

Orange County Housing Report

January 19, 2012

Happy New Year – A Glimpse into 2012

Forecasting: The housing market is in uncharted waters.

The protracted economic downturn has generated a lot of uncertainty. This is because we are in uncharted waters. Employment, housing, interest rates, deficits, credit, inefficient governments and more are in flux, and the U.S., Europe, China, and the rest of the world's economies are all intricately tied together. All have been affected and a change within one country's economy, good or bad, has an impact on the rest.

Who could have predicted that the European financial situation would drive mortgage interest rates in the United States to an historical low, even as the prognosticators consensus predicted a rise in rates? The Achilles heel in economic forecasting is that it draws its conclusions from historical data. What happens when we have nothing to draw from?

This is where we are today, from the federal government to our own private finances. This lack of information puts everyone in a position to have to exercise their best guess. Most of us think a while when we have to come up with our best guess, sometimes aloud, to ourselves, our families, and friends.

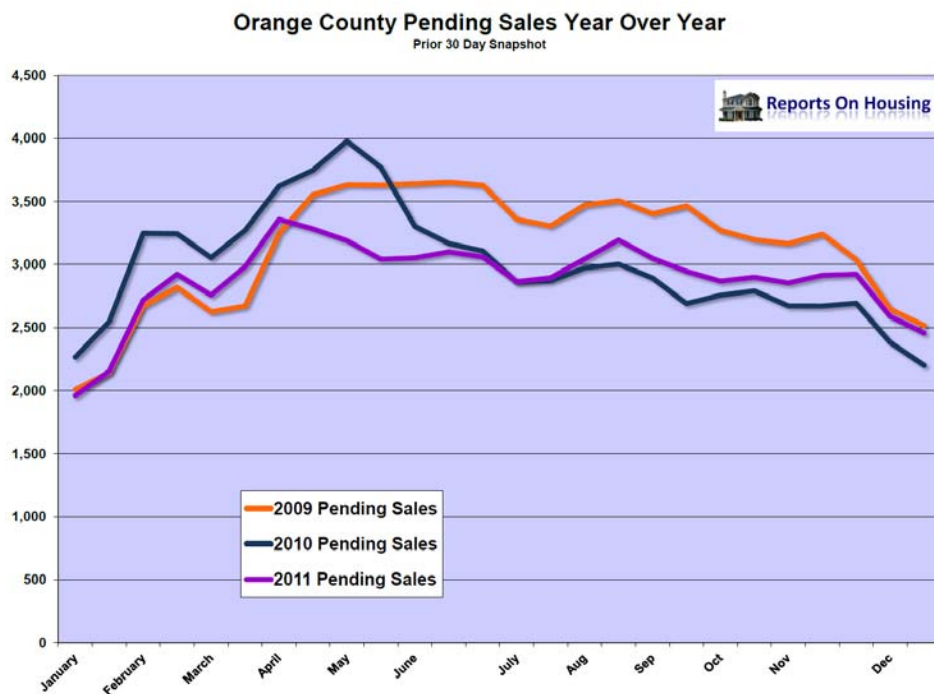
Enter the instant information age. One Facebook post or tweet can go viral. Millions read it, many instantly. Because it can be read, people give it more credence than it may deserve. (Originally it was a communicated musing, after all.) Credibility is the foundation of perception, and perception often becomes one's reality. People make decisions based on their reality. By the next business day, one thought spoken or typed out loud can cause the global financial markets to lose hundreds of billions of dollars. Sound farfetched, maybe. It depends on who is thinking out loud.

So, without a proper base to stabilize our crystal ball, let's see what 2012 glimpses we can garner as the ball rolls by.

Demand: A return to a normal housing cycle.

