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The Real Estate Report

local market trends

SANTA CLARA COUNTY

Mortgage Debt Relief Act to Expire

Once upon a time, when a homeowner did a short sale, the IRS counted the difference between what the bank took and what the homeowner owed as income. Not much incentive there for sellers.

In 2007, the federal government enacted the MDRA that allows qualified taxpayers to exclude that "income".

The law will end December 31st.

You must close the short sale by then.

Other qualifications include:

- Good for up to \$2,000,000 in forgiven debt
- Only works for principal homes
- The tax rule can be applied to debt used to refinance your home, provided the principal balance of the old mortgage, immediately before the refinancing, would have qualified.

See "The Mortgage Forgiveness Debt Relief Act and Debt Cancellation" for additional information. Use this link: <http://tinyurl.com/5pe43f>.

If you've been considering a short sale, it's time to get off the stick. Short sales are notorious for taking a long time, like six months or more.

If you are upside down and are having problems making your payments, it's time to do something. It's going to take a long time before an upside down property becomes positive.

FEBRUARY MARKET STATISTICS

For fifteen months the median price for single-family, re-sale homes has been lower than the year before. But, in February, the median price was up 4% year-over-year.

Even better, the average price was up 11.9% compared to last February, reflecting that more \$1MM+ homes are selling.

Home sales were down 3.4% year-over-year.

Condo sales were down year-over-year by 3.9%.

The median price for condos was up 5.1% compared to last February.

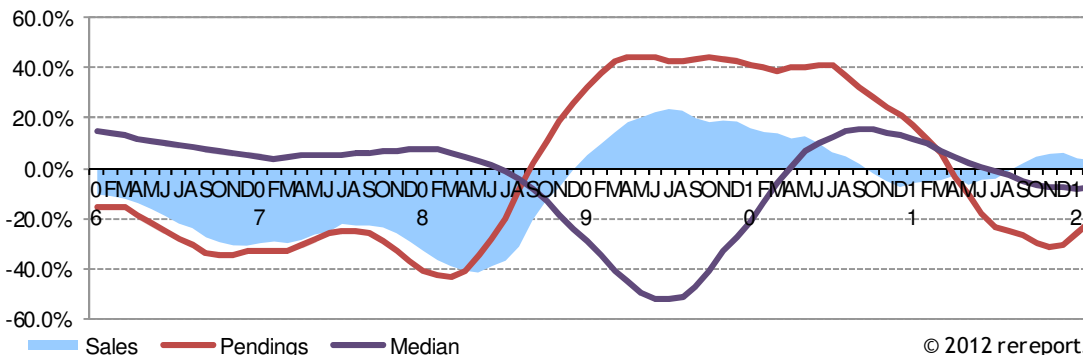
Inventory of both homes and condos continues to be weak. Home inventory was down 23.3% compared to last February: 1,389 homes actively listed. Condo inventory was down 70.8% year-over-year.

Trends at a Glance (Single-family Homes)			
	Feb 12	Jan 12	Feb 11
Median Price:	\$ 541,000	\$ 485,000	\$ 520,400
Average Price:	\$ 741,125	\$ 652,127	\$ 662,529
Home Sales:	654	556	677
Pending Sales:	1,899	1,597	1,545
Inventory:	1,389	1,382	1,812
Sale/List Price Ratio:	99.5%	99.0%	99.0%
Days on Market:	60	65	68
Days of Inventory:	59	75	72

Pending home sales were up 22.9% year-over-year. Condo pending sales were up 12.8% year-over-year.

Please remember, while statistics are nice, they will not determine the price you pay or get for a property. That will come down to you and the buyer or seller.

