

The Real Estate Report

LOCAL MARKET TRENDS



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November/December 2005

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Median Home Price Ticks Up

The median price for single-family homes in Santa Clara County rose 1.1% in October to \$741,000, an annual appreciation of 16.5%. This is \$19,000 short of the record high of \$760,000 set in June.

Sales continue to fall as we approach the holiday season. Home sales were off 11.1% from the month before and down 14% compared to last October. Inventory gained 0.9% and was up 32.6% over last year.

Days on market increased by five to 34, while days of inventory gained another nine days to 78.

The median price for condos rose 3.1% to \$495,000, equaling the record high set in August. Condo sales fell

Trends at a Glance (Single-family Homes)

| | Oct 05 | Sep 05 | Oct 04 |
|------------------------|-----------|-----------|-----------|
| Sale/List Price Ratio: | 100.1% | 100.7% | 100.1% |
| Days on Market: | 34 | 29 | 34 |
| Days of Inventory | 78 | 69 | 51 |
| Median Price: | \$741,000 | \$733,000 | \$649,000 |
| Average Price: | \$912,784 | \$876,703 | \$767,206 |
| Home Sales: | 1,190 | 1,339 | 1,383 |
| Inventory: | 3,088 | 3,060 | 2,329 |

7.4% while inventory rose 1.6%.

My advice: For buyers, with sales slowing and inventory rising, you can afford to be choosy and a bit more aggressive in your negotiating.

For sellers, do you really want to sell your home, or are you just testing the market? If you're just testing, please, take your home off the market. If you absolutely, positively have to sell, and you haven't had any offers recently, lower your price. Remember, offers will be few and far between this time of year so take each one seriously.

The real estate market is very hard to generalize. It is a market made up of many micro markets. For complete information on a particular neighborhood or for an evaluation of your home's worth, call me.



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Homeowners Would See Hefty Tax Hikes Under Reform

Proposals submitted to the Treasury Secretary by the President's Federal Tax Reform Panel on Nov. 1 are bad news for homeowners. Chief among the threats to homeownership is a proposal to replace the popular mortgage interest deduction with a much more limited 15% tax credit.

Typical home-owning families in three different parts of the country would all turn into losers with higher federal income tax liability under the 15% housing credit that the President's Advisory Panel on

Federal Tax Reform last week recommended as a replacement for the current deduction on mortgage interest.

An analysis by NAHB found that the proposed "simplified" income tax plan would actually represent tax hikes of 39.6% for a home-owning family of four in the Chicago metropolitan area, 19.4% for a similar family in San Jose, Calif. and 8.0% in Binghamton, N.Y.

Here is the run-down of the tax consequences of the reform measure for San Jose:

With an annual income of \$120,000, the San Jose family has a 6%, 30-year mortgage for \$400,000 on a home valued at about \$500,000 and is carrying a \$50,000 home equity line of credit which it is repaying at 7% over 15 years. Its \$27,304 deduction for mortgage interest on those loans reduces its taxes by \$6,826. Their 15% housing credit is based would yield only \$3,580 in tax savings. Their tax savings from mortgage interest would decline by \$3,246.

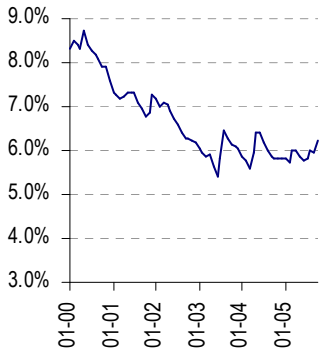
The family loses its current property tax deduction of \$2,830, which cuts its taxes by \$707, and its \$4,872 deduction for state and local income tax, which is worth an additional \$1,218. In exchange, they receive a \$6,300 family credit.

The bottom line: their tax liability is \$9,510 today and would rise to \$11,352 under the proposed reforms.

