



## MARKET OVERVIEW

a monthly real estate report | March 2010

### Move-up Buyers Benefit From Affordability

One of the bright spots of the economy is the rise in economic indicators for the last ten months. But in January 2010, five of the ten indicators that rose weren't the ones the economy is watching most closely. Jobs, money supply, building permits and capital goods ordered all declined.

The home building industry posted its first production gains in years in January, but new home units are still 75% below where they were at the peak of the housing market. Further hampering construction recovery are the rising costs of lumber and any goods derived from oil.

That's a good thing for California home sellers, whose properties don't need more competition. Foreclosed homes are being dumped on the market and selling at an average 28% discount (according to research by Zillow.com). This has driven housing prices to pre-boom levels.

What's changed? Jobs – 8.4 million have been lost in a little over two years.

Among the key concerns is tight credit. Banks that benefited from the Troubled Asset Relief Program and repaid their loans no longer have to report how much they loan to small business. Consequently, banks have cut small business loan balances more than \$2.3 billion, according to Treasury reports.

Tight credit slows hiring, and jobs are exactly what the economy needs right now. The Federal Reserve released notes on February 17, 2010 that it expects the jobless rate to fall, but not by much. Currently, the unemployment rate is 9.7% and expected to fall to 9.5% by the end of the year, to 8.5% in 2011, and to 7.5% in 2012.

While the market has choked down most of the bad loans from sub-prime lending, now prime loans are going into default due to job losses.

Out of all FHA-guaranteed loans made in 2007, about 25% are in claims by lenders. And data from the Center for Community Capital, University of North Carolina at Chapel Hill found that the number of loans in the process of foreclosure increased 52%, or 252,000 loans, between October 2008 and October 2009. The Analysis of Mortgage Servicing Performance, Data Report No. 4, January 2010, found that the number of prime loans accounted for 71% of the increase in the total number of loans in the process of foreclosure.

Jumbo loan defaults (loans above conforming ranges – \$729,750 in high-cost areas) have risen 32 months in a row, according to Fitch Ratings. Two-thirds of delinquent “jumbo” loans are concentrated in five states – California, New York, Florida, Virginia and New Jersey.

The Federal Housing Agency is tightening standards to make sure that participating banks give FHA-guaranteed loans to borrowers who are less likely to default. Fees to obtain government-guaranteed loans are higher, and so are credit score minimums. But at least more loans will be available.

Mortgage lenders are expanding their loan-to-value criteria to 95% on conventional loans. This will provide more options to borrowers. “Prior to this change, FHA/VA was the only option for loans with less than 10% down,” explains Danny T. Valentini, SVP-Regional Manager HomeServices Lending, San Diego County. “But despite the expanded criteria for conventional loans, borrowers must have FICO scores of 720 for single-family homes and 740 for condominiums to qualify.”

In addition, the FHA has suspended the 90-day anti-flipping rule, allowing borrowers to resell homes they've bought at a discount (such as foreclosures) and improving them to command more on the market.

While these changes will clearly help home buyers with good credit, the question may still remain: what does housing have going for it?

The answer is unprecedented affordability.

After four years of falling prices, the typical American family making the national median income of \$64,000 can buy any of 70.8% of homes being sold on the market today, according to the National Association of Home Builders and Wells Fargo. That's a little off the high of 72.5% reached in Q1 2009, but far better than the 55% affordability seen in Q2 2008.

Another indication of affordability: the percentage of households able to buy an entry-level home in California reached 64% in Q2 2009, according to the California Association of REALTORS®.

Affordability is even more appealing for move-up buyers.

Here is an example, provided by David Deisinger, a REALTOR® with Prudential California Realty [www.prudentialcal.com](http://www.prudentialcal.com) in Carlsbad, California.

