

2007 North County Real Estate Review and Forecast

Fourth Quarter

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This report is a review of the North County Real Estate Market in 2007 and a status report of where our local market is today. Predicting the future is hard so we will give you the important data so that you can make informed decisions regarding your Real Estate positions. All Real Estate dynamics are local. There is no national Real Estate market.

Over 700 residential single family homes closed escrow in 2007. This number was almost identical to closed escrows in 1997. The average sales price in 2007 was \$396,000 as compared to the average sales price in 1997 of \$136,000. So homes have almost tripled in value in the last 10 years. Crisis?

Perhaps the best pricing illustration of North County Home Pricing is the review of a specific home that sold in 1999, 2005 and late 2007. Subject home sold for \$265,000 in 1999, \$675,000 in 2005 and \$525,000 late 2007. Nothing we can say illustrates the history of our market, in the last eight years, clearer than this aforementioned example. Homes are still selling at twice their price of eight years ago. In 90% of the markets in America this would be heralded as a triumph! Yet there is seemingly no joy in Mudville.

Homes on acreage, ranchettes, recorded 264 closed escrows in 2007 as compared to 362 closed sales in 1997. The average sales price was \$788,000 in 2007 compared to \$210,000 in 1997. This price reflects a near quadrupling of value in the past ten years. In 1999 this average price point topped \$300,000 for the first time. So in the last eight years we have more than doubled our average sale price.

Dirt, raw acreage, is a different story. As North County has grown, since the last boom of 1989, vacant ground has been scooped up by builders and growers. Demand and pricing for Westside raw acreage, in particular, remains high in this aforementioned category. Demand for residential single family lots and small east side acreage has cooled significantly with the slowdown in sales. In these weaker small acreage categories prices have dropped 30-50 per cent from the high two plus years ago. Westside dirt will be strong in 2008 and small eastside acreage will remain very price sensitive.

The wine grape market continues to moderately improve. Vineyards are selling for below replacement costs, on the eastside, and there should be more action in this arena in 2008. With

over 200 wineries in North County and strong wine sales the vineyard market is definitely on the mend. Westside grape prices are very strong. If you want to get into agriculture, 2008 might be a good time to make a move.

Residential single family foreclosures will be a factor in 2008. The number of sold homes should exceed 700 units and foreclosure sales will exceed 100 units but be less than 150 units. New home sales will be insignificant in number. Foreclosures are selling as fast as they come on the market. It's not unusual for foreclosed listings to have half a dozen offers on them when they hit the market. There is demand for all properties if the price is right. New homes, still standing, and foreclosures will be the value leaders in 2008. Pricing is still the dominant topic this year. Any home, priced right, will sell.

This whole market correction, in North County, had its genesis in buyer demand resistance. Pricing got too high, in the buyer's eye, and the music stopped. Sellers take years, not months, to react to market changes. Supply builds over this standoff period and we have today's market. Sellers are now getting much more competitive. Prices just started adjusting significantly in the fourth quarter of 2007. There are plenty of sales in the market so the pricing is defined. Prices will still be soft in 2008 with downward pressure. The big downward adjustments have already happened so don't expect double digit drops in 2008 as compared to fourth quarter 2007. The media may report huge drops but in reality those numbers are already in place. It's already happened.

Markets are driven by demand in the short term and supply in the long term. North County is a very challenging market to develop new properties. In 1990 there were 2000 approved lots unbuilt in Paso Robles. Today those are just over 500 approved vacant lots in Paso Robles. We have community challenges such as circulation, water, sewer and safety. Politically and structurally it is going to be difficult to approve thousands of new tract homes as was done in the late eighties. This restricted supply situation will help values rebound quicker than expected.

If you do not have to sell your home this year then wait until next year. If you want to sell this year get your home on the market today. The peak of North County Home Sales is June, followed by August, May and July. It takes a few months to get a property sold so do it now. Look very hard at the pricing. Prices are not going up in the near future. If you are a buyer you should get into the buying mode sooner rather than later. The supply situation we have today will not last forever. It's really a great opportunity for buyers to get into a market on today's terms. It's very rarely this sweet, on the buyers side, in North County.

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