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The Year Of The Bargains

Home sales will rise in 2009 while new construction falls and commercial landlords remain glum

BY ALAN N. NEVIN

In last year's Future Visions real estate forecast (Part 1), I had it almost right. Unfortunately, like a few thousand other bright people in the world of economics and government, I didn't anticipate the complete meltdown of the financial industries.

We all knew the craziness in the home mortgage business could not go on forever and that the financial world was playing mega-games with our mortgage debt (and other types of debt, as well). Still, it was difficult to envision the type of total crash that took place.

As 2009 dawns, it appears the only businesses prospering are the signage and stationery firms servicing the banking and finance worlds.

In the United States, a new president is about to enter the Washington scene. No president since FDR has faced so many problems so soon after moving into the White House.

Looking back in history, one concludes there are only two types of presidents: lucky and unlucky. Some of the brightest have been unlucky and the reverse is also true. I think President Obama has a good chance of being a lucky president, and almost anything he does will look good after the past administration (and I'm a life-

long Republican).

On the national scene, I foresee the following:

The price of money will continue to fall as the U.S. maintains its No. 1 position as a safe harbor for international funds, and the cash that would ordinarily have gone into international stock markets will remain in cash, maybe even in 0 percent treasuries.

With the price of money falling, long-term interest rates will continue to decline. It wouldn't surprise me to see mortgage rates fall well below 5 percent, especially those offered by FHA (3 percent down) and VA (0 percent down).

As a result of low interest rates, millions of renters who could not previously qualify for a home will scramble to buy up the multitude of foreclosed and short-sale properties that glut many of America's major housing markets.



Even in a greatly slowed commercial real estate market, some projects are moving forward. One example is Jay Paul Co.'s \$1.2 billion Summit Rancho Bernardo, which broke ground in October and will take seven to 10 years to complete.

Remember, however, that a majority of Americans never played housing roulette when the market was steaming. Numerous states — particularly those in the Midwest — did not have supply/demand pressures that caused shortages, nor did they have increases in employment that caused major immigration. In addition, they had few investors who obtained 100 percent loans by claiming to be owner-occupants — the infamous “liar loans” — with the intent of flipping properties for a fast buck. That game was con-

centrated in a few states like Florida, Nevada, Arizona and California.

When the game of musical residences stopped, there were just a few too many residences and not quite enough residents. And the whole system collapsed.

Well, not the whole system. In California, the system collapsed in an area that stretches from eastern Chula Vista to Sacramento, leaving mostly untouched those areas that hug the coast from San Diego to the Bay Area.

In San Diego County, 70 percent of the people live near the coast and 30 percent inland. Conversely, 70 percent of the foreclosures were inland and 30 percent near the coast. During 2008, about 2 percent of the homes and condominiums in the county were foreclosed. It feels worse, but it's a modest percentage when compared to some other California metros, where as much as 25 percent of the housing stock was foreclosed.

Resales of homes grew infinitely stronger toward the end of 2008 than at the beginning. We hit a low point of 1,215 sales in January, a figure doubled by November.

The market is beginning to realize it likely missed the bottom for better quality properties at foreclosure prices. Most Realtors will tell you that there are often eight to 10 offers on a decent foreclosure property and that they typically get bid up over the bank's listing price.

As we gradually run out of foreclosures and short sales, the market will stabilize. Listings, for instance, have been on a steady decline since the second half of 2006, as owners of non-foreclosed units just decided to sit back and wait out the downturn. Today, as many as 50 percent of the

homes sold are foreclosures or short sales, but that will start to subside as we move through 2009.

What else is in the wind for 2009? As the banks become more flexible with their owner borrowers, foreclosures and short sales decline, and interest rates recede, the market will continue to respond with a strong interest in home buying. San Diego County is not the bargain it once was, but it is becoming far more affordable.

On the upper end of the market (\$750,000 and up), sales should be healthy, but listings will continue to remain low as owners await price increases before testing the waters.

The wild card is new housing. Remarkably few new homes will be built in the county in 2009. Fire replacements will continue, of course, but construction of new subdivisions will be meager. It would surprise me if home builders delivered more than 2,000 homes in 2009, a 75 percent decline from the good old days of 2005. We have pretty much run out of subdivision lots as a result of wild sales in past years, and have been processing few new lots. Most of the major home builders have fled San Diego. Other than a few privately held, well-funded builders like Shea, Pardee and Brookfield, there will be few builders starting new projects.

On the condominium side of the market, expect virtually no new construction. The multi-family permits will consist predominantly of market-rate and tax-credit rental projects.

The apartment market will remain stable, with rents inching up in line with inflation.

The commercial real estate market – and particularly the office market – will be stagnant at best in 2009, in

terms of sales activity, rent-up and lease rates. Retail, industrial and hotel markets will remain stable.

The job market in 2009 also will be stable to the extent that there will be few jobs lost except in construction-related industries. In fact, in 2008 it appears we actually gained jobs (except in construction). The same will be true in 2009.

The really bright spots will be infrastructure construction and military construction, both of which are well funded, thanks to bond issues and the federal government. The feds will open the tap for infrastructure. We won't have an FDR-promoted Works Progress Administration, but we'll come close.

Of the major metropolitan areas in the nation, it looks like San Diego will be close to the top in terms of economic gain and overall prosperity. That's not totally bullish, as most of the major metros are not in great shape. But with continued population gains, stable employment, strong infrastructure and military spending, and a relatively strong resuscitation of the resale housing market, we should muddle through 2009 without too many severe setbacks.

Overall, 2009 is a pretty good year to sit back, watch and now and then pounce on a good deal. There's almost nothing that you can't buy cheaper today than a year ago. What a great time to be sitting with cash!

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