

# The Real Estate Report

SILICON VALLEY MARKET TRENDS



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## July Home Sales Up Year-over-Year

Sales of single-family, re-sale homes were up 1.5% year-over-year. That is the first time sales have been up year-over-year since November 2004. Nevertheless, home sales year-to-date are off 19.8%.

Prices continue to be depressed as we work our way through the bank-owned properties. The median price for homes was down 4.5% from June and off 16.3% compared to last July.

Inventory rose 2.8% in July, pushing our Days of Inventory indicator up twelve days to 178. In a stable market, a six months supply of homes is normal, so, we right in that area.

Condo sales were up 19% in July from June, but were off 25.6% year-over-year.

The median price for condos gained 6.3% from June, off 9.3% compared to last July.

Condo inventory rose 0.9% month-over-month, and was up 10.4% compared to July 2007.

The jump in sales combined with the modest increase in inventory pushed the condo Days of Inventory indicator down 32 days to 182.

The sales price to list price ratio rose 0.2 of a point to 98.6% for homes. The ratio for condos dropped 0.5 of a point to 98.2%.

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.

### Trends at a Glance (Single-family Homes)

	Jul 08	Jun 08	Jul 07
Median Price:	\$716,500	\$750,000	\$856,500
Average Price:	\$887,483	\$921,795	\$1,042,711
Home Sales:	894	929	881
Inventory:	5,297	5,153	4,448
Sale/List Price Ratio:	98.6%	98.4%	100.3%
Days on Market:	49	48	50
Days of Inventory	178	166	151

## August/September 2008



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## N.A.R Reports Pending Home Sales Up in June

The Pending Home Sales Index, a forward-looking indicator based on contracts signed in June, rose 5.3% to 89.0 from a downwardly revised reading of 84.5 in May, but remains 12.3% below June 2007 when it stood at 101.4.

Lawrence Yun, NAR chief economist, said sales have been in a pattern of rising and falling within a fairly narrow range. "The vacillation of data from one month to the next indicates a housing market in transition," he said. "The rise in pending home sales was broad-based with all four regions showing gains. This is welcome news because a rise in contract activity is necessary for an overall housing recovery. With a tax credit now available to first-time home buyers, increases in home

sales could be sustained with the momentum carrying into 2009."

The PHSI in the West rose 4.6% to 101.0 in June but remains 1.7% below a year ago.

NAR President Richard F. Gaylord, a broker with RE/MAX Real Estate Specialists in Long Beach, Calif., said the housing stimulus package will provide long-term relief. "Provisions to stem foreclosures are helpful, but a greater lift to the economy should come from higher mortgage limits, enhancements to the FHA loan program and the first-time home buyer tax credit," he said.

With roughly 2.5 million first-time home buyers taking advantage of the temporary tax credit, existing-

home sales are likely to rise 7.0% to 5.51 million in 2009 from a expected total of 5.15 million this year.

Yun said home prices did not fall as much as anticipated in the second quarter. "Buyers entering the hardest-hit markets, in some cases with multiple-bid offers, may have put a floor on prices," he said. "In addition, rising commodity prices and higher construction costs have resulted in a very unusual market today with existing-home prices being less than replacement building costs in some areas. Home prices are projected to increase 3 to 6% in 2009."

"Builders need to further cut production to help trim inventory. How-

ever, new-home sales are expected to bottom around the second quarter of next year with slight gains in the second half of 2009," Yun said. New-home sales are forecast to drop 8.8% to 464,000 in 2009 from 509,000 this year. Housing starts, including multifamily units, should fall 8.8% next year to 795,000 from 960,000 in 2008.

The 30-year fixed-rate mortgage, which also has been vacillating, is likely to trend up to 6.5% by the end of 2008, and then hold at that level for most of next year. NAR's housing affordability index is forecast to remain favorable this year, averaging 13 percentage points higher than in 2007.

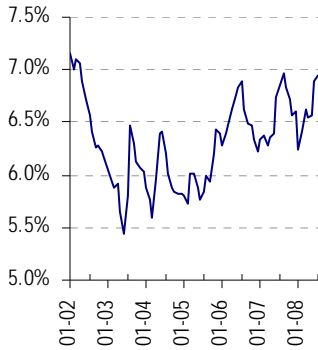
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# The Real Estate Report

## Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



August 1, 2008 -- There's nothing like some weak economic news to help mortgage rates to retreat from recent highs. Rates stormed higher in recent weeks on inflation concerns, ongoing credit market troubles, and some spotty signs of firming growth, but aside from credit market difficulties, the other two factors have changed course somewhat.

