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# The Real Estate Report

## local market trends

### SANTA CLARA COUNTY

## Sales Slip After Fed Tax Credit Expires

Sales of both single-family, re-sale homes and condos fell in July with the expiration of the Federal tax credit.

Home sales were off 15.6% compared to last July, while condo sales were down 18.8%.

The new state tax credit has pumped a little life into the high-end market. With more sales in that segment of the market, the average price for homes in July went over \$800,000 for the first time since August 2008.

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 1.1% from June, but it was up 7.2% year-over-year. The average price was up 2.4% from June and up 12.3% compared to last July. This is the tenth month in a row prices have been higher than the year before.

The sales price to list price ratio for homes stayed over 100% for the thirteenth month in a row: 100.2%.

The median and average prices for condos were up 3.3% and 9.5% respectively year-over-year.

Pending sales were down from June, but were still higher than the year before. Pending home sales were up 44.2%, while pending condo sales rose 44.7%.

Inventory for homes rose 9.6% year-over-year. This is the first month since November 2008 inventory has been higher than the year before.

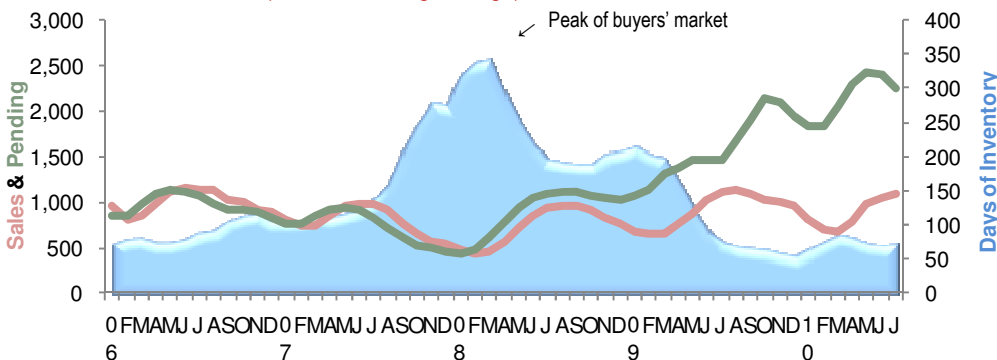
Trends at a Glance (Single-family Homes)			
	Jul 10	Jun 10	Jul 09
Median Price:	\$ 637,685	\$ 645,000	\$ 595,000
Average Price:	\$ 804,110	\$ 785,447	\$ 716,163
Home Sales:	1,004	1,075	1,190
Inventory:	2,899	2,678	2,645
Sale/List Price Ratio:	100.2%	100.4%	100.2%
Days on Market	43	44	58
Days of Inventory:	87	72	67

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 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 Clara 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.

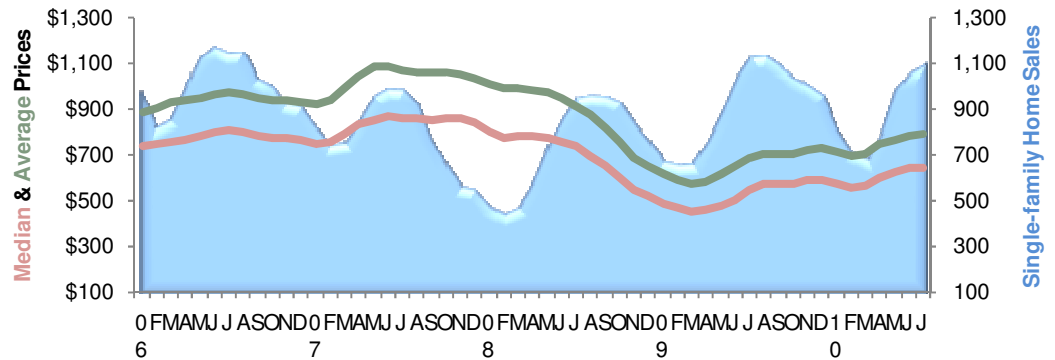
Until that better economic climate shows, we'll continue to have low mortgage rates and high unemployment, and continue in this stagnant holding pattern.

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://HSH.com). The average includes mortgages of all sizes, including conforming, "expanded conforming," and jumbo.

