Real Estate Unleashed

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Current Real Estate Update

The 2011 Economy – Is it Hot to Trot, Stuck in the Mud, or Steady and Boring?

Economists say a variety of things about the economy from it is recovering to it will take a double dip. In the end, it is probably a little bit of both. On the good side, the stock market is still gaining traction and will be positive. The housing market will be hot in some areas, but cooler in other areas. It will depend on supply, demand, the lending environment, and inventory. On the other side, unemployment will continue to be negative and probably stuck in double digits and the deficit will continue to grow (all things that bode for a slower recovery).

Real Estate Assets that Build Wealth

Assets (think stocks, bonds, gold, and real estate) are vehicles that you invest in with the possibility that they will appreciate over time. Wealth is when money works for you, not when you have to work for your money.

Today, you need assets to create wealth and real estate is one of those assets. Each asset has to be judged via value, time, and money. As for the value in real estate, it is in the land. Why? Land is a limited resource and if it is purchased in the right location, then it has precious value. If land is acquired where there is more demand than supply or when building on top of the land is restricted, the value of the land is increased. Next, comes how you monetize the real estate. You invest in real estate because you have true equity and the power to control the asset (when to sell it, when to refinance it, or when to leverage it). If you monetize now at the low rates, then the value increases again. Lastly is the time factor. Real estate takes time to appreciate (think 5-7 years).

If you begin to think of real estate as an asset and not just the American dream, then you will be able to see the magic of real estate – the compounding over time, the low rate of money, and with inflation the increase of value over time. So, real estate is not just about the right school or community. Those are simply icing on the cake.

Did You Know?

Are We Poorer?

Yes, we are poorer. But, this time, it is not from housing, but declines in the stock market.

- Household net worth per the Federal Reserve was at 58.5 trillion, which was down 2.8% from 1 year ago. That leaves average net worth at about $182,000 per person.
- We are saving 5-6% compared to 2% in 2007.
- Cash we are just holding is at 7% of assets, which is the highest since 1963.
- Debt is at about $13.5 trillion, which is at 111% of annual disposable income (down from 130% in September 2007).

I Do Not Take Thee For Better or For Worse

For the first times since the U.S. has tracked marriage rates, more Americans are staying single rather than getting married. The portion of people between the age of 25 and 34 who have never been married is at 46.3% versus 44.9% who were married. This is a huge change from the 1960s when 72.2% of all adults over 18 were married. That number is now 52%, which is the lowest in history.

Here in San Francisco, 82% of adults between 25 and 34 have never been married, which is the largest share among big U.S. cities. Following close behind are Atlanta, New York, and Minneapolis.

Source: U.S. Census Bureau Annual American Community Survey

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Termites: The Silent Destroyer

According to the National Pest Management Foundation, termites cause an estimated $5 billion in damage in the U.S. each year. Yet, most of us know very little about termites or why and how they cause damage.

Termites can enter a home by entering a crack in the foundation that is as thin as a business card. Window joints and roof vents are also popular entry points. The problem is that most homeowners won't notice them until they have done extensive damage that is costly to repair.

Subterranean termites are the most widespread and destructive of the termite species. The live in underground colonies or in moist areas above ground and their colonies can contain 200 million members. They are found in every state except for Alaska and the wood they damage usually ends up having a honeycombed appearance. In contrast, dry wood termites live in dry wood areas such as attics, crawlspaces, a home's wood framing, furniture, and hardwood floors. They form large colonies and do not need soil to survive. Wood consumed by dry wood termites appears very clean and smooth.

So, how do you keep these insects from biting into one of your largest investments – your home? Keep moisture out and use downspouts and gutters to divert water away from your home's foundation. Store mulch, firewood, and wood chips away from your home. Ensure that shrubs, vines, and other plants are not planted too close to your home and are not covering vents. Also, ventilate your crawl spaces to reduce humidity.

Statistics

Bay Area Statistics November 2010

The Bay Area held its own in November 2010.

- The total number of homes sold was 6,111, which was down 11.2% from 1 year ago. This was only down 0.2% from October, however, which is normal moving into the winter season.
- Medium-priced homes remained close to flat at $380,000 though areas like San Francisco, San Mateo, and Marin were up. Even Alameda was stabilizing in price.
- 33.7% of sales were above $500,000.
- Foreclosures accounted for 29.2% of all sales.

Existing Single-Family Home Sales (November 2010)

County	Number Sold	Percent Change (YOY)	Median Price	Percent Change (YOY)
Alameda	1,271	-3.9%	$363,500	0.1%
Contra Costa	1,238	-15.9%	$260,000	-10.3%
Marin	208	-12.2%	$650,000	-4.58%
Merced	271	-	$114,500	0.0%
Monterey	275	-	$226,000	-3.83%
Napa	104	0.0%	$300,500	-21.1%
Sacramento	1,652	-	$172,500	-1.43%
San Francisco	410	-17.8%	$680,000	4.60%
San Joaquin	817	-	$162,000	-4.42%
San Luis Obispo	194	-	$365,000	-8.75%
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Santa Mateo	497	-5.3%	$561,250	-3.20%
Santa Barbara	258	-	$312,000	-2.50%
Santa Clara	1,417	-14.1%	$600,000	2.1%
Santa Cruz	111	-	$454,000	3.30%
Shasta	115	-	$165,000	-10.69%
Solano	551	-11.3%	$207,000	-5.9%
Sonoma	415	-7.4%	$315,000	-3.1%

Kitty's Corner

Are You Working with a Licensed Loan Agent?