In 2011, demand followed a normal housing pattern. The Spring Market experienced the most demand, followed by a slightly slower Summer Market, then a slower still Autumn Market, and finally a much slower Holiday Market. There wasn't the influence of a first time home buyer tax credit or the sudden tightening of credit to affect demand like there had been in the prior three years. In 2012, demand will closely follow the same pattern as in 2011, but at a just slightly higher (3% - 5%) level. Currently, the housing market is shaking off the effects of the holiday. For the lower price ranges, below \$750,000, which accounts for 76% of the listing inventory, the market will heat up quickly as we roll into the spring. We are starting this year with 19% fewer homes for sale when compared to a year ago. With fewer homes on the market and similar demand, it is going to feel more like a seller's market, complete with multiple offers and sales prices close to their asking prices for homes priced below \$500,000, assuming, of course that the sellers price their homes accurately. Even so,

sellers can expect that buyers will be unwilling to pay extra for a home, regardless of the number of offers on the table. Today “spreadsheet” buyers carefully study recent sales, pending sales, and local market trends to arrive at an offer price. In the lower price ranges, competition will remain strong until the market begins to decelerate in the fall. For homes priced between \$750,000 and \$1.5 million, which represents 14% of the active inventory, the market will heat up during the spring, just not as much as the lower ranges. For homes priced above \$1.5 million, representing 11% of the active inventory, the market is and will be the antithesis of the lower ranges, a deep buyers market that will require accurate pricing, time and patience to achieve a sale. There are just too many sellers vying for a much smaller pool of potential buyers.



Pricing: Pressures on price depend upon the price range.

There are three distinctly different housing markets in Orange County, price ranges below \$750,000, price ranges between \$750,000 and 1.5 million, and price ranges above 1.5 million.

In the lower price ranges, we can expect very little change in pricing. 76% of the market is priced below \$750,000 and 56% are priced below \$500,000. I believe that in some unique areas and neighborhoods, the market could even appreciate slightly. However, the distressed properties, which represent 47% of the active inventory in the lower ranges, will keep a lid on any real appreciation.

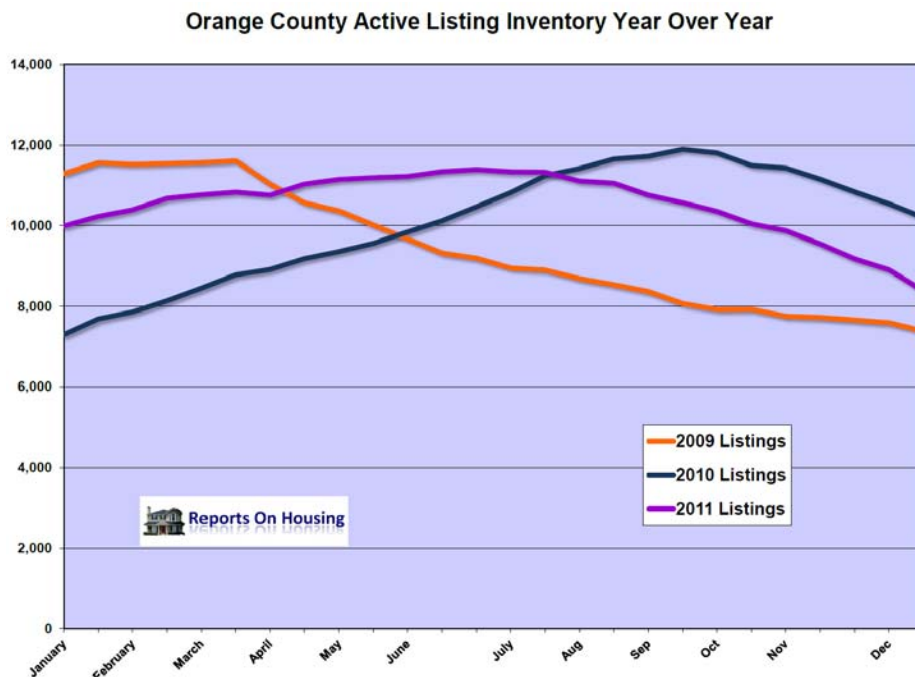
For the middle price ranges, we can expect slight depreciation in prices because of lower demand, probably less than 5%. Since only 15% of the inventory in these price ranges is distressed, the pressure on pricing is not as great, otherwise the rate of depreciation would be higher.

