

SANTA BARBARA COUNTY

MARKET OVERVIEW

a monthly real estate report | February 2010

2009 The Year In Review

What a difference a year makes. As poor as the housing market was in January 2009, a year of aggressive subsidies and sluggish economic improvement has produced a tentative optimism in January 2010.

The first-time homebuyer tax credit was extended and revised in 2009 to include some qualifying move-up buyers, and housing sales in the conforming loan range began to soar in most areas of the country by May 2009.

The job losses that had helped to swell distressed home inventories appeared to be easing by year's end. In December, the Labor Department announced that initial job loss claims were the lowest since September 2008.

Instead of subprime-driven foreclosures, the growth of distressed home inventories during 2009 was fueled by job losses. According to Realty Trac, nearly 2.82 million homes, or one in 45, were in some stage of foreclosure last year.

Four states — California, Florida, Arizona and Illinois — accounted for more than 50 percent of those homes, with more than 1.4 million properties there receiving a foreclosure notification.

Despite escalating job losses, the number of home sales moved upward on improved affordability, concentrated in the conforming loan ranges. By the second half of the year, housing inventories were declining from a recessionary peak of over 11 months on hand to a 6.5-month supply. (Housing supplies are said to be balanced at six months of inventory on hand. Below that level constitutes a seller's market, characterized by less inventory, more buyers, and firm-to-rising prices. A market with over six months of inventory is considered a buyer's market, with high inventory, few buyers, and falling prices.)

First-time homebuyers made up an astonishing 51% of the market. (A typical figure is 40%.) That's good news, because first-time homebuyers drive housing markets, allowing move-up buyers to act as well.

New Year, New Market

The only constant is change.

The November 2009 sales pace of 6.09 million units sold was 44.1% higher than the 4.54 million units sold in November 2008 — but that pace may not be sustainable without continued low mortgage interest rates.

While interest rates still remain well below 6%, the number of home sales is expected to continue rising. However, prices still face considerable headwinds. There will be a continued supply of inventory from distressed homes, and interest rates are expected to rise when the government stops subsidizing mortgage-backed securities in Q1.

With mortgage-backed securities purchases by the federal government ending in February 2010 and homebuying tax credits ending in April 2010, mortgage interest rates are already beginning to rise above 5% for benchmark 30-year, fixed-rate conforming loans.

In view of those facts, First American CoreLogic's LoanPerformance Home Price Index predicts that home prices in 45 of the largest metros will fall another 4.2% before showing a modest annual gain by October 2010. The index calculates that prices will bottom in March 2010.

The California Outlook

Unlike the rest of the nation, California has a large amount of pent-up demand from buyers who can now afford to buy a home. While

California will benefit from the tax credit, housing sales here will also be supported by historically low affordability.

The California Association of REALTORS® First-time Buyer Housing Affordability Index measures the percentage of households that can afford an entry-level home in the state. As of Q-3, 2009, the index was 64, meaning 64% of households can afford to buy an entry level home using a one-year, adjustable-rate mortgage as calculated by Freddie Mac. The figure is down from 67 in Q-2, 2009.

Over 536,720 homes were sold in November 2009 across the state, up from 512,840 in November 2008. The median price was \$304,520 — up 5.8% from \$287,880 a year ago, and happily well above the C.A.R.'s October forecast.

Besides historically low affordability, why did the number of home sales improve so much toward the end of the year? Other key factors included record low interest rates (4.88% according to Freddie Mac for benchmark fixed-rate 30-year loans); high volumes of distressed housing (one-third of inventory sold in November 2009), which impacted local prices; and inventories falling below distressed levels (4.5 months on hand) in the conforming loan ranges.

Prices appear to have bottomed in many areas and most price ranges below the conforming loan limit. Dataquick, which uses county records, reported that 102 of 362 California cities showed higher median prices than a year ago.

The major concern going forward is a possible increase in foreclosure and short sale activity. According to RealtyTrac, 632,573 California properties received a foreclosure filing in 2009, an increase of nearly 21% over totals for 2008.



