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HOUSING NEWS REPORT

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Are These Three Housing Bubbles Re-Inflating?

By Octavio Nuiry, Managing Editor

Could we be headed toward another housing bubble?

Ten years ago, easy credit and lax banking lending standards in the U.S. residential real estate market were partly to blame for a housing bubble that popped and caused over 7 million borrowers to lose their homes to foreclosure during the 2008 housing downturn, which triggered the Great Recession and unleashed a global financial meltdown.

Today, housing prices are steadily increasing again due to a shortage of new and existing homes for sale. And in some regions of the United States home prices are seriously overvalued, especially in coastal communities like San Francisco, New York and Miami.

According to *Barron's*, home price increases have been fueled by real estate investors searching for yield in a low interest rate world and by foreign investors seeking a safe haven to store cash.

Rising home prices are bringing out more home flippers too. Last year, 180,000 single family homes and condos were flipped, according to RealtyTrac. Home flips increased in 75 percent of U.S. markets and accounted for 5.5 percent of all U.S. home sales in 2015, up from 5.3 percent in 2014. Last year was the first increase in flips in four years.

Now, the question many experts are asking is no longer if, but rather when and how far, home prices will fall in the coming housing crash. Nationwide, the market is not in a bubble, but some local markets are getting frothy, experts claim.

Bay Area Bubble?

For years, it looked like San Francisco

Continued Next Page

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CONTENTS

real estate boom would never end, but the tech go-go days may be slowing down, as home prices in the Bay Area have fallen for the first time in five years.

In San Francisco County, the median price of a single family home has increased 55 percent since April 2006, ballooning from $900,442 to $1.4 million in April 2016, according to the California Association of Realtors (CAR). In Marin County, the median price has jumped from $985,072 to $1.2 million. And San Mateo County home prices have inflated from $798,387 in April 2006 to $1.3 million in April 2016.

Bay Area Homes Unaffordable

Statewide, only 34 percent of families can actually buy a home today in the Golden State, according to CAR's affordability index. It's worse in San Francisco, where prices have risen so fast that only 12 percent can afford a home in Q1 2016. In Los Angeles, only 31 percent can afford to buy, while Orange County 22 percent can afford a home.

The last time affordability levels were this low was in Q3 2007, when San Francisco's housing affordability index reached 8 percent. Shortly after that, prices tanked, plummeting from nearly $800,000 in May 2007 to nearly $300,000 two years later.

But San Francisco incomes can't keep pace with rising home prices. The median household income in San Francisco is $78,000, according to the Census Bureau. That means that the price-to-income ratio that historically nationwide has been 3:1 is more than 10:1 in San Francisco.

To understand how tech money is transforming San Francisco's rabid housing market, look no further than the super-charged real estate market. As technology companies have moved in — Apple, Google, Facebook, Twitter, to name a few — the influx of high-paying workers has pushed rents and home prices through the roof. Google minted 1,000 millionaires when it went public in 2004. In 2012, Facebook's IPO created 1,000 millionaires too. Twitter added 1,600.

But the San Francisco venture capitalists are starting to get nervous. Twitter is laying off people. Yahoo is for sale and

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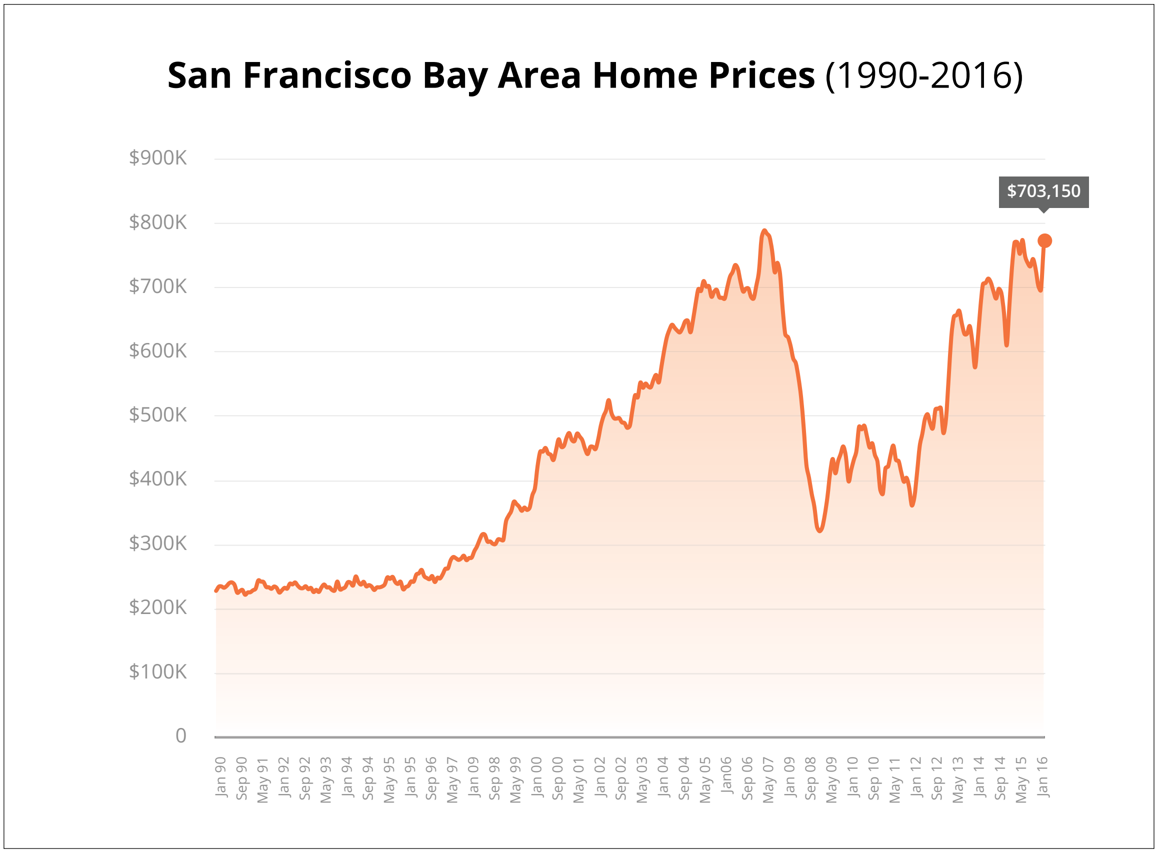

SOURCE: California Association of Realtors downsizing too. Numerous other tech companies have started the same process. This year's dramatic drop in tech stock sucked some of the life out of San Francisco's real estate market, and created conditions for further decline in home prices, according to local real estate experts.

Kenneth Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at U.C. Berkeley, said the San Francisco real estate market is interconnected with global markets. Any slowdown in international markets, especially China, will affect the local Bay Area real estate market.

"We have one of the strongest economies in the country," said Rosen. "We've created 500,000 jobs in the last few years. And our real estate market is a demand-driven market. But when job creation slows, we're going to see a leveling off in home prices."

Rosen doesn't know when that slowdown will come, but it's inevitable.

"This is the biggest boom we've ever had, and I have to tell you, 'Booms never end well,'"

Kenneth Rosen
Chairman
Fisher Center for Real Estate
U.C. Berkeley
San Francisco, California

"We have one of the strongest economies in the country . We've created 500,000 jobs in the last few years. And our real estate market is a demand-driven market. But when job creation slows, we're going to see a leveling off in home prices."

Rosen told the *San Francisco Business Times*, adding that there are two great risks for the San Francisco real estate market: a hard economic correction hitting China or major players in the capital markets coming to their senses to the real value of technology companies. "For San Francisco, China is the biggest risk."

According to Rosen, a collapse of the Chinese economy could spark a global recession that leaves markets like San Francisco reeling.

"China is probably the most vulnerable," he told the *San Francisco Business Times*. "In the last two months, it looks better. China appears to have bounced back. But it could be temporary."

"The high-tech boom we have is unsustainable. Job growth is unsustainable," said Rosen. "There will be, in the next three years, a correction. These unicorns (private companies valued at more than $1 billion) will have to cut jobs. That will have by far the most important impact on the housing market. The only question is whether it's a minor decline or something more substantial.

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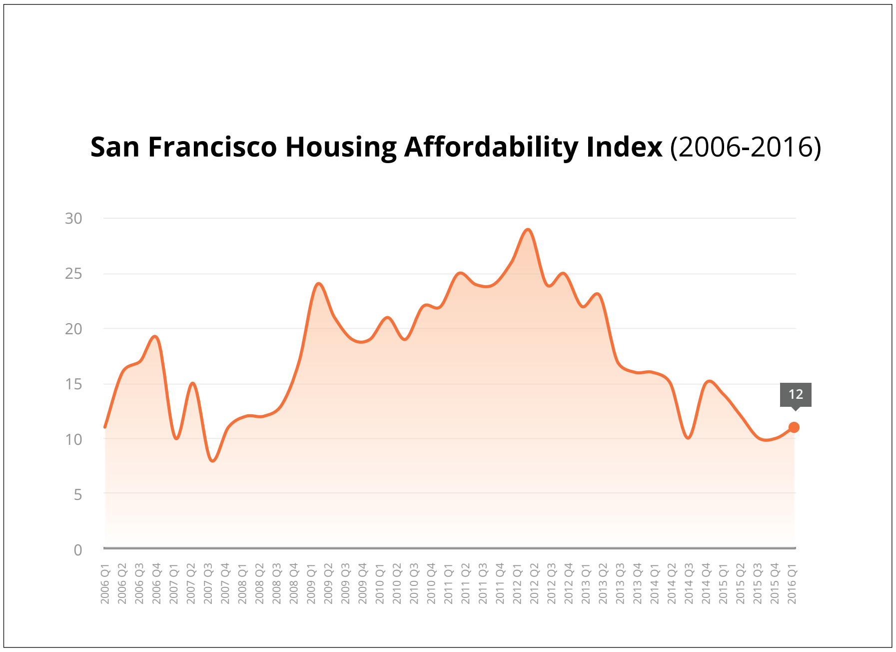

SOURCE: California Association of Realtors

"San Francisco's risk is all these private companies that have huge valuations. They are using that capital to fund money-losing hiring," continued Rosen. "They're hiring lots of people. But if the capital markets correct, as they will in the tech sector, and valuations come back dramatically — as they might well come back 40 percent, 50 percent or 60 percent — there will be lots of layoffs. And the job growth numbers that have been so robust could slow or even decline."

Not only is Rosen cautious, but Fitch Ratings, the rating agency, recently said San Francisco is reaching the boiling point, with Bay Area home prices "overheating."

"Home prices in the Bay Area have risen to a level unsupportable by area income," wrote Grant Bailey, Fitch's managing director. "Driven by the booming technology sector, San Francisco home prices hit an all-time high in the third-quarter 2015 and are now 62 percent above their post-recession low of early 2012. The last time the Bay Area experienced this kind of home price growth was during the dot-com era from 1997-2000."

Aldo Congi
Vice President of Sales & Managing Broker
McGuire Real Estate
San Francisco, California

> *"It's inevitable that there's going to be a correction. What fuels this market is demand. Right now, consumer confidence is very strong on purchasing property in San Francisco."*

Aldo Congi, vice president of sales and the managing broker at McGuire Real Estate in San Francisco, is bullish on the long-term prospects of the San Francisco residential real estate market. Conge said global demand and lifestyle issues will continue to fuel demand. Compared with global cities like London and Hong Kong, he said, San Francisco home prices are cheap.

"It's inevitable that there's going to be a correction," said Congi, a 37-year real estate veteran referring to a possibility of the Bay Area real estate bubble bursting. "What fuels this market is demand. Right now, consumer confidence is very strong on purchasing property in San Francisco. There's going to be a correction we just don't know when."

Flood of Condos Hits the Market

Simultaneously, with home prices rising and affordability locking out most buyers, San Francisco is also experiencing one of the biggest new housing construction booms in history, said Congi. The city, after a recent 2007 to 2012 new construction slump, is now experiencing a building boom. In 2009,

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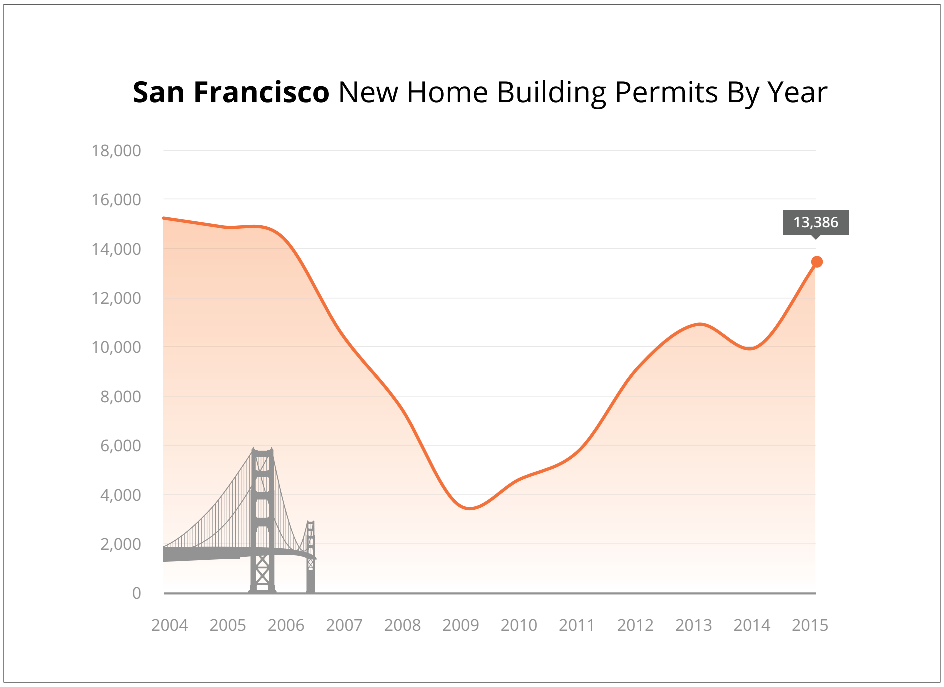


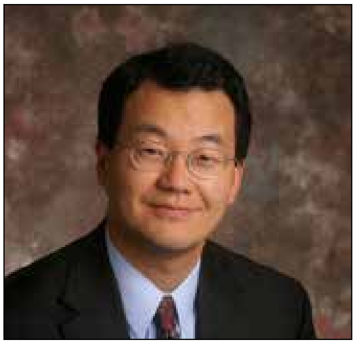
SOURCE: U.S. Census Bureau

builders pulled only 3,550 permits. Last year, developers were issued 13,386 new home building permits, according to the Census Bureau.

