

CRISTAL CLARKE

2016 YEAR END REVIEW

January 2017

OPENING YOUR DOORS TO MONTECITO AND SANTA BARBARA



SOTHEBY'S INTERNATIONAL REALTY

CRISTAL CLARKE

REPRESENTING THE FINEST IN MONTECITO AND SANTA BARBARA AREA PROPERTIES

#1 Real Estate Agent in Montecito Upper Village 2016



Dear Clients and Friends,

As 2016 winds to a close, I have been reflecting on its many real estate-related challenges and rewards. Indeed, it was certainly challenging, though it was, above all, rewarding in many ways.

First of all, I offer my heartfelt thanks to you, my friends and clients, and to my behind-the-scenes team of Michael and Susan, for your continued support. To potential clients considering the purchase or sale of a Montecito or Santa Barbara home in 2017, I extend my sincere hope that you will let me earn your business.

On a personal note, **I was honored in 2016 by being named among the Top 100 Most Influential Real Estate Agents in Southern California.**

In my case, this honor is a reflection of my in-depth market knowledge, integrity, dedication and service, which I provide to all my clients.

Before we review what happened in the 2016 real estate market, I invite you to join me in looking back at some of the forecasts and predictions I made during the past year:

1. California will see an 8% gain for 2016, with Montecito prices, overall, moving sideways despite a strong start to the year.
2. There will be a shift from a sellers' market to a buyers' market as resistance to price levels sets in.
3. Interest rates will rise as the year progresses.
4. There will be a correlation between consumer confidence and home sales.

With these things in mind, let's look at what actually happened in 2016:

1. California saw a 7% gain: 1 percentage point under my 8% estimated gain for 2016. Montecito showed a 17.25% gain in the median sales price but a .29% decrease in the average sales prices for the year despite a strong Q1; with average sales prices rising 19.82%. Sellers tried to push the envelope on both median and average listing prices, which were up 5.15% and 14.42% respectively.
2. The market has certainly shifted to that of a buyers' market as we have seen a steady resilience to price levels over the past two quarters, with average sales prices down 10.15% (\$3,609,808 to \$3,243,545) in Q3 and 14.8% (\$3,243,545 to \$2,763,383) in Q4.
3. Regarding interest rates, we have seen mortgage rates rise in the second half of the year as well as a recent rise in the Fed rate of .25% and consumer confidence continued to slip through October of 2016. However, since the election, we have also seen a distinct bounce in consumer confidence and economic sentiment.

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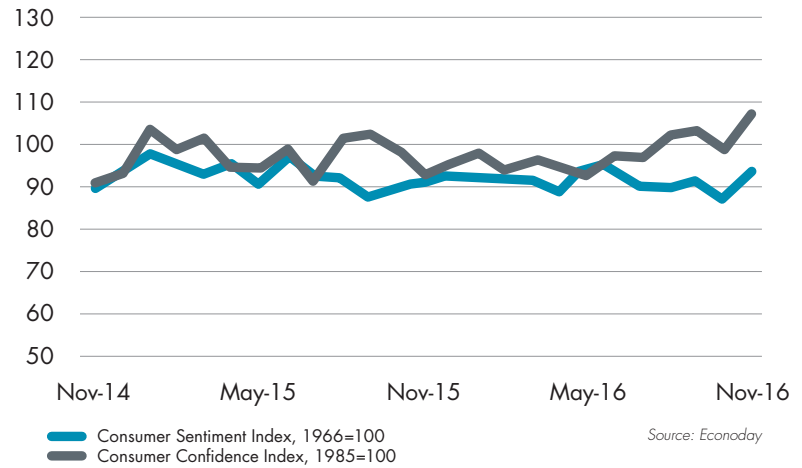
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MARKET UPDATE

LOCAL MARKET UPDATE YEAR END REVIEW FOR 2016

As is the case with any election cycle, we generally see a post-election response, either positive or negative, and this cycle has been consistent in that regard, with a bounce in consumer sentiment of 6% year-over-year, and 4.7% from pre-election levels. In addition to this we also have seen an increase in economic condition sentiment raising 3.5% year-over-year, and 4.3% from pre-election levels. **The current consumer confidence index, which is 98.2, as measured by the University of Michigan, is at its highest level since 2004.** Furthermore, the Conference Board's confidence index is up 12.9 points since the November election, in gains driven by older consumers. The level for December is 113.7 and represents the highest reading since way back in August 2001.

