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HOUSINGNEWSREPORT

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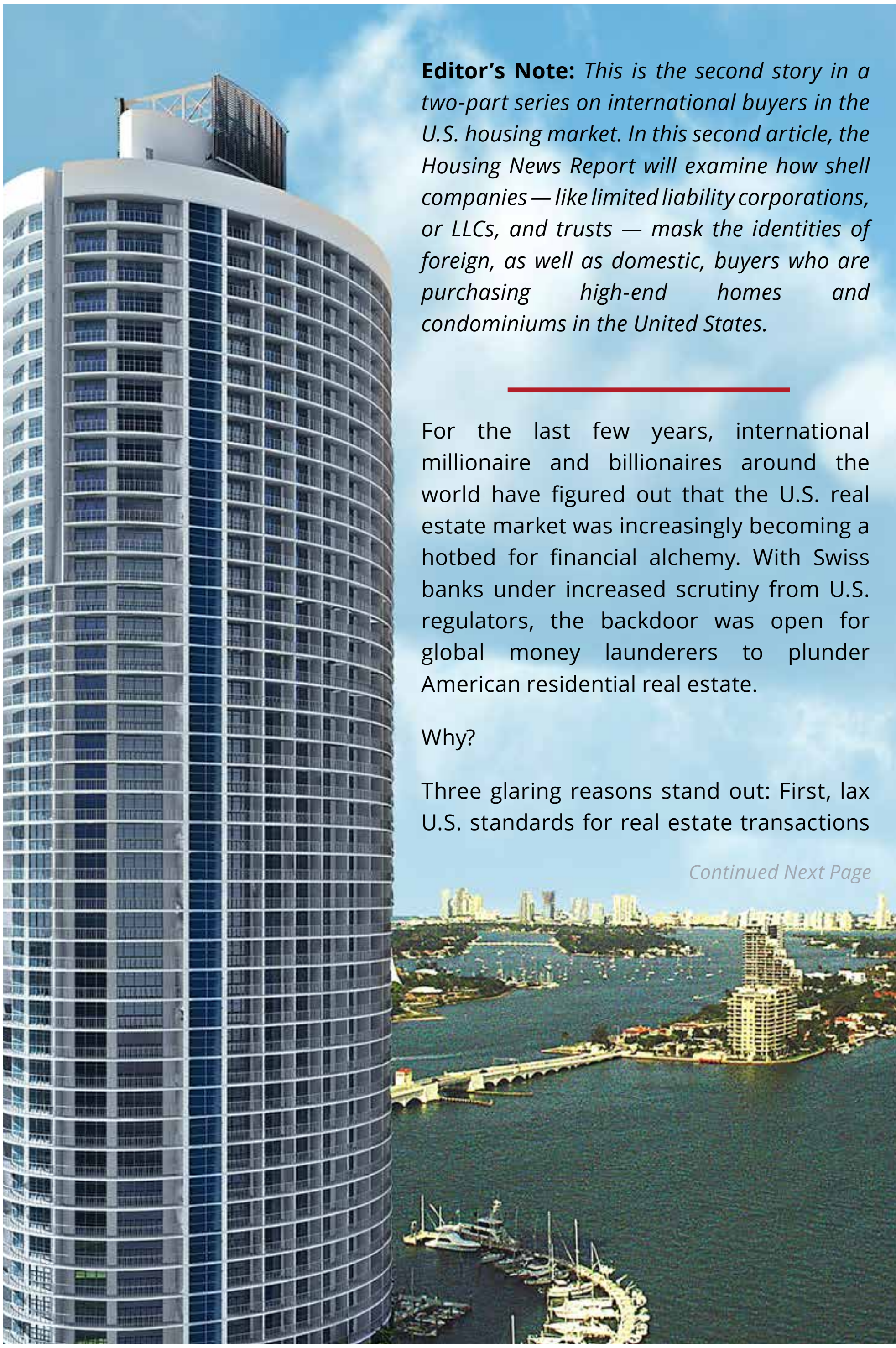
ARE FOREIGNERS STASHING BILLIONS IN U.S. REAL ESTATE?

By Octavio Nuiry, Managing Editor



Editor's Note: *This is the second story in a two-part series on international buyers in the U.S. housing market. In this second article, the Housing News Report will examine how shell companies — like limited liability corporations, or LLCs, and trusts — mask the identities of foreign, as well as domestic, buyers who are purchasing high-end homes and condominiums in the United States.*

For the last few years, international millionaire and billionaires around the world have figured out that the U.S. real estate market was increasingly becoming a hotbed for financial alchemy. With Swiss banks under increased scrutiny from U.S. regulators, the backdoor was open for global money launderers to plunder American residential real estate.

Why?

Three glaring reasons stand out: First, lax U.S. standards for real estate transactions

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SOURCE: Opera Tower Miami

made it easy for foreigners, and Americans, to purchase residential and commercial real estate — both legally and illicitly. Secondly, current U.S. laws make it difficult for federal and state prosecutors to prove money laundering charges against law breakers in U.S. courts. Finally, the federal government is doing virtually nothing to prevent real estate money laundering, allowing foreigner money to pour into U.S. real estate like never before, with little or no questions asked.

"It's a big loophole," said Louise I. Shelley, a money laundering expert and director of the Terrorism, Transnational Crime and Corruption Center at George Mason University in Arlington, Virginia, referring to money laundering in real estate. "I think it's an absolute concern."

Shelley said real estate is conducive to money laundering because of the ease of mixing legitimate with illegitimate money. She worries about the lack of oversight in the sale of residential and commercial real estate to international buyers.

Louise I. Shelley
Director
Terrorism, Transnational Crime and Corruption Center
George Mason University
Arlington, Virginia

> *"Corrupt leaders, organized crime groups, and terrorist organizations channel large quantities of illicitly obtained funds into real estate daily."*

"Corrupt leaders, organized crime groups, and terrorist organizations channel large quantities of illicitly obtained funds into real estate daily as a way to disguise the criminal origin of their proceeds and to integrate them into the formal economy," writes professor Shelley, author of "Dirty Entanglements: Corruption, Crime and Terrorism" (Cambridge University Press, 2014). "These illicit funds are invested into residential and commercial real estate as well as into farmlands and tourist properties, often allowing the criminals and corrupt politicians to enjoy the profits of their criminal activities."

Shelley said the loophole in the Patriot Act, where real estate agents and brokers aren't required to do due diligence on who the buyers are, is fueling the rise of international real estate buyers in the U.S. "It's hundreds of millions," she said, stating how much illicit funds are invested each year in real

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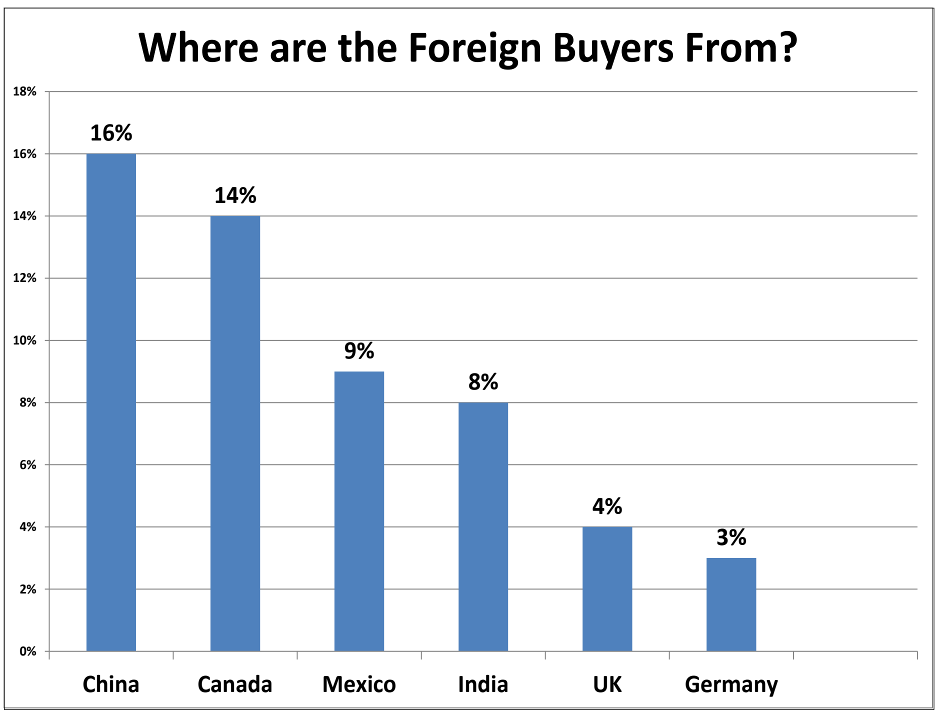

SOURCE: National Association of Realtors

estate. "Probably billions. Billions in New York City. Billions in London, Toronto, Miami and other cities."

Foreign direct investment in U.S real estate amounted to $104 billion in the twelve months that ended in March 2015, up 10.4 percent from last year, and 65 percent higher than 2013, according to a recent survey by the National Association of Realtors (NAR). In the U.S., international buyers prefer high-priced coastal trophy properties in New York, Miami and Los Angeles. But foreigners also fancy properties on border states, particularly Arizona, Texas and Washington.

Wealthy foreigners are increasingly investing abroad amid political and economic uncertainty back home, especially in left-leaning countries like Argentina, Brazil, China and Venezuela, where increasingly authoritarian regimes are scaring locals to ship their wealth abroad.

As affluent foreign buyers — spurred by lax U.S. regulators, an ask-no-questions real estate industry and global instability — flood the U.S. real estate market with cash, warning signs are rising that some of the international buyers are hiding dirty money in real estate sales.

Who's Buying in New York

In first six months of 2015, 75 percent of the all cash buyers in New York County had Asian surnames, according to RealtyTrac data. Of the top 20 cash buyers in New York City, only five were non-Asian buyers, while the remaining 15 buyers were either overseas Asian buyers or Asian-heritage local buyers. RealtyTrac saw similar patterns of overseas buyers in Miami and Los Angeles.

While banks are required to file what's known as Suspicious Activity Reports, or SAR, with the U.S. Treasury if they suspect a customer is depositing or transferring dirty money, real estate agents, lawyers and title companies have no such statutory requirement. A few years ago, NAR issued a list of anti-money laundering guidelines for when Realtors should voluntarily file an SAR to the U.S. Treasury. But few know about the anti-money laundering guidelines — and fewer file reports.

Moreover, for Realtors, there's no incentive to report high-end cash buyers because they would lose their commission.

New York's 'Towers of Secrecy'

In New York City, where several luxury skyscrapers are soaring to the heavens, foreign-friendly condo buildings — whether midtown penthouses, Village townhomes or Tribeca lofts — are attracting some of the world's global ultra-rich.

Not all the money, however, flowing into the Manhattan real

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SOURCE: 53 West 53rd Street

estate from abroad is legitimate. And living in New York City is becoming increasingly unaffordable for New York's middle class at the expensive of wealthy foreigners.

Last year, *New York Magazine* ran a lengthy cover story on foreign buyers titled — "Stash Pad" — suggesting that wealthy foreigners were buying U.S. property to shelter, or launder, their sometimes ill-gotten rubles, yuan and Euros. The article claims that New York real estate has become the new Swiss bank account, where dodgy ultra-rich foreigners are flooding the market to hide, stash — and sometimes launder their money.

Not to be outdone, *The New York Times* published "Towers of Secrecy," a five-part series of articles in February 2015, uncovering the widespread use of shell companies, trusts and limited liability corporations, or LLCs, and various ways of concealing ownership of the property by wealthy international buyers of luxury condos in New York.

One of the *Times* articles documented how wealthy foreigners, including politicians and individuals under investigation, had used shell companies to purchase glamourous New York condos along "billionaire row," a narrow strip of real estate near Central Park south along 57th Street.

According to the *Times*, high-end real estate sales at the Time Warner Center were becoming increasingly opaque: "In 2003, one-third of the units sold in Time Warner were purchased by shell companies. By 2014, that figure was over 80 percent." At The Plaza, anonymous corporations owned 69 percent of the condos. And One57, currently the city's most expensive address, LLCs hide the ownership of 77 percent of the condos, many of them to foreign buyers, including a penthouse that sold for $90 million to an unnamed buyer.

In response to *The Times* series, Global Financial Integrity, and 16 other organizations wrote the Treasury Department in March, urging the feds to repeal a temporary exemption from provisions of the Patriot Act that had been granted to the real estate industry.

TOP 20 New York County Cash Buyers Jan.-July 2015

Last Name	Properties Purchased
Chen	8
Liu	6
Wong	6
Lee	5
Lin	5
Wang	5
Smith	4
Shi	3
Levy	3
Liang	3
Spakes	3
Yu	3
Zheng	3
Miller	3
Jiang	3
Lanteri	2
Yao	2
Lim	2
Tong	2
Mingus	2

SOURCE: RealtyTrac

"The real estate community has been exempted from anti-money laundering requirements since 2002," said Liz Confalone, a legal fellow at Global Financial Integrity, a Washington, D.C., organization that advocates for tougher laws to combat money laundering. "The real estate community has to do a better job at customer due diligence and knowing the source of the funds."

Signed into law after the 9/11 terrorist attacks in 2001, the Patriot Act would have required real estate brokers and others involved in real estate closing and settlements to conduct due diligence checks on buyers and sellers.

Instead, after heavy industry lobbying, the real estate industry was exempt in 2002 from verifying the identities of the buyers and screening them for potential money laundering risks.

