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562 572 2296

## A Tale of Two Cities *by John Dumke*

The Tale of Two Cities by Charles Dickens starts off with a statement of contrast, "It was the best of times, it was the worst of times....".

The real estate market, as well as the stock market, has embraced the opening line of this novel. One day the stock market is up 11%, then down 8% the next day, who knows what to believe? One day we have hit bottom and the worst is over, the next day we should be prepared for another shock to the financial underpinnings of the economy.

The Real Estate market has a similar dual nature based upon location. Some markets are very healthy, while others are devastated. Fortunately, for us residents of East Long Beach, home values have fared quite well. While residents of the inland empire have provided the news media with material for what has become a Real Estate train wreck.

Over the course of the last several years since the peak, I have kept close tabs on property values. When I sell a home today I often compare how much that home would have sold for at the peak of the market. My general observation is the average home in East Long Beach has dropped by about 15%, sometimes as little as 10%, when compared to the peak.

Yet the statistics in the inland empire and even for LA County are much more grim. Personal experience with sales in Lakewood and North Long Beach, says these markets are more severely affected, with North Long Beach taking a bigger hit compared to Lakewood.

### The Most Abrupt Real Estate Correction in California Real Estate History.

The severity and swiftness of the correction has been unprecedented. About 2/3rds of the damage to prices occurred in just the last quarter of 2007, right after the credit crunch hit. Staying on top of the price trends is paramount to creating a successful sale. Homes that are more than 5% over market value usually don't sell, while underpricing a listing is just as bad, if not worse.

In this day and age of 10% swings in just 4 months, being on top of prices is critical. A 10% price change on a \$600,000 home translates into a \$60,000 gain or loss. This magnitude warrants stating the obvious, because \$60,000 is just too large of an uncer-

tainty for most buyers or sellers to wrap their head around.

### Isn't this Real Estate correction a little over hyped?

So while our team sells homes at very solid values, not too far off the peak, I do see and hear stories of extreme hardship, both in Real Estate and related industries. If I were to have my blinders on, I would say that the stories of the Real Estate disaster are completely overblown, but I know in the context of the bigger picture, this is simply not the case.

With relief, I survey the landscape, with gratitude that I am not selling homes in some of the more devastated areas, because here in East Long Beach life is relatively good.

This month I thought we would look at our area in context with the rest of the real estate market, and find out just how much of the media's doom and gloom applies to us.

### Researching the numbers.

Rather than make some conclusions about the market, and then find the data to support these conclusions, I thought it would be better to take a random sampling of cities and compare their stats to Long Beach's citywide stats. I chose towns that I suspected were having a hard time. Places where there was land to build more homes. Towns where more available to first time buyers and speculators. The cities that came to mind were Temecula, Rancho Cucamonga, Moreno Valley, Riverside and Corona.

I then settled on some basic measures of market health, and got to work crunching some numbers. I started with the current inventory of homes for sale, and figured out what percentage of the inventory were over encumbered (properties where loans exceeded value), otherwise know as short pays or short sales. Homeowners with high loans and no equity will struggle with their payments and have little incentive to hold on. These properties are the foreclosures of the future, since the majority of short sales don't go through and come back on the market as foreclosures.

Surprisingly, this didn't really reveal enough to draw any conclusions. Long Beach's percentage of short pays didn't reveal a difference in hardship, so I dug further.

Next, I computed the number of months supply of homes for sale. But again, most cities including Long Beach, showed a simi-

lar 5 months of homes for sale. Again no conclusive proof that Long Beach is better off than other cities.

Then I compared prices at the peak of the market, in all cities, versus today's prices, looking for the percentage drop. Peak values occurred during the second half of 2005 and the first half of 2006.

Bingo, this is where the damage is truly evident. Homes in the inland empire have seen their value almost cut in half. A quick survey of the percent drop (bottom row of the table below) shows the market correcting by about 40%, while Long Beach shows only a 19% drop in value.

A 40% loss is devastating and should be put in context. If you bought a home for \$500,000, a 40% loss in value would mean your home is now worth only \$300,000. Compounding the problem, the inland empire communities are newer, so buyers have less equity, and a 40% loss would likely wipe out a large percentage of owners, even those with a reasonable downpayment.

### Within Long Beach, there is good and bad.

But this only partially paints the picture, because I knew there were differences within Long Beach. So I drilled further down into the data, by adding 3 more sub areas. I separated data for two Long Beach neighborhoods, the 90808 & 90815 zip codes (East Long Beach) and the 90805 zip code (North Long Beach). The 90808 & 90815 zip codes include most if not all of East Long Beach, North of PCH or 7th. A broad area where most homes sell in the middle to upper price points. While the 90805 zip code of North Long Beach, provides a contrast to East Long Beach's more expensive areas. To bridge the gap in prices I added Lakewood, knowing home prices fall somewhere between the two neighborhoods.

