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News & Views

April 2007

All Eyes Are On Inventory Levels

Dear Colleague,

Inventory is on everyone's mind as the second quarter of 2007 begins. How quickly it will be absorbed depends on several factors. There is no shortage of experts weighing in with their opinions.

The California Building Industry Association reported in late March that total housing starts in California fell back again in February, showing a 6 percent decrease from January, but a 42 percent drop when compared to February 2006. CBIA Chief Economist Alan Nevin concurs that California homebuilders are scaling back production in order to clear out inventory. "The voiding of unsold inventory continues unabated in California, as evidenced by the major decline in permits in the month of February," Nevin said in the CBIA report. "The largest major market decline was in Riverside/San Bernardino, off 41 percent in single-family permits compared to this time last year," he continued. Nevin is arguably among California's most bullish housing economists. In his 2007 Housing Forecast, he interpreted Census Bureau data and February's respectable showing of new home sales to mean that unsold inventory is being burned off rapidly. He predicted a "return to normalcy" by the end of the first quarter.

Others are less confident. In a March 22 conference call, Jeffrey Mezger, CEO of Los Angeles-based KB Home, stated, "Until we get through the selling season and see what happens with the inventory levels on resale, we're not ready to say that the markets have bottomed and that prices have stabilized. We think there will continue to be pressure on pricing for the next few quarters."

On the national level, Merrill Lynch analysts assert that inventory is already at record levels in 40% of the top builder markets. While inventory remains high, builders are pulling 32% less permits than last year. This is putting downward pressure on new supply in the top 20 markets Merrill Lynch surveyed.

Michelle Meyer, an economist at Lehman Brothers Holdings in New York stated: "We're probably not going to see the pickup in housing by the end of the year that we were looking for. Housing imbalances will take longer to correct because inventories aren't declining very fast."

Compared to the gloomy national scenario, California seems better positioned for the oft-mentioned soft landing. Lower production levels and a consistently high demand for housing bode well for the state's long-term housing market. Stable mortgage rates and strong employment growth are also encouraging signs. Keitaro Matsuda, senior economist for Union Bank of California, gave a balanced perspective in the April 5, 2007 San Diego Union-Tribune: "It is clear that adjustments in the housing market are in progress, especially in terms of new home construction activity and transaction numbers, though sales volume has stabilized in recent months and is no longer falling rapidly. Fortunately, the current adjustments look decidedly mild compared with previous housing corrections the state has experienced, and the housing market slowdown has yet to evolve into an economic crisis."

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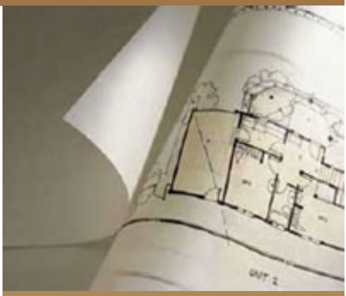

Did You Know?

- More than 600,000 San Diego households own their homes
- Only a small fraction ever find themselves in financial straits dire enough to face foreclosure
- San Diego County led Southern California in climbing out of the long real estate recession in the mid-'90s
- Mid-2005 is when lending was at its riskiest in San Diego
- San Diego County saw foreclosures in first quarter 2007 increase eight times more than during the same period last year - up to 1,182 in 2007 from 153 in 2006
- Data-Quick analyst John Karevoll said the spike may be brief because the trend is mainly affecting recent home buyers, but also stated that only time will tell going forward

Source: Just-released information from Data-Quick Information Systems and reported in the San Diego Union-Tribune (April 17, 2007)

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