

SANTA BARBARA COUNTY

MARKET OVERVIEW

a monthly real estate report | April 2011

Spring Home Buying Edition: *The Time to Buy is Now*

Just as the housing boom came to an end, the downturn will reverse itself one day, too. While economists and consumers may be uncertain when the bottom will come, there are growing signs that it's already here or extremely close. The best time to buy a home is now — and here's why.

It's hard to tell a market has reached bottom until prices and sales volume start to rise again. So the best time to buy is when market conditions are indicating the approach of a bottom.

To take advantage of near-record low mortgage interest rates and home prices as low as they were a decade ago, home buyers may have to take some risks, such as riding out another short-term dip in property values.

But the rewards may be well worth it. A number of factors point to a small window of opportunity to buy "at the bottom" before the market turns more favorable.

Here are the six greatest reasons to buy a home right now:

The economy is growing

In the first week of March 2011, the Federal Reserve released the Beige Book, a compilation of economic trends across the country, with the comment that the economy is expanding at a "modest to moderate pace." Goldman Sachs economists are predicting a 4% growth in Gross Domestic Product between now and mid-2012.

More jobs are available

A growing economy means more jobs. The Labor Department announced in mid-March that applications for unemployment insurance fell for the third week, to the lowest level since July 2008. At 386,250, the number is well below the 425,000 threshold that signals modest job growth. For the first time

in months, the unemployment rate dropped below 9% to 8.9%, well below the 9.7% rate of a year ago. What's more, employers recently added approximately 192,000 jobs.

More jobs mean higher consumer confidence, and that translates into more spending, more household formation, and more home buyers able to qualify to buy a home.

Houses are a hedge against inflation

The Consumer Price Index rose 0.5% between January 2011 and February 2011, excluding volatile food and fuel. For the year, gas is up 19.2%, fuel oil is up 27.1%, and food is higher by 2.8%.

Inflation rates are based on consumer prices. The urban index is up 2.1% for the year, which means inflation is currently at 2.1%.

Why is that good for home owners? When prices rise, a major asset such as a home, purchased at a fixed cost, becomes more valuable. In an inflationary environment, housing prices typically rise.

Mortgage interest rates are near record lows

Between October 2010 and March 15, 2011, benchmark 30-year, fixed-rate mortgage interest rates rose from a historical bottom of 4.32% to 4.77%.

If you purchased a home with a mortgage of \$300,000 when rates were 4.32%, your payment would be \$1488.14 a month. Over the term of the loan, you'd pay a total of \$535,730.17, with \$235,730 in interest.

The same home purchased in March 2011 would cost you \$1,568.56 per month, for a total of \$564,681.72, and \$264,681.72 in interest. That's an increase of \$80.41 per month, and an extra \$28,951.71 in mortgage interest over the term of the loan.

That's why prices can't compete with interest rates. To beat the low interest rates of 2010, your home's value would have to decline nearly 10%. At the current rate, that would take approximately a year and a half. That's a lifetime in economics. Economists are already predicting higher mortgage interest rates — so the chances that market conditions will be better in the future are poor.

Pent-up demand is ready to release

According to the National Association of Home Builders (NAHB) and the Census Bureau, household formation — a key ingredient for regulating housing supply — has declined significantly since the beginning of the Great Recession. Like many economic indicators, it, too, has overcorrected to approximately 1.0% annually. But considering that the largest generation ever — 81 million Echo Boomers — is well into renting and home buying age, the numbers should be closer to the 2.3% annual growth of the 1970s, when 78 million Baby Boomers reached adulthood. Based on that and other calculations, about 2.1 million would-be households have delayed formation due to the recession, creating pent-up demand for housing.

Buy-versus-rent ratios favor home ownership

As the economy improves, households increase. Mark Zandi, chief economist for Moody's, said he expects buying to beat renting in most markets by mid-year. The NAHB's Multifamily Market Index shows that rental vacancies have been falling steadily since Q2 2009. When more people are renting, higher rents can be charged. Right on cue, rents increased a modest 3% in 2010. Higher maintenance and building costs could mean rents will go even higher in 2011.

Michael Corbett, host of the "Mansions & Millionaires" segment on the syndicated TV show Extra, recently noted, "I'm pretty



comfortable saying that five years from now, people are going to be saying, ‘Damn, if I had just bought in 2011.’” The oracle of Omaha, Warren Buffett, recently said, “Home ownership makes sense for most Americans, particularly at today’s lower prices and bargain interest rates.”

The California Market

After three months of higher transaction volume, sales softened 9% in February 2011 over January, and were 4% below the pace set in February 2010. Unsold inventory rose from 6.7 months to 7.3 months on hand, tipping the state back into a buyer’s market. Statewide median prices fell 2.8% to \$271,320 from \$279,140 in January. The median price is 2.5% below the level of February 2010 and the lowest since May 2009, when it was \$263,440.

The California Association of REALTORS® chalks the reversal up to several factors. Sales volume may be down due to the elimination

of federal and state tax incentives, continuing consumer uncertainty. There are also fewer foreclosures on the market to lower median prices.

