Monthly Real Estate Statistical Update

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

July 2018 • Vol. 7 • Issue 7 • ***Stock and interest rate movement now signal the coming recession***

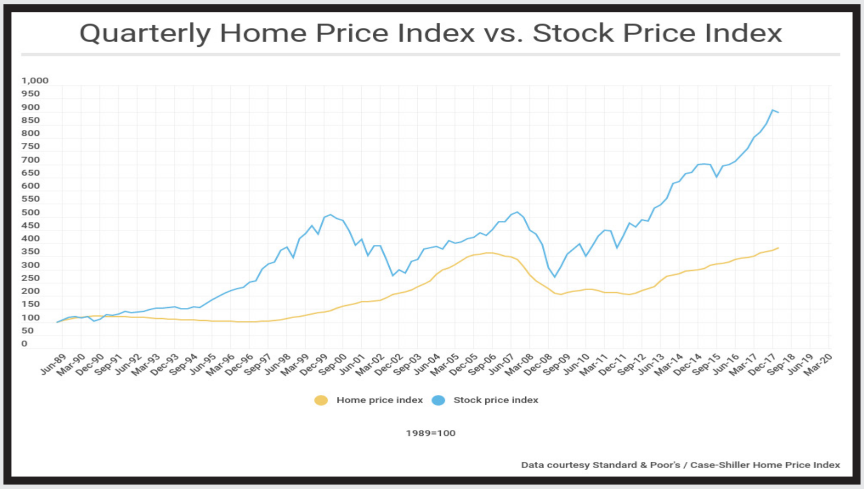
Presented by
Name
DRE #
Phone
Email

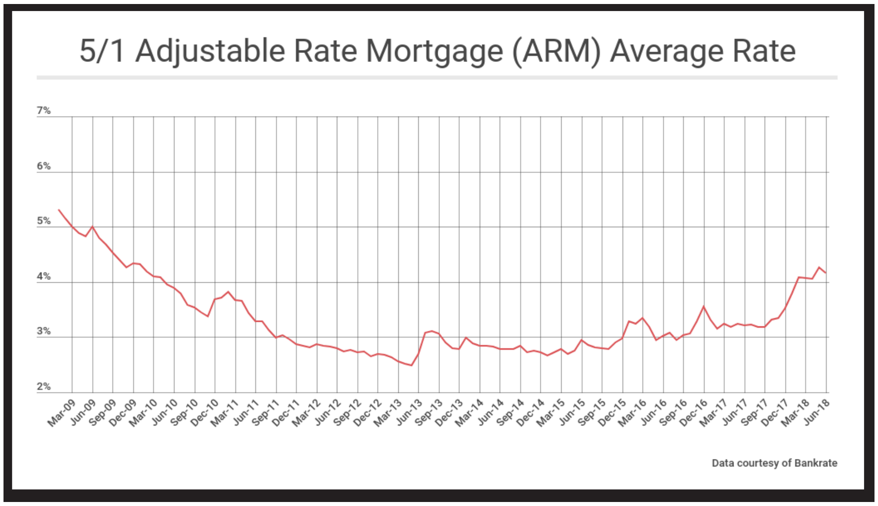
Stocks begin to stumble, real estate will follow

This chart shows the **California home price index** (the yellow line) alongside the S&P 500 **stock price index** (the blue line).

Stock prices dipped slightly, but still remained very high in the first quarter (Q1) of 2018, as in a **bubble** likely to burst at any moment. Since Q1, stock prices have dipped further in spite of the scarcity brought on by massive buybacks. Meanwhile, home prices continued to rise during this time, increasing on average 9% from a year earlier due solely to the lack of residential construction.

Income-producing real estate today remains a solid long-term investment. But the direction of **interest rates**, and thus capitalization (cap) rates, suggests neither real estate nor stocks present a wise short-term investment.





ARM rates rise tracking the Fed rate creep

This chart displays the average 5/1 **adjustable rate mortgage (ARM) rate** in California.

The average 5/1 ARM rate was 4.16% in June 2018. This was nearly a full percentage higher than the average rate a year earlier. Today's much higher and rising ARM rates are the result of the **Federal Reserve's (the Fed's) anti-inflation action** to raise rates and cool down the expanding labor and consumer markets.

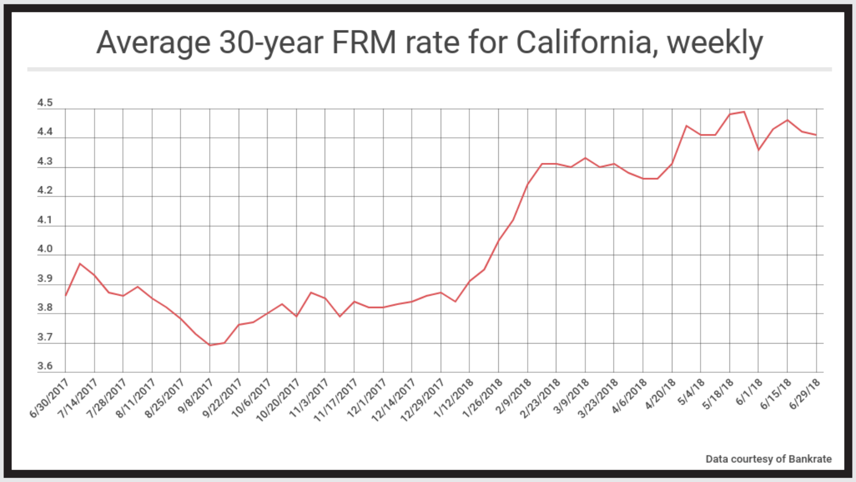
As ARM rates are now only slightly below 30-year fixed-rate mortgage (FRM) rates, expect **ARM usage** to decrease dramatically in 2018. This ARM-FRM rate convergence is a bonus for long-term market stability, but also serves as a reminder that today's higher rates increase the difficulty for homebuyers to qualify for financing to fund today's elevated home prices.

Higher FRM rates portend slowing sales volume

This chart shows the average interest rate on **30-year FRMs** in California.

The average 30-year FRM rate was 4.43% in June 2018, up from 3.82% a year earlier. FRM rates continue to rise alongside Fed efforts to soften corporate labor demand which will induce the next **business recession**, likely to arrive by 2020. Higher interest rates make borrowing less attractive, negatively impacting home sales volume and prices.

Looking beyond 2018, at some point in the next couple of years investors will exit the stock market and dive into **government bonds.** This shift will push down interest rates on long-term Treasuries, which will in turn drag down interest rates on 30-year FRMs, eventually stimulating borrowing and **home sales activity** for real estate professionals.



Click on any chart
for more information!

Click to Print