

Monthly Real Estate Statistical Update

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

July 2014 • Vol. 3 • Issue 24 • **Buyer-occupant share increases, low sales volume unaffected**

Presented by

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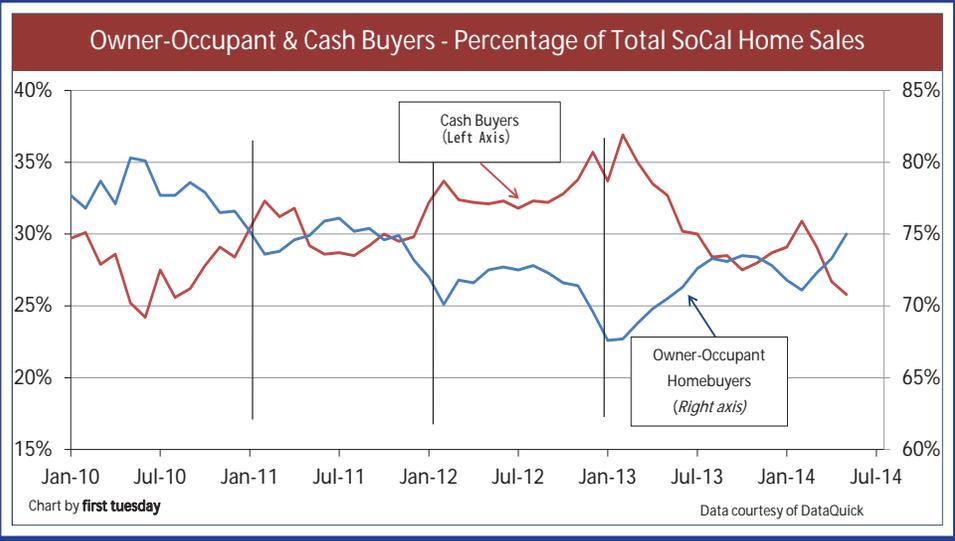
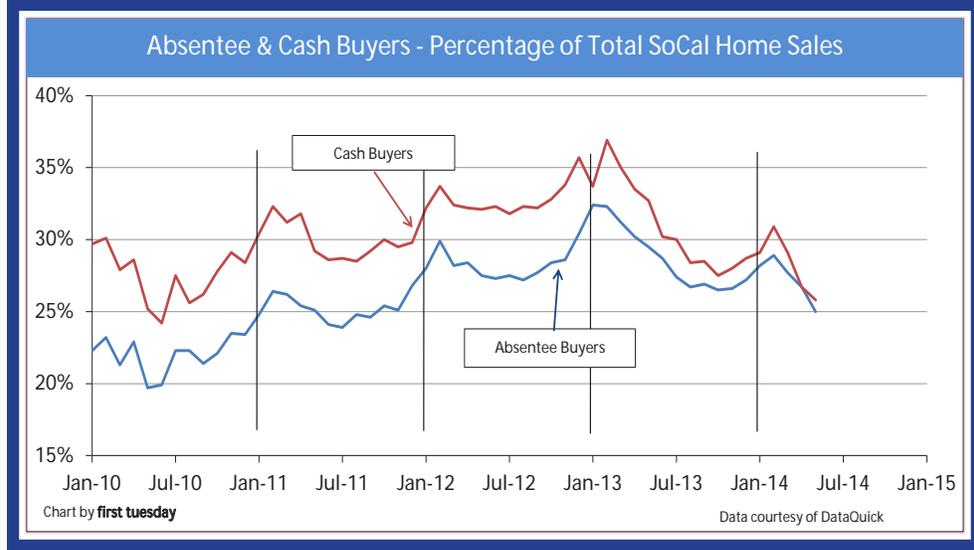
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Property buying diminishes when rates and prices rise

This chart compares absentee and cash buyers as a percentage of **total home sales** in Southern California. Absentee buyers purchase property and do not occupy it. Cash buyers purchase property and chose not to finance it, whether or not they occupy it.