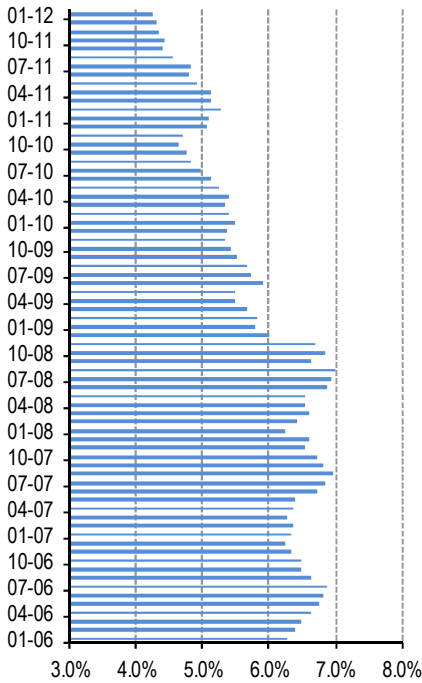
Santa Clara County Homes: Sales Momentum



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Mortgage Rate Outlook

30-Year Fixed Mortgage Rates



The chart above shows the National monthly average for 30-year fixed rate mortgages as compiled by HSH.com. The average includes mortgages of all sizes, including conforming, "expanded conforming," and jumbo.

Mar. 2, 2012 -- In a perfect recovery, economic growth would come in bursts above levels needed to foment a self-sustaining recovery without extraordinary supports. That's not been the case with this recovery, at least to date, but perhaps those days are approaching more quickly than previously expected.

That's not to make a claim that we are there yet, or that an even and steady gait is to be expected, or that supports will suddenly disappear, only that forward momentum seems to be occurring, the kind which might help us power through whatever headwinds might come. They may yet prove considerable but for the moment don't appear to be slowing us down much.

Some supports come in the form of Federal Reserve's policies to keep long-term interest rates and mortgage rates low. Although rates did move a tad higher in the last couple of weeks, grinding just above record lows, they remain a powerful inducement to finance or refinance a home.

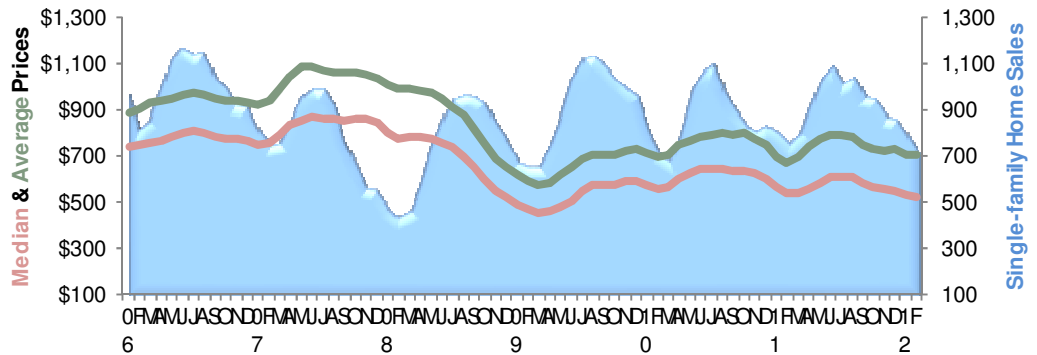
HSH.com's broad-market mortgage tracker -- our weekly Fixed-Rate Mortgage Indicator (FRMI) -- found that the overall average rate for 30-year fixed-rate mortgages slipped by three basis points (.03%) from last week, easing to an average 4.22%. The

FRMI's 15-year companion gave up just one basis point of last week's rise to finish the weekly survey at an average 3.50%. Important to homebuyers and low-equity-stake refinancers, FHA-backed 30-year mortgages declined by a single hundredth of a percentage point to 3.85%, and the overall average for 5/1 Hybrid ARMs followed suit, falling one basis points to 3.01%.

