Prudential
California Realty

SAN DIEGO COUNTY

MARKET OVERVIEW

a monthly real estate report | March 2011

Across the nation, consumers are seeing a slow, steady improvement in the economy, which is raising the outlook for housing.

The February 2011 nationwide unemployment rate drifted lower to 9% from a recent high of 9.9%, with the fewest people applying for unemployment benefits since July 2008. Continuing claims are also down, which in itself is not an indicator of more jobs to come. However, it is the first step to jobs recovery.

CEO confidence is up. According to the Vistage CEO Confidence Index Survey, 54% of CEOs plan to hire more employees in 2011. That's the first time in three years these leaders have said they are adding jobs instead of laying people off. And it's having a positive effect on consumers.

Consumer confidence is rising, up 7.3% in January 2011 over December 2010, says The Conference Board, while the Reuters/University of Michigan index shows another full point rise between January and mid-February 2011.

Even rising interest rates are considered a positive sign. For the first time in months, mortgage interest rates for benchmark 30-year, fixed-rate loans crossed the 5.00% barrier in mid-February. While consumers will pay more in monthly payments, higher interest rates are a certain sign the difficult lending environment of the past three years may be improving.

It takes both jobs and confidence in the future to buy a home. Fortunately for those in a position to buy, market conditions are in their favor. Mortgage interest rates are still well below the post-modern median of 9%. And home prices are still falling on ample supplies.

Why? National inventories are still high by historical standards, even though they are declining. As of December 2010,there was an 8.1-month supply, down from a 9.5-month figure in November. Foreclosures have slowed to a trickle due to lender concerns over liability from the robo-signing scandal. Fitch Ratings predicts that disposition of distressed properties could take as long as four years, due both to the processing backlog and banks' desire to prevent further depreciation of bank-owned assets.

That means that prices are unlikely to rise in areas with large numbers of distressed properties, including California. But it also means that prices are likely close to stable.

Further, as the home ownership rate declined, households doubled up and graduates remained in their parents' basements. Eventually, rents started to rise, up 1% in Q4 2010, while apartment vacancy rates fell to 9.4% from 10.3% in Q3 2010, the second-fastest decline on record according to the U.S. Census Bureau.

As rents rise and consumers grow more confident, buying a home will look more attractive as a hedge against inflation.

California Update

California market conditions are recovering on average much better than the rest of the nation, with incomes much more aligned with current home prices, according to experts. Unlike the rest of the oversupplied nation, California housing inventory stands at only 5.0 months on hand, a seller's market by anyone's standards. The exception being properties priced above $2 million, where the housing inventory remains oversupplied compared to current sales rates.

That's why most buyers shouldn't wait. It would take an extraordinary influx of distressed homes or loss of more jobs in a given market for prices to go much lower, and with inventory levels at their scarcest in years, particularly in conforming loan ranges, it's unlikely prices will give much ground.

For home buyers, pricing pressure means greater affordability. Even while interest rates slowly climb, prices are unlikely to follow very quickly.

In December 2010, California housing sales volume and prices declined 6.9% and 1.6% respectively, resulting in a median home price of $302,900 compared to $306,860 in December 2009. But December sales were 5.9% higher than November's, suggesting that the post-stimulus slump may be over.

"While sales rose in December, the sales pace in the second half of the year was lower than the first half as the housing market weaned itself off home buyer tax credits," explained California Association of REALTORS® Vice President and Chief Economist Leslie Appleton-Young. "For 2010 as a whole, sales reached 494,900 homes sold, down 9.5% from the 546,860 homes sold in 2009. However, the statewide median price increased 10.2% to reach $302,900 for the year, up from the $275,000 recorded in 2009," she said.

This means that California home buyers have an opportunity to buy at a significant discount. While home prices haven't retested the lows of 2009, prices are still far off the highs of 2007.

The California Association of REALTORS' Traditional Housing Affordability Index, which measures the percentage of households that can afford to purchase a median-priced home in the state, says affordability improved greatly between Q4 2009 and Q4 2010.

