



THE CRABTREE REPORT ©

By Gary Crabtree, SRA



BAKERSFIELD HOUSING MARKET CHARACTERISTICS FOR THE MONTH OF JULY 2008

CATEGORY	JULY 2008	JUNE 2008	JULY 2007	M to M %	Y to Y % CHANG
CURRENT LISTINGS	3,293	3,232	4,136	1.9%	-20.4%
EXISTING HOME SALES	563	552	317	2.0%	77.6%
NEW HOME SALES	103	126	138	-18.3%	-25.4%
NEW HOME MEAN PRICE	\$276,461	\$285,712	\$320,176	-3.2%	-10.8%
NEW HOME MEDIAN PRICE	\$255,000	\$265,250	\$304,500	-3.9%	-16.3%
EXISTING MEAN ACTIVE LIST PRICE	\$235,665	\$240,719	\$335,203	-2.1%	-29.7%
OVERPRICE INDEX	3.1%	1.7%	0.6%	1.4%	2.4%
EXISTING MEAN SALE PRICE	\$210,911	\$224,934	\$314,983	-6.2%	-33.0%
EXISTING MEAN SALE PRICE PER SQ.FT.	\$122.62	\$126.79	\$178.06	-3.3%	-31.1%
EXISTING MEAN LIST TO SALE PRICE RATIO	97.3%	97.9%	96.5%	-0.6%	0.8%
EXISTING MEDIAN SALE PRICE	\$190,000	\$200,000	\$273,000	-5.0%	-30.4%
UNSOLD INVENTORY	5.8	5.9	13.0	-0.1%	-55.2%
MEDIAN DAYS ON MARKET	35	33	46	6.1%	-23.9%
AVERAGE DAYS ON MARKET	65	54	62	20.4%	4.8%
BUILDING PERMITS	91	111	190	-18.0%	-52.1%
NEW LISTINGS	1,288	829	1,174	55.4%	9.7%
NEW PENDING	628	662	294	-5.1%	113.6%
OFF MARKET	663	757	940	-12.4%	-29.5%
DISTRESSED LISTINGS	1,983	1,915	593	3.6%	234.4%
DISTRESSED/TOTAL RATIO	61.5%	63.1%	14.9%	-2.5%	312.8%

Sources: Bakersfield Association of Realtors Listing Service, FARES Real Quest, City of Bakersfield, Kern County Recorder.

Unsold inventory = Active Listings / Total Existing Home Sales

Overprice Index = Active Mean List Price / Existing Mean List Price of Sales

BAKERSFIELD VERSUS STATE COMPARISONS FOR JUNE 2008

CATEGORY	BAKERSFIELD	CALIFORNIA	DIFFERENCE
Existing Home Sales	77.9%	17.5%	60.4%
Median Home Price	\$200,000	\$368,250	54.3%
Month / Month Price Change	(2.7%)	(4.3%)	1.6%
Year / Year Price Change	(29.8%)	(37.7%)	7.9%
Unsold Inventory Index (months)	6.0	7.7	1.7
Median Time on Market (days)	31	49	18
1 st Time Buyer Housing Affordability Index	54%	44%	10%

LOCAL VERSUS STATE COMPARISONS

The May 2008, Bakersfield market surpassed the rest of the state in performance in all but one category. I attribute the superior performance to Bakersfield's rapid return to affordable pricing. Based upon the affordability index almost 1 of every 2 first time homebuyers now can afford to buy however the state's pricing is declining at a much more rapid rate, thus their affordability is close to competing with the Bakersfield market. The Bakersfield market is showing signs of a second slow down as loan underwriting and lack of availability of credit begins to take its toll.

ANALYSIS AND COMMENTS

SUPPLY VERSUS DEMAND (Charts #1-8)

Total market supply of existing homes increased slightly last month to 3,293 and is significantly lower than last year's 4,136 by 20.4% in spite of a 12.3% increase in foreclosures that will continue to impact the market as last month's Notices of Trustees Sales set an all-time record of 1,232, up 19.7% from last month and 249% from the same period last year. 91 new building permits were issued last month with the year to date total being 46.1% fewer than the same period last year. New listings however, increased dramatically last month by some 459 or 55% signaling an upcoming increase in supply due mainly to the increasing number of foreclosures and a declining demand as we approach the end of the "peak marketing season". On the demand side, the sales activity of existing homes increased 2% over last month and 77.6% from the same period last

year. The bittersweet statistic is that 71% of this increase is directly attributable to the sale of foreclosed properties. New construction sales declined 18% over last month and 25% less than the same period in 2007. Pending sales declined slightly to 662 on down 5% from the month previous. Your attention is directed to Chart #16 for the graphic display of the REO “burn rate” which expresses the ratio of REO sales versus the new foreclosures for the month. Last month the ratio was 1 to 1.8 or for every REO sold there were 1.8 new foreclosures. Using an annual “running” average, the “burn rate” was calculated at 2.4 years or November, 2010.

PRICE TRENDS

Last month the median price declined another 5% to \$190,000 or \$83,000 and 30.4% from the same period last year. The existing mean price declined 6.2% over June and is 29.7% below the same period last year. Based upon the mean unit price, the market reached \$122.62 per square foot last month, or 3.3% below June and 31.1% below the same period last year. According to my data, this month’s median price is equal to the median price of the same month of 2004. (See Chart #5) The new home sales median price declined 3.9% last month and 16.3% over the same period last year. The “distressed” market, brought about by continuing record foreclosures, is negatively impacting the pricing as the table below indicates, with 61% listings and 71% sales being “distressed”.

Market List Price	Distressed List Price	Difference	%	Market Share
\$259,970	\$149,888	\$110,082	42.3%	61.5%
Market Sales Price	Distressed Sale Price	Difference	%	Market Share
\$245,000	\$172,750	\$72,250	29.4%	71.0%

The market continues to be severely impacted by the foreclosure and “short” sales as indicated by the above chart. The downward pressure on pricing continues to exert itself as indicated by the median “distressed” list price being \$22,800 or 13% below the median distressed sale price last month. In the meantime, the “arms length” market is 30% to 40% above the “distressed” market with typical list to sale price ratios.

NEW CONSTRUCTION VERSUS PRE-OWNED COMPETITION (Chart #9)

The new construction mean price is above the existing home mean price by 31% with the new construction median 34% above the existing, however when comparing the two by the price per square foot the mean new home is selling only 2.7% above the existing unit price. Much of this disparity I attribute to the unknown amounts of seller “incentives” and concessions that are “built in” to the new home sales prices.

