

The Real Estate Report

SILICON VALLEY MARKET TRENDS



Avi Urban
650.305.1111
avi@650and408homes.com
www.650and408homes.com



the One-Stop Realtor for busy professionals

Low-end of Market Still Slow

The tightening of underwriting standards continues to plague the lower-end of the market. Year-to-date home sales are off 13.9% for the county, while year-to-date home sales for San Jose, which comprises most of the lower-end homes in the county, are off 21.2%.

The median price for single-family, re-sale homes rose 0.6% in June, up 5.8% year-over-year. The median price for condos gained 0.5% to \$539,500.

Sales of single-family, re-sale homes fell 1.2% from May, off 17.6% year-over-year. Condo sales rose 14.3%, month-over-month, but were off 13.4% compared to last June.

Inventory continued to grow, with single-family homes up 4.5% from May and up 18.7% year-over-year.

Condo inventory was up 2%, month-over-month, and up 24.2% compared to last June.

The sales price to list price ratio for single-family homes fell 0.6 of a

Trends at a Glance (Single-family Homes)			
	Jun 07	May 07	Jun 06
Median Price:	\$867,500	\$862,500	\$819,950
Average Price:	\$1,066,610	\$1,096,571	\$989,891
Home Sales:	982	994	1,192
Inventory:	4,504	4,308	3,793
Sale/List Price Ratio:	100.2%	100.8%	100.2%
Days on Market:	53	44	35
Days of Inventory	138	130	95

point to 100.2%. The ratio for condos fell 0.2 of a point to 100%.

Days on market rose nine days to 53 for homes. Days on market for condos fell one to 45 days.

Our days of inventory indicator for single-family homes rose eight days sending the indicator to 138

days. The indicator for condos dropped 14 days to 116.

My advice? For buyers, if your credit is a little bit dinged, spend some time improving it. Otherwise, the upper end of the market favors sellers while the lower end favors buyers.

For sellers, if you are in the lower end of the market, buyers are few and far between. Put your home in mint condition and price it right. If you are in the upper end of the market, it still pays to make your home as presentable as possible, and, if you're in a desirable neighborhood, you will get multiple offers.

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.

July/August 2007



INSIDE THIS ISSUE:

C.A.R.'S MID-YEAR FORECAST	1
MORTGAGE RATE OUTLOOK	2
CITY STATISTICS	2
IMPROVING YOUR FICO SCORE	3
CONDO STATISTICS	3
PRICE & SALES CHART	4

C.A.R. forecasts 14% sales decline, modest increase in median home price for state

The CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) projected a 14 percent decline in single-family home sales this year, and forecast a 1.8 percent increase in the median price of a home. C.A.R. Executive Vice President Joel Singer delivered the Association's 2007 Midyear Housing Market Forecast as part of the California REALTOR® Showcase in Sacramento.

The 2007 Midyear Housing Market Forecast PowerPoint presentation is available at <http://www.car.org/library/media/papers/pdf/2007%20Midyear%20Forecast.pdf>.

Sales are expected to fall to 410,500 units in 2007, a 14 percent decline from the 477,460 pace recorded in 2006, according to the forecast. The median price of a home will reach \$566,500 this year, a 1.8 percent increase from the \$556,640 median for 2006.

"Sales have declined in all areas of the state, but higher-end markets have experienced somewhat smaller declines," said C.A.R. Vice President and Chief Economist Leslie Appleton-Young. "Sales are weakest in areas that had a lot of new home building in recent years or those areas that had been popular for second home purchases.

"Prices tend to be softer in those areas as well," she said. "This pattern is likely to continue throughout the rest of the year, particularly in areas that were popular among first-time home buyers, which experienced the greatest run-up in prices. Similarly, higher-end markets have seen greater price stability, with the median price of a home declining slightly, if at all. The sales mix, with slower sales in the entry and lower-end of the market and relatively stronger sales in the high end, has helped stabilize the median price."