Mortgage rates are only one component of the transaction, though. Fees and insurance costs of course play a role as well. Housing and Urban Development (HUD) announced this week an increase in FHA insurance premiums, starting April 1. The required fee to get into the FHA insurance pool is rising from 1% of the loan amount to 1.75%, and annual recurring premiums are rising by about 10% overall. The FHA is looking for any way possible to shore up its insurance pool, which has been decimated by losses from loans in the early years of the housing crisis, largely 2007-2009. While these are not huge increases, it does mean that it will be a little tougher for some borrowers to get cheap, low down payment loans. The move is also one means of pushing borrowers back toward private lenders, most notably "jumbo" borrowers, as those higher MI costs are a deterrent to using an FHA mortgage.

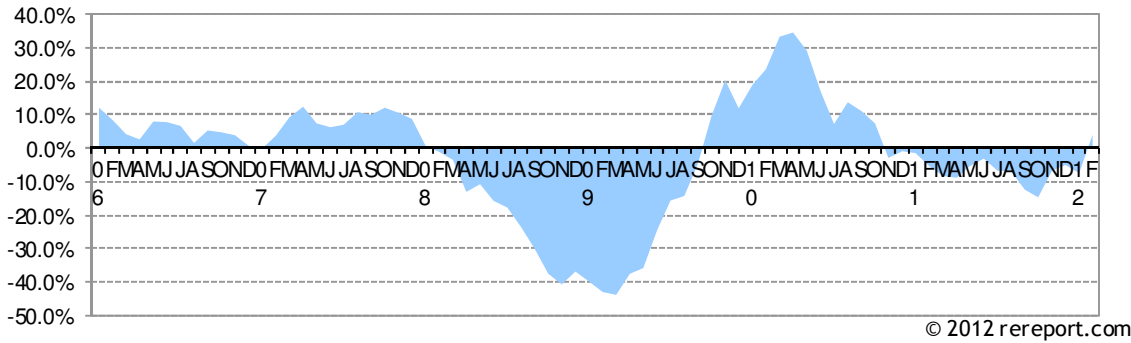
Santa Clara County Homes - Prices & Sales

(3-month moving average—prices in \$000's)



Santa Clara County - February 2012												
Single-Family Homes								% Change from Year Before				
Prices								Prices				
Cities	Median	Average	Sales	Pend	Inven	DOI	SP/LP	Med	Ave	Sales	Pend2	Inven
County	\$ 541,000	\$ 741,125	654	1,899	1,389	59	99.5%	4.0%	11.9%	-3.4%	22.9%	-23.3%
Campbell	\$ 682,500	\$ 715,804	22	37	33	42	96.3%	8.7%	11.2%	340.0%	-7.5%	-38.9%
Cupertino	\$ 965,000	\$ 1,089,760	15	29	28	52	99.2%	3.2%	5.2%	-28.6%	-14.7%	-37.8%
Gilroy	\$ 315,000	\$ 353,098	28	134	105	105	99.5%	-10.5%	-23.0%	-28.2%	-6.9%	-16.0%
Los Altos	\$ 1,901,500	\$ 2,064,860	12	27	40	93	104.2%	16.5%	15.8%	0.0%	0.0%	-14.9%
Los Altos Hills	\$ 2,850,000	\$ 3,025,000	3	10	27	252	93.0%	29.5%	51.9%	0.0%	-16.7%	-28.9%
Los Gatos	\$ 1,442,500	\$ 2,320,030	16	45	74	130	94.8%	13.0%	87.7%	14.3%	-22.4%	-31.5%
Milpitas	\$ 476,000	\$ 511,001	28	74	43	43	99.5%	10.2%	12.1%	75.0%	32.1%	-17.3%
Monte Sereno	\$ 1,650,000	\$ 1,798,330	3	1	6	60	99.4%	20.0%	30.8%	200.0%	-83.3%	-45.5%
Morgan Hill	\$ 456,500	\$ 667,199	28	79	107	107	96.4%	-10.2%	20.1%	100.0%	-16.0%	-19.5%
Mountain View	\$ 967,500	\$ 986,796	26	33	20	22	102.5%	8.7%	-0.7%	100.0%	26.9%	-39.4%
Palo Alto	\$ 1,940,000	\$ 1,997,350	23	38	30	37	105.5%	20.0%	5.9%	35.3%	-9.5%	-30.2%
San Jose	\$ 455,000	\$ 531,334	361	1,162	700	54	99.6%	0.0%	1.2%	-7.9%	-7.7%	-37.1%
Santa Clara	\$ 545,000	\$ 567,603	27	94	26	27	99.1%	-6.8%	-5.5%	-6.9%	28.8%	-74.8%
Saratoga	\$ 1,454,000	\$ 1,658,120	16	41	62	109	97.6%	7.7%	7.8%	23.1%	32.3%	-36.1%
Sunnyvale	\$ 728,000	\$ 706,095	37	70	38	29	99.4%	-7.3%	-4.1%	19.4%	6.1%	-51.9%

