

# The Real Estate Report

SILICON VALLEY MARKET TRENDS



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## Are We There Yet?

With all the news of foreclosures headlining the news, it is easy to overlook the signs that we may be near the bottom of the market.

According to a May 20, 2008 Bay Area Home Sales Report released by real estate news source DataQuick, "Bay Area home sales edged up from a seven-month run of record lows last month, indicating that mortgage availability and an increased number of fence sitters have decided they like today's lower prices."

In other news, a May 22, 2008 RealtyTimes article entitled, "Real Estate Outlook: Worst is Over," "The housing market offered some immediate hints of recovery with

new home starts up by 8.2 percent last month [April, 2008] and building permits up by 5 percent."

The California Association of Realtors reported on May 23rd that

Trends at a Glance (Single-family Homes)			
	May 08	Apr 08	May 07
Median Price:	\$770,000	\$779,500	\$857,000
Average Price:	\$969,644	\$992,100	\$1,089,950
Home Sales:	876	608	1,022
Inventory:	6,305	6,032	5,174
Sale/List Price Ratio:	98.5%	98.6%	101.2%
Days on Market:	46	49	31
Days of Inventory	216	298	152

"Home sales registered a 2.5 percent year-to-year gain compared with April 2007, ending a 30-month string of year-to-year percentage decreases that began in October 2005."

Other signs that we are at, or near, the bottom of this cycle are:

Buy and hold investors are coming back into the market.

Multiple offers on bank-owned properties, trophy properties, and well-priced homes in the best school districts.

If you have been sitting on the sidelines waiting to enter the market, there may not be a better time than now. Prices in some markets may not have hit

their lowest point, but they probably aren't far off. In many areas, only the pace of sales has been affected while prices have held firm and in some cases, have gone up.

June-July 2008



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## C.A.R. reports entry-level housing affordability rises 18 points in first quarter

LOS ANGELES (May 20)—The percentage of households that could afford to buy an entry-level home in California stood at 44 percent in the first quarter of 2008, compared with 26 percent for the same period a year ago, according to a report released today by the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.).

C.A.R.'s First-time Buyer Housing Affordability Index (FTB-HAI) measures the percentage of households that can afford to purchase an entry-level home in California. C.A.R. also reports first-time buyer indexes for regions and select counties within the state. The Index is the most fundamental measure of hous-

ing well-being for first-time buyers in the state.

The minimum household income needed to purchase an entry-level home at \$356,350 in California in the first quarter of 2008 was \$67,830, based on an adjustable interest rate of 5.65 percent and assuming a 10 percent down payment. First-time buyers typically purchase a home equal to 85 percent of the prevailing median price. The monthly payment including taxes and insurance was \$2,260 for the first quarter of 2008.

At \$67,830, the minimum qualifying income was 30 percent lower than a year earlier when households needed \$96,500 to qualify for a loan on an entry-level home. Re-

cent decreases in home prices and mortgage rates have brought affordability into better alignment with income levels of the typical California household, where the median household income was \$50,700.

The First-time Buyer Housing Affordability Index rose 11 percentage points in the first quarter of this year compared to the fourth quarter of 2007 due to a .56 point decrease in the mortgage rate and a 14.3 percent decrease in the entry-level median home price.

C.A.R. Region	Q1 2008	Q4 2007	Q1 2007
California	44	33	26r
Monterey Region	29	21	19
San Francisco Bay	30	23	24
Santa Clara County	31	24	27
Alameda	34	27	25
Contra Costa	31	22	19
Marin	24	22	21
San Francisco	23	20	18
San Mateo	22	19	19
Santa Cruz	28	22	20
Sonoma	41	36	26

At 64 percent, Sacramento County and the High Desert region were the most affordable areas in the state. Monterey was the least affordable area in the state at 29 percent, followed by the San Francisco Bay Area at 30 percent.

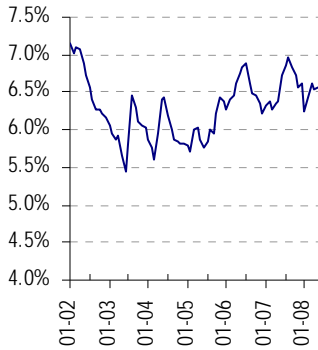
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# The Real Estate Report

## Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



May 30, 2008 -- Mortgage rates flared higher this week. HSH's Fixed Rate Mortgage Indicator (FRMI) bounded 15 basis points (0.15%) higher, finishing the last week of May at 6.65%. HSH's FRMI includes rates from conforming, jumbo and the new "expanded conforming" loans. Hybrid 5/1 ARMs drove some 18 basis points higher, closing the survey period at an average 6.29%.

