

# CIRIOS TRENDS

FINDING REAL ESTATE OPPORTUNITIES.



## The State of the Markets

Humans, as a species, are lousy fortunetellers.

A few intrepid visionaries aside, most people simply cannot grasp what the world will look like in 20, 10 or even five years.

And for good reason. Trying to envision the future doesn't mean picking some individual aspect of society and dreaming up "how cool would it be if ...". Proper forecasting requires taking into account all aspects of human interaction, projecting advances in each area out into the future, envisioning a world with those new, unknown rules, then deriving a hypothesis within that framework.

Investing - whether it be real estate or stocks - requires just that predictive aptitude in order to make truly good decisions. The ability to look forward and predict what things may be like based on a set of projections is what separates great investors from those who are content with "market" returns.

In real estate, effective forecasting is impossible without examining and understanding demographic shifts. Populations move slowly, but with great inertia. Trends develop over time, based on fundamental factors that develop over decades, not years or months.

Ask any successful real estate investor and they will tell you that getting in front of demographic movements is the best way to build real estate wealth. Time horizons may vary wildly, whether one is eyeing hipster migration within a city that typically foretells more affluent gentrification; or entire towns that over 60 years transformed into an almost exclusively upper middle class Asian-American community.

But how can you know, before, and buy accordingly? And here we are back to the human inability to predict the future.

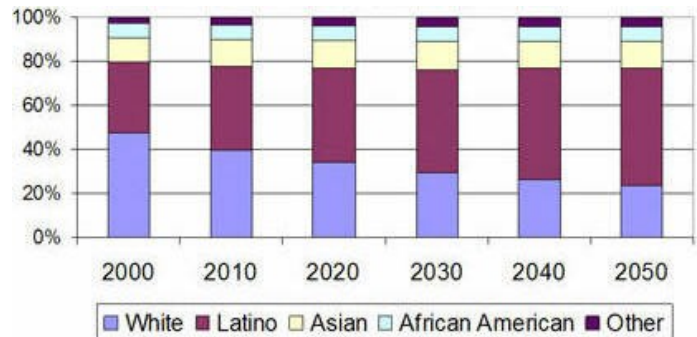
This month's *Cirios Trends* is devoted to one of the most controversial, yet potentially important development projects in the Bay Area, and how its relative success or failure could accelerate a demographic sea change in San Francisco that is already underway.

The Hunters Point/Bayview neighborhood is best known for being the most dangerous part of San Francisco. Gang violence is common, the streets are far from safe and, as one might expect, home prices are lower here than anywhere else in the city.

But Hunters Point also includes the largest untouched piece of land within the San Francisco city limits. Mired in environmental, social and political controversy for decades, plans to redevelop Hunters Point are edging closer to reality. Coupled with ongoing socioeconomic changes in San Francisco, the project is part of a potentially massive shift in demographic orientation within the city.

In the following pages, we barely scratch the surface of what the successful redevelopment of this area could mean for the city. In order to truly grasp the potential opportunities, sit back, close your eyes and imagine a world that is, in a word, unimaginable.

Chart of the Month:  
California Population Projections



Source: California Department of Finance

**“Populations move slowly, but with great inertia.”**

### Housing Data Stung by Tax Credit Expiration

- MAY CASE-SHILLER HOME PRICE INDEX: +4.6% Y/Y | +1.3% M/M
- JUNE EXISTING HOME SALES: -5.1% Y/Y | +9.8% M/M
- JUNE NEW HOME SALES: -16.7% Y/Y | +23.6% M/M
- JULY HOMEBUILDER SENTIMENT INDEX: 14 (DOWN FROM 16, 15-MONTH LOW)

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**“Every industry is going to be affected by an aging population. This creates tremendous opportunities and tremendous challenges.” - Pat Conroy**

**“Mayor Gavin Newsom called the Shipyard project a key to the city’s future.”**

## Feature: The Storied History of Hunters Point

Over the past several years, precious few shovels have broken ground in San Francisco. The credit crisis and economic slump have caused developers and investors to pull back, as builders have focused on surviving, rather than thriving. But despite the slowdown, Lennar Corp., a Florida-based developer, has been moving steadily forward with plans to redevelop large portions of the San Francisco neighborhood known as Hunters Point.

In 1999, San Francisco awarded Lennar with a contract to redevelop Hunters Point. A decade later, Lennar is making strides to move forward with its ambitious plans, despite myriad setbacks and opposition from local community groups. Last week, the San Francisco supervisors overwhelmingly approved Phase II of a project to transform the abandoned Hunters Point Naval Shipyard into a new waterfront community of homes, businesses and green technology. Major Gavin Newsom called the Shipyard project a key to the city’s future.

