

Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from [firsttuesday](http://firsttuesday.us)

May 2015 • Vol. 4 • Issue 5 • **Interest rate changes point to future decreases in real estate activity**



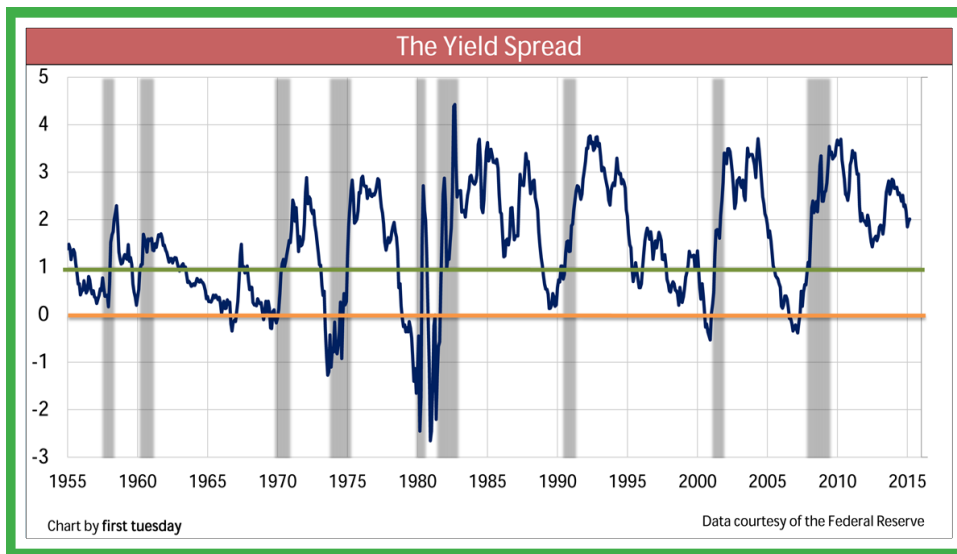
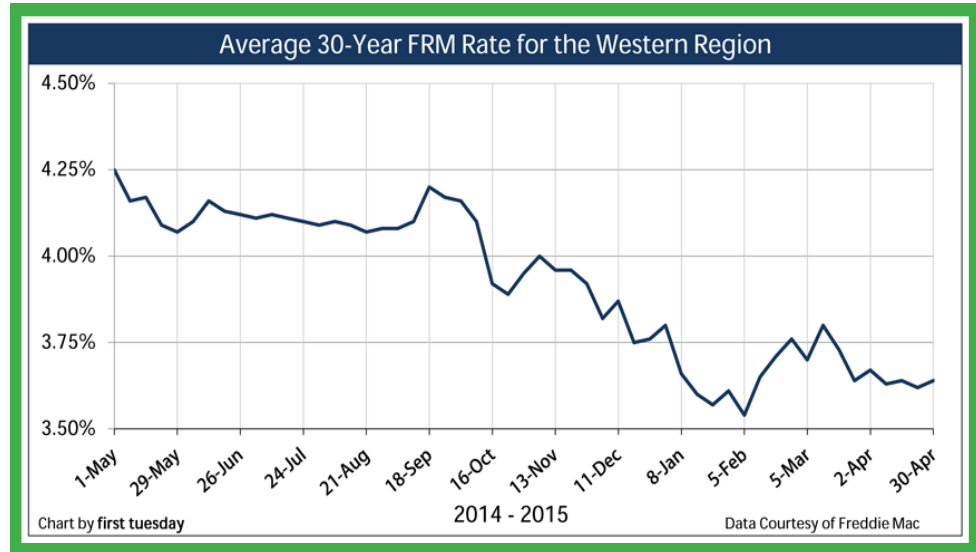
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Mortgage rates approach a floor

This chart tracks the average weekly **30-year fixed rate mortgage (FRM)** interest rate charged in the Western U.S. according to Freddie Mac.

The average 30-year FRM rate increased slightly to 3.64% as of April 30, 2015. This is approaching the January 2015 low of 3.52%, while still higher than the **multi-decade bottom** of 3.31% seen in early 2013.

Mortgage interest rates remain low due primarily to near-zero **short-term borrowing** rates and a lack of investment opportunities globally. Lower rates allow homebuyers to borrow more mortgage funds with relatively unchanged incomes. However, mortgage rates will begin to increase steadily by 2016 as investment opportunities pick up.



Yield spread signals a cooldown

This chart plots the spread between **short-term borrowing rates** set by the Federal Reserve (the Fed) and interest rates on **longer term treasury notes**, determined by bond market activity.

The yield spread increased slightly to 2.01 points in March 2015 but maintained a **longer falling trend**. This declining yield spread is a result of bond market investors seeing **less future growth** resulting from the coming growth in short-term rates.

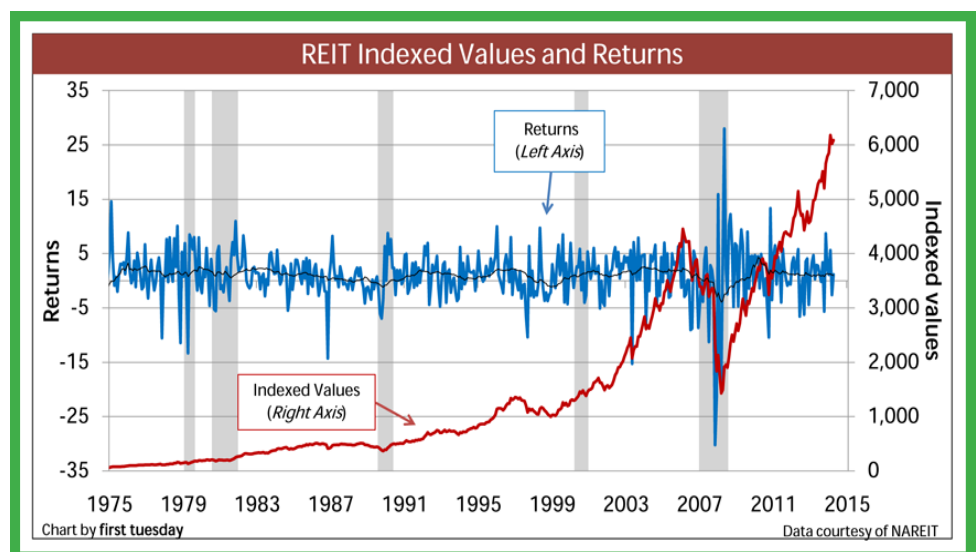
A weak positive yield spread indicates little **chance of economic recession** 12 months hence, although the relatively low figure suggests a more sluggish rate of growth. This reflects the anticipated increase in short-term rates toward year's end, and the corresponding **decrease in real estate activity** brought on by higher mortgage rates.

REIT values reach new highs

This chart plots the indexed value of **real estate investment trusts (REITs)** against the average quarterly return on REIT shares. REITs invest in income-producing real estate such as commercial, industrial and multi-family properties.

The indexed quarterly value of REIT holdings remains near a **40-year high**. A bubble seems obvious to analysts in stock pricing, which has spilled over into the REIT market. Meanwhile, **real estate prices** — with some exceptions brought on by foreigners looking for safe havens from global stagnation — have avoided similar bubble distortions.

Today, REIT values are bolstered by a lack of **investment opportunities** other than stocks and bonds. As a result, REIT investors need to be wary of imminent short-term rate increases, which will drive down share prices, and longer-term mortgage rate increases, which will drive down the value of REIT holdings.



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