

# The Real Estate Report

LOCAL MARKET TRENDS



SANTA CRUZ COUNTY



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## Santa Cruz County Home Prices Continued to Rise in May

The median price for single-family, re-sale homes rose 4.7% from April. The median price was off 23.9% year-over-year. The average price fell 9% month-over-month, and was down 30.2% compared to last May.

Sales of single-family, re-sale homes were up, year-over-year, by 10.3% in May. Year-to-date, home sales are up 21%.

Inventory was down 39.8% from last May. This is the thirteenth month in a row inventory has declined year-over-year.

The drop in inventory and the rise in sales combined to push our Days of Inventory indicator down 21 days

to 156 days. In a balanced market, the supply of homes is usually around five to six months. For con-

| Trends at a Glance<br>(Single-family Homes) |           |           |           |
|---|-----------|-----------|-----------|
|   | May 09    | Apr 09    | May 08    |
| Median Price:                               | \$470,000 | \$449,000 | \$617,500 |
| Average Price:                              | \$508,121 | \$558,497 | \$728,157 |
| Units Sold:                                 | 139       | 129       | 126       |
| Inventory:                                  | 746       | 787       | 1,240     |
| Sale/List Price Ratio:                      | 98.0%     | 97.2%     | 96.9%     |
| Days of Inventory:                          | 156       | 177       | 285       |
| Days on Market:                             | 92        | 64        | 71        |

dos, the indicator rose thirteen days to 172 days.

The sales price to list price ratio rose 0.8 of a point to 98%.

Pending sales, a leading indicator, were up 35.1% year-over-year.

Condo sales were up 3.4% year-over-year. Year-to-date, condo sales are up 28.3%.

The median price for condos rose 17.5% from the month before, but was down 9.2% compared to last May.

Condo inventory was down 34.4% compared to March 2008.

Pending sales for condos is up 25% 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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## The Basics: 2009 First-Time Home Buyer Tax Credit

As part of its plan to stimulate the U.S. housing market and address the economic challenges facing our nation, Congress has passed legislation that grants a tax credit of up to \$8,000 to first-time home buyers.

### WHO QUALIFIES?

First-time home buyers who purchase homes between January 1, 2009 and December 1, 2009.

To qualify as a "first-time home buyer" the purchaser or his/her spouse may not have owned a residence during the three years prior to the purchase.

### WHICH PROPERTIES ARE ELIGIBLE?

The 2009 First-Time Home Buyer Tax Credit may be applied to primary residences, including: single-family homes, condos, townhomes, and co-ops.

### HOW MUCH WILL THE CREDIT BE?

The maximum allowable credit for home buyers is \$8,000. Each home buyer's tax credit is determined by two factors:

The price of the home—the credit is equal to 10% of the purchase price of the home, up to \$8,000.

The buyer's income—single buyers with incomes up to \$75,000 and married couples with incomes up to \$150,000—may receive the maximum tax credit.

### IF THE BUYER(S)' INCOME EXCEEDS THESE LIMITS, CAN HE/SHE STILL GET A CREDIT?

Yes, some buyers may still be eligible for the credit.

The credit decreases for buyers who earn between \$75,000 and

\$95,000 for single buyers and between \$150,000 and \$170,000 for home buyers filing jointly. The amount of the tax credit decreases as his/her income approaches the maximum limit. Home buyers earning more than the maximum qualifying income—over \$95,000 for singles and over \$170,000 for couples are not eligible for the credit.

### WILL THE TAX CREDIT NEED TO BE REPAID?

No. The buyer does not need to repay the tax credit, if he/she occupies the home for three years or more. However, if the property is sold during the three-year period, the credit will be recouped on the sale.

### TAX CREDIT CAN BE USED ON CLOSING COSTS

FHA-approved lenders received the go-ahead to develop bridge-loan products that enable first-time buyers to use the benefits of the federal tax credit upfront, according to eagerly awaited guidance from the U.S. Department of Housing and Urban Development on so-called home buyer tax credit loans that was released today.

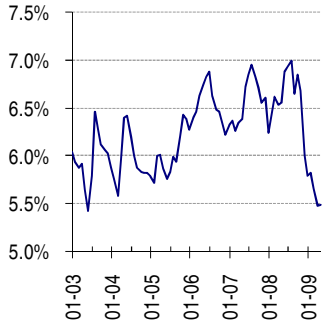
Under the guidance, FHA-approved lenders can develop bridge loans that home buyers can use to help cover their closing costs, buy down their interest rate, or put down more than the minimum 3.5 percent.

The loans can't be used to cover the minimum 3.5 percent, senior HUD officials told reporters on a conference call Friday morning.

