



FIRST CALIFORNIA REALTY, INC.

commercial & residential



# MAY 2022

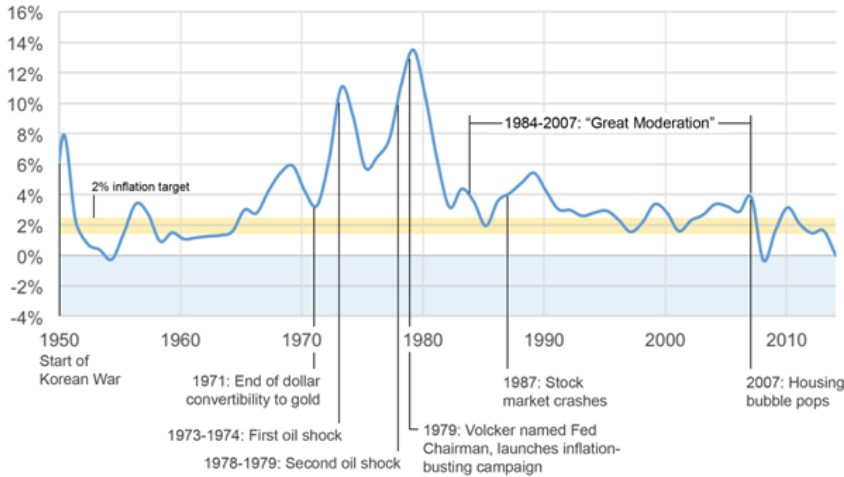
## IN THIS ISSUE

- Fed Funds Rate up 50 Basis Points
- Summary April Market Trends
- April Market Activity Report
- Current Mortgage Rates and Trends

### FEDERAL FUNDS RATE INCREASED BY 50 BASIS POINTS HOW DOES THIS EFFECT THE HOUSING MARKET?

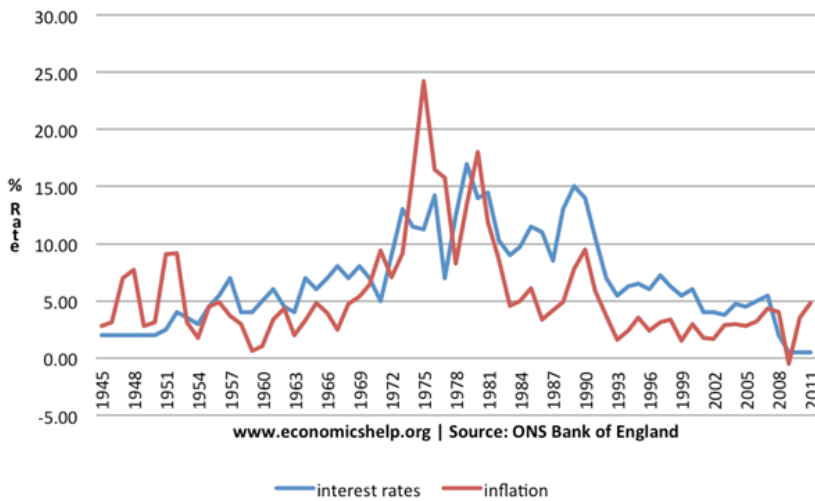
If inflation is the villain of our economic story, the Federal Reserve Bank is the superpower that fights to keep it under control.

#### Historical Annual U.S. Inflation



Although the March inflation number hit a 40-year high of 8.5, inflation in the 1980s rose to nearly 15. That is when Paul Volcker, then Chairman of the Fed, decided to take on the task of controlling inflation. And how do you control consumer spending? With interest rates.

#### Inflation and Interest rates



This chart shows the close correlation between inflation and interest rates. So, it makes sense that if you want to change the inflation trend line, you do so by changing the interest rate line. To lower inflation, the Fed increases interest rates which curbs consumer spending and cools off the economy. To strengthen the economy, they lower interest rates, which encourages spending but has the negative effect of increasing inflation.

