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OF REALTORS®

What's In Store for 2008?

University of San Diego

December 12, 2007

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California Association of REALTORS®

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Overview

- **Economic Outlook for US and California**
- **Current Market Conditions: State & Region**
 - **Low Affordability**
 - **Buyer/Seller Standoff**
 - **Nonprime & Foreclosure Situation**
 - **Credit Crunch**
- **Housing Market Outlook 2008**



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Economic Outlook

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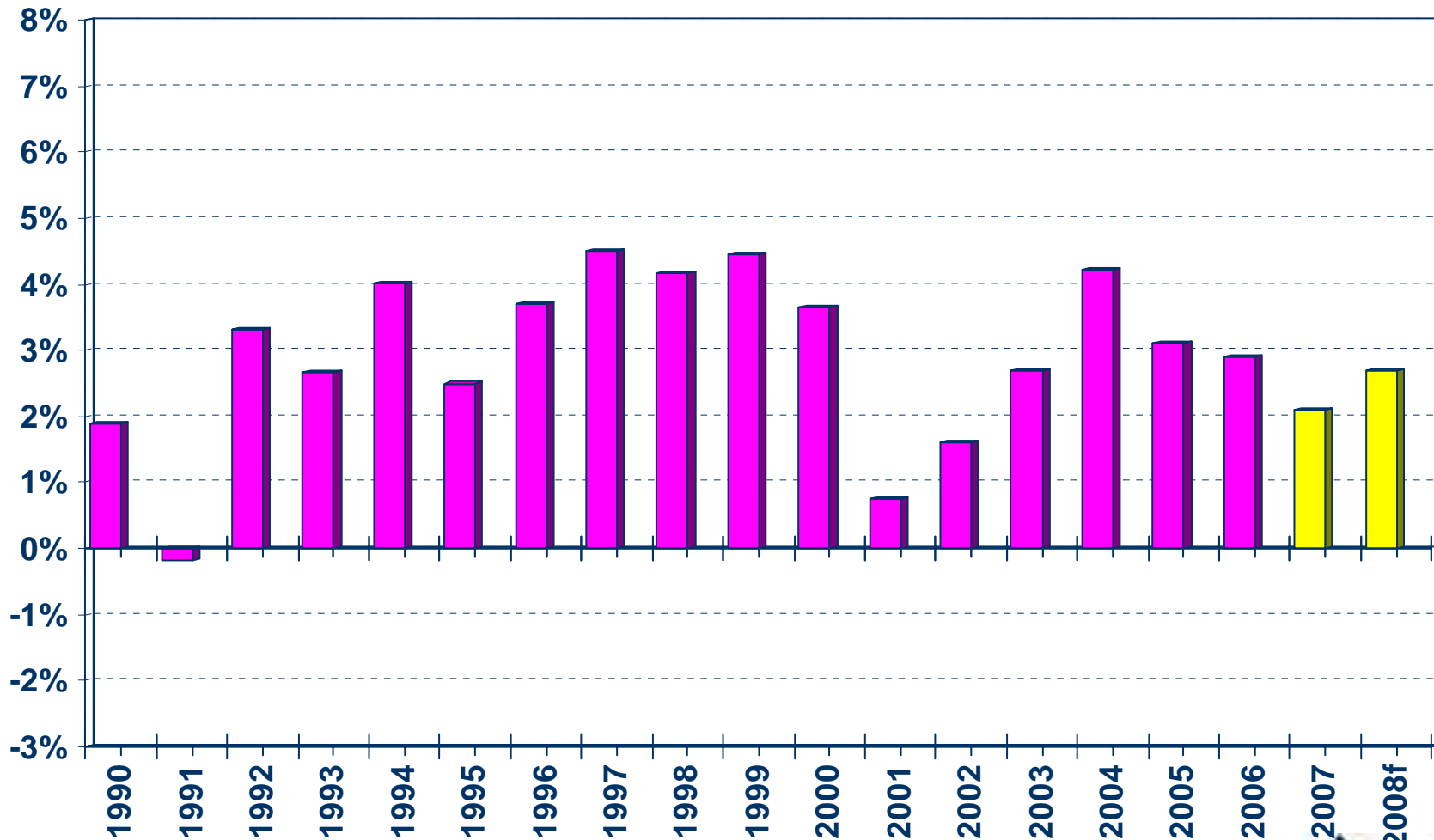
Economy through 2008

- GDP Growth below par (~2.5 to 3.0%)
- Weak but positive job growth for US, CA, and its regions
- Unemployment rate up slightly
- Inflation a concern but in check
- Uncertainty about economy, credit crunch, and housing market
- Will housing market and credit crunch weaken the economy?

Gross Domestic Product

Year 2006: +2.9%; 2007 Q2: +4.9%

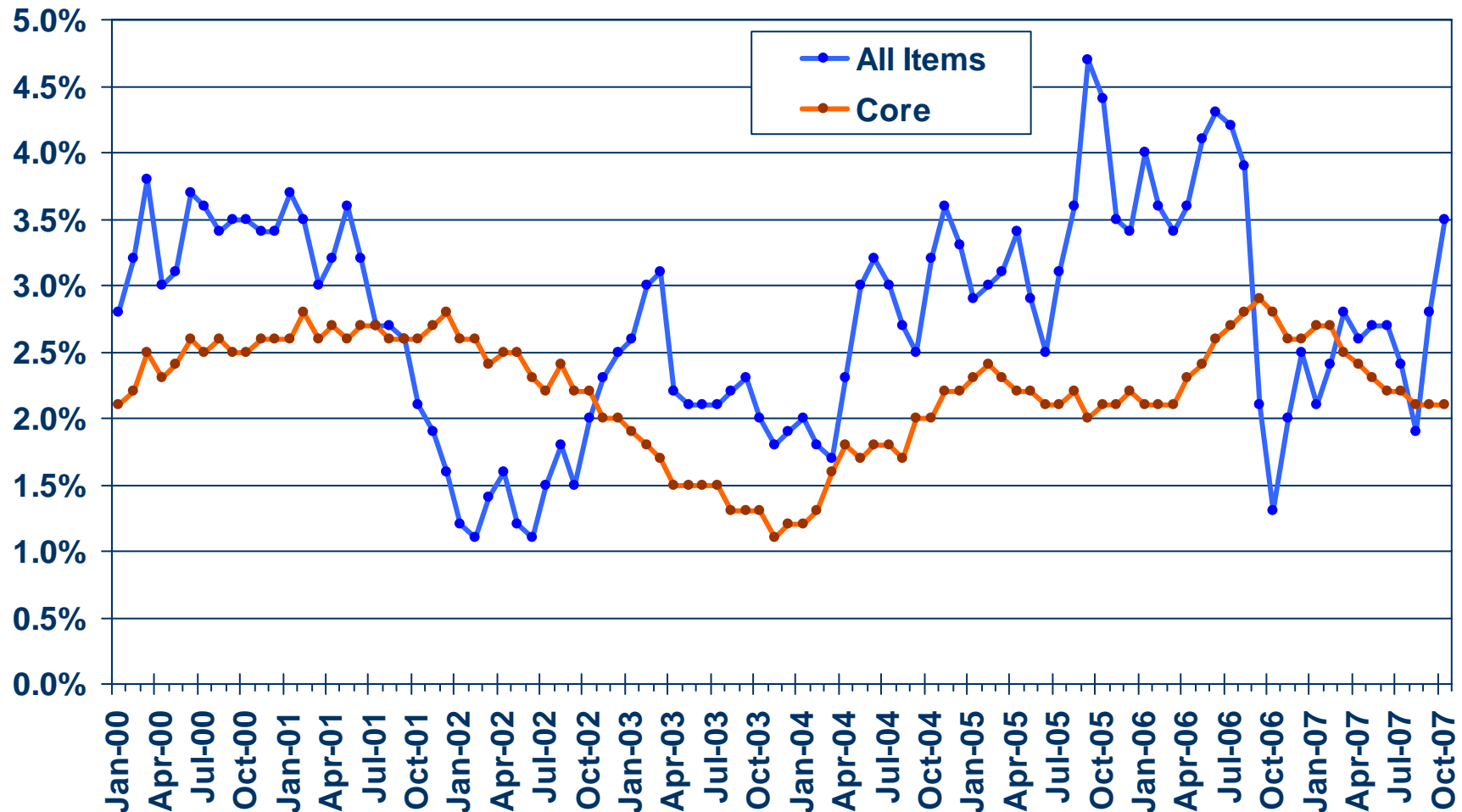
ANNUAL PERCENT CHANGE, CHAIN-TYPE (2000) \$



Consumer Price Index

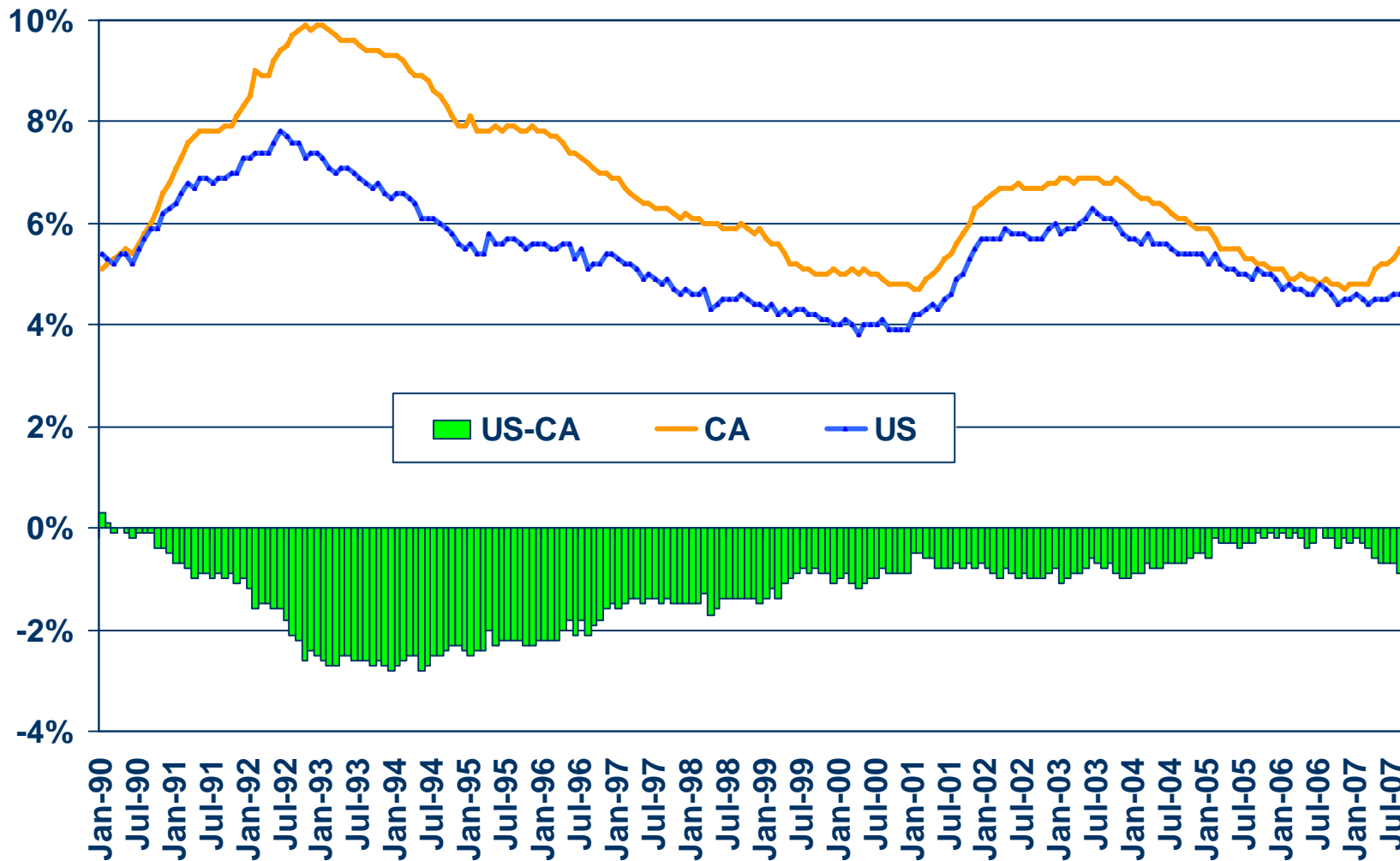
October 2007: All Items 3.5% Y-T-Y; Core 2.1% Y-T-Y

PERCENT CHANGE FROM A YEAR AGO, 100=1982-1984



Unemployment Rate

California vs. United States

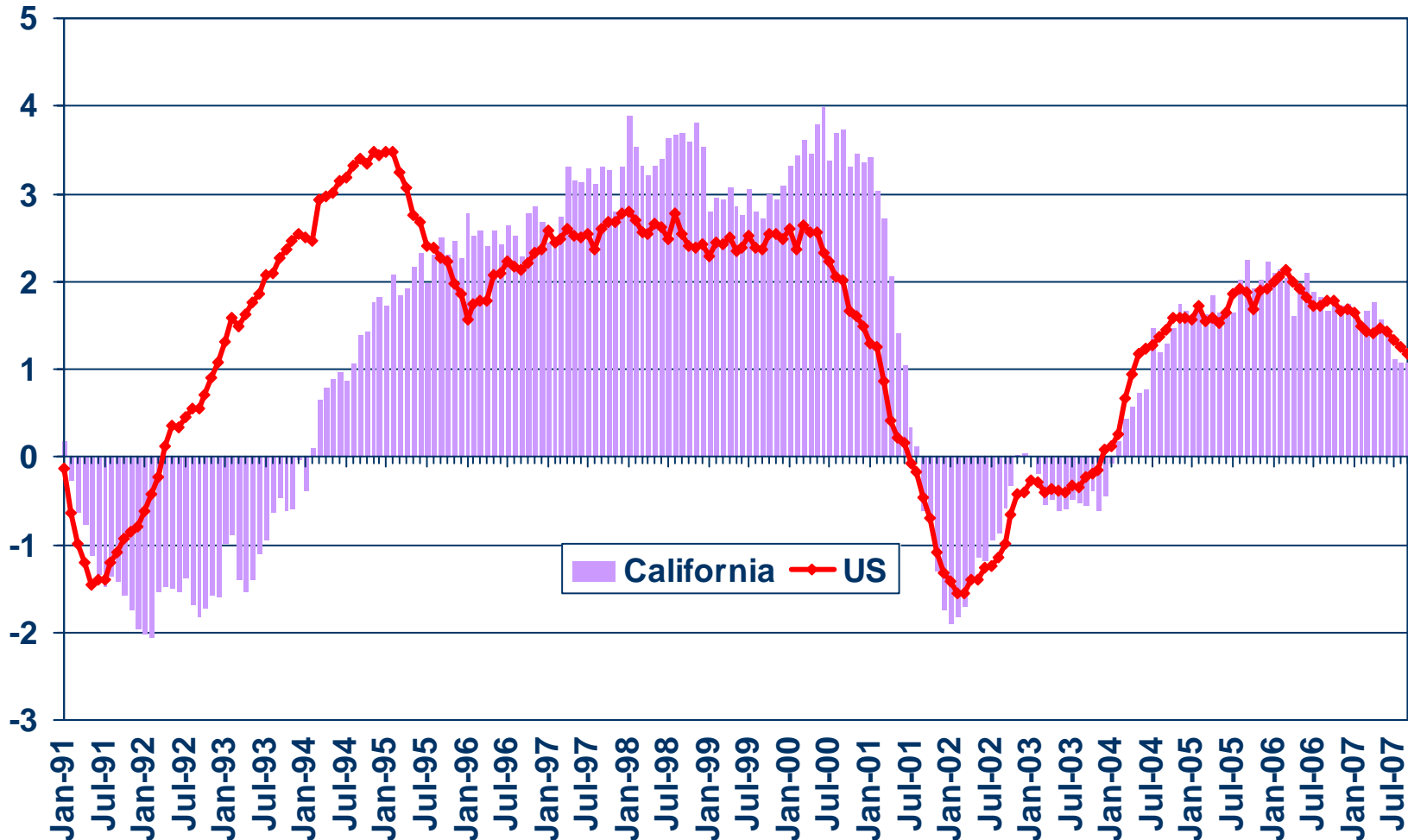


SOURCE: CA Employment Development Division



Employment Growth, California vs. U.S.

