

# REAL ESTATE NEWS



*Penny & John*  
**DUMKE**  
*Fine Homes*



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*Penny* 562 596-4461

*John* 562 596-4451

*Fax* 562 493-0235

## *Hedge Your House!* Free Fall or Soft Landing?

by John Dumke

*Chicago Mercantile Exchange recently started trading Residential Real Estate values by city, as either a futures contract or an options contract. Now you can go long or short housing values without even buying a house. For more info log on to [www.CME.com](http://www.CME.com)*

## *Save the Date*

*La Marina Garage Sale - July 21st, 2007*

Last night I pulled up some very encouraging statistics. The total number of unsold homes in Long Beach dropped from 1033 to 819, in just the last month. A clear indication that the market is firming up. In addition, December saw increased sales activity. Good homes that had been sitting for a while finally started selling and little new competition came on the market.

Why was December such a welcome relief? Because the market was actually getting quite scary. When the best priced homes on the market DON'T sell, prices will fall until buyers decide to re-enter the market. For much of the fall, prices seemed to be in a free fall, searching for the magic price that buyers were willing to pay.

With a combination of lower interest rates and a 8-10% price drop from peak values, homes finally started moving again in December.

To get a feel for the ebb and flow of the market, I have been keeping a close watch on the relationship between the number of monthly sales and the number of unsold homes.

It comes down to supply and demand. The market went bonkers in the Spring of '04 and '05, because there were almost no homes on the market. During these two periods about 250 homes sold every month, and there were only about 200-300 homes for sale. As soon as homes hit the market they would sell, and often for \$25,000-\$50,000 more than an already optimistic list price. But in the fall of '04 inventory rose to around 600 homes and the market slowed considerably, but with interest rates still extremely low the market again took off in early 2005. At the end of 2005 buyers were exhausted, trying to digest another year of 20%+ price appreciation.

As 2006 rolled around the slow steady march of the Federal Reserves "metered" rate increases was

starting to take its toll. From a low of 1.0% in June of 2003, the Federal Reserve had 13 rate increases through the end of 2005 and in 2006 there were still 4 more to come. Rates hikes finally rested in June of 2006 leaving the short term rate at 5.25%.

See Federal Reserves web site for a history of rates: <http://www.federalreserve.gov/fomc/fundsrate.htm>

By my calculations, a buyers home payments went up about 10% even if home prices stayed the same. The first half of 2006 saw the market tread water, trying to hold on to peak values, but inventory toward the end of Spring kept to climbing, as more sellers put their homes on the market and not enough buyers stepped up to the plate. Then, after 4 months of increasing inventory and increasingly frustrated sellers, unable to get "their" price, the market shifted dramatically. Prices were slashed with the net result being home prices falling 8-10% during the year, with more expensive homes seeing a greater drop and lower priced homes holding value better. There were quite a few sellers that realized that "their" price wasn't going to happen and that if they wanted to get the property sold, they would have to lower their price. Some of these sellers were making multiple payments on both their new home and old home, and simply needed to sell.

The correction was very quick. For the first time in 10+ years, I saw some large price reductions. Homes sellers that had held out for top dollar obtained in first part of 2006, made sweeping price reductions of \$50,000 - \$75,000. These price changes often elicited multiple offers providing some comfort that buyers were out there at the right price. But the balance of 2006 remained slow and inventory continued to climb. Every two weeks there were a 100 more homes on the market. In late 2006, I wondered, was this very large and immediate correction of 8-10%, just the start?

During the fall, on several of our more expensive listings in the one million dollar range, we received as many as 4-5 low ball offers, usually about \$75,000 - \$100,000 below already reduced list prices. But even with multiple offers, no buyers were willing to step up to the plate. A clear indication that buyers did not agree with the current list prices. However, with 4 or 5 buyers, you would think it likely that one buyer might step up to the plate? Possible. Or maybe these 4 or 5 buyers would just loose interest and the market might continue correcting. The late summer and fall was certainly a very nervous time for many home sellers.