The development is massive in size, covering over 702 acres at Hunters Point. Plans include building 10,500 residential units, creating 320 acres of parks and open spaces including the planting of over 10,000 new trees. The project will include waterfront retail and entertainment facilities, commercial space designed for green businesses and a bridge across Yosemite Slough, connecting the Shipyard with Candlestick Point. Plans also include a new 49ers stadium, which are, however, likely to be scuttled thanks to Santa Clara voters’ decision to approve the team’s to move to Silicon Valley.

In order to understand the scope of what is being planned at Hunters Point, one must appreciate the history of the area and the community that has grown up around the former Navy shipyard there.

Hunters Point Shipyard is located in the Bayview neighborhood in southern San Francisco. Established around 1870, the Shipyard was the first dry dock on the West Coast. It was also well known for its butcheries.

From World War II to 1974, the Navy managed the Shipyard, employing tens of thousands of people, while massive developments built up around the site in support of the industry that the Navy provided. Unfortunately for the residents of Hunters Point, the Navy’s activities at the Shipyard contributed to massive pollution in the area.

The Hunters Point Shipyard has been plagued with both chemical and radiological contamination,



which the Navy believes was primarily the result of efforts to decontaminate ships that participated in atomic weapons testing in the Pacific Ocean.

In 1989, the US Environmental Protection Agency listed the Hunters Point Shipyard and other nearby areas on its Superfund National Priorities List and closed the base in 1991. Under Superfund law, the Navy became responsible cleaning up the area. Over two controversial and litigation-filled decades, the Navy and other groups have been busy with the required environmental cleanup of the surrounding areas. In November 2000, San Francisco voters passed Proposition P, which required that the Navy clean the Shipyard site to the “highest practical standards.”

With cleanup in certain areas of Hunters Point now meeting San Francisco’s strict standards, development plans are moving forward. On June 3, 2010 the San Francisco Planning Commission narrowly approved the Environmental Impact for Lennar’s Hunters Point development. Despite this big step forward for Lennar, future lawsuits by local groups and environmentalists could arise due to disputes over the environmental impact of the proposed bridge over Yosemite Slough.

In addition to environmental concerns, the social impacts of the project are troubling for the local community. A 2000 study found that 50% of current households in Bayview could not afford even Lennar’s proposed “very low income” units. Despite the likely social impact on local residents, the San Francisco supervisors rejected adding a provision that would require Lennar to make over 50% of residential units “affordable” housing units.

And so, with the project on track to move forward, Cirios is monitoring the progress and impacts of the Hunters Point development, which will be ongoing for the next decade, and beyond. The impact on real estate in the city will be, to say the least, significant.

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## Around the Bay: Local News Bites

### San Francisco Gives Hunters Point Redevelopment Thumbs Up (San Francisco Chronicle)

In a nearly unanimous vote last week, the San Francisco supervisors approved plans to redevelop the Hunters Point Naval Shipyard, pushing forward what has become one of the most controversial development projects in the city. The area, long off limits due to hazardous conditions in the water, is slated to be transformed from a gritty, urban neighborhood to a glitzy commercial area replete with shopping, nightlife and eco-friendly housing. But not everyone is cheering, as local residents who spent years fighting the development appear to have lost out to the city's profit-minded interests. In this month's *Cirios Trends*, we dive deeper into the Hunters Point project and what it means for the city in the coming decades.

(Read more here: <http://tinyurl.com/ciriosrendsaugust1>)



### High-Speed Rail Chases More Cash (Silicon Valley Business Journal)

After receiving more than a quarter of the federal stimulus money allocated for domestic rail projects, the California High-Speed Rail Authority is after more funding. The US Department of Transportation has set aside another \$2.3 billion for such projects, of which the Rail Authority is asking for \$1 billion. But like nearly all development plans, the bullet train doesn't sit well with everyone. The Peninsula Cities Consortium, made up of representatives from Palo Alto, Menlo Park, Atherton, Belmont and Burlingame, is pushing for plans to be delayed and rethought. Claiming that the train should be "built right or not built at all," the group is often criticized as rich suburbanites who don't want the train running through their back yards.

(Read more here: <http://tinyurl.com/ciriosrendsaugust2>)



### Alameda Point Development Hits Snag (San Francisco Business Times)

Even as San Francisco okayed development to start at Hunters Point, across the bay in Alameda things aren't going so well. The Alameda city council voted not to extend a development agreement for Alameda Point, a section of the former naval station slated for redevelopment. SunCal, an Irvine-based developer, had been working for three years on plans for the site, navigating the minefield of political, social and financial hurdles to get such a project off the ground. SunCal failed to rally community support and plans didn't conform to the city's vision for the project. With choice views and a short commute to San Francisco, Alameda Point represents a tremendous opportunity ... for somebody.

