

The Real Estate Report

LOCAL MARKET TRENDS



SANTA CLARA COUNTY

March/April 2010

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Mortgage Rates to Rise, Sooner rather than Later

The Fed plans to stop buying mortgage-backed securities the end of March.

The general consensus among mortgage brokers is rates will have to rise to attract new buyers of MBS if the Fed does stop buying. After reaching a low last November, the rate for 30-year fixed mortgages has already risen .25%-.375% in anticipation.

The only MBS that are being sold right now are those that are backed by Fannie Mae and Freddie Mac because they are backed by the U. S. government, at least for loans up to \$729,000 in our area.

The question becomes, who is going to buy MBS and at what price?

With money market and treasuries yielding between 1%-2%, MBS are looking much more attractive to Wall Street, private investors and foreign governments.

But, at some point, the Fed will have to start selling their MBS which will drive prices down and yields up.

Local mortgage brokers expect rates to rise one-half point fairly quickly after the Fed stops buying. Many think mortgage rates will hit 6% by the end of the year.

That said, the biggest problem facing the local market right now is lack of quality inventory: quality meaning priced right and in the best neighborhoods.

From all accounts, there is a lot of pent-up demand, especially in the entry-level market. Bank-owned prop-

erty and private, re-sale homes properly priced are still receiving multiple offers.

The move-up tax credit of \$6,500 has had little impact on the market because so few people can take advantage of it. First, anyone that is upside down on their mortgage won't be taking a loss to gain only \$6,500.

Second, if you're still working and have equity, why would you sell only to see your property taxes rise?

About the only people who will take advantage of this tax credit are seniors who are retired. They can take advantage of propositions 13, 60, and

90 to downsize yet retain their property tax base if they move within the same county or to a reciprocating county. For more information about eligibility and a list of reciprocating counties, see:

http://www.boe.ca.gov/proptaxes/faqs/propositions60_90.htm

The high-end market has problems with appraisals, if you need a loan, and we're beginning to see a few foreclosures in that market.

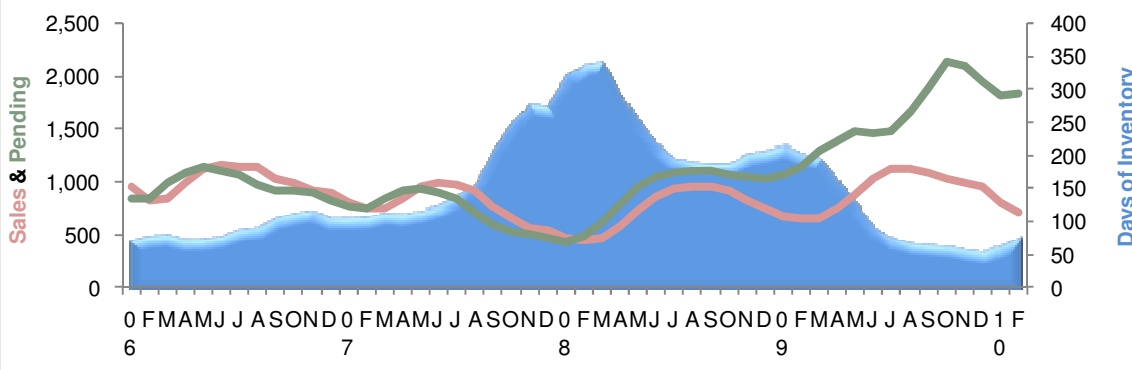
Remember, the real estate market is a matter of neighborhoods and houses. No two are the same. For complete information on a particular neighborhood or property, call me.

| Trends at a Glance (Single-family Homes) | | | |
|---|------------|------------|------------|
| | Feb 10 | Jan 10 | Feb 09 |
| Median Price: | \$ 550,000 | \$ 532,075 | \$ 445,000 |
| Average Price: | \$ 701,489 | \$ 670,549 | \$ 555,556 |
| Home Sales: | 613 | 564 | 618 |
| Inventory: | 4,093 | 3,539 | 5,838 |
| Sale/List Price Ratio: | 101.3% | 101.3% | 98.0% |
| Days on Market: | 49 | 47 | 65 |
| Days of Inventory | 89 | 92 | 199 |

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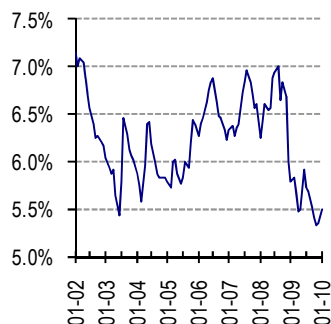
Santa Clara County Homes - Sales, Pending & Days of Inventory
(3-month moving average)



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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: Add 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.