The Federal Reserve just raised interest rates by half a percentage point to reduce inflation, The Wall Street Journal reports. The increase in the benchmark Federal Funds Rate is the sharpest since 2000 and the second of seven hikes forecast for this year. The Fed began raising this rate from near zero this year, expecting that a series of hikes would combat inflation. However, some analysts worry that increasing rates again too soon could be problematic. "Policymakers must move slowly with hikes and not too forcefully to raise interest rates too quickly, which could prompt businesses to lay people off or send the country into recession," the Post writes. Since the prime rate piggybacks off the Federal Funds Rate, raising the Fed Funds Rate will have the effect of raising rates on adjustable rate mortgages and home equity loans.

When Fed policymakers want to raise interest rates on 15 and 30 year fixed mortgages, they sell government bonds. This sale reduces the price of bonds and raises the yield (interest rate). We can also think of this as the Fed reducing the money supply. This makes money less plentiful and drives up the price of borrowing.

When we fell into a recession, as a result of the debilitating economic effects of Covid19, the Fed decided to lower interest rates in order to fuel the economic recovery. So they started buying massive amounts of long-term bonds and kept the Fed Funds Rate at 0 -.25. As consumer spending increased, so did inflation. When it jumped from 1.5 to 8, the Fed decided it was time to reverse their policy and slow down the economy. So now they are selling bonds and raising the Fed funds rate. The hope is that the Fed can crush inflation while not killing an economy that lately has looked vulnerable to shocks.

### GOOD NEWS JUST IN

Today, May 12, the April Inflation rate was announced, and for the first time since the rate began its meteoric rise, it has come down! Not a lot, **8.5 to 8.3**, but that is great news. It didn't go up! In June we should receive a report that it went down even more in May.

## SUMMARY MARKET TRENDS

April 2021 - April 2022

MARIN COUNTY SINGLE FAMILY DETACHED HOMES   APRIL TRENDS 2021 - 2022								
City	Homes Sold APR-2021	Homes Sold APR-2022	% Change	Ave. DOM* APR-2021	Ave. DOM* APR-2022	Median Price APR-2021	Median Price APR-2022	% Change
Belvedere	5	3	-40%	50	22	\$3,715,000	\$2,550,000	-31%
Corte Madera	16	7	-56%	22	6	\$1,533,000	\$2,104,000	37%
Fairfax	11	5	-55%	12	14	\$1,410,000	\$1,800,000	28%
Greenbrae	3	6	100%	23	13	\$2,079,000	\$2,600,000	25%
Kentfield	8	3	-63%	26	6	\$2,875,000	\$4,205,000	46%
Larkspur	5	6	20%	8	33	\$2,475,000	\$2,328,000	-6%
Mill Valley	42	32	-24%	25	10	\$2,525,000	\$2,658,000	5%
Novato	69	38	-45%	20	17	\$1,325,000	\$1,328,000	0%
Ross	2	4	100%	34	5	\$4,000,000	\$4,850,000	21%
San Anselmo	22	19	-14%	28	8	\$1,775,000	\$2,600,000	46%
San Rafael	51	38	-25%	21	20	\$1,505,000	\$1,731,000	15%
Sausalito	10	6	-40%	63	10	\$2,351,000	\$3,093,000	32%
Tiburon	21	13	-38%	39	34	\$3,350,000	\$5,500,000	64%
<b>Marin County</b>	<b>272</b>	<b>193</b>	<b>-29%</b>	<b>25</b>	<b>17</b>	<b>\$1,725,000</b>	<b>\$2,200,000</b>	<b>28%</b>

\* DOM = Days on Market, or the number of days from listing to contract with all contingencies removed.