For 2008, the following chart depicts the top five builders in new home sales:

Builder	# Sales	Mkt. Share	Mean Price	Median Price
Lennar Homes	125	22.4%	\$252,832	\$252,000
McMillin Homes	101	18.2%	\$332,946	\$301,000
Castle and Cooke	66	11.9%	\$339,250	\$289,500
K. Hovnanian	65	11.7%	\$260,531	\$257,500
Centex Homes	50	9.0%	\$276,649	\$231,250

BUILDING ACTIVITY (Chart #10)

According to the City of Bakersfield’s Building Department, 91 single family building permits were issued in June 2008. The total permits pulled year to date are down 46.1% from the same period last year. Based upon the year to date permitting, the following are the top five builders based upon permits pulled:

Builder	Permits	Mkt. Share
Lennar Homes	169	24.4%
Mc Millin Homes	114	16.5%
Standard Pacific Homes	92	13.2%
Custom Home Builders	43	6.2%
Castle and Cooke	30	4.3%

INTEREST RATES (Chart #11)

Interest rates on 30 year fixed rate loans increased 11 basis points last month to 6.43% and 27 basis points below the same period last year. This increase represents the third consecutive month the fixed rate has increased. For the fifth consecutive month the 5 year ARM and saw an increase of 16 basis points to 5.93%. The 11th District Cost of Funds declined 8 basis points from last month to 2.83% and down 145 basis points from the same period last year. The 6 Month LIBOR rate increased 11 basis points last month to 3.12%. The Wall Street Journal Prime Rate, an index for credit lines, remained stable at 5.0% last month and is down 325 basis points from the same month last year. The fixed rate increase adds \$7.20 per month per \$100,000 borrowed.

DELINQUENCY AND FORECLOSURE REPORT (Charts #12-13)

The following chart reports the Notices of Delinquency (Default), Notices of Trustees Sales, and the Trustees Sales (Foreclosures). The table below will reflect the data in a similar format to that of my statistical cover sheet:

Category	Current Month	Last Month	Last Year	M to M% Change	Y to Y% Change
Notice of Default	1,227	1,259	780	(2.5%)	57.3%
Notice of Trustee's Sale	1,232	1,029	353	19.7%	249.0%
Trustee's Deed	925	823	237	12.3%	290.3%

Based upon the trend analysis presented in the attached chart a trend of declining Notices of Default was noted, however the trend of increasing Notices of Trustee's Sales and Trustee's Sales continues.

THE IMPACT OF DISTRESSED PROPERTIES ON THE MARKET (Charts #14-16)

During the months of September 2007 through July 2008 I have researched the impact that the foreclosures and subsequent re-sales are having on the market and losses suffered by lenders in both the sub-prime and conventional markets. The following is a summary of the results of my continuing study.

# of Properties	Gross Sales Price	Gross Loans	Loss	Loan Loss Per Home
1,671	\$345,746,687	\$546,274,852	\$200,274,852	\$114,928
Mean Sale Price	Mean Sale Date	Previous Sale Price	Previous Sale Date	Price Decline per Home
\$227,235	2/14/2008	\$365,758	3/14/2006	\$138,523
Purchase Loan	Refinance	Hispanic	Asian	Other
63.4%	36.6%	54.6%	4.1%	41.3%

Based upon the data, lender loan losses over the past eleven months have totaled \$200.3 million dollars. The purchase loans versus refinance ratios remain unchanged at 2 out of every 3 defaulted loans being the result of a purchase. **Based upon the above the REO properties have a 19.6% annum decline rate while the rest of the market declined at a rate of 9.9% per annum.**

Based upon a survey of the 1,681 sales by surname, 54.6% of the foreclosures were attributable to the Hispanic market.

Based upon a list of properties reported in the *Bakersfield Californian* newspaper related to Crisp and Cole Real Estate, \$22 million or 11% of the lender losses are directly related to that list. The average lender loss for these properties was \$278,561 per home versus \$114,928 or 142.2% higher than the market in general. Of special interest this past month were two properties located at 11504 Haydock Court that experienced a lender loss of \$750,000 and 11219 Draper Court that experienced a lender loss of \$785,000. **The later property was the largest lender loss on a foreclosure in Bakersfield history.**

OPINIONS

In general, the Bakersfield market continues to “out perform” the state as a whole during this market correction. Pricing continues its record decline as 70% of all of the sales are attributable to “foreclosed” properties. As we approach the end of the “prime marketing season”, demand will decrease and supply will increase placing further downward pressure on prices. There also appears to be a “shadow supply” of REO properties in the Bakersfield area. Based upon my estimates there have been a total of 4,538 foreclosures in the Bakersfield market in the past twelve months. During that same period there have been a total of 2,075 REO sales through the MLS with a current listing inventory of 1,003 homes, thus leaving approximately 1,460 homes that are unaccounted for. If this data is correct, I expect to see a significant rise in supply in the “off peak” season which will further drive pricing downward.

The trend of foreclosures of undeveloped residential use land is continuing and K. Hovnanian announced last week the “indefinite shut down” of their two tracts in the City in the Hills project. Based upon a public records search, 88 of the 433 parcels have been sold leaving 80% of the tract undeveloped. Based upon 2008 absorption rates, build out would be four years. Of the homes sold in these tracts since the first of the year, the mean price was \$269,204 for 2,432 square feet for a mean unit price of \$111.68 per square foot.

As far as demand, some REO properties that are “under priced” are receiving multiple offers but mostly accompanied by up to 6% in seller concessions. There is antidotal evidence that “investors” are re-entering the market to purchase REO properties as rentals to the homeowners that have lost their homes to foreclosure in the past year. A cursory search in “Metroscan” indicates that of 3,095 properties sold since the first of the year, 529 or 17% have been posted with absentee owners by the Kern County Assessors Office. With last months median “distressed” sale price of \$172,750, the property will have a positive cash flow with a 20% down payment with a rent of \$1,200 per month.

Other “red flags” for the market were noted with continued rising unemployment, up another .4% last month and 1.8% from the same period last year. According to the Employment Development Department, job losses came from the financial, professional and business, leisure and hospitality with the largest (5,000) coming from the government sector. This was off-set with the addition of 6,500 lower paying farm jobs. The retail sales figures continue to decline thus resulting in a deepening of the recessive economy.