Conforming 30-year fixed rates rose by 15 basis points, while jumbo 30-year FRMs jumped by some 19 basis points.

Housing continues to be a drag on growth. It's estimated that GDP would be 1.2% higher if housing was at even a normal level, but we are still a ways away from normal. Even with April's 3.3% lift in New Home Sales, the number of sales remains at a very low 526,000 annualized rate. By comparison, last

April the annualized rate was over 900,000 sales, and we've been on a nearly continual downward trend since then. Still, any improvement is a welcome one, and the small lift in demand pulled down the available inventory to 10.6 months at the present sales pace, while average prices for homes sold kicked about 5% higher. Importantly, the number of actual homes available for sale continues to decline and is now at 456,000 units, making a homebuilding recovery that much closer.

Rising mortgage rates and declining home prices will certainly not improve moods anytime soon. If the broad economy refuses to worsen, inflation concerns will continue to be pushed to the forefront of the markets, and mortgage rates really can't decline if the threat of inflation doesn't recede. However, some slowing in other economies may serve to temper some demand for

commodities, softening their prices somewhat. We'll need to see how that plays out, but economic growth for those major trading partners is slowing right along with that of the United States.

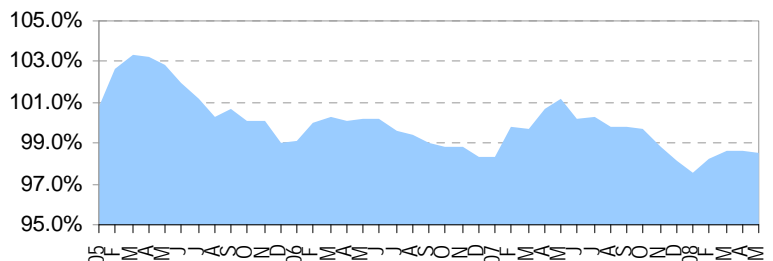
The tug-of-war for influencing interest rates between recession and inflation concerns was won this week by inflation concerns. Still, the modestly stronger growth story from two months ago isn't a reliable indicator of where we presently are, or especially where we'll go from here. Economic prospects remain dicey, even when boosted by usual and unusual actions by the Federal Reserve, which expanded the Term Auction Facility again for June and is now making some \$225 billion available in three separate auctions instead of \$150b in two. By no means are financial markets out of the woods yet, even if we're cheered by a pickup in growth.