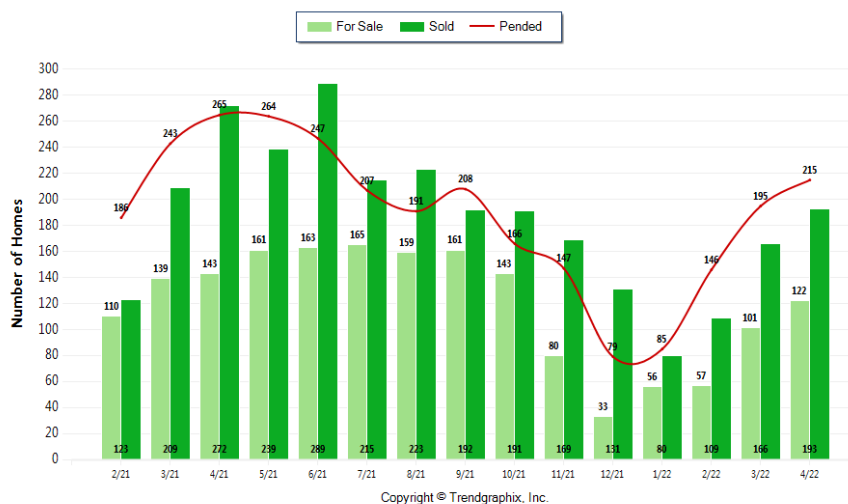
MARIN COUNTY SINGLE FAMILY DETACHED HOMES   APRIL TRENDS 2021 - 2022								
City	New Listings APR-2021	New Listings APR-2022	% Change	SP/LP Ratio * APR-2021	SP/LP Ratio * APR-2022	MSI * APR-2021	MSI * APR-2022	% Change
Belvedere	1	2	100%	98%	104%	0.3	0.4	33%
Corte Madera	6	5	-17%	118%	121%	0.8	0.5	-38%
Fairfax	11	5	-55%	109%	112%	0.5	0.8	60%
Greenbrae	3	1	-67%	107%	115%	1.0	0.5	-50%
Kentfield	11	4	-64%	99%	131%	0.5	2.0	300%
Larkspur	6	4	-33%	104%	110%	0.4	0.5	25%
Mill Valley	54	17	-69%	104%	116%	0.5	0.4	-20%
Novato	48	29	-40%	107%	115%	0.3	0.5	67%
Ross	9	1	-89%	96%	99%	2.5	1.3	-48%
San Anselmo	32	15	-53%	113%	118%	0.5	0.4	-20%
San Rafael	54	36	-33%	106%	118%	0.5	0.8	60%
Sausalito	7	3	-57%	102%	122%	0.4	0.7	75%
Tiburon	9	9	0%	103%	110%	0.6	0.5	-17%
<b>Marin County</b>	<b>260</b>	<b>133</b>	<b>-49%</b>	<b>105</b>	<b>114</b>	<b>0.5</b>	<b>0.6</b>	<b>20%</b>

\* SP/LP Ratio = Sales Price to List Price Ratio | MSI = Months Supply of Inventory, or how many months it would take to sell all available listings given the current rate of sale.

### APRIL 2022 SUMMARY

April repeated the same major trends we saw in the first quarter. Year-over-year, sales were down by **29%** while new listings were down by **49%**. The continuing decrease in housing inventories reduced the average days from listing to sale (with all contingencies removed) from 25 days to 17, and is keeping the pressure on home prices. In April the median sales price of a single family detached home in Marin increased by **28%**. So, for now, we remain in an extreme seller's market. As interest rates continue to rise, demand will wane, inventories will increase and we will slowly transition to a buyer's market.

