

Gary London >>REAL ESTATE

Look to the Future, It's a Bargain Basement Economy



When conditions appear the darkest, it is actually a good time to think about the future.

The cataclysmic economic events of the past two weeks

cause me to think about the recovery phase of the market.

I cannot know whether a \$700 billion government bailout is the elixir. While the problem we are dealing with is gargantuan, the explanation is not complicated.

A very large amount of bad loans were made to people who were not qualified. The loans were made by entities that took a fee and/or profit, and then downloaded the problem to investors.

Those investors were caught holding the bag.

Many are now out of business, or tottering.

And now, apparently, so are we.

The taxpayers are apparently about to go on the hook with government intervention.

Let's hope the details get worked out so that recovery can occur in a manner that will minimize long-term repercussions.

We know that credit of any kind — for homes, cars or businesses — will not be easy to attain for the foreseeable future, and this will affect our spending habits, and undoubtedly further slow the economy. My clients are literally finding it impossible at the moment to find lenders willing to offer even relatively modest loans backed by collateral of high qual-

ity real property assets.

First Time Buyer Will Be Back

Many of the consumers who opted to take the risky loans that got us into this mess were first time buyers, the very consumers who ought to be the strength of this market, not its weakness.

While many were able to qualify for loans by securing subprime mortgages with little or no money down, and on stated incomes, most weren't seasoned for this market.

They should have been advised to wait, save more and progress in their careers.

The first time buyer will be back, with a vengeance. In fact, the largest share of the market in the next 10 years will be first time buyers.

This is a demographic certainty because there are more than 80 million "Gen Y" youngsters coming into adulthood.

Therefore, I advise serious investors to concentrate on this huge market.

The next challenge, as the economy stabilizes and eventually expands, will be to get supply to this market.

The illusion is that this is already an oversupplied market.

While true of inland California, Arizona, Florida and Nevada, it is mostly not true of coastal California, where home builders have slowed their delivery, and in most cases are now extinct.

Even when the recovery starts, there will be a significant lag time between newly minted demand and the ability to add to the supply.

Also, there will be few additions to the supply of single-family homes because

of entitlement constraints and a permanent shortage of developable property in our region.

Construction of new homes will be mostly condominiums, in dense, vertical configurations.

Strategies For Investment

When the market recovers — however long it takes — my bet is that the trajectory of property value increases will be very steep locally. Having set the stage, here are some tips:

- Don't wait for the bottom: We can only know the market has bottomed after it has risen. It's better to start your investment shopping now, find the deal, and act when you sense that the opportunity is good.

- Investors should concentrate on what will be difficult to replace, including homes, apartments and select commercial deals.

- Consider investing in rental housing. It will be in high demand as prospective first time buyers will take longer to be in position to purchase.

- Buy a house: The best investment

I ever made was in my first house. I caught the bottom, watched the market rise for three years, almost caught the top, watched my down payment increase fivefold when I sold, and then was able to purchase a bigger, better house.

- Stick to the local area: I can't think of a better market than San Diego, for the supply constraint reasons I have mentioned, but also because it is a good bet to recover economically.

- Research the market: There is no substitute for research. This includes knowing values, transactions, players, targeted opportunities, types of consumer demand, etc.

The best advice is to preserve cash and begin the process now of searching investments. If you don't do it, others will.

There is plenty of capital positioned to take bargains. Right at this moment, this is a bargain basement economy.

Gary H. London is president of The London Group Realty Advisors, which provides real estate consulting and economic analysis.

Heller Has Few Alternatives

Following a breakdown in merger talks with multiple suitors and a string of partner defections, law firm Heller Ehrman has struggled to find its footing in a muddied economy.

The firm's merger talks with Chicago-based law firm Mayer Brown fell apart two weeks ago, and partners were reportedly told that dissolution was among the options facing the San Francisco-based firm.

Lawyers and recruiters with knowledge of the matter said the firm faces the grim possibility of dissolving within days.

"I think it's going to dissolve; I think that's imminent," said San Diego legal recruiter Larry Watanabe.

It was unclear what that would mean for attorneys based in Heller's La Jolla office. The law firm did not return phone calls or e-mails requesting further information.

Alan Blankenheimer, one of 14 intellectual property attorneys rumored to be leaving Heller to set up a Silicon Valley office of Covington & Burling, said he was advised not to comment on matters surrounding the firm's actions. Covington & Burling did not

return phone calls inquiring whether they planned to hire any Heller attorneys.

A tough economic climate coupled with declining revenues and several litigation cases settled in a short period last year has put Heller Ehrman in a difficult spot. Profits per partner, a traditional measure of a law firm's success, fell by 3 percent in 2007 to \$1 million. The firm's revenue per lawyer fell by 5 percent, to \$805,000.

Attempts to merge the firm into a number of other firms were not successful.

Bob Harris, a spokesman for Mayer Brown, responded to an e-mail saying the firm ended talks with Heller because "various issues, including client and practice conflicts, could not be resolved."

The breakdown in merger talks marked the second time Heller failed to woo Mayer Brown. Earlier this year, talks were shelved because of potential conflicts between Mayer's representation of insurance companies involved in litigation and Heller's insurance recovery practice.

— Heather Chambers

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Job for People with Disabilities

In conjunction with National Disability Employment Awareness Month in October, the San Diego Committee on Employment of People with Disabilities will host the ninth annual Jobtoberfest Job Fair for People with Disabilities on Wednesday, October 1, 2008 from 10:00 am to 2:00 pm at the Balboa Park Club.

ENTHUSIASTICALLY SEEKING EMPLOYERS TO PARTICIPATE!!!

Registration for Employers is \$100.00. Nearly 1,000 job seekers attended last year's event. Contact Caren Harris at 619-767-2136 or CHarris@dor.ca.gov or sdcepd@gmail.com. Breakfast provided by Marriott International and lunch provided by Harrah's Rincon Casino & Resort; drawings for employers throughout the day. For sponsorship opportunities, visit www.sdcepd.com for details.