According to the C.A.R. forecast, the Central Valley region has experienced a greater decline in sales

compared with the state as a whole, and a succession of year-to-year declines in the median price. This trend is likely to continue, due in part to excess inventory of new homes for sale.

The San Francisco Bay Area and moderately priced to higher-priced areas of Southern California have seen a somewhat better sales picture, with small or nonexistent median price declines. These areas should continue to fare better than lower-priced inland markets in the San Bernardino and Riverside areas, according to Appleton-Young. Sales in those areas remain significantly below the record levels of the peak years, she said.

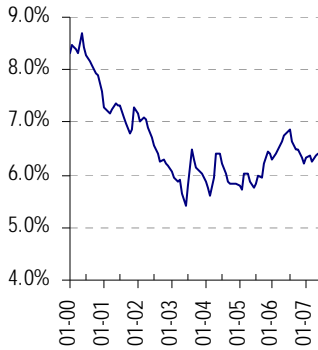
to learn more about the Secrets of profitable real estate investing seminar

go to seminars tab at www.ProfitableRealEstateInvesting.com

The Real Estate Report

Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



June 29, 2007 – Economic crosscurrents continue to provide a less-than-clear direction for the road ahead, and mortgage rates remain at elevated levels, according to the nation's widest sampling of mortgage prices. The average 30-year fixed-rate mortgage (FRM) edged one basis point lower, landing at 6.80%, while 5/1 Hybrid ARMs dumped four basis points to close the week at an average 6.47%.

The housing market is dragging growth downward, but perhaps the rate of decline is slowing, if nothing else. Existing Home sales for May rang in at a 5.99 million (annualized) rate of sale, down just 0.3% for the month. However, that lumbering sales pace leaves an inventory overhang of nearly nine months of unsold homes available, which may produce

downward pressure on home prices. May's median home price of \$221,600 was unchanged from April.

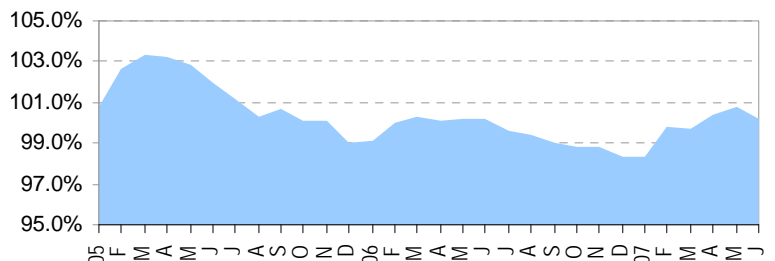
New Home Sales dipped a little more, falling to a 915,000 (annualized) sales level. The 1.6% decline during May came after a surprise 12.5% lift in April sales, itself a jump from truly weak levels. Despite the fall in sales volume, the median price of a new home sold during May bounced up to \$236,100 from April's \$224,112, so either a pricier mix of homes was moved or some builder price incentives expired. Inventory levels for new homes ticked up to 7.1 months available at the present rate of sale. All told, though, it seems that total sales of homes have found a new home (as it were) near these levels at least for now.

As you might expect, weak sales of new homes means that little new construction is taking place. Overall, Construction Spending rose by 0.9% in May, with private non-residential projects rising by 2.7% while public outlays rose by 2.2%. Outlays for residential projects, though, edged back by 0.8%, and have now put in 14 consecutive months of decline. Due to changes in methodology, the Census Bureau revised the last 15 years worth of data through the May report, so historical comparisons may be somewhat distorted, but there is no doubt that the residential investment has been on a downward slope for a while.

