

CIRIOS TRENDS

SPECIAL EDITION: EAST VS. WEST



The State of the Markets: East vs. West

In the past few weeks, the housing market has been turned on its head. Revelations of sloppy paperwork at some of the country's biggest mortgage companies have led to investigations into whether lenders are handling the foreclosure process correctly.

Several banks, including JP Morgan Chase, Bank of America and Ally Bank (formerly GMAC), are alleged to have overlooked details in processing home repossessions and have halted foreclosure proceedings in some or all states. Attorney generals and aspiring politicians have leapt at the opportunity to appear tough on the same banks the government bailed out with billions of dollars.

Lest the entire housing industry grind to a halt, now the very policy makers who have been touting loan modification programs as the solution to our nation's housing woes are on the airwaves defending the economic and social value of foreclosures.

And while the debate may appear to center around arcane, mind-numbing documentation and legal minutiae, as HousingWire's Paul Jackson put it, "the results emerging here threaten our nation's very system of private property rights — a fundamental aspect of our democracy." Dramatic, but ultimately true.

Just today, 49 state attorney generals launched a coordinated probe into the country's mortgage servicing industry. More than likely, in the weeks and months to come, the nation at large is going to find out more than it ever wanted to know about the soft underbelly of the business of collecting mortgage payments and processing defaults.

But this month's Cirios Trends isn't about foreclosures. It isn't about robo-signers or notary publics. It's about real estate. And more specifically, it's about how to not only make good real estate investments but how to avoid bad ones.

In a segment we call "East vs. West," we dive into the growing dichotomy in Bay Area real estate markets. In the East Bay, demand has slowed to a drip while inventory is rising. Lower prices are likely just months away. Meanwhile, in San Francisco and much of the Peninsula (the west), demand has slowed, but not to the extent it has across the Bay.

It's almost like real estate markets are beginning to act on fundamentals. That is, markets are faring better where there are more jobs, higher demand and more favorable demographic trends for a strong real estate market. Markets far from job centers or with a weaker buyer base are slipping again, after depending on tax credits and government stimulus for robust demand over the past 18 months.

This shift doesn't necessarily foretell an imminent bottom in home prices, but is a slow return to health for the region's housing markets.

This month, we compare three real estate markets in the East Bay to similar markets on the Peninsula. The results may surprise you — and make you think twice about where to deploy your real estate dollars.

Chart of the Month: California Real Estate Agent Ranks Thin

AGENTS LEAVE REAL ESTATE

Real estate agent licenses, in thousands



Source: North County Times

Source: California Department of Real Estate NCT/CAL

“Real estate markets are beginning to act on fundamentals.”

Housing Data Gets (a bit less) Ugly

- JULY CASE-SHILLER HOME PRICE INDEX: +3.2% Y/Y | +0.6% M/M
- AUGUST EXISTING HOME SALES: -19.0% Y/Y | +7.6% M/M
- AUGUST NEW HOME SALES: -28.9% Y/Y | +0.0% M/M
- SEPT. HOMEBUILDER SENTIMENT INDEX: 13 (UNCHANGED, 17-MONTH LOW)

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Cirios Trends

Special Edition: East vs. West

East vs. West: Daly City vs. Hayward

Hayward and Daly City can both be considered entry level markets. Raw prices are dramatically different, but then again so are income levels, crime and demographics.

Notably, from 1997-2007, homes in Daly City sold for around \$100/sqft more than those in Hayward. For the reasons noted above, this makes sense, and held consistent through the dotcom and housing booms alike. Then, as the market slumped in 2007, that consistent relationship became unhinged.

Prices in Daly City are now almost \$200/sqft higher than Hayward, nearly twice the historic average.

There are a couple ways to interpret this. One could argue that growth in Hayward was driven by loose lending, allowing lower income buyers to move up into homes they could not afford. Hayward came crashing back to reality and tight lending standards are now limiting demand.

On the other hand, has something fundamentally changed since 2007 that makes Hayward that much less attractive than Daly City? Looking at the population change in the two cities, we're not sure that's the case.