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Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



POMPTON PLAINS, NJ (Nov. 4, 2005) - Mortgage rates scampered higher this week, with the average 30-year fixed rate mortgage (FRM) climbing by 12 basis points (.12%) to 6.41%. Five-one Hybrid ARMs finished the survey week at 5.98%. While the fixed rate figure was comparable with rates seen in June 2004, 5/1 product are at their highest value in some three and a half years.

Although mortgage rates are still reasonable by historic standards, borrowers seeking lower-cost options are finding that choices for payment relief are narrowing. Rates are tightly

bunched all along the "mortgage yield curve," and lately, the Fed's campaign of engineering a rising short-term tide is lifting all interest rate boats at the moment. Earlier this year, with inflation seemingly still at bay, only short-term rates were rising. This seems to no longer be the case.

It seems to us that with no signs of widespread or significant slowing in the economy yet evident, and at least some continuing signs that inflation remains a potential problem, the pressure remains upward for rates across the board. We're still several weeks away from the start of

the holiday season, but it seems likely that we'll see rates rise a bit more yet; by then the distractions of the season may serve to keep us there a while. At the moment, early year forecasts of "6.5% mortgage rates by year end" seem more likely to come true than not. That ten-year Treasury yields ended the week on a high note leave us to expect at least a few more basis point of increase next week. Three-one ARMs, found in the mid-to-upper threes about 18 months ago, could feature a 6% initial rate before long.

