

# SANTA BARBARA

## MARKET OVERVIEW

### Housing Sales Are Climbing

*Housing sales up for the fourth consecutive month*

The month of August began cautiously with mixed economic news, but by the end of the month, the outlook for September housing was greatly improved. The Bureau of Labor Statistics reported that job losses were continuing, but at a slower pace.

Housing continued to improve, largely driven by the first-time home buyer tax credit. The National Association of REALTORS reported that July existing home sales jumped 7.2 % — the largest monthly sales gain since 1999 and the fourth consecutive month of growth. If the current rate of improvement in existing homes remains at a steady pace, from 9.8 months on hand in June to 9.4 months on hand in July, the existing housing market could be balanced (on a national basis) in approximately eight months.

On August 20, the Mortgage Bankers Association announced that mortgage applications were also up, as interest rates crept down to a five-week low, with purchase applications up for the third consecutive week. Among the reasons cited were the success of the first-time home buyer tax credit and price-to-income ratios falling below historical trends.

Momentum in housing sales should continue, spurred by the end of first-time home buyer tax credits on November 30, 2009. With new banking and appraisal rules adding time to the typical closing process, first-time home buyers should open escrow by the end of September if they hope to close on time and qualify for these credits.

### Reasons to Buy Now

#### *The economy is improving*

The worst recession since the Great Depression may be winding down, said The Conference Board on August 20, 2009. The analysts found that leading economic indicators rose 0.6% in July, following a 0.8% rise in June. That's two consecutive months of improvement halting eight months of declines.

While the indicators can certainly slide backward on new data, serious home buyers should realize the days of wholesale bargains may be numbered. This could explain why California entry-level prices are rising, and luxury home owners are starting to stick to their prices.

#### *Inventory is being absorbed*

We appeared to hit bottom during the second quarter of 2009. Since then we have seen a steady rise in closed sales. Existing, or pre-owned, home inventories are being absorbed and are close to a balanced market at 9.4 months of supply. At their highest during the recession, new and existing home inventories hovered at 11 months on hand. A balanced market is approximately six months of inventory on hand.

#### *Average sales prices are starting to rise*

Lawrence Yun, chief economist for the NAR, says that improved affordability has driven sales, with first-time home buyers taking advantage of the tax credit. "The demand for foreclosed and lower-priced homes has spiked, and lack of inventory is becoming a common complaint," he notes. In many Southern California communities, homes priced at or below conforming loan levels have little inventory on hand, allowing sellers to raise prices and entertain multiple offers.



a monthly real estate report | September 09

### Advice for Home Buyers

Since May 2009, Federal Housing Finance Agency appraisal regulations have slowed home sales transactions. The National Association of REALTORS® has found that 76% of its members reported delays in closing.

As the first-time home buyer tax credit comes to a close, banks will be inundated with loan applications for an already narrow production pipeline. Home buyers should allow at least 60 days closing, which puts some first-time home buyer loans at risk of not meeting the November 30, 2009, deadline if they are not in escrow by the end of September 2009.

### Advice for Sellers

Price your home for today's market, not what you think it will do in two or three months. Lenders are very cautious about appraisals.

While demand is picking up, the percentage of foreclosures in the second quarter 2009 was the highest ever recorded by the Mortgage Bankers Association. The trade organization says foreclosures will continue to grow, peaking at the end of 2010 — placing continued pressure on pricing.