The overall average noted in HSH's Fixed Rate Mortgage Indicator (FRMI), the overall average interest rate for 30-year FRMs of all stripes -- including conforming, jumbo and expanded conforming offerings -- shed a full tenth-percentage point, landing at a flat 7.00% for the week. The overall average for 5/1 Hybrid ARMs continues to be erratic, declining by 16 basis points to close the survey week at 6.68%.

Conforming 30-year fixed-rate mortgages slid by 10 basis points

(.10%), backing off 12-month highs, while 30-year FRM Jumbos eased by nine basis points. The slip pulled jumbos back from a 7-and-a-half-year high, but we're only just barely below those levels.

A bill to help stabilize the housing markets was signed into law this week, the centerpiece of which is the ability for lenders to pull bad mortgages off their books, take an immediate loss, and refinance borrowers into an FHA-backed loan. Some \$300 billion was made available by Congress, and some predict that as many as 400,000 homeowners may ultimately be helped. However, the plan is voluntary, and lenders will need to cull through their loan books on a loan-by-loan basis to determine if such a plan (or a loan modification, or even a foreclosure) represents the best chance to recover their money. As such, the process may be a slow one, but

loans already in the mid-to-late stages of foreclosure may be immediately affected, provided borrowers can qualify for the new mortgage. Our guess is that it will help some homeowners, but like other initiatives will fall well short of hoped-for goals. Still, it may help to clean up lender loan books more quickly, and that could in turn help promote some additional healing in borrowing and lending processes.

We can't help but hope that with the passage of the housing bill this week we might finally find a period where market activity is light and some measure of quiet takes hold.

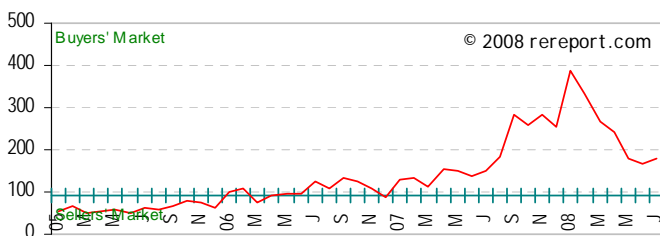
This week's 10-basis-point decline in average rates seems likely to be met with another smaller decline next week. Call it a four (perhaps five) basis point retreat at most.

