



Housing Poised for Rebound

By the first week of May 2011, gross domestic product was slowing, and unemployment was spiking. Yet housing sales were up on lower median prices. Mortgage interest rates were dropping. Gas prices ignited inflation, but it's already drifting lower again. Personal incomes and consumer spending rose.

With such dizzying swings in economic indicators, it's hard to decipher which direction housing is heading. But as prices bounce along the bottom, a rebound in the future looks more and more certain.

Home Services of America CEO Ron Peltier says supply is still outpacing demand. Current sales of existing homes are tracking closely with the numbers achieved during two years of tax incentives for home buyers.

"Lenders are back to foreclosing, and we do have an excess of inventory of 3.6 million homes, when the trailing average is closer to 2.5 million," said Peltier in a recent interview. "But this will correct, and we will start to see a balance to demand."

Distressed homes are 40% off peak prices, while existing home prices are 30% lower, said Peltier. That means incredible opportunities abound for those in the position to take advantage of record affordability.

The National Association of Home Builders/Wells Fargo Housing Opportunity Index found that 73.9% of all homes sold in Q4 2010 were affordable to families earning the national median household income of \$64,400 – the highest HOI in 20 years.

The housing correction also took its toll on rental prices, but they're rebounding quickly. Tight credit conditions for home buyers are turning many potential home owners into renters. In the last five years, the number of renter households has grown by 700,000 annually.

Further, mortgage delinquency has declined every month in 2011 according to Freddie Mac, so the much-feared shadow inventory of homes taken back by lenders may be declining.

As rents rise, home ownership begins to make more sense, which may explain why pending contracts have risen six out of the last nine months following the termination of federal and state incentives.

Whether excess inventories of homes are purchased or rented, they'll be removed from the market. About 4 million vacant units could be absorbed in a year or less, according to a recent study by the Joint Center for Housing Studies at Harvard University.

The main reason available housing inventory is being snapped up is affordability. It currently takes only 13% of household income to buy the median priced existing home at \$157,000, well below the 28% maximum required to qualify for a federally insured loan, according to the National Association of REALTORS®.

That said, it's important to remember that housing sales are still competing against last year's incentive-driven numbers. Despite rising sales nationwide, the market appears to be underperforming, when the opposite is true: home buyers are buying without additional incentives for the wise investment of owning their own homes.

California is a perfect illustration of this phenomenon. Statewide housing sales were up 33.3% in March 2011 over February, but down 2.4% from a year ago, says DataQuick.

The median price paid for a California home in March was \$249,999, up 2% from \$244,000 in February but 2.4% below the \$255,000 median price of March 2010.

Despite recent price declines, California home prices are still well above the April 2009 bottom,

when median prices sank to \$221,000, yet well off the peak of \$484,000 set in early 2007.

Another sign pointing toward housing stability is fewer foreclosures. In February 2011, the number of foreclosed homes sold in California fell to 39.3% of supplies sold, down from 58.5% of all homes sold in February 2009, says Dataquick. Fewer notices of default were filed in Q1 2011, 15.8% below the number filed in Q1 2010, and the lowest number filed since Q2 2007, during the worst of the downturn. That means the pipeline of foreclosed homes is narrowing.

Home buyers can rejoice that mortgage interest rates are at year-long lows in the first week of May, compared to 5% a year ago for the week ending May 5, 2010, says Freddie Mac.

Couple that with the fact that 69% of first-time home buyers can afford an entry-level home in California (as of Q4 2010) and it appears that housing is indeed on the rebound.

Advice for buyers: With every spike in affordability comes a corresponding increase in mortgage applications. As mortgage firms operate with smaller staff and greater risk assessment, expect your loan to take longer than usual. Lock in your low rate now by applying for your loan and providing the lender every piece of documentation he or she requires.

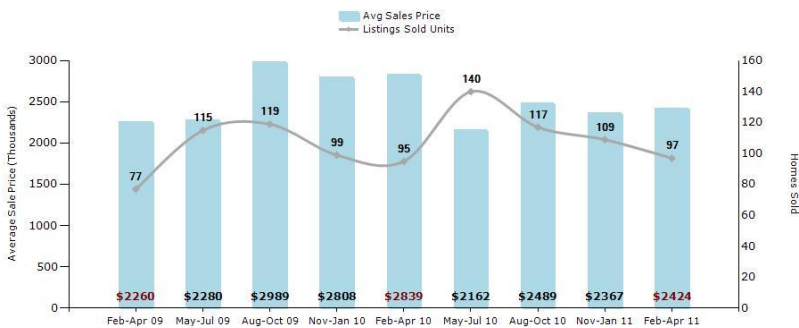
Advice for sellers: This is not the time to price at the top of the market. Bank appraisals of your home may come in lower than you might expect if underwriters have any cause for concern. Your buyer's loan may go through a second review process to make certain the lender is meeting today's strict underwriting guidelines.

SAN DIEGO COUNTY

Upscale homes in San Diego County rose in price and sales volume for the year between the February-April 2010 and February-April 2011 quarters. Nearly 80% of homes sold for the year were priced between \$1 million and \$1,999,999. Sellers should be aware that buyers remain price-sensitive and to price their homes accordingly.