### APRIL MARKET ACTIVITY REPORT



#### Property Sales (Sold)

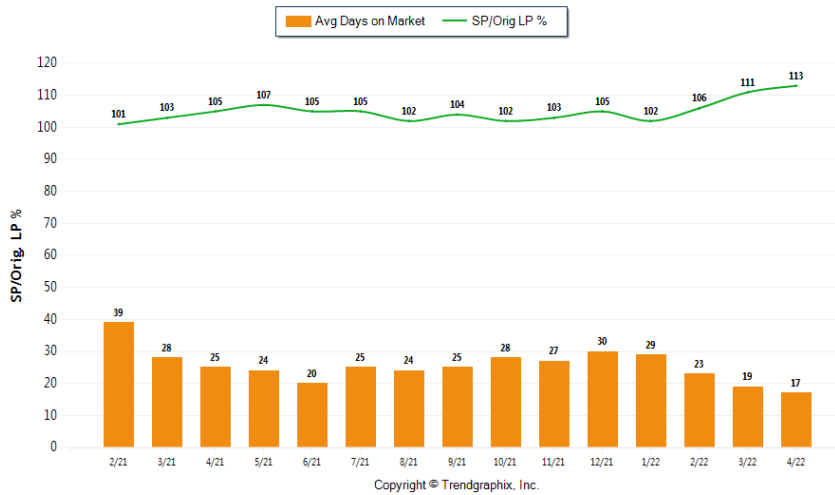
April closed sales were 193, down **29%** from 272 in April of 2021 and **16.3%** higher than the 166 sales in March.

#### Current Inventory (For Sale)

Versus last year, the total number of properties available in April was lower by 21 units or **14.7%**. This year's lower inventory means that buyers who waited to buy may have a smaller selection to choose from. The April inventory was up **20.8%** compared to the previous month.

#### Property Under Contract (Pended)

There was an increase of **10.3%** in pended properties in April, with 215 properties versus 195 in March. This month's pended property sales were **18.9%** lower than at this time last year.



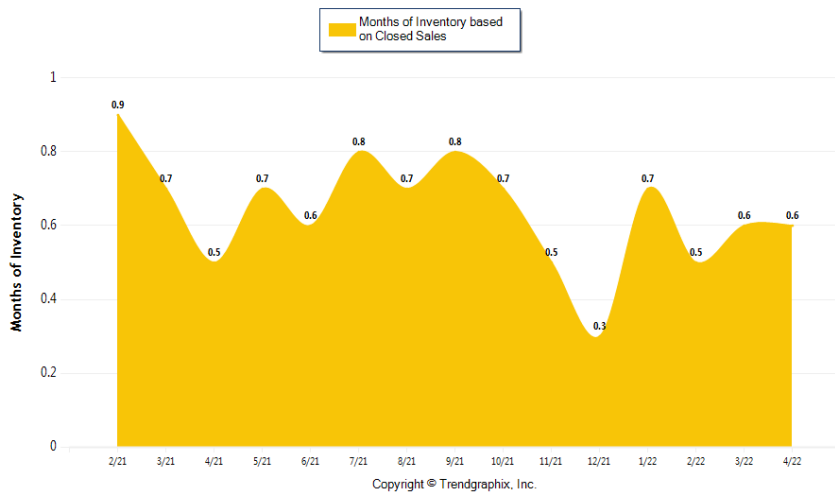
### The Days on Market Shows Downward Trend

The average Days on Market (DOM) shows how many days the average property is on the market before it sells. An upward trend in DOM tends to indicate a move towards a Buyer's market, a downward trend indicates a move towards a Seller's market. The DOM for April 2022 was 17, down **10.5%** from 19 days the previous

month and down **32%** from 25 days in April of last year.

### The Sold/Original List Price Ratio is Rising

The Sold Price vs. Original List Price reveals the average amount that sellers are agreeing to come down from their original list price. The lower the ratio is below 100% the more of a Buyer's market exists, a ratio at or above 100% indicates more of a Seller's market. This month's Sold Price vs. Original List Price was 113%, up **1.8%** from 111 in March and up **7.6%** from 105 in April of last year.



The Months Supply of Inventory is the number of months it would take to sell all available listings given the rate of sale. A comparatively lower supply of inventory is more beneficial for sellers while a higher supply is better for buyers.

