

Modest Increase in Home Prices Is Expected in 2013

With the California median home price in 2012 surging by double-digit from 2011, there are concerns about the market entering into another period of housing speculation. Discussions on whether the current housing market recovery and the recent asset price boom are justified surface from time to time and the debate will continue in 2013. What is clear from evidence suggested by surveys and research studies, however, is that current conditions for the housing market and for real estate financing are healthier than the environment that we observed in the mid of 2000's before the housing market started deteriorating.

The environment for housing finance in 2012 required home buyers to be more responsible financially than they were in 2006. Recent home buyers had more "skin in the game" than many of those who purchased a few years ago when the housing market was at its peak. In general, more buyers were putting a bigger down payment on their home purchased, while there were fewer buyers with zero down payment. The share of buyers who used a second lien to finance their property also shrank significantly from the peak of the current housing cycle, and those who opted for an Adjusted Rate Mortgage (ARM) took a dive from the mid of 2000's. There were also more buyers offering all cash to pay for their house in 2012, as cash buyers in the current market made up nearly three times what it was in 2006.

Meanwhile, the likelihood of default has been reduced as monthly mortgage payments in general are more affordable than a few years ago. Housing affordability has more than quadrupled from what it was in 2006, as the cost of borrowing remained at record low levels and the annual median price for 2012 was 43 percent below the annual median price for 2006.

Table 1: Buyers Have More "Skin" in the Game

	2006	2012
% of buyers with 20+% down payment	43.2%	54.4%
% of buyers with zero down payment	21.1%	4.6%
% of cash buyers	11.0%	30.0%
% of home buyers with a second mortgage	43.4%	1.8%
% of buyer with ARM	32.6%	3.5%

As the economy continues to improve slowly but steadily, the housing market condition will remain healthy in 2013. Sales will be strong in the upcoming year as housing affordability hovers at record level. The statewide median price is expected to increase modestly in 2013, as the change in the mix of sales due to more sales in the high-end market and the shortage of inventory put upward pressure on home prices. The fierce market competition, however, will continue to be the norm in 2013 as tight supply condition remains an issue, especially for areas with a significant share of REO sales.

Table 2: Less Likelihood of Defaulting as Monthly Payment is More Affordable

	2006	2012
Average mortgage rate (FRM)	6.4%	3.7%
Median home price for existing single-family homes	\$556,430	\$319,340
Median household income for home buyers	\$100,000	\$100,000
Housing Affordability Index	12.0%	51.0%

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