

# The Real Estate Report

SILICON VALLEY MARKET TRENDS



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## Santa Clara County Home Prices Flat in November

The median price for single-family homes in Santa Clara County stayed at \$775,000 in November, but was up 5.4% year-over-year. The average price fell 2.5%, an annual gain of 4%. Home sales dropped 2% from October, down 19.8% year-over-year.

The median price for condos in Santa Clara County rose 5.9% to \$519,000 from the month before, up 9.3% year-over-year. The average price gained 3.7% to \$536,368, up 6.8% compared to last year. Condo sales also rose, gaining 4% month-over-month, but was off 10.3% year-over-year.

Inventory of single-family homes dropped abruptly, down 15.4% from October, and is now 14.2% higher than last year. Condo inventory dropped 14.3%, up 24.7% year-over-year.

The sales price to list price ratio for single-family homes gained 0.1 of a point to 98.9%. The ratio for condos lost 0.2 of a point to 99.1%.

Trends at a Glance (Single-family Homes)			
	Nov 06	Oct 06	Nov 05
Sale/List Price Ratio:	98.9%	98.8%	100.1%
Days on Market:	52	54	32
Days of Inventory	108	125	76
Median Price:	\$775,000	\$775,000	\$745,000
Average Price:	\$934,294	\$958,220	\$886,405
Home Sales:	874	892	1,090
Inventory:	3,138	3,708	2,747

Days on market fell two days to 52 for homes, and was up three days to 50 for condos.

Our days of inventory indicator for single-family homes fell 17 days sending the indicator to 108 days.

My advice? For buyers, the market looks to be tightening up. Inventory is now at its lowest

level since March. Prices look pretty stable. I wouldn't expect any sharp falls in price. If you are looking to buy, this may not be a bad time to do it, especially with mortgage rates at their low for the year.

For sellers, sales are at the second lowest level since 1998. There is activity, but the franticness of the past few years has been washed out of the system. If you really want to sell your home, you need to entice offers and then negotiate them.

Remember, in a market like this, your first offer is very often going to be your best offer. Work it.

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.

## December 2006



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## Chapman University's California Economic Forecast for 2007

After four consecutive years of robust demand for housing and double-digit home price appreciation, the housing market is showing a sharp decline in sales activity and price appreciation.

Looking forward, the pace of job growth is slowing, the inventory of resale housing units is high, housing affordability is low, mortgage rates, particularly popular adjustable rate mortgages, have increased, and regulators are warning lenders to curtail easy lending practices. More importantly, expectations about future home price increases have turned negative. All of the above suggest that the housing

market's adjustment process is gathering steam. Our model points to a decline of 6.7 percent in the median resale single-family detached home prices.

The building industry is responding to the new market paradigm by drawing fewer permits. We are forecasting a decrease of 12.4 percent in total number of residential permits in 2007. This will mark three consecutive years of decline in the total number of permits issued since the peak of 213,000 units in 2004. In spite of relatively strong nonresidential construction activity, weakness in the residen-

tial sector will lead to 13,500 job losses in the construction sector in 2007.

Overall, our forecast calls for net job creation of 139,000 in 2007 — a rate of increase of only 0.9 percent. Most of the net new jobs will be in the services sector. The most rapid growth is forecasted to take place in the professional & business sector increasing 2.1 percent, followed by growth of 1.8 percent in both leisure & hospitality and education & health services sectors.

The slowdown in California job growth in 2007 will be the major

factor leading to a slowing in personal income growth from an estimated 6.4 percent in 2006 to 5.5 percent in 2007. Weak real income growth, a sharp reduction in cash-out refinancing activity and weakening of home price appreciation will negatively affect taxable sales activities. Our forecast calls for total taxable sales to increase by 4.7 percent in 2007, compared to an estimated growth rate of 6.6 percent in 2006. Spending growth on furniture and appliances, building materials and service stations are forecasted below the average growth rate of 4.7 percent.

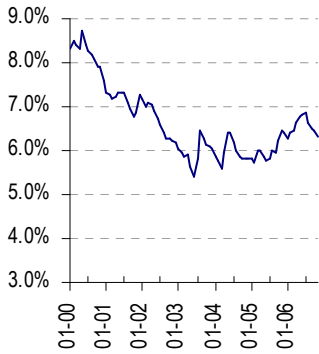
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# The Real Estate Report

## Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



POMPTON PLAINS, NJ (Dec. 1, 2006) -- Disappointing economic news pressed underlying interest rates down to their lowest levels of 2006, and mortgage rates will follow them, according to the nation's deepest poll of mortgage rates and terms. The average 30-year fixed rate mortgage (FRM) shed three basis points (.03%) to close the week's survey at 6.27%, and seems likely to fall below the 2006 low of 6.23% set on January 20 next week. Hybrid five-one ARMs lost four basis points, closing the week at an average at 6.08%.