The state did experience a four-month respite – a decline that ended in December 2009 when foreclosure activity shot up nearly 9% over November. However, foreclosure activity in Q-3 was down 17% from the previous quarter, suggesting that the upturn was a temporary spike.

That indicates that 2010 will not begin with a dip in foreclosures. Mortgage insurer PMI Group is braced for higher foreclosures, according to David Berson, chief economist. After falling 13% in 2009, he says home prices will fall nationally another 5% in 2010, but will flatten by year end.

Freddie Mac Chief Economist Frank Nothaft is slightly more optimistic, predicting that home prices will fall 3% in 2010. On a brighter note, he believes that mortgage

interest rates on benchmark conforming loans (30-year, fixed-rate) will remain under 6%.

Advice for buyers: Buyers should be aware that as long as incentives are in place, home sales in the conforming loan ranges will be brisk. Get pre-qualified with a reputable lender like HomeServices Lending powered by Wells Fargo, www.hslca.com.

Keep mortgage interest rates in perspective with home prices. The historical median for mortgage interest rates is 9%, over three and a half points higher than it is today. Home prices are almost where they were ten years ago in some areas of Southern California. If you pay a higher interest rate now than last month, remember you're way ahead on price.

Advice for sellers: Even though the market is much improved, now is not the time to slack off on presentation. The cleanest, most up-to-date homes in the best condition and repair will always sell for more money than comparable homes with in less perfect shape.

In the conforming loan range, be prepared for multiple offers, but don't try to anticipate the market by raising the asking price beyond what can be supported by local market comparable sales. Remember, lenders are cautious and may decline your buyer's loan if they can't justify your asking price. That will waste precious marketing time — and hurt your pricing if you end up having to put your home back on the market because your deal fell through.

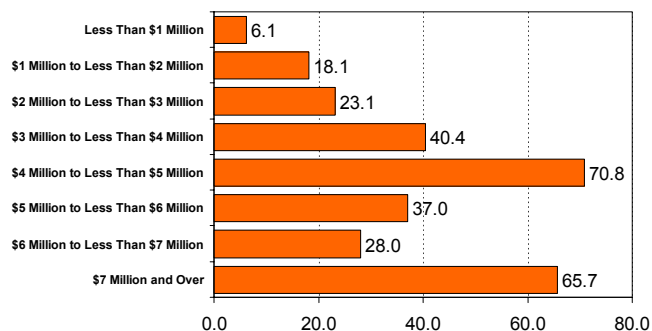
Santa Barbara County

Santa Barbara housing is in a brisk seller's market*, with as little as 6.1 months of inventory on hand in homes priced under \$1 million. In homes priced above \$1 million, there is much more inventory. Although unique, upscale and luxury properties aren't expected to sell as quickly as more traditional homes, it could easily be said that the upscale market is in a buyer's market.

Detached homes stand alone and share no common walls with any other neighboring home. Attached homes share at least one common wall with another home. The type of home ownership is determined by whether or not it is a condominium, townhome, duplex, co-operative or other.

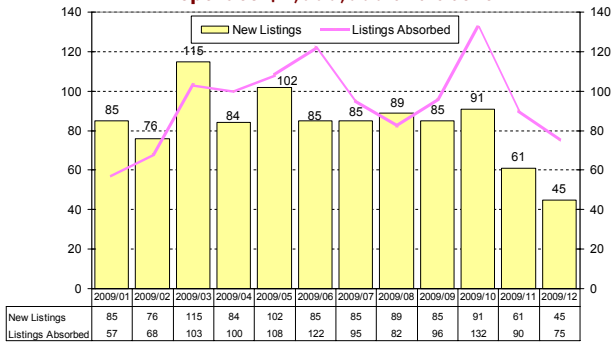
*A balanced market is widely accepted as having six months of inventory on hand with market conditions favorable to both buyers and sellers. A buyer's market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller's market has low inventories of homes for sale, escalating prices, and keen competition between buyers, including multiple offers.