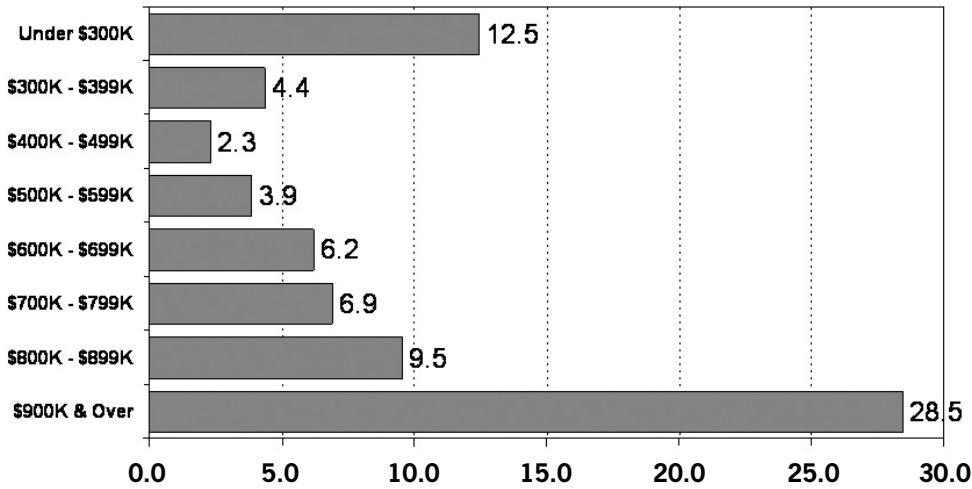
To avoid delays in closing, make sure your home is in top repair and you have all your property disclosures ready for the buyer's inspection. You may see some buyers still waiting for signs of a bottom, but motivated buyers will respond immediately to a well-priced home in great condition.

## SANTA BARBARA

Santa Barbara is showing improved sales in many price ranges, while inventories of luxury homes priced above \$999K are among the largest in Southern California.

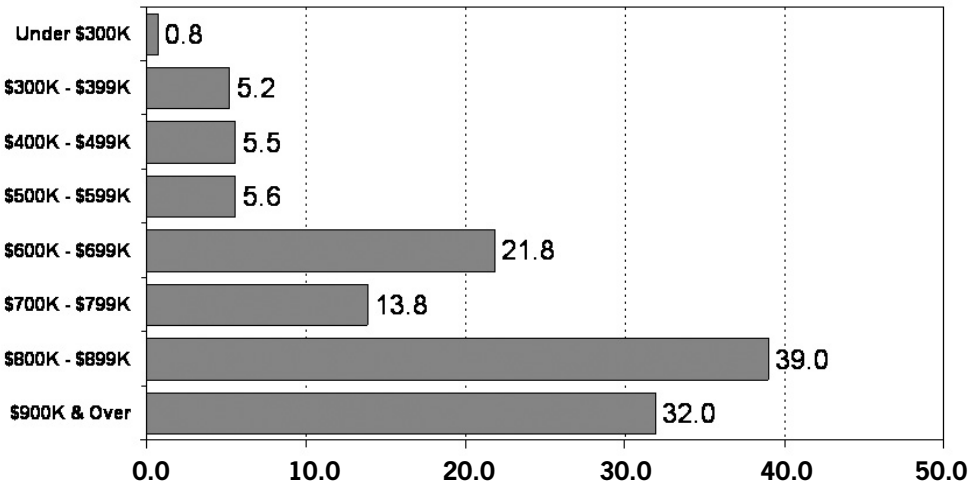
Detached homes are single-family homes that share no walls with other properties. Attached homes have at least one shared wall, such as condos, duplexes, or townhomes.

Detached Properties - Inventory in Months



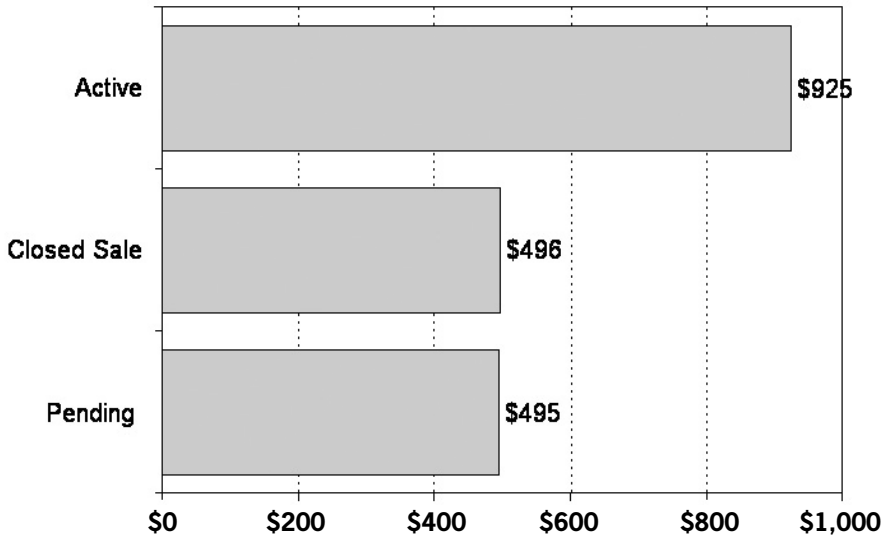
Luxury detached homes above \$900K are stalled in a buyer's market with nearly 28 months of inventory on hand, while conforming loan range homes between \$300K and \$799K are selling briskly.

