Mid-Year Economic Outlook
for
Real Estate

"Times...They Are A-Changing!"

Presented by:

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I. The "Bubble Boys"... Are Changing!

A. Chapman University

1. After years of forecasting negative appreciation for the Orange County housing market, Chapman's mid-year economic forecast has revised their real estate home price forecasts . . . upward! (They had originally forecasted a 4.1% decline.)

2. Although slightly above ***zero***, they now state that prices will not go negative this year!

B. UCLA

1. They were one of the first to predict a "***Housing Bubble***" in 2001. Over the past 4 years, they too thought real estate prices would experience a very sharp decline. Last year they even stated that they thought California home prices were as much as 45% over valued.

2. In June, they admitted that *not only* were housing prices <u>not</u> headed downward, but they felt that today's prices are at their lowest point for the next 5 years. Hopefully, this will end the ***Bubble Talk!***

C. Current <u>Resale</u> Stats for Orange County:

1. By the Numbers:

			2005	2006- YTD			
	Sales	**Price**	**Appreciation**	**1st Qtr.**	**2nd Qtr.**	**June**	**YTD**
Homes:	**30,386**	**$650,000**	**14.3%**	**14.7%**	**12.6%**	**6.1%**	**11.5%**
Condos:	**14,146**	**$435,000**	**15.1%**	**14.4%**	**12.1%**	**3.8%**	**10.8%**

2. **Number of homes listed in MLS: 15,493 (as of 7/18/06)**

   Number of resale homes/condos sold: 3,186

   Current Housing Supply: 4.86 months or 19.22 weeks

3. Listing Cycle:

   a. Our listing inventory usually "peaks" in September/October and declines through January, February, March and into the April/mid May time period.

   b. The buyers normally begin entering the market in February and stay strong through June.

   c. However, this year is . . . ***INVERTED!*** The latter half will be more active.

II. Now We All Have To Change

A. The Current Sellers Market

1. If sellers do not need to sell, have them take their house off the market. This current market is not for sellers who *hope* to get their price . . . so they can find something better!

2. Agents educate the sellers on being patient in this market. In a normal market like this, it is <u>not uncommon</u> for a *properly priced* property to be on the market for 60 to 90 days.

2. The market for sellers should improve in late September and early October.
   (I will go into more detail about this later.)

B. Listing Agent Advice

1. **Price Reductions**: <u>Please</u> do not put a *"price reduced"* banner on your listings, and if you have one up, please take it down. It "falsely" advertises to the neighborhood that prices in the area are going down. What is <u>more true</u> is that sellers are lowering their *expectations* and becoming realistic.

   Plus: For we who show property, it does not instill confidence in our potential buyers.

2. **Sold Signs:** When the listing goes into escrow, please put an *"in escrow"* or *"sold"* banner on the sign! The days of a panicked buyer, desperately looking on their own for a home, are long gone. Once again, we are advertising to the neighborhood the wrong information.

   Plus: Imagine how potential buyers feel seeing all those *for sale* signs. Do you really think you're helping them enter the market?

3. **Signs:** If you have a listing where there are other (or many) *for sale* signs nearby, I would recommend that you call the other agents and see how many of them will remove their signs from their listings. At the very worst, rotate your signs until one (or more) of the listings sell, then make sure it has a *sold* sign on it!

4. **Price Ranging:** In a market like this, it is foolish to price range your listing-unless you have a *unique* custom home on an *exceptional* lot! Price ranging deters buyers from entering the negotiating process. They prefer to deal with properties that have a <u>defined price</u> when beginning the negotiating process.

D. Working With Buyers – "*When everyone is selling . . . buy!*"

1. In this market, be patient with your buyers. It is not uncommon to be working with them for 30 days or longer. It has been more than two years since they have had such a selection of homes from which to choose.

2. It is extremely important they understand the difference between ***factual*** and ***accurate.***

   - **The Media:** Median price over the past year has risen 7.1% (June to June) – Factual
     Resale homes (YTD vs.'05) are up 11.5% and resale condos are up 10.8% - Accurate

   - **Affordability Index:** The numbers state that so few can afford a home - Factual
     A seriously flawed index using archaic methods that are no longer relevant – Accurate

   - **Foreclosures:** The media states that foreclosures up 44.4% - Factual
     In June of last year, 9 homes had gone to foreclosure vs. 13 this year - Accurate

   - **Interest Rates:** Rates are up – Factual
     The 10-Year Treasury rate has risen from 4.5% to 5.03% since January - Accurate

E. The World Changed in 1979

1. From 1945 to 1979, incomes increased at the same rate for all tax brackets. Since 1979, a larger percentage of the population is continuing to become more and more affluent! From 1980 to 2004, the median income rose by 18% but . . . .