More than 50% of qualifying households can buy a median-priced home in the state, up from 47% in Q4 2009. And 49% of households could afford the median-priced home in Southern California, up from 46% in Q4 2009.

Santa Barbara County – 36% in Q4 2010, up from 30% in Q3 2009

Ventura County – 41% in Q4 2010, up from 39% in Q4 2009

Los Angeles County – 39% in Q4 2010, up from 35% in Q4 2009

Orange County – 37% in Q4 2010, up from 33% in Q4 2009

San Diego County – 40% in Q4 2010, up from 38% in Q4 2009

The numbers get even better for entry-level home buyers. In Q4 2010, 68% of first-timers could afford to buy the median entry-level home, up from only 59% a year ago.

According to C.A.R.'s formula, first-time buyers typically purchase homes equal to 85% of an area's prevailing median price, which was approximately $256,220 in Q4 2010. To buy a home in California, first-timers needed a household annual income of $39,600, a 10% down payment, and an adjustable interest rate of 3.39%.

Of course, one reason why affordability was so good by year-end was that rates were a full point lower than they were the year before, resulting in monthly payments that were lower by as much as a couple of hundred dollars or more.

Since then, mortgage interest rates have risen above 5%, which is closer to where they were before the post-stimulus all-time low in October 2010.

What's more, with interest rates rising, any savings on lower prices would quickly be wiped out.

It took one year for the median home price to drop $4,000 in 2010. If you purchased a home in December, with a mortgage of $300,000, and your interest rate was 4.5%, your monthly payment would be $1,520. If you waited to buy until February, when interest rates crossed 5%, your payment would be $1,610, nearly $100 higher per month. That's $36,000 over the life of the loan.

There may never be a better time to buy a home in California.

Advice for buyers: Waiting for mortgage interest rates to go lower is counterproductive where home prices are stable. Instead, choose a home for long-term investment. Get prequalified for a fixed-rate loan by your lender. Buy wisely, and your home will sustain you through price fluctuations.

Advice for sellers: Distressed homes are being withheld from the market, creating a good opportunity to sell your home while there's less competition and supplies are relatively low – particularly in the conforming loan ranges. Price your home to sell against your competition. As long as your home is better-priced and in better condition than the competition, you'll find a buyer.

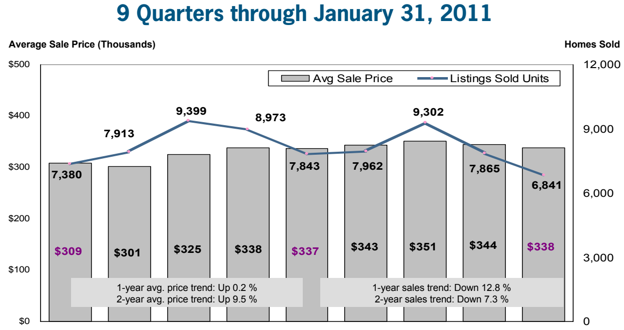
SAN DIEGO COUNTY

San Diego County boasts a blistering seller's market in homes under $1 million and a balanced market up to $2 million. In the more upscale price ranges, inventories quickly build, but other areas in Southern California are more oversupplied. Only when prices reach $7 million and above can the market be called stagnant.

**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.*

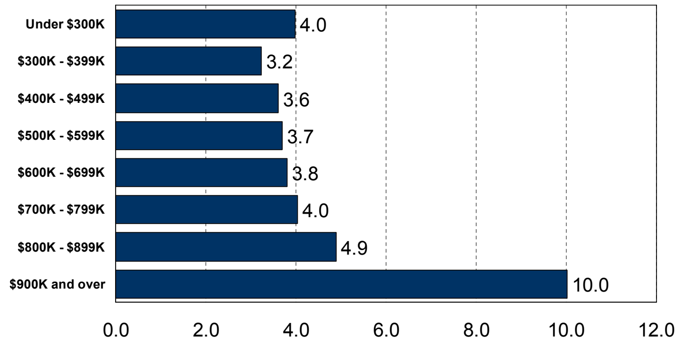
Detached homes stand alone and share no common walls with any other neighboring home. Attached homes share at least one common wall with another home. The type of home ownership is determined by whether it is a condominium, townhome, duplex, co-operative or other.

