

Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from RPI (Realty Publications, Inc.)

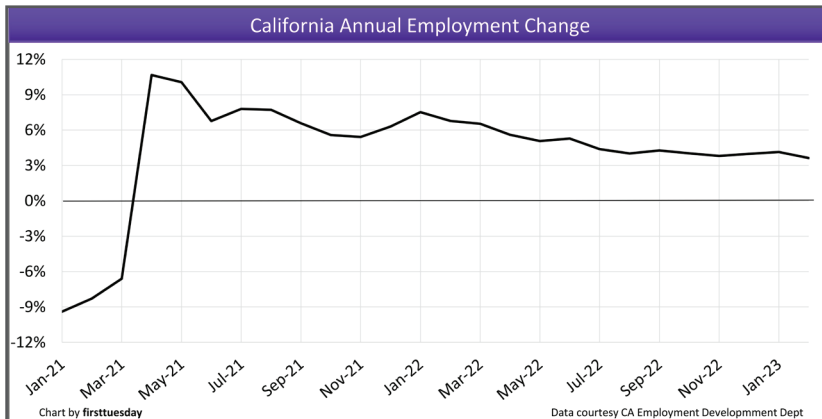
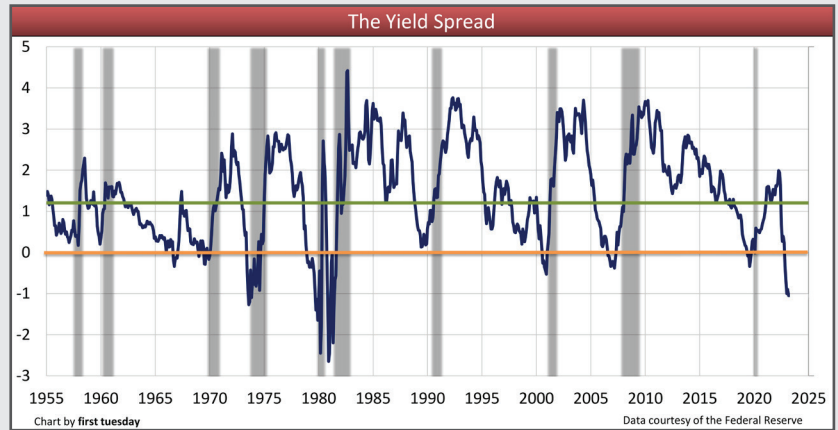
Property prices and cost of capital test buyer readiness May 2023

Yield spread emboldens the recession factor

This chart displays the **yield spread**, which indicates the likelihood of a recession or recovery one year forward. The gray bars show economic recessions.

The yield spread has remained in **negative territory** since November 2022, averaging -1.05 in March 2023. Today's yield spread is at its lowest level since 1981 when the Fed was waging its last acute battle against inflation and the economy was in the midst of the worst recession since the Great Depression.

While an **undeclared recession** is settling in over the economy — most evident in the housing market, with sales volume and prices in a downward spiral since Q2 of 2022 — the timing of the yield spread inversion has the official recession arriving in Q3 2023. Active real estate licensees weathering the shift in sales volume have pivoted by taking steps to recession-proof their fees.



The jobs recovery is leveling out – no surprise

This chart shows the rate of **annual employment change** in California.

California's jobs market surpassed the pre-pandemic 2019 peak in October 2022. As of February 2023, 17.9 million Californians were employed. However, the pace of jobs growth is experiencing a year-long deceleration. In the past 12 months, jobs grew 3.6%, compared to the 6.8% annual rise experienced a year earlier.

Meanwhile, the property market made a U-turn as sales volume and prices peaked in Q2 2022. Brokerage fees have followed sales, causing less savvy **real estate agents** to opt for a career change while employers are still hiring. The more experienced agents will pivot and find transaction fees on the buyer and lender side of the market.

Interest rates for borrowing drive pricing

This chart shows the influence of **buyer purchasing power** on California home prices due to mortgage rate movement. The gray bars represent recessions.

Home price increases cannot exceed what homebuyers are able to pay. To fund home acquisitions, most buyers need to borrow capital. Thus, a rise or decline in **mortgage rates** instantly cuts into or increases the amount of capital a homebuyer can borrow. In turn, borrowing capacity sets prices — not sellers.

Buyer purchasing power nosedived in 2022 due solely to spiking FRM rates. Today, a homebuyer with the same income is limited to borrowing 23% less purchase-assist mortgage money than a year earlier. That shockwave has already pushed California **home prices** to an average 12% below the May 2022 peak as of January 2023 — and falling.