# The Real Estate Report

## Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



May 29, 2009 -- Bond and mortgage markets spasmed this week, and the corresponding sharp rise in rates over a two-day period served as a reminder that even a battered private market markets can be a dangerous animal. It wasn't completely clear what sparked the rout, but there was speculation that a combination of unclear goals in Federal Reserve quantitative easing programs, floods of new sovereign debt and shoddy treatment of GM bondholders all led to the selloff.

Yields on the 10-year Treasury bond had lifted by just over half a percentage point in a few days' time, taking conforming fixed mortgage rates along for the ride. After standing at a familiar 5.03% on Tuesday, Conforming 30-year FRMs leapt to 5.29% on Wednesday

and then 5.44% on Thursday before settling on Friday to 5.30%.

Overall, HSH's Fixed-Rate Mortgage Indicator (FRMI), which includes rates for conforming, jumbo and "high-limit" conforming data, rose by only 18 basis points to 5.64%, as the increase in the conforming portion was tempered somewhat by a softer response in Jumbos. An all-inclusive average for 5/1 hybrids increased by 10 basis points, closing the survey week at 5.15%.

Existing Home Sales rang in at a 4.68 million (annualized) rate of sale in April, a slight increase from March's figure but in line with recent figures, which have been showing a kind of "backing and filling" pattern for the past five months. Prices

continue to ease -- they are 15.4% below year-ago levels, and the supply of inventory increased back to 10.2 months at the present rate of sale.

New Homes sold at a 352,000 annualized clip in April, almost exactly the same pace seen in March. Like their 'used' counterparts, prices here are about 15% below last year, but inventory levels continue to improve and now stand at 10.1 months available. According to the Commerce Department, the actual number of units on the market is now 297,000 and is starting to approach half of the peak levels seen a couple of years ago. The sooner inventory disappears, the sooner new construction can begin, and we are approaching that day steadily, if slowly.

"THE SOONER

INVENTORY

DISAPPEARS, THE

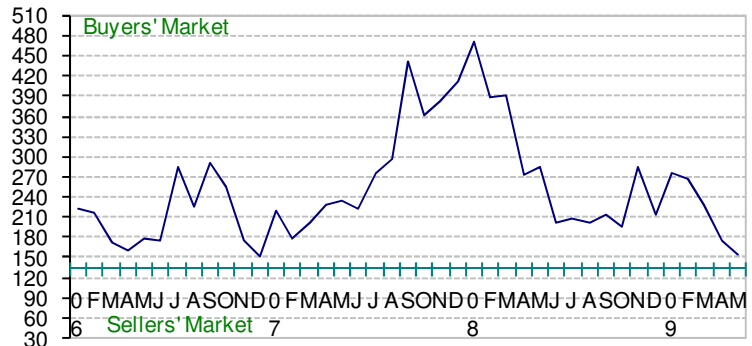
SOONER NEW

CONSTRUCTION

CAN BEGIN."

Days of Inventory: Single-Family Homes

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## May Sales Statistics

### Single-family Homes

|                 | Prices    |           | Unit  |        | Total | SP/LP  | Change from Last Year |        |        |        | Change from Last Month |        |        |        |
|-----------------|-----------|-----------|-------|--------|-------|--------|-----------------------|--------|--------|--------|------------------------|--------|--------|--------|
|                 | Median    | Average   | Sales | Active |       |        | DOM                   | Med.   | Ave.   | Sales  | Listed                 | Med.   | Ave.   | Sales  |
| County          | \$470,000 | \$508,121 | 139   | 746    | 92    | 98.0%  | -23.9%                | -30.2% | 10.3%  | -39.8% | 4.7%                   | -9.0%  | 7.8%   | -5.2%  |
| Aptos           | \$772,500 | \$848,300 | 5     | 44     | 116   | 94.3%  | -3.4%                 | 17.3%  | 0.0%   | -29.0% | 21.7%                  | 12.4%  | 25.0%  | 0.0%   |
| Capitola        | \$583,115 | \$596,557 | 4     | 39     | 138   | 99.7%  | -9.6%                 | -13.6% | 33.3%  | 25.8%  | 9.0%                   | -15.6% | -20.0% | 30.0%  |
| Los Gatos Mtns  | *         | *         | *     | 41     | *     | *      | n/a                   | n/a    | n/a    | 156.3% | n/a                    | n/a    | n/a    | 0.0%   |
| Rio del Mar     | \$665,000 | \$631,351 | 5     | 71     | 102   | 98.2%  | -13.1%                | -44.0% | -37.5% | 1.4%   | 2.3%                   | -29.6% | -54.5% | 4.4%   |
| Seacliff        | \$775,000 | \$775,000 | 1     | 12     | 181   | 100.0% | -42.1%                | -42.1% | -50.0% | -25.0% | -8.3%                  | -61.4% | -75.0% | -7.7%  |
| San Lorenzo Vly | \$301,000 | \$300,352 | 21    | 100    | 93    | 96.4%  | -37.0%                | -31.9% | 16.7%  | -49.5% | -17.2%                 | -8.7%  | 50.0%  | -2.9%  |
| Soquel          | \$565,000 | \$587,944 | 9     | 34     | 44    | 98.8%  | -22.8%                | -25.3% | 80.0%  | -39.3% | -11.7%                 | -15.8% | 12.5%  | -2.9%  |
| Scotts Valley   | \$665,000 | \$680,278 | 9     | 87     | 92    | 97.7%  | -7.8%                 | -15.6% | -35.7% | -14.7% | 14.7%                  | 20.8%  | -10.0% | 2.4%   |
| Santa Cruz      | \$585,000 | \$697,938 | 32    | 158    | 85    | 97.4%  | -15.2%                | -19.1% | -17.9% | -34.2% | -7.9%                  | -3.8%  | 28.0%  | -12.7% |
| East County     | \$307,500 | \$393,292 | 12    | 91     | 114   | 103.1% | -25.2%                | -20.8% | 9.1%   | -48.3% | 18.3%                  | 50.4%  | -7.7%  | -6.2%  |
| West County     | \$497,500 | \$497,500 | 2     | 21     | 36    | 97.9%  | -52.6%                | -52.7% | -33.3% | 0.0%   | 24.4%                  | 40.8%  | -33.3% | -4.5%  |
| Watsonville     | \$299,500 | \$294,032 | 30    | 28     | 83    | 99.0%  | -25.8%                | -22.9% | 87.5%  | -87.0% | 4.4%                   | 2.5%   | -6.3%  | -30.0% |

