

Real Estate Views

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Santa Clara County Region

April 2018



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Mortgage Rates*

30-year Fixed (Zero Points, \$453,100, 4.580 APR)	4.50%
15-year Fixed (Zero Points, \$453,100, 4.246 APR)	4.125%

* As of Apr 6, 2018. For reference only.

Santa Clara County Market Snapshot* March 2018

# of Listings (Single Family Homes)	516
Average selling price	\$1,745,230
% of asking price	112.4%
Avg. number of days on market	16
Number of Homes Sold	857

* MLSListings.com

The Debate: Employment vs. Interest Rates

In recent months, I've commented on the local real estate market primarily from the standpoint of employment and its effect on demand and affordability. I've asserted that the recent run up in prices has been the result of a solid job market and a limited supply of homes for sale.

The Mortgage Rate Perspective:

Some readers of this column have offered a different view. Their argument suggests mortgage rates are the primary influence on the market, not employment. The assertion is without the historical low rates in recent years, buyers would not have had the purchasing power to drive prices up. Now that interest rates are on the rise, the negative impact on purchasing power will be the reason the market slows down.

The Proof:

There's no doubt interest rates are a big contributing factor to market performance. Recent history proves it. Rising interest rates in the mid 2000's set up the mortgage crises in 2008. As rates rose many homeowners with adjustable rate mortgages could no longer afford their mortgage payment. At the same time, higher rates made qualification for new loans tougher for home buyers. The result was an increase in the supply, a decrease in demand, and a decrease in home values.

The Rebuttal:

As recent history proves the impact of interest rates, it also highlights the importance of a healthy job market. In the years following the mortgage crisis, interest rates went below pre-meltdown levels. However, at the same time, unemployment was around 10%. From 2010 to 2012, the market was in a rut despite favorable mortgage interest rates. It wasn't until 2013, when employment numbers improved, that the housing market got onto more solid footing.

Closing Argument:

Mortgage rates are important and impactful. But most important, in my view, is employment. Without income there is no affordability at any rate. That's my view. I'm interested in yours. Please contact me so we can continue the discussion.

Purchasing Power For a \$3,000 Monthly Mortgage Payment



(Chart based on 20% down payment of the purchase prices shown. Purchasing power is reduced ~11% for every 1% rise in rate.)