

The Real Estate Report

SILICON VALLEY MARKET TRENDS



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November/December 2006

Sales and Prices Bounce Back in October

So much for the seasonal slowdown! The median price for single-family homes in Santa Clara County gained 0.8% from the month before, a year-over-year increase of 4.6%. The average price shot up 3.9%, an annual gain of 5%. Home sales also rose, up 0.6% from September, down 25% year-over-year.

The median price for condos in Santa Clara County dipped 1% to \$490,000 from the month before, and was also down 1% year-over-year. The average price dropped 1.2%, but was up 0.2% compared to last year. Condo sales fell 3.1% month-over-month, and was off 27% year-over-year.

Inventory of single-family homes fell 5.6%, and is now 20.1% higher than last year. Condo inventory dropped 5.4%, up 32% over last October.

The sales price to list price ratio for single-family homes continued to fall,

dropping 0.2 of a point to 98.8%. The ratio for condos lost 0.1 of a point to 99.3%.

Days on market rose four days to 54 for homes, and was up three days to

Trends at a Glance (Single-family Homes)			
	Oct 06	Sep 06	Oct 05
Sale/List Price Ratio:	98.8%	99.0%	100.1%
Days on Market:	54	50	34
Days of Inventory	125	133	78
Median Price:	\$775,000	\$769,000	\$741,000
Average Price:	\$958,220	\$922,195	\$912,784
Home Sales:	892	887	1,190
Inventory:	3,708	3,926	3,088

43 for condos.

Our days of inventory indicator fell eight days sending the indicator to 125 days. A combination of increased sales and decreased inventory was behind the fall.

My advice? For buyers, it's about finding a seller who really wants to sell. How do you do that? Make

offers. You won't know how motivated a seller is until you make an offer. Also, only the most highly motivated will bother to leave their homes on the market over winter.

For sellers, offer an interest rate buy-down. This does two things for you: first, it expands the number of buyers who will qualify to buy your home, and, second, it will keep your price up while offering a good deal to the buyer.

As an example, for about \$18,000, a seller can permanently buy down the interest rate of a \$450,000, 30-year loan a full percentage point, shaving \$289 a month off the buyer's mortgage payments.

This works out for both buyer and seller as the worth of the \$18,000 buy-down is equal to a price reduction of \$45,800.

The real estate market is very hard to generalize. It is a market made up of many micro markets. For complete



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C.A.R.'s California Housing Market Forecast for 2007

The rate of home price appreciation will post a modest decline next year following several years of steep increases, while the sales pace will decrease as the market stabilizes throughout 2007, according to the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) "2007 California Housing Market Forecast".

The median home price in California will decline 2 percent to \$550,000 in 2007 compared with a projected median of \$561,000 this year, while sales for 2007 are projected to decrease 7 percent to 447,500 units, compared with 481,200 units (projected) in 2006.

"The housing market clearly downshifted in 2006 from the record-setting sales and robust price gains of the last few years," said C.A.R. President Vince Malta. "The residential real es-

tate market in 2006 was characterized by a gap between buyer and seller expectations. Sellers sensed that the peak of the market was approaching, yet still hoped to obtain the highest possible prices. Buyers' sense of urgency waned as the number of homes on the market grew and they took longer to identify and subsequently purchase a home.

"Although the 2007 sales decline is not expected to be as steep as what we experienced this year, the psychology of the market -- matching the differing expectations of sellers and buyers -- will continue to be a factor as REALTORS® help consumers navigate their way through a changing market.

"While we're projecting a modest decline in the median price of a home, over the long term, residential real estate in California has been and will continue to be a solid investment. Since 1968, the long-term average price appreciation is 9.1 percent," he said.

"While we recognized that the frenetic sales pace of the past four years could not continue indefinitely, the housing market in 2006 did not fare as well as we initially expected," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. "The anticipated slowdown that began in October 2005 was heightened by dual natural disasters in the Gulf Coast, a significant drop in consumer confidence, rising energy and raw materials costs, and a series of Federal Reserve interest rate

hikes that began in June 2004. Fixed-rate mortgages also hit and passed the psychological threshold of 6 percent, while adjustable rate mortgages passed 5 percent, ultimately causing a decline in affordability. Affordability concerns also will continue to constrain sales for many households in California throughout 2007, especially for first-time home buyers.