In the upper price ranges, above \$1.5 million, 5% of the inventory is distressed properties. In these price ranges the distressed inventory does not have as much of an impact on prices. Instead, there are just far too many sellers and not enough buyers. Values in the lower price ranges dropped seemingly overnight in a flood of distressed homes, and have subsequently stabilized.

The upper price ranges have not been inundated with distressed properties; thus, the downward movement in values has been a much slower process. In essence, they are arriving late to the party. In 2012, prices will be most volatile in the upper price ranges just as they were in 2011.

The Active Listing Inventory: Which will prevail, prudence or imprudence?

There are 19% less homes for sale in the active listing inventory this year when compared to last year at this time. This will help spur immediate demand early on in 2012 which will attract multiple, strong offers. This scenario also occurred in 2010 when there was an additional 10% fewer homes available for sale at the beginning of the year when compared to today. Then, many people misinterpreted all of the activity to mean that the housing market had recovered. So, way too many homeowners decided to “test the water” and listed overpriced homes. The active listing inventory grew by 40% that year. In a downturn, overpriced homes **do not sell**; they stay on the market until the price is reduced or they are pulled off the market. Homeowners paid attention to these phenomena and in 2011 the inventory increased by only 14% during the first half of the year, and decreased 26% during the second half. I am concerned about our selective memory. In 2012, prudent sellers will continue to price their home in line with the most recent sales in the area and the most current pending sales, taking into consideration the recent local market trends. Imprudent sellers will, based on the “market frenzy hype”, price their homes above what the statistics support. I expect some imprudence again this year. The active listing inventory will likely grow through the first three quarters.



The Distressed Market: Distressed properties will continue to play a major role in the market.

The banks have developed their strategy for dealing with distressed homes and they are not about to make any major changes. Many people have stated that it would be best to let the market work through the distressed inventory on its own and banks should just open the flood gates. This is not going to happen. Foreclosed properties are a hot commodity in the OC. Currently; there are only 620 foreclosed

properties on the market in the entire county with an expected market time of 1.76 months during the slowest time of the year. Ask any buyer who has attempted to purchase a foreclosed property and you will find that it extremely difficult to do.

There are plenty of homeowners who have defaulted and the banks have been slow to foreclose. In Orange County, most non-redeemed defaults become short sales. Currently, there are 2,517 short sales on the market and 5,144 more that are pending. However, only about 500 short sales close per month. Short sales, which require lender, or often lenders approval to take less than the loan amount, are complicated and take a very long time to put together. This too, is not going to change anytime soon. It is important to highlight the fact that short sales have an expected market time of 2.5 months, pretty hot when compared to the rest of Orange County housing market, largely because they are priced at market value, often less the cost of deferred maintenance, and are in better shape than foreclosed properties. So, lenders are not going to change course at this point and adopt a different strategy. They aren't going to quickly foreclose on everybody and let the market work it's self out. You don't have to be an economist or expert to understand that if you suddenly flood the market with foreclosures, prices will free fall again. If prices dropped significantly again, more homeowners will be under water, confidence will drop, unemployment will increase and the economy will fall into a deep abyss. Sure, lenders do not intend to allow homeowners in default to remain so indefinitely. They will rattle the foreclosure saber to push these homeowners toward a short sale, which is the best solution for everyone involved in a non-redeemable default situation. For the year, there will be a slight increase in the number of foreclosures and short sales, about 5%, but don't expect any significant changes.

Interest Rates: Record low interest rates will NOT last forever.

