



# ROOTNOTES

Brought to you by Mike Root, Judy Cooke & Emmet Root

A Furniture Newsletter for Mid-America

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## Special Pre-Market Issue

See Pre-Market Pictures Inside From Ligo, Progressive & More

## Hurricane Victims

### This Could Be the Last Pre-Market Edition Ever

September and March have been the bi-annual furniture industry migration to North Carolina by a select number of large retailers with the sole purpose of getting a jump start on the main market the following month. It used to be that retailers could come and look at a factories new offerings, make product suggestions and see the fine tuned samples a month later at the main show.

Now with so many products coming from overseas, there is no way that changes can be made in time. Therefore one of the original reasons for pre-market is gone. Add in the new Las Vegas market in which a number of retailers attended, and you have an ever diminished role. Right before pre-market a couple of major name brand manufacturers announced that they would not show. One final factor that caught a number of major retailers attention was a furniture show in China.

The decreased level of importance was quite evident at September's pre-market. We saw three dealers, and all were seriously considering whether they would ever come again. What I heard in the spaces was dealers from around the country were asking if there was a legitimate need for the show.

If the demise of pre-market occurs that may be the first step in a lessening importance for the overall High Point market. The folks in High Point are definitely concerned. Buildings were getting spruced up, and all kinds of plans to better accommodate buyers are being discussed for October.

There's a potential collision course developing between High Point and Vegas. High Point is asking if they should move the main market to March and September to better accommodate the actual selling seasons. Vegas is asking if they should move their market to March and September once all the buildings are built. We could have one be an east coast market followed by a west coast market.

Our current market system will be just like our industry over the lasts several years - tumultuous. There will be several changes as each market from High Point to Tupelo to Vegas tries to figure out what their niche is. The manufacturers who ultimately support the market system will vote with their pocket books. If they don't get the returns they want, they won't show. If Vegas keeps attracting retailers then manufacturing will keep adding space. Ultimately you, the buyers, will determine the fate of High Point, Tupelo and Las Vegas markets. For once you're the customer so enjoy.

The biggest question will be if High Point can continue it's dominance as a national market in the face of a very credible long term threat from Vegas. From what I saw at pre-market, the tide could be turning. The folks at High Point know it. They only have a couple years to turn it around. Expect the red carpet treatment. The reality is that you will still overpay for limited hotel rooms, dining and car rentals. That will be offset by the tremendous selection of product that manufacturers can show in High Point versus the much more expensive Vegas. It will be a battle, but the winner will be all of us as the market system can only get better.

According to the Publication Trends, housing prices expanded by 14.5% in the year ended June 30, 2005 which is the fastest annual pace in 25 years. Speculation is a big part of this growth as people believe they can benefit from quick real estate appreciation. Lenders with money to put to use have developed several new types of loans including interest only mortgages. The speculators borrow at interest only for the first year and low payments. When the interest goes up and the speculators hope to turn the property for a quick profit. One third of mortgages in the US are interest only and in the riskiest markets 2/3 of the mortgages are this way.

Since the real home appreciation historically has averaged only 0.4%, there are concerns growing that the appreciation in homes will not continue forever. The Trends editors predict the following to occur:

- 1) Many investors will sell their over priced homes and take advantage of cheap rents. They'll use their cash to get greater returns in the equity markets.
- 2) Mortgage rates will remain low. The most over-priced markets will decline, chastening speculators in other markets and leading to a national leveling of prices rather than a major price decline.
- 3) There is a strong possibility that we will see widespread foreclosures on interest only mortgages, especially on transactions involving speculators.
- 4) The correction in the real estate market will not trigger a recession.
- 5) The housing bubble is causing a major shift in population from large cities and suburbs to smaller towns with a better quality of life.
- 6) Equity investments will be better than real estate.

### Off the Internet

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