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

## The Search goes on . . . .

The optimists (aka – the sellers) are very clear – the market has simply flattened and it will probably resume its climb in value by the end of the year; albeit at a much slower rate than past years. On the other hand, the pessimists (aka - prospective buyers) expect (or fear) a significant price decline so they either write relatively low offers or none at all. No matter who is correct in their future projections, the reality is volume has dropped off and in some cases, come to almost a complete standstill. We're still writing offers, but believe that this is no time to be a risk taker and so our offers assume a drop in value. No, we're not really in the pessimists' camp, but caution can be an advantage. As expected, we've been unable to budge the sellers off their lofty prices and the search goes on.

We have had some luck in finding homes in Orange County with very motivated sellers and in need of significant overhauls that would bring them up to current local market values. For those of you who have previously expressed an interest in these projects please be advised that the negotiations on the Laguna Beach, Trabuco Canyon and Huntington Beach properties are ongoing. You will receive immediate notification if an accord is reached.

*On the following page, I've attached a rather positive opinion piece on the Phoenix housing market for next year that appeared in Friday's Business Journal for Phoenix. I'm heading out to Phoenix tomorrow morning and will check out the market firsthand.*

## **“Phoenix Housing Market Back to Normal in 2007”**

BY ROSS SMITH and SANDI ELMORE

In 2005, the Phoenix Metro housing market got carried away with itself. Greed and speculation took over – housing values increased at unsustainable rates.

In 2006, the housing market is correcting itself. In 2007, it should be back to normal - a balance between supply and demand.

The land market, which is directly linked to the housing market, has seen some cooling, as well. The large, publicly held builders have generally moved to the sidelines, while they focus on maintaining the pace of home sales, and reducing their inventory of “spec” homes. This has created an opportunity for entitlements and developers to become more active players, to perform much of the groundwork required before homes are built.

Many builders are looking closer to city centers for their purchases, leaving the land on the fringes for investors, entitlements and community developers. In addition, buyers of residential land are more conservative than a year ago, looking for deals on price and terms, and requesting longer escrow periods, in order to obtain the necessary entitlements. While the residential land market is in transition, demand for retail, industrial and office land remains very strong.

Land sellers have responded quickly to the new market realities. They are becoming more flexible on prices, offering terms to buyers and allowing for longer escrows. Some are preparing subdivision plats and developing lots, making it easier for builders to buy their land. Some sellers are considering joint venture proposals from developers.

For the next few months, there will be some bargains for buyers of both homes and land. There are some excellent deals available on “spec” homes, and there is a great deal of competition for those who must sell their current home.

The primary debate these days is whether home prices will fall. So far, there is little evidence of reductions in value of the market as a whole. That is very impressive, when one considers that home values increased 35% to 40% in 2005.

It is hard to find another major metropolitan area in the country with economic fundamentals as strong as Phoenix. Nearly 120,000 new residents are expected in 2006.

Over 75,000 new jobs are forecast to be created in 2006, and Arizona was in the top 20% of all states in personal income growth in the first quarter of 2006.

In addition, interest rates are key to a healthy housing market. The Federal Reserve Board appears to be near the end of its tightening cycle. Interest rates for a 30-year, fixed-rate mortgage are still around 7%. Builders generally indicate that interest rates don't appreciably slow demand until they rise above 8%.

All signs are positive for the long-term health of the Phoenix housing market. We simply have too much supply, which needs to adjust to long-term demand. Two things need to happen to get us back in balance. First, the supply of resale homes on the market needs to drop. Secondly, builders need to reduce their “spec” home inventory to levels consistent with a long-term demand, which is expected to be about 45,000 to 50,000 new homes per year.

In the early 2000's, the number of resale homes on the market was usually in the range of 25,000 – 27,000 homes. In June, about 46,000 detached resale homes were on the market. Two factors will begin to bring that number back in line with the type of balanced housing market Phoenix experienced in the early 2000's. First, those that must sell will make the necessary accommodations to sell their home. That usually means a reduced price. Those sellers will often purchase a home elsewhere in the area, which will reduce the number of homes on the market even further. Secondly, those sellers who were simply trying to cash in at the top of the market (a year ago) will get tired of waiting, and will begin pulling their homes off the market.

The key indicator in the new home market will be the reduction in the number of spec homes that builders have for sale. The total number of 4,745 spec homes in June represents about a one-month supply, at the rate of home sales in the first half of 2006. If new home sales during the second half of the year are equal to the first half, then approximately 50,000 new homes will be sold in 2006. While the spec home inventory is not overwhelming, it continues to increase. Once it begins to decline, the new home market will be on its way back to normal.

Reality should set in over the next quarter or two, and Phoenix will be back, in 2007, to the dynamic, balanced market it has generally been for the past 60 years.