October Sales Statistics

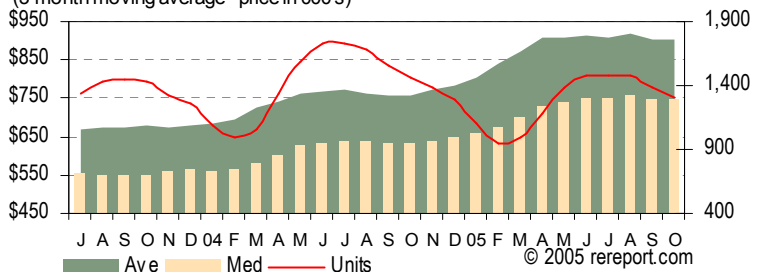
Single-family Homes

| County | Prices | | Unit Sales | Listings | | DOM | SP/LP | Compared to Last Year | | | | Compared to Last Month | | | |
|-----------------|-------------|-------------|------------|----------|-------|-----|--------|-----------------------|-------|--------|--------|------------------------|--------|--------|--------|
| | Median | Average | | New | Total | | | Med. | Ave. | Sales | Listed | Med. | Ave. | Sales | Listed |
| County | \$741,000 | \$912,784 | 1,190 | 2108 | 3,088 | 34 | 100.1% | 16.5% | 19.0% | -14.0% | 32.6% | 1.1% | 4.1% | -11.1% | 0.9% |
| Campbell | \$725,000 | \$807,094 | 26 | 43 | 54 | 23 | 100.4% | 5.7% | 12.9% | -18.8% | -30.8% | -9.4% | -5.0% | 36.8% | 0.0% |
| Cupertino | \$1,099,000 | \$1,190,699 | 31 | 66 | 92 | 31 | 98.7% | 26.2% | 31.7% | -51.6% | 61.4% | 3.5% | -0.5% | -24.4% | -1.1% |
| Gilroy | \$725,000 | \$796,211 | 41 | 122 | 212 | 29 | 100.1% | 24.6% | 20.4% | -31.7% | 75.2% | 1.7% | -2.8% | -46.8% | 21.1% |
| Los Altos | \$1,625,000 | \$1,794,699 | 37 | 52 | 73 | 38 | 100.3% | 13.2% | 18.4% | 42.3% | 23.7% | 8.7% | 8.6% | 15.6% | 9.0% |
| Los Altos Hills | \$2,550,000 | \$3,798,250 | 10 | 15 | 69 | 127 | 96.3% | 30.1% | 85.3% | 0.0% | -5.5% | 6.3% | 51.6% | 11.1% | -8.0% |
| Los Gatos | \$1,060,000 | \$1,259,789 | 32 | 55 | 116 | 38 | 96.7% | 4.4% | 5.1% | -31.9% | -21.1% | -15.2% | -5.3% | 6.7% | -7.9% |
| Milpitas | \$675,000 | \$740,655 | 37 | 57 | 71 | 28 | 101.7% | 17.2% | 18.8% | -32.7% | 24.6% | -3.6% | 3.0% | -37.3% | 0.0% |
| Monte Sereno | \$1,944,000 | \$2,117,429 | 7 | 11 | 21 | 48 | 94.4% | 111.3% | 66.1% | 250.0% | -25.0% | ##### | ##### | ##### | -25.0% |
| Morgan Hill | \$827,500 | \$890,311 | 37 | 78 | 169 | 43 | 97.8% | 17.4% | 20.0% | -43.9% | 36.3% | 2.9% | 1.8% | -24.5% | 2.4% |
| Mountain View | \$861,000 | \$939,162 | 37 | 55 | 46 | 15 | 104.4% | 12.5% | 15.1% | 5.7% | 53.3% | 1.3% | 8.2% | 32.1% | 58.6% |
| Palo Alto | \$1,185,000 | \$1,462,059 | 41 | 61 | 85 | 28 | 102.4% | -21.0% | -8.9% | -2.4% | 73.5% | -23.3% | -17.9% | -4.7% | 6.3% |
| San Jose | \$695,000 | \$764,686 | 678 | 1184 | 1,651 | 33 | 100.7% | 18.2% | 19.8% | -12.1% | 47.8% | 0.9% | 2.8% | -11.6% | -0.4% |
| Santa Clara | \$700,000 | \$711,295 | 58 | 101 | 111 | 26 | 101.5% | 12.0% | 12.3% | 1.8% | 0.0% | 0.0% | -0.3% | -10.8% | 19.4% |
| Saratoga | \$1,464,700 | \$1,770,652 | 29 | 79 | 130 | 84 | 94.9% | 15.9% | 16.3% | -9.4% | -2.3% | -2.4% | 8.0% | -21.6% | -7.8% |
| Sunnyvale | \$750,000 | \$771,941 | 80 | 96 | 107 | 32 | 101.8% | 14.5% | 13.4% | 14.3% | 30.5% | -3.2% | -3.7% | 6.7% | -10.8% |

means there were no sales either this month or a year ago or last month so the percentages don't compute.

Silicon Valley Homes: Prices & Sales

(3-month moving average - price in 000's)



The Real Estate Report

Prepare Now to Sell Early

Spring may still be five months away, but if you plan on selling early next year, now's the time to start getting your house ready for the market.

Although home sales typically soar during the spring and summer months, many people do buy during the winter months.

While the thought of an increased pool of buyers in the spring may put you at ease, don't forget, there will be more competition.

One of the first things you should do is examine, and, if needed, repair, any major structural systems. If you're unaware of any, you may want to hire a professional home inspector. A potential buyer will hire an inspector to examine the house,

so you might as well save yourself any surprises down the road.

Next, turn to appearance.

Two of the most effective but most inexpensive ways to improve the look of your home are to shampoo your carpets and to repaint any walls that are dirty or dingy. Remember - keep the colors neutral.

Next you'll want to get rid of all your extra clutter - start with the garage, closets, and bedrooms. Have a garage sale to get rid of all the extra stuff. If you have anything left over, donate it to charity.

If you have a lot of furnishings, think about putting some of them in storage. When a potential buyer looks at your house,

there should be enough open space for them to visualize their things in the room. They shouldn't have to visually plod through all of your belongings.

Another thing to work on is creating good curb appeal. A home shopper's first impression is everything. The moment they pull up to the curb, they'll make an instant judgment. You'll want to be sure it's positive. You can begin by making sure your front landscape is kept up, the lawn is mowed on schedule, and bushes and trees are pruned.

