

The VABRATO Report™

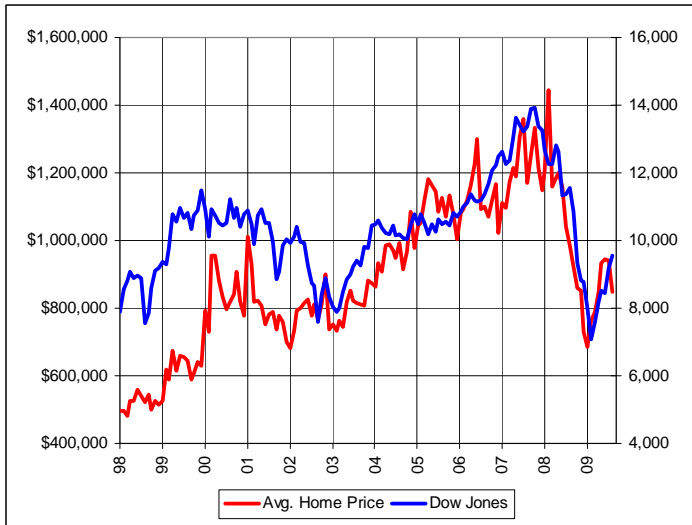
THE SAN MATEO COUNTY REAL ESTATE MARKET REVIEW©

The information contained in this report was compiled and written by Mark Martinho

IT'S ALL ONE BIG MARKET

FOR WHAT IT'S WORTH ...

The Sale Price for all San Mateo County Single-Family Homes vs. the Dow Jones Index monthly average thru the month of August 2009



Like the financial markets, real estate can overshoot its intrinsic value, have periods of low volume trading and see its price bounce around as the market tries to find support levels. Both the stock and real estate market are driven by speculation regarding supply and demand plus irrational fear and exuberance that is part of human nature.

From the graph above we can see that the stock and real estate markets are intertwined. I believe this relationship is particularly true for the Bay Area where so many people have a great deal of their wealth tied up in both markets.

When the stock market is doing well, Bay Area residents feel secure enough to buy a bigger home or to cash out some stock as a down payment on their first house. When stocks decline, people see their personal wealth diminishing and hunker down until it seems like the markets have stabilized and they can once more make long term plans.

These two markets do have their own unique characteristics. Real estate is difficult to track in real time since transactions frequently close a month after a price has been set and is recorded. It's also more severely impacted by seasonality than the stock market as evidenced by the typical drop in average home prices during the winter months.

However, after you adjust for the seasonality in the real estate market, the stock indexes are good indicators for what is going on with real estate values in our region. What happens next depends on who you believe on Wall Street. Are inflation fears correct, will interest rates go up, is the weak dollar cause for concern, have stock values outpaced their fundamentals, have positive earnings results only been possible due to cost reductions that cannot be sustained? What do you believe?

So which market is correct? The Dow Jones is hovering around 9,500 while average single family home prices are dropping again. I believe from a fundamentals standpoint or technical chart reading, the real estate market is correct. As I stated previously, from a technical standpoint when markets correct themselves, there tends to be a period of over and under shooting values until it finds a support level. As for fundamentals, unemployment keeps rising in California and our State is in a financial crisis which will likely be partially resolved by further tax increases. These tax increases will of course decrease disposable income and thus restrain consumers from buying a bigger home or buying a home altogether. It's also reported that banks own 18,000 foreclosed homes in the Bay Area. This inventory will be put up for sale in the near future, how fast banks dump these homes on the market could decide how stable the market will be over the next few months—let's hope they parse them out wisely.

I continue to believe that average real estate prices for San Mateo County should find support around the \$800,000 level. We initially dropped below it and then overshot it, but appears to be coming back to those levels. I am encouraged by the fact that home inventories are about 19% below this same time last year while the number of homes sold is only 4% less than last year. The catalyst for the decrease in inventory has been fewer sellers—to date we have had 17% less 'new' listings in 2009 than for the same period last year.