Buyer Data Not Collected

Surprisingly, no federal or state organization keeps track of the owners of American LLCs, according too Blum.

Moreover, no federal authority — not even the IRS — keeps track of the owners behind LLCs, and the more lenient states don't even require much record-keeping by the firms that handle incorporation.

Many in the real estate industry say more data would be a good thing — if only to put to rest the largely anecdotal notion that America's residential real estate is being gobbled up by shady foreign speculators.

In 2008, former U.S. Sens. Carl Levin D-MI and Charles Grassley R-IA introduced a bill called the Incorporation

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Transparency and Law Enforcement Assistance Act. The bill would have made it much more difficult for criminal organizations to hide behind shell corporations by requiring the disclosure of beneficial ownership information during the company formation process. This information would then be available to law enforcement upon receipt of a subpoena or summons.

The legislation died.

But the real estate shell game isn't limited to New York City.

Miami: Cash, Condos and Criminals

Besides New York, Miami has a reputation as a real estate money laundering haven for Latin American drug lords and the fast-growing Russian mafia, according to investigative journalist Ken Silverstein, writing in *The Nation*.

Critics of the current environment say the real estate industry — including attorneys, brokers, developers, title companies and others involved in real estate transactions — need to be held accountable for the growing influence of international real estate money laundering.

Jack A. Blum, Esq.
Attorney
Center for International Policy
Washington, D.C.

> *"The single most important tool in the toolkit of people trying to hide money from law enforcement and tax collection is the anonymous shell corporation."*

Few people know more about money laundering than Jack A. Blum, a Washington, D.C. attorney and money laundering expert who broke open the Bank of Credit and Commerce International banking scandal.

"The problem of illicit money is a huge, huge problem," said Blum, a former Senate investigator. "But there's a tremendous lobby that wants to keep the status quo. And the federal government is doing nothing to stop money laundering in real estate. Every time the issue comes up about restricting shell companies, the U.S. Treasury can't bring itself to do anything about the anonymous LLCs. One thing they could do is insist on not allowing anonymous corporations to buy real estate. Not until the U.S. government gets its act together will the problem be solved. If they act, the boom will become a bust."

Money Laundering: A History

Money laundering in America has a long and rich history in the United States. According to Blum, the pioneer of money laundering in the U.S. was Mafia mobster and financial wizard Meyer Lansky,

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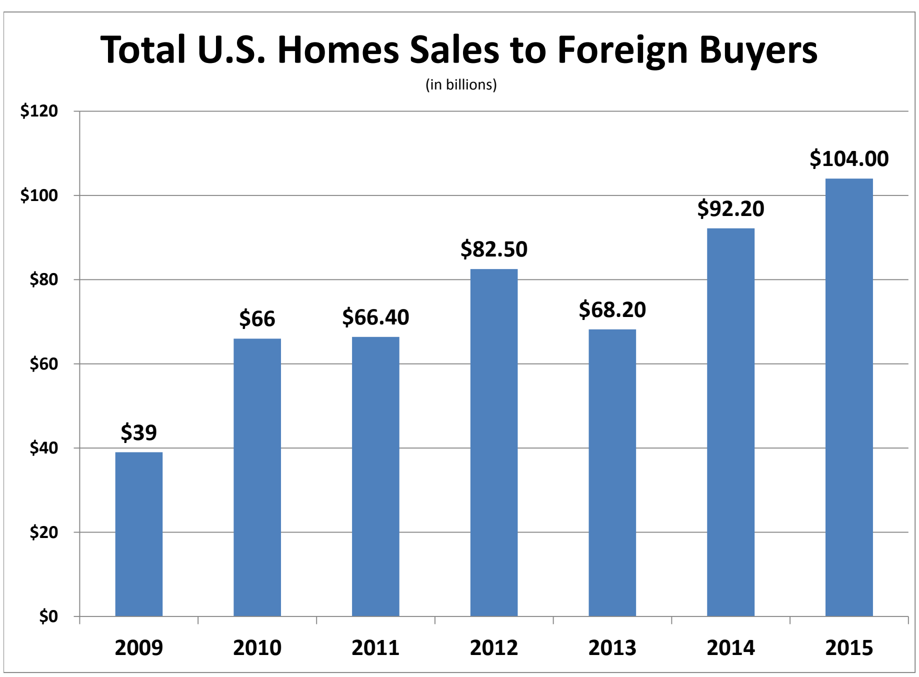

SOURCE: National Association of Realtors

who lived for many years in Sunny Isles, Florida. In the 1930s, under the tutelage of Lansky, the mob cut a deal with the Cuban government and gained control of the horse tracks in Havana. At the time Cuba used the U.S. dollar as its currency. The horse tracks opened a bank account in Florida. All of the money from illegal gambling, drugs and prostitution was deposited in Florida. Eventually, that business matured to the ownership of dozens of casinos in Cuba.

That was the beginning of U.S. money laundering, according to Blum. But over the years, it has gotten more and more sophisticated. And criminals are much better at hiding it.

"The single most important tool in the toolkit of people trying to hide money from law enforcement and tax collection is the anonymous shell corporation," Blum testified before Congress. "Their sole purpose is hiding where money is, who controls it, and where it is moving, from law enforcement and tax collectors. These shell companies should not be allowed to remain anonymous."

Mike Pappas
CEO and Pressident
The Keyes Company
Miami, Florida

> *"Many International buyers in the South Florida market are looking for security and privacy. Some of their motivating factors are the political instability of their countries, high risk and safety for high net worth families."*

Blum urged Congress to create a new regulatory agency to monitor money laundering and tax evasion in the banking and gambling industries.

"I believe that the new regulatory agency Congress will have to create will have to be staffed by experts," Blum told the U.S. Senate Banking Committee. "The regulation will be expensive and the industry will have to be taxed to pay for regulation."

Miami: Where Cash is King

Cash buyers are king in Miami, according to data from RealtyTrac. While European buyers have taken a breather, Latin American — and domestic Hispanic buyers — continue to invigorate the real estate market. In the first six months of 2015, the top 20 cash buyer surnames in Miami-Dade County were predominately Latin American or Hispanic buyers, RealtyTrac reports. Eighteen of the top 20 cash buyers had Hispanic surnames. Ninety percent of the buyers were either Latin American or local Hispanics.

Though Hispanic surname buyers purchasing Miami real estate is not surprising considering the demographics of South Florida, the sale of high-end properties in cash is unexpected.

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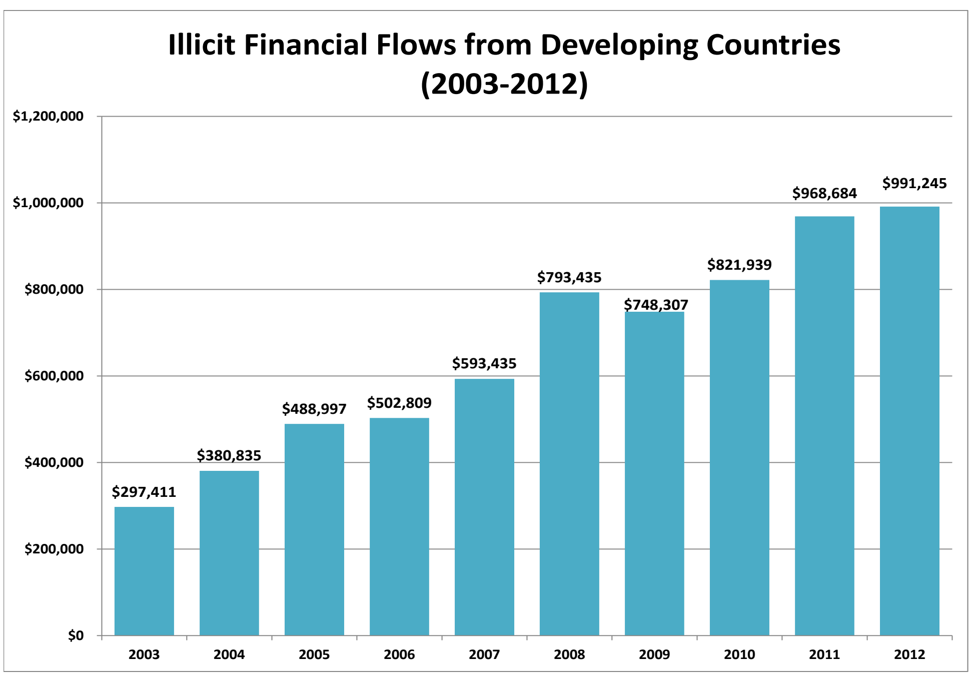

SOURCE: Global Financial Integrity

The Miami Association of Realtors (MAR) reports similar findings. According to MAR, cash dominates Miami condo sales. Among foreign buyers in Miami, 81 percent of sales are for all-cash, and 90 percent of the buyers are foreigners, reports MAR. In Miami, Brazilians are among South Florida's top three international buyers of high-prices real estate, along with Argentines and Venezuelans, two other troubled economies.

Mike Pappas, CEO and president of the Keyes Company covering South Florida, said many high-net worth overseas buyers are trying to shelter their wealth from global instability.

"Many international buyers in the South Florida market are looking for security and privacy. Some of their motivating factors are the political instability of their countries, high risk and safety for high net worth families and the volatility of their currencies along with protecting their assets outside of the U.S.," said Pappas. "Therefore they purchase the properties in LLCs, trusts or corporate names. Many believe this may also shield them from the FIRPTA regulations on their sale. The Foreign Investment in Real Property Tax Act requires a 10 percent withholding on the sale of real estate owned by foreigners."

Not all the foreign money flowing into south Florida is illegitimate. Yet there are abundant signs that the real estate market is an especially popular haven for ill-gotten cash, from Latin American drug dealers, post-Soviet oligarchs and other nefarious characters.

TOP 20 Miami-Dade County Cash Buyers Jan.-July 2015

Last Name	Properties Purchased
Rodriguez	*43*
Perez	*35*
Gonzalez	*35*
Fernandez	*25*
Hernandez	*20*
Diaz	*19*
Martinez	*18*
Gomez	*15*
Sanchez	*14*
Alvarez	*14*
Lopez	*11*
Romero	*9*
Mendez	*8*
Cruz	*8*
Cabrera	*8*
Wang	*7*
Valdes	*7*
Miller	*7*
Jimenez	*7*

SOURCE: RealtyTrac

Consider these recent high-profile south Florida real estate money laundering corruption cases:

- Last year, Spaniard Alvaro Lopez Tardon, the convicted leader of a Miami drug gang, was sentenced to 150 years in prison for money laundering, according to the *Miami Herald*. The FBI arrested Lopez Tardon for purchasing 13 high-priced condos and a fleet of 17 luxury vehicles to launder $26.4 million in cocaine profits.

- In 2013, Russian lawmaker Vladimir A. Pekhtin was forced to resign from the Duma after blogger Alexey Navalny published documents showing that Pekhtin owned three luxury Miami properties worth a combined $2 million, including a South Beach luxury apartment worth $1.3 million, reports Bloomberg. Pekhtin failed to report the Florida properties on Russian disclosure statements and was forced to resign in disgrace.

- In 2012, an anonymous Russian billionaire paid $47 million in cash for a 30,000-square-foot, 13-bedroom, 14-bathroom Indian Creek estate, making it the most expensive single family home ever sold in the history of Miami-Dade County, Florida, according to *Forbes*.

Nobody knows how to wash dirty money through real estate more effectively than the Russian mob, claims Robert I. Friedman, the late author of the penetrating exposé on Russian organized crime, "Red Mafiya."

How Money Laundering Works

According to Friedman, money laundering works something like this: "Russian assets such as oil, are stolen by underworld figures or corrupt plant managers and sold on the spot market in Rotterdam. The proceeds are wired through front companies on the Continent and deposited in London banks. Gangsters place an order for, say, $40 million in U.S. currency through a bank in Moscow. The bank wires Republic, placing a purchase order for the cash," writes Friedman, referring to Republic National Bank in New York, a private banking firm that was sold to HSBC in 1999. "Republic buys the currency from the New York Federal Reserve. Simultaneously, Republic receives a wire transfer for the same account from the London

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bank. Republic pockets a commission and flies the cash from New York to Moscow. It is then used by mobsters to buy narcotics or villas, or run political campaigns."

TOP 20 Los Angeles County Cash Buyers Jan. -July 2015

Last Name	Properties Purchased
Lee	*47*
Chen	*44*
Liu	*43*
Li	*42*
Wang	*41*
Zhang	*38*
Kim	*35*
Wu	*33*
Huang	*26*
Yang	*24*
Wong	*24*
Lin	*22*
Lennar HMS of CA Inc.	*21*
Park	*19*
Xu	*17*
Chang	*17*
Liang	*16*
Garcia	*16*
Yu	*13*
Chung	*13*

SOURCE: RealtyTrac

Friedman argued that the international reach of Russian organized crime is growing in the United States and he described the Russian mafia as "a mélange of gangsters and black marketers, unemployed KGB spies, and Communist Party hacks."

Adds Friedman: "Five nights a week, at least $100 million in crisp new $100 bills is flown from JFK nonstop to Moscow, where it is used to finance the Russian mob's vast and growing international crime syndicate. State and federal officials believe it is part of a multi-billion-dollar money-laundering operation. The Republic National Bank and the United States Federal Reserve prefer not to think so."

