

November 2007

Dear Colleague,

Now What?

There will be little talk of a soft landing around the Thanksgiving table. This real estate market continues to confound and exasperate industry veterans. Even the most positive among us cannot dispute plunging home sales, tightening credit, rising inventory, increasing foreclosures and declining builder confidence.

Amid the malaise, there are a few bright spots, contradictions, and interesting conversations.

The desirable seaside neighborhood of Solana Beach is one example of the market schizophrenia. While neighborhoods to the north and south, Encinitas and Del Mar, saw double-digit appreciation in home values from third quarter 2006 to 2007 (+21.7% and +17.5% respectively), Solana Beach valuations plunged -31.6% in that same time period (source: DataQuick Information Systems as reported in the [San Diego Union Tribune](#)). In addition to Encinitas and Del Mar, the other most-appreciating neighborhoods are Coronado (+15.4%), Carlsbad SW (+12.7%), and Escondido W (+9.3%).

The five most-depreciating neighborhoods, including Solana Beach, are Logan Heights (-26%), Point Loma (-21.6%), National City (-20.1%) and Rancho Santa Fe (-18.6%).

Bottom line: This is not an equal opportunity downturn.

Even though housing sales fell in September to their lowest level in more than a decade, this decline seems largely centered around the move-up market of homes priced from about \$500,000 - \$700,000, according to Robert Brown, an economist at Cal State San Marcos. "The latest figures mask the strength of the first-time and high-end market" said Brown (source: [San Diego Union Tribune](#)). Merrill Lynch analysts do not agree. Their November 9 review stated that "all price points are dropping as high-end buyers drop out of the market." They cited Toll Brothers' weak orders and 39% cancellation rate as part of this trend.

San Diego County is faring better than most of Southern California. San Diego began the correction first and its home prices are less expensive than in Los Angeles and Orange counties.

Michael Pattinson, president of Barratt Homes of Carlsbad, provided a thoughtful perspective on builder discounting vs. incentives in an interview with the [San Diego Union Tribune](#) (Homes Section October 21). "Discounting drives more consumers out of the market than it brings in, which is what we're seeing today," Pattinson said. He was critical of Wall Street's pressure on public home builders to make sales at any cost, hurting markets across the country in the process. Builder incentives, on the other hand, are legitimate measures that make houses more affordable without lowering sales prices and valuations.

We will need more of this wise leadership in the months ahead.

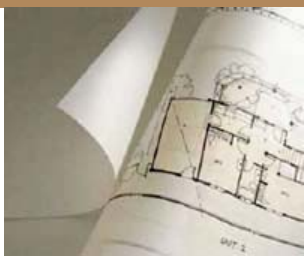
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Did You Know?

Real Estate Ad Budgets Getting Stretched

According to the responses of 344 U.S. real estate professionals in a survey conducted by *Marketing Charts*, it is getting tougher to allocate ad dollars, especially considering the proliferation of new media, the soft housing market, and tighter budgets. Despite their complaints, realtors continue to choose print over most other media-placement options. Some are turning online: 21 percent of respondents now say they have their own blog. Adding to the confusion, half of the surveyed realtors said the results from national websites are below their expectations – simply not generating enough leads.

Shea Stays on Top

MarketPointe Realty Advisors lists Shea Homes as the top seller of new homes in San Diego in the third quarter. Following Shea in the top five were William Lyon Homes, Pardee Homes, Standard Pacific, and Lennar Homes.

Time to Buy. . .These Home Builder Stocks?

While this is not a recommendation to buy or sell, we will report that Merrill Lynch's November 09 *Weekly Review* gave "buy" ratings to KB Home (KBH) and Lennar Corp (LEN). M-L's price objectives for both stocks, respectively, are \$34 and \$31.

Post-Fire Help from the BIA

The Building Industry Association of San Diego County is offering numerous resources to victims of the fires. Visit biasandiego.org where there are numerous links to contractors, state guidelines, warnings against scams, and also an opportunity to donate.

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