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Chart #1

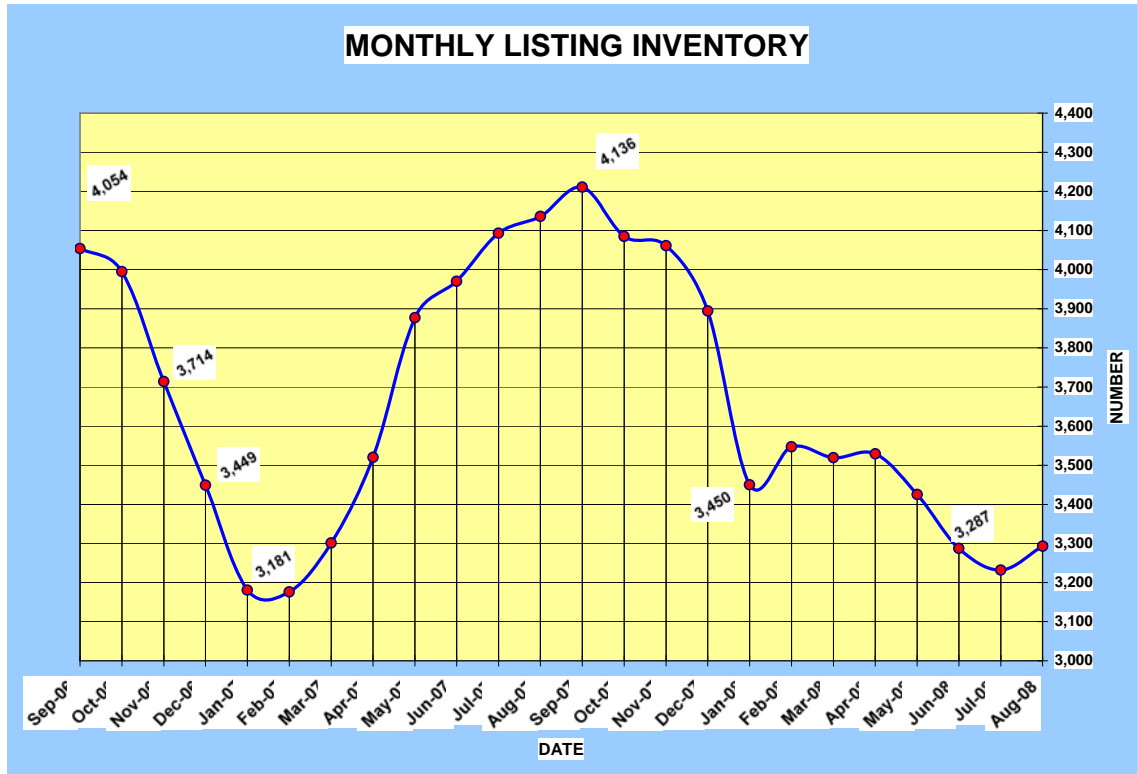


Chart #2

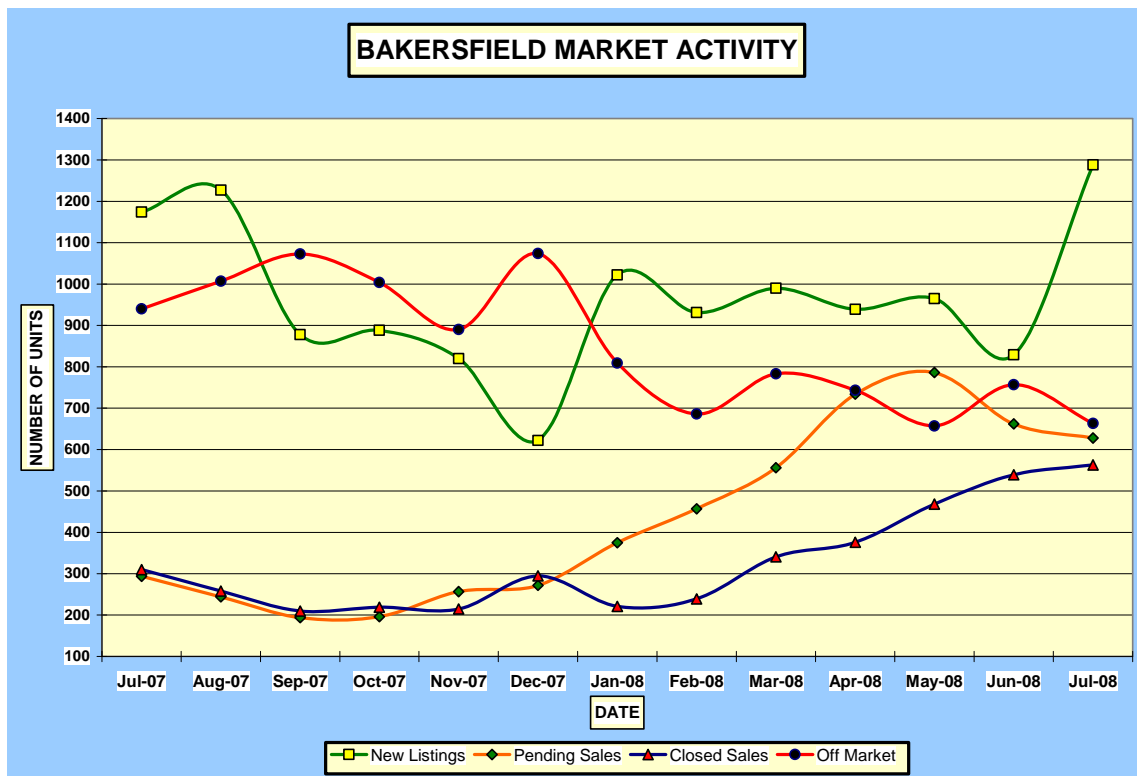


