



MARKET OVERVIEW

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Home Buyer Tax Credit Extended and Expanded

Providing the shot in the arm needed by the economy, Congress has extended and expanded tax credits for home buyers.

To qualify, first-time home buyers cannot have owned a home within the last three years. Current home owners who have lived in their homes five out of the past eight years are eligible for up to \$6,500 tax credit on a new or existing home purchased between November 7, 2009, and April 30, 2010.

The tax credits come with a few caveats:

1. Home buyers must occupy the home as their primary residence for at least three years, or forfeit the tax credit.
2. Only single buyers with incomes up to \$125,000 and married couples with incomes up to \$225,000 are eligible.
3. FHA, Fannie Mae and Freddie Mac conforming loan standards apply. The tax credit does not substitute for a down payment, but it can be used to supplement a down payment or pay down closing costs.
4. Only U.S. citizens who file taxes are eligible.

If a home buyer is in a written binding contract initiated before April 30, 2010, and unable to close before the deadline, the Extended Home Buyer Tax Credit allows the buyer to take until July 1, 2010, to close. Consult your tax advisor for your specific situation; learn more at www.federalhousingtaxcredit.com.

The National Association of REALTORS® believes housing is on the road to recovery. Lawrence Yun, NAR's chief economist, expects that 2.3 to 2.4 million first-time buyers will take advantage of the credit by year's end.

Adds NAR spokesperson Walt Molony, "At the end of September 2009, we were showing 3,630,000 homes on the market, down 7.5% from August and 15.0% below a year earlier. That works out to a 7.8-month supply." New home inventories have also gone down to a 7.5-month supply, according to the Commerce Department. Having six months of inventory on hand in both new and existing homes is

widely considered to be a balanced market.

Yun says the tax credit is a significant factor in this trend. "It's given buyers the confidence they needed to get off the fence and take advantage of extremely affordable housing conditions," he says. "The buying conditions this year are the most favorable on record, dating back to 1970, but the tax credit is allowing buyers to set aside any reservations about waiting for a better deal."

Pricing pressure continues

The national median price for an existing single-family home was 11.2 % below the third quarter of 2008. NAR's latest quarterly report shows that during the third quarter of 2009, 123 out of 153 metropolitan statistical areas reported lower median existing single-family home prices than in the third quarter of 2008.

The reason prices are under pressure is the impact of distressed homes on inventory levels. Distressed sales – foreclosures and short sales – represented 30% of transactions in the third quarter, says NAR, which puts pressure on median home prices.

NAR believes we are getting closer to price stabilization in many areas and most price ranges. "Foreclosures will continue to come on the market," says the association, "but rising sales spurred by the expanded tax credit should stabilize home prices in many price ranges by next spring and will help stem the flow of new foreclosures."

Shadow inventories – aid or threat to housing recovery?

According to the Mortgage Bankers Association, the percentage of loans that are at least one payment overdue or in foreclosure is 14.41% on a non-seasonally adjusted basis. This is the highest percentage ever recorded in the MBA delinquency survey.

The report has a number of experts wondering how this shadow inventory – homes that are about to enter the market – will impact average sales prices. "Essentially, the 7 million 'shadow inventory' number consists of all the properties currently in foreclosure (about 1.2 million), all the loans that are delinquent (about 5.5 million), and some of the REOs (about 900,000 in our database)," explains Rick Sharga, Senior Vice President of RealtyTrac Inc. "The 7-million-housing-unit tsunami assumes that 100% of every property that's delinquent or in default will ultimately go back to the banks as REOs. That's never happened, and is unlikely to happen this time."

NAR expects approximately 3 million foreclosures nationwide in 2010, about the same number as 2009.

While there is a fear that a wave of foreclosures could threaten home owners, some arguments exist for the opposite to happen. As long as the government is offering tax credits, greater inventories of distressed homes can be absorbed by the market, ultimately leading to a more stable marketplace. The exception could be in the luxury market, where a significant amount of inventory exists and qualifying properties and buyers is more difficult.