Santa Clara County Homes: Year-Over-Year Median Price Change



FORECLOSURE STATISTICS

Notices of default, the first step in the foreclosure process, in Santa Clara County rose 15.5% in January from December, but they were down 31.6% from January 2011.

Notices of sale, which set the date and time of an auction, and serve as the homeowner's final notice before sale, dropped 1.6% from December, but were up 1% year-over-year.

After the filing of a Notice of Trustee Sale, there are only three possible outcomes. First, the sale can be cancelled for reasons that include a successful loan modification or short sale, a filing error, or a legal requirement to re-file the notice after extended postponements. Alternatively, if the property is taken to sale, the bank will place the opening bid. If a third party, typically an investor, bids more than the bank's opening bid, the

property will be sold to the third party; if not, it will go back to the bank and become part of that bank's REO inventory.

In January, cancellations were off 2.1% year-over-year, but up 2% from December.

Properties going back to the bank spiked 53.7% in January from December. Year-over-year, they were down 37.6%.

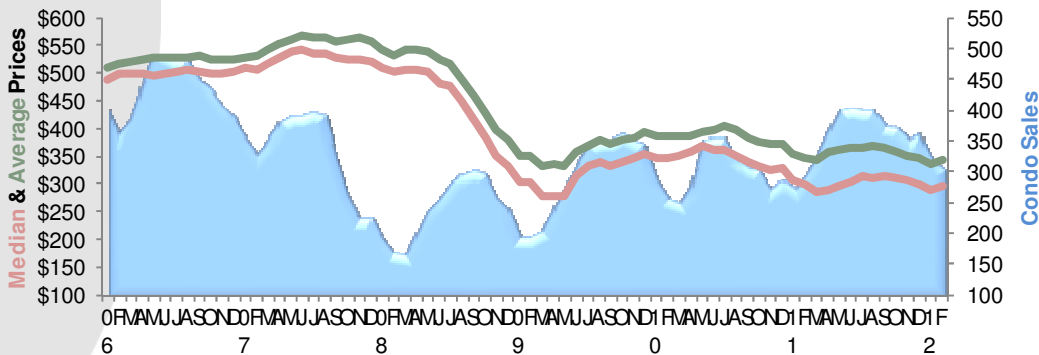
The total number of homes that have had a notice of default filed decreased by 42.7% year-over-year.

The total number of homes scheduled for sale declined by 22% year-over-year.

The total number of homes owned by banks was down 15.6% year-over-year.

Santa Clara County Condos- Prices & Sales

(3-month moving average—prices in \$000's)



