

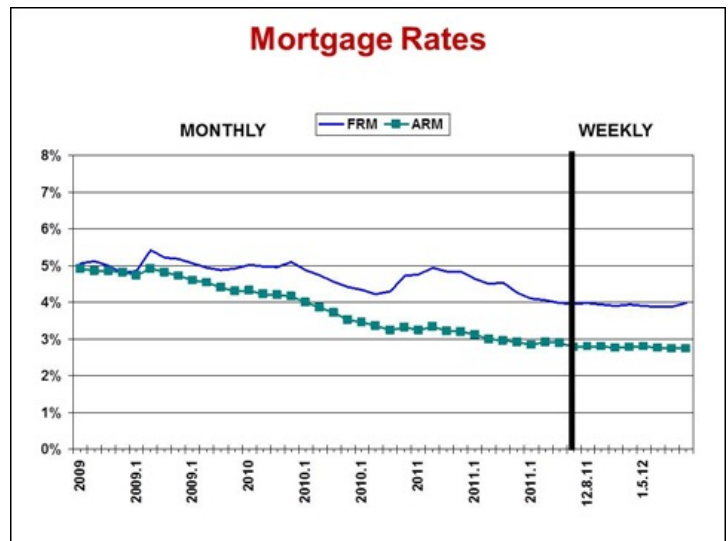
Housing Market Outlook

The California housing market ended 2011 on a solid note, with seasonally adjusted annualized sales reaching 520,940 units in December, an increase of 3.3 percent from November but virtually unchanged from December 2010. It was, nonetheless, the highest sales level since January 2011. For the year as a whole, 2011 exceeded 2010 by 1.1 percent with annual sales of existing detached home at 497,860 units. The statewide median home price improved slightly by 1.8 percent to \$285,920 from November, but dropped 6.2 percent from December 2010.

Improved Economic Conditions

Sales in the fourth quarter of 2011 were relatively strong when compared to the rest of the year and one contributing factor was the improvement in the level of consumer confidence. After hitting a recent bottom of 40.9 in October 2011, the consumer confidence index bounced back and surged in November and December. The index jumped to 55.2 in November and climbed again to 64.8 in December. The back-to-back increase was the effect of the economy showing some signs of growth in the last quarter of 2011. The unemployment rate declining consecutively for four months, retail sales increasing on a year-over-year basis in each of the last three months of 2011, and the fourth quarter GDP showing the largest year-over-year increase in the last six quarters were all encouraging news to consumers that bodes well for a recovering housing market.

Mortgage Rates



Source: Freddie Mac Primary Mortgage Market Survey

Record Low Interest Rates

Another reason for a strong year-end finish in sales was the record-low interest rate levels. Mortgage rates had been trending downward since July of last year after the Federal Reserve announced its commitment to keep interest rates low until at least 2013. The average rate for 30-year fixed rate mortgages had since declined to below four percent, and set a historical record low of 3.96 percent in December 2011. With rates dropping more than three quarters of a percent in the last twelve months and home prices holding steady at or below the same level as a year ago, the increase in housing affordability convinced many buyers who were previously on the fence to finally make a home purchase.

The new year will be a transition year for the housing market, very much like 2011. The market's performance will hinge heavily on the performance of the U.S. and global economies, so it will be important to follow the economy as well as the housing market. Unexpected events hindered economic growth in 2011 and could do so again in 2012. However, if there is sustained improvement in economy, the housing market could perform better than the C.A.R. forecast.

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