

# The Real Estate Report

LOCAL MARKET TRENDS



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Avi Urban  
650.305.1111  
avi@AviUrban1.com  
www.AviUrban1.com



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## Market Show Signs of Slowing

Home sales in the nine-county Bay Area declined on a year-over-year basis for the ninth month in a row in December as prices eased back from their November peak, according to DataQuick Information Systems.

"Demand still seems to be there, but the sense of urgency seems to be a thing of the past. We don't expect the market to tumble, but we do expect price increases to level

off between now and spring," said Marshall Prentice, DataQuick president.

The median price paid for a Bay Area home was \$609,000 last month. That was down 2.6 percent from November's record high of

\$625,000, and up 14.3 percent from \$533,000 for December a year ago. The annual price increase was the lowest since prices rose 13.1 percent to \$474,000 in March 2004.

	No Sold	No Sold	Pct. Chg	Median Dec-04	Median Dec-05	Pct. Chg
All Homes	Dec-04	Dec-05				
Alameda	2,290	1,903	-16.9%	\$497K	\$575K	15.7%
Contra Costa	2,259	1,963	-13.1%	\$480K	\$573K	19.4%
San Francisco	583	552	-5.3%	\$683K	\$727K	6.4%
San Mateo	801	738	-7.9%	\$668K	\$739K	10.6%
Santa Clara	2,632	2,305	-12.4%	\$569K	\$642K	12.8%
Bay Area	11,068	9,347	-15.5%	\$533K	\$609K	14.3%

Source: DataQuick Information Systems, www.DQNews.com

## Housing Market to "Normalize" in 2006

The key word for the housing market in 2006 is balance, with a return to a more normal rate of price growth, according to the National Association of Realtors®.

David Lereah, NAR's chief economist, said current trends in the housing sector are healthy. "We don't need to break a record every year for the housing market to be good – in fact, cooling sales are necessary for the long-term health of this vital sector," Lereah said. "A modest slowdown in home sales, coupled with improvements in housing inventory, means the market is in the process of normalization. That will help to bring balance between home buyers and sellers, yet sales will remain historically strong."

After setting a fifth consecutive annual record, projected to

7.10 million units for 2005, existing-home sales are forecast to ease by 4.4 percent to 6.79 million this year, which would be the second highest on record. New-home sales, which should be a record 1.29 million for 2005, are expected to decline 6.0 percent to 1.21 million in 2006 – that also would be the second best year in history. Total housing starts for 2005 are seen at 2.07 million units – the highest since setting a record 1972 – with a 6.6 percent slowing to 1.94 million this year.

"A lot of demand has been met over the last five years, and a modest rise in mortgage interest rates is causing some market cooling. Along with regulatory tightening on non-traditional mortgages, there will be fewer investors in the market this year," Lereah said. The 30-year fixed-rate mort-

gage is likely to trend up gradually to 6.7 percent during the second half of the year. "This will preserve generally favorable affordability conditions and keep the housing market at a more sustainable sales pace."

NAR President Thomas M. Stevens from Vienna, Va., said price appreciation should be at more normal levels across most of the country. "Buyers are no longer competing for a tight supply," said Stevens, senior vice president of NRT Inc. "That means home prices generally will rise much closer to long-term norms, which is the overall rate of inflation plus one or two percentage points. Lower price appreciation will keep the door open to first-time buyers while preserving the investment advantages of homeownership for sellers.

The national median existing-home price for all housing types, projected to jump 12.9 percent to \$209,100 for 2005, is forecast to rise 5.1 percent to \$219,700 this year. The median new-home price, which should be up 4.6 percent to \$231,300 for 2005, is expected to increase 6.0 percent this year to \$245,200.

Inflation as measured by the Consumer Price Index is projected to rise 3.4 percent for 2005 and 3.0 percent in 2006. Inflation-adjusted disposable personal income is forecast to increase 1.3 percent for 2005 and 4.6 percent this year.

