

## CIRIOS TRENDS

FINDING REAL ESTATE OPPORTUNITIES



### The State of the Markets: March 9, 2011

Thus far, 2011 has been nothing if not newsworthy.

Economic data, financial news and even foreclosure scandals have been supplanted as headline fodder by the historic events taking place in North Africa and the Middle East. It is an exciting, if not somewhat terrifying time to be alive.

Yet even as news breaks around the world, most people wake up, shower, grab a cup of coffee and go about their lives. They drive to work, answer emails, surf the Internet and go back home, taking the inevitable curve balls that life throws in stride because, well, it's what we have to do. The economy, however smarting, rumbles on.

Recent jobs data would even have us believe that the recovery is gaining steam. Data, however, can be misleading. The underemployment rate, measured by polling company Gallup, has essentially remained unchanged since this time last year, painting a bleaker picture than government employment data. Meanwhile, certain industries like technology and renewable energy are hiring at a brisk pace, muddling the employment picture even further.

And then there's oil. Unrest in the Middle East and the impending summer driving season have pushed prices at the pump up to more than \$3.50 per gallon nationwide, and over \$4.00 at some Bay Area stations. So much for that road trip.

So what does this all mean for the housing market? We continue to see the localization trend take shape. That is, fundamentally strong markets are outperforming those that are further from job centers or otherwise less desirable in a challenging economic

environment. This is a trend we have discussed for months, and one that is now showing up in the data. (We discuss this further in our City Spotlight on Redwood City).

We view this as a healthy market development, one that indicates a market that is getting better, not worse. Price declines are still on the horizon in many areas, but the sky is no longer falling (in the housing market, anyway).

Lastly, we'd like to address a frequent question we have been receiving from the real estate investor community: "Where are all the REOs?" There is a distinct shortage of new bank owned homes (or REOs) coming to market. Investors are getting antsy.

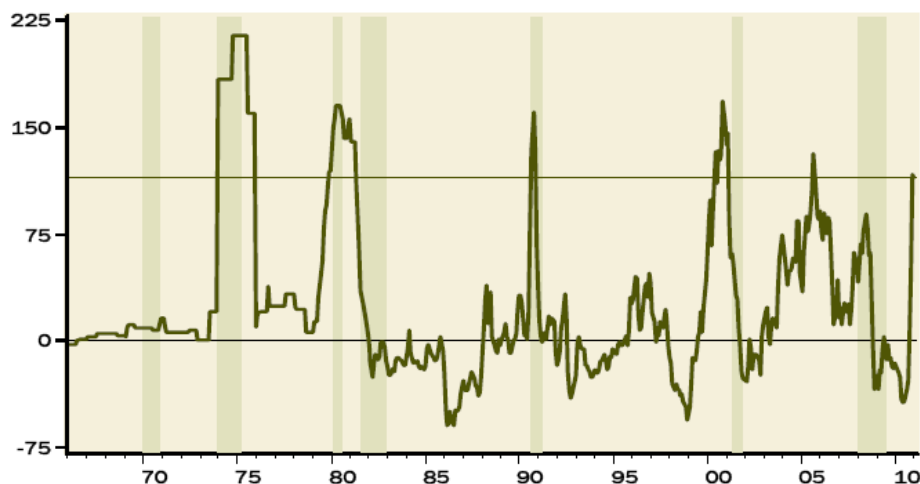
From November of last year through January, there was effectively a nationwide moratorium on foreclosures. The robo-signing scandal coupled with a seasonal freeze around the holidays meant foreclosure proceedings were delayed almost across the board.

It takes around 90 days for the average property to go from foreclosure sale to listed REO, so properties (not) foreclosed on during the recent moratorium would have been coming to market now. Most banks restarted the foreclosure machines in February, so a normal flow of REO listings should come to market by April.

Sound far-fetched? The 2008 moratoria led to an inventory shortage in early 2009 and a market low that April. The question then becomes whether history will repeat, rhyme, or something else altogether in the coming months.

#### Chart of the Month

Oil Prices since 1982 (shaded regions are U.S. Recessions)



Shaded region represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

Source: [www.ritholtz.com](http://www.ritholtz.com)

#### Inside This Issue

THE STATE OF THE MARKETS: 1

FEATURE: A PRIMER ON SAN FRANCISCO PUBLIC SCHOOLS 2

REDWOOD CITY: BEST. CLIMATE. EVER. (ALSO, A NICE PLACE TO LIVE) 3-4

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## Feature: A Primer on San Francisco Public Schools

Is the system for educating San Francisco's children so arcane that even the city itself has given up explaining it? Sort of: The subject is so complex the San Francisco Unified School District's (or SFUSD) own website contains a Frequently Asked Questions page that is a year out of date.

Nevertheless, Cirios has made an attempt to distill the most salient details for parents (or prospective parents) considering how public schools may or may not fit into their child's future.

