

# The Real Estate Report

LOCAL MARKET TRENDS



SANTA CLARA COUNTY



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## Home Sales Bounce Back, Ending the Year on an Up Note

Sales of single-family, re-sale homes rose 27.9% in December compared to December 2008.

With the extension, and expansion, of the tax credit for buyers, we expect sales to be strong through Spring because of the first-time home buyers tax credit of \$8,000 for buying a principal residence. First-time buyer is a buyer who has not owned a principal residence in the three-year period prior to the purchase. There are some income limits. For full information, see: <http://federalhousingtaxcredit.com>.

In addition, the tax credit was expanded to include move-up buyers. The tax credit for move-up buyers is \$6,500. A move-up buyer is a person who has owned and resided in the same home for at least five consecutive years of the eight years prior to the purchase date. Again, for full info, see the web site cited above.

P.S. The tax credit expires April 30th. You need to have a signed contract by then and close the sale within 60 days to qualify for the credit.

## The Annual Report

The best that can be said about last year is it's over! Home sales were up 28.7% from 2008, which was an abysmal year for sales. The 11,722 re-sale homes sold last year almost matched the 2006 number of 11,848, but is still a far cry from the 15,000 plus homes sold in 2004 and 2005.

The median price dropped 20.2% from 2008. The good news in all this is that prices bottomed out in the first quarter and started strengthening the last nine months of the year. See our monthly chart for Santa Clara County below which shows the 3-month moving average since January 2006 for single-family, re-sale homes.

The year ended with inventory at its lowest level since January 2006. Other positive indicators are we start the new year include: Days of Inventory, which is how long it would take to sell all the homes on the market at the current rate of sales, ended the year at 50 days. We have to go back to the boom years of 2004 and 2005 to see numbers that low.

The sales price to list price ratio, or how much a buyer paid for the home compared to how much the seller was asking, was over 100% for the last six months of the year. When you see that happening, it means there were multiple offers.

Buyers are out there, but they're looking for bargains. Which begs the question, what is a bargain?

A deal has nothing to do with the sales price to list price ratio. Remember, you are going to have to live in that home and that neighborhood. The most important thing is to find a home, in a neighborhood, you want to live in. If the house is fairly priced, make an offer. But understand, if the house is fairly priced, or even a little underpriced, and it is a good house in a good neighborhood, there will be multiple offers. If you find such a home, you can't hesitate.

It is endemic among buyers that the deals are in bank-owned or short-sale property. But, banks have the property appraised before they put it on the market, and they price it at, or just a little below, market value. Which is why we're seeing multiple offers and prices going over asking.

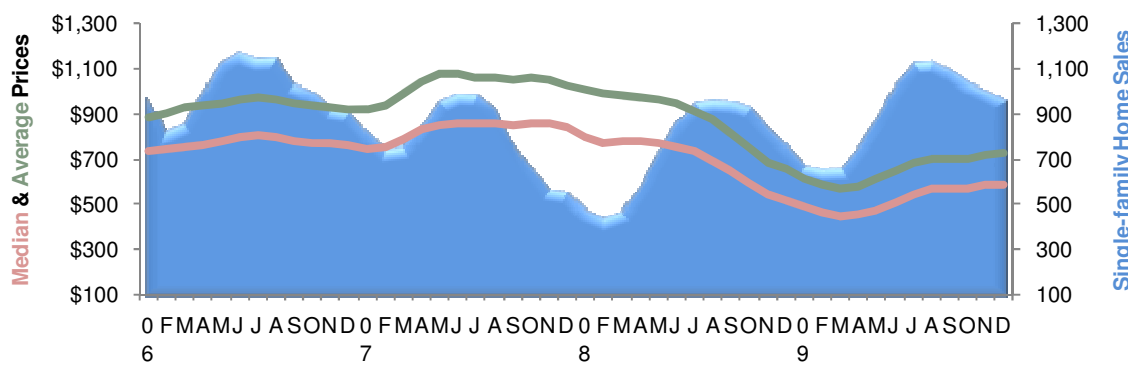
The real estate market is very hard to generalize. It is a market made up of many micro markets. For complete information on a particular neighborhood or for an evaluation of your home's worth, call me.

