



Heated First-Time Buyer Market Changes Strategies for Buyers and Sellers

US home prices are up two months in a row, says the Federal Housing Finance Agency, overseer of Fannie Mae and Freddie Mac. The Commerce Department reported that August new home starts (a documentation of construction beginnings) rose 1.5% to an annual rate of 598,000. Building permits rose 2.7% to 579,000. Both figures were the highest since November 2008.

The National Association of REALTORS® (NAR) reports that in July, the number of pending sales contracts signed increased for the sixth month in a row, largely due to affordability and federal and state incentives.

Existing home sales inventories fell 10.8% in August to an 8.5-month supply, the lowest level of inventory since April 2007. However, sales closings slowed 2.7% after four months of rising sales volume.

NAR Chief Economist Lawrence Yun noted that nationwide, the typical mortgage payment for a median-priced home now represents less than 25% of a family's monthly income. He added that 2009 payment percentages have been the lowest on record since 1978.

California

Home sales volume increased 12% in July compared with the same period a year ago, according to the California Association of REALTORS®. Record affordability and tax incentives were the primary drivers.

July 2009 sales prices in the state declined by 19.6% to a median of \$285,480, compared to \$355,000 in July 2008.

As the tax credit draws to an end, sales are rising. Month-to-month sales in July 2009 increased 8.1% over June, and median prices rose 3.9% to \$285,480 compared to the June median of \$274,740.

“July marked the fifth consecutive month of month-to-month increases in the median price,” said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. “This was the largest increase on record for the month of July, based on statistics dating back to 1979. The yearly decline in July also was the smallest in the past 19 months.”

Foreclosures Pressure Prices

Data Quick Information Systems reports that notices of default in Southern California were up 3.8% year over year in the second quarter of 2009. According to Credit Suisse, 40% of Alt-A loans are due to reset in the next 24 months. Another wave is due to reset in mid-to-late 2010. The majority of those loans are Option adjustable rate mortgages.

First-Time Home Buyers Lead the Way

About 67% of first-time home buyers can now afford to buy a home in California, compared to 76% of first-timers nationally. Homes priced under \$500,000 accounted for 74% of the California market in July — a testament to the strength of the first-time home buyer. As of June 2009, California topped all states with a 10% market share of all FHA lending in the U.S.

Historical Comparisons Favor Today's Housing Recession

Surprisingly, California's current housing correction isn't as severe as the one the state experienced during the recession of the early 1980s, when housing sales plummeted 61% peak-to-trough between 1978 and 1982. In comparison, housing sales volume sank 44% between mid-2003 and 2007, and has steadily risen since that time.

With improved affordability comes demand. In July 2009, there was a 3.9-month supply of unsold inventory across the state — down dramatically from a 16-month supply in January 2008.

Advice for Buyers

Cash buyers are making it difficult for other buyers to compete in certain price ranges. Make it easy for the listing agent and the seller by offering a complete package so they don't have to wonder who you are and whether you can afford the home. In addition to a well-written and complete purchase offer, include the following to show the seller your offer is as good as cash:

- A personal letter indicating why you would be a good fit for this home
- Pre-approval from a major lender, like HomeServices Lending www.hslca.com
- Pre-approval is better than pre-qualification, since it requires verification of your employment, income, credit and other factors
- An earnest money deposit as close to 3% as possible
- Proof of funds for the down payment and closing costs

You may also want to consider removing contingencies earlier than called for in the contract.

Advice for Sellers

Homes in many price ranges below \$750,000 are attracting the most qualified buyers the market has seen in years. However, it's still a tale of two markets. Homes priced below 750,000 are selling quickly; for those priced above \$900,000, the buyer has the advantage. If your property is in this higher price range, it's critical to set realistic expectations based on market conditions. An experienced agent will help you price your home properly, market it aggressively, and make it easy for buyers to see it.

