

Monthly Real Estate Statistical Update

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

May 2021 • Vol. 11 • Issue 05 • **Rising interest rates are primed to pop the home price bubble**



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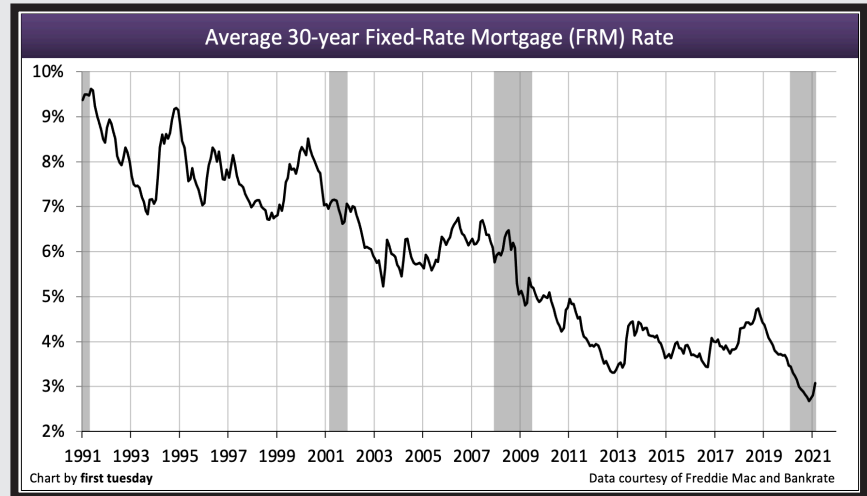
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Mortgage rates rise from historic lows

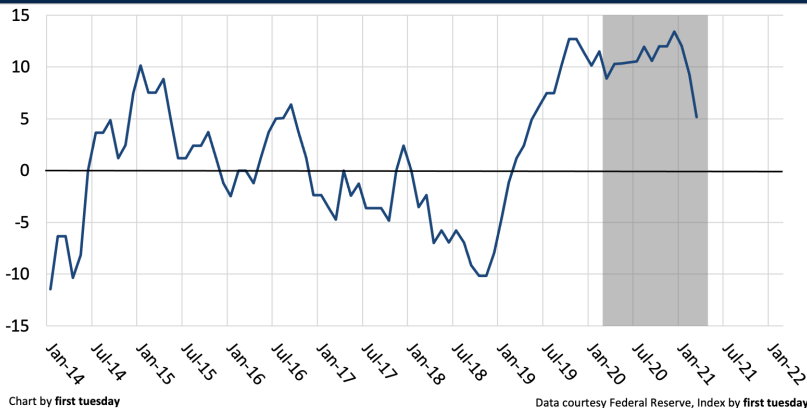
This chart shows the average monthly interest rate on a 30-year **fixed rate mortgage (FRM)**. The gray columns indicate economic recessions.

The FRM rate averaged 3.03% in April 2021, down from 3.08% in March, but still near the historic lows of 2020. These record lows were reached through the Federal Reserve's (the Fed's) efforts to stimulate lending during the **ongoing recession**. Low interest rates have fueled homebuyers' wallets, qualifying them to pay higher purchase prices with the same level of income.

The Fed intends to keep their influential benchmark rate near zero through at least 2023. Yet mortgage rates have recently begun to increase as the bond market is overpriced for future inflation and bond holders are trending toward riskier, higher-yield investments. Expect mortgage rates to fluctuate from month to month, while remaining relatively low through 2023.



Buyer Purchasing Power Index (BPPI)



Pre-2021 rise in buyer purchasing power is done

This chart shows the **Buyer Purchasing Power Index (BPPI)**. A positive figure shows that a homebuyer with the same income and down payment is able to qualify for more mortgage principal compared to a year earlier due solely to interest rates.

The BPPI was +5.2 in March 2021. Thus, the **typical homebuyer** is able to qualify for 5.2% more mortgage principal than a year earlier. While the BPPI is heading toward zero, the BPPI figure was a distorted +13.4 at the end of 2020.

Today, homebuyers are able to borrow over 5% more than a year earlier. But average **California home prices** are 14% higher than a year earlier for February 2021. This huge BPPI-to-price spread will soon dampen pandemic buyer enthusiasm for home price increases, pulling prices downward later in 2021.

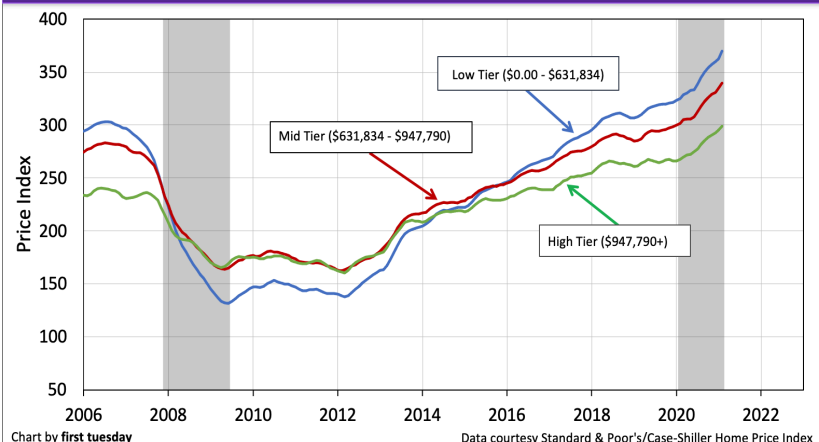
Home prices are in bubble territory, again

This chart shows **home price movement** by price tier, averaged across California's largest metros of Los Angeles, San Diego, and San Francisco.

The statewide average for low-, mid- and high-tier prices was 14% higher than a year earlier for February 2021. This uncomfortable **price jump** is gaining momentum as buyers fear missing out, despite the ongoing recession and a lack of durability.

However, several facts point to a quickly approaching **downward trend** for home prices heading into 2022. These include rising mortgage rates, the continued absence of a full jobs recovery, high levels of mortgage delinquencies, and virus shock. When the foreclosure moratoriums expire as vaccinations mount and buyers switch out of pandemic mode, these delinquencies will become a wave of forced sales. Without the support of full employment or declining interest rates, expect home prices to fall, bottoming around 2024.

California Tri-City Tiered Home Pricing (2006-present)



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