

REAL ESTATE REPORT

SANTA BARBARA | FEBRUARY 2012



Housing Market - Best Improvement In 5 Years

As housing conditions slowly improve, buyers and sellers could be surprised by a different market than in recent years.

Inventories are down, prices are lower, interest rates are at record lows, and the “shadow” inventory of distressed homes is receding.

In other words, housing is stabilizing, and that counts as a vast improvement compared to the last five years. Depending on your point of view, housing could be at the beginning of a market rally, or it could continue to bump along with only modest gains in sales volume and prices.

The California Association of REALTORS® reported that the increase in home sales for November 2011 was the fifth consecutive month of year-to-year sales increases across the state. Not only were housing sales higher than the previous month, they were higher than the previous year.

Yet housing sales and prices remain below normal levels, largely due to factors outside of buyer demand. The lowering of temporary federally insured loan limits on Fannie Mae and Freddie Mac-bound loans impacted the sale of higher-end homes, particularly in high-cost areas such as Ventura, Orange County, Santa Barbara and other areas.

Fortunately, the higher loan limits have since been restored to \$729,500 in many areas, so sales figures going forward should illustrate why it's a good time to buy a home in Southern California.

In addition, many banks are facing lawsuits

and demands for restitution over fraudulent loans they sold to Fannie and Freddie. This explains the huge reluctance of banks to lend money to anyone except those with near or perfect credit and credit scores of 720 or above.

Despite such headwinds, pending sales climbed higher than a year ago, but the best news is that equity sales (homes not sold under distress of missed payments, foreclosures or short sales) rose to 55.1% of the market in November, up from 53.9% in October and 54.4% a year ago.

Another positive trend is that short sales were 21% of total sales, up from 19% a year ago. Banks are more willing to work with distressed sellers than take them through the foreclosure process.

According to Dataquick, Southern California home sales have increased for four consecutive months, less than the NAR's statewide average. It was a tale of two markets. While transaction volume rose 6.1% in November 2011 for homes priced under \$400,000, sales of \$500,000 and above fell nearly 16% from a year ago. Sales of homes \$800,000 and above fell 17.6%.

Investors – nearly 25% of Southland home buyers – and buyers are pouring into homes that can be purchased within conforming and conventional loan limits up to \$417,000, which could create a seller's market not so much by area, but by price range. The number of short sales that were purchased rose, while foreclosures declined, again a slight improvement toward shifting

inventories away from the domination of distressed homes as opposed to equity homes – those sold with no financial encumbrances by the seller.

These are the kinds of reports that are improving inventory levels, which will eventually lead to more stable prices.

So what does 2012 hold in store for buyers and sellers? At Prudential California Realty, we believe that the trends mentioned in this report will develop further in the directions they are already going:

- 1) The number of home sales will continue to rise;
- 2) Inventories will increase, mostly due to a rise in foreclosures, but they will be absorbed quickly in the affordable price ranges;
- 3) Distressed properties will make up half of all sales as more sellers sell short;
- 4) An improved short sale process will emerge to help more home owners avoid foreclosure; and
- 5) Foreign and domestic investors will buy 25% of homes.

In these market conditions, look for buyers of affordable homes to see their equity building faster in 2012, while high-end home buyers may obtain some of the best bargains in recent years.

Advice for buyers: Lenders are closely watching housing sales in every price range and may use appraisal algorithms

that adjust for the rate of declining prices. Buyers should carefully consider recent comparables when making offers for homes. That means that the home as well as the buyer must qualify for the borrower's loan. To learn more, contact your mortgage professional at HomeServices Lending.

Advice for sellers: For sellers of high-end homes, the number of people who would have purchased using a federally insured loan has dropped by about 14%. Cash buyers are kings, and may demand additional discounts. Carefully consider competing homes and prices when pricing your home for sale or negotiating terms with a buyer. To learn more, confer

with your Prudential California Realty sales professional.

