

Newsletter

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Newsletter for
clients and friends
of SUMMiT Properties

BUBBLE BUBBLE TOIL AND TROUBLE ...

By Theresa C. Hite, *BROKER,
CERTIFIED PROPERTY MANAGER*

This well-known line from Shakespeare's Macbeth aptly reflects concerns with the California residential real estate market. Are the ever-increasing prices for homes in California, and in other areas of the country, reflective of a long-term adjustment in the value of real estate or simply an expanding bubble ready to burst when underlying conditions change? Quite frankly, we don't know. However, we thought this would be a good opportunity to present both sides of the argument.

The Bubble is Going To Burst

The respected UCLA Anderson Forecast predicted a pop in the California housing bubble that will send the economy into a recession. This prediction argues that recent increases in housing prices really are a bubble ready to burst. The data supporting this conclusion includes:

- **Risky Mortgages:** A record number of people are buying real estate with interest-only adjustable loans. When interest rates rise, payments on these adjustable mortgages will increase, taxing the ability of the homeowner to keep up. Compounding the problem, many of these mortgages are negative-amortization loans in which homeowners pay less than the interest due and therefore go deeper into debt each year.
- **Quick Turnaround Sales:** Many people have entered the current real estate market in search of quick profits. Due to the rapid pace of real estate inflation, they are frequently able to sell a house within months



FREE CREDIT REPORT

A new federal law gives consumers the right to receive a free copy of their credit report once every 12 months. There are 3 ways to get your free credit report:

- Visit www.annualcreditreport.com
- Call (877) 322-8228
- Write to: Annual Credit Report Request Service, P.O. Box 105283, Atlanta, GA 30348-5283

NO INSURANCE COVERAGE

Be aware that most homeowner's insurance policies do not cover damage caused when tree roots block your sewage pipes. Even if you have no trees on your property, a neighbor's tree can easily cause problems. You may want to consider hiring a plumber for preventative measures before you have a costly problem.

after purchase for a tidy profit. In some locations investors are actually buying unfinished homes from developers and reselling them for a hefty profit when the house is completed before anyone has even moved in. Should prices begin to cool, these short-term investors will be the first to panic, leading to even steeper price declines.

- **Bubble Psychology:** We've never seen this sort of increase in home prices in U.S. history. In the past, home prices have moved pretty much in step with overall inflation

but in the last few years they've outpaced inflation by 60 percent. The current market is mimicking the frenzied investor behavior of the stock market right before its collapse in 2000.

There is No Bubble

- **Supply and Demand:** The supply of new housing is not keeping up with demand, especially in California. Homeownership remains the American dream and strong population growth will continue to fuel this demand. California is expected to add 5 million residents per decade over the next 50 years and Solano County's population is expected to double by 2050. In addition, the increase in the average age of Americans will further increase demand because the older people get the more likely they are to own a home.

- **Global Trends:** Rising housing prices in the U.S. mirror increases around the globe. For example, Australians saw their housing prices increase 54% over the past three years and housing prices in France and Spain have increased 15% in the past year, outpacing America. In addition, several areas of the country, including California, benefit from a new supply of global investors from such emerging markets as China and India.

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Historical Stability: Historically, housing prices have never exhibited bubble-like behavior. While housing prices have declined, the decline has traditionally been much more gradual than less tangible investment alternatives, such as the stock market. And in the longer term, prices have always increased to levels above those seen at the previous market's peak. In addition, unlike the stock market and other less tangible investment alternatives, there is no risk of a house dropping to zero value.

Conclusion

While it is uncertain whether the double-digit percentage increase in housing prices truly represents a bubble, I return to the advice we offered in last quarter's newsletter. Understand your investment objectives and buy well-located real estate that you are prepared to hold for the longer-term.

RESIDENTIAL PROPERTY MANAGEMENT REPORT

By William D. Hite, REALTOR / Residential Property Manager

Local vacancy rates have increased over the past year keeping market rents relatively level with the year before. Vacancy rates in Vacaville increased by 1.5% to 7.4% while Fairfield rose .6% to 5.9%. At least part of this drop can be attributed to renters



Active listing from SUMMiT Properties: 412 Rolling Oak Drive, VV. Great 3 Bedroom 2.5 Bath listed at \$499,950!

LOCAL NEWS

By Theresa C. Hite, BROKER, CERTIFIED PROPERTY MANAGER

Local residents were thrilled to learn that Travis Air Force Base was not included in the Defense Department's list of bases to be closed. In fact Travis' mission will be expanded with the addition of 13 new C-17 Globemaster IIIs in the next year and a half. In addition, Travis is planning to move thousands of military families off base and into apartments in Fairfield, Vacaville, and other surrounding communities.

The high cost of housing in Solano and surrounding counties is making it more difficult for employers to recruit employees from other parts of the country. While Solano County is still relatively affordable compared to many other parts of California, businesses are finding it harder to recruit talent from less expensive areas of the country such as the Midwest and South.

Work on Vallejo Station, a \$56 million waterfront parking lot and transit center expected to help transform downtown,

could begin next year if \$8 million in federal funds are received as expected.

Reader's Digest recently named Jelly Belly the "Best Company Tour in America". Jelly Belly, located in Fairfield, offers a free 40 minute tour showing off it's manufacturing of over 150 varieties of sweets, including their famous "Jelly Belly's".

Vacancy rates for Class A space remained steady at about 7% in Solano County while vacancy rates for business and industrial parks plummeted. In Vacaville vacancy rates dropped from 23% to 14% from 2003 to 2004 while Fairfield dropped from 7.6% to 2.9%. The demand for space in Vacaville is expected to increase as Bay Area firms continue their expansion in search of cheaper land and available labor.

SOLANO COUNTY REAL ESTATE OUTLOOK

By William Hite, REALTOR/Property Manager

Housing in the Vallejo-Fairfield area is the 18th least affordable in the nation, new industry figures show. Just over 16 percent of the area homes sold in the first quarter of 2005 were affordable for those earning the area's median income of nearly \$72,000. This is down from 60 percent affordability in 1999. Our local area was joined by 21 other areas in California in the list of the 25 least affordable areas in the nation. Despite the decrease in the affordability index, median housing prices in Solano County continued to soar reaching \$429,000 in May, an increase of 22.9% from the year before.

who have taken advantage of continuing low interest rates to join the ranks of homeowners.

SUMMiT Properties routinely surveys our tenants to insure we are providing a high level of service. A tenant moving to Southern California recently wrote "If I was the owner of this house I would certainly want your company to manage it. You do a very professional job." We thank them for their kind comments which reflect the attitude we bring to all the rental units we manage.