Housing slump blamed on market psychology

Sellers holding out for premium prices were out of sync with buyers expecting bargains last year, California Association of Realtors report says.

By JEFF COLLINS
THE ORANGE COUNTY REGISTER

California's housing slump resulted in part tions of buy deals and s um for thei group conc

Higher i fordability reasons fo the Californ said in its 2 nia Housing Tuesday.

The report said the robust economy, a growing population and low interest rates by historic standards should have kept the housing market

said.

The report said a wedge developed between buyer and seller, caused by buyers waiting for prices to come down as sellers continued holding out for the same premiums that homes fetched in prior years.

Association President Colleen Badagliacco said the role of real estate at period was to try rs that the market t it took from two to hat message to sink

ber that their neigh ouse, just to pick a 0,000 four months co said. "In their e house is worth agent has to be the

Some local Realtors said fellow agents sometimes made it harder to educate sellers, telling prospective clients what they wanted to hear just to get them to sign a listing contract. The process is called "buying the listing," said Huntington Beach agent Barbara McCall.

"They're not doing the seller justice," she said.

Coldwell Banker agent Mac Mackenzie blamed a huge portion of the wedge on "unethical behavior of agents" who refuse to tell prospective clients the truth.

"They give them incorrect information to get the listing and do it at any cost," he said.

The Realtors report also concluded that concerns about rising interest rates also affected the market after interest for a fixed-rate, 30-year mortgage rose above 6 percent and stayed there.

When interest rates stopped dropping, the lack of cheaper money also stopped masking the increase in home prices, and monthly mortgage payments started to rise, the report said.

The report noted that when adjusted for inflation, the median monthly mortgage payment for a California home remained below the peak reached in the late 1980s until October 2005.

"It is no coincidence that the market slowed thereafter," the report said.

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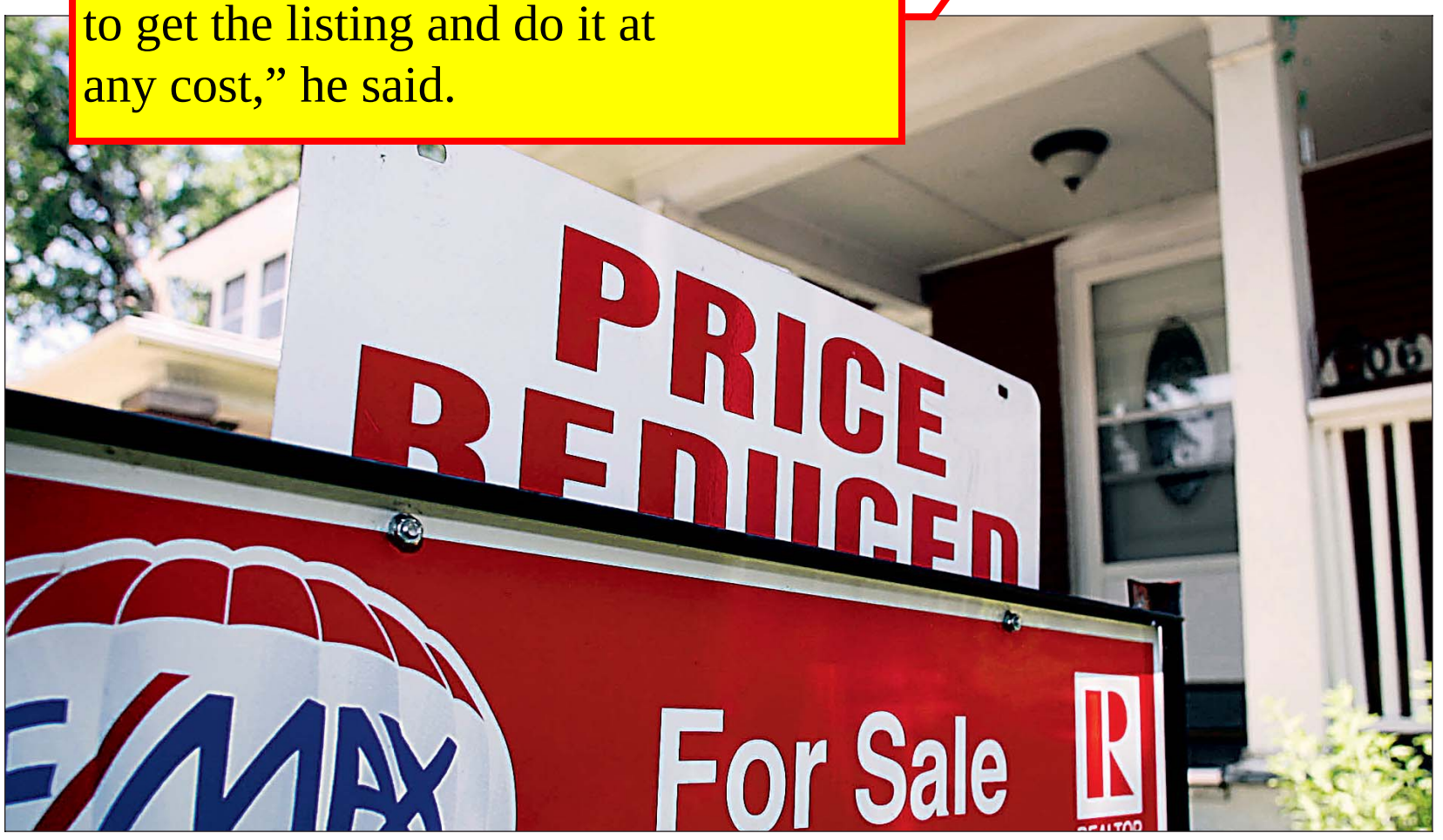

