

The Real Estate Report

LOCAL MARKET TRENDS



SANTA CRUZ COUNTY

September/October 2009



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Inventory Declines, While Pending Sales Continue to Rise

Inventory of single-family, re-sale homes fell for the thirteenth month in a row in August, and it is now down 43.1% year-over-year.

Pending sales, meanwhile, climbed 31.3% from July, and were up 100.5% compared to August 2008.

The median price for single-family, re-sale homes lost 7.5% in August. Year-over-year, the median price was off 13.4%

Sales of single-family, re-sale homes were up, year-over-year, by 3.2% in August. Year-to-date, home sales are up 16.6%.

Days of Inventory rose seven days to 129 days. In a balanced market, the supply of homes is usually

around five to six months. For condos, the indicator dropped ten days to 176 days.

Trends at a Glance (Single-family Homes)			
	Aug 09	Jul 09	Aug 08
Median Price:	\$500,000	\$540,391	\$577,150
Average Price:	\$534,600	\$545,152	\$659,537
Units Sold:	162	178	157
Inventory:	723	746	1,271
Sale/List Price Ratio:	98.5%	97.3%	97.3%
Days of Inventory:	129	122	235
Days on Market:	85	71	71

The sales price to list price ratio rose 1.2 points to 98.5%.

Condo sales rose 3.6% month-over-month, but were off 9.4% compared to last August. Year-to-date, condo sales are up 9.5%.

The median price for condos fell 28.1% from the month before, and was down 26.9% compared to last

August. Don't read too much into this as the small number of condo sales each month exaggerates the swings.

Condo inventory was down 35.4% compared to August 2008.

Pending sales for condos was up 35.8% year-over-year.

The real estate market is very hard to generalize. It is a market made up of many micro markets. For complete information on a particular neighborhood or property, call me.

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California Housing Affordability Inches Downward

Housing affordability inched downward throughout the state during the second quarter of 2009 as a result of incremental price increases and increased demand sparked by the state new-homebuyer tax credit, the California Building Industry Association said today.

The quarterly National Association of Home Builders/Wells Fargo Housing Opportunity Index found that homes were less affordable in 16 of the state's 28 metro areas included in the report.

On a statewide basis, the HOI found that a median-income family could have afforded 62.7% of the new and existing homes that were sold during the second quarter, down from 64.4% in the first quarter.

Robert Rivinius, CBIA's President and CEO, said the decrease in affordability could signal the bottom of the market and that prices are likely to go up as existing home inventories drop and builders sell more homes, leaving fewer homes on the market and leading to increased competition among buyers.

"If you're a buyer and you're sitting on the fence, now is the time to buy," Rivinius said. "While it's not a huge decrease in affordability, it could signal that the bottom of the market is here and we could be facing an imbalance in supply and demand as housing production hasn't kept up with population growth, and we're already seeing news reports of increased competition among buyers."

Rivinius added that more homes need to be produced to help keep housing more affordable in California.

"It's estimated by the California Department of Housing and Community Development that California needs to be building around 230,000 units per year to keep up with population growth, but California homebuilders couldn't even put up a third of that number in 2008, and we're expecting even less production in 2009," said Rivinius. "We need lawmakers to ease regulations and make building more feasible in order to keep up with population growth and meet the demand to help sustain these affordability levels."

Rivinius said that policy makers must defer or lower development

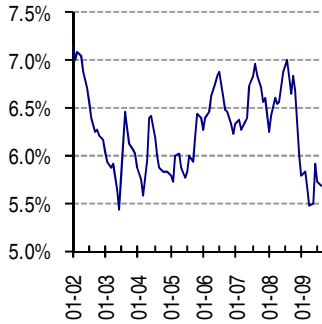
impact fees so that builders will be able to get projects off the ground more quickly and affordably in hopes of avoiding a housing shortage once the market corrects itself.

San Francisco, San Mateo and Marin counties once again took the lead as California's least-affordable metro area, and second in the nation, with just 26.9% of the homes sold affordable to a median income family, down from 32.1% in the first quarter. San Luis Obispo County came in third (31.8%), followed by the Ocean City metro area in New Jersey (32.6%) and Honolulu, Hawaii (41.8%). The New York City metro area continued to hold the title of the nation's least affordable market for the fifth quarter in a row (21.2%).