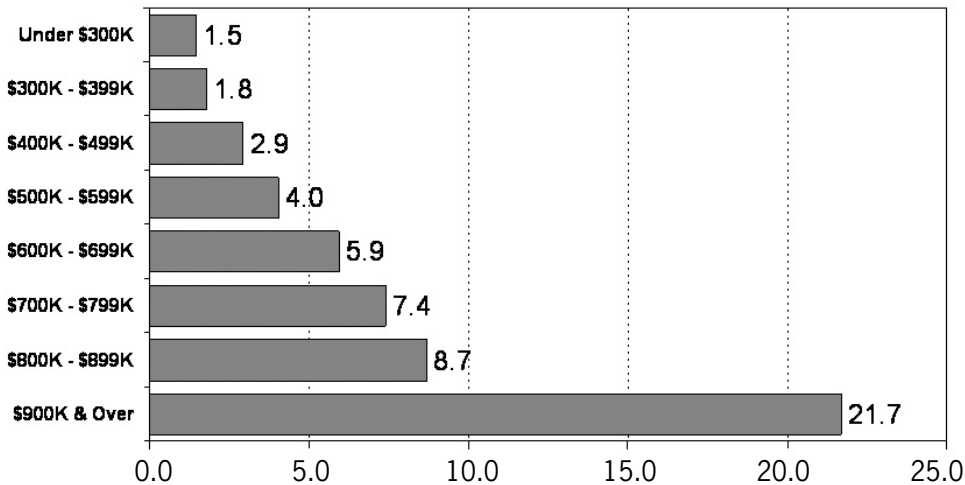
SAN DIEGO COUNTY

In August 2009, housing prices were down 23.2% year-over-year, spurring sales 11.9% higher than the previous year. The number of listings available for sale fell from 3,884 in July to 3,312 in August. However the number of listings absorbed fell by more than half, from 3,368 in July to 1,597 in August.

Under \$600K, San Diego County is in a feverish seller's market*, with as little as 1.7 months of inventory on hand for homes priced under \$300K. At the opposite end of the spectrum, homes priced above \$900K have 22 months of inventory available.

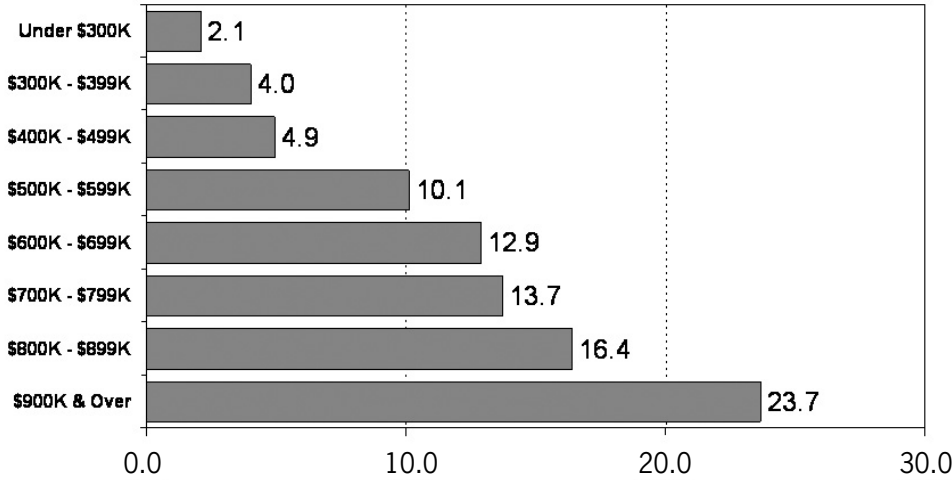
*A seller's market is characterized by fewer homes than available buyers, often with firm prices and multiple offers from buyers. A buyer's market has more homes for sale than available buyers, often with weaker pricing and larger concessions from sellers. Detached homes have no shared walls with neighbors. Attached homes have at least one shared wall with neighbors.

