

# CIRIOS TRENDS

GETTING TO THE BOTTOM OF THE HOUSING MARKET



## The State of the Markets

If history has its way, housing inventory is set to rise.

And for all the potentially complex and controversial explanations for this coming bump in homes listed for sale, Occam's razor will likely hold: The simplest explanation usually wins out.

Seasonality is the reason it snows in the winter, leaves change in the fall and bronzed Jersey Girls and beefy guidos head down the shore from Memorial Day to Labor Day. Seasonality explains what happens when the calendar changes, whether it's weather patterns or consumer behavior.

The simplest explanation of seasonality in the financial world can be seen by looking at WalMart's quarterly revenue figures. Q4, which includes the Christmas shopping season, is typically 50% better than any other quarter. So, when financial analysts tally up WalMart's results, they have to back out this seasonality in order to get good apples-to-apples comparisons. (For a more complex look at seasonality, please see Cirios statistics guru Austin Nelson's piece entitled: [The Magic of Seasonal Adjustments](#).)

So, back to housing.

Looking at the graph in the top right corner of this page, courtesy of Socketsite, a San Francisco housing blog, it's fairly obvious that if the past 4 years are any predictor of the future, housing inventory (at least in San Francisco) is set to rise. This could blunt the recent exuberance of housing bulls around the country.

As anyone who has been paying attention to the financial media of late can attest, the view that the housing market has found a bottom is quickly becoming the opinion-de-jour. It's clear, optimists argue, that buyers are stepping back into the market to take advantage of screaming-hot deals.

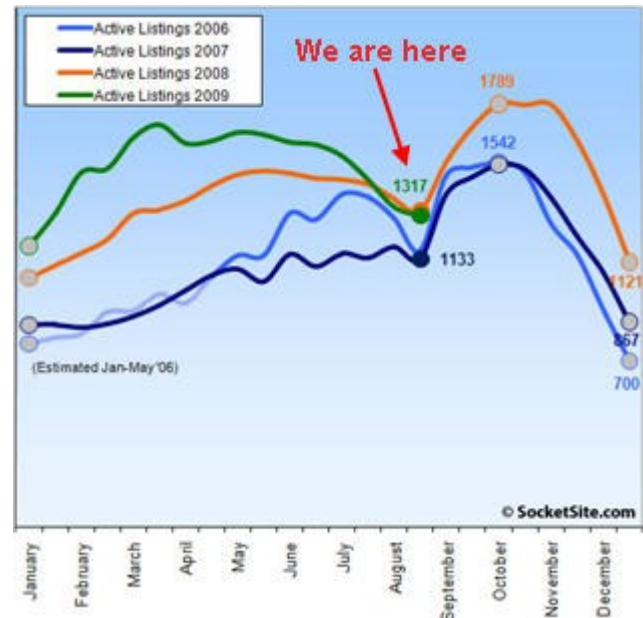
Pessimists, on the other hand argue that the bottom will remain elusive, that recent strength can be attributed to government intervention into the market in the form of tax credits, artificially low interest rates and de-facto foreclosure moratoria preventing banks from unleashing their swelling portfolios of bank owned homes onto the market.

And here we are, Labor Day, when buyers typically refocus their energy on things like a new school season, the upcoming holidays and preparing for winter, rather than getting out and shopping for that new home.

The question then becomes, if pessimists and optimists can agree on the fact that positive sentiment, or social mood, is partly to blame/credit for this nascent housing "recovery," what happens when data emerges in the coming months that maybe, just maybe, calls for a bottom in housing were premature?

Will buyers head for the hills, sending prices swooning once again? Or will they shrug, don their winter coats and leather gloves, saving the home search for the Spring ... like they do every year?

Chart of the Month:  
Active Listed Homes in San Francisco



Source: ©Socketsite.com

“Will buyers head for the hills, sending prices swooning once again?”

### Housing Data Keeps on Truckin'

- JUNE CASE-SHILLER HOME PRICE INDEX: -15.1% Y/Y
- JULY EXISTING HOME SALES: +7.2% M/M
- JULY NEW HOME SALES: +9.6% M/M
- JUNE HOMEBUILDER SENTIMENT INDEX: 18 (UP FROM 17)

### Inside This Issue

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“What is the use of a house if you haven't got a tolerable planet to put it on?” - Henry David Thoreau

“Before you go solar, go energy efficiency.”

## Ciriosly Green: Why Energy Efficiency Matters

Improving your home's energy efficiency doesn't just help the environment — it allows you to unlock hidden value just waiting to be tapped.