Yet the shortfall of housing is such that even this building boom may not seriously dent prices.

"We saw this coming two years ago," said Congi, pointing to new developments like the twin towers at Infinity , 181 Freemont and One Mission Bay. "You have all these new projects coming on. That's going to affect the re-sale market and boost prices."

Rising home prices have lured big developers, even Chinese builders. Beijing-based Oceanwide Holdings Group, for example, is planning to build the second-tallest tower in San Francisco. The $1.6 billion mega project will add 2 million square feet of office, retail, residential and hotel space to the south of Market Street area (SOMA) of San Francisco, according to ChinaSF, a nonprofit that promotes economic ties between the city and China and is part of the city's Office of Economic and Workforce Development.



Lawrence Yun
Chief Economist
National Association of Realtors
Washington, D.C.

> *"San Francisco is one market to watch. If something would turn for the worse in San Francisco, workers would move out."*

Nearby, several other condo towers have sprouted up or are being built in SOMA — including the twin towers of Lumina, the 60-story Millennium Tower, and One Rincon Hill. In all, approximately 62,500 units of all kind — luxury condos, rental apartments, market rate and affordable units — are in the pipeline, according to the San Francisco Planning Department.

"San Francisco has really changed since I was a kid in the early 1960s," said Congi, a life-long resident of the Bay Area. "I still live in San Francisco; it's a great place to live. If you can find a more resilient market than San Francisco, I want to hear about it."

Lawrence Yun, chief economist of the National Association of Realtors, worries about over-priced coastal markets like San Francisco.

"San Francisco is one market to watch," said Yun, speaking recently at the National Association of Real Estate Editors conference in New Orleans, Louisiana. "If something would turn for the worse in San Francisco, workers would move out."

New York Sand Castles

Like San Francisco, Manhattan's real estate market has been sizzling for several years. But now cracks are starting to show in the once red-hot real estate landscape. Price growth is starting to slow amid concerns of a supply glut, particularly in the $5 million and above luxury market. Inventory is rising and the global economy is starting to show signs of strain.

According to New York University's Furman Center for Real Estate and Urban Policy, New York City has a history of real estate booms and busts. Over the last 45 years, New York City housing prices have experienced three boom cycles of rising home prices — 1980 to 1989,1996 to 2006 and 2012 to the present — and two downward bust cycles — 1974 to 1980 and 1989 to 1996.

"While there is no crystal ball to predict how bad this downturn will be or which neighborhoods will be hit hardest, history can provide some helpful context," said the Furman report.

In the early 1970s, racked by rampant crime and poverty, New York City came close to bankruptcy. The economic crisis of the early 1970s overwhelmed the city. The stock market crashed, oil prices plunged and unemployment soared. The social problems sparked by the economic crisis resulted in widespread urban flight as 800,000 people fled the inner city, and home prices dropped 12.4 percent, reports the Furman Center.

Today, after years of dizzying appreciation, the Manhattan home values are plateauing and in some cases — especially in the luxury high-end condo market above $5 million — plunging in some areas, experts claim. Inventories are swelling, prices are being cut and some properties are going unsold.

"If you are a seller in the super luxury sector trying to flip a $20 million condo you bought in 2012, you will definitely be noticing a change in the marketplace," wrote Noah Rosenblatt, CEO at

Continued Next Page

UrbanDigs.com, a real estate analytics firm in New York City. "If you are a seller in the $3 million and under marketplace, you may not have felt anything other than seasonal or property specific weaknesses."

In New York City, domestic buyers are driving the co-op market while the weakening condo market is largely dominated by foreign buyers, according to Jonathan J. Miller, president and CEO of Miller Samuel Inc., a real estate appraisal and consulting firm in New York City.

The average apartment sales price in Manhattan hit a record $2 million in the first quarter of 2016, up 18.4 percent from a year ago, according to the latest Miller Samuel report for Douglas Elliman Real Estate.

Miller said a bit of a chill has set in the New York City residential real estate market. Miller said the high-end luxury market is small sliver of the overall market. He said "chronically low inventory" was pushing prices higher.

"New sales are 10 to 15 percent of the market," said Miller, referring to the supertall skyscrapers around Midtown on the West 57th Street corridor known as Billionaires' Row, plus the cluster of towers in the financial district and downtown. "It's a lot more interesting to write about the sale of a $100 million apartment than a $2 million condo."

Miller said the pace of demand on the upper end has slowed while the entry level is in high demand.

"There's plenty of supply at the top but lower supply at the resale end," Miller said.

Condo Glut: Too Much Supply, Waning Demand

According to *Real Estate Weekly*, Manhattan's skyline is filled with 70 construction cranes building high rise residential developments. This construction boom is confirmed by Census Bureau data. In 2014, New York developers were issued 47,984 building permits. Last year, at more than 86,400 new building

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An areial view of supertall residential condo tower 111 West 57th Street (center) in midtown Manhattan in New York City overlooking Central Park. The developer has postponed sales on the 1,427-foot tower because a lack of demand.

permits, developers nearly doubled the number of New York new building permits. In the first fourth months of 2016, builders added another 4,200 new building permits.

But sales are starting to stall, especially in the supertall luxury high end market. You don't have to look any further than Midtown Manhattan, along Billionaires' Row, to see the kind of irrational exuberance that Manhattan developers have for the luxury condo market.

At New York's tallest and most expensive residential building, 432 Park Avenue, the tallest residential structure in Western Hemisphere, only 13 out of 141 units have sold, totaling $170 million in sales — that's 9 percent of the building's units and 5 percent of the projected $3.1 billion sell-out, according to *The Real Deal*.

But here's the problem: the average price of a Manhattan apartment is $2 million, while the average selling price at 432 Parke Avenue is $21 million — 10 times the price of an average Manhattan apartment. The median income for New York City is $52,737, according to the Census Bureau. That means only wealth foreigners can afford these luxury condos.

Other New York developers — JDS Development and Property Markets Group — are holding off on launching sales at 111 West 57th Street because the luxury supertall market is flooded with an over-supply of luxury condo units. With the luxury home demand slowing and new condos piling up, the developers of 111 West 57th Street have postponed sales for one year.

"If the market were red-hot, people would be buying off plans, throwing checks down, and it'd be great," Kevin Maloney, co-developer of 111 West 57th Street, told *Bloomberg*. "But if you have a market where you think marketing would be ineffective for now, why would you launch and spend the money? Wait."

Another top New York developer, Ofer Yardeni, CEO of real estate development firm Stonehenge, didn't mince his words. Yardeni told the *Daily News* that the New York real estate market is a bubble about to burst.

"If real estate was a publicly traded company and I could short its stock, I would very happily short 57th Street," said Yardeni, referring to the cluster of supertall condo towers sprouting in midtown Manhattan. "The market there has stopped. It hasn't

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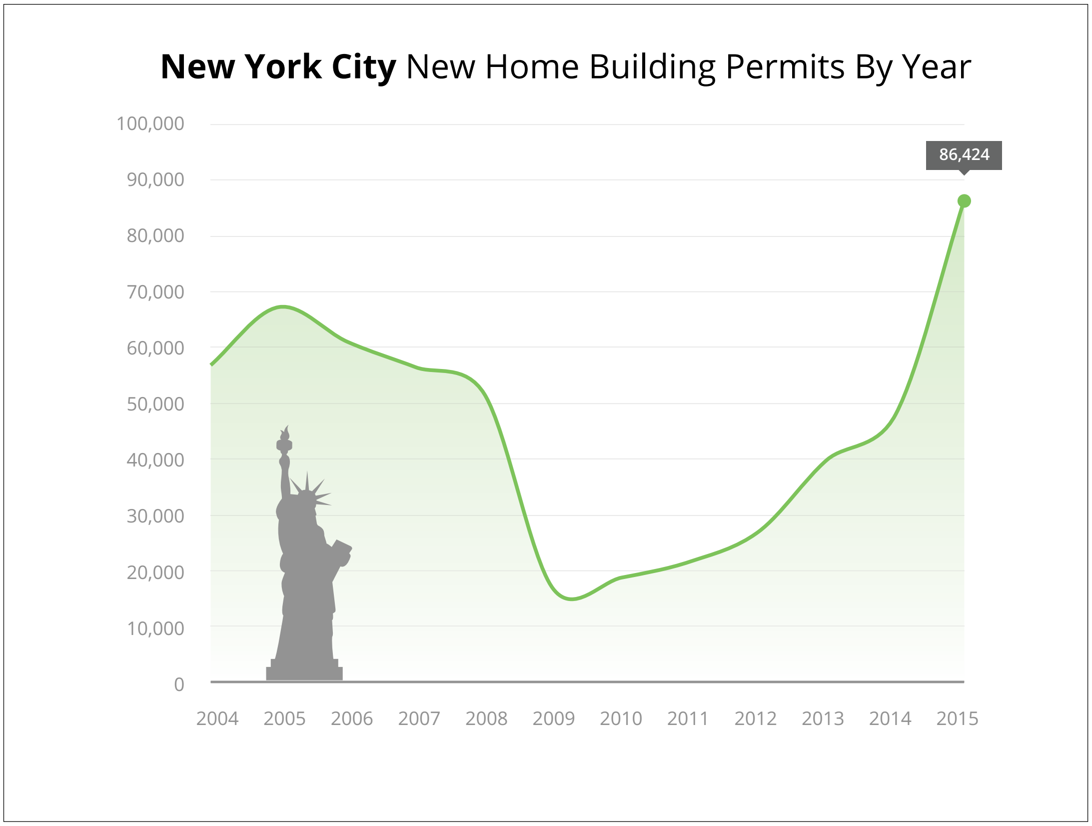

SOURCE: U.S. Census Bureau

just declined 5 percent or 10 percent. It's just stopped."

Yardeni, whose real estate development company has $2 billion in assets, said high-end real estate market is frothy.

Like San Francisco, foreign money has pushed Manhattan real estate prices upwards, especially in the high end. Thirty years ago wealthy Japanese buyers and developers snapped up New York properties at the peak of the housing bubble, only to have to liquidate their holdings once the bottom fell out of the market. Now, an influx of Chinese buyers — mirroring the Japanese buyers three decades ago — could be caught holding the bag when the New York City luxury market tanks.

As U.S. Tracks Secret Buyers, Foreigners Flee

Concerned about foreign cash flowing into luxury real estate, the Treasury Department said in January that it would begin identifying and tracking "mystery buyers" of high-end properties in two of the nation's major destinations for global wealth: Manhattan and Miami. In Manhattan, the Treasury initiative requires buyers in sales of more than $3 million to be reported; in Miami, sales of more than $1 million need to be reported. The Treasury program will expire on August 27, 2016.

Jack McCabe
Principal
McCabe Research and Consulting
Deerfield Beach, Florida

"The last housing downturn was caused by the subprime loan crisis domestically that eventually turned into global recession. This time, the global recession is going to cause a U.S. recession."

Miami: Condo Bust Looms — Again!

In Miami, the Brazilians, Canadians and Russians have disappeared just as a new crop of high rise condo towers are hitting the market. Miami condo developers are starting to cancel projects, slash prices and offering incentives to spur sales, according to Jack McCabe, a Florida-based real estate analyst with McCabe Research and Consulting in Deerfield Beach, Florida.

