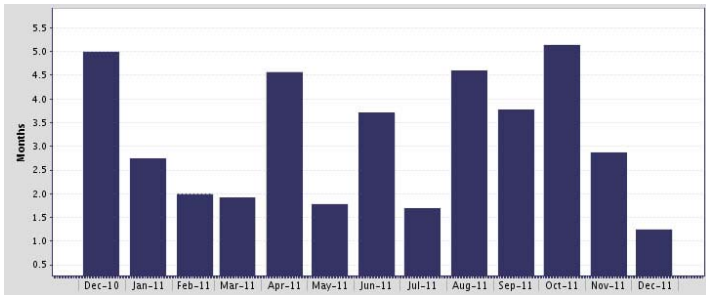


2011 was a fairly uneventful year in San Francisco real estate for homes and condominiums but the apartment building market is on fire! Overall, the market is likely to be pretty solid going into 2012.

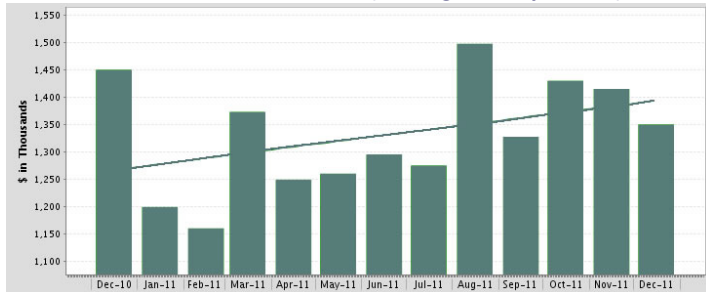
As for apartments, I sold three boutique apartment buildings in Pacific Heights and Nob Hill last year that all beat records in terms of the price per square foot for their respective areas. Multiple offers on well-located buildings were, and remain, commonplace. Investors are bullish on the residential investment market and this confidence is borne out by the 14% increase in rents in San Francisco.

2011 INVENTORY AND SALES PRICE TRENDS FOR DISTRICTS 5 AND 7
(NOE VALLEY TO ASHBURY HEIGHTS &
PRESIDIO AND PACIFIC HEIGHTS, COW HOLLOW, AND THE MARINA)

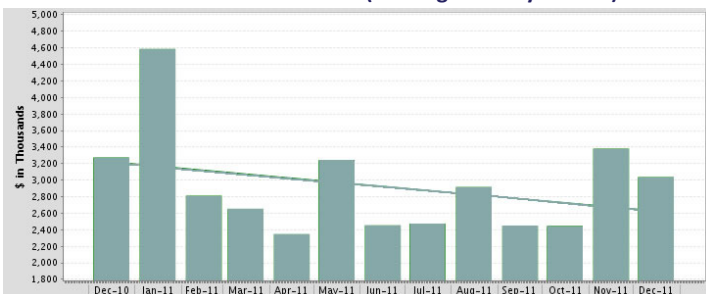
Inventory in Districts 5 and 7 (for Single Family Homes):



District 5 Median Sold Price (for Single Family Homes):



District 7 Median Sold Price (for Single Family Homes):



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Home Prices declined between year-end 2010 and the end of September by 2.8%¹ and the sense of uncertainty among buyers and the confusion engendered by the wild stock market swings was palpable. Not even the incredible interest rate environment swayed them. Buyers have been patient and focused and unwilling to make offers on over-priced properties. There were the usual exceptions, though, and at the lower end the market was active and will probably be buoyed in the Spring by the recent reinstatement of the \$729,000 cap on FHA-insured low-interest loans through year-end 2013. At the high end, no fewer than three properties traded on the three select blocks of Broadway between Divisadero and Lyon at prices between \$23 and \$33 million and, of course, the sale of the St Regis full-floor penthouse at \$28 million has been in the news recently.

It has been my experience that our San Francisco picture not only follows what the very wealthy do, but also closely follows what is going on in Palo Alto and surrounding areas. All year the Peninsula has had a strong market for sellers with limited inventory and multiple offers commonplace. Now San Francisco is beginning to follow this trend, with inventory down 75% year-over-year in Districts 5 and 7 (Noe Valley to Ashbury Heights; Presidio Heights, Pacific Heights, Cow Hollow, and the Marina).

I expect that as we see our inventory shrink and it becomes obvious that the currently favorable mortgage environment will not last forever, we will follow the Peninsula market. Economic indicators here in the U.S., as well as corporate financial reports, continue to point higher. The job market, consumer confidence, and consumer spending all continue to show decent improvement as the new year opens. All of these indicators are critical for a healthy housing market. Finally, several local technology companies are expected to have IPOs this year and the expectation that these will result in new buyers is already driving up sales prices in District 5 (to the South) even as prices in District 7 in the North have moved slightly downward.

Ken Rosen, the noted economist and the Chair for the Fisher Center for Real Estate and Urban Economics at UC Berkeley's Haas School of Business shares my optimism about our local housing market, projecting that two of the top five markets for housing sales for 2012 will be in the Bay Area: San Jose and San Francisco, largely due to the tech hiring boom. In a talk to real estate agents and others hosted by First Republic Bank on November 29 last year, he said he thought that home prices will rise about 3% this year and then continue to increase at a rate of around 3% a year for the next few years. His explanation for the strength of the rental market is that it is driven by the children of baby boomers turning 18 and moving out of the home because of the relative strength of the job market. He projects that it will be very strong for the next four years.

Here's to the end of the real estate doldrums and the beginning of an upswing in prices! We have much to be thankful for as most of the country remains mired in the real estate downturn.

(1) First Republic Prestige Home Index

Information deemed reliable but not guaranteed. Sales history and dollar per square feet figures taken from MLS information combined with agent's personal tracking of 2011 confidential sales.