

Low Rates: Good for Buyers and Good for the Economy

The California housing market edged its way forward in August as lean inventory lifted the statewide median price while sales improved slightly. The median price for the month was \$318,660, up 1.2 percent from the July median of \$314,850 and 8.6 percent higher than the year-ago median of \$293,400.

Inventory rose mainly because of the slowdown in sales after the tax credits expired

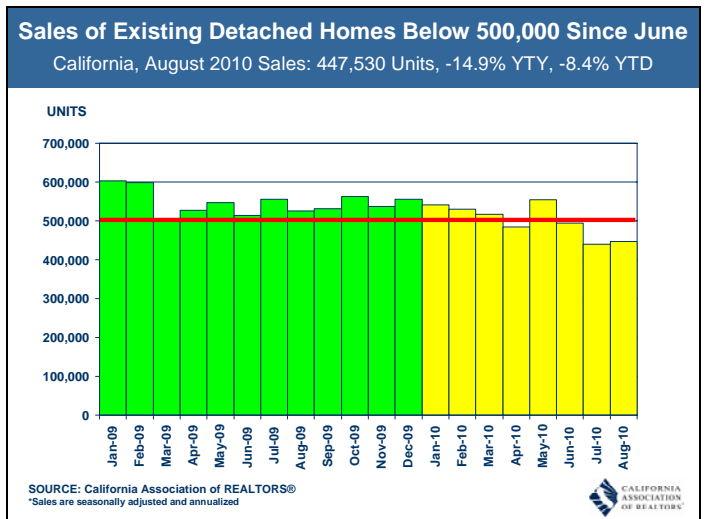
The supply of homes rose in August but remains lean by historic standards and is responsible for the price gains of the past several months. The MLS-based unsold inventory index rose from 4.6 months supply a year ago to 6.1 months supply in August 2010. Calculated as the ratio of listings to sales for a given month, the unsold inventory index rose mainly because of the slowdown in sales in the aftermath of expiring homebuyer tax credits, but there was also an uptick in the number of listings. Sales in the first half of the year averaged 520,200 homes, but “borrowed” from the second half of the year, resulting in a July sales figure of 439,680 homes, with slight improvement in August to 447,530 sales.

Since late 2007, California home sales have consistently exceeded the trough level of 255,000 homes that was experienced in September and October 2007.

Concerns about the housing market and the general economy abound in the news. U.S. sales of homes stalled out at new lows for this cycle in July and August and the supply of homes nationally is nearly double that of California. While the housing sector is an important cog in the economy in its own right, it also plays an important role in transmitting the effects of monetary policy actions into the consumer economy. In other words, policy makers know that if they can spur activity in housing, the rest of the economy should also pick up.

Low rates offer a rare opportunity to home buyers to get the most for their money

What does that mean for consumers and prospective home buyers in particular? Efforts by the Federal Reserve Bank to reduce long term rates in the coming months should result in historically low mortgage rates. With the median price in California back to 2002 levels, affordability will be at record-high levels over the foreseeable future. For those households that are in a position to buy a home, the coming months will offer a rare opportunity to get the most for their money by buying, whether as first-time buyers or trade-up homeowners. Their actions will also give the economy a much needed boost and contribute to general economic recovery. So as it turns out, what’s good for home buyers is also good for the economy.



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