CALIFORNIA ASSOCIATION OF REALTORS®

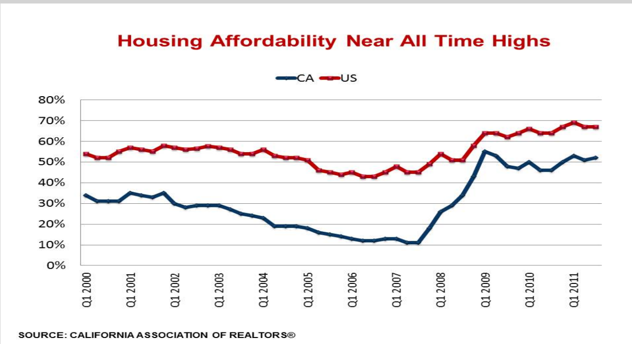
Market Snapshot

Buying a Home Today: Rates, Prices, and Loans

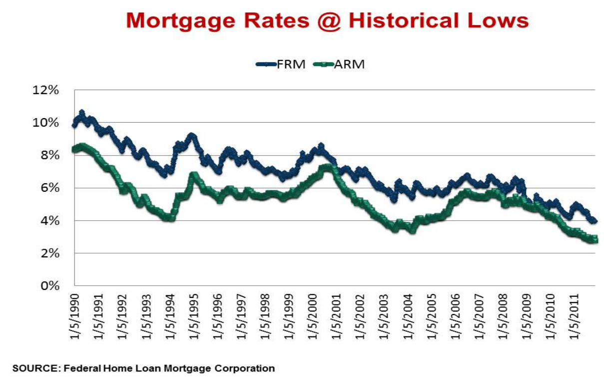
Rarely has housing affordability in California been as high as it is now. The statewide median home price in California is at 2001-2002 levels and mortgage rates hit their lowest level ever in 2011. Yet, the media reports that households are having trouble obtaining loans and the share of first-time buyers in the market is much lower than expected, given such low prices and rates. Which begs the question, is this measure of housing affordability accurate?

Homes Are Very Affordable Now

C.A.R.'s Housing Affordability Index (HAI) has been around since the 1980s, and was intended to be a predictive measure of housing, showing households' ability to purchase a home at the prevailing market prices, rates, and incomes. The HAI assumes a 20 percent down payment, the median price for a geographic area (e.g. $292,120 for California's 3rd quarter of this year), and the corresponding monthly payment for principal, interest, taxes and insurance should account for no more than 30 percent of a household's income.



The latest index reading was 52 for the 3rd quarter, meaning that 52 percent of California households have sufficiently high incomes to afford the median priced home. The HAI is up from all of 2011 when it hovered just above 50, just shy of the historic high of 55 hit in 2009. The current HAI translates into 52 percent of households are able to purchase the median priced home given the underlying assumptions of price, rates, and income. And in the nation, where and for all of 2011 it hovered just above 50, registering close to the historic high of 55 reached in 2009.



Provided You Can Get The Loan

Although this metric shows that affordability may be near record highs, it does not account for underwriting standards implemented by lenders and banks. Today, there are extremely tough standards being placed on mortgage applicants by lending institutions. According to research from the National Association of REALTORS®, credit scores for approved loans in the last few years have been about 40 points higher than normal. This is hindering the ability for many households, especially first-time buyers, to take advantage of the great affordability of housing at this time. In similar regard, the HAI did not account for the extremely lax lending standards that were the norm for most of 2000s decade, which consequently led to record low affordability at a time when home sales were through the roof. The recent lending environment is overriding the predictive value of the HAI, making it a less dependable indicator as it once was. Although it may be less reflective of current market conditions, the HAI does give a historical perspective and shows how California real estate is relatively cheap investment right now.

For those who can qualify, there is a rare opportunity to capitalize on the discounted price levels and historically low mortgage rates over the next few months. Call me today to see if you qualify!

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