

REAL ESTATE MOVES

Through most of the past decade, real estate prices, and in particular home prices, moved downward. Declines in valuation confused homeowners in a golden state not accustomed to economic hardship. Housing, like any other asset, can decline in value but given historical favorable mortgage rates, and rising personal incomes, the median price of housing still fell almost 25 percent.

At some point, forecasters promised, the rules of supply and demand could be expected to halt the fall with increased sales and stabilized prices. Every year real estate forecasters predicted an increase in housing market activity as Sacramento's regional economy moved toward expansion in 1996. Yet the new market equilibrium did not occur until recently.

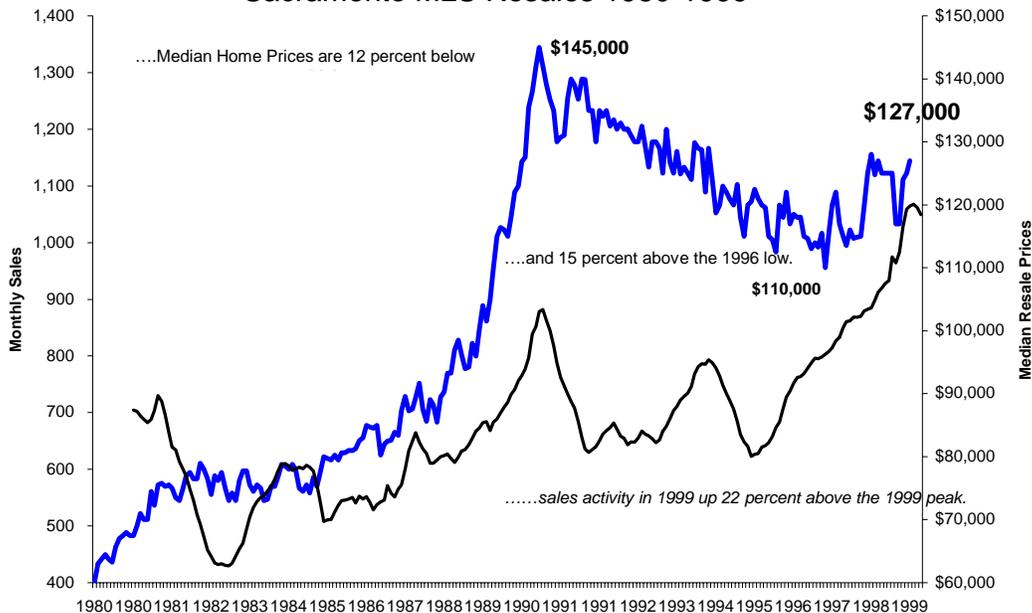
In 1999, the "market" moved into a period of sustainable growth as indicated by the median resale home price. Housing prices are surging upward, suggesting the end of an era for buyers and good news for sellers. Real estate observers rely on the median price of housing as the measure of housing value. This summary number serves as a proxy for a market reasonably divided into many markets.

"There are as many housing markets as there are households" suggested a real estate analyst at a recent conference. Businesses know the value of market segmentation in the sale of cars, cereals, apparel and many other products. The review of segments within the region's housing market can offer some guidance and comfort in the discussion of housing options. Is it the right time to buy, to trade up, and or even retire into another housing option?

The practical approach to analyzing housing moves lies somewhere between analyzing the regional housing market utilizing a summary price or analysis at the household level. First the regional approach: Figure one shows the median resale home price and sales activity for Sacramento County since 1980.

MEDIAN RESALE PRICE & SALES

Sacramento MLS Resales 1980-1999



The chart demonstrates trends between price and sales. Scanning across the time series from left to right one can observe periods of rising prices and falling sales, rising prices and rising sales and falling prices with falling sales.

Six trends in median home price appear; (1) price rises during 1980-1982, (2) a period of stability from 1982-1984, (3) escalating prices during 1984-1987, (4) speculative increases during 1988-1990, (5) the decline from 1990-1997 and the present turnaround that started in 1998.

This chart offers the longer-term analysis of housing purchases. For example the median home cost \$60,000 in 1980, in 1999 the median priced home costs \$127,500 a 112 percent increase or about \$296 per month. It follows that purchases made during 1990 have lost value during the decade. The County assessor's office did reappraise much of the county's housing stock in concert with the decline in the published median home price.

Mortgage rate changes and buyer perceptions impacted sales activity as indicated in slowed sales from 1980-1983 and increasing rates for sales and prices during the 1984-1990 period. The rate of sales remained relatively constant from 1992-1997 with the exception of 1995 when mortgage rates spiked ahead two percentage points. Since 1997 the rate of sales climbed steadily upward, most recently reported at 22 percent above the speculative peak in 1990. Fueled by expectations of further price rises, changes in sales and price moved upward in parallel as the 1999 selling season progressed with the assistance of a favorable interest rate environment.

