

REAL ESTATE NEWS



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DUMKE
Fine Homes



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Quote

*“Those who have
knowledge, don’t
predict. Those who
predict, don’t have
knowledge.”*

*Lao Tzu, 6th Cen-
tury BC Chinese
Poet*

Inventory Climbs, Sales Drop, Prices?

by John Dumke

Predicting the future is a dangerous profession. I once read that if one *has* to predict, it is best to predict when *or* what, but never both.

Real Estate, however is a slow moving industry. When a trend starts, it usually continues for quite some time before changing. In the last 20 years we have only had three trends. Prices started to take off in 1985 and went up until 1990. Then they went down from 1991 until 1995, and from 1996 they have gone up ever since.

While predicting the future is impossible, there is a critical bit of information that precedes or predicts price movement. That is the ratio of homes for sale versus the number that sell every month. Just like a market maker on Wall Street that starts off the day with an imbalance of buy orders vs. sell orders, and can predict the direction of that morning's trading, we get a good sense of which direction the market will be headed based upon the current inventory relative to demand.

On Wall Street the average imbalance of buy or sell orders may only last for the first 5 - 30 minutes of trading, In Real Estate however, when the average home takes 60 days to sell and there is a 4 month supply of homes for sale, current market conditions are likely to remain in place for several months.

This is how we can predict the market several months out. We are not really predicting the market, just looking at the existing trend together with the current balance of supply and demand. From these numbers we can come to a reasonable conclusion about the next several months.

The trend as everybody knows has been in raging bull mode. This trend was driven by a complete lack of inventory. However, this bull trend was quite volatile during the last two years. In both 2004 and 2005 we had absolutely stellar price gains. Inventory for all unsold homes in Long Beach got as low as 200 in the spring of 2004 and around 300 in the spring of 2005. Monthly sales at the time were around 250 - 300 homes, so there was almost no inventory. With demand well in excess of supply, home prices quickly rose, 30% from 2003 to 2004 and 20% from 2004 to 2005. The volatility came into play in both years when the market slowed significantly in June and remained cool through the balance of the year. Inventory rose during both these periods to 600-700 homes or about a 2-2.5 month supply of homes.

This last fall's sales drop however was a little more of a concern, as activity dropped off more aggressively. Sales figures confirm this with the number of monthly sales dropping to lower than normal levels. (see

Zillow Dot Wrong

On our website, we have included a link to Zillow.com, a very interesting home value calculator. The technology is very interesting. However, keep in mind that this website can be completely wrong.

Zillow valued my clients home at 729 Terrain at \$609,462, while I just sold the property for \$850,000.

Zillow's algorithm likely uses a price per sqft., this will greatly underestimate value for smaller homes in California where land values are very high.

For a more accurate value simply fill out the attached reply card for a free no obligation market evaluation and we will do the rest.

charts on cover). Last fall prices also took a little bit of a price hit. Prices dropped about 5%, giving back some from the springs 20% price gain. But around November of last year the market started to move again, putting a floor under the small price drop.

This year the market has remained stable. It seems like the 5% that was given back in the fall has been reclaimed this spring. A sellers perception of the market will be highly dependent upon what they are selling and how well it is priced. Certain price ranges may be hotter than other and if the home is a quality product and priced well it will likely sell quickly. But homes that are slightly overpriced, in marginal condition or in more difficult price ranges, sit unsold, with list prices often needing to be reduced.

The major difference between this year and the start of 2004 and 2005 is that we are not seeing inventory drop and the number of sales also remains weak. The market is no longer in bull mode, but neither has it reversed direction. We are in what is known as a "Normal Market" or a "Flat Market", the good stuff sells and the junk sits. 2000 - 2005 was not a normal market, it was a wild ride.

Right now the total number of unsold homes in Long Beach is around 800. Sales have been running about 150 - 250 per month. This gives us about a 4 month supply of homes. These types of numbers are typical of a normal market. As a point of reference, the current nationwide average for unsold homes is a 5.3 month supply. While new home inventory is at a 6.3 month supply.

However, a normal market in contrast may require an emotional adjustment on the part of many sellers used to the good old days when you could tack on an extra \$50,000 to the last sales price and still get multiple offers and overbids. In this flat market sales prices will likely be in line with recent sales, maybe a little more, or less and may take 30-60 days to achieve.

Has the bubble burst? This is a phrase that I have seen in quite a few print publications lately. As I mentioned before,

predicting the market is difficult at best, so I will stick with just reporting what is happening and at this point prices are not dropping. Yes they may be flat or "soft", whatever the term may be. The perception may also be a little worse than it really is, because expectations are so high. But this flat market has not yet shown which way it would like to go. Will it continue sideways for an extended period? Will we have more price gains or will we give back some of the recent gains, and if so, how much?

If prices were to drop, first we will see several clues in the market. Inventory will likely tick up from 700-800 to around 1,000-1,500 unsold homes in Long Beach. Secondly you will see quality well priced homes taking 60-90 days to sell. Right now the quality well priced homes still move off the shelf.

The final clue that would indicate a price drop will be when negotiated sales prices end up being below some of the previous sales. This happened briefly in the fall when the market slowed, but prices quickly stabilized when the new year started.

There is however enough anecdotal information out there that prices won't be taking off. I have spoken to several loan agents that say that it now takes 8 buyer prequalifications to find one willing and able buyer. Several years ago when prices were cheaper and rates lower, the ratio was 3 to one.

