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## TOM'S TIPS

### Wishing You and Yours A Happy New Year!

The market seems to have revived somewhat in December, likely due to increased demand and decreased supply due to the wildfires. Inventory dropped dramatically from 220 to 170 actively on the market. The doom sayers are predicting lower prices still, but there are some bright spots. Call me if you have any real estate needs.

God Bless You,

**Tom Stephenson, Your Family Realtor**

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# TOM'S REAL ESTATE REPORT

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Jan  
2008

## The 2008 California Real Estate Outlook

The California Association of Realtors® (CAR) provides a rather sturdy forecast of real estate market conditions each year. It's issued by the capable Leslie Appleton-Young in October, so we get to both look at the official version and consider some changes that may already be developing.

Let's start, appropriately enough, with length of time it's been taking houses to sell in recent months. By way of comparison, it took roughly seven months on average from 1988 to the present. During the first five years of this decade, though, the average ranged from a high of four months to a low of one and a half months. And in June of this past year, it rose to an astonishing twelve months.

Has it ever been this high before? Absolutely! In the first five years of the prior decade, the average length of time it took a home to sell ranged from ten to eighteen months. Thankfully, we haven't entered such a glacial market. What, though, can we expect in 2008 and why?

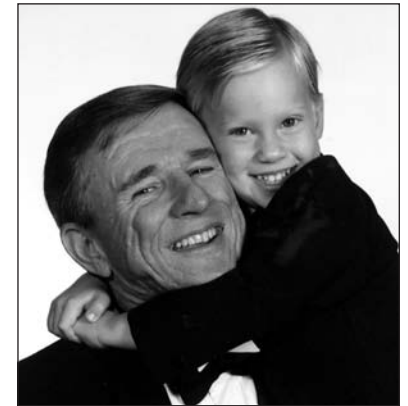
We experienced a decline of roughly 23% (the final numbers aren't in yet) in the number of home sales in our state in 2007, compared with 2006 figures. The median selling price of those homes appears to have edged

## Real Estate Really Is Different

Which information about the real estate market is truly valid? Have prices really fallen to 2000 levels? What is really going on? And why is the media so ready to sensationalize the real estate market story?

The median selling price of a home in California was \$241,400 in the year 2000. The level forecasted for 2007—without all the numbers crunched just yet—is \$576,000. CAR expects the median home price to edge down to \$553,000 by the end of 2008. Thus, the median price, even after a forecasted 4% decline in 2008,

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## The 2008 Real Estate Outlook... (Con't)

up by 3.5%, with declines showing up toward the end of the year. In 2008, though, CAR anticipates another decline in the number of sales, this time by about 9%, and a 4% decline in the median selling prices. (Notably, we haven't seen a decline in the median selling price in California since 1996, when the median price fell 0.5% from 1995's level, though it did fall 4.5% previously in 1993 from 1992's.)

### Wild Cards?

There are wild cards that would alter this forecast, possibly taking us closer to the slow-down of the 1990s—but most likely neither hitting our market as hard nor weighing it down as long. **First**, lenders are having to scramble for funds, and are therefore tightening qualification standards. This implies a thorough overhaul of the mortgage industry. More difficulties mean fewer loans will be written, and that means an even slower real estate market.

**Second**, though many loans written within the past one to two years will, indeed, adjust upward, even if interest rates remain just where they are, the situation worsens if rates do rise yet further, making it likely that even more homeowners default on their mortgages. Because rates are rather unlikely to rise, though, this problem may not threaten the market.

**Third**, an increasing number of highly respected economists are worrying about the possibility of the entire American economy dipping into recession—and some few suggest that our state and, in particular, our real estate market, are already in recession. What this will mean is difficult to say. We recall that, when the economy developed the wobbles in the early part of this decade, it was the real estate market that still managed to thrive. With the possibility of lower interest rates ahead, who knows what to expect? Perhaps a more rapid real estate recovery than

analysts have been forecasting for many long months.

### Demand Underestimated

As you can probably see, a tug-of-war may develop in the real estate market between the appeal of real estate as a solid store of wealth in tricky economic times on the one hand and the fact that the subprime crisis will still be playing itself out on the other in the coming year. The outcome is uncertain, but we know that the demand for homes and resilience of our real estate market have been greatly underestimated in the media for years, and historically that means the market will recover sooner and faster than expected.



## Real Estate Really Is Different... (Con't)

will still be nearly 130% higher than it was at the start of the decade.

### Different Methods, Different Spins

Now, home price levels look very different depending on how they are gathered and processed—whether we seek the median price or the average price or the metropolitan price, etc. All emphases and methods produce different results, and the story they may tell is “spun” further by the media.. The number of homes selling in one area, for example, may decline by 0.01%, which may take them to their lowest level in eight years—though the percentage decline is actually the smallest in two years—but you can be sure that a newspaper will run the story with a headline that reads: “Prices Plunge to Precipitous Low.”

### Sensationalism Sells

Why does the press slant the news in this way? The real estate story today is selling newspapers...and newspapers and magazines are competing with one another for reader

interest by running the most sensational articles they can.

### Consider The Source

Further, most of the people who are writing about the real estate market know too little about it. They are generally journalists who normally concentrate on stocks and bonds and commodities, and real estate is none of those. Its value to us is vastly greater than the value of, say, a crude oil futures contract. We cannot live, work, play, develop our lives, and borrow to pay for opportunities and emergencies in an oil contract. We can in a house. The real estate market inevitably works very differently than do other investment markets, and those who report on other markets very often get the real estate market wrong.

It takes an experienced professional to read the real estate market accurately and to guide clients to the opportunities that every market brings. You need and deserve the best help available right now and always. Let's stay in close contact through the coming market changes ...and beyond.

### The Curiosity File [Thanks to Harper's Index]

- How many changes to Wikipedia, at the least, have been traced to the CIA since June, 2004? **310**.
- What is the estimated annual revenue of panhandlers in the Las Vegas metropolitan area? **\$24,000,000**.
- How many of the world's five most valuable companies in 2006 were Chinese? **None**. How many in 2007? **Three**.
- Approximately how much do Americans lose each year by not redeeming gift cards? **\$8,000,000,000**.
- What percentage of shopping-mall and party Santas believe that children “lie when they say they've been good”? **54%**.