Interest rates are probably the single most unpredictable feature of the housing market. Nobody has predicted correctly thus far and current forecasts are all over the board. Prognosticating the future of interest rates is like throwing darts at a dart board from a thousand feet away. I will go out on a limb and predict interest rates will increase to 4.5%. I just don't see the international money flight to the safety of US bonds changing anytime soon. (Mortgage rates are primarily affected by treasury yields, rather than the prime interest rate.) But, we need to understand that it is not a matter of if interest rates will rise, it is a matter of when. The Federal government has dumped trillions of dollars into the system. When this happens, the threat of inflation increases, a threat that someday becomes a reality. To fight against inflation, interest rates will have rise. Unfortunately, everybody is so used to these historically low interest rates that they are taking them for granted. The current interest rates coupled with lower prices makes owning a home much more affordable than in recent years. We have to go all the way back to the year 2000 to find circumstances that allowed for similar payments levels. In 2000, interest rates were at 8%. In 1990, interest rates were at 10%. In 1980, interest rates were at 16%. It's funny what we get used to. 4% interest rates are very rare phenomena. Taking advantage of them will produce a payoff every single month for 30 years.

Closed Sales: *The number of closed sales has not changed much over the past several years.*

The number of sales is below the long term average; BUT, there are still about 27,000 residential existing home sales taking place each year in Orange County. 2007 and 2008 were record slow years. 2009 through 2011 were much better. In 2012, we can expect to be very close to the same number of sales again with an increase of 5% or less, and they will follow a normal cycle, just like demand.

