



# SAN DIEGO COUNTY

## MARKET OVERVIEW

a monthly real estate report | June 2010

### Housing Growth Is on the Way

At the recent National Association of REALTORS® midyear conference, top housing economists cautiously predicted an imminent housing recovery, lifted by the improving jobs outlook and economic expansion.

The caveat is how jobs will impact foreclosures.

Lawrence Yun and Mark Zandi, chief economists for the NAR and Moody's Economy.com, respectively, agreed that jobs will continue to increase over the coming year, but they parted ways when it came to housing.

While both agreed that mortgage interest rates will remain historically low, the availability of jumbo loans will improve, and home sales will rise over the next few years, Yun believes that foreclosures will be even with demand, at about 30% to 40% of all sales transactions through the end of the year.

Zandi disagreed, anticipating that foreclosures will rise later in 2010 before easing in 2011. "Whether home prices weaken is unclear, but it will take two more years to work off excess housing inventory at the current sales pace," he said.

Yun is more optimistic, believing that prices will rise 2% to 3% this year, and that a housing shortage could be felt as early as two to three years from now, due to construction and household formation falling below long-term trends.

The National Association of Home Builders says employment will grow through 2010 and 2011, reducing the unemployment rate to around 9.3% from the current 9.7%.

#### More jobs are available

The Labor Department announced the best news in ages: more jobs were created in March 2010 than in the last 14 months. Private sector hiring increased 4.8%. Layoffs have

supposedly fallen to levels not seen since before the recession. Employers added 290,000 jobs in April, the most in four years.

#### Housing conditions improve

Among many reasons why housing could continue to climb in both sales volume and price is a return to record low interest rates. Despite the end of the home buyer tax credit, the pace of mortgage applications rose in May 2010, says the Mortgage Bankers Association.

First quarter foreclosure activity is already falling from a year ago in 14 of the top 20 U.S. metros, according to RealtyTrac.

Pending home sales were up more than 5% in March, 21% higher than the previous year, says the NAR.

The PMI risk index was also positive, with 42 of the largest 50 markets demonstrating diminished mortgage lending risk. Fitch Ratings reported last week that late payments on "Alt-A" loans fell for the first time in four years, as borrowers caught up on payments or were able to modify their loans to more favorable terms.

Meanwhile, the economy expanded 3.2% in the first quarter — the third straight quarter of growth — diminishing the likelihood of rising foreclosures.

#### The luxury market improves

Jumbo loans are at their best rates in years — as low as 5.7% for a 30-year fixed mortgage — giving luxury home buyers more options than paying cash.

Laurie Moore-Moore, founder and CEO of the Institute for Luxury Home Marketing, notes that some buyers aren't waiting for better terms — they're paying cash for well-priced fine properties. She reports hearing anecdotally that luxury home sales are higher across the country.

"Fine home buyers are adding luxury real estate as a portfolio play," says Moore-Moore.

Tom Dunlap, vice president and general manager of Prudential California Realty Los Angeles region, suggests there are two levels of luxury, and both have increased in the last six months. "Our high-end would be \$1 million to \$3 million," explains Dunlap, "and our luxury level would be above \$3 million. What we are seeing is a tremendous amount of cash that has been parked on the sidelines coming back into play. Our prices have come down to a level where they are perceived as a good value, and in some cases a bargain."

#### California Outlook

But for California home buyers waiting for the market to bottom further, the opportunity may already be past.

The California Association of REALTORS® has just reported a key indicator: affordability. When affordability goes up, prices are coming down. When homes are less affordable, prices are on the rise.

The C.A.R. First-time Buyer Housing Affordability Index was 66% in Q1 2010, down 3% from Q1 2009. The median home price of an entry-level California home was \$246,270, which requires a minimum qualifying income of \$41,540 — \$3,910 more than a year ago, based on an adjustable rate of 4.33%. The C.A.R. says that first-time home buyers typically purchase a home equal to 85% of the prevailing median price. A year ago, first-timers only needed \$37,630 to qualify for a loan on an entry-level home.

