

Inside This Issue

- > LOCAL MARKET TRENDS.....1
- > MORTGAGE RATE OUTLOOK.....2
- > HOME STATISTICS.....2
- > DOUBLE [DIP] OR NOTHING?.....3
- > CONDO STATISTICS.....3
- > CHARTS: SP/LP & SALES YTD.....4



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The Real Estate Report

local market trends

SANTA CRUZ COUNTY

Home Sales Slip Slightly

Sales of single-family, re-sale homes dipped 2% in July with the expiration of the Federal tax credit. Year-over-year, home sales were off 17.4%. Year-to-date, home sales are down 9.2%.

Condo sales, on the other hand, were up 28.5% over last July. Year-to-date, condo sales are up 5.2%.

The high-end market has been helped by increasing access to jumbo and super-jumbo loans. Historically, and until July 2007, the spread or difference between conforming mortgage rates and jumbo rates moved within a narrow range of about 0.20%. At the trough of the market, the spread was 1.9%. Now, the spread is down to 0.5%, and the secondary market for jumbo loans is awakening.

The median price for homes was off 0.7% from June, and it was down 4.9% year-over-year.

The average price was off 1.1% from June and down 0.3% compared to last July.

The sales price to list price ratio for homes rose 0.6 of a point to 98.1%.

The median and average prices for condos were down 24.5% and 5.5% respectively year-over-year.

Pending home sales were down from June, but were still higher than the year before. Pending home sales were up 16.2%, while pending condo sales rose 67.3%.

Inventory for homes was up 7.5% year-over-year. This is the second month in a row inventory has been higher than the year before.

Speaking of inventory, Leslie Appleton-Young, chief economist for the California Association of REALTORS® (C.A.R.), said, at a recent Silicon Valley Association of REALTORS® (SILVAR) meeting in Palo Alto last month, in

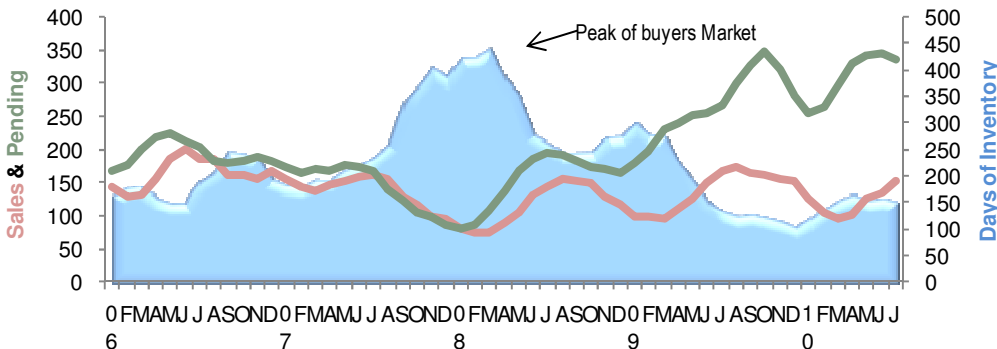
Trends at a Glance (Single-family Homes)			
	Jul 10	Jun 10	Jul 09
Median Price:	\$ 514,000	\$ 517,500	\$ 540,391
Average Price:	\$ 543,472	\$ 549,258	\$ 545,152
Units Sold:	147	150	178
Inventory:	802	804	746
Sale/List Price Ratio:	98.1%	97.5%	97.3%
Days on Market	69	84	71
Days of Inventory	164	155	126

five to ten years California will experience a housing shortage.

She said household growth for the state is expected to be 200,000 a year. The CBIA reports only 13,000 permits pulled in the first six months of the year.

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.

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



HOW TO READ THE CHART

The blue area is the number of days it would take to sell all the homes for sale at the current rate of sales.

The green line shows the number of homes in escrow. Normally, this line tracks closely with the red line, which shows actual sales.

As you can see, the two lines have diverged over the past year. This is due to many homes being put into escrow as short-sales, contingent upon the banks' approval. This is being done even before the banks know about the short sale. Subsequently, many of these escrows do not close.

Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



Jul. 30, 2010 -- With the deceleration in the economy now quantified, mortgage rates stopped falling this week. As prospects for a speedy recovery begin to fade, and inflation pressures bleed from the system, interest rates are less likely to find reasons to rise anytime soon.

