CALIFORNIA ASSOCIATION OF REALTORS®
Market Snapshot

Why should you buy now instead of waiting?

The year 2013 can be categorized by a significant turnaround in the housing market across the nation. While lack of homes available for sale constrained home sales in many markets across California, it contributed to a substantial increase in home prices. Existing single family sales for 2013 are predicted to fall 2.1 percent short of 2012 sales, yet median home prices are expected to show a 28 percent improvement over 2012-- with the median reaching $408,600.

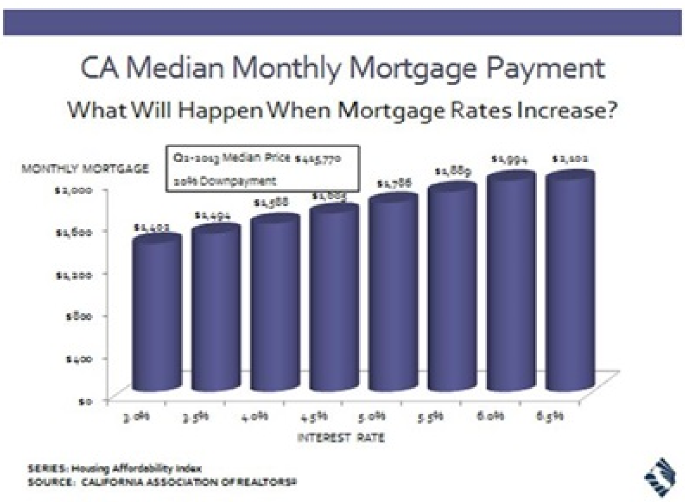
The increase in home prices coupled with a percentage point increase in mortgage interest rates led to a sharp decrease in affordability. Despite decreased affordability, current market conditions still warrant buying a home sooner rather than later. First, interest rates are still at historical lows but are poised to increase in 2014. Over the past year, mortgage interest rates increased by about one percentage point, from about 3.5 percent to 4.5 percent. On average, a half percentage point fluctuation in the mortgage rate changes the payment by $100 per month on a median priced home of $415,770. Most of the predictions for 2014 put the 30-year fixed rate mortgage at 5.3 percent (see Figure 1).

While interest rates have moved down since their spike during the summer, the uncertainty over the Fed's policies makes it difficult to hope for any improvement in interest rates. The Fed's bond buying is the key consideration--not just the tapering, but the general pace of withdrawal. While tapering was considered certain in September, December 2013 is now an increasingly possible date after the most recent employment report showed marked improvement in hiring.

The second reason to buy a home sooner has to do with the new lending rules going into effect on January 1, 2014 which are set to raise the cost of borrowing. The ability-to-repay rule and the associated qualified-mortgage definition will raise the overall cost of originating home loans, with borrowers taking the brunt of the financial hit.

There are two other important market conditions to keep in mind. We started the year with a heated market that was at times described as "a bubble". Since the autumn, the housing market has cooled off. On one hand, due to decreased affordability and increased mortgage rates, demand for housing has subsided and bidding wars are not as frequent or as aggressive as we saw earlier in the year. Additionally, inventory of homes for sale has shown improvement with more homes on the market now. These two conditions suggest a more favorable market for buyers and one that resembles a shift towards a "normal" market.

Figure 1



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