

## Keeping It Real

Here we are in a world of uncertainty with buyers and sellers playing a new game on a level field. After years of sellers holding buyers hostage with skyrocketing property values, the tide has turned. We in the business see this as a normal cycle. The pundits scream disaster at every turn; this sells newspapers and TV/radio time. The reality is that the rules have changed. Sellers are now negotiating offers to pay buyers' points, association dues and a myriad of creative incentives for buyers. Buyers love it! Some are vindictive; some are just waiting and watching.

The good news for sellers is that we live in an area with relatively low inventory. Santa Cruz continues to be one of the most desired coastal communities. The weather, the scenery and the atmosphere of goodwill is welcoming to many demographics.

To keep it "real," sellers need to examine their motives for selling. If they must move, then it is time to sell their property. If not, it's best to wait and watch market conditions. Sellers who must move need to assess what is



realistic to expect for a selling price, not what they "need." The definition of "need" should be what they owe and how much it will cost to sell (closing costs, including commissions). Sellers should consult with their real estate professional for true comparable sales. Short sales and REO's should not be part of the equation in determining value. Sellers who plan to purchase a replacement property will benefit at the other end because houses they buy will also be at lower prices than previous years.

This is an amazing opportunity for buyers to jump in and take advantage of a tremendous chance to own a home. Realistic buyers will not wait for the "bottom" to make the move. No one knows exactly when the market will turn. Waiting is like gambling. One thing is certain; property values will stabilize and eventually rise again. Anyone who wants to have a great home at a great price and buys in this market will benefit after holding that property for approximately 5 years or more. ■

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### Dear Vanguardian:

**Q:** My agent tells me my home has lost value this year. I am considering selling but I bought just two years ago and paid more than the suggested list price. Will I be losing money if I sell now?

**A:** That's a tough question. The reality is that many factors affect the value of homes in the current market: location, condition and price to name a few. If you don't need to sell right now then my advice is to wait. If you must sell now, you should disregard what you think you need, consider how much you owe and the costs of selling and price your property as close to values of four years ago as possible. My experience tells me that a home priced at 2004 prices will move quickly.

**Q:** I hear there are some great deals now in Santa Cruz; it doesn't seem as if the prices are that great.

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### How do I find the best properties available?

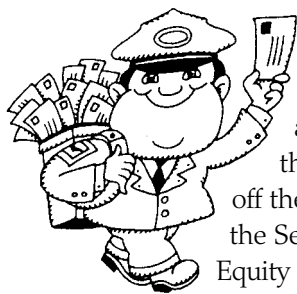
**A:** Santa Cruz properties have held their value better than many areas. Even Watsonville has a different rate of depreciation than Santa Cruz property. The best way to learn about real values is to contact an experienced Realtor. Our agents all have websites that allow clients to search the MLS for listings and specify location, price and whether the properties listed are short sales or bank owned properties. Reviewing properties with your agent is the best way to determine true values.

### Q: What are the definitions of a Short Sale and an REO?

**A:** A home that is a primary residence may end up being sold as a Short Sale or an REO. In a few words, a Short Sale is a case where the lender agrees to sell the property for less than the amount the seller owes. Often there are two or more loans, a First and a Second or a First and an Equity Line. These two loans may be with

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DEAR VANGUARDIAN continued



different lenders. The challenge for sellers is to make a case to those who hold the First and/or Second loans to accept less than is owed. Sometimes there is enough in a sale price to pay off the First and little or no money to satisfy the Second. The holders of the Second or Equity line might refuse to allow the sale. If the second is in the form of a HELOC (home

equity line of credit), the seller may have to agree to a settlement amount and still owe payments after the home has sold. Short Sales are challenging for all involved. The seller must appeal to the lenders for relief and permission to have a Short Sale. There is less damage to the seller's credit if the bank allows a short sale. The sellers' credit rating can be adversely impacted for up to seven years if they are forced to declare bankruptcy. When an offer comes in the seller must accept it before the bank will review it. Bank approval becomes one of the contingencies. Banks do prefer selling a home as a short sale rather than foreclosing on

the property. Buyers need infinite patience when making offers. The bank may take as long as three months to respond and then the answer could be negative or sold to a higher bidder after you are already in escrow. Short Sale purchases are not for the faint of heart. An experienced Realtor is the best resource for navigating this difficult kind of transaction.

REO (Real Estate Owned) or Bank owned properties are another matter. Buyers find these properties easier to close in a timely manner once their offer is accepted by the bank. The challenge here is making an acceptable offer since the price is usually so attractive that there may be multiple offers. Sellers are no longer part of the process once the property is owned by the bank. Often the houses are not left in the best condition. Most bank owned properties require the buyer to agree to take the property in "as-is" condition. There may be assessments and unpaid property taxes that need to be cleared before the property can be sold. A benefit is that once you are in escrow the bank will not accept other offers. ■

