

# The Real Estate Report

LOCAL MARKET TRENDS



SANTA CRUZ COUNTY

February/March 2010



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## Investors Back in the Market

Investors are back in the market, and they're paying all-cash, mostly for property under \$500,000. The effect of this is to freeze out first-time home-buyers who have to get a loan. Banks are still chary about providing loans. About the only loans left for first-time buyers are FHA loans.

So, while the first-time buyer is working through the loan process, the investors are swooping in and buying the best property, which, after slapping a coat of paint on and, maybe, replacing the carpeting, they are putting back on the market. Sometimes, they rent out the property hoping for more appreciation down the road.

Appraisals are also affecting buyers who need a loan.

Appraisals lag the market because they use past data, typically six months worth, to calculate current market value. When a market has bottomed out and begins rising, appraisals often come in under the value agreed upon by the buyer and seller. Banks are requiring buyers to come up with extra cash to make up the difference. First time buyers are having a hard time doing this, so we're seeing many more sales fall out of escrow than normal.

Another thing hanging over the market is the so-called "shadow inventory" of bank-owned property that has not been put on sale. If the banks release these homes in a measured manner, the market should be able to absorb them.

Home sales were down significantly in January, falling 39% from December. Nevertheless sales were up 9.8% year-over-year. This is the nineteenth month in a row home sales have been higher than the year before.

The decline in sales is not a result of reduced demand, rather it was produced by a lack of inventory, or should I say, a lack of desirable inventory.

Trends at a Glance (Single-family Homes)			
	Jan 10	Dec 09	Jan 09
Median Price:	\$ 500,000	\$ 560,000	\$ 452,500
Average Price:	\$ 578,834	\$ 607,159	\$ 537,570
Units Sold:	90	144	82
Inventory:	727	688	1,116
Sale/List Price Ratio:	98.8%	98.1%	97.0%
Days on Market:	71	78	85
Days of Inventory	157	97	329

We expect sales to regain their momentum through the Spring because of the extended tax credit and because this is historically the prime time for home sales.

From talking with other Santa Cruz County real estate agents, properly priced homes in the most desired

neighborhoods and school districts are being sold with multiple offers: many multiple offers.

Pending sales, which is a solid indicator of future sales, was up 19% year-over-year in January for the twenty-first month in a row.

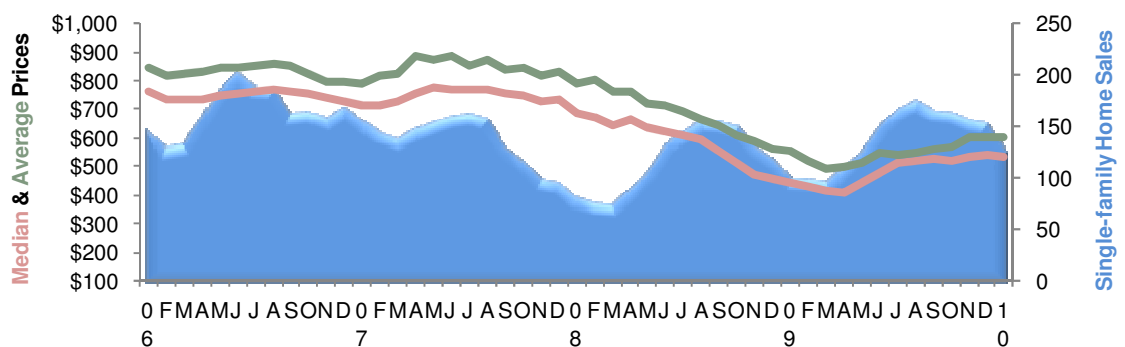
Remember, the real estate market is a matter of neighborhoods and houses. No two are the same. For complete information on a particular neighborhood or property, call me.

### INSIDE THIS ISSUE:

INVESTORS BACK IN THE MARKET	<b>1</b>
MORTGAGE RATE OUTLOOK	<b>2</b>
HOME STATISTICS	<b>2</b>
PENDING SALES STABILIZE	<b>3</b>
CONDO STATISTICS	<b>3</b>
CHARTS: SALES, PENDING & SP/LP	<b>4</b>

## Santa Cruz County Homes - Prices & Sales

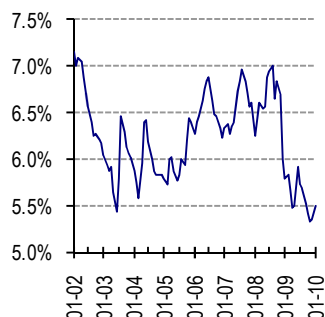
(3-month moving average—prices in \$000's)



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## Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



### DEFINITIONS:

**Median Price:** The price at which 50% of prices were higher and 50% were lower.

**Average Price:** All all prices and divide by the number of sales.

**SP/LP:** Sales price to list price ratio, or the price paid for the property divided by the asking price.

**DOI:** Days of Inventory, or how many days it would take to sell all the property for sale at the current rate of sales.

Feb. 5, 2010 -- Manufacturing continues to lead the economy away from recession, but the recovery continues to be a slow process, one which doesn't appear to be broadening or deepening very quickly. On the other hand, a troubled, sluggish economy is good news for mortgage borrowers in the sense that interest rates will continue to remain low while soft economic conditions persist.