*\*The sellers of a 1,600 square-foot, 2-bedroom, 2-bath condominium want to move up. They have \$200,000 in equity and an outstanding loan amount of \$200,000 at 6%. The move-up seller's monthly payment is \$1935.77 including principal and interest, \$1,199.10; property tax, \$366.67; and homeowners fee, \$370.*

*For only a few hundred dollars more a month, these move-up sellers can purchase a newer 2,200-square-foot, 4-bedroom, 3-bath home for \$550,000.*

*Here's how. Putting the \$200,000 in equity from the condo down, the move-up buyers borrow \$350,000 at 6%. With a principall/interest payment of \$1878.88, plus taxes, \$504.17, and*

\$130 a month in homeowner association fees, the move-up sellers can have a larger home with more bedrooms and baths for \$2,513.05 – a difference of \$577.28 per month.

They'll also get a tax refund of up to \$6,500, in essence reducing the cost of buying the new home another .01%.

The example works well even without the large down payment – because the prices of homes in the entry-level ranges are rising faster than those of higher-range homes. Move-up inventory is more attractive by comparison, because the less expensive inventory is priced as high as the move-up inventory in terms of square footage.

At a sales price of \$400,000 and 1,600 square feet, the condo in the example above

costs \$250 per square foot. The move-up home at \$550,000 and 2,200 square feet – single-family, updated with granite, and lower in HOA fees for similar amenities – is also \$250 per square foot.

**Advice for Buyers:** Do the math with your real estate agent and loan officer. Be prepared with income and asset documentation before you shop for a home, so you can make a solid offer the seller will accept. Time is of the essence – shop early! Tax incentives end April 30, 2010, and the last-minute crush will cause lender pipelines to clog, slowing closings. You must have an accepted contract by the April deadline, and occupy your new home by June 30, 2010.

**Advice for Sellers:** With FHA rules minimizing seller incentives to buyers, it's

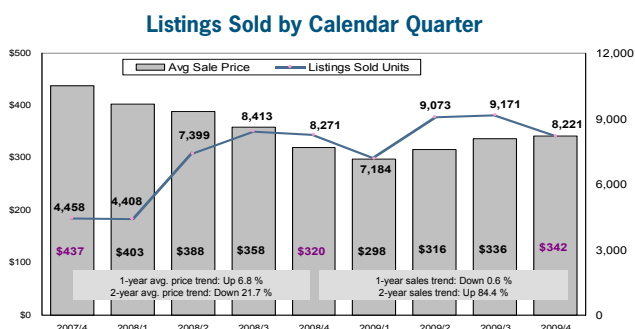
more important than ever to make your home stand out from the competition in terms of both price and features. Make sure your home is immaculate and move-in ready, with no repairs or critical work left undone.

*\*Loan and purchase terms are examples only and any seller and buyer's particular costs will be dependent on their credit scores, income information, and loan programs available at the time of their sale or purchase. Prudential California Realty makes no promise or guarantee regarding the costs of any particular purchase or loan. See your local Prudential agent for examples in your area. Prudential strongly recommends that all buyers and sellers consult with their tax and loan professionals regarding real estate transactions.*

## SAN DIEGO COUNTY

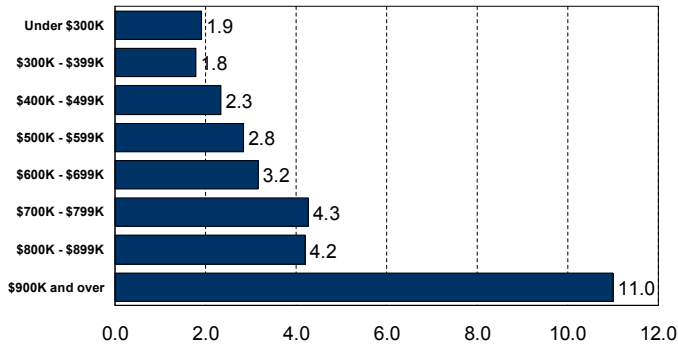
San Diego County is in a brisk *\*seller's market* in homes priced under \$1 million, with 2.3 months of supply on hand as of February 1, 2010. Particularly heated are homes priced within conforming loan limits. Only for homes priced at \$900K or above do inventories start to build.