Growth in the U.S. gross domestic product is likely to be 3.6 percent for 2005, with GDP seen at 4.0 percent this

### Inside this issue:

- HOUSING MARKET TO "NORMALIZE" IN 2006 **1**
- MORTGAGE RATE OUTLOOK **2**
- HOUSING AFFORDABILITY CONTINUES TO SLIDE **2**
- REMODELING WITH AN EYE TOWARD RESALE **3**
- PLAN AND PREPARE TO SELL YOUR HOME **3**
- SHOPPING FOR A HOME **4**

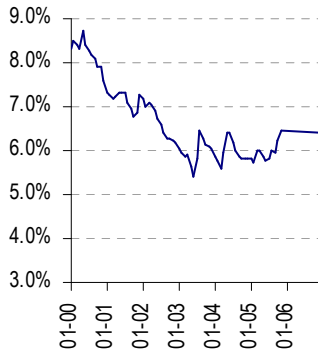
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# The Real Estate Report

## Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



POMPTON PLAINS, NJ (Jan. 13, 2006) - Thirty-year fixed mortgage rates (FRM) dipped a little this week, with the overall average losing eight basis points, or .08%. Five-one Hybrid ARMs crept upward by three basis points to end the week at an average 5.93%. As short-term interest rates continue to grind higher while longer-term rates hold steady or even decline a little bit, we edge closer to an "inversion" for rates.

Simply put, inversion is when long-term interest rates -- in this case, long-term mortgage rates -- are below those of their shorter-term counterparts. Inversions usually occur when the Fed has lifted short-term interest rates high enough to suggest to bond traders that growth in the period just ahead will be throttled back to a point where inflation will be kept in check.

While bond watchers often look to the spread between the two-year Treasury versus 10-year Treasury to determine if (or when) an inversion occurs, mortgage borrowers can keep an eye on a number of products along the yield curve. Along with the nominal level of interest rates, rate stability for a given price is certainly a considera-

tion when selecting a mortgage product to suit your needs. If the price is almost the same, or even less, why not opt for as much rate stability as you can get, since it's essentially "free"?

Case in point: with this week's dip in long-term rates, the average rate for the 30-year FRM and that for a 10/1 Hybrid ARM -- a fixed rate for only ten years -- are identical. This is the first such pairing since July 2002, when the 10/1 was coming back down from an 18-month inversion. As you might expect, the hybrid was all but abandoned in favor of the longer-term fixed loan. In the last year or so, there has been renewed interest in the 10/1 product, but more in interest-only versions than in the fully-amortizing flavor.

While we aren't close to a full inversion along the mortgage yield curve (and likely won't, due to the discounted nature of the initial period for ARMs), it's a possibility that certain introductory rates may invert; the 10/1 or perhaps even the 7/1 product (only 19 basis points away from even at the moment) are contenders. It may come as a surprise to learn that, compared to what their "fully-

indexed" rate would be in today's climate, these products are being offered at a discount. At a "fully-indexed" level those rates would be north of 7%, in the case of Treasury-based ARMs.

Will things become more inverted? It seems likely. The Fed's campaign of raising short-term rates is expected to have a few "measured" steps left in it, while signs of tempering growth and little new inflation usually suggest lower long-term rates.

Although fixed mortgage rates posted an unexpected decline this week, treasury yields trended higher for much of the week, then fell back on Friday. Next week's got a few notable nuggets of data -- Industrial Production, CPI, Housing Starts and the aforementioned Sentiment index, but there's no indication that rates are poised to move higher. In fact, weaker data, especially inflation, could produce a little more decline for long rates, pressing us closer to inversion. Most likely, a mixed bag of data will happen, and we'll probably see a basis point or two increase in rates.

## Housing Affordability in California Continues to Slide

The percentage of households in California able to afford a median-priced home stood at 14 percent in November, compared with 19 percent for the same period a year ago, according to a report released today by the California Association of REALTORS® (C.A.R.).

C.A.R.'s monthly housing affordability index measures the percentage of households that can afford to purchase a median-priced home in

California. C.A.R. also reports housing affordability indexes for regions and select counties within the state. The Index is the most fundamental measure of housing well-being in the state.

The minimum household income needed to purchase a median-priced home at \$548,400 in California in November was \$133,390, based on an average effective mortgage interest rate of 6.26 percent and assuming a 20 percent down payment.

At 24 percent, the High Desert region was the most affordable C.A.R. region in the state, followed by the Sacramento region at 19 percent. The Northern Wine Country, San Luis Obispo and Santa Barbara regions were the least affordable in the state at 7 percent.

The index for Santa Clara County was 18 percent compared to 22 percent last November.

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## Remodeling With An Eye Toward Resale

Kitchen and bathroom remodeling projects are returning more of a homeowner's investment than ever before, according to the 2005 Cost vs. Value Report published by the National Association of Realtors in REALTOR® Magazine and by Hanley Wood LLC in Remodeling magazine.

