



CIG Trend Talk™

May 2006



CIG Realty & Loans

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Loan: End of an Era?

by Mitch Kossar, CFO, CIG Realty and Loans

Here is a confession. I normally don't look at interest rates or stock movements day to day. I have no idea what the short-term outlook is going to be nor am I going to try. But we can make educated guesses on long term trends, and something happened a couple of weeks ago that may be a harbinger of changes to come: The 10-year treasury broke 5%. This is big news. Why?

When the fed started raising short-term rates in 2004, the 10-year didn't budge, it's just stayed in the 4.3 to 4.6% range. Alan Greenspan famously coined this phenomenon as our newest "conundrum" and it's one of the greatest mysteries of the financial markets since the stagflation era of the 1970s. The US government has been spending like a drunken sailor on new entitlements like Medicare and an expensive war, all while cutting taxes. This is like a household that cuts its income by 1/3, and buys a \$100,000 car and spends \$100,000 on a wedding. You would think it would have to pay higher interest on its debts. Not the US Government. The 10-year treasury stuck in place.

Until now, The 10-year treasury is finally moving. Now, it may be moving up to avoid an inverted yield curve as a new inflation-phobic fed chairman increases short term rates (an

inverted yield curve is an unstable situation when long-term rates are cheaper than short term rates), or it may be going up because bond holders are finally getting nervous.

In either case, with the 10 year treasury goes the 30 year fixed mortgage (at least most of the time) and with that goes the 5/1 ARM. This means that mortgage rates are finally on the rise, and 7.5% or 8% 30 year fixed mortgages look like a much greater possibility than just a couple of months ago. If you are going to refinance, do it now! **We may be at the end of an era.** On the other hand, this bond market has tricked the experts for the past two years and may do so again.



Real Estate:

Are the bears coming? *by Jeff Tung, VP Real Estate, CIG Realty and Loans*

Last August, we at CIG were able to feel the winds of change. One of our San Francisco listings didn't sell. In fact we priced it down. We knew the end of the massive real estate boom was coming. Since then we have seen a pleasant return to normal markets, and this spring we are seeing strong, but not insane activity. Flat to slightly declining markets are forecast. Such forecasts were buttressed by the assumption that mortgages will stay somewhat steady.

Now mortgages are finally on their way up (we think).

The 30 year fixed is moving beyond its historic lows around 6% and is now near 7%, and will likely hit 8%...beyond early year forecasts.. This is a ~ 25% increase in monthly payments (from 6% to 8%) and a 50% increase from its all time low a couple of years ago. This will put a lot of pressure on the real estate market. Does this mean collapse? Probably not in most markets, but it may in some.

The Bay Area has strong economic prospects, limited supply and a deep bench of wealthy first time buyers. The

inland parts of the state have tremendous demographic changes buoying those markets. 1031 exchange money will keep real estate investment strong. The overall real estate market will likely maintain its strength, but some pieces are going to be hit hard while others survive. Homeowners can be pickier buying a house, but should not wait this out in most places. Investors must be savvier than they have been in the past to survive. It is always a good time to buy real estate, but these times take surer hands than in the recent past.