Fall/Winter 2013

In Focus

San Diego Real Estate

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

Residential Real Estate Market Report

Executive Summary

- *Since the great fall in 2009, California has gained more than 900,000 new jobs and has seen its unemployment rate decline from 12.4% to 8.7%. This is a major recovery.*
- *Since 2009, in San Diego County, we have gained more than 60,000 jobs and have seen unemployment decline from 10.2% to 8.7%.*
- *Virtually all sectors of the job market are showing gains – an indication that our County is well on its way to economic recovery.*
- *The clear evidence is the booming resale market which will top 40,000 homes sold in 2013 with prices rising routinely.*
- *Much of the price increase in the resale market is due to the paucity of new construction, a situation that won't change until 2015 when the south county lot supply will open up. Until then, the demand for sale housing will continue to expand, but the inventory of homes will remain stable. Definitely a seller's market.*

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In This Issue

San Diego County: All is Not Equal in Recoveryville

Alan Nevin

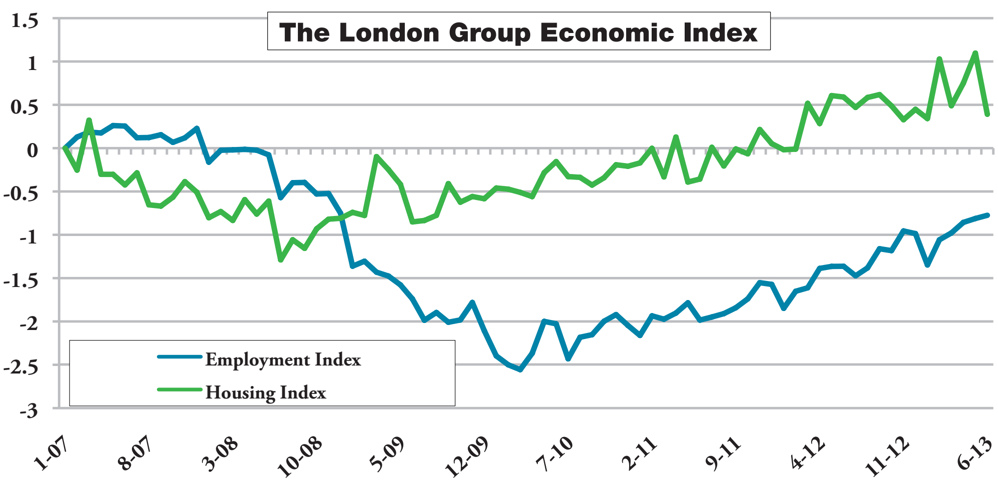
When I first came to San Diego County in the early 1970s, I did an analysis of the price of housing based on a home's distance from the Ocean. My "100% corner" was in La Jolla where if you could walk out the door of your house and be on the sand, the price per square foot was sinful. One block off the beach, the dollar per square foot dropped almost in half. And then west of I-5 but still in La Jolla (but not walking distance to the ocean), home prices dropped dramatically. By the time you reached East County, prices were 10% of what they were on beachfront.

Today, that mathematical exercise still applies. I bring this to your attention because of a recent analysis we did that shows price recovery since the depth of the recession (typically 2008-2009). We compared the peak prices obtained in 2005-2006 and then monitored the recovery since then to see how far we have recovered.

As you might imagine, not all areas had the same rate of recovery. And, paralleling the study I did in the 1970s, those areas closest to the ocean had the most vibrant recovery. Thus, the area straddling I-5 from Pacific Beach to Carlsbad has had the strongest recovery. They now are within 14% of their boom-time peak. Carmel Valley is actually within 4% of where it was at the peak. Typically, if you are within three miles of Qualcomm headquarters, your home value is probably where it was in 2005-2006.

As you move to the tertiary areas (the I-78, East and South), prices are still 30-40% below what they were in the hot times. They too are recovering, but at a slower pace. The tertiary areas are suffering because a disproportional percent of the homes are being held by investors, thereby limiting the amount of saleable inventory.

The question needs to be asked: If you were going to invest in a new place to live, will the long-term value of that home increase more in one of the outlying areas, percentagewise, than a home near the I-5 north of Pacific Beach? My bet goes to the homes in the outlying areas. It is more rational to believe that a home can move from, say, \$350,000 to \$500,000 (a 43%% increase) than a \$1 million home can move up a similar percentage to \$1.43 million. Only time will tell. Unlike Del Mar, this race won't end in September.