Orange County Housing Report

	Current Actives 1/19/2012	Pendings (Last 30 Days)	Market Time (In Months) 1/19/2012	2-Weeks Ago 1/5/2012	4-Weeks Ago 12/22/2011	1-Year Ago 1/20/2011	2-Years Ago 1/21/2010	Average Active List Price 1/19/2012
Aliso Viejo	199	84	2.37	3.49	3.27	3.77	1.75	\$413k
Anaheim	481	166	2.90	3.34	3.49	4.46	2.28	\$318k
Anaheim Hills	146	43	3.40	4.63	4.14	4.05	2.56	\$690k
Brea	70	27	2.59	2.61	2.89	3.33	2.23	\$526k
Buena Park	154	50	3.08	3.26	3.22	3.53	2.70	\$376k
Corona Del Mar	117	7	16.71	18.83	16.57	10.17	10.53	\$2.8m
Costa Mesa	182	63	2.89	3.30	3.02	4.31	3.14	\$522k
Coto De Caza	104	25	4.16	7.71	4.68	6.47	5.63	\$1.8m
Cypress	110	35	3.14	3.85	4.16	3.97	2.27	\$412k
Dana Point	179	44	4.07	4.87	5.11	6.46	5.82	\$1.7m
Dove Canyon	15	7	2.14	4.75	3.80	6.33	1.29	\$701k
Foothill Ranch	41	13	3.15	4.67	2.11	5.20	2.17	\$449k
Fountain Valley	88	30	2.93	3.07	1.88	5.59	2.26	\$532k
Fullerton	285	114	2.50	2.99	3.99	4.62	2.50	\$477k
Garden Grove	282	117	2.41	2.19	2.03	4.37	1.83	\$339k
Huntington Beach	489	129	3.79	4.32	3.16	4.85	3.82	\$746k
Irvine	576	185	3.11	3.45	3.37	4.28	2.47	\$898k
La Habra	170	43	3.95	5.00	4.24	5.16	2.74	\$312k
La Palma	28	10	2.80	*	*	*	*	\$494k
Ladera Ranch	118	66	1.79	2.31	1.75	3.13	1.26	\$781k
Laguna Beach	234	26	9.00	7.83	8.30	13.67	13.00	\$3.7m
Laguna Hills	97	41	2.37	3.31	2.82	4.53	2.47	\$809k
Laguna Niguel	266	98	2.71	3.16	2.66	4.01	2.39	\$775k
Laguna Woods	327	56	5.84	5.02	5.75	9.88	6.42	\$200k
Lake Forest	125	60	2.08	3.05	2.61	2.97	1.42	\$388k
Los Alamitos	20	5	4.00	*	*	*	*	\$638k
Mission Viejo	271	110	2.46	2.72	2.47	4.16	2.28	\$484k
Newport Beach	411	55	7.47	7.00	8.06	8.09	7.84	\$2.4m
Newport Coast	99	15	6.60	4.85	6.11	6.56	7.28	\$4.5m
Orange	298	127	2.35	3.01	3.26	4.90	3.06	\$549k
Placentia	105	34	3.09	4.15	2.53	4.85	3.64	\$425k
Portola Hills	22	3	7.33	1.78	1.07	9.00	1.44	\$404k
Rancho Santa Marg.	137	55	2.5	2.5	1.63	3.76	1.37	\$352k
San Clemente	287	81	3.54	4.85	4.75	6.83	4.07	\$1.0m
San Juan	117	33	3.55	2.50	2.78	4.34	3.10	\$1.1m
Santa Ana	433	181	2.39	2.86	2.82	3.53	2.38	\$334k
Seal Beach	230	41	5.61	7.58	5.33	7.54	6.00	\$333k
Stanton	62	19	3.26	*	*	*	*	\$268k
Talega	64	27	2.37	4.69	4.06	5.81	2.74	\$773k
Tustin	235	67	3.51	4.07	3.60	4.09	2.75	\$717k
Villa Park	16	6	2.67	5.00	5.00	7.00	37.00	\$1.3m
Westminster	123	46	2.67	3.08	2.57	3.23	2.38	\$424k
Yorba Linda	222	61	3.64	3.90	3.66	4.71	4.39	\$784k
All of O.C.	8,080	2,528	3.20	3.65	3.41	4.75	3.02	\$869k
O.C. \$0-\$250k	1,575	589	2.67	3.05	2.72	4.10	2.27	\$175k
O.C. \$250k-\$500k	2,954	1,231	2.40	2.76	2.62	4.08	2.03	\$373k
O.C. \$500k-\$750k	1,545	436	3.54	4.20	3.72	4.75	3.04	\$612k
O.C. \$750k-\$1m	700	146	4.79	5.01	5.09	4.87	4.75	\$868k
O.C. \$1m-\$1.5m	489	78	6.27	8.94	7.16	6.28	5.73	\$1.3m
O.C. \$1.5m-\$2m	288	32	9.00	8.50	9.52	11.97	13.50	\$1.8m
O.C. \$2m-4m	372	23	16.17	12.30	11.97	15.36	19.52	\$2.9m
O.C. \$4m+	226	1	226.00	28.63	49.60	67.25	24.33	\$8.4m

*Data tabulated from SoCalMLS. This data may not reflect all real estate activity in the market. Not all cities are listed but are included in the O.C. totals.

Due to Range Price listings, "All of O.C." and the total of the seven ranges do not add up and are slightly off.

Attached Homes

	Current Actives 1/19/2012	Pendings (Last 30 Days)	Market Time (In Months) 1/19/2012	2-Weeks Ago 1/5/2012	8-Weeks Ago 12/22/2011	1-Year Ago 1/20/2011	2-Years Ago 1/21/2010	Average Active List Price 1/19/2012
All of O.C.	3,196	1,022	3.13	3.51	3.27	5.16	2.64	\$366k
O.C. \$0-\$250k	1,413	518	2.73	3.10	2.77	3.62	2.28	\$171k
O.C. \$250k-\$500k	1,288	436	2.95	3.29	3.20	5.16	2.09	\$352k
O.C. \$500k-\$750k	272	53	5.13	5.07	4.49	7.68	5.95	\$602k
O.C. \$750k-\$1m	114	9	12.67	15.29	15.57	13.00	8.74	\$859k
O.C. \$1m+	127	7	18.14	25.40	21.14	15.64	15.77	\$1.7m