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Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



Sep. 4, 2009 -- Mortgage rates ended summer on a softer note, drifting back to late-spring levels. A pause (at least) in stock markets after a strong summer run saw some investors shift cash from equities into less-risky investments to lock in gains, driving influential Treasury yields lower.

The overall average rate for 30-year fixed-rate mortgages revealed in HSH's Fixed-Rate Mortgage Indicator (FRMI) nudged downward, slipping seven basis points (.07%) to close the first week of September at 5.56%. The overall average for 5/1 Hybrid ARMs lost five basis points to landing at 4.87%. Conforming 30-year FRMs finished the period at 5.25%, a level last seen in late May.

Construction Spending fell by 0.2% in July, while outlays for commercial properties declined by 1.7%, and public outlays slipped by 0.7% as state and local governments struggle with revenue shortfalls. Some stimulus money will probably be making the "roads and bridges" circuit before long, but true "shovel ready" projects which might use that money have turned out to be few and far between, aside from repaving and filling potholes. One bright spot in the report was spending on residential projects, which climbed by 2.3%, the second positive reading this year. With new home sales firming from desperate lows, at least some new homes must be built to replenish inventory in the most desirable segments of the housing market.

Mortgage rates have slipped back to the levels seen last spring. If they hold through the next couple of weeks, we should see a seasonal resumption in activity, particularly for refinances. If the equity rally is substantially over for now, awaiting confirmation that the economy is ready to power forward, that should be good news for mortgage rates.

While mortgage rates would have to fall a lot more to revisit the attention-getting levels we saw earlier this year, we are nearing the point at which could see some additional activity. The trend has been mostly flat-to-down in recent weeks, and that should be the case for next week.

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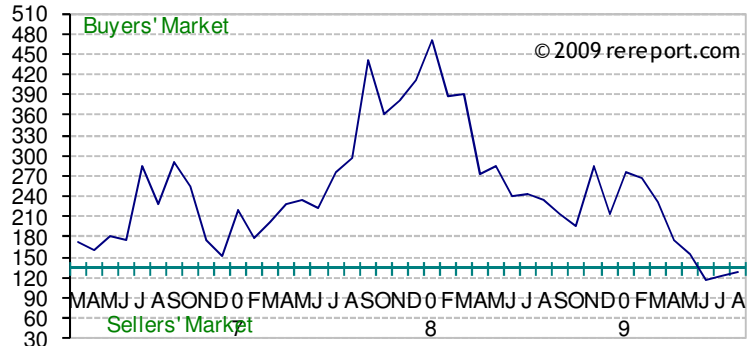
WHICH CLIMBED BY

2.3%, THE SECOND

POSITIVE READING THIS

YEAR."

Days of Inventory: Single-Family Homes



August Sales Statistics

Single-family Homes

	Prices		Unit		Total		Change from Last Year				Change from Last Month			
	Median	Average	Sales	Active	DOM	SP/LP	Med.	Ave.	Sales	Listed	Med.	Ave.	Sales	Listed
County	\$500,000	\$534,600	162	723	85	98.5%	-13.4%	-18.9%	3.2%	-43.1%	-7.5%	-1.9%	-9.0%	-3.1%
Aptos	\$680,095	\$769,566	9	39	65	93.3%	8.4%	5.9%	12.5%	-41.8%	5.4%	14.0%	-18.2%	-13.3%
Capitola	\$520,000	\$595,694	7	32	60	96.7%	-23.5%	-11.0%	40.0%	-11.1%	-21.2%	-17.5%	0.0%	-13.5%
Los Gatos Mtns	\$660,000	\$660,000	2	34	78	103.9%	-45.7%	-41.4%	-50.0%	-17.1%	-22.4%	-13.5%	-60.0%	-2.9%
Rio del Mar	\$537,500	\$595,667	6	79	83	98.9%	-51.1%	-48.8%	-45.5%	-13.2%	-28.2%	-26.2%	-45.5%	9.7%
Seacliff	\$2,085,000	\$1,810,670	3	26	26	98.2%	n/a	n/a	n/a	188.9%	228.3%	186.2%	0.0%	44.4%
San Lorenzo Vly	\$381,200	\$382,003	30	88	70	98.3%	-7.0%	-11.7%	36.4%	-60.0%	1.4%	12.4%	42.9%	-10.2%
Soquel	\$555,000	\$638,045	11	31	36	104.8%	-6.6%	2.1%	175.0%	-34.0%	-16.0%	-2.3%	37.5%	0.0%
Scotts Valley	\$572,950	\$592,668	14	74	107	99.0%	-38.1%	-33.6%	-17.6%	-23.7%	-0.8%	-6.0%	40.0%	-5.1%
Santa Cruz	\$569,320	\$601,339	40	163	101	98.0%	-17.1%	-18.3%	11.1%	-35.1%	-5.9%	-3.8%	-34.4%	2.5%
East County	\$365,000	\$419,031	13	82	125	99.3%	-13.3%	-13.8%	-40.9%	-55.4%	46.0%	9.1%	18.2%	-2.4%
West County	*	*	*	21	*	*	n/a	n/a	n/a	-34.4%	n/a	n/a	n/a	0.0%
Watsonville	\$269,500	\$266,937	20	22	74	98.2%	-19.2%	-24.4%	-16.7%	-88.0%	7.8%	3.1%	-25.9%	-29.0%