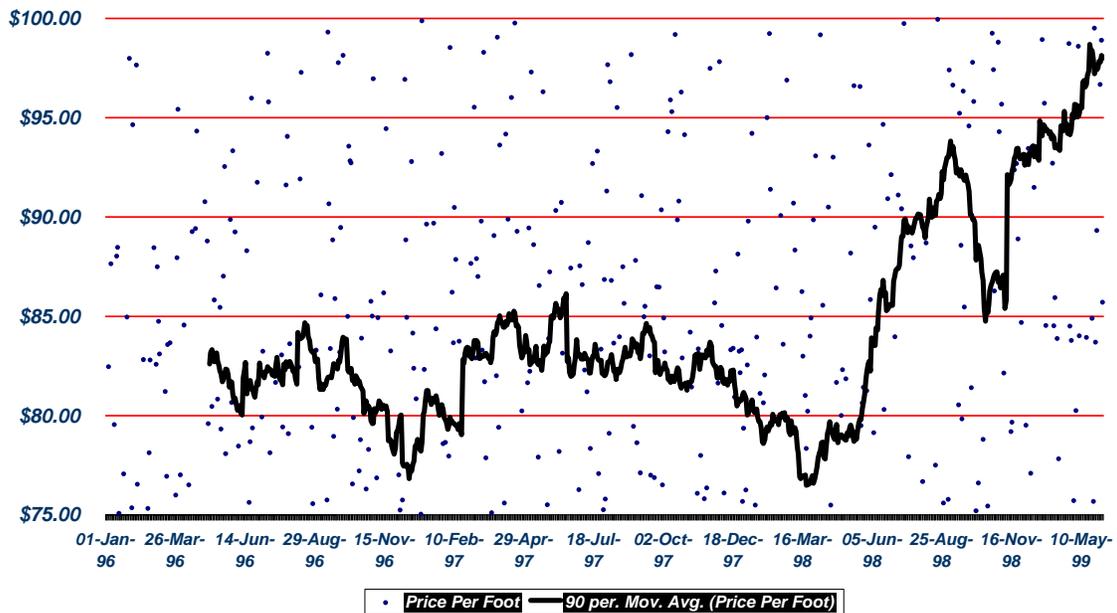
The median price is a traditional and convenient indicator of home price changes but it only attempts valuations on a small portion of area homes, that small portion that are actually traded during any given period. Further, the median price abstracts to a non-existent standard housing product, devoid of structural characteristics and locational factors.

Three general market segments, determined by housing price, can be called starter or entry-level homes, trade-up or premium housing. Starter homes are priced below \$120,000. Trade-up homes range between \$120,000 and \$200,000 and premium homes sell above \$200,000. Differences in layout, construction quality, amenity and location can cause wide fluctuations in prices of these housing choices. To standardize the comparison housing sales can be even further adjusted by home size.

This price per foot approach to the valuation of housing product is shown in Figure 2. Closed resale housing prices, adjusted for size of the home, are chronicled by closing day since 1996. Adjusting home resales by size by the price per foot calculation somewhat standardizes housing characteristics. For discussion, an average price is shown which can overstate value when expensive homes are included in the measure but nonetheless is an understandable measure. The more important consideration housing options is the analysis of change over time.

Figure 2, then, shows the closing price of two bedroom one-bath homes, a product type often considered as an entry-level product or starter home.