*\*A balanced market is widely accepted as having six months of inventory on hand with market conditions favorable to both buyers and sellers. A buyer's market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller's market has low inventories of homes for sale, escalating prices, and keen competition between buyers, including multiple offers. Detached homes stand alone and share no common walls with any other neighboring home. Attached homes share at least one common wall with another home. The type of home ownership is determined by whether or not it is a condominium, townhome, duplex, co-operative or other.*



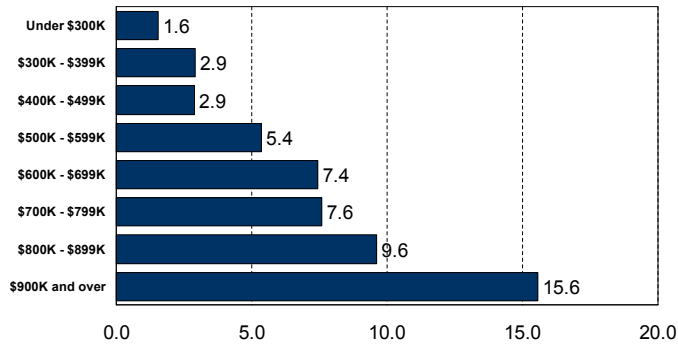
Housing prices are higher in Q4 2009 than the year before, but remain well below the two-year highs of Q4 2007 in homes priced \$1 million or below. Prices appear to have bottomed in Q1 2009.

### Detached Properties - Inventory in Months



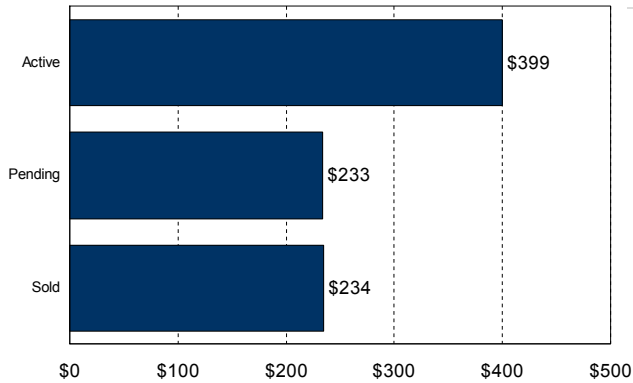
Detached homes are selling quickly at all price levels. Only for homes priced \$900K or above are inventories sluggish.

### Attached Properties - Inventory in Months



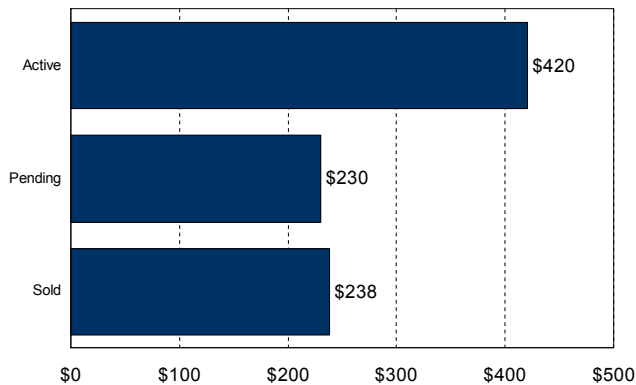
Attached homes are selling nearly as well as detached homes, with inventories only tipping into a buyer's market at \$800K and above.