June 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	\$867,500	\$1,066,610	982	1,993	4,504	53	100.2%	5.8%	7.8%	-17.6%	18.7%	0.6%	-2.7%	-1.2%	4.5%
Campbell	\$767,250	\$852,036	33	41	83	44	99.7%	-4.1%	-0.8%	17.9%	18.6%	-3.5%	0.1%	17.9%	-10.8%
Cupertino	\$1,205,500	\$1,293,397	34	53	74	25	101.3%	9.6%	13.4%	-22.7%	-23.7%	2.9%	3.5%	-43.3%	1.4%
Gilroy	\$745,000	\$854,596	33	116	426	111	97.2%	-10.2%	-11.4%	-32.7%	39.7%	4.9%	-1.5%	-2.9%	3.6%
Los Altos	\$1,675,000	\$1,851,840	45	36	44	53	102.2%	4.7%	9.6%	4.7%	-44.3%	-10.1%	-7.4%	-2.2%	-15.4%
Los Altos Hills	\$2,695,000	\$2,930,636	11	18	48	152	97.0%	29.6%	23.9%	37.5%	-29.4%	-24.6%	-9.4%	0.0%	2.1%
Los Gatos	\$1,300,000	\$1,562,551	39	53	113	38	97.5%	-4.3%	11.7%	25.8%	-18.1%	-8.0%	-5.0%	39.3%	-13.7%
Milpitas	\$730,000	\$761,038	26	62	134	48	99.4%	3.5%	-1.9%	-35.0%	13.6%	2.1%	4.4%	44.4%	3.9%
Monte Sereno	\$1,850,000	\$1,850,000	1	4	19	15	100.0%	-0.5%	-5.7%	-700.0%	-32.1%	-8.1%	-6.8%	-75.0%	-9.5%
Morgan Hill	\$824,500	\$835,911	30	107	302	76	97.1%	-4.6%	-2.6%	-18.9%	22.8%	-6.0%	-14.4%	-25.0%	12.7%
Mountain View	\$1,037,500	\$1,043,475	20	33	33	18	106.3%	-0.2%	-5.6%	-42.9%	-32.7%	-10.6%	-11.6%	-42.9%	17.9%
Palo Alto	\$1,432,500	\$1,758,477	58	57	47	20	104.5%	0.9%	12.3%	-12.1%	-27.7%	-5.6%	-7.0%	0.0%	-17.5%
San Jose	\$772,050	\$857,960	478	1,141	2,685	56	99.4%	4.3%	5.7%	-23.3%	31.9%	1.6%	2.4%	3.7%	4.8%
Santa Clara	\$750,000	\$774,902	48	94	147	36	100.3%	0.0%	-0.2%	-7.7%	14.0%	-1.2%	-2.5%	-12.7%	2.8%
Saratoga	\$1,780,000	\$1,939,009	31	50	119	60	97.5%	12.7%	15.4%	-24.4%	-24.2%	-1.5%	1.6%	-22.5%	-0.8%
Sunnyvale	\$955,000	\$985,974	82	102	126	21	104.0%	17.3%	10.9%	20.6%	2.4%	3.8%	7.0%	22.4%	18.9%

Sales Price/Listing Price Ratio



The Real Estate Report

Improving Your FICO Score

It's important to note that raising your score is a bit like losing weight: It takes time and there is no quick fix. In fact, quick-fix efforts can backfire. The best advice is to manage credit responsibly over time.

PAYMENT HISTORY TIPS

- Pay your bills on time. Delinquent payments and collections can have a major negative impact on your score.
- If you have missed payments, get current and stay current. The longer you pay your bills on time, the better your score.
- Be aware that paying off a collection account will not remove it from your credit report. It will stay on your report for seven years.
- If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor. This won't improve your score immediately, but if you

can begin to manage your credit and pay on time, your score will get better over time.

AMOUNTS OWED TIPS

- Keep balances low on credit cards and other "revolving credit". High outstanding debt can affect a score.
- Pay off debt rather than moving it around. The most effective way to improve your score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.
- Don't close unused credit cards as a short-term strategy to raise your score.
- Don't open a number of new credit cards that you don't need, just to increase your available credit. This approach could backfire and actually lower score.