YEAR TO YEAR % CHANGE



U.S. Economic Forecast

	2003	2004	2005	2006	2007	2008f
US GDP	2.5%	3.6%	3.1%	2.9%	2.1%	2.7%
Nonfarm Job Growth	-0.3%	1.1%	1.7%	1.8%	1.3%	1.1%
Unemployment	6.0%	5.5%	5.1%	4.6%	4.6%	5.0%
CPI	2.3%	2.7%	3.4%	3.2%	2.8%	2.8%
Real Disposable Income	2.4%	3.4%	1.2%	2.6%	3.4%	2.7%

California Economic Forecast

	2003	2004	2005	2006	2007	2008f
Nonfarm Job Growth	-0.5%	1.0%	1.8%	1.9%	1.3%	0.9%
Unemployment Rate	6.8%	6.2%	5.4%	4.9%	5.2%	5.7%
Population Growth	1.7%	1.5%	1.3%	1.3%	1.1%	1.1%
Real Disposable Income, % Change	2.1%	4.1%	1.0%	2.5%	3.2%	3.1%

Economy through 2008

- GDP Growth below par (~2.5 to 3.0%)
- Weak but positive job growth for US, CA, and its regions
- Unemployment rate up slightly
- Inflation a concern but in check
- Uncertainty about economy, credit crunch, and housing market
- Will housing market and credit crunch weaken the economy?



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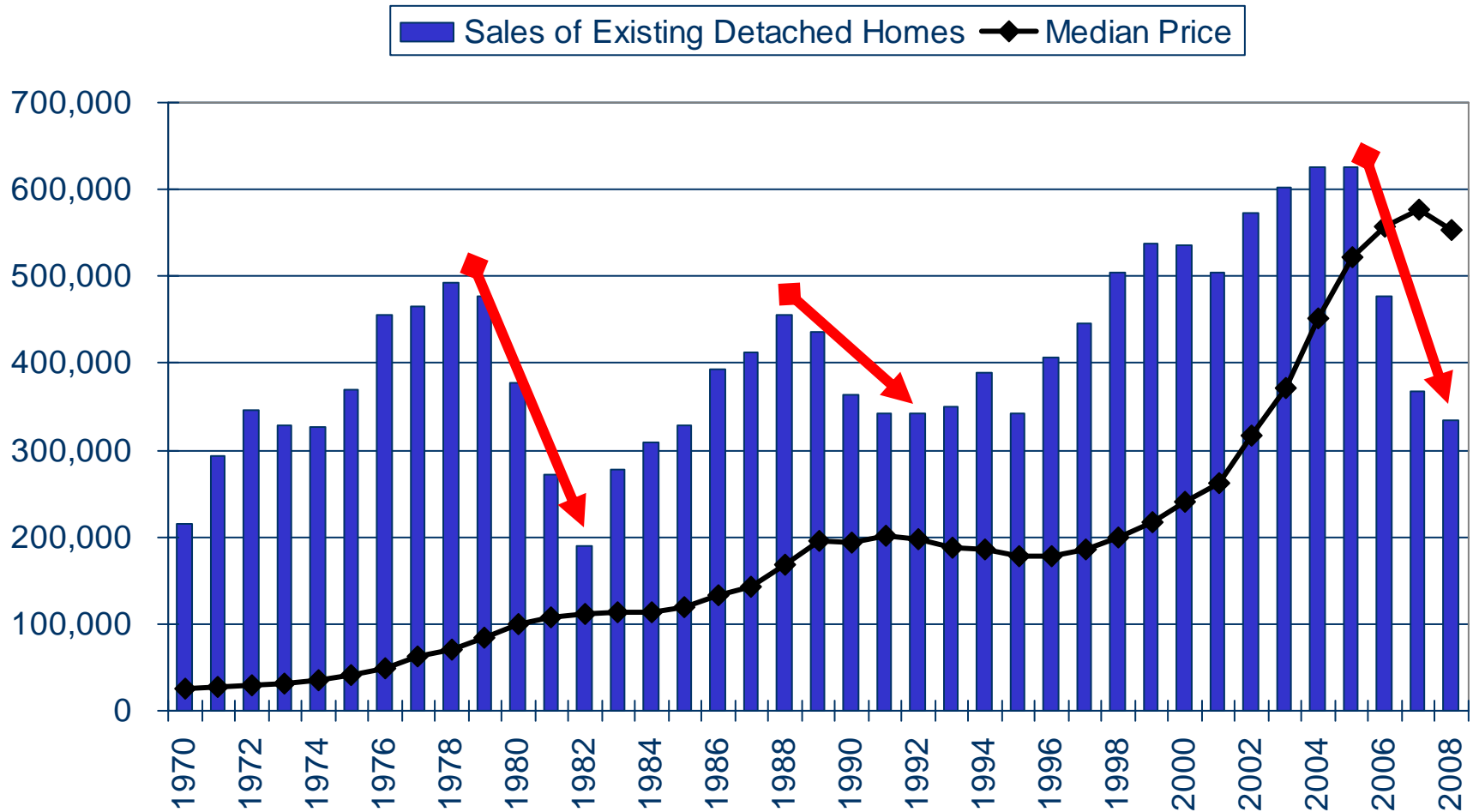
Market Outlook

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Sales More Volatile Than Prices

California Sales of Existing Homes and Median Price

UNITS/MEDIAN PRICE \$

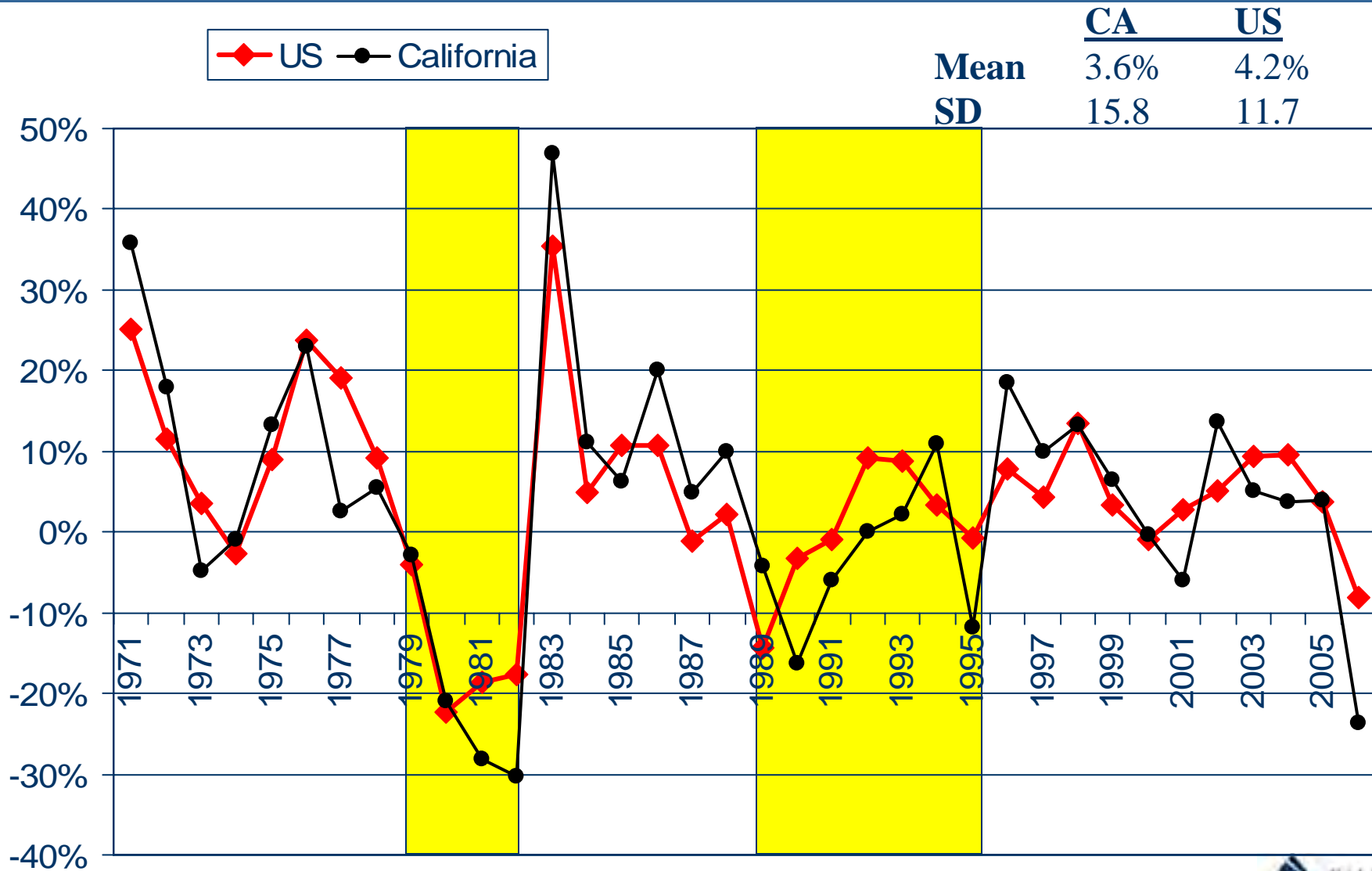


SOURCE: California Association of REALTORS®



Existing Home Sales, Annual Percentage Change

California More Volatile Than U.S.

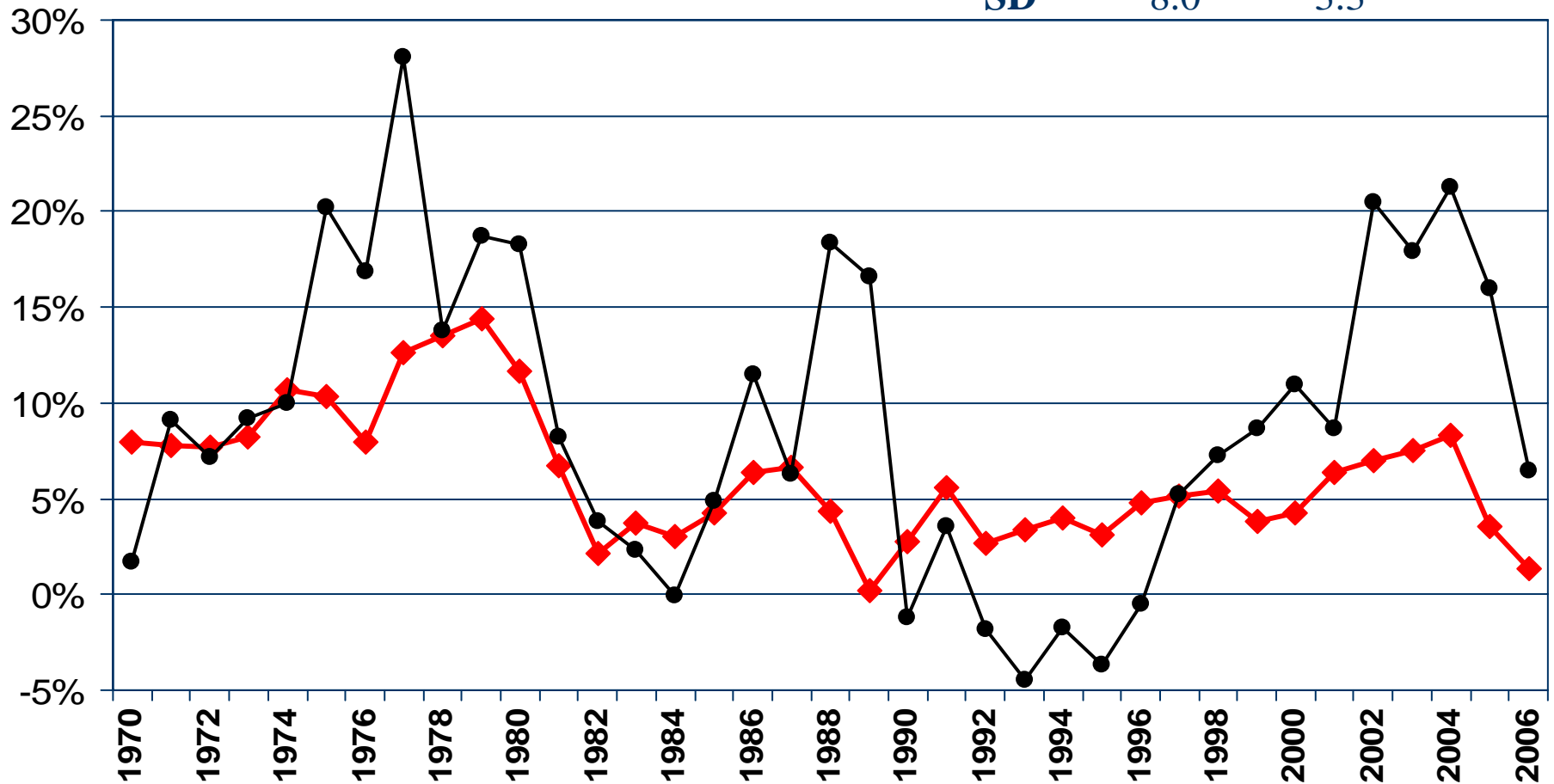


Median Price, Annual Percentage Change

California More Volatile Than U.S.

