Once upon a time, in a market far, far away, the National Association of REALTORS® decreed that six months’ of inventory indicated a “balanced” market. This was for the national market. In regional markets, your mileage would vary.

In the Bay Area, our mileage varied significantly. A “balanced” market here was between three and four months’ of inventory.

Those days are long gone. During the Great Recession of 2007 through 2011, inventory levels spiked as sales plummeted and foreclosures jumped. Beginning in 2012, sales rose to normal levels, but inventory went down the drain.

There are three main reasons for the lack of inventory over the past five years, all of which seem intractable.

First, baby boomers aren’t moving. According to an AARP survey, 87% of baby boomers over the age of 65 want to stay in their homes. The main reason is to be near family and friends. Another reason is to avoid excess capital taxes. Selling a principal residence allows for either a $250K shield if single, or a $500K shield if married. Any gains over those amounts are taxed as capital gains. There are some ways around this, most of which involve setting up trusts. That is something you would need to discuss with your tax attorney and/or accountant.

Second, a significant number of the homes that were foreclosed on were bought by hedge funds and big private-equity groups who bought in bulk from the banks. Then, rather than flipping the homes, they rented them out to the families who had been foreclosed upon. Frank Nothaft an economist with Corelogic, says in 2006 there were nine million single family houses in the rental stock. That number increased by three million in the following seven years, he said.

As a result, there were many fewer homes for sale, which helped drive up prices in markets around the country.

There is, as yet, no sign these investors will be putting those properties back on the market.

The third intractable reason for low inventory is builders aren’t building.

Home builders say it’s new regulations that are holding them back from filling the void. CNBC reports that such regulations may cost builders up to a quarter of the price of a new home, and a recent National Association of Home Builders study found regulatory costs have increased 29 percent in the past five years. The builders also say labor shortages are holding them back. Finally, prices for land and materials are rising and there is a lack of finished lots in neighborhoods where people want to live. These price constraints create an incentive for builders to construct fewer, and more expensive, homes because under such high demand, they can fetch higher prices for each home they do sell, CNBC reports.

Starting in 2012, Days of Inventory, or how long it would take to sell all the homes for sale at the current rate of home sales, has been below sixty-one days. That is far short of the Bay Area’s “balanced” market of ninety to one hundred and twenty days.

There you have it. The new normal: low inventory resulting in multiple offers and rising prices.

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Fed, Markets and Whipsaw Mortgage Rates

Mar. 31, 2017 -- Mortgage rates dipped a little further this week, settling close to the bottom of a range that has held throughout 2017, so far. However, we're probably pretty near the bottom of the between-Fed-meetings valley for rates, now that we're two weeks past the last central bank get-together.

The Fed's steady outlook for policy was one reason mortgage rates retreated from a recent peak; disappointment over a Republican failure to even vote on a repeal of the Affordable Care Act was another, as it casts at least some doubts that President Trump's agenda of tax and regulatory reform will come to pass, or at least come to pass anytime soon.

As well, with major stock indexes stocks hitting a record on several occasions in the first quarter, it is likely that at least some investors shifted funds out of equities and in to bonds in order to help lock in gains. Now that we've come to both the end of the month and the end of the quarter, odds favor at least some reallocation the other way in the days ahead.

Mortgage rates remain very favorable as the "spring homebuying season" kicks into full gear as April sets in. However, a full calendar of fresh inbound data along with the turn of the month and quarter probably sees us poised for a couple of basis point increase next week at least as far as the average conforming 30-year FRM as reported by Freddie Mac is concerned.

Meanwhile, we'll be perusing the latest on both manufacturing and non-manufacturing business activity from the ISM, the March employment report, and plenty more. One potential market-mover is the minutes from the March Fed meeting; certainly, we already know what they did (lift rates) but perhaps we're learn a little more about why (opportunism, perhaps?) Should make for some good reading.

The chart above shows the National monthly average for 30-year fixed rate mortgages as compiled by http://www.freddiemac.com. The average includes mortgages of all sizes, including conforming, "expanded conforming," and jumbo.