McCabe, who called the last housing crash a decade ago, believes the luxury condo market is in a bubble. He said the South Florida housing scene looks eerily similar to the 2008 housing bust, and the inventory of unsold luxury condos is ballooning. But

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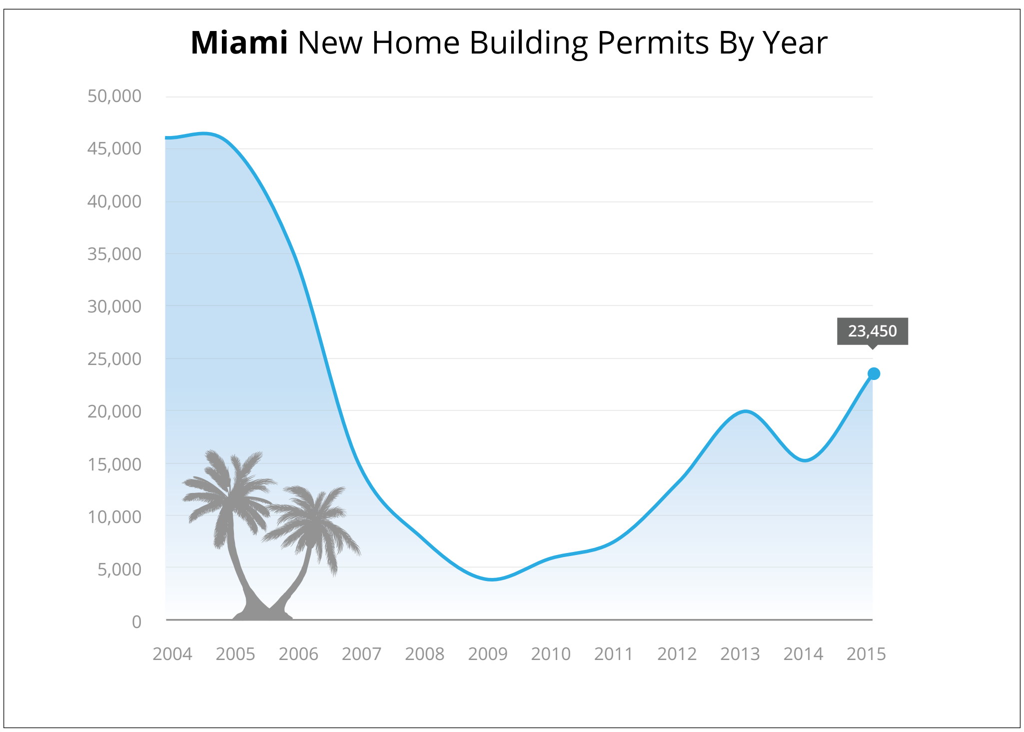

SOURCE: : U.S. Census Bureau

instead of the U.S. housing market taking down the global economy, the global economy will crater South Florida's housing market this time, claims McCabe.

"The last housing downturn was caused by the subprime loan crisis domestically that eventually turned into global recession," said McCabe. "This time, the global recession is going to cause a U.S. recession. Here in Miami, 70 percent of the sales are to foreign nationals, most of which pay with cash. Only 10 to 15 percent of home buyers are Floridians."

With the disappearance of international buyers, McCabe worries that South Florida's real estate market is drifting back into bubble territory.

"In the upper-end condo market, we are in the ninth inning," said McCabe, using a baseball analogy to describe the slowing Miami luxury condo market. "Sales numbers are dropping, prices are flattening, and we are starting to see the return of concessions by developers in the market such as private jet services to spur sales. South Florida is in a big bubble for high-end condos. We are at the end of the expansion phase and entering the hyper-supply phase, especially in condos."

McCabe also described some anecdotal information that pointed to the slowing Miami real estate market.

"Before, developers would market their properties to foreigners and international real estate brokerages," said McCabe, who recently briefed Compass agents on the local Miami market for Dezer Development, the builder of the Porsche Design Tower in Sunny Isles Beach, Florida. "Now, developers are focusing on U.S. buyers and brokerages because they sense that foreign buyers have gone away."

In Miami, foreigners account for more than 65 percent of all condo and home sales, according to the Miami Association of Realtors. But demand from foreign buyers is weakening, as a strong U.S. dollar, rising home prices and political and economic turmoil in Argentina, Brazil and Venezuela create uncertainty among foreign home buyers. In 2015, foreign buyers purchased approximately 10,600 properties, accounting for 36 percent or $6.1 billion worth of total sales volume in South Florida, according to the Realtor group.

Lisa Miller, Esq.
Broker
Keller Williams Elite Properties
Aventura, Florida

"It's a shifting market. We're seeing price reductions on every listing. Prices are coming down. Not drastic. But it definitely has dropped."

In the first quarter of 2016, the number of Miami sales declined 17.5 percent from a year earlier, while inventory jumped 15.4 percent, according to a report from appraisal firm Miller Samuel. As inventory grows and sales decline, many condo projects have been cancelled, said McCabe.

Some of the problems in the South Florida real estate market stem from the retreat of foreign buyers, particularly Latin Americans, Russians, Europeans and Canadians.

A strong U.S. dollar and weakening local currencies in Latin America and Europe has hindered the buying power of foreign investors. At the same time, falling commodities prices, especially oil, has nearly sidelined Russian and Venezuelan buyers. In 2013, Russian buyers accounted for 23 percent of Miami's luxury condo buyers; in 2014, they accounted for only 7 percent, according to Lana Bell, a broker with One Sotheby's International Realty in Sunny Isles, Florida.

Lisa Miller, a broker with Keller Williams Elite Properties in Aventura, Florida, said South Florida's condo boom has yet to reach its zenith. Miller said the Miami condo market is still strong and not in a bubble, although prices are falling.

"I think that's an exaggeration," said Miller, referring to a real estate bubble in Miami. "I don't foresee that happening. Miami is a strong market. We have a lot of inventory; there are 1,577 condos in Aventura for sale right now. That's huge. It's a shifting market. We're seeing price reductions on every listing. Prices are coming down. Not drastic. But it definitely has dropped."

Miller said part of the reason why condos are not moving quite as fast is that sellers haven't adjusted to the shifting market.

"Sellers still think they can get top dollar," said Miller, who is also an attorney. "Prices are coming down, but not drastically. The only properties that are selling are the ones that are priced

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right."

Miller said Venezuelan buyers have largely disappeared, due largely to the political and economic crisis there. But other buyers have filled their absence.

"Chile has become a big buyer pool," she said. "And buyers from New York, Chicago and the Midwest are also buying second homes here."

Condo Inventory Soars

Demand in the condo market is waning because of a perfect storm of events converging, including the drop in oil prices, currency devaluations in Latin America and Russia, stock market volatility in China and a flood of new condo units coming on the market.

A staggering 32,600 condo units have been completed, are under construction or approved for development in the South Florida market since 2011, according to Cranespotters.com. Another 18,200 have not been approved, but are in the planning phase. That's more than 50,000 new units.

Moreover, an avalanche of new mega-projects is underway in Miami.

Construction started in March for Miami Worldcenter, a massive $1.7 billion, 27-acre downtown development that includes an outdoor shopping center and adjoining 60-story luxury condominium tower with 500 residential units called Paramount. Spanning six blocks just north of the American Airlines Arena, the project is set for completion in 2018.

In downtown Miami, Hong-Kong-based developer Swire Properties is building Brickell City Centre, a $1.05 billion project on 9.1 acres with an open-air shopping center, two luxury towers, an upscale hotel and an office tower. Reach and Rise, the project's two 43-story residential condo towers, are slated for opening this year. Condo prices range from $595,000 to $2.7 million. The project dates back to 2008, when the condo market hit rock bottom amid the recession and the development was temporarily shelved.

Some argue that compared with the last bubble, developers have shifted risk to the buyers, who are required to put down deposits ranging from 50 to 60 percent. Moreover, developers have written sales contracts that place stiff penalties for condo flippers.

But the sheer volume of new condos flooding the market could put downward pressure on both new condo sales and the re-sale condo market. Last year, Miami builders pulled more than 23,400 new home building permits, according to the Census Bureau.

The rush to build new condo towers is creating an affordability crisis in Miami. The influx of foreign cash has largely priced out local Miamians from the current condo boom. With local median income at $45,000, most locals in South Florida can't afford the pricey skyscrapers, according to the Bureau of Labor Statics.

We're Not in a Housing Bubble…Yet!

But not everyone believes the U.S. housing market is in a bubble, nor that some markets are frothy. Yale professor and the 2013 Nobel economics laureate Robert J. Shiller, thinks the bubble is still several years out.

"Certainly, I think bubbles are always a possibility," Shiller, co-creator of the S&P/Case Shiller Index, told *Yahoo! Finance* in a May 2016 interview. "So it looks like right now we're sitting on something like we were in 2003 maybe. That developed over the next three years into quite a bubble. I don't see that happening yet. I think maybe we won't have such a big bubble right after another one. Maybe we're a little bit wiser from the last experience."

The "smart money" has already left San Francisco, Manhattan and Miami. And the "dumb money" is rushing in to buy new homes, according the latest new home sales data from the Census Bureau, which showed that new home sales surged a staggering 16.6 percent in April 2016.

We don't know what is coming or when. But history does tell us that there are some markets that are getting frothy.

Big Data Sandbox

Homes owned by single men on average are valued 10 percent more and have appreciated $10,112 (16 percent) more since purchase than homes owned by single women, according RealtyTrac data. RealtyTrac analyzed more than 2 million single family homes nationwide owned by either single men (1,139,493) or single women (1,011,572) based on public record tax assessor data. The average estimated current market value of homes owned by single men was $255,226 — 10 percent higher than the average current market value of homes owned by single women: $229,094.

MY TAKE

By Alex Villacorta, Ph.D.

Vice President, Research & Analytics, Clear Capital

Baby Boomers and Florida Real Estate: Why Understanding Local Market Nuances is the Key to the Future of the Housing Industry

With a national housing market still trying to find its identity in a post-crash climate, one constant in all this uncertainty has been that local housing markets are exhibiting a degree of uniqueness not seen in the pre-boom days. The new "normal" is a market that truly cannot be generalized across the entire nation, but rather is largely defined by the local inventory and economic environments. The interaction of market drivers for price growth, or decline, are increasingly unique to local areas in a manner that is very different than in housing market history.

Of course, practitioners will say that real estate has always been local, after all the three main tenets of real estate emphasize this very point. While this is certainly a true statement, the assessment of market health for lenders, investors, and consumers is a key activity that has historically relied on gross generalizations of home prices at large scales. In reality, today's market drivers are a nuanced mix of macro-, micro-, and hyper local-economic factors. Understanding of these factors is key to successfully measuring and planning for the future of the housing market. A very interesting case-in-point of this regionalized analysis is emerging in Florida. While much of the market recovery news has focused on the West as markets like Seattle, Denver, and San Francisco continue to reach all-time market highs, Florida has emerged as a southeastern hotspot for market recovery.

The Sunshine State was one of the markets hit hardest during the crash, with prices in Miami and Orlando eventually falling upwards of 65 percent below the market peak of 2006 (See Graph 1). But today, the state's largest housing markets — Miami, Orlando, Tampa, and Jacksonville — are four of the top 15 highest performing metro markets in the nation, all reporting at least 1.6 to 2.0 percent price growth over the last quarter.

The spring 2016 market trends in the state are a definite cause for optimism in the region, in an otherwise tepid national spring home buying season. Continuing a trend that has brought each market price increases of at least 9.5 percent over the last year, these most recent growth figures fit into a longer term pattern of recovery for the state's major markets. Both Tampa and Miami are now reporting home values at least 55 percent higher than the lows of 2011, while the Jacksonville and Orlando metro areas are each reporting price increases of

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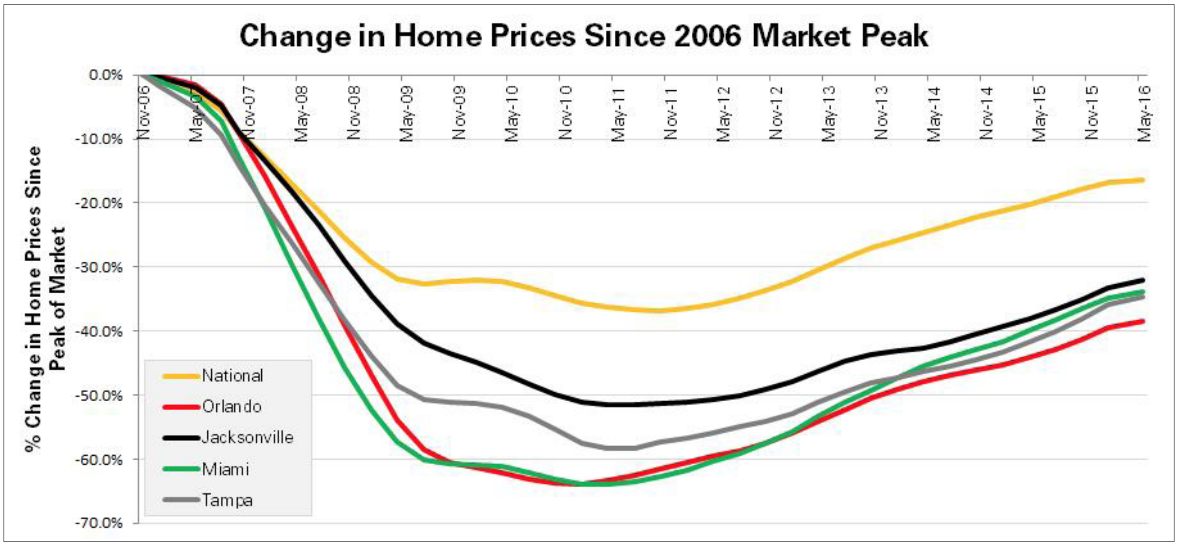
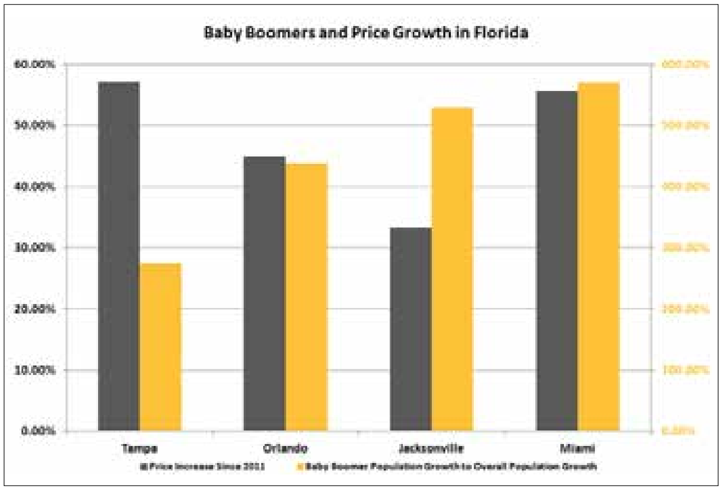


SOURCE: Clear Capital

33 percent and 45 percent since the market trough respectively.