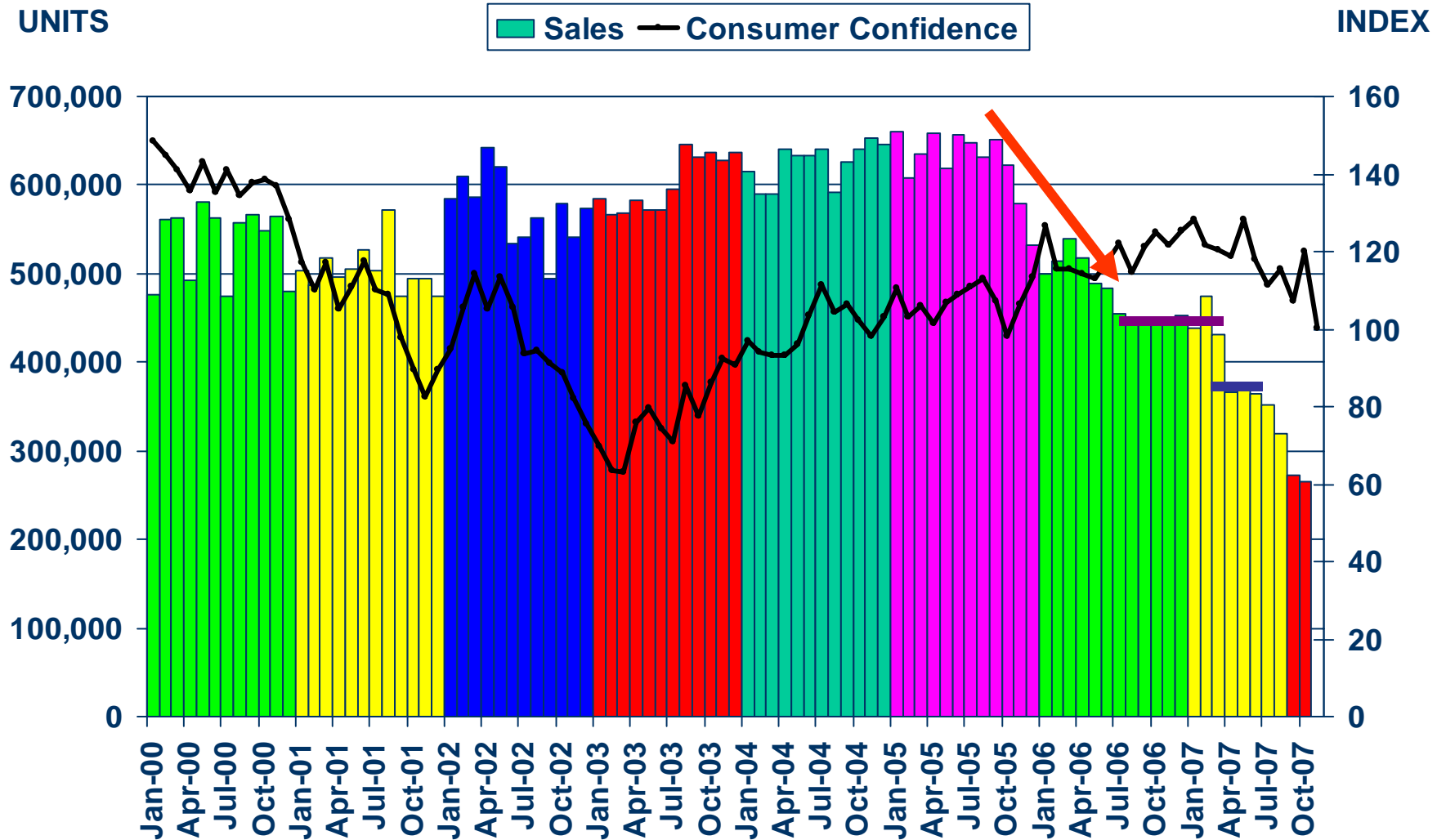
◆ US ● California

	<u>CA</u>	<u>US</u>
Mean	9.3%	6.6%
SD	8.0	3.3



Sales of Existing Detached Homes/Pacific West Consumer Confidence

California, October 2007 Sales: 265,030 Units, -24.4% YTD, - 40.2% YTY

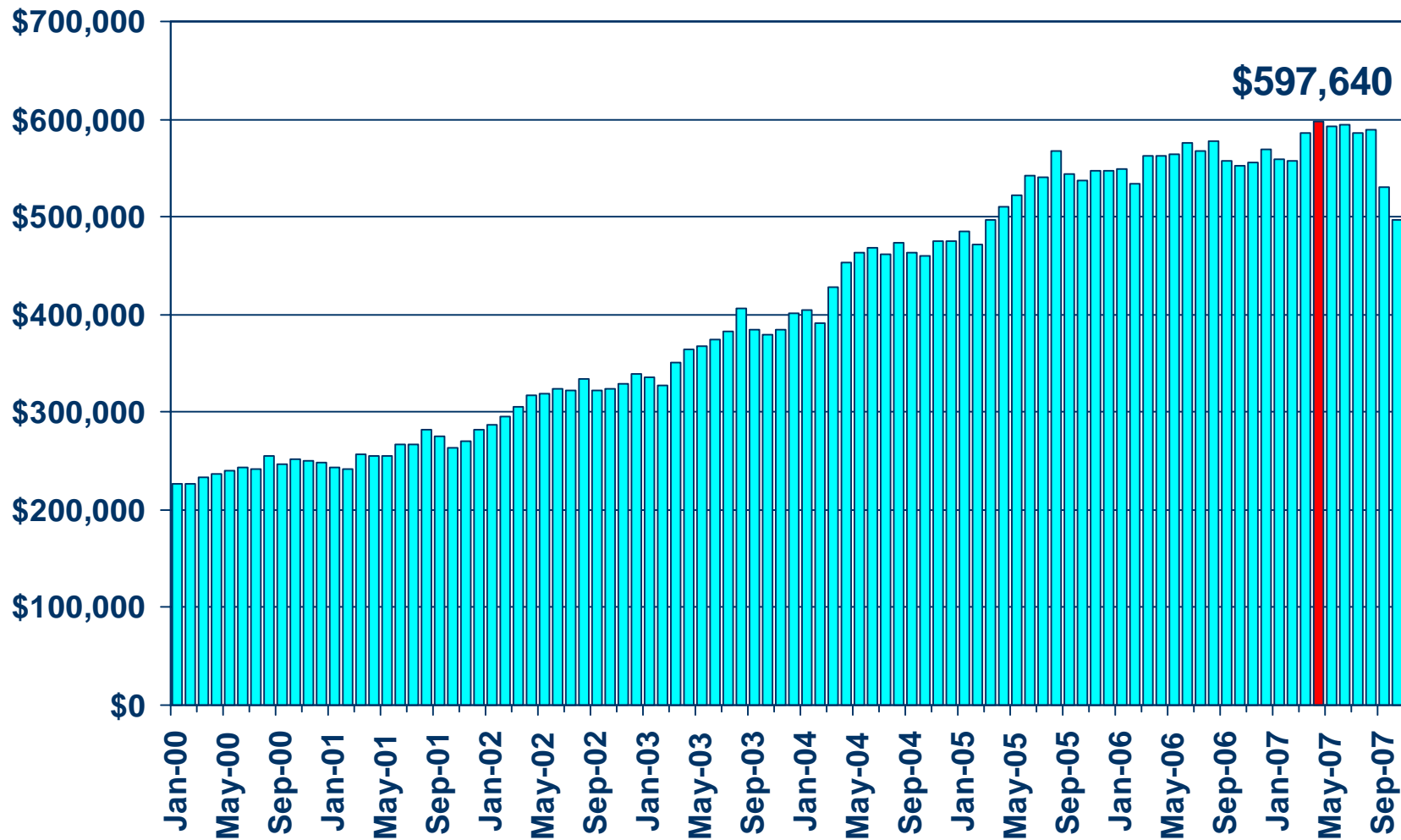


SOURCE: California Association of REALTORS®;
The Conference Board



Median Price of Existing Detached Homes

California, October 2007: \$497,110, Down 9.9% Y-T-Y



SOURCE: California Association of REALTORS®

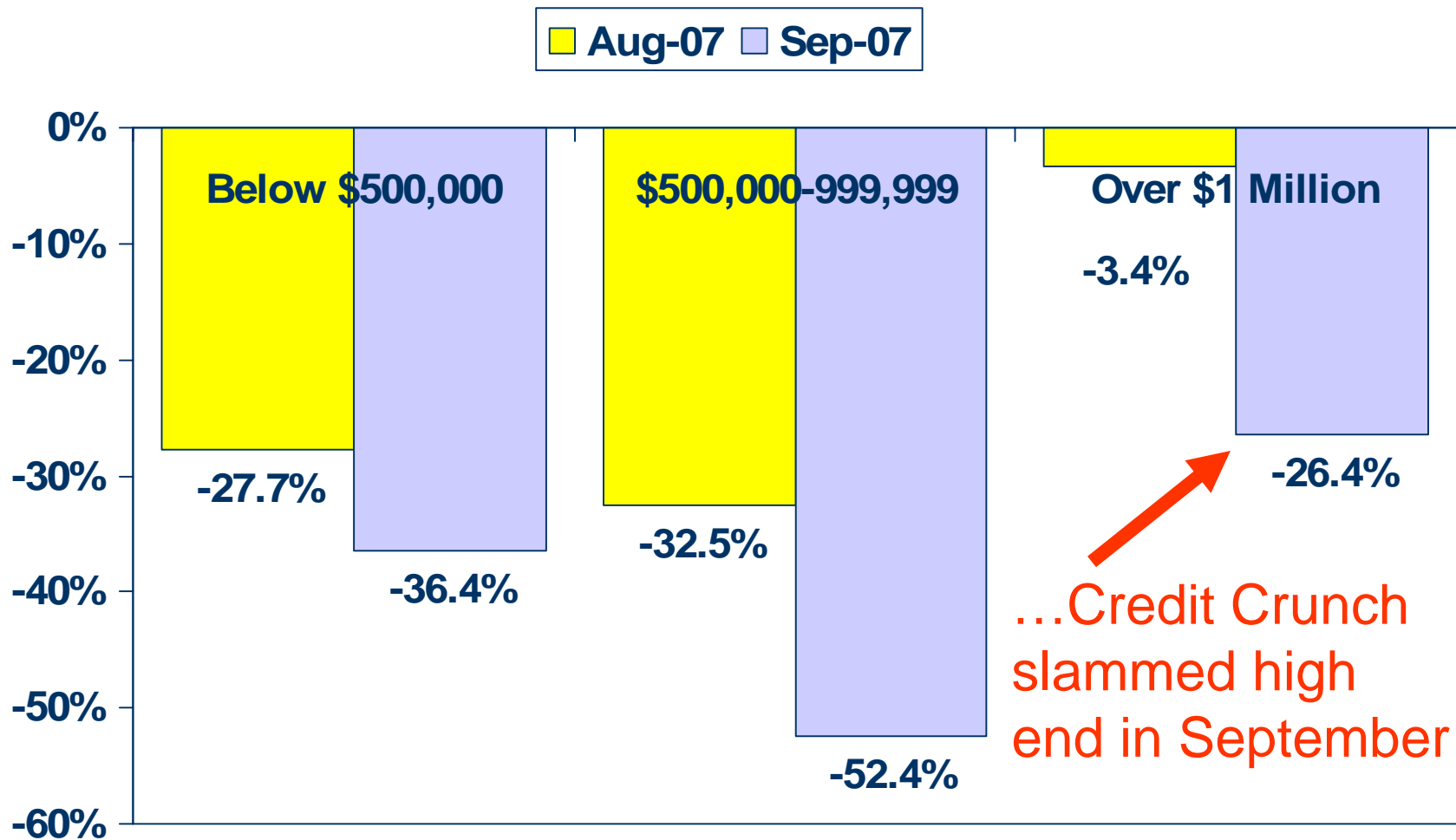


Variability Among Local Markets

Region	Peak Month	Peak Price	Oct-07 Median	% Chg From Peak
Sacramento	Aug-05	\$394,450	\$309,360	-21.6%
High Desert	Apr-06	\$334,860	\$265,880	-20.6%
Palm Springs/Lower Desert	Jun-05	\$393,370	\$323,440	-17.8%
Northern Wine Country	Jan-06	\$645,080	\$532,900	-17.4%
Riverside San Bernardino	Jan-07	\$415,160	\$344,370	-17.1%
Northern California	Aug-05	\$440,420	\$373,790	-15.1%
Central Valley*(Aug 2007)	Aug-05	\$363,680	\$309,740	-14.8%
San Diego	May-06	\$622,380	\$539,060	-13.4%
Los Angeles	Aug-07	\$605,300	\$533,070	-11.9%
San Luis Obispo	Jun-06	\$620,540	\$548,610	-11.6%
Monterey Region	Aug-07	\$798,210	\$714,550	-10.5%
Orange County	Apr-07	\$747,260	\$673,770	-9.8%
Ventura	Aug-06	\$710,910	\$650,570	-8.5%
San Francisco	May-07	\$853,910	\$810,490	-5.1%
Santa Clara	Apr-07	\$868,410	\$860,500	-0.9%

Lower Price Ranges Hit Hardest, but...

Percentage Change in Sales YTY



...Credit Crunch slammed high end in September

SOURCE: California Association of REALTORS®



Credit Crunch ≠ Tighter Underwriting

Tighter Underwriting Standards

- Subprime and other less-qualified borrowers initially.
- Later spread to well-qualified borrowers.

Credit or Liquidity Crunch

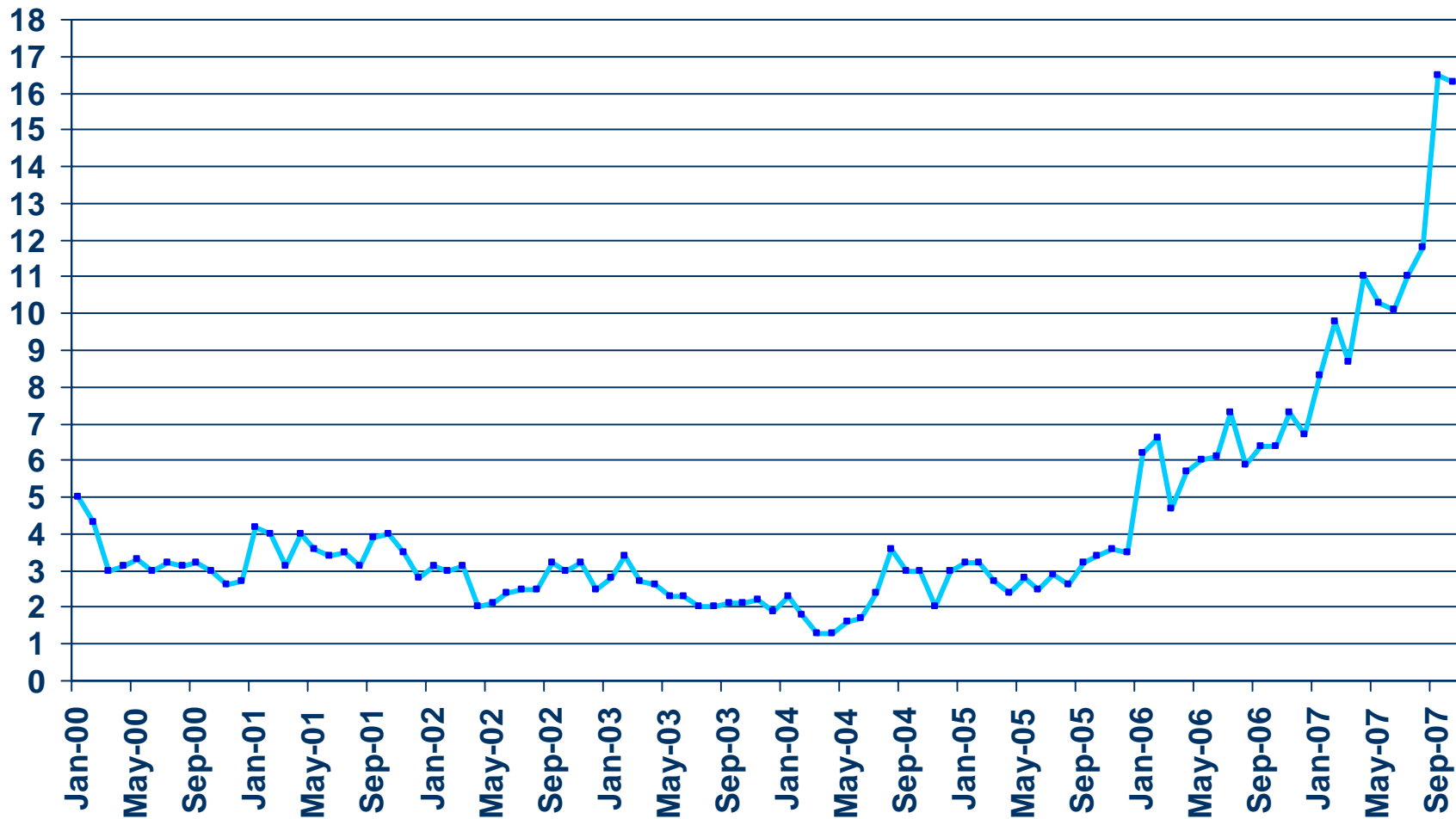
- Investors who normally provide funds to Lenders on sidelines. Source for jumbo loans.
- \$\$\$ in safe havens (Treasuries) because of risk elsewhere.
- Fewer \$\$\$ available, even for well-qualified borrowers in recent months.

