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Industry veteran sees challenges and opportunities ahead in housing market

THE RYNESS COMPANY

DANVILLE – Gary Ryness, a veteran of over forty years in the homebuilding industry and Chairman of The Ryness Company, sees California's housing market as providing both challenges and opportunities for buyers of new homes in 2010.

However, homebuyers must continue to sift through a barrage of misinformation about the housing market, in order to make an informed buying decision that best fits their particular situation.

"The truth is, new home prices (on a net basis after

concessions) rose throughout the second half of 2009," said Ryness, whose company issues the industry's must-read weekly Ryness Report which tracks new home sales activities throughout California and other western states. "We reached the bottom over six months ago, yet people do not seem to know or believe that. Existing home prices continue to bounce around, but the impact they have on new home prices is negligible."

Ryness sees a market correction coming in 2010. "As we run out of new homes to sell, they are currently not being replaced," continued



GARY RYNESS
Chairman of the Ryness
Company

Ryness, who started his career in homebuilding in 1968. "The

new home inventory is being steadily depleted because new homes are still selling well below replacement cost. For there to be enough new home starts to meet the demand in Northern California, prices will likely need to rise another 10% to 20% from their current levels. Until that happens there will be very few new home starts even if all the current inventory disappears."

New home prices reacted about 6 months to a year before existing home prices adjusted, says Ryness. "From the peak in 2005-06, many parts of the San Francisco Bay Area saw new home prices drop up to 45%. In Sacramento and

the Central Valley, the drop was even steeper. On the Peninsula and within the San Francisco and San Jose city limits, prices fell less.”

As Ryness observes, “News coverage in the press and on radio/TV primarily focuses on existing home prices, much more so than new home prices. But it’s important to separate the two and people should be aware of that distinction. In a well-performing market, new home sales usually make up no more than 20% of overall sales. That figure can be less than 10% in down market periods.”

Ryness was asked if there was a “buy point” where falling home prices intersect with rising mortgage rates, causing the on-the-fence homebuyer to take action. “The ‘buy point’ has already passed. Waiting for new home prices to fall and mortgage rates to

fall further isn’t an effective strategy. That’s about as smart as waiting for the Dow to go back to 6500.”

One of Ryness’ fundamental premises is that when builders sell below their basic construction costs, there is no reason to believe additional inventory will be forthcoming. The public should understand that the current low price environment in new homes “will be gone before the headlines hit the papers.”

He suspects that one reason there hasn’t been the expected flood of existing home foreclosures (as predicted by doomsayers) is that the government isn’t exerting any pressure whatsoever on banks to clean up non-performing assets. As Ryness studies markets throughout California, he observes, “We’re seeing multiple bids on well-priced existing and foreclosed

properties. The longer that continues, the sooner we’ll see prices rebound in response to the increased demand.”

Ryness also supports California Governor Schwarzenegger’s proposal of a new homebuyer tax credit that would apply to the purchase of existing as well as new homes. “We have a 30-40% unemployment rate in the new home construction labor force. Creating more housing demand and allowing price pressure to occur in the new home arena will be the biggest step the state could take to stimulate job growth. We could end the Great Recession in California and get to single digit unemployment rates within six months.”

About The Ryness Company

The Ryness Company has been at the forefront of some of the nation’s fastest growing

new home markets for nearly 35 years. The company provides strategic data, advice and counsel in such areas as land acquisition, market research, new home brokerage and marketing management. Gary Ryness has served on the Advisory Board for the USC Lusk Center for Real Estate and is a 2002 inductee of the California Building Industry Hall of Fame. He is also a recipient of the Legends of Residential Marketing Award from the National Association of Home Builders. For more information visit www.ryness.com.