Attached Properties - Inventory in Months



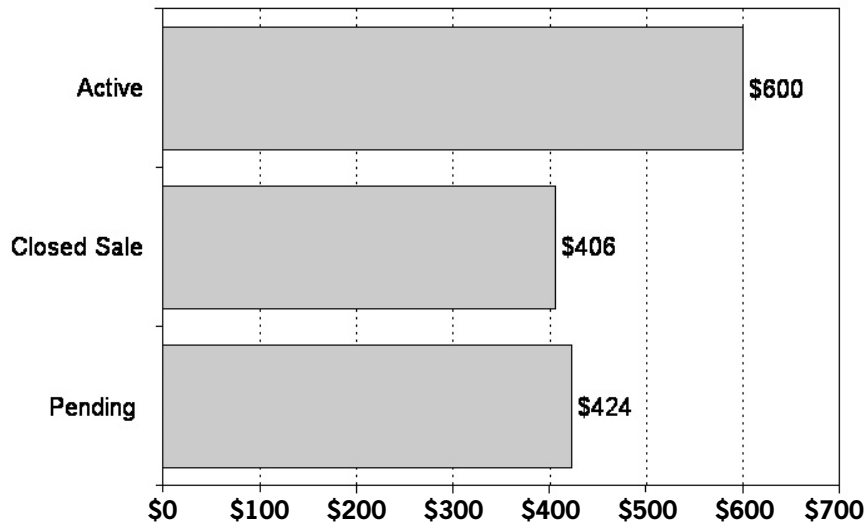
Attached homes priced above \$800K have the largest inventories in Southern California.

Detached Properties - List Prices Per Square Foot by MLS Status



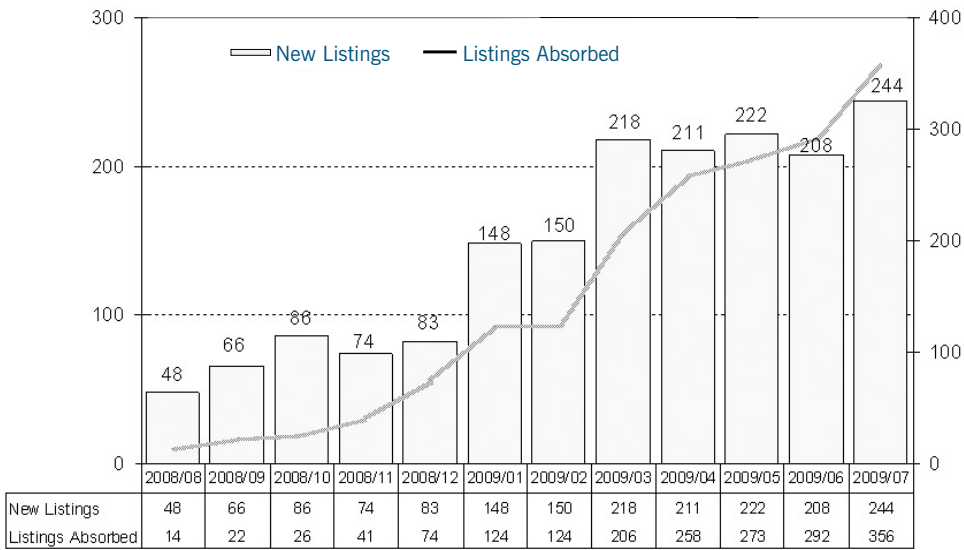
Reflecting the large inventories of luxury homes, active listings per square foot are nearly double that of closed sales, suggesting buyers have plenty of room to negotiate and that prices have further to fall.