Unsold Inventory Index

California, October 2007: 16.3 Months

MONTHS

Average Since 1/88: 7.0 months



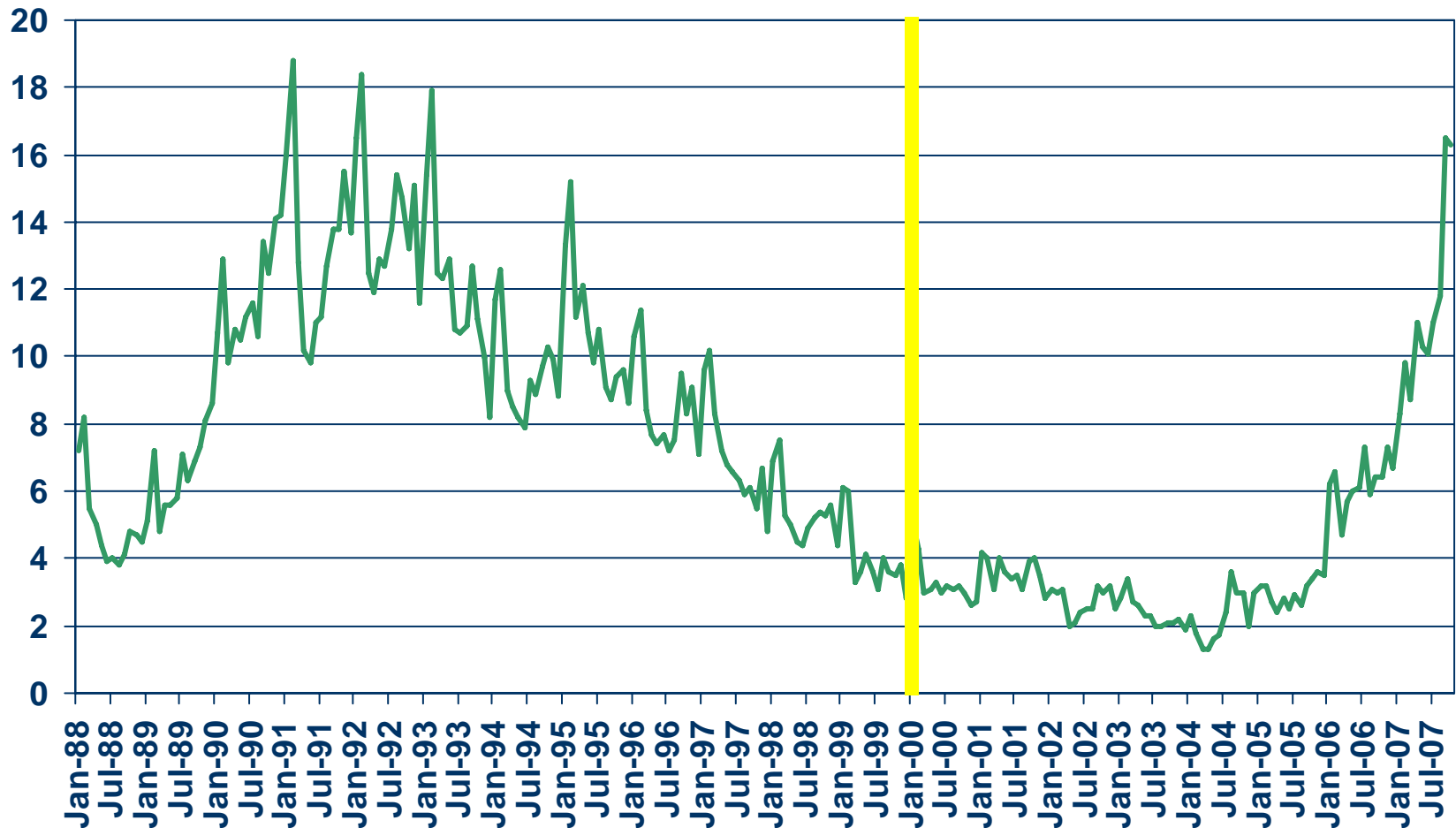
SOURCE: California Association of REALTORS®



Unsold Inventory Index

California, October 2007: 16.3 Months

MONTHS

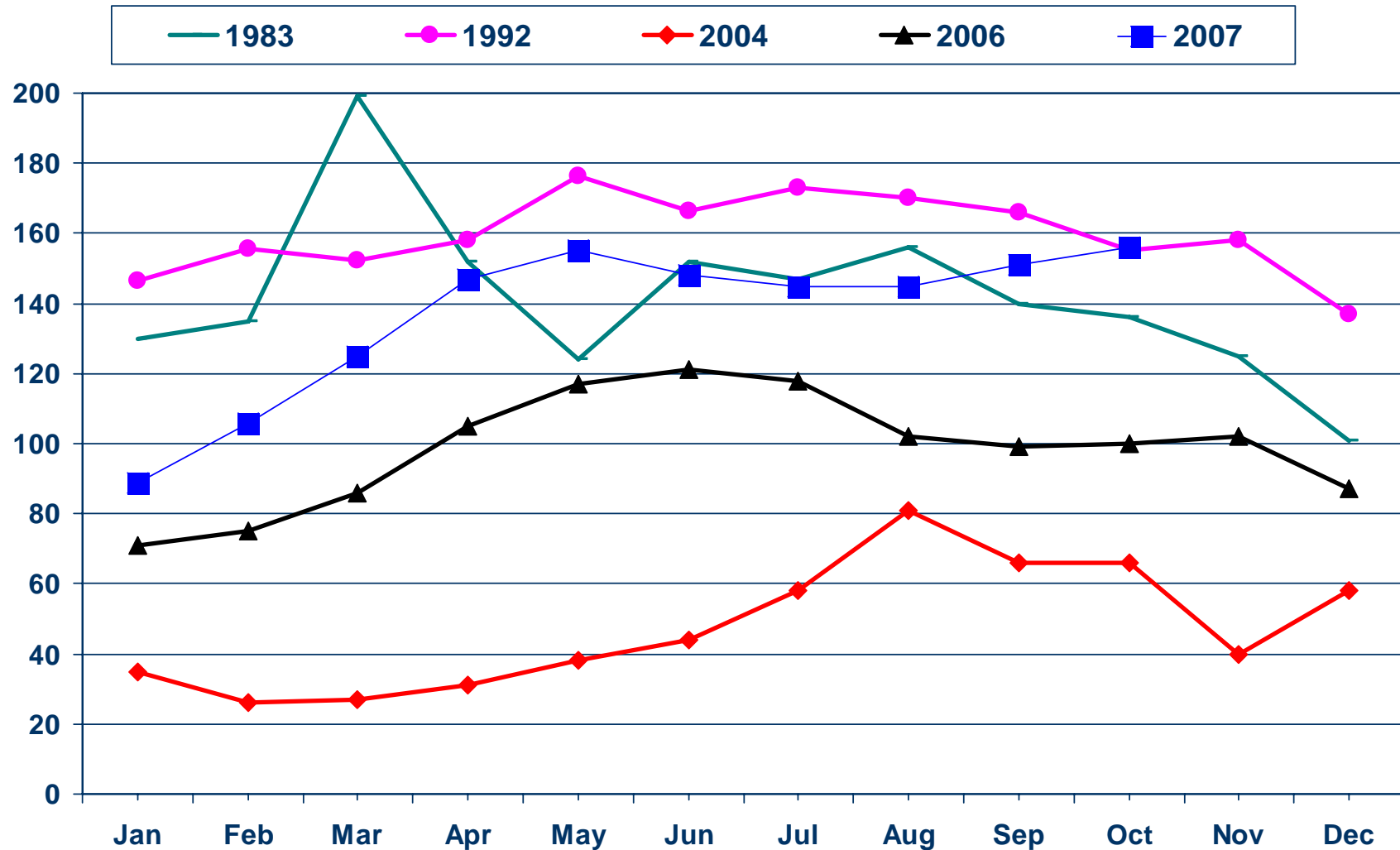


SOURCE: California Association of REALTORS®



Listings by Month, Selected Years

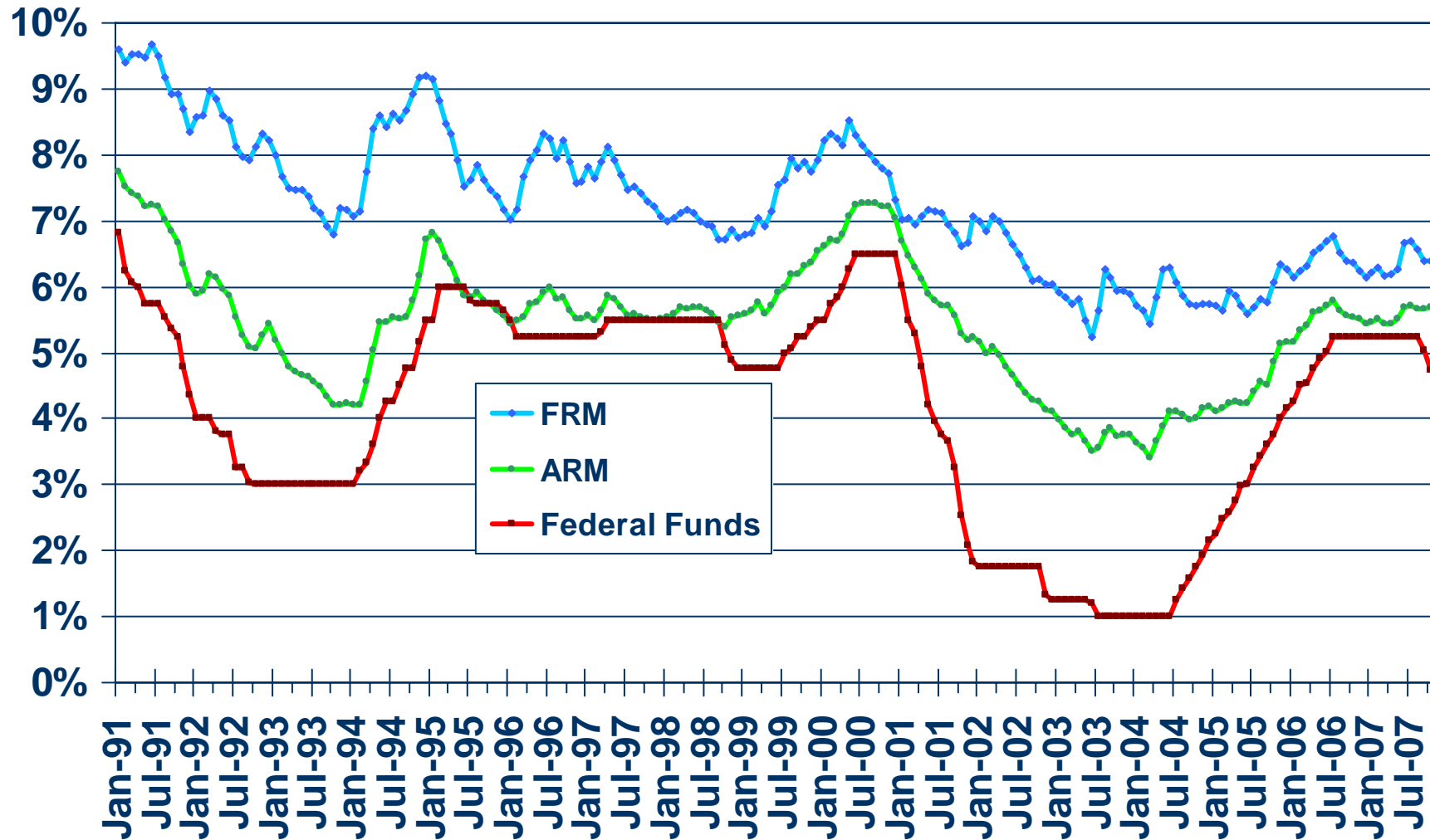
California (1982-2007 Average=100)



