

CIRIOS TRENDS

GETTING TO THE BOTTOM OF THE HOUSING MARKET



The State of the Markets

Of the myriad debates ongoing at a time when economics and politics are seemingly two heads of the same freakish snake, the role government should play in directing economic actions dominates an already ideologically charged arena.

And nowhere is the issue argued more hotly than in the trenches of the housing market.

Government, some say, should come to the rescue of Main Street, vindicating the evils of Wall Street greed and excess run amok. Who else will look out for the little guy if not our elected representatives?

Others disagree, fingering Washington as one of the primary culprits in an economic landscape characterized by artificially low interest rates, lax regulation and a political class that was in bed with the corporations it claimed to be policing.

In housing, it's no secret that government involvement in the market has reached new heights. Virtually every mortgage written today is backed by some branch of the federal government, be it via the FHA, Fannie Mae or Freddie Mac. Tax credits to first time buyers spurred a flurry of purchase transactions this summer and fall, and inventory levels have been kept low by ongoing foreclosure moratoria.

Interest rates remain stubbornly low, despite fears of inflation and a collapsing US currency.

As a result, in some of the hardest hit real estate markets, prices seem to have stabilized, as supply has dropped to, in some cases, less than a month of inventory.

At the heart of the debate, and a point which is widely under-reported in the mainstream press, is the effect of decades of aggressive policies aimed at encouraging lower income Americans to buy homes.

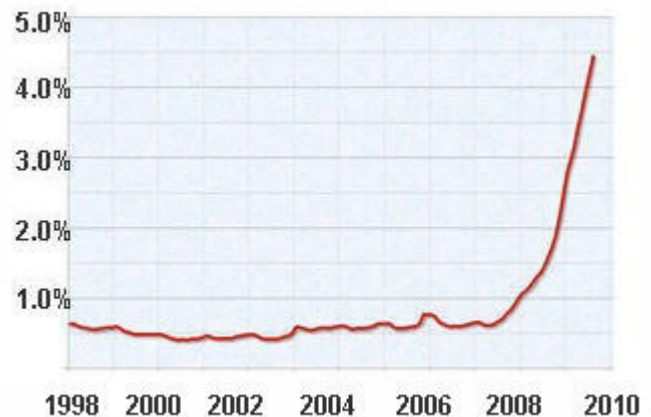
These directives created a deeply liquid and profitable arena into which Wall Street moved, seized upon, and ultimately cannibalized. That Congress is now actively leading a witch hunt to track down the "guilty" is highly ironic since only with the implicit blessing of Washington could Wall Street have committed its crimes.

Look at the graph in the top right corner of this page. Taxpayers are increasingly being asked to cover losses which Washington is unloading from the private sector onto the public balance sheet. This liability will be a drag on the economy for years to come.

One unfortunate result of this crisis is that Americans with less than ideal credit are seeing access to banking services stripped away at an alarming rate. And while justified in some cases, there is a place in our economy for non-prime lending, if done right.

As big banks withdraw from this arena, smarting from losses of a similar shape to the graph above, small, niche lenders can step in and fill the void. Opportunities abound, if you just know where to look.

Chart of the Month:
Fannie Mae Single Family Serious Delinquencies



Source: www.calculatedriskblog.com

**“Opportunities
abound, if you
just know
where to look.”**

Housing Data Starts to Wobble

- AUGUST CASE-SHILLER HOME PRICE INDEX: -11.3% Y/Y (FROM -13.3%)
- SEPTEMBER EXISTING HOME SALES: +9.4% M/M
- SEPTEMBER NEW HOME SALES: -3.6% M/M
- SEPTEMBER HOMEBUILDER SENTIMENT INDEX: 18 (DOWN FROM 19)

Inside This Issue

STATE OF THE MARKETS: NOVEMBER 3, 2009	1
EDITORIAL: REGULATORS DELAY BURSTING OF COMMERCIAL REAL ESTATE BUBBLE	2
ZIP CODE SPOTLIGHT: 94040 - MOUNTAIN VIEW	3-4
FIRST TIME HOMEBUYER SPOTLIGHT: HOW MUCH DOES IT REALLY COST TO BUY A HOUSE?	5

“Rumors of a legitimate economic recovery are greatly overestimated.”