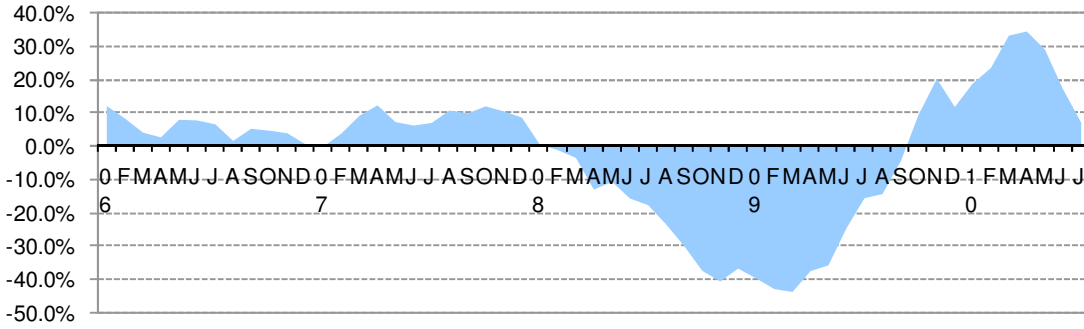
### Santa Clara County Homes - Prices & Sales

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



Santa Clara 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	\$ 637,685	\$ 804,110	1,004	2,063	2,899	87	100.2%	7.2%	12.3%	-15.6%	44.2%	9.6%
Campbell	\$ 690,000	\$ 735,445	29	25	82	85	97.9%	2.2%	14.6%	-26.1%	13.6%	18.8%
Cupertino	\$ 1,120,000	\$ 1,202,210	39	45	83	64	99.5%	9.5%	9.2%	2.6%	18.4%	-26.5%
Gilroy	\$ 434,800	\$ 462,993	56	130	124	66	100.8%	17.1%	11.8%	-17.6%	38.3%	4.2%
Los Altos	\$ 1,480,000	\$ 1,628,600	39	34	67	52	98.7%	-3.7%	-7.1%	30.0%	88.9%	-27.2%
Los Altos Hills	\$ 2,480,000	\$ 3,071,510	9	10	66	220	94.4%	-10.0%	22.7%	50.0%	66.7%	-4.3%
Los Gatos	\$ 1,230,000	\$ 1,332,280	33	53	157	143	98.8%	3.8%	-0.1%	17.9%	130.4%	-6.5%
Milpitas	\$ 552,500	\$ 565,930	24	58	72	90	99.3%	-1.4%	-6.1%	-14.3%	16.0%	24.1%
Monte Sereno	\$ 1,522,500	\$ 1,765,000	4	4	41	308	92.6%	-53.8%	-46.4%	100.0%	0.0%	46.4%
Morgan Hill	\$ 620,000	\$ 646,669	43	90	152	106	99.4%	11.1%	6.8%	0.0%	36.4%	14.3%
Mountain View	\$ 925,000	\$ 960,656	20	38	54	81	99.8%	3.1%	-4.8%	-37.5%	153.3%	-16.9%
Palo Alto	\$ 1,525,000	\$ 1,794,580	43	42	101	70	104.1%	12.5%	20.1%	2.4%	82.6%	-13.7%
San Jose	\$ 534,888	\$ 578,779	529	1,305	1,436	81	100.7%	7.0%	4.3%	-24.0%	46.6%	25.0%
Santa Clara	\$ 552,400	\$ 602,883	40	75	118	89	100.0%	-0.9%	2.1%	-25.9%	5.6%	26.9%
Saratoga	\$ 1,650,000	\$ 1,796,930	25	42	134	161	95.9%	5.9%	7.7%	0.0%	13.5%	-13.0%
Sunnyvale	\$ 815,500	\$ 812,855	64	86	111	52	99.5%	3.0%	3.8%	-3.0%	48.3%	-8.3%

**Santa Clara County Homes: Year-Over-Year Median Price Change**



**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

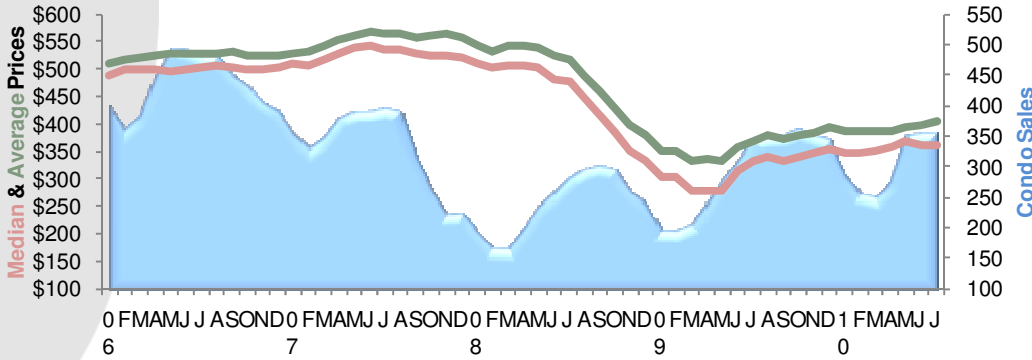
the high levels of affordability compared to peak years, a drop off in sales to trough levels of 255,000 homes seems very unlikely.