Attached Properties - List Prices Per Square Foot by MLS Status



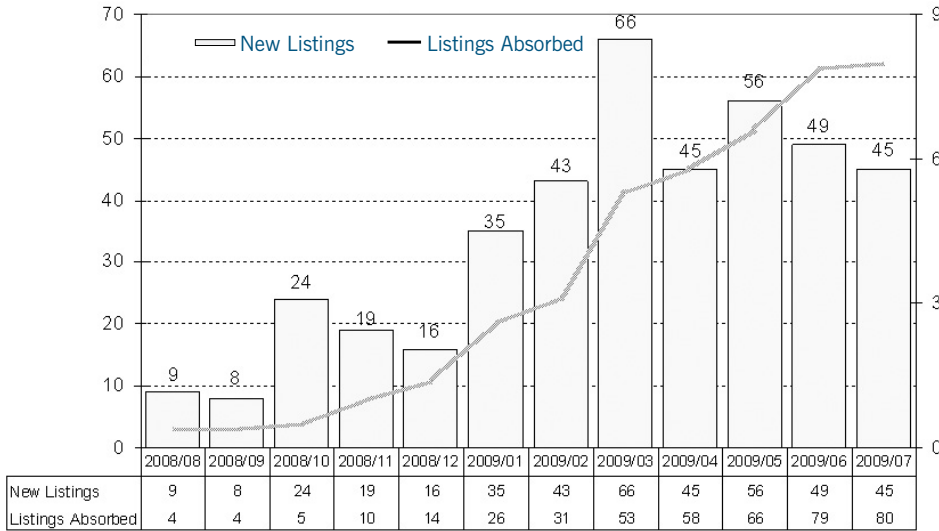
With active listings priced one-third higher than closed sales, buyers have plenty of room to negotiate prices for attached homes.

Detached Properties - Listing Taken and Absorbed - 12 Months through July, 2009



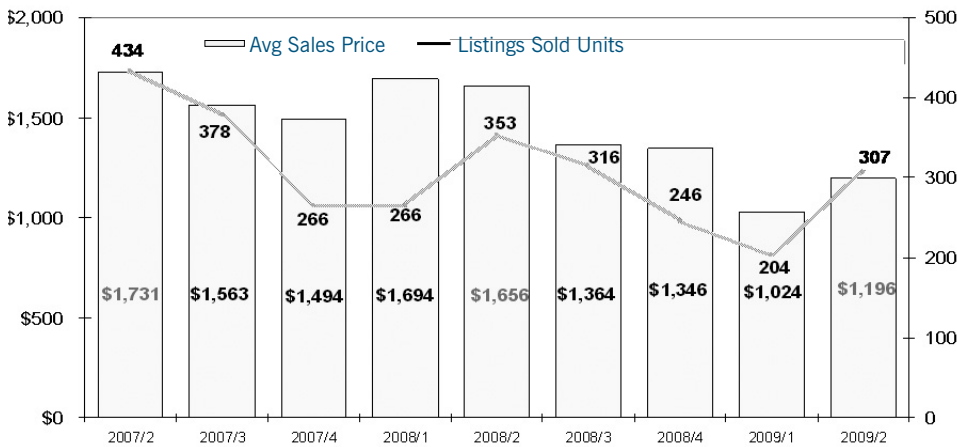
Detached home inventories have doubled since the end of 2008, but housing sales have tripled in the same period, driving absorption rates skyward.

**Attached Properties - Listing Taken and Absorbed - 12 Months through July, 2009**



Housing inventories are nearly flat in attached homes for June and July 2009, while absorption rates are twice that of new listings, suggesting prices may be more attractive to buyers.

**Detached Properties - Listings Sold - 12 Months through June, 2009**



Home prices are down 27.8% in detached homes year-over-year, but sales trends, up 13%, are driving prices higher. The first price gain in a year took place in Q-2, 2009.

**Attached Properties - Listings Sold - 12 Months through June, 2009**



Dramatic price depreciation of 31.4% year-over-year resulted in a 32.1% uptick in sales volume for attached homes.