Detached Properties - Inventory in Months



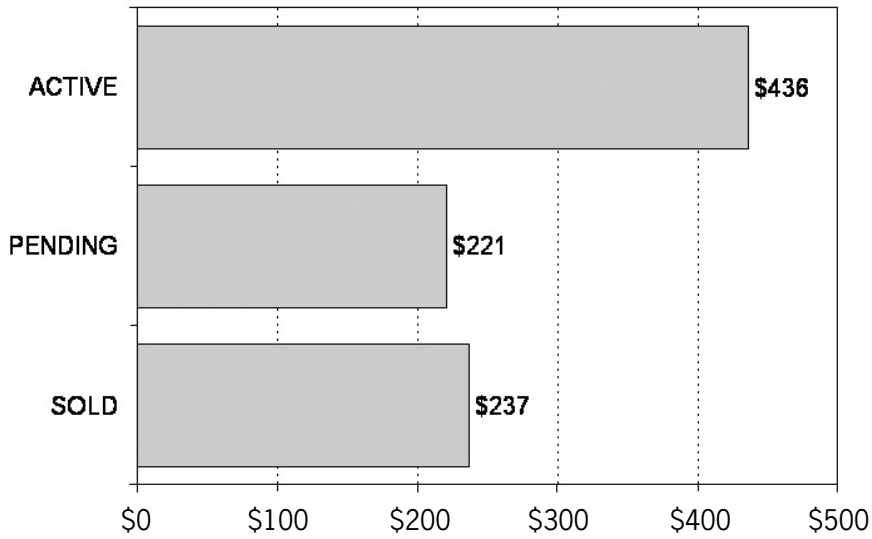
Detached homes priced under \$700K are in a fast-moving seller's market with less than three months of inventory in the \$599K or below ranges.

Attached Properties - Inventory in Months



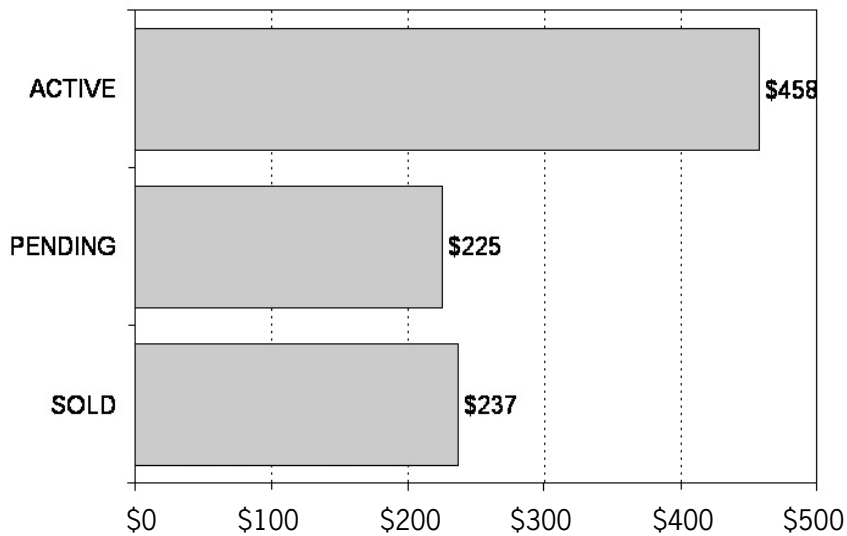
Attached homes are moving quickly under \$500K, but higher-priced homes are languishing in a buyer's market, most likely due to longer approval processes for condominiums.

