

# Brauning Appraisals

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## **2010 – 2011 Annual Report** **Residential Real Estate Values in the North Bay** **counties and California in General**

**The basis for the value of residential real estate:** The value of residential real estate is primarily due to the flow of housing services provided to its occupants and commonly known to be a function of the economic forces of supply and demand. Supply is the inventory of new and existing homes and is regulated by the price and availability of land, regulatory controls and the profit potential for developers. Increasing inventories of new and existing homes place downward pressure on prices and the rate of growth of new home development.

Demand is influenced primarily by consumer confidence. Employment stability and income growth are two of the major factors affecting consumer confidence. We have isolated and listed below a number of fundamental factors affecting the demand for residential real estate. Each of these factors in its own way is a gauge for the willingness and ability of the public to enter the residential real estate market.

**Interest rates:** During 2010 30 year fixed interest rates have been at 40 year lows sinking to 4.17%. At year-end the rates are at approximately 4.9% which is about what they were at the end of 2009. Many people have benefited by refinancing or purchasing with these low interest rates. However, we have encountered issues where people are unable to borrow due to income verification and credit problems. There are few if no quick qualifier loans available. It has been stated that all loans are now sold to Fannie Mae and Freddie Mac due to their guarantees. This is an indication that private investors are unwilling to risk mortgage lending.

**The legacy of 2009:** In 2009 we witnessed the collapse of real estate values in the entry-level markets. We found that the market for the entry-level homes was chaotic with several tiers of sales prices caused by competition between buyer occupants and cash investors pitted against one another. Buyer occupants purchasing with loans could compete with cash investors only by offering a large price premium. We also found investor/flippers profiting by buying REO properties, remodeling them and reselling at a large premium. During the past 2 years we found that in many entry-level markets there were few or no sales between willing buyers and sellers, only REO's and short sales. We found in many cases that residential real estate was selling below its replacement cost. These trends have continued into 2010. We are still concerned about the "Shadow Inventory" of foreclosed homes held off the market by REO owners. Indicators now show us that the entry-level market has begun to stabilize.

**Changes in 2010:** In 2010 it was the higher price market segments which we watched collapsing. At this writing we have seen no stability in the market of residential properties valued from \$600,000 and up.

**Some fundamental factors regarding real estate values:**

- The ratio of house prices to rents, the Rent Vs. Buy Ratio in the USA is trending below the “Buy – line” which is a “buy” indicator.
- In 2010 the California population increased less than 1% by about 350,000 residents to approximately 37.2 million.
- Unemployment in California increased to 12.4% from 10% at the end of 2009.
- 2010 was a record foreclosure year in California with 532,000 foreclosures.
- The Consumer Confidence Index remained low, ending 2010 at 52.6. The Home Builder Confidence Index remained at long term lows.
- The Home Price Index ended September 2010 at 147.49.
- The Housing Affordability Index increased to 184.2, which is a “buy” indicator.
- The Cost-to-Value Ratio declined to 60%, its lowest level of the decade. Remodeling costs continue to return only 77% to 79.6% of cost in the market.
- Interest rates have been at 40 year lows during 2010 with 30 year fixed rates sinking to 4.17% and ended the year at approximately 4.9%.
- National new home building starts have trended sideways averaging about 540,000 per month.
- National new home sales dropped to 283,000 in October 2010 after having stabilized during the past 12 months. The average sales price was steady at \$215,000
- National sales of existing homes declined in 2010 to a seasonally adjusted rate of 4.68 million homes per year. The average sales price in 2010 was \$170,500, a decline from the previous year. The absorption rate now takes about 1 year to clear the existing inventory. The shadow inventory of REO is a major concern.

On the last page we have a Case Schiller graph for Bay Area metropolitan home prices during the past two decades.

### **Analysis and recommendations:**

**All indicators show that housing prices for entry-level homes collapsed and bottomed out in 2009 then tended to stabilize in 2010.** Based on the above indicators we see no general increase in values in residential real estate during the next 12 months. There are no specific indicators exclusively for luxury homes, estates and ranches but our experience shows that they are continuing to decline in value.

**We believe that real estate is the best long-term investment:** Based upon values in the entry level priced residential market now is the time to buy! Although, we recommend the purchase of real estate for long-term intentions only. The time appears right to purchase vacant land. The time also appears right to purchase development land which is sufficiently depreciated in value to provide development profits at today's new home prices.

**Cautions:** We caution against the purchase of income property which does not produce long term NNN positive cash flow; the purchase of luxury homes, estates and ranches as that market is still declining; speculative purchases of real estate unless the buyer is an expert in the market situation. Due to the complexities of title matters we caution against the purchase of foreclosures on the courthouse steps. After all is said and done we remind you that the primary value of a house is its ability to be a home. That may be priceless!