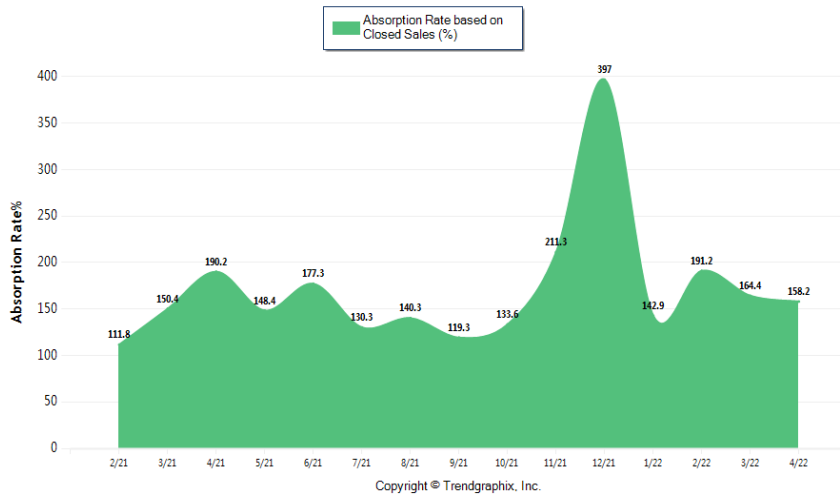
**Buyer's market:** more than 6 months of inventory

**Seller's market:** less than 3 months of inventory

**Neutral market:** 3 – 6 months of inventory

### Months of Inventory based on Closed Sales

The April 2022 "Months of Inventory based on Closed Sales" of 0.6 was **19%** higher than in April 2021 and the same compared to the previous month. April 2022 was a Seller's market.

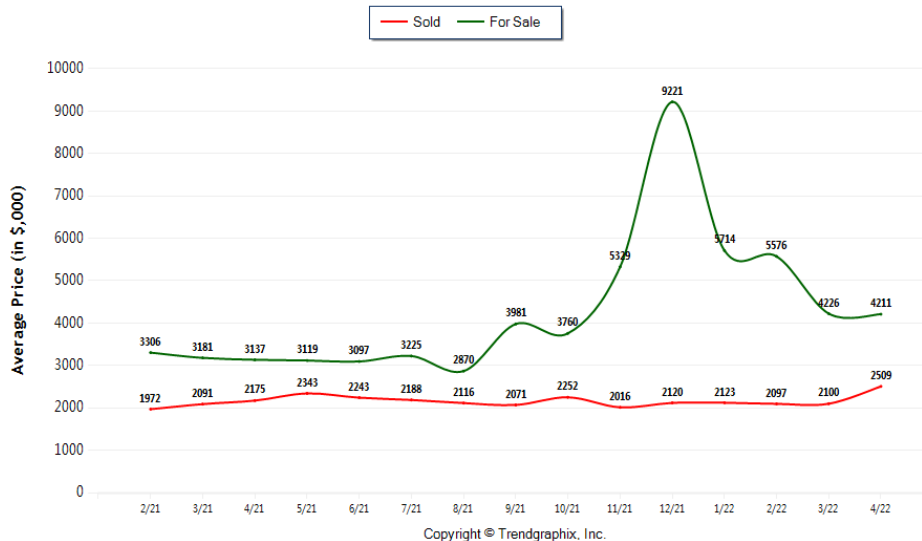


Absorption Rate measures the inverse of Months of Inventory and represents how much of the current active listings (as a percentage) are being absorbed each month.

**Buyer's market:** 16.67% and below  
**Seller's market:** 33.33% and above  
**Neutral market:** 16.67% - 33.33%

### Absorption Rate based on Closed Sales

The April 2022 "Absorption Rate based on Closed Sales" of 158.2 was down by **16.8%** compared to last year and down **3.8%** compared to March.



