

# CURRENT NEWSLETTER



The general state of affairs nationally mirrors the situation in Southern California. It feels like, about the time we collectively get our minds around an emerging crisis, another crisis appears on the horizon. We are struggling on many fronts at once, and they all have financial consequences. Growing debt, 12.5% unemployment in California,<sup>1</sup> diminishing incomes, debilitating energy inflation looming, international uncertainty, and no believable evidence that an economic turnaround is imminent: it all suggests that our economic course is not sustainable and that ~~2011~~ 2012 will be another year of economic reconciliation.

That said, everybody needs a place to live and the population is growing exponentially. Many investors will consider owning real estate and real estate debt a conservative and collateralized alternative to an adjusting international economy, susceptible to radical changes in equity without notice. There will always be a demand for real property, and the demand for a given property will determine its value relative to other available investment possibilities.

Most experts appear to be saying that it will probably cost less to buy property during the next five or more years. Although the average sales price of a particular parcel of real estate will likely be lower for months or years ahead when compared to the market peak prices of nearly 6 years ago, the *relative cost* to purchase that particular parcel will feel about the same. Our current economic transition can be thought of as a reshuffling of the economic deck of cards. Energy inflation, health care and insufficient retirement resources - among other things not yet known - will compete with our personal budgets for cash. In other words, real estate will not be getting cheaper. Lower values will reflect our economic power to purchase real property.



It could be the case that property values lose another 10% in value during the next 18 months. It is also possible, however, that the average person's economic ability to purchase property could decline during the same time period by 15%. Rising energy and food prices could create this scenario.<sup>2</sup> This might be a consideration for those who are waiting for the return of easy money through property appreciation.



What has not changed since the peak of the market is the demand for quality properties. More than 1000 properties in the county have sold for in excess of \$1,000,000.00 during the first 240 days of 2011 - less than half the number representing the market peak in 2005. This shows that there are still plenty of people who have million dollar purchasing power. Desirable land in the backcountry area can still command over \$10,000.00 per acre for large tracts - about 80% of peak values. What appears to be happening with available properties reflects what happened during our last procession with personal income. We now live in a country of billionaires, millionaires, those who live like millionaires, and so on; we now have *several classes of wealth* replacing the old model of lower, middle, and upper economic classes. Similarly, the

<sup>1</sup> <http://www.bls.gov/news.release/laus.nr0.htm>

<sup>2</sup> [http://www.bls.gov/opub/focus/volume1\\_number15/cpi\\_1\\_15.htm#price\\_topics](http://www.bls.gov/opub/focus/volume1_number15/cpi_1_15.htm#price_topics)

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demand for property is diversifying and its value driven by the demand of a given class of economic purchasing power. Property that sells now is that which is cheap and that which is rare and desirable. Overpriced property does not sell. And there are those properties doomed to extraordinary market time because of unresolved problems and/or they don't offer a practical function to a *class* of viable buyers.

Signs that the real estate market is stabilizing include county foreclosures ~~steady~~ trending lower for the past 12 months at a little over 1,000 per month and the Notices of Defaults for the past 12 months at around ~~2,000~~ 1,750 - the disparity in time between foreclosures and defaults due to the growing popularity of the short sale process. It should be noted that new Notices of Defaults are declining at a faster rate than actual homes going to sale - a clear sign that traditional foreclosures have begun to decline. Inventory levels have not grown in several months, with persistent movement in inventory at the low end of market price, slow and steady movement in the median market, and sporadic sales at the upper end. Median home prices in the state have been stable for more than a year.



Fluidity in the market seems to be driven by, of course, short sales and foreclosures on the buying side. The displaced owners of this liquidation process will become tomorrow's buyers. Lifestyle changes for many over-leveraged baby boomers, wise investors building their real estate portfolios (who will become the next poster boys for another real estate mega-success story), inheritance, and the normal stuff - death, divorce, and first time buyers - have also contributed to the real estate market moving along. Acquiring property through seller financing is rapidly becoming a common transaction. The seller derives the benefit of a collateralized income stream while the buyer can obtain short term, low cost financing. Cash transactions are also now common.

In the backcountry zip codes of 92036, 92060, 92066, 92070, and 92086 there have been 50 sales during the first 240 days of the 2011 - about 1 sale for each zip code every ~~two~~ four weeks! The highest sales price was \$900,000.00 at 65% of the asking price; the longest marketing time for a sold property was 334 days; the median sales barely over \$150,000.00, selling for 92% of the listing price at 82 days on the market. Land prices ranged between \$4,000.00 and \$9,737.00 per acre for large tracts.

Now would be a very good time to purchase quality recreation land, orchards and groves, rangeland, and rural residential and commercial property with unresolved, but curable problems (access, unpermitted structures, legal non-conforming zoning, etc.).

Please contact Donn Bree for a *free* assessment of your real estate situations and/or portfolio

