

The Real Estate Report

SILICON VALLEY MARKET TRENDS



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Santa Clara County Home Sales Surge in September

Sales of single-family, re-sale homes were 75.9% higher than last September. This is the third month in a row that home sales have been higher than the year before, and is a harbinger of a market bottoming out.

Prices, on the other hand, continued falling, with the median price off 29.5% year-over-year.

Inventory was down 2.7% from last September. This is the first time inventory has declined year-over-year since August 2005.

The rise in sales combined with the decline in inventory pushed our Days of Inventory indicator down to 157 days. In a balanced market, the supply of homes is usually around five to six months.

We expect statistical prices to continue declining as we work our way through the glut of bank-owned properties on the market.

The large number of bank-owned

Trends at a Glance (Single-family Homes)			
	Sep 08	Aug 08	Sep 07
Median Price:	\$600,000	\$654,000	\$851,250
Average Price:	\$750,913	\$849,650	\$1,069,346
Home Sales:	904	897	514
Inventory:	4,744	4,893	4,875
Sale/List Price Ratio:	98.5%	98.3%	99.8%
Days on Market:	55	50	49
Days of Inventory	157	164	285

home sales is skewing statistical prices downward. Notices of default filed in Santa Clara County had been dropping, month-to-month, since May. But, in August, notices were up 5% from the month before. The reason why is still unclear and

it may be an anomaly because of recent legal changes. The August number may be a bit inflated, said Sean O'Toole, founder of ForeclosureRadar, based in Discovery Bay.

"There might have been a push in August to get defaults filed before the new notification requirements were put into place," he said, referring to provisions of California Senate Bill 1137. Signed by Gov. Arnold Schwarzenegger in early July, the

law requires lenders to contact borrowers in person and give them 30 days notice that they intend to begin foreclosure proceedings. The new requirements went into effect the middle of September.

October/November 2008



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Bank of America Settles Suit, Will Modify Loans

An estimated 125,000 Californians who are struggling with risky mortgages from Countrywide Financial Corp. may get their loans modified and payments reduced under a program to be announced today.

The program could reduce Countrywide borrowers mortgage payments. Loans could be reworked and made more affordable. That could include switching customers to fixed-rate loans or reducing the interest or principal.

Bank of America said Countrywide mortgage-servicing employees would be trained to carry out the program

by Dec. 1 and would then begin reaching out to eligible customers. The plan includes a foreclosure freeze for borrowers who are likely to qualify until Countrywide has determined their eligibility, the bank said.

The settlement includes a program for California borrowers who are behind on their Countrywide mortgage payments or are having their homes foreclosed by the lender.

The program, to be announced today by California Atty. Gen. Jerry Brown, applies to mortgages made before this year.

The program will first identify customers who have fallen behind on their mortgages by more than 60 days or are likely to do so because of loan features such as rate or payment increases. These customers will be contacted by Countrywide starting Dec. 1.

Various options will be considered for eligible customers, with employees handling the workouts instructed to first consider refinancing into a fixed-rate Federal Housing Administration loan.

The options on subprime mortgages also include keeping the initial rate for five or 10 years, having the borrowers pay interest only and reducing the interest rate to as low as 3.5%.

For pay-option loans, many of which now amount to more than the borrower's house is worth, the options include writing the principal down to 95% of the home's current appraised value and lowering the interest rate to 3.5%.

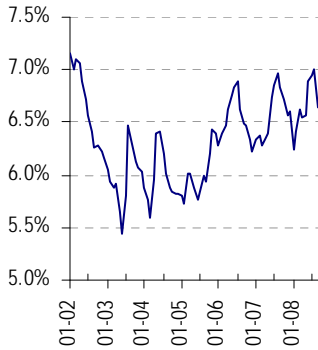
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The Real Estate Report

Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



October 3, 2008 -- HSH's overall indicator of the cost of mortgage money for all borrowers -- covering true conforming, private-market jumbo and new "expanded conforming" loans -- moved marginally higher. HSH's Fixed Rate Mortgage Indicator FRMI rose by just two basis points to 6.72%, while a companion 5/1 Hybrid ARM series mimicked that rise to finish the week at 6.58%. Conforming 30-year FRMs closed the week at an average 6.23%, up just a single tick.