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## Santa Clara County Homes - Prices & Sales

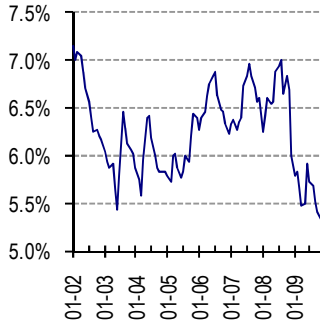
(3-month moving average—prices in \$000's)



# The Real Estate Report

## Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



Dec. 31, 2010 -- Residential mortgage rates bumped higher this week, ending 2009 on a rising note. Even with the four-week lift in rates, we are no worse off than we were as recently as mid-November, and still far, far below the June 2009 highs.

The overall average for 30-year fixed-rate mortgages tracked by HSH.com's FRMI found the indicator of conforming, jumbo and expanded conforming rates rising to 5.59%, an 11 basis point increase. For Hybrid 5/1 ARMs, the average overall rate tipped 14 basis points higher, closing the holiday-shortened survey week at 4.85%. As expected, rates moved higher for both conforming and jumbo loans this week.

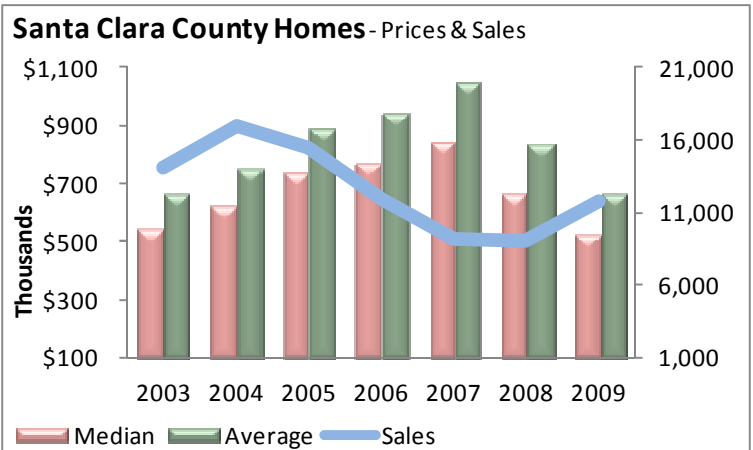
One of the factors which has been helping rates to firm over the last few weeks is that the Federal Reserve ended its program of pur-

chasing Treasury obligations, leaving the market to fend for itself. Compared to other market supports, the Fed's program wasn't a huge one, but did act as a sponge during times of excess supply, where demand in the private market was insufficient to mop up all the debt being issued. Over the last couple of weeks, that absorption capacity would have come in handy, since there has been a cascade of supply at a time of the year when there is considerably less demand to provide balance. With the laws of supply and demand being what they are, too much supply forces down the price of an item, and in the case of bonds, falling prices mean rising yields... and rising yields translate to firmer mortgage rates.

A three-day weekend is on tap, and markets are subdued. If typical

seasonal patterns hold, even next week -- the first of 2010 -- will still have a soft tenor to it. After that, we'll start to see more typical market activity, and that should in turn provide some sense for the direction of interest rates for the mid-winter period. At the moment, rates have firmed to some degree, disappointing refiners somewhat. Homebuyers, usually less needful of rock-bottom interest rates to foster a transaction, will probably shrug and move forward, provided rates don't continue to step higher in the coming days. At the close of this week, it seems that rise in underlying rates crested on Monday and has settled, so mortgage rates should halt their rise for next week, too.

For the 2010 Outlook for Rates, see: <http://www.hsh.com/2010-Outlook.html?wmt>



Santa Clara County										
SINGLE-FAMILY HOMES							% Change from Year Before			
Area	Year	Sales	Prices			SP/LP	DOI	Prices		
			Median	Average	Sales			Med	Ave	
SCC	2003	14,033	\$ 549,500	\$ 659,536	98.4%	44				
SCC	2004	16,901	\$ 625,000	\$ 753,501	101.0%	25	20.4%	13.7%	14.2%	
SCC	2005	15,498	\$ 737,750	\$ 891,171	102.2%	47	-8.3%	18.0%	18.3%	
SCC	2006	11,848	\$ 773,000	\$ 940,864	100.1%	82	-23.6%	4.8%	5.6%	
SCC	2007	9,163	\$ 838,000	\$ 1,044,160	100.0%	187	-22.7%	8.4%	11.0%	
SCC	2008	9,111	\$ 660,000	\$ 836,910	98.5%	187	-0.6%	-21.2%	-19.8%	
SCC	2009	11,722	\$ 527,000	\$ 662,114	99.8%	48	28.7%	-20.2%	-20.9%	

# The Real Estate Report

## 2010 California Real Estate Market Forecast

“California’s housing market continued its strong sales rebound this year, resulting from the continued pace of distressed properties coming to market,” said C.A.R. President James Liptak. “This follows two years of double-digit sales declines in 2006 and 2007. Looking ahead, we expect sales to moderate to a more sustainable pace.”