(Read more here: <http://tinyurl.com/ciriosrendsaugust3>)



### Ellison Beat out in Bid to Buy Warriors (ESPN.com)

Ending months of speculation, Golden State Warriors fans will not get to count on Larry Ellison's fortune to return the NBA franchise to respectability. Last month, Warriors owner Chris Cohen agreed to sell the team to Joe Lacob, a minority owner of the Boston Celtics, and Peter Guber, CEO of Mandalay Entertainment. Fans were shocked, especially after Ellison reportedly tendered the highest offer for the woe begotten franchise, which has made the playoffs just once in the past 16 seasons. Lacob and Guber have vowed to rebuild the franchise, relying on a passion for the team and experience in building successful, profitable brands.

(Read more here: <http://tinyurl.com/ciriosrendsaugust4>)



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## Zip Code Spotlight - Bay View/Hunters Point (94124)

“Real estate values here have a long way to come up.”

This month’s zip code spotlight falls on 94124, the Bay View/Hunters Point area of Southeast San Francisco. This area is well known as the most dangerous part of the city, but as we discuss elsewhere in this issue, that could change over the next several years as the Hunters Point Naval Shipyard is redeveloped.

Looking at the market behavior over the last few years reveals some interesting facts about prices in this area, particularly when compared to the three immediately adjacent zip codes, which represent more affluent parts of San Francisco.

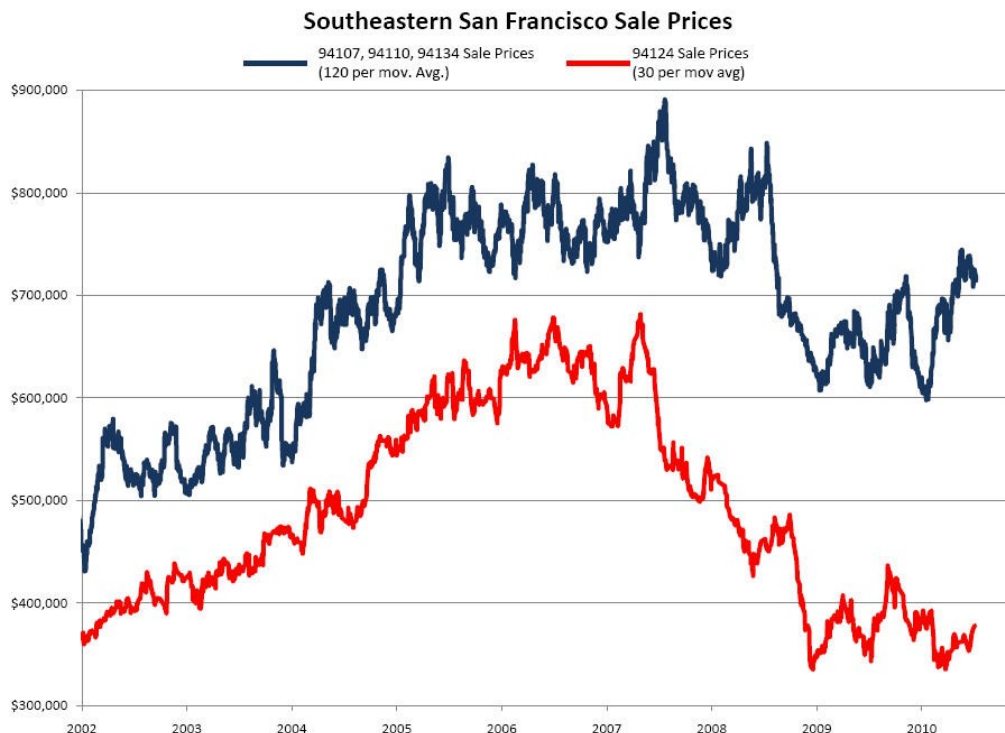
First, prices in 94124 are lower by around 25-30%. Given the high crime rates in the area this should come as no surprise,

but 94124 remains the most affordable part of San Francisco. An optimist would say that in an area which may see positive changes in the future, real estate values here have a long way to come up.

A second and perhaps more interesting point to note is that the price disparity between 94124 and its surrounding environs is growing. While the three surrounding zip codes have, like most areas, experienced price declines since the market peaked in 2007, 94124 has been hit even harder. Furthermore, the surrounding area has seen a meaningful recovery of around 10% since last year’s lows, while 94124 has been basically flat since that time.