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## Santa Cruz County Sales Statistics, August 2008

|                                 | INVENTORY   | NEW        | SOLD       | AVERAGE          | MEDIAN           |
|---------------------------------|-------------|------------|------------|------------------|------------------|
| <b>Single Family Residences</b> |             |            |            |                  |                  |
| <b>County</b>                   | <b>1065</b> | <b>276</b> | <b>153</b> | <b>\$665,674</b> | <b>\$585,000</b> |
| <b>Aptos</b>                    | <b>64</b>   | <b>15</b>  | <b>8</b>   | <b>\$726,937</b> | <b>\$627,500</b> |
| <b>Capitola</b>                 | <b>37</b>   | <b>11</b>  | <b>5</b>   | <b>\$669,437</b> | <b>\$680,000</b> |
| <b>Soquel</b>                   | <b>49</b>   | <b>15</b>  | <b>4</b>   | <b>\$701,375</b> | <b>\$724,500</b> |
| <b>Scotts Valley</b>            | <b>99</b>   | <b>22</b>  | <b>17</b>  | <b>\$886,229</b> | <b>\$859,900</b> |
| <b>Santa Cruz</b>               | <b>242</b>  | <b>53</b>  | <b>32</b>  | <b>\$757,364</b> | <b>\$714,500</b> |
| <b>Condominiums/Townhomes</b>   |             |            |            |                  |                  |
| <b>County</b>                   | <b>229</b>  | <b>61</b>  | <b>31</b>  | <b>\$396,968</b> | <b>\$420,000</b> |
| <b>Aptos</b>                    | <b>15</b>   | <b>3</b>   | <b>1</b>   | <b>\$584,500</b> | <b>\$584,500</b> |
| <b>Capitola</b>                 | <b>21</b>   | <b>3</b>   | <b>1</b>   | <b>\$460,000</b> | <b>\$460,000</b> |
| <b>Scotts Valley</b>            | <b>16</b>   | <b>2</b>   | <b>4</b>   | <b>\$468,750</b> | <b>\$472,500</b> |
| <b>Santa Cruz</b>               | <b>87</b>   | <b>25</b>  | <b>8</b>   | <b>\$453,625</b> | <b>\$454,500</b> |

# Fannie Mae and Freddie Mac Placed into Conservatorship

The U.S. Dept. of the Treasury placed Fannie Mae and Freddie Mac, government sponsored enterprises (GSEs), into a conservatorship. The federal government is authorized to take up to an 80 percent stake in the companies, and, as part of its duties under the conservatorship, will review both Fannie's and Freddie's financial condition quarterly, as well as inject money into the operations as needed.

Under the conservatorship, both GSEs will be allowed to increase their mortgage funding over the next year and a half, then, beginning in 2010, the plan calls for a reduction in their portfolios of 10 percent a year until they have been reduced to \$250 billion. As part of this week-end's action, both CEOs were relieved of their duties and Herbert Allison, former Merrill Lynch vice chairman, and David Moffett, former U.S. Bancorp CFO, were selected to lead Fannie Mae and Freddie Mac, respectively.

While the short-term impact of the Treasury's actions served to calm the markets and restore confidence, in the longer term these entities need to be able to fulfill their historic mission. A privatized Fannie and Freddie will short-circuit the countercyclical role the GSEs have played during precarious times in real estate markets.

Without an institutionalized mortgage-backed securities market, mortgage capital eventually will be less predictable and more expensive, and adjustable-rate mortgages could become the standard loan for home buyers, as could higher down payment requirements. The 30-year, fixed-rate mortgage as we know it will no longer be readily available for most home buyers and may effectively disappear. The result could be a dramatic decline in homeownership rates in California and across the nation.

The GSEs hold or have securitized nearly half—roughly \$5 trillion—of all mortgages in the U.S., and in the current environment with private lender constraints, they account for the vast majority of all new mortgages in California.

We have just recently begun to see an increase in home sales, currently at nearly 490,000 units on an annualized basis, up from 284,000 in the fourth quarter of last year. The most significant, reliable source of home loans in California today are financed by either Fannie Mae or Freddie Mac. California's and the nation's housing markets simply cannot withstand the financial rug being pulled out from beneath them. Additionally, the repercussions this could have on the already weak economy could be devastating.

C.A.R. is urging lawmakers to support continued government involvement in supporting the institutional secondary market and its role in creating homeownership opportunities. While we applaud the U.S. Dept. of the Treasury for increasing the GSEs portfolio limits, we will be asking Congress to enact legislation to ensure the two companies continue to fulfill their mission.

To help understand the role of the GSEs, please take a look at a new video featuring C.A.R. Executive Vice President Joel Singer at <http://www.car.org/newsstand/video-js-gse>. In "Fannie and Freddie: Why They Matter to You," Joel explains the often confusing but critical role Fannie Mae and Freddie Mac play in the housing market in clear and concise terms. ■

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## The Donald Says It's Buying Time

On August 12th, Donald Trump was interviewed on *Good Morning America* about the real estate market. "If you want to buy a house, there's probably never been a better time," he said.

Donald Trump, arguably the most successful real estate investor in the country, said people looking to sell their homes should hold off if they are able to do so. "It's a tough market. It's a horrible market," he said. But "this is the absolute time to buy. It's not the time to sell."

"The fact is that most of the country is very, very weak," Trump said, adding that buyers should use that to their advantage. For those who find themselves in a must-sell position, the man known as "The Donald" said sellers

should make sure the house is in great condition. "It could mean more money for your home," he said.

**On Facing Foreclosure:** Due to the credit crisis, sparked by the flood of irresponsible loans made over the past few years, many Americans are in danger of losing their homes. For these people, Trump said all hope is not lost, even if the bank has filed a foreclosure notice. Why? Banks don't want your home, because they would have to see it in a market already flooded with homes for sale. "The banks want you in that house," he said. "Call your bank. Work out a deal. And above all else, be nice."

A video of the interview can be found at: <http://abcnews.go.com/GMA/Consumer/story?id=5562889&page=1>