

real estate

a brighter horizon

by Patty Kovacevich

A new year has dawned and with it comes renewed optimism among many of San Diego's top residential real estate experts that the worst of the local market's "correction" of overly inflated prices has passed and that a turnaround is under way. So, will 2008 be the year to purchase the house of your dreams, or possibly an investment property? *Majestic Living magazine* asked four top real estate and building industry leaders in San Diego to soar above the ominous-but-misleading clouds of newspaper headlines to offer their eagle-eye perspectives of the brighter horizon they foresee for the real estate and housing market in San Diego County and Southern California.



Rick Hoffman, President and COO, Coldwell Banker Residential Brokerage said things are hardly in a state of shambles. In fact, he doesn't even see the upper level of the market significantly affected.

"Higher-end properties where a significant amount of equity is brought to the table don't typically use sub-prime mortgages, which is where the real problems exist," Hoffman explained. "Parts of San Diego where there are significant numbers of sub-prime mortgages and heavy foreclosure inventory will see prices continue to go down until the banks liquidate and get those properties off their backs. But that's all just part of the correction going on now."

"Buyers are cautious, but they've finally got the inventory to be more selective. They're making calmer, more informed decisions. If they're smart, they'll align themselves with a pre-approved loan already in place because financing is very cooperative right now." When asked about media hype perpetuating fear, Hoffman said the local media does a horrible job by spreading the negative. He said the stories' headlines and content just don't match. Sensational, fear-based headlines carry content that's not nearly as terrifying when you take time to read the facts, Hoffman said.

"A real issue is consumer emotions," said Hoffman. "We had seven to eight years of a steady run-up where pricing and activity went through the roof. That needed to stop. It was too much for too long and unhealthy for all sides of the market. Prices have gone down but the affordability index has actually gone up. We're seeing softening in prices in all levels of the market place, but when you couple that with the interest rate incentives, it bodes well for people to go out and find a great deal on the house they'd like to live in the next 10 or 20 years. It's a matter of having confidence in the marketplace, going out to find what you want and taking advantage of the low interest rates available. We already see smart consumers doing that."

Hoffman sees his written business the first two weeks of January 2008 up over 27 percent from January 2007. He attributes the decisive action of the Fed as helping along with the anticipation of loan limits being increased. Hoffman emphasized that people don't buy their homes based on what they cost but rather on what they cost each month. Interest rates affect monthly cost and interest rates are currently riding low in the mid-fives. He forecasts that we've bounced off bottom and savvy foreign investors coming in are the smart new pioneers.

"The amount of Canadian money pouring into our Palm Springs market, for example, is unbelievable. With currency values making it really attractive to buy, they're purchasing second homes, and often with cash," Hoffman reported.

"The market is always just the market. There's never really a good market or a bad market. All things are relative. It's a good time to move up or down. If you have equity, it's a really good time. Real estate was never designed like stock to trade for an immediate profit. It's a medium- (5-10-year) to long-term (10-30 year) investment. If a cautious investor approaches either the principal residence or rental property purchase with those guidelines, nobody will miss. History proves that. But it has to be medium- to long-term; it can't be flipped for a profit. 'Flip' is gone. 'Flip' left town," he concluded.



Mick Pattinson, CEO and Principal, Barratt American, says we're in a "correction" in the building industry and wants people to feel inspired that now is a time of enormous opportunity for the smart buyer.

"When the market was booming, everybody thought it would last forever," said Pattinson. "Now with the market in a slump, everybody thinks it'll last forever. The truth is housing is a cyclical business. Prices go up; prices go down. There are all sorts of reasons for these cycles, none of them ever the same. Usual reasons are high interest rates or big job loss. This time, pricing got too high. I think excessive pricing was due to mistakes by the Federal Reserve who lowered interest rates to a 40-year low in the wake of 9/11, and they left them too low for too long. That encouraged a climate of easy credit. We had an extremely loose mortgage-lending era that none of us ever want to see again. On top of that, we've had lots of costs added to the housing equation: regulatory costs, fees, infrastructure costs, things like that. These factors combined to push prices to a level that people didn't want to and couldn't pay. So we've had this corruption and we're now in the ninth quarter of a housing correction. We're not in a national recession, but we've been in a housing recession for quite some time. We've seen housing prices correct with a huge decline in housing production. We're on our way to hitting bottom and on our way towards recovery that will take two to three years to materialize fully. That means now is a very good time to buy. More houses, better selection, premier locations, lower prices, low mortgage rates all make it an excellent buyer's market."



