



### Interest Rates and Market Conditions

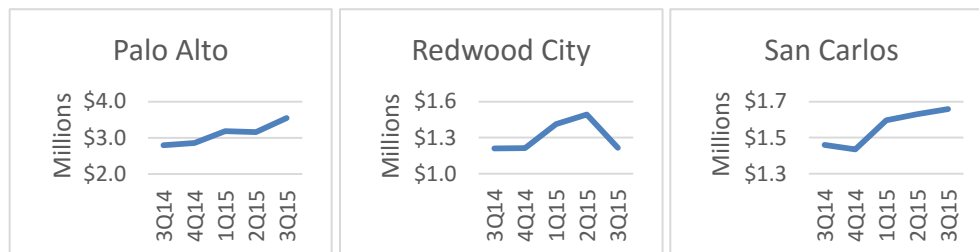
The Federal Reserve appears poised to raise rates in the coming months. This has led to speculation that the real estate market may be in for a hit. While some buyers may find this encouraging, our feeling is that higher interest rates may temper the rate at which prices are rising locally, but that is a far cry from seeing prices drop. Here's why:

Let's say interest rates do increase over the next 6-12 months. How will this impact buying power? The chart below shows the payment difference for two common loan amounts (current rate is ~4%):

| Loan Amount | 4%      | 4.25%   | 4.5%    | 4.75%   | 5%      |
|-------------|---------|---------|---------|---------|---------|
| \$500,000   | \$2,387 | \$2,459 | \$2,533 | \$2,608 | \$2,684 |
| \$1,000,000 | \$4,774 | \$4,919 | \$5,066 | \$5,216 | \$5,368 |

The last time the Fed raised interest rates President Obama was still a senator (2006). Given the economy is only modestly expanding, it is unlikely that interest rates will jump more than 0.25% in the next 6 months. That amounts to a \$72/month increase on a \$500K loan or a \$145 increase on a \$1M loan. Non-trivial? Yes, but as the table of average home prices shows, home values have increased vs. a year ago. However, there are kinks in several curves.

|               | Q3 2014  | Q4 2014  | Q1 2015  | Q2 2015  | Q3 2015  |
|---------------|----------|----------|----------|----------|----------|
| Palo Alto     | \$2.797M | \$2.859M | \$3.180M | \$3.158M | \$3.546M |
| Redwood City  | \$1.209M | \$1.212M | \$1.413M | \$1.493M | \$1.216M |
| San Carlos    | \$1.460M | \$1.434M | \$1.596M | \$1.631M | \$1.659M |
| Mountain View | \$1.534M | \$1.572M | \$1.622M | \$1.736M | \$1.591M |
| Los Altos     | \$2.571M | \$2.789M | \$3.061M | \$3.009M | \$2.836M |



Only time will tell if the quarter over quarter declines are simply the market taking a breather or something more, but here is what we do know:

- Open houses are still swarming with buyers
- Multiple offers are still the norm - but the total number of offers is down, often between 2-4
- It is increasingly common to have 1 very high offer. This means that persistent buyers may eventually win with a more "reasonable" offer, but if it takes 6 months to achieve this, any savings may have been erased by overall market increases.

Best Regards,

Janie and John Barman

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