So what to do? Even if the economy holds up, I believe that there is a more downside potential for our local real estate market than upside, but the radical price corrections are likely over in the region where I do the majority of my business (the Bayside cities of South San Mateo County; Redwood City, San Carlos, San Mateo, etc). Of course, if you believe that the stock is overvalued and will crash again, then you know where real estate prices will also head.

For the average home buyer who intends to remain in their home for the long term, they should proceed forward with their purchasing plans while interest rates remain favorable. I also think sellers have little incentive to hold off selling their home because they anticipate prices will increase.

While there is quite a bit of bad news out there regarding the economy (major Federal and State deficits, high unemployment, etc) I feel confident that we're somewhere near a stable point because the market has found support around the same price levels as the difficult economic years of 2001-2003. Now, for everyone's sake let us hope that interest rates remain flat and that the State does not try to rollback Prop 13 due to our huge deficits.

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SAN MATEO COUNTY INVENTORY, CLOSED SALES, NEW LISTINGS & DAYS ON MARKET

Year	No. of Closed Sales	Avg. Sale Price	Avg DOM	New Listings
1998	5,746	\$520,901	40	7,830
1999	6,434	\$620,436	45	7,273
2000	5,659	\$838,782	29	6,944
2001	4,740	\$791,809	46	8,033
2002	5,951	\$787,021	44	8,211
2003	6,454	\$805,867	46	8,471
2004	6,564	\$957,347	33	7,756
2005	5,877	\$1,097,324	32	7,998
2006	5,006	\$1,126,572	43	7,723
2007	4,172	\$1,209,838	51	7,452
2008	3,876	\$1,038,395	71	7,550
Aug-09		\$848,571		

	Current Inventory	Closed Sales	New Listings	Sales YTD	Listings YTD
This Past Month	1,488	365	566	2,415	4,680
Decade Average	1,411	502	701	3,491	5,605
% Diff	5%	-27%	-19%	-31%	-17%

The chart above provides a historical perspective regarding how the market has performed over the past decade. The number of closed sales has decreased substantially over the past couple of years while New Listings have remained stable and prices greatly appreciated.

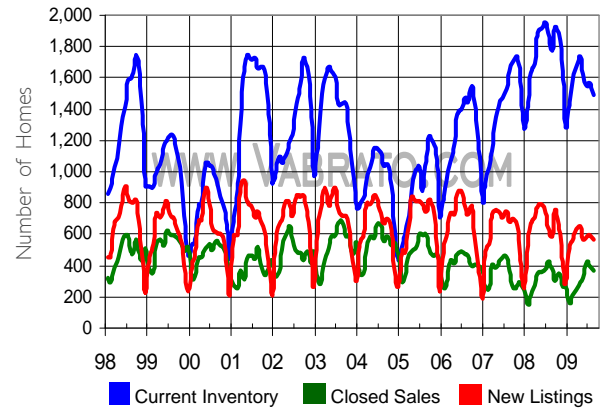
The chart above compares this past month's sales stats to the average for the past decade during the same time of year. Real Estate markets are seasonal and thus this allows the reader to better judge how the market is really performing.

Graph 1 plots monthly Inventories, Closed Sales and New Listings. This graph is an excellent visual for determining the strength of the real estate market. The graph plots how over the past three years Inventories have been rising as New Listings remained fairly stable and Closed Sales keep decreasing.

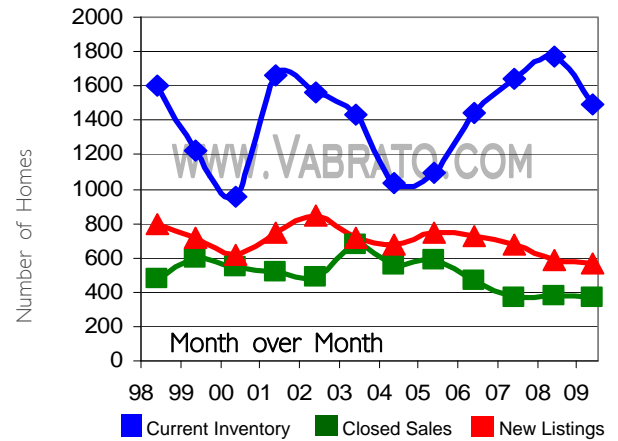
Graph 2 looks at the same type of data as Graph 1, but it compares it from a seasonable point of view. It compares the numbers for the identical month over the past decade. Again, the same trend is visible; New Listings are stable while Inventory is increasing and Closed Sales decrease.