Inventory finally stopped climbing in late 2006. But could this just be seasonal? How many people want to put their home on the market heading into the holidays? It would be hard to say what the new year would bring, and December is not usually a month to write home about.

Then something out of the ordinary happened in December. All of a sudden a bunch of homes got snatched up, and very few new listings hit the market. Enough properties sold so that unsold homes dropped to 800 from a peak of 1,200, a significant sign that prices were bottoming.

Finally, after continuous price reductions, interest rates easing from the high 6% to the low 6% range, combined with pent up demand from a very slow fall, properties started to move again.

What is likely to happen in 2006? Going forward I anticipate a flat market. Why would I not forecast more price increases. There are several reasons.

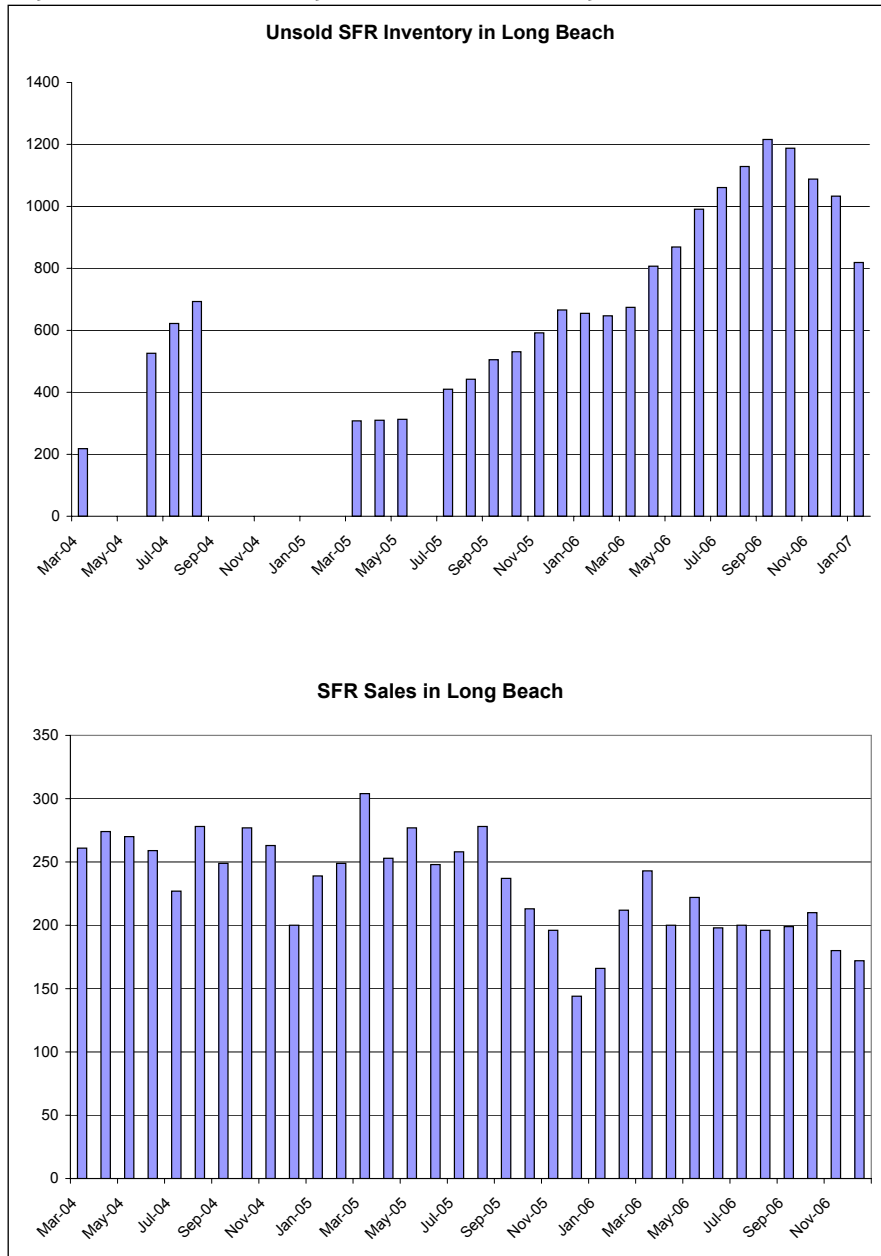
First, while inventory dropping from 1,200 homes to 800 homes, is great news, and has helped create a floor for home prices, it is probably only strong enough to stop price declines, not strong enough to reverse the trend and re-ignite a bull market.