Each week for some 30 years, HSH has produced an overall mortgage monitor -- our Fixed-Rate Mortgage Indicator (FRMI). The FRMI includes rates for conforming, jumbo, and most recently the GSE's "high-limit" conforming products and so covers much of the mortgage-borrowing public. This week, the FRMI remained in record-low territory even though it lifted by two basis points (.02%) to 4.92%. For borrowers for whom a long-term fixed-rate mortgage doesn't fit the bill, the next-most popular choice is the hybrid 5/1 ARM, which finished the survey week at 3.92%.

Low mortgage rates produce benefits only to those who can access them -- namely people with incomes, good credit, equity and more. While some can, many more cannot, because they have no job to produce the income needed to participate in today's markets. Untold additional numbers have little or no equity in their homes and cannot recast their balance sheets through conventional refinancing means.

These two issues -- jobs and underwater homeowners -- are the problems which most need addressing if we are to produce a faster economic recovery. Grandiose health care and financial market overhaul mean very little relative to the problems so many face today, and the regulatory and tax uncertainty inherent in such plans are more than likely serving as additional deterrents to the kind of hiring which would produce a better economic climate.

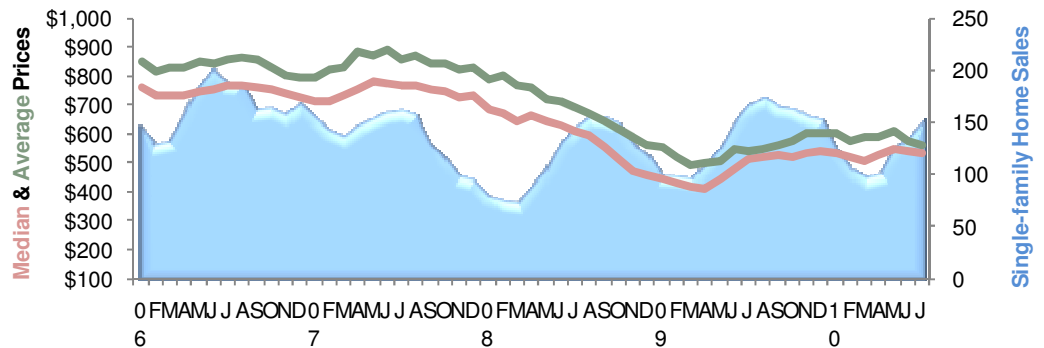
Until that better economic climate shows, we'll continue to have low mortgage rates and high unemployment, and continue in this stagnant holding pattern.

Next week we get all the big first-week of the month reports, including the ISM manufacturing index, auto sales, income and spending, consumer borrowing and the employment report. We'll be looking for bright spots but expect to see few coming, and so mortgage rates have little reason to do anything different than they have in recent weeks -- decline mildly.

The chart above shows the National monthly average for 30-year fixed rate mortgages as compiled by [HSH.com](http://www.HSH.com). The average includes mortgages of all sizes, including conforming, "expanded conforming," and jumbo.

Santa Cruz County Homes - Prices & Sales

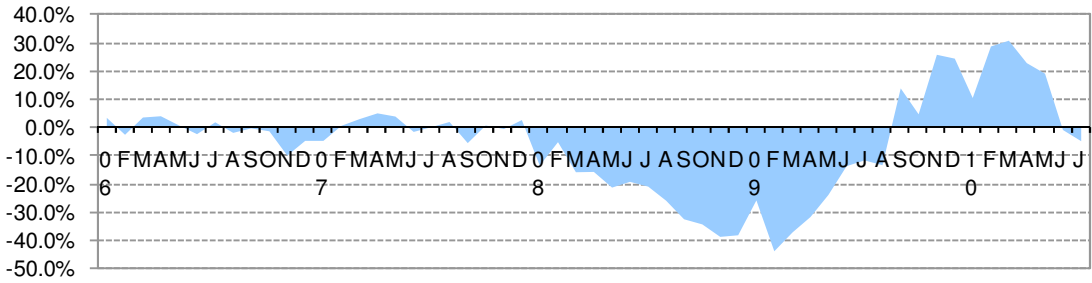
(3-month moving average—prices in \$000's)



