

Weekly Real Estate Statistical Update

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

December 23, 2013 • Vol. 2 • Issue 49 • Home sales volume remains flat as negative equity wanes

Presented by

Name
BRE License #
Phone
Email



More underwater homes buoy to marketability

This chart displays the number of **underwater homes** in California.

The number of **negative equity homes** in California was reduced to 896,000 in Q3 of 2013, leaving 13% of mortgaged homes stuck in negative equity. This is less than half of what it was a year earlier. The 2013 price jump in low-tier homes was the catalyst that propelled homes into positive equity.

Expect listings to increase by mid-2014 as these newly **liberated homeowners** with positive equity can now sell and be relocated into better housing. At the same time, prices will slip leaving the remaining underwater homeowners without help until late-2015. However, sales volume will stay flat while pricing will continue to be volatile in our **bumpy plateau recovery** until 2017.

FRM rates and 10-year Treasury Note spread keeps sales volume soft

This chart tracks the average **30- and 15-year fixed rate mortgage (FRM) rates** at which a lender commits to lend. It also presents the 10-year Treasury Note rate, an indicator setting FRM rates.

The average 30-year and 15-year FRM rates rose to 4.45% and 3.49% respectively during the week ending December 19, slightly below their highest levels of the past two years experienced in August. The 10-year Treasury Note jumped to 2.93% as of closing on December 19, its highest point since peaking at 3% in September. The spread between the 10-year Treasury Note rate and the 30-year FRM rate rose to 1.52%. This is 0.12 percentage points above the **historical spread** of 1.4. Thus, homebuyers are overpaying for mortgages.

By late-2015, mortgage rates will likely rise further, **softening home sales volume**, and in turn, home sales prices.

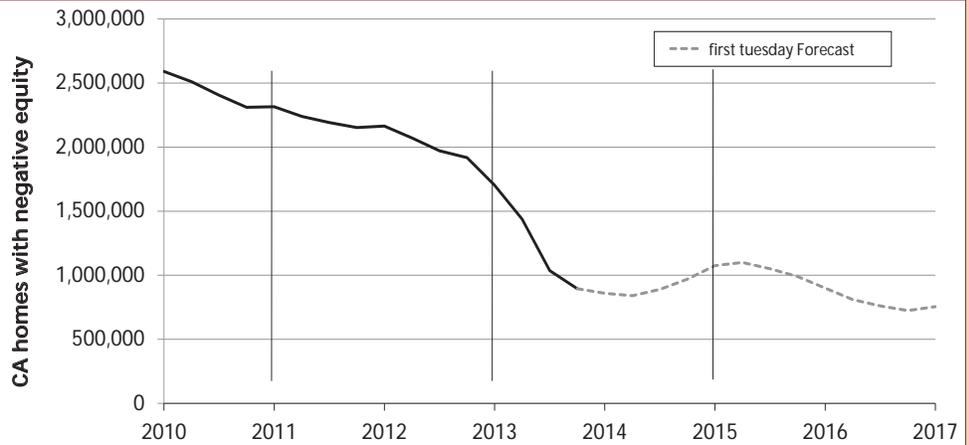
California home sales volume remains flat

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

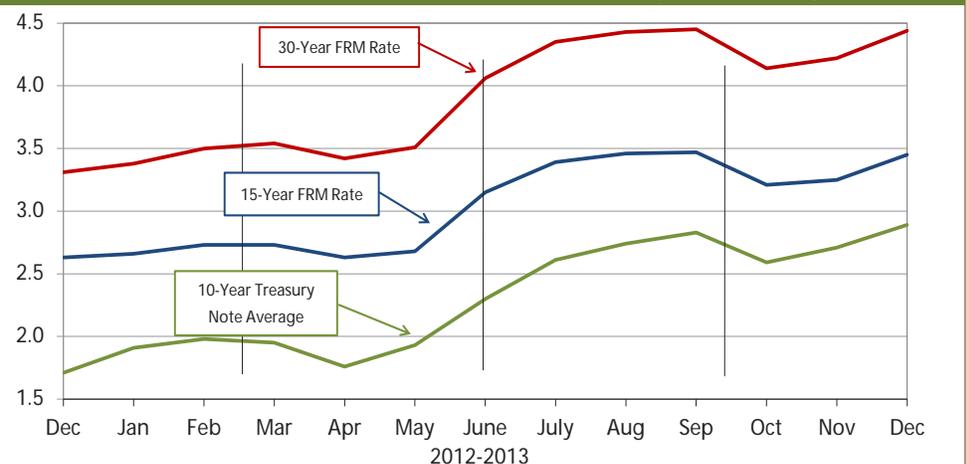
Statewide, 33,500 **new and resale home transactions** closed in November, down 8% from the prior month and down 11% from one year ago. Thus, sales volume for 2013 is on track to merely match 2012 figures.

Expect total sales volume for 2014 to be less than 2013, as prices slip back toward the mean price trend line. This is the result of **speculators** beginning to slowly reduce acquisitions. In addition, remaining **end user demand** will be insufficient to support our current sales volume. Expect sales volume to consistently increase by mid-2015, then fall back as mortgage rates rise. Sales volume will again increase in 2017.

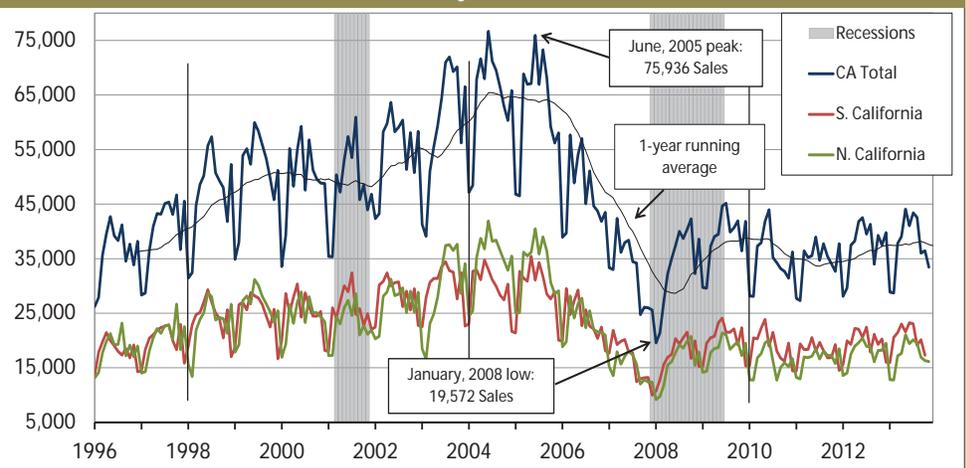
Underwater Homes in California



30- and 15-Year FRM Rates vs. 10-Year Treasury Note Average



California Monthly Home Sales Volume



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