Top Floridian housing markets continue to grow and return impressive price gains — Tampa is currently reporting a stellar 12.2 percent annual price growth — and it appears that the baby boomer generation may be responsible for this housing market success. The Sunshine State has traditionally been regarded as prime real estate by retirees that flock to the region seeking a warmer and sunnier alternative to the cold Northeast for their golden years, but the most recent Census data indicates that this move may be more popular than ever. The baby boomer segment of the market — homeowners aged 55 to 74 — has increased more than 2.5x faster than the overall population of homeowners in each of the largest four Floridian markets since 2011. In Miami and Jacksonville, the homeownership in this generation has increased more than 500 percent faster than that of the entire population, suggesting that an increased baby boomer demand for housing in the region could be a significant contributing factor in the markets' overall success. In Orlando, baby boomer homeownership has increased more than 400 percent compared to the overall homeownership trend, and in Tampa this rate is over 250 percent. Graph 2 summarizes the massive growth in the baby boomer demand pool.

Conditions in the region are favorable for baby boomer and retiree investment, but impressive price returns aren't the only attractive market factor for the state. Saturation levels of distressed properties on the market are still much higher in Florida than the rest of the nation, which is currently reporting around 15 percent distressed saturation. For Florida, this rate averages around 23 percent between the major four markets, indicating that there is no shortage of bargain-priced properties in the region for an influx of fixed income buyers.



For comparison, this rate is currently hovering around 10 percent in the West, less than half the saturation of Florida markets. Such a high prevalence of REO properties adds a certain level of affordability to the market, especially in a city like Miami that is widely considered to be a luxury market reserved for top tier buyers only.

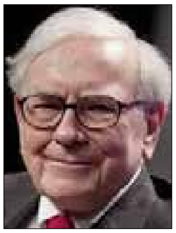
Nationwide, more and more baby boomers are nearing retirement age, and the demand for affordable and stable investments will continue to rise. With impressive growth performance and a large supply of distressed properties, it's no wonder that this generation continues to invest in real estate in the region. Florida is just one example of the increase in demand for housing in this generation, and markets that manage to strike a balance between affordability and market return may see a boost in performance due to the buyers in this market segment.

The dynamics playing out in the top Florida markets are just one of many drivers of market performance prevalent in today's housing environment. For those looking to liquidate positions in Florida, the influx of demand paints a picture of positive upward price growth now and in the near future, thereby suggesting a sell high strategy. Similarly for lenders and consumers, the availability of distressed properties and a surging market are two key ingredients for low risk investments in the Florida housing market. As the market continues to unfold, continue to look past the headline numbers towards the micro trends emerging. The dynamics of millennials, baby boomers, foreign investors — together coupled with the evolving regulatory landscape will keep all market practitioners on their toes. When assessing your position in the market, utilize granular market data and be wary of generalized assumptions, and like our Floridian friends, you'll be well equipped to enjoy many glorious days ahead!

Alex Villacorta, Ph.D., is vice president of research and analytics at Clear Capital. Alex is responsible for the research and development of innovative tools and methodologies for analyzing vast amounts of real estate data and providing commentary and analysis on the condition of nationwide markets. Alex created the statistical models which drive the Clear Capital Home Data Index™ (HDI), a powerful tool that delivers the most current and accurate market measures possible. Alex also contributes his insight to the company's monthly HDI Market Report, which offers a near real-time look at pricing conditions at the national, metropolitan, and local market levels.

NEWS BRIEFS

Buffet and Gilbert Bid for Yahoo



Warren E. Buffett

Berkshire Hathaway chairman Warren E. Buffett and Dan Gilbert, the founder of Quicken Loans and owner of the National Basketball Association's Cleveland Cavaliers, have teamed up to acquire the struggling internet website Yahoo.

The auction for Yahoo's assets has been shortlisted to 10 bidders, including several private equity firms and telecommunications carrier Verizon Communications, which acquired AOL last year for $4.4 billion.

Yahoo, once the world's largest consumer email service, has struggled in recent years to compete with Google and Facebook. In February, Yahoo CEO Marissa Mayer announced that the company would auction off its internet business and cut 15 percent of its workforce.

Buffet, whose Berkshire Hathaway owns real estate brokerage HomeServices of America, has an army of 26,550 real estate agents in 480 offices throughout the U.S.

SOURCE: Reuters

Millennials Head to the Suburbs

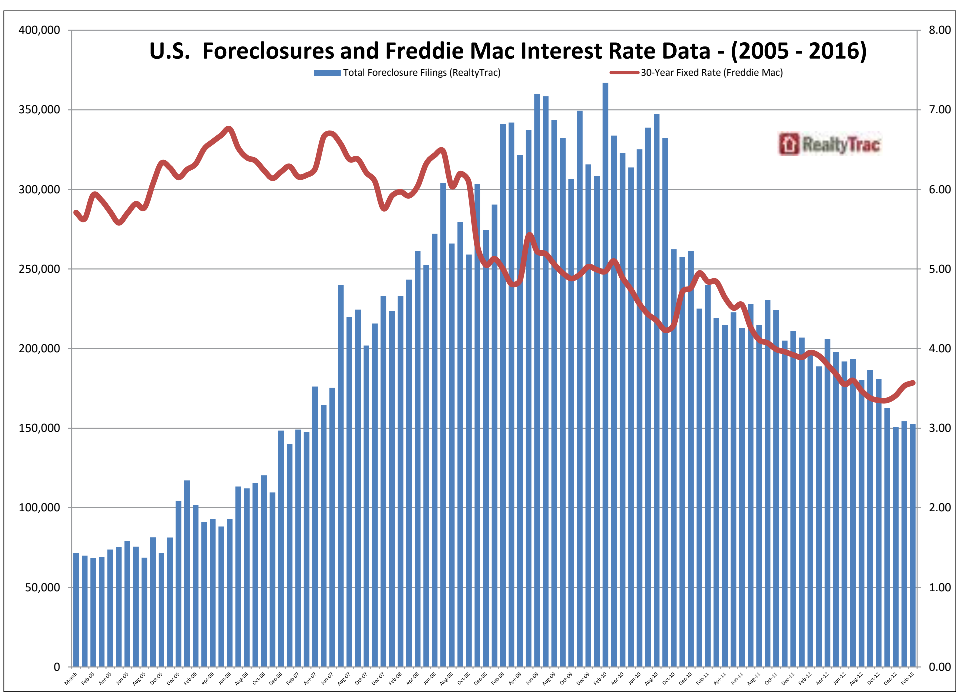
According to a new study by the National Association of Realtors (NAR), millennials prefer the suburbs rather than urban living.

NAR's 2016 "Home Buyer and Seller Generational Trends Report" found that 51 percent of millennial home buyers recently purchased a home in the suburbs. NAR found the percentage of millennials purchasing a home in an urban area dropped to 17 percent from 21 percent in 2015, and only 10 percent purchased a multifamily home, down from 15 percent last year.

"Even if an urban setting is where they'd like to buy their first home, the need for more space at an affordable price is for the most part pushing their search further out," said Lawrence Yun, NAR chief economist.

The report also found that 35 percent of U.S. home buyers were millennials younger than 35 — the largest demographic group for the third year in a row. According to NAR, the most popular home type was the detached single family home, making up 85 percent of all home purchased.

SOURCE: National Association of Realtors



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

LEGAL BRIEFS

Zillow Banned From NAR Events

First they battled in the marketplace.

Then they clashed in the courtroom.

Now, the billion-dollar battle between the National Association of Realtors (NAR) has moved to the exhibit hall.

NAR has banned Zillow from exhibiting at any of NAR's events for the remainder of 2016, according to *Geekwire*.

The NAR, along with its partner, Move Inc., owner of Realtor.com, are locked in a bitter legal battle with Seattle-based Zillow. Move sued Zillow in 2104, and the costly lawsuit is winding its way through the courts.

The next NAR-sponsored event will be its Realtor Conference & Expo in Orlando, Florida, on November 4 to 7, 2016.

SOURCE: *Geekwire*

Nuns Battle Katy Perry For Convent

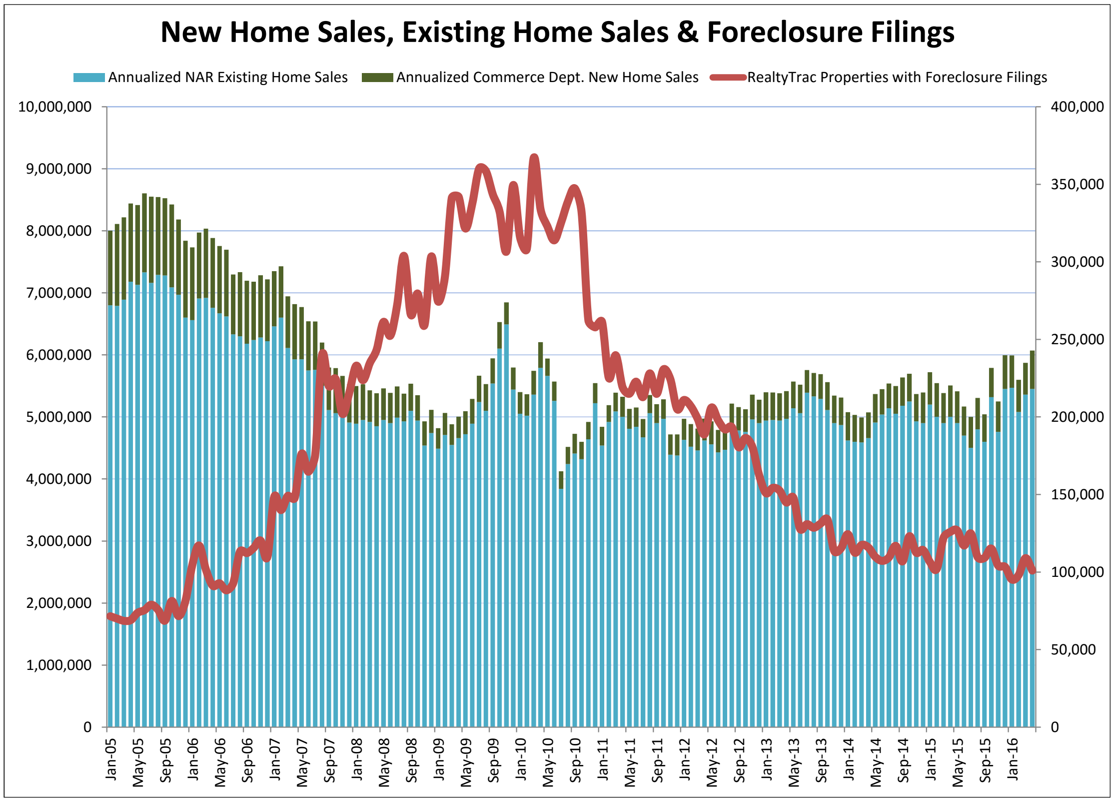
A California appeals court put the brakes on pop star Katy Perry's bid to buy a Catholic nun's convent in Los Angeles for $15 million, halting the pop star's real estate plans.

On May 31, a three-judge panel of the Second District California Court of Appeals stayed an order that granted Los Angeles Archbishop Jose Gomez's motion for summary adjudication and granted in part Perry's motion for a judgment on the pleadings, according to *Courthouse News*.

"Real parties are requested to file and serve a preliminary response to the petition on or before June 24, 2016," the two-page order states. "Petitioners may file and serve a reply on or before July 15, 2016."

The case is *Sister Rita Callanan v. Superior Court of the County of Los Angeles*.

SOURCE: *Courthouse News*



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

FINANCIAL BRIEFS

FAA Loosens Drone Rules

New Federal Aviation Administration (FAA) rules allow U.S. companies to fly drones without a pilot's license, making it easier for real estate agents to legally fly drones for real estate aerial photography.

Drones flown in for-profit uses will no longer require a special permit so long as they weigh no more than 55 pounds, fly no higher than 400 feet and soar no closer than 400 feet from buildings or structures, the FAA announced.

The new regulation, which takes effect in August, will allow anyone over the age 16 to fly commercial drones so long as they apply for a remote pilot certificate, which requires passing an aeronautics test at an FAA-approved site and undergoing a background check.

According to the FAA news release, the new rule change could generate more than $82 billion for the U.S. economy and create more than 100,000 new jobs over the next 10 years.

