



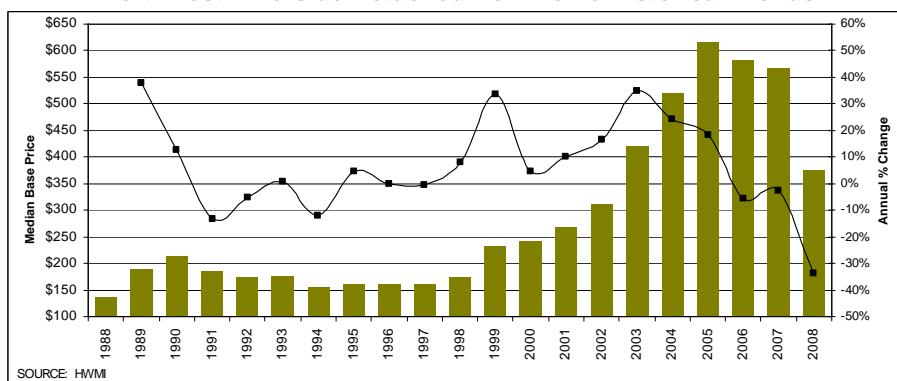
California Market Watch, March 12, 2009

Uncovering Bright Spots in the Housing Market

Unprecedented stock market volatility, record setting unemployment figures, and billion dollar bailouts continue to grab the headlines. Most economists point to stabilizing the housing market in alleviating the economic stress. According to Lorry Lynn, Managing Principal, "While it is difficult to discern if the market has truly hit bottom, there are glimmers of hope amid the dire news." We've identified five emerging trends that indicate progress is being made to find the bottom of the market.

- Resale monthly payments near rental lease rates.** Some rental markets are contending not only with a growing shadow market (for-sale units available for rent) but also a steep decline in resale values that has reduced monthly payments near current lease rates. For instance, the median monthly payment for an attached resale home in San Diego is \$1,272 monthly payment (assuming a 6.5% fixed rate, property taxes of 1%, and a 10% downpayment). While this does not take into account monthly H.O.A. fees or any potential tax benefits, the quick math does show a definite price advantage when compared to the county's average rent of \$1,304. The shrinking affordability gap between rental and for-sale may help draw out buyers from the sidelines.
- Foreclosure sales are up substantially.** Annual sales of existing detached homes in the state increased 27% from a year ago to 439,740 homes sold. Much of the activity was fueled by bargain hunters looking for inexpensive distressed properties. Foreclosures accounted for roughly 55% of all the state's resale sales activity last year according to DataQuick, and are up dramatically from a 19% market capture the previous year. In Orange County, about two thirds of all pending sales are either short sales or foreclosures. While distressed properties continue to inundate the market, foreclosure sales are simultaneously keeping inventory levels lower.
- Tightening inventory levels.** Statewide new home permits fell 42% from levels seen in 2007. With both single-family and multifamily issuances down, we expect little new housing supply to enter the market in the short term. A lack of new housing supply will keep homeowners focused on the resale market, helping to clean-out lower valued foreclosures and ultimately create pent-up demand for new housing.
- New home prices have adjusted to 2002 levels in many markets.** In 2006 and 2007, only modest new home price adjustments were being made as builders attempted to shore up sales through incentives, financing and streamlining house features. In 2008, homebuilders made significant adjustments to published pricing to find consumer demand and clear out inventory. In Northwest Riverside County—the area that encompasses the Dairylands, the city of Riverside, and South Corona— new home values contracted 34% in 2008, which follows a 6% and 3% dip in 2006 and 2007, respectively. The detached median new home price is currently at \$374,656, a level not seen since 2002.

Northwest Riverside Detached New Home Historical Trends



- **Affordability levels are improving.** As we reported last week, affordability levels have increased sharply over the last few quarters for entry-level buyers, according to the latest statistics from the California Association of Realtors. Overall, statewide affordability has risen sharply in the last few quarters to reach 53% by the third quarter 2008, a level not seen since 2002. With record low interest rates, pricing levels not seen in the last five years and a homebuyer stimulus package, the opportunity to buy housing is looking more attractive.

"Although its too early to predict the bottom of the cycle, these are positive steps toward rational market conditions which haven't been seen for over five years", according to Lynn.

About Meyers Builder Advisors

[Meyers Builder Advisors](#) brings together a talented pool of consultants with a strong understanding of the homebuilding industry and the market dynamics that drive it. Combined, the team boasts over 100 years of market experience, with a wide range of services including site specific analysis, product development, strategic planning and land acquisition services. The group has advised on a wide range of residential product types throughout the United States and has successfully assisted a long list of builders, developers, and financial institutions.

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