



From the desk of  
William C. Ring, President

# Real Estate Newsletter

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The Harbor Area's Oldest Real Estate Firm

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Celebrating 64 Years!

## Housing – the Keys to Recovery...

Entry-level homes are the base of the housing market. From there households move up, creating the demand for more desirable and more expensive homes. Historically much of the housing supply for the first time buyer has come from new home construction. Over the past decade a hot economy and easy qualifying has shifted the new home market to upscale housing.

Affordability - The key to the entry-level home has always been affordability. Now the new buzz word is New Affordability. This is the emerging market that promises to reenergize the housing market.

The Emerging Market – These newbies, as they are called, are coming from the ranks of renters, new immigrants and newly formed households. Their demands, lifestyles and financial needs are different than prior markets. For the housing market to rebound three things must happen:

- 1) Supply must meet demand. The glut must go – the present inventory of unsold new homes must be absorbed. Single family housing starts are now running at less than 500,000 a year. The normal demand, based on the emerging market, is around 1 million units a year. As the first time homebuyer market heats up, the National Association of Homebuilders anticipates sales to rise to about 700,000 by the end of 2009. This means that demand will soon exceed supply by as much as 250,000 a year. This will create downward pressure on comparable existing houses that are listed at a higher price.
- 2) New product and price must meet new demand. There is a growing demand for housing but for a product smaller than the McMansions built over the past decade. There has been a dramatic shift in demand and the home building industry is responding. They are discounting existing inventory through incentives and are building a smaller, less expensive product. For example: Victorville, CA – in 2006, KB Homes was building 3,800 sq.ft. homes selling for \$328,000. Today they offer a stripped down 1,700 sq.ft. model for \$220,000.
- 3) Interest rates must remain low. Here is the wildcard the Fed is holding. Right now buyers are having a 6% FHA food fest. If rates stay flat, housing will win. If inflation starts to rock the economy and the Fed is forced to raise rates, all bets are off.

**For the first time in 10 years we are reaching a first-time buyer's equilibrium, where the payments on a new home nearly equal the cost of renting.**

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**Perfection is not attainable, but if we chase perfection, we can catch excellence.**

**Vince Lombardi  
(1913-1970)**

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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