What this means, historically speaking, is that real estate in 94124 is relatively inexpensive compared to its surrounding zip codes. To be sure, a big part of this is due to effects of the economic downturn, both in the form of high foreclosure rates in 94124 and spikes in the crime rate. However, when you look at the long term potential of the area for economic development and infrastructure improvement, this relative price drop could present a terrific opportunity. Furthermore, high foreclosure rates mean high levels of inventory, resulting in a wide selection of investment opportunities.

We at Cirios will be following this area closely over to the coming months to redevelopment efforts get underway.



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“Putting in a garage is no simple task.”

## Cirios Opportunities - Adding Value: A Garage in SF

Here at Cirios, we like to believe that every house should be viewed as an investment. From purchasing your first home to acquiring rental property, buyers should always factor in the value of the home based on current market conditions as well as what the future value could be. This forecasting isn't just a wild stab in the dark, and should be considered not just based on the desirability of the location, but also improvements that can be made to increase the home's value.

In the city of San Francisco, one of the most valuable commodities for any piece of real estate is parking. All other things being equal, homes with parking sell for a significant premium to those without, especially if that parking comes in the form of a private garage.

Installing a garage at a property can be a very time consuming and expensive process in the city. In neighborhoods like Telegraph Hill and North Beach, adding a garage is particularly difficult because of city fears that garages will replace affordable housing (apartments).

However, when it comes to single family residences, looking at homes without garages offers a more affordable way to acquire a desirable home in a desirable neighborhood. And if a buyer is prepared to build a garage in the future, the investment is likely to pay for itself, and then some.

We examined two properties that are a block apart on the edge of Noe Valley and Glen Park in San Francisco, to show what a difference a garage really makes.

11 Whitney St., 1-car garage

**MLS no.:** 369926

**Bedrooms:** 2

**Bathrooms:** 2

**Living Area:** 1,756 sqft

**Sold:** 7/1/2010

**List Price:** \$1,250,000

**Sold Price:** \$1,320,000

**Description:** Nice open floor plan, updated kitchen

**Price per square foot:** \$752



1793 Sanchez, no garage

**MLS no.:** 371482

**Bedrooms:** 4

**Bathrooms:** 4

**Living Area:** 2,110 sqft

**Sold:** 7/13/2010

**List Price:** \$1,189,000

**Sold Price:** \$1,189,000

**Description:** Updated

kitchen with city views, 1-br apartment in backyard

**Price per square foot:** \$564



Based on condition and location, these homes should be considered very similar. While the difference in price per square foot is not completely due to their respective garage situations, the buyer of 1793 Sanchez bought a large home in a desirable neighborhood and can then add value by adding a garage at a later date.

If you apply the price per square foot that 11 Whitney sold for (\$752) to 1793 Sanchez, you arrive at a potential value of almost \$1.6 million. Now, it's not entirely reasonable to say that adding a garage would increase the home's value by \$400,000, but it is an indication of just what a discount this home sold for, partly due to the lack of a garage.

Of course, putting in a garage is no simple task. The good news, however, is that because so many homes in San Francisco were built without garages, the garage-installation industry is well-established in the city. Permits can be tough to come by in certain neighborhoods, but in more residential areas like Noe Valley and Potrero Hill, adding a garage is really all about the money.

Depending on the location and the amount of rock that must be moved, whether changes must be made to the foundation and if the contractor must dig down below the ground, garage installations typically run between \$150-200k.

