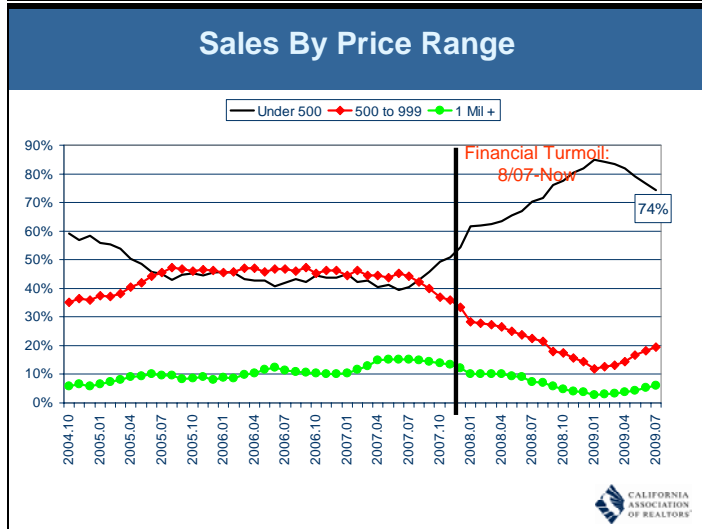




A Closer Look at Home Prices

The statewide median price at \$285,480 in July increased for the fifth consecutive month with a 3.9 percent increase over the prior month median price of \$274,740. The yearly decline of 19.6 percent was also the smallest in the last 19 months.

Strengthening Prices Due Largely to Mix of Homes Sold



The recent increase in the median price is attributed in part to the change in the mix of sales since the beginning of this year. Since reaching a peak of 85 percent in January 2009, the market share of homes sold under \$500,000 (the low-end market) has been declining and stood at 74 percent in July. Meanwhile, the market share of homes sold between \$500,000 and \$1 million (the middle tier) surged from 12 percent in January 2009 to 20 percent in July, and homes above \$1 million (the high-end market) improved from 3 percent to 6 percent for the same period.

The gain in sales has softened at the low-end market because of low inventories. Statewide, inventory has shown a steady decline since the start of the year, with the unsold inventory index dropping from 6.6 months in January 2009 to 3.9 months in July 2009.

Supply Constraints Impacting Lower Priced Home Sales

Inventory levels, however, differ across price tiers and are tighter at the low-end market. The unsold inventory index for the low-end market has been around 3 to 4 months since the beginning of the year. There were 3.2 months of inventory in July 2009, as compared to 6.9 months for the same month last year. The middle tier had an inventory level of about 9 months early this year, but had dropped to 4.3 months in July, and was lower than 6.6 months a year ago. The inventory level of the high-end segment has declined since the start of this year, but was high in comparison to the rest of the market. The unsold inventory index for high-end homes was at 9.6 months in July 2009, slightly below 9.8 months for the same month last year.

With inventory levels well below the long-run average, a supply shortage at the low to middle-tiers has constrained sales in lower-priced homes and has contributed to an increase in the median price. The supply of homes is

expected to increase later this year as the number of foreclosures continues to rise. However, the government and lenders' efforts in modifying loans, combined with delays in processing the backlog of delinquencies may ease the number of defaulted loans, thus making a prediction on the number and timing of the flow of distressed properties less certain.

It should be noted that much of the current market activity is being financed by the government sponsored enterprises Fannie Mae and Freddie Mac (GSEs) and the Federal Housing Administration (FHA). In the absence of government sources of real estate financing, the market's capacity to absorb distressed properties would be significantly reduced. Making permanent the current loan limits for high cost areas in California will be essential to the absorption of these impending foreclosures and to a recovering housing market.

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