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CALIFORNIA ASSOCIATION OF REALTORS®

California homebuyer demand increases

Source: Pasadena Now

With inflation slowing further in July, homebuyer demand is finally approaching positive territory for the first time since rates began to rise in 2022, according to a recent report by the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.). And, according to Redfin, in July 2024 there were 96,377 homes for sale in California, up 23.8 percent year over year. The number of newly listed homes was 31,622 and up 10.5 percent year over year.

Market fundamentals are bolstered by the fact that homeowners currently have very attractive mortgage payments, with roughly two-thirds of the state in a 4 percent rate or lower (90 percent of which are fixed-rate loans), said the C.A.R. report. For the second month in a row, headline inflation was below 3 percent on a year-to-year basis with July dipping slightly from June, increasing hopes that the Federal Reserve will lower interest rates at their September meeting. More importantly, core inflation continued its downward trend, as well.

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6 out of every 7 mortgage-holders have rates below 6%, but lock-in effect is easing

Source: Redfin
Nationwide, 85.7 percent of U.S. homeowners with mortgages have an interest rate below 6 percent, down from 90.6 percent at the start of last year. Holding such a low rate is prompting many to stay put instead of selling and buying another home at a higher rate – called the "lock-in effect." That effect has kept the supply of available homes for purchase artificially low.

But for most people, it's not realistic to stay put forever, which is why the share of homeowners with rates below 6 percent is inching downward. Some homeowners are opting to give up their low rate in order to move. Many are selling because a major life event such as a job change or divorce has given them no other choice. Mortgage rates have declined in recent weeks causing homebuyer mortgage payments to fall for the first time since 2020. The current average weekly mortgage rate (6.46 percent) is the lowest in 15 months.

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Unless the National Flood Insurance Program is renewed, buying a home could get harder

Source: CNBC
Consumers in the market for a home have been waiting for the Federal Reserve to cut interest rates, which it seems poised to do in September.

But without action from Congress, there could be another change at the end of the month that makes it temporarily trickier to buy or sell a home in some areas, or to refinance an existing mortgage. The National Flood Insurance Program (NFIP) is the government-sponsored public insurance program that is the largest flood insurer in the U.S. It needs to be reauthorized by Sept. 30 to continue to issue new policies or increase coverage on existing policies.

Homeowners insurance policies typically don't cover flood damage, meaning that consumers who want to protect their home and its contents from that peril need a stand-alone flood policy. Mortgage lenders may require applicants to obtain such a policy before closing on a home, depending on the flood risk for the property. Congress established the NFIP in 1968 to provide reasonably priced flood insurance coverage. Its authorization expired in 2017, and since then, Congress has extended the NFIP's authorization 30 times. If the NFIP experiences a lapse in its authority, it will not be able to issue new policies or increase coverage on existing policies, according to a spokesperson for the Federal Emergency Management Agency, which operates the NFIP. When the program lapsed from May 31 until July 2 in 2010, six percent of real estate agents reported a delayed or canceled sale. Policies that are in force will remain in force, according to a FEMA spokesperson. If your flood insurance policy's renewal or expiration date is around Sept. 30, try to renew it early, said Yanjun Liao, an applied microeconomist and fellow at Resources for the Future, a nonprofit research institute in Washington, D.C.

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What real estate industry changes mean for VA home loan borrowers

Source: U.S. Dept. of Veterans Affairs
Historically, Veterans could not pay buyer-broker fees when purchasing a home with a VA-guaranteed loan. In June, the VA announced an update to help ensure that Veterans using the VA-guaranteed loan home loan benefit remain competitive buyers. Eligible Veterans, active duty serve members and surviving spouses who use their VA home loan benefits can pay for certain real estate buyer-broker fees when purchasing a home as of Aug. 10, 2024.

When finding an agent to work with, make sure to ask questions about compensation and understand what services are included. It is also your right to negotiate the fees prior to signing a written contract. You should work with your agent to understand how the VA-guaranteed home loan benefit applies to your situation, with the full range of choices when buying or selling a home.

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Wildfire and real estate values in California

Source: Federal Reserve Bank of San Francisco
Wildfires have damaged property in the state of California for decades, and fire risk in the state is higher than most of the United States, according to researchers from the Federal Reserve Bank of San Francisco. Historical data from California's state fire agency, CAL FIRE, recorded over 300,000 fire episodes in the state between 1987 and 2022. The size and intensity of these fires have increased in recent years, along with their

estimated costs. In the 1990s, a little over 415,000 acres burned on average each year; the annual average increased to just over 775,000 acres in the 2010s. The number of structures destroyed by fires increased from about 355 yearly on average in the 1990s to an annual average of about 4,055 in the 2010s. This increase is due partly to especially damaging fires in 2017 and 2018 and partly to an increase in residential use of areas deemed high fire-risk zones.

According to the researchers, property values have been more adversely impacted in recent years by being close to past wildfires than was the case previously. Moreover, while having insurance can help mitigate some of the costs associated with wildfires, insurance seems to do little to improve the adverse effects on property values.

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Weekly mortgage demand stalls despite lowest rates since April 2023

Source: CNBC

Mortgage rates fell for the fourth straight week, but neither current homeowners nor homebuyers seemed particularly impressed. Total mortgage application volume rose just 0.5 percent compared to the prior week, according to the Mortgage Bankers Association's seasonally adjusted index.

The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($766,550 or less on average) decreased to 6.44 percent from 6.50 percent, with points decreasing to 0.54 from 0.60 for loans with a 20 percent down payment. That was the lowest rate since

April 2023. Rates have come down more than 80 basis points from a year ago. Despite the drop, demand to refinance decreased 0.1 percent from the previous week, though it was 85 percent higher than the same week one year ago. Doing a refinance is really only worth the expense if you can shave at least 75 basis points off your current rate. Applications for a mortgage to purchase a home rose 1 percent for the week but were 9 percent lower than a year ago.

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