Inventory in Month's Supply



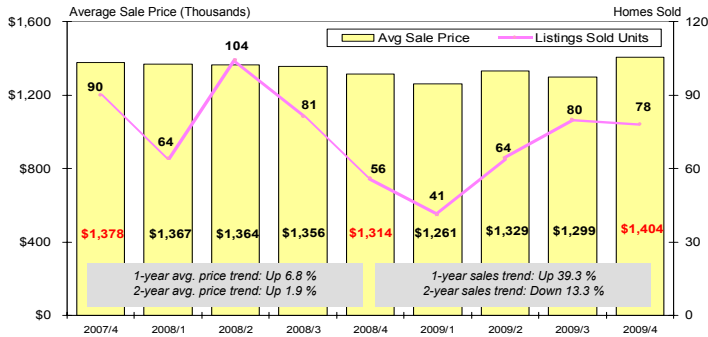
Upscale and luxury homes above \$1 million are in a serious buyer's market with as much as two or more years of inventory on hand.

**Monthly Listings Taken and Absorbed
Properties \$1,000,000 and above**



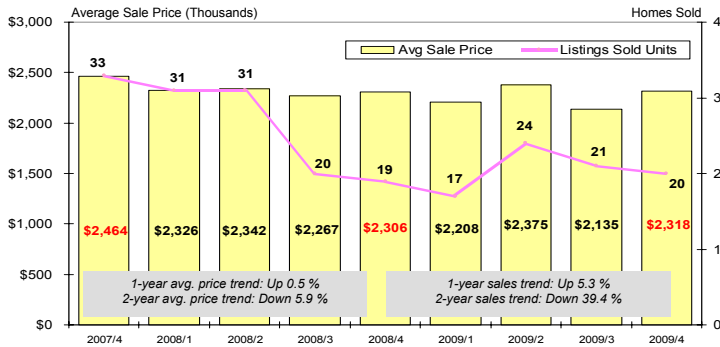
As of year-end 2009, inventories are half of where they were in October 2009, and listings are being absorbed at nearly twice the rate they're entering the market.

**Listings Sold, 9 Calendar Quarters through December 31, 2009
\$1,000,000 - \$1,999,999**



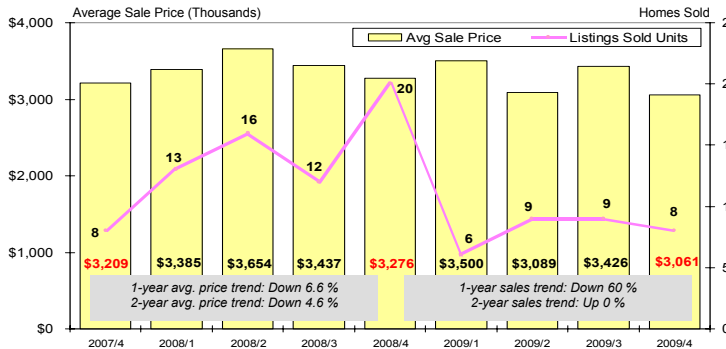
In homes priced between \$1 million and \$1,999,999, prices have been rising modestly for two years, and are above where they were a year ago. Sales volume is up nearly 40% in a year.

**Listings Sold, 9 Calendar Quarters through December 31, 2009
\$2,000,000 - \$2,999,999**



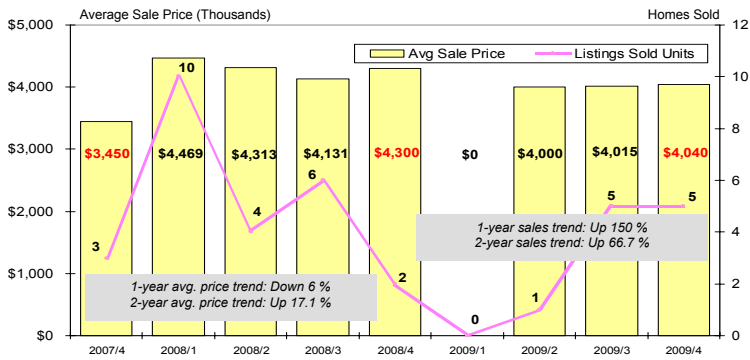
After dipping in 2008, prices in homes priced \$2 million to \$2,999,999 have risen nominally. After rising 25% from Q1 2009 and Q2 2009, sales volume has dipped in the last two quarters.