Planning Growth from an Economic Black Box

Nathan Moeder

Everyone knows the buzzwords related to San Diego's growth: Past is not prologue, building up instead of out, at a crossroads, etc. You can take your pick, but it's clear that the region is constrained in how much housing can be added to the region. However, the various planning agencies seem to be operating from a black box in terms of prescribing growth.

Take the City of Encinitas, for example. Residents there recently passed Proposition A which forces development projects to a vote of the people. Prop A proponents reasoned that they did not like the density being planned along the major thoroughfare of the city (El Camino Real). The city spent millions of dollars on a new plan that assigned densities in this area of up to 45 units per acre. Backers of Prop A thought it was too dense. In actuality, both are wrong.

City planners were prescribing density based on design and what is aesthetically and politically feasible. Nobody bothered to ask the question: Will a developer actually build a project at this density? Or, can this vision actually be built?

This is the critical link. Most of the properties along El Camino Real are operating as commercially viable centers. And as such, represent a higher land basis that a developer would have to pay to acquire property. (This isn't vacant land anymore). In addition, to squeeze residential onto a parking lot of a shopping center would also trigger structured or underground parking.

The bottom line is that redevelopment of existing viable commercial property is expensive and requires significant density to offset the costs. In the world of economic feasibility, and in the context of the Encinitas plan, the future densities should have been in the range of 60 to 80 units per acre. Without this development scale, developers would have a hard time justifying the cost of acquiring expensive commercial property.

While the election was entertaining and got both sides to contemplate about how the city should grow, in the end, nobody won or lost. This struggle was much ado about nothing — development would not have occurred anyways.

Stop Worrying About a Housing Bust

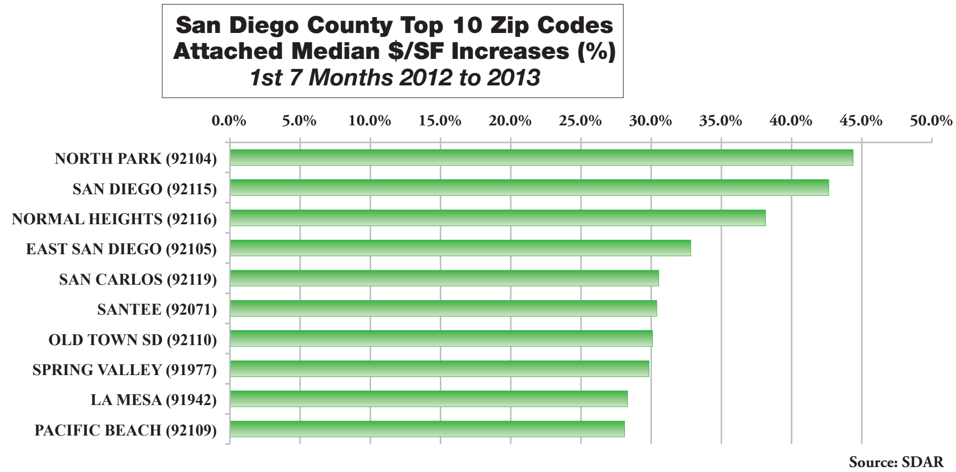
Gary H. London

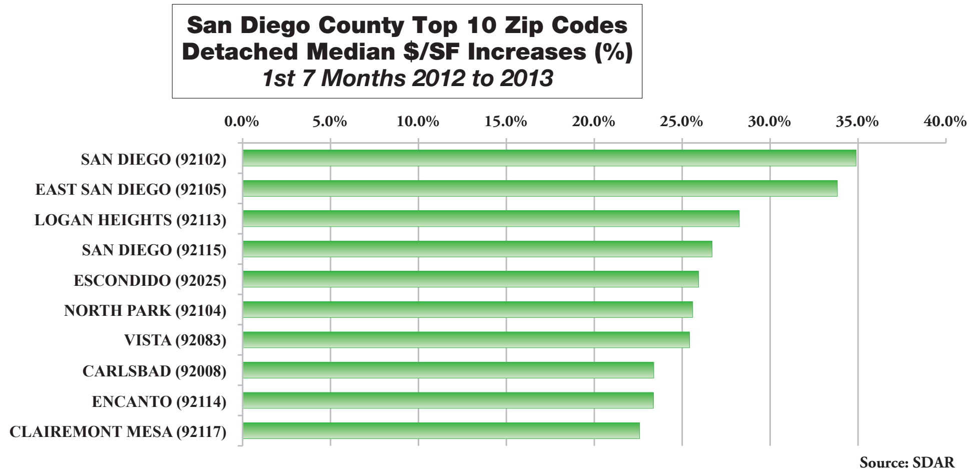
I have been reading and talking to players around the nation, from Manhattan to LA, about the current housing situation. The popular media headlines seem to regularly read "Are we about to see another housing bubble burst?" since the market is, on average, only about 20% below the 2006 peak.