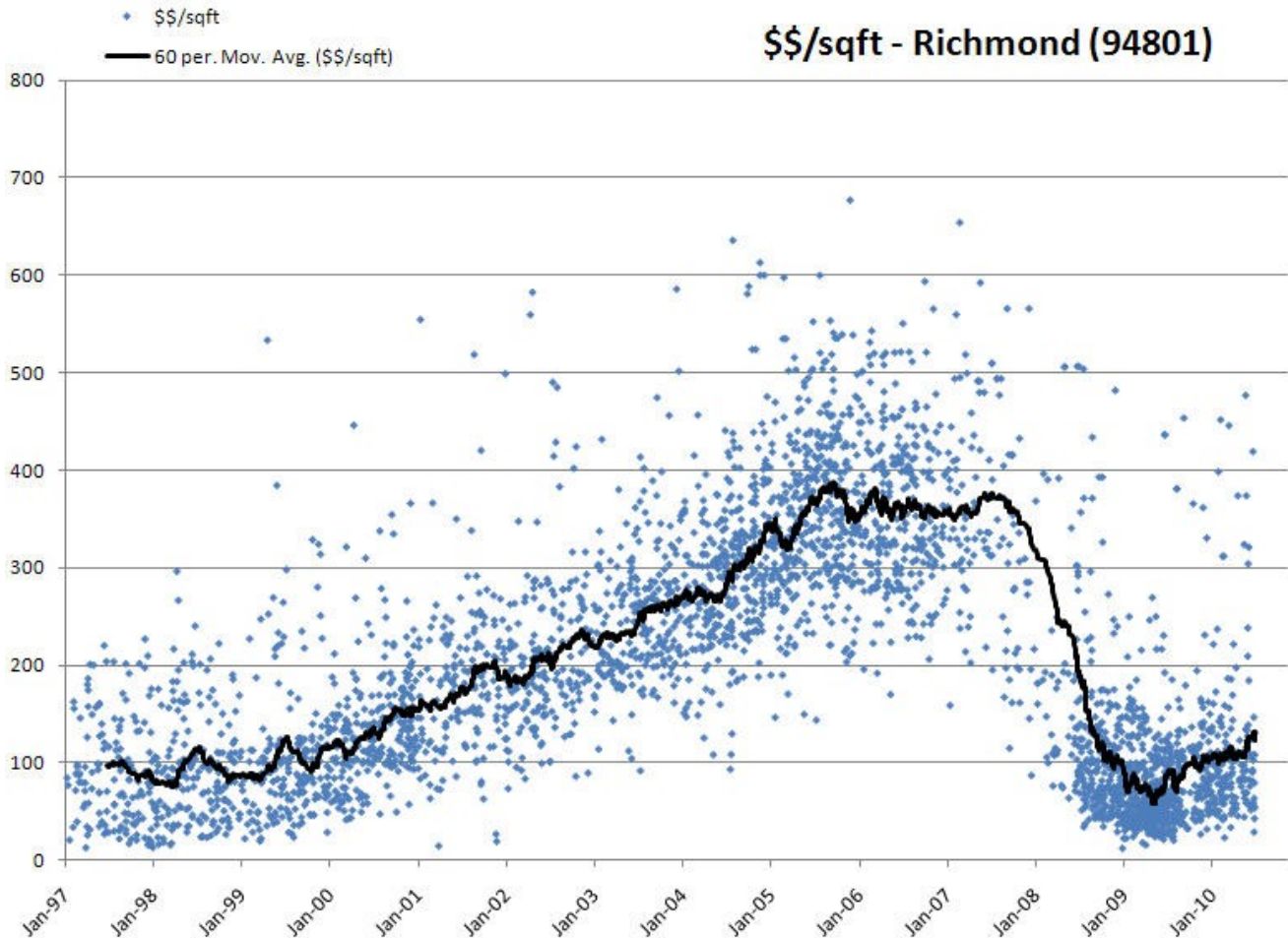
Not cheap, to be sure, but as the example above helps show, given the premium attached to a garage, even such a large investment may end up being a great economic decision.

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## Talking Charts - Divergence Continues - Richmond (94801)

The concept that current housing data is masking true market activity is slowly gaining mindshare. Of course, readers of *Cirios Trends* will recall that this is a concept we have been pushing for months, even if the mainstream financial media is just catching on. Just last week, [Housing Wire](#) quoted [Altos Research](#), a Silicon Valley-based real estate data provider, as saying that anyone who generalizes the size and length of time it takes to clear the shadow inventory will be wrong. Altos even went so far as to compare three Central Valley markets which have been acting very differently of late, [analysis which we performed last month](#) here in the Bay Area. As housing perma-bears predict an imminent collapse in home prices, smart investors are seeing opportunities in markets where fundamental supply-demand dynamics look positive, while avoiding markets that look primed for more declines.



