

December 2006

Dear Colleague,

No Lipstick For This Pig: Today's Real Estate Market Part II

"It's not a long or deep turndown," said Henry Cisneros, former secretary of the U.S. Department of Housing and Urban Development, who addressed 600 real estate, banking and building professionals at USD's Real Estate Trends 2007 in November. "But we did get a little spoiled," he continued.

Our experts from last month's newsletter would concur with Mr. Cisneros's assessment. Many of you agreed that the local real estate market has more dark days ahead. But how dark is dark? And how long will it last?

As of publication date, several public builders have essentially closed shop in San Diego. Lay offs continue industry wide. Snow Properties, in grappling for a realistic prognosis of this real estate market, is not about to "put lipstick on a pig and call her Monique." There's no question the market has turned ugly. However, we don't think the pig is destined for the slaughterhouse. Like many industry colleagues, we believe she is on a 12-18 month "diet."

Tips From a Crystal Ball

Robert McFarland, a Managing Partner with Market Watch LLC, shared one scenario with us. He is advising his real estate clients, including many prominent homebuilders, of the following:

- The market will continue to depreciate through approximately the end of the first quarter of 2007, at which time the bottoming out period will begin
- Prices will be flat through the end of 2007 as inventory is burned off
- The beginning of the "market recovery" is projected sometime during the first half of 2008. We can expect the "start" of price appreciation during this time
- This will likely mirror the national rate of inflation between 3-4% on an annualized basis
- 2008 should show significant upswing in home appreciation, due to:
 - Sufficient burn-off of inventory
 - Presidential election, which pressures the Feds to keep the economy in check
 - Anticipated long term interest rates of 6-7%

Opportunities Ahead?

"This does not mean we sit on our hands until 2008," Mr. McFarland told us. He suggested that many builders are gearing up to buy land during the first half of 2007, so they can take advantage of the anticipated upswing in mid-2008. Most public builders will not be able to participate in this strategy. Their hands will be tied by national management and shareholder concerns.

As BIA President Horace Hogan stated, "opportunities await those who keep their eyes open." One bright spot over the next year will be those smaller or private entities that seize the advantages this market presents, while it is still dark.

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Snow Properties is a consultant to developers, financial institutions, owners and managers of real property assets in Southern California. Its expertise spans three decades and all stages of real estate development.

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Post-Election Perspective

Ernie Cowan, Government Affairs Director for the North San Diego County Association of Realtors (NSDCAR), reports on how the recent election impacted realtor issues in the eight cities within the NSDCAR service area.

"One of the most effective elements of the NSDCAR Government Affairs Program is its involvement in the local election process," said Ernie. "This year, NSDCAR was very focused and effective in protecting its members and real estate consumers." Bottom line: A 66 percent success rate in electing candidates who were endorsed by NSDCAR, and a far more favorable Realtor political climate than before the elections.

Labs and Cabs

Margaret Oppliger, Vice President of Discovery Bank in San Marcos, emailed us her form of relaxation after a hectic day: "Mine comes in the form of an orange and white tabby named Melville. His daily greeting and enthusiastic purring drains my stress away." Please email us your relaxation tips at: info@snow-properties.com

Holiday Wine Suggestions

We recently sampled a red and white wine at the Carlsbad Wine Merchants that you might enjoy over the holidays. The 2002 Chateau de Jau, Cotes du Roussillon Villages was a delicious red with a bargain-basement price of \$9.99. The 2004 Mouton Pere et Fils Condrieu is a luscious white that should satisfy the most sophisticated holiday crowd. It retails for \$39.99. Please email your wine suggestions to info@snow-properties.com.

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