### The Average For Sale Price is **Depreciating\***

The Average For Sale Price in April was \$4,211,000, up **34.2%** from \$3,137,000 in April of 2021 and down **0.4%** from \$4,226,000 in March.

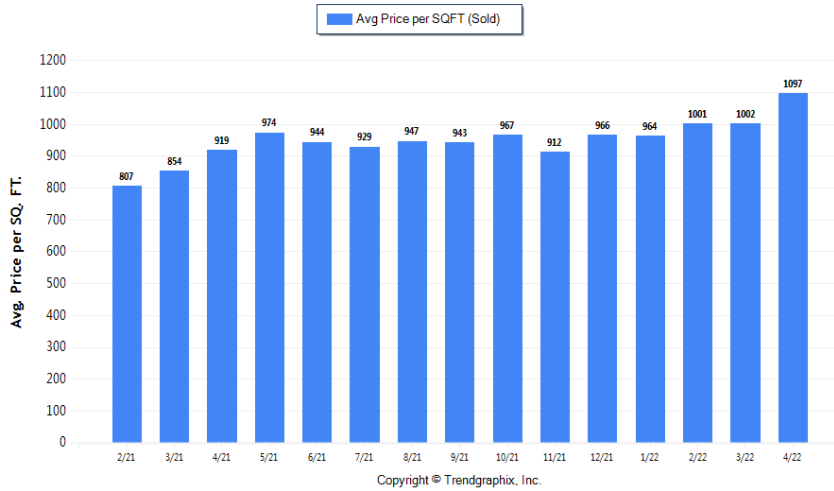
### The Average Sold Price is **Appreciating\***

The Average Sold Price in April was \$2,509,000, up **15.4%** from \$2,175,000 in April of 2021 and up **19.5%** from \$2,100,000 in March.

### The Median Sold Price is **Appreciating\***

The Median Sold Price in April was \$2,227,000, up **32.6%** from \$1,680,000 in April of 2021 and up **27.3%** from \$1,750,000 in March.