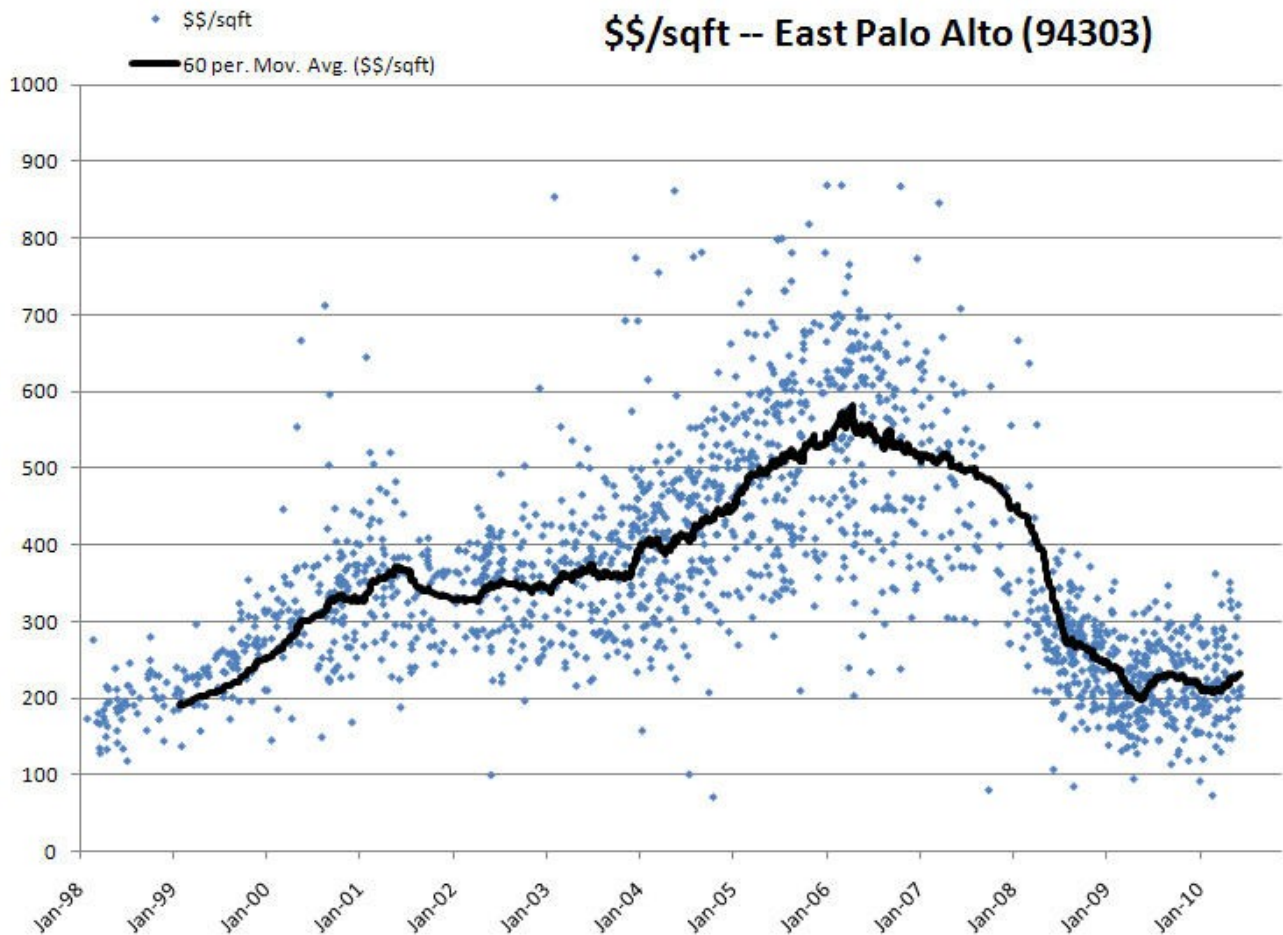
Richmond isn't exactly known for a quiet, family community. Less infamous but almost as crime-ridden as Oakland to the south, Richmond has its share of problems. The real estate collapse was particularly acute here, and as homes were repossessed, blight spread into an already struggling community. But since early last year, investors have been stepping into Richmond. With prices the lowest they have been in a decade and rental yields looking juicy, investors have shown a willingness to deal with Richmond's gritty streets.

The lesson here is not that it's time to move the family to Richmond, per se, but there are precious few places left in the Bay Area where homes can be bought for \$100/sqft. These investments aren't for everyone, to be sure, but it pays to know where investor money is flowing.

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## Talking Charts - Divergence Continues - East Palo Alto (94303)



