

# The Real Estate Report

LOCAL MARKET TRENDS



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December/January 2006

Avi Urban  
650.305.1111  
avi@AviUrban1.com  
www.AviUrban1.com



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## Median Home Price Continues to Rise

The median price for single-family homes in Santa Clara County rose .1% in November to \$715,000, an annual appreciation of a little more than 19%.

Sales continue to fall as we approach the holiday season.

Home sales were off 5.8% from the month before and down 12.4% compared to last November.

Although the market continues to slow, affordability remains a problem. The California Association of Realtors

reports that only 18% of County residents can afford the median priced home, down from 23% a year ago.

The median price for condos fell 4.1% to \$465,000 in November. Sales fell 9%.

## Mortgage Rate Outlook

POMPTON PLAINS, NJ (Dec. 2, 2005) - Fixed rate mortgages managed a small slide of four basis points this week, with the 30-year FRM closing at an average 6.37%.

Home sales were mixed for the month of October. Existing home sales fell 2.7%, to a 7.09 million annualized rate, still a very healthy clip, while sales of new homes rocketed ahead by 13% to a new-record 1.424m annualized sales rate. While it's true at the moment that mortgages are somewhat more expensive

than they've been for most of the last three years, and prices are considerably higher, there's still enough demand (and mortgage liquidity) to keep home sales at very strong levels, even if records aren't likely to continue to fall.

The Fed's regional survey of economic activity, called the "beige book" for the color of its cover, noted that some residential real estate markets had begun to cool somewhat in the mid-October through mid-November period.

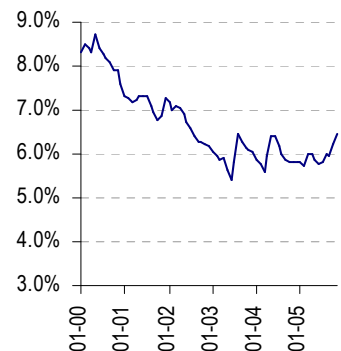
While mortgage rates have generally declined a bit in recent weeks, spreads between the 10-year Treasury and the average 30-year FRM have widened out to levels last seen back in '03. Even though those Treasury yields have risen this week, spreads contracted by 10bps, and that process muted the effect of the increase.

We're of the mind that this will continue next week, where mortgage rates ignore this week's higher yields to hold mostly steady.

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30-Year Fixed Mortgage Rates



## Fannie Mae & Freddie Mac Raise Loan Limits

More than 28,590 families in California will be able to benefit from Fannie Mae's and Freddie Mac's announcements that each will increase its single-family mortgage loan limit from \$359,650 to \$417,000 in 2006, according to an analysis by the California Association of REALTORS® (C.A.R.).

"While this is good news for many homebuyers, Fannie Mae's and Freddie Mac's new loan limits do not go far enough to benefit most homebuyers in California," said C.A.R. President Vince Malta.

"Conforming loan limits need to more accurately reflect the cost of housing in California, where the median price of a home is more than double that of the nation."

The current median home price in California is \$538,770, an increase of 17.2% compared to a year ago and more than 29% higher than the national conforming loan limit of \$417,000. In addition, California has 19 counties with a median-home price above the national conforming loan limit.

Based on its 2006 sales projection, C.A.R. expects that 304,700 sales in the state will fall into the price range implied by the higher loan limits, an increase of 72,070 homes over the 2005 loan limits. The \$57,350 increase in the single-family mortgage loan limit translates into an additional 28,590 households able to take advantage of savings provided by having a Fannie Mae or Freddie Mac qualifying mortgage.

Based on a typical 25 basis point spread between conform-

ing and jumbo mortgage loan rates, a typical California homebuyer will save up to \$24,710 over the life of a 30-year mortgage. In some areas of the state, the recent spread between a conforming and jumbo loan has been as much as 40 basis points. Households in these areas could save up to \$39,660 over the life of a 30-year mortgage.

