



MARKET OVERVIEW

a monthly real estate report | July 2010

Housing Prices Increase on Pent-up Demand

We are seeing price increases in most Southern California markets for the sixth consecutive month in a row, indicating buyers no longer have a pricing advantage over sellers.

“Optimism that a sustainable economic recovery is underway is driving increases in home prices across many US metro areas,” said Fiserv chief economist David Stiff in a prepared statement. “More and more, consumers have confidence that buying a home doesn’t mean catching a falling knife. Price declines during the recession period have made housing much more affordable, drawing in first-time homebuyers, investors and now luxury buyers with cash.”

Of the markets recorded, California’s showed the greatest improvement in affordability. Prices are up in eight out of 28 metros, year over year, and they’re rising off recent lows in 24 metro areas.

“The strongest rebounds were in coastal markets, including Los Angeles, Orange County and San Diego where levels of foreclosed homes are decreasing,” notes Reecon Advisors editor, Steve Cook. “Inland markets have also experienced a price bounce, mainly due to strong investor demand.”

Altos Research’s 10-City Composite Price Index saw housing prices increase through May, but they’re still 6.1% below the peak set in July 2009. The price increase was a nominal 0.2% in median sales prices, but the significant factor is that these increases occurred after the expiration of the federal tax credit and included some of the most expensive markets in the U.S. This is the first month-over-month increase in nine months, Altos says.

Prices and affordability work hand in hand

The State of the Nation’s Housing, an annual report by The Joint Center for Housing Studies at Harvard University, found that affordability is helping to refuel the housing recovery.

“Nationwide, the median sales price dropped from 4.7 times the median household income in 2005 to 3.4 times in 2009. When combined with low interest rates, this puts mortgage payments on the median priced home closer to median gross rents than at anytime since 1980.”

Price cuts ease

With state tax incentives beginning May 1, 2010, for first-time buyers and buyers of new homes, California sales are continuing at a feverish pace, while the rest of the nation takes a breather.

On an annual basis, price cutting on active listings for sale has declined. Trulia.com recently announced that 22% of listings on the market as of June 1, 2010, experienced at least one price reduction, down from 23.6%. The average price reduction was 10%.

The role of luxury housing

Through March 2010, prices for lower-priced homes fell at a rate 50% greater than prices of homes at the higher end of the market, according to the most recent S&P/Case-Shiller index.

California luxury real estate markets are making a comeback, driven by growing buyer confidence, improved financing conditions and realistic seller pricing. Across the nation, homes priced \$2 million to \$5 million rose 32% in Q1 2010 according to Corelogic. They’re now at the same level as they were in 2005, before the housing market declined.

The improvement isn’t bulletproof, but as long as the economy keeps adding jobs, some economists believe there may actually be a housing shortage in the future.

According to the Joint Center for Housing Studies, household formation has been delayed by the economy. Once the job situation improves, echo boomers who are still

living at home with their parents will create more demand for homes. This will bring household growth back to where it was before the housing recession.

Advice for buyers: Housing prices have already recovered significantly since their peaks. Consult with your financial advisors and engage a Prudential California Realty real estate professional to assist you in finding a home that meets your needs. Affordable home prices combined with historically low interest rates creates a compelling reason to consider buying now.

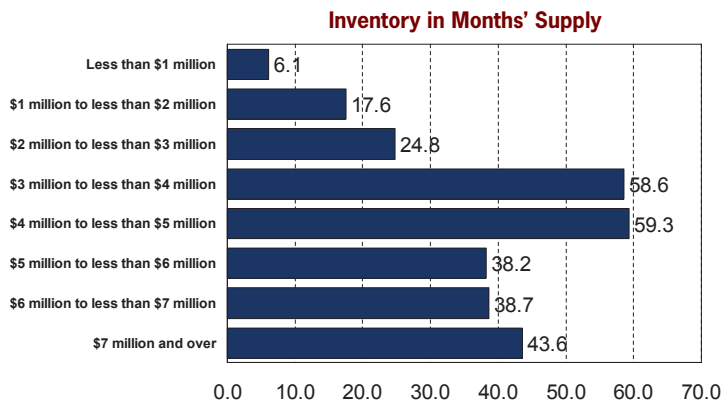
Advice for sellers: In April and May 2010, some sellers slashed prices in order to encourage buyers to take advantage of the federal tax credits. Now is the time to revisit your pricing strategy. Consult with your financial advisors and engage a Prudential California Realty real estate professional to help you determine the best pricing strategies for today’s market conditions. In many price ranges, there is more buyer demand than homes for sale, indicating a quick sale is possible. Consider that upgrade you’ve always dreamed about.