FILE PHOTO: THE ASSOCIATED PRESS

SLACK TIME: Commissions were down in 2006, but commission rates rose because it takes more time and money to sell in a slow market.

AGENTS: Many less-established brokerages closed

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Offices closed. All kinds of things happened to ... keep (offices) running with the total loss of commission revenue," said Rich Cosner, president of a chain of nine **Prudential California Realty** offices in Orange County and the Inland Empire.

Cosner estimates that no brokerage escaped the effects of the decline in commissions and that more than 90 percent of agents were affected.

Many agents have joined the industry during the boom years and didn't know what to do when sales suddenly began drying up.

"It's back to the basics for the industry," said Steven Thomas, a broker with **RE/MAX Real Estate Services** in Aliso Viejo. "Our agency has let people go. Other agencies have let people go. ... We call it the year of the professionals in 2007."

Real Data Strategies estimated total commissions earned per quarter in Orange County for the past nine quarters, using information it compiled from the local Multiple Listing Service, a database for marketing properties offered for sale.

The results: Commissions peaked at $434 million during the spring of 2005, then gradually decreased to $254 million in the fall of 2006 – a $180 million drop.

The decrease per quarter was less dramatic when comparing one fall quarter to another. Still, commissions were down nearly $40 million, or 13 percent, from the fourth quarter of 2005 to the same period in 2006.

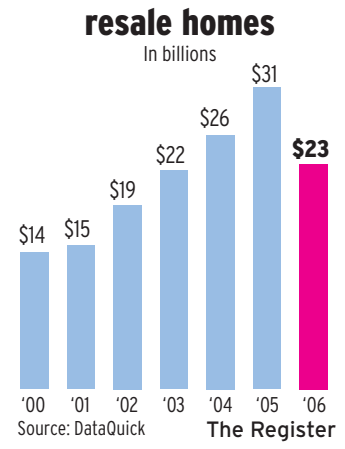
While the top 1 percent of active agents are wealthy, earning an average of $500,000 a year or more, the average agent earned about $40,000 in 2005, an earlier Real Data Strategies study showed. About half the agents earned less than $15,000.

Estimated real estate commissions earned for resale homes sold in 2006

Quarter/year	Units sold	Total paid for homes sold	Approximate commission rate	Approximate commission	Change in commission from 4th quarter 2004	Ratio of sale price to original list price
Q 4/ 2004	9,360	$5,833,329,840	5.5%	$320,833,141	0%	94.3%
Q 1 / 2005	9,361	$6,115,054,528	5.4%	$330,212,945	2.9%	96.4%
Q 2 / 2005	11,887	$8,350,534,291	5.2%	$434,227,783	35.3%	97.7%
Q 3 / 2005	10,813	$7,719,011,432	5.2%	$401,388,594	25.1%	97.2%
Q 4 / 2005	7,907	$5,644,024,507	5.2%	$293,489,274	-8.5%	96.3%
Q 1 / 2006	6,658	$4,980,443,662	5.5%	$273,924,401	-14.6%	96.2%
Q 2 / 2006	8,150	$6,165,523,900	5.5%	$339,103,815	5.7%	95.7%
Q 3 / 2006	6,852	$5,174,054,832	5.7%	$294,921,125	-8.1%	93.8%
Q 4 / 2006	6,008	$4,461,504,752	5.7%	$254,305,771	-20.7%	92.8%

Source: Real Data Strategies

Total revenue from O.C. resale homes



Last year's decline in commissions meant many agents and brokerages on the fringes were unable to stay in the business, said Hamid Kharrat, a district manager for **Tarbell Realtors** and vice president of the Pacific West Association of Realtors. Agencies were forced to cut back on costs like advertising and marketing.

"Some real estate companies will go out of business because their agents are going out of business," Kharrat said. "If you are not positioned right, if you don't have a strategy for market cycles, you'll go out of business."

It could have been worse. Higher home prices and higher commission rates helped cushion a blow caused by the 27 percent to 30 percent decline in home sales last year.

from another research company, DataQuick Information Systems, show that despite the slowdown, 2006 likely was the third best year so far this decade in total sales revenue. The total amount paid for all existing home sales in the county last year was surpassed only by 2004 and 2005.

Although overall commissions were down in 2006, commission rates actually increased as agents sought higher percentages to offset increased time and money required to attract buyers in a slower market.

