



THE 2010 HOUSING MARKET RECOVERY: AN UPDATE

by Mark Schniepp

The Housing Market Recovery

Over the last 12 months, home values have stabilized and are no longer in decline.

The median price paid for a home in Southern California was \$275,000 in February 2010, up 1.3 percent from January prices, and up 10 percent from \$250,000 during February 2009. February selling values for all California existing home sales were 14 percent higher than year ago values.

Recent information for February and March suggests that some price appreciation has occurred in Southern Santa Barbara County--approximately 6 percent since the low for the cycle was recorded a year ago.

In Santa Maria, home values also appear to have formed a base (rising in fact, 5 percent, year-over-year) and distressed sales no longer represent the dominant share of all transactions.

In Ventura County, the February selling value for existing homes was 26 percent higher than the February 2009 selling value which happened to be the low for the current housing cycle.

Southern California home sales in February were above year-ago levels for the 20th month in a row. Home buyers continued to purchase bargain properties with government-backed mortgages and tax incentives.

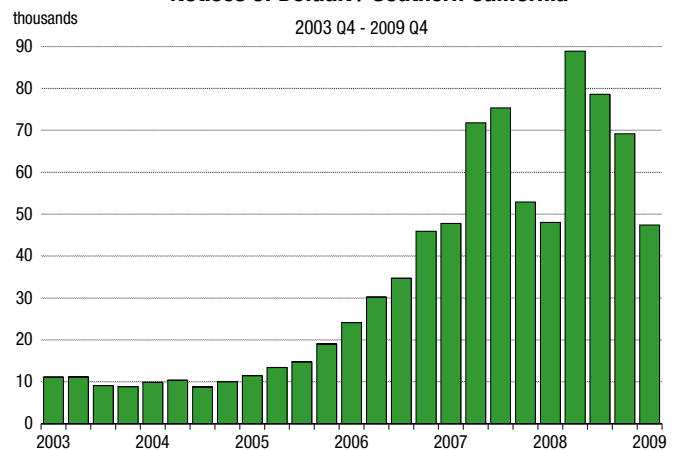
Will Selling Value Relapse this Year?

While there is still both distress and tight credit associated with the local residential real estate sector that could push values further downward, there are also larger forces at work which will offset those threats. The "counter" forces could produce some positive price appreciation and a continuation of the gradual recovery in transactions this year, and in 2011.

There is demand for housing, especially affordable housing. And the current demand for housing will only accelerate as the labor markets heal and as credit conditions ease.

Interest rates are currently very low but they will be increasing this year. However, rates will move up gradually, rather than spike up. That slow progression in rising mortgage rates may actually produce a sense of urgency needed for buyers to purchase

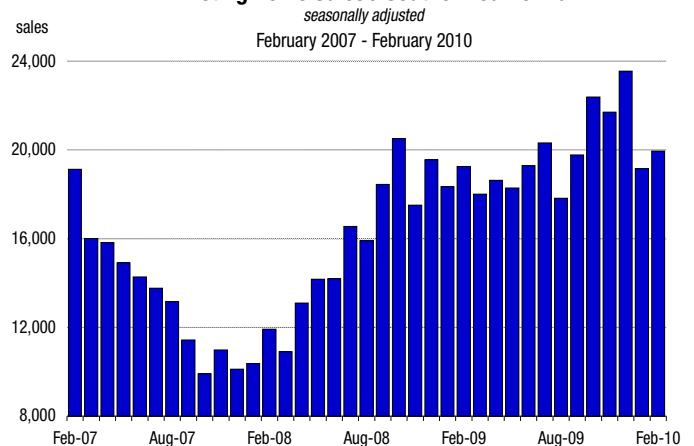
Notices of Default / Southern California



Median Home Selling Price / California



Existing Home Sales / Southern California



housing this year as opposed to waiting another year. Mortgage rate risk is always an issue and there is a growing sense among the population that rates will be going higher.