Another thing you should start thinking about is setting your price competitively. A competitive market analysis of your house will give you an estimate of the fair market value of your

home, which is a range that will fluctuate depending on the housing market in your area and how much similar homes in your neighborhood are selling for.

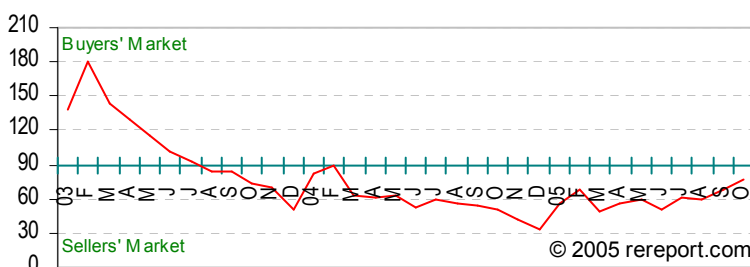
This will help you give you an idea of how much you should ask for your house.

Like other major undertakings, the real key to selling your house is preparation. Some sellers don't have this luxury - they may have a job relocation or other circumstances that force them to sell quickly. If you plan on moving in the spring or summer, use the coming months to your full advantage to ultimately garner top dollar for your house.

October Sales Statistics Condos/Townhomes

| | Prices | | Unit Sales | Listings | | | | Compared to Last Year | | | | Compared to Last Month | | | |
|---------------|-----------|-----------|------------|----------|-------|-----|--------|-----------------------|-------|--------|--------|------------------------|--------|--------|--------|
| | Median | Average | | New | Total | DOM | SP/LP | Med. | Ave. | Sales | Listed | Med. | Ave. | Sales | Listed |
| County | \$495,000 | \$515,890 | 514 | 833 | 1,093 | 24 | 101.3% | 23.8% | 22.2% | -8.9% | 63.1% | 3.1% | 1.0% | -7.4% | 1.6% |
| Campbell | \$591,000 | \$593,093 | 21 | 29 | 46 | 21 | 101.4% | 34.3% | 40.1% | -4.5% | 206.7% | 6.3% | 8.9% | 16.7% | -4.2% |
| Cupertino | \$625,000 | \$678,356 | 12 | 17 | 29 | 25 | 99.8% | -0.8% | 7.3% | -14.3% | 222.2% | 0.6% | -1.0% | 0.0% | 11.5% |
| Gilroy | \$350,000 | \$384,500 | 6 | 4 | 8 | 24 | 101.0% | 0.0% | 7.9% | 20.0% | 60.0% | -13.8% | -10.4% | 50.0% | -38.5% |
| Los Altos | \$749,000 | \$712,800 | 5 | 6 | 12 | 19 | 100.9% | 59.7% | 11.0% | 25.0% | 33.3% | -0.5% | -9.0% | -16.7% | 50.0% |
| Los Gatos | \$635,000 | \$612,017 | 12 | 27 | 30 | 31 | 99.9% | 11.8% | 3.6% | -29.4% | -16.7% | 1.6% | -3.7% | -14.3% | 36.4% |
| Milpitas | \$502,000 | \$514,635 | 26 | 26 | 36 | 24 | 99.4% | 11.9% | 14.2% | 18.2% | 28.6% | 9.8% | 4.4% | 36.8% | 12.5% |
| Morgan Hill | \$425,000 | \$441,238 | 4 | 18 | 20 | 37 | 101.2% | 6.0% | 7.5% | -69.2% | 53.8% | -8.6% | -12.2% | -42.9% | 66.7% |
| Mountain View | \$541,000 | \$581,475 | 42 | 55 | 63 | 19 | 103.3% | 8.2% | 19.7% | 10.5% | 53.7% | -8.0% | 0.7% | 2.4% | -1.6% |
| Palo Alto | \$609,000 | \$670,353 | 17 | 15 | 19 | 37 | 101.0% | 27.9% | 22.4% | 41.7% | -5.0% | -2.6% | 1.1% | 54.5% | -24.0% |
| San Jose | \$453,100 | \$479,190 | 295 | 502 | 662 | 24 | 101.2% | 25.2% | 23.9% | -13.7% | 74.2% | 3.0% | 1.6% | -11.4% | 1.2% |
| Santa Clara | \$470,000 | \$474,275 | 32 | 69 | 90 | 25 | 101.8% | 18.4% | 14.1% | -31.9% | 60.7% | 4.9% | 3.4% | -28.9% | -8.2% |
| Saratoga | \$550,000 | \$678,980 | 5 | 8 | 13 | 46 | 96.9% | 0.0% | 19.3% | -16.7% | -40.9% | -26.7% | -9.6% | -61.5% | 8.3% |
| Sunnyvale | \$546,000 | \$552,992 | 37 | 57 | 65 | 23 | 101.7% | 18.7% | 21.8% | 68.2% | 71.1% | -5.0% | -5.2% | 15.6% | 4.8% |

