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Low Inventory Causes Housing Prices to Rise While Sales Decline

HOUSING: Interest Rates Expected to Rise Slightly in 2014
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San Diego's housing prices continued trending upwards in December, with the median coming in at $420,000, an increase of nearly 15 percent from the end of 2012, but up only 1.2 percent from November, according to the latest Dataquick report.

Total housing sales last month in the county were 3,099, off by 17.5 percent from the same month in 2012. The biggest reason for the decline, apparent throughout Southern California, is 'the pitifully low inventory," said Dataquick's president, John Walsh.

"The jump in home values over the last year suggests we'll eventually see a lot more people interested in selling their homes, which would help ease the inventory crunch," Walsh said. "More supply would put downward pressure on prices as would rising mortgage rates."

As for the cost of borrowing, the average rate on a 30-year fixed mortgage actually declined in the week ending Jan. 10 to 4.66 percent from the prior week's 4.72 percent, according to the Mortgage Bankers Association.

Those still historically low rates combined with a slowly improving economy should translate to more buyers jumping into the local market and a continued rise in values, albeit not at rates seen last year, most housing experts said.

"I anticipate that most of our business will be purchase business (as opposed to refinancings), and we're seeing life out there," said Mark Goldman, a lecturer on real estate at San Diego State University and mortgage broker with C2 Financial. "I'm optimistic about 2014. I don't know if it'll be as good as last year we had a lot of refinance business then."

Mortgage Rate May Rise to 5%

The expected rise in mortgage rates tracks the decision by the Federal Reserve Bank to taper the purchase of U.S. Treasury bonds from $85 billion to $75 billion monthly. As the Fed eases those purchases, interest rates are expected to climb, but not by much, most experts said.

"I'm not anticipating a big increase," Goldman said. "Will the taper have an impact on the market? Yes. Will it have a significant impact? No."

A Mortgage Bankers Association report late last year forecast average mortgage rates to increase this year above 5 percent, and then further rise to 5.5 percent by the end of 2015.

Refinancing surged last year, but fell off midyear when mortgage rates jumped. Total national refinancings passed $1 trillion last year, yet were expected to decrease to $463 billion in 2014, the MBA said.

The same report forecast purchase originations nationwide to increase to $723 billion this year, compared with $661 billion in 2013.

Some of the nation's megabanks reported huge drops in mortgage business in the fourth quarter. At Wells Fargo Bank, the biggest mortgage lender in the country, new loans fell 38 percent from the third quarter to $50 billion. At JPMorgan Chase & Co., the nation's No. 2 home lender, new mortgages declined 42 percent from the prior quarter to $23 billion.

Adjustable Rates Making Comeback

Although fixed-rate mortgages were the overwhelming choice of borrowers, more houses were financed using adjustable-rate mortgages in December in Southern California, or nearly 13 percent of the total. That was about double the number using ARMs from one year earlier, and up from 11.3 percent using ARMs in November, Dataquick said.

"As fixed rates rise, it may be worth your while to consider an adjustable rate," Goldman said. "And if you only need the loan for five years or less, it's better to pay it on the five-year rate because it's less."

The MBA said the interest rate for the second week in January on a 5/1 ARM was 3.28 percent, down from 3.33 percent in the prior week. The rate doesn't include closing points which were at .47 percent. The 5/1 ARMs stay fixed for five years and then adjust based on a specified index such as Libor.

The rate increase concerned Leslie Kilpatrick, the new president of the Greater San Diego Association of Realtors. "Every little uptick in interest rate does price certain people out of the market," she said.

More concerning to her was making sure that potential buyers, particularly military veterans, are made aware of the various home-buying assistance programs. With a Veterans Administration mortgage, buyers do not have to put down anything and are absolved of paying any mortgage insurance.

Obtaining financing still is weighted heavily to those who can easily prove their income and have a fairly good credit history; it remains difficult for those who are self-employed, Kilpatrick said.

Kilpatrick said although there was a marked slow-down in local home sales in the latter part of 2013, she anticipates a continued recovery in the market this year, "just a little bit calmer" than last year.