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"Poppies Pipeline" provides up to date status on our current and proposed new development projects and opportunities.

Market Adjustment?

For most Southern Californians who own real estate, it's nervous time. Those of us who were intimately involved in the last booming market remember well the "correction" that occurred in the early 1990's where properties dropped 20% or more in value. Are we heading for a repeat performance?

The experts are divided with almost everyone agreeing that the double-digit increases of the past year are history, but divided as to whether we'll simply see a slowing of the market or a drop in values as last time. Of course, we need to remember that these "experts" never saw the '90s massive drop coming so how much credence should we give these expert opinions?

I didn't see it coming either, but here's my credentials for expressing an opinion on how an investor should handle the next year of uncertainty in Southern California real estate. At the time, I owned or was the managing general partner of partnerships that owned hundreds of apartment units. After many years of a boom market, professional investors worked under what came to be known as the Bigger Fool's Rule: "I may be a fool for paying that much for a property, but there's a bigger fool who will pay more." The economics made no sense, but someone would always bid the price up so I made the decision to take the money and run. It was a lucky decision in that soon afterwards, the "correction" occurred and the new mortgages far exceeded the value of the property. As a result, properties went back to the banks and the term REO (Real Estate Owned) had new meaning.

While my investor partners at the time were quick to give me credit for getting liquid in time, the truth is I never saw it coming. True, in my newsletter a few months earlier I had notified them of the number of mergers (and subsequent layoffs) in the aerospace industry that made up a sizeable percentage of our tenants in the San Fernando Valley and my concern for maintaining rental rates. But I had not seen the layoffs as part of the simple supply and demand economics that caused the plummeting in values. It was only a shaken 20/20 hindsight analysis that helped me understand what had just happened.

There are a number of differences between then and now. Two of the primary differences are that most areas are considerably more diversified than before and not so dependant upon just one industry section and second, back then there simply wasn't enough alternative housing and new construction starts to keep up with demand. Today, construction is skyrocketing so while the basic economics of investment do not support current market prices, there is little evidence that a major drop in prices is around the corner. What is more likely is a slowing (already evident in some real estate sectors) as interest rates move upward.

With all this uncertainty, the big question is what you should do – if anything – while the market adjusts to the economics of Southern California real estate. My opinion? Keep reading, "**Poppies Pipeline!**"