



From the desk of
William C. Ring, President

Real Estate Newsletter

July 2009



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Chapman Reaffirms Its Recovery Forecast...

The A. Gary Anderson Center for Economic Research at Chapman University recently released an updated economic forecast for 2009 and for the year 2010.

2009-10 U.S. Forecast

When the Chapman forecast was issued last December, it was one of the few forecasts that called for a turnaround in mid-2009. Evidence is building that their forecast was on the mark. The early indicators of a recovery include an improved lending environment, a recovery in the stock market, rising consumer confidence, a drop in initial jobs claims and a growing gap between rising new orders as compared to depleted inventory levels.

There is growing evidence that the Treasury Department and Fed actions to buttress the banking and financial services sector are working, at least in the short run. Banks have loosened lending standards for commercial and industrial loans, commercial real estate loans and prime mortgage loans during the current quarter.

The government's \$782 billion stimulus package is definitely propping up consumer spending. Wage and salary declines have been more than offset by sharp increases in unemployment benefits, social security payments and other transfer payments.

While residential construction and business fixed investments are not expected to increase significantly, record liquidation has positioned inventories to pop back sharply. We are forecasting rapid inventory growth in the second half of 2009. Inventory buildup will fall back somewhat but still stay strong through 2010.

Housing prices are close to their bottom. While year-to-year price change statistics will continue to show declines, they should turn slightly positive next year. In fact, Chapman's housing price forecast shows an average year-to-year increase of 3.7 percent in 2010. A major reason for the return to positive appreciation is the growing pent-up demand for housing, as reflected by the low rate of annual housing starts of 500,000 units as compared to potential annual demand of 2 million units.

2009-10 California and Orange County Forecasts

In spite of inventory adjustments, improved housing affordability and diminished supply of new homes, continuing job losses and higher unemployment will place further downward pressure on prices well into the first half of 2010. But by the third quarter of 2010, year-over-year percentage changes in median home prices will turn positive. On an annual basis, median resale single-family home prices, as measured by California Association of Realtors, will show an increase of 1.6 percent in Orange County and 0.8 percent in California in 2010. One factor that supports Chapman's forecast of a rebound in median home prices in 2010 will be a shift in sales activity from lower-priced homes to the higher-priced tier.

Please contact me anytime regarding your real estate needs or questions; commercial or residential. And, remember that the highest compliment I, or anyone, can receive is the referral of my name to your family, friends, and business associates. Thank you for your trust.

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