LENGTH OF CREDIT HISTORY TIPS

- If you have been managing credit for a short time, don't open a lot of new accounts too rapidly. New

accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

NEW CREDIT TIPS

- Do your rate shopping for a given loan within a focused period of time. FICO® scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.
- Re-establish your credit history if you have had problems. Opening new accounts responsibly and paying them off on time will raise your score in the long term.
- Note that it's OK to request and check your own credit report. This won't affect your score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide

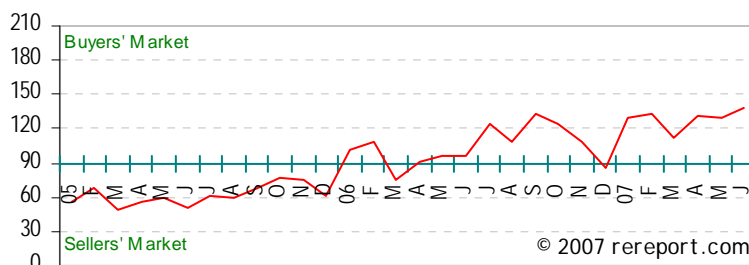
credit reports to consumers.

TYPES OF CREDIT USE TIPS

- Apply for and open new credit accounts only as needed. Don't open accounts just to have a better credit mix - it probably won't raise your score.
- Have credit cards - but manage them responsibly. In general, having credit cards and installment loans (and paying timely payments) will raise your score. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly.
- Note that closing an account doesn't make it go away. A closed account will still show up on your credit report, and may be considered by the score.

June Sales Statistics															
Condos/Townhomes															
	Prices		Unit		Listings			Compared to Last Year				Compared to Last Month			
	Median	Average	Sales	New	Total	DOM	SP/LP	Med.	Ave.	Sales	Listed	Med.	Ave.	Sales	Listed
County	\$539,500	\$574,099	415	742	1,604	45	100.0%	5.8%	9.8%	-13.4%	24.2%	0.5%	2.8%	14.3%	2.0%
Campbell	\$574,500	\$570,195	32	25	51	36	99.6%	12.6%	16.2%	52.4%	13.3%	12.8%	12.4%	128.6%	0.0%
Cupertino	\$683,500	\$702,663	22	19	19	25	101.0%	8.7%	8.9%	46.7%	-29.6%	12.1%	10.0%	57.1%	-24.0%
Gilroy	*	*	*	1	32	106	*	n/a	n/a	n/a	6.7%	n/a	n/a	n/a	-11.1%
Los Altos	\$1,050,000	\$1,155,000	5	6	17	16	101.9%	49.7%	48.0%	-28.6%	88.9%	-8.7%	6.2%	66.7%	13.3%
Los Gatos	\$791,000	\$793,035	14	19	37	42	102.7%	21.7%	15.9%	40.0%	60.9%	4.2%	6.8%	100.0%	23.3%
Milpitas	\$585,000	\$559,566	9	32	52	21	98.3%	25.8%	10.8%	-40.0%	2.0%	9.3%	11.2%	-18.2%	13.0%
Morgan Hill	\$530,000	\$518,500	4	6	31	101	99.6%	12.8%	3.2%	-50.0%	-8.8%	4.0%	4.8%	-60.0%	-3.1%
Mountain View	\$640,000	\$625,752	39	36	46	29	102.3%	10.3%	4.6%	-7.1%	-37.8%	1.7%	1.2%	-4.9%	-17.9%
Palo Alto	\$730,000	\$897,588	13	16	10	25	102.1%	15.0%	28.9%	-27.8%	-66.7%	9.2%	11.3%	8.3%	-44.4%
San Jose	\$498,250	\$507,932	200	486	1,117	59	99.2%	8.3%	6.0%	-25.9%	40.9%	-1.6%	-1.5%	-2.0%	4.1%
Santa Clara	\$487,450	\$521,920	28	51	111	40	100.5%	8.4%	3.4%	-24.3%	9.9%	-6.3%	3.0%	21.7%	11.0%
Saratoga	\$715,000	\$699,333	3	5	8	26	100.6%	10.0%	3.6%	-57.1%	-38.5%	-27.4%	-25.5%	-25.0%	14.3%
Sunnyvale	\$562,750	\$569,293	46	40	73	21	100.4%	7.2%	4.1%	76.9%	30.4%	-14.1%	-8.7%	142.1%	-13.1%