# The Real Estate Report

## Pending Home Sales Up Third Month in a Row

Record low mortgage interest rates boosted pending home sales for the third consecutive month, with some benefit now from the first-time buyer tax credit, according to the National Association of Realtors®.

The Pending Home Sales Index, a forward-looking indicator based on contracts signed in April, rose 6.7 percent to 90.3 from a reading of 84.6 in March, and is 3.2 percent above April 2008 when it was 87.5.

Lawrence Yun, NAR chief economist, said buyers are responding to very favorable market conditions. "Housing affordability conditions have been at historic highs, but now the \$8,000 first-time buyer tax credit is beginning to impact the market," he said. "Since first-time buyers must finalize their purchase by November 30 to get

the credit, we expect greater activity in the months ahead, and that should spark more sales by repeat buyers."

The Pending Home Sales Index in the Northeast shot up 32.6 percent to 78.9 in April and is 0.8 percent above a year ago. In the Midwest the index rose 9.8 percent to 90.4 and is 11.1 percent above April 2008. The index in the South slipped 0.2 percent to 93.0 in April but is 3.5 percent higher than a year ago. In the West the index rose 1.8 percent to 94.8 but is 2.9 percent below April 2008.

NAR President Charles McMillan, a broker with Coldwell Banker Residential Brokerage in Dallas-Fort Worth, said there are numerous buyer assistance programs around the country. "Some states are offering bridge loans that allow first-time buyers

to use the tax credit for downpayment and closing costs, but there are many other local government and nonprofit programs available to buyers, depending on location," he said.

"Just last week, HUD announced that qualifying buyers can use the tax credit for closing costs on FHA loans, to buy down the interest rate or make a larger downpayment. Buyers who are wondering about their options should contact a Realtor®, who can advise consumers on the housing assistance programs and resources available in a given area."

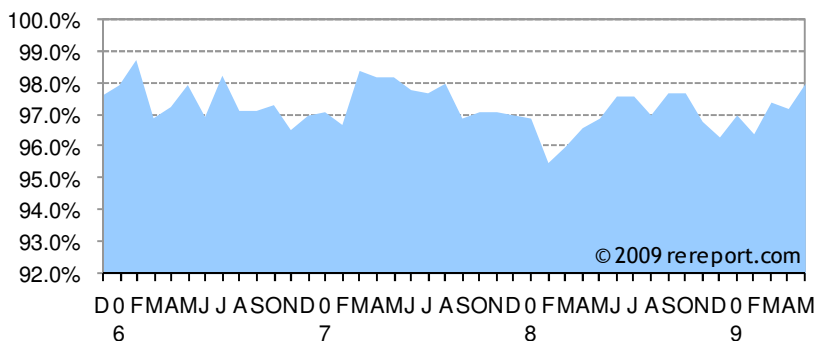
NAR's Housing Affordability Index<sup>2</sup> is in record territory. The affordability index rose to 174.8 in April from an upwardly revised 171.9 in March, and was the second highest monthly reading on record after peaking at 176.9

in January of this year. 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; tracking began in 1970.