Current Actives Vacant **26.6%**

Detached Homes

	Current Actives 1/19/2012	Pendings (Last 30 Days)	Market Time (In Months) 1/19/2012	2-Weeks Ago 1/5/2012	8-Weeks Ago 12/22/2011	1-Year Ago 1/20/2011	2-Years Ago 1/21/2010	Average Active List Price 1/19/2012
All of O.C.	4,871	1,500	3.25	3.74	3.50	4.47	3.31	\$1.2m
O.C. \$0-\$250k	150	69	2.17	2.48	2.17	2.92	2.11	\$219k
O.C. \$250k-\$500k	1,656	377	4.39	2.45	2.30	3.40	1.96	\$390k
O.C. \$500k-\$750k	1,273	383	3.32	4.04	3.58	4.31	2.67	\$613k
O.C. \$750k-\$1m	584	137	4.26	4.44	4.52	4.35	4.25	\$870k
O.C. \$1m-\$1.5m	418	73	5.73	8.42	6.53	5.69	4.97	\$1.3m
O.C. \$1.5m-\$2m	257	32	8.03	7.50	8.63	11.07	13.35	\$1.8m
O.C. \$2m-\$4m	349	23	15.17	11.57	11.21	14.81	19.72	\$2.9m
O.C. \$4m+	222	1	222.00	28.00	48.40	66.50	24.00	\$8.6m

Current Actives Vacant **13.2%**

All Homes

	Current Actives 1/19/2012	Pendings (Last 30 Days)	Market Time (In Months) 1/19/2012	2-Weeks Ago 1/5/2012	4-Weeks Ago 12/22/2011	1-Year Ago 1/20/2011	2-Years Ago 1/21/2010	Average Active List Price 1/19/2012
All of O.C.	8,080	2,528	3.20	3.65	3.41	4.75	3.02	\$869k
O.C. \$0-\$250k	1,575	589	2.67	3.05	2.72	4.10	2.27	\$175k
O.C. \$250k-\$500k	2,954	1,231	2.40	2.76	2.62	4.08	2.03	\$373k
O.C. \$500k-\$750k	1,545	436	3.54	4.20	3.72	4.75	3.04	\$612k
O.C. \$750k-\$1m	700	146	4.79	5.01	5.09	4.87	4.75	\$868k
O.C. \$1m-\$1.5m	489	78	6.27	8.94	7.16	6.28	5.73	\$1.3m
O.C. \$1.5m-\$2m	288	32	9.00	8.50	9.52	11.97	13.50	\$1.8m
O.C. \$2m-4m	372	23	16.17	12.30	11.97	15.36	19.52	\$2.9m
O.C. \$4m+	226	1	226.00	28.63	49.60	67.25	24.33	\$8.4m

Current Actives Vacant **18.5%**

*Data tabulated from SoCalMLS. This data may not reflect all real estate activity in the market. Not all cities are listed but are included in the O.C. totals.

Due to Range Price listings, "All Homes," "Attached" and "Detached" totals do not add up and are slightly off.