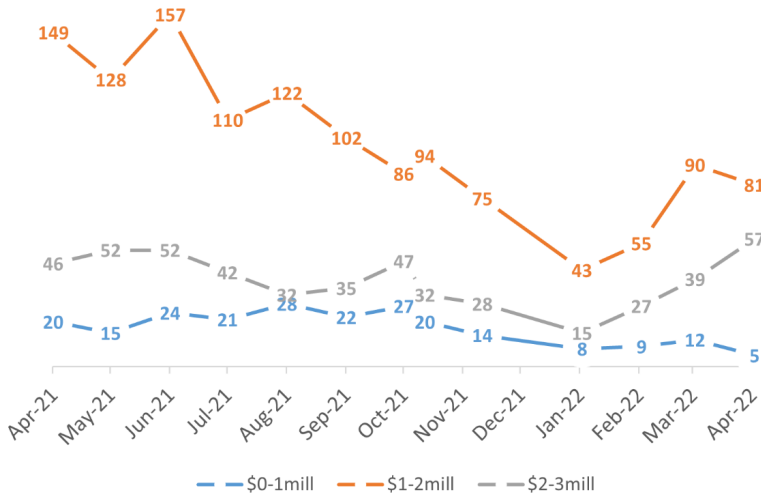
\* Based on a 6 month trend



## The Average Sold Price per Square Foot is Appreciating\*

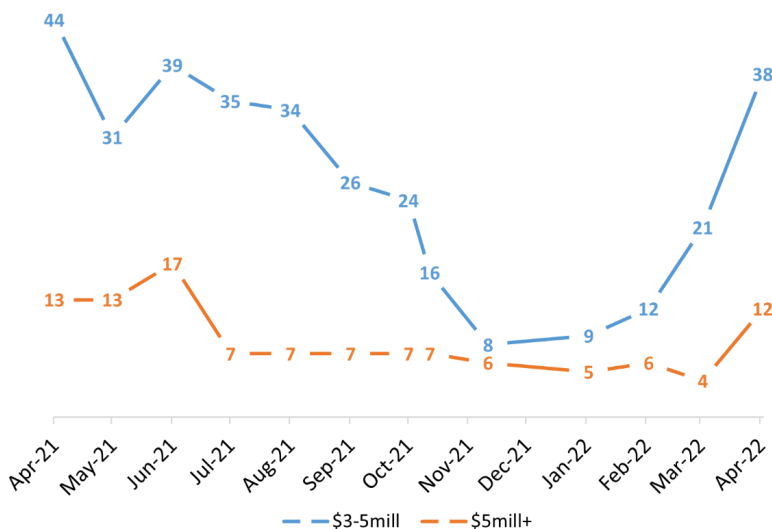
The Average Sold Price per Square Foot is a great indicator for the direction of property values. Since Median Sold Price and Average Sold Price can be impacted by the 'mix' of high or low end properties in the market, the Average Sold Price per Square Foot is a more normalized indicator of how property values are trending. The April 2022 Average Sold Price per Square Foot of \$1097 was up **9.5%** from \$1002 in March and up **19.4%** from \$919 in April of last year.

### 13 MONTHS OF SALES BY PRICE RANGE MARIN COUNTY LOW TO MID-RANGE HOMES



Whether planning to sell or purchase a home, it can help you strategize your approach by knowing which price ranges are in high demand and which are not. For low to mid-range homes, the most popular were in the \$1-2million range where sales increased from 43 in January to 81 in April. Sales of homes priced from \$2-3million increased from 15 in January to 57 in April. The lowest sales volume was in the \$0-1million range.

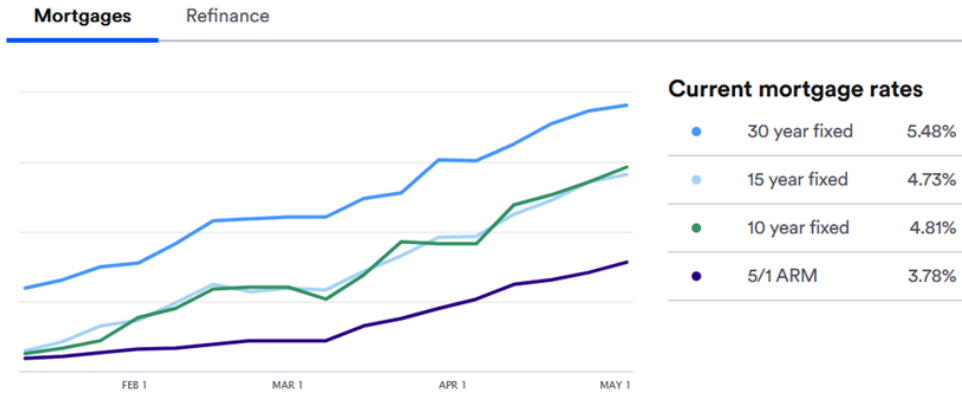
### 13 MONTHS OF SALES BY PRICE RANGE MARIN COUNTY LUXURY HOMES



The luxury market has really taken off in 2022. Sales of homes in the \$3-5million price range increased from 8 in November 2021 to 38 this April. Homes priced at \$5million and above took a leap up from 4 in March to 12 in April.

# CURRENT MORTGAGE INTEREST RATES as of May 11

## Weekly national mortgage rate trends



Rising rates obviously create an affordability problem for buyers. This next chart shows the effect of higher rates on monthly payments. In this example, with a \$400,000 loan at 2.75%, the monthly payment would be \$1,633. If the rate increases to 4.00%, the monthly payment increases to \$1,910. But if our buyer can only afford and qualify for the \$1,633 monthly payment, they would have to reduce their loan amount to approximately \$340,000. If they would like an 80% loan, the sales price of the home they can obtain would be reduced from \$500,000 to \$425,000.

