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Residential Real Estate

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Last month I took a leap of faith and gave some predictions based on the pending sales as to what we might expect in the first half of the New Year and to a limited degree what 2010 may look like. Today I am visiting what happened last year and where our current market now rests in comparison to the early part of the last decade.

WITHOUT QUESTION THE MARKET IS GETTING BETTER, but at the expense of prices. Given how fragile the market is, and with most buyers and agents still determined to be the last to get the lowest price, changing course is not going to be easy. It is going to take six months of improved sales to change our course and we will not know before the end of July how the area has done.

The elephant in the room that the banks and the Fed's are ignoring is making a heck of a mess and until the root cause and effects are addressed the band-aids and deodorizers as proposed, are not going to fix the situation in the long run. Making Home Affordable appears to be a failure, well intended in theory but it only focuses on the nearly dead and not on the living and the banks have no real incentive to figure out how to make the program work. Expect more band-aids and no real solutions.

The real issue is stopping the bleeding and that means addressing ALL homeowners with homes that are deeply upside down. Today's policies by the banks seems to be ignoring their own portfolios of loans are deeply in the red while also ignoring the simple reality that mortgages need to get in balance with the reality of the current market. Reportedly there are over 15 million residential homes upside down in the market today and growing and given a 5% appreciation rate every year for the next 5 years the majority will still be upside down in 2015!

I for one do not agree with the current way short sales are being handled and if I could I would end the short sale process altogether as it stands now:
* The process has no incentives for home owners to sell at market value.
* The process encourages homeowners to use Short Sales to get out from underneath their underwater homes.
* It encourages home owners to stop making payments so they will be taken seriously by the banks (keep in mind even today the call centers are advising sellers to stop making payments if they want to get more attention).
*The process is numbingly long, cumbersome and depressing. So long (6-12 months) that homes must drop in price to entice buyers to buy.
* The process encourages buyers to expect ever lower prices for homes.
* The process with its continued pressure to reduce prices keeps pressuring the

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market for more price reductions therefore dragging other homes down and encourages other disenchanted homeowners to short sale and “bail” on their debt and the cycle goes on.

Keep in mind that I am not ignoring the effect of foreclosed homes but that is another issue. Due to the blind bureaucracy of the banking world short sales are now seen as a method that is an “ok” way of getting rid of unwanted debt obligations.

My suggestion - and agreed by many others looking at this failed - system is that the banks must be allowed to write down the loans. Yes, it is that simple. Write off the values that are over fair market value. Wipe out the 2nd, 3rd, 4th loans. The current process is depressing and is keeping the vast wealth and power of real estate from restarting. Dramatic as it may be, given what we are seeing it is far better to have millions of homeowners feeling energized and ready to go to work and be willing to spend money than to have 15-20 million homeowners in dread. Stifling debt on homes that have no reasonable chance of recovering will drag down this economy for longer than we can afford and the solution of foreclosure is absolutely stupid, even though it does write off the losses but also forces the markets further down still.

Reno is now running real close to 2001/2002 values. Therefore if you bought your home in 1998 you are looking (after 12 years of ownership) at about three years of appreciation.

Oh, I forgot, the fees generated by the new loans given the huge number of people that would likely refinance at $3,000 per home is about $45 billion in income to the banks. Even if the banks wanted to do this, which is questionable, they are being hamstrung by regulations a call for increased reserves. The Fed’s must come to the table with better ideas.

For those home owners that really cannot afford the homes well sadly foreclosure is the option that must be followed and deficiency judgments need to be filed. Why? It is now common for public opinion to see foreclosure/short sales as a great way out. Sellers are receiving legal advice to stop the payments and live in the home cost free for as long as they can, and in some cases that has proven to be a year or more. This attitude does nothing but encourage more home owners to walk for their financial obligations.