Although most indicators remain in pretty fair territory, it seems fairly clear that the slowdown in the second and third quarters of this year is persisting into the fourth quarter, and perhaps intensifying somewhat. As

home sales have tanked, economic slowness does seem to be spreading to a greater degree.

Sales of less-costly existing homes managed to move higher for October, with annualized sales rising to 6.24 million for the month. Despite the rise, sales remain well below peaks, and inventory levels of homes for sale remain quite high at 7.4 months. Prices for new homes have been slipping, and the National Association of Realtors noted that on a year-ago basis, prices have fallen for three consecutive months.

Sharply rising prices created an affordability crisis where home price increases far outstripped increases in incomes. That ever-widening gap was filled by employing the euphemistically named "affordability mortgages,"

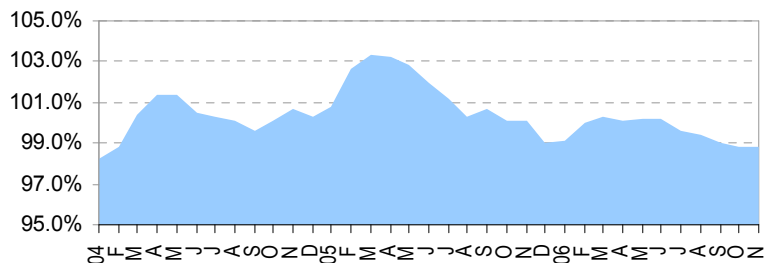
primarily option-style ARMs or those loans with interest-only payments or very long repayment terms, or some combination. The combined effects of higher short-term interest rates, discussions of the risks of non- or negatively amortizing loans, tighter regulations for the riskiest products, and steadying home prices have made these choices less desirable, and unsurprisingly, borrowers have stepped away. In turn, that dearth of demand puts downward pressure on prices, as the most motivated sellers (including speculators) become more 'motivated' to sell. Whether or not this situation will continue into a housing rout is unknown, but easing prices and stable-to-falling mortgage rates should provide at least some support for home sales as we turn into 2007.

## November Sales Statistics

### Single-family Homes

County	Prices		Unit Sales	Listings				Compared to Last Year				Compared to Last Month			
	Median	Average		New	Total	DOM	SP/LP	Med.	Ave.	Sales	Listed	Med.	Ave.	Sales	Listed
Campbell	\$775,000	\$934,294	874	1002	3,138	52	98.9%	4.0%	5.4%	-19.8%	14.2%	0.0%	-2.5%	-2.0%	-15.4%
Cupertino	\$1,252,000	\$1,235,176	27	28	62	47	98.8%	34.9%	20.1%	-18.2%	-12.7%	19.2%	9.9%	-12.9%	-7.5%
Gilroy	\$687,000	\$740,513	35	58	251	55	98.5%	-7.0%	-7.3%	-31.4%	27.4%	-4.5%	-5.4%	-30.0%	-11.3%
Los Altos	\$1,708,000	\$1,886,831	36	21	51	50	99.2%	-6.4%	1.7%	38.5%	-3.8%	-4.0%	2.1%	38.5%	-35.4%
Los Altos Hills	\$1,928,000	\$1,897,667	3	4	51	188	98.2%	10.8%	-21.1%	-40.0%	-16.4%	-20.0%	-29.8%	-62.5%	-21.5%
Los Gatos	\$1,349,000	\$1,522,320	26	26	110	73	97.0%	-7.3%	0.7%	-3.7%	12.2%	-0.4%	3.6%	-21.2%	-13.4%
Milpitas	\$675,000	\$709,900	30	34	89	50	98.6%	0.0%	3.6%	-14.3%	32.8%	-0.7%	-4.0%	3.4%	-16.0%
Monte Sereno	\$1,175,000	\$1,257,500	2	2	17	5	104.0%	-33.2%	-33.2%	-33.2%	-15.0%	-44.0%	-41.3%	-50.0%	6.3%
Morgan Hill	\$775,000	\$887,686	32	54	224	87	98.1%	-10.4%	-3.6%	-25.6%	39.1%	-19.3%	-12.0%	0.0%	-15.8%
Mountain View	\$845,000	\$911,923	26	14	27	24	101.0%	5.9%	4.4%	-31.6%	-35.7%	-16.2%	-13.9%	-10.3%	-37.2%
Palo Alto	\$1,340,000	\$1,543,630	41	28	46	29	101.2%	12.1%	11.8%	17.1%	-28.1%	-9.2%	-6.2%	-4.7%	-28.1%
San Jose	\$729,000	\$791,008	480	565	1,726	54	98.8%	5.7%	3.1%	-22.2%	13.6%	1.0%	-1.0%	3.9%	-16.6%
Santa Clara	\$700,000	\$723,505	39	44	98	31	98.2%	-4.1%	-3.3%	-26.4%	10.1%	-0.7%	0.2%	2.6%	-12.5%
Saratoga	\$1,575,000	\$1,861,139	18	21	107	62	96.4%	-2.9%	13.8%	-14.3%	-7.0%	8.6%	18.1%	-5.3%	-17.7%
Sunnyvale	\$808,000	\$834,140	48	48	96	34	99.9%	5.6%	4.8%	-30.4%	43.3%	4.3%	1.0%	-14.3%	-25.0%

