

Housing Emerges as Most Attractive Asset Class

Since the real estate downturn began in July 2006, investors have been discouraged from putting their money into housing. But all bear markets end. Thanks to low prices, fewer homes in distress, rising rents and more, housing is starting to make a comeback as an asset class.

A recent article in Fortune/CNN Money published in March declared, “Forget stocks. Don’t bet on gold. After four years of plunging home prices, the most attractive asset class in America is housing.”

Explains journalist Shawn Tully, two factors are “laying the foundation for a dramatic recovery in residential real estate” – the historic drop in new construction and rolled-back home prices, certain to turn renters into home buyers.

But there are other reasons home buying is looking more attractive. Rents are rising, prices are dropping even further, the jobs situation is improving, and mortgage interest rates have nowhere to go but up.

Home buyers are already circling the waters. Home search traffic is up dramatically, say home search sites such as Trulia. Realtor.com agrees – their traffic is up 9.9% and 8.5% year-over-year in January and February 2011 respectively.

Here are a few reasons why housing is shaping up to be the best asset class of 2011.

Home prices rolled back to 2002

Prices have dropped 30% since 2006, and as much as 55% in certain markets, says Tully. According to NAR, sales of existing homes were down 2.8% in February 2011 over the previous year, while home prices fell to a national median of \$156,100, or 5.2% lower than a year ago. That puts median prices back where they were in 2002 – four years before the housing boom began its decline in July 2006.

Thwarted buyers increase demand

Conforming loan standards have become so conservatively strict that every housing organization from the Center for Responsible Lending to the National Association of REALTORS® is lobbying Congress for relief for home buyers. The squeeze has allowed all-cash buyers to step up and grab traditional and distressed homes from grateful sellers at huge discounts. All-cash sales hit a record 33% in February, up from 27% the previous year.

New construction at record lows

While foreclosures rose across the country, new homes with much higher price tags simply couldn’t compete. By February, new home sales sank 28% from the previous year to an all-time record low – a seasonally adjusted rate of only 250,000 homes, according to the Commerce Department. That’s one-fifth the production necessary to meet household formation demand and replace obsolete housing supply, says the National Association of Home Builders. Further, current housing starts are well below the levels of closings, says Tully, and certain to lead to higher prices.

Jobs are opening

While there’s debate about the quality of jobs returning to the marketplace, the unemployment rate fell to 8.8% in March 2011, down from 9.8% in November 2010, the highest rate since 1982, and the second highest since the Great Depression.

Job postings for hire have grown to such a degree that there are currently 4.4 unemployed job seekers for every opening. This is nearly a 20% improvement from January 2011, and a vast improvement over the ratio set in July 2009 – 6.9 jobless applicants for every opening.

Rents are rising

Rent prices have increased for the past five

quarters to a median \$991 per month, while vacancy levels have improved to mid-2008 levels, says Reis Inc., a real estate tracking firm. With concessions and giveaways coming to an end, analysts predict fewer vacancies and rising rents through 2013.

Distressed homes lower prices

Distressed homes, those in some stage of foreclosure, impact housing prices as much or more than any other factor. Bringing down neighboring values as much as 15% or more, distressed homes accounted for 39% of homes sold in February, says the NAR.

Opportunity for the portfolio investor

Nearly 1 million homes were bought as investment properties in 2010, according to the National Association of Realtors.

It’s about positioning. Investors know they can’t ride the coming swell in home prices unless they’re invested, and there’s no better time to go “all in” than now.

According to Pew Research Center’s Social and Demographic Trends report released in April 2011, four out of five adults believe “buying a home is the best long-term investment a person can make.”

California

California, along with Florida, Nevada, Arizona, and other speculation-driven markets, was hit the hardest during the downturn. Prices dropped as much as 70% in some areas before rebounding as much as 20%, and deep discounts due to high foreclosure numbers continue to deflate prices. About 56% of all homes sold in the state were distressed homes, says the California Association of REALTORS® (CAR).

Yet California foreclosure supplies are being depleted quickly. A new study by the NAR

suggests that California has one of the smallest foreclosure inventories in the nation, and that it will take only 11 months to clear out the state's "shadow inventory," or foreclosed homes not yet on the market, compared to a painful 49 months for the rest of the nation.

High-end homes in California are at about a 10- to 12-month supply, but affordable homes are down to about six months on hand, suggesting the worst of the downturn may be behind us.

In March, the CAR reported that sales in March 2011 rose 3.1% over February, and 1.5% over the previous year. The median home price increased 5.4% from February to \$286,010 but remains below the March 2010 median of \$300,900. Housing supply is better than normal at 5.3 months on hand.

"While March's median home price declined year-over-year, the decline can be attributed partly to an increase in distressed sales in recent months, and to last year's federal home buyer tax credit, which pushed both sales and home prices higher," said C.A.R. Vice President and Chief Economist Leslie

Appleton-Young. "As for market activity, the pace of sales for the first three months of this year is in line with our expectations for all of 2011."