California outlook

RealtyTrac's latest housing report says that California has the nation's second-highest foreclosure rate: one out of every 156 housing units, or 85,420 properties, received a foreclosure filing in October.

The good news is that the foreclosure rate is starting to slow. While it's twice as high as October 2008, it's 1% lower than September 2009.

Were lenders to release more inventories in the conforming loan range, it would actually be a boon to California housing sales.

(cont'd)

The foreclosure pipeline will continue to be slow, says Sharga; banks can't process more than their capacity in foreclosures. They want to give borrowers the option of curing the loan before taking the property back, and it's not in their interest — or the public's — to flood the market with distressed homes.

“Our members in California with very tight supplies of homes priced under \$730,000 were calling for lenders to release any foreclosure inventory they were holding back, because they are now having multiple bids in lower price ranges,” says Molony. “However, there was no notable additional release, and supplies in those areas remain very tight.”

The California Association of REALTORS® (C.A.R.) reports that in California this year, nearly one in five homes sold was purchased completely with cash (19.7%). What makes the figure significant is that half these sales were to first-time home buyers, says Steve Cook, journalist and analyst for REECON Advisors. “Buyers of all types are complaining about the difficulties they face getting financing from lenders with standards that change, documentation requirements that seem excessive, problems with appraisals in the wake of the new Home Valuation Code of Conduct, slow response and rates that change between those quoted when they qualify and when they close,” he writes. “Of the sales that fell through last year in California, the buyer's failure to get

financing was the leading cause, responsible for 40.5% of failed closings.”

That said, the outlook for California housing in many price ranges is good. C.A.R. found that first-time home buyer affordability was at 64% in Q-3 2009, compared to 55% in Q-3 2008. That means the percentage of home buyers who can afford an entry-level home at the \$247,150 median price is 64%. With an estimated monthly payment, including taxes and insurance, of \$1,450, the minimum household income needed to purchase such an entry-level home is now \$43,500.

Opportunities for buyers and sellers:

Buyers in the conforming price range are in an ideal position to trade up. Inventory below the conforming range is selling quickly. Homes priced above the conforming price ranges have languished and sellers may be in a position to aggressively negotiate.

If you're buying, the key word is preparation. Be ready with your financing paperwork, get pre-qualified for your loan and be able to show you have adequate cash reserves. In multiple offer situations, lenders and sellers respond best to buyers who have financing in place and ready to go. See www.hslca.com for more details and financing options.

Homes in the conforming ranges are selling faster than they can be replaced in inventory. If you've been holding your home off the market for better terms,

now's the time to take advantage of a wider pool of qualified buyers.

For sellers with homes above conforming price ranges, price your home to sell. The larger the inventory, the less chance your home has to find the right buyer unless you price it attractively.

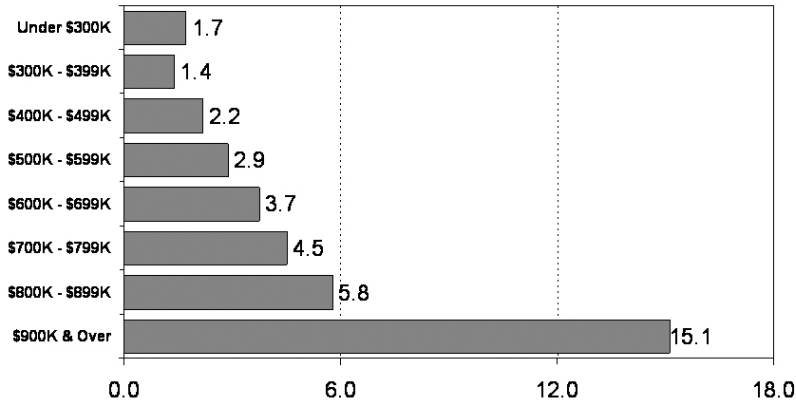
*A balanced market is widely accepted as having six months of inventory on hand with market conditions that are favorable to both buyers and sellers. A buyer's market is characterized by conditions such as high inventories, falling prices, and concessions by sellers, among other indicators. A seller's market favors sellers with conditions including low inventories for buyers to choose from, rising prices, and multiple offers from buyers.