## May Sales Statistics

### Single-family Homes

	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	\$770,000	\$969,644	876	2,124	6,305	46	98.5%	-10.2%	-11.0%	-14.3%	21.9%	-1.2%	-2.3%	44.1%	4.5%
Campbell	\$694,000	\$731,324	12	56	103	86	97.5%	-12.7%	-14.1%	-57.1%	10.8%	-7.8%	-16.6%	20.0%	13.2%
Cupertino	\$1,250,000	\$1,299,204	46	60	81	27	99.0%	6.7%	4.0%	-23.3%	11.0%	4.3%	1.6%	70.4%	-14.7%
Gilroy	\$545,000	\$612,957	33	112	527	116	96.7%	-23.2%	-29.4%	-2.9%	28.2%	-1.8%	1.6%	10.0%	1.7%
Los Altos	\$1,738,888	\$1,980,409	41	53	78	27	99.3%	-6.7%	-1.0%	-10.9%	50.0%	-1.2%	-3.4%	70.8%	20.0%
Los Altos Hills	\$2,900,000	\$3,626,076	13	17	43	145	94.5%	-18.9%	12.1%	18.2%	-8.5%	18.7%	17.1%	116.7%	-2.3%
Los Gatos	\$1,377,500	\$1,438,875	36	68	161	41	96.8%	-2.5%	-12.5%	28.6%	22.9%	-12.0%	-24.6%	63.6%	-4.2%
Milpitas	\$547,674	\$573,002	22	60	183	120	98.0%	-23.4%	-21.4%	22.2%	41.9%	-6.4%	-13.3%	37.5%	5.8%
Monte Sereno	\$1,555,000	\$1,583,750	4	10	30	86	96.9%	-29.4%	-25.3%	0.0%	42.9%	-29.3%	-27.2%	33.3%	20.0%
Morgan Hill	\$663,275	\$712,966	19	99	334	91	95.6%	-24.4%	-27.0%	-52.5%	24.6%	1.3%	6.6%	-24.0%	0.0%
Mountain View	\$975,000	\$1,046,080	31	41	56	32	101.5%	-16.0%	-11.4%	-11.4%	100.0%	-9.1%	-5.5%	106.7%	1.8%
Palo Alto	\$1,435,000	\$1,567,810	39	72	76	28	102.0%	-5.4%	-17.1%	-32.8%	33.3%	-15.6%	-19.2%	25.8%	11.8%
San Jose	\$625,000	\$704,153	438	1,204	3,853	82	97.8%	-17.8%	-15.9%	-5.0%	50.3%	-5.7%	-3.5%	39.5%	2.1%
Santa Clara	\$671,000	\$696,904	40	100	235	83	99.3%	-11.6%	-12.3%	-27.3%	64.3%	-7.6%	-3.6%	0.0%	-2.5%
Saratoga	\$1,810,000	\$1,900,836	25	51	109	64	98.7%	0.1%	-0.4%	-37.5%	-9.2%	11.3%	11.7%	-13.8%	7.9%
Sunnyvale	\$930,000	\$926,252	68	108	200	29	99.4%	1.1%	0.5%	1.5%	88.7%	3.6%	2.7%	61.9%	-1.5%

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

- Pay all credit cards and any revolving credit down to below 30% of the available credit line.
- 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

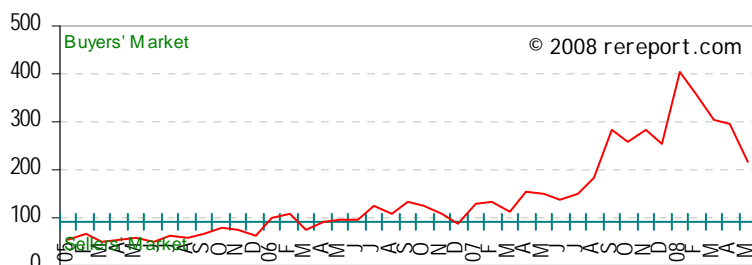
reporting agency or through an organization authorized to provide credit reports to consumers.

### 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.

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	\$505,000	\$533,427	254	691	2,075	50	97.7%	-5.8%	-4.1%	-31.7%	8.8%	1.5%	1.6%	23.9%	4.4%
Campbell	\$490,000	\$441,666	6	27	67	26	97.0%	-3.8%	-13.0%	-57.1%	31.4%	-4.9%	-15.6%	-50.0%	19.6%
Cupertino	\$641,500	\$673,449	12	20	25	28	100.5%	5.2%	5.4%	-14.3%	0.0%	-11.3%	-9.6%	0.0%	4.2%
Gilroy	\$325,000	\$325,000	1	8	38	107	98.8%	-22.0%	-22.0%	0.0%	5.6%	n/a	n/a	n/a	-2.6%
Los Altos	\$935,000	\$833,333	3	12	10	158	98.7%	-18.7%	-23.4%	0.0%	-33.3%	20.3%	7.3%	50.0%	66.7%
Los Gatos	\$875,000	\$890,000	3	19	51	47	95.4%	15.3%	19.9%	-57.1%	70.0%	8.7%	7.6%	-50.0%	15.9%
Milpitas	\$520,000	\$503,999	7	30	73	70	97.2%	-2.8%	0.2%	-36.4%	58.7%	-7.0%	-5.1%	-22.2%	25.9%
Morgan Hill	\$400,000	\$401,085	4	7	24	118	95.1%	-27.4%	-23.4%	-150.0%	-33.3%	13.9%	14.1%	50.0%	-4.0%
Mountain View	\$592,400	\$546,136	30	44	87	60	98.5%	-5.8%	-11.7%	-26.8%	55.4%	3.0%	-6.2%	-11.8%	-13.9%
Palo Alto	\$800,000	\$832,500	17	20	29	31	99.8%	19.7%	3.2%	41.7%	61.1%	-7.2%	7.7%	88.9%	11.5%
San Jose	\$438,826	\$448,516	116	405	1,355	80	97.0%	-13.4%	-13.0%	-43.1%	26.3%	11.1%	-3.9%	13.7%	2.9%
Santa Clara	\$442,000	\$505,425	25	46	133	88	97.5%	-15.0%	-0.2%	8.7%	33.0%	-33.2%	-16.2%	108.3%	-7.0%
Saratoga	\$657,500	\$771,666	6	5	19	34	100.2%	-33.2%	-17.8%	50.0%	-100.0%	-15.1%	1.9%	66.7%	-13.6%
Sunnyvale	\$522,500	\$538,931	22	48	111	35	97.5%	-20.2%	-13.6%	15.8%	32.1%	-12.3%	-1.5%	120.0%	-1.8%