Chinese Buyers Call California Home

Meanwhile, as China's war on corruption mounts, a stampede of nervous money is fleeing mainland China to America. Chinese buyers are now the biggest foreign investors of U.S. real estate in terms of dollar volume, number of units and price paid, according to the National Association of Realtors. They spent $29 billion last year, an increase from $22 billion a year ago, surpassing Canada as the number one foreign buyer, according to NAR. These numbers reveal a lot about how scared many Chinese businesses are about the political and economic climate back home.

"Historically as many as up to 50 percent of our foreign luxury buyers have utilized a shell company in their purchase for any number of reasons as do many wealthy buyers from the U.S.," said Mark Hughes, chief operating officer at First Team in Irvine, California. "It certainly makes these foreign funds relatively untraceable but with luxury sales there is a certain expectation of confidentiality and even anonymity that is offered and expected which again makes examining these buyers and funds very difficult. Examining the root of funding sources and completing a multi million dollar sale are most often opposing forces and the market seems to skew towards counting the funds rather than verifying the source. I am sure there are some unsavory international characters leveraging legitimate vehicles like shell companies to close on transactions that may have otherwise been scrutinized and subsequently jeopardized without that step."

As China's economy and housing market deflates, a wave of Chinese cash buyers has swept across Southern California's housing market. Irvine, California, is considered ground zero for Chinese investors in the United States, according to Peter Navarro, a business professor of economics at the University of California, Irvine.

Enter the Dragon: Skyrocketing Prices

Navarro, the bearish author of "The Coming China Wars" and "Death by China," worries not only that China floods U.S. markets with illegally subsidized products, but the red-hot housing market in Orange County fueled by feverish foreign investment are squeezing locals out of the market.

"There are two types of buyers coming out of China to buy real estate in the United States," said Navarro. "One is the pure speculator trying to get money out of China. The second group are middle and upper-class Chinese who are worried about money crack downs back home so they are extracting money from the mainland."

Navarro said China's new leader — President Xi Jinping — has launched an anti-corruption campaign both at home and

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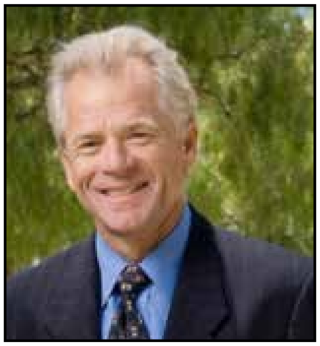
overseas to pursue corrupt Chinese officials who have fled the country with billions in cash.

"It's a tool to eliminate political competition," said Navarro, referring to political purges in mainland China. "Many Communist Party officials are smuggling vast amounts of money out of the country. It's a lot of money."

Indeed, China is the General Motors of money laundering, according to the U.S. State Department. China leads the world in illicit capital flows with over $1 trillion of illicit money leaving China between 2003 and 2012, according to the 2015 International Narcotics Control Strategy Report (INCSR), a U.S. State Department report that monitors international money laundering, citing Global Financial Integrity data.

"We're selling off America to China," said Navarro, director of the Netflix documentary based on his book "Death by China." "The Chinese are laundering money in the United States via real estate purchases. They're driving up home prices. Here in Irvine, it's taking away the American Dream from younger buyers who can't afford homes. It's nuts."



Peter Navarro
Professor and Author
University of California, Irvine
Irvine, California

"We're selling off American to China. The Chinese are laundering money in the United States via real estate purchases. They're driving up home prices... It's nuts."

In August, *The New York Times* ran a story about a wealthy and politically connected Chinese businessman who had settled quietly into a $2.5 million, 8,000-square foot Sacramento home, cloaking his identity as Jason Wang. It turns out that Jason Wang (his real name is Ling Wancheng) is the brother of a high-ranking Chinese official — Ling Jihua, the one-time aid to ex-president Hu Jintao — who is ensnarled in a graft inquiry.

In the wake of news about Ling Wancheng, there have been calls for greater scrutiny of foreign buyers and tougher enforcement of anti-money laundering standards.

Like New York and Miami, the Los Angeles residential real estate market is dominated by foreign buyers, many from China and other Asian countries. In Los Angeles County, 90 percent of all cash buyer surnames are

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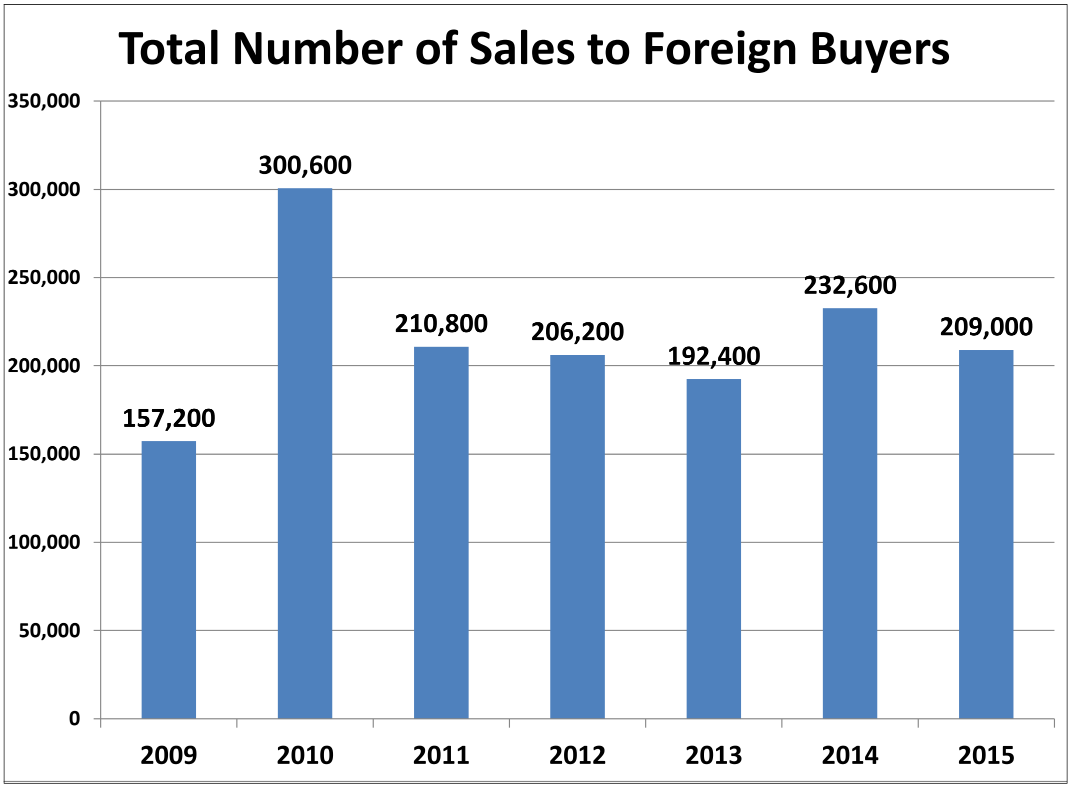


SOURCE: National Association of Realtors

Asian. Only two cash buyer surnames in the top 20 — home builder Lennar and an investor named Garcia — were non-Asian buyers. There was no way, however, to determine the citizenship or residency of those buyers.

Cracking the Shells

Banks are doing more than ever to clamp down on money laundering. But is it enough?

Are Realtors, title companies and lawyers aiding and abetting foreign money launders?

Until politicians and federal regulators decide to crack down on real estate money laundering and prosecute foreigners, the process will continue unabated nationwide.

Today, concern is growing that overseas U.S. homebuyers — particularly all-cash overseas buyers in high-end markets like New York, Los Angeles and Miami — could retreat from residential real estate as volatile stock markets globally spook investors into safer financial harbors, sparking a flight out of U.S. residential housing.

Top 10 Real Estate Shell Games

In the last few years, U.S. lawyers, brokers and others involved in real estate transactions have taken steps to cloak the identities of thousands of real estate buyers, registering condo purchases in trusts, limited liability corporations and other legal entities. Massive flows of money have poured into luxury real estate in the United States. Here are some of the more eye-popping sales to billionaires with unfathomable wealth.

NEW YORK

Shielded by an LLC, a mystery buyer paid a staggering $100.5 million in 2014 for a palatial penthouse condo at the new luxury tower One57, reports Bloomberg. It was the first single-family home ever to sell for more than $100 million in New York City.

In February 2012, an anonymous LLC — Property NY-II LLC — created by Russian fertilizer magnate Dmitry Rybolovlev purchased a 10-bedroom penthouse for $88 million at 15 Central Park West from former Citigroup chairman Sandy Weil, according to the *Daily Mail*.

A shell company tied to Russian senator and former deputy finance minister Andrey Vavilov purchased a penthouse at the luxury Time Warner Center for $37.5 million in 2009, *The New York Times* uncovered.

In 2014, Greek media mogul Dimitrios Contominas sold his Time Warner Center condo for $21.4 million, reports *The Real Deal*. Contominas sold the unit to an LLC listed as Arcus Properties. He was arrested in 2014 for illegal use of company funds for personal benefit.

In 2010, an opaque entity — 25CC ST74B LLC — bought a duplex condo in the Time Warner Center's south tower for $15.65 million. The shell company was traced back to Russian oligarch and former politician Vitaly Malkin, who was barred from entering Canada because of alleged ties to organized crime, reports *The New York Times*.

Columbus Skyline LLC — a shell company the *Times* traced back to billionaire Wang Wenliang, a Chinese Communist Party functionary and businessman — paid $25.6 million for three condos in the Time Warner Building in New York City, according to *The New York Times*.

MIAMI

In February 2015, an undisclosed foreign buyer purchased a vacant lot on Indian Creek Island for $23 million, marking the highest price ever paid for vacant land in the exclusive Miami enclave, according to *The Real Deal*.

In 2014, Miami steel tycoon Leroy Schecter sold his 22,686-square-foot Indian Creek Island house for $28 million to an undisclosed buyer, according to the *Miami Herald.*

Convicted Spanish cocaine trafficker Alvaro Lopez Tardon is serving 150 years in prison for laundering $26.4 million in cocaine profits to buy 13 luxury condos in Miami, according to the *Miami New Times*.

In 2012, an anonymous Russian mogul paid $47 million in cash for a South Florida Indian Creek Island mansion, making it at the time the most expensive home ever sold in Miami, reports *The Real Deal*.

MY TAKE

By Steve Murray

CEO, REAL Trends

Rockin' and Rollin' in the Real Estate Business

What a difference five years can make. In 2010, the housing market was still mired in an overhang of foreclosures. More than 10 million households had negative net worth and sales were, well, anemic, based on historical levels. Then, in the fall of 2011, housing began its climb. For most of the past four years, housing has been on a steady uphill climb.

From the way the media is treating the real estate industry, one would think that housing will continue to explode both in unit sales and price increases. Television celebrates million-dollar agents in New York, Miami, Los Angeles, and San Francisco, among others. There are more reality shows focused on housing than ever before. It seems like housing has become everyone's favorite topic in terms of how far prices have risen, how fast homes are selling and how much top agents are earning.

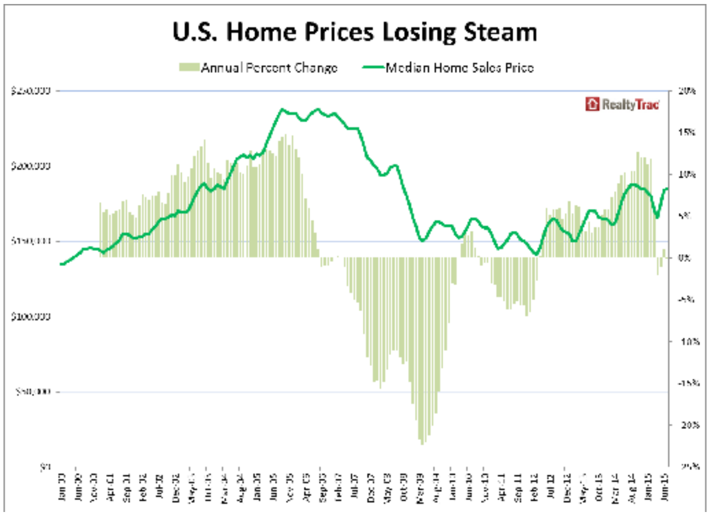
The Bad News

Now comes a stock market decline that may be with us for a while and nearly $2 trillion in equity value disappeared. The Federal Reserve has indicated that they will, in fact, be raising interest rates later this year. Year-over-year unit sale increases are declining, and prices on a national level are leveling out. Inventory remains extraordinarily tight, numerous cities have significant affordability issues and FICO scores are declining. While foreign purchases of American homes remain strong, the Chinese, who make up the largest segment of such buyers, have seen their stock market decline worse than the American market.

Millennials and Gen-Xers are saddled with over $1.3 trillion in student loan obligations. The default rate in this market is approaching 20 percent, most of it concentrated among young families and singles. Household incomes have risen an average of less than 2 percent per year since the recovery started, while house prices and health costs are rising at twice that rate. The homeownership rate among the two youngest age cohorts in the country remains 6 to 8 percentage points lower than normal. Some say this is pent-up demand, others say it's deferred dreams, and some think many of these young families will never have the incomes to afford to get on the homeownership highway.

It's Not all Bad

So, the news is not all good and not all bad. For those of us who lived through multiple housing market cycles, we know that the great times do end. Housing markets retreated in 1980, 1987, 1991, 2001, 2006, and it is only a matter of time before they will retreat again. What is unlikely is a collapse along the lines of the 1980 and 2006 events. But, as we saw even in 2014 when the market stalled, profitability for all real estate professionals became a huge challenge. [REAL Trends](#) studies show that over the past 36 years roughly 4.5 percent of all households buy a home each year. And, that is right where we are right now in terms of new and existing home sales. That is something to think about.