Detached homes stand alone and share no common walls with any other home. Attached homes share at least one common wall with another home, including condominiums, townhomes, and duplexes among other types of homes.

SAN DIEGO COUNTY

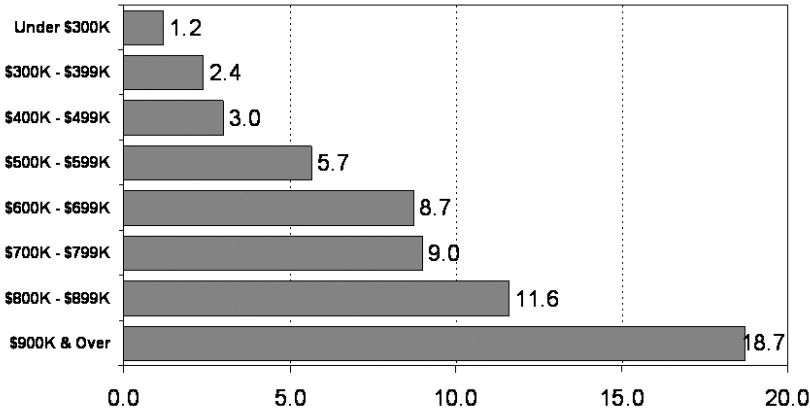
San Diego County is enjoying a heated seller's market* in homes priced in the conforming loan ranges. There are 2.1 months of inventory on hand for homes priced below \$1 million, while homes priced above \$1 million are in a buyer's market beginning at 13.3 months of inventory on hand.

Detached Properties - Inventory in Months



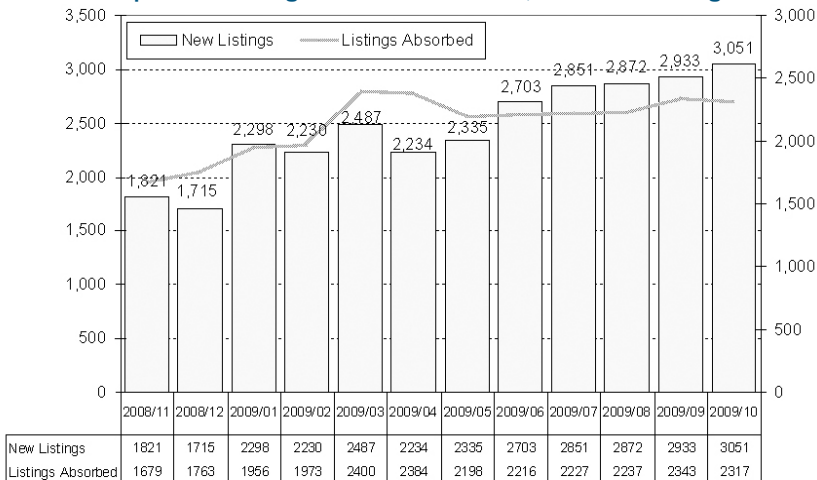
Detached home sales are at their fastest sell-through in years. Only homes priced \$900K and above are in a buyer's market.

