

The Real Estate Report

LOCAL MARKET TRENDS



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High End of Market Continues to Be Very Active

The high end of the market continues to drive prices up in Santa Clara County.

The median price for single-family homes set another new record in May of \$800,000, up 3.2% from the month before, and a year-over-year gain of 6.8%. That's the fourth month in a row annual appreciation has been in single-digits.

Home sales were up 3% over April, a decline of 22.6% compared to May 2005.

Inventory grew by 9.6% and is now 25.3% higher than last year.

The median price for condos was flat at \$500,000, while sales fell 1.2%.

The sales price to list price ratio for single-family homes rose

0.1 of a point to 100.2% and the ratio for condos stayed even at 100.5%. There are still many multiple offers, mostly on well-priced homes that are in tip-top condition.

Trends at a Glance

(Single-family Homes)

	May 06	Apr 06	May 05
Sale/List Price Ratio:	100.2%	100.1%	102.8%
Days on Market:	37	36	22
Days of Inventory	97	91	60
Median Price:	\$800,000	\$775,000	\$760,000
Average Price:	\$965,495	\$950,308	\$890,397
Home Sales:	1,098	1,066	1,419
Inventory:	3,542	3,231	2,827

Days on market rose one day to 37.

Our days of inventory indicator rose six to 97 days.

My advice? This is not an easy market for buyers. The best homes are attracting multiple offers and selling for more than list price. If you want one of

these homes, be prepared to pay the price. Many homes are languishing on the market because they are either over-priced, in less than perfect condition, or in less desirable areas. These are the homes to make offers on.

For sellers, it pays to put your home in tip-top condition. Buyers are paying a premium for these homes, especially in the best school districts.

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.

The Importance of Home Inspections

Many people are confused about the purpose of a home inspection. People often view an inspection report as a mandatory repair list for the seller.

The fact is, sellers are not required to produce a flawless house. They have no such obligations by law or by contract.

With a home inspection, most repairs are subject to negotiation.

Typically, buyers request various conditions be repaired before escrow closes, and sellers will usually acquiesce to some of these demands.

But with most building defects, sellers make repairs as a matter of choice, not obligation: to foster

good will or to facilitate closing the deal.

Sellers maintain the right to refuse repair demands, except where requirements are set forth by state law, local ordinance, or the real estate purchase contract.

Legal obligations include things like smoke detectors. Contracts usually stipulate that fixtures be in working condition at the close of escrow, that windows not be broken, and that there be no existing leaks in the roof or plumbing.

Before making demands on the seller, evaluate the inspection report for the big problems. Look for conditions that compromise health or safety or involve actual leakage. Most sellers will fix

problems affecting sensitive areas such as the roof, fireplace, gas fixtures or electrical wiring.

If the house is not brand new, it is unreasonable to insist upon correction of all defects. You risk alienating the seller and blowing the sale.

The purpose of a home inspection is to know what you are buying before you buy it. If you can't renegotiate the contract to your satisfaction, you can disapprove the home inspection and cancel the sale without penalty.

As always, having a knowledgeable, local agent representing you is the best security.

P.S. Always, always have a property inspected before you

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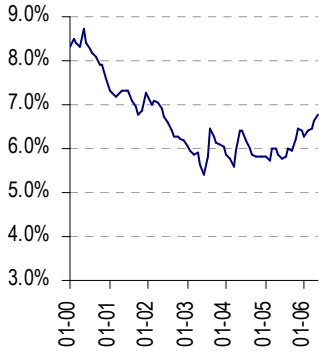
Take Away the Veil of Uncertainty about Real Estate Investing and Secure Your Financial Future Register to the **June 27th Seminar on line or call me** 650.305.1111

buy it. This includes new homes. A new home has many parts and is built by different groups of people. It will take a year to shake-down a new home. Having the property inspected before you close will put the builder on notice and also give you the leverage to have the necessary repairs made. After you close escrow, you've lost your leverage.

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Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



POMPTON PLAINS, NJ (June 2, 2006) - Fixed mortgage interest rates edged a little higher this week, rising by three basis points (.03%) to land at 6.77%. Five-one Hybrid ARMs closed the survey week at 6.34%, unchanged from the prior week. HSH statistics revealed that this week, the average rate for a three-one hybrid was an identical 6.34%. Essentially, a borrower interested in a shorter-term loan could have a longer fixed period at no additional charge.

While there was no new recent information covering inflation available this week, revisions to

old news served to brighten that picture a bit. Worker productivity for the first quarter was revised upward to 3.7% (from 3.2%) and the cost of labor per unit produced plunged from 2.5% to 1.6%.

