

Quarterly Report 3Q 2006

A Review of the San Francisco Metropolitan Area Real Estate Market

San Francisco

BAY AREA MARKET PERFORMANCE

Bay Area Sees Decline in Values

San Francisco Bay Area real estate experienced a drop in values in the third quarter relative to the prior quarter with the condo market dropping more sharply than the market for single-family homes.

The San Francisco Bay Area (Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma Counties) real estate market showed the first signs of actual declines in value during the third quarter of 2006. While the overall Zindex™ home value indicator for the metro area of \$702,298 was up slightly on a year-over-year basis (up 2.9% from Q3 2005), it actually declined on a sequential basis 0.9% from the second quarter Zindex value of \$708,519. The Bay Area market performed worse than the overall national market which was up 5% in the past quarter on a year-over-year basis and up 2.4% on a sequential basis (increasing from \$263,485 to \$269,814 in the third quarter of 2006).

The markets for both single-family homes and condominiums declined sequentially in the third quarter with the latter dropping more than the former. The single-family home Zindex for the Bay Area dropped 0.5% from the prior quarter and increased 3.1% on a year-over-year basis (dropping to \$729,496 in Q3 from \$733,400 in Q2). The Zindex for condominiums dropped 1.4% from the prior quarter and increased only 0.9% on a year-over-year basis (dropping to \$524,364 in Q3 from \$531,745 in Q2). In contrast, the national market overall saw year-over-year Zindex changes of 5.4% and 3.4% for single-family homes and condominiums, respectively.

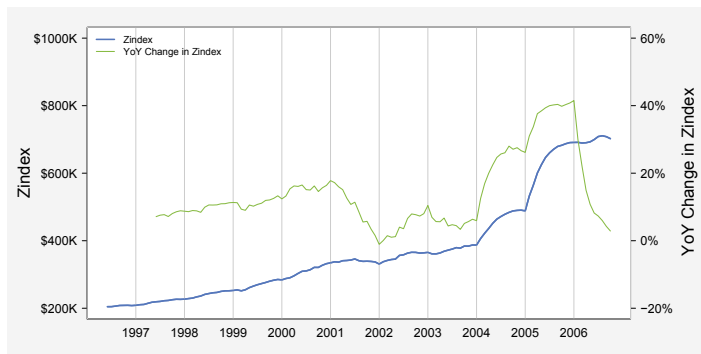
[Table 1. Bay Area Market Performance]

	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
United States	269,814	5.0	279,534	5.4	257,953	3.4
San Francisco-Oakland-San Jose, CA CMSA	702,298	2.9	729,496	3.1	524,364	0.9

[Table 2. Bay Area Counties Market Performance]

County	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Alameda County	634,394	1.6	655,433	2.1	513,789	0.5
Contra Costa County	603,028	2.4	632,957	2.6	452,031	-1.9
Marin County	907,424	3.2	970,462	2.4	594,226	3.1
Napa County	653,744	0.9	634,552	0.3	532,225	0.0
San Francisco County	855,718	1.0	829,025	1.8	744,517	-0.8
San Mateo County	831,277	2.5	861,616	2.7	558,051	1.7
Santa Clara County	755,111	6.3	800,748	6.8	534,955	3.1
Santa Cruz County	751,129	-1.5	770,545	-1.9	559,561	-3.2
Solano County	473,835	4.1	484,275	3.7	315,256	3.5
Sonoma County	598,461	-0.9	613,269	-0.3	406,404	-0.4

[Figure 1. Bay Area Zindex and Year-over-Year Change]

