

# San Diego County's woeful housing market is dragging other economic sectors to the depths of despair

**By Dean Calbreath**

UNION-TRIBUNE STAFF WRITER

December 30, 2007

For San Diego County, 2007 was a horrible year for the real estate market, when it seemed that everything that could possibly go wrong did.

As 2008 dawns, even the most optimistic economists say the housing market will continue to decline over the next six months, leading to more layoffs at construction and real estate firms and more belt-tightening by mortgage-strapped consumers.

But while some economists say the slowdown in the housing market will last several years, others say the market could hit bottom by next summer and start to recover by early or mid-2009.

Roxie Chilcott, former president of the San Diego chapter of the California Mortgage Brokers Association, said the real estate market is beginning to show some signs of life after being moribund for a number of months.

“Phones are beginning to ring again,” said Chilcott, a mortgage loan originator at Bank of America. “People are realizing that if they're going to buy, now is the time, because mortgage rates are only going to go up despite the Federal Reserve's interest rate cuts and home prices are going to start to churn again by late spring.”

It's not that Chilcott expects an immediate turnaround in the market. She believes prices will continue to fall until May or June and then will bounce along the bottom for another three to six months.

That's a bit more optimistic than some economists predict,



but not by an incredible margin.

Alan Gin, an economist at the University of San Diego, said housing in San Diego will hit bottom during the second half of 2008 and turn up slightly in 2009.

Wells Fargo economist Scott Anderson projects that Southern California home prices will decline 10.1 percent next year and 0.5 percent in 2009, when he believes the market will hit bottom.

“The housing cycle hasn't run its full course,” said Gary Schlossberg, another member of Wells Fargo's economics team. “We expect to see price declines accelerate. We're entering a more dangerous phase.”

Jack Kyser, an economist for the Los Angeles Economic Development Corp, thinks it will be early or mid-2009 before the market starts to turn around. “And even when the market turns, what you're going to see is slow, slow growth,” he said.

Christopher Thornberg, co-founder of Beacon Economics in Los Angeles, is more pessimistic. He believes home prices and sales in San Diego and California will decline through 2009 and will not show significant improvement until 2012.

The health of the housing market is especially important to San Diego because so much of the county's recent economic growth has been tied to rising real estate values.

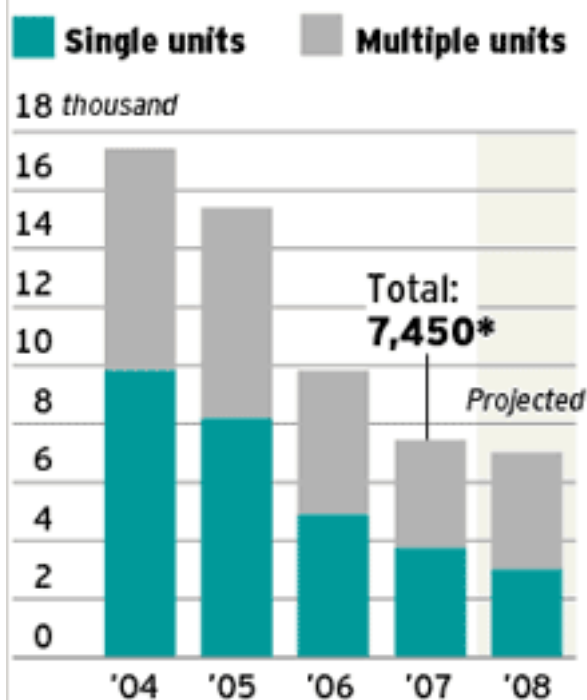
Fueled by low interest rates from the Federal Reserve and lax lending standards by banks and mortgage companies, the median price of a home in San Diego County more than doubled from \$246,000 in November 2000 to \$518,000 at the peak price in November 2005, rising at an average clip of 22 percent per year.

The boom in home prices led developers to build new homes and condos, which created plenty of jobs for construction workers and real estate brokers. Roughly 25

CRISTINA MARTINEZ BYVIK  
/ Union-Tribune

### RESIDENTIAL CONSTRUCTION

Permits for residential construction fell 25 percent this year, according to estimates from the San Diego Institute for Policy Research.



### CHANGE IN SOUTHERN CALIFORNIA HOME PRICES

Wells Fargo Bank projects that home prices in Southern California will fall 10 percent next year and 0.5 percent in 2009 before bottoming out.



percent of the new jobs created in the county between 2001 and 2005 were at construction and real estate companies.

