

The Real Estate Report

SILICON VALLEY MARKET TRENDS



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Market Frenzy Returns to Santa Clara County

The Santa Clara County real estate market returned to life in January. The January numbers don't reflect what is actually going on as they are a reflection of activity in November and December.

Reports from the field indicate that buyers are out in force and properly priced homes in neighborhoods with low inventory are attracting multiple offers again. One home in Palo Alto is reported to have received 46 offers. We expect to see the list price to sales price ratio increasing in the coming months.

The median price for single-family homes in Santa Clara County started the year with a 0.3% gain from December, staying even with last January.

The median price for condos in Santa Clara County rose 2.7% to \$518,800 from the month before, up 3.8% year-over-year.

Home sales in the county were off 7.6% compared to last January. Condo sales were off 3.5%

Inventory of single-family homes is increasing as sellers get a jump on the spring selling season. Inventory gained 11.3% from December, up 18.8% year-over-year. Condo inventory was up 7.9% month-over-month,

Our days of inventory indicator for single-family homes rose 26 days sending the indicator to 130 days.

My advice? For buyers, mortgage rates have been edging up since the

beginning of the year. We don't expect any major jump in rates, but, we do expect them to continue creeping upwards all year. Buyers are out in force and we're seeing the return of multiple offers on prime property. Inventory will continue to increase through the spring and early summer. Get your credit in order and a loan in place.

For sellers, properly pricing your home is the key to attracting multiple offers.

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.

Trends at a Glance (Single-family Homes)			
	Jan 07	Dec 06	Jan 06
Sale/List Price Ratio:	98.3%	98.3%	99.1%
Days on Market:	71	59	48
Days of Inventory	130	86	101
Median Price:	\$740,000	\$738,000	\$740,000
Average Price:	\$952,098	\$903,208	\$903,022
Home Sales:	611	834	661
Inventory:	2,648	2,380	2,229

and up 24% compared to last January.

The sales price to list price ratio for single-family homes stayed at 98.3%. The ratio for condos gained 0.1 of a point to 99.2%.

Days on market rose twelve days to 71 for homes. That is the highest level since February 2003. Days on market for condos gained nine to 62 days.

homes decreased 23 percent, while price appreciation slowed dramatically as the year progressed.

The C.A.R. survey also found that the share of buyers who used a second mortgage climbed from 38 percent in 2005 to 43 percent in 2006, more than triple the percentage since 2001 and the highest percentage since 1982. The use of alternative loan products also registered a sharp increase.

"Home buyers with zero-down payments increased significantly from 4.5 percent in 2000 to 21.1

percent in 2006," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. "Two out of five first-time buyers made a zero-down payment on their home purchase, while just one in 10 repeat buyers purchased their home with no down payment.

"The interest rate environment also played a significant role in the housing market of the past few years," she said. "From 2002 through the first half of 2005, interest rates were either expected to fall or remain at attractive levels. When the fixed-rate

temporarily exceeded 6 percent in 2003 and 2004, sales slowed. But in each case, market activity accelerated when the rate fell below that threshold. By contrast, when the fixed-rate moved past 6 percent in late 2005, it remained there. Expectations adjusted and anticipated further rate increases, contributing to the slowdown in sales in late 2005 and into 2006."

Home sales in California fell in 2006 after four years of expansion. Sales in the Bay Area housing market fell at a slightly lower

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February 2007



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California Home Sales Fell After Four Years of Impressive Gains

Affordability concerns continued to impact the residential real estate market in California, with the share of first-time buyers declining to their second lowest level from 30.5 percent in 2005 to 27.1 percent in 2006, according to a report released by the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.).

Based largely on C.A.R.'s 26th Annual Housing Market Survey, "The State of the California Housing Market" examined trends in buyer and seller behavior during 2006, a transition year in which statewide sales of existing single-family

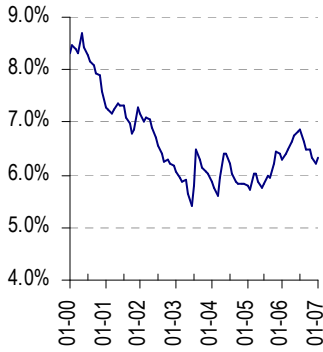
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The Real Estate Report

Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



POMPTON PLAINS, NJ (Feb. 2, 2007) -- Depending upon your location, the groundhog may or may not have seen his shadow this morning. Early spring or six more weeks of winter notwithstanding, mortgage rates continue to move higher, with the average 30-year fixed rate mortgage (FRM) climbing by seven basis points (.07) to 6.45%. Five-one Hybrid ARMs added five basis points, closing the weekly survey at 6.24%.

