

Local Housing Market Favoring Sellers for Foreseeable Future

PROPERTY: Fewer Distressed Properties; Inventory Remains Low

By **MIKE ALLEN**

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San Diego's housing market is gradually moving toward normalcy, but the number of homes for sale is still far below historic levels, giving sellers the advantage as prices remain relatively high, several housing experts said.

"We're seeing a little slowing in the market recently," said Michael Lea with The Corky McMillin Center for Real Estate at San Diego State University. "Properties are on the market for a little longer, we're getting some more inventory, and demand is not as strong in large parts of the market because of affordability."

With nearly 7,000 properties for sale in the county as of the end of August in San Diego, the inventory amounts to a 3.4 months' supply, according to the California Association of Realtors. That was down from January when CAR data showed the county having only about four months of inventory for sale, and way off from January 2012 when the region's for-sale inventory was about seven months.

Most housing experts say a six-month supply is indicative of a normal market with an even balance between buyers and sellers.

The primary cause for the current imbalance, Lea said, is a sizable portion of homeowners — he estimates about a quarter — who are still "underwater" or owing more on their mortgages than their houses' market value.

But that group is shrinking as the region's housing prices continue rising. So far this year, the median price in San Diego has increased significantly; CAR data puts the hike at 23 percent, while La Jolla real estate firm Dataquick reports a 20 percent jump.

Dataquick, which combines single-family home and condo prices, said the county median as of August was \$415,000, up from \$345,250 in August 2012.

Few New, Distressed Homes

The rising median means more owners are getting out from under negative equity and are feeling more comfortable about selling, and trading up, Lea said.

The higher median prices are being driven by the lack of inventory and sale of higher priced properties. There are hardly any distressed properties being sold in this market, and even fewer new homes, experts said.

“There have been less than 10,000 new homes built in all of Southern California this year,” said Russ Valone, president of MarketPointe Realty, a San Diego real estate consultancy. With new houses going for at least \$700,000, most buyers are looking at the resale market, he said.

The problem in California is the higher costs related to building housing here compared to other states, Valone said. For a new house, those costs range from \$150,000 to \$250,000.

Consequently, many developers are focused on building apartments, especially because financing on those projects is easier to find, Valone said.

Patient Investors Affecting Market

Another factor in the overall constrained inventory of available properties is the impact of more investors holding rather than selling the houses they bought, several experts said.

Most investor purchases in a typical real estate downturn would be sold relatively quickly, said Leslie Appleton-Young, an economist for CAR, “but this time around they’ve been keeping them and renting them.”

But as prices level off, due to increasing inventory and rising interest rates, those properties should go back on the market, which should dampen rapid price spikes, several experts said.

Sellers’ Market for Years

Still, despite a drop in housing prices of greater than 50 percent in some areas during the recession, the rapid price appreciation this year has pushed acquiring a home out of reach for most county residents, Lea said.

“For all the price declines we had from the peak, ... housing is unaffordable for the majority of the population, and that’s not going to change because we’ve had such limits on the supply,” he said.

Indeed, one local real estate agent said the sellers’ market will continue here for years and that prices will continue rising.

“This appreciation cycle is going to eclipse the previous cycle, and we’ll see even higher prices than we had in the last cycle,” said Jordan Clarke of Redfin.

The area’s low inventory and realization of even higher future prices has resulted in many buyers settling on the properties they buy, Clarke said. Buyers are also facing multiple competing offers on reasonably priced properties, especially in the hottest range, those between \$500,000 to \$600,000, he said.

Even houses priced in “the multimillions of dollars” are sometimes attracting multiple offers and getting sold above the listing price, Clarke said.