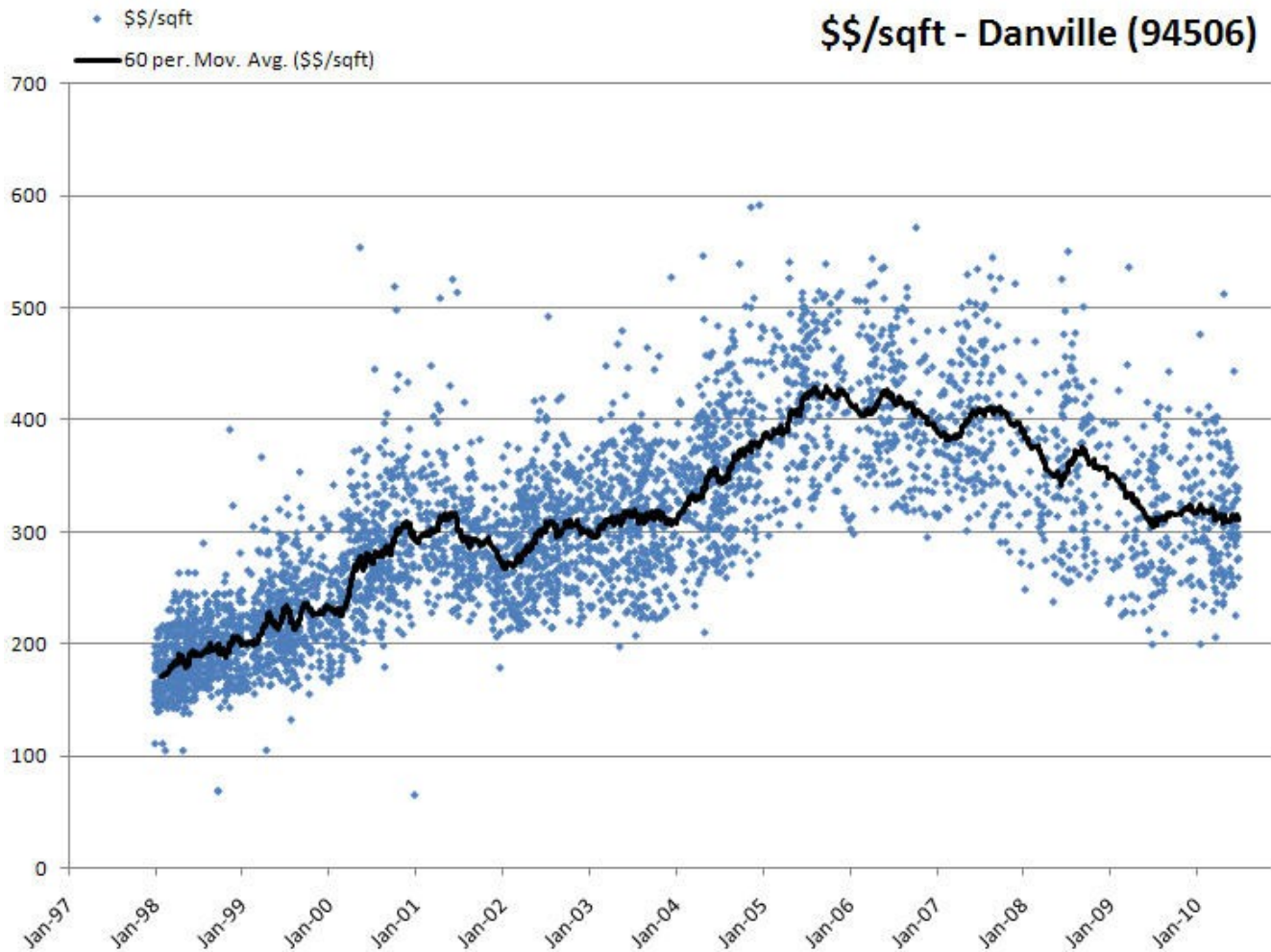
If it seems like we highlight East Palo Alto just about every month, it's probably because we do. In keeping with the theme of this issue of *Cirios Trends*, looking at long term demographics trends to figure out where to buy real estate, we would be remiss if we did not bring East Palo Alto, or EPA, into the equation. By far the most affordable city on the Peninsula, EPA is also the most dangerous. During the housing boom gentrification sped up, as developers and investors swooped in for (relatively) low prices. Values collapsed 66% from the peak of the market in 2006 to the recent nadir in 2009, only to have recovered more than 17% since early last year. As we wrote in June, "Investors are finding value on these once dangerous streets, betting the disparity between EPA home prices and everywhere else will narrow in the years to come."

Like Richmond, this is not some ringing endorsement of moving to East Palo Alto, or even buying real estate there. What it is, however, is an observation that homebuyers - be they investors or first home buyers - are looking for value. Some of the hardest hit areas are some of the strongest markets right now, and not just because of government-sponsored efforts to stem the flow of foreclosures. These areas that are cheap relative to their peers, not the ones that have already been discovered, are most likely to prove to be the best long term real estate buys.