SOURCE: FAA

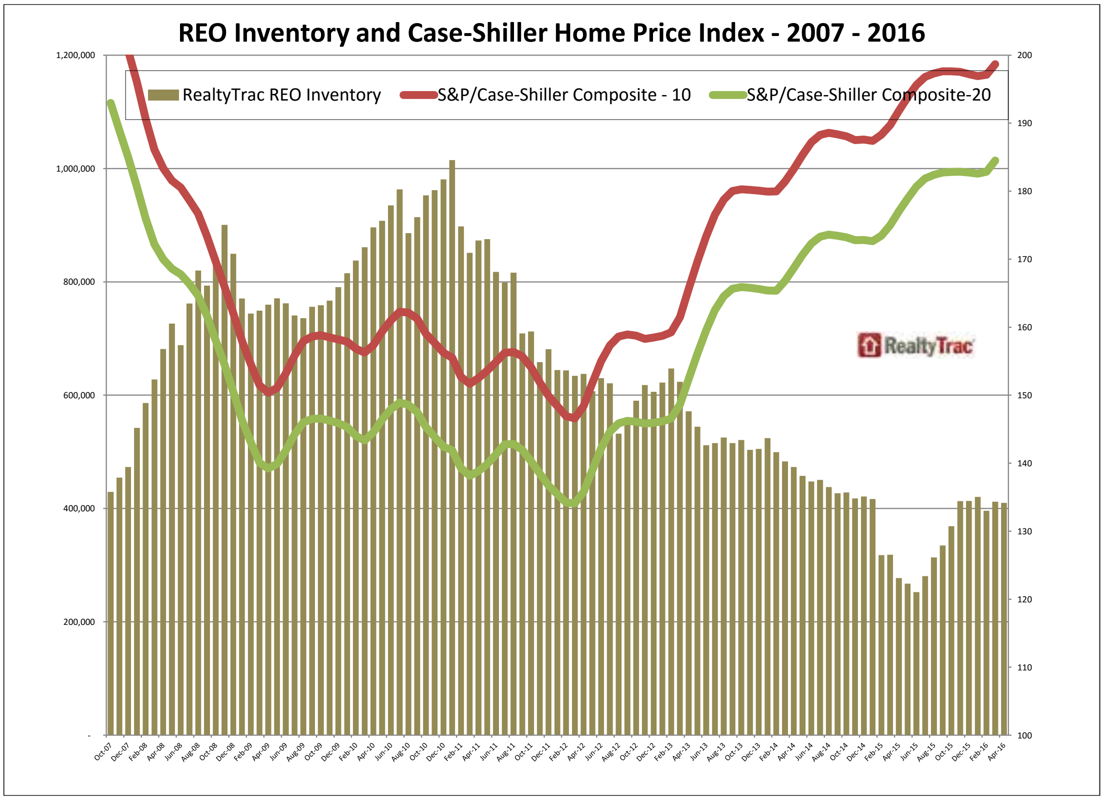
Wells Offers 3 Percent Down Payment Mortgages

Wells Fargo & Co. is offering a new type of mortgage for borrowers making minimal down payments for fixed rate loans

The bank's new program — called Your First Mortgage — requires a down payment of just 3 percent of a home's purchase price, and a FICO score as low as 620 on a scale of 300 to 850, while also allowing them to use income from family members or renters to qualify.

Wells Fargo, like most big banks, had stopped offering Federal Housing Administration-backed loans after dealing with lawsuits connected with underwriting problems.

SOURCE: Wells Fargo & Co.



SOURCES: RealtyTrac, S&P/Case-Shiller

MARKET SPOTLIGHT

Sacramento Still Boosted by Bay Area Bubble

By Daren Blomquist, Executive Editor

Sacramento housing statistics all point to the telltale signs of a strong seller's market, with a low supply of homes for sale countered by strong demand from local buyers and Bay Area "refugees" flush with cash.

But there are some early indications that the ground below this fundamentally sound market foundation is slowly beginning to shift, according to local market observers.

While this subtle shift will not likely trigger another seismic market event of the magnitude seen during the Great Recession, it could provide an uncomfortable jolt for some Sacramento home sellers who think they are in the driver's seat.

"Before we could get away with an overpriced home; the market would catch up with it quickly. But we can't get away with that now," said independent Sacramento broker Brent Gove, a real estate author and host of a weekly real estate show on local radio station KFBK. "What's moving is the stuff that's priced properly."

Slowing on the High End

Gove and other local real estate experts said the higher end of the Sacramento market is less forgiving for sellers than the lower end.

"We're seeing everything under $500,000 is very aggressive," said Gove, adding that he typically is listing 25 properties at any given time, the bulk of them above $500,000. "Everything over five, if it's not priced well, it seems like we're starting to see a bit of a slowdown … homes are sitting longer, clients are noticing."

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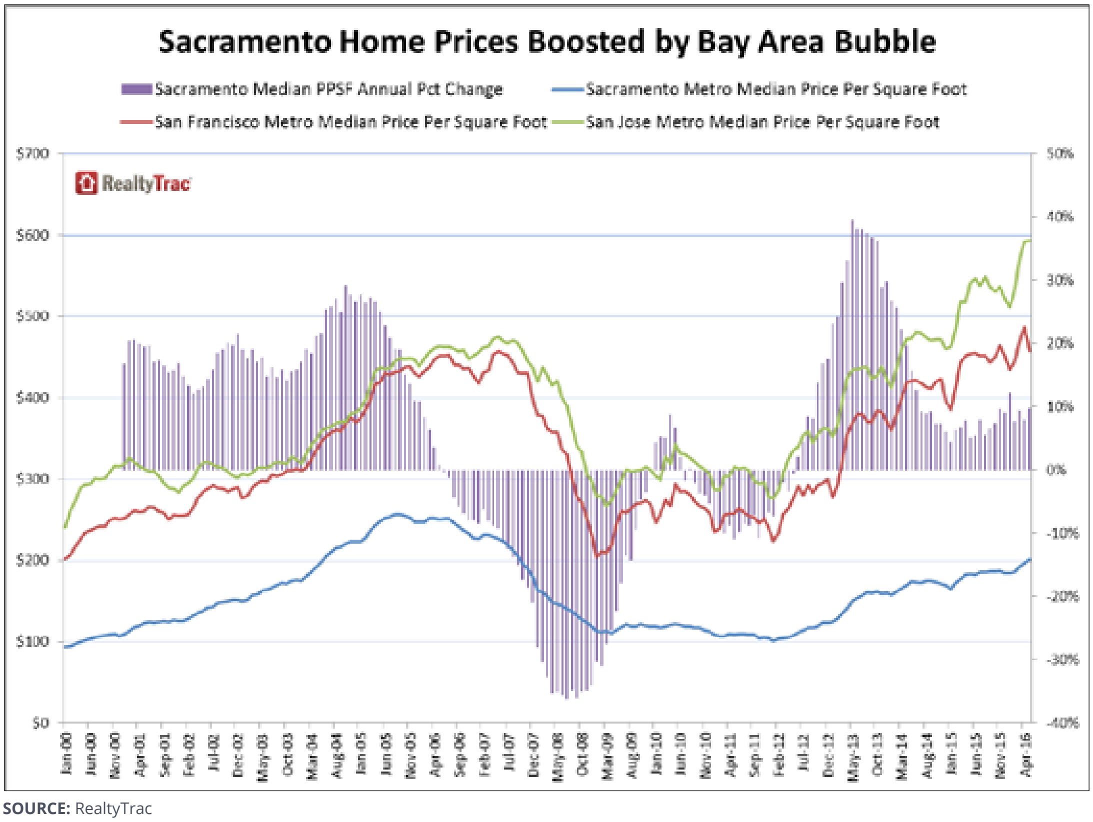

SOURCE: RealtyTrac

The median sales price for single family homes and condos in the Sacramento metro area in May 2016 was $335,000, exactly double (100 percent higher) the $167,500 when home prices bottomed out in January 2012, according to RealtyTrac data derived from publicly recorded sales deeds. The May median home sales price was still 16 percent below the previous peak of $399,000 in August 2005.

Including May, the median price per square foot in the metro area — comprised of Sacramento, El Dorado, Placer and Yolo counties — has increased on a year-over-year basis for 48 consecutive months, hitting a peak annual appreciation rate of 40 percent in May 2013. Relative to that increase three years ago, the median price per square foot in May 2016 increased a modest 10 percent compared to a year ago.

Brent Gove
Broker, author
and local radio show host
Sacramento, California

"Before we could get away with an overpriced home; the market would catch up with it quickly. But we can't get away with that now."

Meanwhile, the median price per square foot for homes that sold for $500,000 or more increased 3 percent in May 2016 compared to a year ago. Annual appreciation in that above $500,000 price range dropped to as low as 2 percent in February this year and decreased 1 percent from a year ago in August of last year, according to RealtyTrac data.

Gove said one of his clients recently passed up on a home solely because it had been sitting on the market for 28 days — considered a long time in the Sacramento market.

"Twenty-eight days, there is something wrong with it. If no one else wants it, I don't want to be the sucker who buys," he said, describing the mentality of his client. Gove explained that the property was originally overpriced, which kept it on the market for so long — a cautionary tale for sellers who think they can get away with

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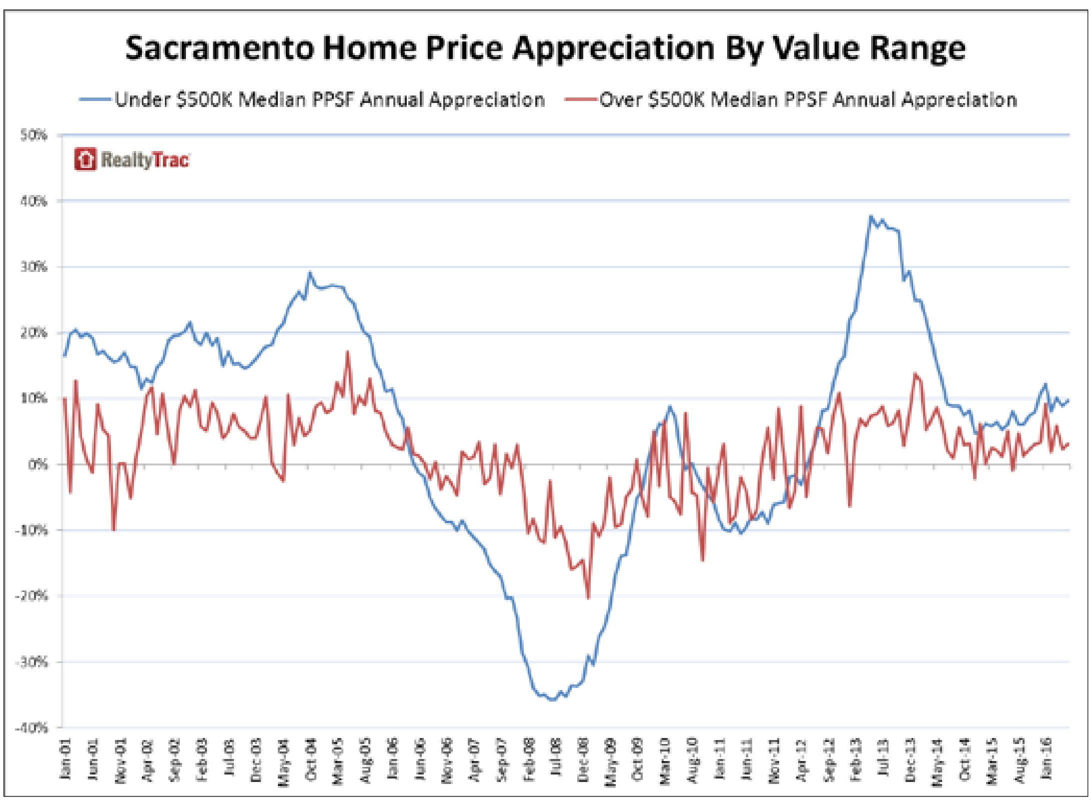

SOURCE: RealtyTrac

holding out for a high price. “You should be in a hurry to sell. You want it to sell in two to three weeks.”

Inventory Inching Higher

Gove said that rock-bottom inventory numbers in Sacramento are starting to inch higher, a trend also observed by Joel Wright, a Sacramento-area broker who carefully monitors local market statistics.

Joel Wright
Broker
Wright Real Estate
Citrus Heights, California

“Our inventory is low, but it is not extremely low like it was at the beginning of 2013 when we had less than 1,000 units (for sale),” said Wright, noting that Sacramento County inventory dropped to a low for 2016 of 1,585 units for sale in March, representing 1.2 months of inventory. Since then, inventory has gradually been increasing. As of June 1, there were 2,081 homes for sale representing 1.3 months of inventory.

While 1.3 months of inventory may sound low, it’s not extremely low for Sacramento County, which has averaged 2.1 months of inventory since January 2009, according to Wright.

“People are thinking you have 1.2 months or 1.3 months of inventory, and if five months is the norm, that’s huge. But that is not the norm for Sacramento,” he said, adding that the market is still very strong for sellers who price right. “As a broker, I’ve seen the properties that are priced right are selling very quickly. The days on market right now for May … is 22.3 days and 9 days for the median.

“Our inventory is low, but it is not extremely low like it was at the beginning of 2013. … People are thinking you have 1.2 months or 1.3 months of inventory, and if five months is the norm, that’s huge. But that is not the norm for Sacramento.”