Secondly, in the fall of last year, buyers were throwing out low ball offers in hopes of finding a desperate seller. Previously, the thought of writing anything less than full price or over full price was ridiculous. Now though it seems like buyers are no longer afraid to negotiate.

These two bits of information tell me that buyers may be hitting a point of exhaustion both emotionally and financially. Only time will tell how the balance of supply and demand affect prices.

Should you have an questions regarding the current value of your home in todays market, we invite your questions and calls.

Market Activity

The following information is from the Multiple Listing Service as of 03/30/2005.
Properties in Black are currently for Sale, Properties in Red are currently in escrow

Address	Br/Bth	Sq Ft	Lot Size	List Price
Alamitos Heights				
339 Flint	3/2.5	2242	3250	849,000
717 Terraine	3/1.75	1504	5460	849,500
729 Terraine	3/2	1466	5460	850,000
745 Ultimo	4/3	2140	6500	899,900
770 Havana	4/3	2006	6500	995,000
358 Flint	3/3	1992	6500	1,099,000
427 Manila	4/2.5	2748	4100	1,149,000
780 Havana	5/4	2,692	6500	1,170,000
665 Ultimo	3/1.75	1450	6500	1,250,000
742 Terraine	4/2.5	2566	6400	1,259,000
387 Orlena	5/4	3255	6250	1,299,000
841 Terraine	5/4	3000	5460	1,450,000
362 Orlena	3/2	1716	9750	1,650,000

La Marina Estates

No active or Pending Listings (as of 03/30/06)

Los Altos (S. Fwy)

6407 El Paseo	3/3	1234	5940	594,000
7008 El Cedral	3/2	1450	5580	585,000
6201 Fairbrook	3/1	1040	6410	589,000
2275 McNab	3/1	1025	6000	599,900
2013 Rutgers	3/2	1194	5775	609,950
1907 Nipomo	3/2	1169	5760	614,900
6812 Espanita	3/2	1100	5220	629,000
2270 Albury	3/2	1226	6410	629,000
2016 Bellflower	3/1	1140	6825	599,000-629,000
5337 Daggett	3/2	1430	5775	639,000
2143 Greenbrier	3/2	1689	5775	650,000
1841 Ashbrook	3/2	1386	6500	650,000
1825 Hackett	5/2	1822	5940	659,000
1850 Knoxville	3/1.75	1400	6105	669,000
1941 Britton	3/2	1544	6090	675,000
5432 Abbeyfield	3/2	1317	7470	679,900
6946 Espanita	3/2	1954	5220	679,000-699,000
2320 Fanwood	4/2	1928	6500	680,000-720,000
1850 N College Pl	3/2	1866	7590	725,000
6700 Bacarro	3/2	1249	8700	729,000
5320 Calderwood	4/2	1788	5775	739,000
2255 Gondar	3/2	1380	6000	799,000
5439 Daggett	3/2	1884	5775	847,500
1909 Lave	4/2	2578	6090	865,000
2286 Fanwood	5/4	2519	6000	875,000
1848 N College Cir	3/3	2724	7370	979,999

University Park Estates / College Park

6332 Vermont	3/2	1566	7500	698,000
6329 Vermont	3/2	1452	6020	698,000-729,000
6820 11th Street	4/2	2000	5985	735,000
360 Peralta	3/2	1452	6380	729,000-769,000
6211 5th Street	3/2	1566	6530	784,900
866 Lees	3/2	1891	6540	789,000
6900 Septimo	4/2	2265	6760	825,000
420 Daroca	4/3	2101	6380	850,000
6246 Parima	4/3	3315	6600	1,199,900

2005 Stats

(Based on closed sales from 2004 - SoCal MLS)

Alamitos Heights
 Number of Sales - 41
 Low Price - \$680,000
 High Price \$1,800,000
 Average- \$1,000,736
 Average Sqft - 2,396

La Marina Estates
 Number of Sales - 7
 Low Price - 645,000
 High Price - \$755,000
 Average - \$703,857
 Average Sqft - 1,611

Los Altos (all)
 Number of Sales - 192
 Low Price - \$412,000
 High Price \$1,040,000
 Average - \$596,848
 Average Sqft - 1,456

Univ Park Estates
College Park
 Number of Sales - 19
 Low Price - \$593,000
 High Price - \$899,000
 Average - \$697,205
 Average Sqft - 1,874

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Inside

*Inventory Climbs,
Sales Drop.....
Prices?*

*Zillow Dot Wrong
- A Very Interesting
Home Value Calcula-
tor.*

*Market Activity:
What's happening in
your neighborhood?*

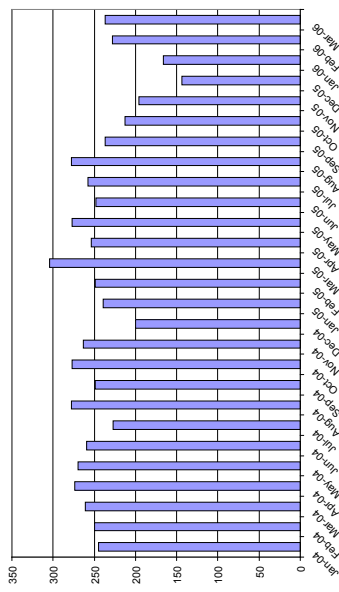
*2005 Stats by Neigh-
borhood.*

Market Health

The graphs below show weaker sales and an increase in the inventory of unsold homes.

For in depth analysis, see article inside.

SFR Sales in Long Beach



Unsold SFR Inventory in Long Beach