Days of Inventory



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Within a year of close of escrow, either you are absolutely happy with your new home or I'll sell it for FREE. You'll be responsible for other normal closing costs, and buyer's agent commission.

Seller Guarantee

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R E A L T Y

When rates rise, must home prices fall?

Mortgage rates fell for three years, and home prices skyrocketed in many parts of the country. For the past year rates have been fluctuating and prices continued to skyrocket. With the expectation that rates will rise over the next few years, people wonder if home prices will fall.

Don't bet on it.

When it comes to mortgage rates and home prices, there are two schools of thought.

One theory is that demographic and political trends have more impact than interest rates, and that home prices won't fall -- at least, not nationwide -- but the pace of price appreciation will slow as rates increase.

The other theory places more emphasis on human nature than on demographics and politics. It says that people know how much they can afford to spend every month on housing, so when mort-

gage rates rise, people buy less-expensive houses to accommodate higher interest payments. When large numbers of people do this, they drive down prices.

The theory that rates and prices are related makes intuitive sense, and Jack Harris buys it. Harris, research economist for Texas A&M University's Real Estate Center, notes that, at least in Texas, every time rates dipped in the past two years, prices went up.

It makes sense that the opposite will happen, because as rates rise, "demand is going to fall off. The higher rates are probably going to knock some people out of the market."

The way Harris sees it, a lot of home buyers have been stretching their budgets as far as they could so they could buy houses at extremely low interest rates. If rates rise 1 or 2 percentage points,

those prospective buyers will either have to continue to rent (or live with their parents) or adjust their sights downward, buying cheaper homes than they would have been able to afford when mortgage rates were lower.

Harris expects to see a lot of people adjusting their sights downward when rates hit about 6.75 or 7 percent, and for overall housing demand to fall when rates are about a percentage point higher than that.

Most economists in the housing industry agree that the torrid pace of home-price appreciation will slow, but they don't foresee widespread price decreases. They point to demographic factors: the United States is in the midst of a huge immigration boom (of the 32.5 million foreign-born U.S. residents, almost half arrived since 1990), and the offspring of the Baby Boomers

are moving out and forming families.

Immigration and the Baby Boom echo create a lot of demand for housing at a time when political factors -- such as environmental concerns and "smart growth" initiatives -- make it harder to build new housing developments, says Doug Duncan, chief economist for the Mortgage Bankers Association.

"It's our belief that demand is going to increase at a faster rate than supply, thereby increasing home prices," Duncan says.

He notes that "there has never been a full year in the history of the modern U.S. economy when home prices have fallen across the entire U.S. economy."

That leaves Duncan a lot of wiggle room if the housing markets of entire states or regions go kaput for a while.

For a city-by-city breakdown, visit my website at: www.AviUrban1.com/pages/framset-market.html
To receive the report regularly, send me an email to avi@AviUrban1.com