Pend: Property under contract to sell that hasn't closed escrow.

Inven: Number of properties actively for sale as of the 5th of the month.

Mar. 4, 2010 -- The Federal Reserve's review of regional conditions found three quarters of the country in economic recovery.

This week, the overall average for 30-year fixed-rate mortgages tracked by HSH.com's FRMI sported a decline of six basis points (.06%), ending the week at 5.34%, the lowest such average since mid-December 2009. The FRMI includes conforming, jumbo and the GSE's "high-limit" conforming products in its calculation. The average interest rate for the FRMI's Hybrid 5/1 ARM counterpart lost a full tenth-percentage point (.10%) during the latest survey cycle, closing the survey week at 4.48%.

The all-important 30-year fixed conforming average slipped to 5.07%, also a ten-week low point.

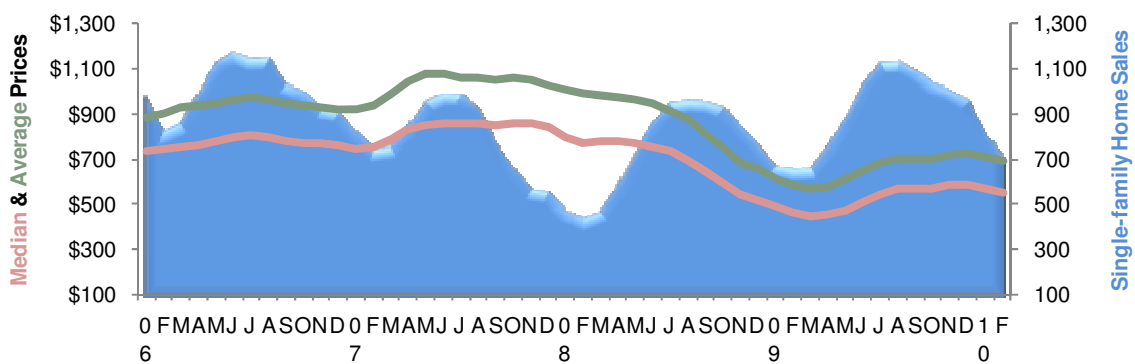
Mortgage rates eased back this week despite a pretty good tone for the economic data. Friday's employment report did nudge the 10-year Treasury about seven basis points higher, suggesting that the decline in rates could reverse somewhat during next week. Rates might also be boosted by comments made by House Financial Services Chairman Barney Frank, who noted that holders of Fannie and Freddie debt should not consider their investments to be 100% backed by the US government, even though the companies are now under Federal control. He went on to say that when the companies are ultimately restructured, he wants to reserve the right to have debt holders take a "haircut" (a reduction in the value of their investments). If private-market investors choose to sell their

holdings of Fannie and Freddie debt or not buy newly-issued debt, the GSE's cost of funds would rise, and so would mortgage rates. Of course, the Treasury continues to provide unlimited support to these entities; perhaps Mr. Frank hoped to spook investors in order to make Fannie and Freddie even less private and more beholden to the government than they already are? It's hard to know if that was the intention, but it could certainly be the effect.

Residential mortgage rates will probably firm up a little bit next week. How much depends upon how investors ultimately perceive Mr. Frank's remarks, but we expect a couple of basis points increase even without those effects.

