Summer 2013

In Focus
San Diego Real Estate

Greater San Diego Association of REALTORS® in partnership with The London Group presents:

Executive Summary

- *San Diego added more than 26,000 persons to its population base in the past year, creating more than 10,000 households.*
- *Local employment in the past year increased by 31,000 jobs, the third highest in the state, trailing only Orange and Los Angeles Counties. One-third of the local job gains were in the professional and services fields, both well-paying sectors of the economy.*
- *New "for sale" home construction was meager, providing only 2,000 new single family homes, less than 25% of production in the mid-2000's.*
- *Resales topped 40,000 homes and condominiums, with single-family prices up 14% and condominium prices up 21% in the first quarter of 2013 over first quarter 2012.*
- *The inventory of homes for sale declined substantially, both in the market-rate and distressed categories. Foreclosures and short sales continue to dissipate.*

Provided courtesy of

SDAR
GREATER SAN DIEGO ASSOCIATION OF REALTORS®
The Trusted Voice of San Diego Real Estate

www.sdar.com

In This Issue

Residential Real Estate Market Report

Customize this Market Report.
Contact SDAR about how to brand for your business!

New Jobs Drive the Real Estate Market

Alan Nevin

During the past year, the San Diego housing market has been unusually robust, both in the for-sale and rental sectors. Apartment occupancies are at 95% and higher, with rents solid and rising. On the for-sale side, there simply are not enough listings to keep up with the resurgence in demand.

The resale market is being driven not only by the increase in jobs, but also because of the dearth of new homes being produced here. New home production is down 80% since the boom years. In 2012, only 2,200 new homes were permitted, compared to 9,000 to 10,000 units in the boom years.

The key problem is a near absence of developable lots. San Diego County virtually exhausted its lot supply in 2007. In previous recessionary periods, equity sources have come forward to resuscitate the supply of lots so that in the next round of economic expansion, there would be a sufficient number of lots to satisfy homebuilder and homebuyer demand.

This time is dramatically different. This time, with the S&L's and "New York" equity sources gone, there has been no source of funds to develop new lots. Now we sit in a recovery mode, but the lot supply industry will not be able to produce new lots for at least two years. Most of the new lots will be in the Otay Ranch in Chula Vista, with remarkably few new lots in the areas north of Interstate 8. Those lots that are produced north of I-8 will typically result in homes priced over $700,000.

Similarly, condominium construction financing is exceptionally difficult to obtain, and land for condominiums is in equally short supply.

As a result, the housing market will have to rely on resale homes to satisfy its needs. That is resulting in a strong housing market with prices moving up at a pace far greater than the rate of inflation. The resale market is being abetted by the continuance of low interest rates for qualified buyers.

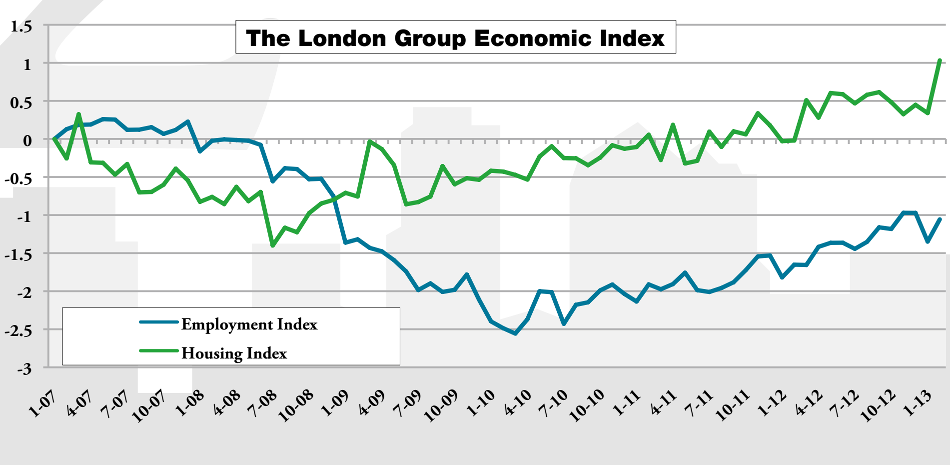
In addition, the entire resale market is being driven by a recovering job market in the county. This past year, the unemployment rate dropped to 8.0% and the county added 30,000 jobs — a startling change from recent years.

Better yet, almost one-third of those jobs were in professional and business services and half of those were in the professional, scientific and technical services categories which typically pay very well. Even construction jobs picked up, largely as a result of new apartment construction.

As most households in the county have 1.6 jobs, annual household incomes are generally high enough to qualify for a home or a condominium.

In 2012, more than 10,000 new households were formed in San Diego County, thereby expanding the demand for housing.

Overall, the economy of San Diego is on a roll, a situation that augurs well for housing values, but makes it increasingly difficult to find a home for sale without multiple offers.



