

Summer Outlook

By: Bob Gerson, Sr. VP Mortgage Officer

Dear Friends, Colleagues and Clients:

There has been an historic shift in interest rates over the last several weeks. It seems just yesterday that the 30 year fixed was 3.5% with no closing costs, today its in the upper 4% range. There has not been a time in recent history that we have seen such a dramatic increase, yet there really has not been any economic news to justify this quick a jump.

The official story is that better employment statistics, a little bump in inflation and ambiguous language from the Fed about its quantitative easing (i.e. buying up mortgages) is driving the shift. But perhaps the real reason is that the bond is spooked, and the inflation hawks, so long in deep hiding in their bear caves, have finally come out to see the sun.

Is this a step function shift? Is the party over? Prognostication is always a challenge, perhaps there will be another chance. Anyone still in range to refinance should definitely do so, if rates come down in the future, there is always the option of a no-cost refi.

Despite bearish bond markets, real estate markets are in a boom. The recent increase in rates will slow it down. People base prices often on their payments not the nominal value of homes, and with a 25 to 30% increase in rates, that translates into a similar increase in monthly payments. This will definitely wipe the froth off the cappuccino, but the coffee is still strong. Our realtors have not seen any decline in prices in the last 30 days. Maybe there are only 4 offers instead of 10 on a new listing that is 20% higher than a year ago.

This does open up opportunities for those folks with interest rates still in the 5's that couldn't take advantage of the refi boom in the last 5 years. Many properties are finally out from being underwater. And if your property did not qualify for HARP low equity financing, now may finally be your chance to get in on some of the savings...what's left of them, or even trade up and sell your home.

In the San Francisco real estate market, the median house price has gone to \$1,000,000, pricing out a lot of first time buyers. Cash is

still prevalent amongst those buyers who are from the tech sector, prior investment 1031 exchangers and foreign buyers from the Far East. Some estimate the percent cash buyers in the San Francisco to be over 40%.

Some data to support this still strong market:

- 90% of SF home sales closing in May sold with out going through any price reductions
- Average sales price 7% higher than asking price
- Average days on market: 29. Very low.

Condo Sales in the bay area are surging as well. The switch from house sales to condos with the continuing construction of large condo projects are going to be the main focus of young and first time buyers. TIC sales have dropped significantly and this is due to complex issues such as the City of San Francisco Condo Conversion and tenant protection regulations.

Our thoughts:

- Real Estate market still hot, though may even off slightly. This is partly due to typical summertime buyer distraction, but the slow-down is resulting to lower offers, less offers.
- Sharp hike in rates may be a shift to a different era or just a roadblock in a long bull bond market. Hard to make a call.
- Those underwater for many years may finally have a chance to refinance. Between rates and late summer doldrums, there is a chance to actually get a home one bids for! There is a window of opportunity for buyers that may disappear this fall.

Interesting TIC News

Starting in July a new law will be passed to allow those TIC's in the Condo lottery to now be eligible to Condo Convert. But you will need a lawyer to interpret these new rules because of the complexity involved to convert. We believe all it takes is one lawsuit from one person, anyone, to make life difficult.

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