## July Sales Statistics

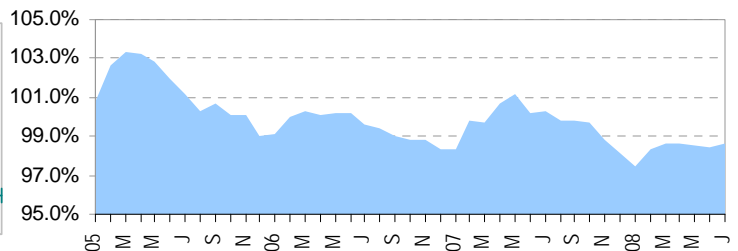
### Single-family Homes

	Prices		Unit Sales	Listings		DOM		SP/LP		Compared to Last Year		Compared to Last Month			
	Median	Average		New	Total	Med.	Ave.	Med.	Ave.	Sales	Listed	Med.	Ave.	Sales	Listed
County	\$716,500	\$887,483	894	2,137	5,297	49	98.6%	-16.3%	-14.9%	1.5%	19.1%	-4.5%	-3.7%	-3.8%	2.8%
Campbell	\$775,000	\$814,676	17	51	118	66	98.2%	-10.9%	-13.1%	-39.3%	57.3%	-0.6%	3.8%	-19.0%	5.4%
Cupertino	\$1,177,500	\$1,175,620	36	58	83	26	99.5%	-5.8%	-16.6%	-16.3%	29.7%	-1.6%	-2.0%	-5.3%	5.1%
Gilroy	\$448,000	\$503,755	43	97	500	141	96.3%	-33.6%	-38.5%	7.5%	23.5%	-12.2%	-14.2%	-27.1%	-3.7%
Los Altos	\$2,100,000	\$2,199,523	21	49	72	61	98.6%	16.7%	13.3%	-36.4%	157.1%	25.4%	14.5%	-36.4%	12.5%
Los Altos Hills	\$2,962,500	\$3,030,833	7	18	44	73	95.0%	39.4%	31.2%	16.7%	-10.2%	18.5%	16.6%	0.0%	4.8%
Los Gatos	\$1,347,500	\$1,492,652	26	68	158	73	98.0%	-19.3%	-6.9%	-16.1%	62.9%	-7.1%	-11.2%	-25.7%	-1.3%
Milpitas	\$590,000	\$609,377	24	58	176	67	96.0%	-13.6%	-15.5%	0.0%	25.7%	11.6%	11.9%	14.3%	-1.1%
Monte Sereno	\$2,505,000	\$2,370,000	4	11	30	64	95.9%	-12.3%	-47.5%	25.0%	66.7%	37.3%	14.6%	33.3%	7.1%
Morgan Hill	\$682,450	\$737,249	28	87	326	112	95.1%	-20.5%	-20.8%	-6.7%	14.4%	-15.5%	-17.9%	-17.6%	-0.9%
Mountain View	\$982,000	\$1,106,171	27	46	71	16	100.7%	-7.2%	1.0%	3.8%	255.0%	3.3%	2.4%	22.7%	12.7%
Palo Alto	\$1,750,000	\$1,825,515	45	54	79	26	102.6%	18.6%	13.1%	9.8%	102.6%	9.0%	-1.7%	-15.1%	17.9%
San Jose	\$600,000	\$658,981	489	1,286	3,951	83	97.9%	-22.0%	-22.5%	19.0%	44.4%	0.0%	-1.7%	6.3%	3.4%
Santa Clara	\$673,500	\$771,046	42	99	243	64	97.8%	-10.2%	-1.6%	-14.3%	56.8%	-13.7%	-3.4%	-26.3%	6.6%
Saratoga	\$1,740,000	\$2,098,175	22	62	138	62	96.8%	15.6%	27.5%	-33.3%	21.1%	4.2%	10.7%	22.2%	11.3%
Sunnyvale	\$876,000	\$851,510	62	82	187	39	100.0%	-5.8%	-8.6%	-12.7%	54.5%	-2.4%	-7.3%	-1.6%	-7.9%

Days of Inventory



Sales Price/Listing Price Ratio



# The Real Estate Report

## Raising Your FICO Score

We can't emphasize enough how important it is to raise your FICO credit score. The lending market has changed dramatically and borrowers are being highly scrutinized.

The days of declared income and low-documentation loans is over. Borrowers now must verify their income.

Lenders base the mortgage rate they charge on your FICO score. The higher the score, the better the interest rate you will get. The difference can be substantial.

For instance, on a \$250,000 loan, if your FICO score is better than 720, your monthly payment is \$1,579 with a 6.494% rate. If your score is under 700 but above 675, your rate would be 7.156% for a monthly payment of \$1,690. Under 675, rates rise precipitously.

Raising your FICO score can not be done overnight. It takes time and there is no quick fix. The best advice is to manage credit responsibly over time.

Here are some tips on how to raise your score from Fair Isaac Corporation, the developers of the FICO score.

### PAYMENT HISTORY TIPS

Pay your bills on time. Delinquent payments and collections can have a major negative impact on your FICO score.

If you have missed payments, get current and stay current. The longer you pay your bills on time, the better your credit 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 credit 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 credit score.

Pay off debt rather than moving it around. The most effective way to improve your credit 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 your credit 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 credit 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 credit score.

Have credit cards - but manage them responsibly. In general, having credit cards and installment loans (and paying timely payments) will raise your credit 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.

One final note, check your credit report each year from the three credit reporting agencies. Correct all errors as quickly as possible. It can take several months to correct errors, so start early.