   - the top **20%** of incomes grew by **59%**
   - the bottom **20%** of incomes grew by only **7%**
   - the top **1%** of incomes grew by **200%**

2. Today the top **10%** of wage earners receive **45%** of all household cash income, and **85%** of the nation's wealth resides in the richest **15%** of Americans!
   (note: the bottom 50% hold only 2.5% of the nation's wealth)

3. Over the next decade, there will be a 25% increase in the population who are over 50 years of age. They have more money than any preceding generation, due to having duel incomes, equity growth, and record inheritances! This age group is spending **$1.7** trillion dollars annually!

4. This helps to explain why, last year, 27.7% of all sales (2.3 million) were for *investment purchases* while 12.2% of all sales (1.0 million) were for *2nd homes*!

5. The Federal Reserve reports that consumers have ***$5 trillion dollars*** in liquid cash sitting in banks or savings and loans. By April of 2006, they had ***$53.83 trillion dollars*** of household net worth!

II. Strong Economies

A. The National Economy

1. June marks the Federal Reserve's 17^{th} straight rate increase and yet they still cannot slow this economy down! This *should* be the end of rate hikes for the rest of the year.

2. Since 2003, the U.S. has created 3.9 million new businesses and 5 million new jobs.

3. Business spending is growing at its fastest pace in six years, (1^{st} Qtr. earnings were $1.65 trillion dollars), which helps explain how the GDP for the 1st quarter expanded at an amazing **5.6%**! That makes 12 out of the last 13 quarters (4^{th} Qtr. '05 was 1.7% due to the hurricanes) in which the GDP has exceeded 3%! Corporate cash is at a historical high of $2 trillion dollars due to 15 straight quarters of double digit (year to year) earnings.

4. Personal income has been growing at twice the rate predicted by economists. So with consumers making up 70% of the economy and business spending growing, these forces are propelling the economy upward with a "one-two punch". The economy should continue to grow at a rate between 3.0% to 3.5% for the rest of the year.

5. Since**1980**, the Gross Domestic Income has risen **66%** and is now at **$12.6** trillion, helping to shrink the federal deficits – although you hear only about record deficits! Today, debt is only **2.7%** of the GDP, compared with **6.0%** in '83 and **4.7%** in '92!

6. Increased tax revenues have the Budget Office reducing the deficit by $320 billion this year. In April, the U.S. Government had a budget surplus of $119 billion and all but 4 states in the nation are running state budget *surpluses*.

7. As of June, we have employed 1.8 million new workers over the past year. We have averaged over 2 million for the last two years – all adding tax receipts to the Treasury. If you add in the self-employed, we added another 1 million workers last year!

8. June's unemployment rate of 4.6% is the lowest since 2000, <u>and</u> since 3% of the population won't work even if you give them a job, we are at nearly full employment.

9. In the U.S, incomes exceeding $100,000 (+) are growing 6 times faster than the population. For the first time, there are over 1 million people living in $1 million dollar homes and 1/3 of them own a 2^{nd} home!

B. A Strong California Economy

1. California produces 15% of the nation's GDP. One out of every eleven workers in the U.S. is employed in this State - 16,874,000 workers!

2. Our employment growth is at 1.5%, adding 223,000 jobs last year. However, our self-employment growth rate is 11.1%, which added another 218,000 jobs.

3. California has one of the most diversified economies in the world, serving the *Pacific Rim* through **trade,** a growing **service sector**, and expanding **electronics** and **manufacturing.** Add **high-tech**, the **financial sector**, **bio-tech**, **tourism**, **agriculture** and **government**, and it is easy to see why California is one powerful state!

4. In southern California, there are over 10 million people employed, plus another 1.5 million that are self employed. May's unemployment rate for southern California's six counties was only **4.01%!**

    a. Los Angeles has the highest at 4.9% while "The OC" has the lowest at 3.2%.

    b. San Diego was at 3.7%, Ventura was at 3.8% while Riverside came in at 4.2% and San Bernardino posted a 4.3% unemployment rate.

5. High employment numbers have allowed the state to post record surpluses! As of May, the State had a **$7.5 billion dollar surplus** – above budget projections.

