

Home value below \$400,000 for first time since late 2003

**By Roger Showley
and Lori Weisberg**

UNION-TRIBUNE STAFF WRITERS

April 16, 2008

San Diego County's median home price tumbled below the \$400,000 mark last month for the first time in nearly five years as the region grappled with rising foreclosures and defaults, DataQuick Information Systems reported yesterday.

The overall median stood at \$395,000, down \$20,000 from February and off 19.4 percent from a year earlier. It was the first time since November 2003 that prices were below \$400,000.

There continued to be few buyers in the market, with sales volume the lowest of any March in 20 years. And a growing share of the homes that changed hands were foreclosure properties, typically unloaded by the lender at a discount.

About 36.6 percent of resale houses and condos that sold in March had gone through that process, a likely all-time high, according to DataQuick analyst Andrew LePage.

Ryan Ratcliff of the UCLA Anderson Forecast said Southern California home prices are being heavily influenced by the rising number of foreclosure sales.

“I think the foreclosure problem will be with us for a while,” Ratcliff said. “So the question is how many of those unworkable loans are still in the pipeline.”

His best guess is that the flood of foreclosures won't ease until early next year, as fewer subprime loans remain.

DataQuick reported that overall Southern California price and sales drops were worse than in San Diego. The overall median stood at \$385,000, down 23.8 percent from March 2007, and sales totaled 21,856, down 41.4 percent over the same period.

Set against this trend are anecdotal accounts from San Diego builders and real estate agents, who say their open houses are drawing more visitors and that sales offices are attracting more potential buyers.

Peter Dennehy, senior vice president of Sullivan Group Real Estate Advisors, said renewed interest stems from recently approved conforming loan limits that will allow buyers to take advantage of temporarily favorable interest on certain mortgages.

“I think that combination (of consumer interest and financing options) is starting to put some heartbeats into a heart that was barely beating at the beginning of the year,” Dennehy said.

Longtime DataQuick analyst John Karevoll said he has picked up early signs of a possible bottoming out of the housing downturn in southern Riverside County, where many San Diego workers live. Karevoll also said he thinks there is pent-up demand from would-be buyers who have been largely shut out of the market since last summer.

“The market needs to get its footing and it's not going to get its footing until a bottom has been determined,” Karevoll said.

He predicted that San Diego's overall median may slip another \$45,000 and bottom out at around \$350,000.

“If that happens between now and summer, I think there is also an equal chance that the median could go back over \$500,000 by the end of the year,” he said. “That's how crazy it is out there.”

But that prediction assumes San Diego is not in a recession, even if the rest of country is. If a serious economic downturn develops, Karevoll said, many homeowners may lose their jobs, default on their homes and extend the real estate woes well into 2009.

The current woes frustrate desperate owners because of the lengthening time it takes to find a buyer and the backlog of listings, which stood at 18,504 yesterday, according to the San Diego Association of Realtors. By contrast, when prices were skyrocketing during the seller's market five years ago, the listing total was a third as big.

For owners who bought before the recent run-up, prices still are more than double what they were in March 1999. Prices peaked at \$517,500 in November 2005 and have retreated 23.7 percent since.

Still, would-be buyers remain largely on the sidelines, spooked by the jittery economy and worried they might be overpaying. The March sales volume of 2,108 homes was up from February, as is usually the case, but down 34.5 percent from March 2007.

Dan Williams, president of San Diego Lending Solutions, a mortgage brokerage, said many of his customers are frustrated because even when they want to buy and can qualify for a loan, lenders take two weeks or more to grant

approval.

“It has absolutely gotten more difficult,” he said, even for buyers with good credit and 5 or 10 percent down payments.

But if buyers can negotiate their way to a purchase and mortgage, they can benefit from relatively low interest rates – an average 5.9 percent last week for 30-year, fixed-rate loans – on top of the depreciated price levels.

“It is at least bringing a few homes into the affordability category for home buyers,” said Andrew Poat, vice president for policy at the San Diego Regional Economic Development Corp.

Christopher Thornberg, an economist with the Beacon Economics research and consulting firm in Los Angeles, welcomed the price retreat.

“For all these declines, you still have home prices relative to income at higher-than-normal levels,” Thornberg said. “Everybody tries to paint this as a problem with the subprime mortgage industry. It's not. It drove people to speculate like never before, but now home prices are falling back to their historic norms and we're maybe halfway through that process. You probably won't see a bottom in prices until 2009.”

There's no comfort in the statistics for San Diego area home builders who have largely halted construction on new projects and phases as they wait out the market's downturn.

“We still have quite a bit of inventory we have to work through,” said Robert Martinez of MarketPointe Realty Advisors, which tracks the new-home market. “Through the rest of 2008, I don't see much product coming on line. . . . We're looking at more than two years of inventory in both categories (detached and attached housing).”

■ Roger M. Showley: (619) 293-1286; roger.showley@uniontrib.com