

Has the Real Estate Bubble Burst?

By Richard Stanley

No one can doubt that we are in a period of upheaval in the real estate market. The question of late seems to be, “How bad is it?” The short answer is, “It depends.” Before pushing any panic buttons, let’s look at some facts:

Sales Perspective

Considering the areas of the Hollywood Hills East (Beachwood Canyon area), Los Feliz and Silver Lake/Echo Park, both units sold and dollar sales volumes are down this year vs. last year by about 1/3. Market times are now about 2 months for those houses that sell. Interestingly, sales prices are up about 6%. Comparing square footage and bedroom and bath counts of properties sold this past August vs. August 2006, there does not appear to be a great disparity or trend. The inventory of houses for sale has remained fairly constant.

What do these statistics mean? The market cooling has most affected **sales volume** and **market time**. Other factors have not changed dramatically—yet. Attractive houses that are either fixers with “good bones” and the turn-key, designer-done houses are still selling—often in multiple offers, very close to, or over the asking prices. The in-between, un-inspiring and the over-priced houses will wait indefinitely for buyers.

Who’s Selling?

We are already into a period where houses coming onto the market do so because of the traditional reasons: death, divorce, relocation and urgent family need (a new baby, retirement, health limitations, etc). There are still a few “flipper” houses that are being rushed onto the market. Some of these aren’t even quite finished—the urgency is that palpable. In our market area, the sub-prime foreclosure and “short sale” houses are few—so far.

Who’s Buying?

Buyers today are the most savvy ever. The availability of information has never before been so profuse or timely. These highly-educated buyers “stay away in droves” from the over-priced and dull houses. They will wait-out such offerings in the hope of lowered asking prices in the future—if they want them at all. The market today is very discretionary. Most flippers are on the sidelines now, and with them is gone their multiple offer madness that drove prices ever-higher earlier this decade. Buyers today are most likely watching and waiting for those “must-have” houses that will compel them to write offers. To them, the other offerings elicit yawns—and a pass.

Who Are Lending and Borrowing?

The big change of late is in the mortgage market. Some lenders have closed their doors. Hundreds of staff were fired. Morale among those left has plunged. Suddenly getting a loan, even if you have great credit, is an iffy proposition. Just about all loans

today are the “fully documented” or “full doc” type. So called “stated income” or “no doc” loans and “zero down” or low downpayment loans are, for the moment, extinct.

Steps have been taken to avert a profound liquidity crisis, but most of the aid applies to loans less than \$418,000, so-called “conforming” loans in our part of the country. The “jumbo” loans over \$418,000—the ones most Californians need to purchase residential real estate—can be tough to get today. The rates are not so bad—and are expected to go lower—but getting the loan paperwork through the underwriting mill can be daunting. Be prepared for long delays in getting loan approval and also many and unusual stipulations required by lenders as conditions of funding new loans. **Tip: find an established mortgage brokerage that also offers “portfolio” loans—those loans that are originated, and held, in-house.** The days of easy, cheap purchase money and re-finance loans are definitely over.

What’s the Prognosis?

The economy, so far, remains strong, despite inflationary energy costs and collateral fallout from the loan meltdown (how many people do you know who are looking for work?). However, many employers are beginning to cut back staff—not a good sign. What could cause our local economy to sour is the reality of a now-threatened entertainment industry strike. Whether any union will push for a strike in dicey economic times remains to be seen.

So far, prices in our local market have not dropped, but prices are dropping in outlying areas. Buyers here relied heavily on loans based upon risky underwriting practices. If you want to buy foreclosure properties, look in the High Desert areas, such as Palmdale, Lancaster and Hesperia. Look in the resort areas such as the mountains and Palm Springs. Also check the bedroom ‘burbs such as Simi Valley, Moreno Valley and Santa Clarita. These vast areas of same-old, same-old tract houses will be bloody battlegrounds for sellers caught in a race to the bottom with builders and lenders seeking to liquidate excess inventory.

Whether these soft perimeter areas will depress prices in more stable areas, such as our neighborhoods, remains to be seen. Personally, I doubt that we will see a repeat of the local 50% price drop of the early ‘90s. What may happen is that we enter a relatively long period of stagnant, or slightly lowered, property values. Don’t look for significant change soon. People tend to defer making long-term financial commitments when change is imminent. Such change will not take place until at least January 20, 2009.

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