Santa Clara County Homes - Median & Average Prices & Sales

(3-month moving average—prices in $000's)

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Santa Clara County - March 2017

<table>
<thead>
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<th>Cities</th>
<th>Median</th>
<th>Average</th>
<th>Sales</th>
<th>Pend</th>
<th>Inven</th>
<th>DOI</th>
<th>SP/LP</th>
<th>Med</th>
<th>Ave</th>
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March 2017 Sales Statistics

**SINGLE-FAMILY HOMES**

**Year-Over-Year**
- Median home prices increased by 7.6% to $1,130,000 from $1,050,000.
- The average home sales price rose by 5.6% to $1,403,090 from $1,326,785.
- Home sales rose by 11.1% to 783 from 705.
- Total inventory* fell 1% to 1,857 from 1,876.
- Sales price vs. list price ratio fell by 0.6% to 104.7% from 105.3%.
- The average days on market fell by 2.8% to 22 from 23.

**Compared To Last Month**
- Median home prices improved by 2.8% to $1,130,000 from $1,099,000.
- The average home sales price rose by 5.7% to $1,403,090 from $1,326,980.
- Home sales up by 58.8% to 783 from 493.
- Total inventory* increased 36.5% to 1,857 from 1,360.
- Sales price vs. list price ratio increased by 1.0% to 104.7% from 103.7%.
- The average days on market dropped by 21.3% to 22 from 28.

**CONDOMINIUMS**

**Year-Over-Year**
- Median condo prices increased by 3.0% to $697,500 from $677,000.
- The average condo sales price rose by 7.8% to $785,311 from $728,524.
- Condo sales rose by 2.6% to 356 from 347.
- Total inventory* increased 27.5% to 687 from 539.
- Sales price vs. list price ratio fell by 0.9% to 104.5% from 105.5%.
- The average days on market rose by 4.6% to 18 from 16.

**Compared To Last Month**
- Median condo prices improved by 2.4% to $697,500 from $681,000.
- The average condo sales price rose by 5.8% to $785,311 from $742,069.
- Condo sales up by 65.6% to 356 from 215.
- Total inventory* increased 27.5% to 687 from 539.
- Sales price vs. list price ratio increased by 1.0% to 104.5% from 103.4%.
- The average days on market dropped by 11.8% to 18 from 21.

* Total inventory is active listings plus pending listings. Active listings do not include pending.

**Santa Clara County Condos - Median & Average Prices & Sales**

(3-month moving average—prices in $000’s)

**Table Definitions**

**Median Price**
The price at which 50% of prices were higher and 50% were lower.

**Average Price**
Add all prices and divide by the number of sales.

**SP/LP**
Sales price to list price ratio or the price paid for the property divided by the asking price.

**DOI**
Days of Inventory, or how many days it would take to sell all the property for sale at the current rate of sales.

**Pend’**
Property under contract to sell that hasn’t closed escrow.

**Inven’**
Number of properties actively for sale as of the last day of the month.

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Local Market Trends | Santa Clara County | April/May 2017

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The Silicon Valley's Real estate market is a derivative of the local economy, it prospers and withers depending on how well the local knowledge-based sector performs. The San Jose Mercury News tracks the largest 150 publicly traded companies headquartered in Silicon Valley via an index called the SV150, which you can lookup at www.mercurynews.com. Stocks are valued based on many criteria, but the most important criterion is a company's future earnings. Therefore, I view the SV150 as a leading indicator for the Silicon Valley's real estate market. View this month's annual index chart.

**Investors Corner**

**THE S&P CORELOGIC CASE-SHILLER NATIONAL INDEX ANNUAL RETURN SETS 31-MONTH HIGH**

**NEW YORK, MARCH 28, 2017** - S&P Dow Jones Indices today released the latest results for the S&P CoreLogic Case-Shiller Indices, the leading measure of U.S. home prices. Data released today for January 2017 shows that home prices continued their rise across the country over the last 12 months. More than 27 years of history for these data series is available, and can be accessed in full at goo.gl/qqOKwU

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