Monthly Real Estate Statistical Update

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

July 2016 • Vol. 5 • Issue 7 • ***Sales volume, interest rates and California home prices***

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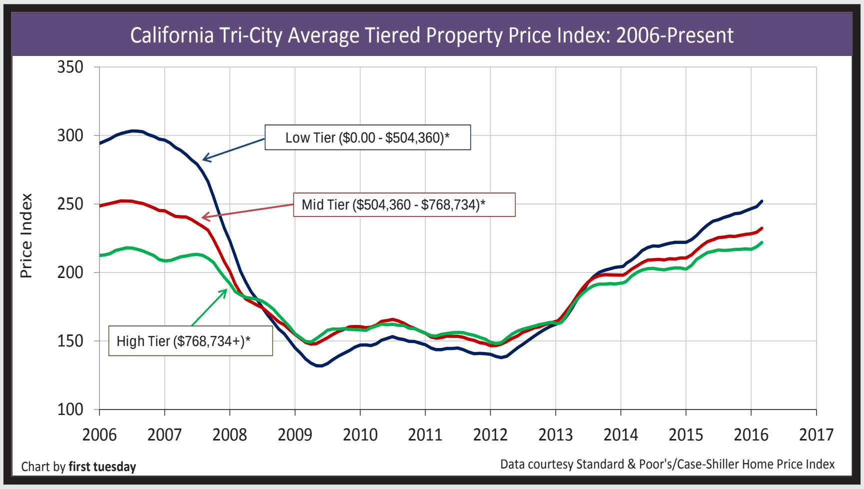
Home pricing continues to rise — for now

This chart shows the Standard & Poor's/Case-Shiller **home price index** for home prices in California's three largest metropolitan areas: Los Angeles, San Diego and San Francisco. Home price movement is broken down into low-tier, mid-tier and high-tier home sales.

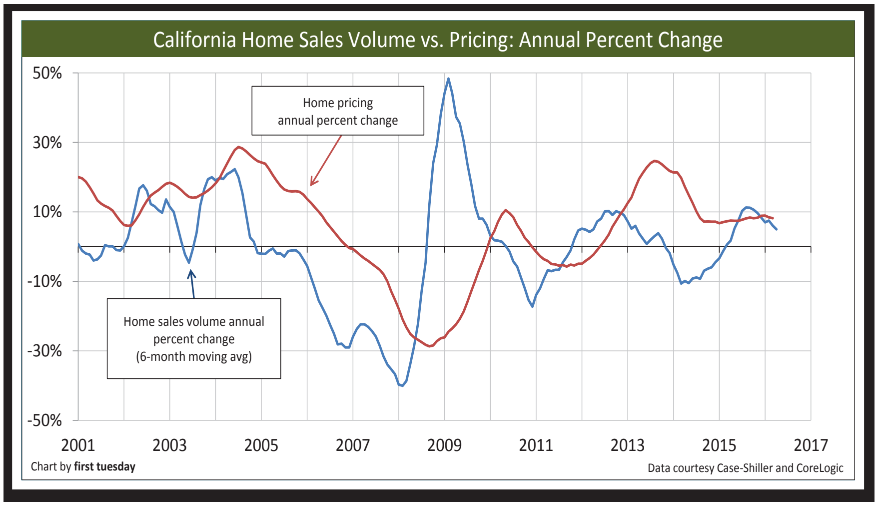
As of March 2016, low-tier home prices are 11% higher than one year ago. Mid-tier home prices are 7% higher and high-tier home prices are 6% higher. The annual home price increase has been consistently averaging around 8% in 2015 and thus far into 2016.

But the steady rise in home prices will soon come to an end, as pricing no longer has the support it needs of **home sales volume**.



California Tri-City Average Tiered Property Price Index: 2006-Present

Home sales volume's pull on home prices



California Home Sales Volume vs. Pricing: Annual Percent Change

This chart displays the annual change in California **home price movement** alongside home sales volume. To account for seasonal fluctuations in home sales volume, this line is shown as a six-month moving average.

Home prices have stabilized, averaging an 8% year-over-year increase since mid-2014. However, annual sales volume movement peaked in mid-2015 and has since declined these last 12 months. As the trend continues, the number of homes sold in April 2016 was actually below a year earlier.

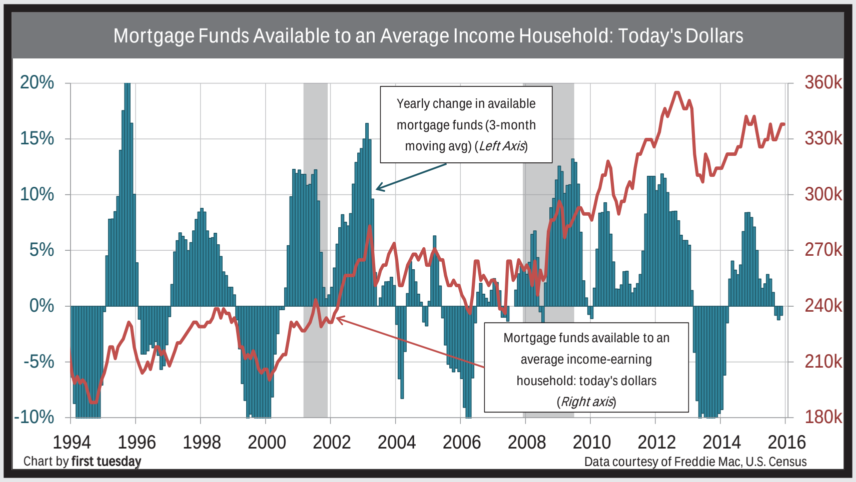
It typically takes 9-12 months for home prices to react to a sustained trend in home sales volume. Thus, expect the annual rise in home prices to reverse direction this year, further complicated by the coming increase in **mortgage rates**.

Mortgage funds set to decrease

This chart shows the **amount of mortgage funds available** to an average income-earning household in today's dollars (the red line). The amount of available mortgage funds fluctuates due to changes in the average 30-year fixed rate mortgage (FRM) rate and wages. The chart also shows the **yearly change in mortgage funds available** to the average household (the blue bars).

Over the past three decades, the trend in available funds has been up as interest rates declined. Thus, the amount of principal homebuyers were able to borrow rose. But a change is on the horizon.

The **Federal Reserve (the Fed)** recently increased short-term rates and will increase them again, likely sometime late in 2016 or perhaps in early 2017. When interest rates increase, mortgage funds available will decrease. This trend will put downward pressure on home prices.



Mortgage Funds Available to an Average Income Household: Today's Dollars

Click on any chart for more information!

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