Now more than a quarter-percentage point higher than their December lows, mortgage rates are climbing as they reflect an economy which seems a tad irrepressible at the moment. While it was expected that growth in the 4th quarter of 2006 was better than the 2% GDP seen in the third quarter, the 3.5% advance estimate of GDP growth was way above expectations, and stands above the level believed to be needed to help inflationary

pressures remain contained, known as the economy's 'potential'.

The Fed's Open Market Committee held its meeting this week, and while they left key short-term interest rates unchanged, they characterized the economic growth as "somewhat firmer" even as there are "tentative signs of stabilization... in the housing market." While they judged that "readings on core inflation have improved modestly in recent months," they continue to warn that there is a potential for inflation pressures to remain. Absent a slowdown in growth, it seems unlikely that inflation will moderate much from these levels, and more growth and firm inflation means any rate cuts by the Fed are moved well off into the future.

All in all, mortgage interest rates are rising because the economy not only continues to grow but seems to be getting somewhat stronger, and a

stronger economy won't get any cheaper money from the Fed because it simply doesn't need any. In fact, and in light of the data over the past four or five weeks, increases in the Fed Funds rate can really no longer be completely ruled out, even if it's premature to give much credence to such speculation. Remember, the Fed was still readily increasing rates when we last had 3.5% growth and 2.3% core inflation.

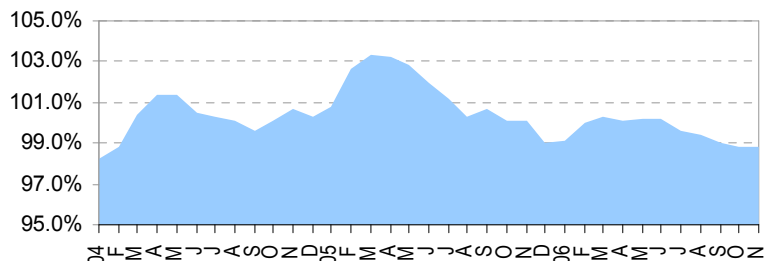
That said, bond markets took some solace in the lack of renewed inflation pressure and the Fed's characterization of improving inflation, and underlying interest rates eased a little during the week. That behind us, mortgage rates seem probably hold pretty firm next week, maybe even shedding a basis point or two.

January Sales Statistics

Single-family Homes

	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	\$740,000	\$952,098	611	1355	2,648	71	98.3%	0.0%	5.4%	-7.6%	18.8%	0.3%	5.4%	-26.7%	11.3%
Campbell	\$772,000	\$845,868	20	26	51	62	97.5%	-5.3%	2.1%	-13.0%	34.2%	3.6%	10.4%	-47.4%	0.0%
Cupertino	\$1,051,000	\$1,251,462	13	42	55	57	98.4%	8.5%	17.3%	-27.8%	-19.1%	-8.6%	-0.6%	18.2%	19.6%
Gilroy	\$760,000	\$812,476	28	93	246	111	98.1%	-6.7%	0.1%	86.7%	23.6%	4.8%	6.6%	-17.6%	11.3%
Los Altos	\$1,480,000	\$1,744,200	15	22	33	98	95.6%	-1.3%	8.1%	-34.8%	-5.7%	-0.9%	-3.4%	-42.3%	17.9%
Los Altos Hills	\$2,055,000	\$2,295,000	5	11	45	64	95.1%	-25.9%	-29.9%	25.0%	-2.2%	-8.7%	-12.0%	-50.0%	21.6%
Los Gatos	\$1,550,000	\$1,711,105	22	43	80	105	95.4%	12.7%	19.5%	69.2%	6.7%	21.6%	2.7%	0.0%	17.6%
Milpitas	\$689,000	\$717,449	23	32	75	55	98.2%	-0.9%	-6.1%	-8.0%	66.7%	-3.0%	-2.9%	-4.2%	-5.1%
Monte Sereno	\$1,225,000	\$1,588,333	3	8	18	83	95.7%	-63.3%	-63.3%	-63.3%	38.5%	20.3%	-12.8%	50.0%	63.6%
Morgan Hill	\$925,000	\$1,021,331	29	71	188	123	96.9%	7.8%	8.9%	26.1%	30.6%	19.4%	17.6%	-38.3%	6.8%
Mountain View	\$738,000	\$791,850	7	25	19	33	100.8%	-6.0%	-12.1%	-56.3%	-32.1%	-24.7%	-22.1%	-56.3%	18.8%
Palo Alto	\$1,324,000	\$2,665,833	15	43	46	63	101.2%	15.3%	80.3%	-31.8%	-11.5%	11.3%	92.3%	-44.4%	58.6%
San Jose	\$697,000	\$767,457	341	787	1,496	68	99.0%	2.0%	1.4%	-11.4%	26.9%	0.3%	1.5%	-24.4%	12.8%
Santa Clara	\$710,000	\$727,771	35	42	65	45	99.9%	0.0%	-3.7%	25.0%	-5.8%	0.0%	2.2%	-18.6%	-3.0%
Saratoga	\$1,760,000	\$2,103,083	18	34	98	77	96.0%	28.9%	26.0%	28.6%	-10.9%	12.5%	24.6%	-10.0%	14.0%
Sunnyvale	\$742,000	\$783,608	33	57	72	48	100.1%	-7.3%	-1.6%	-5.7%	9.1%	-10.9%	-5.7%	-26.7%	24.1%