Many homeowners who complete midrange bathroom remodels can expect to make money; the cost on a national average for this project is \$10,499, and the return is \$10,727, or 102.2%, compared with 87.5% in 2002. On average, major midrange kitchen remodels cost \$43,862 and return \$39,920, or 91% of the costs to remodel, up from 66% in 2002.

The Cost vs. Value Report includes information provided by NAR members about the resale value of common remodeling projects in 58 U.S. housing markets. The report includes cost data, resale value and percentage recouped at sale for 18 projects, including a first this year: a home office remodel. Given that America's homeowners spent more than \$139 billion on home improvements and repairs last year, according to data from Harvard's Joint Center for Housing Studies, the report contains valuable information for anyone who is considering embarking upon a remodeling project.

The desirability of different remodeling projects varies by re-

gion and metropolitan area. In the West, window replacements are highly valued, perhaps due in part to insulation and cooling concerns in desert regions, with nearly 103% of costs recouped on sale. Westerners also prefer remodeled kitchens and basements; in this region, for example, a minor midrange kitchen remodel may return 112.3%, and a basement remodel is estimated to return 108%.

"Local and regional differences in the resale value of remodeling projects are not surprising – the desirability of certain home features varies by neighborhood and is heavily influenced by buyers' expectations in a given area," said Stevens.

In the final analysis, however, homeowners who are thinking about a remodeling project should consider their own needs and desires as well as those of the home's future inhabitants. "Keeping up with the Joneses can be a savvy investment move," said Stacey Moncrieff, editor, REALTOR Magazine. "But ultimately, the best reason for a remodel is to enjoy it."

The December issue of REALTOR® Magazine features 10 of the 18 projects. For a synopsis of the report, visit <http://REALTOR.org/realtormag>. The entire report, including city-by-city data, is available to the public for \$6.50 plus shipping and handling at <http://realtorreprints.com>.

## Plan and Prepare to Sell Your Home

Some 5 million existing homes are sold each year, and while each transaction is different every owner wants the same thing - the best possible deal with the least amount of hassle and aggravation.

Unfortunately, home selling has become a more complex business than it used to be. New seller disclosure statements, longer and more mysterious form agreements, and a range of environmental concerns have all emerged in the past decade.

The result is that while almost 100,000 existing homes are sold each week, the process is not as easy for sellers as it was five or 10 years ago. Surviving in today's real estate world requires experience and training in such fields as real estate marketing, financing, negotiation and closing - the very expertise available from me

### ARE YOU READY?

The home-selling process typically starts several months before a property is made available for sale. It's necessary to look at a home through the

eyes of a prospective buyer and determine what needs to be cleaned, painted, repaired and tossed out.

Ask yourself: If you were buying this home what would you want to see? The goal is to show a home which looks good, maximizes space and attracts as many buyers - and as much demand - as possible.

While part of the "getting ready" phase relates to repairs, painting and other home improvements, this is also a good time to ask why you really want to sell.

Selling a home is an important matter and there should be a good reason to sell. Your reason for selling can impact the negotiating process so it's important to discuss your needs and wants in private with me.

### WHEN SHOULD YOU SELL?

The marketplace tends to be more active in the summer because parents want to enroll children in classes at the beginning of the school year (usually August). The summer is

also typically when most homes are likely to be available.

Generally speaking, markets tend to have some balance between buyers and sellers year-round. In a given community, for example, there may be fewer buyers in late December, but there are also likely to be fewer homes available for purchase. So, home prices tend to rise or fall because of general demand patterns rather than the time of the year.

Owners are encouraged to sell when the property is ready for sale and there is a need or desire to sell.

### HOW DO YOU IMPROVE YOUR HOME'S VALUE?

The general rule in real estate is that buyers seek the least expensive home in the best neighborhood they can afford. In terms of improvements, this means you want a home that fits in the neighborhood but is not over-improved. For example, if most homes in your neighborhood have three bedrooms, two baths and 2,500 sq. ft. of finished space, a property with five bedrooms,

more baths and far more space would likely be priced much higher and likely be more difficult to sell.

Improvements should be made so the property shows well, is consistent with the neighborhood and does not involve capital investments, the cost of which cannot be recovered from the sale. Furthermore, improvements should reflect community preferences.