“You put your property for sale on Saturday, and by the next weekend you have an offer,” he continued. “It is a very fast market, and people are offering very aggressively, and it’s not uncommon for people to offer above market and have multiple offers.”

But the multiple-offer environment is not as frenzied as 2013, according to Wright, who explained that a well-priced home now typically attracts three to five multiple offers, while in 2013 it would attract closer to 20.

Hedge Funds no Longer a Force

Wright and other local market experts point

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SOURCE: Joel Wright

to an influx of home purchases by Wall Street hedge funds and private equity firms in late 2012 and early 2013 as a major driver of the frenzied market at that time. Those firms were primarily purchasing homes as rental properties, but have since been priced out of the market as rising prices have squeezed potential rental returns, or cap rates.

"They were looking at 10 (percent) cap rates, but they actually were getting more like 7 (percent) cap rates because expenses were higher than they thought," said Wright, whose focus is working with real estate investors.

RealtyTrac data shows nearly 15 percent of all single family home and condo sales in Sacramento County were sold to institutional investors — defined as those purchasing at least 10 properties in a calendar year — at the peak in Q4 2012. The institutional investor share of purchases remained above 10 percent for the first half of 2013, but has steadily declined since then, dropping below 1 percent of all home purchases in the first quarter of 2016.

John P. Acord
Broker/Owner
Arda Realty
Granite Bay, California

"When do these (institutional) investors want to start cashing in and start taking their money to another opportunity? And if that becomes a reality, we could have a shock because we would have an influx of inventory."

"They are not a force in the market anymore," said Ryan Lundquist, a local property appraiser, of the institutional investors. "They are still buying, but it's been a drop in the bucket. Nothing that's really swaying the market."

But Lundquist said inventory is remaining tight in part because those Wall Street and private equity firms are holding on to the rental inventory they purchased three years ago.

"The thousand that Blackstone bought are not hitting the market," said Lundquist, who has been in business for 13 years and writes the popular Sacramento Appraisal Blog.

Still, if Blackstone and other institutional investors decide at some point to liquidate their inventory quickly, it could create a drag on the Sacramento housing market, according to John P. Acord, broker/owner at Arda Realty.

"When do these investors want to start cashing in and start taking their money to

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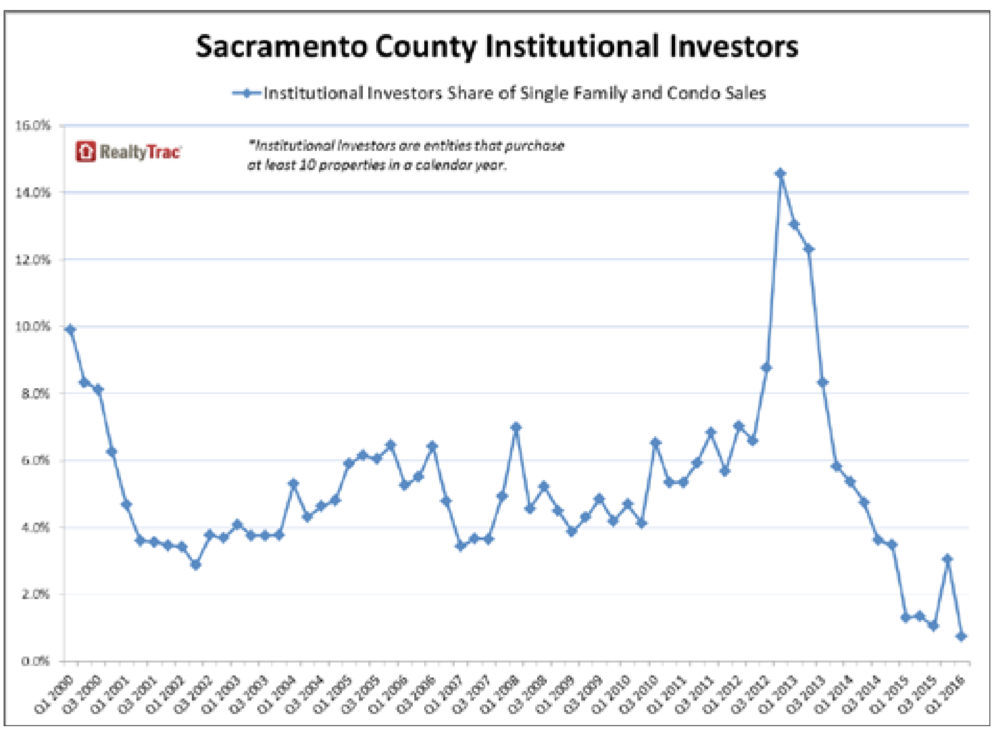

SOURCE: RealtyTrac

another opportunity?" questioned Acord, who has a degree in Chemical Engineering and worked in that field before jumping into real estate nine years ago. "And if that becomes a reality, we could have a shock because we would have an influx of inventory."

Sitting on Low Interest Rates

Lundquist noted that other homeowners who would otherwise be transitioning into "move-up" buyers are not doing so, also contributing to tighter inventory.

"People who bought in 2012, 2013 who are sitting on incredibly low interest rates … Why would (they) move up?" he said, noting that this tight inventory is placing upward pressure on both home prices and rental rates. "Rents have gone up 10 percent last year and are projected to go up another 10 percent this year. … That's a huge, huge issue."

Lundquist cautioned that the rising prices and rents in Sacramento are being driven more by internal supply constraints and buyer perception of value rather than external economic fundamentals and strong wage growth.

Ryan Lundquist
Certified Residential Appraiser
Lundquist Appraisal Company
Carmichael, California

"It's not really wage growth, and it's not really the economy that's driven the housing market. … . You have both values rising and rents rising for sure, and that's a tough market. We just need wage growth to catch up and play a more central role."

"It's not really wage growth, and it's not really the economy that's driven the housing market," he said. "It's not like we're in this extremely healthy place … we still need jobs. You have both values rising and rents rising for sure, and that's a tough market. We just need wage growth to catch up and play a more central role."

Median home prices have risen 95 percent in Sacramento County since bottoming out in Q1 2012 while average weekly wages have risen just 7 percent during that same time period, according to a RealtyTrac affordability analysis using home price data from sales deeds along with average weekly wage data from the Bureau of Labor Statistics.

According to the RealtyTrac affordability analysis, buying a median-priced home in Sacramento County required 39.4 percent of average wages in Q2 2016, still below the historic average of 41.5 percent for the county and nearly half the worst affordability in Q4

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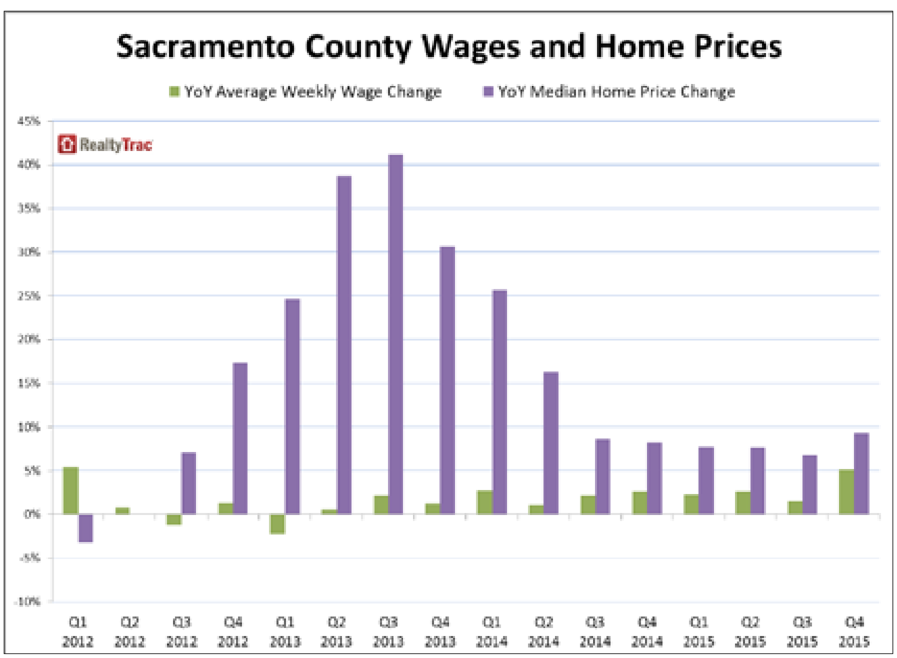


SOURCES: RealtyTrac, Bureau of Labor Statistics

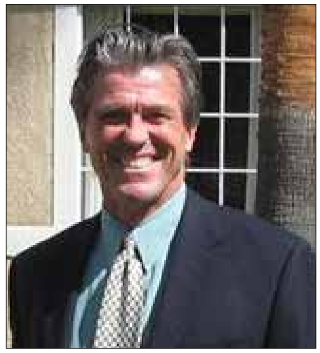
2005, when buying a median-priced home required 76.6 percent of average weekly wages.

"There has been a really frenzied sense among buyers: 'I need to get into the market before prices get too high,' and that reminds a lot of us of 2004 to 2005," Lundquist noted.

Still a Solid Seller's Market

Job creation is not highly correlated to home prices, according to Robert Campbell, who publishes [The Campbell Real Estate Timing Letter]() monthly for 19 U.S. cities, including Sacramento. For that reason job creation is not one of the metrics he relies on to advise his newsletter readers when to buy and when to sell real estate in any given market.

Campbell said all of the metrics he tracks indicate home prices will continue to rise in Sacramento for at least the near term, and he is not yet advising his readers to sell there.



Robert Campbell
Publisher
The Campbell Real Estate Timing Letter
San Diego, California

"There's nothing wrong with bubbles if you know when to exit. You are trying to get off the elevator before the cable (breaks)."

"The Sacramento housing market is still solid and housing prices are likely to keep going up," said Campbell, who noted that his data shows a 9.8 percent year-over-year increase in median sales prices in May in Sacramento County. "That's doing better than San Diego, Los Angeles and a lot of other places."

Campbell also tracks inventory of homes for sale, which his data shows is at 2.9 months and declining from a year ago — indicating that supply is shrinking. Meanwhile, the number of sales in Sacramento increased from a year ago — indicating strengthening demand.

"So while demand is increasing, supply is dropping," he said. "It's a solid market. The pure fundamentals of supply and demand are driving the Sacramento market higher."

Campbell caveated his positive outlook for Sacramento with an acknowledgement that

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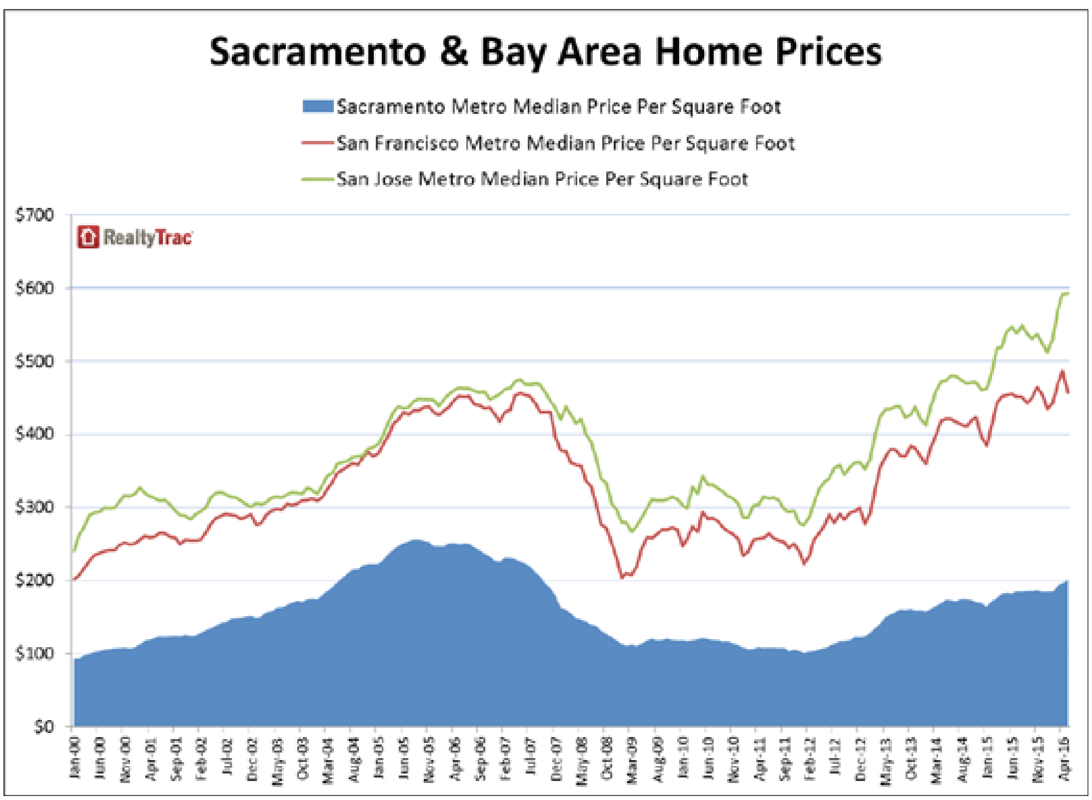

SOURCE: RealtyTrac

real estate agents and brokers in the market often see trends happening about a month before those trends show up in his data.

"They know what's happening before I do because they are on the frontlines," he said, noting that about 25 percent of the subscribers to his newsletter are real estate agents or brokers.