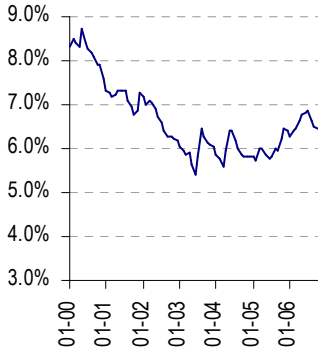
"Looking to 2007, we expect that some regions of the state, including the Central Valley, San Diego and Riverside/San Bernardino regions, will experience sales declines greater than the state as a whole," she said. "That also holds true for several second-home markets, including the desert areas of Southern California and the Wine Country."

To register to the next Seminar, visit my web site at www.AviUrbanRealEstate.com and go to the Upcoming Seminars on left panel

The Real Estate Report

Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



POMPTON PLAINS, NJ (Nov. 3, 2006) -- Although fixed mortgage rates dropped by a dozen basis points this week to land at 6.38%, you shouldn't expect them to wait there for long, according to the latest data from the nation's leading survey of mortgage pricing. Hybrid five-one ARMs tripped lower, too, easing 13 basis points to close the survey period at 6.16%. Both figures are close to their year's low.

Rates wended their way down this week in a fairly steady fashion, as each piece of soft economic data seemed to make it more likely that the next Fed move would be to

cut interest rates amid a slowing economy.

It's not unusual for bond and stock markets to get caught leaning the wrong way, but this week was a little unusual. Yields finished the week just a little above where they began, but it's a reasonable expectation that investors are at least a little chagrined for the moment.

Hard bets that the economy is heading to free fall keep being dashed, and wagers on a more docile Fed seem likely to suffer the same fate for at least a while longer.

The period of slow growth necessary to fully overwhelm inflation pressures, which took several years to build, has been with us for only perhaps a quarter, and we are likely to see several more quarters with weak growth but still-tough inflation ahead. Until that weak growth serves to trim payrolls back to produce some human "resource slack" the Fed does remain "in play" to increase rates.

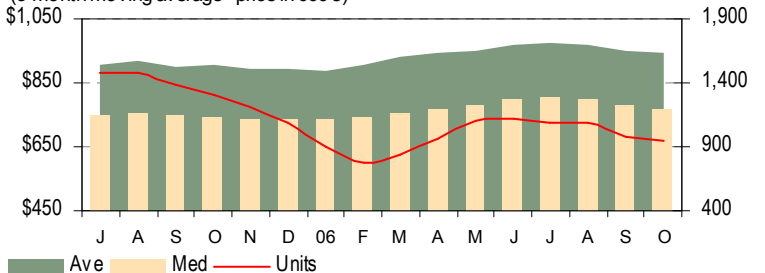
October Sales Statistics

Single-family Homes

County	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
Campbell	\$775,000	\$958,220	892	1457	3,708	54	98.8%	4.6%	5.0%	-25.0%	20.1%	0.8%	3.9%	0.6%	-5.6%
Cupertino	\$1,050,000	\$1,124,194	31	40	67	47	99.9%	-4.5%	-5.6%	0.0%	-27.2%	5.0%	0.1%	-3.1%	-27.2%
Gilroy	\$719,000	\$782,722	50	99	283	84	98.1%	-0.8%	-1.7%	22.0%	33.5%	-0.1%	-1.9%	-5.7%	-1.7%
Los Altos	\$1,780,000	\$1,848,435	26	43	79	53	98.8%	9.5%	3.0%	-29.7%	8.2%	7.9%	3.8%	-21.2%	-14.1%
Los Altos Hills	\$2,410,800	\$2,701,975	8	16	65	210	96.8%	-5.5%	-28.9%	-20.0%	-5.8%	-4.5%	1.1%	60.0%	-4.4%
Los Gatos	\$1,355,000	\$1,469,955	33	36	127	43	99.9%	27.8%	16.7%	3.1%	9.5%	-3.2%	-19.0%	135.7%	-16.4%
Milpitas	\$680,000	\$739,716	29	49	106	60	98.0%	0.7%	-0.1%	-21.6%	49.3%	-4.2%	-3.2%	-9.4%	5.0%
Monte Sereno	\$2,100,000	\$2,140,625	4	8	16	78	94.5%	7.4%	7.4%	7.4%	-23.8%	15.4%	-8.2%	100.0%	6.7%
Morgan Hill	\$960,000	\$1,008,686	32	72	266	100	94.8%	16.0%	13.3%	-13.5%	57.4%	3.3%	-7.1%	28.0%	-1.8%
Mountain View	\$1,008,000	\$1,059,747	29	29	43	24	99.8%	17.1%	12.8%	-21.6%	-6.5%	18.6%	10.4%	0.0%	-4.4%
Palo Alto	\$1,475,000	\$1,645,994	43	44	64	47	100.2%	24.5%	12.6%	4.9%	-24.7%	33.7%	42.7%	34.4%	-22.0%
San Jose	\$721,500	\$799,224	462	797	2,069	50	99.0%	3.8%	4.5%	-31.9%	25.3%	0.9%	2.4%	-9.1%	-3.9%
Santa Clara	\$705,000	\$722,387	38	59	112	38	99.7%	0.7%	1.6%	-34.5%	0.9%	-3.4%	-3.6%	-7.3%	-3.4%
Saratoga	\$1,450,000	\$1,576,079	19	41	130	104	97.1%	-1.0%	-11.0%	-34.5%	0.0%	-3.3%	-18.3%	-9.5%	-6.5%
Sunnyvale	\$775,000	\$825,571	56	65	128	32	99.8%	3.3%	6.9%	-30.0%	19.6%	-10.4%	-5.9%	51.4%	-11.1%

