ARCADIA LAND • COMPANY Newsletter

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Arcadia Book Corner

The Option of Urbanism
by Arcadia partner, Christopher B. Leinberger.

Americans are voting with their feet to abandon strip malls and suburban sprawl, embracing instead a new type of community where they can live, work, shop, and play within easy walking distance.

Views of Seaside
by Seaside Institute.

A book about the iconic community of the New Urbanism-- Seaside-- developed by Arcadia partner, Robert Davis.

Last Harvest
by Witold Rybczynski.

A book about American development told through the lens of Arcadia's New Daleville community in Chester County.

Greetings!

"...from a technical perspective the recession is very likely over at this point..."

Ben Bernanke, Chairman of the Federal Reserve

There's been a glimmer of optimism in the Mid-Atlantic housing industry with Ben Bernanke's recent pronouncement of the end of the recession. Is the worst behind us? Maybe. But before you head out and mortgage the farm (that is, if you can find a lender willing to take that deal!), we offer a few words of caution.

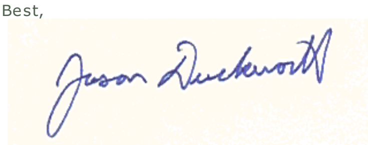
There's no doubt that the Case-Shiller index suggests that house prices have bottomed. The Case-Shiller Composite 20 index shows that national house prices reached their nadir in May 2009 and climbed slightly for two consecutive months. As of August 2009, seasonally-averaged new home sales were about 30% above their January 2009 low-point, says the Census Bureau. Pundits point to new-found housing affordability (e.g., the National Assoc. of Realtor's Housing Affordability Index is nearly at an all-time high) and the Federal government is firing every weapon in its economic arsenal to stimulate housing demand. All good signs that the market may be finding its footing.

But if housing is so affordable now, why are sales still at near all-time lows? Where's the big "V-shaped" rebound? Clearly, rising and high unemployment in many markets has eroded consumer confidence. But a more important factor, in our view, is the widespread phenomena of negative home equity. According to First American Core Logic, at the end of the second quarter of 2009, 32% of all properties with a home mortgage in the United States were worth less than the mortgage debt. It is worth repeating: nearly 1 in 3 home mortgages was underwater! For all intents and purposes, these households--at last count 15.1 million households--are out of the housing market. If you look at all homeowners, household percent equity (i.e., house equity as a share of house price) is at a post-World War II low. Depressed home equity means depressed housing demand.

We are in unchartered territory. Since WWII, Americans have enjoyed an almost unbroken expansion in house prices, causing home equity to become the most important source of household wealth creation. This 60-year paradigm for prosperity has come to an end. The fate of our industry lies not in a return to the good old days, but in a new and as yet unknown paradigm.

Until that new paradigm emerges, our most reliable housing consumers will be those with non-discretionary housing needs (e.g., first-time homebuyers, newly hired workers, immigrants) who have a modicum of savings, income and credit.

Best,



Jason Duckworth

New digs in Haverford.

Whew! We have finally settled into our new offices in Haverford. We are across from Saxbys, a short stroll to Du Jour, and on the doorstep of the greatest walking/running trail on the Philadelphia Main Line--the Haverford College nature trail. We hope to see you here for a visit soon.

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