

## THE GREAT SHIFT IN SAN DIEGO HOUSING MARKET SUPPLY & DEMAND

On the local front, the underlying fundamentals for a strong housing (price) recovery have been in progress for the last 15 – 18 months. The pricing and velocity of home sales from the sell side most strongly relate to the simple economic equilibrium of supply and demand. The second variable that is of great importance is the employment situation. Fortunately, this is an area where San Diego is well ahead of the curve.

A healthy amount of supply would be a number of listings that can be absorbed by the market in approximately six months. As the market started to stagnate in 2006 and early 2007, the amount of supply in the market was at times over 12 months worth of inventory.

In the summer of 2006, there were 22,883 homes listed for sale on the multiple listing service (MLS). Simultaneously, home sales were declining from 3,000 a month to half that number. The only solution to this problem was to have the supply (number of listings) decline to a healthy level along with a simultaneous increase in sales volume – and this is exactly what has happened, with ferocity.

By the end of the summer, total listings were at just over a third of where they were two years earlier. At the end of October 2009, there were only 8,677 MLS listings. This in conjunction with a return to a healthy sales volume, the last six months have all had 2,000+ home sales a month, leaves a supply of just over three months of homes.

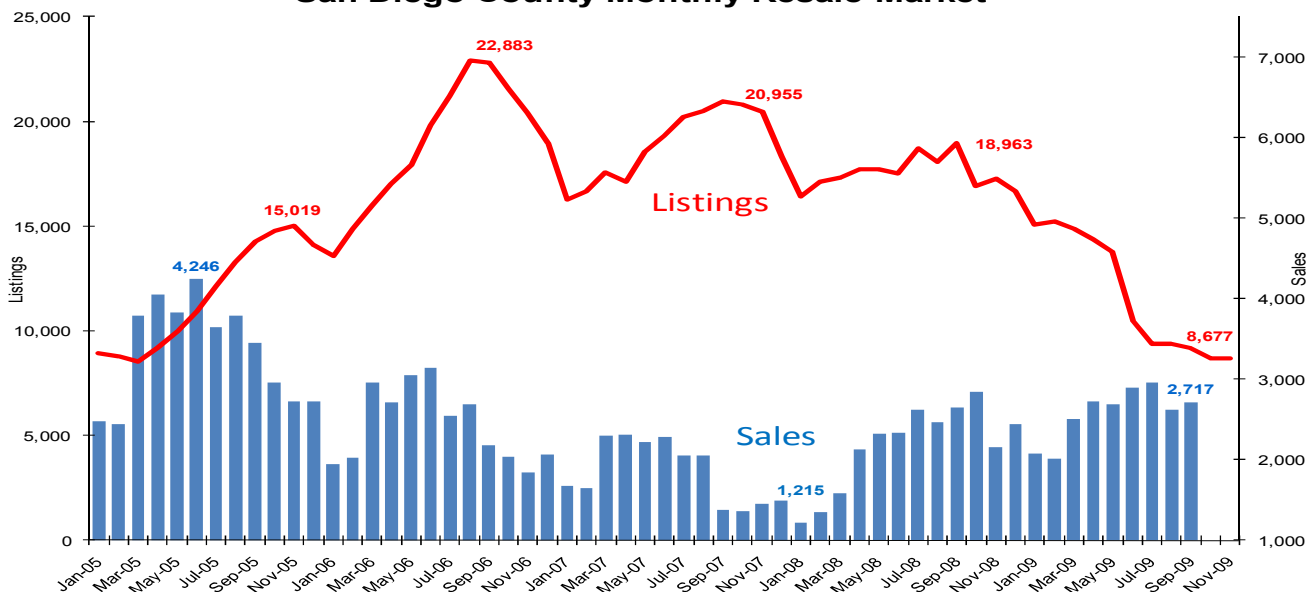
Further, one year ago half of the homes sold were foreclosures. Today, that percentage of foreclosures is down to one-third, indicating a willingness of non-troubled homeowners to sell their homes.

As the chart below dictates, home sales have followed the laws of supply and demand predictably and home prices have troughed and started an uptick. It is too early in the local recovery period to predict the staying power of this trend, but for now, the San Diego market has the “bottom” in its rear view mirror and a return to a healthy supply and demand of its housing stock. In conjunction with a return to normal home affordability ratios and historically low mortgage rates, 2009 is turning out to be one of the great “sweet spots” in homebuying opportunity for many.

While unemployment has played a major role in the current recession, San Diego has fared much better than other regions. San Diego’s economy is insulated by having a diverse employment base ranging from tourism, biotechnology, import/export, military support, government employment and academic employment.

Including military employment, San Diego’s unemployment rate stands at 9.2%, nearly a quarter lower than the statewide figure of 12.0%.

**San Diego County Monthly Resale Market**



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