Median home prices in Southern California increased 16.7% to \$297,540 in Q1 2010 over the previous year. Interestingly, sales volume was down for the region year-over-year, largely due to consumer difficulty in obtaining jumbo mortgages. As the mortgage market expands

over the coming months, volume may improve substantially.

In addition, home prices are still well below where they were at the housing peak.

According to Zillow, five California markets — Los Angeles, San Diego, San Francisco, Santa Barbara and Ventura — turned positive in April or May 2010, with home prices appreciating as much as 3.1% to 3.9% since hitting lows in the previous year.

But missing the bottom doesn't mean opportunity is gone. Home values in these key areas are still 30% to 36% down, falling between market peaks and last year's lows — affording a terrific investment play for home buyers.

In many cases, buyers may find themselves in fierce competition for the same home

against all-cash buyers who can close quickly. Says Dunlap, "We've seen a real shift in the last six months. We had an REO duplex come on the market in Hancock Park for \$450,000. The property had 130 offers, and sold for \$650,000. Another home priced at \$1,495,000 had seven offers and closed escrow in two weeks with an all-cash offer of \$1,752,000."

In this market, good homes that are well-priced are generating multiple offers with no contingencies, and closing very quickly.

**Advice for buyers:** California home prices are recovering, so don't wait any longer for a bottom that may already be long gone. Get your loan and preapproval with a reputable lender, like HomeServices Lending powered by Wells Fargo [www.hslca.com](http://www.hslca.com), before you do anything else. Make sure the lender

has all your financial information and requires documents up front, so you can move quickly to secure the home you want without wasting time trying to finalize a mortgage.

**Advice for sellers:** Because the market is improving, it may be tempting to overprice; but don't do it. It's better to price your home at the market than to overprice and watch your property sit without viewings or offers. The first seven days of a listing are the most critical; by then, serious buyers have already seen everything on the market. Overpricing from the outset is the #1 mistake most sellers make. Buyers will either wait or move on to another property.

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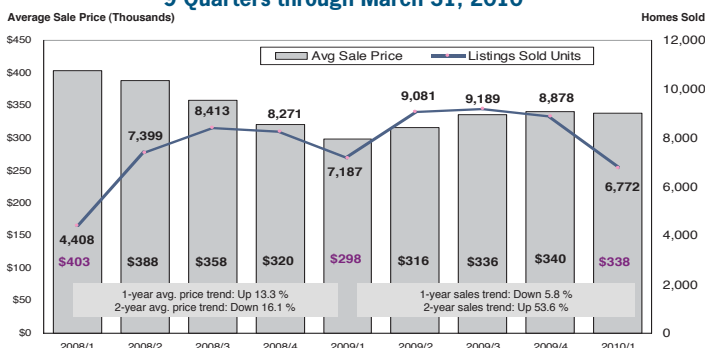
The National Association of REALTORS® says nearly 26% of homes sold in the U.S. were bought with cash in April 2010. It's obvious that occupying home buyers and investors are acting on prices so attractive that they're not waiting for the mortgage markets to open up further.

With home prices still well below the peak, California home buyers are also "cashing in." It's no surprise that the heated housing market, particularly in the affordable and upscale price ranges, is now an established trend. Like other areas in Southern California, San Diego County is enjoying a seller's market in homes priced under \$1 million. Upscale homes priced between \$1 million and \$3 million are selling well, but the pace of sales quickly falls as prices go higher. Homes priced \$4 million and above are oversupplied.

*\*A balanced market is widely accepted as having six months of inventory on hand with market conditions favorable to both buyers and sellers. A buyer's market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller's market has low inventories of homes for sale, escalating prices, and keen competition between buyers, including multiple offers.*

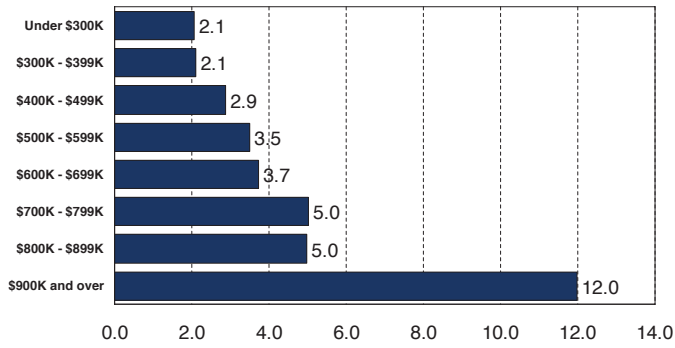
*Detached homes stand alone and share no common walls with any other neighboring home. Attached homes share at least one common wall with another home. The type of home ownership is determined by whether it is a condominium, townhome, duplex, co-operative or other.*

