



IHB Fundamental Value Report

Ideal Home Broker's Opinion of Value and Comparative Market Analysis

Evaluation criteria for an owner occupied property.



There is short-term frenzied buying activity due to low interest rates, lack of product (banks holding foreclosed homes off of the market/shadow inventory), and soon-to-expire tax incentives. As a result, this property will likely sell for well above comparable sales value if the sellers are willing to entertain reasonable offers in the next 30 to 60 days. Since it likely will not appraise for asking price, it will require a heavy-cash buyer. The IHB does not believe it will sell for much over \$500,000. Both the asking price and likely transaction price are above the fundamental value calculated by the IHB.

14811 Groveview, Irvine, CA 92604

3 bedroom 2 bath 1112 SF single-family detached home built in 1971

Asking Price	\$	550,000	to \$ 570,000
Comparable Value	\$	446,900	
Likely Transaction Price	\$	464,500	
IHB Fundamental Value	\$	435,000	
Report Date		9/22/2009	



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Notes:	Cost of Ownership	Terms	Calculations
1	Likely Transaction Price	\$ 464,500	
2	Downpayment	20%	\$ 92,900
3	Interest Rate	5.00%	
4	Number of Years	30	
5	Mortgage		\$ 371,600
6	Monthly Payment		\$1,994.83
7	Property Tax	1%	\$ 387.08
8	Special Taxes and Levies (Mello Roos)	0.00%	\$ -
9	Homeowners Insurance	0.25%	\$ 103.54
10	Homeowners Association Fees	\$ 210.00	\$ 210.00
11	Other (ex. Private Mortgage Ins)	\$ -	\$ -
12	Monthly Cash Outlays		\$ 2,695.45
13	Monthly Interest for 1st Payment	\$ 1,548.33	
14	Tax Savings (% of Interest and Property Tax)	25%	\$ (483.85)
15	Equity Hidden in Payment		\$ (446.50)
16	Lost Income to Down Payment (net of taxes)	2%	\$ 178.06
17	Maintenance and Replacement Reserves	0.50%	\$ 193.54
18	Monthly Cost of Ownership		\$ 2,136.70
19	Market Rental Rate (from comparables)		\$ 2,080.00
20	Monthly Ownership Gain (Loss)		\$ (56.70)

	Cash Acquisition Demands	Terms	Calculations
21	Furnishing and Move In	2%	\$ 9,900
22	Closing Costs	2%	\$ 9,900
23	Interest Points	0%	\$ -
24	Downpayment	20%	\$ 92,900
25	Total Cash Costs		\$ 112,700
26	Emergency Cash Reserves (6 Months Net Salary)		\$ 41,300
27	Total Savings Needed		\$ 154,000



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Notes:

