

The Real Estate Report

LOCAL MARKET TRENDS



SAN FRANCISCO



Robert Incollingo

Prudential California Realty
2241 Market Street
San Francisco, CA 94114
(415) 762-9371
Robert_Incollingo@yahoo.com
<http://www.Robertforhomes.biz>
DRE #01261369

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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 19.7% compared to last July, while condo/loft sales were down 9.4%. This is the first month home sales have been lower than the year before since last July. For condos/lofts, it's the first month since last August.

The new state tax credit has pumped a little life into the high-end market. Home sales were up in five of the top six most expensive areas of the city.

The high-end market has been helped by increasing access to jumbo and super-jumbo loans. His-

torically, 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 1.9% from June, but it was flat year-over-year. The average

price fell 11.8% from June, and it was down 5.1% compared to last July.

The sales price to list price ratio for homes went back over 100%: 100.7%.

The median and average prices for condos were up 6.5% and 1.5% respectively year-over-year.

C.A.R. NEWS

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.

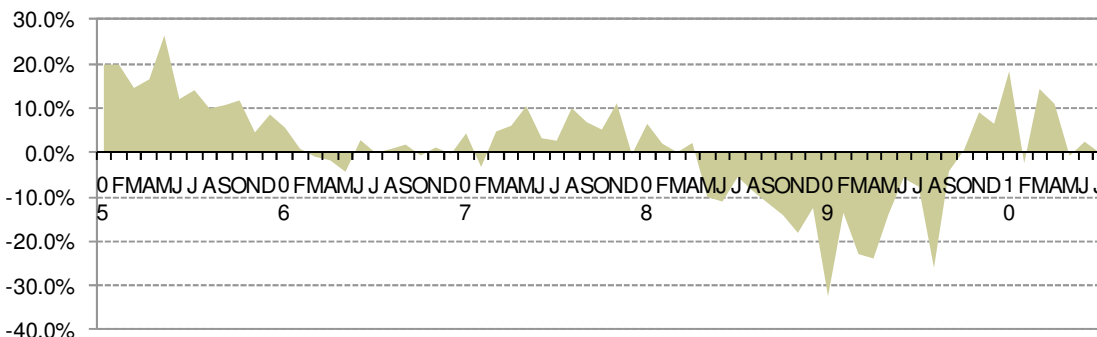
She said household growth for the state is expected to be 200,000 a year. The CBIA reports only 13,000 permits pulled in the first six months of the year.

Trends at a Glance (Single-family Homes)			
	Jul 10	Jun 10	Jul 09
Home Sales:	192	219	239
Median Price:	\$785,000	\$800,000	\$785,000
Average Price:	\$976,415	\$1,107,049	\$1,029,159
Sale/List Price Ratio:	100.7%	99.2%	98.4%
Days on Market:	56	59	61

INSIDE THIS ISSUE:

DOUBLE DIP UNDERWAY!?!?!?	1
MORTGAGE RATE OUTLOOK	2
HOME STATISTICS	2
DOUBLE [DIP] OR NOTHING?	3
CONDO STATISTICS	3
CHARTS: SP/LP	4

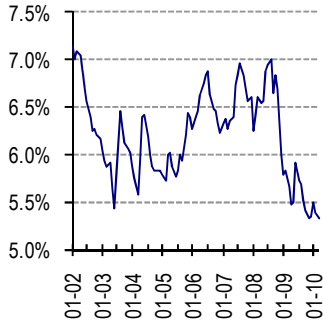
San Francisco Homes: Year-Over-Year Median Price Change



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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.

SP/OLP: Sales price to the original list price ratio, or the price paid for the property divided by the original asking price.

