

Downtown Derby

With only four condominium projects under construction and sales picking up, the bottom may be history

BY ALAN NEVIN



Something strange is going on: There is life Downtown in the real estate market. Not wild life, but life nonetheless. Since January 2006, only eight months have occurred when resales totaled more than 50 units. Four of the eight are the last

four months. In fact, it appears likely that 2008 will be the second largest resale year in 92101 history, topped only by the craziness of 2005.

The rash of resales indicates that (1) buyers are tired of waiting; (2)

prices have declined sufficiently to be enticing; and (3) buyers know they can get financing with low down payments and that interest rates are falling.

The issue of price declines is worthy of discussion. It pains me to report that resale prices Downtown are off 20 percent-30 percent in some projects (although a few projects have not faced that rate of decline). The resale market peaked at \$644 per square foot in the second quarter of 2006 and is now at \$454 per square foot. The massive average

decline (30 percent) is somewhat misleading because most of the sales have been at the lower end of the market. Nonetheless, we are seeing some rather amazing bargains drawing buyers back into the market.

On the new condominium scene, our maps show seven projects completed in the past year with a combined 538 units remaining to sell. That is a net number, subtracting the units that developers have opted to rent out for a few years until prices solidify. Most of those rentals are at Smart Corner and Park Terrace.

Let's consider those 538 within the context of recent history. Since 2000, 47 projects have sold out in Downtown, with a total of 6,441 units.

Now let's look at the near-term future. Only four condominium projects are under construction Downtown, most of which will deliver in the next year: In Little Italy there is Breeza by Intergulf and Bayside by Bosa. In the Columbia District is Sapphire Tower by Centurion Partners. In East Village, there is Vantage Point with a staggering 679 units.

Currently, the three projects in Little Italy, containing almost 500 units are one-third sold out at prices that average \$800 per square foot. Vantage Point's units are about 40 percent sold out at prices that start

See **DERBY** next page



Vantage Pointe is being built by Point of View Development. Completion is expected in 2009.



Breeza, left, is a development of Intergulf and Lennar.



Sapphire Tower, a development of Centurion Partners, is expected to be completed in early 2009.

in the low \$300,000's.

That is the inventory of available new condominiums until at least 2012. In order for new construction to be justified financially, prices have to return to early 2006 levels and in some cases higher. Generally speaking, condominium prices have to increase \$150-200 per square foot before anything new will break ground.

For that reason, buying at today's prices makes rather good sense. After all, we do live in a cyclical economy and we have been on a downward slope for three years. That's just about as long as we normally take to work ourselves out of a downturn in real estate. Therefore, this prognosticator is projecting that we have already hit bottom and are starting an agonizingly slow return to a normalized market.

Don't look for prices to accelerate in the next year. But don't look for them to decline any further. It is a marvelous time to buy if you are a real live owner occupant and

intend to live in a Downtown condominium for several years. If you think you can flip it for a fast buck, forget it. It won't happen. But gradually you'll begin to see an acceleration of prices as the market recognizes that the inventory of units is not increasing and that Downtown is a pretty nice place to live.

In fact, it's getting better every day as East Village begins to add neighborhood retailers, services and entertainment, just as Little Italy has done.

Although we won't see any new condominiums breaking ground, we should note several rental projects are in the pipeline and they are meeting great rental success at very steep rental rates. OliverMcMillan notes its new 207-unit project at 11th and G Street already has pre-rented 60 units.

The rental market Downtown is strong, as young professionals recognize the area is really the place to be if you want to party responsibly (i.e. get home easily without driving). Or if walking is out of the

question, rickshaws are ubiquitous.

And, of course, more will come. A new civic center really is on the horizon as are several major new hotels and even a new federal courthouse (the hole is already dug, after all). And the Embarcadero is about to explode with new hotels, a new Navy tower, a new cruise passenger terminal and docking space for megayachts.

Our surveys tell us, surprisingly, that a relatively minimal percentage of San Diegans have been Downtown in the past year or two. Give yourself a treat. See a Downtown in transition and on the cusp of becoming one of the most attractive in America.

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