SOURCE: California Association of REALTORS®



Mortgage Rates

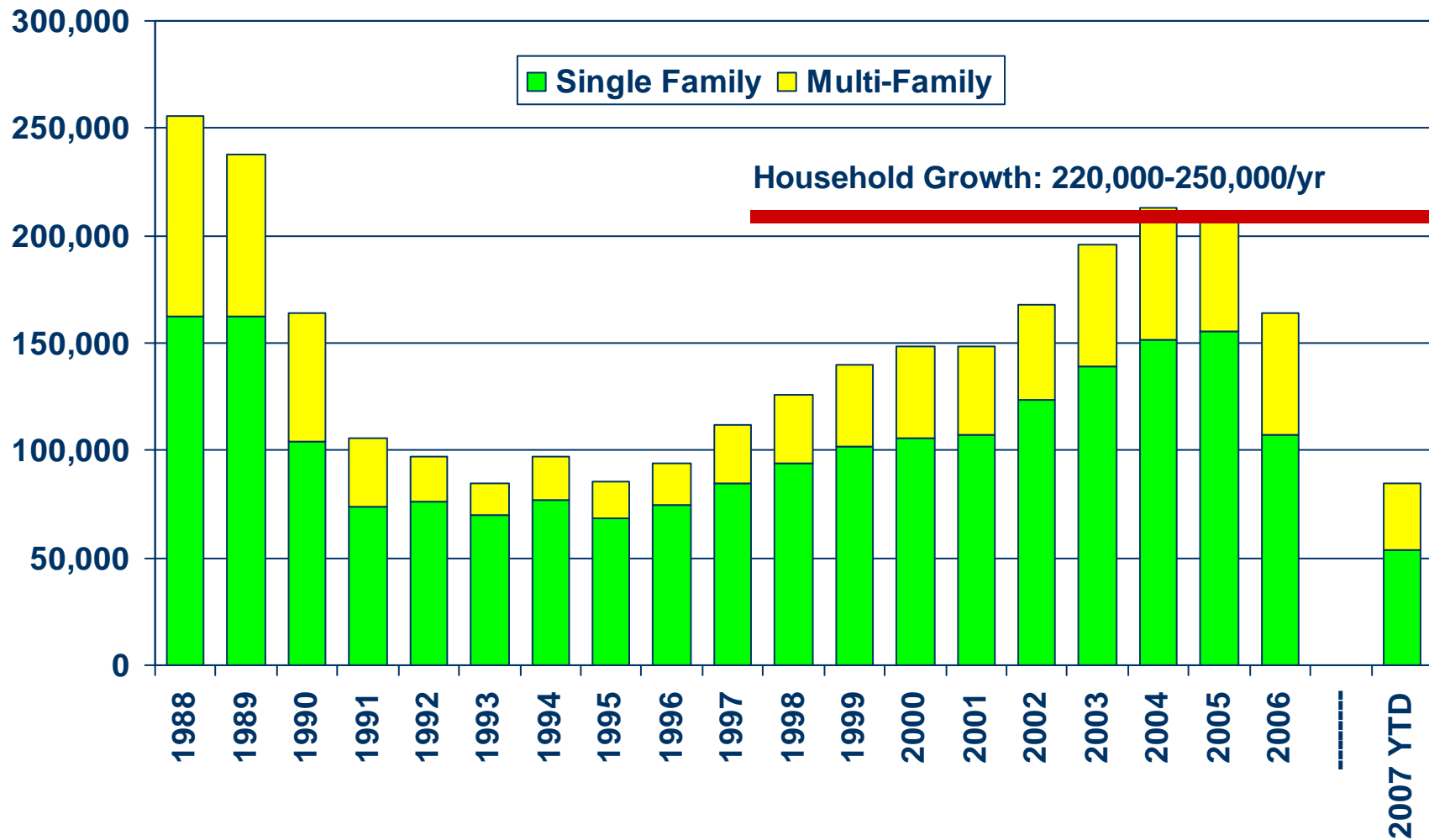


SOURCE: Federal Home Loan Mortgage Corporation



New Housing Permits

California, 1988-2007, September 2007: Down 31.1% Y-T-D

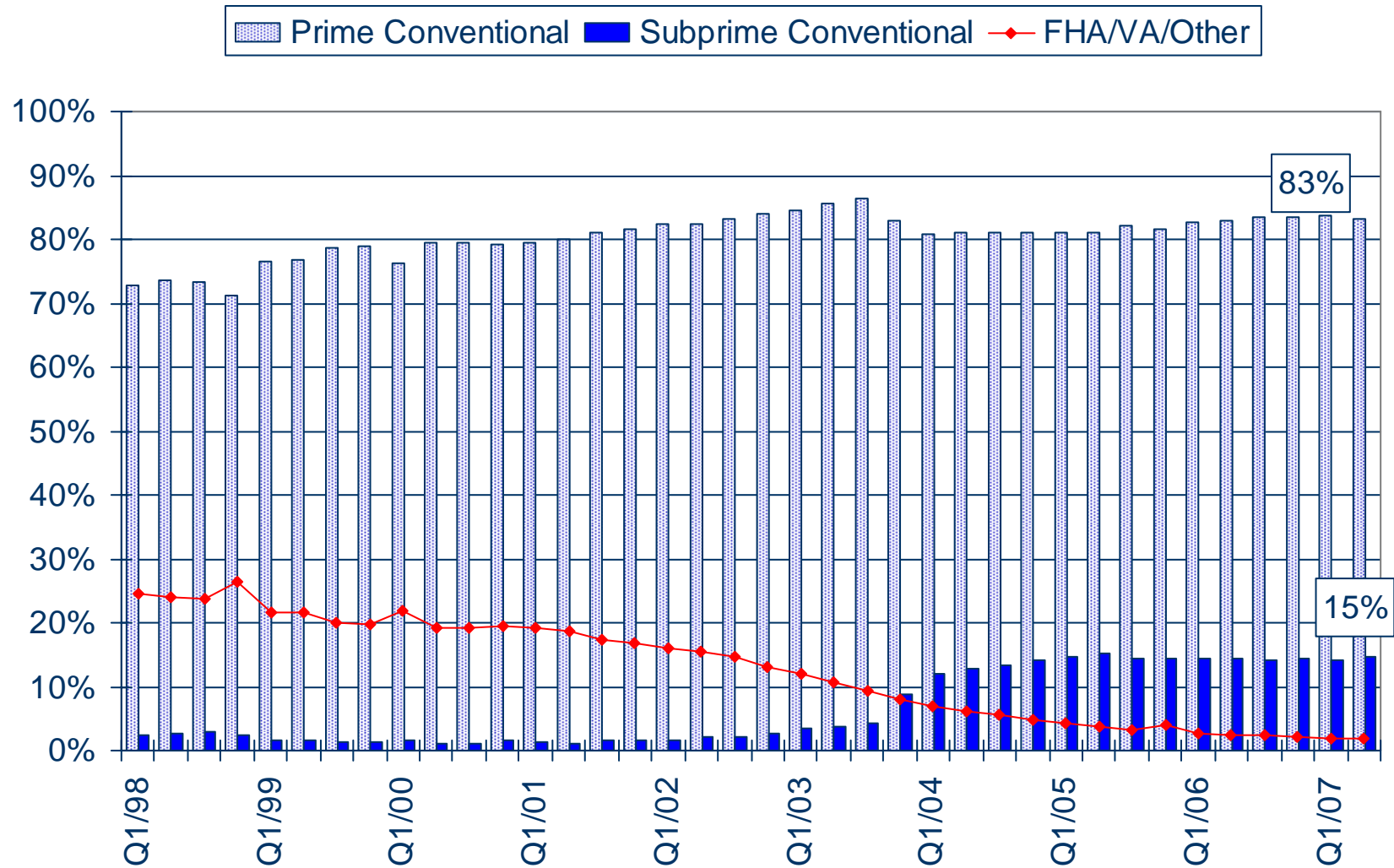


SOURCE: Construction Industry Research Board

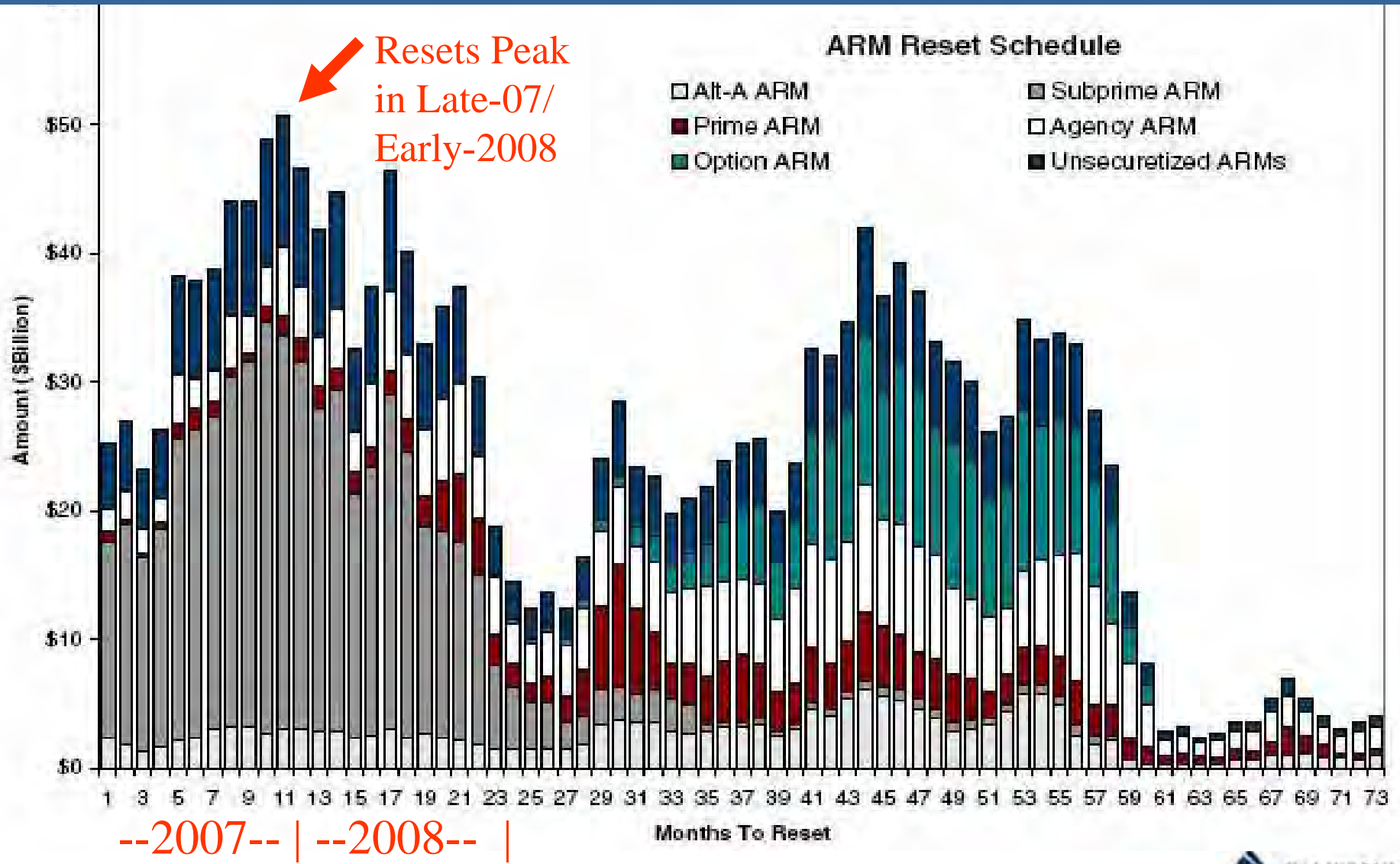


Prime, Sub-Prime, & Other Loans

As a Percentage of All Loans Outstanding in California



Adjustable Rate Mortgage Reset Schedule



Source: Credit Suisse Jan 2007



Notices of Default – California Houses & Condos

Region	2007- Q3	2007- Q2	2006- Q3	QTQ % Change	YTY % Change
Southern California	41,062	30,828	15,676	33.2%	161.9%
San Francisco Bay Area	10,427	7,696	3,797	35.5%	174.6%
Central Valley	17,842	12,964	6,410	37.6%	178.3%
Rest of State	3,240	2,455	1,335	32.0%	142.7%
Statewide	72,571	53,943	27,218	34.5%	166.6%

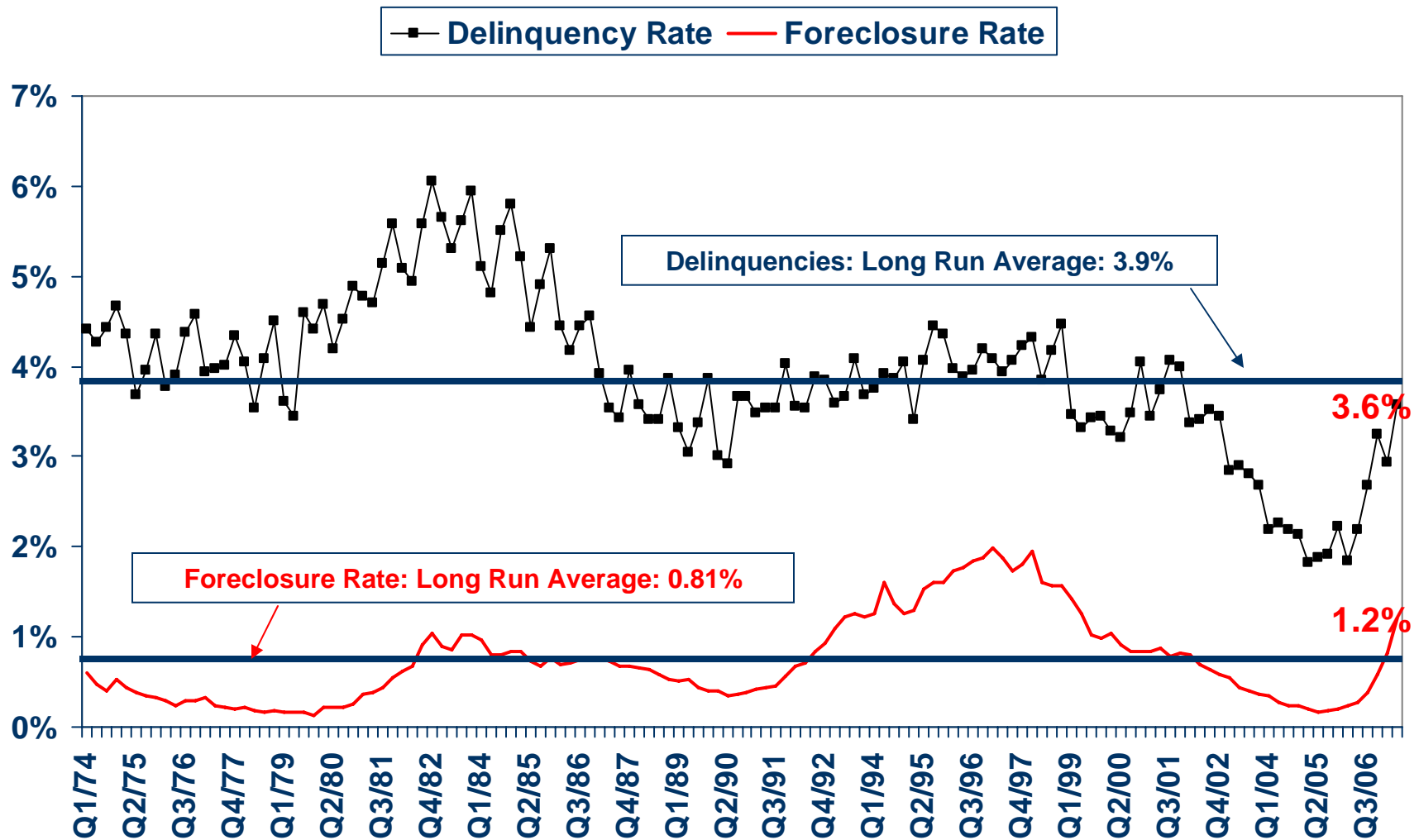
•Record High NODs: 72,571 in Q3-2007

•Record Low NODs: 12,417 in Q3-2004



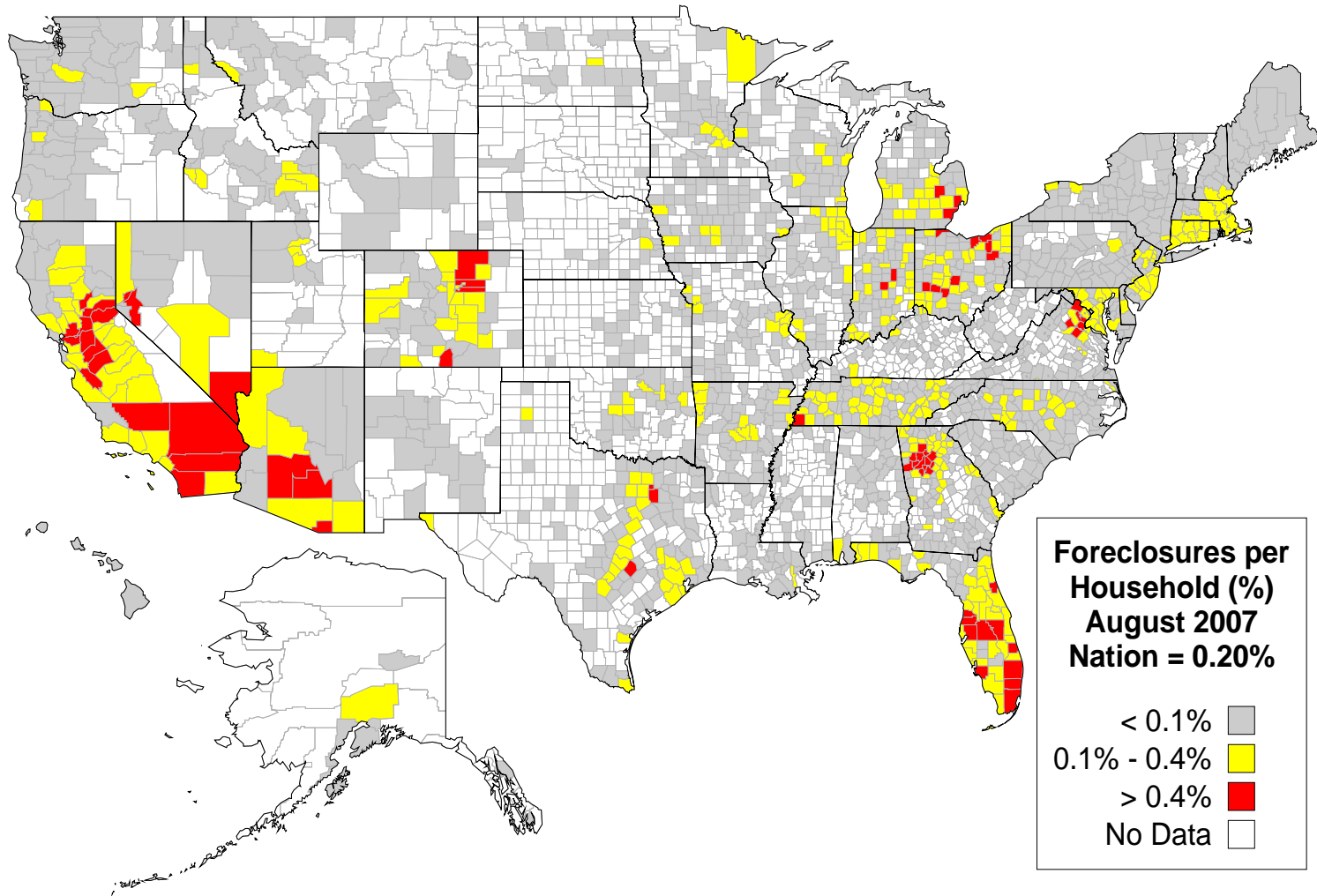
Mortgage Foreclosure & Delinquency Rates

California



Foreclosures per Household

August 2007 RealtyTrac



Framing the Sub-Prime Situation

Right \$\$\$ House & Right Mortgage

- Not in trouble - no fix necessary

Right \$\$\$ House but *Wrong Mortgage*

- Can refinance out of problem

Wrong \$\$\$ House and Wrong Mortgage

- Defaults, workouts, foreclosures, etc.