Santa Clara County Homes - Prices & Sales

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



| Santa Clara County - February 2010 | | | | | | | | | | | | |
|------------------------------------|--------------|--------------|-------|-------|-------|-----|--------|---------------------------|--------|--------|--------|--------|
| SINGLE-FAMILY HOMES | | | | | | | | % Change from Year Before | | | | |
| Prices | | | | | | | | Prices | | | | |
| Cities | Median | Average | Sales | Pend | Inven | DOI | SP/LP | Med | Ave | Sales | Pend2 | Inven |
| County | \$ 550,000 | \$ 701,489 | 613 | 2,070 | 4,093 | 89 | 101.3% | 23.6% | 26.3% | -0.8% | 60.8% | -29.9% |
| Cupertino | \$ 1,097,500 | \$ 1,087,000 | 12 | 38 | 84 | 104 | 100.7% | 18.0% | 9.9% | 9.1% | 111.1% | -28.2% |
| Gilroy | \$ 420,000 | \$ 461,962 | 39 | 117 | 213 | 66 | 101.5% | 18.3% | 16.2% | -13.3% | -7.9% | -46.2% |
| Los Altos | \$ 1,640,000 | \$ 1,708,580 | 17 | 36 | 93 | 91 | 100.3% | 11.0% | 12.9% | 183.3% | 111.8% | -7.9% |
| Los Altos Hills | \$ 2,800,000 | \$ 2,575,200 | 5 | 5 | 60 | 297 | 98.4% | -17.6% | -24.3% | 400.0% | 66.7% | 22.4% |
| Los Gatos | \$ 1,229,750 | \$ 1,507,750 | 10 | 37 | 143 | 286 | 96.7% | 2.3% | 10.1% | -37.5% | 68.2% | -27.4% |
| Milpitas | \$ 462,500 | \$ 506,964 | 24 | 73 | 119 | 52 | 102.5% | 5.2% | 11.3% | 20.0% | 52.1% | -23.7% |
| Monte Sereno | \$ 1,470,000 | \$ 1,681,670 | 3 | 4 | 23 | 171 | 92.1% | 74.0% | 99.0% | 200.0% | -20.0% | -28.1% |
| Morgan Hill | \$ 627,500 | \$ 629,788 | 24 | 103 | 213 | 124 | 99.0% | 13.6% | 17.6% | 50.0% | 83.9% | -27.3% |
| Mountain View | \$ 867,900 | \$ 941,017 | 6 | 34 | 70 | 162 | 102.2% | -15.1% | -6.0% | 50.0% | 142.9% | -29.3% |
| Palo Alto | \$ 1,505,000 | \$ 1,525,600 | 19 | 35 | 105 | 99 | 98.1% | 7.9% | 4.1% | 46.2% | 66.7% | -28.6% |
| San Jose | \$ 490,000 | \$ 553,518 | 374 | 1,342 | 2,375 | 75 | 101.9% | 21.0% | 20.2% | -8.6% | 64.1% | -31.5% |
| Santa Clara | \$ 572,000 | \$ 580,804 | 23 | 81 | 136 | 65 | 101.6% | 9.0% | 8.2% | -25.8% | 72.3% | -40.1% |
| Saratoga | \$ 1,568,500 | \$ 1,998,780 | 10 | 25 | 117 | 248 | 98.1% | 3.9% | 30.6% | 100.0% | 108.3% | -23.5% |
| Sunnyvale | \$ 770,000 | \$ 741,501 | 27 | 61 | 141 | 80 | 100.6% | 44.5% | 22.0% | 17.4% | 35.6% | -26.6% |

The Real Estate Report

Re-finance Even if You're Underwater

Thirteen months ago, President Barack Obama announced a foreclosure-prevention initiative that included the Home Affordable Refinance Program, or HARP. The goal was to help homeowners get lower monthly payments, even though home values had dropped and equity had disappeared.

He expected that HARP would "make it possible for an estimated 4 (million) to 5 million currently ineligible homeowners ... to refinance at lower rates" by HARP's expiration date of June 10, 2010.

It didn't turn out that way. HARP finally got under way in May. By the end of 2009, halfway into the program's lifespan, a total of 190,180 homeowners got HARP mortgage refs.

So this week, the agency that oversees Fannie Mae and Freddie Mac extended HARP for a year. Instead of expiring this June 10, it will expire June 30, 2011.

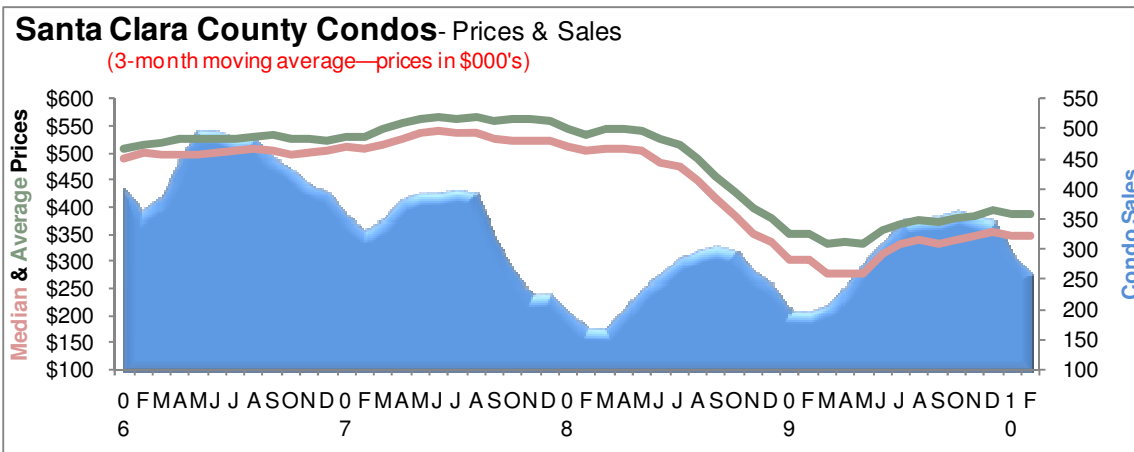
When HARP was announced, the program was for people who owed 80 percent to 105 percent of the home's value. In other words, if someone bought a house, and then the value fell to \$100,000, the owner would be eligible for a HARP mortgage refi if the loan balance was \$80,000 to \$105,000. Last summer, the upper loan limit was increased to 125 percent of appraised value, meaning that someone could refinance for up to \$125,000 on a home with an appraised value of \$100,000.