Thoughts on the Residential Market

Gary London

With the residential markets on an upward trajectory after six years of recession in the local real estate sector, here is my sense of what the future will bring. I will summarize what I see as the issues the market faces, as well as the opportunities:

- This will be a long recovery. Over the past 40 years there have been four economic prosperity cycles ranging from three to ten years. Generally, the length of these prosperity cycles has roughly corresponded with the preceding down cycle. This past downturn was the longest, so by historical trends this prosperity cycle should last a considerable time.
- That sense is bolstered by the strongest demand generator ever: The coming into adulthood of the "Millennials," the largest demographic cluster ever in America, whose members are currently aged 22-32 and who are just now warming up to their home-buying years. Now marks the beginning of a cycle that starts with renting, and then move ups to condos, a home, and then the next home.
- This demand spike, however, will not be met with a corresponding supply spike. With the exception of South County, this region is mostly out of developable land. Without land, there can be no development. In particular, now marks the end of the era of single-family development in our region. The new targets will be infill locations in existing communities. The home construction market has been extremely slow to start up again. As it does, builders will be building mostly condominiums in various multiplex configurations ranging from row homes to towers in small configurations.
- There is likely to be an unprecedented run-up in demand which will, in turn, bid up housing prices. Only a slowed economy, or a change in the allowable deduction of mortgage interest in the tax code, will stop unprecedented price climbs. We could very well see a speculative frenzy again toward the top of the cycle.

(continued on next page)

Thoughts on the Residential Market *(continued)*

Gary London

- Much of the proposed housing will be proposed in locations and in density or height configurations which will be challenged by existing residents of those targeted communities. The basis of those challenges will be concern over the change of the character of their communities, or a project's impact on infrastructure, particularly street traffic. There will be serious resistance to new development, and this will form the basis of a new era of land-use battles.
- There will also be resistance by organizations bent on preserving existing structures, many of which have been declared historically significant. In California, all structures aged over 45 years are subject to historical audit by City code. The definition of what is, in fact, historically significant is so overly broad that it has become an absurdity. In effect, the historical preservation argument will become the sword by which NIMBYs will attack new project proposals.

The bottom line is that over the next six years REALTORS® can expect listing levels to increase, but probably perpetually insufficient to meet housing demand. Pricing, which has spiked over the past year, may be periodically wobbly, but over what I expect to be a surprisingly short period of time will rise beyond the 2006 bubble levels, and then beyond.

Home Prices Soar: Is It a Fluke?

Robert Martinez

In the first quarter of 2013, more than 7,500 homes and condominiums were sold in San Diego County, beating first quarter 2012's 7,487. Both years evidence great strength in the market, especially in consideration of the dearth of inventory.

The more entrancing statistic is that single-family home prices in the first quarter of 2013 averaged nearly 15% higher on a per square foot basis than in the first quarter of 2012. Condominium prices accelerated 20% in that same time frame.

The average price of a detached home in the first quarter of 2013 was $523,000, up from $463,000 in the first quarter of 2012. In the condominium sector, the average price countywide was $322,000 compared to $261,000 in the first quarter of 2012.

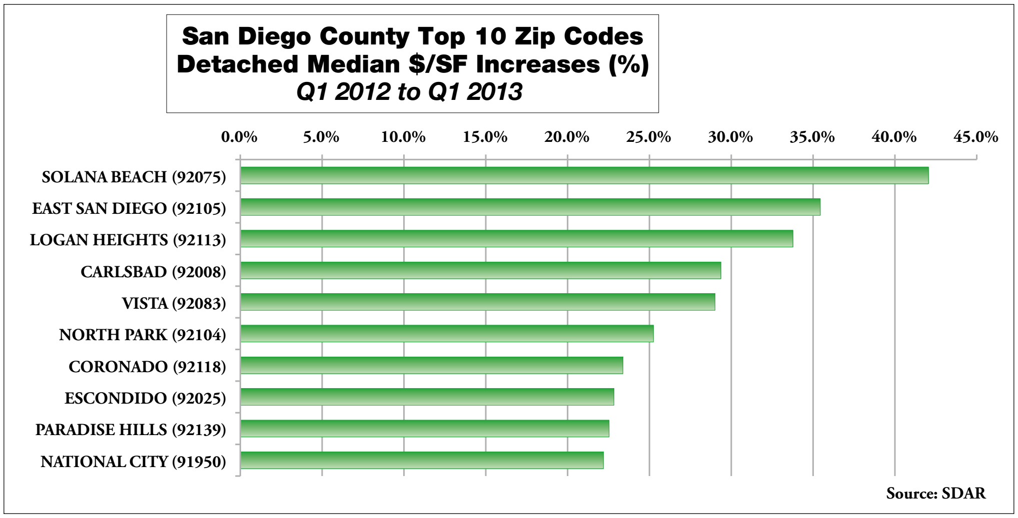
In the top 10 zip codes (in terms of median dollar per square foot) several zip codes had price increases of more than 25% from the first quarter of 2012 to first quarter 2013. In the detached sector, the top ten zip codes were scattered throughout San Diego County, with sales in Solana Beach, East San Diego, Logan Heights, Carlsbad, Vista and North Park all experiencing more than a 25% price gain.