Silicon Valley Homes: Prices & Sales

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



The Real Estate Report

The Best Incentive: an Interest Rate Buy-down

As sales continue to fall, sellers either need to lower their prices or offer incentives to buyers.

Many sellers are reluctant to lower their price, while many buyers are waiting to see if, and how far, prices may fall.

Enter the incentive. There are many incentives being offered such as free cars, paying closing costs, making the mortgage payments for the year, even throwing in vacation to Hawaii.

In this era of low housing affordability, the best incentive is probably the interest rate buy-down.

An interest rate buy-down is when one pays a fee upon loan origination to lower the interest

rate on the loan. This means, in effect, that the borrower qualifies for a bigger loan because the monthly payments are less.

As an example, for about \$18,000, a seller can permanently buy down the interest rate of a \$450,000, 30-year loan a full percentage point, shaving \$289 a month off the buyer's mortgage payments.

This works out for both buyer and seller as the worth of the \$18,000 buy-down is equal to a price reduction of \$45,800.

Once fairly commonplace, buy-downs all but disappeared during the boom years in the housing market, when interest rates were

falling, prices were climbing, and sellers in many regions could count on receiving multiple offers.

Now, with the reverse going on, expect interest rate buy-downs to make a comeback.

When you go to a lender or mortgage broker to be pre-qualified for a loan, discuss a buy-down then to see how much more you will be able to borrow.

Then, when you are making offers on homes, include the buy-down as one of the terms of the contract.

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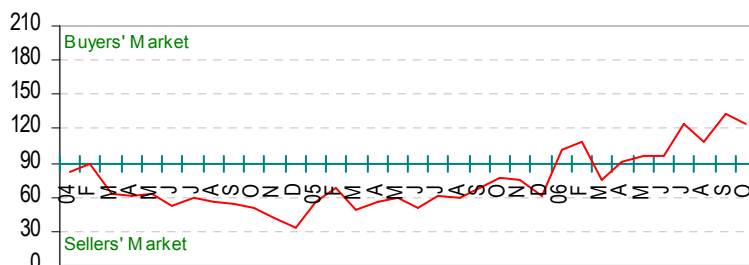
- Providing you with expertise and exceptional service to buy or sell your Silicon Valley residence
- Helping you develop your real estate investment portfolio to meet your financial goals