This week, the overall average for 30-year fixed-rate mortgages tracked by HSH.com's FRMI was unchanged from last week at 5.42%. The FRMI includes conforming, jumbo and the GSE's "high-limit" conforming products in its calculation. It also has a Hybrid 5/1 ARM counterpart, which increased by one basis points dur-

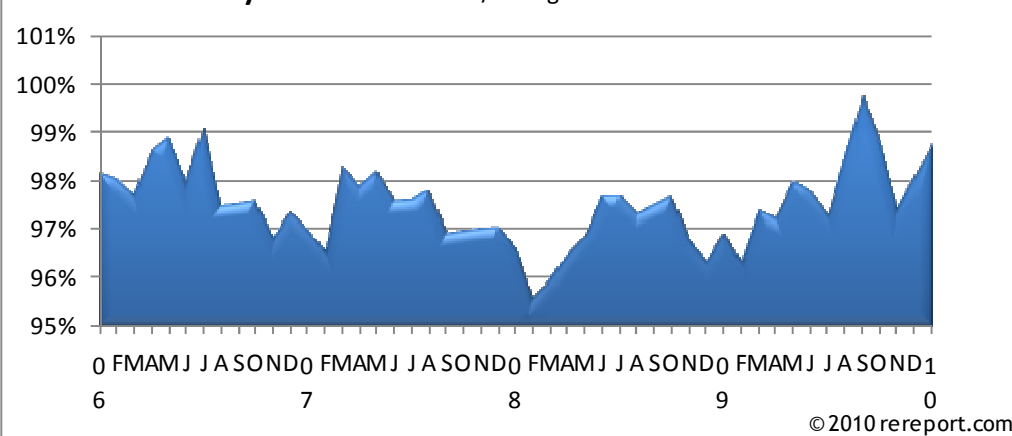
ing the latest survey cycle, landing at 4.60% for the week.

The latest Senior Loan Officer survey of lending conditions revealed conditions are still tightening, but the 13.2% of respondents reporting tougher terms was the smallest such increase since the third quarter of 2007. Since underwriting conditions need to stop getting tighter before they can be loosened, this is a good sign that in the not-too-distant future more potential homebuyers will be able to (re)join the marketplace, at least at the margins. With plenty of unsold inventory available and lots more expected to hit the markets in 2010 in the form of short sales and foreclosures, the market will need every potential borrower

it can get just to produce stability in housing markets.

Mortgage rates appear to be holding at what seems to be their new bottoms. Even difficult stock markets at times this week failed to produce lower rates, and with a sort of "floor" in place, there seems to be little room for improvement. That being the case, rates have more likelihood of rising slightly than falling next week.

Santa Cruz County Homes: Sales Price/Listing Price Ratio



Santa Cruz County - January 2010												
SINGLE-FAMILY HOMES								% Change from Year Before				
Cities	Prices		Sales	Pend	Inven	DOI	SP/LP	Prices			Inven	
	Median	Average						Med	Ave	Sales		
County	\$ 500,000	\$ 578,834	90	257	727	157	98.8%	10.5%	7.7%	9.8%	19.0%	-34.9%
Aptos	\$ 592,500	\$ 650,167	6	9	44	175	91.6%	6.4%	15.6%	100.0%	125.0%	-8.3%
Capitola	\$ 550,000	\$ 551,667	3	3	17	140	94.1%	0.0%	-59.3%	0.0%	-40.0%	-48.5%
Rio del Mar	\$ 745,000	\$ 731,000	5	16	63	282	95.2%	30.0%	27.5%	150.0%	77.8%	-7.4%
Seacliff	\$ 740,000	\$ 1,135,000	3	8	25	170	96.2%	41.0%	116.2%	50.0%	n/a	108.3%
San Lorenzo Vly	\$ 325,000	\$ 331,889	19	52	112	95	95.8%	-9.7%	-20.4%	72.7%	100.0%	-25.3%
Soquel	\$ 717,500	\$ 717,500	2	11	40	435	99.0%	27.6%	7.7%	-75.0%	57.1%	-13.0%
Scotts Valley	\$ 672,500	\$ 911,700	10	19	64	135	102.2%	37.4%	86.3%	400.0%	58.3%	-23.8%
Santa Cruz	\$ 617,500	\$ 661,109	16	54	140	161	98.7%	9.8%	-3.2%	14.3%	28.6%	-35.8%
East County	\$ 310,000	\$ 601,500	10	27	82	165	101.4%	-8.8%	23.0%	-33.3%	-10.0%	-47.1%
West County	\$ 906,000	\$ 906,000	1	4	17	390	95.5%	-4.7%	-4.7%	-50.0%	33.3%	-34.6%
Watsonville	\$ 277,500	\$ 290,625	12	39	57	45	104.5%	-6.7%	-0.7%	-33.3%	-40.0%	-72.6%

# The Real Estate Report

## Pending Sales Stabilize, Remain Above Year-Ago Levels

Pending home sales have leveled from a market swing driven by response to the home buyer tax credit, according to the National Association of Realtors®.