Consumer Spirits: Confidence Index Vs. Sentiment Index



Final Results for December 2016

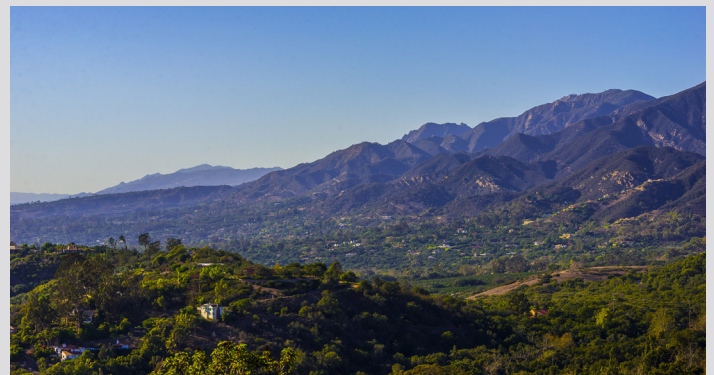
Category	December 2016	November 2016	December 2015	M-M Change	Y-Y Change
Index of Consumer Sentiment	98.2	93.8	92.6	+4.7%	+6.0%
Current Economic Conditions	111.9	107.3	108.1	+4.3%	+3.5%
Index of Consumer Expectations	89.5	85.2	82.7	+5.0%	+8.2%

Source: University of Michigan

Time will be the true test of the longevity of the recent upswing in markets. Consumers may well have a short fuse when it comes to "Trumponomics," although rising employment levels, incomes projected to increase 4%,

proposed tax cuts, the promises of jobs (with unemployment at 4.6%), and investment in local economies and infrastructure have certainly helped buoy people's perception of the current market environment. In addition, revised GDP growth for Q3 was at 3.5% and is expected to grow slightly in Q4.

Featured Property: 570 Toro Canyon



Perhaps the most impressive and pristine estate site remaining on California's Central Coast, offering unsurpassed 360 degree views of the Santa Ynez Mountains, Montecito, Carpinteria, the Pacific Ocean, Channel Islands, and beyond to the horizon, this approximately 88-acre pastoral paradise, offered at nearly \$11 million, represents a bench mark land sale of property both listed and sold in 2016. In fact, it is one of the three highest-value Montecito land sales in more than a decade.

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MONTECITO 2016 DATA FOR SINGLE FAMILY HOMES

Category	Jan 1st	March 31st	June 30th	September 30th	December 31st	YTD Trend
Median List Price	\$4,850,000	\$5,435,000	\$4,995,000	\$4,495,000	\$5,100,000	+5.15%
Average List Price	\$7,026,043	\$7,318,622	\$7,391,585	\$7,294,151	\$8,039,212	+14.42%
Median Sales Price	\$2,397,500	\$2,612,500	\$3,325,000	\$2,235,000	\$2,810,000	+17.25%
Average Sales Price	\$2,771,295	\$3,320,614	\$3,609,808	\$3,243,545	\$2,763,383	-0.29%
Days on the market	89	97	69	114	108	+21.35%
Properties for Sale	116	143	154	165	139	+19.83%
Properties Sold	48 (Q4-2015)	54 (Q 1)	47 (Q2)	45 (Q3)	38 (Q4)	-20.83%
Asking Price / Sq. Ft.	\$1,206	\$1,528	\$1,201	\$1,297	\$1,210	+0.33%
Sold Price / Sq. Ft.	\$923	\$808	\$951	\$930	\$866	-6.18%

Looking at Montecito first, we see that despite a robust start to the year – with Q1 prices rising across the board -- the rest of the year has been quite choppy, with price swings in both positive and negative directions. For the year, median list prices rose 5.15% with a corresponding rise in average list prices of 14.42%, with median and average sales prices having a divergence – with the median rising 17.25% and the average falling .29% respectively. Confirmation that sellers' expectations are a little ahead of what buyers are realistically willing to pay, but also **in line with my expectations for the year**, which I forecasted as rising early in the year but moving sideways overall. In addition, we can see that properties were taking longer to sell, as the number of days a property stayed on the market rose 21.35%, with a corresponding rise in inventory levels of 19.83% and a decline in the number of properties sold of 20.83%. All these, combined with the decline in selling price per sq. ft., which fell 6.18%, are factors of a buyers' market.