There are all kinds of cross-currents going on right now that impact housing. HUD is continuing to pressure financial institutions to lower their standards to help lower-income Americans become homeowners. Private market lenders are growing their subprime offerings at a rapid pace. Foreign purchases are likely to remain somewhat stronger than previously due to instability in their home markets. Many still

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see America as a great place to park some of their wealth. And, even a small hike in mortgage rates is not likely to derail the whole market.

This much is certain. The strong increases in housing sales, both in units and prices, are soon to take a breather. When and by how much the market will adjust is uncertain, but a slowdown is in the cards — sooner than later.

The Ones to Succeed

Historically, those who operate their businesses with strong fundamentals, whether brokerage firms or sales agents are the ones who do best in flat to declining markets. It's the tortoise and hare story. Those who are flying high (the hares) on the boom but without the fundamentals of a strong culture and focus on providing top-notch service will lose heart quickly when the market flattens or declines.

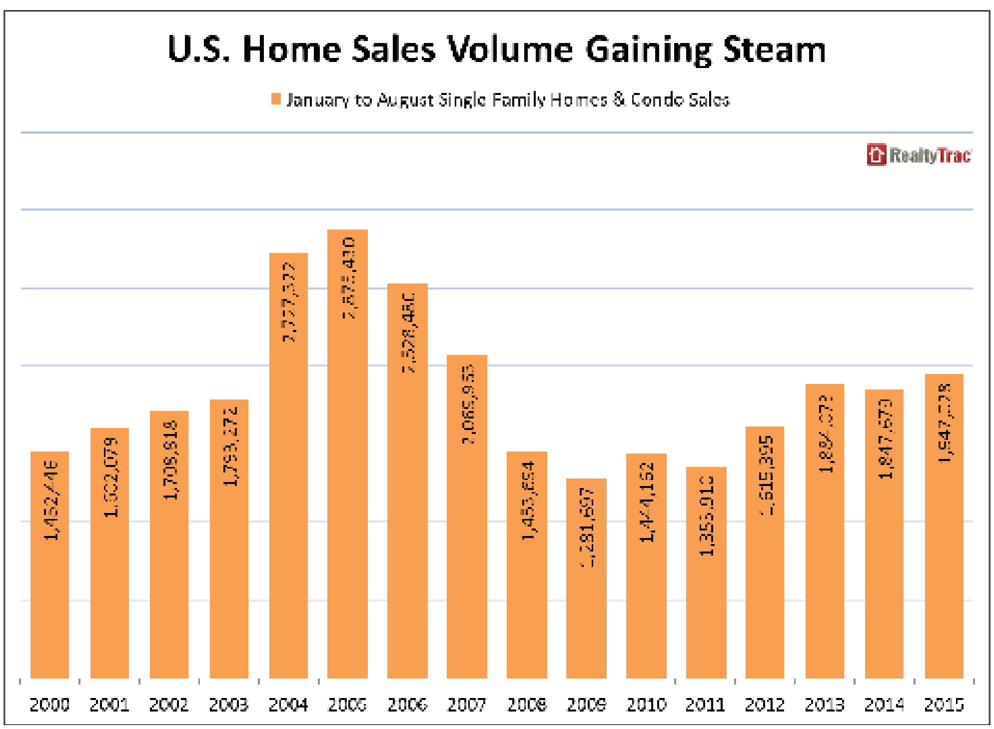
This is not just true for those in real estate but in virtually every business sector. It is, however, especially true in our business. Real estate booms and busts are more pronounced than others. And, it is a huge market prone to over-corrections.

The Hype About Housing

It will be interesting to see what becomes of the hype about housing when the market flattens. It will be interesting to note what becomes of the high-flying real estate brokerage firms and top sales agents when the hard work begins. With all the hyperbole of the past few years, a few things have remained constant. Over 81 percent of all buyers and sellers still like to use agents. Over two-thirds of consumers still chose an agent because they know him or her or someone they know referred that agent. The commission-based compensation system is still preferred by more than 85 percent of all consumers. How an agent interacts with a consumer and how a brokerage interacts with agents still matters more than the hype. It always will.

Steve Murray is the president and co-founder of [REAL Trends](), the nation's leading trends and research organization and president of REAL Trends Consulting Inc. He has been in the residential real estate field for 37 years.

REAL Trends is read by more than 54,000 leaders in the residential realty industry every week and over 500 CEO's attend REAL Trends conferences each year. REAL Trends has been a leader in industry and housing consumer research for the past 28 years. Such reports as the REAL Trends 500, the 2006 Consumer Tsunami Study and the Wall Street Journal/REAL Trends The Thousand ranking of the nation's top sales professionals are examples of REAL Trends research.



SOURCE: RealtyTrac

NEWS BRIEFS

NAR 'Danger' Report Sounds the Alarm

The National Association of Realtors has published a "[DANGER Report](#)" which "purposely does not provide any solutions but seeks to encourage an industry wide conversation about the most pressing challenges before laying a foundation for the formulation of solutions."

The 164-page report alerts the industry to 50 biggest threats, risks and challenges the real estate industry faces in the near future. Among the findings are incompetent agents, poor leadership, industry infighting and technological shortsightedness.

The DANGER Report (www.dangerreport.com) is aimed at five groups: agents, brokers, NAR, local and state associations and multiple listing services.

One of America's largest trade associations, the million-member National Association of Realtors, commissioned real estate consultant Stefan Swanepoel to conduct a frank and sometimes searing assessment of the top challenges facing the industry. The report contains interviews with 70 real estate leaders and a survey of nearly 8,000 respondents. The title of the report stands for "Definitive Analysis of the Negative Game Changers Emerging in Real Estate."

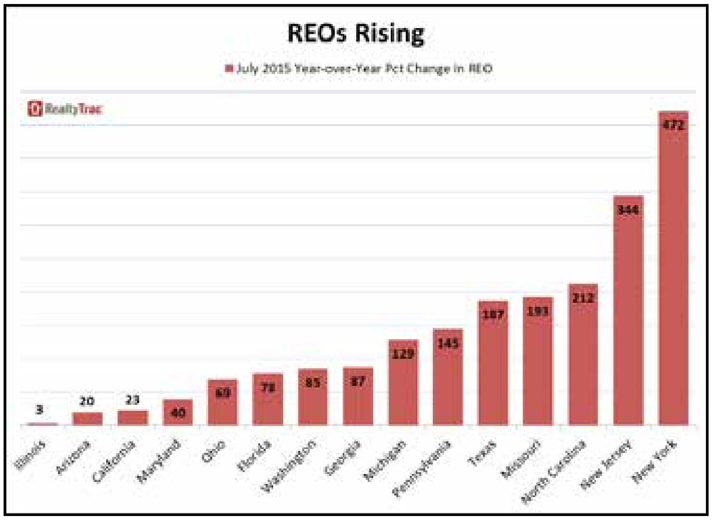
SOURCE: National Association of Realtors

Foreclosure Activity Up 7 Percent

RealtyTrac released its July 2015 U.S. Foreclosure Market Report™, which shows a total of 124,910 U.S. properties with foreclosure filings — default notices, scheduled auctions and bank repossessions — in July, up 7 percent from the previous month and up 14 percent from a year ago. July was the fifth consecutive month with a year-over-year increase in overall foreclosure activity following 53 consecutive months of decreases.

There were a total of 46,957 properties repossessed by lenders (REO) in July, up 29 percent from previous month and up 81 percent from a year ago to the highest level since January 2013. Despite the recent increases, REOs in July were still less than half their peak of 102,134 in September 2010.

There were a total of 45,381 U.S. properties that started the foreclosure process for the first time in July, down 8 percent from the previous month and down 9 percent from a year ago to the lowest level since November 2005 — a nearly 10-year low. Foreclosure starts in July were less than one-fourth of their peak of 203,948 in April 2009 and below their pre-crisis average of 52,279 a month in 2005 and 2006.



SOURCE: RealtyTrac

Loan Origination Up 23 Percent

RealtyTrac released its Q2 2015 U.S. Residential Loan Origination Report in August, which shows that 1,950,267 loans were originated on single family homes and condos in the second quarter, up 22 percent from the previous quarter and up 23 percent from a year ago to the highest level since the third quarter of 2013.

The total dollar volume of loans originated in the second quarter was nearly $540 billion, up 14 percent from the previous quarter and up 29 percent from a year ago. Refinance originations represented nearly $307 billion in the second quarter, 56.7 percent of total loan origination dollar volume, and purchase loan originations represented nearly $234 billion, 43.3 percent of total origination dollar volume. As a share of total loan origination dollar volume, purchase originations reached a recent peak of 51.3 percent in the third quarter of 2014.

SOURCE: RealtyTrac

Fannie and Freddie Sued

According to a class action lawsuit against the Federal Housing Finance Agency (FHFA), the federal government is illegally taking profits from Fannie Mae and Freddie Mac.

FHFA and the U.S. Treasury are pressing ahead with a plan that keeps two private companies — Fannie and Freddie — under government control.

But two Fannie and Freddie shareholders — David Jacobs and Gary E. Hindes — have filed suit to hold the federal government accountable in a case that could have far-reaching implications for property rights.

Filed on Aug. 17, 2015, in federal court in Delaware, *Jacobs v. Federal Housing Finance Agency* challenges the government's 2012 decision to send all of Fannie and Freddie's profits to the U.S. Treasury. The case is shaping up to be a major test of the limits of federal power, given that these moves appear to violate state laws as well.

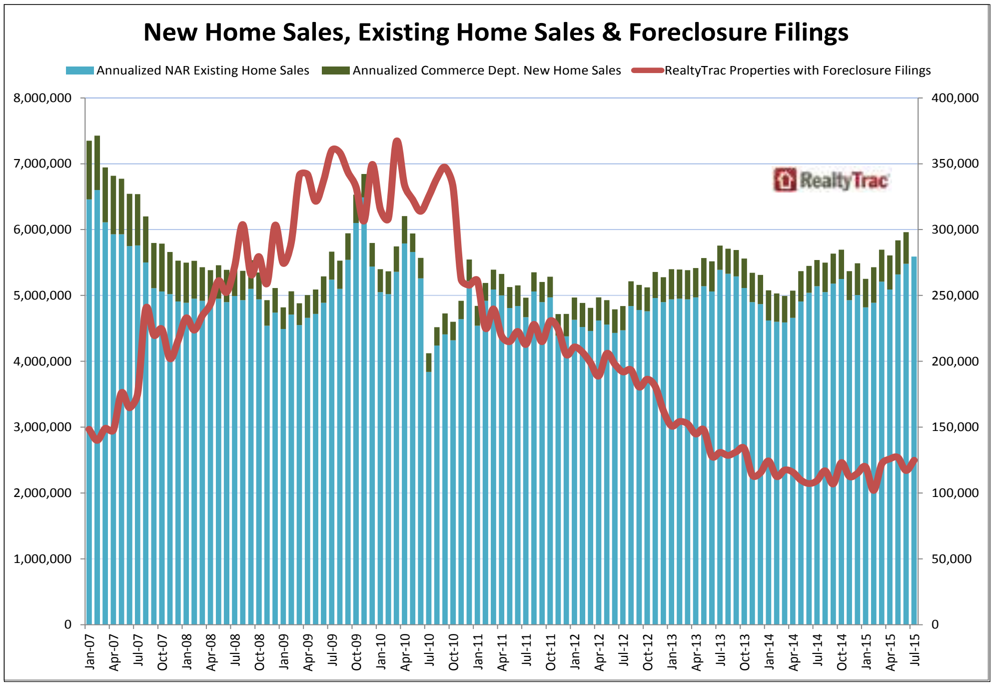
This lawsuit is the latest front in the battle over the two mortgage giants. Fannie and Freddie are privately owned mortgage-finance companies traded on the New York Stock Exchange. While Fannie and Freddie are commonly referred to as "government sponsored enterprises; (GSEs), they have operated profitably in private hands for decades: Collectively, the companies generated net income of $21.9 billion last year.

FHFA, an obscure federal regulator whose major business is overseeing the conservatorship of Fannie and Freddie, the giant mortgage twins that insure the payments made by American homeowners nationwide, was taken over by the federal government in September 2008.

Meanwhile, several Fannie and Freddie shareholders, including mutual-fund magnate Bruce Berkowitz's Fairholme Fund and hedge-fund mogul Richard Perry's Perry Capital, sued the government over its 2012 decision to change the terms of the bailout and sweep most of Fannie and Freddie's profits into Treasury's coffers rather pay shareholder dividends. See *Fairholme Funds, Inc. v. Federal Housing Finance Agency*.

Banking analyst Richard X. Bove believes the White House is moving closer to a negotiated settlement in the multiple Fannie and Freddie lawsuits, which will benefit shareholders in the companies.

