



## HOW YOU MIGHT PLAN FOR THE NEXT 12 MONTHS

by Mark Schniepp

*Suggested action, if you are a...*

### *...Small Business Owner*

The recession is over. It's only a matter of time when economic momentum reaches the point when you see rising demand for the products or services you provide. Don't be discouraged or pessimistic . . . it's coming. Be ready to build inventories or hire additional workers (or temps at this point) to meet customer demand. Have a credit line with your bank, or persuade your Uncle Guido to float you a short term business loan.

### *...Real Estate Developer*

Buy entitled land or entitled housing projects, now. Housing is desperately needed in California especially coastal California, and new home production will be demanded no later than the 2nd half of 2010---that's less than a year away. By 2011, you can ramp up your building as long as you keep the price down.

### *...Real Estate Flipper*

Buy REOs cheaply right now. Actually, they're not as cheap as they were 6 months ago and there are multiple offers on this type of housing now. But the window is still open. As foreclosed properties decline, so will the inventory of REO homes for sale. Buy as many as you can with a time horizon of no less than 2 years. By 2012, your income stream from rent will have been increased at least once by 3 to 4 percent, and the equity in your homes will have risen by 10 percent or more.

### *...Unemployed person looking for work*

The jobs correction in the real estate related sectors is nearly complete. Employment in financial services, mortgage lending, and real estate brokerage jobs is no longer contracting. 2010 should be a year of stability, and new job creation occurs in the second half of 2010 and throughout 2011.

Look for work in the sectors that will hire first: Transportation and warehousing, goods production for export abroad, technology, temporary employment services, and construction. The markets in the Bay Area, Los Angeles, San Diego and Orange County will be your best opportunities, and probably in that order.

Professional and business services employment is a composite of sectors that is now stabilizing. New job opportunities are very likely by mid-2010. Scientific and technical services jobs should also increase as demand for technical and skilled services rises during a recovery year.

## Pace of foreclosures slows in California

Lenders are being more lenient to keep a glut of properties off the housing market.

PETER Y. HONG

Signs are emerging that a much-feared escalation of California home foreclosures may not happen, as banks respond to government pressure and

president of MDA DataQuick, which provides real estate research, said of lenders' reluctance to foreclose. "It's because they've concluded that flooding the market with cheap foreclosures in this economic environment may not be in their best financial interest."

Bank of America Corp., one of the nation's biggest lenders, said the slowdown in foreclosures could be attributed to efforts to "exhaust every possible

option" to keep borrowers in their homes.

"We do not hold properties off the market," the bank said in a statement. "We have an obligation to prepare foreclosed properties for the market and sell them as quickly as possible."

Others believe that lenders and government are operating under a tacit agreement: Keep a lid on foreclosures. [See Foreclosure, p. 10]

Los Angeles Times, October 21, 2009, front page

*The slowdown in foreclosures observed over the last 6 months is reducing the inventory of REO homes, enabling selling values to reflect more conventional home buying rather than distressed home sales. Values are rising. This will help both real estate developers and real estate flippers. Wannabe home buyers should not wait a second more to buy their home.*

### *...Potential home buyer*

Buy now. Don't wait. Inventory later might not be as good now and prices are at recession cycle lows. Prices are not going any lower. Furthermore, mortgage rates are at the lowest level they will reach for the remainder of the year.

Home price will move higher, mainly because distressed sales no longer dominate the mix of transactions and therefore the median selling price of the representative home after 2009.

More broad-based participation by all price ranges of the housing market will occur in 2010, providing mortgage rates and credit market conditions remain favorable

### *...Office Building Owner*

You are in a tough position right now. Vacancies continue to increase and there is no pricing power so you've got to lower your lease rates to maintain occupancy. Furthermore, you are facing an impossible refinance market if your bank mortgage loan is due this year or next. Credit conditions have changed and 60 percent loan-to-value is generally the rule, sometimes less. That together with the drop in building valuations compounds the difficulty of being able to refinance your existing mortgage, unless you've owned the building since before 2005.

If you can hold on another year, rising demand for space as the labor markets recover will produce stability in

the office market. Occupancy rises in late 2010 or early 2011. Pricing power does not return until mid or late 2011, and that's just the turnaround point.

### *...State or local government employee*

Unless you are a muckity-muck, your job could be in jeopardy. Recent budget cuts and those still to come could eliminate your position or result in more furlough days during calendar 2010. Furthermore, public employee pensions are likely to be changed in coming years resembling plans consistent with private sector reasonability.

If you are a teacher, the worst is over. You are safe for the rest of the school year and it's likely that the 2010-2011 year will not be as uncertain because more revenue will be flowing into the state.

### *...Commercial Real Estate Broker*

Take a vacation now, or spend more time with the kids. The recession in commercial real estate is not ending this year or anytime soon. When labor markets turn, your phone will start ringing again as companies reposition themselves with more or fewer workers in higher quality space. There will be time when business is good again. It's just not now.

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