Weekly Real Estate Statistical Update

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

Jan. 20, 2014 • Vol. 3 • Issue 3 • ***Housing recovery dependent on lower mortgage rates***

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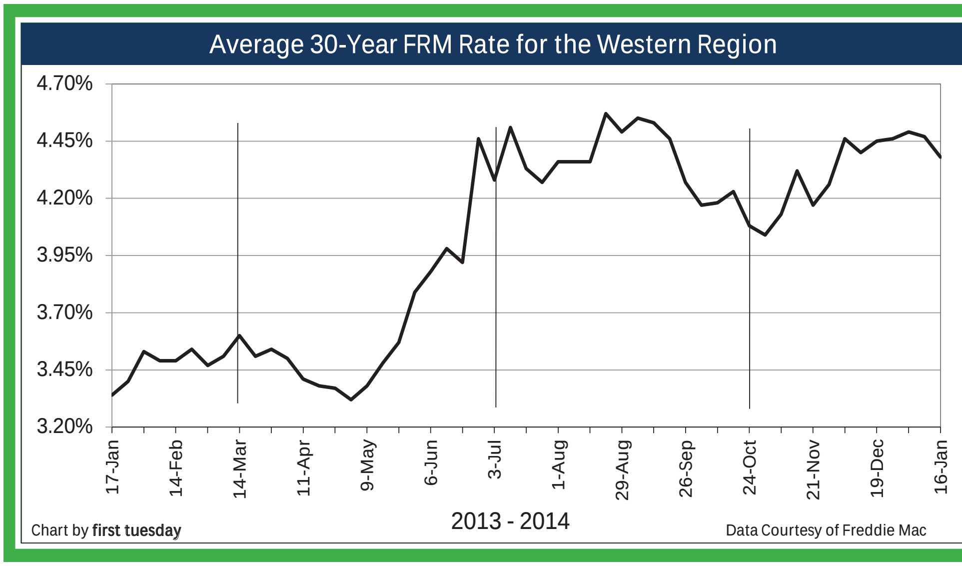
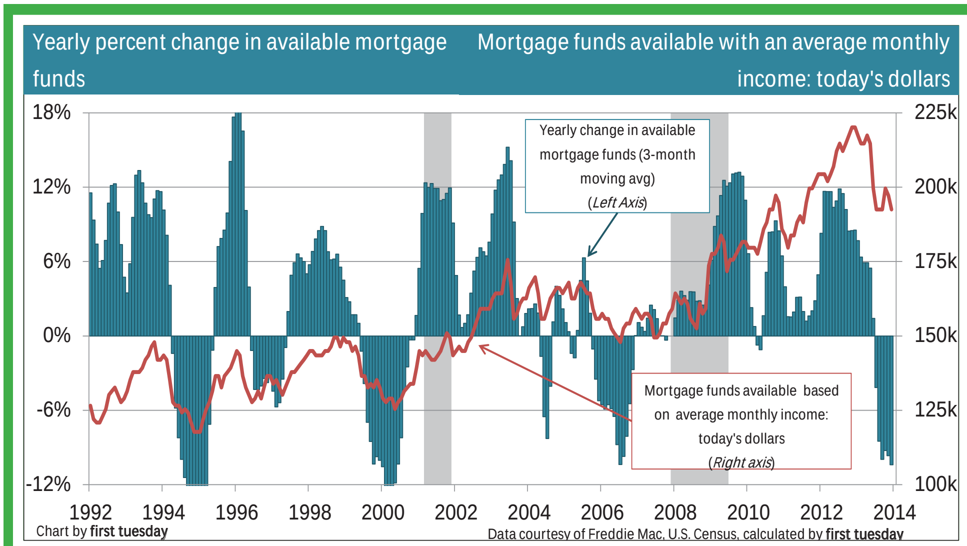
Mortgage rates bouncing along the dogged path

This chart tracks the **30-year fixed rate mortgage (FRM)** rate in California.

The average 30-year FRM rate remained essentially the same at 4.38% for the week ending January 17th. This is up from 3.34% one year ago, and hovering near the **two-year high** experienced in mid-August 2013. The spread between the 30-year FRM rate and the 10-year Treasury Note rate, used to set FRM rates, rose to 1.54%, slightly above the **historical spread** of 1.4%. The moral of the story? Homebuyers continue to pay too much for mortgages.

Looking forward, FRM rates will likely remain at their current level for several months, pushing completion of the already **lengthy housing recovery** further down the road.





Mortgage money availability recedes

This chart measures the year-over-year change in the amount of mortgage money available to a homebuyer, known as the **buyer purchasing power index (BPPI)**.

30-year FRM rates in California averaged 4.44% in December 2013. One year earlier, the rate was 3.31%. As a result, the BPPI figure fell to negative 12.54 in December. This translates into a 12.54% decrease in **mortgage funds available** to today's buyers compared to funds available one year earlier. In turn, the price buyers are able to pay for a home is reduced by an equal percentage.

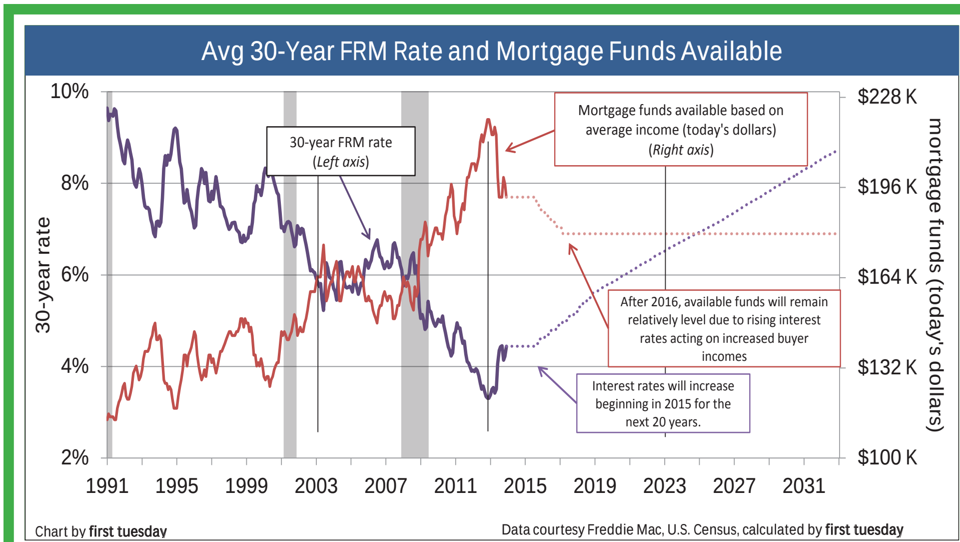
As a result, **pricing** is feeling strong downward pressure. Expect home prices to drop through 2014 as **end user** purchasing power becomes further constrained and **speculators** continue to exit the market.

Higher interest rates reduce ability to borrow

This chart contrasts the average **30-year FRM rate** with the corresponding availability of mortgage funds, stated in today's dollars. It displays how **falling interest rates** for 30 years prior to 2013 constantly increased the mortgage funds available to buyers, driving up prices.

As interest rates rise over the next 20-plus years, this principle will work in reverse. Thus, prices will move down before going flat in today's dollars. Looking forward, **mortgage funds available** to buyers will decrease over the years, ushering in the attractiveness of **seller financing**.

What we need in 2014 is a fall back in FRM rates to below 4% and then hold for 12 months to jump-start **slipping sales volume**. This will allow the housing recovery to gain momentum before the FRM rates inevitably rise again.



Click on any chart for more information!

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