Attached Properties - Inventory in Months



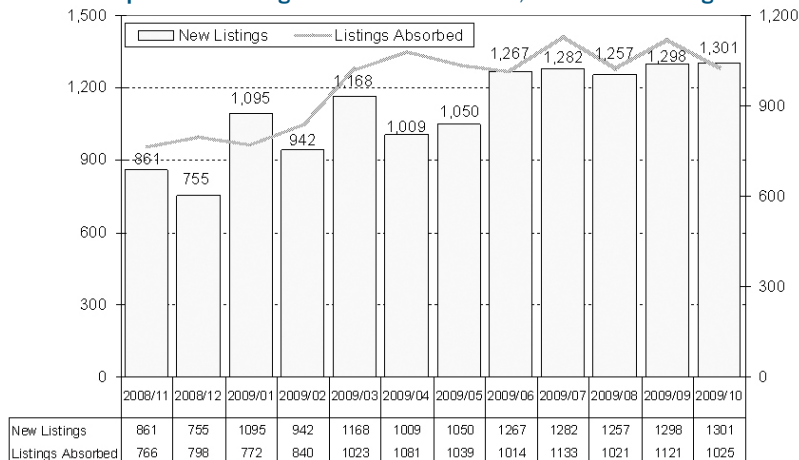
Attached home sales are also enjoying a seller's market in homes priced under \$599K. The greatest inventory in homes priced under \$1 million are those priced \$900K and above.

Detached Properties - Listings Taken and Absorbed, 12 Months through October 2009



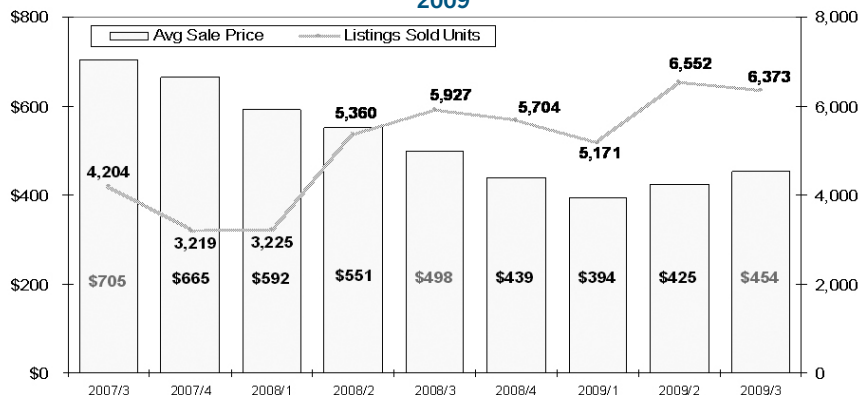
As the housing market improved, sellers added inventory, reaching 3,051 new housing units in October 2009 from 1,715 in Q-4 2008. However, the absorption rate is fairly flat – between 2,400 and 2,198 unit sales over the last eight quarters.

Attached Properties - Listings Taken and Absorbed, 12 Months through October 2009



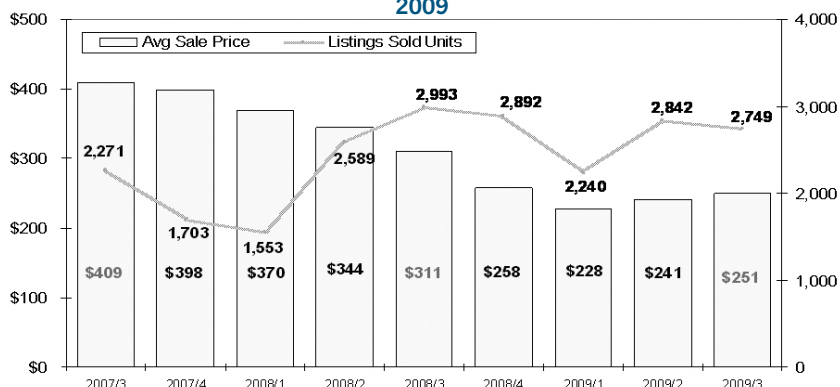
The number of new listings has also risen in attached homes, but absorption rates are up, then down again. Absorption rates and new listings absorbed diverged the most in October 2009.

Detached Properties, Listings Sold by Calendar Quarter - 9 Quarters through September 30, 2009



Sales volume in detached homes reached its zenith in Q-2 2009, falling slightly on rising prices.

Attached Properties, Listings Sold by Calendar Quarter - 9 Quarters through September 30, 2009



Attached home prices appear to have bottomed in Q-1 2009, while sales volume improved dramatically, but by October, sales leveled off on rising prices.

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