## Days of Inventory



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## Valley turns to FHA for loans

### HIGHER MORTGAGE LIMITS SPUR INTEREST

Mercury News, By Sue McAllister, 06/07/2008

Thanks to this spring's economic stimulus legislation, a nearly extinct form of mortgage is reappearing in the Silicon Valley housing market: the FHA loan.

"There's just a flood of interest now," said Arlene Allert, Bay Area regional manager for Wells Fargo Home Loans.

Applications for Federal Housing Administration-insured mortgages - known as FHA loans - began flowing soon after temporarily higher limits for these loans were announced in March, she said. "One thing FHA provides to potential homeowners is an avenue for home ownership with low down payment."

FHA loans, which have been around since the 1930s, allow borrowers to buy homes at reasonable interest rates even if they have little down payment or blemished credit, as long as they can demonstrate the ability to repay their loans. The loans are government-insured, and funded only by lenders who have been approved by the U.S. Department of Housing and Urban Development.

But useful as these mortgages can be, last year not a single FHA loan was funded in the San Jose metro area, according to HUD, which oversees the FHA. In 2006, there was one FHA mortgage made in the area.

FHA loans have been so rare because the previous loan limit of about \$363,000 was too low to be useful for many buyers in this high-priced area. Also, until last year's subprime lending meltdown, hundreds of banks were willing to make loans to borrowers with damaged credit and little down payment, so those customers didn't need to seek out a government-insured loan to buy or refinance a home.

But the stimulus legislation passed by Congress in February increased the maximum FHA loan amount to \$729,750 in the Bay Area, allowing more borrowers to use the loans.

So far in 2008, banks have made a relatively hefty 10 FHA loans in the San Jose area. The number may include some borrowers who refinanced into the new FHA Secure program, which helps homeowners facing foreclosure stay in their homes, said HUD spokesman Lemar Wooley.

Many more new FHA loans for purchases and refinance loans will be funded in weeks to come, according to lenders and brokers now taking applications from borrowers.

"The approvals are stacking up," said Phil Hawkinson, owner of Village Home Loans in San Jose, who has been an FHA-approved lender for decades.

Among the advantages the FHA program offers:

- A 3 percent minimum down payment;
- Documented income and ability to repay the loan are key to approval, while high credit scores and cash reserves are less crucial;
- Gift funds from relatives, employers or non-profit groups can be used toward the down payment;
- The upfront cost of FHA mortgage insurance, equal to 1.5 percent of the loan amount, can be financed as part of the mortgage;
- A co-signer - such as a parent - can help the borrower qualify for the loan.

By contrast, many conventional mortgages now require at least 10 percent down, lenders want credit scores of 680 or higher, and private mortgage insurance cannot be financed, for example.

Refinancing into an FHA loan may also be an attractive option for some homeowners, as FHA guidelines allow borrowers to take cash out of their equity at closing, a practice many lenders have severely restricted lately.

The disadvantages of FHA loans are that they currently can take a bit longer to close than conventional loans. Also, borrowers pay upfront fees for their FHA mortgage insurance, and an annual premium that's spread over 12 monthly payments.

The FHA insurance protects the lender in case the borrower defaults on the loan.

Under the economic stimulus plan passed this year, the higher FHA loan limits will expire at the end of this year. Pending legislation in Congress could extend the timeframe, or drop the loan cap to about \$500,000.

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