SANTA BARBARA 2016 DATA FOR SINGLE FAMILY HOMES

Category	Jan 1st	March 31st	June 30th	September 30th	December 31st	YTD Trend
Median List Price	\$1,385,000	\$1,749,000	\$1,749,500	\$1,850,000	\$2,095,000	+51.26%
Average List Price	\$2,406,937	\$2,904,104	\$2,512,753	\$2,707,573	\$3,331,611	+38.42%
Median Sales Price	\$1,000,000	\$1,225,000	\$1,233,375	\$1,224,500	\$1,192,000	+19.20%
Average Sales Price	\$1,128,535	\$1,460,828	\$1,584,042	\$1,493,512	\$1,271,704	+12.69%
Days on the market	51	35	57	58	58	+13.73%
Properties for Sale	153	154	214	217	157	+2.61%
Properties Sold	173 (Q4-2015)	111 (Q1)	174 (Q2)	159 (Q3)	128 (Q4)	-25.43%
Asking Price / Sq. Ft.	\$802	\$777	\$765	\$758	822	+2.49%
Sold Price / Sq. Ft.	\$641	\$783	\$807	\$720	689	+7.49%

Looking at Santa Barbara, we can see a very different picture, with a more robust market whereby some impressive gains have been posted for the year – with both median and average sales prices up 19.20% and 12.69% respectively. This is not wholly unexpected as more affordable home prices, not only locally but on a national level as well, have been the driving force for real estate sales across the nation. It should be noted, however, that inventory levels have risen slightly by 2.61%, with a corresponding rise in the number of days a property took to sell (up 13.73% Y/Y). This, combined with a sharp decline in the number of properties sold – down 25.43% for the year – could signal a change might be in the air in terms of price growth, or at least more tempered growth, moving forward. Sellers' expectations on list prices were up 51.26% and 38.42%. Median and average list prices are still far out weighing buyers' willingness to pay.

MARKET UPDATE

LOCAL MARKET UPDATE YEAR END REVIEW FOR 2016

Has there been a fundamental shift in buyer requirements?

To answer this question, we must first identify where the buyers are coming from and who the buyers are. There are some international buyers in the local marketplace, but it may be a surprise that this segment is not as large as one may think. Estimates place that number at 3-5% of market share. If that is, in fact, the case, then the predominant buyer pool is originating in the U.S., and of that it is estimated that most of those buyers are coming from Los Angeles, San Francisco, the Mid-West (Chicago) and the East Coast, with that buyer upswing heavily influenced by harsh winter weather in the last 2-3 years. Although we still have buyer activity from predominantly oil dependent states such as Texas, those buyers have been less of a factor in recent years due to decreases in oil prices. So, let's look at what's sold and what can be derived from the numbers:

Price	For Sale	Pending	Sold
Under \$2M	20	3	75
\$2-\$4M	54	6	75
\$4-\$6M	30	2	44
\$6-\$10M	26	3	21
\$10-\$15M	11	1	4
\$15M+	23	0	2

We can see that the majority of market activity in Montecito is in the more affordable sector – under \$4 million, while the market sector between \$4-6 million represents a 41.3% decline in the number of properties sold (75-44), and a further decline of 52.3% (44-21) once the price range moves to \$6-10 million. There is a dramatic decline in property sales once you reach the \$10 million mark, with an 81% decrease (21-4), and a 50% decline over \$15 million (4-2).

So, with all this in mind, why are the more expensive homes taking longer to sell? What's behind the data, if anything? And is this a short-term blip in the market? Again, to answer this we need to look at the buyer pool and who is included in that group.

Generation Name	Births Start	Births End	Youngest Age Today	Oldest Age Today
The Lost Generation – The Generation of 1914	1890	1915	101	126
The Interbellum Generation	1901	1913	103	115
The Greatest Generation	1910	1924	92	106
The Silent Generation	1925	1945	71	91
Baby Boomer Generation	1946	1964	52	70
Generation X (Baby Bust)	1965	1979	37	51
Generation Y – The Millennial – Gen Next	1980	1995	21	36
Generation Z	1996	2010	6	20
Gen Alpha	2011	2025	1	5

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There are currently 3 major generations in play when it comes to real estate.

This is not to discount the Silent and Greatest generations because many of them still hold real estate. Traditionally however, they are not currently moving up or down in large numbers in the acquisition or sale of properties to significantly affect the real estate demographics.