Troublesome
Categories

Demand & Affordability

- Affordability Key to Health of Market
- Market Turned When Affordability Constrained Sales
- Steady/Lower Prices & Steady Interest Rates >>> Affordability Improves

Housing Costs Have Doubled

		First-time Buyer Income: \$75,000
Year	Monthly Payment	% of Income
1999	\$1,200	19%
2006	\$2,400	38%

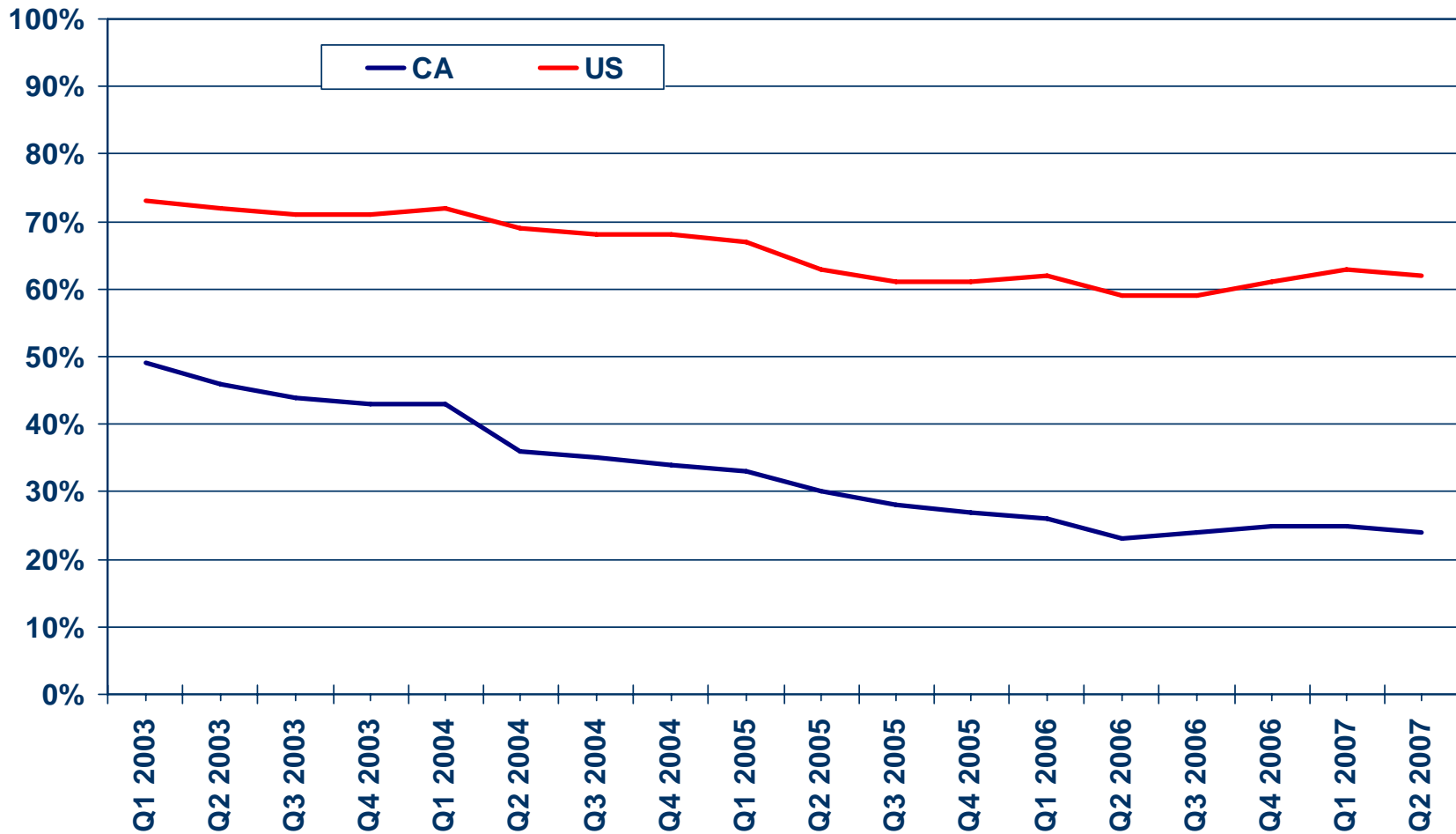
SOURCE: California Association of REALTORS®



First-time Buyer Housing Affordability Index

California Vs. U.S.

% OF HOUSEHOLDS THAT CAN BUY



SOURCE: California Association of REALTORS®





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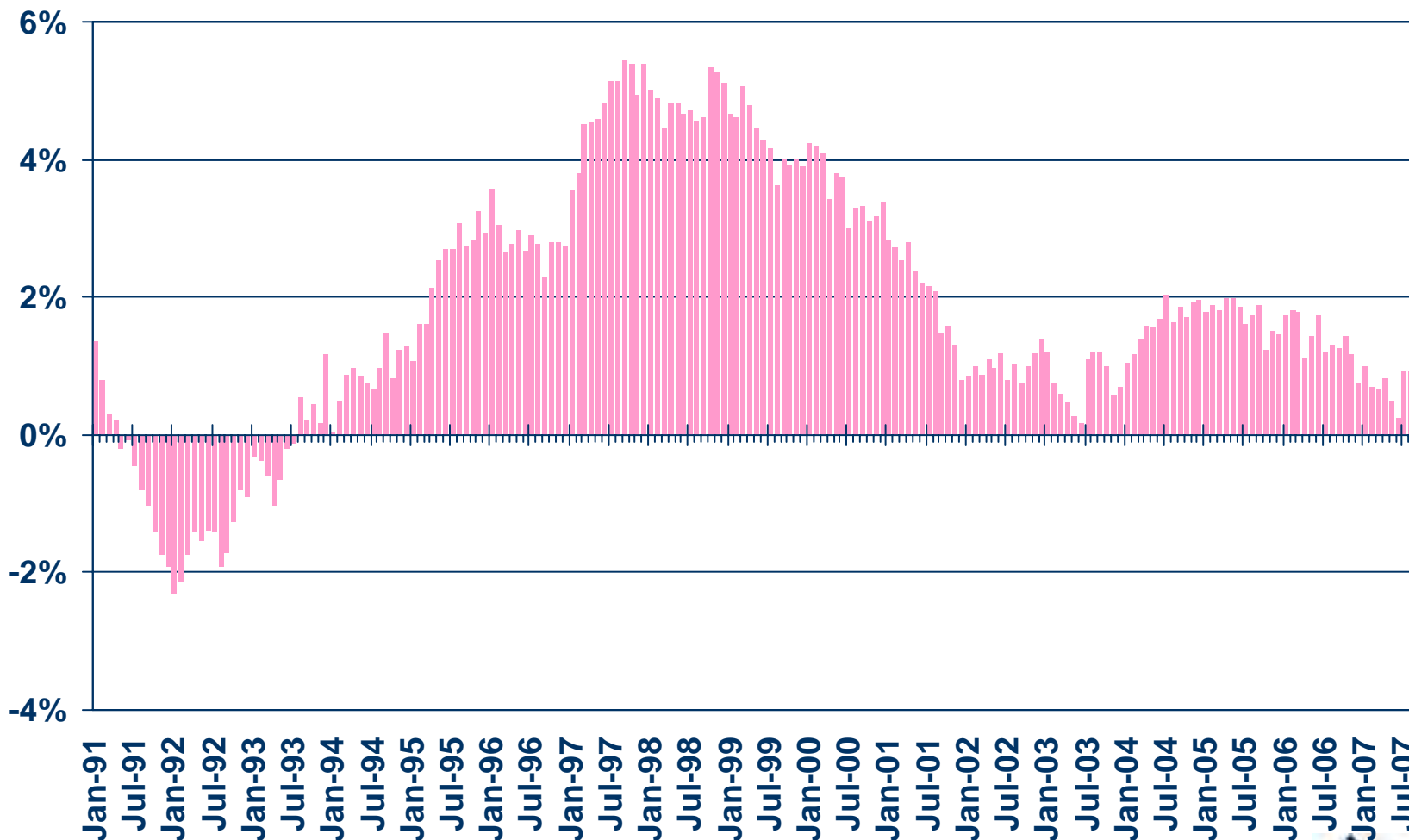
Local & Regional Outlook

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Nonfarm Employment

San Diego County, September 2007: Up 0.9% Y-T-Y

Y-T-Y PERCENT CHANGE



SOURCE: CA Employment Development Division



Nonfarm Employment

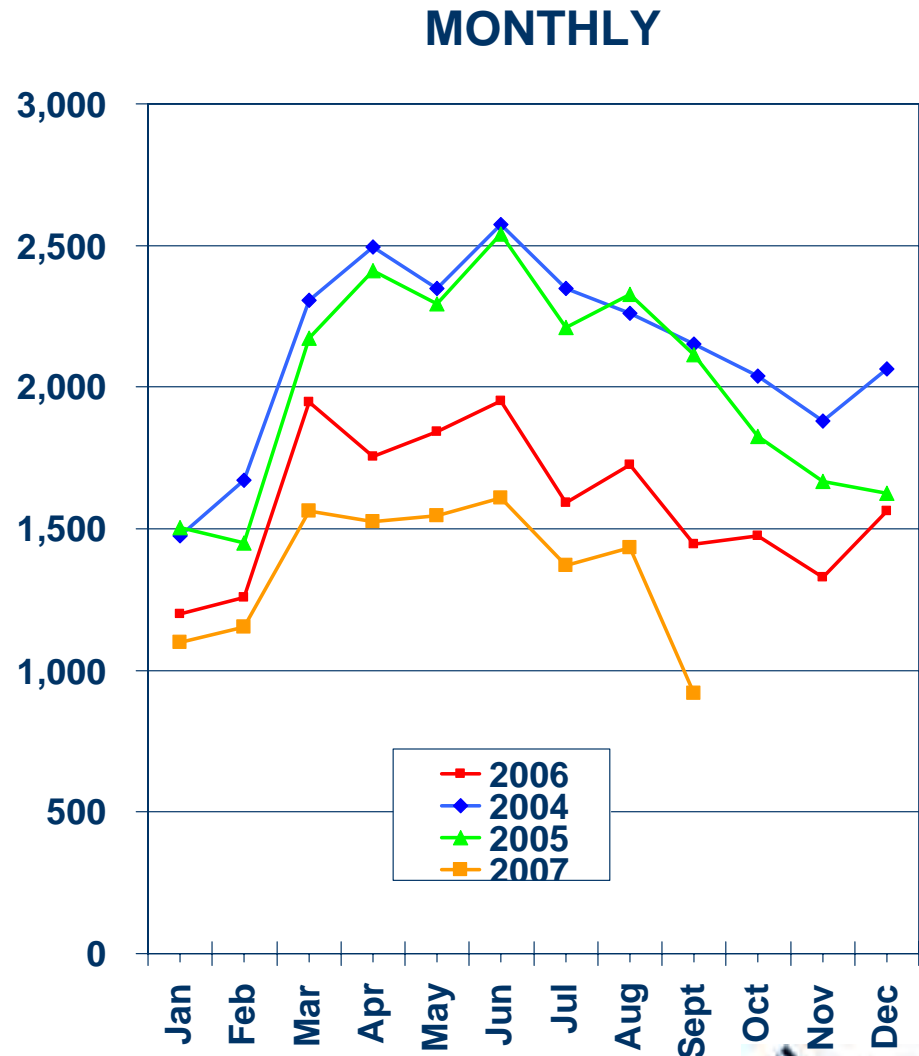
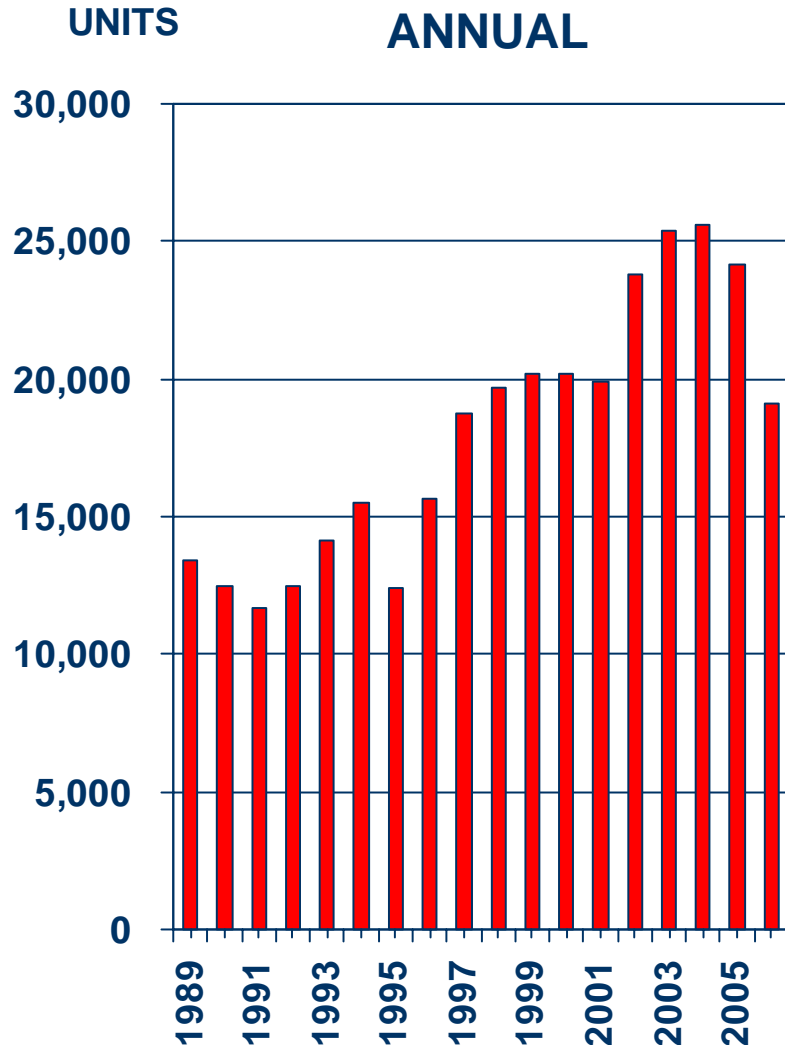
(Thousands)	Nonfarm Employment Sep 2007	Nonfarm Employment Sep 2006	Change	Percent Change
Los Angeles	4,137.4	4,099.2	38.2	0.9%
Orange County	1,527.5	1,527.2	0.3	0.0%
Riverside/SB	1,320.2	1,272.7	47.5	3.7%
San Diego	1,315.2	1,303.4	11.8	0.9%
Ventura	300.3	298.6	1.7	0.6%
Total	8,600.6	8,501.1	99.5	1.2%

SOURCE: California Economic Development Dept.



