The 2007 Real Estate & Economic Outlook

by **Douglas Poyourow**
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LAST THURSDAY was the 2007 Santa Barbara County Real Estate and Economic Outlook. Presented by the California Economic Forecast, it is directed by **Mark Schniepp.**

The program, held twice each year sponsors a bevy of local speakers with one special guest and of course Dr. Schniepp, who concludes the meeting with his own analysis of the Santa Barbara County real estate economy and where that's headed.

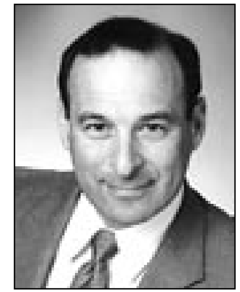
The highlighted guest speaker was **David Lereah,** who is the current Senior Vice President and Chief Economist of the National Association of REALTORS®. According to the NAR's website "Dr. Lereah serves as the Association's spokesman on the U.S. economy, the housing and real estate markets, as well as other economic and policy issues affecting the real estate industry in the United States and abroad." And so it was not unexpected that Dr. Lereah served a half-full glass of real estate market analysis.

He started his presentation by declaring the "demise of the real estate market has been greatly exaggerated."

He noted that in 2005 almost 40 percent of home sales were being made to speculators, which he felt was the root of the pricing problems that caused prices to go so high. Since most investors have fled "to the sidelines," he feels that we are almost through the worst. He noted that the industry experienced an 8.2 percent drop in sales activity nationally in 2006. In summarizing the bad news he predicted less than a one percent drop for 2007, but warned to expect an "extremely uneven real estate recession" with the areas which saw the most rapid price rises suffering the most and vice-versa.

Getting back to the positive, he observed that prices were flattening in many local areas and that incomes were rising. In stating the obvious, he said that lenders are learning to look more closely at affordability ratios (huge increases in foreclosures will have that effect). He finished his presentation by saying, "you in Santa Barbara are in pretty good shape" with 2007 probably being the "last bad year" and finally "2008 should be pretty good."

Not all residential real estate sales are off. **Dan Encell**, a director for Prudential Fine Homes, spoke about estate sales (casas with over $5 million value). According to his charts, sales of high-end homes in Hope Ranch are slow, but the high end of Montecito and coastal estates are absolutely "red-hot." According to Encell, 13 was the lucky number for this January since that many estate properties were put into escrow. Consider there were 40 total sales in the estate category during 2005 and again in 2006. He predicts a sizzling estate market through 2009. Ssssss!



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The Loan Committee

Bruce Fisher, a highly experienced real estate agent with Prudential, brought the audience back to ground with "the affordable real estate market." He summed it up with his definition of affordable in Santa Barbara being $3 million and under. OK? His graphs demonstrated that 2006 reflected a ten year low in the gross number of real estate sales. Only two years ago 84 percent of listed homes "sold through," but in today's market that number has shrunk to 43 percent. Fisher observed that affordable real estate was "last sold in Santa Barbara in the 80s."

The commercial and real estate markets were covered in turn by **Steve Golis** and **Bob Tuler**, co-owners of The Radius Group. Both markets were shown to be strong, value-wise, with vacancy factors down and rents rising briskly. Both said that financing was plentiful and at very reasonable rates and all normal investment indicators were showing Santa Barbara County investment properties were more than holding their own with expected upside. Of course the downside to both markets must be that this area is getting progressively more expensive to be a renter and a business owner.

Finally Dr. Schniepp tried to tie it all together with his closing presentation. While real estate appears to be one of the weaker components of the economy, to date it has not pulled down other sectors. In fact, the labor market is strong with job expansion occurring in healthcare, personal services and tourism sectors. The construction sector is even remaining strong and consumers are still spending. In spite of the lack of new housing, weather-related farm losses and a nasty commute for thousands each day there are notable upsides. No recession is forecast, interest rates are low by historic standards, price concessions are under way in the new home markets around the County to absorb inventory, and salaries are predicted to increase.

With interest always,
DOUGLAS POYOUROW

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