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,

*(Continued on page 4)*

**Santa Clara County Condos- Prices & Sales**

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



**Santa Clara 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	\$ 345,000	\$ 403,846	298	839	1,073	108	99.3%	3.3%	9.5%	-18.8%	44.7%	30.1%
Campbell	\$ 430,000	\$ 412,667	3	20	40	400	96.9%	-14.9%	-20.6%	-57.1%	81.8%	33.3%
Cupertino	\$ 647,500	\$ 668,722	18	12	34	57	99.0%	1.2%	2.4%	100.0%	0.0%	47.8%
Gilroy	\$ 157,250	\$ 157,250	2	11	3	45	101.5%	41.7%	-2.6%	-71.4%	10.0%	-25.0%
Los Altos	\$ 572,500	\$ 572,500	2	3	12	180	97.1%	-40.4%	-40.4%	100.0%	-50.0%	-25.0%
Los Gatos	\$ 582,000	\$ 615,345	10	5	50	150	96.0%	12.4%	15.1%	25.0%	-58.3%	11.1%
Milpitas	\$ 230,000	\$ 252,333	12	34	33	83	96.4%	-14.8%	-17.4%	9.1%	47.8%	106.3%
Morgan Hill	\$ 242,500	\$ 247,500	4	27	16	120	96.3%	-21.8%	-21.4%	-33.3%	350.0%	220.0%
Mountain View	\$ 642,500	\$ 567,356	18	40	91	152	98.6%	39.3%	13.5%	-43.8%	11.1%	49.2%
Palo Alto	\$ 670,000	\$ 705,385	13	14	32	74	97.6%	-34.0%	-39.1%	225.0%	133.3%	-37.3%
San Jose	\$ 270,000	\$ 331,527	185	574	586	95	100.0%	0.0%	12.9%	-17.0%	52.3%	27.7%
Santa Clara	\$ 370,000	\$ 421,286	14	62	56	120	100.8%	8.8%	2.2%	-44.0%	47.6%	14.3%
Saratoga	\$ 446,000	\$ 460,000	3	7	18	180	98.4%	3.0%	6.2%	50.0%	250.0%	20.0%
Sunnyvale	\$ 518,750	\$ 531,950	14	30	102	219	98.6%	-6.4%	0.6%	-56.3%	-18.9%	100.0%

**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 Clara County

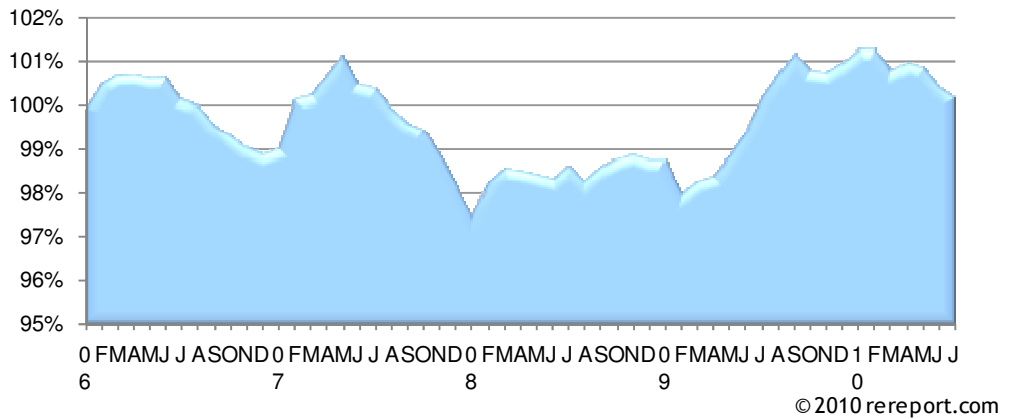


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despite recent increases in inventory levels (4.8 months in June) inventory in California was still below the long-run average of 7 months. Historically, inventory levels below that threshold have fueled year-to-year price gains. This would suggest that as long as inventory remains relatively low, prices should remain stable over the coming months, all else being equal.

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, the likelihood the housing market will experience a double dip is small, 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 Clara County Homes: Sales Price/Listing Price Ratio**



**Santa Clara County Sales Year-to-Date**

