Weekly Real Estate Statistical Update

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

October 07, 2013 • Vol. 2 • Issue 38 • *Rates and pricing hinder purchasing power*

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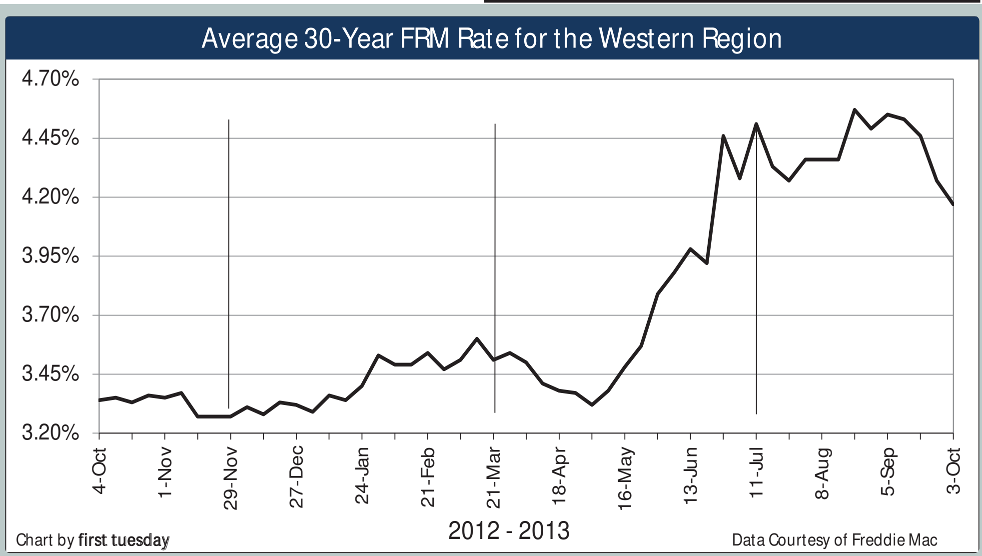
Mortgage rates dip slightly

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

The average 30-year FRM rate decreased during the week ending October 3rd to 4.17%. This is up from 3.34% one year ago, and just below the two-year high experienced in mid-August.

At the same time, the spread between the 30-year FRM rate and the 10-year Treasury Note rate decreased slightly to 1.56%, still above the **historical spread** of 1.4%. Thus, homebuyers are still overpaying for mortgages.

As the economy improves, mortgage rates will rise further, suppressing **home sales prices**.



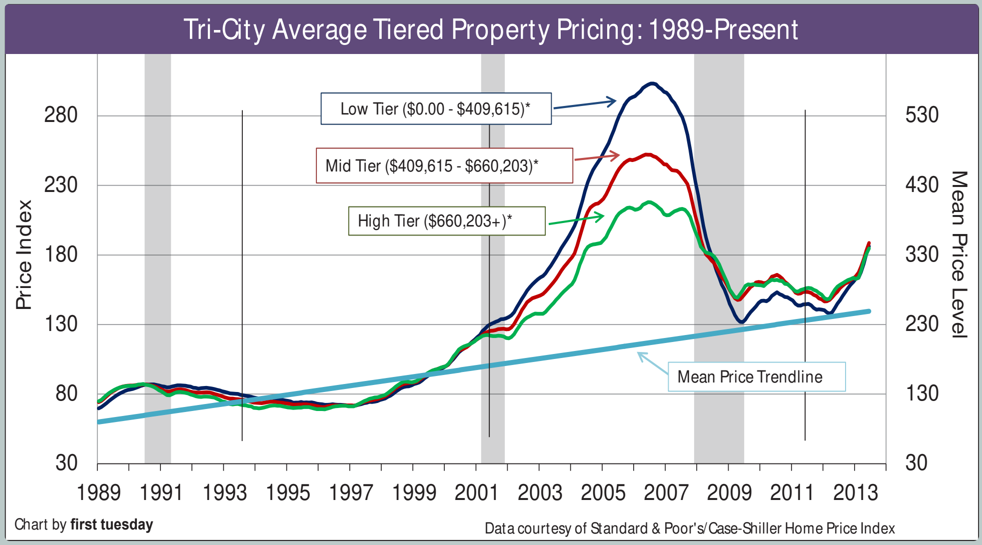
Sales prices to fall from unsustainable heights

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 continue their ascent in California's three largest cities. The largest increase took place in low-tier property sales, a **market killing** 26% jump from one year earlier. Mid-tier home prices increased by 21% and high-tier prices rose 16%.

Today's price trend is a **mini-bubble** induced by short-lived speculator interference. However, this temporary price trend now faces headwinds in the form of insufficient personal income and rising FRM rates.

Going forward, as the **speculative frenzy** cools and mortgage rates rise, an already flat sales volume will trend downward causing prices to weaken.

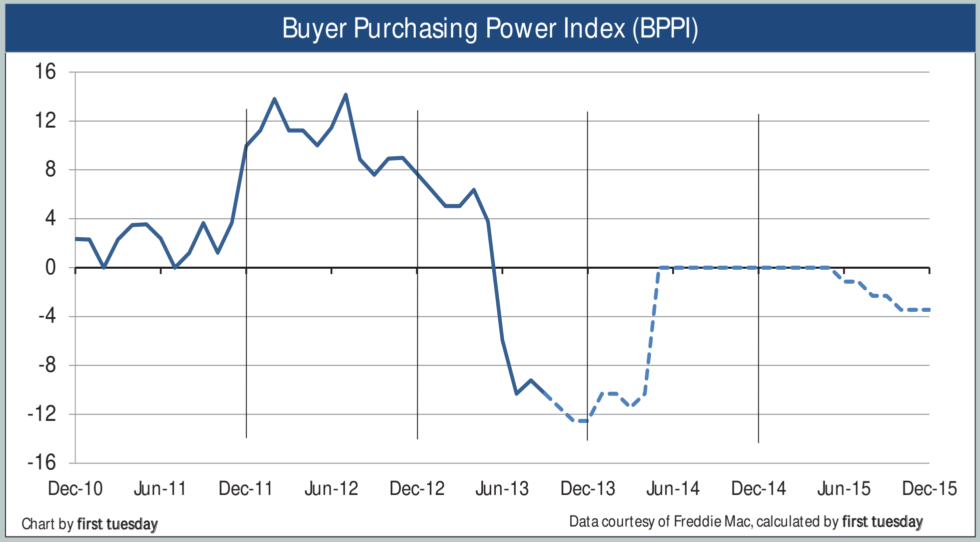


Buyer purchasing power plummets

This chart tracks the **buyer purchasing power index (BPPI)**. The BPPI is based on the 30-year FRM rate and California's **median income**.

The BPPI fell to negative 10.33 in September. This dip represents a year-over-year decrease of 10.3% in mortgage funds available to today's buyers. One year ago, when purchasing power was near its height, the BPPI figure was a positive 7.58 figure. Today's sudden drop is due to the recent steep rise in **mortgage rates** without an equivalent rise in median income.

By the end of 2013, pricing will trend flat or down due to waning participation by both **buyer occupants** and **speculators**. As **long-term rates** rise, the BPPI figures will remain negative. In turn, buyers will be unable to borrow as much for a purchase without a parallel increase in income to compensate for the rise in rates.



Click on any chart for more information!