### By The Numbers

A quick glance at San Francisco and its schools:

	San Francisco	California	U.S.
Median household income	\$68,630	\$59,182	\$50,140
Median home price	\$673,610	\$345,500	\$158,800
Cost of living (% of national avg)	200%	135%	100%
Unemployment	9.2%	12.3%	9.5%
Violent crime index (1 is lowest)	7	6	4

SFUSD School Site Totals		
Grade Span K-12		
Student Enrollment	55,272	
Avg Daily Attendance		95%
ELL (LEP/NEP)*	15,417	27.90%
Special Education	5,628	10.20%
GATE	9,830	17.80%
Free Lunch	21,951	39.70%
Reduced Lunch	8,059	14.60%

\*ELL (English Language Learners)

\*LEP (Limited English Proficiency)

\*NEP (Non English Proficient)

### The Lottery

Despite an overhaul last year, San Francisco's student assignment process is spectacularly complex. For years, parents were asked to list their seven top school choices and students were assigned to schools seemingly at random. Proximity to home was not considered, and students ended up walking past perfectly good schools on their way to a 30-minute MUNI ride to class.

The rationale for such an ostensibly bizarre system was to promote diversity in public schools and give students in lower income neighborhoods an opportunity to attend one of the city's top public schools. An admirable goal on paper, but poor execution of the Lottery has pushed many students to private schools or out of San Francisco altogether.

Last year, the SFUSD tweaked the process such that location now matters. The changes will be implemented for the upcoming 2011-2012 school year. For more information, check out the [SFUSD's website](#), where parents can find a document highlighting the key features of the new process ... a mere seven pages long.

### The Schools

There are 140 pre-K through 12th grade public schools in San Francisco which include the following:

- Child Development Centers
- Elementary K-5 Schools



- Middle Schools
- High Schools
- Alternative Grade Span Schools
- Charter Schools
- County Schools

A complete list of schools can be found [here](#), along with links to profiles, academic plans and other potentially useful information. [This link](#) will help you get a sense of attendance boundaries for different schools, which now matter more than ever.

### The Scores

In an attempt to standardize academic performance metrics, California adopted the Academic Performance Index, or API, in 1999. With scores ranging from 200-1000, the API is based primarily on two standardized tests, the CST and CAHSEE. With the recognition that schools would begin at different base levels, administrators focus on API score growth and set targets for that growth. In other words, they want to see schools improving. The state has set the goal that all schools work towards an API score of 800. To check the API score of a school, you can [click here](#).

### The Blog

With out of date district websites and a dizzying amount of data to chew through, parents are often left exasperated at the prospect of sending their children to public schools in San Francisco. As a result, many have turned to [The SF K Files](#), a nationally acclaimed blog written by a real live San Francisco mom, [Kate](#).

### The Bottom Line

Picking a school for your child is not an insignificant decision. And the city of San Francisco takes an already difficult choice and makes it downright arduous. The best advice for parents is to start early, do their homework and seek guidance from other parents. Examining your educational goals for your child as they relate to the options at hand is a key step in the application process. Furthermore, creating a thoughtful and detailed plan aimed at navigating the maze of San Francisco's public schools will prime your child for achieving his or her academic goals.

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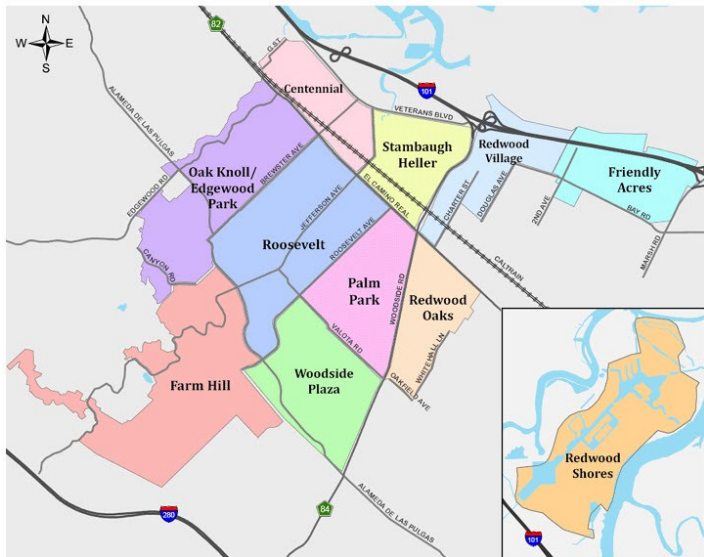
## Redwood City: Best. Climate. Ever. (Also, a nice place to live.)

Redwood City's official slogan, "Climate Best by Government Test," is no joke: At the turn of the 20th century, the US Government found Redwood City to be at the center of one of the world's three best climates (the others being the Canary Islands and the Mediterranean Coast of North Africa). Situated nearly equidistant from San Francisco and San Jose, it offers a suburban setting with a strong sense of community and rich history. Redwood City was the first incorporated city in San Mateo County and has drawn in commuters for more than 100 years. Population skyrocketed in the late 1990's as the tech boom brought the masses to Silicon Valley. Today, Redwood City has a population hovering around 80,000 residents.