Graph 3 is a cumulative look at Year-to-Date statistics for Closed Sales vs. New Listings. This graph illustrates how dismal the year to date performance is compared to the previous decade. Listings Year-to-Date remain high while Closed Sales are well below any of the previous years.

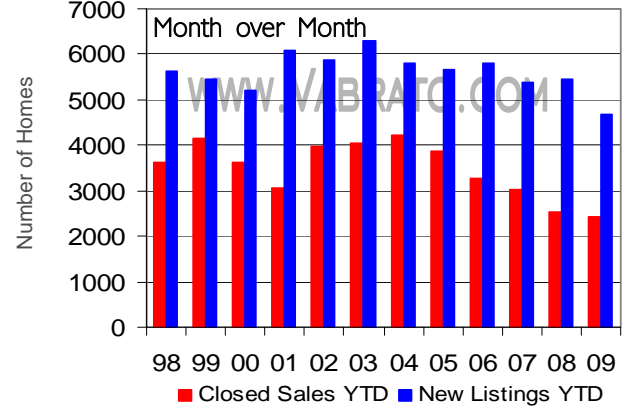
Graph 1—Monthly Inventories, Sales and New Listings for Single-Family Homes in San Mateo County



Graph 2—Inventories, Sales and New Listings for Single-Family Homes in San Mateo County for a given month



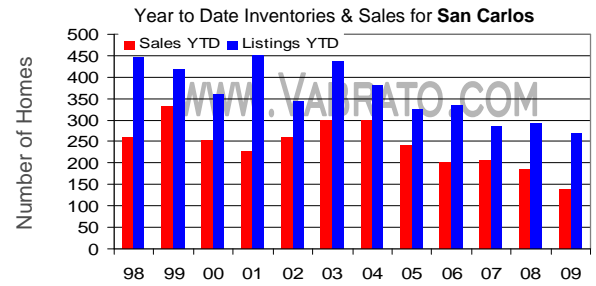
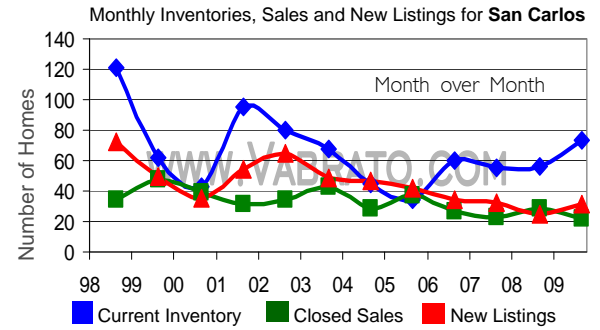
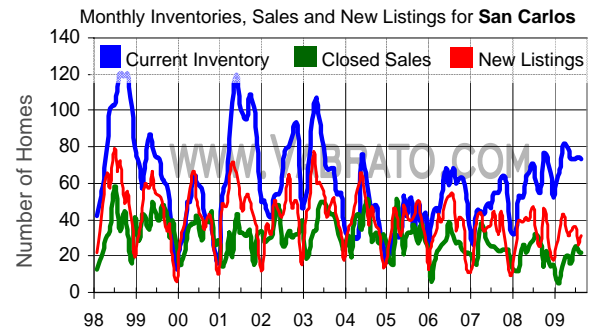
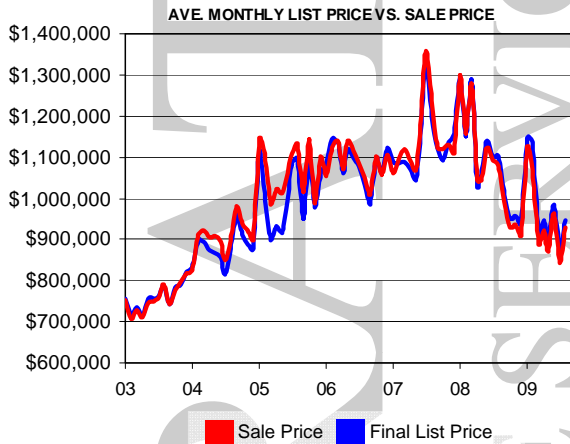
Graph 3—Total Single-Family Homes Sold & New Listings Year to Date in San Mateo County



