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Real Estate Plunge Deepens

By KELLY BENNETT

Wednesday, May 28, 2008 | The plunge in the region's home prices deepened to its lowest level yet at the end of the first quarter of 2008, according to data released Tuesday.

San Diego County home prices dropped 20.5 percent in the most recent Standard & Poor's/Case-Shiller home price index, the March 2008 index compared to March 2007's. It was the 20th consecutive month of such declines.

The index showed the largest and most rapid declines in homes priced less than $392,045. But prices continued a significant downward trend in the highest tier -- those homes selling for more than $588,222.

A growing optimistic contingent of the region's real estate professionals have claimed busier open houses and have touted a recent rise in the number of homes sold as evidence of a potential end to the gloom in San Diego's housing market. They can't imagine prices dropping much more than the 25.4 percent that the Case-Shiller index shows they have already fallen from the November 2005 peak.

North County mortgage broker Yamila Ayad said she's seen signs of life in recent months that have pulled her out of the two hardest years in her career.

"It's not a market where anybody would want to voluntarily sell a home today," she said. "I have definitely seen houses that have fallen to 50 percent of what they were selling before."

Analysts and real estate agents and individual homeowners are sharpening their watch for signs in price and sales data that the market has hit, is hitting, or will soon hit bottom. At the same time, homebuilders grapple with the extended slump by scaling down local operations and reducing their requests for building permits to levels not seen since the 1940s.

The March reading of the Case-Shiller index shows houses on the resale market in San Diego are still selling for 85 percent more than they did in January 2000. The index measures price changes on the same houses over the years when they are sold. It doesn't track condos or new homes. The index, though widely considered the most accurate measure of home price movement, comes with a significant lag time of two months.

Many analysts consider the price of housing in the county to be unsustainable still.

"Prices are falling today because they're too high," said Christopher

Thornberg, Los Angeles-based principal of Beacon Economics, in a wry analysis of the market. And the hope espoused in the literature of some perky agents -- that the market will soon turn around dramatically -- doesn't fit the nature of a slow-moving regional housing market.

"Home markets do not bounce, they splat," Thornberg said. "We're not dropping a rubber ball here, we're dropping a watermelon."

One sign the watermelon will have hit the bottom, Thornberg said, will be when prices stop falling for six months. The index released Tuesday for March marked a slightly less steep monthly price decline than the previous index. The March index fell 2.6 percent from the month before, compared to a 3.6 percent drop between January and February.

Another sign of the bottom will be a rise in the number of homes sold for several months in a row. An increase in home sales in the county was reported last month. But even with that increase, reported by DataQuick Information Systems, April's sales total was still 18 percent lower than April a year ago, and 58 percent lower than April 2004, when the housing market raged.

"When sales start to increase it absolutely does imply the turning of a corner," Thornberg said. "But we need to ask what corner are we exactly turning?"

Individual sellers still have to compete with banks for lowest prices on listings as banks seek to unload repossessed properties quickly. And 35.1 percent of the homes sold in April and 36.6 percent of the homes sold in March in San Diego County had been foreclosed on at some point in the prior 12 months, according to DataQuick.

Homebuilders are another faction struggling to compete with foreclosure prices in the generally slow market. Earlier this month, D.R. Horton Inc. all but closed down its San Diego operation, scaling its local employee force back from a few hundred at the housing market's peak to fewer than 10 now, said Peter Dennehy, vice president of Sullivan Group Real Estate Advisors.

In shuttering its San Diego base for operations, that company joins a group of homebuilders that includes Pulte, Centex, K. Hovnanian, John Laing, Fieldstone, KB Home, William Lyon and the Olson Company, Dennehy said.

Others like Lennar Corp., Standard Pacific and Shea Homes, have downsized their local operations to deal with the slump, he said. And if any return to their previous full strength, they'll have to get creative in finding new kinds of housing to build, just as builders have found ways to develop smaller lots or swaths of land in places like the Bay Area, New York City and Chicago.

"It's a reworking of the entire industry," he said.

Dennehy will speak to the state of the market to an industry group Wednesday morning. He projects 5,160 building permits will be issued in the county this year, compared to a high of more than 18,000 in 2003. There haven't been that few permits issued since the 1940s in San Diego County, according to data from the U.S. Housing and Urban Development

Department.

Please contact Kelly Bennett directly at kelly.bennett@voiceofsandiego.org with your thoughts, ideas, personal stories or tips. Or set the tone of the debate with a letter to the editor.

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