Measures of consumer moods recently moved off lows, following the decline in gas prices, but the whip-sawing markets may turn them darker again. For the third straight week, the ABC News/Washington Post poll of Consumer Comfort remained at -41, still quite bleak but at least steady. During September, the Conference Board's review of Consumer Confidence ticked up to

a reading of 59.8, up from August's 56.9 level and exhibiting mild but steady improvement off June's lows.

If job markets continue to decline, such optimism may grow harder to find. Weekly unemployment claims rang in at a hurricane-goosed 497,000 for the week ending September 27, but regardless of the reason, new claims remain high. As well, while the loss of jobs during this downturn has been mild compared to historical patterns, it does seem to be deepening. In September, the economy shed 159,000 jobs, the ninth consecutive month of job losses, now nearly at an accumulated 750,000 since the turn of the year. The nation's unemployment rate remained at 6.1% for the month, but given the gyrations in financial circles over the past four weeks, and other markets so de-

pendent upon them, more layoffs seem destined to come.

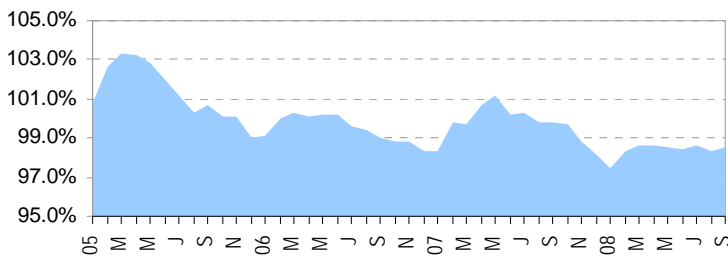
Now that we've got a "rescue" or "support" plan in place -- please don't call it a "bailout" -- where do we go from here? Financial conditions should be improving, at least slightly, in the weeks ahead; inflation seems to be waning, at least for the moment, and markets have been flooded with liquidity, not that it's making it out to main street just yet. We're hopeful that it will; in these times of unprecedented government moves to kick-start markets, it's no longer too far-fetched to think that more aggressive and direct government moves into other areas of lending can't occur, if the banks remain unwilling or unable to do it. More likely, pressure will be exerted to get things moving, even if rates don't fall right away. We'll see where that goes.

