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To Whom It May Concern:

Due to popular demand, I am submitting an article that addresses advantages in purchasing a new home in Orange County during the present market situation.

Is Now The Time To Buy A New Home?

During the past few months, I have been increasingly approached by friends and associates asking me whether now is the time to purchase a new home in Orange County. My short answer is, "Yes." I offer a slightly longer answer to those seeking a little more insight: "Yes. In fact, we may never see this type of opportunity in terms of housing values relative to incomes in Orange County again. If you feel secure in your job, and can make the payments, you may never see such a 'perfect storm' again regarding the undervaluation of housing in Orange County."

For those demanding even more statistics and economics that support such a statement, you are welcome to continue reading.

The Mess

Year 2002. In every other recession on record, when the nation began to shed jobs, the housing market took a downturn in both sales volume and price. Not so in the 2001/2002 recession caused by the 'dot-com' bust and the tragic events of September 11th, 2001. Granted, there was a slight dip in sales volume in 2002, but this was followed almost immediately by a surge in housing sales which in turn, magnified an already established surge in home prices.

This anomaly in the housing market should had never occurred in 2002 and forward – especially in light of the 'dot-com' bust that continued to degrade regional economies through Year 2004 in many parts of the nation.

The reason the housing market behaved differently during and after the 2001/02 national recession is because of a series of events that transformed the housing market into an investment market. Given the 'dot-com' bust and Wall Street scandals such as Enron, Global Crossing, etc., many investors were increasingly disenchanted with the stock market. These investors began to leave the stock market in droves in 2001 and 2002, yet they still had liquidity. This excess liquidity needed to be funneled somewhere, and the deregulated/loosened mortgage market made housing especially appealing.

Speculative purchases began like we've never seen before. And as speculation increased, lending practices loosened even further. Between 2001 and 2006, loan-to-value ratios increased from 80% to 90% nationwide. 100% financed loans, which accounted for only 3% of all mortgages in 2001, shot to 33% of all mortgages by 2006. Limited documentation loans (commonly referred to as "liar loans") jumped to 44% of all residential mortgage originated in 2006. Completely contradictory to good business practices, the banks and mortgage companies couldn't give money away fast enough during the frenzy of Years 2004, 2005 and 2006.

During 2nd quarter 2006, a "scare" rippled through the system in the form of higher mortgage rates and a spike in fuel costs. Speculators and investors, many of whom controlled ten properties or more, began to try to liquidate their properties, and the number of listings began to balloon. More and more people began to catch on that the party was over, and by the end of 2006, absorption had slowed tremendously. With this slow down in absorption, many investors who weren't able to "flip" properties as fast as they once could have, began to default on their speculative mortgages. Notices of foreclosure increased dramatically in 2006 and 2007, followed by steep increases in foreclosures in 2007 and 2008. Banks and mortgage institutions finally began to see the writing on the wall, and lending came to a halt. The financial system began to unravel, and this financial "melt down" abruptly impacted the economy – and not in a good way. By the end of Year 2008, most major metropolitan areas throughout the nation were shedding jobs in large numbers. Unfortunately, despite the government's sticking its thumb in the dike, a huge flow of foreclosures and job losses continue.

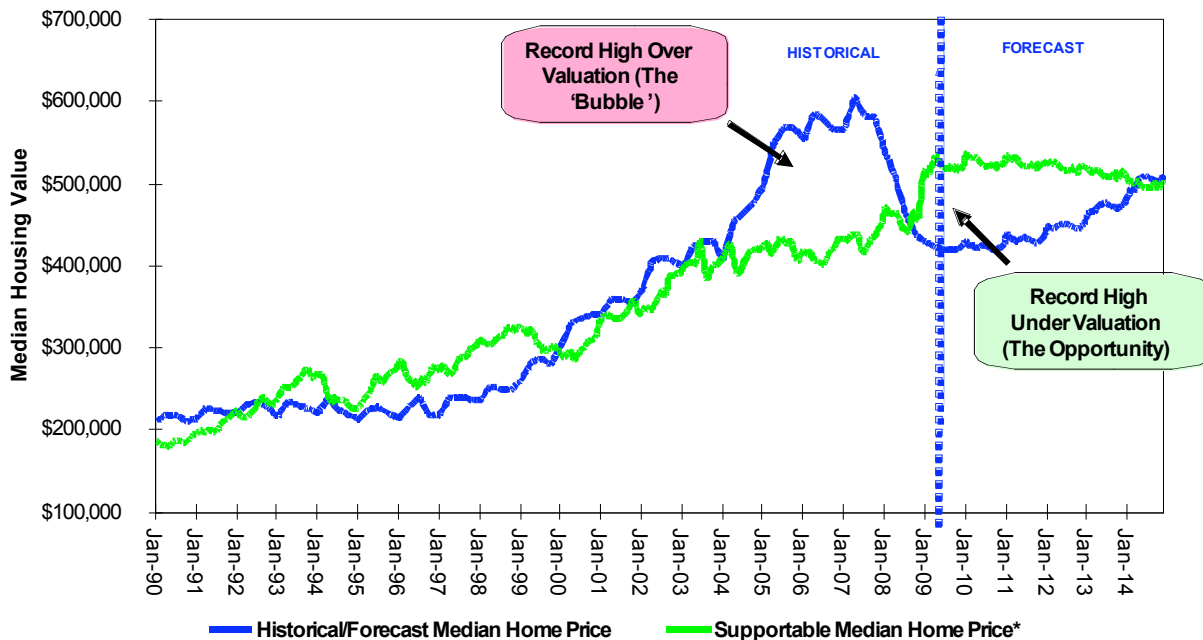
What Was The Impact On Home Prices?