Sales activity hasn't really gone back up. The number of sales is still in the lower range, around 200 or less per month.

Secondly, prices had risen enough to hit the breaking point of a buyers ability, and rising interest rates put buyers over the edge. Coming back down in price and rates will certainly help affordability which had stretched buyers beyond the breaking point. However, the lower prices and rates are repairing damage, not making a strong market stronger.

In talking with lenders over the last year, I found a common thread that many buyers purchasing properties were using creative financing such as "Stated Income" or "B Paper" loans or were using 100% financing. This is an indication that buyers had neither the income, credit worthiness, nor the down payment to qualify conventionally. So the market was running out of steam and a correction should not have been a surprise.

Going forward, many of these buyers may need to unwind there excessive debt, putting many homes on the market or greatly increasing foreclosures. It is less likely for foreclosures to dampen some of the more established neighborhoods in Long Beach, but none the less I have started to see some happen, where none had existed for years.



Economically, the big question on everybody's mind is whether a slowing housing market might turn into a bursting bubble and spread throughout the rest of the economy, creating a snowball effect. Or will inflation moderate enough so that the Fed can ease rates and help the housing market get back on it's feet and create a much hoped for soft landing?

In the darker days of late fall, I was not so sure about this outcome. But as of last month, the soft landing looks like a more realistic outcome.

What would a soft landing in housing look like? My best guess for this scenario will be 3-5 years of housing prices remaining stable, while buyers incomes increase and play catch up. There might be times when prices move up or down a little, but it will take some time for pay raises to increase affordability before prices head back up.

When the vision of every increasing prices disappears from a buyer's landscape, there is no longer an urgency to buy now. Maybe waiting till you really can afford to buy is not a bad

thing. So when you remove the "Frenzy" factor, you also remove the "Frenzy" premium, and price movements become more orderly.

And an orderly market is preferable to a market that Booms and Busts. It just may be possible that the trip that real estate has had to the moon will likely come back to earth safely, with just normal wear and tear. And as usual, I look forward to keeping you posted.

# Market Activity

The following information is from the Multiple Listing Service as of 01/31/2007.  
Properties in Black are currently for Sale, Properties in Red are currently in escrow