Sales Price/Listing Price Ratio



# The Real Estate Report

## Interest Rate Buy-downs Re-Visited

Last month we talked about interest rate buy-downs and offered as an example a buy-down that worked for the life of the mortgage.

This month we look at a different type of buy-down that makes the home much more affordable in the first year or two of ownership. In our market, where affordability is a real issue, making the mortgage affordable to more people only enhances the value of your home.

These buy-downs are scaled. A popular scaled buy-down is the "3-2-1". It lowers buyers' mortgage rates by 3 percentage points during the first year; 2 points the next; and 1 point the third. In the fourth year and ever after, home

buyers make the full payment themselves.

### FACTS ABOUT THE 3-2-1 MORTGAGE BUYDOWN

- This is a 30-year fully amortized mortgage.
- The interest rate increases 1% every year for the first three years.
- Then the interest rate is fixed for the remaining term.

Here is an example. Say your loan balance is \$350,000 and the interest rate is fixed at 6.75% for 30 years. The seller (or you) could "buy down" the interest rate by paying a lump sum of \$15,853. This is how it works:

1. First-year interest rate is 3.75%, payable \$1,621 per month.

2. Second-year interest rate is 4.75%, payable \$1,826 per month.

3. Third-year interest rate is 5.75%, payable \$2,043 per month.

4. Years four through 30, interest rate is 6.75%, payable \$2,270 per month.

- First-year savings (as compared to \$2,270 per month) is \$649 per month or \$7,790.

- Second-year savings (as compared to \$2,270 per month) is \$444 per month or \$6,332.

- Third-year savings (as compared to \$2,270 per month) is \$228 per month or \$2,731.

Add up the annual savings:  
\$7,790 + \$6,332 + \$2,731 = \$15,853. Therefore, it costs

\$15,853 to buy down the interest rate and payments for three full years.

### BENEFITS OF 3-2-1 MORTGAGE BUYDOWN

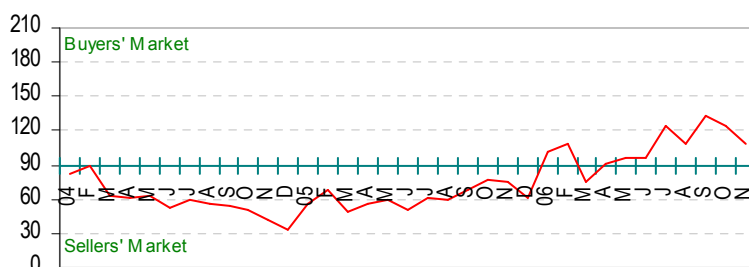
- The borrower qualifies for this loan at the 3.75% interest rate and payment amount of \$1,670 versus the real rate of 6.75% and the payment of \$2,270.
- Instead of the payment jumping all at once, it goes up in smaller increments, about \$200 each year, for the first three years.
- It keeps payments low for 36 months for borrowers whose income is expected to later increase.