September Sales Statistics

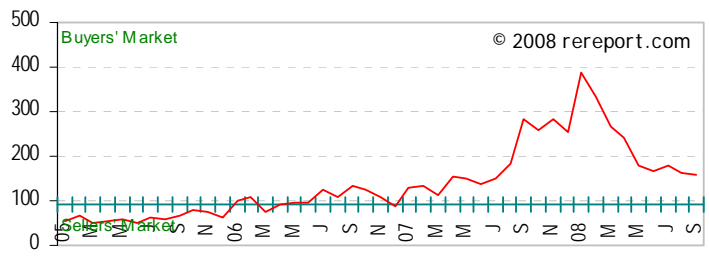
Single-family Homes

	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	\$600,000	\$750,913	904	1,890	4,744	55	98.5%	-29.5%	-29.8%	75.9%	-2.7%	-8.3%	-11.6%	0.8%	-3.0%
Campbell	\$770,000	\$767,963	19	39	108	59	97.2%	-15.4%	-18.5%	72.7%	28.6%	-4.3%	-0.8%	0.0%	-4.4%
Cupertino	\$1,112,500	\$1,135,954	22	34	77	46	97.9%	-14.7%	-17.8%	-21.4%	5.5%	-13.7%	-14.9%	-38.9%	-8.3%
Gilroy	\$384,900	\$430,219	57	103	446	141	96.8%	-50.7%	-44.4%	307.1%	10.9%	-9.4%	-6.5%	11.8%	-7.1%
Los Altos	\$1,794,250	\$1,813,775	21	42	78	57	100.4%	0.0%	-5.1%	40.0%	59.2%	-6.2%	-10.5%	-19.2%	20.0%
Los Altos Hills	\$2,150,000	\$2,090,500	4	18	51	88	87.3%	-39.9%	-39.1%	0.0%	-1.9%	-16.8%	-27.2%	-42.9%	15.9%
Los Gatos	\$1,202,500	\$1,583,780	28	82	178	77	93.4%	-6.6%	16.2%	75.0%	91.4%	-13.5%	-5.2%	27.3%	13.4%
Milpitas	\$565,000	\$613,951	22	49	152	150	97.4%	-15.4%	-12.6%	-4.3%	-0.7%	3.5%	3.3%	-35.3%	-2.6%
Monte Sereno	\$2,524,500	\$2,524,500	2	8	30	155	97.1%	24.7%	26.6%	-50.0%	76.5%	-33.7%	-33.7%	0.0%	7.1%
Morgan Hill	\$644,400	\$757,613	30	78	317	131	96.4%	-15.1%	-4.7%	76.5%	14.4%	-19.5%	-1.2%	0.0%	-1.6%
Mountain View	\$1,060,000	\$1,110,817	17	41	75	43	99.9%	-11.9%	-9.7%	0.0%	63.0%	15.6%	9.9%	-29.2%	15.4%
Palo Alto	\$1,525,000	\$1,783,500	23	58	80	35	99.2%	-11.3%	-21.5%	-25.8%	90.5%	2.7%	1.5%	-17.9%	40.4%
San Jose	\$495,000	\$559,531	526	1,108	3,599	89	98.2%	-33.1%	-32.8%	128.7%	16.2%	-11.6%	-12.7%	7.1%	-5.5%
Santa Clara	\$662,500	\$681,877	46	82	226	58	98.3%	-10.6%	-11.1%	9.5%	22.2%	7.5%	4.2%	9.5%	-4.2%
Saratoga	\$1,690,000	\$1,957,173	23	54	135	69	96.2%	0.9%	3.1%	35.3%	27.4%	4.0%	8.6%	-11.5%	2.3%
Sunnyvale	\$855,000	\$824,205	60	84	164	64	99.0%	-12.3%	-19.0%	53.8%	43.9%	-0.6%	-1.0%	15.4%	5.1%

Sales Price/Listing Price Ratio



Days of Inventory



The Real Estate Report

C.A.R. 2008 Survey of California Home Buyers

Declining home prices coupled with low interest rates prompted more home buyers to purchase in 2008 compared with last year, according to the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) "2008 Survey of California Home Buyers." Sixty-nine percent of all home buyers reported that price declines encouraged them to buy a home, while 40 percent said that low interest rates enabled them to move to a better location. Seventy-seven percent of first-time home buyers said lower home prices played a role in their decision to purchase a home.

"The housing market has confronted headwinds on several fronts since early 2007," said C.A.R. President William E. Brown. "Lax underwriting standards that left some subprime borrowers unprepared for rate adjustments, the global liquidity crunch, sluggish economic growth, and higher fuel and food prices are some of the factors that led to the downturn in the housing market.

"As the housing market dropped sharply from record sales levels set in 2004 and 2005, and prices began to soften, home buyers dramatically changed their attitudes and behaviors towards home buying and adapted to the new housing environment," he said.

The Internet continued to be an integral part of the home-buying process, with 78 percent of buyers utilizing it to search for a new home and find a real estate agent, compared with 72 percent in 2007. The share of traditional buyers -- those who did not use the Internet during the home-buying process -- decreased from 28 percent in 2007 to 22 percent in 2008.

Both Internet and traditional buyers spent considerably more time searching for a home with their agent than in previous years, a reflection of the variety of home choices available in today's market. Internet buyers spent an average of 8.3 weeks looking for a home with their agent, an increase

from 5.2 weeks in 2007, and nearly quadruple the number of weeks from two years earlier when Internet buyers spent 2.2 weeks looking for a home. Traditional buyers spent 10.3 weeks looking for a home with their agent, compared with eight weeks in 2007. Traditional buyers also visited nearly twice as many homes with their agent, averaging 23.3 homes, compared with Internet buyers, who visited 12.7 homes.