28 Likely Transaction Price \$ 464,500

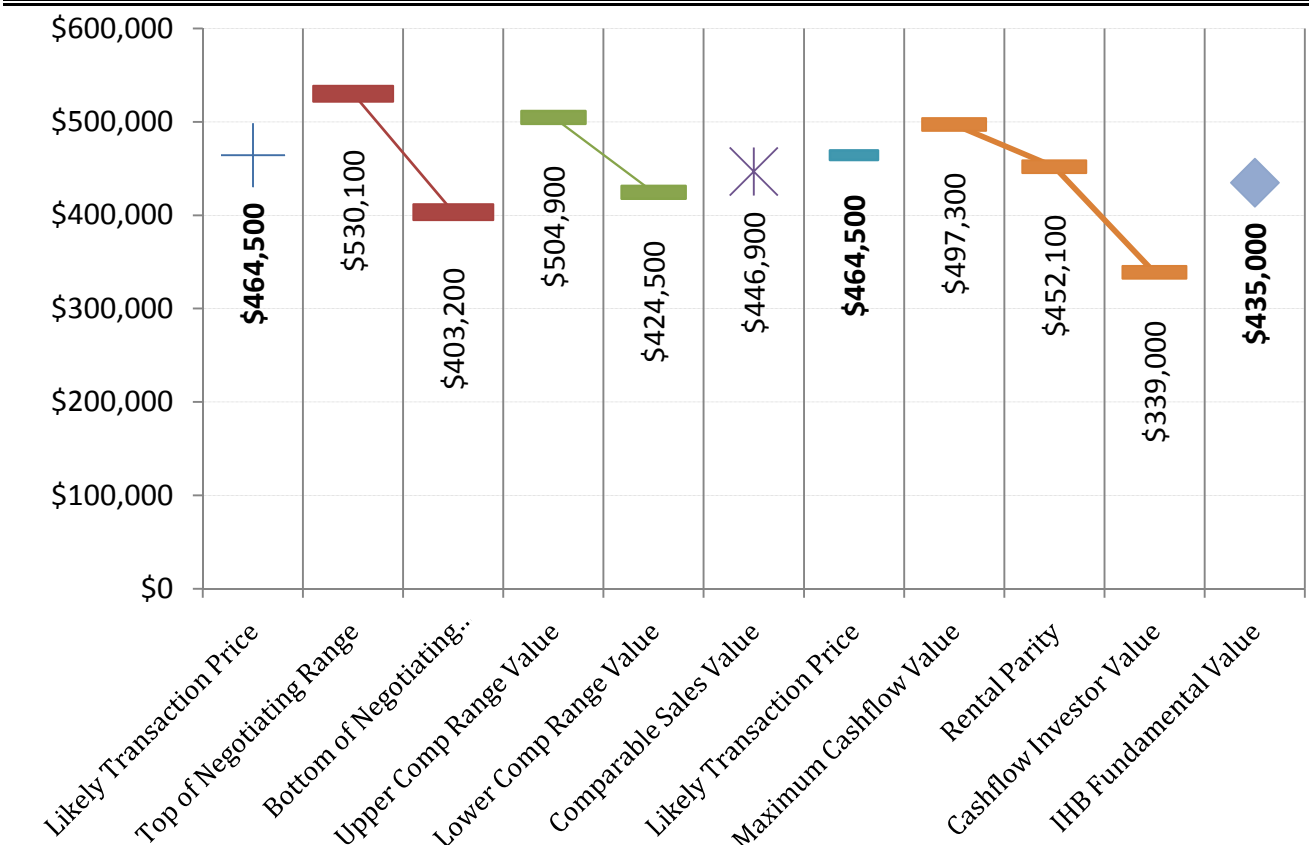
Comparative Sales Value & Negotiating Range

29	Top of Negotiating Range	\$	530,100
30	Upper Comp Range Value	\$	504,900
31	Comparable Sales Value	\$	446,900
32	Lower Comp Range Value	\$	424,500
33	Bottom of Negotiating Range	\$	403,200
34	Short Term Direction of Prices is a Moderate Uptrend		
35	Likely Transaction Price	\$	464,500

Cashflow Value and IHB Fundamental Value

36	IHB Fundamental Value	\$	435,000
37	Maximum Cashflow Value	\$	497,300
38	Rental Parity	\$	452,100
39	Cashflow Investor Value	\$	339,000

Asking Price and Value Ranges





Comparable Sales

		Transaction Date	Amount
1	4632 Roxbury Dr -- A 3 bed 1,300 SF SFR -- 1971	9/11/2009	\$450,000
2	4852 Redbluff Cir -- A 3 bed 1,100 SF SFR -- 1971	3/13/2009	\$435,000
3	14811 Groveview Ln -- A 3 bed 1,112 SF SFR -- 1971	8/12/2009	\$417,500
4	5002 Barkwood Ave -- A 3 bed 1,482 SF SFR -- 1971	6/30/2009	\$543,000