## November Sales Statistics

### Condos/Townhomes

	Prices		Unit Sales	Listings				Compared to Last Year				Compared to Last Month			
	Median	Average		New	Total	DOM	SP/LP	Med.	Ave.	Sales	Listed	Med.	Ave.	Sales	Listed
County	\$519,000	\$536,368	390	437	1,236	50	99.1%	9.3%	6.8%	-10.3%	24.7%	5.9%	3.7%	4.0%	-14.3%
Campbell	\$528,000	\$550,240	29	19	46	52	98.7%	-2.2%	7.0%	45.0%	17.9%	5.6%	4.0%	107.1%	-19.3%
Cupertino	\$595,000	\$674,662	12	13	33	34	99.0%	-8.2%	4.6%	140.0%	6.5%	-16.2%	-4.3%	-7.7%	3.1%
Gilroy	\$385,000	\$415,833	6	2	27	120	99.4%	-7.7%	1.2%	50.0%	145.5%	3.4%	4.4%	-14.3%	-12.9%
Los Altos	\$635,000	\$692,000	10	4	8	48	97.6%	-4.5%	4.1%	900.0%	-27.3%	-14.5%	-19.6%	233.3%	-27.3%
Los Gatos	\$625,000	\$672,188	8	14	29	53	96.3%	1.6%	3.8%	-33.3%	-29.3%	-3.1%	-6.8%	14.3%	-6.5%
Milpitas	\$579,000	\$550,274	10	15	42	42	99.2%	-2.2%	2.4%	-23.1%	31.3%	17.0%	11.2%	-47.4%	-17.6%
Morgan Hill	\$465,000	\$455,250	3	6	17	53	98.9%	-1.7%	-0.8%	-57.1%	-10.5%	-7.0%	-5.7%	-70.0%	-5.6%
Mountain View	\$587,000	\$576,655	31	26	59	37	99.8%	15.3%	7.8%	-20.5%	-1.7%	2.1%	0.4%	6.9%	-10.6%
Palo Alto	\$750,000	\$811,730	10	12	14	46	100.3%	25.0%	32.1%	11.1%	-6.7%	13.6%	17.7%	100.0%	-26.3%
San Jose	\$485,000	\$498,873	211	271	807	51	99.1%	6.4%	4.5%	-19.5%	40.3%	6.1%	1.4%	-1.4%	-13.5%
Santa Clara	\$482,600	\$500,057	30	35	92	51	98.9%	1.6%	5.5%	30.4%	2.2%	13.6%	9.1%	7.1%	-17.9%
Saratoga	\$555,000	\$555,000	1	3	11	75	97.5%	0.0%	-9.2%	-66.7%	22.2%	-9.0%	-14.7%	-50.0%	-8.3%
Sunnyvale	\$589,030	\$567,465	28	15	45	46	100.1%	12.2%	2.6%	-24.3%	-22.4%	7.5%	3.2%	16.7%	-29.7%

### Days of Inventory



## Real Estate Service With My Personal Guarantee



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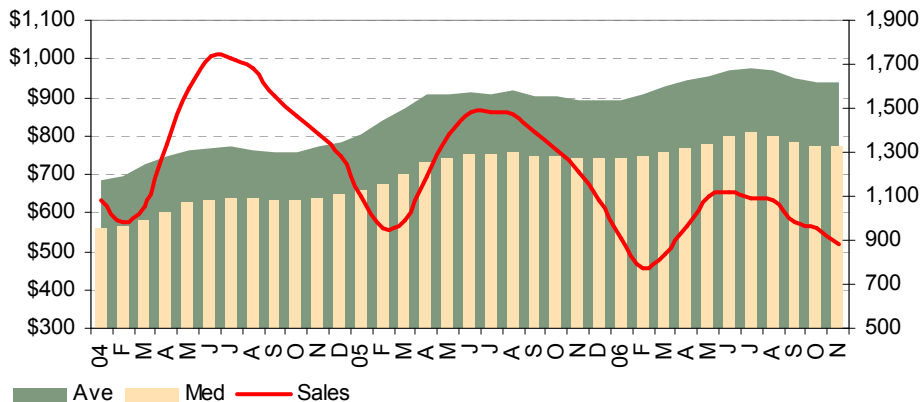
**Home buying and selling  
 shouldn't be like finding your way  
 through a maze.**



**Let Avi Urban help you**

### Silicon Valley Homes: Prices and Sales

(3-month moving average — price in 000's)



for a city-by-city breakdown and to receive the report regularly, visit my website at

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