

ORANGE 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.

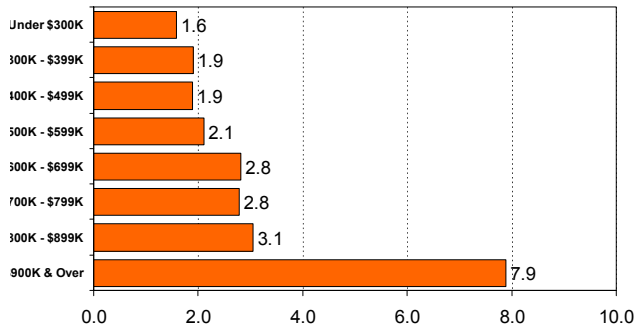
ORANGE COUNTY

Orange County housing is in a heated seller's market*, with as little as 2.4 months of inventory on hand in homes priced under \$1 million. In homes priced above \$1 million, selection is larger, but unique, upscale and luxury properties aren't expected to sell as quickly as more traditional homes. Between \$2 million and \$6 million, homes are averaging 17.6 months of inventory, which isn't out of the ordinary in high-end homes. Homes priced above \$6 million could be said to be in a serious buyer's market.

*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.

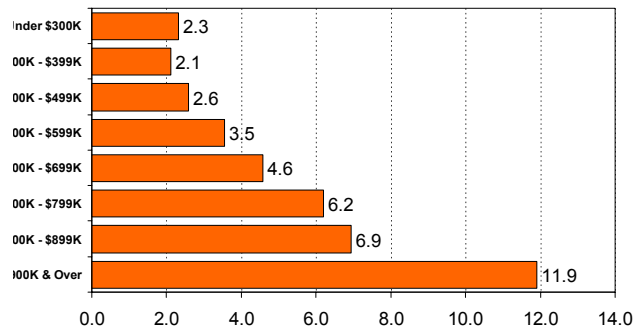
Detached homes stand alone and share no common walls with any other neighboring home. Attached homes share at least one common wall with another home. The type of home ownership is determined by whether or not it is a condominium, townhome, duplex, co-operative or other.

Detached Properties - Inventory in Months



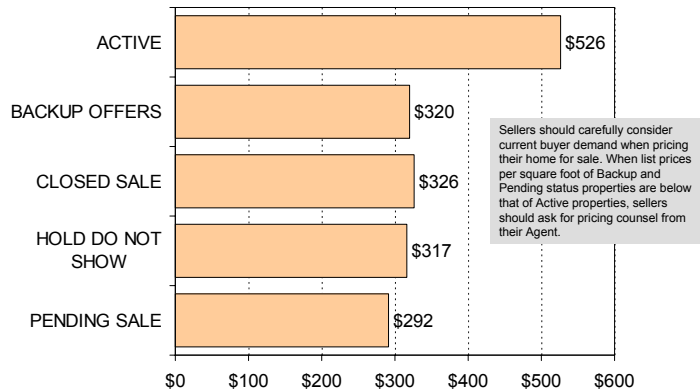
Detached homes under \$1 million are in a heated seller's market, with so little inventory in some price ranges that homes are selling faster than replacements can come onto the market.

Attached Properties - Inventory in Months



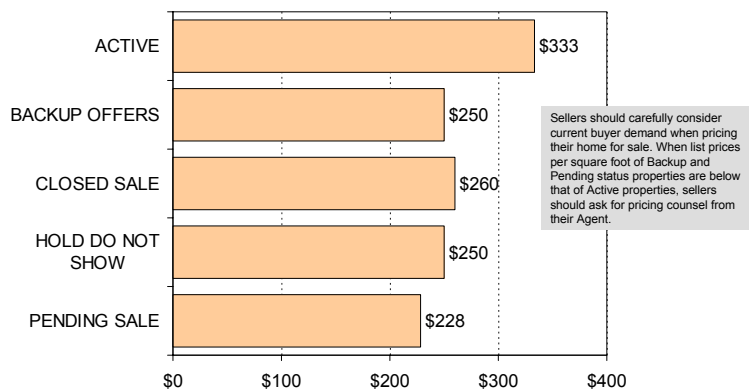
Attached homes are also in a seller's market, with inventories building only in homes priced \$900K and above.

