

What on Earth is Going On In the Real Estate Market?

By Mark Shaw

This is a question I must get at least three times a day. My answer is always, "It's unbelievable!" The truth is that despite what the daily news agencies say: Real Estate Sales Lowest in 5 Years, Mortgage Debacle Continues, FED Speaks to Lenders Regarding Sub prime Loans and so on, what are we actually comparing this market to? The same economists that say that they see "Credit Problems as Bigger Threat than Terrorism" also say they "would buy a house today if they intended to use it as their primary residence." The media further reports that in California 53,942 notices of default were filed for the 2nd quarter of 2007 – a near record high. They are comparing it to the 1st Q. of 1996 when 61,541 notices were filed but failed to mention that 2 million more homes have since been built in California since.

The phrase, "everything is relative" cannot be truer in gauging the current Real Estate market. The markets of the early to mid 2000's were not normal. They were fueled by lending institutions handing out money to homebuyers with no down payments and marginal credit like candy, not anticipating that all they would get back were the wrappers. This issue was further exacerbated by investors in many "local" markets (Boise, ID & Sarasota, FL to name a few) realizing that the booms were

being fed by their own demand, so withdrew, thus creating large standing inventories in cities or areas near cities.

It may surprise you to know that sub-prime loans make up only 5% of the U.S. total loan market. Still, 2007 may prove to be the 3rd or 4th best year in Real Estate sales. In addition, Real Estate appreciation has been over an 8% annually since the 1950's. In California, appreciation since 1968 has been 7.75%, according to the National Association of Realtors. And you can live in it! When's the last time your stock portfolio literally kept you dry on a rainy day?

"Consumer confidence" is an economic term that's been bandied around like Darth Vader's light saber. Yes, this term applies to the Real Estate market as well. Potential buyers hear or read ghastly headlines, speak with friends or relatives and are swept in by the daily tidings. Heck, the press needs to chew on something sensational to sell newspapers. What if the media's headlines read, "99.2% of Mortgages are NOT in Foreclosure?" The fact of the matter is that is not as simple as national statistics make it out to be. Local bubbles can exist. But then again, people move everyday. Job relocation, upsizing, downsizing, having kids, getting married & divorce top the list of reasons why people move. In

addition, for better or worse, the world is growing in population size equivalent to that of Mexico City every month. This alone tells us real estate is still a solid investment.

Let's look at some of the expert forecasts that have been printed over past decades:

"The goal of owning a home seems to be getting beyond the reach of more and more Americans. The typical new house today costs about \$28,000." ----Business Week (late 1969).

"The median price of a home today is approaching \$50,000...housing experts predict price rises in the future won't be that great." ----National Business Magazine (1977)

"The golden age of risk free run-ups in home prices is gone." ----Money Magazine (1985)

"A home is where the bad investment is." ----S.F Examiner (1996)

Local markets have their allure. Top ranked schools, quality of life, close knit communities all contribute to the attributes that will draw potential buyers. The Lamorinda area is one such pocket of desirability. Convenient to both San Francisco & Walnut Creek, hosting spectacular views & palatable micro climates, Lamorinda offers what many homeowners are looking for in a community. Other



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nearby communities include the Rockridge district in Berkeley, Piedmont, Montclair, San Francisco's Noe Valley & Pacific Heights. In fact, the Bay Area as a whole possesses one of the most prized features money can't buy: The Mediterranean/Marine West Coast Climates. The Mediterranean Climate according to climatologists, is found on only 2% of the earth's land mass labeling our beautiful region the "Jewel of the Pacific."

In conclusion, history has taught us that strong seller's markets last longer than soft buyer's markets. When asked of J. Paul Getty on how he amassed his great fortune he was quick to reply, "Simple...when everyone is buying, sell & when everyone is selling, buy."

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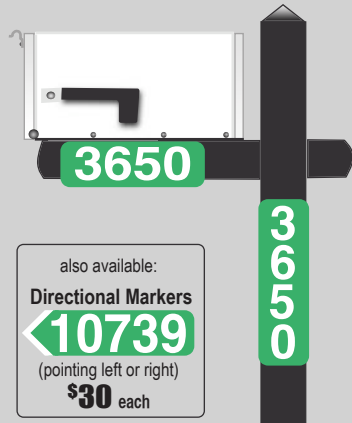
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