We chose Redwood City to profile for a host of reasons, but primarily because it is one of the most socio-economically diverse cities in the entire Bay Area. Unsurprisingly, the real estate market is equally varied, with hilltop estates and barred up shacks alike.

### The City

Redwood City encompasses over 25 square miles, extending from the wetlands on the edge of San Francisco Bay to the hills adjacent to the Pacific Ocean. For comparison, Daly City, a town in northern San Mateo County with a similar population, has a total area less than one third the size.



In general, neighborhoods improve (and home prices increase) as one moves east to west. As seen on the map above, the city can generally be broken into about a dozen distinct neighborhoods, each of which with its own unique character.

Downtown has recently undergone a major redevelopment, which is ongoing, and businesses, housing and prosperity are taking root. Eastern Redwood City has a strong Latino population, and many Bay Area locals argue Redwood City is home to the best Mexican food outside San Francisco's Mission District.

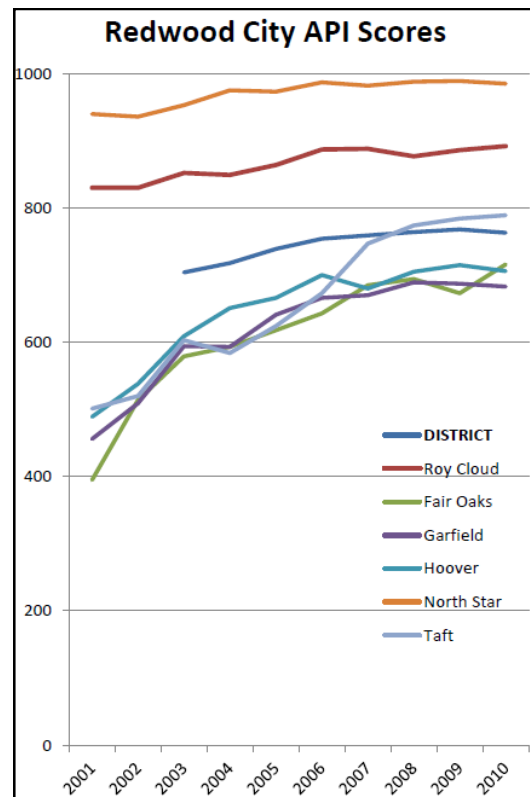
### The Schools

No home search would be complete without a deep understanding of local schools. And understanding the landscape of public schools in Redwood City is as important as any city in the Bay



Area. As seen below, API scores (see previous article on San Francisco schools for more on API scores) in Redwood City are all over the map. Roy Cloud Elementary and North Star Academy have some of the highest scores in the country. Meanwhile, despite vast improvements over the past decade, Garfield, Hoover and Taft still lag higher quality schools in the district.

Home prices, as one would imagine, vary widely by neighborhood and specifically by school district boundary. Cross a boundary and home prices can change by as much as 10%.



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## Redwood City: Best. Climate. Ever. (Also, a nice place to live.)

### Home Prices

In February 2011, the median home sale price in Redwood City was \$752,000. In January, it was \$704,975. The average sale price in February was \$812,485 compared to \$741,077 in January. So does that mean home prices are skyrocketing? Far from it.

Home sales data, like all data, are easy to manipulate. In fact, in recent weeks, housing data providers are calling into question the validity of data put forth by the National Association of Realtors.

And in places like Redwood City, where neighborhoods vary greatly, broad measures of home prices can be even more misleading. To cut through the noise, Cirios Real Estate's tireless data gnomes spliced Redwood City home price data by neighborhood, according to the groups listed [here](#).

As can be seen by the first graph, sale prices vary widely in Redwood City. In Farm Hill, the posh area in the hills, million dollar homes are the norm, and prices have only slipped back to where they were in 2005.

Meanwhile, in Friendly Acres, a working class neighborhood between Bay Road and Highway 101, prices have fallen more than 30%. In nearby Redwood Village (not shown), prices are off more than 50%.

But simply looking at sale prices doesn't tell the entire story. One interesting way to examine price trends is by looking at price per square foot and normalizing data to a common point. In other words, let's assume all areas start at a base level (in this case, 100) and see how they fared over time.

In the second chart, we see that despite the great strides many of the working class parts of Redwood City have made, more desirable areas have actually fared better in terms of home prices.

Since the beginning of this year, we are starting to see noticeable differentiation between neighborhoods, something which was absent through much of the housing boom, when pretty much all prices went up, albeit in varying degrees.

But starting about a year ago, prices in different areas have started to move more independently. This is a trend we have harped on over the past year, that in more healthy real estate markets, prices move based on local fundamentals. We may not be back to what most would consider "healthy," but we certainly are closer than we were a couple years ago.

