



California Market Watch, December 19, 2009

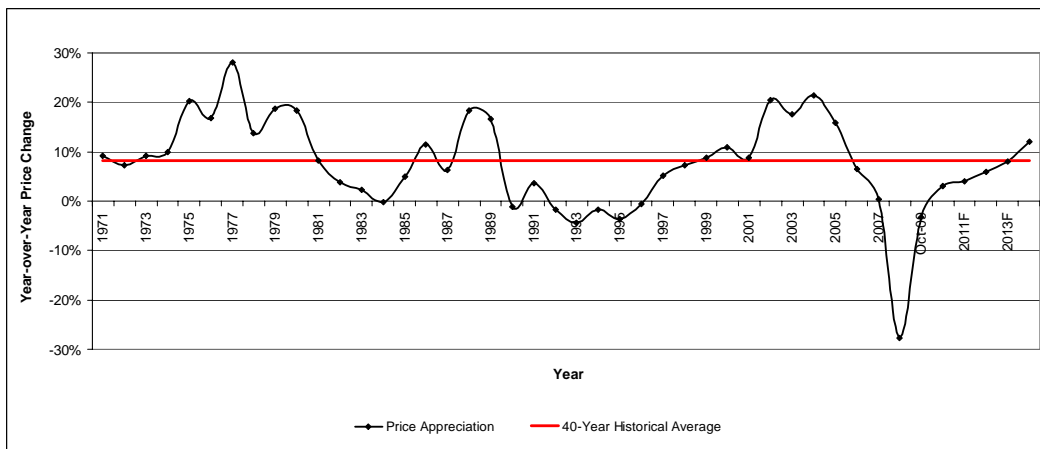
A Look Ahead at 2010

While 2009 has been a tumultuous year for the California real estate market, there are emerging signs of stabilizing market conditions. According to data published by the California Association of Realtors, existing home sales are on pace to top 500,000 for the first time in four years. This represents an increase of approximately 50,000 units from the previous projection as homebuyers flocked into the market in the third quarter to take advantage of the looming tax credit expiration, low interest rates, and bargain basement pricing. This caps off a historic decade in the California home market with more than five million existing homes sold from 2000 to 2009, approximately 30% higher than in the 1990's. With the recent jump in sales volume, the median price of an existing home in California appears to be stabilizing. In each of the last eight months, the median price has shown slight improvement over the previous month. Looking forward, we anticipate that overall median pricing will rise slightly in 2010 driven primarily by three factors:

- **Tax Credit:** extended and expanded to include higher income levels (up to \$225,000 for couples). Move-up buyers looking to purchase a new home that is priced under \$800,000 can receive a \$6,500 credit. With the credit set to expire at the end of April, we can expect that sales volume in higher price categories will skew the median price upward.
- **Foreclosure Sales:** have been declining over the last six months. Approximately 50% of California sales recorded in the first half of 2009 were REO's. With foreclosure inventory burning off, better supply/demand conditions should exist in 2010 helping to stabilize pricing. While the threat of 'shadow' foreclosures still looms, we anticipate that the worst of the foreclosure problem has past.
- **High Affordability:** statewide median pricing is now 50% off its peak level; coupled with low interest rates home affordability is at a level not witnessed in years. Reports of multiple offers on many homes in lower price categories and a two month decline in inventory signals better conditions in 2010.

Historic trends indicate that the next two to three years will be rebuilding years as need based purchases (first time buyers, growing families and retirees) dominate the market. Our prediction is 2010 will find home prices stabilizing, with the median home price rising 3% next year on a state-wide basis. While short-term price appreciation will remain positive and just below the 40-year historical average of 8%, we anticipate double-digit price gains by 2014. We can expect another run-up with a high degree of certainty given double-digit increases have occurred in three of the past four decades. The graph below illustrates historic price appreciation and our forecast through 2014.

California Housing Cycle: 1970 – 2014F



SOURCE: California Association of Realtors; Meyers Builder Advisors

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