Fixed mortgage rates seem to have found a plateau over the past few weeks (a trend, rather than a blip). Since the beginning of May, the average 30-year FRM has wandered in a range of just five basis points. If the latest employment report is the basis for a top for fixed interest rates, our expectation of another Fed move later this month increases the chances of gently

lower rates for much of the summer, especially if the Fed pauses in August. Simply, slower growth and additional Fed-added economic drag may be enough to press inflation back toward comfort levels, and that in turn should help long-term rates to ease somewhat, and we may even see a more pronounced inversion in the yield curve before then. Still, we need to wait for data, and if inflation fails to show signs of easing even in the face of cooler growth, the Fed will continue to raise rates.

May Sales Statistics

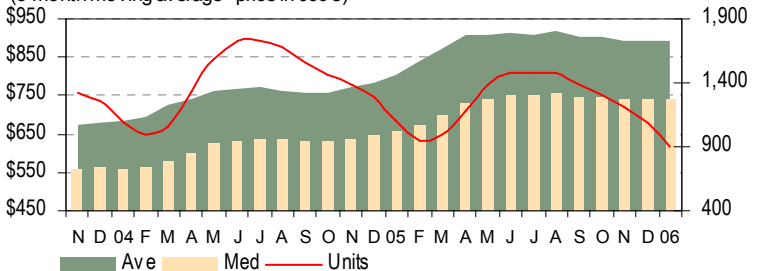
Single-family Homes

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	\$800,000	\$965,495	1,098	2471	3,542	37	100.2%	6.8%	8.4%	-22.6%	25.3%	3.2%	1.6%	3.0%	9.6%
Campbell	\$800,000	\$834,761	29	47	67	30	100.7%	11.1%	10.0%	7.4%	28.8%	3.2%	-1.6%	20.8%	-1.5%
Cupertino	\$1,250,000	\$1,222,644	42	88	91	20	101.1%	19.0%	7.2%	-14.3%	-3.2%	22.7%	12.1%	27.3%	16.7%
Gilroy	\$750,000	\$806,745	44	144	276	65	98.8%	6.4%	3.8%	-32.3%	85.2%	8.7%	4.1%	-24.1%	7.0%
Los Altos	\$1,555,000	\$1,850,326	23	58	86	41	98.9%	-4.3%	6.2%	-45.2%	-2.3%	-0.3%	10.9%	-20.7%	11.7%
Los Altos Hills	\$2,450,000	\$2,598,214	7	31	76	97	95.5%	-2.0%	-4.5%	-30.0%	22.6%	0.0%	-19.7%	-36.4%	1.3%
Los Gatos	\$1,350,000	\$1,571,632	34	77	128	63	98.1%	28.0%	29.6%	-5.6%	-12.9%	9.8%	8.8%	30.8%	5.8%
Milpitas	\$745,000	\$790,500	35	89	109	27	100.4%	14.6%	11.3%	-36.4%	58.0%	6.4%	9.7%	9.4%	17.2%
Monte Sereno	*	*	*	13	25	*	#####	#####	#####	#####	13.6%	#####	#####	#####	4.2%
Morgan Hill	\$930,000	\$974,462	29	112	222	58	98.4%	29.2%	19.8%	-39.6%	53.1%	14.8%	5.1%	-31.0%	17.5%
Mountain View	\$870,000	\$956,635	35	45	51	31	102.0%	-0.1%	0.0%	-23.9%	37.8%	-4.2%	-2.2%	52.2%	-1.9%
Palo Alto	\$1,300,000	\$1,446,699	65	78	83	21	104.0%	-7.5%	-7.5%	75.7%	1.2%	-8.8%	-7.9%	30.0%	-14.4%
San Jose	\$730,000	\$816,887	584	1313	1,823	37	99.9%	6.6%	7.1%	-24.3%	28.3%	3.5%	4.0%	1.0%	10.8%
Santa Clara	\$720,000	\$749,079	61	112	124	24	100.8%	4.0%	5.0%	-24.7%	15.9%	-0.1%	0.1%	27.1%	17.0%
Saratoga	\$1,545,000	\$1,628,430	36	107	165	53	100.3%	-0.3%	-5.3%	2.9%	3.1%	-2.2%	-3.7%	2.9%	18.7%
Sunnyvale	\$875,000	\$892,879	59	123	117	20	102.0%	5.8%	6.9%	-42.2%	-12.0%	0.0%	1.0%	18.0%	10.4%

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

What to Know When Buying a Home

Buying a home is one of the most complicated transactions you will ever do. So many people and companies are involved that it is easy for mistakes to be made. Freddie Mac offers a number of tips:

- Get pre-approved for a loan. With competition fierce, you'll want to be ready to make an offer. With a pre-approved loan, you'll have more clout as the seller considers your offer.
- Make sure it's in writing. Don't settle for verbal agreements. If the seller says he'll replace the carpet or leave his washer and dryer, get it in writing.
- Get a good-faith estimate. Your mortgage lender is required to provide you with a good-faith estimate of closing costs within three

days of receiving your application. They need to provide it in writing. If you don't have to pay loan application fees, you may want to compare lenders and compare closing costs.

