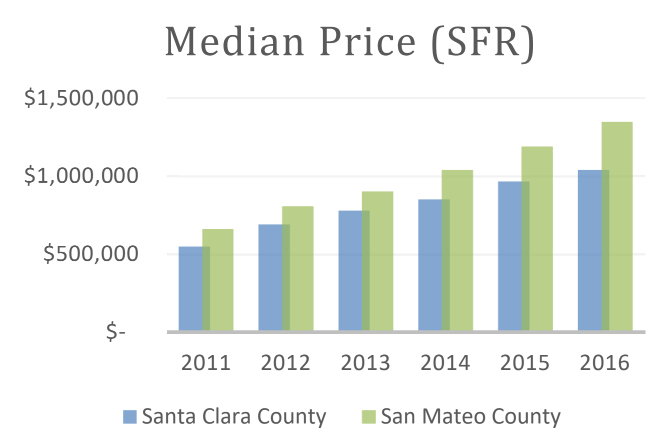
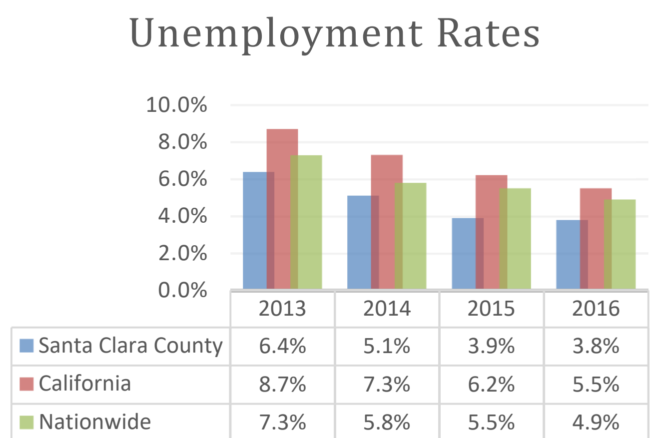
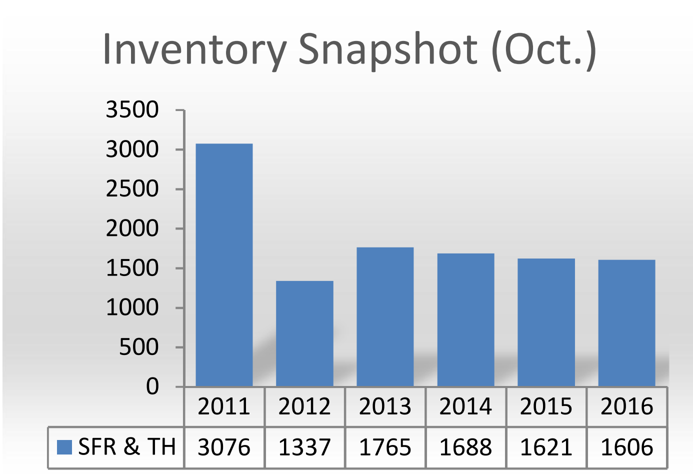
Dear Friends and Clients, December 10, 2016

**A new year ahead.** 2016 has been an eventful year with a lot of changes, some more incredible than others. It's time once again to sum it up and consider what 2017 may have in store for us and how this will impact the real estate market in our area. Our market opened with a lot of activity in early 2016 however a noticeable shift occurred midway through the year and the market has held steady ever since. While prices have reached all-time highs in nearly every community of the bay area, they are not appreciating at the same accelerated rate we've seen in recent years, especially in the high-end market of each community. Properties in the middle to low end range see the most activity and highest number of multiple offers, in addition to properties in premium locations, which are close to employment areas and/or in highly desired school districts. Employment continues to thrive, locally and nationally, with Silicon Valley leading this growth statewide. Interest rates dropped to near historical lows mid-year but within the last 4 months have shot up to the highest level in the past 5 years. 2017 will be a brand-new year and, considering the current state of our economy and the recent election results, we believe this New Year's theme to be "Uncertainty."




**Inventory remains low.** Multiple offer situations are still commonplace however the level of competition and number of multiple offers per property have seen a general reduction. Economists speculate that low inventory could be the new norm in our area. Our population continues to increase steadily year by year and supply is not able to keep up with demand due to the continuous influx of new residents. Why the low inventory? Here are a few reasons… Baby boomers aren't moving and people are living longer. Also, capital gains taxes are a negating factor since the 250K single and 500K joint expemtion can often leave a large sum vulnerable to hefty state and federal tax hits. Sellers may want to consider creative investment plans with their longterm properties such as the 1031 exchange strategy to help defer these taxes.




**Interest rates increased (finally).** As shocked as the nation was with the presidential election results, buyers have been just as surprised with the recent interest rate hikes. Economists have been predicting that rates will increase for the last 2 years to no avail. It's been a long time coming and it finally happened. Rates increased by about 1% in 4 months' time, while there may be a slight lowering before they increase again the reality is that this may be another new normal.

### *Interest Rate Snapshot*

Interest rates saw their first big increase since mid-2013. Here is a sample of rates as of the first week of December 2016 with zero points:

| | |
|---|---|
| *Conforming Loans under* **$417K** | **3.875%** |
| *Super Conforming Loans* **$417K to $625.5K** | **4.000%** |
| *Jumbo Loans above* **625.5K** | **4.25%** |

**The rental market peaked**. Vacancy rates are around 3% and rents have peaked. The year opened with the rent rate appreciating then quickly tapering off and flat lining. Rent rates are currently pointing downwards, especially in multi-unit apartment complexes and condos. New construction buildings that are now open and leasing to the public have lowered the rental demand for apartments, condos, townhomes, and in some cases even single-family homes. Bay area renters want properties that are younger, upgraded, and more modern. They're looking for open floorplans with gourmet kitchens and community features including outdoor kitchens, entertainments areas, pools, fitness centers, and resident lounges, all of which newer developments can afford in luxury and style. Older outdated properties can't compete on price because they often lack the extra comforts that these new communities are offering.

## Forecast for the 2017 year…

- Employment in high tech, construction, and retail industries will continue to grow but at a slower pace.
- Demand will continue to surpass our supply of residential properties for sale.
- Affordability will continue to be challenging for buyers trying to get in the market.
- Tight inventory and multiple offers will continue in premium locations close to employment centers and transit areas, especially if they are in high rated school districts.
- Appreciation will be in the range of 4% to 6% for the year with properties in premium locations and/or close to transit hubs seeing the highest rates of increase.
- Rent rates will stay flat and possibly lower as new construction units continue flooding the market.
- Residential investment, commercial, and industrial properties are in high demand.
- Economists believe interest rates will continue to rise in the next year and years following, possibly reaching 5% by 2019.

**2016 has been a wonderful year!** One of the biggest reasons that I have done well in this industry is due to all the great referrals that I have received from you. As always, I appreciate your business and friendship. It is always a pleasure to talk with you when you call, whether it is business related or just a friendly hello. I am never too busy to answer any questions you might have regarding any real estate matters. Also, if you have any plans to update or remodel, let me know and I'll send you referrals for people in the home improvement profession to assist you at reasonable prices.

## Wishing you and your family a prosperous 2017!

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