Weekly Real Estate Statistical Update

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

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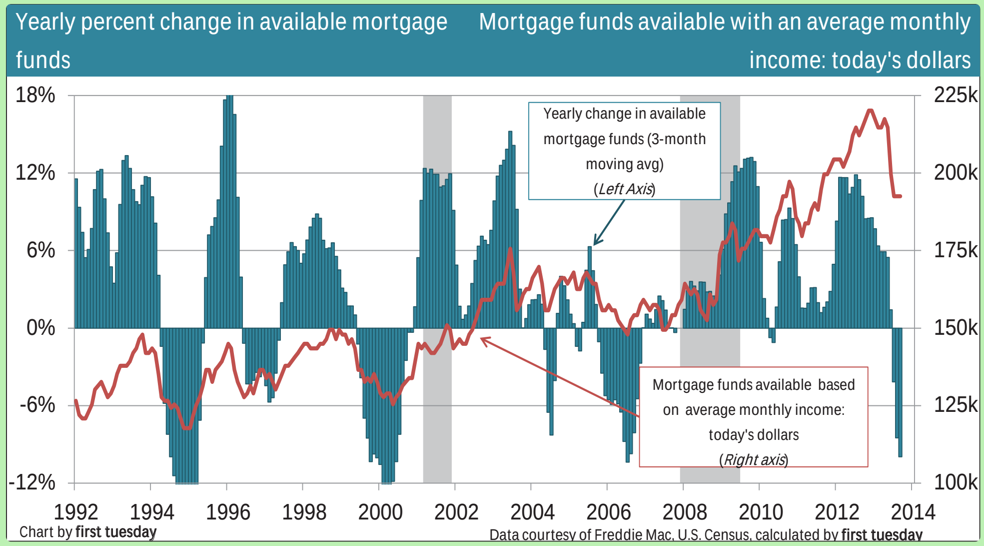
Mortgage funds available plummet

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)**. The BPPI is based on California's average gross income and the **30-year fixed rate mortgage (FRM)** rate.

30-year FRM rates in California averaged 4.45% in September. One year earlier, the rate was 3.45%. As a result, the BPPI figure fell to negative 10.33 in September for the second time this year, mirroring the worst drop since 2006. This translates into a 10.33% decrease in **mortgage funds available** to today's buyers compared to funds available one year earlier. In turn, the maximum price they are able to pay for property is reduced by an equal percentage.

As a result, **pricing** is now feeling downward pressure. Expect home prices to level off and drop by the end of 2013, as **end user** purchasing power is limited and **speculators** begin to exit the market.

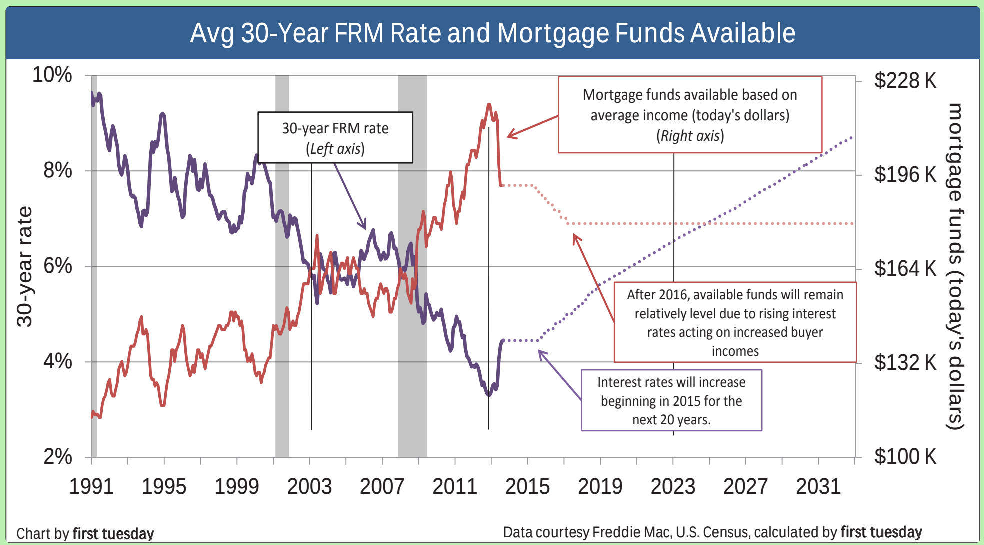


Rise in rates hinders ability to borrow

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.

As **interest rates** rise over the next 20-plus years, this principle will work in reverse. Going forward, mortgage funds available to buyers will generally **decrease**.

To maintain current homes sales volume, FRM rates will need to fall back below 4% and remain there through 2014. This will allow the **housing recovery** to gain some momentum before the Federal Reserve lets rates rise further, probably in 2015.

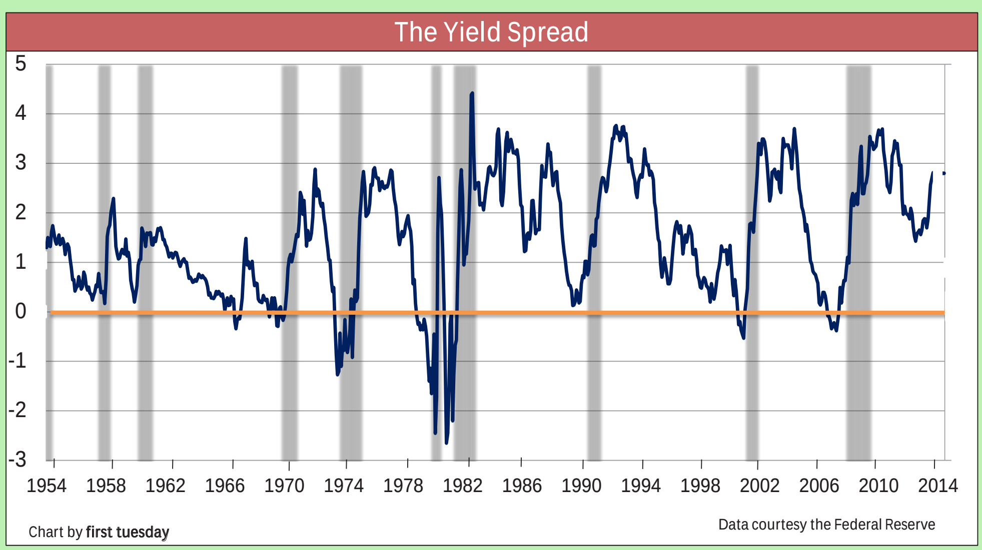


Yield spread increase forecasts economic recovery

The yield spread is an indicator of a **recession** or **recovery** one year forward. The yield spread is the difference between the 10-year Treasury Note rate and the 3-month Treasury Bill rate. When the yield spread dips below zero (the orange line), it foretells of a business recession in one year (indicated by the vertical gray bars).

The yield spread increased to 2.81 in September, following a **bumpy upward trend** from 1.53 in July 2012, its lowest point since the 2008 recession. This yield spread increase suggests a more vigorous economic recovery going into 2015.

Low yields on risk-free investments have driven **cash-heavy speculators** almost exclusively to hard assets like real estate. This has caused a temporary **price bubble**. Looking forward, a sustainable rise in home prices only boots up after 12 months of consistently increasing **home sales volume**, and for that we are still waiting.



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