Q3 2015

YOUR MARKET UPDATE | AT-A-GLANCE

Another interest rate hike avoided

What a difference a week makes.

Jitters about mortgage-interest rates ticking upward were subdued Sept. 17, when Federal Reserve Chairwoman Janet Yellen told an anxious financial community that no short-term changes were planned for the near future.

But on Sept. 24, Yellen delivered a 40-page speech to a large University of Massachusetts audience, stating her case for doing precisely the opposite.

"It will likely be appropriate to raise the target range of the federal-funds rate sometime later this year and to continue boosting short-term rates at a gradual pace thereafter as the labor market improves further and inflation moves back to our 2 percent objective," Yellen said.

Either scenario is unlikely to have much effect on the housing market. The Fed will take another look at factors such as U.S. employment growth and the global economy before possibly announcing a hike at its scheduled policy meetings in October and December. But then again, the Fed might do nothing.

If that sounds vague, it is. The U.S. stock market, China's fluctuating economy, and other elements in the mix can change in a single day, throwing all markets into disarray. For now, the Fed seems to be erring on the side of caution while waiting for conditions to stabilize.

According to "Money Beat" in *The Wall Street Journal*, a rise in short-term interest rates wouldn't mean trouble for the housing market – not yet, anyway. One reason is: "... short-term rates have only an indirect relationship to mortgage costs. Instead mortgage prices, like those of other long-term loans, tend to be more influenced by economic growth and inflation expectations."

"The status of economies worldwide makes a big difference right now. The Fed cannot predict what will happen, but it's clear that a lot depends on how key financial and economic indicators play out," said David M. Cabot, President and CEO of Berkshire Hathaway HomeServices California Properties.

According to MarketWatch.com, Yellen said the Fed is counting on the housing market to improve, but it won't be a key driver for economic growth. It plays a supporting role, she said. But the gradual increase in interest rates that is expected should not derail the recovery in housing, MarketWatch.com noted.

WSJ pointed out that the 30-year fixed mortgage rate has lingered below 4 percent this year, going against predictions it would rise dramatically. Higher mortgage rates do tend to hurt home affordability, because potential buyers can't spend as much on a home to get the same monthly payment.

Many economists believe if rates do rise, it will indicate other signs of a healthy economy, such as more robust wage growth. Some markets where affordability is already tight – such as Southern California – could start to see slowing gains, but the broader housing market shouldn't see much turmoil.

ADVICE FOR **SELLERS**

Even in a sellers' market, it's still important to take the time to spruce up, fix up, and stage your home to sell. Getting your home into shape could mean receiving offers higher than your asking price. With new federal disclosure laws in effect as of Oct. 3, close of escrow probably will take longer, giving you more time to present your home in the best possible light in case a deal falls through.

ADVICE FOR **BUYERS**

Recent trends in the housing market show low inventory throughout Southern California. Danny Valentini, Mortgage Market Leader at HomeServices Lending, suggests preparing before you start your home search. "Getting a Pre-Approved Loan Commitment before your home search gets serious gives you a stronger negotiating position," he advised. As always, work with an experienced agent who knows how to navigate the home-buying process.