Fannie Mae and Freddie Mac also announced new limits for multi-unit loans for 2006: two-family loans to \$533,850; three-family loans to

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Santa Clara County		Median Price			Sales Volume	
Community	Zip Code	Price	% Chg*	\$/SqFt	# Sold	% Chg*
All homes		\$660,000	16.8%	\$459	2,377	-13.9%
Total resale houses		\$720,000	20.0%	\$484	1,478	-14.9%
Total condominiums		\$465,000	14.7%	\$416	523	-19.4%
Total new homes		\$638,500	-0.7%		376	0.3%
Campbell	95008	\$629,000	7.2%	\$466	46	-41.0%
Cupertino	95014	\$923,000	10.2%	\$606	50	-18.0%
Gilroy	95020	\$640,000	9.8%	\$418	112	-0.9%
Los Altos	94022	\$1,475,000	5.4%	\$694	13	-50.0%
Los Altos	94024	\$1,596,500	14.0%	\$729	15	-31.8%
Los Gatos	95030	\$1,455,000	28.8%	\$655	29	123.1%
Los Gatos	95032	\$874,500	-1.9%	\$580	29	-31.0%
Los Gatos	95033	\$1,175,000	97.5%	n/a	12	0.0%
Milpitas	95035	\$644,000	20.4%	\$407	81	-23.6%
Morgan Hill	95037	\$820,000	34.0%	\$389	80	0.0%
Mountain View	94040	\$801,000	17.8%	\$492	30	-6.3%
Mountain View	94041	\$750,000	6.2%	\$506	9	-40.0%
Mountain View	94043	\$650,000	17.5%	\$515	47	9.3%
Palo Alto	94301	\$961,500	21.7%	n/a	4	-71.4%
Palo Alto	94306	\$862,500	3.3%	\$669	20	17.6%
San Jose	95110	\$475,000	21.0%	\$448	13	-23.5%
San Jose	95111	\$572,750	32.4%	\$425	91	-4.2%
San Jose	95112	\$572,500	20.7%	\$444	47	-20.3%
San Jose	95116	\$490,000	11.4%	\$401	61	-24.7%
San Jose	95117	\$630,500	1.9%	\$401	22	-8.3%
San Jose	95118	\$665,000	15.7%	\$486	49	6.5%
San Jose	95119	\$672,500	18.0%	\$440	12	-36.8%
San Jose	95120	\$1,035,000	20.6%	\$434	52	33.3%
San Jose	95121	\$635,000	19.6%	\$392	67	-17.3%
San Jose	95122	\$593,000	26.4%	\$461	74	-14.9%
San Jose	95123	\$625,000	25.0%	\$417	107	-9.3%
San Jose	95124	\$682,000	11.8%	\$491	57	-24.0%
San Jose	95125	\$779,000	24.6%	\$470	61	-28.2%
San Jose	95126	\$625,000	35.6%	\$432	26	-55.9%
San Jose	95127	\$601,000	19.8%	\$456	79	-18.6%
San Jose	95128	\$572,000	3.1%	\$544	33	-23.3%

# The Real Estate Report

## C.A.R.'s Housing Market Forecast for 2006

The rate of home price appreciation will moderate next year following four years of steep increases, while sales in 2006 will decline slightly from this year's record pace, according to the California Association of REALTORS® (C.A.R.) "2006 Housing Market Forecast".

The median home price in California will increase 10 percent to \$575,500 in 2006 compared with a projected median of \$523,150 this year, while sales for 2006 are projected to reach 630,610 units, falling 2 percent compared with 2005. The double-digit gain in the median price of a home, which California has experienced for most of the past five years, will again be fueled by the continu-

ing shortage of housing across much of the state, according to C.A.R. economists. California typically gains nearly 250,000 new households, yet only will build about 200,000 new housing units this year, creating a shortfall of about 50,000 units.

"We expect the fixed mortgage interest rate to rise to 6.4 percent next year, and the adjustable rate to hit 5.1 percent, which will make it more difficult for many families in California to be able to afford a home," said C.A.R. President Jim Hamilton. "While still near their historic lows, up-ticks in interest rates coupled with the continued increase in the median home price will push affordability in California to a new all-

time annual low of 15 percent next year."

"The economic fundamentals at both the state and national level continue to support a strong housing market in the Golden State for the foreseeable future," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young.

"However, we also expect that the wave of new loan products that have flooded the market over the past several years have injected a higher level of risk into the market, while affordability barriers to homeownership will continue to push residents inland and even out of state.

"Declining affordability will constrain sales in 2006 at a

greater rate than we've previously experienced, especially in markets where there are higher price points compared with the state as a whole," she said. "Not all areas of the state will continue to experience the unprecedented double-digit median price increases of the past five years. Some high-cost areas, especially those in the more costly coastal regions, face a potential leveling off of median price gains compared with the 10 percent gain we expect for the state as a whole."

Home sales for California in 2005 are expected to reach a record 643,480 units, surpassing the prior sales record of 624,740 set in 2004, according to C.A.R. economists.