PRICE PER FOOT TWO BEDROOM ONE BATH RESALE HOUSING



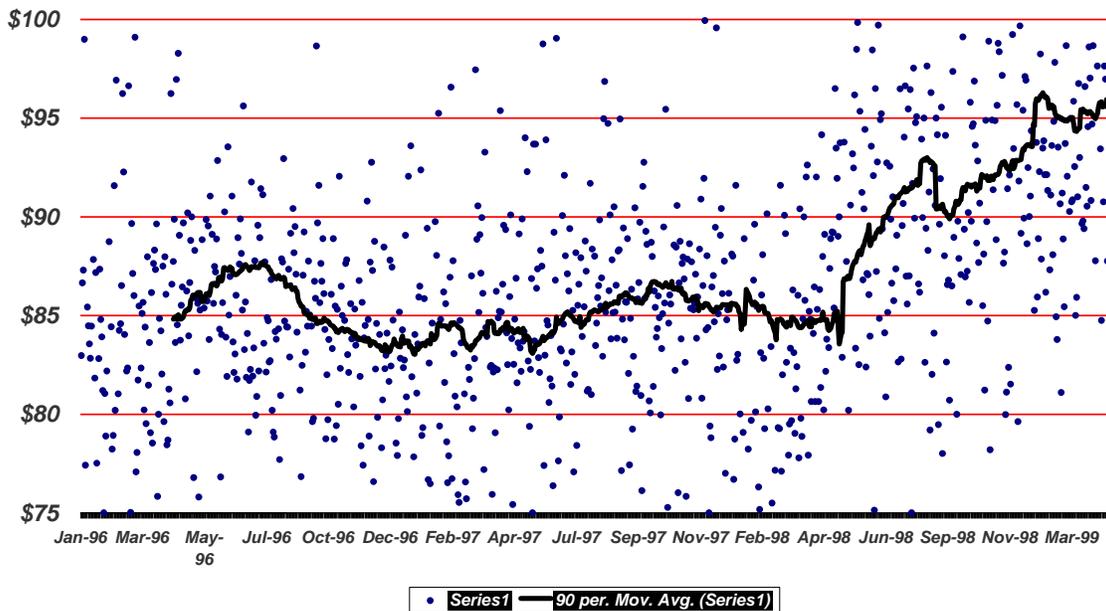
According to sales data these homes averaged around 1,000 square feet of living space. After a period of declining prices from January 1996 to March of 1998, the price per foot of a two-bedroom one-bath resale starter home increased dramatically as the 1998 selling season began. (\$77 per square foot in March 1998 compared to \$97 in May of 1999). On a percentage basis the chart indicates a rate of increase of 26 percent, an amount greater than the 25 percent lost (\$145,000 in 1990 to \$110,000 in 1998) during the slowdown according to the median home price.

The chart shows another aspect of market analysis. The dots on the chart represent the actual daily averages and are quite volatile still showing the differences in quality and neighborhood characteristics.

As the 1999-selling season moved into its 6th month, prices per square foot rose from \$90 to \$95. End of the year selling pressure is shown in the price data as investors sold the smaller two-bedroom one-bath houses

A more usual housing choice, the three-bedroom two-bath home averaging 1500 square feet, appears in figure 3. Again, this product shows a rapid price escalation that began in 1998 and continues during 1999.

PRICE PER FOOT THREE BEDROOM TWO BATH RESALE HOUSING



Neighborhood considerations impact housing selling prices. Map one shows price per square feet of Sacramento housing plotted by sale location. 1998 and 1999 sales are grouped into categories of \$75 per square foot, between \$75 and \$125 per square foot, and above \$125 per square foot and plotted with increasing triangles. Small triangles indicate sales below \$75 for all product types, and the larger triangles evidence sales above \$125 per square foot. To estimate the prevailing average sales price for a neighborhood or community a simple calculation by product type is required; 1000 square feet times price level for a two bedroom homes, and 1500 square feet multiplied by price level for a three-bedroom house.

The map offers a further breakdown of housing prices by neighborhood. Clusters of prices are observable on the map. A larger percentage of housing sold in the McKinley Park and South Land Park markets sold at the premium level as evidenced by the larger triangles. These are central locations with low commute costs. The grouping of higher priced homes moves south toward the Pocket area and northeast along the American River and on into Folsom. Other communities show scattered evidence of higher priced housing sales especially between the Freeways Highway 50 and Interstate 80.

Areas selling for the middle price range included the Carmichael area, Tahoe Park, Elk Grove Laguna, the Pocket and Antelope. Areas selling at lower prices included North Sacramento, Oak Park, Mack Road and North Highlands. Housing markets tend to cluster or group as shown in the Central City, along the Rivers and in North Sacramento and areas in South Sacramento.

Earlier charts suggested strong movements in home prices, especially during the past year. The map shows a one period view of housing prices. Since prices seem to cluster and since prices are rising, homeowners can expect increases in prices at the margins, those areas where \$75 per square foot sales are merging with \$75-\$125 sales. As the selling season progresses the number and location of mid level sales will increase.

Real estate moves represent major decisions whether they involve the regional price data discussed or the actual decision to purchase or sell at the household level. Sacramento's real estate market is clearly on the mend, where prices are rising at a sustainable rate, and where concerns for affordability will soon surface. These changes in demand will change the complexion of neighborhoods as can be observed in the northeast quadrant of the central city. The map shows the gradient of price between neighborhoods and can function as a guide to the real estate investment decision. In a rising price environment the sophisticated real estate move will be along the highest gradient, in neighborhoods where the pattern of price per foot is in transition.