Detached Properties - Pricing Realty for Sellers, per square foot



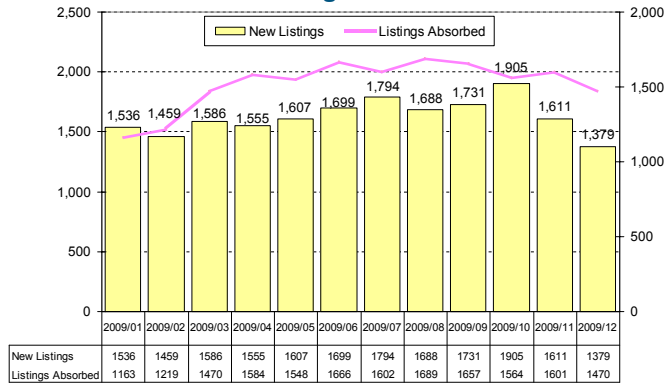
Active home prices per square foot much higher than that of closed sales in detached properties further illustrate the seller's market in the conforming loan ranges. However, detached home properties are also more unique, which can skew listing prices per square foot.

Attached Properties - Pricing Realty for Sellers, per square foot



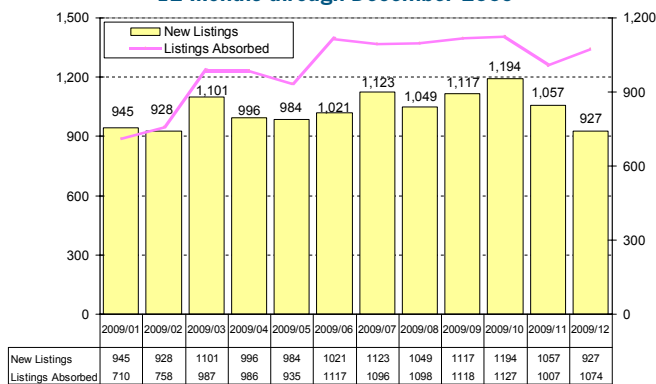
Attached home prices per square foot tend to be closer to sold prices than those of detached homes. Lower backup offers and pendings suggest greater volume in the affordable ranges.

Detached Properties - Monthly Listings Taken and Absorbed 12 Months through December 2009



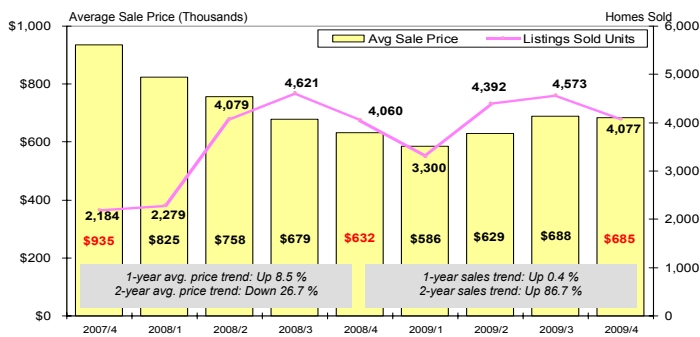
The rate of new listings entering the market peaked in October 2009. Since then, new listings have declined, and absorption rates have increased proportionately.

Attached Properties - Monthly Listings Taken and Absorbed 12 Months through December 2009



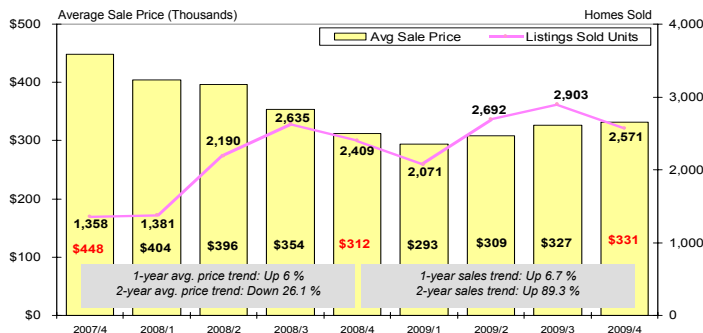
New attached home listings peaked in October 2009. Since then, the number of new listings has declined and absorption rate improved in December 2009.

Detached Properties - Listings Sold by Calendar Quarter 9 Quarters through December 31, 2009



Detached home sales volumes doubled over the two years that prices declined 26.7%.

Attached Properties - Listings Sold by Calendar Quarter 9 Quarters through December 31, 2009



Attached home prices are down 26.1% over two years, with a subsequent positive effect on sales volume.

