



No new bubble for SD real estate market, experts say

By **SAMANTHA HENRY**, The Daily Transcript
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San Diego's home prices are increasing by double-digit percentages — but local professionals say it's not like the bubble of the early 2000s.

"It's still an underpriced market relative to rents, relative to incomes," said Christopher Thornberg, founding partner of **Beacon Economics**. "Prices need to rise 30 percent to get to normal levels of affordability."

San Diego's home prices increased 10.2 percent in February from a year ago, its first month of a double-digit increase, according to the S&P/Case-Shiller Home Price Indices.

Single-family resale homes sold for a median price of \$432,000 in San Diego County in March, according to the San Diego Association of Realtors.

This is an increase of 5 percent from February and 19 percent from March 2012. In the first quarter, single-family home prices increased 15 percent from a year ago.

Historically, markets tend to overshoot on the way up and on the way down, Thornberg said.

"Could it happen on the way up? Sure. But it's too early to be sounding the alarm," Thornberg said.

In a 2006 speech, Thornberg defined a bubble as being "when what the market price of the asset is has no absolute basis in reality of the fundamentals of what actual returns that asset can produce in the future."

Looking at real estate values over the past 20 years, there was a bubble in the early 2000s, then a huge decline in 2007, 2008 and 2009. Now there's a recovery as confidence is somewhat restored, said Mark Goldman, real estate professor at San Diego State University, senior loan officer with **C2 Financial Corp.** and principal at **The London Group**.

"What I see happening is a return to our mean," Goldman said. "Our values are going up fast because they probably went down too far during the crunch."

One difference between 2006 and now is the credit standards.

"There was a lot of financing programs available to those who did not necessarily qualify," Goldman said. "Current residential financing requires very careful and prudent underwriting, which will moderate the impact of housing prices accelerating beyond people's means. Also, the appraisals required for residential financing are also under more strict guidelines."

It could be troubling if those credit standards begin to sag again, Thornberg said. The downturn was so bad in the last cycle in part because of the subprime lending, which "made it so toxic," he said.

"Re-emergence of the subprime would be something to worry about. At this point, this market rally is in no way, shape or form a bubble. It's quite the opposite. It's a well-needed return toward something resembling normalcy," Thornberg said.

"Everyone is saying, 'Oh this is going to happen to everyone again,'" said Leslie Kilpatrick, branch manager and broker associate for **Willis Allen**, at a recent roundtable hosted by *The Daily Transcript*.

"But people are getting fixed-rate loans at a low interest rate. They know they're carrying costs moving out. There's no balloon; there's no five-year adjustment. There's none of these problems that were inherent in some of these products that were put out there. And also, while we complain about lending standards being tougher, we know that they're able, at least at this point in time, to make those payments."

Low inventory is driving the increase in home prices, Thornberg said. There is only about 1.4 months of inventory in San Diego, said John Altman, owner and broker at **JT Altman & Associates**.

Homes priced under \$450,000 have an inventory of only 24 days, Altman said at an April event. A market with less than three months of inventory is a seller's market with pressure.

A balanced inventory would have six months of inventory, and for San Diego to be balanced there would need to be between 14,000 and 16,000 active listings in the MLS, Altman said. As of the week of the San Diego Association of Realtors expo in April, there were 4,400 listings.

"Ultimately, what we're dealing with is a market-driven forward by a lack of available supply. That's the driver to everything," Thornberg said. "People always talk about prices. It's a lagging indicator. What leads the market are inventories."

Speculative investors who were fixing up houses and flipping them are now finding it more difficult to find a deal, Goldman said.

"[They've] acknowledged that market prices are not going up that fast," Goldman said. "We're being guided more carefully by fundamentals and more reasonable expectations. ... I don't think the speculative value will skyrocket in the current market environment. I think investors and homebuyers are being more prudent."

Homebuyers today are buying with the expectation to stay in the home for five years or more, Goldman said. In 2006 and 2007, people would own a home for six months, sell it at a profit and buy a bigger home, he added.

The cost to own versus the cost to rent is very close, unlike in 2005 when the cost to own was often 2 or 2.5 times what the monthly rent would be for the same house, Goldman said.

"I think the market is running healthy metrics right now with regard to affordability and values compared to rent. We're in a good place," Goldman said.

In his 2006 speech, Thornberg said, "If future rental markets look strong, say because we have a shortage of housing, which we don't, then prices today will go up."

While that wasn't the case in 2006, it is in 2013. Thornberg also mentioned a "consumer binge" in 2006, when consumers reportedly spent more than they earned after taxes in 2005.

"Consumers still are overspending, but it's not a credit phenomenon," Thornberg said about 2013's consumers.