Sales of Existing Detached Homes

San Diego County, 2006: -21.0% YTY, 2007: -18.8% YTD



SOURCE: California Association of REALTORS®



Sales of Existing Detached Homes

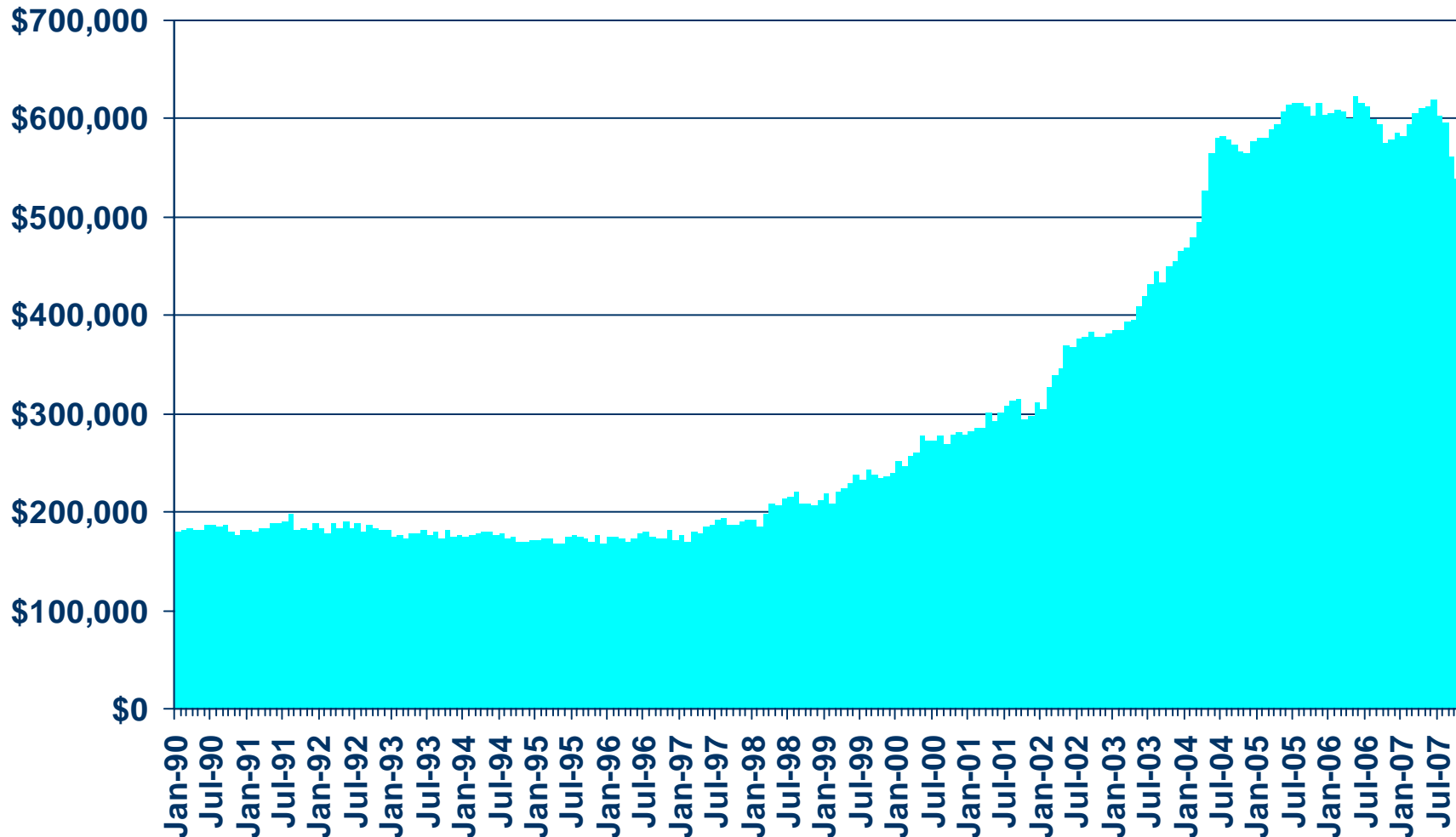
County	Oct-07	Sep-07	Oct-06	M-t-M	Y-t-Y	Y-t-D
High Desert	383	376	888	1.9%	-56.9%	-49.6%
Los Angeles	2,049	2,563	3,531	-20.0%	-42.0%	-19.8%
Orange	830	936	1,424	-11.3%	-41.7%	-20.8%
Palm Springs	320	275	458	16.4%	-30.1%	-28.8%
Riverside/SB	621	539	953	15.2%	-34.8%	-41.5%
San Diego	926	919	1,473	0.8%	-37.1%	-18.8%
Sta. Barbara Area	103	102	146	1.0%	-29.5%	-12.5%
Ventura	220	228	464	-3.5%	-52.6%	-25.7%

SOURCE: California Association of REALTORS®



Median Price of Existing Detached Homes

San Diego County, October 2007: \$539,060, Down 6.2% Y-T-Y



SOURCE: California Association of REALTORS®



Median Price of Existing Detached Homes

Southern California Regions

County	Oct-07	Sep-07	Oct-06	M-t-M	Y-t-Y
High Desert	\$ 265,885	\$ 271,938	\$ 328,647	-2.2%	-19.1%
Los Angeles	\$ 533,069	\$ 569,391	\$ 583,163	-6.4%	-8.6%
Orange	\$ 673,770	\$ 673,772	\$ 681,337	0.0%	-1.1%
Palm Springs	\$ 323,437	\$ 346,078	\$ 340,833	-6.5%	-5.1%
Riverside/SB	\$ 344,369	\$ 356,510	\$ 408,167	-3.4%	-15.6%
San Diego	\$ 539,062	\$ 560,844	\$ 574,527	-3.9%	-6.2%
Sta. Barbara-So. Coast	\$ 1,325,000	\$ 1,564,000	\$ 1,115,000	-15.3%	18.8%
Sta. Barbara-North Cnty.	\$ 360,869	\$ 367,856	\$ 442,592	-1.9%	-18.5%
Ventura	\$ 650,568	\$ 681,817	\$ 671,328	-4.6%	-3.1%

SOURCE: California Association of REALTORS®



Median Home Sales Price

San Diego County

	Oct-07	Oct-06	Yearly % Change
Carlsbad	\$675,250	\$679,500	-0.6%
Chula Vista	\$425,000	\$508,000	-16.3%
El Cajon	\$385,000	\$439,500	-12.4%
Encinitas	\$762,000	\$750,000	1.6%
Escondido	\$405,000	\$472,500	-14.3%
Fallbrook	\$451,000	\$580,000	-22.2%
La Jolla	\$899,750	\$945,500	-4.8%
La Mesa	\$382,000	\$480,000	-20.4%
Oceanside	\$459,500	\$485,000	-5.3%
Poway	\$505,000	\$535,000	-5.6%
Ramona	\$510,000	\$547,500	-6.8%
San Diego	\$470,000	\$480,000	-2.1%
San Marcos	\$441,000	\$550,000	-19.8%

SOURCE: C.A.R.; DataQuick Information Systems. The price statistics are derived from all types of home sales -- new and existing, condos and single-family.



Median Home Sales Price – Cont.

San Diego County

	Oct-07	Oct-06	Yearly % Change
Vista	\$425,000	\$487,500	-12.8%

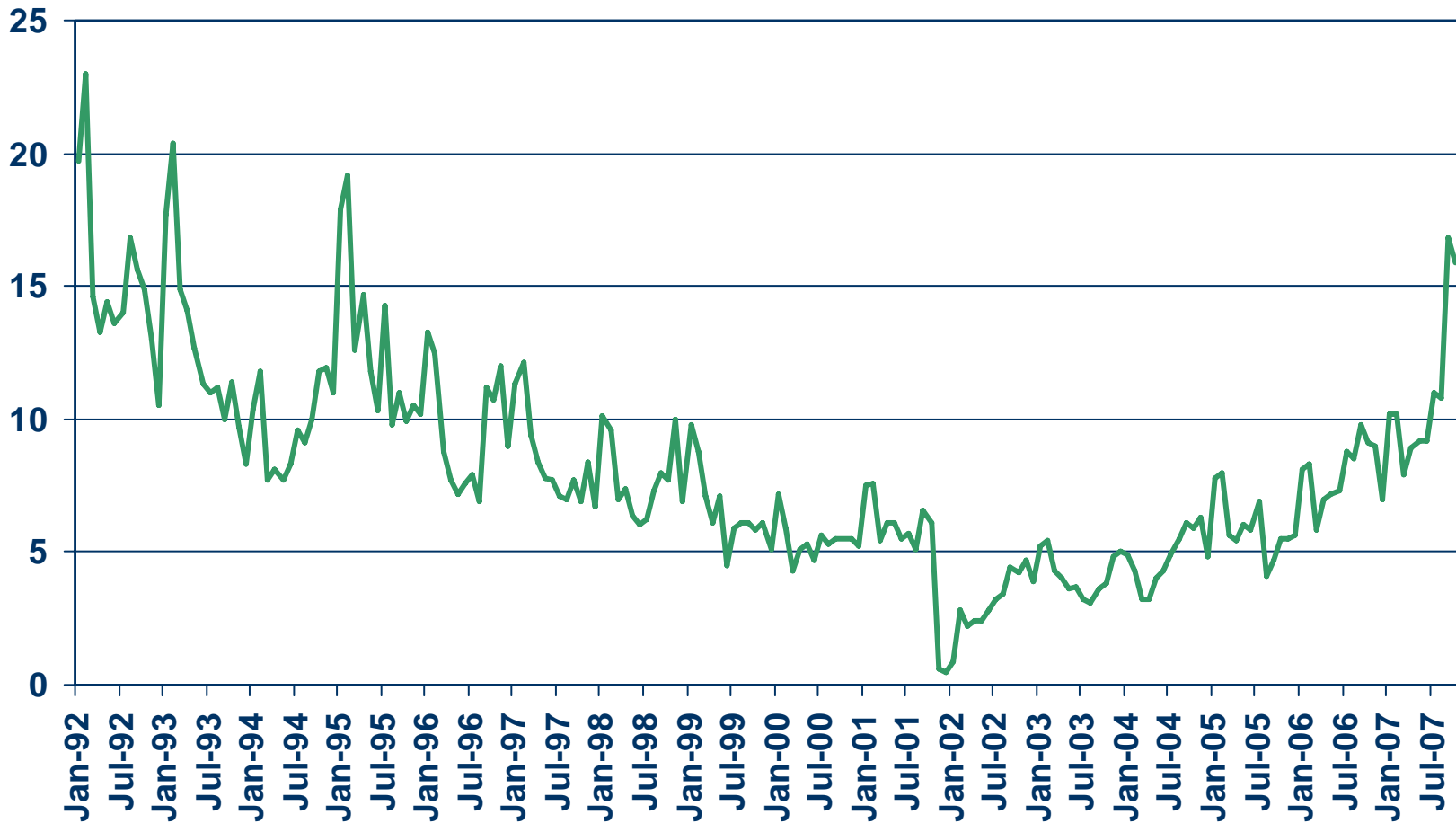
SOURCE: C.A.R.; DataQuick Information Systems. The price statistics are derived from all types of home sales -- new and existing, condos and single-family.