Chart #3

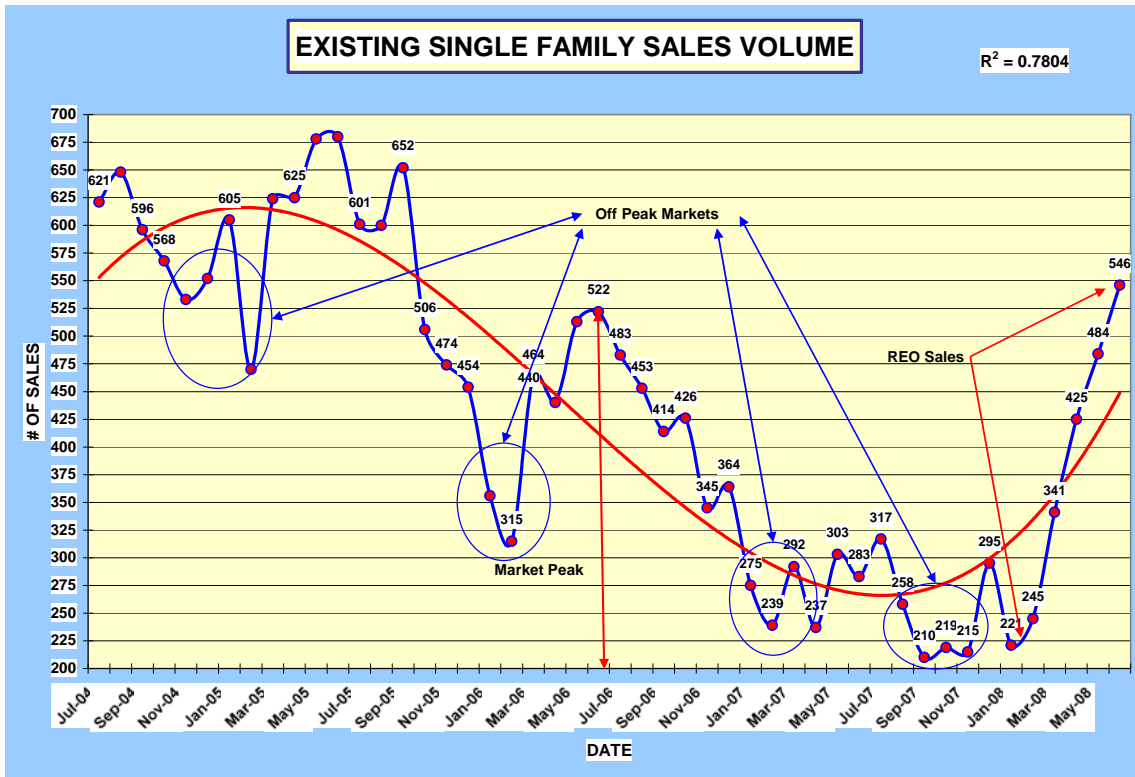


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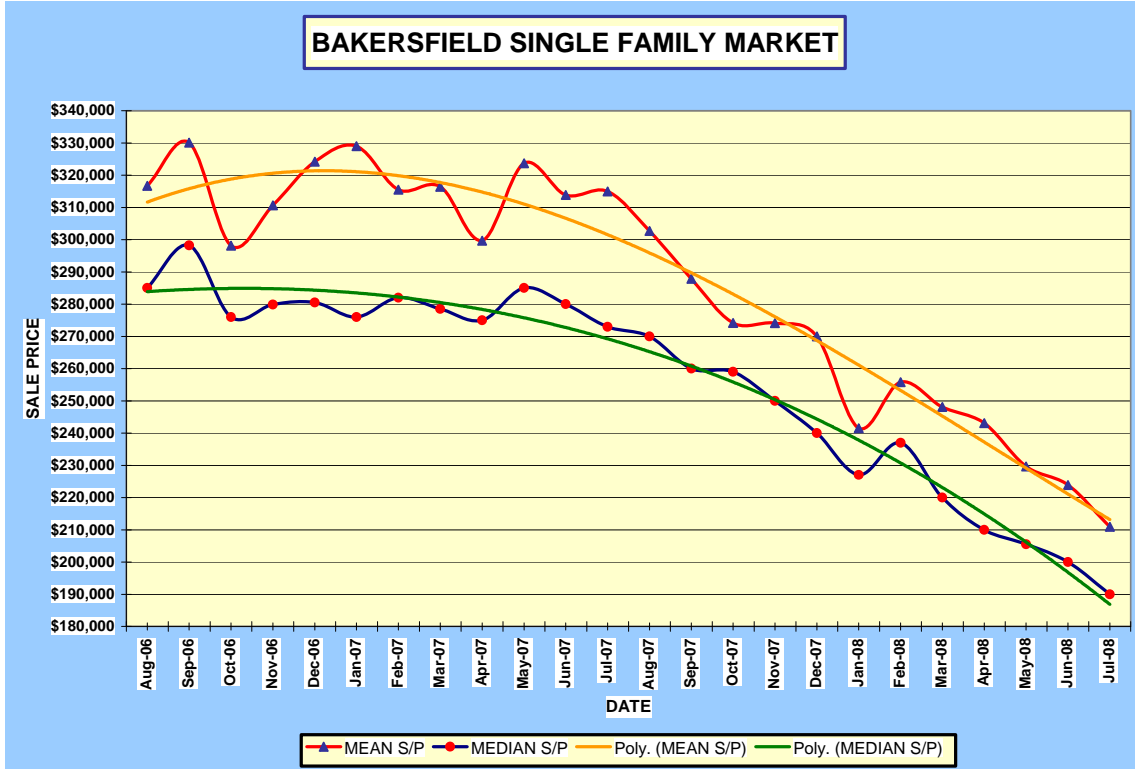