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

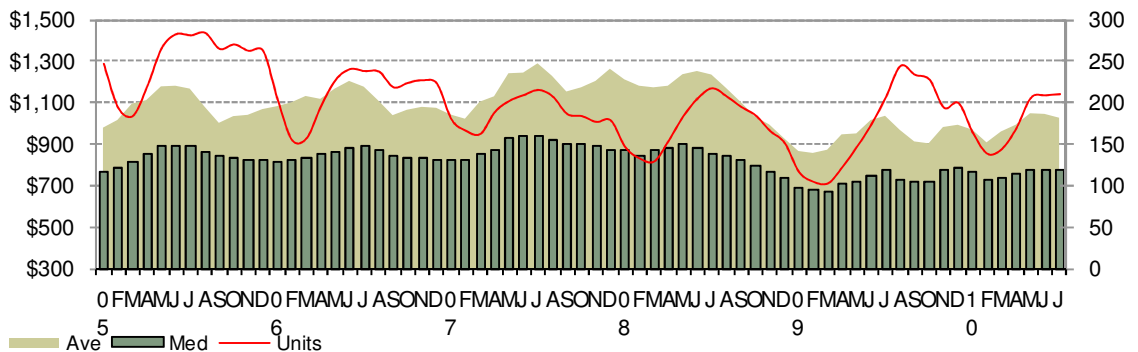
homes and cannot recast their balance sheets through conventional refinancing means.

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.

San Francisco Homes: Prices & Sales
(3-month moving average -- \$000's)



July Sales Statistics

(Single-family Homes)

	Prices		Unit			Change from last year			Change from last month		
	Median	Average	Sales	DOM	SP/LP	Median	Average	Sales	Median	Average	Sales
San Francisco	\$785,000	\$976,415	192	56	100.7%	0.0%	-5.1%	-19.7%	-1.9%	-11.8%	-12.3%
D1: Northwest	\$900,000	\$1,135,690	21	71	99.4%	-16.3%	-12.0%	31.3%	-39.2%	-31.4%	-4.5%
D2: Central West	\$697,500	\$704,599	35	45	102.2%	-8.5%	-7.6%	-18.6%	-4.7%	-8.1%	-14.6%
D3: Southwest	\$493,500	\$527,714	14	92	98.6%	-22.8%	-26.1%	-17.6%	-18.1%	-24.2%	-26.3%
D4: Twin Peaks	\$900,000	\$960,195	22	54	101.2%	7.3%	10.9%	10.0%	-8.1%	-9.7%	-31.3%
D5: Central	\$1,189,000	\$1,198,393	20	48	101.1%	-0.9%	-4.5%	-60.8%	4.8%	-4.5%	-28.6%
D6: Central North	\$1,216,000	\$1,247,000	6	86	97.0%	-36.7%	-35.1%	200.0%	-35.5%	-29.0%	0.0%
D7: North	\$3,025,000	\$3,410,575	10	51	97.0%	-42.2%	-32.9%	11.1%	18.6%	-5.2%	-9.1%
D8: Northeast	\$2,050,000	\$2,483,333	3	71	114.8%	n/a	n/a	n/a	-28.7%	-13.6%	200.0%
D9: Central East	\$835,000	\$867,791	21	50	100.9%	2.5%	0.6%	-16.0%	10.6%	-4.6%	-12.5%
D10: Southeast	\$470,000	\$480,493	40	51	103.1%	-10.4%	-3.7%	-28.6%	-3.7%	-3.4%	14.3%

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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?

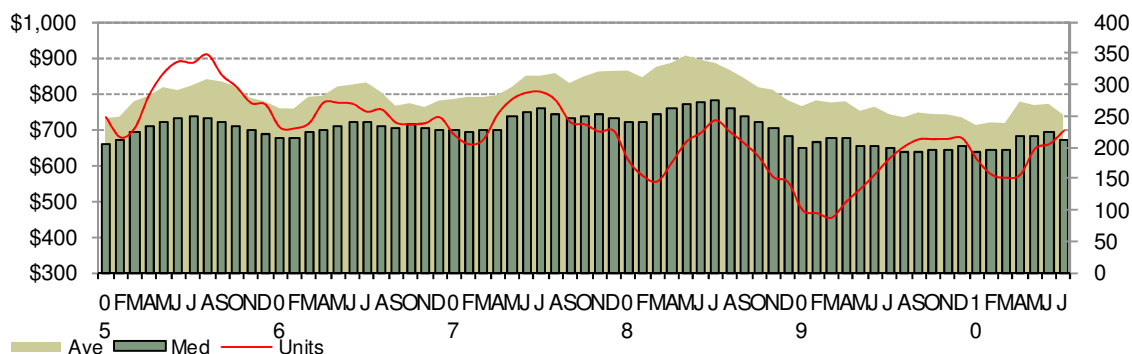
As far as sales are concerned, the pace has been near or above the 500,000 mark for the past two years, which is consistent with pre-peak levels of activity. The seasonally adjusted annualized rate of 492,800 existing detached home sales in June 2010 was down 4.2% from year ago levels and down 11.1% 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)