SOURCES: *Jacobs v. Federal Housing Finance Agency*, CNBC



SOURCE: RealtyTrac, National Association of Realtors, U.S. Commerce Department

FINANCIAL BRIEFS

Existing-Home Rise to 8 Year High

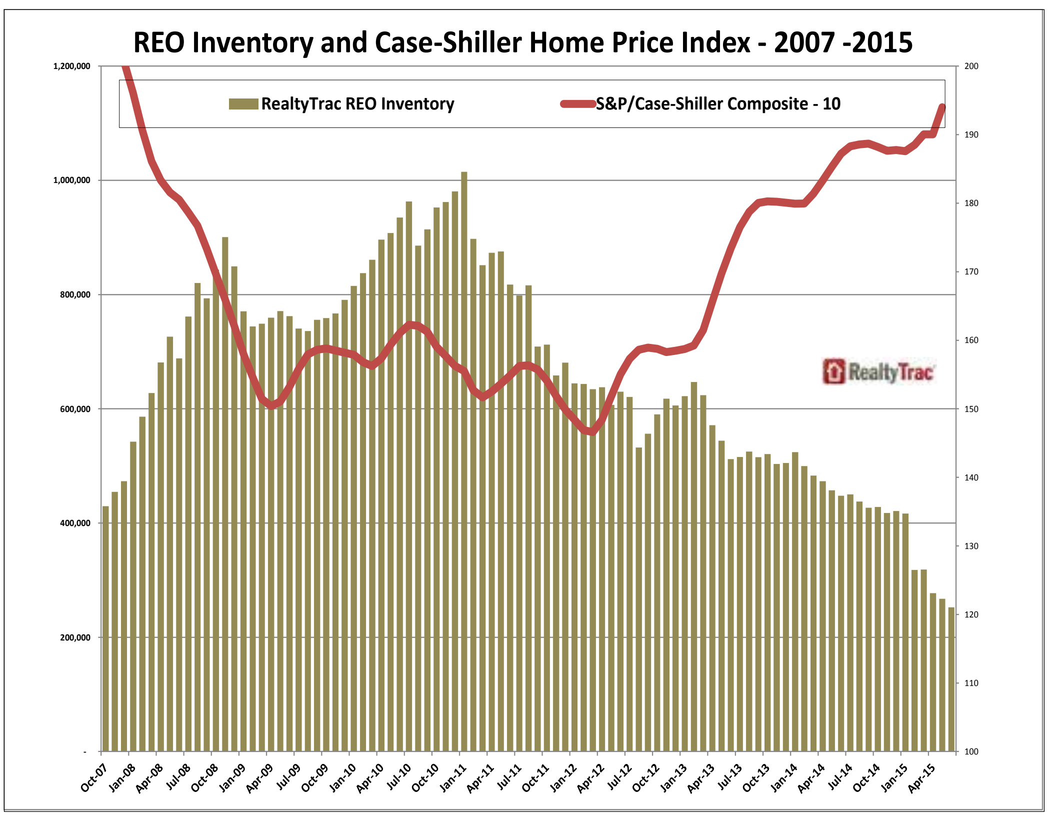
The pace of existing homes sales rose 2 percent in July to a seasonally adjusted rate of 5.59 million, the highest level since before the recession, but low inventory and higher prices threaten to curtail those gains heading into the fall, reported the National Association of Realtors.

July's sales pace was the highest since February 2007 and 10.3 percent higher than a year earlier. July's price increase was the 41st consecutive month of year-over-year gains.

Despite the uptick in July sales, thinning supply and high prices loom as headwinds that could slow the recover, the NAR said.

"The creation of jobs added at a steady clip and the prospect of higher mortgage rates and home prices down the road is encouraging more households to buy now," said Lawrence Yun, NAR chief economist. "As a result, current homeowners are using their increasing housing equity towards the down payment on their next purchase."

Total housing inventory at the end of July fell 0.4 percent to 2.24 million existing homes available for sale, 4.7 percent lower than a year ago (2.35 million). At the current pace of sales it would take 4.8 months to exhaust the supply of homes on the market, down from 5.6 months a year ago, the NAR said. The median home price in July was $234,000.



SOURCE: RealtyTrac

STATE SPOTLIGHT

San Francisco Sweet for Sellers, Bitter for Buyers

By Daren Blomquist, Executive Editor

Bill Newland has a bit of a love-hate relationship with the San Francisco real estate market.

"Real estate can be awful, but sometimes it can be wonderful," said Newland, who owns a 32-unit apartment building in the historic Dogpatch neighborhood of San Francisco south of Mission Bay and AT&T Park, home of the San Francisco Giants baseball team.

The apartment building, which Newland said he bought in foreclosure during a previous housing downturn in the 1990s, represents the wonderful side of the San Francisco market for him.

"I bought myself a job, but then I didn't need to sell anymore because the building generated enough income right from the start," said Newland, who continues to operate as an independent real estate broker as he has for 35 years, all the while also investing on his own. "I had to trade up over the years, and eventually I was able to trade up to that (Dogpatch apartment building) in the 90s. It was a bank property; the bank was just taking it back in foreclosure."

But it took Newland surviving several "awful" economic downturns before he figured out how to ride the waves of the San Francisco housing market without wiping out.

Bill Newland
Apartment Owner/Agent
William Newland Realtor
San Francisco, California

> *"Where do you go when you pay top dollar at rock-bottom interest rates? That's my concern. ... A lot of people have stretched themselves to the last nickel."*

Stretching to the Last Nickel

"I went through a lot of recessions that were really rough, and I finally started paying attention and tried to time it better with the next recession," he said, noting he thinks the San Francisco market is once again overheated and in dangerous territory.

"I don't like it when it gets this hot ... it puts a lot of stress on the whole system," he said, noting he thinks the rock-bottom interest rates of the past several years have propped up some markets too much. "It's taken areas like San Francisco and Los Angeles and Manhattan and overstimulated them. ... If rates go up, it makes them almost unaffordable to sell at that price.

"Where do you go when you pay top dollar at rock-bottom interest rates? That's my concern," he added. "I've been at this a long time, but what about the people who bought in the last five years and especially the last two years? ... A lot of people have stretched themselves to the last nickel."

Home Prices Leveling Off

The median home price in the five-county San Francisco metropolitan statistical area in August was $660,000, up 2 percent from a year ago and just 6 percent below the previous peak of $700,000 in June 2007, according to RealtyTrac data from publicly recorded sales deeds.

But although August was the 41st consecutive month where median home prices in San Francisco have increased on a year-over-year basis, the 2 percent increase was the lowest year-over-year increase during those 41 months going back to April 2012, the RealtyTrac data shows. Since hitting a post-recession high of $685,000 in May 2015, median home prices in San Francisco have declined on a month-over-month basis for three consecutive months, something local real estate agents said they have been observing.

"During the summer months prices have leveled off, and even though we still have multiple offers, if you know your market and know the other agent, there is more opportunity to achieve your goal of getting your buyer into the house they want," wrote Geraldine Ramirez, a Realtor with the Bay City Real Estate Group who got her start in real estate 10 years ago

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as a short sale specialist and is now helping those former short sale clients to buy again as so-called boomerang buyers all across the San Francisco metro area and sometimes outside of California. “Now in 2015, I am helping many of the same clients who lost their homes to purchase again.”

Vince Sheehan, broker with RE/MAX Gold focusing on Marin County north of the city of San Francisco, said he also has noticed a slight cooling off in the local housing market over the past few months.

“The market has been a little flatter in the last three or four months than it was in the spring,” said Sheehan, who said he has been practicing real estate in the San Francisco area since 1976. “It’s not a guarantee that everything you put out there is multiple offer; that’s no longer the case.”

New Peaks in Prices

Still, local real estate experts agreed there are pockets of the greater San Francisco metro area that have exceeded their all-time highs in terms of home prices. RealtyTrac data shows that four of the five counties in the metro area hit new all-time highs in 2015: Marin County in July, Alameda and San Mateo counties in June, and San Francisco County in May. The only exception was Contra Costa County, across the bay east of the city of San Francisco, which in August was still 17 percent below its previous peak in June 2007.

But Contra Costa County prices are surging as buyers flee to the outskirts of the metro area to find more affordable housing, according to David Dufresne, broker and owner of Solutions4realestate who works mostly eastern Contra Costa County in the tri-cities of Dublin, Livermore and Pleasanton.

“We’re not as bad as San Francisco, but we’re getting there quick,” said Dufresne, who said he negotiated more than 400 lender approvals for short sales during the downturn but has now shifted his strategy as the market has heated up. “We’ve actually gone higher than the highs of 2005 in some areas.”

Banks Have ‘Moved On’ From Short Sales

As home prices have risen dramatically over the past several

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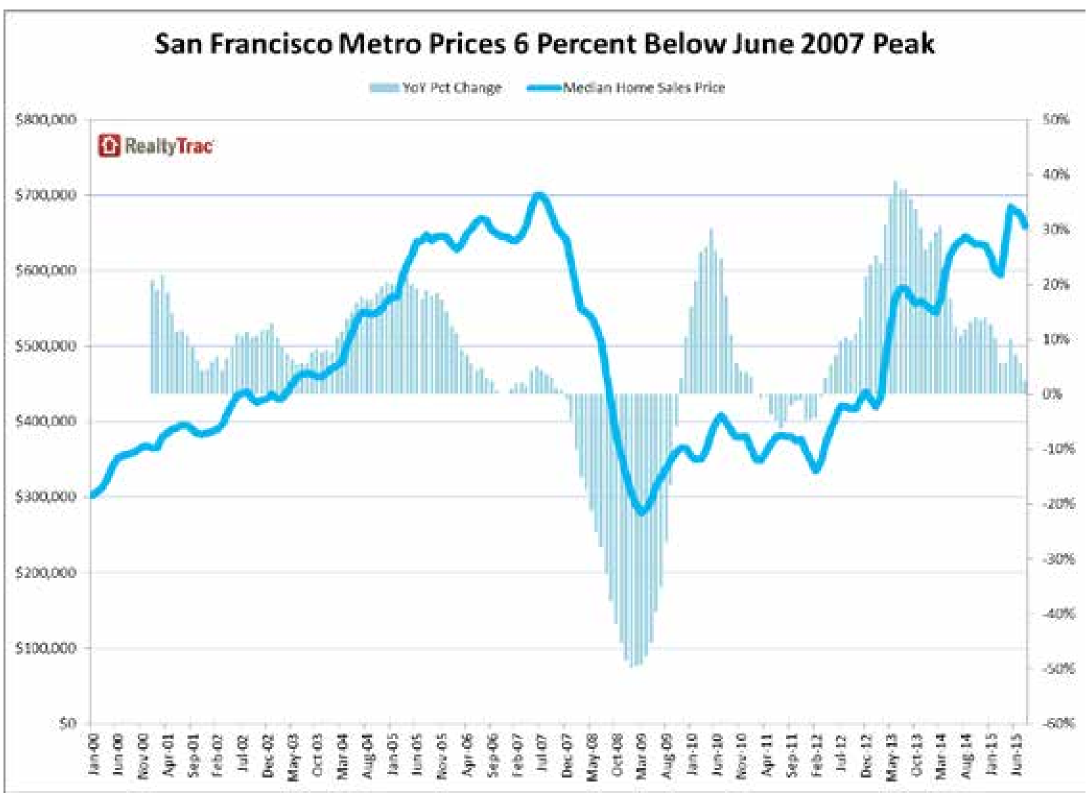

SOURCE: RealtyTrac

years, reaching new all-time highs in parts of the Bay Area, banks have pulled back on approving short sales, making life tougher for homeowners still underwater who want to sell, according to Dufresne.

"The lenders seemed to have disbanded their short sale negotiation teams," he said, adding that there are only 71 short sales and 56 bank-owned properties that were listed for sale in early September out of a total of 3,233 total listings in Alameda and Contra Costa counties combined. "Because they've moved on, they've moved the best people on, at least in this area, and so they seem to be a little more difficult."

RealtyTrac data shows 3.3 percent of all single family home and condo sales in the San Francisco metro area were properties in the foreclosure process — often short sales — in August, down from 4.1 percent in August 2014 and down from a post-recession high of 37.8 percent of all sales in January 2012.

Meanwhile sales of bank-owned homes accounted for 1.4 percent of all single family home and condo sales in the metro area in August, down from 2.6 percent a year ago and down from a post-recession high of 24.3 percent of all sales in January 2009, according to RealtyTrac data.

Agents Suffering with Low Inventory

Distressed sales represent a shrinking share of an overall smaller pie of total inventory of homes for sale, according to Dufresne.

"For the amount of homes in this area, we just don't have that much inventory," he said, estimating with 19,000 properties sold in Alameda and Contra Costa counties so far this year and about 12,000 real estate agents, each agent on average has sold less than two properties in 2015. "A lot of agents, believe it or not, are suffering. Luckily the commissions are higher, but they haven't sold as many homes as they have in the past."

RealtyTrac data shows 27,674 single family homes and condos in the five-county San Francisco metro area have sold through August 2015, down 3 percent from the same time period in 2014 and down 7 percent from the same time period in 2013.

Dufresne said he's been busy thanks to a combination of first-time homebuyers and move-up buyers who bought with him during the downturn and now are leveraging the ample equity they've gained over the past few years to buy a bigger home.