Chart #5

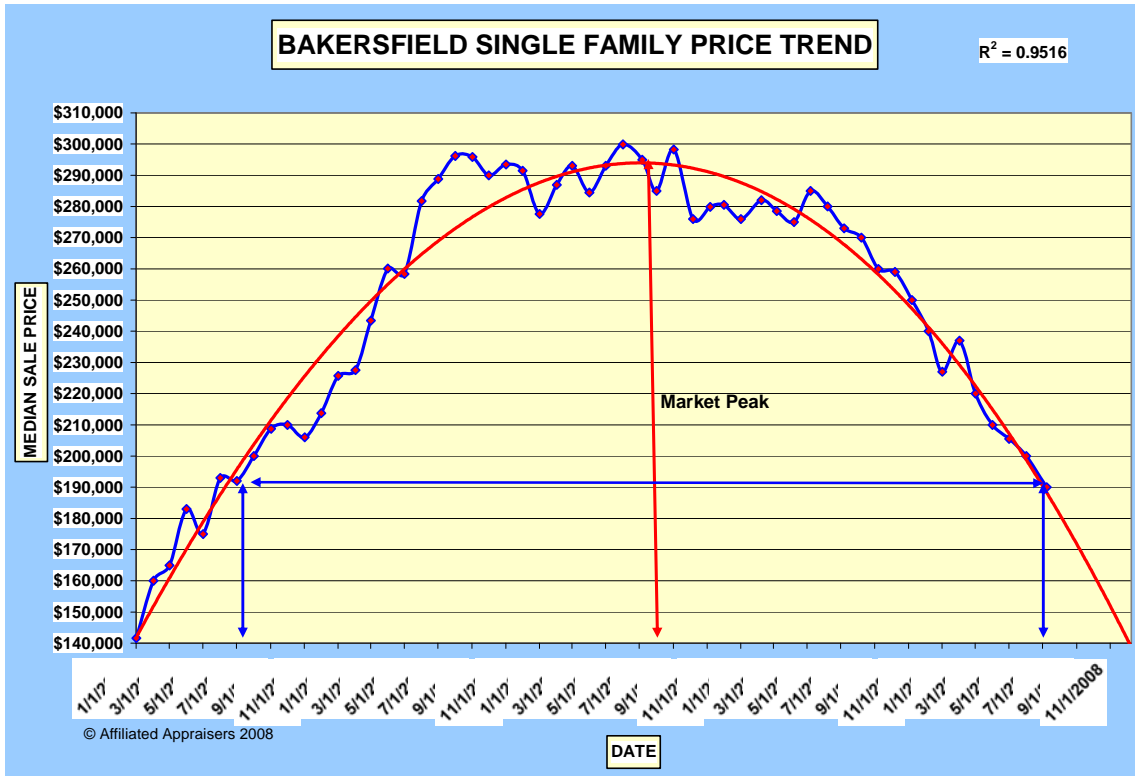


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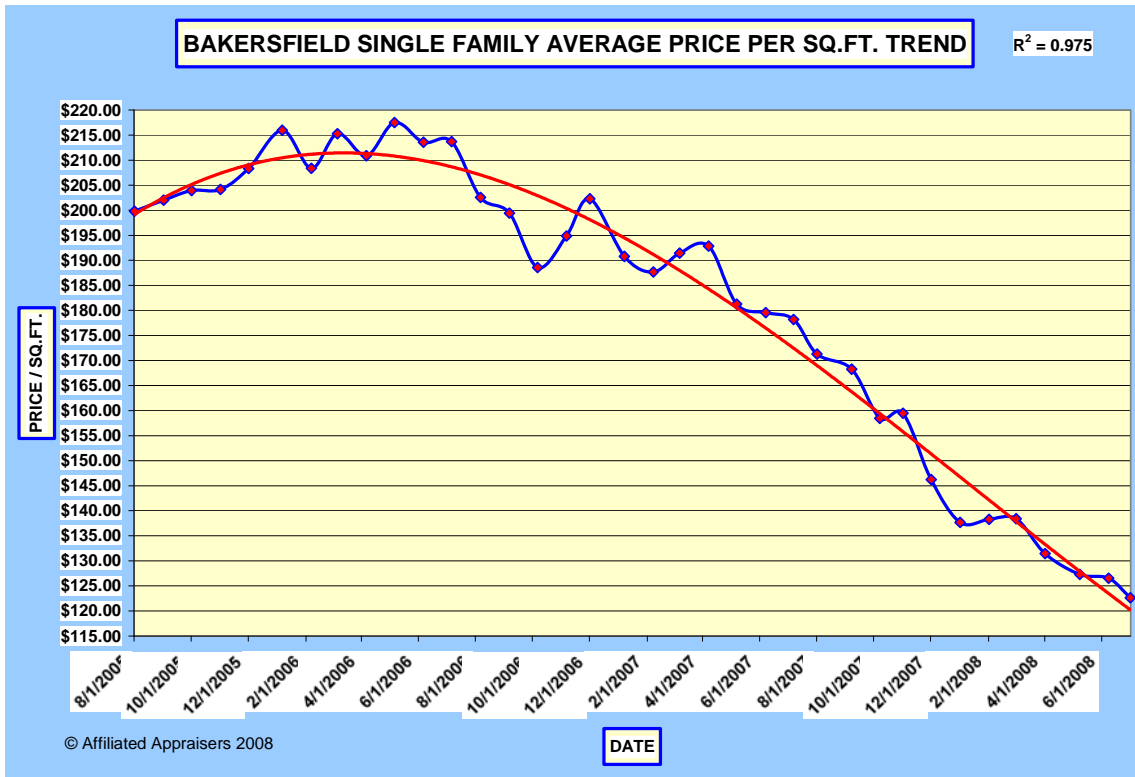


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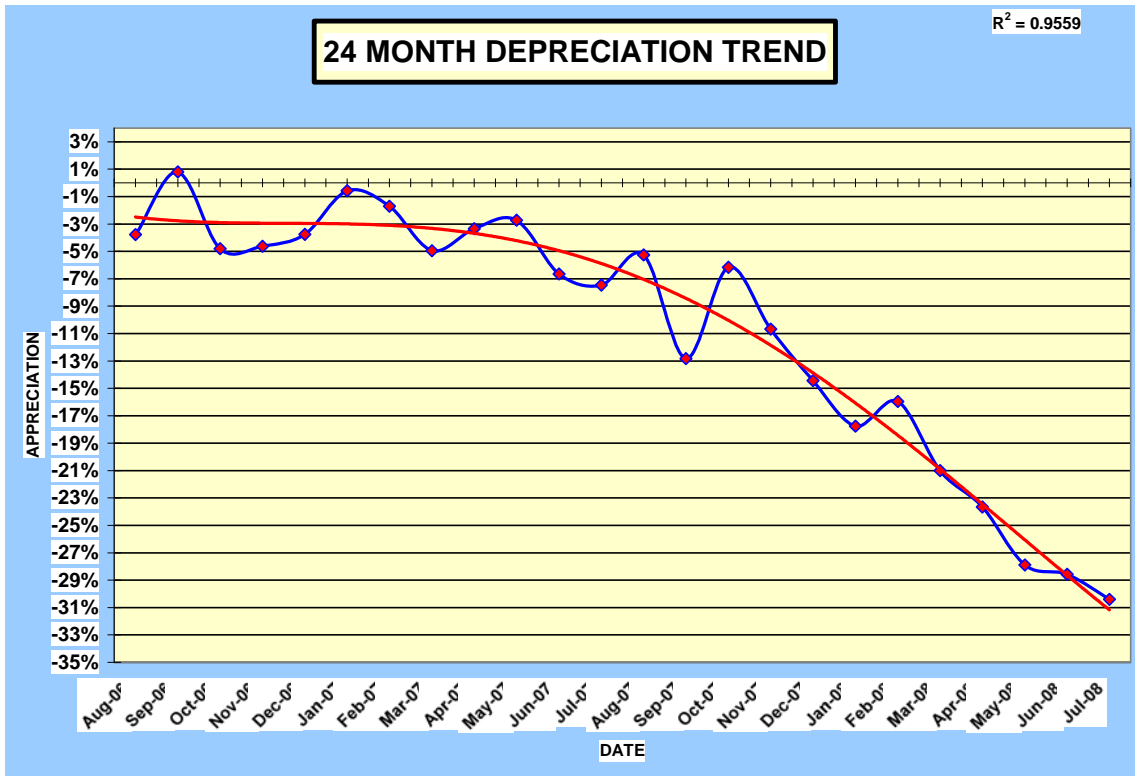