Ask most homeowners, or anyone for that matter, what pops into their mind when they think of energy efficiency or a “Green Home,” and it's likely “solar panels” and “expensive.”

Ciriosly Green Real Estate's mission is to debunk the myth that energy efficiency at home is a luxury reserved only for the wealthy. It's often the simplest, least expensive improvements that can have the biggest impact.

Case in point: Solar. Installing solar panel systems on homes is a notoriously bad business. Sure, there's a ton of buzz around solar, even generous tax incentives for homeowners who install panels on their roofs. But for solar installation firms, the bigger the system, the bigger the profit.

The result: Solar installers are incentivized to sell homeowners the most expensive system possible. What they don't tell you, because it hurts their bottom line, is that before you even think about solar, a series of non-sexy green improvements (fix your ducts, improve your insulation, seal your home's shell), can reduce your energy usage so much that even a small, inexpensive solar system can power your entire home.

So, before you go solar, go energy efficient.

Energy efficiency in our homes has a material impact on the environment. In the US, energy consumption of our buildings accounts for at least 40% of our total energy use. About half of that is attributed to residential structures.

According to the EPA, the average US household is responsible for emitting nearly 9,000 pounds of carbon dioxide into the air, per person each year.

### **Did You Know?**

Overall costs for new green construction vary based on the type and amount of green features, but are typically just 2% higher than conventional buildings, according to cost-benefit studies by Capital E, a Washington-based energy efficiency consultancy.

*(Wall Street Journal, May 2007)*

To put that in perspective, NPR's Car Talk guys say that burning one gallon of gas creates 20 pounds of carbon dioxide. If your car gets 20 miles per gallon, just living in your home each year has the same impact of driving from San Francisco to New York, then back to San Francisco, then back to New York.

So great, what can you do? Here are 5 tips to save energy around the house and reduce your carbon footprint. None of them will happen if you just sit idly by on your couch, but then again, not much typically happens when you just sit on your couch anyway.

**1) Seal your home's shell.** As air leaks out cracks in your home, your heater and/or air conditioner works overtime, jacking up your electric bill. A simple Home Performance test can identify this leakage — most gaps are cheap and easy to fill.

**2) Get between the walls.** Insulation is the best bang-for-the buck green improvement you can make. New techniques are cheaper and a whole lot more effective than the messy pink fiberglass you're probably used to.

**3) Seal your ducts.** The ducts that carry air around your house get worn out and crack, or can get pinched by a careless contractor shuffling around your crawl space. Not only does your heating and cooling system have to work harder to pump the same amount of air, but dirty air from your attic or under the house can get sucked up and distributed around your house. Have a child with Asthma? Check your ducts.

**4) Unplug the Vampires.** Standby loads, or “Vampire Loads,” are appliances and electronics draining power even when they are switched off. Did you know that 75% of a TV's energy use comes while you're not even watching? Plug these standby loads into a power strip with an off button and flip on the strip only when you're using your TV or other appliances.

**5) Light it up!** Replace your traditional light bulbs with low energy, compact fluorescent lighting (CFLs). This can cut your lighting-related energy costs by up to 50-75%.

The best part about improving your home's energy efficiency is that you get to not only save money, but enjoy a more comfortable and healthy home. Oh, and by the way Mother Nature won't complain, either.

# Cirios Trends

Getting to the Bottom of the Housing Market

## Zip Code Spotlight - 94530 - El Cerrito

“The lower the Days on Market, the “hotter” the market.”

This month's zip code spotlight shines on 94530, in El Cerrito, CA, located about 5 minutes north of Berkeley. Schools are excellent and crime is low, especially when compared to El Cerrito's neighbor to the north, Richmond. El Cerrito has two BART



stops which boast a ride of just over 30 minutes to San Francisco. Furthermore, El Cerrito's location in the northern part of the East Bay makes weekend excursions to Napa or Tahoe a breeze.