Comparable Rentals

		Transaction Date	Amount
1	4362 Margarita St -- 3 bed 1,250 SF SFR -- 1973	3/10/2009	\$2,100
2	4781 Winvale -- 3 bed 1,100 SF SFR -- 1971	6/01/2009	\$2,100
3	4762 Roxbury Dr -- 3 bed 1,116 SF SFR -- 1971	6/12/2009	\$2,000

Comparable Sales Value and Likely Transaction Price

The final sales price the parties agree upon in a home sale will generally be close to the sales prices of similar properties in the market area. These similar properties are what is known as comparable sales, or "comps" for short. Comps serve as the basis for negotiation for two main reasons: (1) financing is limited based on comparable sales, and (2) if buyers bid too little, or if sellers ask too much, each party has better alternatives to closing the deal; sellers can wait for a better offer, and buyers can find a similar property with a more reasonable seller. Each party to the transaction must be aware of their best alternative to a negotiated agreement because they may need to pursue other prospects.

Sales prices for properties change over time. In most real estate markets, these prices go up with increases in wages among those who live in the market area. In California, we are prone to bouts with irrational exuberance and price volatility. Instead of slowly climbing prices like stable markets in the Midwest, Californians must cope with markets that can quickly move both up and down. The current trend of the market—if widely understood and accepted—distorts the perception of value and motivates buyers and sellers to stay ahead of the trend. In a rising market buyers are motivated to raise their bids and sellers are motivated to ask over comparable sales values. In declining markets, sellers (who accept reality) are motivated to lower their asking prices and buyers offer bids lower than recent comparable sales.

When we prepare a Brokers Opinion of Value, we include what we believe to be the most likely transaction price based on recent comparable sales and the trend of the market. This is our best guess at what the final sales price of this property will be.

Cashflow Value and IHB Fundamental Value

Rental rates establish where property values should be. Rental Parity is a balance point where there is no financial advantage to choosing renting or owning; a point of theoretical indifference. Rental parity becomes a baseline—a fundamental. Prices are loosely tethered and may depart for long periods, but prices always manage to return to rental parity in time.

In a stable market, properties may trade at a premium or discount to rental parity based on their desirability as owner-occupied housing. The most desirable "blue chip" properties trade at a 10% premium to rental parity, and transitory rental properties trade as low as 25% below rental parity. When the IHB prepares a Brokers Opinion of Value, we subjectively rate the property based on its owner-occupant desirability, and we adjust the cashflow value of based on our market experience. The resulting value is a theoretical basis for a property's minimum value in the open market. When prices begin to fall, they generally do not stop until all properties in a market reach their fundamental value.



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Notes:

- 1 Asking price from MLS listing.
- 2 The downpayment is whatever is required for financing, typically 20%. FHA loans go as low as 3.5%. Whenever the downpayment is less than 20% private mortgage insurance is usually required.
- 3 Interest rate on mortgage note. Values are very sensitive to interest rates. Historical average of mortgage interest rates since the early 1970s is 8.0%
- 4 Amortization length on mortgage note. This is generally 30 years.
- 5 The mortgage amount is the listing price minus the downpayment.
- 6 The computed monthly payment based on loan type and length of amortization.
- 7 By Proposition 13, California property taxes are set at 1% of purchase price.
- 8 Mello Roos fees as determined by property investigation.
- 9 Estimated homeowners insurance.
- 10 Homeowners association dues from property investigation.
- 11 Other expenses such as private mortgage insurance.
- 12 Monthly cash outlays is the total of all monthly expenses you may be required to pay on a monthly basis. Those who do not use an impound account will not pay property taxes monthly, although these costs are still incurred.