"Due to the high inventory of homes on the market, and uncertainty about the direction of home prices, buyers are more cautious and are moving at a slower pace during the home buying process than in previous years," Brown said. "The Internet also continues to play a vital role in this process and has solidified the relationship between REALTORS® and home buyers."

According to the survey, 72 percent of home buyers either "agreed" or "strongly agreed" that using the Internet helped them better understand

the role of real estate agents, and increased their appreciation for real estate professionals and how key they are in the home-buying process. More than half of Internet buyers thought the information their real estate agent provided was more useful than the information they gathered on the Internet. None of the Internet buyers reported that the information they found on the Internet was more useful than the information provided by their real estate agent.

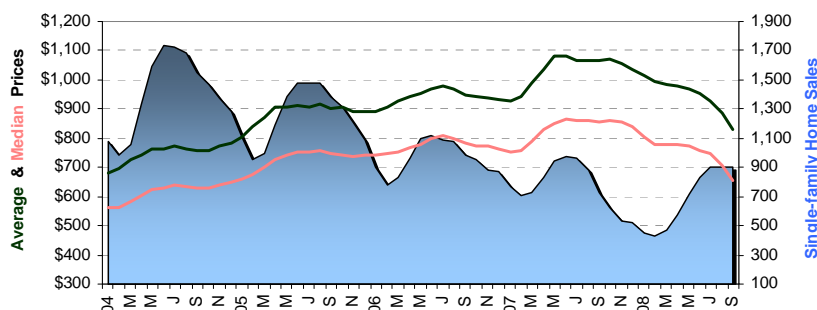
Other key findings from C.A.R.'s 2008 Survey of California Home Buyers include:

- Internet buyers spent significantly more time considering buying a home before contacting an agent, averaging 8.2 weeks than did traditional buyers, who spent 3.6 weeks.
- Nineteen percent of all buyers were first-time buyers, who spent on average 9.6 weeks with their agent, compared with 5.8 weeks in 2007. Repeat buyers spent 8.5 weeks with their agent in 2008, versus seven weeks in 2007.

September 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	\$361,000	\$425,591	266	617	1,619	56	97.7%	-31.2%	-23.4%	37.1%	-7.6%	-12.5%	-5.1%	-7.6%	-3.7%
Campbell	\$537,000	\$516,375	8	14	59	87	97.3%	0.9%	-7.1%	33.3%	9.3%	-3.7%	-2.5%	0.0%	-20.3%
Cupertino	\$679,000	\$686,833	6	15	24	42	98.3%	-6.0%	-10.4%	-33.3%	41.2%	-0.6%	-3.3%	-33.3%	-20.0%
Gilroy	\$292,500	\$292,500	2	7	41	208	92.5%	-40.2%	-40.2%	50.0%	24.2%	#####	#####	100.0%	-2.4%
Los Altos	\$985,000	\$985,000	1	7	9	2	99.0%	27.0%	27.0%	-50.0%	-35.7%	52.0%	52.0%	-50.0%	28.6%
Los Gatos	\$850,000	\$768,021	8	17	51	77	96.4%	7.6%	2.7%	14.3%	96.2%	21.4%	24.0%	33.3%	0.0%
Milpitas	\$387,500	\$397,500	4	21	67	77	97.0%	-30.2%	-29.8%	-33.3%	31.4%	-22.5%	-13.6%	-75.0%	3.1%
Morgan Hill	\$268,800	\$279,750	6	10	29	94	96.6%	-60.3%	-74.6%	50.0%	-3.4%	-54.8%	-45.7%	0.0%	-12.1%
Mountain View	\$590,000	\$585,026	23	40	87	49	97.5%	15.7%	6.8%	0.0%	8.8%	12.4%	8.7%	21.1%	4.8%
Palo Alto	\$759,000	\$906,670	5	21	35	46	98.4%	-9.8%	11.3%	66.7%	169.2%	-8.1%	15.3%	-37.5%	45.8%
San Jose	\$325,000	\$340,045	164	376	1,316	99	97.4%	-32.6%	-32.8%	88.5%	7.8%	-7.1%	-9.8%	-0.6%	-2.5%
Santa Clara	\$507,500	\$492,785	14	39	105	59	98.2%	14.0%	1.6%	-22.2%	-16.0%	23.2%	5.4%	-44.0%	-2.8%
Saratoga	\$632,500	\$625,000	4	7	19	61	98.6%	4.5%	-19.5%	33.3%	50.0%	-3.8%	-9.8%	-50.0%	-9.5%
Sunnyvale	\$491,000	\$515,095	21	43	106	74	98.0%	-20.0%	-12.7%	0.0%	43.2%	1.8%	3.1%	5.0%	-2.8%

