Weekly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from first tuesday

November 4, 2013 • Vol. 2 • Issue 42 • *REIT values and cap rates rest on mortgage rates*

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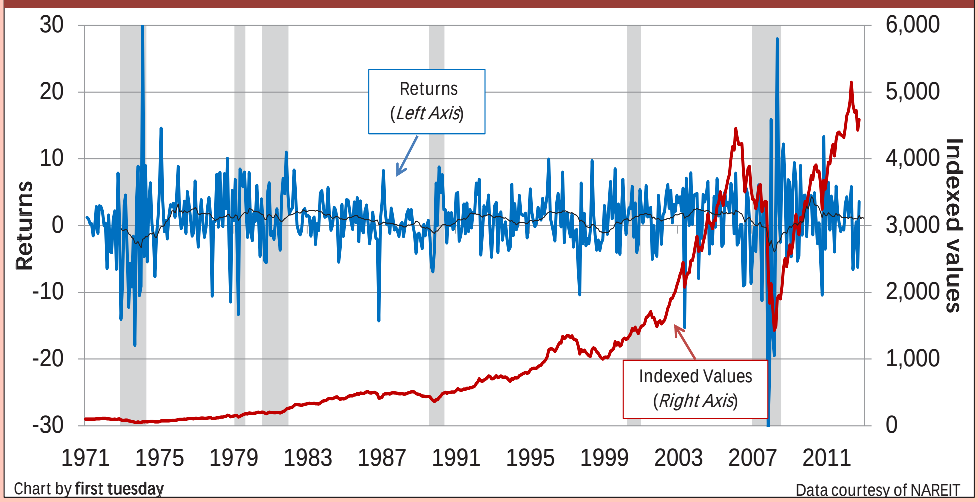
REIT values hit a 30-year high

This chart shows **Real Estate Investment Trust (REIT)** values and returns. Owning REITs is one way to invest in real estate without direct ownership.

REIT stock prices and annual returns fell slightly in Q3 after peaking in the prior quarter. However, prices remain at a 30-year high with **insufficient inflation** for support. REIT investors need to be concerned about present stock market and real estate highs – and yes, both are high!

Looking forward, when **short-term interest rates** begin to permanently rise around 2015, REIT share prices will fall. At the same time, mortgage rates will rise, causing **capitalization (cap) rates** to climb as property buyers react to increasing mortgage rates. Thus, the value of properties held by REITs will drop to offset these expectations, even as rental income rises.

REIT Indexed Values and Returns



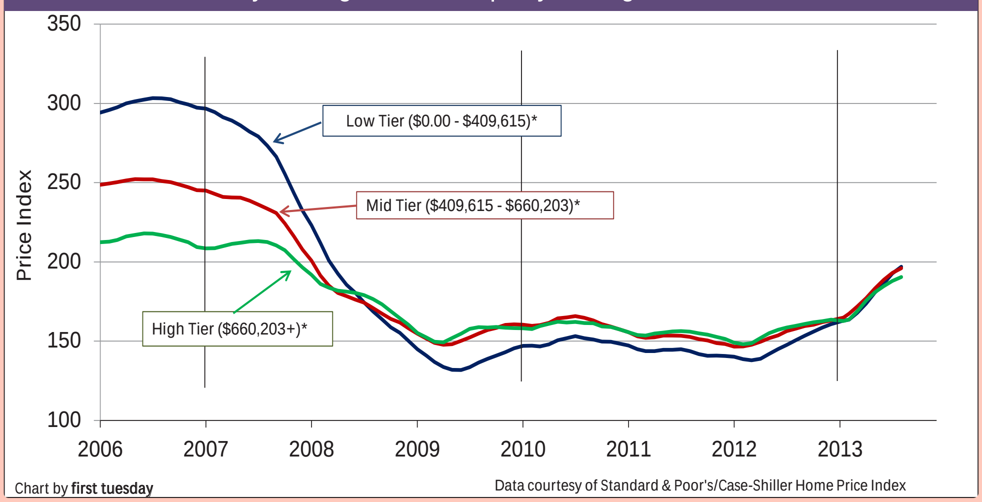
Pricing mini-bubble to burst

This chart indexes sales **price fluctuations** by price tiers of single family residences (SFRs) for Los Angeles, San Francisco and San Diego.

Home prices for all three tiers continue their ascent in California's three largest cities. The largest increase took place in low-tier property sales, which remained a **suicidal** 30% higher than one year earlier. Mid-tier home prices increased by 24% and high-tier prices rose 19% over one year earlier.

Much like in 2009, today's price trend is a **mini-bubble**, this one induced by speculator interference, not tax stimulus. However, the current low-tier price trend faces headwinds of insufficient personal income (jobs), rising fixed-rate mortgage (FRM) rates and new construction. Going forward, as the **speculative frenzy** cools and mortgage rates rise, prices will most likely decrease in 2014.

Tri-City Average Tiered Property Pricing: 2006-Present



Mortgage rates continue to slip

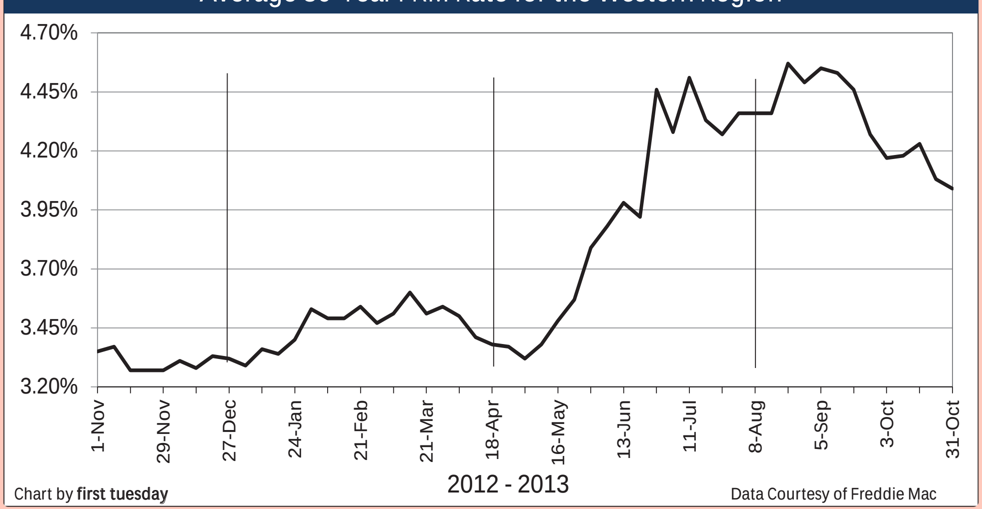
This chart tracks the **30-year FRM rate** in California.

The average 30-year FRM rate fell back to 4.04% as of October 31st. This is up from 3.35% one year ago, and just below the two-year high experienced in mid-August.

In the process, the spread between the 30-year FRM rate and the 10-year Treasury Note rate decreased slightly to 1.5%, still above the **historical spread** of 1.4%. Thus, borrowers are slightly overpaying for mortgages.

As the economy improves, mortgage rates will rise further. This rise places upward pressure on cap rates and suppresses property prices. This forward condition is unlikely to inspire much **investment momentum** in the near future, even as rents and absorption rates rise.

Average 30-Year FRM Rate for the Western Region



Click on any chart for more information!

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