The surge in demand that was predicted this year has not yet commenced, but it will. As the labor market recovers, so will confidence in the economy and the sustainability of strengthening home values. Housing market transactions will accelerate, especially in view of the greater affordability of housing in California, including the expensive Southern Santa Barbara County housing market where the fixed rate mortgage payment needed to purchase the median priced home has declined 46 percent since mid-2007.

Distressed Sales Down, Cash Sales Up

Regarding the REO supply, it is diminishing in Southern California, not increasing. Foreclosure sales accounted for 42 percent of the resale market in February, down from 57 percent a year ago, which was the all-time high. REO sales have moved slightly higher in Santa Barbara County but they are not challenging the previous peak. In general, there are more housing transactions today than a year ago and fewer of them are distressed.

Investor and second-home purchasers bought 19 percent of all Southern California homes sold in February. Buyers who appeared to have paid all cash accounted for 29 percent of

February sales. In January, they accounted for 30 percent of all sales --- an all-time record high. The 22-year monthly average for Southern California homes purchased with cash is 13.8 percent.

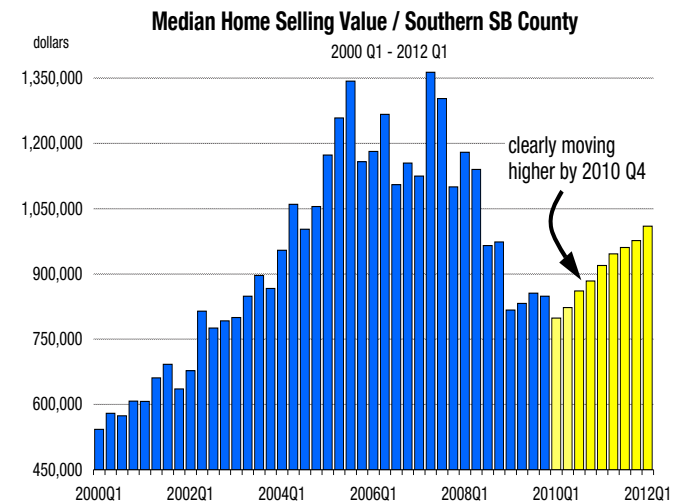
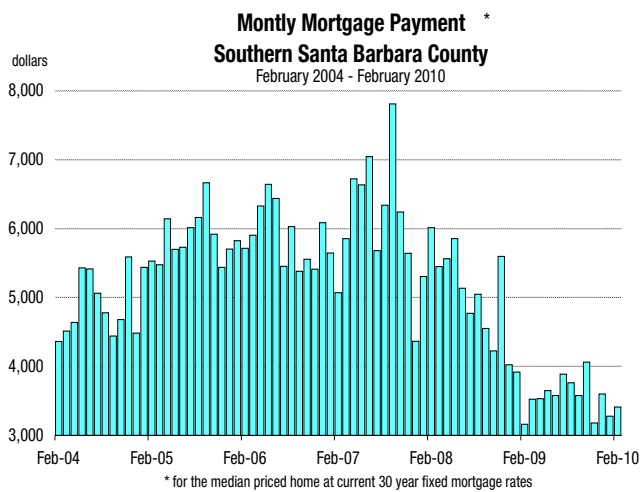
The Outlook

The labor market will recover this year. However, there will be further job contraction during the first half of the year but by the second half, some noticeable improvement will occur. A more convincing labor market recovery is scheduled for 2011.

Home prices will move higher this year as the transition from a weak economy to economic stability and labor market recovery provide the necessary forces that would offset the consequences associated with another rebound in foreclosures.

However, the widely anticipated second wave of foreclosures is growing less probable the longer it does not occur.

The confluence of the labor market recovery and the decline in homeowner distress could produce a sharper recovery in housing. The question is when, rather than if. When the general economic recovery becomes more mature, also expect the onset of new home construction to address the widening divergence between supply and demand



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