- Don't settle for the first lender you come across. Contact at least three lenders and compare rates.
- Lock-in your rate. One of the most stressful parts of the loan process is watching rates inch up and down each day and trying to figure out when to lock in your rate. Once you do lock in, be sure to get a written statement that outlines your interest rate and length of the lock.
- Get a home inspection. A professional home inspector will examine the house's major systems and let you know if there are any problems or

defects. You can then use the information in your negotiations. Look for an inspector who is a member of the American Society of Home Inspectors. Members are required to have completed at least 250 paid professional home inspections and passed two written exams that test the inspector's knowledge. Also, ask for references.

- Shop for homeowners' insurance as soon as your offer is accepted. The National Association of Realtors recently cautioned homebuyers to not take homeowners insurance for granted. You and your spouse may have a clean claims history and a stellar credit history - something insurance companies use to determine whether they will insure you - but it's not just you they're

looking at. If the house you're eyeing has had claims, there's a chance they won't insure you, especially if it's a water-related claim.

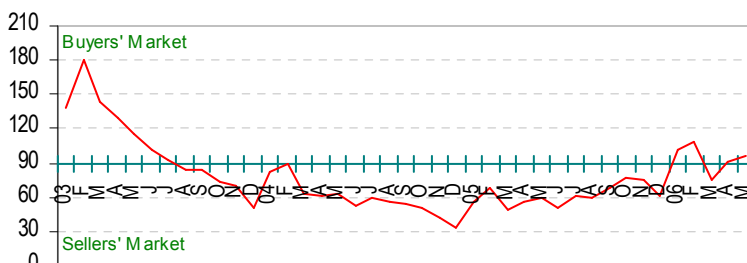
- Read everything. When you have the closing meeting to sign the mountain of papers, make sure you read through everything carefully and don't hesitate to ask questions if there is anything you don't understand.

Finally, give yourself enough time between your closing and your move date, just in case there are delays in the closing process.

May 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	\$500,000	\$530,803	460	857	1,187	33	100.5%	2.0%	5.1%	-25.2%	59.8%	0.0%	-0.3%	-1.9%	12.7%
Campbell	\$495,000	\$561,903	16	28	39	23	100.6%	-6.6%	2.8%	-42.9%	44.4%	-12.4%	-4.5%	14.3%	-2.5%
Cupertino	\$729,000	\$720,981	17	30	27	21	100.3%	23.1%	14.0%	-10.5%	58.8%	18.5%	4.9%	70.0%	17.4%
Gilroy	\$475,000	\$462,500	8	7	15	47	100.0%	48.4%	27.5%	100.0%	200.0%	26.7%	5.4%	100.0%	-6.3%
Los Altos	\$820,000	\$829,800	5	6	6	25	100.8%	-1.2%	2.1%	-16.7%	-14.3%	37.1%	9.8%	-16.7%	-45.5%
Los Gatos	\$620,000	\$588,714	7	20	25	69	99.1%	-9.5%	-14.9%	-46.2%	8.7%	-0.8%	-14.3%	-50.0%	4.2%
Milpitas	\$514,000	\$532,952	14	36	45	25	101.4%	-12.9%	-1.5%	-48.1%	50.0%	7.8%	2.3%	-36.4%	32.4%
Morgan Hill	\$479,000	\$476,563	8	19	33	19	99.2%	-1.2%	-1.8%	-42.9%	65.0%	-8.8%	-9.9%	14.3%	3.1%
Mountain View	\$530,000	\$549,784	39	60	71	24	100.8%	1.9%	2.0%	-27.8%	44.9%	-11.5%	-6.0%	0.0%	10.9%
Palo Alto	\$825,000	\$821,500	13	21	31	25	100.8%	22.2%	20.8%	-13.3%	47.6%	10.2%	6.4%	-18.8%	-6.1%
San Jose	\$470,000	\$492,659	271	512	751	35	100.5%	6.8%	7.3%	-16.4%	73.8%	-1.1%	0.0%	3.8%	15.5%
Santa Clara	\$478,000	\$511,267	26	56	78	28	101.1%	2.8%	5.3%	-55.9%	25.8%	5.1%	5.6%	-33.3%	11.4%
Saratoga	\$645,000	\$676,707	5	10	14	14	102.0%	-0.8%	-1.4%	0.0%	7.7%	31.6%	12.8%	25.0%	27.3%
Sunnyvale	\$539,000	\$563,013	30	51	47	35	100.1%	-3.8%	-0.2%	-36.2%	27.0%	3.7%	2.9%	15.4%	14.6%