The deluge of foreign investors reflects how the rest of the world sees huge value in owning here, according to Pattinson. The strong currency advantage helps the current land rush from foreign shores. He urges us to learn from these savvy buyers. Southern California real estate is prime real estate on the global map. It's unique and the whole world knows it. People around the world consider it a dream to live and own in our beautiful paradise. We'd be wise to remember that, Pattinson urged.

"In 2008, homebuilders aren't going to be building new homes. They'll be selling current inventory. Modest phases will be built but we'll see no significant new construction. The good news is we'll get rid of the industry's overhang and things will balance out," said Pattinson. "I see 2008 as the final year of correction and 2009 will begin the building revival. In the mid-1980s, we'd pull permits for 35,000 to 45,000 houses a year. This year, we'll pull permits for less than 5,000 houses and about 1,000 of those are for reconstruction of homes destroyed by the fires. So we're down by 90 percent from our peak in terms of permits. Builders haven't been making the investment in new land or in entitlements, so a shortage of new housing inventory will return once this overhang is swallowed up."



Steve Doyle, President, Brookfield Homes, San Diego, said it simply couldn't be a better time than now for buyers to get a fantastic deal. From the perspective of homebuilders, he confided, times are challenging, "the most challenging time in over ten years," which brings in some casualties in the new-home building industry as smaller companies shut their doors. He adds that a few larger public homebuilders have left town, but doesn't see that as such a bad thing since San Diego can't provide them the 300-500 units a year they need to build long-term to keep a division office open here. Instead, these companies will consolidate to a broader, Southern California area main office. And that's just smart adjustment.

"San Diego and Southern California have hit bottom and we're headed up," Doyle declared. "The rest of the country has a way to go. We started a year earlier than the rest of the nation, and supply for future new development here is far more constrained than any other area. San Diego is looking at a potential countywide 35,000-40,000 more single homes. Western Riverside (County) is looking at 300,000 more homes and that doesn't even include the desert area."

According to Doyle, the limited supply means San Diego for now is in a new housing industry recession that's been going on a year longer than other parts of the country. But he expects we'll start to see more smart people coming out to move on bargains that have been pent up the last three years. The pendulum always swings. Sales numbers are lower today, but other factors show we'll actually experience another shortage of housing again in the not-too-distant future, Doyle opined.

"We've seen an influx of international investors. We're also seeing some larger money funds on Wall Street looking for distressed deals from some of the builders. Some are just looking for good deals so to get into this market; some, for long-term assets."

"For 2008, we already have aggressive bargain hunting activity. We aren't making a lot of sales but a whole lot of people are looking. The stimulus package that the Feds are promoting will help the person looking for a bigger new home to come out. But that only applies until the end of this year. We could see a flurry of activity later in 2008, but 2009 may see a slowdown again. Frankly, I think this whole residential thing began in July 1, 2005. Sales volumes dropped dramatically at that time, so I don't really see the present situation as such an alarming surprise."

Is it a good time for the remodeling and upgrade industry? Doyle says, "Absolutely, especially with prices for raw materials and labor having come down quite a bit."

Doyle added that the media needs to do a better job reporting the truth, not just excite and alarm the public with gruesome headlines that perpetuate fear and negativity. He concludes that buyers should do diligent research and pay attention only to the facts.