## '05 & '06 Stats

Address	Br/Bth	Sq Ft	Lot Size	List Price
<b>Alamitos Heights</b>				
5380 E. 8th	2/1.75	1210	3600	635,000
5675 E. 6th	2/2	1328	4000	699,000-748,000
621 Manila	3/2	1556	4100	797,500
390 Ultimo	3/2.5	1691	3250	814,000
534 Panama	2/2	1532	7040	849,000
795 Havana	3/2	2231	6400	849,900
5311 E. 4th	3/2	1255	4730	885,000
716 Havana	3/2.5	2149	6500	899,000
780 Terraine	3/1.75	1729	6400	975,000
5330 Vermont	3/2	1858	6500	989,000
400 Flint	4/3	2718	6500	1,185,000
355 Los Altos	3/2.5	2959	7800	1,499,900
<b>La Marina Estates</b>				
6540 Bacarro	3/2	1300	7360	639,000
6530 El Jardin	3/2	1980	9310	825,000
6521 Mantova	4/2.5	2997	9240	929,900
<b>Los Altos (S. Fwy)</b>				
2266 Faust	3/1	1125	6000	525,000-549,900
6125 E. 23rd	2/1	940	6124	534,900
1867 McNab	3/1	1176	6600	555,000
2369 Charlemagne	3/1	1058	6090	559,000
2275 Faust	3/1	1457	6000	580,000
1817 Ashbrook	2/1.75	1503	6000	585,000
6443 Marita	3/1	1084	6386	599,000
2231 Carfax	3/2	1542	6325	605,000
2163 Fidler	3/2	1244	6300	615,000
2290 Tevis	3/2	1950	6000	599,000-629,900
2076 Greenbrier	3/2	1706	5775	624,900
6020 Los Arcos	3/1.75	1696	6000	624,900
1850 McNab	3/1	1363	6195	639,500
2421 Chatwin	3/2	1476	6825	643,000
6847 Bacarro	4/2	1914	5220	645,000
6301 Marita	3/1	1034	6280	649,000
2123 San Vicente	3/2	1761	6200	650,000
6940 De Leon	3/2	1517	5850	650,000-685,000
6270 Marita	3/2	1800	6460	659,000
6939 El Cedral	3/2	1060	8080	669,000
2171 Fanwood	3/2	1649	6270	695,000-735,000
6131 Los Santos	5/2	1711	7800	725,000-799,999
2240 Gondar	4/2	1814	6000	735,000
2221 McNab	5/3	2220	6000	749,000
5971 Fairbrook	4/2	2095	6425	767,000
1930 Conquista	3/2	2105	7040	739,900-769,900
5931 Fairbrook	4/3	1994	6090	769,900
1931 Nipomo	5/3	2500	6100	799,000
2156 Stanbridge	3/3	2000	5775	799,900
1848 N College Cir	4/3	2724	7370	959,000
5485 Garford	4/3	3100	6300	995,000
2060 Faust	5/3	3188	5940	1,200,000
<b>University Park Estates / College Park</b>				
6711 9th	4/2	2012	7091	719,000
441 Linares	3/2	1716	6380	799,000-829,000
873 Kallin	3/2	1517	6180	828,000

(Based on closed sales from - SoCal MLS)

### Alamitos Heights

Number of Sales('06) - 22

Average('06) - \$924,840

Average Sqft('06) - 2,060

Price/Sqft('06) - \$449

Number of Sales('05) - 41

Average('05) - \$1,000,736

Average Sqft('05) - 2,396

Price/Sqft('05) - \$418

### La Marina Estates

Number of Sales('06) - 4

Average('06) - \$717,500

Average Sqft('06) - 2,102

Price/Sqft('06) - \$341

Number of Sales('05) - 7

Average('05) - \$703,857

Average Sqft('05) - 1,611

Price/Sqft('05) - \$437

### Los Altos (all)

Number of Sales('06)- 154

Average('06) - \$634,539

Average Sqft('06) - 1,539

Price/Sqft('06) - \$412

Number of Sales('05)- 192

Average('05) - \$596,848

Average Sqft('05) - 1,456

Price/Sqft('05) - \$410

### Univ Park Estates

#### College Park

Number of Sales('06) - 17

Average('06) - \$791,117

Average Sqft('06) - 1,902

Price/Sqft('06) - \$415

Number of Sales('05) - 19

Average('05) - \$697,205

Average Sqft('05) - 1,874

Price/Sqft('05) - \$372

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*1<sup>st</sup> Qtr. 2007*

## *Inside*

*Free Fall or Soft Landing?*

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

*2005 & 2006 Stats  
by Neighborhood.*

## Free Fall or Soft Landing?

Last Year the Real Estate market struggled to maintain peak values during the Spring, but later in the year, rising inventory and aggressive sellers overwhelmed a reluctant pool of buyers.

As this year unfolds, there will be a delicate balancing act between a hawkish stance at the Fed, attempting to mitigate inflation concerns and prevent the dollar's further slide. On the other hand, should the Fed not show concern for an over burdened consumer with high debt loads, higher interest rates might damage the housing sector. Should this happen there is concerns that this damage will spread throughout the economy.

This quarter, we review last years market action, and look forward to a stable and active market. We hope Bernake's acrobatic ability to walk this delicate financial tightrope, proves as adept as his predecessor.