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## Talking Charts - Divergence Continues - Danville (94506)



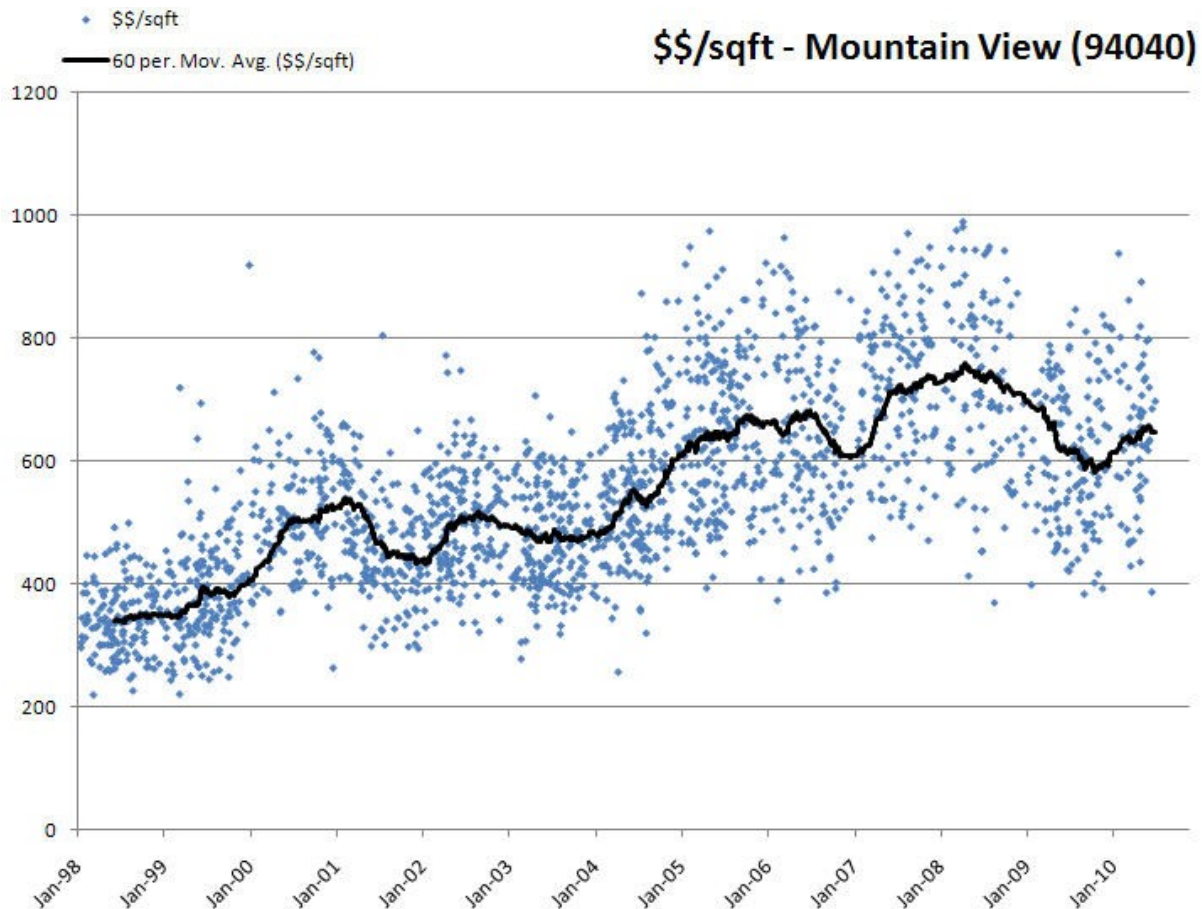
Danville isn't know for sky high foreclosure rates like other cities in Contra Costa County, but it's housing market has certainly not been spared from its share of pain. With prices down almost 30% from their peak, the city has been spared the worst of home price declines in the area, with prices are only back to levels not seen since 2003. Nevertheless, Danville has most of what suburban home buyers want: Good schools, quiet safe streets and a bustling downtown. One negative, however, is that it's a 15 minute drive to the nearest BART, so the commute into San Francisco isn't the best.

The ultimate question, however, isn't where Danville home prices have been, rather where they are headed. And if you are looking for an expert on Danville real estate, check out [www.bayarearealestatetrends.com](http://www.bayarearealestatetrends.com), a blog by Greg Fielding, founder of real estate community [HousingStorm.com](http://HousingStorm.com). A friend of Cirios, Greg knows Danville (and much of the Bay Area) as well as anyone, and is definitely

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## Talking Charts - Divergence Continues - Mountain View (94040)



In last November's *Cirios Trends*, we highlighted Mountain View, CA, the suburb best known as the home to Google. And while we didn't go as far as predicting a rise in prices, we did point out that inventory was subsiding from recent highs and the proximity to Google and other Silicon Valley job centers would bode well for real estate values in the long run. Since that time, prices are up more than 9% as measured by price per square foot. However, at \$650/ft, true affordability remains elusive. Recent data show that sales are slowing in Mountain View and that buyers remain picky. And with prices back just to where they were in 2008, its not unreasonable to believe that in the near term there could be more pain for this well-to-do Silicon Valley locale. But in the long run, if home prices are driven by jobs, there are worse places to be than Mountain View.



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