



# Signs suggest county housing market recovering

## Record-low interest rates entice first-time buyers

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2:00 a.m. April 1, 2009



Jeff Grad inspected work on the interior of a foreclosure home he bought in Oceanside. He plans on renting the home and netting about \$250 a month. (Charlie Neuman / Union-Tribune) -

### HOPEFUL SIGNS?

San Diego's housing market may be nearing a bottom as sales rise and prices stabilize in certain areas. Here are some key indicators:

**Sales:** 4,929 in January and February, up 30.4 percent from 2008

**Prices:** \$285,000 median in February, down 31.3 percent from February 2008 but up \$5,000 from January, the first monthly increase since April

**Foreclosures:** 52.2 percent of resale homes in February, down from 55 percent in January

**Listings:** 14,733 in mid-March, down 20.4 percent from March 2008, the fourth straight monthly decline on a year-over-year basis

**Building permits:** 173 homes and apartments in January and February, down 76.4 percent from 2008 as

builders sell off excess inventory

**Cancellation rate:** 24 percent the last week of February at 166 new housing tracts, down from 35 percent a year earlier

**Time on market:** 74 days for detached, 76 days for attached homes in February, both down from 2008

**Investors:** 19.4 percent of purchases in January and February, down from 21.8 percent in 2008

**Flipping rates:** 2.5 percent of homes sold January through mid-March previously sold 12 months earlier, down from 7 percent in 2008

*SOURCES: MDA DataQuick, San Diego Association of Realtors, HDS Associates*

Months of rising home sales, reports of competitive bidding on properties, and growing confidence among investors, first-time buyers and home builders all seem to suggest a local real estate market on the mend.

While economists warn that a weak economy, worsened by mounting job losses, could stall a recovery, there are early indications that San Diego County's slumping housing market could be nearing the bottom.

Real estate agents and investors report that multiple bids on low-priced listings are increasingly common, as banks and troubled borrowers seek to unload financially distressed homes and condos at attractive prices.

For eight consecutive months, overall sales have increased from year-earlier levels, with seven of the eight months recording double-digit increases. Even beleaguered home builders are seeing reason for hope, with some adding \$1,000 to \$5,000 to base prices of newly released homes.

Meanwhile, record-low interest rates have induced buyers to jump into the lower end of the market, which some view as relatively safe from further price deterioration.

For example, a Mira Mesa house listed at \$285,000 attracted 31 offers in less than a week. Such enthusiasm is coming from first-time buyers on the hunt for deals and a growing number of investors who say they can finally reap a positive cash flow from rent after accounting for all their costs.

That helps explain the rising number of investment pools springing up to purchase bulk quantities of distressed homes and condos, with promised returns of 10 percent.

“These investors are the guys who are leading the market. Hail to them,” said Los Angeles economist Christopher Thornberg, known in recent years for his pessimism about the Southern California housing market. “Some may call them bottom feeders. I call them smart investors.

“Is this a good time to buy? It's getting there. I'll know home prices have hit bottom when they stop falling for six, seven months. Then, you're good to go.”

Nationally, there is no sign of a housing bottom, according to the Standard & Poor's Case-Shiller Home Price Index released yesterday. Its January index of prices in 20 key cities fell a record 19 percent. San Diego ranked sixth with a decline of 24.9 percent, compared with January 2008.

San Diego investor Jeff Grad, who said he earned profits of \$100,000 by flipping properties during the boom, recently bought two Oceanside foreclosure homes that he will rent out, each expected to net him about \$250 a month. He purchased one three-bedroom house for \$260,000, while the other cost him \$219,000.

“I think it's the beginning of the real estate market starting to rebuild,” said Grad, who lost out on 10 other properties that drew multiple bids. “I can't see it heading much further south.”

Economists caution that the market may see a 15 percent to 20 percent drop in overall prices over the next year, even as it firms up at the bottom end.

Home prices, which have declined 45 percent to a median of \$285,000 since the November 2005 peak of \$517,500, showed signs of stabilizing during January and February. The county's median prices haven't been this low since 2002.