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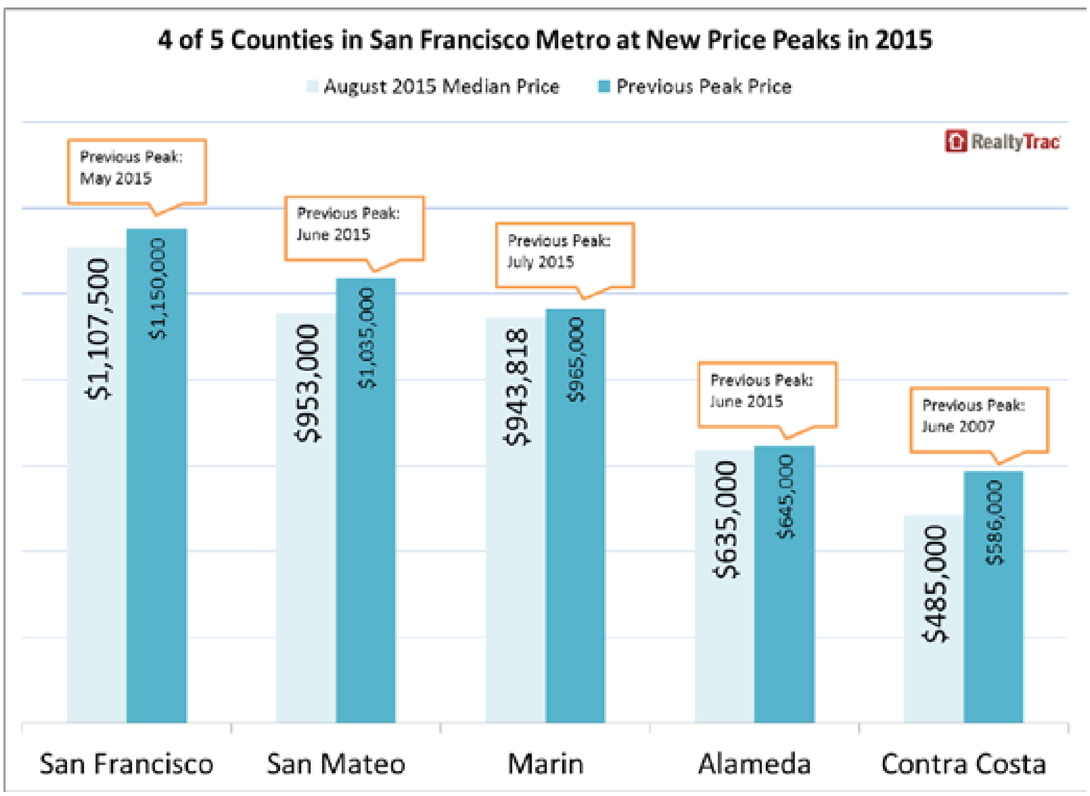

SOURCE: RealtyTrac

"I've sold about 15 or 16 homes, and I've got four listings coming up," he said, adding that he's also diversified and now is in the mortgage business. "I've also got a mortgage company and I've done 45 loans."

Buyers from Downturn Making a Killing

Repeat buyers who bought during the downturn are keeping Sheehan and his business partner, Stacy Lynch, busy in Marin County also.

"Everybody who bought in 2011, 2012 is making a killing, and they are moving up," said Lynch, who switched careers from event planner to work as a real estate agent with Sheehan in 2010, close to the worst of the housing slump. "It's easier to make money in this market if you survived the tough years."

Lynch noted that many of the move-up buyers she's working with now bought distressed properties during the downturn. Given the dearth of inventory now — both distressed and non-distressed — the challenge for those move-up buyers has been finding a new home to buy.

"It's still not easy to find a replacement property because inventory is so, so low. It seems like every agent out there has several clients who have to find that replacement property before they put their property on the market," she said, providing an example of one client who bought a short sale property during the downturn that has doubled in value but is considering "cashing out" of the Bay Area and moving to Oregon because of the Catch-22 of low inventory.

"The easy part is a seller who is moving out to an area that is not as competitive," Sheehan explained.

Sellers Staying Put

Would-be move-up sellers are responding with a variety of strategies to circumvent the low inventory issue, according to Sheehan.

One strategy is simply to stay put.

"They might just stay where they are because they don't think they can find the next house," he said. "They're kind of stuck."

Dufresne, the East Bay broker, said that a paucity of inventory available to purchase may not be the only reason these

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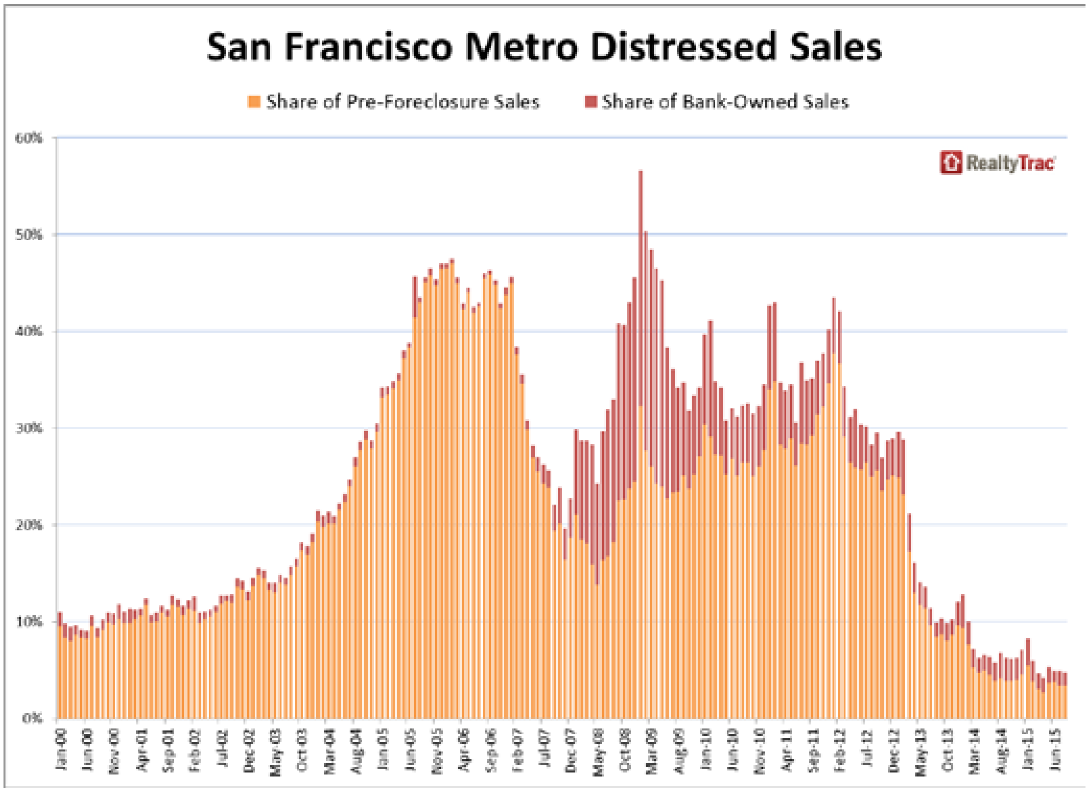

SOURCE: RealtyTrac

potential move-up buyers decide to stay put.

"People have gotten into low interest rates and low payments, so they are staying put, they're not moving," he said, noting that trend in turn results in fewer homes listed for sale, exacerbating the problem of low inventory.

Sellers Testing Waters with Pocket Listings

Another seller strategy is to list their home as a so-called pocket listing to test the waters, according to Sheehan, who explained this strategy allows sellers to avoid some of the strict rules that come with formally list a home for sale on the local multiple listing service (MLS).

"In the interim people find out from friends that the property is going to be on the market … and next thing you are getting calls from people who want to see it before it is formally listed on the market," he said, noting that a typical pocket-listed home would come with a higher price tag than one listed on the MLS because the buyer is willing to pay a premium to avoid competition from other buyers. "At that point it's really a seller decision. It's a tough call sometimes."

Sellers Leveraging Red-Hot Rental Market

Two other move-up seller strategies tap into the red-hot rental market, according to Sheehan.

"One situation is if the buyer is willing to rent back to the seller for a few months while they look for the next property," he said, adding the second strategy involves keeping the current home as a rental and leveraging some of the equity in the home as a down payment for the move-up purchase. "Rents that were four years ago for an average three-bedroom, two-bathroom house, they might have been 2,200, and now that rent is probably 3,200."

Even some banks are hopping on the rental bandwagon, according to Dufresne.

"Some of the banks turn the (bank-owned) properties into rental properties … because they are making such good money off it. … A nice big home in Danville will get you 4,500 a

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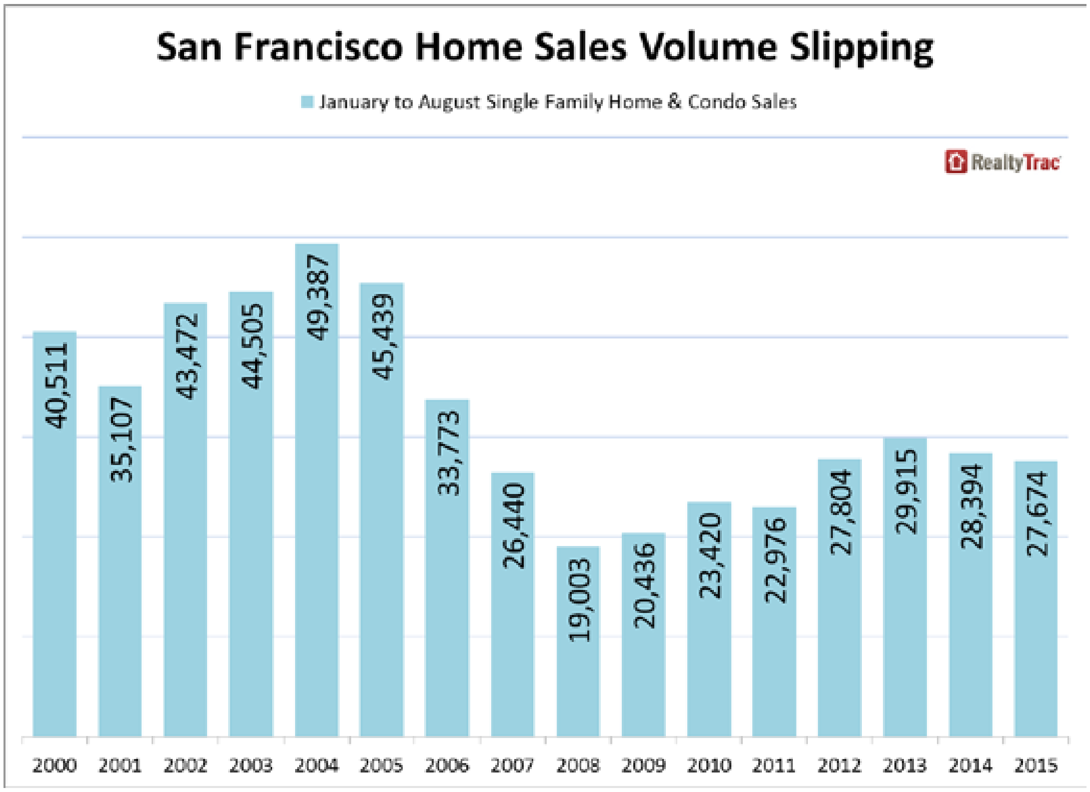

SOURCE: RealtyTrac

month," he said, providing an example of another broker he knows who ended up renting a couple of bank-owned homes after the bank wasn't able to get the price point it wanted by selling. "He put them for sale, couldn't sell them, so turned them into rentals."

Buyers Priced Out

The challenges facing move-up sellers in San Francisco pale in comparison to the challenges facing first time homebuyers and other buyers not able to pony up a hefty down payment. Those buyers are at risk of being completely priced out of the high-flying market, according to local experts.

Sheehan said high-paid technology workers from San Francisco are moving out to Marin and Sonoma counties, drawn by the lower home prices and good schools, making it difficult for local buyers to compete.

"It's harder on the locals, middle class people that have been here all their lives and have good jobs but not super high-paying jobs; they're the ones that get priced out of the market," he said.

Stacy Lynch
Broker Associate
RE/MAX Gold
Marin County, California

"Everybody who bought in 2011, 2012 is making a killing, and they are moving up."

Buyers Strategically Overpaying

Ramirez, the short sale specialist with Bay Area Real Estate Group, said foreign cash buyers have also made the market much more competitive for local buyers.

"We have had an influx of foreign investors come to our area to grab whatever they can, many of them in cash," she wrote in an email. "As a buyer's agent, earlier in the year, multiple offers were common and it took longer to get into contract."

Buyers who have the means to do so are resorting to the strategy of what Sheehan and Lynch referred to as "overpaying" to successfully beat out other buyers.

"In some multiple-offer situations, because it's a rising market, you're almost better off to overpay now, because six months to a year down the road, you're going to say, 'I wish I would have done that' because (interest rates) have gone up," Sheehan said.

"It's hard to overpay. Nobody wants to do that. It is a risk, but it seems to work out in an increasing market over time," said

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August 2015 Top 10 San Francisco Cash Buyer Last Names		August 2005 Top 10 San Francisco Cash Buyer Last Names	
Last Name	*Number of Residential Sales*	*Last Name*	*Number of Residential Sales*
CHEN	70	LEE	31
LEE	61	CHEN	16
LIU	53	WONG	15
WANG	49	SMITH	13
LI	48	WANG	11
ZHANG	38	NG	11
WU	33	LIU	11
YANG	32	CHAN	10
WONG	31	JOHNSON	9
CHAN	29	WU	8

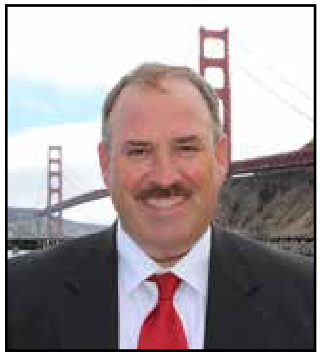
SOURCE: RealtyTrac

Lynch, explaining that it often takes several unsuccessful offers for clients to realize they need to up the ante when it comes to the offer price. "I had a buyer, we wrote nine offers and on the ninth offer we got it. It was a combination of luck and endurance."