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	\$490,000	\$517,138	375	598	1,443	47	99.3%	-1.0%	0.2%	-27.0%	32.0%	-1.0%	-1.2%	-3.1%	-5.4%
Campbell	\$500,000	\$528,889	14	21	57	37	100.4%	-15.4%	-10.8%	-33.3%	23.9%	-3.8%	5.8%	40.0%	-1.7%
Cupertino	\$710,000	\$704,741	13	20	32	31	100.5%	13.6%	3.9%	8.3%	10.3%	-8.4%	-6.7%	44.4%	-20.0%
Gilroy	\$372,500	\$398,357	7	5	31	83	100.0%	6.4%	3.6%	16.7%	287.5%	6.4%	2.9%	75.0%	-16.2%
Los Altos	\$743,000	\$861,000	3	6	11	26	97.7%	-0.8%	20.8%	-40.0%	-8.3%	24.9%	8.0%	50.0%	-21.4%
Los Gatos	\$645,000	\$721,286	7	11	31	59	99.4%	1.6%	17.9%	-41.7%	3.3%	-24.7%	-4.7%	40.0%	-24.4%
Milpitas	\$495,000	\$494,737	19	20	51	63	100.0%	-1.4%	-3.9%	-26.9%	41.7%	-12.4%	-10.3%	11.8%	-15.0%
Morgan Hill	\$500,000	\$482,550	10	9	18	57	97.8%	17.6%	9.4%	150.0%	-10.0%	-8.2%	-10.4%	150.0%	-41.9%
Mountain View	\$575,000	\$574,221	29	35	66	28	99.1%	6.3%	-1.2%	-31.0%	4.8%	4.5%	-5.3%	-9.4%	-5.7%
Palo Alto	\$660,000	\$689,500	5	11	19	75	98.7%	8.4%	2.9%	-70.6%	0.0%	-4.0%	-7.0%	-54.5%	-13.6%
San Jose	\$457,000	\$492,005	214	375	933	48	99.3%	0.9%	2.7%	-27.5%	40.9%	-0.2%	0.9%	-8.9%	-0.5%
Santa Clara	\$425,000	\$458,226	28	42	112	57	99.1%	-9.6%	-3.4%	-12.5%	24.4%	-2.3%	-3.3%	-12.5%	-8.2%
Saratoga	\$610,000	\$650,852	2	5	12	11	101.4%	10.9%	-4.1%	-60.0%	-7.7%	10.9%	14.2%	0.0%	20.0%
Sunnyvale	\$548,000	\$549,739	24	37	64	34	99.3%	0.4%	-0.6%	-35.1%	-1.5%	-2.1%	-5.2%	0.0%	-12.3%

Days of Inventory



Real Estate Service With My Personal Guarantee



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Home Buying & Selling Shouldn't Be Like Finding Your Way Through A Maze



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Making the Most of a Buyer's Market

Yes, Dorothy, this is a buyer's market and getting a deal is easier than it has been in many years. Not easy, but easier than at any time in the past five years. And don't forget, the balance can change back in favor of sellers very quickly.

With that in mind, let's look at where the deals are. First, new home builders, especially if there is a lot of new construction going on in the area you want to move into.

When dealing with builders, you may be most effective in seeking upgrades, getting them to help pay your closing costs or negotiating an interest rate buy-down. Builders really don't want to lower a purchase price because they feel that the lowered price will become a comparable sale, thus hurting future sales and appraisals.

Don't be afraid to make a low offer to a builder. The worst that can happen is

that he will decline your offer and counter with another price.

Put yourself in the builder's position. He may have an inventory of 20 houses sitting finished and empty, and the bank is breathing down his neck about the construction loans, and now he finds himself with too much inventory and not enough buyers. He may be much better off taking your offer than allowing a house to sit there another week.

On the other hand, these techniques may not work quite as well with the sellers of a resale home. My advice on buying resale homes in a buyer's market is quite different. Instead of making lots of offers and pitting one seller against another, you can benefit most from disciplining yourself.

You should see a lot of houses and shop and compare to find the one you really want. No, it's not smart to let the seller know you have several homes in mind

and that you are hoping to get a substantial discount.

Instead, my advice is to make a low offer, perhaps as much as 10 percent to 15 percent below asking price. In addition, it's smart to ask the seller to pay closing costs and any other concessions you choose.

Then instruct your agent to communicate to the seller that you love the house, that you know the house is worth the sum they are asking but that this offer represents all you can afford to spend.

What you are looking for is a seller who can afford to be flexible in selling price, or is willing to provide incentives enough to make a higher price worthwhile, and not every seller will fall into that category. Because selling one's personal residence is such an emotional experience, the seller may feel a need to blame someone or something for your disappointing offer.

Remember that not only is the current slowdown in the real estate market working in your favor, but the weather will be helping you as well. The sun goes down before the word day is done, making house-shopping more difficult on weekdays.

If you can concentrate your home-buying efforts to begin soon and conclude before spring arrives, you will likely have been exposed to sellers at their loneliest and most vulnerable moments. Lonely, because there will be few other lookers and fewer still actual prospects. Vulnerable, because only the most highly motivated will bother to leave their homes on the market over winter.

If you are ready to buy this winter, call me now.

For a city-by-city breakdown and to receive the report regularly, visit my website at
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