**Listings Sold, 9 Calendar Quarters through December 31, 2009
\$3,000,000 - \$3,999,999**



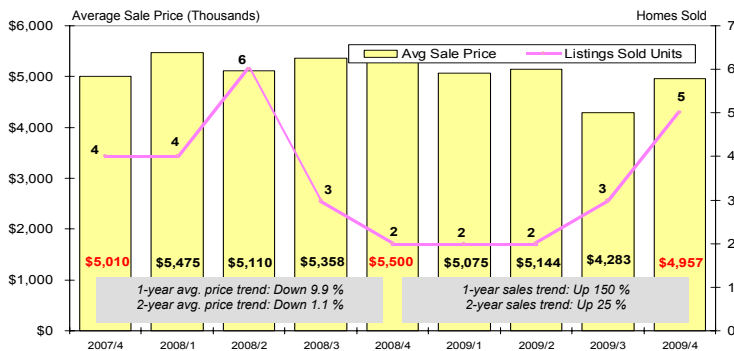
Sales volume was down 60% for 2009, while prices were down only modestly 6.6% for the year.

Listings Sold, 9 Calendar Quarters through December 31, 2009
\$4,000,000 - \$4,999,999



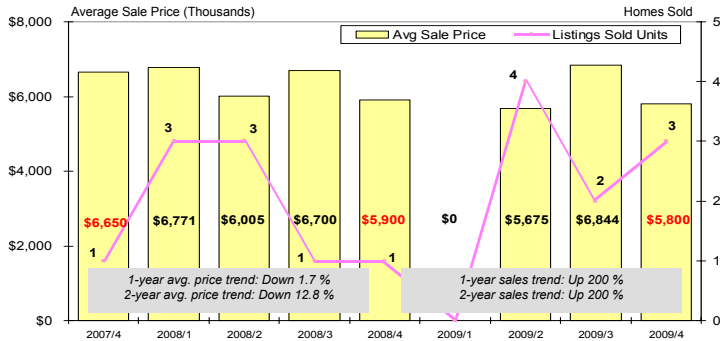
Sales volume in homes priced \$4 million to \$4,999,999 was zero in Q1 2009, so five sales each in Q3 and Q4 2009 is a nice recovery. Note rising sales prices for the same period.

Listings Sold, 9 Calendar Quarters through December 31, 2009
\$5,000,000 - \$5,999,999



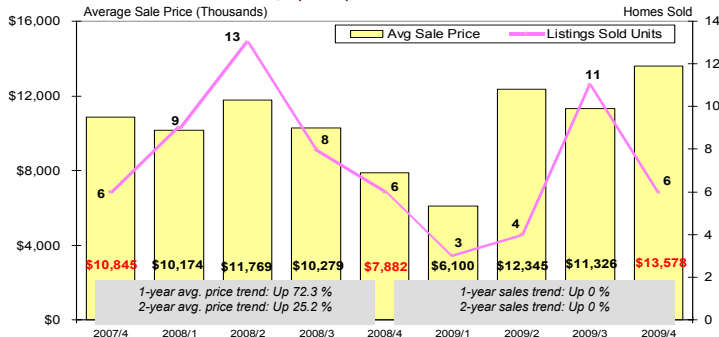
Sales volume is also rising in homes priced \$5 million to \$5,999,999, but prices are still below two years ago.

Listings Sold, 9 Calendar Quarters through December 31, 2009
\$6,000,000 - \$6,999,999



Prices are down for two years running in homes priced \$6 million to \$6,999,999, with seesawing sales volume.

Listings Sold, 9 Calendar Quarters through December 31, 2009
\$7,000,000 and above



Prices and sales volume in homes \$7 million and over plummeted to apparent bottoms in Q1 2009. Since then, prices have risen 72.3% and sales volume has doubled.