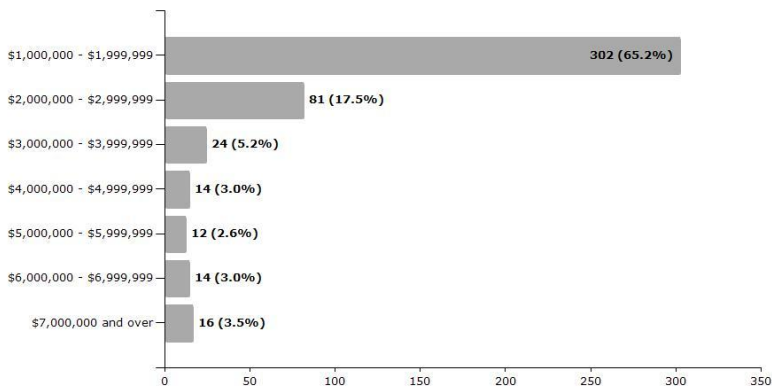
**A balanced market is widely accepted as having six months of inventory on hand with market conditions favorable to both buyers and sellers. A buyer's market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller's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

Listings Sold by Calendar Quarter



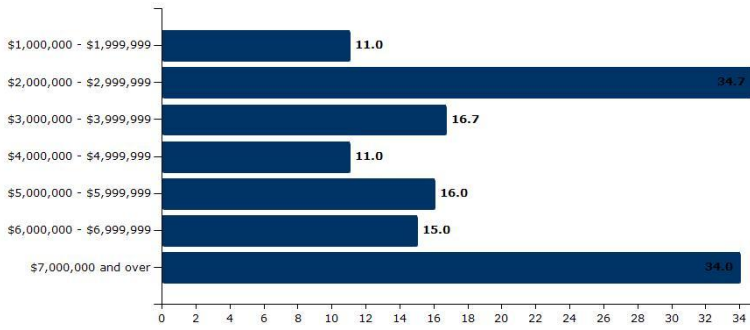
Prices rose 0.1% while transaction volume lifted 10.6% in the year between the February-April 2010 quarter and the February-April 2011 quarter.

Listings Sold by Price Range



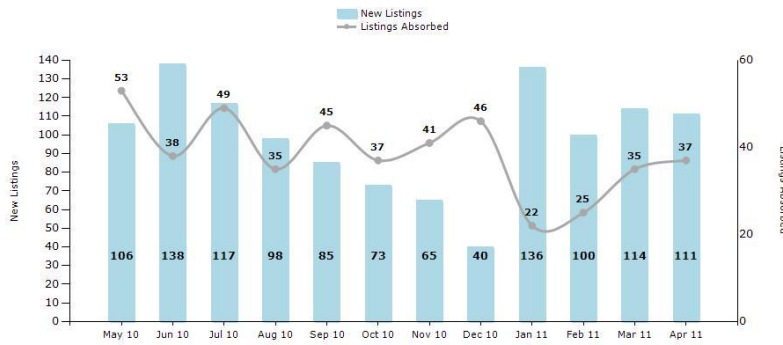
Nearly four-fifths of the upscale homes sold in San Diego County were priced between \$1 million and \$1,999,999.

Inventory in Months Supply



Upscale homes aren't expected to sell at the same pace as affordable homes, but once supplies build to a year or more, the market is sluggish to stagnant.

Monthly Listings Taken and Absorbed



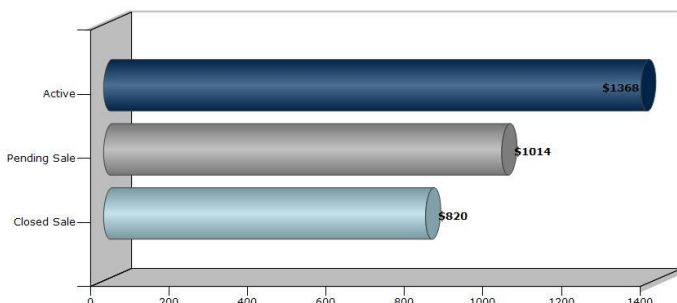
After peaking in March 2011, new listings coming onto the market eased only slightly. Fortunately for sellers, absorption rates picked up nicely.

Sales Price Ratio



The large gap between original asking prices and final sales prices suggests that sellers are overpricing their homes and taking reductions, despite the improvement in sales volume. Homes priced to current market conditions sell faster than homes with reduced prices.

Price per Square Foot



Active listings' prices per square foot are much higher than those of solds, further illustrating the preponderance of sales under \$2 million.

Hot & Cold Zip Codes by Listings Sold Units

Property Zip	Current Quarters Feb. 2011 - Apr. 2011 Listing Sold Units	Previous Quarters Nov. 2010 - Jan. 2011 Listing Sold Units	% Listings Sold Units Gain/Loss
93013	5	3	66.7%
93103	14	11	27.3%
93110	11	9	22.2%
93067	2	2	0%
93109	6	6	0%
93101	4	8	-50%
93117	2	5	-60%
93460	1	4	-75%
93463	0	1	-100%
93436	0	1	-100%

Half of San Diego upscale zip codes reported significant increases in sales volume between the February-April 2011 quarter and the previous three months.

Hot & Cold Zip Codes by Average Sale Price

Property Zip	Current Quarters Feb. 2011 - Apr. 2011 Average Sale Price	Previous Quarters Nov. 2010 - Jan. 2011 Average Sale Price	% Average Sale Price Gain/Loss
93117	\$8,000,000	\$1,540,000	419.5%
93110	\$2,692,272	\$1,694,761	58.9%
93101	\$1,650,000	\$1,538,828	7.2%
93108	\$3,144,091	\$3,158,552	-0.5%
93111	\$2,004,964	\$2,067,222	-3%
93460	\$1,095,000	\$1,518,750	-27.9%
93067	\$1,275,000	\$1,885,000	-32.4%
93013	\$2,241,000	\$7,913,333	-71.7%
93463	\$0	\$1,600,000	-100%
93436	\$0	\$1,600,000	-100%

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