Chart #8

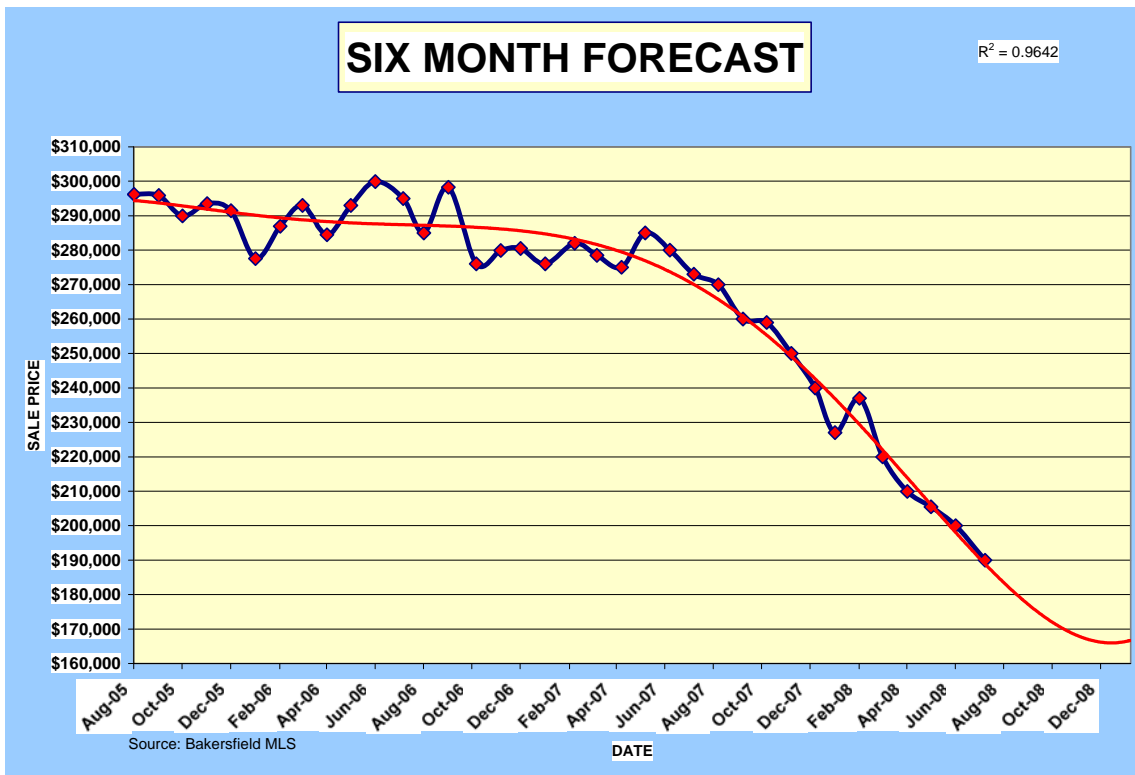


Chart #9

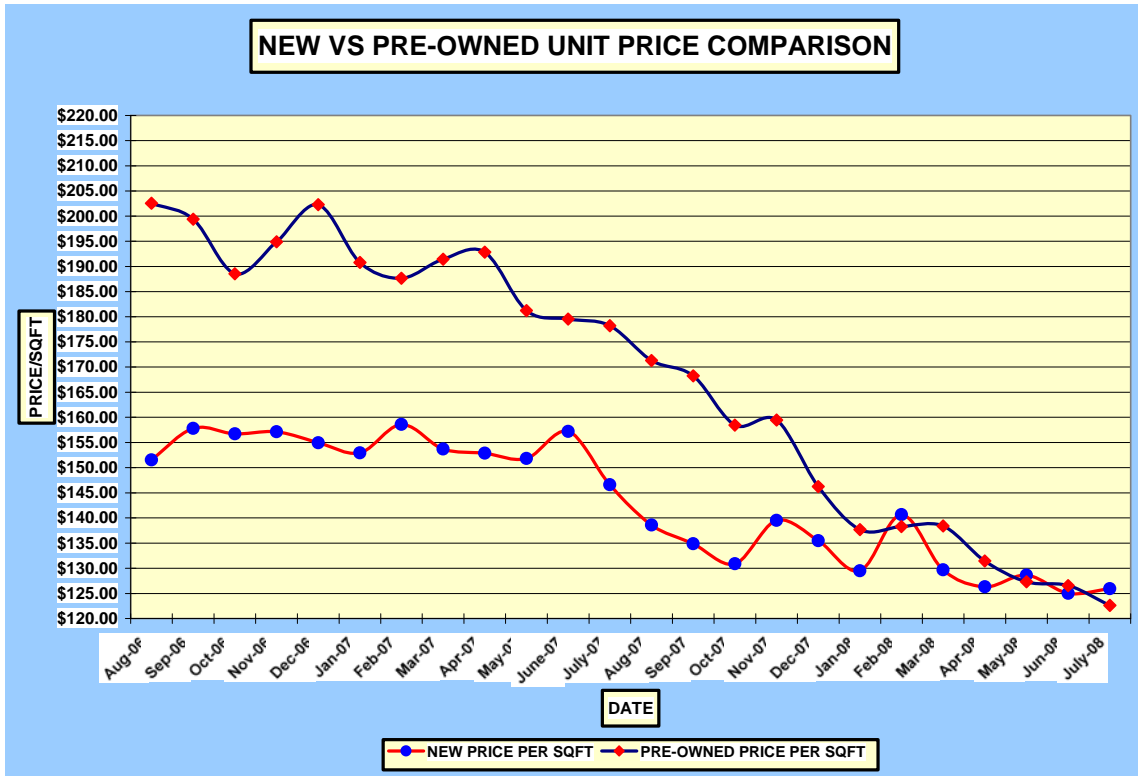


Chart #10

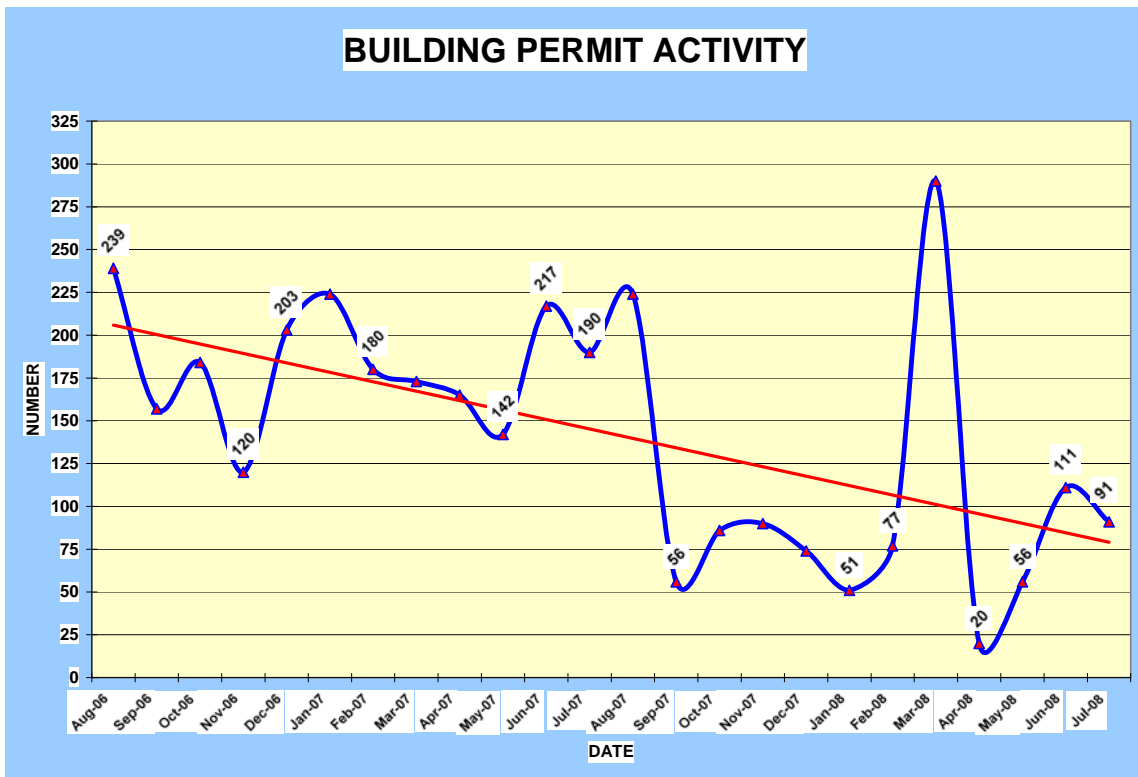


Chart #11

