



REAL ESTATE REPORT

SAN DIEGO COUNTY | SEPTEMBER 2012

Pent-Up Buyer Demand Creates Shortages of Available Homes for Sale

Between the volatile stock market and low savings account rates, the undervalued real estate market is beginning to look increasingly attractive to institutional investors as well as home buyers, causing pent-up demand for homes and shortages of available inventory.

- Home affordability reached a record high in Q1-2012, and is still well above 10-year levels, says the National Association of REALTORS® (NAR).
- Mortgage interest rates are still near record lows, says Freddie Mac.
- The single-family vacancy rate declined in Q1-2012 to the lowest levels since 2006, according to the Census Bureau.
- Total housing inventory for sale is at a 6.6-month supply, teetering toward a seller's market.
- Home prices rose in May 2012, according to the S&P Case-Shiller index. Prices have risen four months consecutively to July.
- Year-over-year, rents rose 5.4% in June 2012, while asking prices rose only 0.3% for the same period.

Between 2010 and 2011, the percentage of investors rose from 17% to 27%, says NAR.

According to Reecon Advisors co-founder and editor Steve Cook, large players are starting to take notice of the opportunities

in residential real estate.

Cook sees “a variety of new, well-funded players entering the distress sale-single family rental market that is dominated by individuals and small-entrepreneurial investor-owners.”

Beazer Homes USA, TCW, and Sylvan Road Capital LLC are three companies that are each investing millions into snapping up foreclosed homes from banks and federal housing agencies, and there are many more that are in the process of raising money for institutional private equity investment.

According to a recent Forbes article, rental prices are estimated by Goldman Sachs economists to yield approximately 6%, far outpacing the yield of the 10-year treasury at 2%.

The impact of investor interest in California foreclosed homes has been huge. As they poured into affordable homes to turn them into rentals, supply of entry-level homes has been constrained. Sales volume is actually slowing due to the reduction of distressed homes for sale.

In June, the number of distressed homes for sale was the lowest it's been since February 2008, according to DataQuick. Foreclosed homes accounted for 24.5% of housing sales in Southern California, compared to 26.9% in April and 32.9% in June 2011.

The advantage for non-distressed sellers is that prices are rising, which is having a secondary impact. Some home owners are withholding their homes for sale in anticipation of higher prices down the road, further constraining supply.

California housing supply is at a tight 3.5 months on hand, about half the supply of a normal, balanced market. In some price ranges and areas, homes are selling faster than they can close.

Put it all together and you have a game-changing housing shortage.

Advice for sellers: Some sellers are still being held back by underwater mortgages. If you need to sell a home before you buy another, make sure that buyers know your terms. If your home is a short sale, get a preapproval confirmation from your lender so buyers won't be discouraged from considering your home over another with no encumbrances.

Advice for buyers: If you have a home, sell it before you shop for another home. With nearly one-third of buyers paying all cash, you don't want to be at a disadvantage to sellers who may be considering your offer along with other offers. Show the seller that you can close quickly and confidently by showing them your cash on hand or a preapproval letter from your HomeServices lender.

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In the year ending July 31, 2012, prices for traditional homes were higher than the previous year. Between May and July 2012, prices and sales volume climbed over the previous three-month period for detached homes, while sales volume was higher for both detached and attached homes.

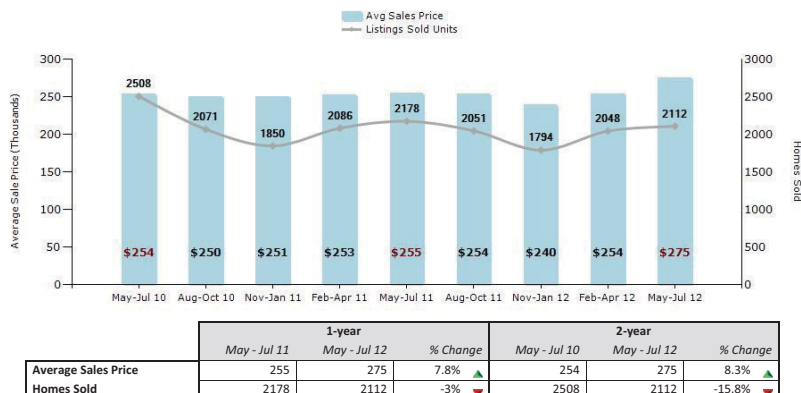
*A balanced market is widely accepted as having three to no more than six months of inventory on hand, with market conditions favorable to both buyers and sellers. A buyer's market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller's market has low inventories of homes for sale, escalating prices, and keen competition between buyers, including multiple offers. **Small sample sizes and large or low sales volume in metrics such as Hot and Cold Zip Codes can skew statistics. Contact your Prudential California Realty sales professional for more information. ***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 it is a condominium, townhome, duplex, co-operative or other.