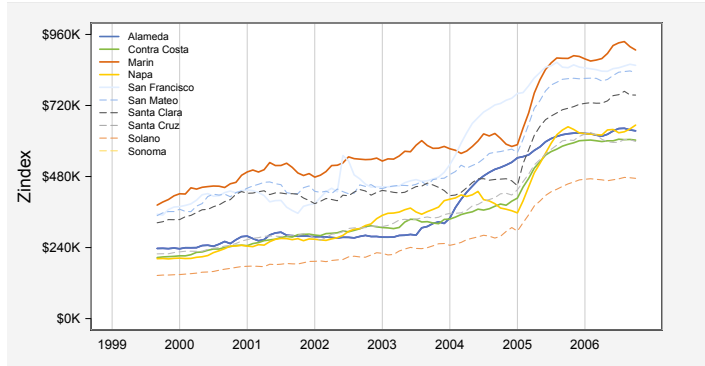


COUNTIES IN THE BAY AREA

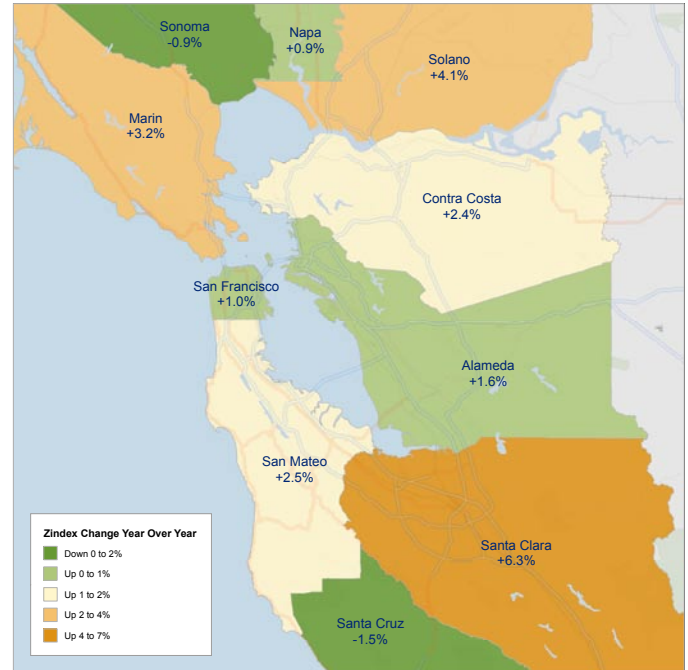
Santa Cruz, Sonoma, Napa and San Francisco Counties turn in lowest appreciation in Bay Area

Market performance per county is shown in Table 2. The lowest appreciation was seen in Santa Cruz, Sonoma, Napa and San Francisco Counties, all with year-over-year Zindex changes 1% or below. In fact, Santa Cruz and Sonoma counties had negative year-over-year Zindex changes (-1.5% and -0.9% respectively) for the third quarter. The highest changes in the Zindex were in Solano and Santa Clara Counties with 4.1% and 6.3% year-over-year Zindex changes, respectively. While Santa Clara County had the highest year-over-year increase among Bay Area counties, it still turned in a sequential decline in the Zindex from \$756,472 in Q2 to \$755,111 in Q3. Third quarter Zindex levels were highest in Marin County (\$907,424) and lowest in Solano County (\$473,835).

[Figure 2. Zindex Trends by County]



[Figure 3: County Map of Year-over-Year Change in Zindex]



CITIES IN THE BAY AREA

Monte Sereno and Tiburon still show very robust appreciation in home values

The five cities in the Bay Area with the highest valued real estate (measured by the Zindex) in the third quarter of 2006 were Monte Sereno (\$1,827,684), Tiburon (\$1,887,071), Belvedere Tiburon (\$1,927,108), Atherton (\$2,047,020) and Hillsborough (\$2,162,741). The five fastest appreciating cities in the area (as measured by year-over-year Zindex change between Q3 2005 and Q3 2006) were Inverness, San Martin, Belvedere Tiburon, Monte Sereno and Tiburon (all with year-over-year appreciation rates between 15% and 25%), while the five slowest appreciating cities were Moss Beach, Bodega Bay, Boulder Creek, Monte Rio and Cotati (-10.0%, -4.6%, -4.2%, -3.4% and -3.3% year-over-year Zindex appreciation, respectively). 25 of the 140 Bay Area cities identified in the appendix (18% of cities) experienced negative year-over-year changes in Zindex values in the most recent quarter.