All Properties - Listings Sold by Calendar Quarter
9 Quarters through January 31, 2011



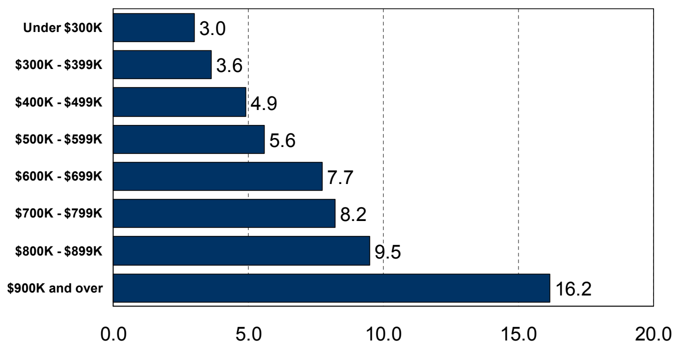
In homes priced under $1 million, prices remained flat while transaction volume drifted lower in the year ending January 31, 2011.

Detached Properties - Inventory in Months



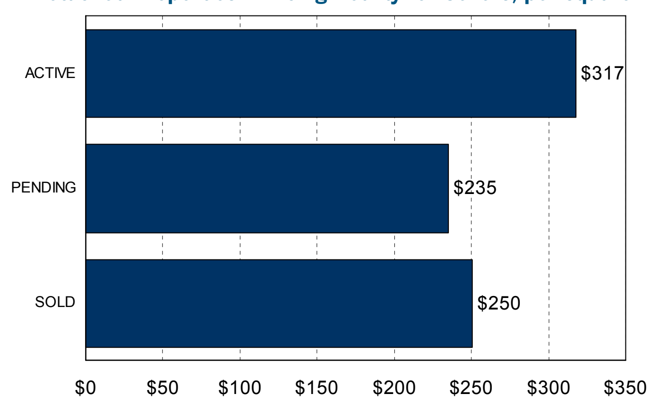
Detached homes are in short supply in nearly all price ranges. Only homes priced $900K and above are slightly oversupplied.

Attached Properties - Inventory in Months



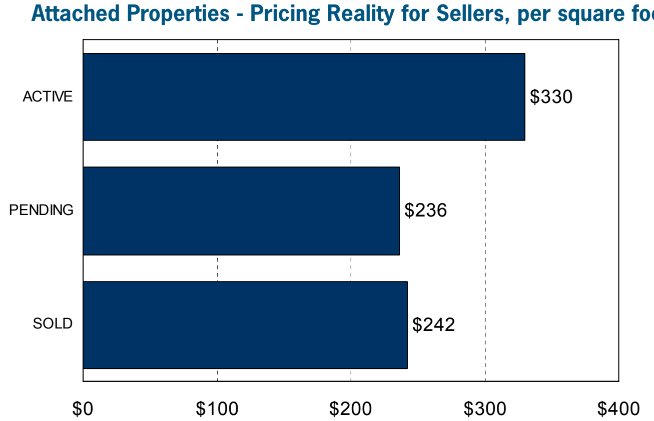
Attached homes are selling nearly as well as detached homes in the affordable price ranges, with the market turning to favor buyers at $600K and above.

Detached Properties - Pricing Reality for Sellers, per square foot



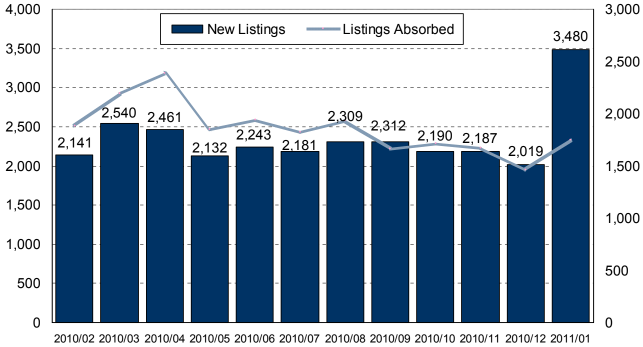
The gap between active listings' price per square foot and that of solds is fairly close, suggesting homes are selling about equally well at all price points.