Detached Properties - Listings Sold 3 Months Ending July 31, 2012



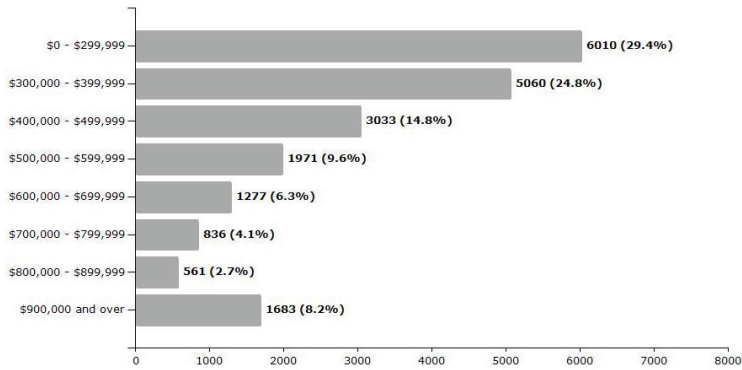
For detached homes, average sale prices and sales volume rose higher between May and July 2012 over the previous three-month period.

Attached Properties - Listings Sold 3 Months Ending July 31, 2012



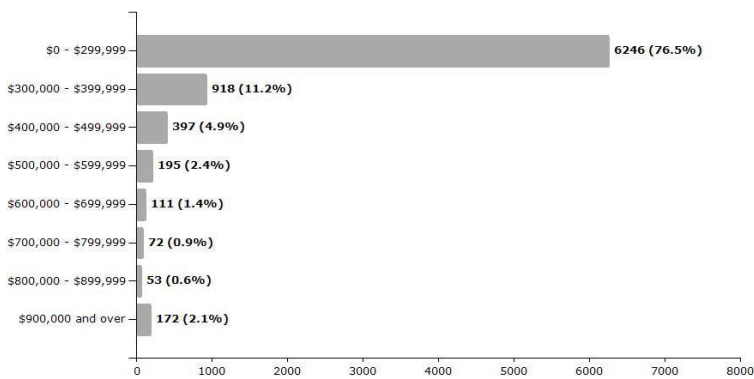
For attached homes, sale prices and sales volume rose higher between May and July 2012 over the previous three-month period.

Detached Properties - Listings Sold Units By Price Range



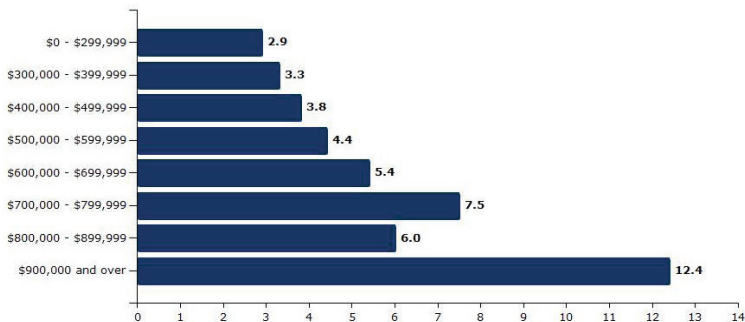
Over half the detached homes sold (54.2%) in the year ending June 30, 2011 were under \$400K.

Attached Properties - Listings Sold Units By Price Range



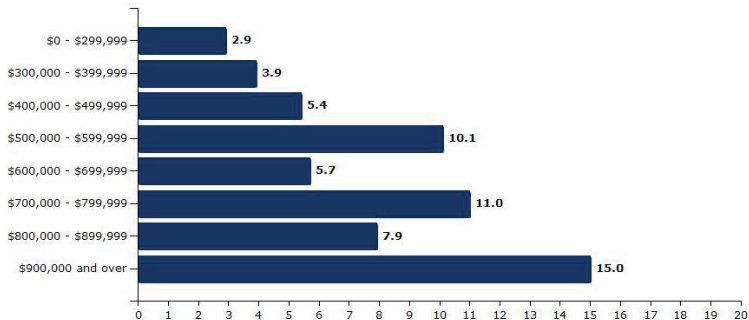
Over one-third (76.5%) of the attached homes sold between 7-1-2010 and 6-30-2011 were under \$300K.