The Pending Home Sales Index,\* a forward-looking indicator based on contracts signed in December, increased 1.0 percent to 96.6 from 95.6 in November, and remains 10.9 percent above December 2008 when it was 87.1. In November, the monthly index had fallen by 16.4 percent from surging activity in preceding months.

Lawrence Yun, NAR chief economist, said it's important to recognize how the tax credit is skewing market data. "There are easily understood swings in

contract activity as buyers respond to a tax credit that was expiring and was then extended and expanded," he said. "These swings are masking the underlying trend, which is a broad improvement over year-ago levels. December activity was the fifth highest monthly tally in two years."

Buyers who have a contract in place to purchase a primary residence by April 30, 2010, have until June 30, 2010, to finalize the transaction to qualify for a tax credit of up to \$8,000 for first-time buyers and \$6,500 for repeat buyers.

The PHSI in the Northeast rose 2.3 percent to 76.1 in December and is 14.9 percent higher than

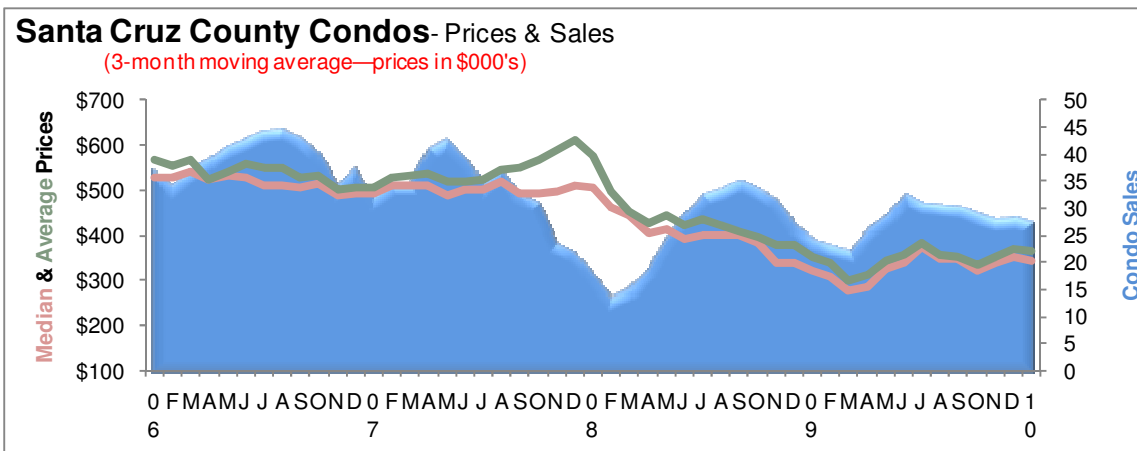
December 2008. In the Midwest the index increased 5.2 percent to 86.9 and is 8.7 percent above a year ago. Pending home sales in the South rose 2.2 percent to an index of 98.4, and are 5.5 percent higher than December 2008. In the West the index fell 3.8 percent to 119.9 but is 18.6 percent above a year ago.

Yun projects the extended and expanded tax credit will encourage 2.4 million households to take the credit in 2010. "While new-home sales will remain low due to a lack of construction, existing-home sales are projected to rise to around 5.6 million in 2010," Yun said. Last year there were 5.16 million existing-home sales.

He added that one of the greatest benefits of rising sales will be firming home prices. "For several months now we've been seeing stabilization in all of the home price measures as inventory is pulled down," Yun said. "As a result, the housing wealth for many middle class families has begun to stabilize."

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\*The Pending Home Sales Index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing.



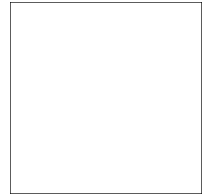
Santa Cruz County - January 2010													
CONDOS								% Change from Year Before					
Prices								Prices					
Cities	Median	Average	Sales	Pend	Inven	DOI	SP/LP	Med	Ave	Sales	Pend2	Inven	
County	\$ 312,000	\$ 344,333	21	65	212	210	99.0%	7.6%	12.1%	0.0%	51.2%	-24.0%	
Aptos	\$ 315,000	\$ 315,000	1	2	6	120	102.6%	-4.5%	-4.5%	0.0%	n/a	-33.3%	
Capitola	\$ 800,000	\$ 800,000	1	10	22	360	74.4%	191.0%	191.0%	0.0%	n/a	22.2%	
Rio del Mar	\$ 430,000	\$ 465,833	3	3	22	190	98.3%	-17.3%	-10.4%	200.0%	50.0%	15.8%	
Scotts Valley	\$ 355,000	\$ 378,000	3	4	6	20	102.5%	-23.7%	-18.7%	200.0%	0.0%	-64.7%	
Santa Cruz	\$ 395,000	\$ 393,500	4	21	73	390	95.6%	-31.3%	-31.6%	100.0%	75.0%	-27.0%	
Watsonville	\$ 180,000	\$ 191,357	7	17	32	64	105.3%	-16.0%	-7.3%	-36.4%	-19.0%	-56.8%	

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