[Table 3. Highest and Lowest Valued/Appreciating Cities]

City/ Town	All Residential		Single Family Residence		Condominium	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Atherton	2,047,020	8.8	2,093,866	9.9	997,047	17.7
Belvedere Tiburon	1,927,108	20.3	2,085,093	20.7	926,351	12.1
Bodega Bay	797,419	-4.6	816,168	-4.5	--	--
Boulder Creek	549,654	-4.2	553,415	-4.4	498,070	9.3
Cotati	556,803	-3.3	613,649	-1.7	366,684	-3.5
Hillsborough	2,162,741	-0.7	2,163,661	-0.7	--	--
Inverness	973,809	15.8	973,809	15.8	--	--
Monte Rio	460,095	-3.4	458,609	-3.6	--	--
Monte Sereno	1,827,684	20.7	1,827,684	20.7	--	--
Moss Beach	836,456	-10.0	877,891	-11.3	--	--
San Martin	1,158,256	18.5	1,159,869	18.3	--	--
Tiburon	1,887,071	24.2	2,007,369	24.2	980,944	13.9

(See appendix for the complete list for City Zindex Performance)

CITY OF SAN FRANCISCO NEIGHBORHOODS

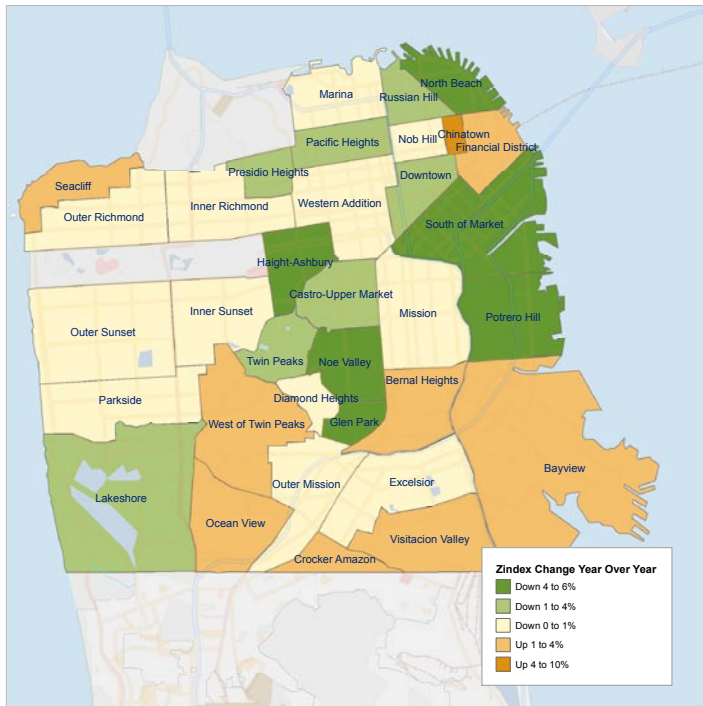
Bernal Heights among top-appreciating neighborhoods; Potrero Hill, Noe Valley among neighborhoods with largest declines

The neighborhoods in the southeast quadrant of the city of San Francisco fared best in the most recent quarter (see neighborhood data in Table 4 and a map of year-over-year change in Zindex values by neighborhood in Figure 4). The five highest appreciating neighborhoods in the city were Ocean View, Bayview, Bernal Heights, Visitacion Valley and Chinatown with year-over-year Zindex changes of 3.0%, 4.0%, 4.1%, 4.7% and 10.1%, respectively. The three lowest appreciating neighborhoods were Potrero Hill, Glen Park, Noe Valley, South of Market and Haight-Ashbury with year-over-year Zindex changes of -6.0%, -5.7%, -5.4%, -5.3% and -5.2%, respectively. The five most expensive neighborhoods were Inner Richmond (Q3 Zindex of \$1,142,501), Financial District (\$1,187,719), Marina (\$1,300,204), Seacliff (\$1,578,243) and Presidio Heights (\$1,599,759). The five least expensive neighborhoods were Downtown (\$435,595), Chinatown (\$473,435), Bayview (\$663,603), Nob Hill (\$681,885) and Visitacion Valley (\$687,916).

[Table 4. Neighborhood Market Performance]