	Daly City	Hayward
Zip	94015	94544
Population	61,550	72,014
Population Change Since 1990	5%	25%
Median Household Income	\$ 80,718	\$ 61,314
White Collar Jobs	85%	73%
Blue Collar Jobs	18%	27%
Total Crime Risk (National avg. = 100)	33	93
Avg. Price per square foot (Sept '10)	\$ 390.8	\$ 219.4
Home Price Gains Since 2000	24.8%	-5.8%
Peak Price Gains Since 2000	90.8%	110.8%
Price Declines Since Peak	34.6%	55.3%
Peak to Trough Price Declines	37.4%	59.9%
Peak Month	Jun-05	May-06
Trough Month	Nov-08	Aug-09
Correction Months	41.6	39.6
Price Change Last 12 Months	-0.8%	5.4%
Price Change Since Trough	4.5%	10.2%
Prices Fallen Back to	Jun-03	May-00

\$\$/sqft: Daly City (94015) vs. Hayward (94544)



Cirios Trends

Special Edition: East vs. West

East vs. West: San Mateo vs. San Ramon

Despite having a median household income almost 50% higher, San Ramon home prices are 40% below those of San Mateo. Think proximity to jobs doesn't matter?

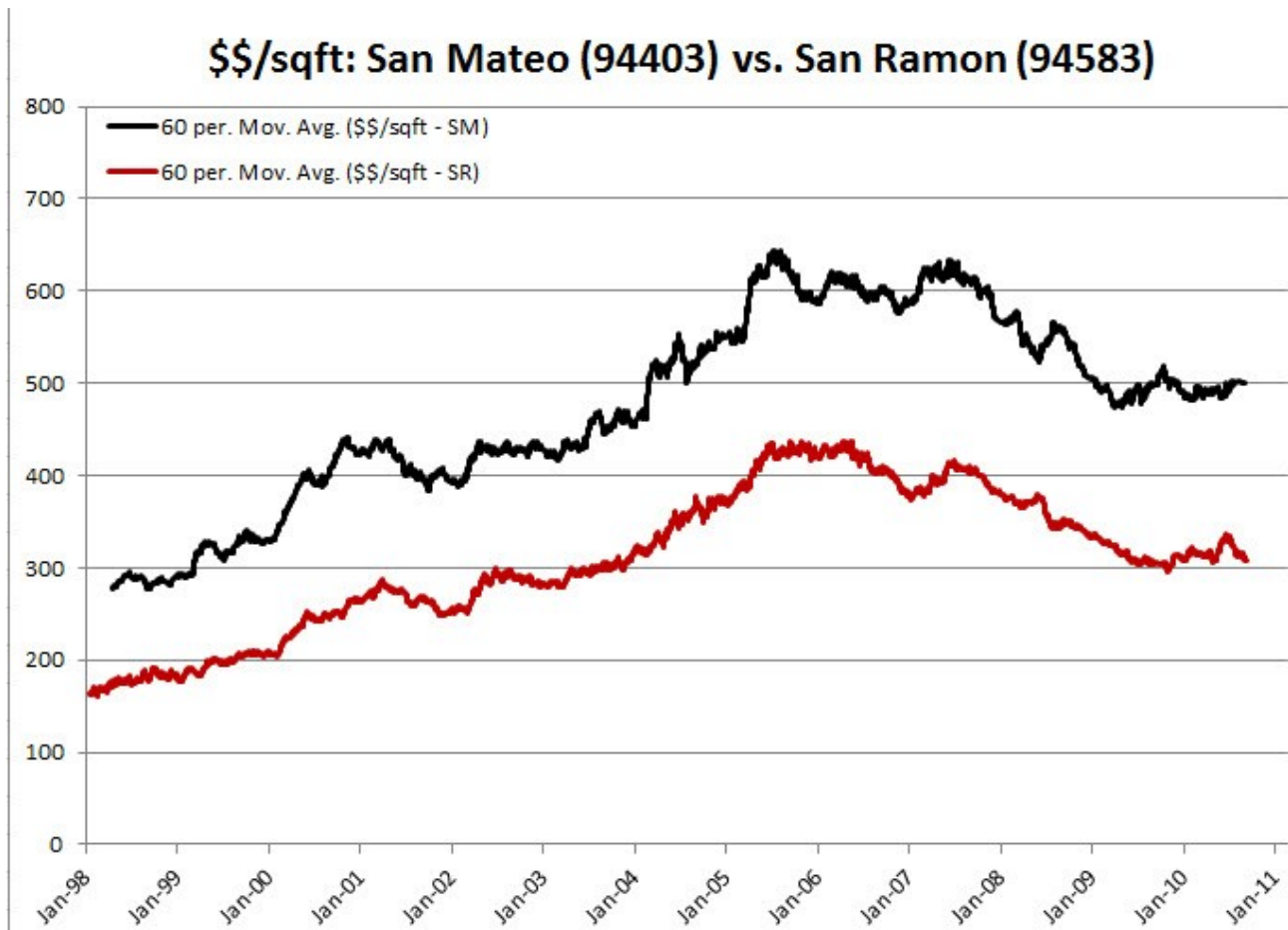
San Mateo is located smack in between San Francisco and the northern tip of Silicon Valley. Young professionals and families alike are drawn here for the easy commute to multiple job centers (if you can call CalTrain or 101 easy).