Attached Properties - Pricing Reality for Sellers, per square foot



The gap is wider between attached home listings' price per square foot and that of solds, further illustrating the seller's market at the more affordable price points.

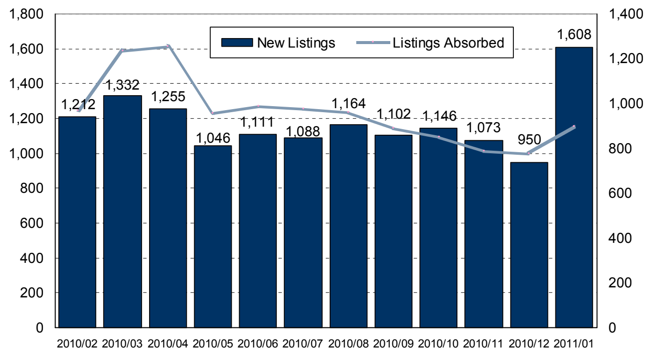
Detached Properties - Monthly Listings Taken and Absorbed
12 Months through January 2011



	2010/02	2010/03	2010/04	2010/05	2010/06	2010/07	2010/08	2010/09	2010/10	2010/11	2010/12	2011/01
New Listings	2141	2540	2461	2132	2243	2181	2309	2312	2190	2187	2019	3480
Listings Absorbed	1881	2191	2388	1848	1940	1823	1929	1667	1718	1671	1461	1746

Sellers saturated the market with new listings in January 2011, but absorption rates barely rose by comparison.

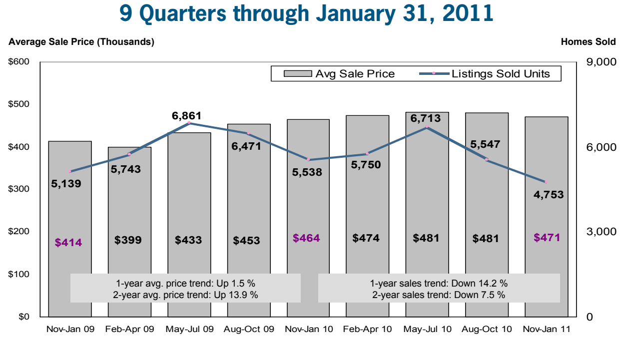
Attached Properties - Monthly Listings Taken and Absorbed
12 Months through January 2011



	2010/02	2010/03	2010/04	2010/05	2010/06	2010/07	2010/08	2010/09	2010/10	2010/11	2010/12	2011/01
New Listings	1212	1332	1255	1046	1111	1088	1164	1102	1146	1073	950	1608
Listings Absorbed	969	1235	1254	958	988	978	962	890	852	788	777	900

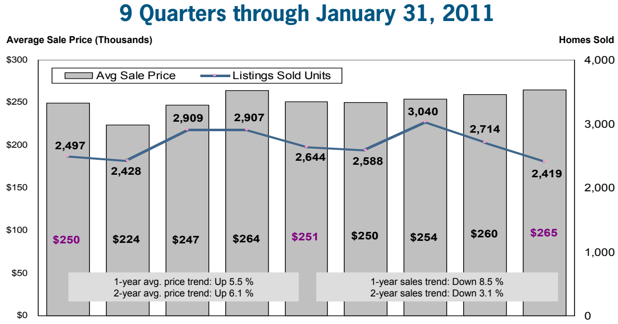
New attached home listings also increased, while absorption rates failed to keep pace.

Detached Properties - Listings Sold by Calendar Quarter
9 Quarters through January 31, 2011



Detached home prices rose modestly, while transaction volume drifted lower in the year between January 2010 and January 2011.

Attached Properties - Listings Sold by Calendar Quarter
9 Quarters through January 31, 2011



Against other trends, attached home prices rose an ambitious 5.5%, while transaction volume softened 8.5% in the year ending January 31, 2011.

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