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## The Cost of Waiting

**Buyer's Purchasing Power**

Monthly Mortgage Payment (Principal and Interest)

MORTGAGE INTEREST RATE	HOME LOAN AMOUNT				
	\$400,000	\$380,000	\$360,000	\$340,000	\$320,000
4.00%	\$1,910	\$1,814	\$1,719	\$1,623	\$1,528
3.75%	\$1,852	\$1,760	\$1,667	\$1,575	\$1,482
3.50%	\$1,796	\$1,706	\$1,617	\$1,527	\$1,437
3.25%	\$1,741	\$1,654	\$1,567	\$1,480	\$1,393
3.00%	\$1,686	\$1,602	\$1,518	\$1,433	\$1,349
2.75%	\$1,633	\$1,551	\$1,470	\$1,388	\$1,306

Principal and interest payments rounded to the nearest dollar. Total monthly payment may vary based on loan specifications such as property taxes, insurance, HOA dues, and other fees. Interest rates used here are informational and for marketing purposes only. Consult your licensed Mortgage Advisor for current rates.

As rates increase, many would-be buyers would be priced out of the market. This is why lenders are seeing movement away from fixed rate loans to adjustable loans. As you can see from the trends chart above, the National average rate for a 30-year fixed rate loan is 5.48%, while 5/1 adjustable rate mortgages (ARM) are at 3.78%. As an additional aid, some lenders will even offer low "teaser" rates for the first few years of an ARM. We are even beginning to see loans with an interest only option. The higher

rates rise, in the short run, the more creative lenders will become. Let's just hope that they don't become as creative as they did in the run up to the 2007 financial crisis. That seems unlikely, but something to keep an eye on.

## SUMMARY

To buyers and sellers it looks like the real estate market is moving forward at breakneck speed - homes are selling faster than last year, multiple offers are still plentiful, and prices are appreciating at a rapid pace. That is all because of the continuing supply/demand imbalance. In reality, the market is contracting. Yes, listings were down by 49% but sales were also down by 29% which means that the real estate market is not contributing to economic growth to the extent it has since the recovery began. This was an intended consequence of the actions the Fed is taking to curb inflation. Here are some quotes from industry experts about the relationship between interest rates and the housing market:



While higher short-term interest rates will push up mortgage rates, I expect some of this impact to be mitigated eventually through lower inflation. . . . Thus, I **expect the 30-year fixed mortgage rate to continue to rise, although we aren't likely to see the big jumps that occurred over the past few weeks.**

- Nadia Evangelou, Director of Forecasting, NAR



Based on the current estimate for the peak Fed Funds rate (3.25% to 4.0%), **the 30-year fixed mortgage will likely peak at between 5.0% and 5.7%. There is some variability in the relationship, so we might see rates as high as the low 6% range.** (This all depends on inflation and the Fed Funds rate - but I don't expect rates to move much higher than the current rate - although 6% is possible).

- Bill McBride, Author, Calculated Risk Blog



With rates rising and expected to rise through 2023, it makes sense to obtain a purchase or refinance mortgage if you are in good standing.

- Len Kiefer, Deputy Chief Economist, Freddie Mac



History suggests that when rates rise, there is an initial bump in home prices as many move quickly to buy a home before rates increase further. But after that period, home prices slow. Freddie Mac analysis shows that a 1% increase in mortgage rates results in home price appreciation that is 4 percentage points lower. For instance, a 1% increase in mortgage rates would change home price growth from 11% to 7%.

- Freddie Mac

We are certainly living in interesting times. Political unrest and economic uncertainty in the world make it difficult to predict market trends, and the opinions of industry experts are constantly in revision. I will continue to track the market and report back to you in this monthly update. In the meantime, with summer right around the corner, we can all enjoy the vast variety of outdoor activities available in the Bay Area. And, since I always appreciate referrals, if you know of anyone who is thinking of buying or selling a home, I would be happy to meet with

them and give them the same caring, professional service I provide to all of my past and current clients.



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