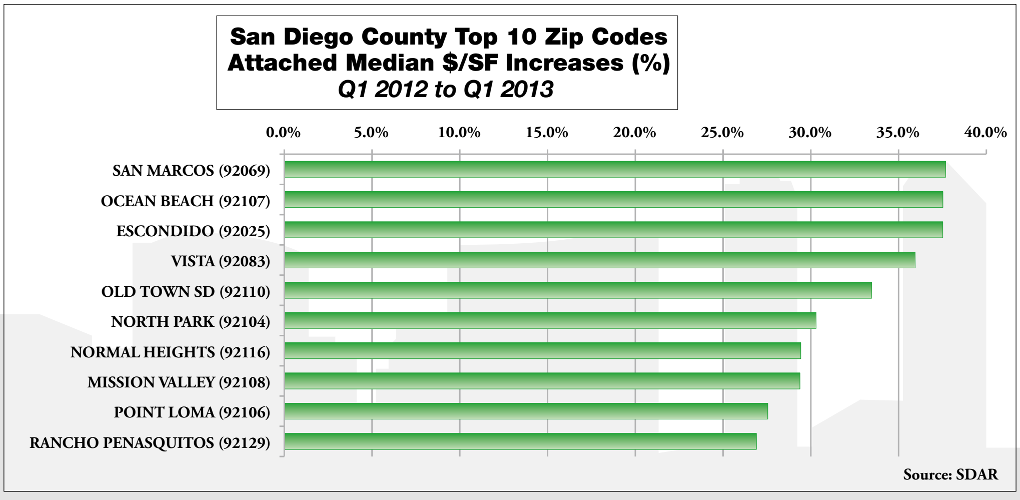
In the attached sector, all top ten zip codes had price gains in excess of 25%, with San Marcos, Ocean Beach, Escondido and Vista showing gains of more than 35%.

We cannot expect the price increases to continue at this same pace in the near-term future, but should recognize that the price increases are a confluence of an expanding job market, a major decline in foreclosures, a paucity of inventory in both the new and resale market, and a rise in consumer confidence.

Days on market are 25% shorter and in a normal market there are six-month active listings for each sale. That average is now less than three months.

The next quarter should be very interesting.





Expanding Demand for Downtown Office Space: a realistic possibility?

Chris Lisle

In most booming downtowns in the U.S. and Europe, 20-30% of all jobs are located in office buildings. In San Diego, it's a paltry 4%.

In virtually all of those job-centric downtowns, there is either a major hospital or a major university (or both, or more than one of each). Our downtown has neither. That means that if downtown San Diego is going to become a true urban center, it must rely on a major boost in the office employment market.

The downtown supply of office space has remained relatively stable for the past 20 years, but occupancies have declined, both as a function of the recent recession and the move-out of major tenants who have typically opted to move north along the Interstate 5 corridor between UCSD/UTC and Del Mar Heights.

The question remains: Is it possible to attract sufficient employment in office space to dramatically increase the percentage of the workforce that goes downtown in the morning, or better yet, already lives downtown and now reverse commutes?

There are three specific niches that could play into the expansion of the office market downtown: The attraction of major employers who would occupy substantial space in an existing or future office building; the massing of start-up high-tech companies (particularly companies that do not require lab space); and the return to downtown of professional services firms. Currently, there are 1.5 million square feet of vacant space downtown, so we can accommodate at least 7,000 new jobs before we even have to break ground on new space.

There are two parallel paths to achieving new office employment downtown. The first is a massive joint campaign by downtown San Diego, Civic San Diego and the City Hall. The second is a program of incentives. Despite the fact that we no longer have redevelopment funds available, there are numerous other ways to accomplish this goal.

Among those ways could are contributions of land (the City owns many vacant or underutilized blocks/parcels downtown); public/private partnerships; and tax incentives. In addition, other creative examples come to mind. In the Columbia District, for instance, there is an outdated requirement mandating that new structures consist of at least 50% office space. Partnerships can be forged between office users who could occupy lower floors and residential developers who could construct condominiums or apartments on the upper floors.

As might be expected, the success of bringing new jobs downtown will not occur unless the City puts in a concerted effort to make it happen. A logical first step would be to form a joint venture to build a new City Hall, where the City acts as an anchor in a new office complex that "seeds" the development of other adjacent buildings in an exciting new office district. One can only hope.

THE LONDON GROUP
REALTY ADVISORS

Editorial and analysis provided by The London Group Realty Advisors (londongroup.com) – a real estate consulting firm that provides advisory services to the investment, development, legal and brokerage industries.

SDAR
GREATER SAN DIEGO ASSOCIATION OF REALTORS®
The Trusted Voice of San Diego Real Estate
www.sdar.com | (800) 525-2102