Santa Clara County Homes: Prices and Sales
(3-month moving average — price in 000's)

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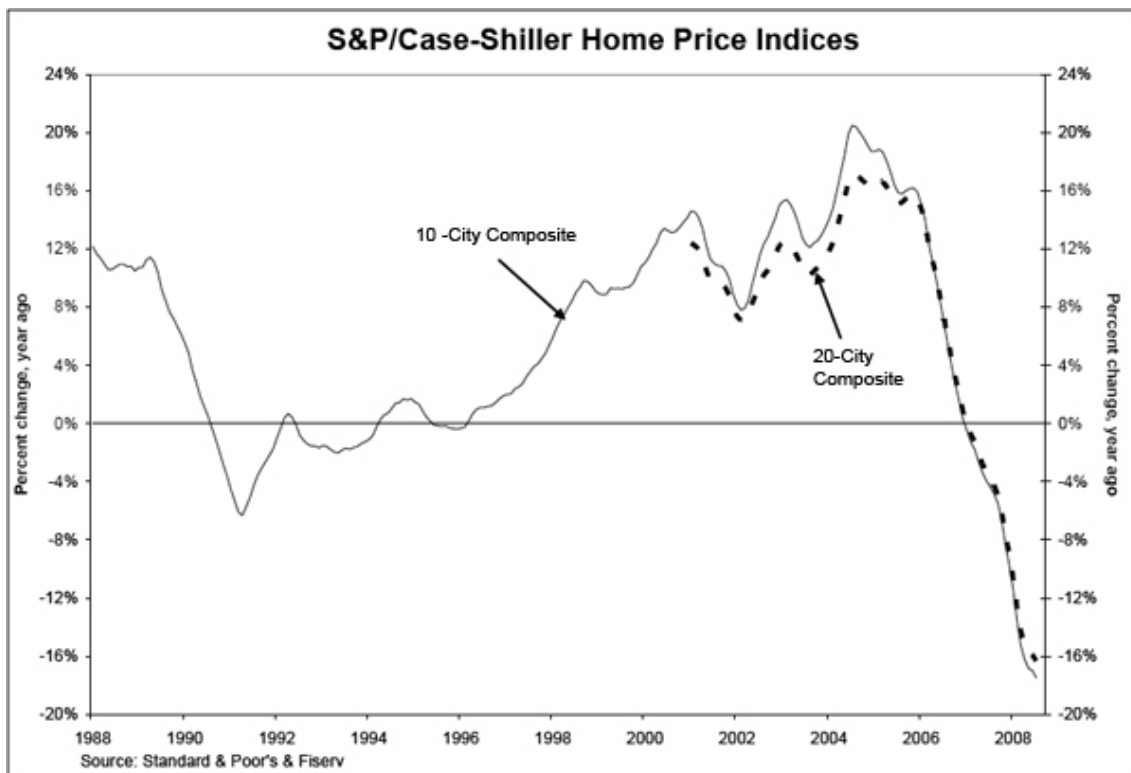
Investor corner

Continued Record Home Price Declines

According to the S&P/Case-Shiller Home Price Indices

New York, September 30, 2008

Data through July 2008, released today by Standard & Poor's for its S&P/Case-Shiller Home Price Indices, the leading measure of U.S. home prices, shows continued record declines and a continuation in the trend of double digit declines across many cities in the prices of existing single family homes across the United States.



for a [city-by-city breakdown](#) and to receive [the monthly report](#) regularly, visit my website at
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