6. **In southern California, 95% of companies employ fewer than 50 people! Today's technologies enable companies to become highly productive with fewer people, ending the *boom-bust* cycle and its massive lay-offs.**

7. This helps to explain the following:

    a. 48,666 million-dollar homes were sold in California last year, which was a 47% increase over last year! That's 1 out of every 13 sales in the State!

    b. There are over 450,000 million-dollar homes in California! Last year in Orange County, there were 7,342 homes sold, which represented 15% of the real estate market. In Los Angeles, just over 10,700 million dollar homes sold!

    c. Think of the cities of Inglewood, Compton and Watts. Now think of housing prices appreciating 30% to 40% yearly in those cities!

C. The "OC"

1. There is a great demand for living and working in Orange County.

    - OC ranks **#5** (in the U.S.) in the number of jobs (1.5 million); in addition, approximately 300,000 additional jobs are held by the self employed.

    - OC ranks between #5 and #9 in the nation (year after year) in creating new jobs! Growth is expected to pick up the latter part of this year, totaling 26,000 new jobs.

    - Ranks # 1 in the state, #2 in the U.S., with an unemployment rate of 3.2% because of the ***Triple Endowment*** – entrepreneurial culture ♦ access to capital ♦ educated talent.

    - Since 2000, it is the 8th fastest growing county in the nation. It ranks #7 as the most dense county in the U.S. and 2nd with the most population (1% of the U.S.)

    - Ranks # 8 in the nation in manufacturing, with 184,800 jobs. With all the new commercial construction, the vacancy rate is at a 5-year low!

    - There are currently 42 high-rise condominium towers under construction or in various stages of pre-development in Orange County.

    - OC ranks #3 in the U.S. in Asian business and #3 in Asian population in California.

    - In the past 20 years, Orange County developers built 260,000 homes, condos, and apartments. In the next 20 years, OC will build 56,000 units, then all the land will be gone!

2. OC has a *dynamic economy* in one of the most *desirable locations* in the world. Most of the County was developed under *strict zoning guidelines,* and our *population growth* should continue to keep upward pressure on the housing market!

    - 43 miles of beautiful shoreline and 51% dedicated open space.

    - 14th largest market in the U.S. and ranks #3 in retail sales (per household).

    - A magnet for tourists, attracting 44.7 million visitors spending $7.7 billion dollars.

    - The median age is 34.2, and the county has one of the highest household incomes in the U.S.

    - 11% of the households in OC have a new worth exceeding $1 million dollars!

    - OC ranks #3 in the U.S. with 113,299 millionaires, and there are 5 billionaires!

SUPPLEMENT

Demand for Housing

1. The State population grew by 600,000 domestic and 200,000 legal immigrants last year! We now have over 36 million people who call this State home. In the next 10 to 15 years, **3.5 million** more people will reside in southern California.

2. This demand is coming in *waves,* the first ***1st wave*** being the baby boomers who are now in their early 40's and late 50's. They found a way to mix leisure with work and are not ready to fully retire – they have *money and income* and are still investing in real estate.

3. The ***2nd wave*** of home buyers are predicted to grow at a rate of **1.17 million** per year for the next 7 years. They include *1st time* home buyers (median age: 36) and those purchasing upscale properties (median age: 45).

4. The ***3rd wave*** of home buyers is the largest group. They are presently 23 to 33 years of age and will total **1.2 million** new households per year for the next decade!

5. Last year we added **1.7 million** new homeowners. There are now **74.8 million** homeowners, who make up **69%** of our population – a new high!

More Demand – Here Come the Immigrants!

6. Immigration of new buyers is largely due to a U.S. policy of *family reunification.* Today, there are 34 million immigrants, making up 12% of our total U.S. population with California being the #1 destination – receiving 22.4% of all immigrants!

   - Since 2000, 1.1 million more foreign immigrants have moved to California.
   - Los Angeles ranks #1 in the U.S., receiving 400,000. OC ranks #11 with 83,000!
   - Latinos are the fastest growing segment of the housing market in the U.S.

7. From 1980 to 2000, over 6.2 million minority households joined the ranks of middle-income earners and are purchasing housing.

   - The children who arrived with their parents in the '80s and '90s, are buying homes.
   - These ***2nd generation*** Americans, if history repeats itself, will out-earn their parents.
   - As 1st time buyers, they acquire homes at 26 – a full decade before non-immigrants.
   - Today, they represent ***35% of the 1st time*** resale market.
   - Chinese investors and immigrants are buying at a faster rate than any ethnic group.

Adding more pressure to the *already strained* housing market are the new players in homeownership. There has been a 30% growth among women owning homes, 27% increase in minorities owning homes (15.7 million). Single or unmarried homeowners are remaining single longer, adding pressure to the housing supply.