Unsold Inventory Index

San Diego County, October 2007: 15.9 Months

MONTHS

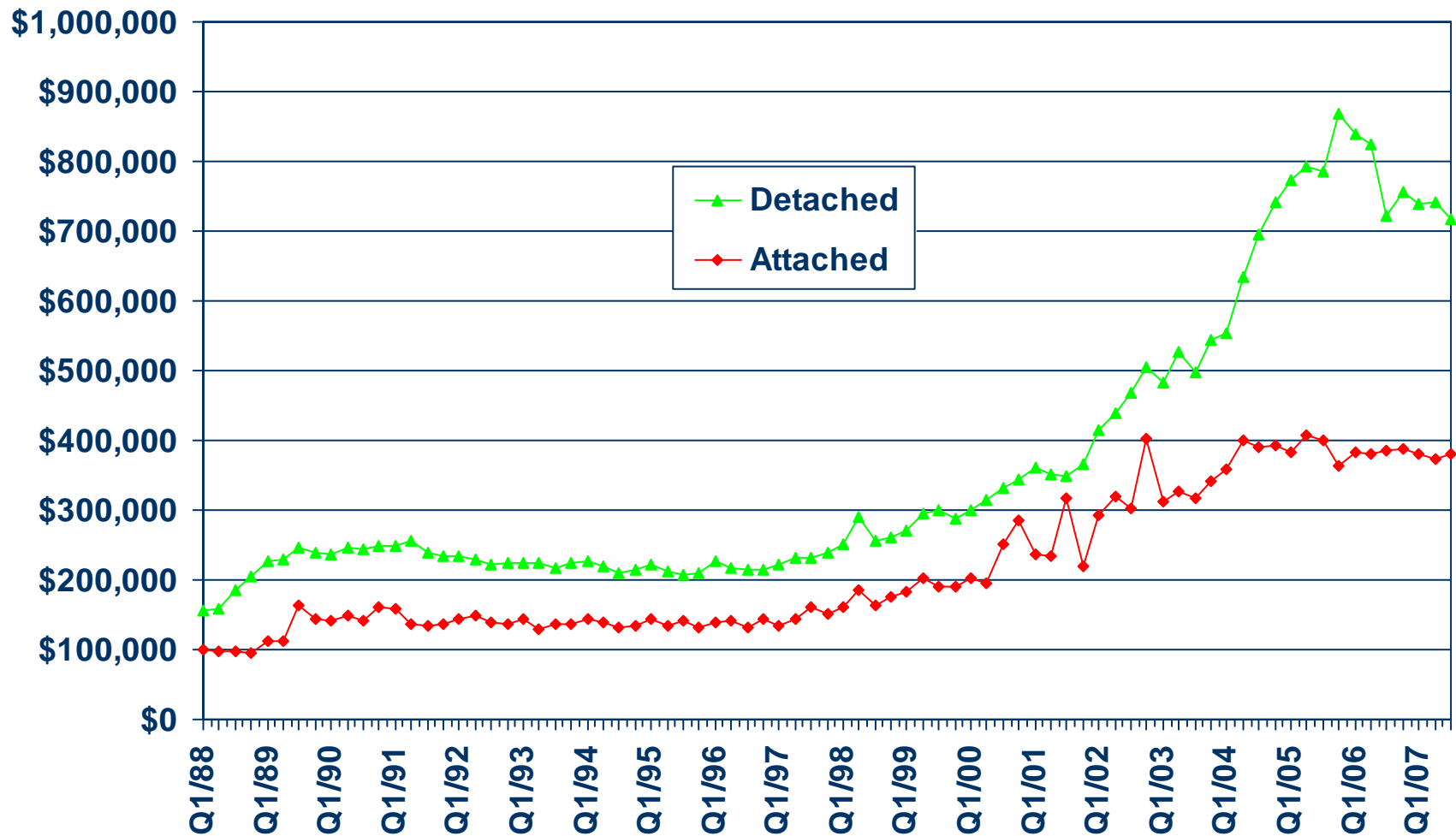


SOURCE: California Association of REALTORS®



Median Price for New Homes

San Diego County 3Q07 Detached: \$717,233, Attached: \$380,900

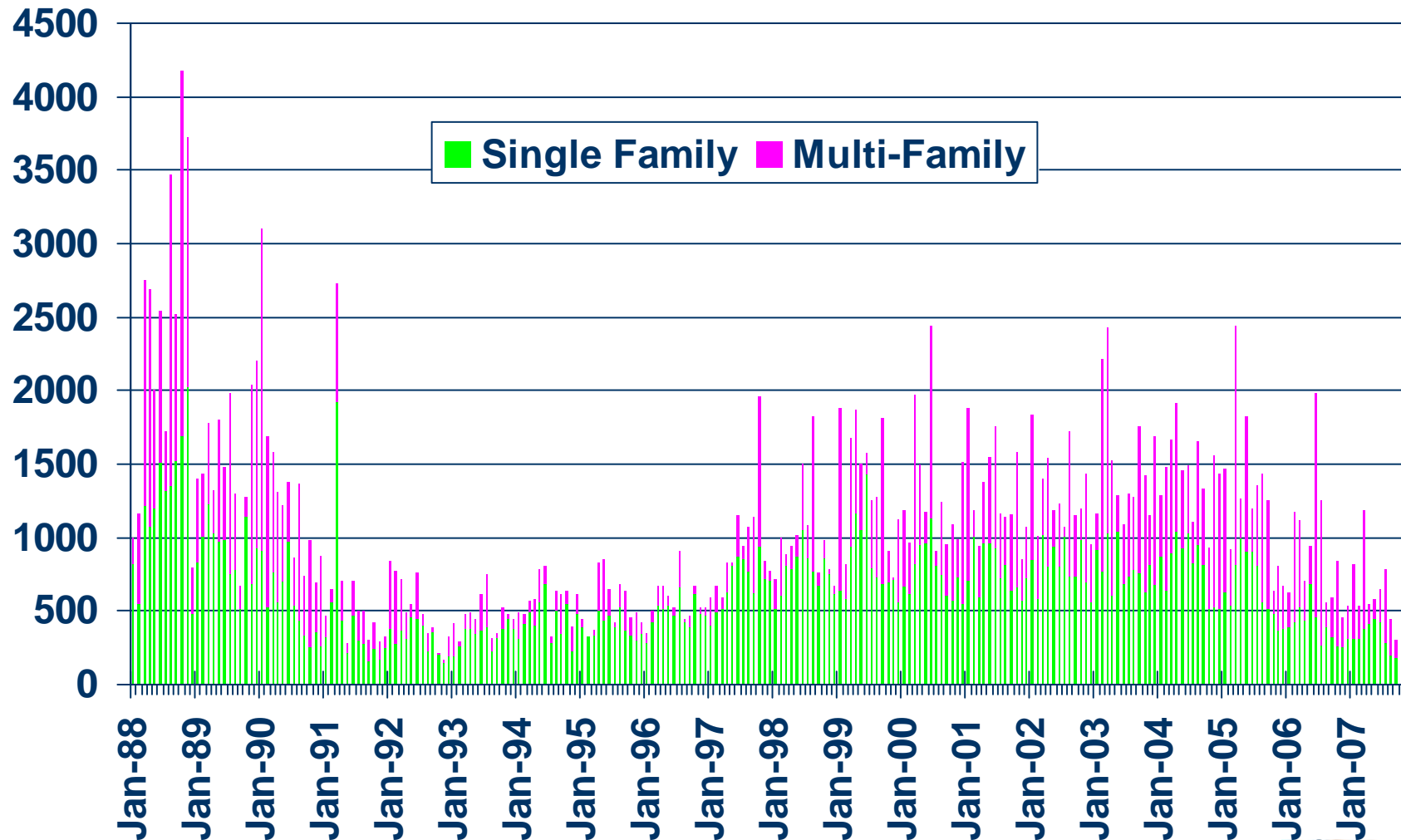


SOURCE: California Association of REALTORS®;
Hanley Wood



New Housing Permits

San Diego County, October 2007: 491 Units, Down 35.1% Y-T-D



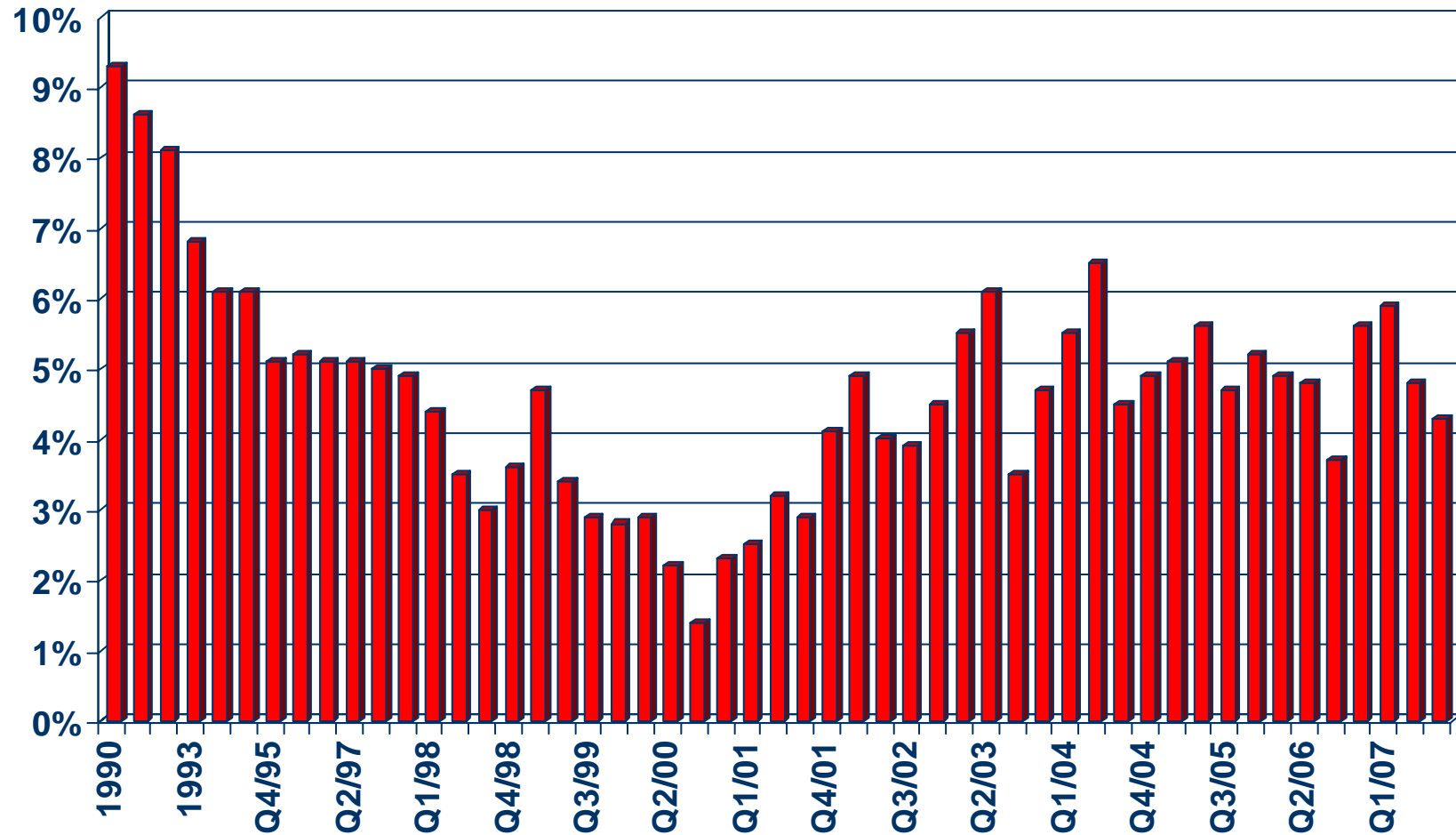
SOURCE: Construction Industry Research Board



Vacancy Rates for Class A&B Apartments

San Diego County, 2007 Q3: 4.3%

VACANCY RATE



SOURCE: California Association of REALTORS®;
REALFACTS



Notices of Default – Southern California

Houses and Condos

County/ Region	2007- Q3	2007- Q2	2006- Q3	QTQ %Chg	YTY %Chg
Los Angeles	13,583	10,393	5,565	31%	144%
Orange	3,882	2,984	1,500	30%	159%
San Diego	5,673	4,383	2,355	29%	141%
Riverside	9,250	6,648	3,040	39%	204%
San Bernardino	7,038	5,141	2,548	37%	176%
Ventura	1,377	1,059	578	30%	138%
SoCal*	41,062	30,828	15,676	33%	162%

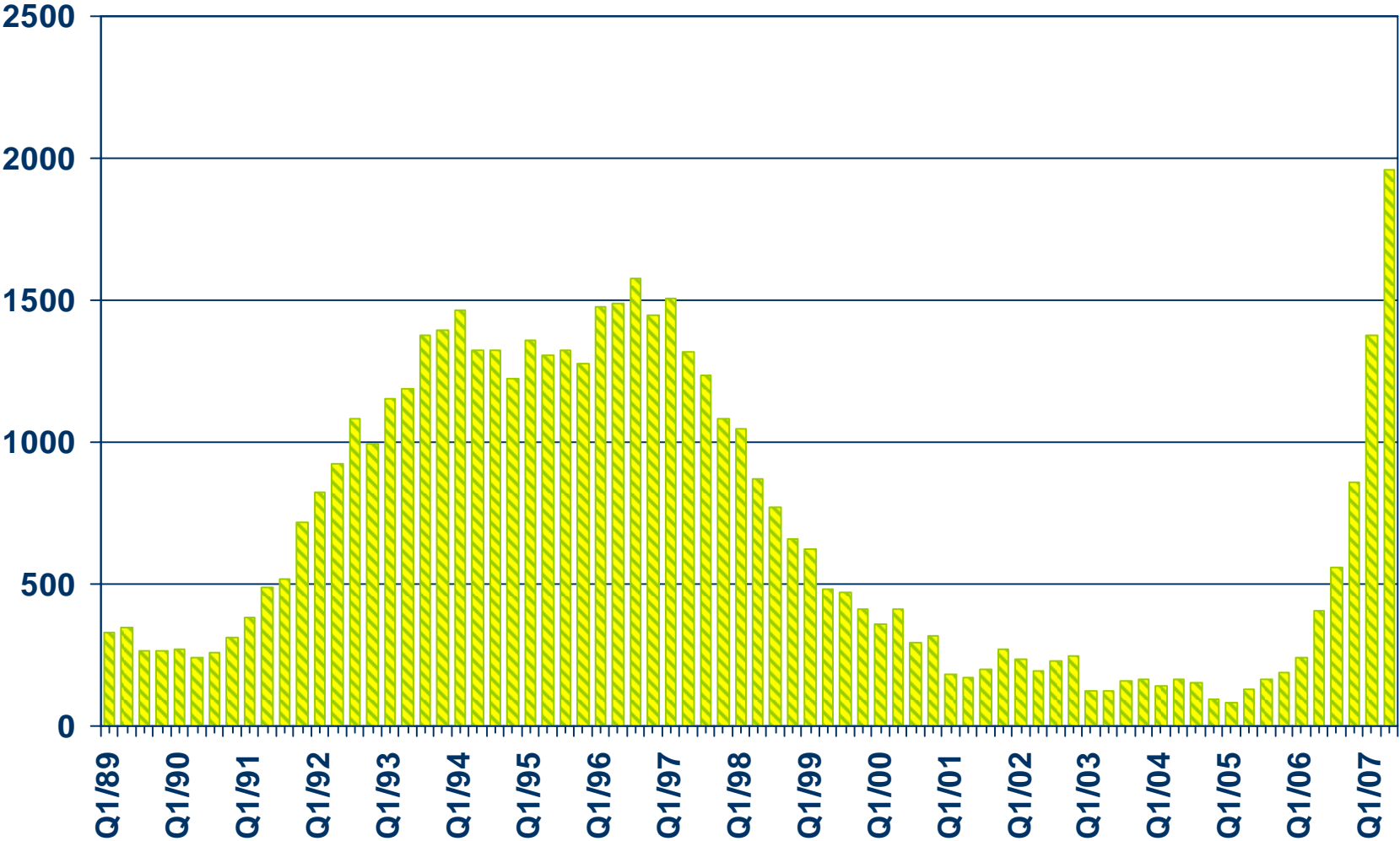
* Includes additional counties

SOURCE: Data Quick Information Systems



Foreclosures

San Diego County



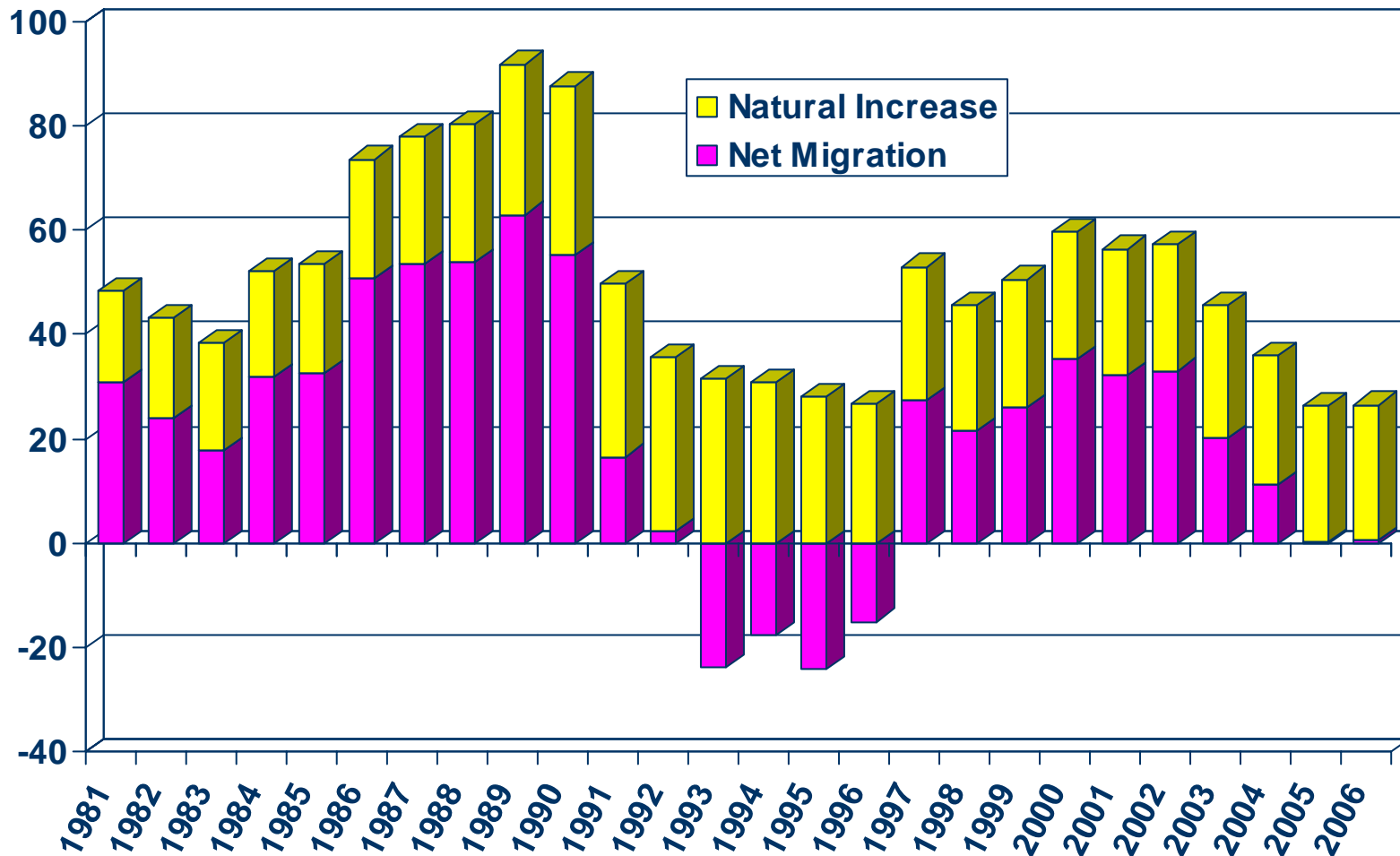
SOURCE: Real Estate Research Council



Sources of Population Growth

San Diego County (1981-2006)

THOUSANDS



SOURCE: CA Department of Finance



Impact of Wildfires in Southern California

- 518,419 Acres Burned (~2% of total in 6 counties)
- 2,007 Homes Destroyed (3 in 10,000 homes)

Compare with October 2003 Fires:

- 750,000 Acres Burned (~3% of total in 6 counties)
- 3,500 Homes Destroyed (5 in 10,000 homes)

Overall Impact

- Temporary Slowdown
- Little Long-Run Impact in County & State Numbers
- Economic Impact less than \$\$\$ Losses due to Insurance



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California Forecast

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California Housing Market Forecast

	2003	2004	2005	2006	2007	2008f
SFH Resales (thousands)	601.8	624.7	625.0	477.5	367.5	334.5
% Change	5.1%	3.8%	0.04%	-23.6%	-23.0%	-9.0%
Median Price (\$ thousands)	\$372.7	\$450.8	\$524.0	\$556.6	\$576.0	\$553.0
% Change	17.9%	20.9%	16.2%	6.2%	3.5%	-4.0%
30-Yr FRM	5.8%	5.8%	5.9%	6.4%	6.3%	6.5%
1-Yr ARM	3.8%	3.9%	4.5%	5.5%	5.5%	5.2%

Summary

- Existing Home Sales: 2007: -23+%, 2008: -9%
- Statewide Median Price: +/- Small single digit change
- Low end weak... Payment resets, Foreclosures
- Credit/Liquidity Crunch... weak sales in next 2-3 months
- Tight Underwriting Standards
- Affordability to remain low, THEREFORE...
- No sign of significant recovery in next 6-18 months

The Bottom Line for Households

- Homeowners in positive equity position if bought before 2005, so don't panic!
- Sell if you must, hold if you can.
- If you must sell, then price home to sell and not to sit.
- Buyers should not expect bargains in most markets.
- Find a home that meets needs and fits budget...buy it!
- Opportunities for investors, but must do homework.

Thank You!