The answer is an unprecedented 38% loss in housing value in less than 24 months in Orange County. The speed and degree to which the housing market has corrected is unprecedented. This has never happened before. We're in uncharted waters.

How Big is the Opportunity?

What many people fail to realize, however, is that this is still a cycle. What goes up (too much) must come down (sometimes too far). And as with many things, the higher it goes, the harder it falls. The chart below presents median housing prices in Orange County as measured by the National Association of Realtors, compared with what we at Real Estate Economics think true the supportable median price is based on median household incomes:

SANTA ANA-ANAHEIM-IRVINE, CA MSA



* Median home price supported by median household incomes and prevailing mortgage rates.
 Source: National Association of Realtors; Census Bureau; Federal Reserve; Freddie Mac;
 Real Estate Economics (www.realestateconomics.com)

As shown, the latter half of the 1990's was typified by under valuation in Orange County. This laid a foundation for relatively strong market conditions during the first half of this decade. In 2004, however, there was an abrupt separation between actual median prices and where we thought they should be relative to household incomes. This separation describes the period of over valuation or the 'price bubble' that we went through in 2004 through 2007. The bubble collapsed in 2007 and hit equilibrium during Year 2008, but then it over shot the mark. This over correction has been caused by recessionary pressures associated with the financial melt down and tightened lending practices during a time when reduced mortgage rates actually brought up the level of supportable home values that the average employed household could afford.

Never in the history of Orange County has there been such a separation between the actual price level of homes in Orange County and what the median income of employed households in Orange County can purchase. It is, in essence, the "perfect storm" in terms of low prices, historically low fixed mortgage rates, and continued high incomes (for those who are employed). Granted, an increasing number of unemployed workers aren't in a position to take advantage of this historically high level of under valuation, but for those who can afford it and do feel stable in their jobs, they may never experience this opportunity again in their lifetimes.

And it appears that an increasing number of households in Orange County are recognizing this opportunity. A historically high share of housing is being sold to first time buyers. This isn't because first time buyers feel more secure in their jobs or are more naïve than the rest of us. Rather, it is often because, with the federal and state tax credits that are currently being offered, their financially secure parents recognize that first time buying adult children may never get a better opportunity to purchase a home in Orange County. Though we don't have specific statistics to quote, we are observing and hearing about an enormous number of first time buyers who are receiving financial support from their

parents for the purpose of purchasing their first home. When the banks won't lend, the Bank of Mom-And-Dad is the next best thing.

As shown in the chart above, the door of opportunity (or the period of under valuation) begins to close in Year 2011, and eventually closes completely by Year 2014, when we forecast that the supportable price level (which will fall as mortgage rates climb) will meet the forecast level of median home price in Orange County. As shown, median home prices will begin to climb after Year 2010 as an increasing number of buyers not only recognize the undervaluation that is increasingly obvious, but feel more secure in terms of taking advantage of this opportunity as the economy finally begins to expand again. Our forecast in terms of the beginnings of economic expansion in Orange County (in the form of job growth) is 4th quarter 2010. For those who are lucky enough to have a secure job and the means to obtain financing to purchase a home – especially a first home – there may never be a better opportunity to buy a home in Orange County.

(end)

Sincerely,

REAL ESTATE ECONOMICS

A handwritten signature in black ink, appearing to read 'Mark R. Boud', written in a cursive style.

Mark R. Boud

MRB:jm