During 2006, average commission rates rose to 5.7 percent of the sale price after dropping as low as 5.2 percent in 2005, Real Data President Pat Veling estimated.

Since commissions are negotiable, agents often are more willing to accept a lower rate when homes are selling quicker and easier.

Some agents, though, reported that 2006 was among their better years.

"I don't think the market was as bad as it was portrayed," **Seven Gables Realty** agent Lesslie Giacobbi said at the end of a year in which she sold about $30 million worth of real estate. "If a property was priced right, it sold."

Amanda Wheeland, a flat-fee broker, said last year's market actually favored her business because she was able to take over expired listings and sell homes that full-service agents couldn't sell for a reduced price. Her sellers still had to pay full commission to buyers' agents to attract showings, however.

Still, Wheeland said many agents who were just barely making a living selling homes had to leave the business or go into a related field like property management.

"If they're not getting clients, they're not making enough to pay their rent," Wheeland said.

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DVDS: Stores plan to have 500 movies per kiosk

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automated rental kiosks to **McDonald's** – rolled out devices in Las Vegas and at a Corona Albertsons this week. Southern California stores, including those in Orange County, should see the rollout completed by June, according to Redbox.

The announcement comes as more grocers begin cramming storefronts with self-serve options such as retail gift cards and coin-cashing machines. "They are trying to be everything for everyone," Mogelonsky said.

Stater Bros. offers a self-serve movie rental kiosk at a store in Laguna Hills. **Kroger Co.**, the parent company of Ralphs, also said this week that it will install 174 movie rental devices in Ralphs, Food 4 Less and Fry's stores in California, Nevada and Arizona, according to trade publication Supermarket News.

It was unclear when the kiosks would arrive in Orange County, a Ralphs spokesman said Tuesday.

When Albertsons rolls out its help-yourself DVD service later this year, shoppers will choose from 500 movies. Of those, more than 70 will be new releases, said Greg Waring, vice president of marketing at Redbox. For example, Tuesday afternoon the Stater Bros. Redbox in Laguna Hills was offering **Disney**'s "Cinderella 3: Twist in Time" and "Flags of Our Fathers."

To ensure the availability of movies, shoppers will be allowed to reserve movie rentals through the Redbox Web site. Deadlines to return the $1 movies will be 7 p.m. the next day, Waring said. Customers will be charged $1 for every night that a movie is returned late.

For those wanting to rent the old-fashioned way, Albertsons spokeswoman Lilia Rodriguez said, stores with "video rental centers aren't going away."

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181 O.C. businesses sold in four weeks

By JAN NORMAN
THE ORANGE COUNTY REGISTER

More than 180 businesses in Orange County sold in the past four weeks, second only to Los Angeles County in California sales of privately owned small to mid-sized companies, according to Web site **BizBen.com**.

From Jan. 8 through Feb. 5, a total of 1,327 California businesses sold. The top counties in number of sales are Los Angeles, 473; Orange, 181; Santa Clara, 81; San Bernardino, 75; San Diego, 70; and Riverside, 60.

Typically, Orange County is second in number of business sales, followed by the Inland Empire, said Peter Siegel, San Ramon business sales consultant and founder of BizBen.com, a businesses-for-sale Web site that lists more than 6,600 firms.

"There are a lot of small businesses in Orange County ... and a lot of businesses brokers doing a lot of business there," Siegel said.

BizBen.com gets its statistics from California's 58 counties, the Web site and statistical modeling that accounts for businesses that sell without going through escrow, Siegel said.

The total number of sales statewide declined 3 percent in January, compared with the same month in 2006, according to BizBen statistics. In 2006, 20,182 California businesses sold.

"The type of businesses that are hot right now are manufacturing, niche services, gas stations and car washes," Siegel said.

BizBen has been online for nine years, said Siegel, author of the books "Selling a California Business" and "Buying a California Business."

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PACSUN

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company had planned for d.e.m.o. as recently as early 2006. Seth Johnson, then Pacific Sunwear's chief executive, thought the d.e.m.o. chain could eventually grow to 400 stores. Johnson resigned last year, and Sally Kasaks is the interim chief executive.

Pacific Sunwear said it is closing the stores for a variety of reasons, including mall demographics, store layouts and store economics.

Stores selling urban apparel have faced a tough time as consumer demand has shifted over the past few years. Denim and oversized tops once characterized the urban look. But now skate-inspired designs and traditional preppy clothes also influence this urban style, Kummetz said.

Because the PacSun chain also struggled for much of last year, Kummetz believes the move to trim back the d.e.m.o. chain could foretell a similar streamlining of the PacSun business.

However, Kummetz added that the company might also keep PacSun stores because they're the bread and butter of its business and there are opportunities to turn the chain around.

"There's a lot to be done to improve PacSun, but some of that will be muted by their competitors **Zumiez** and **Hollister**," he said.

Pacific Sunwear released the news after the stock market closed. Shares dropped about 3 percent to $19.15 in after-hours trading. The stock's 52-week range is $13.12 to $25.26.

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