Refinancing to the wrong residential loan could cost you your home, ruin your credit, and disrupt your family. In an attempt to combat faulty lending practices, earlier this year, lawmakers passed the Secure and Fair Enforcement Mortgage Licensing Act "SAFE Act." It establishes a national standard mandating consumer protection against fraud and misleading lending practices. Crafted to abolish shoddy residential lending, SAFE primarily institutes a system for licensing and registering loan originators. California must comply with enact requirements by the end of 2010. While many of the prior deceptive loan programs have been eliminated, vigilance is still needed when choosing a lending expert to ensure you're not being mislead or signing up for a financial disaster.

Loan officers, also known as "loan originators," are often commissioned salespeople and are licensed with the Department Real Estate (DRE). The SAFE Act increases transparency and ethical reporting standards for mortgage loan originators. These provisions include: Criminal history, record information checks, Federal originator I.D. numbers, credit reports, tracking of consumer complaints, national testing, national pre-licensure and continuing education, bond and recovery fund requirements, and greater accountability to the public provided free of charge via the internet. Policymakers have further engaged safeguards in establishing requirements. They include reducing regulatory burdens, streamlining licensing while providing increased accountability such as the maintenance of a database that monitors a loan officer or company's history of complaints and their license status. In the quest to facilitate responsible behavior in what remains of the residential 1-4 family loan market, there are new mandates for comprehensive training and examination prerequisites.

Still of concern, however, are the SAFE Act's gaps. Not all loan officers are required to complete pre-license training and to pass a comprehensive licensing exam, enabling the use of legislative loopholes. Here's how. Loan officers who work for Federally chartered banks or credit unions DON'T have to take the exam or the pre-license training. So, unless your loan officer works for a certain type of company, you're really no safer. Lawmakers decided to trust the banks to properly screen and train their originators. To find out if your loan professional is really qualified, has undergone required training, and passed the exam - a little due diligence may be necessary. First, ask for their license number and what agency they're licensed by. If they work for a bank or Federally chartered credit union, they might tell you they don't have to be licensed. If they tell you what license they work under, you can check on that licensing authority's website for their license history. For example, both my DRE number and NMLS (Nationwide Mortgage Licensing System and Registry) number are listed on my business card. It is a Federal requirement. You can then go to the DRE website – www.dre.ca.gov and click on the License Status Check and input the DRE license number (or by name search). It should tell you when the loan officer was originally licensed and to see if he/she has the MLO (Mortgage Loan Originator) endorsement. Remember, all loan originators except for those who work for a bank or Federally chartered credit union, must have this endorsement by the end of 2010. If you want to know about a person's past 10-year work history, you can click the view full employment history tab.

You would not hire an unlicensed plumber to fix your faucets or an unlicensed contractor to build your deck. Why would you hire an unlicensed loan officer to arrange financing on the largest and the most important purchase that you will ever make?

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Dear Carole & Kitty

Question: Are there new options for reverse mortgages?
Answer (Carole): Yes. Beginning October 4th, the Federal Housing Administration is offering a new type of reverse mortgage with much lower up front fees. Of course, there is a trade off as with the new option seniors will generally be able to borrow a smaller amount (10-20% less) than the standard version. At the same time, the old FHA mortgage insurance that you have to carry on the loan will be the same under both options.

Reverse mortgages are designed for house-rich, cash-poor seniors. They let people who are 62 years or older borrow against the equity in their home without making payments back. You can get the loan in a lump sum, monthly, or via a line of credit as needed. Interest costs are added to the principal and both the principal and interest do not have to be paid back until you die or move out for more than 12 months.

A reverse mortgage insured by FHA is known as Home Equity Conversion Mortgage or HECM. The most they will allow you to borrow is a percentage of your equity value up to a maximum of $625,000. And, the percentage you can borrow depends on your age and an interest rate. FHA also charges two mortgage insurance payments on reverse mortgages. The first is an up-front premium (usually 2%) based on your home's appraised value and the second is an annual premium equal to 1.25% of the loan balance. Under the new option, the up-front premium is 0.01% or almost nothing.

For example, a person with a home valued of $300,000 getting a reverse mortgage at 5% interest rate under the old version has an up-front premium of 2% or $6,000. Under the new version, the up-front premium is 0.01% or $30.00.

What if the home declines in value or the borrower lives longer than expected and the loan value exceeds the value of the home? That is what the insurance is for. The FHA insurance fund pays the difference.

Reverse mortgages are complex and if you are considering one get some advice. In fact, the FHA requires that you see a counselor before getting a reverse mortgage.

Question: Is the CalPERS program going to be discontinued?
Answer (Kitty): Yes. The California Public Employees' Retirement System suspended its mortgage program, citing rising delinquencies and declining usage by its target audience: state workers. The program's administrator is Citigroup. The CalPERS program allowed stated workers to buy a home with no money or little money down and/or borrow against their retirement funds. The official suspension notice came on 12/13, but the CalPERS board was set to further discuss the issue at a board meeting scheduled for Wednesday, 12/15. Since its inception 29 years ago, the CalPERS mortgage program facilitated the origination of almost $23 billion in residential product. According to a statement from CalPERS, since 2004 the program has averaged between 1,000 and 4,500 loans per year. Currently, CalPERS has 1.6 million members and retirees.

If you have a question for Carole or Kitty, please email it to AskCarole@bambooconsultinginc.com