The Real Estate Report

Pending Home Sales on a Record Roll

Contract activity for pending home sales has risen for six straight months, a pattern not seen in the history of the index since it began in 2001, according to the National Association of Realtors®.

The Pending Home Sales Index, a forward-looking indicator based on contracts signed in July, increased 3.2 percent to 97.6 from a reading of 94.6 in June, and is 12.0 percent higher than July 2008 when it was 87.1. The index is at the highest level since June 2007 when it was 100.7.

Lawrence Yun, NAR chief economist, said the housing market momentum has clearly turned for the better. "The recovery is broad-based across many parts of the country. Housing affordability has been at record highs this year with the

added stimulus of a first-time buyer tax credit," he said.

"Other buyers are taking advantage of low home values before prices turn higher.

Nationally, the typical mortgage payment now takes less than 25 percent of a middle-income family's monthly income to buy a median priced home, with payment percentages so far in 2009 being the lowest on record dating back to 1970. As long as home buyers stay within their budget, mortgage payments will be very manageable," Yun said.

NAR estimates that about 1.8 to 2.0 million first-time buyers will take advantage of the \$8,000 tax credit this year, with approximately 350,000 additional sales that would not have taken place without the credit. Buyers have little time to act because

they must complete the transaction by November 30 to qualify for the credit. Unless extended, contracts signed but not completed by that date will not be eligible – it is taking approximately two months to complete home sales in the current market.

The Pending Home Sales Index in the Northeast declined 3.0 percent to 78.8 in July but is 4.7 percent higher than July 2008. In the Midwest the index slipped 2.0 percent to 88.1 but is 8.1 percent above a year ago. In the South, pending home sales activity rose 3.1 percent to an index of 103.8 in July and is 12.0 percent above July 2008. In the West the index jumped 12.1 percent to 112.5 and is 20.0 percent above a year ago.

NAR President Charles McMillan, a broker with Coldwell Banker Residential Brokerage in Dallas-

Fort Worth, said Congress needs to keep the momentum going.

"Even with a good recovery taking place, the market is not yet back to normal. With a gradual absorption of inventory, we are on the cusp of a general stabilization in home prices," he said.

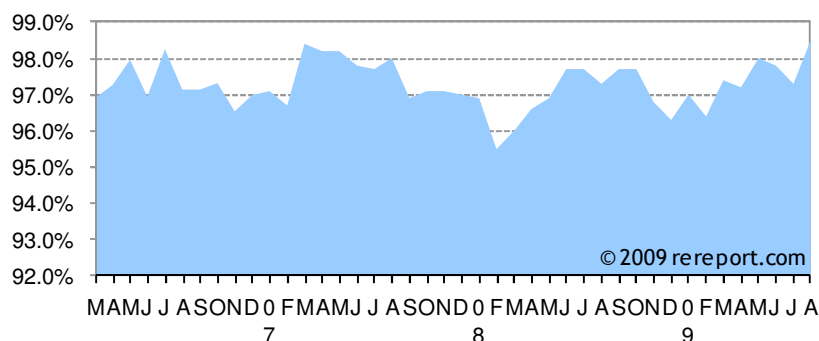
"To ensure that housing has a broad stimulus to the overall economy and stays on sound footing, we're encouraging Congress to extend the tax credit into 2010, and to expand it to all buyers of primary residences.