The banks may be at the heart of this disaster but everyone was at the party and no one can expect to get off scott free but it seems that homeowners are paying for the costs unfairly and the investors are taking write offs that should not be happening, while bank profits rise and bonuses are being paid. I even have no issue with banks working out promissory notes at zero interest for 7 years with homeowners for some of the write offs to offset some of the investor losses.

This is an imperfect solution but is a better response than has been forthcoming from the banks to date. Charge the homeowners fair fees to re-write the current loans. For the homes that need to be foreclosed on or short sold do it cleanly, quickly and move on, but pursue the deficiency. For those who qualify and that were current on their payments, allow them to qualify and buy another home that they can afford.

The numbers (at last)!
*Please see the following graphs for a graphic display of this information.

January 2010, Reno/Sparks inventory:

Active listings	1,496
Average $$	$440,143
Pending sales	1,438
Average $$	$212,210
Sold (Oct '09-Jan 1st 2010)	1,426
Average $$	$213,949

By area: homes for sale, pending and sold (sold Oct '09-Jan 1st '2010):

121/NW

A 59	$233,902	109 DOM	$121 square foot
P 96	$193,743	117 DOM	$120 square foot
S 91	$193,825	97 DOM	$116 square foot

122/Sommersett

A 66	$370,574	107 DOM	$140 square foot
P 43	$296,531	184 DOM	$119 square foot
S 53	$291,532	150 DOM	$121 square foot

143/Damonte-DD

A 85	$272,164	96 DOM	$131 square foot
P 107	$243,483	165 DOM	$127 square foot
S 85	$251,841	121 DOM	$125 square foot

161/Caughlin

A 51	$856,345	175 DOM	$208 square foot
P 25	$602,314	88 DOM	$175 square foot
S 28	$460,782	127 DOM	$152 square foot

163/SW Reno

A 91	$607,592	177 DOM	$179 square foot
P 35	$349,639	151 DOM	$127 square foot
S 53	$347,257	109 DOM	$133 square foot

165/Arrowcreek/Saddlehorn/Fieldcreek/Grand View

A 90	$821,649	234 DOM	$206 square feet
P 44	$592,647	217 DOM	$152 square feet
S 44	$542,652	164 DOM	$151 square feet

171/Galena/Montrueux

A 86	$1,265,676	252 DOM	$291 square feet
P 16	$ 572,210	223 DOM	$164 square feet
S 21	$ 722,257	195 DOM	$198 square feet

182/Suburban Sparks

A 72	$214,111	109 DOM	$108 square feet
P 98	$202,194	151 DOM	$109 square feet
S 83	$204,515	115 DOM	$108 square feet

183/Spanish Springs/Wingfield

A 102	$275,399	120 DOM	$112 square feet
P 106	$224,747	170 DOM	$ 99 square feet
S 99	$238,637	125 DOM	$105 square feet

Market activity by price point and change in values from Oct-Dec ’09 compared to Jan 2010.

0-$199,999

Oct-Dec ’09	A $144,500	As of Jan’10 $143,599 diff of -1/3%
Oct-Dec ’09	P $134,100	As of Jan’10 $132,672 diff of -6/10%
Oct-Dec ’09	S $136,768	As of Jan’10 $136,732 no change

$200-$299

Oct-Dec’09	A $248,000	As of Jan’10 $247,340 diff of -3/10%
Oct-Dec’09	P $242,200	As of Jan’10 $244,039 diff of +3/4%
Oct-Dec’09	S $238,478	As of Jan’10 $238,478 diff of +3/4%

$300-$399

Oct-Dec’09	A $351,879	As of Jan’10 $352,253 diff of +1/10%
Oct-Dec’09	P $346,200	As of Jan’10 $351,676 diff of +1.6%
Oct-Dec’09	S $340,300	As of Jan’10 $358,274 diff of-6/10%

$400-$99

Oct-Dec’09	A $452,200	As of Jan’10 $453,000 diff of+2/10%
Oct-Dec’09	P $441,700	As of Jan’10 $440,782 diff of-2/10%
Oct-Dec’09	S $440,500	As of Jan’10 $439,009 diff of -3/10%

