

Dear Colleague,

The Real Deal: Experts Weigh in On Our Market

"In 28 years, I have never seen the market move as quickly as it has," said BIA president Horace Hogan. Mr. Hogan is also president of Brehm Communities and was one of several industry leaders who weighed in when we asked:

- **Why the sudden downturn in San Diego's real estate market?**
- **What's your educated guess about the next 12-18 months?**
- **What advice, if any, would you give real estate professionals?**

Thank you to our other contributors Bob Cummings, San Diego Division President, Barratt American Homes; Bob Duff, Senior VP, Fidelity National Title; David Hammar, President, Hunsaker and Associates; and Gary Horning, President, Richland Pacific.

Why the Downturn?

Affordability and price adjustments. Mr. Cummings and Mr. Hammar agreed that a natural price adjustment was expected and overdue. "This is a combination of aggressive price increases and relatively higher interest rates," said Mr. Cummings. Mr. Horning noted that household income growth has recently been plus or minus 3%. Yet housing price points exceeded that by a huge margin. With interest rates climbing, the equation became unsustainable. Most agreed that there are still many homebuyers out there, but not at current prices. Most buyers won't jump in until they believe that prices have quit falling.

12-18 Month Forecast

A return to "healthy, not booming." I think things will level out within six months to a year and the market will be healthy again," said Mr. Cummings. Mr. Hogan is optimistic that the rapid market shift will signal an equally rapid rebound, once current inventories are reduced. He estimates a market rebound in the next 12-18 months. Overall, the slowdown can be characterized as a rough patch, rather than a catastrophic event. Developers will be straightening out their balance sheets. They may unload projects. Builders have already reduced overhead. Mr. Duff noted that at 6 7/8%, interest rates are still historically low. He predicted homebuyers at these levels, and even if rates rise further. By Spring 2007 builders may get busy acquiring land, looking for deals.

Any Advice?

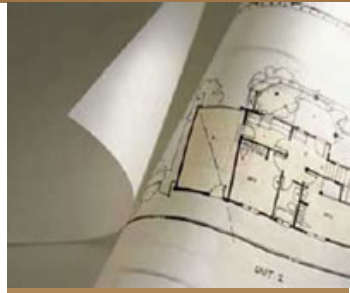
Stay lean, and watch for opportunities. Mr. Hammar summed up the thoughts of others: "Keep it lean on everything but due diligence. Keep your payroll in line with revenues." Mr. Hogan echoed, "Manage your business conservatively, but remember that in times like these, real opportunities manifest themselves."

"Be patient" advised Mr. Cummings. "Price reductions don't necessarily create more demand. In fact, they tend to make people wonder if they should hold out longer." He predicted a return to a more normal market once price reductions and incentives cease.

Mr. Hogan advised buyers to take advantage of a limited window of favorable market conditions. "Keep in mind that the market is undersupplied given normal market conditions," he said. To his fellow professionals he repeated his philosophy that real opportunities await those who "keep their eyes open."

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Save the Date

Wine Tasting at
Carlsbad Wine Merchant
November 15, 2006

Dee Snow is always up for mixing business with pleasure!

Enjoy delicious wines and camaraderie with industry colleagues on November 15 from 5:30 – 7:30 p.m. at the Carlsbad Wine Merchant, 5814 Van Allen Way, located in the Carlsbad Business Park. Cynthia Sener, immediate past VP of Product Development and Marketing for Hanley Wood Market Intelligence, is our featured guest to share her insight on today's market.

RSVP by November 10th to [Tracy Brigante](mailto:Tracy.Brigante).

Labs and Cabs

How do you unwind after a challenging day in our chosen industry? What takes the edge off negotiations with subs, bureaucracies, inspectors, investors, lenders or _____(fill in the blank)?

Our favorite zero-calorie option is inviting chocolate Labrador Retriever, May (born on Cinco de Mayo), and black Lab, Jazzy, into the house for some serious conversation and tail wagging.

When something stronger is in order, a full-bodied Cabernet does the trick. This month, as the weather turns cooler, we recommend Croze Cabernet Sauvignon 2001.

We would love to hear how you relax. Please e-mail your tips to info@snow-properties.com c/o Labs and Cabs.

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