### All Properties - Listings Sold by Calendar Quarter 9 Quarters through March 31, 2010



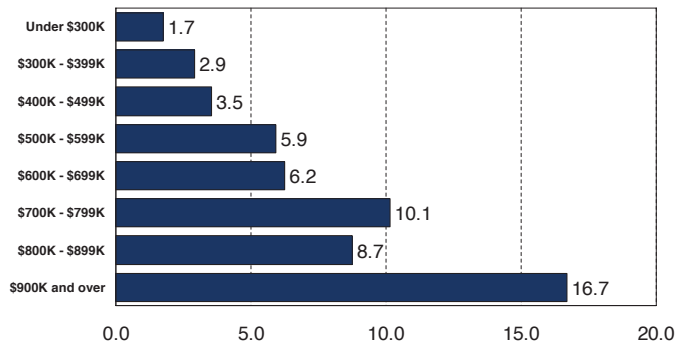
Prices are rising in homes sold under \$1 million, up 13.3% in the period between Q1 2009 and Q1 2010.

### Detached Properties - Inventory in Months



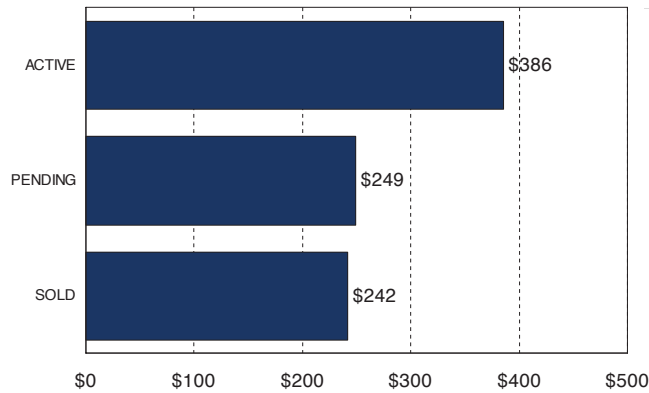
Detached homes are in a heated seller's market in the affordable price ranges, but inventories build quickly at \$900K and above.

### Attached Properties - Inventory in Months



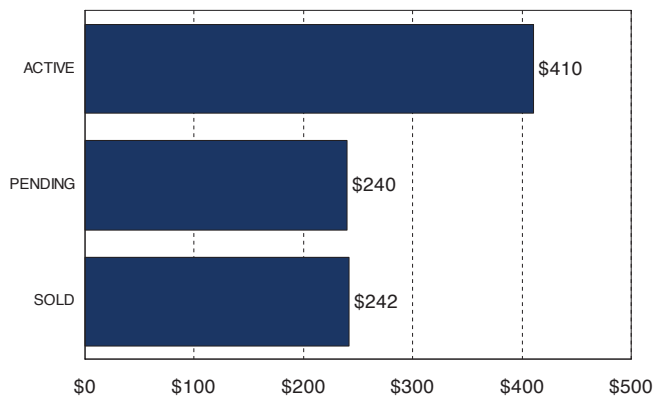
Attached homes are selling nearly as quickly as they can close under \$300K, and are selling briskly in all conventional loan price ranges. Only when prices rise above \$900K do inventories build.