Editorial: Regulators Delay Bursting of Commercial Real Estate Bubble | by Andrew Jeffery

This piece first appeared on [Minyanville](#).

Reality, it appears, is a dish Washington believes is best served, never.

Late Friday evening on October 30th, long after most Americans had shut off their computer screens and turned their attention to more important things -- namely, Halloween -- banking regulators dropped a silent, rotten egg onto the financial system.

Despite an alarming increase in the number of troubled commercial real estate loans gumming up bank balance sheets, the Federal Reserve, FDIC, and Office of the Comptroller of the Currency issued new guidelines Friday easing the burden this souring debt will have on lenders. Regulators are encouraging banks to modify loans, rather than foreclose and repossess property, even if the value of the building has fallen below the amount of the loan.

Loan workouts, regulators argue, can be beneficial to both lender and borrower, and are preferred to foreclosures, which drag down prices. But one look at the earlier-to-crash residential real estate market quickly proves this notion as a fallacy.

In many of the hardest hit real estate markets, ones which imploded well before ill-fated mortgage modification attempts were launched, true price discovery was given a slim opening to take hold. Now, as prices have fallen back to more affordable levels, traditional homebuyers and real estate investors have stepped back into the market, helping to stabilize prices.

Sure, there's still a healthy dose of government intervention propping up the housing market as a whole, but only through these fresh starts can markets begin a genuine healing process.

Well-to-do markets, on the other hand, have not yet had their requisite dose of price discovery, as corrective market mechanisms are being prevented from functioning. Foreclosure moratoria (ongoing) and modification efforts (floundering) are simply kicking the proverbial can down a long proverbial road.

So too in commercial real estate, as landlords face increasing vacancies, falling rents, and,



according to the [Wall Street Journal](#), \$1.4 trillion in maturing loans over the next five years. Around half of these are said to be underwater, and thus cannot be refinanced at current price levels.

Regulators' answer, not unlike the failed mortgage modification programs introduced by Bush and continued by the Obama Administration, is to allow big banks like Citigroup, JPMorgan, and Bank of America to forestall the recognition of losses, trying to delay the inevitable bursting of the commercial real estate bubble.

With Wall Street's collective eyes focused on Monday's headlines -- CIT's [bankruptcy](#), Goldman Sachs picking up [tax credits](#) from Fannie Mae and Freddie Mac, and of course the Yankees a single win away from their twenty-seventh World Series title -- regulators are hoping investors will ignore the stench of this well-timed announcement as just another holdover from Halloween revelry gone awry.

And while the new guidelines may bolster efforts to make the banking system look healthier than it actually is, it's further proof that rumors of a legitimate economic recovery are, in fact, greatly overestimated.

Cirios Trends

Getting to the Bottom of the Housing Market

Zip Code Spotlight - 94040 - Mountain View, CA

For this month's zip code spotlight we head down the Peninsula to Mountain View, CA, home of Google Inc. and just up the street from rival Yahoo, headquartered in neighboring Sunnyvale.

For the past decade, the relationship between Google and wealth has been a rather simple one: As goes Google, so goes boatloads of cash (and hopefully long term economic stability). And while the Google Effect has been felt throughout Silicon Valley real estate markets, let's focus on the market immediately in the company's back yard.

"A tiny 1-bedroom home available for a mere \$500,000."

Partly because of Google's strong economic presence in the area, some neighborhoods have seen dramatic explosions in price in the last 10 years. This month's zip code, 94040 which comprises the western portion of Mountain View, is no exception. As can be seen on the graph on the following page, prices doubled from 1998 through the market's peak in 2008.

However, recent price declines have hit the area hard, giving those looking for a mid-high end home a chance to squeeze into a market likely to be basking in the Google glow for years to come.