$500-$599

Oct-Dec’09	A $555,500	As of Jan’10 $559,256 diff of +1.0%
Oct-Dec’09	P $546,500	As of Jan’10 $563,957 diff of +3.0%
Oct-Dec’09	S $552,650	As of Jan’10 $544,316 diff of -1.5%

$600-$699
Oct-Dec'09 A $658,500 As of Jan'10 $663,000 diff of +1.0%
Oct-Dec'09 P $657,000 As of Jan'10 $649,980 diff of-1/10%
Oct-Dec'09 S $641,400 As of Jan'10 $636,495 diff of -8/10%

$700-$799
Oct-Dec'09 A $760,250 As of Jan'10 $765,865 diff of +8/10%
Oct-Dec'09 P $758,000 As of Jan'10 $751,113 diff of -1.0%
Oct-Dec'09 S $737,800 As of Jan'10 $728,782 diff of -1.0%

$800-$899
Oct-Dec'09 A $867,700 As of Jan'10 $869,387 diff of +2/10%
Oct-Dec'09 P $837,500 As of Jan'10 $837,450 no change
Oct-Dec'09 S $833,333 As of Jan'10 $848,326 diff of +1.8%

$900-$999
Oct-Dec'09 A $973,300 As of Jan'10 $975,125 diff of +2/10%
Oct-Dec'09 P $937,900 As of Jan'10 $986,225 diff of +5.0%
Oct-Dec'09 S $940,000 As of Jan'10 $939,000 diff of -1/10%

$1mill-$1.249
Oct-Dec'09 A $1,143,100 As of Jan'10 $1,148,261 diff of +1/2%
Oct-Dec'09 P $1,162,510 As of Jan'10 $1,133,380 diff of -2.5%
Oct-Dec'09 S $1,128,800 As of Jan'10 $1,029,750 diff of -7.9%

$1.25-$1.499 mill
Oct-Dec'09 A $1,380,200 As of Jan'10 $1,378,510 diff of -1/10%
Oct-Dec'09 P $1,408,350 As of Jan'10 $1,495,000 diff of +5.0%
Oct-Dec'09 S $1,300,000 As of Jan'10 $1,325,000 diff of +2/10%

$1.5-$1.99 mill
Oct-Dec'09 A $1,787,400 As of Jan'10 $1,788,202 no change
Oct-Dec'09 P $1,700,000 As of Jan'10 $1,657,800 diff of -2.5%
Oct-Dec'09 S $1,661,667 As of Jan'10 $1,645,000 diff of -1.0%

As of January 2010 what would you pay for a home today and when was the last time you could have purchased the same home in the last 10 years?
Sample home is a 3 or 4 bedrooms, 2-3 car garage, 2,500-3,500 square feet. Average prices for 2010 versus the closet year for the same average sales.

Area 121 ’10 $281,233/$100 sf.	2002 $286,261/$104sf.
Area 160 ’10 $350,428/$117 sf	2002 $412,103/$139 sf.*
Area 161’10 $455,476/$156 sf.	2003 $497,094/$164 sf*
Area 163’10 $377,119/$131 sf.	2002 $381,723/$133 sf
Area 165’10 $441,947/$153 sf.	2002 $469,076/$158 sf*
Area 171’10 $588,000/$189 sf.	2002 $562,847/$181 sf*
Area 143’10 $327,202/$110 sf.	2002 $305,914/$108 sf**
Area 182’10 $268,297/$ 97 sf.	2002 $259,696/$103 sf
Area 183’10 $285,096/$101 sf.	2000 $306,007/$104 sf***

* split year with 2001 being lower and 2002 being higher.
** ’03 was a huge jump up and ’01 was up as well with a drop in ‘02.
*** split year with 1999 being lower and 2000 being higher.

Sales in homes over $600,000 are becoming very erratic, a sign that the upper markets are now dealing with the realties of deflation now.

2010 is definitely going to be an interesting year.

Kind regards,

David Morris