

Local Housing Price Increases Don't Raise Concerns

PROPERTY: Market Forces Said to Be at Play, Not an Overheating

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San Diego's housing market is clearly heating up with increases in median home prices in the past year at double-digit rates, giving rise to concerns that another bubble could be in the works.

Yet several housing industry sources and a local economic think tank say otherwise.

Both national and local data support evidence that a housing recovery is well under way, but those price hikes are well in line with market forces, and are far from the overheating that occurred earlier in the decade, they said.

"I don't think the price increases that we've seen to date represent a bubble," said Erik Bruvold, president of the National University System Institute for Policy Research. "But if they go up 10 to 15 percent more over the next quarter or two that would be worrisome."

Citing the Standard & Poor's / Case-Shiller Index, Bruvold noted the median price for San Diego in January increased 9.8 percent over the past year. That ranked the region ninth highest among a group of 20 largest metropolitan areas. The biggest increase at 23 percent was Phoenix, while the third largest was Las Vegas, where the median rose 15 percent. Both cities were among the hardest hit in the housing market crash with housing values plummeting by well over 25 percent.

Bruvold compared San Diego median price ranking with the employment report for the same cities over the same period, and found a close correlation. San Diego's net job increase for the year was 2.5 percent, ranking it eighth best among the group.

Supply Increase?

Bruvold said San Diego's median home price gains and job growth have been in-step. As the year unfolds, he expects house prices to continue rising, but not at the rates they've been doing recently. That's because the supply of housing will increase, he said.

The area's available for-sale housing will expand because of two factors — new housing construction, and banks unloading more distressed properties, he said.

That expansion, in turn, should dampen rapid price appreciation, he said.

Michael Lea, director for The Corky McMillin Center for Real Estate at San Diego State University, said there's little chance of a bubble happening here. The recent median price increases are the result of the dearth of inventory today, Lea said.

While a national housing recovery is under way, it will take a long time to get close to the fast-rising prices that occurred before the recession began, Lea said.

An estimated 25 to 30 percent of the houses in the county are still "under water," or at values below what is owed on the mortgage, preventing many people from selling, Lea said.

A huge factor inhibiting another housing bubble from taking hold is the lack of easy credit for potential buyers, Lea said.

"During the bubble there was a lot of speculative demand, flipping of houses, and people buying homes they couldn't afford, and that was driven by having access to easy credit. I don't see any easy credit available today," he said.

Leonard Baron, a real estate investor and lecturer at SDSU, dismissed the idea of entering another bubble phase.

"We've got a long way to go to get to a bubble," Baron said. "As soon as people are able to list eBay income and unemployment income to get a loan, that's when you'll have a bubble."

The Prices Are Right

The recent median price appreciation is occurring as the San Diego and other areas of the country recover from the worst price declines on real estate in history. The area's prices are gradually getting closer to what the market norm should be, Baron said.

Will a bubble ever happen again?

Baron said very likely. "In 15 years, a lot of people will forget about this, and the banks will probably start making loans that they shouldn't," he said. "Real estate is cyclical and it will happen again."

The latest report on house sales from the San Diego Association of Realtors provides evidence that a local market recovery was surging. For March, SDAR said the median single family home price was \$432,000, up 19 percent from the median price in March 2012, and up 5 percent from the median price in February of this year.

The jump for the median priced condominium in the county was even higher. In March it was \$285,000, up 30 percent from March 2012, and up 14 percent from February.

SDAR said the county's supply of for-sale housing was sufficient for about 1.5 months, given the current purchasing rates. That compared with a healthy market which would have a six-month supply of inventory, the organization said.