Santa Clara County - February 2012

Condos/Townhomes								% Change from Year Before				
Prices								Prices				
Cities	Median	Average	Sales	Pend	Inven	DOI	SP/LP	Med	Ave	Sales	Pend2	Inven
County	\$ 310,000	\$ 358,353	299	884	388	36	99.3%	5.1%	4.0%	-3.9%	12.8%	-70.8%
Campbell	\$ 392,000	\$ 338,343	7	28	16	64	99.6%	-12.4%	-22.7%	75.0%	27.3%	-63.6%
Cupertino	\$ 560,000	\$ 534,286	7	7	9	36	97.3%	-25.2%	-27.3%	-30.0%	-56.3%	-43.8%
Gilroy	\$ 115,000	\$ 125,630	5	8	5	28	97.0%	-38.5%	-28.3%	66.7%	-42.9%	66.7%
Los Altos	\$ 854,000	\$ 854,000	1	9	2	56	98.7%	-1.0%	-1.0%	-50.0%	50.0%	-75.0%
Los Gatos	\$ 601,000	\$ 562,675	8	22	16	56	96.1%	25.2%	14.7%	60.0%	29.4%	-27.3%
Milpitas	\$ 203,500	\$ 257,917	12	35	17	40	100.2%	-46.1%	-25.4%	-33.3%	-22.2%	-45.2%
Morgan Hill	\$ 317,200	\$ 317,200	1	18	10	280	101.7%	21.4%	13.2%	-75.0%	38.5%	-37.5%
Mountain View	\$ 640,000	\$ 629,724	25	50	15	17	99.7%	41.1%	29.9%	38.9%	8.7%	-77.9%
Palo Alto	\$ 650,000	\$ 829,300	10	12	11	31	100.3%	-7.6%	25.3%	0.0%	-14.3%	-59.3%
San Jose	\$ 248,000	\$ 277,470	178	571	247	39	99.4%	0.6%	3.3%	-0.6%	-1.7%	-56.4%
Santa Clara	\$ 305,000	\$ 351,685	21	67	21	28	100.4%	1.3%	1.9%	-4.5%	-13.0%	-73.1%
Saratoga	\$ 485,000	\$ 474,296	3	6	3	28	95.3%	-48.4%	-49.5%	50.0%	100.0%	-70.0%
Sunnyvale	\$ 430,000	\$ 448,057	21	51	16	21	98.7%	-5.0%	-1.8%	16.7%	27.5%	-73.8%

Table Definitions

Median Price

The price at which 50% of prices were higher and 50% were lower.

Average Price

Add all prices and divide by the number of sales.

SP/LP

Sales price to list price ratio or the price paid for the property divided by the asking price.

DOI

Days of Inventory, or how many days it would take to sell all the property for sale at the current rate of sales.

Pend

Property under contract to sell that hasn't closed escrow.

Inven

Number of properties actively for sale as of the last day of the month.

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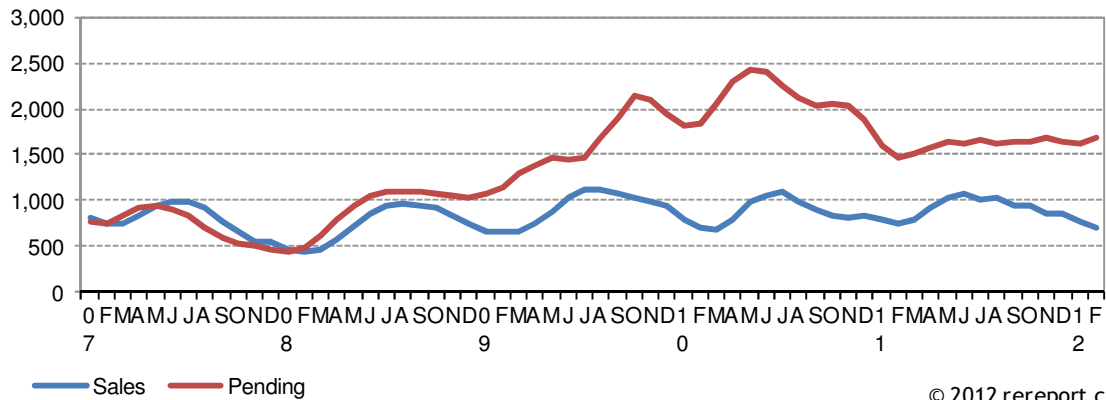
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Santa Clara County Homes: Pending & Existing Home Sales
(3-month moving average)



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