Santa Cruz County - July 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	\$ 514,000	\$ 543,472	147	323	802	164	98.1%	-4.9%	-0.3%	-17.4%	16.2%	7.5%	
Aptos	\$ 539,000	\$ 583,000	7	22	43	184	95.5%	-16.4%	-13.6%	-36.4%	57.1%	-4.4%	
Capitola	\$ 673,149	\$ 786,050	3	9	32	320	98.7%	2.0%	8.9%	-57.1%	28.6%	-13.5%	
Rio del Mar	\$ 623,000	\$ 629,633	15	17	80	160	95.6%	-16.8%	-22.0%	36.4%	30.8%	11.1%	
Seacliff	\$ 584,500	\$ 584,500	2	4	14	210	97.9%	-8.0%	-7.6%	-33.3%	0.0%	-22.2%	
San Lorenzo Vly	\$ 310,000	\$ 334,093	28	63	110	118	98.9%	-17.6%	-1.7%	33.3%	6.8%	12.2%	
Soquel	\$ 599,000	\$ 644,414	7	15	36	154	95.7%	-9.4%	-1.3%	-12.5%	15.4%	16.1%	
Scotts Valley	\$ 640,000	\$ 677,914	11	24	95	259	99.8%	10.8%	7.5%	10.0%	-29.4%	21.8%	
Santa Cruz	\$ 612,450	\$ 679,415	40	67	177	133	97.5%	1.2%	8.7%	-34.4%	15.5%	11.3%	
East County	\$ 290,000	\$ 380,473	11	38	71	194	97.5%	16.0%	-0.9%	0.0%	26.7%	-15.5%	
West County	\$ 562,000	\$ 562,000	2	3	28	420	102.8%	n/a	n/a	n/a	n/a	n/a	
Watsonville	\$ 275,000	\$ 275,700	17	45	37	65	101.9%	10.0%	6.5%	-37.0%	18.4%	19.4%	

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Santa Cruz County Homes: Year-Over-Year Median Price Change



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DOUBLE [DIP] OR NOTHING?

Over the last several months, sales in the California housing market have been leveling out while the median price of homes has stayed over the \$300,000 threshold. Along with reports on weakness in the national numbers and large numbers of distressed sales across the board, the front and center question is: Are we headed for a double dip?

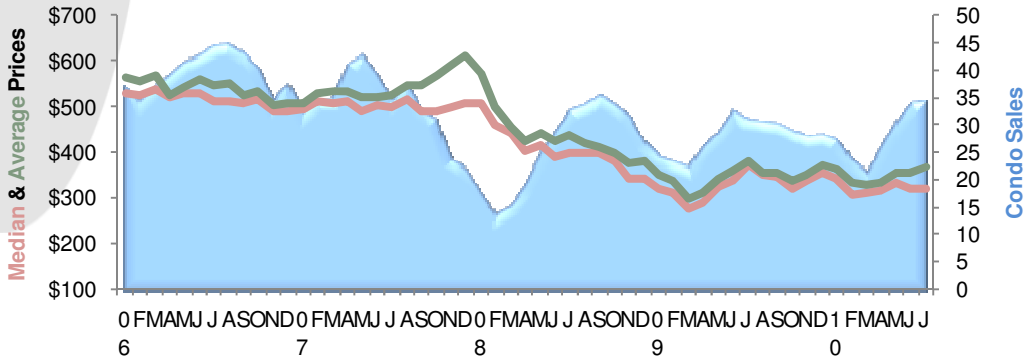
As far as sales are concerned, the pace has been near or above the 500,000 mark for the past two years, which is consistent with pre-peak levels of activity. The seasonally adjusted annualized rate of 492,800 existing detached home sales in June 2010 was down 4.2% from year ago levels and down 11.1% month-to-month. Despite the month-to-month and year-to-year declines, the June rate of sales was well above the trough of 254,650 homes that occurred in October 2007. Given the high levels of affordability compared to peak years, a drop off in sales to trough levels of 255,000 homes seems very unlikely.