	Number of Foreclosures & Short Sale			Attached	Number of Foreclosures & Short Sale		
	Current Actives 1/19/2012	Actives 1/19/2012	% of Active Inventory 1/19/2012		Current Actives 1/19/2012	Actives 1/19/2012	% of Active Inventory 1/19/2012
Aliso Viejo	199	122	61.3%	All of O.C.	3,196	1,424	44.6%
Anaheim	481	280	58.2%	O.C. \$0-\$250k	1,413	759	53.7%
Anaheim Hills	146	52	35.6%	O.C. \$250k-\$500k	1,288	624	48.4%
Brea	70	30	42.9%	O.C. \$500k-\$750k	272	36	13.2%
Buena Park	154	80	51.9%	O.C. \$750k-\$1m	114	9	7.9%
Corona Del Mar	117	6	5.1%	O.C. \$1m+	127	3	2.4%
Costa Mesa	182	78	42.9%	Detached			
Coto De Caza	104	39	37.5%	All of O.C.	4,871	1,546	31.7%
Cypress	110	48	43.6%	O.C. \$0-\$250k	150	122	81.3%
Dana Point	179	34	19.0%	O.C. \$250k-\$500k	1,656	857	51.8%
Dove Canyon	15	6	40.0%	O.C. \$500k-\$750k	1,273	377	29.6%
Foothill Ranch	41	21	51.2%	O.C. \$750k-\$1m	584	107	18.3%
Fountain Valley	88	29	33.0%	O.C. \$1m-\$1.5m	418	51	12.2%
Fullerton	285	127	44.6%	O.C. \$1.5m-\$2m	257	23	8.9%
Garden Grove	282	140	49.6%	O.C. \$2m-\$4m	349	12	3.4%
Huntington Beach	489	148	30.3%	O.C. \$4m+	222	6	2.7%
Irvine	576	180	31.3%	All Homes			
La Habra	170	89	52.4%	All of O.C.	8,080	2,990	37.0%
La Palma	28	12	42.9%	O.C. \$0-\$250k	1,575	881	55.9%
Ladera Ranch	118	74	62.7%	O.C. \$250-\$500k	2,954	1,481	50.1%
Laguna Beach	234	29	12.4%	O.C. \$500k-\$750k	1,545	413	26.7%
Laguna Hills	97	44	45.4%	O.C. \$750k-\$1m	700	116	16.6%
Laguna Niguel	266	92	34.6%	O.C. \$1m-\$1.5m	489	53	10.8%
Laguna Woods	327	32	9.8%	O.C. \$1.5m-\$2m	288	23	8.0%
Lake Forest	125	66	52.8%	O.C. \$2m-4m	372	13	3.5%
Lake Forest	125	66	52.8%	O.C. \$4m+	226	6	2.7%
Los Alamitos	20	6	30.0%	County High Shares - Account for 31%			
Mission Viejo	271	126	46.5%	Portola Hills	22	18	81.8%
Newport Beach	411	44	10.7%	Stanton	62	44	71.0%
Newport Coast	99	12	12.1%	Rancho Santa Marg.	137	94	68.6%
Orange	298	134	45.0%	Ladera Ranch	118	74	62.7%
Placentia	105	56	53.3%	Aliso Viejo	199	122	61.3%
Portola Hills	22	18	81.8%	Anaheim	481	280	58.2%
Rancho Santa Marg.	137	94	68.6%	Santa Ana	433	242	55.9%
San Clemente	287	85	29.6%	Seal Beach	230	9	3.9%
San Juan	117	36	30.8%	Stanton	62	44	71.0%
Santa Ana	433	242	55.9%	Talega	64	32	50.0%
Seal Beach	230	9	3.9%	Tustin	235	73	31.1%
Stanton	62	44	71.0%	Villa Park	16	4	25.0%
Talega	64	32	50.0%	Westminster	123	43	35.0%
Tustin	235	73	31.1%	Yorba Linda	222	68	30.6%
Villa Park	16	4	25.0%	All of O.C.	8,080	2,990	37.0%
Westminster	123	43	35.0%	County Low Shares - Account for 6%			
Yorba Linda	222	68	30.6%	Seal Beach	230	9	3.9%
All of O.C.	8,080	2,990	37.0%	Corona Del Mar	117	6	5.1%
Orange County Distressed Breakdown				Laguna Woods	327	32	9.8%
	Current Actives	Pendings (Last 30 Days)	Market Time (In Months)	Newport Beach	411	44	10.7%
Total Foreclosures	570	386	1.48	Newport Coast	99	12	12.1%
Total Short Sale	2,420	1,118	2.16	Laguna Beach	234	29	12.4%
				Dana Point	179	34	19.0%
				Villa Park	16	4	25.0%

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Data and Graph Presentation Source: Steven Thomas, Broker and SoCalMLS