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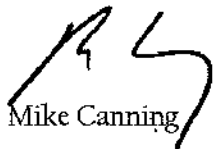
The close of the third quarter here in Carmel and Pebble Beach has revealed a few very interesting market patterns; attached is our Carmel and Pebble Beach market summaries with a few insights below.

At the outset, the theme is clearly an ascending Carmel market and a deep chill settling into the upper brackets of Pebble Beach. Carmel's sold and pending sales numbers have already exceeded the annual numbers for years 2006-2010. Of particular note is the strength in the \$3-4M bracket, with 6 sales year to date; last quarter Carmel also saw 2 closed sales and two pending sales north of \$4M. Very healthy, by all standards. Inventory levels in Carmel are generally quite balanced, with a high level (14) in the \$3-4M bracket but, again, that bracket has also seen exceptional demand. There's a building consensus that demand in Carmel has migrated toward slightly larger houses (2,500-3,000 sq. ft.), with 4 bedrooms, sitting on larger, well located lots (6,500-8,000 ft.) Clearly, there are a number of move-up buyers in motion, those who bought the classic 1,600 sq. ft. cottage, liked the Carmel experience but ultimately decided they'd like something larger but want to remain in Carmel. We're also sensing that the younger demographic from Silicon Valley has focused on Carmel, with it's easier to maintain smaller homes and lots and convenience to beach and town, over Pebble's larger homes and properties - this potential pattern is one we'll be closely watching in the future.


Pebble Beach has been quite a different story. But for our off-market pending sale (asking price of \$11M), there were zero closed sales in Pebble over \$4M last quarter and there are none pending. A striking contrast to the robust action in Carmel. Some demand shift is clearly taking place - we'll see how the fourth quarter plays out and whether the emerging pattern signals a more profound trend. Assuming even modest sales in Q4, Pebble is on track to beat 2009 and 2010 sales, extending the recovery trend, albeit sluggishly. Inventory levels are troublesome: The bottom \$1-1.5M bracket has 25 properties available - this bracket is a dog fight with a number of foreclosures - there are some good buys being made at this level. North of \$4M there are 36 properties available, a 3 1/2 year supply by historical standards - there's no magic bullet here and this supply excess will put pressure on prices for some time.

Very interesting markets out there right now. We have seen swings between Carmel and Pebble Beach during previous cycles but this one has been more pronounced - we'll be watching the markets closely and will update our observations on our weekly web blog.

Yours very truly,



Mike Canning



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