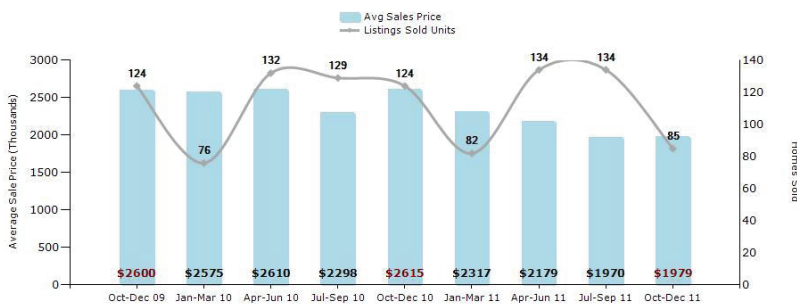
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Following the year's peak for sales between April and September, sales volume for upscale homes eased, while prices rose higher between October and December 2011. The year ended with prices nearly 25% below year-ago levels.

*A balanced market is widely accepted as having three to no more than 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.

** Small sample sizes and large or low sales volume in metrics such as Hot and Cold Zip Codes can skew statistics. Contact your Prudential California Realty sales professional for more information.

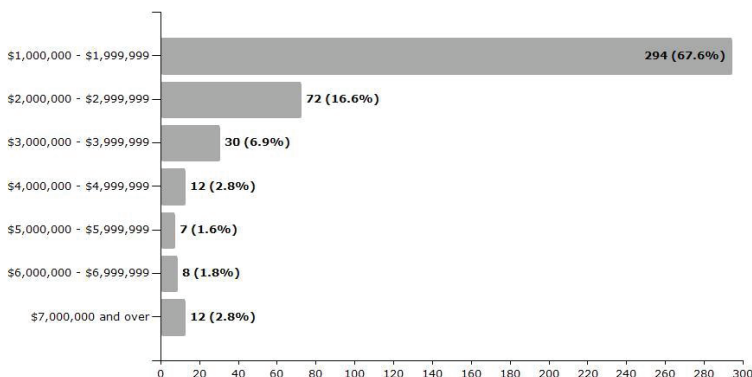
Listings Sold 3 Months Ending December 31, 2011



	1-year			2-year		
	Oct - Dec 10	Oct - Dec 11	% Change	Oct - Dec 09	Oct - Dec 11	% Change
Average Sales Price	2615	1979	-24.3%	2600	1979	-23.9%
Homes Sold	124	85	-31.5%	124	85	-31.5%

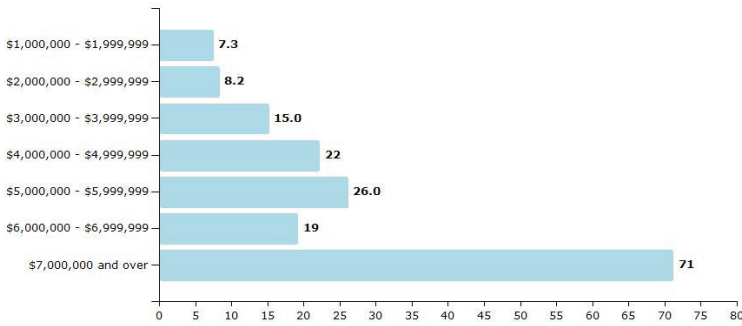
Sales volume eased in the three months between October and December after peaking between April and September 2011.

Listings Sold Units By Price Range



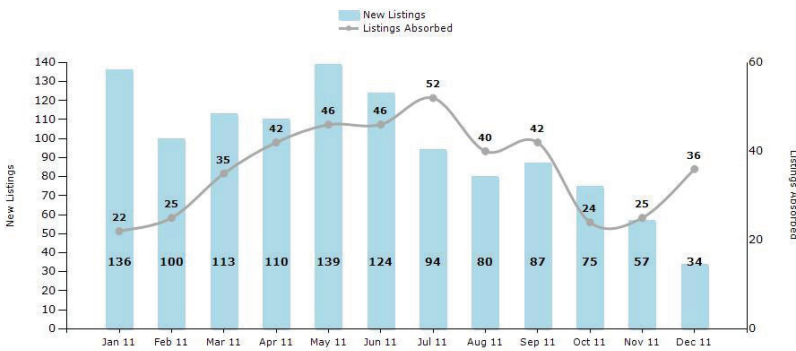
Nearly 68% of upscale homes sold in the year ending December 31, 2011 were under \$2 million.