Cosmetic improvements - paint, wallpaper and landscaping - help a home "show" better and often are good investments. Mechanical repairs - to ensure that all systems and appliances are in good working condition - are required to get a top price.

Ideally, you want to be sure that your property is competitive with other homes available in the community. As a professional in the real estate business looking at homes all the time, we can provide suggestions that are consistent with your particular marketplace.

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### Buyer Guarantee

Within a year of close of escrow, either you are absolutely happy with your new home or **I'll sell it for FREE.** You'll be responsible for other normal closing costs, and buyer's agent commission.

### Seller Guarantee

I'll pay you if your house is not under contract **within 90 days.** You agree to cooperate with my professional recommendations. You can also cancel listing agreement if not fully satisfied with my service.



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R E A L T Y

## Investors Corner

### HOUSE PRICE APPRECIATION SLOWS FROM RECORD-SETTING PACE, BUT REMAINS STRONG ACROSS THE COUNTRY

Top 20 Metropolitan Statistical Areas with Highest Rates of House Price Appreciation

MSA	Ranking*	1-Yr	Qtr	5-Yr
Phoenix-Mesa-Scottsdale, AZ	1	34.37	8.32	80.93
Cape Coral-Fort Myers, FL	2	33.16	7.86	119.85
Naples-Marco Island, FL	3	32.35	4.72	119.43
St. George, UT	4	31.57	7.43	58.77
Sarasota-Bradenton-Venice, FL	5	30.35	6.03	111.44
Merced, CA 6 30.27 5.87 137.83	6	30.27	5.87	137.83
Coeur d'Alene, ID	7	29.88	6.32	69
Pensacola-Ferry Pass-Brent, FL	8	29.8	6.99	72.01
Visalia-Porterville, CA	9	28.46	7.39	106.71
Palm Bay-Melbourne-Titusville, FL	10	28.36	5.88	121.98
Prescott, AZ	11	28.31	5.53	77.96
Orlando, FL	12	28.04	7.63	85.73
Bakersfield, CA	13	27.07	6.27	123.68
Modesto, CA	14	26.87	5.02	137.2
West Palm Beach-Boca Raton-Boynton Beach, FL	15	26.7	6.21	125.43
Deltona-Daytona Beach-Ormond Beach, FL	16	26.61	6.19	101.69
Port St. Lucie-Fort Pierce, FL	17	26.6	6.09	133.63
Fort Lauderdale-Pompano Beach-Deerfield Beach, FL	18	26.55	6.49	125.67
Lakeland, FL	19	26.02	9.34	70.76
Stockton, CA	20	25.49	4.81	119.6

Bottom 20 Metropolitan Statistical Areas with Lowest Rates of House Price Appreciation

MSA	Ranking*	1-Yr	Qtr	5-Yr
Fort Worth-Arlington, TX	246	3.87	1.14	21.31
Oshkosh-Neenah, WI	247	3.83	2.16	27.3
Jefferson City, MO	248	3.81	1.1	21.71
Macon, GA	249	3.77	1.91	23.17
Toledo, OH	250	3.63	0.98	24.06
Burlington, NC	251	3.57	-1.24	13.47
Bloomington-Normal, IL	252	3.51	-0.13	18.25
Cedar Rapids, IA	253	3.44	0.4	20.12
Warren-Farmington Hills-Troy, MI	254	3.34	0.81	22.29
Lansing-East Lansing, MI	255	3.26	0.86	29.25
Kennewick-Richland-Pasco, WA	256	3.16	0.15	27.15
Wichita, KS	257	2.87	0.85	20.11
Saginaw-Saginaw Township North, MI	258	2.83	1.15	20.77
Jackson, MI	259	2.76	-1.16	26.43
Anderson, IN	260	2.62	2.86	18.17
Detroit-Livonia-Dearborn, MI	261	2.48	-0.12	22.1
Beaumont-Port Arthur, TX	262	2.43	-0.38	21.29
Lafayette, IN	263	2.25	0.86	10.7
Greeley, CO	264	2.21	-0.72	25.55
Mansfield, OH	265	0.76	1.84	22.28

\* Rankings based on one-year appreciation, for all MSAs containing at least 15,000 transactions over the last 10 years

For a city-by-city breakdown, visit my website at: [www.AviUrban1.com/pages/framset-market.html](http://www.AviUrban1.com/pages/framset-market.html)  
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