As for home prices, the California median price was \$311,950 in June 2010, 13.6% above the year ago median of \$274,640, and up 27.2% from the trough price of \$245,230 of February 2009. While a 13.6% increase from the low point is welcome, the median actually declined over the last two months, causing concerns about a double dip in the median price. The possibility of a return to the \$245,000 range seems remote for the following reasons. First, even at current prices, affordability is more than double the levels of two and three years ago. This should continue to drive demand and prevent a significant decline in home prices. Second, despite recent increases in inventory levels (4.8 months in June) inventory in California was still below the long-run average of 7 months. Historically, inventory levels below that threshold have fueled year-to-year price gains. This would suggest that as long as inventory remains relatively low, prices should remain stable over the coming months, all else being equal.

(Continued on page 4)

Santa Cruz County Condos - Prices & Sales

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



Santa Cruz County - July 2010												
Condos/Townhomes								% Change from Year Before				
Prices								Prices				
Cities	Median	Average	Sales	Pend	Inven	DOI	SP/LP	Med	Ave	Sales	Pend2	Inven
County	\$ 324,500	\$ 395,550	36	92	192	160	97.5%	-24.5%	-5.5%	28.6%	67.3%	10.3%
Aptos	\$ 290,000	\$ 290,000	1	5	7	210	87.9%	n/a	n/a	n/a	n/a	n/a
Capitola	\$ 287,750	\$ 292,022	8	6	18	68	100.8%	-2.5%	-16.0%	100.0%	-14.3%	-10.0%
Rio del Mar	\$ 394,500	\$ 394,500	2	4	42	630	96.9%	-25.6%	-29.1%	-60.0%	100.0%	90.9%
Scotts Valley	\$ 335,000	\$ 334,333	3	9	9	90	102.7%	-18.3%	-18.5%	200.0%	50.0%	50.0%
Santa Cruz	\$ 436,650	\$ 455,153	10	28	63	189	97.5%	-7.0%	-1.8%	0.0%	100.0%	21.2%
Watsonville	\$ 200,000	\$ 216,250	4	21	12	90	95.2%	9.0%	11.8%	-33.3%	75.0%	-25.0%

Table 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 last day of the month.

THE REAL ESTATE REPORT
Santa Cruz County



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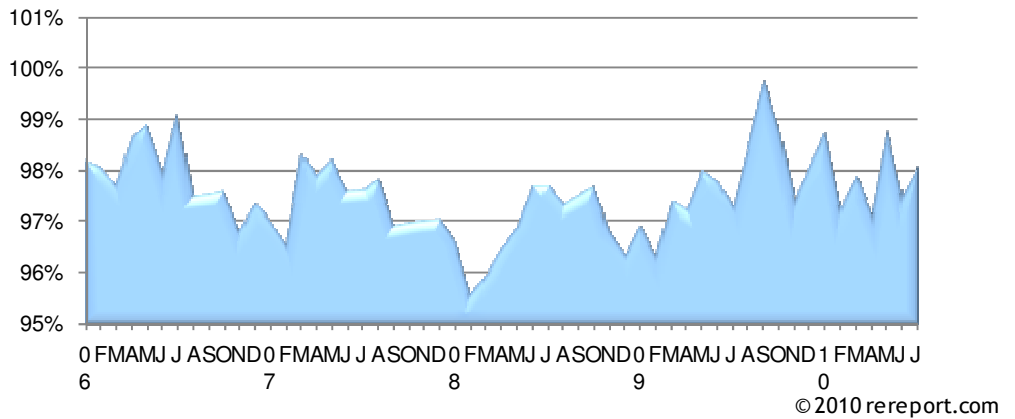
Go online to see the full report with the city by city breakdown:

<http://www.mysantacruzrealestate.com>

Collectively, these observations imply that the market should see prices stabilize or edge up over the foreseeable future, yet there is still a lot of uncertainty about the rest of the year. For one thing, it remains to be seen how the housing market will sustain itself now that the federal Homebuyer Tax Credits have ended. Moreover, there are long-standing concerns about a second wave of foreclosures and how it will impact housing market values.

Recent changes to the HAMP loan modification program, including principal forgiveness, and similar changes to the loan modification programs of major banks, along with growing evidence that the California market has shown improvement in recent months, increases the likelihood the housing market will not experience a double dip, especially in the San Francisco Bay Area where six of the top ten cities in the state with the highest median prices in June are located: Los Altos, Saratoga, Palo Alto, Los Gatos, Cupertino and Lafayette.

Santa Cruz County Homes: Sales Price/Listing Price Ratio



Santa Cruz County Sales Year-to-Date