Builder Confidence Climbing

Homebuilders are starting to show more confidence in the Sacramento housing market, according to Campbell.

"New home building permits are the most volatile metric of all, and they are up 63 percent year-over-year, and that is the highest of the five major markets in California that I track," he said, explaining that he views an increase in building permits as a signal of strengthening demand. "Homebuilders, those guys are on the frontline, and they are constantly assessing whether to build more or pull back. And the decision to build more tells you that the demand is there."

Ron Happe
CEO
Main Street Capital Partners
Fair Oaks, California

> *"There is land that has been sitting for nine or 10 years that is now being built on, and quite a bit of it now getting to the point of finishing."*

Renewed builder confidence is evident to Ron Happe, CEO of [Main Street Capital Partners](), a Sacramento-based company that invests in real estate notes across the country.

"There is land that has been sitting for nine or 10 years that is now being built on, and quite a bit of it now getting to the point of finishing," said Happe, who was a fix-and-flip investor before starting Main Street Capital Partners in 2006. "Most of what I'm seeing is spec builders or small developments of 10 to 12 properties. ... The (big brand name) builders have not been here for 10 years. A lot of them are gone."

Caution on the part of larger homebuilders

Continued Next Page

SOURCE: RealtyTrac

during the housing recovery over the past five years has worked in favor of smaller custom builders like Jeff Grenz, a broker with [Equity Properties] who also flips properties and builds custom homes on a small scale.

Jeff Grenz
Broker, builder and flipper
Equity Properties
Sacramento, California

"There is still a lack of inventory in the lower end of the market," he said, referring to the under-$300,000 segment. "The big builders can't fix that because the builders can't build below $350,000 in our area."

"The property we're building right now is an empty nester target property, so that's a Bay Area refugee. … We have sold to Bay Area refugees that just pay all cash."

Bubble Watch: Sacramento v. San Francisco

While Campbell does not believe Sacramento is in a housing bubble, he emphasized that the same cannot be said for San Francisco, located about 90 miles to the southwest.

"San Francisco is the only city in California that to me at this point is clearly in a bubble," he said, noting that even though San Francisco is in a bubble, the data he tracks is not indicating property owners there should sell yet. "It's in a bubble; that doesn't mean prices can't keep rising. … (but) a major crash is coming."

Campbell noted that the last nationwide housing bubble formed as early as 2004, but people could still make money off real estate through 2006.

"There's nothing wrong with bubbles if you know when to exit," he said. "You are trying to get off the elevator before the cable (breaks)."

Housing Not Enough

Campbell and Lundquist both agreed that low interest rates are the primary driver of rapidly rising home prices both in San Francisco and Sacramento.

"The only thing that is supporting the housing market right now is interest rates," said Campbell, who noted that since the year 2000 home prices have risen 70 percent based on the Case-Shiller Index of 20 major cities, but

Continued Next Page

SOURCE: RealtyTrac

55 percent of that increase is directly due to a 5 percent drop in interest rates during the same time period. "The interest rates are in a bubble. Is that going to hold? No. And the Fed's doing it on purpose … to push forward the wealth effect even though the job market totally sucks.

"We're still teetering on the edge of recession, so that tells you that housing is not enough," he added, referring to the national economic picture.

"I think artificially low rates driving prices up; that is a dynamic impacting things," said Lundquist. "And if that were to change that would change the face of the market."

Bay Area Refugees

The housing price bubble in San Francisco is benefitting local players like Grenz, the broker, flipper and custom home builder. The target buyers for Grenz are what he calls "refugees" coming from the San Francisco Bay Area to escape the high housing prices there.

"The property we're building right now is an empty nester target property, so that's a Bay Area refugee," he said, noting that many coming from the Bay Area are retirees who have cashed out of a property. "We have sold to Bay Area refugees that just pay all cash."

Gove, the real estate radio host, said he specifically targets Bay Area buyers given that he primarily lists homes priced at $500,000 or higher.

"We really cater to the Bay Area. We market to the Bay Area," he said, noting that his marketing efforts include high-end photography and paying extra to make sure his listings are posted immediately on key listing sources for prospective buyers. "There are the investors who are paying cash. And then there are the retirees."

Breaking Away From Fundamentals

Gove provided a recent example of retirees from the Bay Area who purchased a $1.1 million home he was listing.

"They are moving to the foothills, five acres on the Bear River, awesome property, dream home," he said. They just sold one that was in disrepair in the Bay Area for $1.3 million."

Acord, the broker-owner at Arda Realty, expressed concern about some of the trends he's seeing in properties with acreage specifically in Placer County, which extends northeast of Sacramento into the Sierra Nevada mountain range.

"Properties that have land are just doing some really crazy things right now," he said. "Prices that just don't make sense

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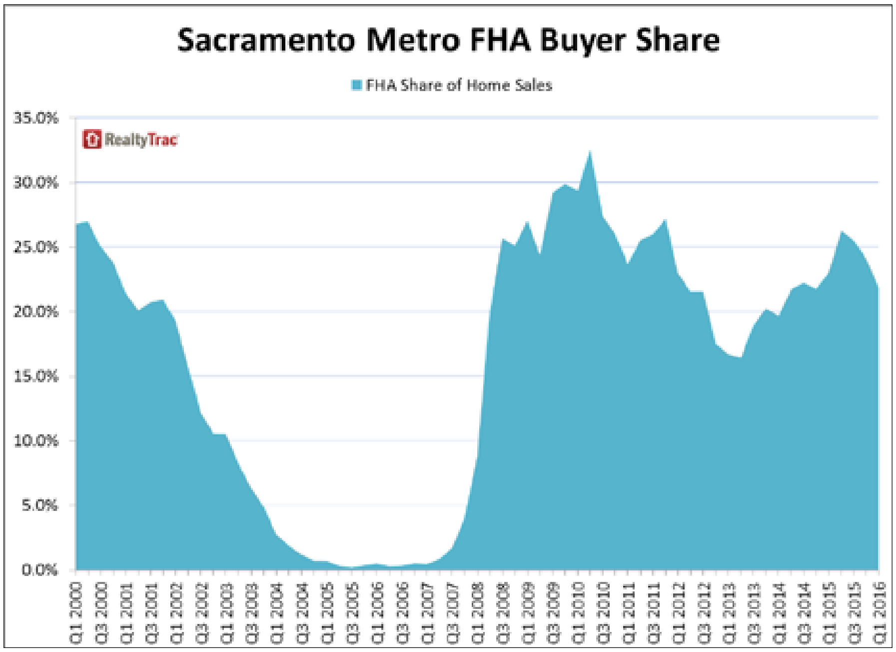

SOURCE: RealtyTrac

— breaking away from fundamentals in my opinion."

Baristas Aren't Buying Houses

Although Gove acknowledged the downward shift in the higher end of the market, he argued that any slump in home prices won't result in another wave of foreclosures as happened in the wake of the last downturn when buyers had little or no equity in their homes and therefore were quick to walk away when the going got tough.

"Is it going to be like the past? No, because we have so many cash-owned properties," he said. "People who have loans …. They are proud of their loan, they are proud of their interest rate. They don't want to let go."

Grenz, the broker, builder and flipper, agreed that lending is much tighter, protecting the market against another foreclosure tsunami.

"Baristas don't buy houses," he said. "Everybody's full vetted these loans. If you're self-employed it's really hard to get a loan. You really have to show everything. People are actually having to show what their income is."

Grenz pointed to continued slow sales at the local foreclosure auctions as evidence that a new wave of foreclosures is not materializing.

"That market is very thin, it's almost closed up completely," he said of the foreclosure auctions, adding that in the past he would attend daily and sometimes purchase properties to flip at the auction.

A total of 470 single family homes and condos had been foreclosed — either sold to a third party investor or repossessed by the bank — at the public foreclosure auctions in the Sacramento metro area through April 2016, according to RealtyTrac data. That's down 19 percent from the 577 homes foreclosed during the same time period last year and 93 percent below the first four months of 2008, when 6,809 homes in the Sacramento metro area were foreclosed.

FHA Buyers Aggressively Bidding

Grenz noted that most buyers of his custom homes tend to be fiscally conservative, coming in with a high down payment, which he believes is a good indicator that they will not default on the loan.

"A 20 percent down payment is more important than a 700 FICO score as far as I'm concerned," he said. "None of the people who bought homes from me in the last 15 years who

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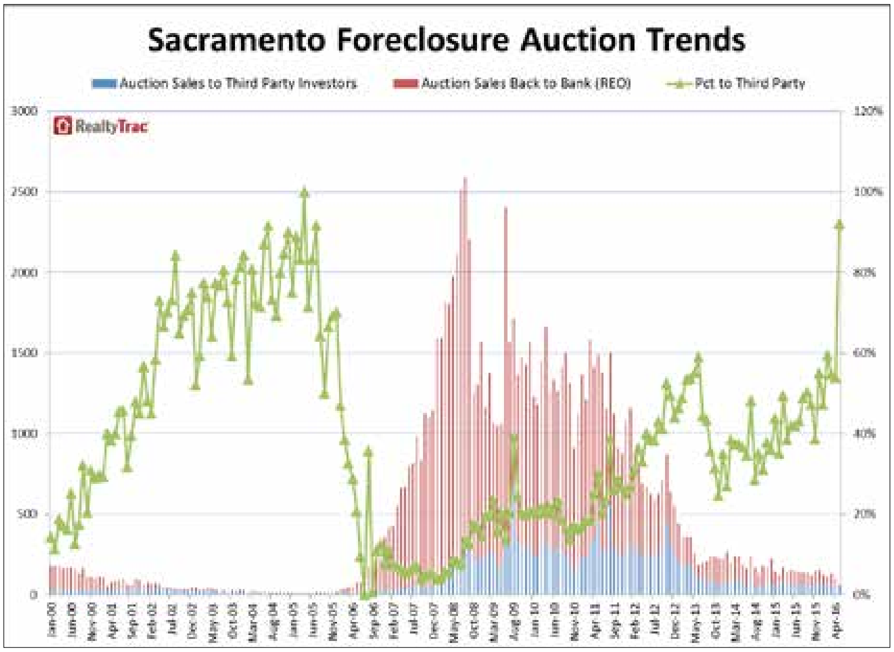


SOURCE: RealtyTrac

put 20 percent down lost their homes to short sale or foreclosure. The three who put no money down they were gone so quick."

While no down payment loans are less common in the 2016 Sacramento housing market than they were 10 years ago, there was a surge in the share of buyers using Federal Housing Administration Loans — typically low down payment loans where the buyer is putting down 3.5 percent — in 2015, according to RealtyTrac data.

The share of FHA buyers was as high as 26.2 percent of all buyers in Sacramento County in the second quarter of 2015, the highest level in more than three years, since the fourth quarter of 2011. Meanwhile FHA buyers represented 16.4 percent of all buyers nationwide in the second quarter of 2016.

While the FHA buyer share in Sacramento County dropped back down to 21.8 percent in the first quarter of 2016, Lundquist noted FHA buyers are often submitting the highest offer in a multiple offer situations, according to feedback he's hearing from agents.

"When I ask agents where offers are coming in at, almost always the highest offer is FHA. And I think that tells us something," he said, noting that because of lower FHA insurance premiums implemented in January 2015, buyers who might otherwise opt for a conventional loan are opting for an FHA loan instead.

Lundquist added that FHA buyers tend to submit higher offers in part because of the low down payment associated with most FHA loans.

"Buyers putting less 'skin in the game' tend to offer more because there is less immediate financial pain by seeing a larger down payment leave a bank account," he explained. "Moreover, prices ripe for FHA buyers tend to have less inventory anyway, so it makes it even more competitive. On top of this, since FHA property standards tend to be more strict, the idea is a higher offer might entice a seller to accept an FHA offer despite the perception of the loan being more strict."

Millennials Teaming Up to Buy

Two buyers who recently purchased a Sacramento-area property with a low down payment loan were the son and daughter of Gove, the radio show host.

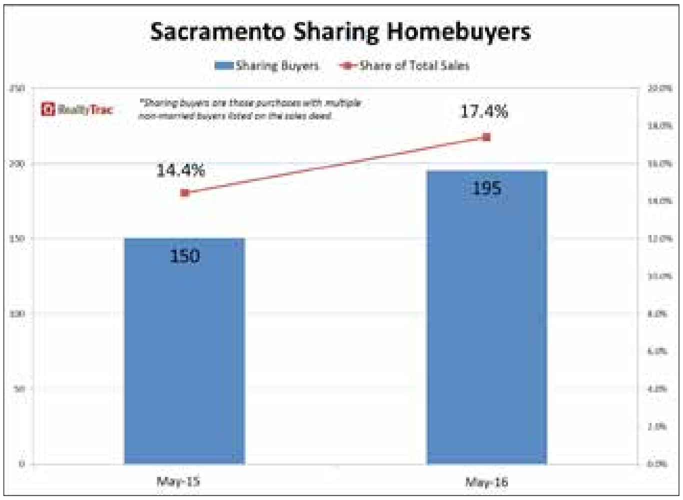
"They teamed up and bought it together. Neither could afford to buy on their own," he said, adding that they only ended up putting $600 down each thanks to a down payment assistance program for first-time homebuyers.

