



Economic improvement means increase in mortgage rates

By SAMANTHA HENRY, The Daily Transcript

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Mortgage rates bumped up after Ben Bernanke's speech in late May on concern that quantitative easing will be phased out, said Mark Goldman, a real estate professor at San Diego State University.

"Good news about the economy is bad news for interest rates," said Goldman, who is also a senior loan officer with C2 Financial Corp. and principal at The London Group.

Goldman said rates are "still fantastic," but he doesn't expect them to go back down to the low 3s.

"I see a continued slow increase in rates over the next six to 12 months," Goldman said. "After a year, rates might get up into the 4s. I don't think it will have a significant impact on the market. The lack of inventory is pushing up prices more than rates will push them down. ... It's not good for the market, but if rates go up and additional one-half of a percent, it won't make a tremendous difference in what's going on in the market."

According to Bloomberg, the average rate for a 30-year fixed mortgage jumped to 3.81 percent in the week ending May 30, from 3.59 percent, McLean, Virginia-based Freddie Mac said in a statement. The average 15-year rate increased to 2.98 percent from 2.77 percent.

Increasing rates could be a motivator to bring buyers to the market, Goldman said, for fear of even higher rates.

"We are seeing mortgage rates in the mid-3s and trending up," said Joe Bertocchini, director of residential real estate at USD's Burnham-Moores Center for Real Estate. "With rates low and home prices still very affordable, it is a great time to buy a home in San Diego versus renting, so long as it makes good financial sense to the individual making that decision. Of course, that is assuming that they are able to find a deal and get it into escrow. We are still seeing a very low supply of homes available, and as quickly as they hit the market, they are snatched up by all cash buyers."

The median price per square foot in San Diego in April was \$244, up 18.5 percent from April 2012 and up 2.3 percent from March, according to Redfin. There were 3,488 houses for sale in San Diego in April, down 43.1 percent from April 2012 and down 1.7 percent from March.

Goldman said if someone is planning on staying in San Diego long term, buying may be more desirable than renting. Those who are more mobile or expect career changes may want to keep renting, he said.

The relationship between the cost to own and the cost to rent is closer now than in the mid 2000s, Goldman said. In 2006 and 2007, ownership costs of homes priced \$600,000 to \$700,000 was 2.5 times the cost to rent the same property, he said. Today, the cost to own a house in the \$500,000 price range is close to the cost to rent the same home.

"Affordability is very high right now," Goldman said. "I think we're going to see a slowing down of the rapid price appreciation."

The percentage of homebuyers who could afford to purchase a median-priced, existing single-family home in San Diego was 38 percent in the first quarter, down from 43 percent in the fourth quarter of 2012 and 46 percent in the first quarter of 2012, according to the California Association of Realtors' (CAR) Traditional Housing Affordability Index.

San Diego homebuyers needed to earn a minimum annual income of \$78,580 to qualify for the purchase of a \$412,320 median priced, single-family home in the first quarter. The monthly payment, including taxes and insurance on a 30-year fixed-rate loan, would be \$1,960, assuming a 20 percent down payment and an effective composite interest rate of 3.55 percent.

San Diego's rental market has a 4.5 percent vacancy rate, according to the San Diego County Apartment Association (SDCAA).

The countywide average rent on all types of units this spring was \$1,330, up from \$1,288 in the fall and \$1,232 a year ago, according to the SDCAA. Rents by unit type over the last year are as follows:

Unit	Spring 2012	Fall 2012	Spring 2013
Studio Weighted Avg. Rent	\$910	\$868	\$908
1-br Weighted Avg. Rent	\$1,068	\$1,089	\$1,133
2-br Weighted Avg. Rent	\$1,309	\$1,389	\$1,428
3+br Weighted Avg. Rent	\$1,677	\$1,768	\$1,819

“Overall, the stable occupancy rates and slight increase in average rents over the past six months are a positive sign of gradual employment gains throughout the county,” said Robert Vallera, senior vice president at Voit Real Estate Services, in a release. “These positive signals will encourage the construction of some of the new multifamily housing that will be needed to house the next generation of San Diego County residents.”

Goldman said buyers tend to be financially stronger and the weaker buyers -- those pushing debt-to-income ratios and those who have credit concerns -- haven't come into the market.

As a result of favorable mortgage rates and affordable home prices, renters are returning to the homebuying market, Bertocchini said.

“We are also seeing a return to the market by boomerang buyers that have been sitting on the sidelines waiting out the short sale or foreclosure that has tainted their credit and precluded them from purchasing for the past few years,” Bertocchini said.

According to Bloomberg, the Mortgage Bankers Association's index fell 8.8 percent in the period ended May 24 from the prior week, with its refinancing measure down 12.3 percent to the lowest level of the year and its purchasing measure climbing 2.6 percent, the Washington-based group said yesterday.