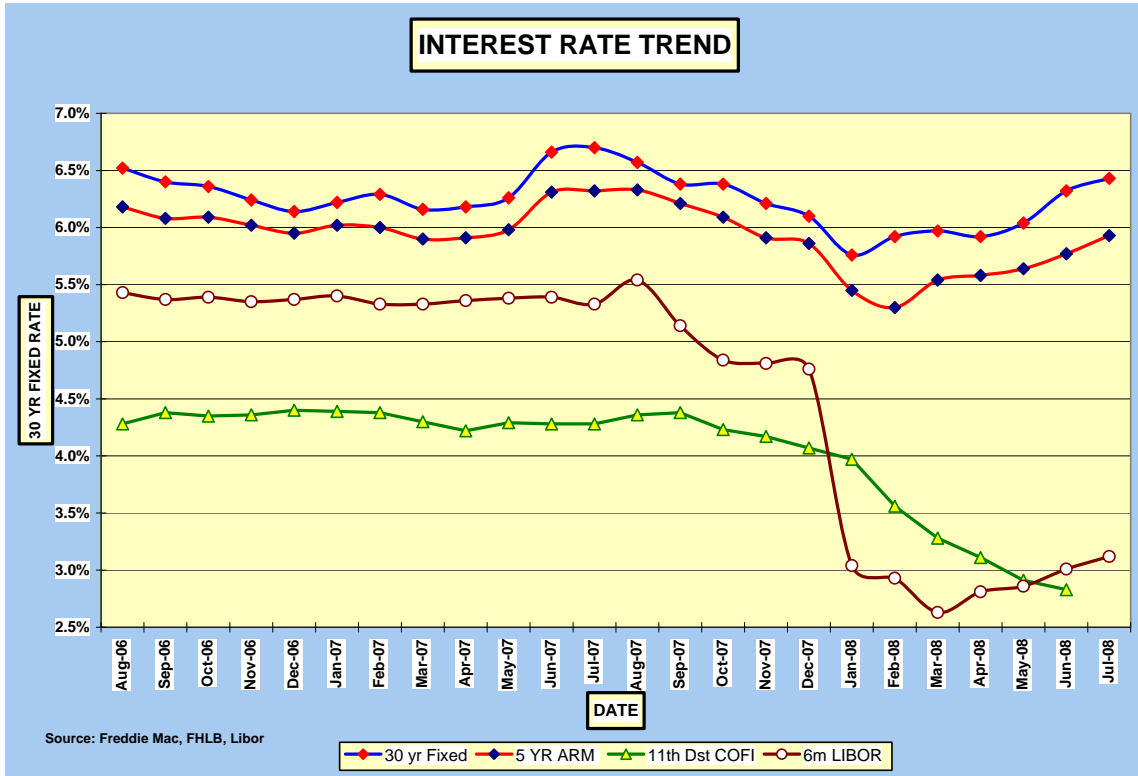


Chart #12

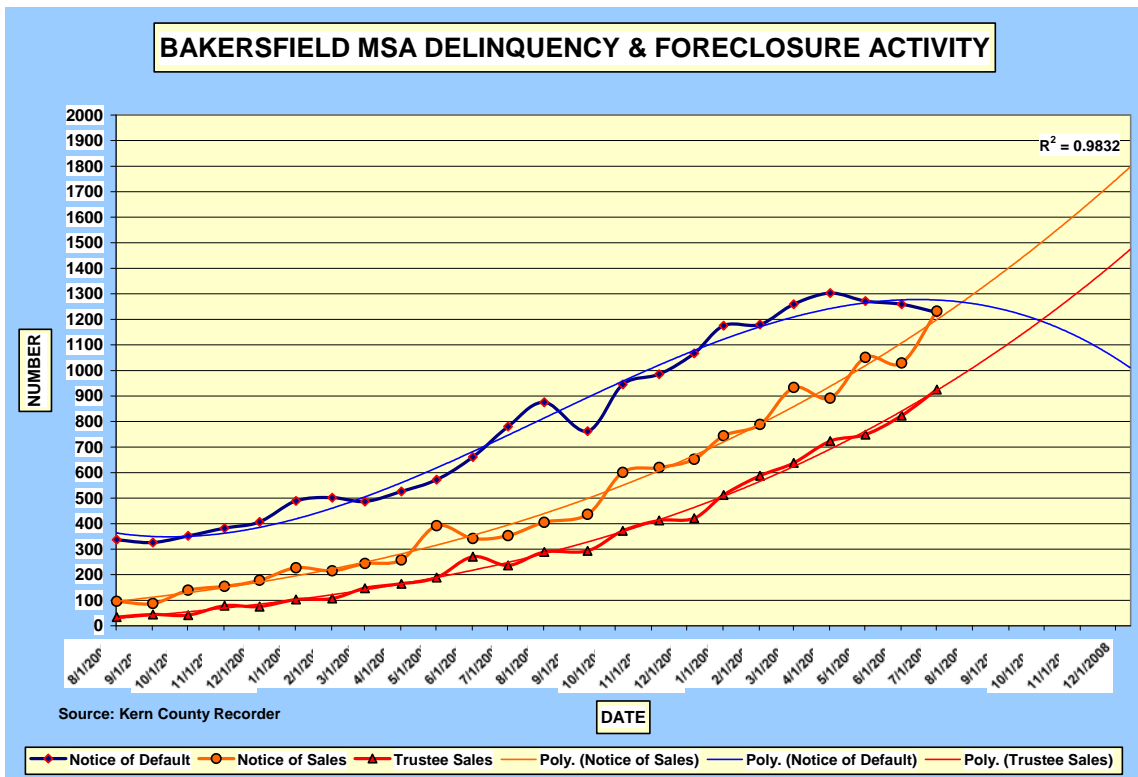


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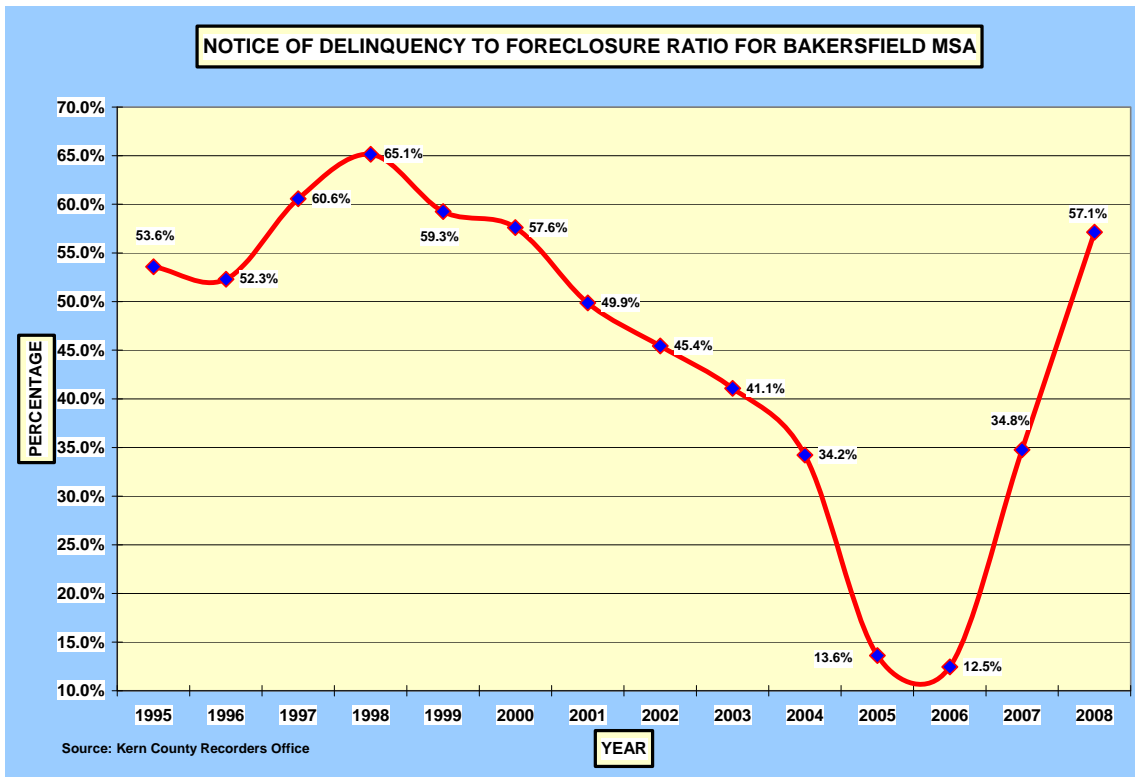