		Median Price			Sales Volume	
San Jose	95129	\$769,500	25.7%	\$479	45	9.8%
San Jose	95130	\$785,000	24.6%	\$458	15	66.7%
San Jose	95131	\$682,500	24.1%	\$426	46	-31.3%
San Jose	95132	\$669,500	22.8%	\$410	64	3.2%
San Jose	95133	\$542,500	8.3%	\$411	50	28.2%
San Jose	95134	\$505,000	12.8%	n/a	5	-54.5%
San Jose	95135	\$780,000	23.2%	\$432	50	-3.8%
San Jose	95136	\$680,000	20.2%	\$417	62	-10.1%
San Jose	95138	\$925,000	14.2%	\$422	36	-47.8%
San Jose	95139	\$645,000	13.6%	\$353	13	-13.3%
San Jose	95148	\$710,500	14.6%	\$446	80	3.9%
San Martin	95046	\$1,190,000	41.7%	\$558	4	-33.3%
Santa Clara	95050	\$675,000	66.7%	\$478	34	-49.3%
Santa Clara	95051	\$689,000	21.2%	\$500	64	-25.6%
Santa Clara	95054	\$758,750	8.2%	\$463	31	-45.6%
Saratoga	95070	\$1,394,000	5.1%	\$624	27	-35.7%
Sunnyvale	94085	\$580,000	9.1%	\$509	35	75.0%
Sunnyvale	94086	\$714,000	37.6%	\$460	40	-38.5%
Sunnyvale	94087	\$802,500	8.4%	\$568	40	-32.2%
Sunnyvale	94089	\$640,000	3.6%	\$465	18	20.0%

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*avi@AviUrban1.com*

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## Investor's Corner

### HOUSE PRICE APPRECIATION SLOWS from record-setting pace, but remains strong. OFHEO House Price Index Shows 12 Percent Annual Increase.

WASHINGTON, D.C. – Average U.S. home prices increased 12.02 percent year over year from the third quarter of 2004 through the third quarter of 2005. This represents a two percentage point decline from the previous four-quarter appreciation rate of approximately 14 percent. Appreciation for the most recent quarter was 2.86 percent. "Appreciation rates in the third quarter were extremely strong, although some deceleration can be seen in a number of the faster-appreciating markets," said OFHEO Chief Economist Patrick Lawler. "Price momentum in the Pacific and New England states,

in particular, has pulled back." House prices grew more rapidly over the last year than did prices of non-housing goods and services reflected in the Consumer Price Index. House prices rose 12 percent, while prices of other goods and services rose only 4.5 percent.

Appreciation rates in the Pacific Census Division fell from last quarter, but remain higher than in other areas. At slightly less than 16.9 percent, the four-quarter appreciation rate in the

South Atlantic Division now trails appreciation in the Pacific by less than one-half a percentage point. Other significant findings in the HPI:

1. Price growth in Arizona continues to accelerate, with a one-year appreciation rate of 30 percent, the largest of any state

by a wide margin.

2. Florida became the second fastest-appreciating state, with four-quarter appreciation of 25 percent and 11 of the 20 highest ranked Metropolitan Statistical Areas (MSAs).

3. Nevada's four-quarter appreciation rate declined by more than 10 percentage points from the previous rate of 28.6 to 17.6 percent.

4. Two states that continue to show noticeable house price appreciation are Idaho and Utah. Idaho, with an appreciation rate of 15.1 percent on a four-quarter basis, is now ranked 12 among states, up from 20 in the previous HPI report. With annual price growth of 11.4 percent, Utah's ranking jumped to 22, compared with 31 in the previous HPI report and last place in the fourth quarter of 2003.

5. With a four-quarter appreciation rate of 34.4 percent, Phoenix-Mesa-Scottsdale, AZ topped the list of the fastest appreciating MSAs for the first time since OFHEO began publishing its index in the fourth quarter of 1995. Last quarter's top MSA, Naples-Marco Island, FL, dropped to number three. 6. For the first time since the fourth quarter of 2003, the list of the Top 20 MSAs having the highest appreciation does not contain any Nevada cities. Reno-Sparks, NV, the fourth ranked market last quarter is now 29 among the 265 ranked MSAs. Also, Las Vegas-Paradise, NV has fallen from 21 to 77, with four-quarter appreciation of 13.77 percent.

For full report go to:

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For a city-by-city breakdown, visit my website at: [www.AviUrban1.com/pages/framset-market.html](http://www.AviUrban1.com/pages/framset-market.html)  
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