Overpaying is a common strategy among buyers in the Bay Area in 2015. San Francisco-area single family homes and condos sold so far in 2015 were purchased for an average of 5 percent above their estimated market value at time of sale, the biggest premium above estimated value among 175 local markets nationwide with at least 1,000 sales so far in 2015, according to a RealtyTrac analysis.

Buyers Waiving Contingencies

Waiving contingencies on their offers is another strategy some San Francisco-area buyers are employing to beat out other buyers, but it's a strategy Sheehan and Lynch prefer to avoid if possible.



Vince Sheehan
Broker
RE/MAX Gold
Marin County, California

"It's harder on the locals, middle class people that have been here all their lives and have good jobs but not super high-paying jobs; they're the ones that get priced out of the market."

"In San Francisco a lot of the offers are going to come in with no inspections," Sheehan said, adding that although it is risky, the strategy of waiving contingencies can help a buyer move to the front of the line. "It's not only the price that makes it a better offer, it's the contingencies. ... So far they haven't asked for the firstborn on any of our offers."

Buyers Using Storytelling

Ramirez said that sometimes buyers need to simply tell their story to the seller to gain an edge.

"Sometimes it is not all about the highest price, but who is the person that is buying," she wrote in an email, providing an example of an offer she submitted on a home in Livermore that had received multiple offers. "This particular home had been the house

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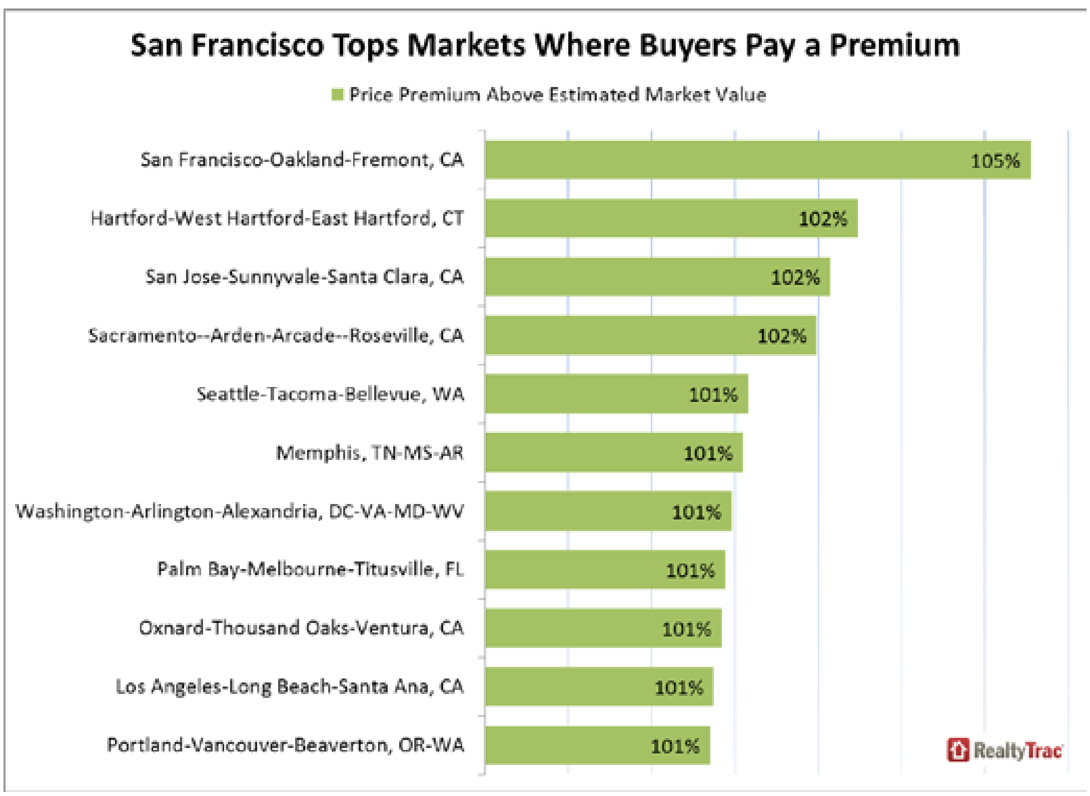


SOURCE: RealtyTrac

where they (sellers) had grown up. It meant a lot to the children, who had now inherited the property. They lived out of state and needed to sell. I introduced my client to them; he was moving back into Livermore, the city where he also grew up. He is a chemist.

"It just so happened to be that the seller's dad was also a chemist and the sellers and the buyer had gone to the same elementary school back in the day," she continued. "Even though our offer was not the highest offer, we were the ones that got accepted!"

Buying What and Where is Affordable

Dufresnesaid buyers should stick to the strategy of buying what they can afford, even if that means moving further out from job and population centers.

Geraldine Ramirez
Realtor
Bay City Real Estate Group
Pleasanton, California

"Sometimes it is not all about the highest price, but who is the person that is buying."

"If the home is affordable, you buy it. ... Do not buy thinking that you're going to sell for a profit. So it's a place to live," he said, noting he also recommends buyers only use a fixed rate mortgage, not the 7/1 and 5/1 adjustable rate mortgages that contributed to problems in the last housing boom, and may still be ticking time bombs for some homeowners (See sidebar "Foreclosure Fault Lines in San Francisco Market").

"You push them out to a different area if they want to buy. But don't stretch just to get a house. Because if it's unaffordable you are going to lose it anyway," he said. "Never put your client in harm's way to get a commission."

Sheehan agreed, noting some pockets of Marin County are still relatively affordable even for buyers getting pushed out by the higher-paying tech buyers.

Continued Next Page

SOURCE: RealtyTrac

"There are areas of Marin that are definitely more affordable than San Francisco … as you go north, where we are in Novato, they are more affordable," he said. "You can get a lot more house for the money … you do have to commute; people have to consider that."

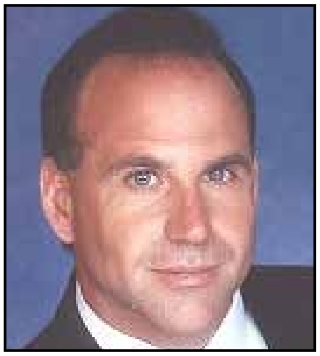
Buying Like Mad

For some like Newland, the investor who owns the apartment building in the Dogpatch neighborhood of San Francisco, the best buying strategy may be to not buy at all.

"I never bought when everyone else was buying. I always bought during a recession," he said, explaining that there are too many red flags in the global economy for him to have confidence to buy. "It's hard to picture that this is going to be a completely smooth ride with all this stuff going on. I'm at a point in my life that I'm being very cautious. I wouldn't buy in this market unless an extraordinary deal comes along. And there are no extraordinary deals. There are only top dollar deals."

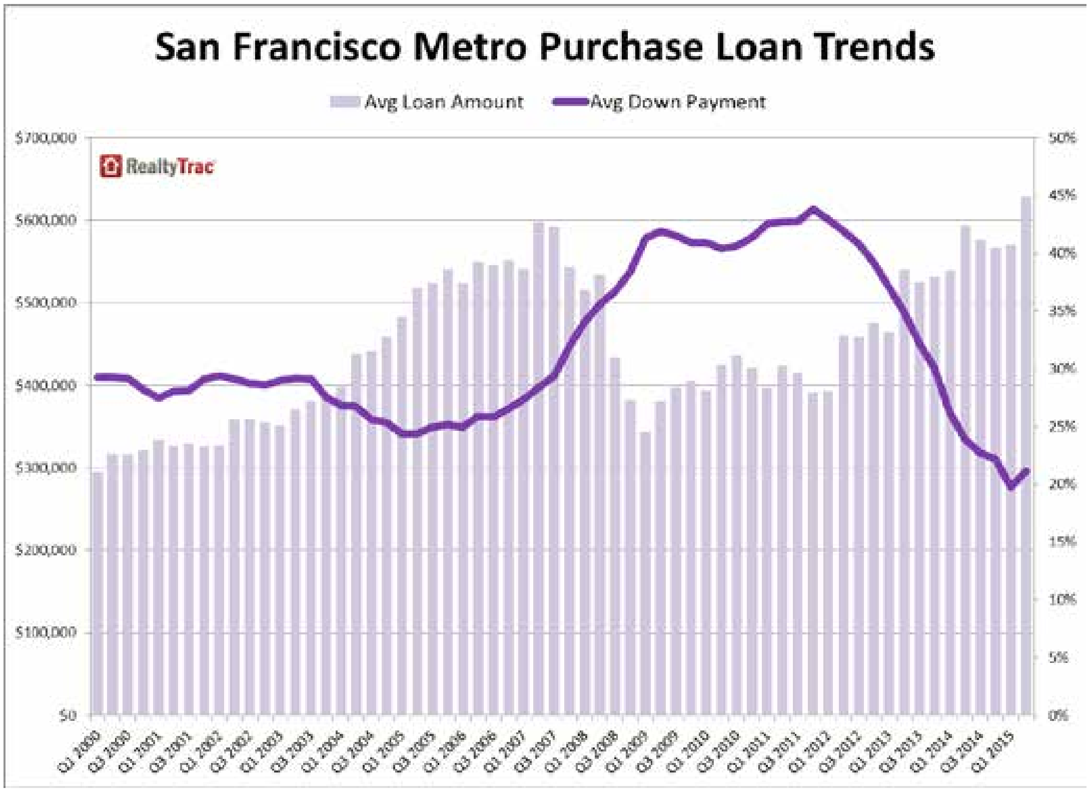
Still, Newland acknowledged the market recovery has exceeded his expectations, leading other investors to continue betting that the San Francisco real estate juggernaut will continue.

"No matter what you can't stop this market. It's a small city with strong demand. … It has a tremendous climate, a lot of variety," he said. "There are people who obviously don't share my perspective and are out there buying like mad."



David Dufresne
Broker/Owner
Solutions4realestate, Inc.
San Ramon, California

"If the home is affordable, you buy it. … But don't stretch just to get a house. Because if it's unaffordable you are going to lose it anyway."



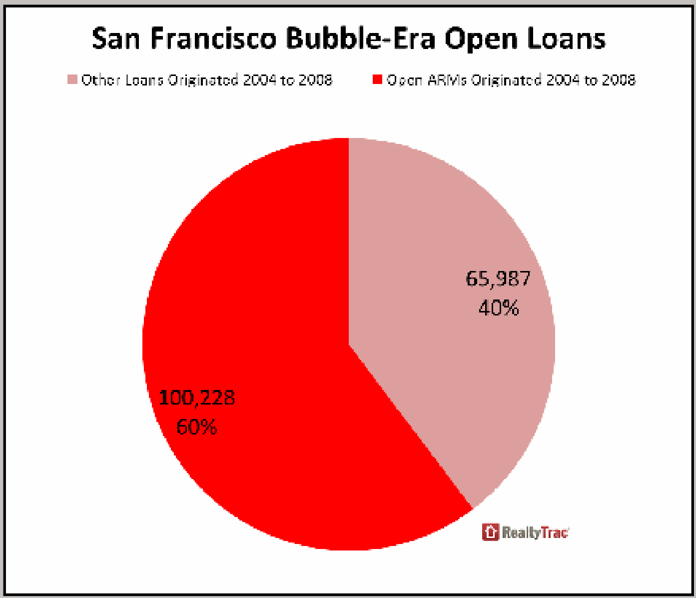
SOURCE: RealtyTrac

Foreclosure Fault Lines In San Francisco Housing Market

Foreclosure activity in the San Francisco metro area plummeted 35 percent in August compared to a year ago, and its foreclosure rate ranked 159th among 214 metro areas tracked by RealtyTrac nationwide.

Low foreclosure rates and decreasing foreclosure activity are both good news that indicate the recent San Francisco housing boom is based on a solid foundation, but remnants of risk from the last housing boom and bust remain evident upon a closer look at the numbers.

Overall foreclosure activity in the San Francisco metro area decreased in August, but bank repossessions, or REOs, increased on a year-over-year basis for the sixth consecutive month. There were a total of 179 new REOs in the metro area in August, up 33 percent from a year ago — although still a fraction of the monthly peak of 2,830 in August 2008.



Sixty-eight percent of all loans actively in the foreclosure process in the San Francisco metro area were originated between 2004 and 2008, evidence that the recent surge in REOs is not a new foreclosure problem, but an old foreclosure problem finally being dealt with.

David Dufresne, owner and broker at Solutions4RealEstate in San Ramon, said he's concerned about the five-year and seven-year adjustable rate mortgages originated during the last bubble that are still active and could reset at higher monthly payments if interest rates go up.

"The unknown factor I have is that there are still a lot of people out there that have 5/1 or 7/1 (adjustable rate) mortgages that can't refinance … when the rates go up that could cause another influx (of defaults)," he said, noting that while many of these homeowners have some equity, they don't have sufficient equity to refinance or sell.

An exclusive analysis of public record mortgage data for *Housing News Report* by RealtyTrac shows 166,215 still-open loans in the San Francisco metro area that were originated between 2004 and 2008 during the last housing bubble. Of those, 100,228 are adjustable rate mortgages (ARMs), or 60 percent of the total open loans originated during the last housing bubble. That compares to 40 percent nationwide, meaning San Francisco has a higher percentage of those at-risk loans.

Dufresne said some of these at-risk homeowners might be strategically defaulting so that they can negotiate a loan modification with the bank.

"A lot of times the lender says you need to stop making payments for a couple months. Then you have the notice of default," he said. "When I look at RealtyTrac and see all those NODs, I think it's people who are negotiating with the lender (for a loan mods). The lenders still won't do a loan mod without a hardship."