As California tears through its foreclosure inventory, expect prices to rise. In other words, says Tully, beat the crowd.

Advice for Buyers: Check fundamentals for your favorite neighborhood such as supplies, days on market, rents vs. buying costs and historical prices with your real estate professional. You'll quickly get an idea of what a good buy housing is today. But remember – you're competing against all-cash buyers. Choose a home within your means and make your first offer your best offer, so both the seller and your bank will make the home of your dreams come true for you.

Advice for Sellers: Expect buyers to offer you less for your home than you may feel it's worth. Weigh the lower price against the costs of keeping the home and you may surprise yourself by saying yes, especially to an all-cash buyer. You can quickly convert paper losses to paper gains when you buy your next home.

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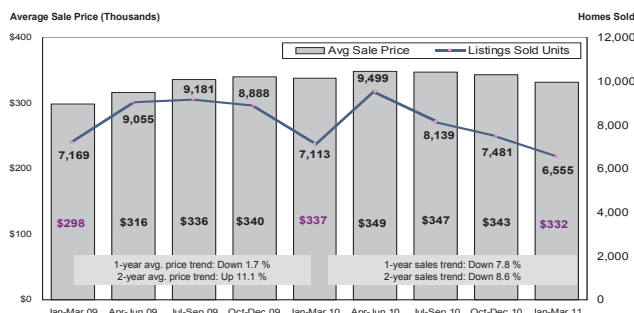
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SAN DIEGO COUNTY

Homes priced under \$1 million are selling nearly as fast as they can close in San Diego County. San Diego remains one of the healthiest markets in Southern California.

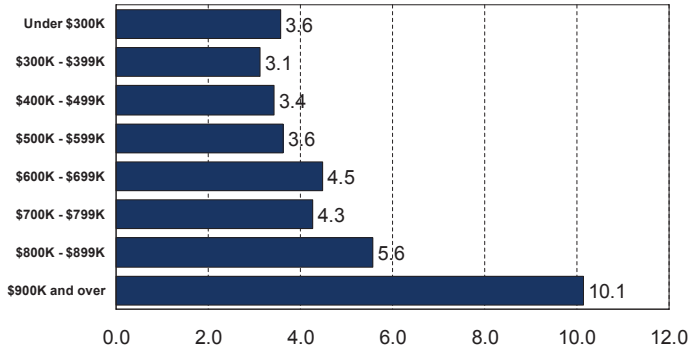
**A balanced market is widely accepted as having six months of inventory on hand with market conditions favorable to both buyers and sellers. A buyer's market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller's 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 March 31, 2011



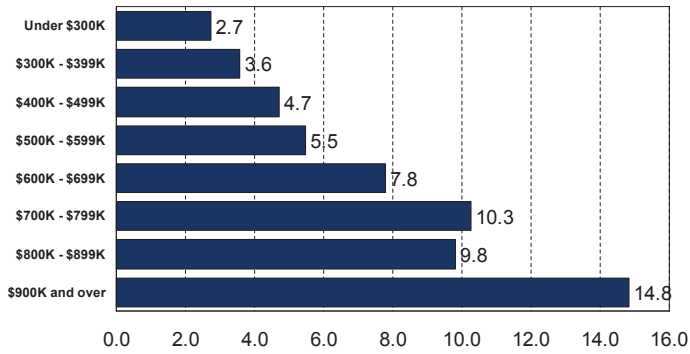
Following the expiration of the federal and state tax credits, both prices and sales volume eased, but not nearly as much as in many parts of the state.

Detached Properties - Inventory in Months



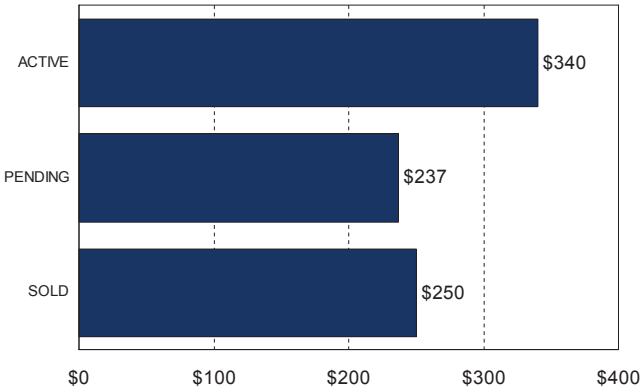
Detached homes are selling at a feverish pace under \$899K. Only homes priced outside of jumbo conforming ranges are in a mild buyer's market.