The wealth effect created by rising home values also pushed retail sales higher. During a frenzy of home refinancings between 2003 and 2005, taxable sales in San Diego County grew by an average of nearly 7 percent per year as homeowners took out home equity loans to buy flat-screen televisions and SUVs.

Other regions of the country experienced similar booms, especially in coastal areas or the Sun Belt. Las Vegas, Phoenix, Miami and Tampa, Fla., were among the hottest markets for real estate. And now, like San Diego, those areas are experiencing some of the sharpest declines, as interest rate increases in adjustable mortgages have pushed many recent home buyers to the brink of financial collapse.

In the past year, the median home price in San Diego County has fallen more than 11 percent. Home sales are down 26 percent. Defaults on mortgages have risen 150 percent. Residential construction permits fell more than 30 percent last year. That has put a dent in employment. Between November 2006 and November 2007, 5,500 construction workers, 1,300 real estate workers and 500 mortgage and finance workers lost their jobs.

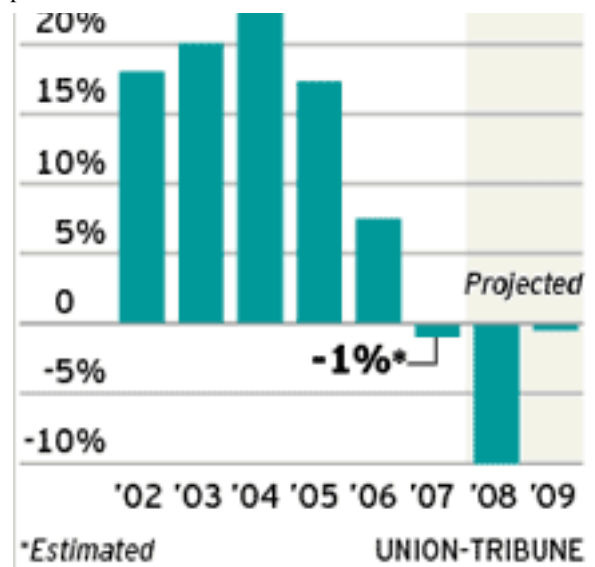
Economists say employment in real estate will probably continue to decline in 2008, although the construction labor force might stabilize as workers rebuild homes damaged or destroyed during the October wildfires.

Kelly Cunningham, an economist with the San Diego Institute for Policy Research, predicted that residential housing permits will slide slightly from an estimated 7,450 this year to 7,000 next year, not counting the 1,400 homes burned in the fires.

That would be the lowest number of new homes built in the county since 1996 and less than half the pace of 2004, when construction peaked with 17,306 permits. The resulting declines in employment could push the jobless rate to at least 5 percent next summer, Cunningham said. That's slightly higher than the current rate of 4.8 percent.

James Hamilton, an economist at the University of California San Diego, said the decline in the housing market leaves San Diego County "quite vulnerable" to the threat of recession next year.

During the last national recession in 2001, San Diego's economy continued to grow while most



other regions suffered declines. Economists and civic boosters at that time attributed it to the county's diversified economy, which boasts a mix of high-tech, biotech, tourism and service jobs. Some said the diversity meant that San Diego is recession-proof.

But Hamilton thinks things could be different this time. The 2001 recession, like most recessions, was driven by job cutbacks in major manufacturing sectors.

“But if the country runs into a recession next year, it's a new animal we're talking about, driven by the possibility of defaults and bankruptcies,” he said. “Because of the big run-up of home prices here and because construction has been such an important part of our recent economic growth, we are quite vulnerable. If a recession comes, it wouldn't be one I'd expect San Diego to escape.”

Despite the pessimistic forecasts, workers in the real estate and mortgage industries see glimmers of hope.

Kevin Sanders at Commercial Finance Solutions in Sorrento Valley, who helps arrange financing for real estate development projects, said he is beginning to see midsized developers come forward with projects for either the extreme high end or low end of the market “because that's where it seems that the rebound will start to happen.”

Sanders said the projects will not be ready for home buyers until mid-to late 2009, when the market recovery is forecast to be under way.

“People are acquiring the land at good prices now and then they're planning a bit slower development than they might have done in the past,” he said.

Chilcott takes a philosophical approach to the downturn. “The market has to adjust ever so often,” she said. “We were over the top for the last four or five years, so now we're paying for it. So this too will pass.”

Many economists say that in the long run, the downturn will be good for the economy, since the high price of housing has made life unaffordable for many Californians and forced many people to look for jobs and housing elsewhere.

“The quicker we have a downturn, the quicker we can get imbalances out of the system,” Thornberg said.