

# Weekly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from *first tuesday*  
 May 5, 2014 • Vol. 3 • Issue 18 • **Home pricing trajectory is shifting downward**

Presented by

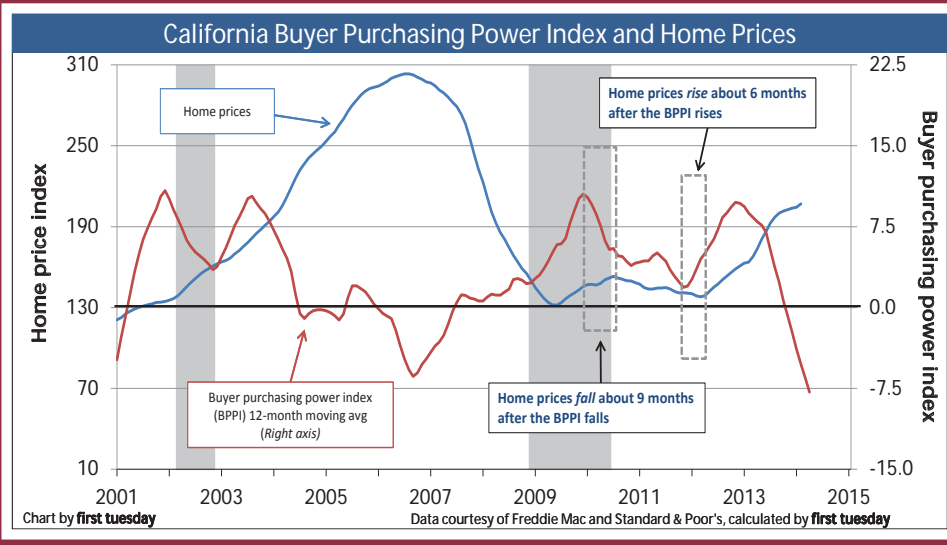
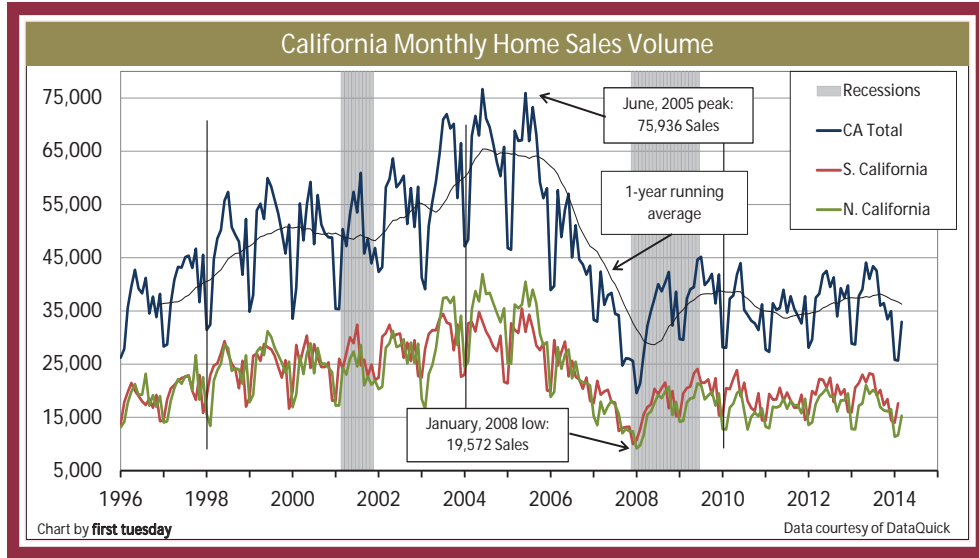
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## California home sales volume pulls prices with it

This chart tracks California's **monthly home sales volume**, excluding trustee's sales.

Statewide, 33,000 **new and resale home transactions** closed in March. This was up 28% from the prior month, but more significantly, was down 13% from a year earlier.

Expect annual sales volume to slip throughout most of 2014, bottoming in 2015. By then, home prices will also be 10%-15% lower. Further, sales volume will be supported primarily by **end users** – buyer-occupants and long-term income property investors. **Builder inventory** will sell well in 2014 as buyer-occupants continue to avoid the spillover from the 2013 MLS **speculator frenzy**.



## Buyer purchasing power plunges with prices in tow

This chart compares the **buyer purchasing power index (BPPI)** and **home prices**. The BPPI is based on California's average gross income and the 30-year fixed rate mortgage (FRM) rate.

The BPPI is used to predict upward or downward movement in future home pricing. As the BPPI trends downward, prices dip approximately nine months later, unless other influential factors exist. As BPPI trends upward, prices rise quicker, usually in six months. The time difference is due to home sellers holding onto their **sticky price delusions** when the BPPI drops and home sales volume declines.

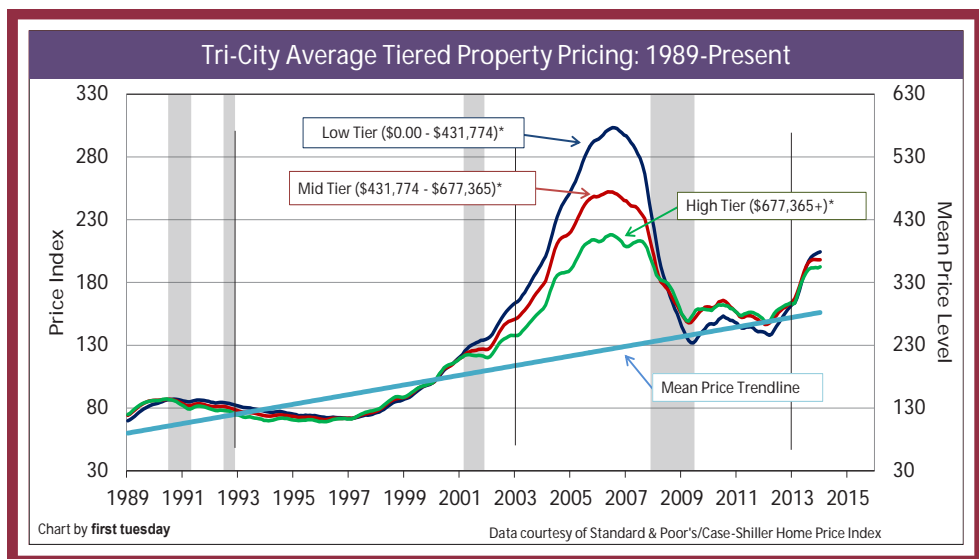
The BPPI remained negative in Q1 2014, falling consistently since December 2012. This indicates a dip in home prices in the coming months. Both the BPPI and home prices will remain stunted until **mortgage rates** fall back or incomes catch up.

## Sales prices poised to descend

This chart indexes **sales price fluctuations** by price tiers of single family residences (SFRs) for Los Angeles, San Francisco and San Diego.

Home prices in all three tiers are quickly topping out in California's three largest cities, with prices most likely peaking in Q2. As prices level off, low-tier property sales are still a **murderous** 26% higher than one year earlier, with mid- and high-tier prices remaining 19% and 18% higher, respectively.

Today's pricing is the tail end of a **mini-bubble** induced by short-lived **speculator interference**. Further, the 2013 price rise is under great pressure from insufficient personal income, rising mortgage rates and new construction. Prices will slip in 2014 and find a floor in 2015, pulling back toward the **mean price trendline**. The cooling of **speculative fever** and the continued rise in **mortgage rates** will continue to dampen an already declining sales volume trend, and in turn, prices.



**Click on any chart for more information!**