### Detached Properties - Pricing Reality for Sellers, per square foot



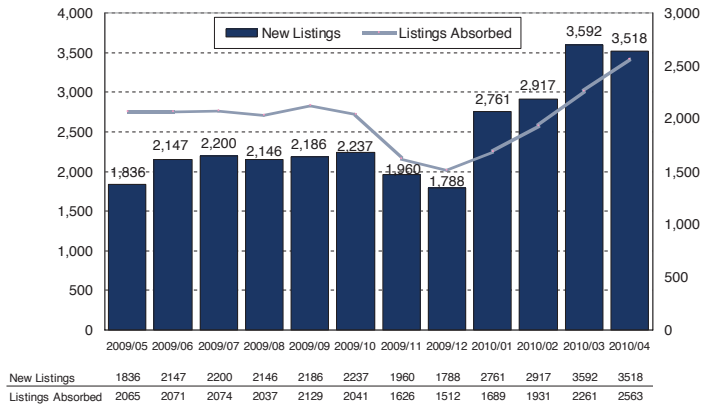
The gap between active listings' price per square foot and that of solds underscores the heated seller's market for affordable detached homes.

### Attached Properties - Pricing Reality for Sellers, per square foot



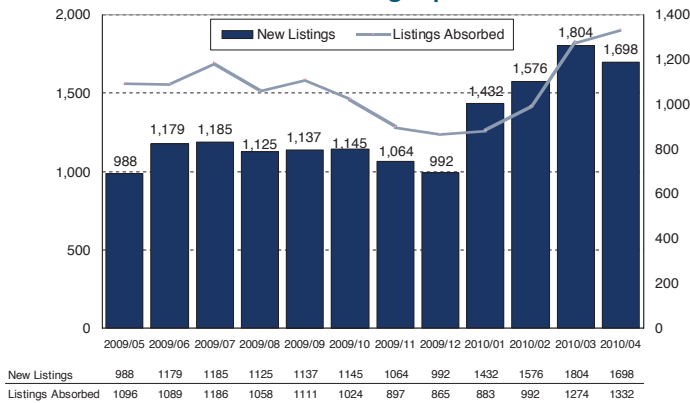
The gap widens between active listings' price per square foot and that of sold attached homes. Lower pending price per square foot suggests buyers have some negotiating room.

### Detached Properties - Monthly Listings Taken and Absorbed 12 Months through April 2010



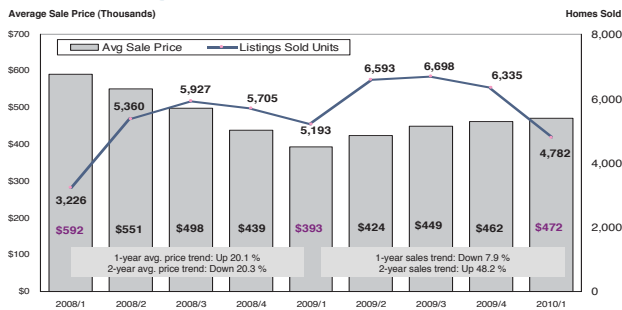
After reaching a bottom in December 2009, the number of new detached home listings almost doubled, up 97% by April 2010. Absorption rates rose 70%, which is close enough to keep inventories from building up in the short term.

### Attached Properties - Monthly Listings Taken and Absorbed 12 Months through April 2010



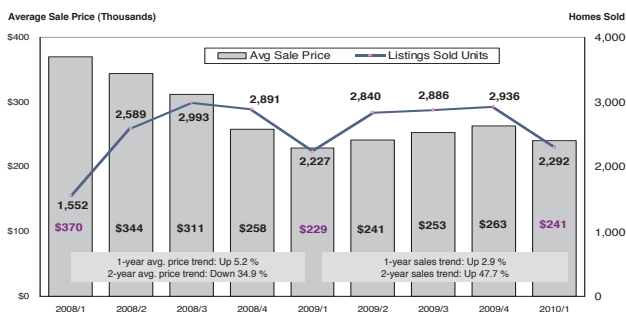
Attached home listings rose 71% between December 2009 and April 2010, while absorption rates climbed 54% for the same period.

### Detached Properties - Listings Sold by Calendar Quarter 9 Quarters through March 31, 2010



Sales prices soared 20.1% between Q1 2009 and Q1 2010, but sales volume eased off the accelerator, down 7.9% for the same period.

### Attached Properties - Listings Sold by Calendar Quarter 9 Quarters through March 31, 2010



With attached home prices up 5.2% after dropping by more than a third in the last two years, sales volume also trickled up 2.9% in the period between Q1 2009 and Q1 2010.