Sales Price/Listing Price Ratio



The Real Estate Report

California Home Sales Fell After Four Years of Impressive Gains

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rate than for the state as a whole. After peaking in 2004, Bay Area sales declined 10 percent in 2005 and then 19 percent in 2006. The median price in the Bay Area -- the highest of any region in the state -- continued to increase by small single-digit increments throughout 2006, in part because of inventories that were well below the statewide levels.

Home sales in the Southern California region followed the general direction of the state, declining 23 percent from the record level of 2005. Inventory levels in this part of the state nearly tripled from a year ago, to levels in the range of their long-run average. The Central Val-

ley had the largest decline in sales activity among the three regions in California.

"The statewide median price saw shrinking gains throughout the year, slowing from a 14 percent year-to-year increase in January 2006 to just under 2 percent as the year drew to a close," said C.A.R. President Colleen Badagli-acco. "That's a far cry from the string of double-digit annual percentage gains that prevailed during the first half of this decade.

"Over the period 2003 through 2005, inventories were lean, multiple offers were common, and buyers and sellers alike knew they needed to move quickly to consummate a transaction," she said.

"But as the market began to slow in late 2005, buyers sensed that they would get a better deal if they waited, while sellers still hoped to sell their home at a premium. This drove a wedge between buyer psychology and seller psychology, creating more market friction and leading to a slowdown in activity."

Other key findings from "The State of the California Housing Market" include:

- Twenty-nine percent of first-time buyers purchased a condo or a town home in 2006 compared with 33 percent in 2005.
- The proportion of first-time buyers who purchased a single-family home increased slightly from 61 percent in 2005 to 65 percent in 2006, but still remained significantly below the 72 percent recorded in 2004.

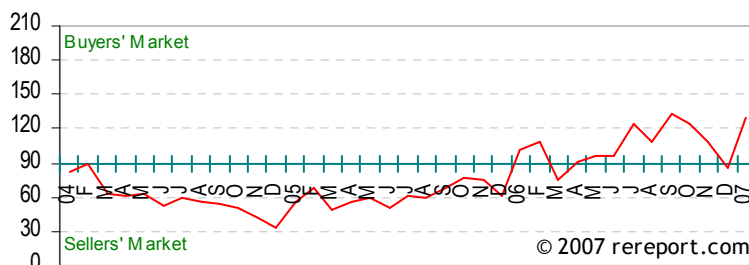
- The share of adjustable-rate and hybrid loans among all loans decreased from 43 percent in 2005 to 35 percent in 2006, but remained high by historical standards. Meanwhile, the share of fixed-rate loans rebounded from a historical low of 57 percent in 2005 to 65 percent in 2006.
- Repeat buyers relied less on the sale proceeds from their previous residence as their primary source of down payment. Only 34.7 percent of repeat buyers considered the sale proceeds as their primary source, compared with 41.4 percent in 2005 and 45.1 percent in 2004.
- Meanwhile, savings as the primary source increased from 31.9 percent in 2005 to 34.7 percent in 2006. The share of savings has been increasing steadily from 29.2 percent since 2002.

(Continued on page 4)