Days of Inventory



Real Estate Service With My Personal Guarantee



Avi Urban
650.305.1111
avi@650and408homes.com
www.650and408homes.com

the One-Stop Realtor for busy professionals

**Home buying and selling
shouldn't be like finding your way
through a maze.**



Let Avi Urban help you

This is not intended as a solicitation if your home is currently listed.

PRSR STD
U.S. POSTAGE
PAID
Permit No. 014
Cupertino, CA

“The Super Tax Break” – Personal Residence to Rental

Did you know that you can avoid paying tax on more than \$500,000 of gain on your home? Many people are aware of the advantages of Internal Revenue Code Section 121, which allows a married couple to exclude up to \$500,000 of gain on the sale of their personal residence (\$250,000 for a single taxpayer). Although this amount of gain is generous in most areas of the country, in California and a few other states, many people expect to receive more than \$500,000 of profit when they sell their home.

What is much less understood in the real estate world is that a homeowner can avoid paying all of the tax on their home by converting it to a rental. Once the home is converted to a rental, the owners can sell it and use both the Section 121 exclusion of gain and the Section 1031 deferral of gain provisions to exclude some of the gain and defer paying tax on the rest.

For example: John and Mary Smith have lived in their home for twenty years. They acquired it for \$100,000 and it is now worth \$1 million, so if sold, they would have \$900,000 of gain. If they sell it without converting it to a rental, they would be able to exclude \$500,000 of gain but would have to pay state and federal capital gains tax on the additional \$400,000 of gain.

John and Mary Smith decide, however, to convert their property to a rental. After renting it for a year or two, they sell it for \$1 million. Since they used the home as their personal residence at least two of the past five years, they are able to exclude \$500,000 of the gain. They can then use the remaining funds to acquire replacement investment property and defer paying tax on the balance of the gain.

In order to completely defer the remaining gain, the traditional rule is that the investor must acquire property with a fair market value equal to or greater than the relinquished property, and must invest all of the equity from the relinquished property into the replacement property. When gain has been excluded under Section 121, the amount of value and equity required is reduced by the amount of gain that was excluded.

To be certain that they will defer all of the remaining gain, the Smiths should consult with their tax advisor before setting up the exchange. Although the new property must be investment property, the Smiths can decide later to move into it, and if they live in it a minimum of two years and own it for at least five years, they can exclude up to \$500,000 of gain on the sale of that property.

Of course, investors need to comply with all of the rules of Sections 121 and 1031 in order for this to work. The IRS recently published Revenue Procedure 2005-14, which explains how the two statutes may be combined for one property. This includes not only the situation mentioned above, but also a sale of a personal residence with a home office or separate guest house that is rented.

Some of the requirements to keep in mind are:

- To take advantage of the \$500,000 exclusion (\$250,000 for single taxpayers), you must own and live in your home at least two of the past five years;
- You can only take advantage of the section 121 exclusion once every two years;
- Section 121 doesn't allow you to exclude any gain attributable to depreciation deductions taken since May 6, 1997, but that gain can be deferred under Section 1031; and
- To take advantage of the deferral of gain under Section 1031, all or a part of the property you sell and the property you acquire must at the time of sale be used in connection with your business or held for investment.

This article discusses some general concepts, but you should consult with your tax advisor to plan your particular situation. Compliments of First American Exchange Company

for a [city-by-city breakdown](#) and to receive the [monthly report regularly](#), visit my website at

www.650and408homes.com