"The low end has suffered the most. I feel really bad for the entry-level buyers who got caught up in the sub-prime debacle. But this whole mess wasn't just about sub-prime mortgages. It was also about the fact that house prices got way too high. Builders weren't gouging. We were just passing on the utterly ridiculous fees the government imposed upon us. The government loaded up the cost of the new entry level homes with ridiculously high fees to pay for parks and town halls and freeways, costs that shouldn't be imposed upon a new home buyer," Pattinson said. "A lot of them ended up not being able to pay, suffering the traumas that come with loss of their home. They'll probably deny themselves the dream of owning their own home for a while. I hope the government and the mortgage lenders will take measures to help correct the nonsense of this situation."

Pattinson feels that consumer confidence creates the housing market. When buyers see the value of their home going up, they'll go out and spend. According to Pattinson, the drumbeat of negativity has affected the confidence of the consumer. If we don't correct it, we indeed may head into an economic recession. History shows that great acquisitions and a lot of true wealth are made in times of distress. And the government needs to change its absurdly weighty fees to bring the new homebuyer better opportunity. It's the time when the average person can make the best investments of his life.

Steve Rodgers, President and CEO of Prudential California Realty, Southern California and the Central Coast, said it's a changed world and there's a reality check going on but positive opportunity abounds now.

"We've had a major run of a rapidly appreciating market; however, the pendulum was swinging too far, too quickly," Rodgers stated. "But now buyers have breathing room to decide their futures and think wisely. They can take more time to look at inventory, consider the neighborhoods they truly desire to live in and make better, well- thought-out decisions. Previously it all moved too fast, too feverishly."

Rodgers reports the \$5 - \$10 million market is still moving just fine, but the middle and lower end is currently in correction. But while the banks have been part of the problem, now they're becoming part of the solution. And he's glad the government is also offering help to clean up after a really good party that's been had.



"For sellers, there are a few vital steps to consider. First is price. Competitive pricing is absolutely essential. Second is critical exposure of the property in various media platforms. Third, staging is essential. Getting things into pristine condition and transforming the look and feel of the property into a warm lifestyle presentation, not just a product for sale. That's invaluable. Finally, creative incentives add icing on the cake, especially with the glut of inventory that's out there now," Rodgers emphasized.

The media flirts for our attention with bold, formidable headlines, but if you stop to study the contents, they don't reflect industry meltdown. The economy is not teetering on the brink, and the real estate and homebuilding markets are not coming unglued.

"Southern California is becoming a globally sought-out market. All the fearful headlines are actually making world financiers take more notice of our Southern California market and savvy international investors are coming in to buy," Rodgers said.

Rodgers has pioneered an expansive and innovative number of programs to present a more optimistic market landscape. He's started his own personal cyberspace blog, www.steverodgersblog.com. And with a presence on such powerful social networks as MySpace, LinkedIn and Facebook, he's using cutting-edge media to educate and motivate on the positive news and opportunities in the real estate market today.

In addition, Rodgers has begun a pilot program within Prudential California Realty of an auction division for sellers. He's also created a progressive "green" division in which agents are being trained as eco-brokers, receiving credits to learn more about conservation, energy, and green-friendly homes. If buyers or sellers have a more environmentally-friendly property or home preference, they'll be working with accredited agents who understand the terminology and who are professionally trained to better service buyer and seller. In February, Rodgers arranged for Prudential California Realty to begin marketing homes in a green light. He also will be establishing a green concierge division listing reputable eco-vendors. Whether it's a contractor, architect, moving company, or cleaning company, the consumer can use this resource to make his own contribution to the environment. There's even a campaign for recycling in-house at Prudential California Realty, along with community celebrations and events to clean up the beaches. Future endeavors include planting trees in fire-devastated areas, and creating a drop-off program for hazardous waste such as computers and old electronics.

"It's kind of a holistic approach and that's good for all of us," Rodgers said.

Rodgers sees the recent wildfires as a metaphor of sorts for the current real estate market.

"The wildfires here ravaged the land causing a terrifying situation, but the green has now already begun to return, and in some circumstances, more lush than before. I have absolutely no doubt our real estate recovery will be, also."