In the higher end, your home is competing with many others that may be newer and in better condition than yours. Rather than reducing your price, you may be better off bringing your home up to date to compete, then pricing it to sell.

SANTA BARBARA COUNTY

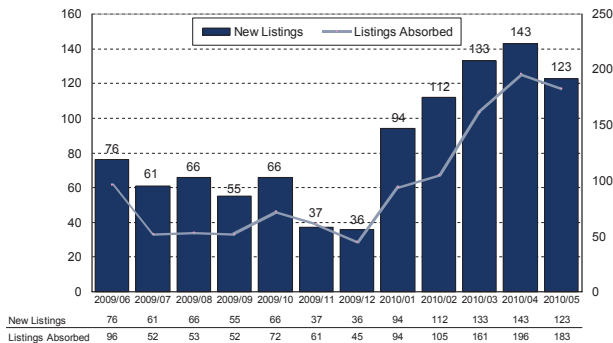
Homes priced under \$1 million are squarely in a balanced market, but the situation changes when prices fall between \$3 million and \$5 million. While unique and upscale homes aren't expected to sell at the same pace as affordable homes, when inventories rise above two-year supply, the market is stagnant

*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.



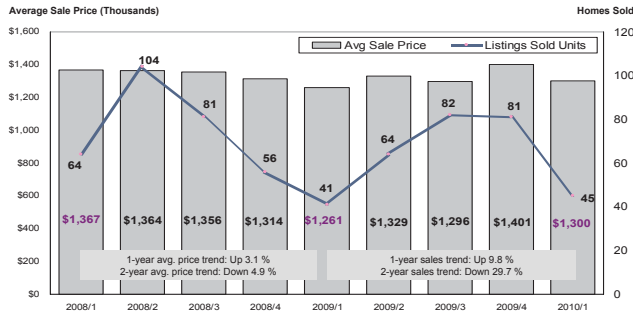
The upscale market is oversupplied in Santa Barbara, offering opportunity for buyers to negotiate.

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



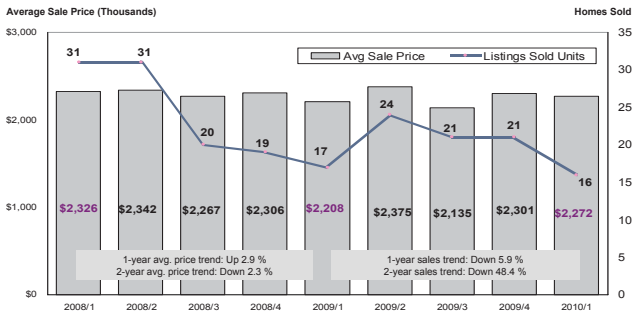
After peaking in April 2010, new listings entering the marketplace eased in May, but absorption rates slowed down, too, after five months of nearly vertical gains.

Listings Sold, 9 Calendar Quarters through March 31, 2010
\$1,000,000 - \$1,999,999



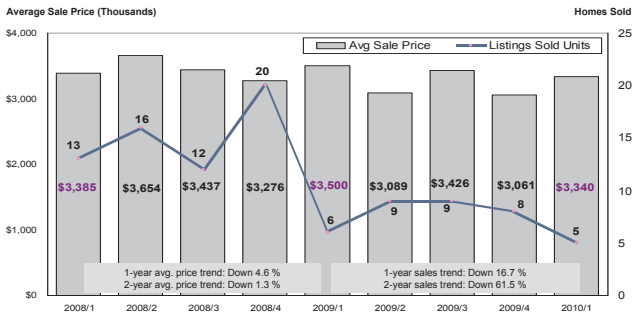
After doubling sales volume between Q1 2009 and Q3 2009, homes priced between \$1 million and \$1,999,999 tapped the brakes in Q1 2010, but sales trends are still up year-over-year.