Looking more closely at the market, one finds a wide range of available properties. Currently available single family homes range from a \$1.8 Million, 4 bed, 3 bath to a tiny 1-bedroom available for a "mere" \$500,000. Over 70% of the properties in the area are listed at the million dollar plus level, so come ready to spend.

Schools in the area are terrific, consistently scoring in the 90th percentile of schools in the state. Downtown Mountain View has everything from shopping to nightlife. The city also boasts a bayshore municipal golf course and Shoreline Amphitheater (pictured below), a concert venue frequented by the biggest names in show business.

If you are lucky enough to work at Google, the commute from most parts of Mountain View is less than 10 minutes, and there are numerous other technology firms just minutes away. For the rest of us, Downtown San Jose is only 20 minutes away and San Francisco is somewhat farther, over 40 minutes in light traffic. CalTrain provides an excellent option for public transportation.

As the graph shows, prices are down ~20% in the zip since the peak, and a recent spike in supply is quickly subsiding. Ultimately, the extent to which prices can hold these levels is dependent on whether Silicon Valley's up and coming home buyers continue to eye Mountain View as an attractive, desirable place to live.



Cirios Trends

Getting to the Bottom of the Housing Market

Zip Code Spotlight - 94040 - Mountain View, CA (cont.)

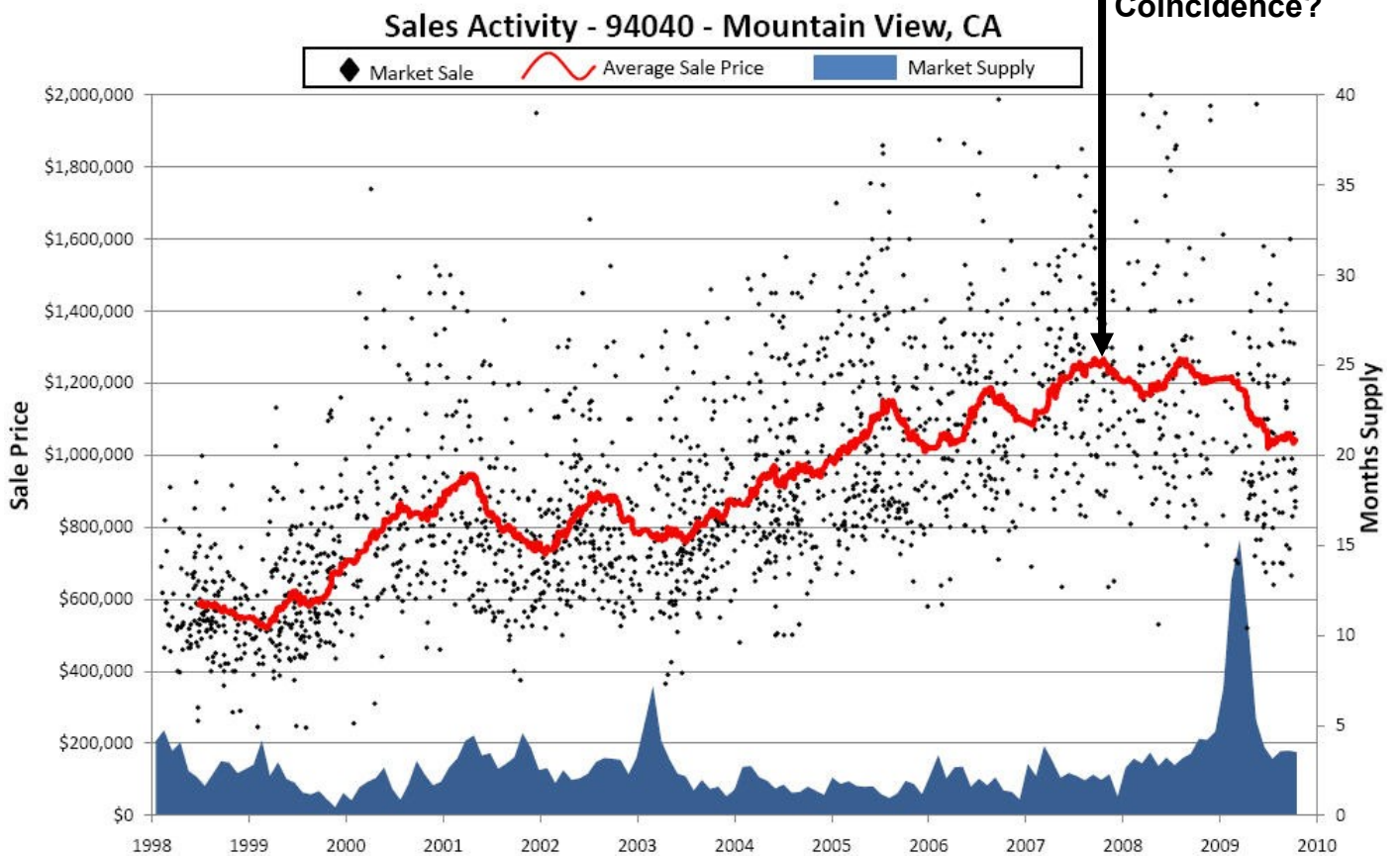
“Prices are down 20% from the peak.”