- 13 The amount of interest due from the first loan payment. With an amortizing loan this amount decreases, whereas in an interest-only loan, this amount is constant.
- 14 Tax savings typically run 10% less than highest marginal tax rate due to the loss of the personal exemption. The savings is measured as 25% of the property tax and interest on the debt.
- 15 If the loan is amortizing, some amount of equity is hidden in the payment.
- 16 Downpayment money has an opportunity cost as it cannot be invested in other alternatives.
- 17 Estimated maintenance and replacement reserves. These are higher in single-family detached homes and in older properties.
- 18 Monthly cost of ownership is the total cash outlays adjusted for the factors mentioned above.
- 19 The market rental rate is derived from comparable rentals. It is summarized on page 4.
- 20 Monthly ownership gain (loss) is the difference between the cost of a comparable rental and the total cost of ownership of the featured property. This is rental parity on a monthly cost basis. If an owner occupant wants to move out, a property with positive cashflow could be rented to cover the cost of ownership whereas a property with negative cashflow is an economic drain until local market rents increase.
- 21 People often fail to budget for moving expenses and the acquisition of new items for the house. Most people buy at least some new furniture and appliances when entering a new home.
- 22 There are numerous fees incurred during the escrow process that must be paid by the buyer in cash. These fees generally are not rolled up into the loan.
- 23 Buyers often prepay interest points to lower their interest rate and thereby their monthly payments.
- 24 This the downpayment as mentioned in note 2.
- 25 The total cash costs is the sum of the above cash requirements. This is the amount of money a buyer will spend in acquiring and moving in to a property.
- 26 Buyers should always maintain a cash reserve for unexpected events. Credit lines do not serve as a cash reserve.

- 27 Total cash demanded is the sum of the cash costs and the required reserves.



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Notes:

- 28 Asking price from MLS listing.
- 29 Sales occur within a range of values tethered to comparable sales. Buyers will not pay too much because they can bid on other properties, and sellers will not lower prices too much because there are always other buyers. Transactions rarely occur at price levels more than 10% above recent comparable sales. The top of the negotiating range is calculated at 10% above the high end of the comparable value range. Asking prices above this threshold are not likely to result in a sale.
- 30 Comparable sales serve as the basis for current valuations. Depending on the properties deemed to be comps by an appraiser, the estimated comparable sales value will fall in a range. Sellers can "cherry pick" the comps at the high end while buyers can select those at the low end to justify their positions. The upper comp range is calculated by taking the average between the highest comparable property and the average comparable property.
- 31 Comparable properties values will fall within a price range. An appraiser will view each property and adjust the values accordingly with reference to the property being appraised. For a comparative market analysis, the comparable sales value is simply the average of all comparable prices with a subjective adjustment made by the broker.
- 32 The low end of the comparable sales range is calculated by averaging the lowest comparable property value with the average comparable property value.
- 33 The bottom of the negotiating range is calculated at 10% below the low end of the comparable value range. Offers below this threshold are not likely to result in a sale.
- 34 The Short Term Direction of Market Prices is a combination of objective market data and the subjective "mood" from market observation. It is common to see season ups and downs in addition to macro trends.
- 35 The Most Likely Transaction Price based on recent comparable sales and the trend of the market. This is our best guess at what the final sales price of this property will be.
- 36 Rental cashflow is the basis of all real estate value. The most desirable properties will be valued at the maximum cashflow value while the least desirable will be valued at cashflow investor price levels. The IHB fundamental value is a subjective evaluation of where the property would fall in the continuum of values formed by its rental income. This is our opinion of fundamental value independent of market irrationality and beliefs about appreciation.
- 37 The maximum cashflow value is the price point where cashflow investors can still make a healthy financial return with a long holding period. This is calculated at 10% above rental parity.
- 38 Rental parity is the price point where the cost of ownership equals the cost of renting the same accommodations. This is the price point where a financially savvy person would be indifferent between renting and owning on a purely financial basis.
- 39 Cashflow investor price levels are where people will buy properties and rent them out to obtain a return on their investment. It is a different calculation than shown in this report, but the basics are the same. As a general rule, prices must be 25% below rental parity to provide sufficient returns to warrant purchase as a rental property.

General Disclaimer

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