

SAN DIEGO METROPOLITAN CALIFORNIA MARKET

The San Diego County market was one of the first areas in the country to fall when the bubble burst after the rapid run up in prices in the early to mid 2000s and now it may be one of the first to recover. But this recovery is not expected to be as robust as what occurred in the 1990s. Like many parts of the country, this appears to be jobless recovery and as such should not result in another rapid run up in prices as unemployment remains high. This is also due to several factors, such as tighter underwriting standards, possibly increasing interest rates and continued pressure on prices from foreclosures and/or short sales.

Population

As a result of the declines in prices that occurred, the affordability rate in San Diego is at a much higher level than in the early and mid 2000s. Although there has been some outbound migration, the overall forecast is that population in San Diego County is expected to increase from 2,813,833 in the year 2000 to 3,535,000 in 2020. Given the scarcity of developable land due to the local geography, with the Pacific Ocean to the west, Mexico to the south, Camp Pendleton Marine Corps Base to the north and the mountainous terrain and zoning of vacant land to the east, plus the increase in population, the long term outlook for real estate values remains good.

Unemployment

As of January 2009, San Diego region's unemployment rate was 8.6%, but as of January 2010 the rate has increased to 11.0%, the same as the nationwide unemployment rate. In January, the local civilian labor force decreased by 10,200 to 1,551,500, and the estimated number of unemployed civilians decreased by 11,800 to 170,900. Transportation, trade and utilities had the largest decline dropping 4,700 jobs, mostly in retail, as employers pared staff from the holiday shopping season.

Housing

The housing market continues to be a little schizophrenic as it depends on the location and price range as far as how the market is faring at this time. Generally speaking, housing in areas where prices are below \$600,000 is selling quite well and there is actually a shortage of inventory with many properties receiving multiple offers. The higher priced markets are seeing lower numbers of sales and softening in prices as demand is not as strong and obtaining financing for jumbo loans is more difficult.

Even in the price ranges that are selling there is a stratification of the market as far as prices. I recently concluded a study in the south part of the county where the price for non-distressed properties was compared to distressed properties (foreclosures/short sales) and it showed that a non-distressed property typically sells for 11% higher than a distressed property.

Investors are buying distressed properties from lenders that are in need of repairs and are rehabbing them and selling them at a premium. Short sales seem to cause the most consternation in the market as they pose several obstacles for buyers and agents. First, is the typical long time associated with closing this type of transaction as lenders can take months to respond to an offer to buy. This results in many buyers walking away who are not willing to wait. Second, is that many agents will not even show short sale properties due to the protracted time frames involved with this type of transaction. Third, is that those agents who are active in the short sale market many times price properties below market to stimulate offers and this results in multiple offers that have to be reviewed by the lender. There are some signs this is improving as lenders are staffing up to handle the high volume.

SAN DIEGO CALIFORNIA MARKET continued

The following Sandicor MLS statistics show that the number of sales have increased during the past 12 months, while the average price per square foot has fallen.

	2008 Detached Sales – 19,031			2009 Detached Sales – 22,534	
	SqFt	Price/SF		SqFt	Price/SF
Low	330	\$19.56	Low	25	\$20.15
High	12,921	\$3,988.04	High	18,000	\$9,200
Average	1,965	\$260.35	Average	1,944	\$229.26

While it is true that on a year over year basis prices have declined, the opposite is true for prices during the past six months. At the end of June 2009, the average price was \$425,928 and average price per square foot was \$218.14 while at the end of December 2009, the average price was \$455,976 and average price per square foot was \$239.66. Values appear to have “bottomed out” somewhere between the second and third quarter and have increased since that time.

Summary

The market is still very unstable and values could fall again if the employment picture does not improve. This is especially true of the higher priced homes. As prices have increased in the lower price ranges, it may start having a negative effect on affordability, especially if there is an increase in interest rates and/or foreclosures.



For additional or more current information on the residential market in the San Diego area, visit www.rac.net and select “The RAC Report,” or contact any of the following RAC members:

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