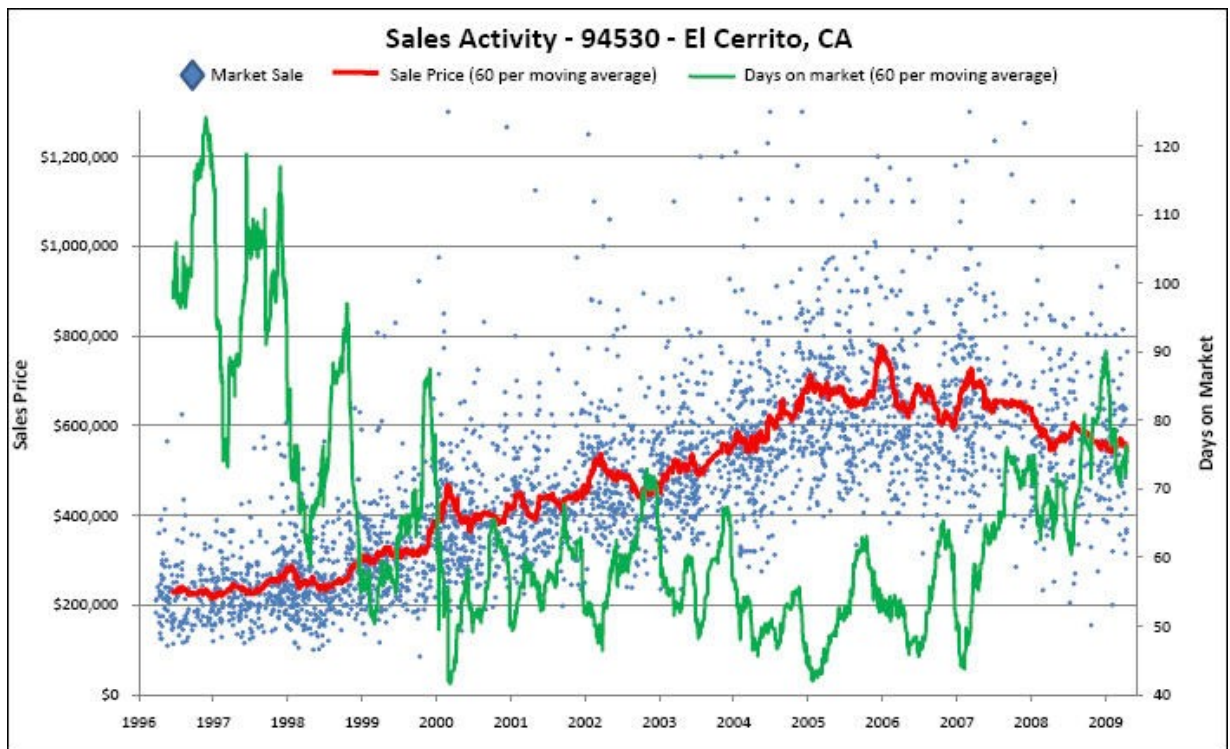
Most homes in El Cerrito are selling in the mid to low \$500,000 range. At this price, one can buy a nicely appointed 3 bedroom home on a 6,000 square foot lot, making it considerably more affordable than many other parts of the Bay Area.

As can be seen in the graph below, prices in El Cerrito have come down around 25% since the

peak of the market in 2006. This downward trend, unlike many areas, has been slow and steady. As with any local market these days, the trick is to identify areas where price declines are leveling off.

As we have consistently noted here at Cirios Real Estate, “picking the bottom” of any given market is an impossible feat. But there can be tell tale signs buried deep within the data that the team at Cirios can help you decode. Looking at the graph, the green line shows Days on Market, a very simple indicator of how “hot” a given market is. The lower the days on market, the “hotter” the market as buyers snatch homes up more quickly.

In 94530, there has been a slowly increasing trend in Days on Market since the peak in 2006. This is to be expected, as essentially all US real estate markets exhibited this trend. The interesting part of this graph comes at the end, where a distinct downturn in Days on Market can be seen. While this trend has only lasted for a few months, it may be an indicator that this market is “heating up.” As the graph clearly shows, Days on Market can be a fairly volatile indicator (largely due to seasonal effects), so this blip downward could be just that, a blip. But by closely monitoring indicators like Days on Market, the team at Cirios can help get you into the home you want at the right time.



Source: Cirios Real Estate, MLS data

## Feature: The Future of the First Time Homebuyer Tax Credit

**“If Congress has its way, there is no rush to take advantage of a tax break.”**

For all you first time homebuyers rushing out to buy a home before the current \$8,000 federal tax credit disappears in December, perhaps now is the time to stop, breathe deeply and assess your financial situation and target market before jumping into such a hefty commitment. Besides, if Congress has its way, there is no rush to take advantage of a tax break. Currently, there are at least 3 different proposed bills seeking to extend and/or expand the current first time homebuyer tax credits.