The short answer is "no" unless one cares to interpret a new peak in pricing as a "bubble."

Here is what is going on currently:

- Most housing prices are still below the bubble peak of 2006, but the velocity of pricing increases has been steep.
- Listing levels are low for at least two reasons: The recent velocity of increase has prompted most people to think that if they list now, they will be listing too early; and, a lot of people have homes whose values still haven't recovered to the level of their mortgages, much less beyond. Those listings are mostly people who have substantial equity in their homes stemming from purchasing well before the peak.
- The low listing levels, coupled with the simultaneous increase in demand, is fueling a mini-binge of buyer competition, resulting in multiple bid offers.
- Most of the buyers — and I am not talking about speculators — are households who buy all cash or a lot of cash. That can't be sustainable. It is a phenomenon that will burn itself out soon.
- There are an insufficient number of new homes being built. In some urban markets this is because high-rise development still is not feasible at today's pricing levels. But the overarching reason for a deficiency in new construction is that it just takes time to put a deal together, achieve entitlements, finance and build. There is a built in lag time in the industry. Also true, in the more complicated coastal markets, the dearth of supply will be perpetual because there is simply not enough land to build on.





Here is what is going to happen over the next few years:

- Interest rates will gradually rise: As the economy continues to recover, mortgage finance rates will be coming off the "floor." This will catalyze even more buyers to get into the market, fearing even higher future rates.
- Lenders will reenter the lending business again: Eventually they will provide home loans under more reasonable terms than they presently offer.
- More listings will appear.
- More new homes will be built.
- Housing values will continue to increase, but at a slower velocity
- Demographics is going to matter in the coming years: the Gen Y households are now just entering the housing market, and their numbers will be enormous, suggesting a large "push" factor in demand well beyond where it is today.

Will the market "bust" again?

Sure. All cycles come to an end, and some persons will buy at the peak and get caught holding the bag. I am not sufficiently prescient to know when or what will cause the peak and bust.

What I do know is that it is seldom a soft landing. Usually it is pretty ugly, both for the buyers, the sellers, the builders and the lenders.

The housing system is incredibly inefficient. It is slow to react on the recovery side. It is quick to panic on the peak end. When something goes wrong — and it is a different something each time — people and markets tend to panic and that causes the problem to be even worse.

I see the markets in the early stages of recovery. It is way too early in the cycle to talk boom or bust. It is far better to examine your housing needs and buy to those needs at a price that is sustainable in your budget over the long term.

Employment "Recovery" is Painfully Slow

Robert Martinez

The most recent recession "officially" ended in June 2009. However, according to a recent report by Sentier Research, inflation-adjusted household income in the United States has declined 4.4% since June 2009. In addition, the U.S. lost more than 8.7 million jobs in this latest recession. Although roughly 77% of these jobs have been recovered, the country is still short of peak employment by more than 2 million jobs. To put this in perspective, the U.S. lost 2.7 million jobs in the 2000 recession and 1.6 million in the recession of the early '90s. In other words, we still have a recession worth of recovery to go.

In San Diego, the recent recession took a slightly larger toll on total employment than in the rest of the country with a 7.8% decline in payroll jobs from peak employment levels to the bottom. In the Unites States, that decline was 6.3%.

San Diego has been slower to recover as well. As previously mentioned, the U.S. has recovered 77% of the jobs lost. San Diego has recovered just 66% of the more than 102,000 jobs lost from the employment peak in July of 2007 to the trough in September of 2009.

Although the unemployment rate in San Diego County has ticked up in recent months, there are some industries that are increasing their workforce. Since July of last year, total employment in San Diego's health care industry has increased more than 3%. This is not surprising, though, as this sector has been on a fairly sustained path of growth since 2001. Due in large part to the increase in multifamily development, construction jobs increased 5.1% since July of 2012. Manufacturing jobs continue to disappear with a 2.6% decline in the past 12 months.

So what does this mean? It means that although there is overall improvement in both the national and local economies, there is still some work to do in order to declare a recovered economy, most definitely in terms of employment. There is still some fragility and uncertainty in the economy but slow and sustainable growth is our most likely path.

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