“After experiencing its sharpest decline in history, we expect the median price to rise modestly next year,” Liptak added. “2010 will mark the beginning of the ‘new normal’ for California’s housing market. This ‘new normal’ likely will feature a steady stream of sales driven by distressed properties in the low end of the market, coupled with moderate home-price appreciation.”

The median home price in California will rise 3.3 percent to

\$280,000 in 2010 compared with a projected median of \$271,000 this year, according to the forecast. Sales for 2010 are projected to decrease 2.3 percent to 527,500 units, compared with 540,000 units (projected) in 2009.

“Housing in California has become a tale of two markets,” Liptak said. “The low end continues to attract first-time buyers and investors, with a resulting shortage in the number of homes for sale. Sellers at the high end, however, continue to be challenged by the ability of home buyers to secure financing as well as their concerns about where prices are headed. While demand from first-time buyers for low-end properties will continue throughout next year, sales could be impacted if discretionary sellers do not return to the market by the second half of 2010.

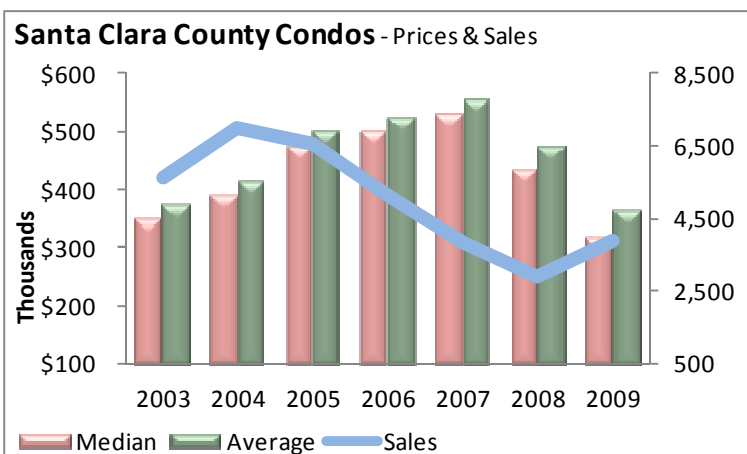
“2009 marked a unique opportunity for first-time home buyers,” Liptak said. “Homes were more affordable than they have been in years, interest rates hovered near historic lows, and the federal tax credit helped more than 1 million people become homeowners nationwide. Now is the time for Congress to extend the federal tax credit and to expand it to all buyers, not just first-timers.”

“With distressed properties accounting for nearly one-third of the sales in 2010, inventory will be relatively lean, under six months during the off-season months, and a roughly four-month supply during the peak season,” said C.A.R. and Vice President Leslie Appleton-Young. “We expect the median price to decrease slightly through the remainder of 2009 and into next

year, then rise before leveling off next summer. For the year as a whole, home prices are forecast to reach \$280,000.”

“Although it appears at this time that lenders are closely monitoring the flow of distressed properties onto the market, there could be an exertion of downward pressure on home prices should a heavier than expected wave of foreclosures come to market next year,” she said.

“The wild cards for 2010 include foreclosures, loan resets, the labor market, and the California budget crisis, as well as the actions of the federal government,” Appleton-Young said.



Santa Clara County									
CONDOS							% Change from Year Before		
Area	Year	Sales	Prices			SP/LP	DOI	Prices	
			Median	Average	Sales			Med	Ave
SCC	2003	5,647	\$ 350,000	\$ 374,065	98.8%	38			
SCC	2004	6,996	\$ 390,000	\$ 414,592	101.3%	12	23.9%	11.4%	10.8%
SCC	2005	6,538	\$ 475,000	\$ 499,658	103.3%	37	-6.5%	21.8%	20.5%
SCC	2006	5,151	\$ 500,000	\$ 525,380	100.1%	68	-21.2%	5.3%	5.1%
SCC	2007	3,845	\$ 530,000	\$ 557,245	99.6%	144	-25.4%	6.0%	6.1%
SCC	2008	2,907	\$ 435,000	\$ 471,961	97.9%	211	-24.4%	-17.9%	-15.3%
SCC	2009	3,859	\$ 320,000	\$ 364,589	99.5%	51	32.7%	-26.4%	-22.8%

# THE REAL ESTATE REPORT

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