**Dan Brauning and Leon Brauning** are a father/son team, both of whom are Certified Appraisers and licensed Real Estate Brokers. Dan holds the coveted SRA designation from the Appraisal Institute and Leon has held the ASA designation from the American Society of Appraisers for 20 years. Their appraisal/real estate firm has been in business in Napa County serving the entire North Bay for over 30 years.

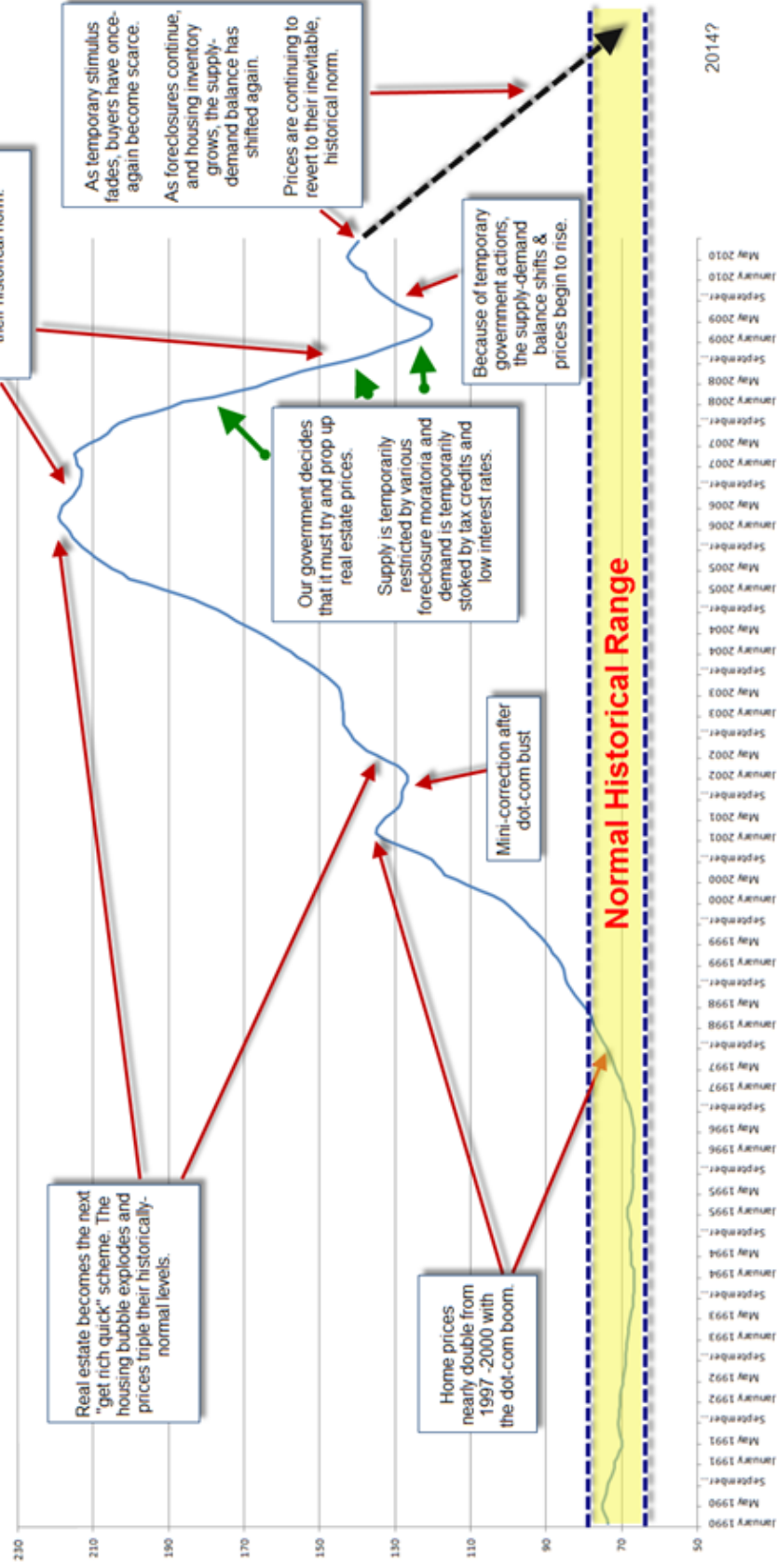
In 2010 Brauning Appraisals valued approximately \$266 Million dollars worth of property in the San Francisco North Bay community. In 2009 we valued approximately \$278 Million dollars worth of property.

Please visit our website at [www.brauningappraisals.com](http://www.brauningappraisals.com).

## Case-Shiller Home Price Data San Francisco Area from 1990-Present

From Wikipedia:

*The Head and Shoulders Formation is one of the most reliable and well known of all the major reversal patterns. It is also one of the most popular formations that have been studied thousands of times by analysts.*



<http://bayarearealestatetrends.com>

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