When focusing on specific areas within Long Beach, the data becomes much more revealing. The first two categories (short pays and months supply) which previously showed no conclusion, now reveal a disparity. In East Long Beach only 25% of the active listings are short pays, revealing a much smaller percentage of East Long Beach home sellers are under water. Additionally, there is only a 3 months supply of homes, which is quite small. If short pays were eliminated as viable listings, there would only be a 2 month supply of homes.

Previously I wrote in my 2008 2nd Quarter Newsletter, (see at [www.LBRE.com](http://www.LBRE.com)) that this lack of inventory makes a strong case for a bottoming market. A 2 months supply of viable homes is very, very low.

Secondly, the price drops of 90815 & 90808 are only 15%. While this is not best news, it isn't the end of the world for most owners. Especially when taken in context of explosive appreciation from 2000 thru 2005. So we gave back the last year of appreciation that we had in 2005. If you didn't buy at the peak, you are likely not

fazed, except for the tension brought on by the media.

North Long Beach, on the other hand, has taken a blow. It's price drop is more like the inland empire, and the high number of short pays and number of months supply show a weaker market.

Lakewood's performance is in the middle, splitting the gap between the damage to the Inland Empire & North Long Beach areas and the much better performing East Long Beach neighborhoods.

East Long Beach has weathered the storm exceptionally well. We have avoided the devastation, that many other areas and cities have experienced. A recent 15% drop in Real Estate values after a 250% run up in prices from 1996 - 2006, just isn't the end of the world.

While the news media loves to promote carnage, by following the reporters adage "If it bleeds, it leads" (in the headlines), many of our clients are pleasantly surprised to find out that the Real Estate debacle, as reported by the media, doesn't tell the whole story.

The real estate market has truly been a tale of two cities.

### What about the future?

Now for my prognostication, to which I always add the disclaimer, nobody including myself, has any predictive power regarding the future. But here goes anyway.

I think that home price will go sideways for about 2-3 years more. We are already 2 years into an unprecedented drop in prices. Which will make it a total of 5 years, peak to trough, similar to the last down cycle from 1990 - 1995.

My prediction of flat pricing is based upon not seeing how prices are going to drop significantly when inventory is so low. Of course, this is all contingent upon the economy staying relatively healthy. An argument that the stock market has with itself on a daily basis.

On the other hand, how are home prices going to rise against a back drop of economic malaise? First, I see home prices currently only at fair value. Not undervalued. Leading up to the last recovery in 1996, I saw home prices undervalued by about 10% and we had a tail wind of dropping interest rates. Today neither condition exists.

I think it will take 2-3 more years of working off the financial excesses incurred over the last 10 year cycle, before home prices may again rise.

So while I can assess where we are, I would say my crystal ball is a little cloudy. With the stock markets recent volatility and uncertainty, it looks like I have quite a bit of company.

As always, should you have any questions regarding your specific home or neighborhood we welcome your calls. Consultations are always free with no obligation.

	Long Beach	Long Beach 90808, 90815	Long Beach 90805	Lakewood	Temecula	Rancho Cucomunga	Moreno Valley	Riverside	Corona
Short Pays	31%	25%	42%	35%	38%	35%	39%	37%	49%
Months Supply	5.6	3.0	6.7	3.3	4.9	4.8	5.4	6.5	3.9
Peak Price	\$606,000	\$638,000	\$440,000	\$561,000	\$438,000	\$495,000	\$379,000	\$450,000	\$509,000
2008 Price	\$489,000	\$540,000	\$287,000	\$424,000	\$269,000	\$364,000	\$191,000	\$267,000	\$309,000
Percent Drop	19%	15%	35%	24%	39%	26%	50%	41%	39%

# Supply & Demand History of Long Beach Home Sales

## Only a 3 month Supply of Homes!

To the right are supply and demand graphs, the ratio of homes available versus how many sell every month.

The upper graph shows the trauma to the market that occurred in the fall of 2007 right after the credit crunch. While sales had been declining, once August 07 hit, sales dropped to less than 100 homes per month. With an inventory of over 1,000 homes this produced a 10 month supply of homes. Prices promptly dropped 10%.