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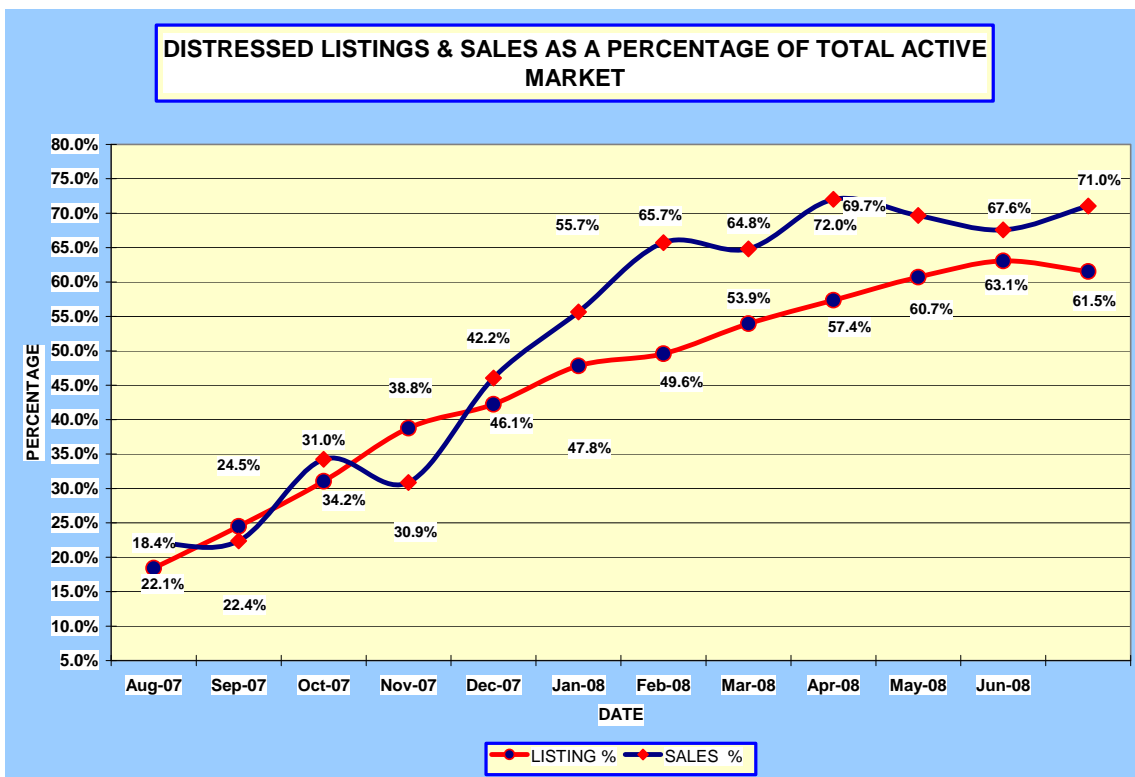


Chart #15

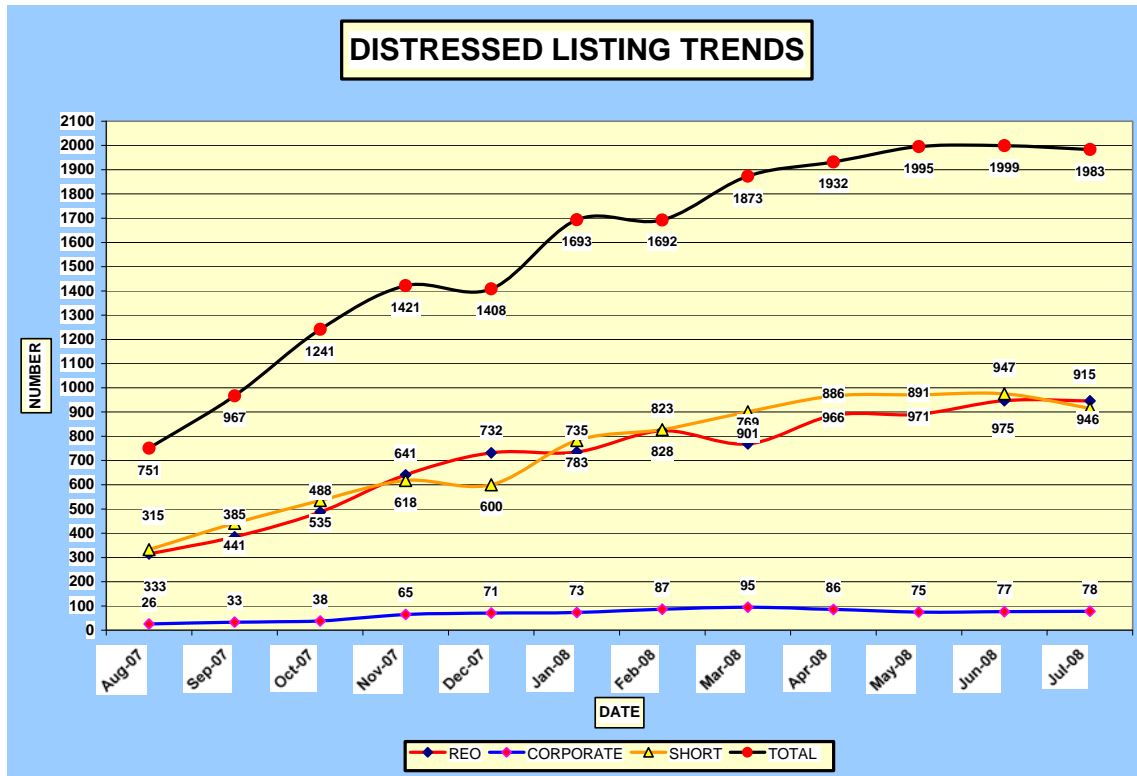


Chart #16