Across the Bay, San Ramon is a posh East Bay community with new developments and larger, spacious lots. But getting to San Francisco or Silicon Valley is a chore.

Home price declines in both cities took about four years to shake out, but San Ramon fared worse than San Mateo. Prices fell almost 30% from their peak in 2005, while San Mateo dipped "just" 22%.

Similar to the previous comparison, the premium for San Mateo homes has now grown to almost \$200/sqft from an average of \$100-120/sqft over the past decade. This begs the question: Is San Ramon now cheap relative to San Mateo, or is there a new "normal"?

	San Mateo	San Ramon
Zip	94403	94583
Population	38,850	33,083
Population Change Since 1990	9%	19%
Median Household Income	\$ 82,532	\$ 124,009
White Collar Jobs	86%	89%
Blue Collar Jobs	14%	11%
Total Crime Risk (National avg. = 100)	54	32
Avg. Price per square foot (Sept '10)	\$ 501.1	\$ 307.9
Home Price Gains Since 2000	24.6%	23.9%
Peak Price Gains Since 2000	60.0%	75.9%
Price Declines Since Peak	22.1%	29.6%
Peak to Trough Price Declines	26.5%	32.4%
Peak Month	Jul-05	Nov-05
Trough Month	Mar-09	Oct-09
Correction Months	45.3	48.6
Price Change Last 12 Months	0.6%	0.7%
Price Change Since Trough	5.9%	4.1%
Prices Fallen Back to	Feb-04	Dec-03



Cirios Trends

Special Edition: East vs. West

East vs. West: Millbrae vs. Piedmont

Topographically, Millbrae and Piedmont could not be more different. Most of Millbrae consists of relatively flat, suburban neighborhoods with a few homes scattered amongst the hills. Piedmont on the other hand is an exclusive suburban enclave nestled in the Oakland hills.

