.



California Home Sales Volume: Year-to-Date



Home sales volume succumbs to economic pressure

This chart shows year-to-date (YTD) **home sales volume** in California.

As of May 2020, home sales volume is down 15% YTD from the prior year and falling. In the single month of May, there were 39% fewer home sales than a year earlier. This is an acceleration of the consistent **decline in transaction volume** that began in mid-2018.

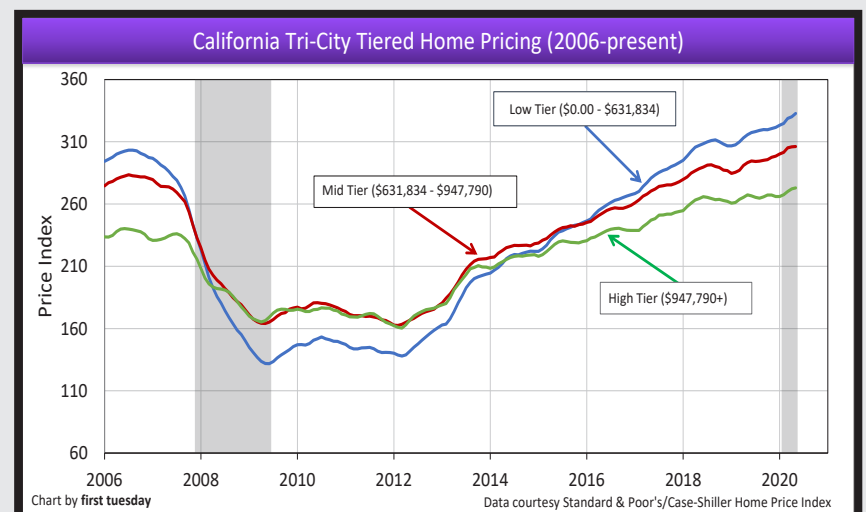
Home sales volume will continue to see a sharp decrease in 2020-2021, slashing the flow of agent fees. Even though low interest rates are encouraging some homebuyers to purchase, rates are not enough to counter the steep job losses flowing from this recession. Home sales volume won't recover until the pandemic response has ended and jobs and consumers begin to emerge from the underlying recession and financial crash, not likely to begin until 2022-2023.

Home prices continue to defy gravity

This chart shows **home price movement** across three price tiers in California's major metropolitan areas.

In May 2020, the statewide average was 5% higher for low-tier prices, 4% higher for mid-tier prices and 3% higher for high-tier prices compared to a year earlier. Normally, home prices follow sustained sales volume movement as an echo of homebuyer demand, both having fallen in 2020. Record low interest rates have driven up buyer purchasing power in 2020. For lack of inventory, prices have quickly risen to absorb buyers' additional borrowing capacity.

If lower interest rates are to continue to support home prices, the **Federal Reserve (the Fed)** will need to drive mortgage rates down. However, even if the Fed continues to set ever lower mortgage rates to boost the BPPI figure for homebuyer's capacity to borrow, the overall trend for home prices will be flat-to-down until 2023.



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