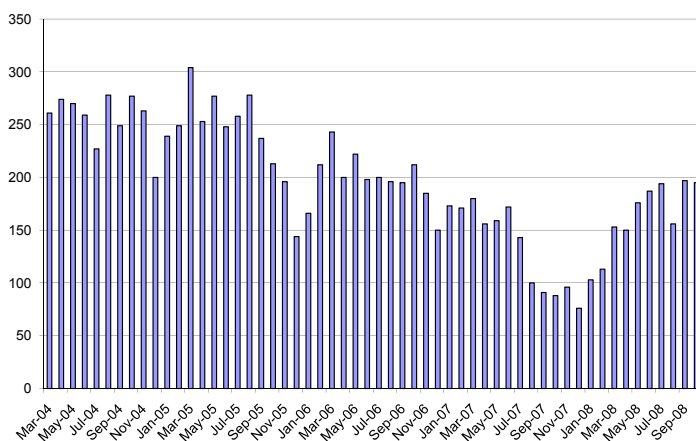
Just for clarification: The bottom graph has two sets of data starting in May of 2008. At this point the MLS started tracking whether listings were over encumbered or not. The lower number (currently a little over 600, in red) are viable listings where the seller has a marketable title. The balance of the listings are short sales or short pays.

These only became a significant portion of the listings after the drop in prices during the fall of 2007, leaving many more homeowners underwater, or over encumbered.

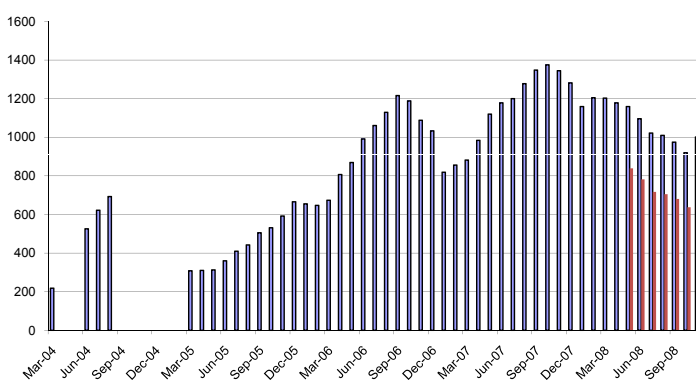
The bottom line is that for most of 2008 we have seen the number of sales go back up to around 200 per month and the inventory of saleable homes (not short sales), decline to around 600.

This leaves only a 3 month supply of homes and in some of Long Beach's more desirable areas, the inventory is often less. This is a HUGE change from a 10 month supply.

SFR Sales in Long Beach



Unsold SFR Inventory in Long Beach



## Welcome Victor DesPrez

If you haven't met him yet, over the next couple of months, you may have the pleasure of meeting our new team member, Victor DesPrez. Victor has been involved in the Long Beach Real Estate community for the last 5 years. During that time he has earned the respect of the real estate community and spent countless hours getting to know all of Long Beach's neighborhoods in depth. Victor has a rare enthusiasm for Real Estate and for assisting clients that is refreshing and contagious.



Victor's professional background includes a BA in Economics and Management Science from UCSD, sales in Real Estate Title Insurance and experience running his own clothing manufacturing and

apparel business. On the personal front, Victor has been married to his beautiful wife Brooke for 18 years. They have two wonderful children, Hailey 12 and Hunter 8.

Victor's most recent accomplishment is coaching his son's soccer team of 8-10 year old boys, to a citywide soccer championship, while going undefeated. His team will now go to the regional county championships.

Victor is the perfect complement for our business. He is a great communicator, a disciplined worker, and very trustworthy. He provides the competency and trust that we believe our clients deserve.

Victor makes sure our listings get the most exposure possible, by holding open houses, showing buyers our listings, actively promoting our listings to the neighborhood, and following up on all sign calls, ad calls and other leads. He is a true professional and has become a great asset to the Dumke Team.

# REAL ESTATE NEWS

## Inside.....

Tale of Two Cities - How Long Beach Stacks up to Other Areas

Supply and Demand History of Long Beach Home Sales

Welcome Victor DesPrez



University Park Estates - 6320 Eliot Street

3 bedroom, 2.5 bath, 1,534 sf., extensively remodeled with a designers touch and no expense spared, located on a quiet cul-de-sac. 6,160sf lot.  
\$719,000

[More photos online](#)



University Park Estates - 648 Lausinda

3 bedroom, 2 bath, 1,434 sf, family room and master bedroom, very clean.  
\$899,000

[More photos online](#)



Bixby Knolls Area Triplex - 4149 Elm

2 bedroom front house with 2 one bedroom units in rear plus two garages.  
\$450,000

[More photos online](#)

[More Photos & Complete Details @ www.LBRE.com](http://www.LBRE.com)



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6500 Bacarro St.  
Long Beach, CA 90815-4625



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