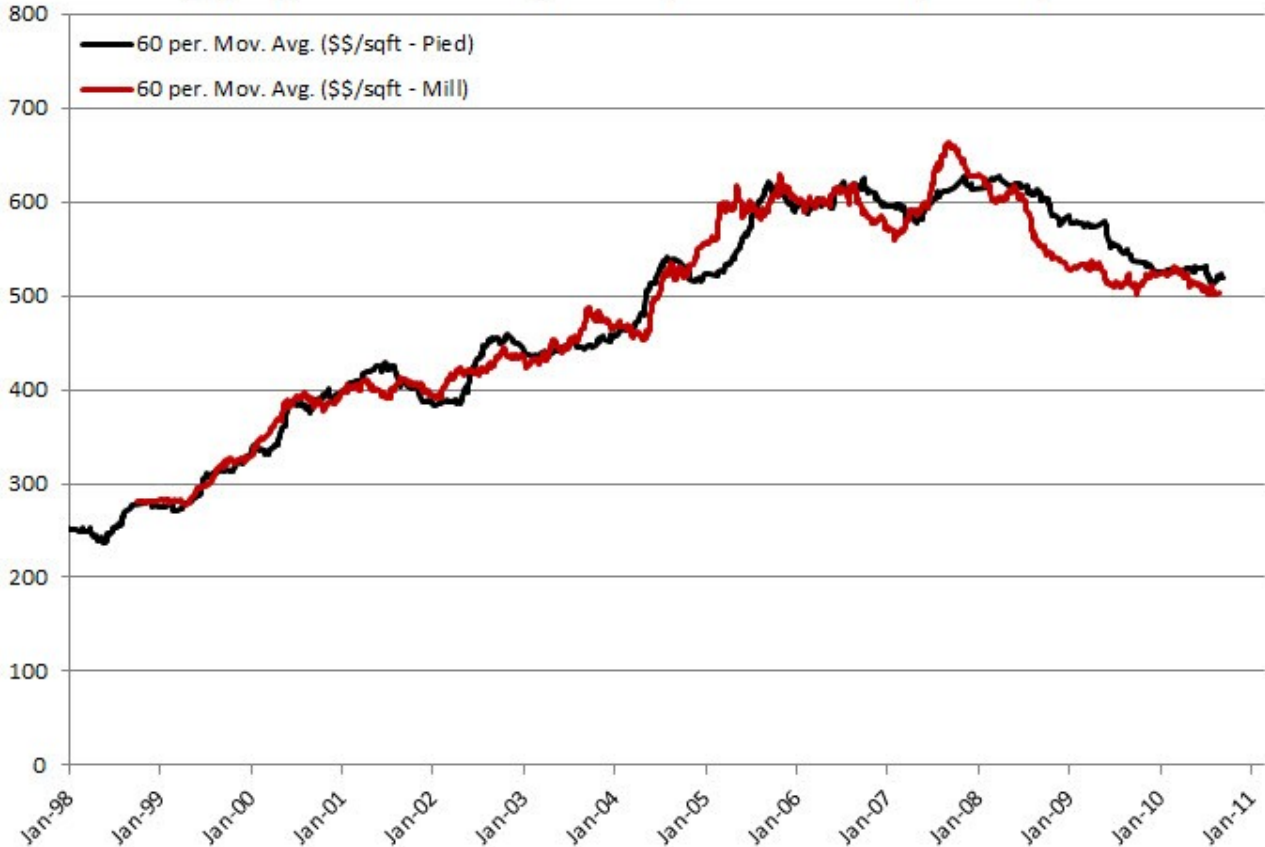
Population growth has been relatively stagnant in the two cities, median incomes are comparable and over the past ten years, home price trends have been nearly identical — as have values themselves.

Of late, Piedmont did not see the rebound that Millbrae and many other areas did, but Millbrae has slipped and is now back at lows seen in the dark days of early 2009. Prices in both cities have fallen in the past 12 months, compared to rises in the four other cities we examined this month.

Prices in Piedmont and Millbrae are back to where they stood in 2004 — the height of the housing boom. So, can Millbrae's proximity to jobs and Piedmont's cache support home prices at their current levels, or are these markets poised for another fall?