Advice for buyers: A housing recovery doesn’t proceed in a straight line. The question is, how deep are the dips? Buyers could wait for even better conditions, but the current alignment of falling mortgage interest rates, lower home prices, and wider selection is unlikely to happen again. Prices may go lower, but mortgage interest rates may go higher. If this isn’t the bottom, it’s very close. Act now.

Advice for sellers: Suddenly, buyers are back in control, and they’re demanding perfection. Your home’s price, presentation and condition are crucial to selling quickly. Now is not the time to test the market’s tolerance for higher prices or skip necessary repairs and updates.

With over 3,400 sales associates in 58 offices across Southern California and the Central Coast, Prudential California Realty is the name to trust when buying or selling a home. Our agents close more than \$12 billion in sales volume and well over 16,000 transactions each year. We also provide every aspect of domestic and international relocation to corporations around the world. As one of the top five brokerages in the nation and the largest affiliate in the Prudential Real Estate international network, we have the resources and connections to protect your interests and make sure your experience is a successful one.

Prudential California Realty is proud to be a member of HomeServices of America Inc., a Berkshire Hathaway affiliate.

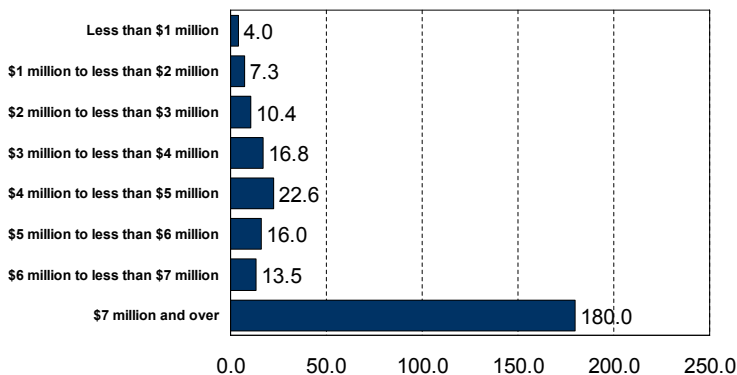
For more information, visit www.prudentialcal.com.

SANTA BARBARA COUNTY

Homes priced under \$1 million are selling as fast as they can close, but the market turns more circumspect once prices reach \$2 million. Homes priced \$3 million and above are in a sluggish buyer’s market, with the notable exception of homes between \$6 million and \$7 million, which have 12 months’ supply on hand.

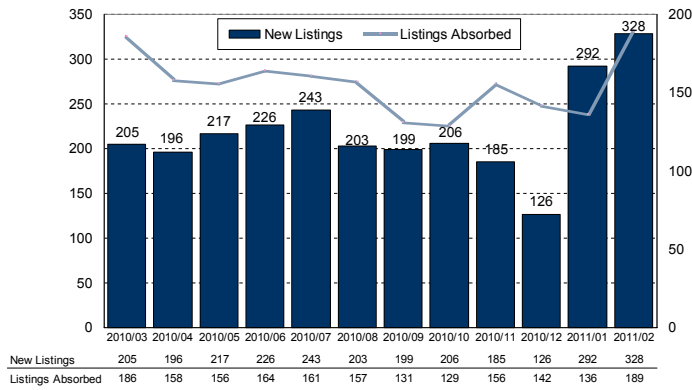
**A balanced market is widely accepted as having six months of inventory on hand with market conditions favorable to both buyers and sellers. A buyer’s market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller’s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

Inventory in Months’ Supply



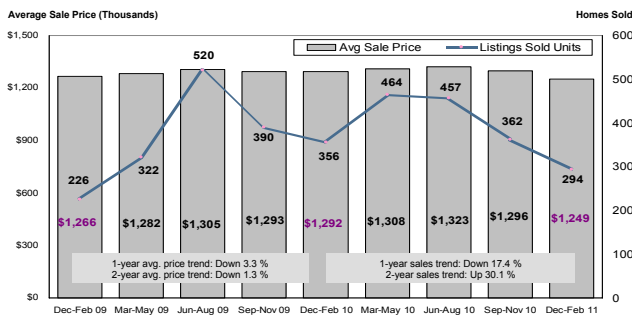
Upscale homes aren't expected to sell at the same pace as more affordable homes, so supplies on hand approaching one year aren't unusual.

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



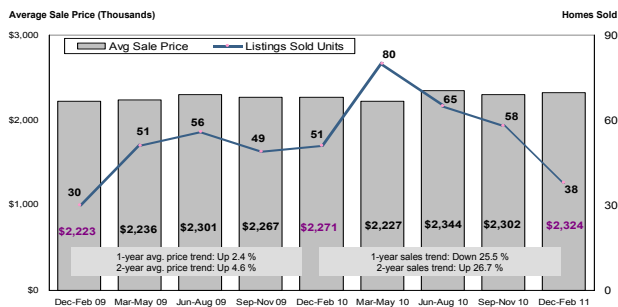
Both new listings and absorption rates peaked in January. Fortunately for sellers, buyers are grabbing new listings on the market.