The leading proposal, HR 2801 - the Home Ownership Moves the Economy (HOME) Act of 2009, introduced in June by Howard Coble (R-NC) and co-sponsored by members from both parties, seeks to extend the current tax credit until January 1, 2011. The bill would also expand access to more potential homebuyers. The HOME Act would remove income restrictions (the current credit “phases out” for singles making more than \$75,000 and couples making more than \$150,000 annually) as well as extend the tax credit to all homebuyers, not just first time buyers.

A prospective home buyer can glean some important insight from the recent tax credit proposals. First, Congress is standing firmly behind its belief that a healthy housing market is key to our nation’s economic recovery and appears committed to propping up the collapsing housing market by extending financial support to a wider swath of potential buyers.

Second, with the high-end real estate market feeling downward pricing pressure, Congress appears ready to extend taxpayer support to the housing market as a whole, rather than to lower-priced homes only.

So what does this mean for a prospective home buyer?

In reality, it should not mean much.

Buying a home is a huge financial obligation, one which has the potential to, if done right, establish a solid financial foundation for the rest of one’s life.



But with that potential reward comes risk, which many homeowners are discovering only too late. \$8,000 is not an insignificant amount of money, but we often counsel our clients: “If you are buying a home to get an \$8,000 check, maybe you aren’t buying for the right reasons.”

Consider that if you buy a \$400,000 home, a mere 2% decrease in the value of your home wipes out the \$8,000 credit you just received. In markets that have declined, 20, 30 or 40% already, another 2% barely even registers.

An important caveat to both buyers looking to capitalize on the current tax credit and those waiting-and-seeing: the HOME Act of 2009 has not been signed into law, and is still early in the House Committee process. The breadth of this proposed tax credit expansion could drastically change before it is signed into law, or even be abandoned altogether.

Those who followed the passage of the present tax credit know that the Senate initially sought to create a \$15,000 credit, and several proponents wanted it extended beyond first time buyers.

In other words: Nothing is set in stone, yet. Whether you intend to take advantage of the current tax credit or wait and see what will be available next year, Cirios is here to aid and educate prospective buyers dipping their feet into what should still be considered a “confusing” market.

## First Time Homebuyer Spotlight: Which Lender is Right For You?

“Who should I talk to about getting a mortgage?”

One question almost every first time homebuyer asks us is: “Who should I talk to about getting a mortgage?”

The easy answer is: “Whoever gives you the best rate and terms.” While this answer does have some viability, if you are buying a home in the Bay Area for less than \$700,000, most lenders now offer similar rates and terms. This is because the government basically controls the mortgage market, and banks are hawking the same, government-stamped loans to the public.

But that doesn't mean the choice of where to get your loan is any simpler. Interest rate and terms aside, your decision should come down to which lender you feel confident can close your loan and which provides you the best service.

Below are the three main resources available to first time homebuyers in today's mortgage market and how they stack up in terms of confidence to close and service:

### 1) Banks and Credit Unions

*Closing Confidence:* If a major bank or credit union provides you with a pre-approval for a mortgage, you should feel comfortable that your loan will close with the same terms provided on the pre-approval ... assuming your appraisal comes in OK, of course, which given the new appraisal rules, is anything but a slam dunk.

*Service:* Big banks have notoriously lousy customer service, so find out early how easy (or hard) it is to get your loan rep on the phone. If a problem arises during escrow, you want your advocate on the other line, immediately.

### 2) Private Mortgage Companies

*Closing Confidence:* Despite a much-needed house cleaning in the world of private mortgage companies, some still exist. Most are reputable firms that sell government-backed loans to big banks, but do your homework to make sure yours isn't a fly-by-night operator.

*Service:* These lenders get paid when your loan closes. As a result, most are efficient firms that offer service that is frequently better than banks or credit unions. Few private mortgage companies offer “Jumbo” loans, so if you're looking for that million dollar estate or penthouse condo, chances are they can't help.

### 3) Mortgage Brokers

*Closing Confidence:* Mortgage brokers do not provide the money for your loan. They are basically sales people for financial institutions. The question then becomes, who is the mortgage broker selling your loan to? Many big banks have stopped buying loans from brokers, which has severely limited these brokers' ability to conduct business.

*Service:* Like private mortgage companies, mortgage brokers don't get paid until your loan closes. This means they will do their best to get your loan funded as quickly as possible. That being said, a broker is not the final decision-maker on your loan, so you may be strung along in a painful game of telephone if there are problems.

In the end, we advise our clients to reach out to each type of lender and get a feel for their level of service and loan choices. Your real estate agent should be a knowledgeable sounding board for everything you hear from your potential lender — if they are not, it's time to find a new agent!



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