INVENTORY, CLOSED SALES, NEW LISTINGS & DAYS ON MARKET

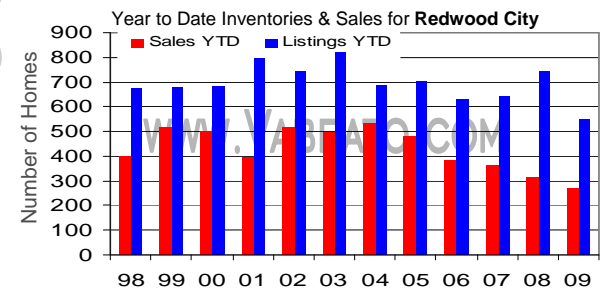
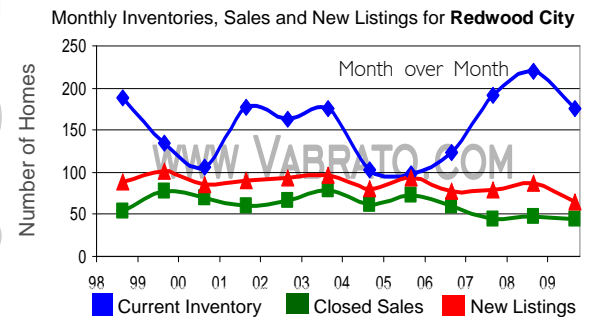
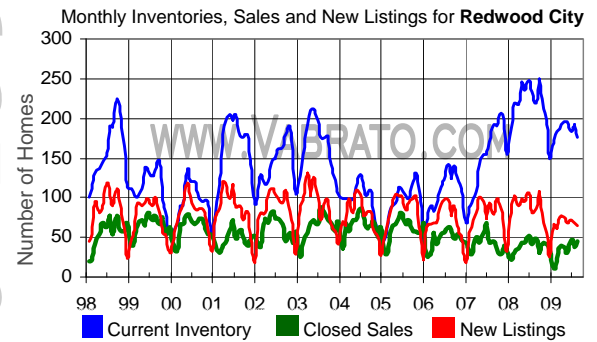
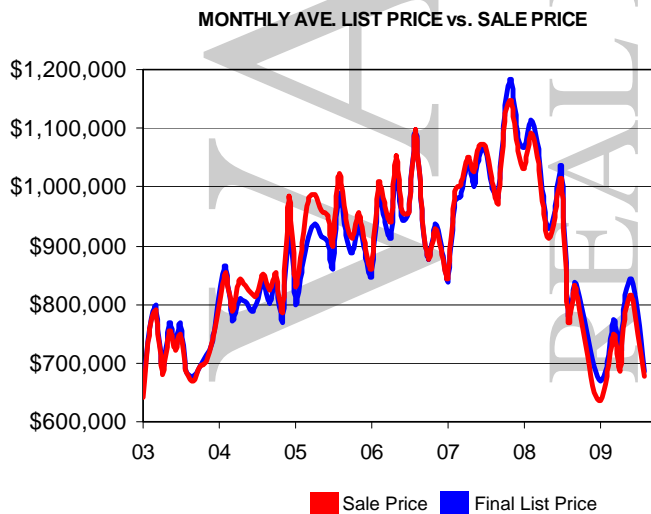
SAN CARLOS—single family homes

	Current Inventory	Closed Sales	New Listings	Sales YTD	New Listing YTD
This Past Month	73	22	31	139	268
Decade Average	66	33	45	242	362
% Diff	11%	-33%	-31%	-42%	-26%



REDWOOD CITY—single family homes

	Current Inventory	Closed Sales	New Listings	Sales YTD	New Listing YTD
This Past Month	176	45	65	268	552
Decade Average	155	62	87	430	696
% Diff	14%	-27%	-25%	-38%	-21%



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