Inventory in Months' Supply



Upscale homes are oversupplied in every price range at \$1 million and above. A balanced market has between three and six months of supply on hand.

Monthly Listings Taken and Absorbed



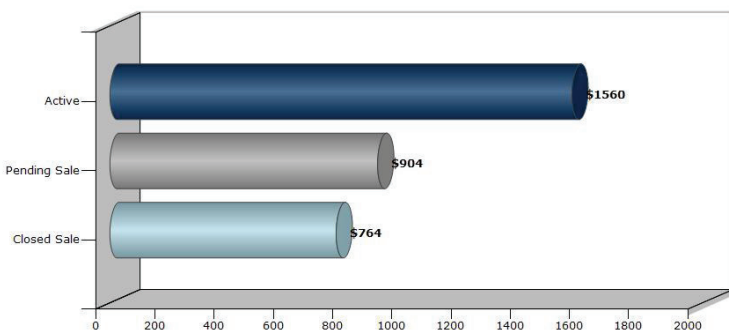
Since peaking in July 2011, sales volume for upscale homes declined to the lowest level of the year by October, but rebounded by December. Sellers added the fewest new listings since December 2010.

Sales Price Ratio



Sellers of upscale homes are overpricing their homes when they first put them on the market. Sellers are only getting 82% of original list price and 90.3% of the most recent published price.

Price per Square Foot



The gap between active prices per square foot and that of closed sales further illustrates the sales volume in homes priced under \$2 million.

**Hot & Cold Zip Codes
By Listings Sold Units**

Property Zip	Oct. 2011 - Dec. 2011 Listing Sold Units	Jul. 2011 - Sep. 2011 Listing Sold Units	% Listings Sold Units Gain/Loss
Zip 93103 (Santa Barbara)	10	7	42.9%
Zip 93105 (Santa Barbara)	16	13	23.1%
Zip 93117 (Goleta)	2	2	0%
Zip 93436 (Lompoc)	0	1	-100%
Zip 93441 (Los Olivos)	0	1	-100%
Zip 93460 (Santa Ynez)	0	5	-100%
Zip 93463 (Solvang)	0	1	-100%
Zip 93101 (Santa Barbara)	3	11	-72.7%

For upscale homes, the three months between October and December 2011 showed gains in the number of listings sold in two zip codes over the previous period.

**Hot & Cold Zip Codes
By Average Sale Price**

Property Zip	Oct. 2011 - Dec. 2011 Average Sale Price	Jul. 2011 - Sep. 2011 Average Sale Price	% Average Sale Price Gain/Loss
Zip 93110 (Santa Barbara)	\$2,785,415	\$1,700,347	63.8%
Zip 93101 (Santa Barbara)	\$2,212,500	\$1,373,136	61.1%
Zip 93103 (Santa Barbara)	\$1,992,900	\$1,400,000	42.3%
Zip 93067 (Summerland)	\$1,125,000	\$1,050,000	7.1%
Zip 93111 (Santa Barbara)	\$1,388,750	\$1,303,600	6.5%
Zip 93436 (Lompoc)	\$0	\$1,400,000	-100%
Zip 93441 (Los Olivos)	\$0	\$1,900,000	-100%
Zip 93460 (Santa Ynez)	\$0	\$1,237,100	-100%
Zip 93463 (Solvang)	\$0	\$1,125,000	-100%
Zip 93108 (Montecito)	\$2,239,344	\$2,686,833	-16.7%

For upscale homes, the three months between October and December 2011 showed gains in the average sale price in five zip codes over the previous period.

