
Real Estate Insights ~ A Periodic Newsletter

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“Never boring!” That pretty much describes the last several years in real estate. We have seen credit markets freeze and subsequently thaw, we have seen a plethora of short sales and bank owned properties in some cities, and more recently we have seen the return of fierce competition and preemptive offers for well-priced homes in highly desirable locations.

The good news is that the housing market is generally far better off than it was a year ago. The bad news? Just read the papers – we aren’t out of the woods yet!

In this newsletter we’ll bring you up to date on the current housing market, the biggest challenges facing buyers and sellers, the implications for those holding adjustable rate mortgages, and of course we’ll deliver your personalized market update.

Housing Market Snapshot

The schizophrenia continues in the Peninsula housing market with some weeks hot and some cold, and some areas hot and some, well, not so much. As a whole though, the housing market is much better now than it was a year ago.

While prices aren’t being bid up to ridiculous levels like they were several years ago, Palo Alto is ground zero for multiple offers. Judging from the recent listings and sales within our office, the majority of homes listed for less than \$1.4M are drawing multiple offers. That is not to say that all of these homes are selling at or above the list price even with multiples, but many are.

When it comes to selling homes quickly, Mountain View is the place to be. With a Median Days on Market (DOM) of 11 and an Average DOM of 21, buyers have to be quick on the draw or risk missing out on a property. Speculation abounds that this is due to Google, but employer data is not a part of our sales data.



What is Gina Up To?

Gina Kehr, our former partner and close friend, has a new business venture. **Affinity Multisport** is “a close connected community of like minded individuals who enjoy training and racing together.” While Affinity caters to the entire spectrum of athletes from the novice on up, several Affinity athletes had great showings at the Ironman World Championships in Hawaii a few weeks ago. Want to find out more? Check out <http://www.affinitymultisport.com>.

The chart below shows data for a selection of local cities. In general, the liveliest activity is at the lower price points, with most buyers gravitating towards updated homes. The higher the price point, the longer a property tends to sit on the market and the more likely that it will be bid down.

City	Active	Pending	Sold	Avg. SP	Median SP	Avg. DOM	Median DOM
Menlo Park	72	35	115	\$1,558,273	\$1,325,000	50	21.5
Palo Alto	89	61	146	1,550,349	1,402,500	42	14
Redwood City	176	88	160	804,925	746,500	62	36
San Carlos	138	33	85	977,814	950,000	41	16.5
Portola Valley	38	7	16	2,020,890	1,877,500	94.5	81
Los Altos	64	38	117	1,769,375	1,655,000	56	25
Los Altos Hills	58	17	28	2,755,022	2,490,000	120	65
Mountain View	55	40	90	979,239	904,000	21	11
Sunnyvale	125	110	192	767,064	798,500	50	22
Cupertino	67	55	93	1,098,086	1,077,700	32	16
Campbell	61	55	73	719,575	670,000	75	45
Los Gatos	161	48	120	1,351,559	1,197,500	82	43

Note: All data is as of 10/27/10. Sales related data is from 7/1/10 to present. DOM data includes both pending and sold properties. SP is "Sale Price"

There are definitely buyers out there at all price points, but in general, consensus among real estate agents is that most buyers feel no sense of urgency when it comes to making an offer...except in places like Palo Alto, Mountain View and Cupertino!

Challenges Facing Buyers and Sellers

Almost from the day that the financial crisis began, the single biggest challenge facing buyers (and therefore sellers!) has been financing. While there are plenty of good reasons why lending practices have changed, you may be surprised just how far the pendulum has swung.

Securing a loan is a much more involved process than ever before. I thought a recent newspaper article summed it up quite nicely when it said that (paraphrasing), "Banks seem to take the approach that you are trying to defraud them when you apply for a loan. You are guilty until you can prove otherwise." This manifests itself with requests for ever more paperwork to prove that you have the resources and income that you claim. What makes this process even more painful is that they often make request after request for additional information which draws the process out, sometimes for weeks, with no regard for any deadlines you may be facing.

On top of this, appraisals have taken on more importance than ever before. I find it telling that nobody disagrees with me when I posit that there are significant liabilities for an appraiser if he/she comes in with a valuation that is too high, yet there is no penalty for coming in too low. The end result? Appraisers tend to err on the low side. Since banks view the appraisal as the gospel truth when it comes to value, just one low appraisal can bring down home values in an entire neighborhood.

We recently had a beautiful listing priced at \$1.395M. Shortly after coming on the market we received 2 full price offers. All we needed before contingencies could be removed was the appraisal. Where did the appraisal come in? \$1.2M – almost \$200K below both offers. After two additional appraisals (one of which was done entirely from behind a desk...are you kidding me?), the buyers and sellers agreed that the last and highest appraisal would set the purchase price of \$1.33M, a \$65K discount from the original offers. What a deal for the buyer! And yes, *the appraiser not the market* determined the sale price...and this sale price has been directly and indirectly influencing home prices in the neighborhood ever since.

The net result of all of this is that finance contingencies these days tend to be a minimum of 2 weeks long, and even then they must be extended on a regular basis! More than ever, having an experienced mortgage broker or lender in your corner is of paramount importance when buying a home.

My ARM is about to Adjust – Yikes...or Yes!

We frequently hear concerns from friends and clients about their adjustable rate mortgages. Specifically, a lot of people are worried that when their first adjustment date hits their interest rate is going to shoot up.

We are in this ARM boat. We have a 5/1 Jumbo ARM that is due to adjust in about a year. When we originally got our loan some 4 years ago, we felt pretty good about its 5.75% interest rate. After all, our very first loan ever was at 7.25% back in the 90s! A lot has happened in the last four years though, not the least of which is that interest rates have dropped significantly.

My first inclination was to refinance to take advantage of the improved rates. Unfortunately, real estate agents are independent contractors. Independent contractors have to show 2 years of income history on top of everything else before a bank will consider lending them money – even for a refi! With 2008 and 2009 being tough real estate years, this was a non-starter.

However, when I discussed our impending adjustment with our mortgage broker, he said that if the adjustment happened today our interest rate would **drop** by 2% because the index it is based upon is so low (our rate is based on the 6-month LIBOR plus 2.25%). In fact, the drop is limited to 2% by the terms of our loan. As of October 25, our true adjustable loan rate would be $0.45\% + 2.25\% = 2.7\%$ sans any such limitations!

The lesson here? If you have an adjustable ARM, you may be in for a pleasant surprise. Check with your mortgage broker if you don't recall the specifics of your loan. Most of the horror stories you have read about were shorter term loans with exceptionally low teaser rates. Chances are, if you went with an adjustable rate loan several years ago, you will be just fine.

Your Personalized Market Update

Palo Alto and Mountain View may be hot, but you have to drill down further to get a true feel for what real estate is doing in your particular neighborhood - even if you live in one of those cities. Appended to this newsletter is a summary report of the real estate activity in

your immediate vicinity. We have tried to strike a balance between providing a useful summary and overwhelming you with data. If you would like a deeper market analysis of your home's worth, just let us know and we will be happy to provide it!

Lastly, we want to remind you that we are here for all of your real estate needs. If you have a quick question, call or shoot us an email. We have a great list of vendors if you need a recommendation. And if you know of someone contemplating buying or selling their home, we love referrals!

Thank you for your past business and loyalty, it is most appreciated.

Warmest Regards,

Janie and John Barman

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