1. Baby Boomers.

Why is this generation so important? This demographic group is expected to represent 30% of the buyer pool in 2017. Many believe the current trend among Baby Boomers is consolidation, whereby the days of large estates are behind them. They are focusing on downsizing and shedding more dollar-intensive properties for more manageable homes. Purchasing that vacation home, traveling and or moving to one's favorite location are now what counts. Is this a reason we have seen an increase in vacation home sales in the last 3 years with a decrease in ultra-high-end luxury sales? Maybe.

2. Generation X.

Why is freedom key? Known as the "latch keys kids" and sandwiched between 2 much larger population groups, Gen Xers were born into an era of emerging technology, and perceived political and institutional skepticism. Views this generation still hold. Many Gen Xers bore the brunt of the housing crisis in 2009; losing a large portion of their wealth due to falling real estate prices and the financial meltdown. Of the approximately 9 million people who went through a foreclosure between 2003 and 2015, it is estimated 4.7million are still renting. That, in turn, added more people to the rental market, driving up demand and prices. That means rents are higher for this generation who are trying to cobble together savings for a down payment; making it harder for them to buy. With wages mostly stagnant in the last 6 years, Gen Xers have yet to reemerge as a force in real estate.

3. Millennials, or Gen Y.

To buy or not to buy? The key word for this market segment is "realism". With high rent prices being seen in much of the country, Millennials are finding it harder to get into the real estate market and represent the largest population group since the early 1940's still living at home. Burdened by large student debt, they find that living at home is a way to pay off debt and save money for a down payment. Cyber literate and highly adaptable, with portable careers, they know home ownership is a positive, moving forward, and it is expected that in 2017 Millennials will account for 33% of the buyer pool, with 20 million new households formed by Millennials by 2025.

BE CAREFUL WHAT YOU WISH FOR: As discussed, many people are expecting tax cuts, but also being considered is a roll back of regulations as it pertains to the financial industry with the rescinding of the Dodd-Frank Act. Remember, this is currently the proverbial "line in the sand" that will prevent the repeat of the financial crisis we experienced in the mid 2000's.

MARKET UPDATE

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LOOKING AHEAD

Even though home ownership is at historically low levels, there are positives to take from all the data. In 2016, home prices rose 8.9% nationally, and 7% in California, with Montecito moving somewhat sideways, and impressive gains in Santa Barbara.

Inventory levels will continue to be a driving force in sales prices, as we have seen in 2016, and with proposed tax cuts being the talk of the town, don't be surprised if we see a bump in listings early in 2017 as people cash out in advance of those tax cuts. This may create a corresponding rise in prices early in the year, but I expect to see prices move sideways for the most part in 2017. This will be interspersed with ups and downs as the market goes through its normal cycles.

Overall, however, I expect to see a positive year in real estate prices, with prices increasing <2%. Many believe the recent increase in interest rates will have a negative impact on the market, but, generally I have found this makes people who have been sitting on the fence make a commitment to buy before rates climb again. My forecast is that rates will continue to rise in 2017.

I also expect to see continued resistance by sellers to adapt to buyer realism when it comes to price point(s), although this is normal in any marketplace. "If you never ask, the answer is always no" is a phrase that comes to mind.

Look for continued weakness in the ultra-luxury market segment, for reasons covered earlier in this review, but, make no mistake, there are buyers who still seek, and will always seek, those trophy properties and properties in unique and special places. Montecito and Santa Barbara are those types of places.

UPCOMING LISTINGS

Montecito's famed golden quadrangle. Estate home with guest house and panoramic mountain views.

Located in one of Montecito's private enclaves, a stunning modern home with privacy.

Contemporary home with spectacular ocean views, recently refurbished to the highest standards.

CURRENT BUYER NEEDS

Family home in MUS up to \$3 million with at least 3 bedrooms and ideally an open floor plan.

Two buyers for remodeled Riviera or Montecito view home between \$3 - \$4 million. Open to a variety of architectural styles with usable outdoor space for entertaining.

Family looking for open space in Montecito, Santa Barbara or Santa Ynez. At least 3 bedrooms with appealing architecture. Up to \$8 million.

Montecito family home with 4 bedrooms, guest house or pool cabana and pool. Up to \$10 million with ocean and mountains views.

I invite you to give me a call at 805.886.9378 for an honest market analysis of your Property.
Or email me at cristal@montecito-estate.com.

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