That type of purchase is becoming more common in Sacramento and nationwide, according to a RealtyTrac analysis of buyer name data, which shows that 195 single family home and condo purchases in May 2016 in the city of Sacramento had multiple, non-married buyers on the sales deed. These "sharing buyers" represented 17.4 percent of all home purchases for the month, up from 150 sharing buyers in May 2015 representing 14.4 percent of all home purchases in the city of Sacramento.

Nationwide, 15.8 percent of all home purchases in May 2016 were to sharing homebuyers, up from 9.9 percent in May 2015, according to the RealtyTrac analysis. Cities with the highest share of sharing homebuyers in May 2016 were San Jose, California (44.2 percent), San Francisco, California (40.2 percent), and Seattle, Washington (33.8 percent).

Because Gove's son, 21, and daughter, 23, purchased at good price of $235,000, Gove estimated they each are starting with about $30,000 in equity and a low monthly house payment that is more than covered by rent if they decide to rent the property.

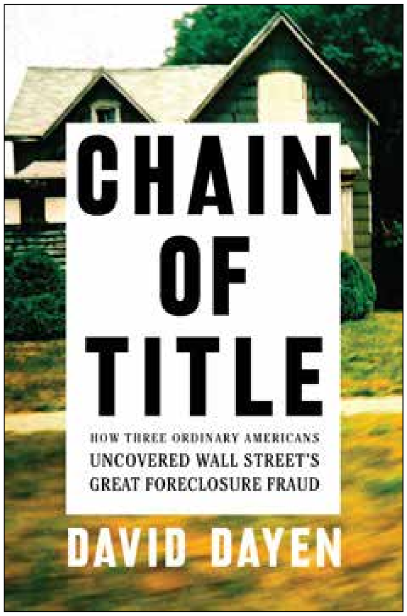
"I don't care if the market goes to hell in a handbasket, they are still cash flowing," he said. "It's always a good time to be buying if you can buy at the right price."



BOOK REVIEW

Is the Mortgage Market Rigged?

By Octavio Nuiry, Managing Editor



When the U.S. real estate bubble burst in 2008, it not only triggered a global recession, a stock market crash, and the collapse of Fannie Mae and Freddie Mac, but it also unleashed a torrent of 7 million foreclosures nationwide, which endangered the entire financial system.

The gripping story of how three Florida foreclosure victims — a cancer nurse, a car dealership worker and an insurance fraud attorney — uncovered the largest consumer crime in American history, is the focus of David Dayen's new book, "Chain of Title: How Three Ordinary Americans Uncovered Wall Street's Great Foreclosure Fraud," (The New Press, 2016, $27.95).

"There is a rot in our democracy, rooted in a nagging mystery that has yet to be unraveled," writes Dayen in the preface. "It gnaws at people, occupies their thoughts, leaves them searching for answers in the chill of the night. Americans want to know why no high-ranking Wall Street executive has gone to jail for the conduct that precipitated the financial crisis."

In "Chain of Title," Dayen introduces readers to Lisa Epstein, a nurse, Michael Redman, a car dealership worker, and Lynn Szymoniak an insurance fraud attorney, whose lives were turned upside down by "banker miscreants." Dayen chronicles their financially and physically draining campaigns to save their homes from Florida's illegal "foreclosure mill" law firms, "so named because they pumped out foreclosures the way a textile mill would fabrics."

"All whistleblowers are a little bit crazy," writes Dayen. "In this case, these whistleblowers, armed with only a few websites and a hunger for the truth, found that the mortgage industry fundamentally ruptured a centuries-old system of U.S. property law; that millions of documents generated to foreclose on people's homes were phony; and that all those purchasing a mortgage in America were taking a gamble that they would be tossed onto the street with nothing, even if they made every payment and played by the rules."

The Great Foreclosure Machine

The author begins this riveting saga with Epstein's foreclosure case in Palm Beach, Florida, followed by Redman, and midway through the book the two protagonists meet via the open comment section on Neil Garfield's anti-foreclosure blog Living Lies, where they came to the conclusion that they were being deceived by unscrupulous lenders and loan servicers, shady lawyers and the Mortgage Electronic Registration Systems, or MERS, a electronic recording system created by big banks and Fannie Mae in 1995 to side-step local recording fees. From there, the homeowners meet other housing activists, including Szymoniak, and the three amateur sleuths decide to investigate the shoddy practices at mortgage companies and take on the foreclosure industry.

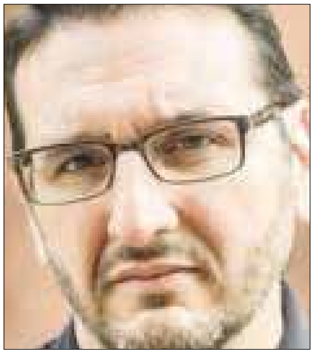
Epstein got her baptism in the shoddy world of foreclosure paperwork in 2009, when she tried to help a brain tumor patient keep her home. She drafted a letter challenging the foreclosure because it was unclear from court papers who owned the tumor patient's home. The Florida judged refused to finalize the foreclosure and the woman remained in her home as the legal wrangling continued.

Redman got his first taste of foreclosure fraud when he tried to help a relative who was facing foreclosure in

Continued Next Page

2008. He tried to determine which of the three or four lenders held the note, realizing that not only did he not know the answer, neither did any of the companies that were seeking payment.

After meeting at a foreclosure fraud seminar, they teamed up together to become two of the nation's most influential civilian foreclosure experts, exposing injustice in the beleaguered foreclosure industry. Over the years, Redman, Epstein and Szymoniak have made their presence known in Florida and nationally through their respective foreclosure fraud websites, 4closureFraud.org and ForeclosureHamlet.org and Fraud Digest (now, The Housing Justice Foundation), respectively


David Dayen

The trio pooled their resources to fight the foreclosure fraudsters — the banks, loan servicers and lawyers they hired. Separately, Epstein, Redman, and Szymoniak allege how they — and millions of home buyers with a mortgage — had been illegally evicted from their homes as a result of dishonesty, greed and deception at the hands of mortgage lenders, investment bankers and unscrupulous lawyers.

In 2008, Szymoniak was served with foreclosure papers on her Palm Beach home. She looked at the foreclosure paperwork and spotted something amiss.

What she uncovered was a real bombshell.

When she looked at the assignment of mortgage, the dates the banks put in was 10/17/2008, several months after they suited Szymoniak for foreclosure. They sued her in July 2008, but the documents said they acquired the mortgage in October of 2008.

Ultimately, what they uncover is that it is difficult to figure out who legally holds the foreclosed loans and mortgages. As Dayen explains in "Chain of Title," in the age of securitization, lenders passed mortgages and loans to another bank, and that bank would pass them on to another, and so on. Some banks lost the documents. Often, the legal documents behind the mortgage weren't there.

Szymoniak's mortgage had been bundled with thousands of others into one of those Wall Street securities traded from investor to investor. When the bank took Szymoniak to court, it first said it had lost her document, including the critical assignment of mortgage, which transfers ownership.

Curious, she went online and researched 10,000 mortgages. One of the strangest signatures on Szymoniak's newly discovered mortgage documents belonged Linda Green. But on thousands of other mortgages, the style of Linda Green's signature changed a lot.

Even more remarkable, Szymoniak discovered Linda Green was vice president of 20 banks — all at the same time.

Caught in a jam of their own making, some lenders resorted to willful forgeries and phony paperwork, writes Dayen. He alleges that judges, prosecutors and even the U.S. Justice Department have all caved to the powerful financial services industry and the deep rot that permeates the property records system.

Szymoniak started a multiyear whistle-blower battle on behalf of the federal government that ultimately made her millions. By 2011, Szymoniak had appeared on *60 Minutes*, exposing the Linda Green robo-signing fraud. A year later, federal officials and the attorneys general from 49 states announced a record $25 billion settlement with five major banks. Szymoniak and five other whistle-blowers split rewards totaling $46.5 million; Szymoniak's take came to $5.5 million.

Dayen is a contributing writer to Salon and a weekly columnist for the *Fiscal Times*. The book won the Ida and Studs Terkel Prize, a literary prize named after Pulitzer Prize-winning Chicago writer Studs Terkel. He also writes for publications including the *New Republic*, the *American Prospect* and *The Guardian*.

Ultimately, "Chain of Title" finds the bank's behavior not only indefensible but criminal. The "rot in our democracy" exposed in this book will not only surprise you, but make you angry — very angry.

TOP 20

Foreclosure rates in the nation's 20 largest metros in May 2016

Rank	Metro	Housing Units Per Foreclosure Filing (Rate)
1	Tampa, FL	588
2	Philadelphia, PA	675
3	Chicago, IL	693
4	Miami, FL	698
5	Baltimore, MD	708
6	New York, NY	976
7	Riverside, CA	1,046
8	Atlanta, GA	1,220
9	Washington, DC	1,221
10	St. Louis, MO	1,267
11	Phoenix, AZ	1,409
12	Detroit, MI	1,475
13	Boston, MA	1,479
14	Minneapolis, MN	1,485
15	Los Angeles, CA	1,692
16	San Diego, CA	1,730
17	Seattle, WA	1,761
18	Dallas, TX	1,827
19	Houston, TX	2,220
20	San Francisco, CA	3,117

MAY 2016

STATE-BY-STATE FORECLOSURE ACTIVITY SUMMARY

State Rank	State	Default	Auction	REO	Total	1/every X HU (rate)	%Δ from April 2016	%Δ from May 2015
	U.S. Total	**28,174**	**38,653**	**34,014**	**100,841**	**1,316**	**-0.09**	**-20.52**
18	Alabama	0	856	731	1,587	1,380	15.42	21.52
46	Alaska	1	15	43	59	5,217	-37.23	-56.93
13	Arizona	0	1,748	726	2,474	1,162	55.70	20.45
39	Arkansas	0	215	287	502	2,648	-1.18	6.36
22	California	3,850	2,743	2,055	8,648	1,594	-10.69	-28.08
40	Colorado	0	529	295	824	2,717	-13.17	-42.74
8	Connecticut	1,049	160	322	1,531	973	26.74	67.51
3	Delaware	249	195	130	574	716	-12.37	40.69
	District of Columbia	0	36	40	76	3,958	-11.63	230.43
4	Florida	3,768	4,272	4,229	12,269	738	-0.94	-44.25
20	Georgia	0	1,475	1,308	2,783	1,478	-5.28	-30.36
21	Hawaii	120	106	123	349	1,504	41.87	11.50
43	Idaho	67	71	94	232	2,911	-33.90	-41.56
6	Illinois	1,901	2,293	1,843	6,037	878	7.31	-12.67
14	Indiana	695	811	887	2,393	1,175	7.02	-17.71
30	Iowa	299	239	188	726	1,857	-19.33	-35.41
41	Kansas	120	258	75	453	2,738	11.58	2.72
38	Kentucky	139	370	252	761	2,548	-9.30	-9.19
24	Louisiana	209	547	400	1,156	1,720	13.22	80.34
23	Maine	321	53	60	434	1,670	2.36	12.44
2	Maryland	1,062	1,267	1,132	3,461	693	-21.36	-23.02
12	Massachusetts	1,236	856	379	2,471	1,140	19.60	70.53
25	Michigan	0	1,270	1,360	2,630	1,723	-5.94	-10.42
32	Minnesota	0	664	580	1,244	1,900	-3.64	28.51
44	Mississippi	0	183	92	275	4,672	-3.85	-1.79
36	Missouri	0	502	749	1,251	2,177	8.22	-20.52
45	Montana	0	38	56	94	5,179	16.05	161.11
35	Nebraska	112	202	57	371	2,171	24.92	5.70
5	Nevada	633	444	316	1,393	851	-11.33	-30.18
34	New Hampshire	0	180	115	295	2,092	-7.52	-19.40
1	New Jersey	2,278	2,254	1,859	6,391	559	1.08	-13.38
10	New Mexico	395	215	269	879	1,032	44.10	-29.23
16	New York	3,535	1,234	1,658	6,427	1,269	19.46	16.64
19	North Carolina	1,032	818	1,209	3,059	1,434	-8.63	-27.56
50	North Dakota	1	0	1	2	166,005	-81.82	-77.78
9	Ohio	1,715	1,736	1,804	5,255	977	-0.62	-21.75
26	Oklahoma	347	287	320	954	1,761	9.40	-28.86
27	Oregon	139	453	343	935	1,803	-16.59	-18.98
15	Pennsylvania	1,135	2,058	1,461	4,654	1,199	2.83	-6.98
11	Rhode Island	0	251	162	413	1,121	9.55	42.41
7	South Carolina	912	782	609	2,303	938	1.19	6.08
48	South Dakota	0	15	16	31	11,909	34.78	-35.42
17	Tennessee	0	1,007	1,148	2,155	1,317	14.14	-62.95
37	Texas	42	2,278	2,165	4,485	2,271	-3.67	-19.22
31	Utah	227	156	145	528	1,893	-23.26	-23.59
49	Vermont	0	8	18	26	12,474	-56.67	-49.02
29	Virginia	0	1,186	647	1,833	1,857	-12.17	-11.28
28	Washington	29	762	785	1,576	1,854	-8.95	-33.02
47	West Virginia	0	99	55	154	5,735	29.41	69.23
33	Wisconsin	556	402	375	1,333	1,977	-17.77	-30.10
42	Wyoming	0	54	41	95	2,792	-33.57	53.23

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