In another possible sign of growing stability, previously foreclosed homes that sold in February represented 52.5 percent of all resales, down from a record 55 percent in January.

In addition, the number of ZIP codes posting higher overall prices than a year earlier rose from three in January to eight in February.

“We could be picking up on some early signs of price stabilization in some of the hardest hit areas,” said analyst Andrew LePage of San Diego-based MDA DataQuick. “It's really too soon to call it. We've got to have three to six months of consistent trend lines.”

Norm Miller, a real estate professor at the University of San Diego, said that while the bottom has not been reached, the many government actions under way to stimulate the economy and save homes from foreclosure will likely mean the outlook for the market will not be as bleak as earlier feared.

“After the housing market starts to get healthier here,” Miller said, “then you'll see (building) permits go up, construction start back, and then the job picture will cascade up the same way it cascaded down.”

The final key to a full housing recovery, economists say, is a rebound in the upper-end market, which remains sluggish and in many cases still overvalued.

The first step, meanwhile, is recovery in the lower end, analysts say. LePage said that's clearly occurring, as bargain-hunting has “exploded” in neighborhoods dominated by distressed properties.

For example, the proportion of all county sales in the Otay Ranch-Eastlake area of eastern Chula Vista since Jan. 1 has been twice the community's usual level. Central Oceanside's is four times its average, according to an analysis provided by DataQuick based on the last nine years of sales by ZIP code.

By contrast, traditionally higher-end communities have attracted proportionately far fewer buyers. Rancho Santa Fe's share of sales is down 81 percent from its average, Scripps Ranch is off 47 percent and Mission Beach/Pacific Beach has lost 40 percent.

“When sales outside of the foreclosed properties start rising, that's the start of a recovery,” said James Diffle, chief regional economist for IHS Global Insight, an economic forecasting firm. “That hasn't happened yet. You're getting a lot of sales at the low end, pulling prices down more than what they normally would be.”

Still, the recent spate of sales to first-time buyers and investors can't be discounted, Diffle acknowledged.

“First-time buyers are an important part of the market, so that is a positive,” Diffle said. “That investors are getting in is a sign that prices are reaching their bottom because investors want to pounce when they think prices are reaching their bottom.”

Linda Hoang had been hoping to buy a four-bedroom, two-bathroom house next to her aunt in Mira Mesa where her elderly mother, now residing in Los Angeles, could live. But by the time she had a chance to see the 1,366-

square-foot home Friday, an offer over the \$285,000 asking price had been accepted from among several dozen bids.

Elena Yu, a buyer's agent for Weichert Realtors-Elite that listed the foreclosed property for Washington Mutual/Chase Bank, said she stayed up until 4 a.m. one night handling the deluge of inquiries from eager buyers.

“They are offering way above the asking price, tens of thousands above that,” she said. Magnifund Mortgage Bank, which has been busy funding loans for distressed property sales, has found that most of the purchasers are first-time buyers.

“We ask people the main reason why they're buying, and 80 to 85 percent say they think it's time, that the market is not going to get more depressed,” said branch manager Andre Kwan.

Meanwhile, the largely moribund home-building industry is showing signs of life, albeit small.

With a record low of only 86 residential building permits issued in February, local builders are hoping to sell out their dwindling stocks of completed homes before restarting stalled projects.

Paul Barnes, who heads Shea Homes' local division, said sales at 10 projects are up 30 percent from the fourth quarter of last year after accounting for seasonal differences, and this week he authorized construction to begin on 12 new homes. Meanwhile, Davidson Communities has decided to break ground on eight more homes in its Kensington at Del Sur project west of Rancho Penasquitos.

“The last 30 days, in all seriousness, seem a lot stronger,” Barnes said. “The buyers are out, they see value, and they're excited about the prospects of buying a home.

Analysts point out that it will still take months, if not years, before housing prices once again appreciate after bottoming out.

“What we will probably see from an economic standpoint is a very slow recovery,” said analyst Peter Dennehy of Sullivan Group Real Estate Advisors. “That's why I believe 'flat' is the new 'up.'”

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