Detached Properties - List Prices Per Square Foot by MLS Status



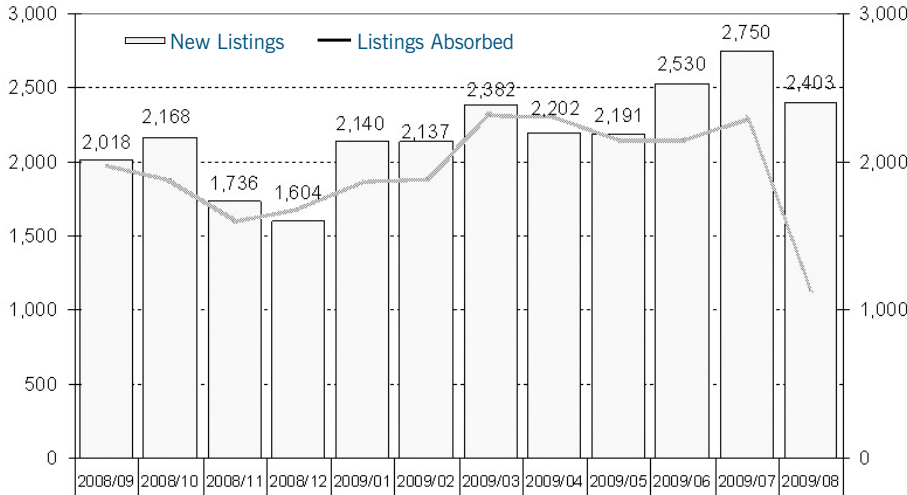
The chasm between higher-priced active detached listings for sale and lower-priced solds underscores much greater inventories in higher-priced homes, according to the price per square foot in asking prices vs. sold and pendings.

Attached Properties - List Prices Per Square Foot by MLS Status



Attached homes also show higher asking prices than solds or pendings, according to price per square foot, indicating much greater inventories in higher-priced homes.

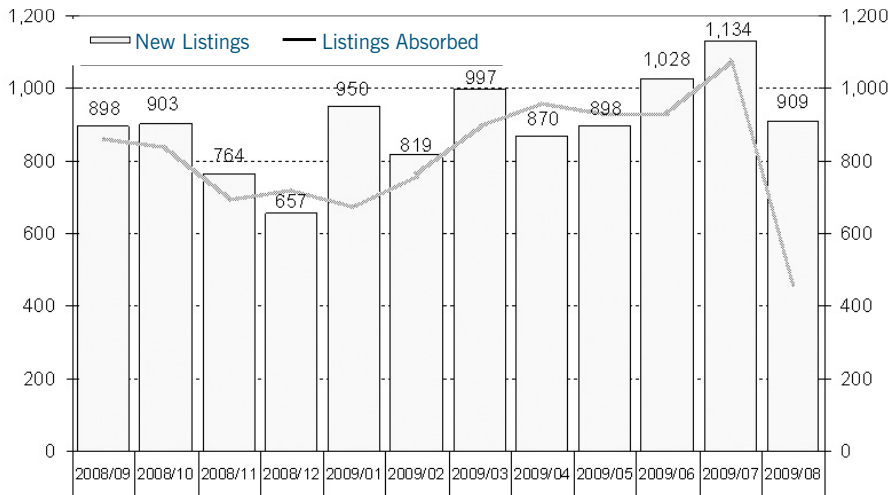
Detached Properties - Listings Taken and Absorbed - 12 Months through August 2009



New Listings	2018	2168	1736	1604	2140	2137	2382	2202	2191	2530	2750	2403
Listings Absorbed	1979	1883	1602	1687	1872	1889	2321	2306	2153	2151	2292	1137

The number of detached new listings has fallen from 2,750 in July to 2,403 in August, but the number of listings absorbed fell by half for the same period.

Attached Properties - Listings Taken and Absorbed - 12 Months through August 2009



New Listings	898	903	764	657	950	819	997	870	898	1028	1134	909
Listings Absorbed	862	838	695	720	675	763	898	961	930	930	1076	460

Attached new home listings fell to a total of 909 in August from 1,134 in July and absorbed listings fell by a little over half.

With over 3,400 sales associates in 58 offices across Southern California and the Central Coast, Prudential California Realty is the name to trust when buying or selling a home. Our agents close more than \$12 billion in sales volume and well over 16,000 transactions each year. We also provide every aspect of domestic and international relocation to corporations around the world. As one of the top five brokerages in the nation and the largest affiliate in the Prudential Real Estate international network, we have the resources and connections to protect your interests and make sure your experience is a successful one.

Prudential California Realty is proud to be a member of HomeServices of America Inc., a Berkshire Hathaway affiliate. For more information, visit www.prudentialcal.com.