Attached Properties - Inventory in Months



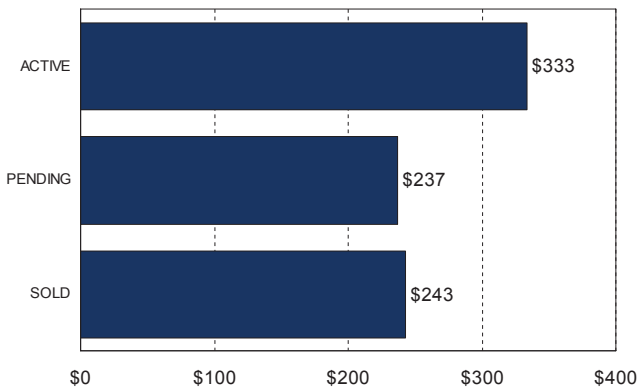
The attached home market is performing nearly as well as that of detached homes, but the normal and healthy market increasingly favors buyers in the higher price points.

Detached Properties - Pricing Reality for Sellers, per square foot



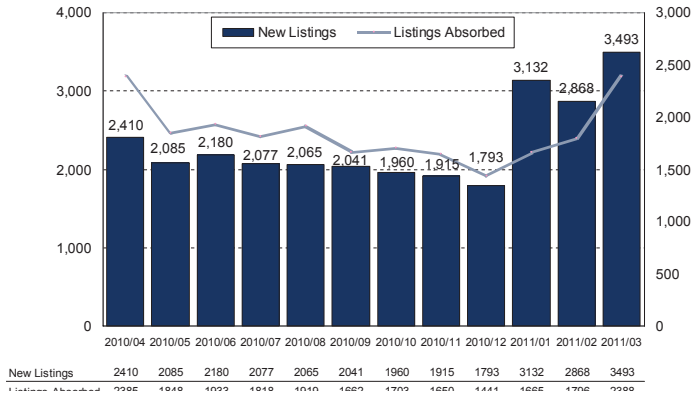
The gap between active detached home listings' price per square foot and that of solds underscores the brisk seller's market in the more affordable price ranges.

Attached Properties - Pricing Reality for Sellers, per square foot



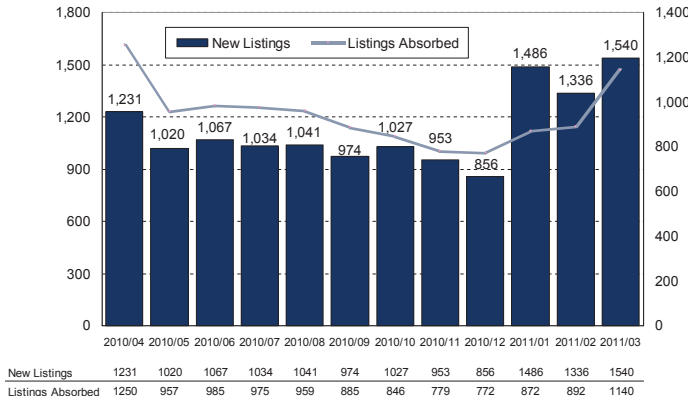
Attached home prices per square foot and those of solds also diverge quite a bit.

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



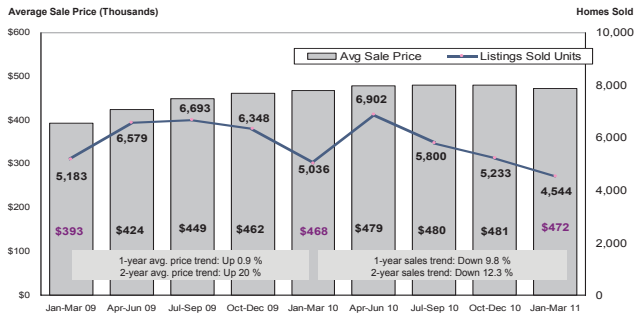
Absorption rates are rising nicely for detached homes, which is fortunate considering that sellers have doubled supplies since the start of the year.

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



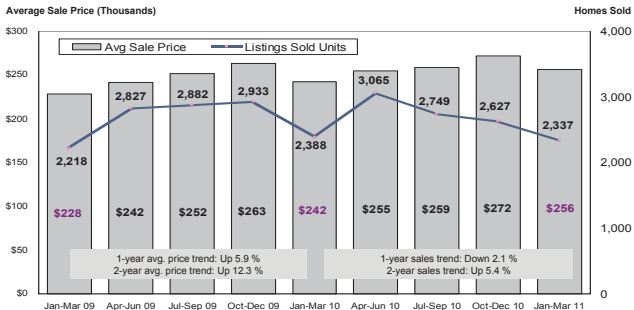
Greater supplies and absorption rates for attached homes reveal pent-up demand for both sellers and buyers.

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



Detached home prices held firmly in the post-stimulus economy, even while transaction volume fell nearly 10%.

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



Since the housing downturn, attached home prices have been more depressed than those of detached homes, which may explain the price gain of 5.9% between Q1 2010 and Q1 2011.