Absentee homebuyers purchased 25% of homes sold in Southern California in May 2014. This is down from the post-recession peak of 32% in January 2013. Likewise, **cash homebuyers** acquired 26% of homes sold in May 2014, well below their 37% share at the peak in February 2013. Although most cash buyers are **speculators**, some are **buyer-occupants**. However, unlike speculators, buyer-occupants generally rely on mortgage financing.

Rapidly rising home prices in late 2012 through early 2013 led to an exodus of speculators by late 2013. Further, home sales volume slipped throughout 2013. In response, the absentee homebuyer share decreased more quickly than the share of cash homebuyers. The spread between absentee and cash buyers will continue to widen throughout 2014 as mortgage lending practices and **home prices** adjust to what buyer-occupants are willing to live with.



As volume shrinks, buyer-occupants replace speculators

This chart compares buyer-occupants and cash buyers as a percentage of total home sales in Southern California.

Buyer-occupants purchased 75% of homes sold in Southern California during May 2014. This is up from the low, post-recession share of 68% of sales in January 2013. This upward shift in percentage is not due to any actual increase in buyer-occupants. Buyer-occupant totals have slipped for the past two years, but have stabilized. However, the same cannot be said about home sales volume, having dropped 10% below the flat sales volume in 2012 and 2013 due to exiting speculators.

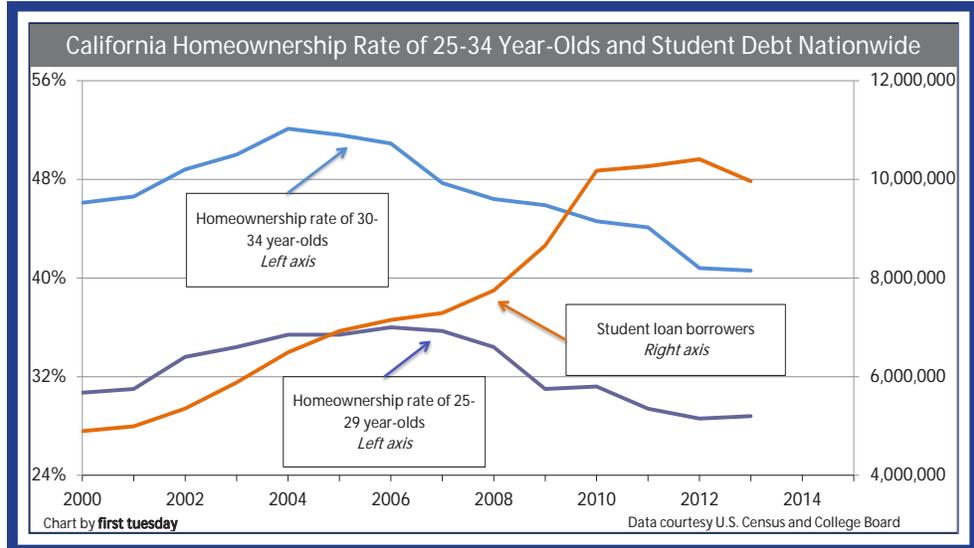
When California home prices drop in **low-tier markets**, as they have begun in the high-tier, expect speculators to hasten their departure. In turn, home sales volume will continue to slip as the **percentage of buyer-occupants** continues its rise by default, without any increase in their numbers.

Student debt hampers first-time homebuyers

This chart displays the California **homeownership rate** of the 25-34 year old demographic and **student debt** nationally. Student debt is generally incompatible with mortgage financing; it negatively affects the homebuyer's **debt-to-income ratio**.

Two-thirds of individuals who attended college went into debt to do so. 40% of individuals owing student debt are under 30 years old and 42% are 30-50 years old. As student debt rises, there is a decrease in **first-time homebuyers** (those aged 25-34).

Higher education is essential for higher-paying jobs – and high incomes are a boon to the housing market. However, high debt levels and fast rising rents in coveted urban locations near employment have put savings and a home purchase beyond the reach of indebted graduates for a decade or more. Worse, much of Generation Y's reluctance is psychological, having experienced their parent's foreclosure. Thus, Gen Y is weary of jumping into homeownership prematurely and repeating their parent's mistakes.



Click on any chart for more information!