Detached Properties - Inventory in Months' Supply



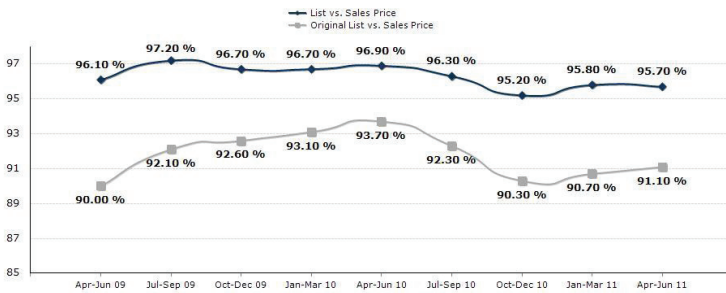
In June 2011, detached home inventories ranged from 2.9 to 12.4 months of supply. A balanced market is considered to have about six months of inventory on hand.

Attached Properties - Inventory in Months' Supply



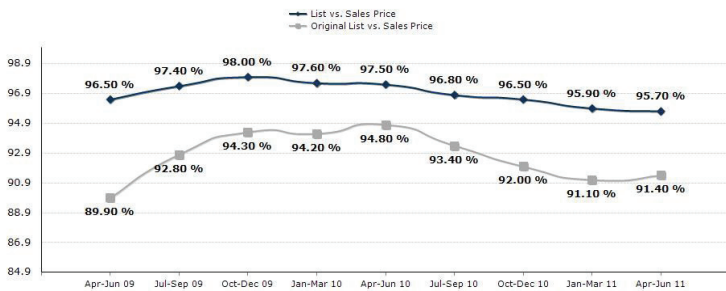
Attached home supplies in June 2011 were between 2.9 and 15 months on hand. A balanced market has about six months of inventory on hand.

Detached Properties - Sales Price Ratio



Sellers of single family homes are overpricing their homes when they first put them on the market. On average, sellers are receiving nearly 92% of the original list price and 96% of the most recently published price.

Attached Properties - Sales Price Ratio



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Detached Properties - Hot & Cold Zip Codes By Average Sale Price

Property Zip	Current Quarters Apr. 2011 - Jun. 2011 Average Sale Price	Previous Quarters Jan. 2011 - Mar. 2011 Average Sale Price	% Average Sale Price Gain/Loss
Zip 92086 (Warner Springs)	\$233,983	\$76,000	207.9%
Zip 92003 (Bonsall)	\$619,117	\$461,098	34.3%
Zip 92054 (Oceanside)	\$510,464	\$391,975	30.2%
Zip 92091 (Rancho Santa Fe)	\$1,654,444	\$1,283,000	29%
Zip 92109 (Pacific Beach)	\$955,830	\$741,177	29%
Zip 92059 (Pala)	\$165,076	\$209,976	-21.4%
Zip 92060 (Palomar Mountain)	\$430,466	\$560,000	-23.1%
Zip 92008 (Carlsbad)	\$595,074	\$847,814	-29.8%
Zip 92101 (Downtown San Diego)	\$0	\$482,500	-100%
Zip 92036 (Julian)	\$0	\$305,000	-100%

For detached homes, Q2 2011 showed gains in five San Diego zip codes.

Attached Properties - Hot & Cold Zip Codes By Average Sale Price

Property Zip	Current Quarters Apr. 2011 - Jun. 2011 Average Sale Price	Previous Quarters Jan. 2011 - Mar. 2011 Average Sale Price	% Average Sale Price Gain/Loss
Zip 92113 (Logan Heights)	\$209,550	\$104,750	100%
Zip 92008 (Carlsbad)	\$513,147	\$281,142	82.5%
Zip 92106 (Point Loma)	\$380,200	\$225,333	68.7%
Zip 92054 (Oceanside)	\$500,950	\$347,942	44%
Zip 92007 (Cardiff)	\$431,500	\$302,275	42.8%
Zip 92061 (Pauma Valley)	\$395,000	\$545,000	-27.5%
Zip 92004 (Borrego Springs)	\$145,100	\$206,800	-29.8%
Zip 92065 (Ramona)	\$150,400	\$225,000	-33.2%
Zip 92114 (Encanto)	\$65,000	\$144,983	-55.2%
Zip 92091 (Rancho Santa Fe)	\$0	\$181,750	-100%

For attached homes, Q2 2011 showed gains in five San Diego zip codes.



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