Listings Sold, 9 Calendar Quarters through February 28, 2011 \$1,000,000 - \$1,999,999



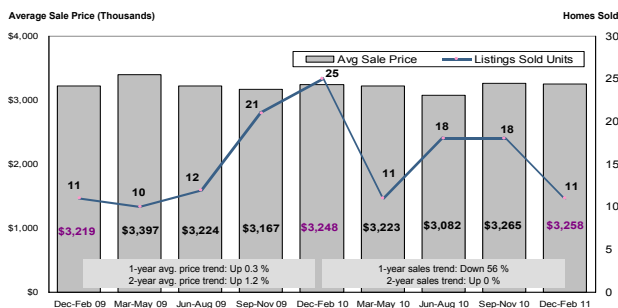
Sale prices of homes ranging from \$1 million to \$1,999,999 are down modestly, while transaction volume continues to climb in a two-year trend.

Listings Sold, 9 Calendar Quarters through February 28, 2011 \$2,000,000 - \$2,999,999



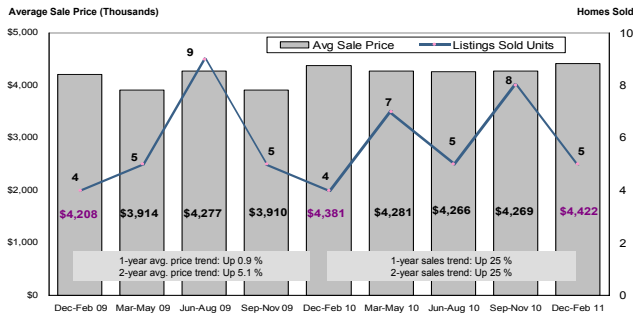
Transaction volume is up dramatically in homes from \$2 million to \$2,999,999 for the year between February 28, 2010 and February 28, 2011.

Listings Sold, 9 Calendar Quarters through February 28, 2011 \$3,000,000 - \$3,999,999



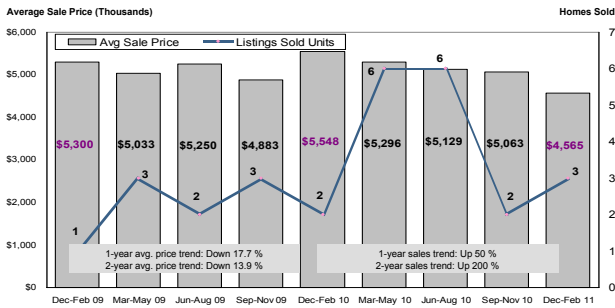
In homes that sold between \$3 million and \$3,999,999, both prices and sales volume were down for the year ending February 28, 2011.

Listings Sold, 9 Calendar Quarters through February 28, 2011
\$4,000,000 - \$4,999,999



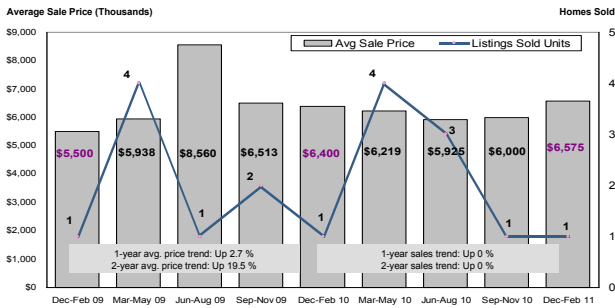
With prices up 12.7%, transaction volume retreated in homes between \$4 million and \$4,999,999 for the year ending February 28, 2011.

Listings Sold, 9 Calendar Quarters through February 28, 2011
\$5,000,000 - \$5,999,999



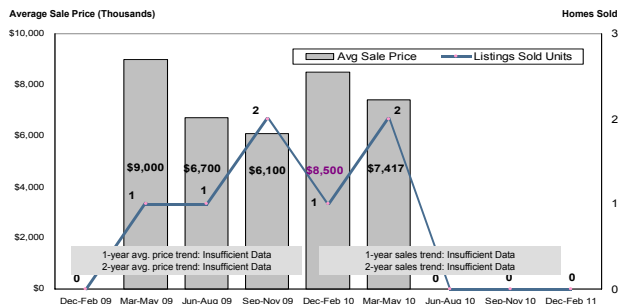
With prices down modestly for the two years ending February 28, 2011, sales of homes between \$5 million and \$5,999,999 are steady.

Listings Sold, 9 Calendar Quarters through February 28, 2011
\$6,000,000 - \$6,999,999



Bucking other trends, both prices and transaction volume are up significantly in homes that sold for \$6 million to \$6,999,999 in the year between February 28, 2010 and February 28, 2011.

Listings Sold, 9 Calendar Quarters through February 28, 2011
\$7,000,000 and above



In homes \$7 million and above, both price and sales trends are down significantly from the previous year for the period between February 28, 2010 and February 28, 2011.