Days of Inventory



For a city-by-city breakdown, visit my website at: www.aviurbanrealestate.com/citybycity

To receive the report regularly, send me an email to trendreport@AviUrbanRealEstate.com

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my success rests on your success™

Buyer Guarantee

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

I'll pay you if your house is not under contract **within 90 days.**

You agree to cooperate with my professional recommendations.

You can also cancel listing agreement if not fully satisfied with my service.



Housing boom will not end in a crash, says Harvard

By Christopher Swann

Markets seldom disappoint both bulls and bears for long. But over the coming years the US housing market looks likely to do just that, according to a study by Harvard University. After the slump of the early 1990s and the surge of the past five years, the housing market might prove an anti-climax to all concerned. The long period of stagnation forecast by the survey would disappoint home-owners who expect big price rises but also those who missed the boat and have been hoping for a crash.

"Although housing prices are stretched, it is hard to see the catalyst for a crisis in the market," says Nicolas Retsinas, director of the Joint Center for Housing Studies at Harvard. "The overvaluation looks pretty well balanced by longer term supports for house prices, so we may just see a few years with little action. Houses will revert to being something to live in rather than money makers."

The study begins with some sobering observations about the record run in the US housing market. Over the past five years house prices have outstripped income growth more than sixfold - the median home now costs more than four times median household income in 49 out of 145 metropolitan areas in the US, a record. In 14 metropolitan areas, the median house is now worth more than six times median income. Last year saw the average house price shoot up 9.4 per cent - the biggest rise in the average house price since records started more than 40 years ago. Financial strains on US home-owners have been mounting. The number of Americans devoting more than half of their incomes to housing climbed by 1.9m to 15.6m in the three years to 2004. To bridge the gap between sluggish earnings growth and speedy house price growth, ever more Americans have been tempted by riskier flexible-rate mortgage products. More than a third of loans last year were at adjustable rates and may rebound on their holders if interest rates continue to climb. Even more reckless buyers, about 10 per cent last year, opted for payment-option mortgages - which do not require full payment of the interest costs.

So why will non-home-owners be deprived of the crash they have been waiting for?

The strongest underlying support for the market comes from accelerating household formation. Demand is being driven not only by population growth but by household fragmentation, as couples divorce or children leave home.

Immigration has been a still stronger force - over the past decade 12.6m new households were formed in the US.

Over the next 10 years the pace of household formation will accelerate to 14.6m, according to the Joint Center for Housing Studies.

"Even if America decided to close the borders now, we would still see the lagged effects of previous waves of immigration," said Mr Retsinas. "Many of those that came to America earlier are only now in a position to buy property. As it is, we don't believe there will be any slowdown in immigration."

The Harvard study also argues that there are fewer points of vulnerability than during previous housing market downturns. The macroeconomic outlook for the US is uncertain but no mainstream economists are predicting the kind of surge in unemployment or leap in interest rates that would prick the housing bubble. In spite of the shift towards flexible rate mortgages, 75 per cent of mortgage holders have 30-year fixed rate loans and are therefore largely invulnerable to rising rates. A third of households own their homes outright.

Nor are many likely to suffer from negative equity should rising interest rates or unemployment drive up defaults - about 94 per cent of home-owners have equity of more than 10 per cent. Over-development has also been less of a problem than in the past, the study says. Price declines associated with episodes of big job losses alone average 4.5 per cent, while those occurring around periods of over-building alone average 8.3 per cent, it says.

Not everyone concurs, however. Many economists say national figures are deceptive, since they obscure pockets of extreme over-valuation in property prices and greater vulnerability to rising rates. Others point to evidence of overbuilding in recent years. Residential investment has risen to 6 per cent of gross domestic product - its highest level in 50 years and much higher than the average of 4.75 per cent.

The Harvard study concedes that even a slowing housing market could take a heavy toll on growth, as Americans become less able to use their houses as ATM machines and less employment is created by homebuilding. Provided the slowdown is gradual, as Harvard expects, this could help rebalance the US economy, reducing demand for imports and so stemming the growth of the trade deficit.