July 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	\$485,000	\$508,390	288	657	1,743	51	98.2%	-9.3%	-8.6%	-25.6%	10.4%	6.3%	-2.5%	19.0%	0.9%
Campbell	\$506,000	\$503,333	15	24	74	113	99.7%	2.9%	-7.8%	-37.5%	42.3%	-4.5%	-10.3%	66.7%	0.0%
Cupertino	\$850,000	\$804,405	15	16	23	18	99.0%	31.9%	16.3%	-28.6%	27.8%	13.5%	-0.5%	25.0%	-11.5%
Gilroy	\$325,000	\$325,000	1	5	38	102	95.6%	-24.6%	-24.6%	0.0%	8.6%	35.4%	35.4%	0.0%	-2.6%
Los Altos	\$777,000	\$777,000	2	4	5	150	99.5%	27.4%	-20.3%	-33.3%	25.0%	-10.4%	-14.3%	-75.0%	-16.7%
Los Gatos	\$668,000	\$605,600	5	19	51	77	95.2%	14.2%	-6.3%	-61.5%	131.8%	-16.0%	-27.7%	-28.6%	18.6%
Milpitas	\$508,888	\$463,308	11	22	74	50	96.5%	-14.0%	-18.0%	10.0%	25.4%	-2.8%	-11.5%	450.0%	-5.1%
Morgan Hill	\$227,673	\$227,673	2	9	29	80	55.4%	-101.5%	-106.4%	-100.0%	-13.8%	-40.6%	-51.5%	-50.0%	7.4%
Mountain View	\$595,000	\$565,736	23	38	80	54	99.3%	-8.5%	-10.7%	-41.0%	73.9%	-4.0%	-3.5%	0.0%	0.0%
Palo Alto	\$898,000	\$886,817	14	13	25	38	99.6%	24.7%	18.9%	-17.6%	127.3%	-1.0%	-8.3%	40.0%	-16.7%
San Jose	\$375,000	\$414,308	147	423	1,371	81	97.8%	-20.2%	-16.7%	-25.4%	24.4%	-0.1%	1.4%	8.9%	3.2%
Santa Clara	\$426,500	\$480,336	26	40	118	82	97.8%	-17.6%	-8.5%	0.0%	0.0%	-6.8%	-4.6%	116.7%	-8.5%
Saratoga	\$625,000	\$785,000	5	5	15	100	98.4%	-23.9%	-4.4%	150.0%	-100.0%	-6.3%	15.4%	60.0%	-21.1%
Sunnyvale	\$554,000	\$532,790	22	39	121	61	98.8%	-6.0%	-9.2%	-26.7%	80.6%	-6.5%	-7.6%	22.2%	-6.2%

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## Investor corner

### Exclusion on sale of 2nd homes reduced

By Kenneth R. Harney  
Washington Post 08.10.2008

Deep in the nearly 700 pages of the new housing bill just signed into law is a complicated tax code change that could affect substantial numbers of people who purchase second homes or rental investment real estate in the coming decade with an eye to occupying them as their main residence later.

The bill narrows the use of the code's tax-free exclusion that allows sellers of principal residences to escape taxation on the first \$500,000 of their profit (married joint-filers) or \$250,000 (single-filers). Under current law, sellers can claim the full exclusion if they have used a property as their principal residence for at least two of the five years preceding a sale.

They can also claim the exclusion even if they convert an investment property or vacation house into their principal residence and live there for at least two years. This flexibility has been a boon to many tax-wise owners of multiple houses - particularly during the bubble years when values doubled in some parts of the country.

Property owners in markets with high appreciation rates could sell their principal residence for a hefty profit - pocketing the first \$250,000 or \$500,000 tax-free - and then move into their rental condo or vacation property for a couple of years and repeat the process.

That practice eventually caught the eye of tax reformers on Capitol Hill. Last year the House approved a bill that would ratchet down the rules on such transactions by distinguishing between "non-qualified" periods of rental or investment use and "qualified" periods of principal residence use. It resurfaced this year in the housing bill as a "revenue offset" - a way to raise an extra \$1.4 billion over the next decade.

Here's how the new rule is expected to work: If you buy a second home or investment property on or after Jan. 1, convert it later into your principal residence and then sell, you'll need to allocate any gain from the sale between

periods of qualified and non-qualified usage. Rental or second home usage before 2009 is grandfathered - it won't count as non-qualified use in the equation.

The minimum period for qualified principal residence use will remain as under current law - two years out of the five preceding the sale. Any non-qualified use will have to be toted up to limit the amount of the tax-free exclusion you are allowed.

Sellers in future years will need to create a fraction against which to multiply their total gain. The numerator (top number) will be the time period the house was used as something other than a principal residence. The denominator (bottom number) will be the total period of ownership.

Say you are a single taxpayer and you buy a house Jan. 1 for \$400,000. You rent it out for two years and write off \$20,000 in depreciation deductions. Then on Jan. 1, 2011, you decide to convert the rental

house into your principal residence. You live there for two years. On Jan. 1, 2013, you move out and put the place up for sale. On Jan. 1, 2014, you complete the sale of the house for \$700,000.

As under current law, the \$20,000 of depreciation write-offs is treated as gross income. The two years of use as a principal residence qualifies you for some amount of tax-free exclusion on the \$300,000 gain. But how much?

To figure it out, you divide your aggregate period of non-qualified use (the two rental years) by your total period of ownership (five years) and multiply that fraction (two-fifths or 40 percent) against your total gain of \$300,000. The resulting number is the amount that's subject to capital gains taxation - \$120,000 in this case. But the remaining \$180,000 is tax-free.

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