Did You Know?

Google's share price topped out at over \$740 per share within a month of the top in the Mountain View real estate market?



Coincidence?



First Time Homebuyer Spotlight: How Much Does it Really Cost to Buy a House?

“Now that is a lot of fees! “

When trying to determine if they can afford to buy their first home, many first time homebuyers leave out a whole host of costs that then become unwelcome surprises once they're already emotionally invested in a purchase.

There are a whole host of fees and costs that neither Realtors or lenders are terribly excited to tell you about, preferring to gloss over the details until they have you well along in the process.

It's imperative to sit down and budget all the out-of-pocket expenses that go into buying a home, in addition to the down payment and of course monthly recurring payments to arrive at the total cost, err, joy of homeownership.

Keep in mind that these are the realities of buying, and eventually owning a home. They should be accepted, evaluated and budgeted just like more widely quoted expenses like interest rates.

But a quick scan of a list of the fees included in an estimated HUD (effectively a list of all costs associated with a home purchase) can show be a bit intimidating:

- Loan Origination Fee
- Document Fee
- Processing Fee
- Tax Service Fee
- Appraisal Fee
- Credit Report Fee
- Messenger Fee
- Flood Cert Fee
- Escrow Fee
- Notary Fee
- Recording Fee
- Other Title Fee
- Monument Fee

Now that is a lot of fees! Some are no more than \$10, but others can be hundreds or even thousands of dollars. When you first meet with a lender to discuss pre-approval, always ask for a list of fees or a sample HUD statement so you can have this information ahead of time.

In addition to closing-related fees, buyers also need to be aware that they may need to pay pro-rata property taxes. Pro-rata what?

In California, property taxes are due twice a year, February 1st and November 1st. So, depending on when you buy your house, you may have to pay taxes to carry you through to the next payment at the time you make your purchase.

On top of these lesser known fees and costs, you have the down payment to consider, which in most cases is the biggest out-of-pocket expense for any home purchase.

Don't forget moving costs, buying furniture, repainting and any other initial maintenance items that your particular home may need. Also, don't forget upkeep, which should be expected to be around 1% of your home's cost, per year.

Although potentially intimidating, any potential home buyer should take the time to make a detailed budget of these costs, after careful research and consultation with both a real estate broker (like Cirios!) and mortgage lender.

Then, based on your own budget and the mortgage calculator resources available online (see previous edition of Cirios Trends for thoughts on [mortgage calculators](#)), you can ultimately arrive at how much home you can afford.

Then ... it's time to go shopping!



Cirios Real Estate, Inc.
343 Sansome St., Suite 850
San Francisco, CA 94104
www.ciriosre.com

Phone: 415.217.0012
Fax: 888.617.2417
E-mail: info@ciriosre.com
Lic. No. 01835279