A median-income family, earning \$60,900, could afford a home costing \$296,800 in April with a 20 percent downpayment, assuming 25 percent of gross income is devoted to mortgage principal and interest. Affordability conditions for first-time buyers with the same income and small downpayments are roughly 80 percent of that amount. The affordable price was well above the median existing single-family home price in April, which was \$169,800.

(Continued on page 4)

### Santa Cruz County: Homes Sales Price/Listing Price Ratio



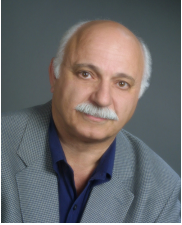
### May Sales Statistics

#### Condominiums/Townhomes

|               | Prices    |           | Unit Sales | Total Active | Total DOM | SP/LP | Change from Last Year |        |        |        | Change from Last Month |        |        |        |
|---------------|-----------|-----------|------------|--------------|-----------|-------|-----------------------|--------|--------|--------|------------------------|--------|--------|--------|
|               | Median    | Average   |            |              |           |       | Med.                  | Ave.   | Sales  | Listed | Med.                   | Ave.   | Sales  | Listed |
| County        | \$382,000 | \$394,897 | 30         | 172          | 63        | 96.1% | -9.2%                 | -11.3% | 3.4%   | -34.4% | 17.5%                  | 14.2%  | -9.1%  | -1.1%  |
| Aptos         | \$479,000 | \$492,400 | 5          | 11           | 30        | 98.9% | n/a                   | n/a    | n/a    | -21.4% | 17.1%                  | 20.4%  | 400.0% | 22.2%  |
| Capitola      | \$650,000 | \$650,000 | 1          | 14           | 5         | 93.5% | 64.6%                 | 34.7%  | -83.3% | -30.0% | 128.1%                 | 128.1% | 0.0%   | 7.7%   |
| Rio del Mar   | \$589,000 | \$578,000 | 3          | 25           | 72        | 94.0% | -31.5%                | -32.8% | 50.0%  | 19.0%  | -16.8%                 | -18.3% | 50.0%  | -7.4%  |
| Scotts Valley | *         | *         | *          | 10           | *         | *     | n/a                   | n/a    | n/a    | -41.2% | n/a                    | n/a    | n/a    | 0.0%   |
| Santa Cruz    | \$382,000 | \$424,000 | 8          | 45           | 93        | 93.9% | -12.7%                | -8.0%  | 0.0%   | -45.8% | -2.6%                  | 11.7%  | -20.0% | 0.0%   |
| Watsonville   | \$196,450 | \$195,940 | 10         | 19           | 61        | 98.0% | -16.4%                | -30.1% | 48.8%  | -69.8% | -5.3%                  | 5.6%   | -17.6% | -26.9% |

# THE REAL ESTATE REPORT

## SANTA CRUZ COUNTY



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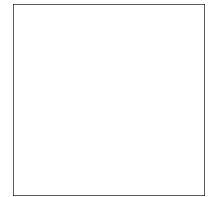
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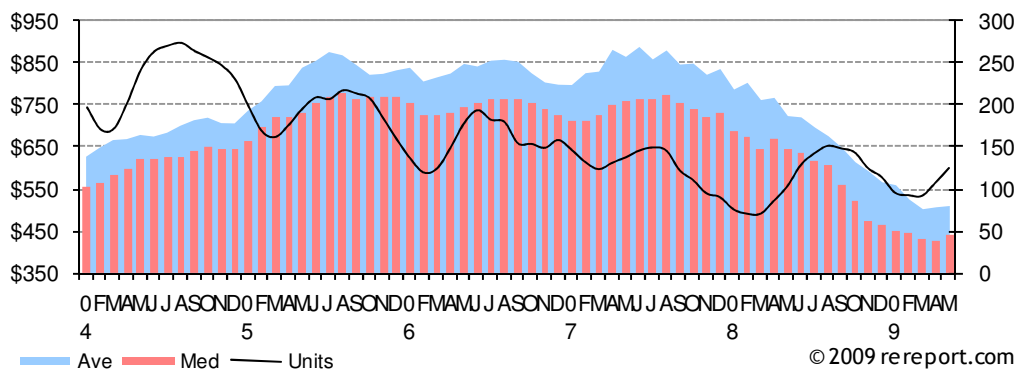
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with the city by city breakdown:

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



(Continued from page 3)

Yun cautions that the reporting sample for pending home sales is smaller than that of existing-home sales, so it is subject to greater variability. "In addition, the relationship between contracts on pending home sales and closings on existing-home sales is taking longer than in the past for several

reasons," he said. "Mortgage processing time has increased, it is taking many months to close on those homes requiring short sales with lender approval, and some sales are falling through at the last moment."

The total number of existing-home sales is expected to improve but with dramatic local market variation in the timing of recovery. "The

market has already bottomed in some areas, but this is an unusual housing cycle with some areas improving rapidly while others languish or decline," Yun said.