### Detached Properties - Pricing Realty for Sellers, per square foot



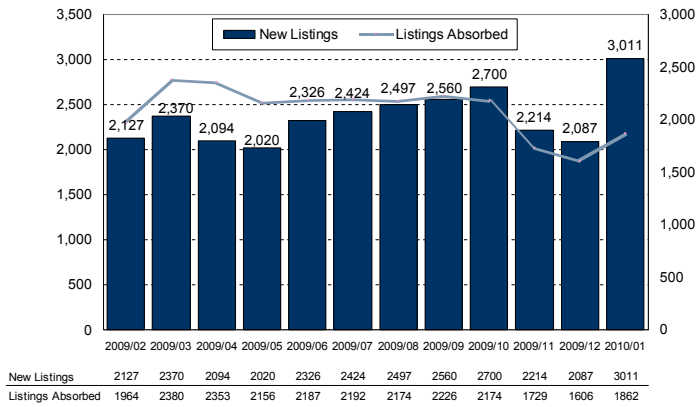
The disparity between active listings' price per square foot and that of solds and pendings further illustrates the searing seller's market in the affordable price points.

### Attached Properties - Pricing Realty for Sellers, per square foot



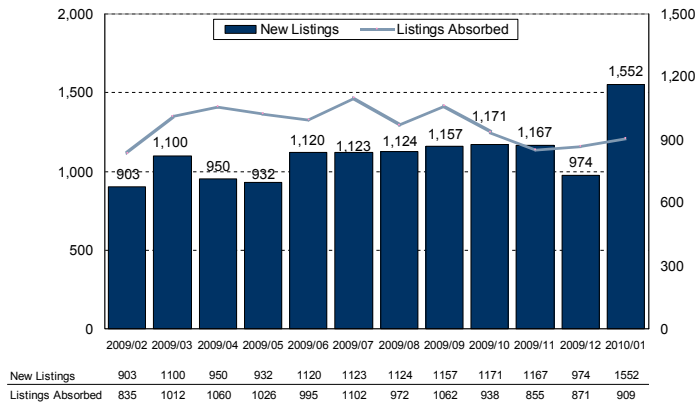
Attached home prices per square foot also show a chasm between active listings and solds. Lower pendings suggest that buyers have some leverage.

### Detached Properties - Monthly Listings Taken and Absorbed 12 Months through January 2010



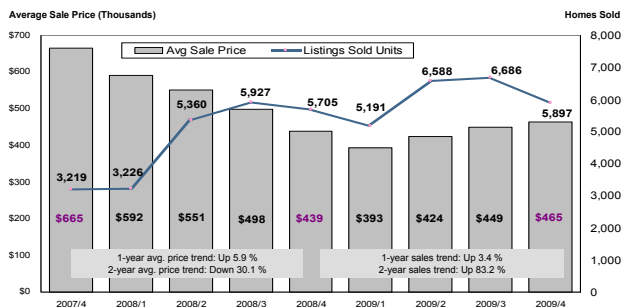
San Diego County is still working through high inventories, despite the seller's market. In January 2010, new listings jumped by 31.7% while absorption rates rose only 14% over December 2009.

### Attached Properties - Monthly Listings Taken and Absorbed 12 Months through January 2010



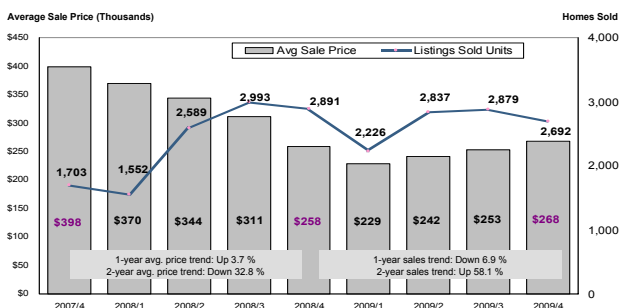
New attached home listings spiked dramatically in January 2010 by 38% while absorption rates increased only 5% over December 2009.

### Detached Properties - Listings Sold by Calendar Quarter 9 Quarters through December 31, 2009



Detached home prices bottomed in Q1 2009, generating a spike in absorption rates. As prices gained by Q4 2009, the sales pace eased, but is still well ahead of the beginning of the year.

### Attached Properties - Listings Sold by Calendar Quarter 9 Quarters through December 31, 2009



Attached home prices in Q4 2009 ended the year higher than they began in Q1, when prices hit their nadir. The sales pace picked up on low prices in Q2 and Q3, and eased a little by the end of the year.