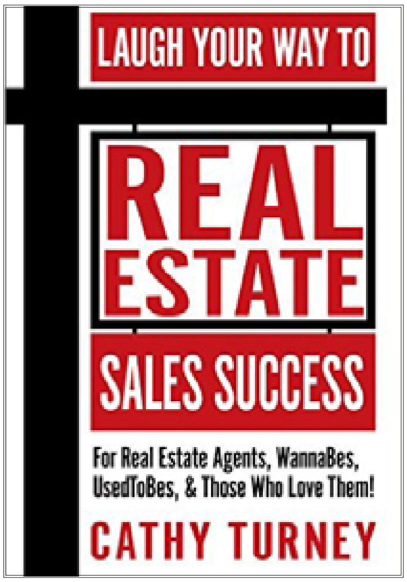
While it's hard to predict when another downturn and corresponding wave of distressed properties will hit the San Francisco housing market, investor and real estate agent Bill Newland is confident it will happen at some point. Newland has been an agent in the market for 35 years, and said he always buys during downturns.

"I've watched (the distressed market) for years. I'm not seeing any opportunity now. It's hard to see how anyone could go broke in this market now," he said. "But I do think it's set up for future foreclosure opportunity."

BOOK REVIEW

Bay Area Realtor Laughs Her Way to Sales Success

By Octavio Nuiry, Managing Editor



Laugh Your Way to Real Estate Sales Success

By Cathy Turney

(Real Estate Success Press, 209 pages, $15.95)

Humor can get you far in Hollywood, but is it good for business?

According to Cathy Turney, a top-producing broker and managing partner at Better Homes Realty in Walnut Creek, California, humor is one of the best ways to improve sales.

In "Laugh Your Way to Real Estate Sales Success," Turney reveals her secrets on how to cheerfully achieve and maintain a six-figure income in real estate sales with humor. She shares real-life personal experiences so readers don't make costly mistakes when buying and selling property.

"In the beginning God created the heavens and real estate," writes Turney in the introduction, paraphrasing the first chapter of Genesis. "And God said, 'Let the earth teem with Realtors. Be fruitful and increase in number.' And God saw it was good, for business. And then He went and created the Bureau of Real Estate, the National Association of Realtors, and the Internet, and complicated history beyond belief."

Indeed, research has shown that humor can be really helpful in real estate in making sales and developing relationships. According to Baylor University's Keller Center, customers are more likely to want to work with a real estate professional with a good sense of humor.

"It has been scientifically proven that endorphins coursing through your body elevate your mood, induce euphoria, and enable you to enjoy selling real estate," she writes. "This book will help you achieve that state of being."

The American Business Association like her book so much they named it the "Best Business Book of the Year," awarding it the 2015 Stevie Award. The book also won an ABA bronze medal for the "Best e-book of the Year."

And Turney's book is packed with many examples of how humor can boost your sales. The book — organized into three parts 1) Why Become a Realtor, 2) Indoctrination and 3) In the Trenches — contains 22 short chapters, and is available in paperback and Kindle versions. If you get the digital edition, you can opt to receive motivational quotes via text each week.

While the book is filled with funny passages; it contains some pearls of serious wisdom.

"Real estate is a business," Turney writes, referring to how valuable her time is. "It's not a hobby. We sell our time and expertise."

Synthesizing a quarter century of real estate sales experience, Turney has written a funny and instructive book that real estate veterans and newbies alike will find interesting and fascinating.

Reviewed in detail are: litigation avoidance; technology and social media; and dealing with short sales and foreclosed properties.

Turney also adeptly gives advice on farming. In chapter 18 — titled "Farming: The Absolute Best Tool for Success, A Primer — she underscores the importance of working your farm.

"Farming is work," writes Turney. "But, as I said before, what else are you going to do while you aren't selling houses? I

Continued Next Page

farmed. I busied myself writing a monthly newsletter. It was 11 x 17, folded in half, with print on both sides. I spent hours culling real estate news, composing helpful articles, analyzing sales statistics and gathering ads for residents with things to sell or services to offer. I also included stories about my "poodle from hell" and deaf Dalmatian, to show that I'm human. The dogs had a hilarious dynamic going, and I was their foil."

In another chapter — titled "You Want me to Sell This?" — Turney chronicles one of the most memorable home owners she encountered. It's a hilarious story about a hoarder whose home was filled with a collection of stuffed animals.

"The animals stay, but we'll remove the guns," said the owner.

"I could hardly gasp," she writes. "If I opened my mouth, I'd sob. I might have taken the listing if he had said they didn't need all that room anymore because he saw the error of his ways and planned to donate the stuffed animals to a wildlife museum. I considered listing it and posting it on PETA's website so they could educate him. Instead, I just nodded and tried to smile a lot, and got out of there as fast as I could. It's much easier for me to deal with people issues than animal issues."


Cathy Turney

With over 28 years as a top producing real estate broker in the Bay Area, Turney knows what it takes to be a top-producing sales professional, and to have fun doing it.

When working with buyers, she writes: "You need to convince a buyer that you are the one he wants to work with — exclusively, forever, to proceed without you is too risk great peril. You do that by taking the time to sit down in the very beginning, educate him about the process and the market, explain what you can and cannot do for him, and build a bond. It only takes an hour. Most agents don't do that, especially if the client was referred."

This is an optimistic book. And readers of "Laugh Your Way to Real Estate Sales Success" will find lots of sound advice — and a lot of laughs too.

Fifty percent of the book's proceeds will be donated to Farm Sanctuary, the Alameda County Food Bank and NorCal Poodle Rescue.

This well-written book will appeal to real estate agents, real estate buyers and sellers and investors who work with Realtors. If you could read only one real estate book, whether you are a seasoned real estate agent or new to the industry, this is the book for you because it shows — in a funny and disarming way — how homes are bought and sold, and the humorous underbelly of a very serious business.

LETTER TO THE EDITOR

A Response to "Real Estate Doomsday Prepping Strategies" - Published July 2015

I must respectfully disagree with your article. I have been an investor in several markets for 30 years and have been through several bubbles with their subsequent diffusing. I sold everything in 2005 because it smelled like a bubble. This market does not have any resemblance to a bubble.

Prices jumped up a lot in the last few years because of the hedge funds artificially pumping things up. They are not doing that much anymore so prices have moderated. We are not getting the huge jumps. We are slowly heading towards a normal market, which is about 4 to 5 percent increase per year.

The mood of the people is positive: Jobs are up, income is up and many potential home buyers are ready to act. In addition, the boomerang buyers who were not able to buy in the past because they had a short sale, foreclosure or bankruptcy are now eligible to buy.

The supply and demand equation is still lopsided; there is not enough product out there to fill the demand. New home sales are even down this month. In addition, many of the millennials will soon want to buy instead of rent as rents keep climbing. Just wait until people realize that the Feds are serious about raising interest rates, and that today's rates are not the norm — even though they have been around for a while. Those of us who have been in the business for a long time remember when we thought that 8 percent was the norm.

Those "investors" you quoted are not the bread-and-butter of the industry. They are negative on the market and did not make the money they thought they would make because they bought the Kool-Aid and paid too much for their investments by listening to Realtors and bankers. All my students know that you can't get a deal if it is listed. You have to approach FSBOs (for sale by owners). True it's harder to find your own deals and it takes a lot more effort and time, but I am finding that my students who are doing this and working at it, are finding deals that are cheap enough to allow things to go wrong: bad appraisals or repair overages.

True some markets are way overpriced and are susceptible to bursting, but real estate is going back to the way it used to be: totally regional. I remember when it crashed in L.A. at the same time it soared in Denver. The only time all markets went down at the same time was when something happened that affected every area of the country at the same time: Tax changes in 1986 and mortgage crookedness in 2005 to 2008. That is not the case now. Unless something drastic happens outside of the real estate market itself we should shuffle along nicely.

Affordability is still nowhere near the lows of the last downturn. We have a long way to go for that. If prices are not climbing with "irrational exuberance" how can we get to that point soon?

So if you research your market carefully; be careful not to overpay; and don't listen to the doomsday nonsense, you can still make money buying and flipping. Of course buying and holding works too. Think how happy you will be when interest rates go up and you are still holding properties with a 4 percent interest rate.

Phyllis Rockower
President and Founder
Real Estate Investors Club of Los Angeles
Established 1996

TOP 20

Foreclosure rates in the Nation's 20 largest metros in August 2015

Rank	Metro	Housing Units Per Foreclosure Filing (Rate)
1	Tampa, FL	527
2	Miami, FL	568
3	Baltimore, MD	586
4	Chicago, IL	744
5	Riverside, CA	765
6	Philadelphia, PA	766
7	Washington, DC	898
8	Atlanta, GA	930
9	New York, NY	966
10	St. Louis, MO	1,043
11	Seattle, WA	1,237
12	Minneapolis, MN	1,300
13	Phoenix, AZ	1,357
14	Detroit, MI	1,388
15	Los Angeles, CA	1,493
16	San Diego, CA	1,615
17	Dallas, TX	1,809
18	San Francisco, CA	2,053
19	Boston, MA	2,209
20	Houston, TX	2,240

AUGUST 2015

STATE-BY-STATE FORECLOSURE ACTIVITY SUMMARY

State Rank	State	Default	Auction	REO	Total	1/every X HU (rate)	%Δ from July 2015	%Δ from Aug 2014
	U.S. Total	**31,461**	**41,308**	**36,792**	**109,561**	**1,205**	**-12.29**	**-6.29**
23	Alabama	0	757	698	1,455	1,497	-10.74	38.70
40	Alaska	28	65	35	128	2,396	10.34	-34.36
25	Arizona	0	1,105	745	1,850	1,546	19.82	-13.55
44	Arkansas	0	142	211	353	3,742	-32.12	108.88
19	California	4,408	3,329	2,827	10,564	1,299	-11.51	-20.59
39	Colorado	0	592	357	949	2,342	-22.53	-35.79
17	Connecticut	672	146	331	1,149	1,294	4.55	-23.86
13	Delaware	161	98	83	342	1,193	-1.44	-37.13
	District of Columbia	3	11	15	29	10,287	-21.62	93.33
4	Florida	3,907	4,693	6,511	15,111	596	-31.53	-32.74
12	Georgia	0	1,808	1,872	3,680	1,113	-19.10	-47.54
30	Hawaii	180	12	99	291	1,794	56.45	142.50
11	Idaho	204	265	150	619	1,083	22.33	45.99
6	Illinois	1,789	2,699	1,259	5,747	921	-20.75	-8.55
9	Indiana	818	1,065	823	2,706	1,035	-5.55	-13.60
38	Iowa	262	180	142	584	2,296	-23.56	-44.01
32	Kansas	237	331	110	678	1,822	44.26	116.61
28	Kentucky	455	437	206	1,098	1,758	30.25	28.12
34	Louisiana	310	309	347	966	2,044	-35.69	-8.52
37	Maine	187	88	47	322	2,242	-23.33	-22.97
2	Maryland	1,908	1,468	1,094	4,470	534	-3.99	0.00
29	Massachusetts	887	406	295	1,588	1,769	-8.79	54.63
26	Michigan	0	1,418	1,368	2,786	1,626	-28.05	-1.17
27	Minnesota	0	859	526	1,385	1,700	29.44	29.56
45	Mississippi	0	215	95	310	4,121	-19.90	40.91
24	Missouri	0	944	860	1,804	1,504	10.27	127.49
49	Montana	0	11	16	27	17,900	-53.45	-68.60
43	Nebraska	63	114	40	217	3,688	-9.96	40.91
1	Nevada	1,217	462	645	2,324	507	15.85	3.89
35	New Hampshire	0	196	103	299	2,058	-5.68	24.07
3	New Jersey	2,765	2,104	1,745	6,614	539	-3.54	2.80
8	New Mexico	553	178	167	898	1,005	-26.27	87.47
21	New York	3,362	1,013	1,283	5,658	1,434	-1.10	52.63
7	North Carolina	1,996	1,175	1,313	4,484	970	-0.02	0.49
50	North Dakota	3	2	3	8	40,589	-27.27	0.00
10	Ohio	1,280	1,768	1,895	4,943	1,037	-10.09	-19.02
31	Oklahoma	253	376	294	923	1,809	-4.85	-24.03
15	Oregon	365	507	486	1,358	1,235	-2.16	14.02
14	Pennsylvania	1,147	1,859	1,567	4,573	1,217	-13.72	23.59
42	Rhode Island	0	87	79	166	2,786	14.48	-26.55
5	South Carolina	1,094	938	453	2,485	863	6.97	10.54
48	South Dakota	0	34	13	47	7,781	-36.49	-4.08
16	Tennessee	0	983	1,283	2,266	1,245	-10.33	536.52
36	Texas	32	2,447	2,053	4,532	2,222	-16.77	21.86
18	Utah	189	394	178	761	1,299	-11.72	-14.21
46	Vermont	0	28	46	74	4,364	42.31	146.67
33	Virginia	0	1,148	611	1,759	1,922	-8.29	16.49
20	Washington	19	1,291	832	2,142	1,354	-2.81	24.97
47	West Virginia	0	68	51	119	7,403	11.21	101.69
22	Wisconsin	707	594	514	1,815	1,447	-2.68	-14.63
41	Wyoming	0	89	16	105	2,505	41.89	114.29

RealtyTrac

HOUSING NEWS REPORT

Housing News Report is a monthly publication dedicated to helping investors succeed by providing them with timely and relevant information about the housing market.

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