Listings Sold, 9 Calendar Quarters through March 31, 2010
\$2,000,000 - \$2,999,999



In homes priced \$2 million to \$2,999,999, prices rose 2.9% in the year between Q1 2009 and Q1 2010, but it was enough to cause sales volume to ease.

Listings Sold, 9 Calendar Quarters through March 31, 2010
\$3,000,000 - \$3,999,999



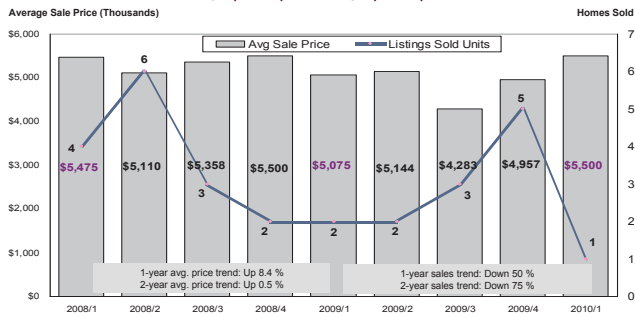
Homes priced \$3 million to \$3,999,999 priced 4.6% lower in the year between Q1 2009 and Q1 2010, while sales volume remained stubbornly down.

Listings Sold, 9 Calendar Quarters through March 31, 2010
\$4,000,000 - \$4,999,999



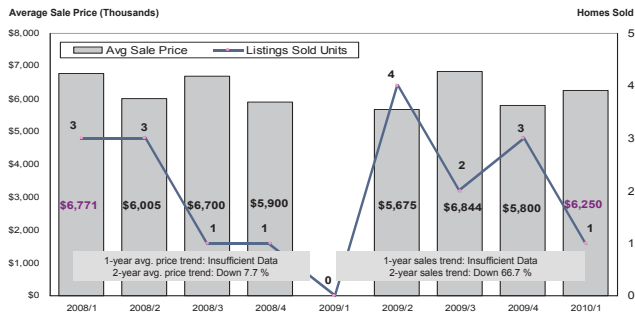
Prices and sales volume are both well below where they were two years ago in homes priced \$4 million to \$4,999,999.

**Listings Sold, 9 Calendar Quarters through March 31, 2010
\$5,000,000 - \$5,999,999**



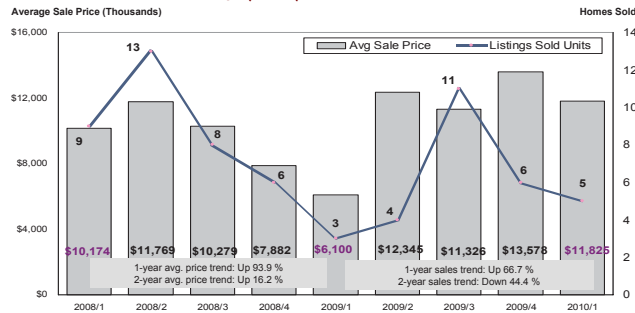
With housing sales in the single digits, a trend is more difficult to determine. Sales volume took a breather in Q1 2010 after rising to previous year-ago levels, perhaps on prices — up 8.4% since Q1 2009.

**Listings Sold, 9 Calendar Quarters through March 31, 2010
\$6,000,000 - \$6,999,999**



In the year following Q1 2009, sales volume was up 20% over the year before, perhaps on lower prices that have yet to retest 2008 levels.

**Listings Sold, 9 Calendar Quarters through March 31, 2010
\$7,000,000 and above**



In unique and upscale homes priced \$7 million or above, sales volume peaked in Q2 2008 before falling to the lowest level in Q1 2009. Since then prices have recovered nicely, but sales volume is still well below two years ago.



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