FHFA says Fannie and Freddie began buying those higher loan-

to-value loans only in October. "It takes time for lenders to implement systems and processes to support any new initiative," FHFA says. "By extending the HARP expiration date, lenders and other market participants, have the opportunity to make the necessary process and system enhancements to support HARP refinances with LTVs up to 125 percent."

No one contemplates raising the loan-to-value limit above 125 percent. FHFA cites "significant challenges and risks to securitizing loans with LTVs greater than 125 percent." And David Stevens, who runs the Federal Housing Administration, tells Bankrate that raising the loan-to-value limit isn't the

solution: "No, we have to think of other ways to solve the problem," he says.



| Santa Clara County - February 2010 | | | | | | | | | | | | |
|------------------------------------|------------|------------|-------|------|-------|-----|--------|---------------------------|--------|--------|--------|--------|
| CONDOS | | | | | | | | % Change from Year Before | | | | |
| Prices | | | | | | | | Prices | | | | |
| Cities | Median | Average | Sales | Pend | Inven | DOI | SP/LP | Med | Ave | Sales | Pend2 | Inven |
| County | \$ 352,000 | \$ 382,360 | 209 | 900 | 1,682 | 101 | 100.5% | 13.5% | 5.2% | 5.6% | 110.3% | -17.7% |
| Cupertino | \$ 560,000 | \$ 555,400 | 5 | 12 | 45 | 178 | 99.8% | -9.7% | -12.8% | 66.7% | 71.4% | 0.0% |
| Gilroy | \$ 152,250 | \$ 152,250 | 2 | 12 | 15 | 41 | 102.5% | 67.3% | -4.1% | -75.0% | 33.3% | -46.4% |
| Los Altos | \$ 780,000 | \$ 690,000 | 3 | 8 | 16 | 72 | 94.6% | -15.7% | -25.4% | 200.0% | 700.0% | -33.3% |
| Los Gatos | \$ 527,000 | \$ 548,800 | 5 | 10 | 58 | 259 | 98.8% | -31.1% | -21.8% | 66.7% | 66.7% | -13.4% |
| Milpitas | \$ 380,000 | \$ 340,490 | 7 | 51 | 72 | 81 | 101.5% | 0.0% | -5.4% | 75.0% | 104.0% | -18.2% |
| Morgan Hill | \$ 274,500 | \$ 274,500 | 2 | 18 | 32 | 189 | 102.6% | -11.5% | -10.5% | -60.0% | 100.0% | 52.4% |
| Mountain View | \$ 539,000 | \$ 533,154 | 14 | 41 | 89 | 93 | 98.5% | -5.1% | -5.5% | -26.3% | 127.8% | -1.1% |
| Palo Alto | \$ 726,250 | \$ 695,750 | 10 | 12 | 44 | 86 | 96.5% | -21.1% | -28.5% | 100.0% | 300.0% | -2.2% |
| San Jose | \$ 285,000 | \$ 302,280 | 123 | 598 | 1,041 | 97 | 101.2% | 29.5% | 6.6% | -1.6% | 108.4% | -20.8% |
| Santa Clara | \$ 340,000 | \$ 427,000 | 17 | 71 | 114 | 68 | 102.6% | -18.6% | 1.9% | 112.5% | 153.6% | -10.2% |
| Saratoga | \$ 440,000 | \$ 465,000 | 3 | 7 | 17 | 90 | 98.8% | n/a | n/a | n/a | n/a | n/a |
| Sunnyvale | \$ 517,750 | \$ 493,438 | 8 | 41 | 85 | 149 | 98.3% | 13.5% | 7.1% | -27.3% | 78.3% | -28.6% |

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