San Francisco Condos: Prices & Sales (3-month moving average — \$000's)



July Sales Statistics

(Condos/TICs/Co-ops/Lofts)

	Prices		Unit			Change from last year			Change from last month		
	Median	Average	Sales	DOM	SP/LP	Median	Average	Sales	Median	Average	Sales
San Francisco	\$660,000	\$725,663	193	74	98.5%	6.5%	1.5%	-9.4%	-4.3%	-4.1%	-15.0%
D1: Northwest	\$675,000	\$666,955	11	72	99.4%	-3.4%	-3.9%	-42.1%	17.4%	6.3%	22.2%
D2: Central West	\$770,000	\$806,333	3	93	99.0%	18.5%	17.7%	0.0%	25.6%	31.5%	50.0%
D3: Southwest	\$341,000	\$368,750	4	61	99.1%	-18.9%	-7.9%	0.0%	14.6%	23.9%	100.0%
D4: Twin Peaks	\$405,000	\$464,167	3	116	98.6%	-44.9%	-32.6%	0.0%	1.3%	20.8%	-40.0%
D5: Central	\$765,000	\$782,528	27	54	100.6%	5.9%	15.4%	-43.8%	0.0%	0.0%	-41.3%
D6: Central North	\$600,000	\$662,706	17	62	96.8%	-4.7%	2.2%	-15.0%	-8.0%	7.4%	-22.7%
D7: North	\$815,000	\$913,372	23	58	99.4%	-8.4%	-19.4%	0.0%	-37.3%	-28.8%	9.5%
D8: Northeast	\$697,000	\$856,375	36	92	97.0%	11.5%	7.7%	71.4%	2.5%	14.5%	-16.3%
D9: Central East	\$650,000	\$656,981	63	79	98.6%	13.0%	0.2%	-1.6%	1.6%	-6.5%	-17.1%
D10: Southeast	\$279,000	\$301,483	6	84	96.7%	-29.0%	-21.9%	-25.0%	-23.2%	-17.1%	500.0%

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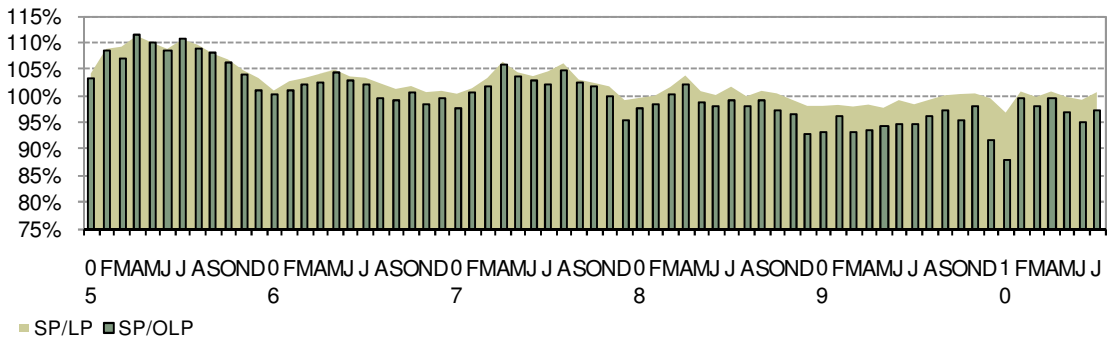
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San Francisco, CA 94114

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

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San Francisco Homes: SP/LP Ratio vs. SP/OLP Ratio



(Continued from page 3)

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.