The faster we stabilize home prices, the fewer families will face foreclosure and the quicker credit can be extended to other sectors of the economy," McMillan said.

NAR's Housing Affordability Index stood at 158.5 in July, below the peak set in April but is still 36.0

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Santa Cruz County: Homes Sales Price/Listing Price Ratio

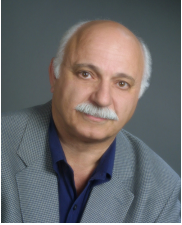


August Sales Statistics Condominiums/Townhomes

	Prices		Unit		Total		Change from Last Year				Change from Last Month			
	Median	Average	Sales	Active	DOM	SP/LP	Med.	Ave.	Sales	Listed	Med.	Ave.	Sales	Listed
County	\$309,000	\$321,142	29	170	77	100.0%	-26.9%	-20.1%	-9.4%	-35.4%	-28.1%	-23.3%	3.6%	-2.3%
Aptos	\$554,500	\$554,500	2	11	19	96.3%	-5.1%	-5.1%	100.0%	-21.4%	n/a	n/a	n/a	-8.3%
Capitola	\$310,000	\$324,925	5	19	59	99.8%	-32.6%	-29.4%	400.0%	-5.0%	5.1%	-6.5%	25.0%	-5.0%
Rio del Mar	*	*	*	22	*	*	n/a	n/a	n/a	-12.0%	n/a	n/a	n/a	0.0%
Scotts Valley	\$360,000	\$415,000	3	6	128	98.2%	-23.8%	-11.5%	-25.0%	-57.1%	-12.2%	1.2%	200.0%	0.0%
Santa Cruz	\$309,000	\$302,786	7	52	144	96.8%	-32.7%	-34.9%	-22.2%	-42.2%	-34.2%	-34.7%	-30.0%	0.0%
Watsonville	\$230,000	\$221,444	9	12	49	103.7%	-5.5%	-11.1%	-10.9%	-78.9%	25.3%	14.4%	-19.7%	-25.0%

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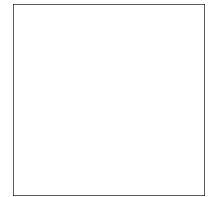
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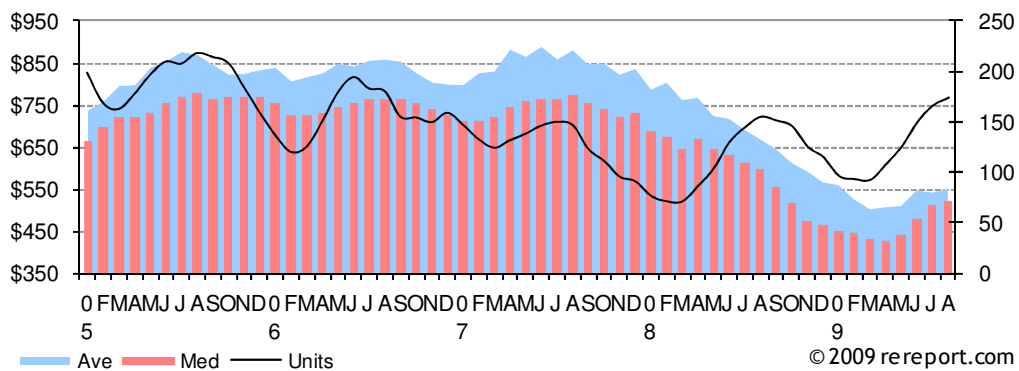
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Go online to see the full report
with the city by city breakdown:

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Santa Cruz County Homes: Prices vs. Sales
(3-month moving average — \$000's)



(Continued from page 3)

percentage points higher than a year ago. The HAI is a broad measure of housing affordability using consistent values and assumptions over time, which examines the relationship between home prices, mortgage interest rates and family income.

Yun expects existing-home sales to rise through the fourth quarter.

"Unless the tax credit is extended, no one should be surprised to see home sales drop in the first quarter of next year," he said. "However, the fundamentals of the housing market and the economy are trending up, and we expect home sales to generally pick up in the second quarter of 2010. The buyer

psychology may be shifting from, 'Why buy now when I can purchase later,' to 'I don't want to miss out on a recovery'."