	Millbrae	Piedmont
Zip	94030	94611
Population	20,719	34,113
Population Change Since 1990	0%	-2%
Median Household Income	\$ 84,800	\$ 92,583
White Collar Jobs	80%	84%
Blue Collar Jobs	20%	16%
Total Crime Risk (National avg. = 100)	38	143
Avg. Price per square foot (Sept '10)	\$ 502.6	\$ 518.7
Home Price Gains Since 2000	29.2%	33.4%
Peak Price Gains Since 2000	69.8%	61.3%
Price Declines Since Peak	23.8%	17.2%
Peak to Trough Price Declines	24.2%	18.6%
Peak Month	Sep-07	Mar-08
Trough Month	Aug-10	Jul-10
Correction Months	35.7	28.5
Price Change Last 12 Months	-3.9%	-4.1%
Price Change Since Trough	0.5%	1.6%
Prices Fallen Back to	Jun-04	Jun-04

\$\$/sqft: Piedmont (94611) vs. Millbrae (94030)



Cirios Trends

Finding real estate opportunities.

East vs. West: Where to Buy?

	Daly City	Hayward	San Mateo	San Ramon	Millbrae	Piedmont
Zip	94015	94544	94403	94583	94030	94611
Population	61,550	72,014	38,850	33,083	20,719	34,113
Population Change Since 1990	5%	25%	9%	19%	0%	-2%
Median Household Income	\$ 80,718	\$ 61,314	\$ 82,532	\$ 124,009	\$ 84,800	\$ 92,583
White Collar Jobs	85%	73%	86%	89%	80%	84%
Blue Collar Jobs	18%	27%	14%	11%	20%	16%
Total Crime Risk (National avg. = 100)	33	93	54	32	38	143
Avg. Price per square foot (Sept '10)	\$ 390.8	\$ 219.4	\$ 501.1	\$ 307.9	\$ 502.6	\$ 518.7
Home Price Gains Since 2000	24.8%	-5.8%	24.6%	23.9%	29.2%	33.4%
Peak Price Gains Since 2000	90.8%	110.8%	60.0%	75.9%	69.8%	61.3%
Price Declines Since Peak	34.6%	55.3%	22.1%	29.6%	23.8%	17.2%
Peak to Trough Price Declines	37.4%	59.9%	26.5%	32.4%	24.2%	18.6%
Peak Month	Jun-05	May-06	Jul-05	Nov-05	Sep-07	Mar-08
Trough Month	Nov-08	Aug-09	Mar-09	Oct-09	Aug-10	Jul-10
Correction Months	41.6	39.6	45.3	48.6	35.7	28.5
Price Change Last 12 Months	-0.8%	5.4%	0.6%	0.7%	-3.9%	-4.1%
Price Change Since Trough	4.5%	10.2%	5.9%	4.1%	0.5%	1.6%
Prices Fallen Back to	Jun-03	May-00	Feb-04	Dec-03	Jun-04	Jun-04

So, what to make of all this number crunching? First, let's point out a few notable pieces of data from the chart above.

- 1) Hayward is the only city of the six where prices are actually down since 2000. This shows the extent of recent price declines in the area, where prices are down almost 60% from the peak. Notably, however, prices in Hayward have recovered more than 10% since their recent trough. This is consistent with other distressed markets where active investors, stimulus and limited inventory have pushed up prices in the past 18 months.
- 2) Millbrae and Piedmont have fared the best since 2000, which supports the concept that the job and income growth of the past decade has favored the upper and middle classes, rather than the lower classes.
- 3) While demographics drive long term home price trends, recent population booms in the East Bay (Hayward and San Ramon) may not have created sustainable demand for expensive homes.
- 4) Zip codes don't always tell the whole story. Anyone who knows Hayward and Piedmont will tell you that crime rates noted above do not reflect reality, even in the slightest (note that for the home price analysis, we sliced Piedmont out from other neighborhoods in the same zip)
- 5) Markets that peak early often bottom early as well. Prices in Daly City hit their trough way back in 2008. And while they climbed steadily for the subsequent 12 months, in the past six they have been dipping again and could revisit recent lows.

The goal of this exercise wasn't necessarily to say definitively that it's better to buy in the Peninsula or the East Bay, Hayward or Daly City. Rather, there is a multitude of data points one can look at when evaluating real estate. But its understanding the stories behind the data, what's driving the numbers that enables smart real estate investors to use data to help them make good decisions.



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