January Sales Statistics Condos/Townhomes

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
County	\$518,880	\$535,794	273	557	1,023	62	99.2%	3.8%	4.6%	-3.5%	24.0%	2.7%	2.5%	-20.4%	7.9%
Campbell	\$565,000	\$599,894	13	12	32	37	99.5%	10.8%	10.5%	-23.5%	14.3%	50.9%	44.7%	225.0%	-27.3%
Cupertino	\$689,000	\$692,992	14	12	18	38	100.7%	2.1%	1.5%	16.7%	-10.0%	19.0%	13.0%	40.0%	-10.0%
Gilroy	\$460,000	\$448,725	3	2	19	118	99.8%	33.7%	31.5%	0.0%	216.7%	46.9%	27.1%	-25.0%	5.6%
Los Altos	\$742,500	\$734,375	4	6	5	26	99.9%	n/a	n/a	n/a	0.0%	47.5%	31.4%	33.3%	-28.6%
Los Gatos	\$690,000	\$691,439	9	9	22	69	96.3%	8.7%	6.0%	-10.0%	-29.0%	7.8%	20.2%	12.5%	-4.3%
Milpitas	\$600,000	\$575,333	9	15	27	53	97.9%	2.6%	-0.9%	12.5%	0.0%	14.3%	7.6%	-35.7%	0.0%
Morgan Hill	\$450,000	\$517,500	2	11	23	42	99.5%	-23.6%	-4.7%	-33.3%	9.5%	-9.1%	9.6%	-60.0%	43.8%
Mountain View	\$549,000	\$536,566	22	40	43	38	100.7%	2.6%	-1.6%	4.8%	-6.5%	8.7%	3.1%	-12.0%	34.4%
Palo Alto	\$575,000	\$594,400	5	14	12	26	98.6%	1.7%	-18.4%	25.0%	-25.0%	-14.7%	-14.7%	-50.0%	0.0%
San Jose	\$485,000	\$493,631	151	351	711	66	99.1%	7.8%	6.1%	-1.3%	39.4%	-0.3%	-2.3%	-24.9%	10.6%
Santa Clara	\$445,000	\$499,602	17	40	63	87	98.6%	5.9%	5.6%	-22.7%	-1.6%	-7.3%	-7.3%	-54.1%	-1.6%
Saratoga	\$695,000	\$897,900	5	4	8	78	97.9%	24.1%	16.5%	66.7%	60.0%	31.1%	29.9%	66.7%	-20.0%
Sunnyvale	\$500,888	\$522,457	18	39	38	65	100.5%	-15.5%	-8.3%	-33.3%	-13.6%	-11.3%	-5.2%	-5.3%	40.7%

Days of Inventory



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California Home Sales Fell After Four Years of Impressive Gains

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- The median down payment declined 8.8 percent from \$80,000 in 2005 to \$73,000 in 2006, despite an increase in the median home price. This was the first time since 1995 that the median down payment dropped.
- The median down payment for first-time buyers decreased from \$25,000 in 2005 to \$10,000 in 2006, while the median down payment for repeat buyers decreased from \$119,000 to \$100,000.
- The median loan amount for first mortgages continued to increase in 2006 along with rising home prices, climbing 8.2 percent from \$384,000 to \$415,500 among all buyers.
- The median first mortgage amount for first-time buyers increased 6.8 percent from \$347,800 to \$371,600, while the median first mortgage amount for repeat buyers increased 8.1 percent from \$400,000 to \$432,500.
- More home buyers used 100-percent financing to purchase their home. About a fifth of all homes purchased (21.1 percent) were financed with a zero-down payment mortgage compared with 19.7 percent last year. Recent use of zero-down mortgages has increased significantly since 2000, when they were used by just 4.5 percent of buyers. Two of five first-time buyers (40.9 percent) made a zero-down payment on their home purchase, while just one in 10 repeat buyers (11.3 percent) purchased their home with no down payment.
- The typical first-time buyer had a median age of 35, earned an annual household income of \$80,000, and purchased a home with a historically high median price of \$450,000.
- Fifty percent of all first-time buyers were married and 35 percent of them were singles. The share of married first-time buyers has been declining slowly but steadily since 2000. Meanwhile, first-time buyer households with two or more individuals declined from 16.2 percent in 2005 to 13.5 percent in 2006.
- The typical repeat buyer had a median age of 45, earned an annual household income of \$120,000, and purchased a home with a historically high median price of \$618,000.
- Six of 10 repeat buyers were married, a quarter of them were singles, and one of eight were buyer households with two or more individuals. Repeat buyer households with two or more individuals have increased from 6.6 percent in 2002 to 12.7 percent in 2006.
- Almost half of these home buyers were married (47 percent), 37.6 percent were singles, and 13.4 percent were households with "two or more individuals."
- The typical home seller was 50 years old, had a two-member household, earned an annual household income of \$100,000, and lived in the home for five years before selling it.
- Fifty-five percent of all sellers were married and 27 percent were singles. Households with two or more individuals accounted for 12 percent of all sellers in 2006, virtually unchanged from that in 2005.
- After peaking in 2005 at \$220,643, the median net cash gain by sellers from all home sales declined 8.4 percent to \$202,000. It was the first time since 1997 that the median net cash gain fell. The median net cash gain for single-family detached homes increased 1.6 percent to \$250,000, while the median net cash gain for condo/town homes declined 2.7 percent to \$180,000.

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