Neighborhood	Rank	Zindex(\$)	Zindex Change YoY (%)
San Francisco		855,673	0.9
Bayview	32	663,603	4.0
Bernal Heights	19	810,349	4.1
Castro-Upper Market	10	1,028,411	-3.4
Chinatown	33	473,435	10.1
Crocker Amazon	25	734,738	2.5
Diamond Heights	23	738,256	-0.8
Downtown	34	435,595	-1.9
Excelsior	27	716,596	0.8
Financial District	4	1,187,719	2.1
Glen Park	15	895,167	-5.7
Haight-Ashbury	7	1,042,793	-5.2
Inner Richmond	5	1,142,501	-0.2
Inner Sunset	13	932,372	-0.8
Lakeshore	12	956,606	-1.7
Marina	3	1,300,204	0.8
Mission	22	786,011	0.5
Nob Hill	31	681,885	0.1
Noe Valley	9	1,036,579	-5.4
North Beach	21	786,809	-4.3
Ocean View	28	712,961	3.0
Outer Mission	24	737,840	-0.1
Outer Richmond	14	904,547	-0.9
Outer Sunset	18	815,815	0.5
Pacific Heights	6	1,135,343	-1.9
Parkside	17	845,545	0.9
Potrero Hill	20	803,753	-6.0
Presidio Heights	1	1,599,759	-2.7
Russian Hill	11	1,000,071	-3.5
Seacliff	2	1,578,243	1.6
South of Market	29	691,512	-5.3
Twin Peaks	16	858,831	-2.8
Visitacion Valley	30	687,916	4.7
West of Twin Peaks	8	1,037,791	2.2
Western Addition	26	730,298	-0.3

[Figure 4. Neighborhood Map of Year-over-Year Change in Zindex]

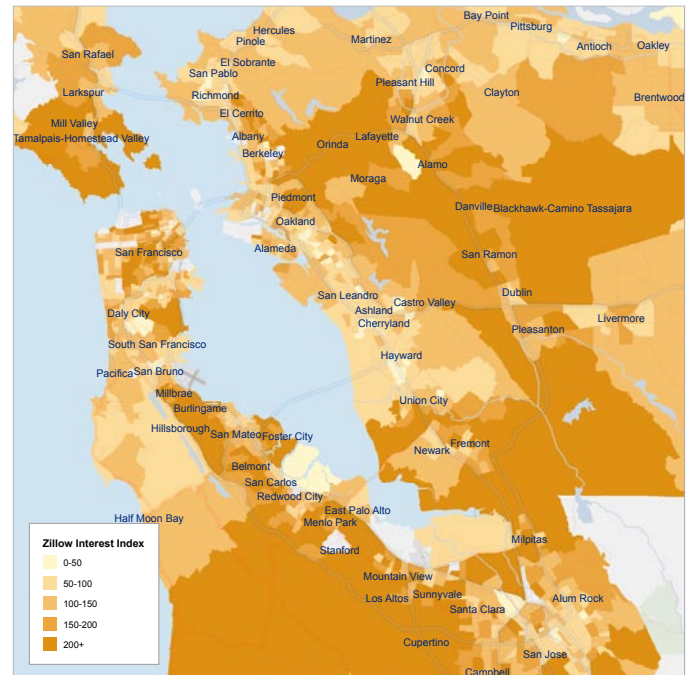


ZILLOW INTEREST INDEX

Marin County attracts lots of eyeballs on Zillow.com

As with our previous quarterly reports, we are again providing detail via the Zillow Interest Index (ZII) on where people are most often looking at homes in the Bay Area. The ZII is a simple ratio of the number of page views of individual homes in a geographic area divided by the number of homes in that area. The more people look at homes in an area, the more page views are generated on Zillow servers and the higher the ZII. This quarter, we are displaying ZII data down to the census tract level, a finer level of geography than the ZIP code level which was used previously. The geographic distribution of the ZII across the Bay Area is shown in Figure 5. The hottest areas of interest include Marin County, the region east of Berkeley and Oakland, Burlingame and Palo Alto.

[Figure 5. Zillow Interest Index]



About the Zindex™

The Zindex home value indicator is the median Zestimate valuation for a given geographic area on a given day. Exactly half the Zestimates for a region are below this number and half the Zestimates are above it. It is expressed in dollars and is for a particular geographic region (e.g., Zindex = \$245,000 for Baltimore on July 1, 2005). Zillow believes the Zindex is the best measure of market performance because it is based on estimates of the current value of every home in the area and, thus, approximates the median sale price of the whole area were

every home sold on the same day. This is in contrast to the median sale price of homes which is biased potentially by the mix of housing sold in the period of time associated with it. For example, if high-end homes are not selling very well, but mid-range homes are, then the median sale price will be lower than a true measure of the typical value of homes in the market because the median sale price is taken from the set of mid-range home sales that transact in the period, ignoring the high-end homes that don't transact.

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