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At Real Estate Seminar, Sullivan Group Maintains That While the Real Estate Market Has Softened, Affordability Is Still At Lowest Levels

Despite signs of a slowing market, real estate advisors give hope to home builders

LOS ANGELES – Sullivan Group Real Estate Advisors presented on the state of the housing market – both locally and regionally – to Los Angeles area, real estate-oriented businesses at last week’s Sullivan Seminar in Los Angeles. Sullivan Group, who provides in-depth analytical reports and strategic planning services to the nation’s housing industry, briefed the crowd on where the Los Angeles market is headed and how home builders can defy sluggish home sales.

Because affordability is the lowest it has been in the last decade – at a mere 12% – the high cost of housing is once again pushing Los Angeles residents into outlying areas, such as Antelope Valley, Victorville and Coachella Valley – similar to trends experienced in the late 1980s. In fact, Antelope Valley’s home sales have doubled in the past two years.

Peter Dennehy, who presented at the Sullivan Seminar and is senior vice president of the Sullivan Group, said, “It’s the available land and lower prices that fuel strong population growth in these surrounding areas. “

And although development in downtown Los Angeles is in full swing, with 5,000 to 6,000 units expected in the next five to six years, the biggest challenges for home builders are going to be building in neighborhoods with long-term appeal and the high cost of construction, particularly related to high rises. Dennehy also pointed out other Los Angeles urban hot spots: Hollywood, Mid-Wilshire/Miracle Mile, West Los Angeles, Culver City, Marina Del Rey, Long Beach and Pasadena/Burbank/Glendale.

President of Sullivan Group, Tim Sullivan, who gave an overall picture of the housing market, said, “Compared to last year, we will have lower total new home sales in 2006. But at the same time, 2006 will still be among the strongest three or four years of

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new homes sales ever.” The same holds true for the resale market, except this segment has a greater supply, as well as being a more affordable alternative to new homes. “In most markets, resale homes offer significant competition to new home sales because some of the best locations and closest-in neighborhoods have been built out for years,” said Sullivan.

Signs that the market is putting on the brakes are that investors/flippers have fled the market, as the ability to quickly sell a property has subsided; the resale market has three months supply and days on market averages 50+ days; builders are being more selective and are willing to walk away from deals; and incentives are back – the latter being an indication of market strength:

- Strong market: No Incentives
- Sustaining: Financing buy-downs or incentives to use in-house lender
- Softening: Give-aways such as free flooring, options or upgrades, and larger broker co-ops
- Correction: Price reductions

“In 2006, we are going through corrective measures,” Sullivan said. “But if you consider certain projects in unique neighborhoods, there is still opportunity. And although we’re seeing price reductions in pockets, it’s not everywhere.”

With the housing market starting to slow, however, Sullivan Group made it clear that “sameness” is a bad word; home builders need to be creative in product design and placemaking to stand out. To do this, Jack Haynes, vice president of Countrywide Home Loans, who gave a financial market update, suggested that home builders pay closer attention to two segments of the population: the multicultural buyer, as they’re an increasing percentage of the population, and the baby boomer, because that’s where the money is.

“When you’re talking about differentiating yourself, you have to understand the buyer,” said Sullivan. “Home builders need to show how the community appeals to the buyer’s lifestyle; that the lifestyle they’re creating in the community fits their targeted niche.” Setting themselves apart by product, location and activities allows builders to

connect with their buyers and show them the value of the property - thereby minimizing price reductions and sustaining their profit margins.

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Sullivan Group Real Estate Advisors provides strategic planning services to the nation's housing industry. Whether lenders, developers, public agencies or homebuilders, Sullivan Group Real Estate Advisors allows its clients to make critical business decisions about land uses and other market-driven decisions. A division of the Ryness Company, Sullivan Group Real Estate Advisors has four offices in San Diego, Danville, Sacramento and Phoenix, while its parent company, Ryness, has nine offices in CA, AZ, NV and WA. In the past 30 years, Ryness has been involved in the planning, design, marketing and sales of more than 225,000 residential units in over 3,000 mixed-use communities.

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