

Local Prices Down 30 Percent from Peak

By [KELLY BENNETT](#)

Wednesday, Aug. 27, 2008 | Home prices in San Diego dropped again in June, reaching a point not seen since September 2003, according to the Standard & Poor's/Case-Shiller Index released Tuesday.

June's price index for resale houses fell 30 percent from the market's peak in November 2005. The overall index logged a 24 percent decline compared to June 2007. The lowest tier, homes priced lower than \$363,772, registered a 33 percent decline compared to June 2007, the worst dip in the index.

The middle tier declined 24.4 percent compared to the June 2007 index. The high tier, homes priced higher than \$535,657, declined nearly 16 percent year-over-year.

The continued declines came a week after a separate report declared that home sales rose in the region in July, the month after the most recent Case-Shiller data. The 10.5 percent increase in July compared to July 2007 was the first year-over-year increase in more than four years, according to DataQuick Information Systems.

But foreclosure sales counted for a large portion of that increase, leaving analysts expecting continued price declines.

Usually, an increase in sales means a market is recovering, and the bump up in sales has been touted as a potential turnaround for the local market. But the price pressure that accompanies such a large number of foreclosures is dramatic.

More than 40 percent of the homes sold in July had been repossessed at some point in the last year, DataQuick reported. Another portion of the sales were short sales, meaning they sold for less than was owed on the mortgage. Such sales usually mean slashed prices. In some neighborhoods, real estate agents counsel sellers not to bother listing their home unless they can compete with the banks.

"When you see sales begin to increase, that's often an indicator of a market turning," said Chris Thornberg, founding partner at Beacon Economics and former economics professor at the University of California, Los Angeles. "But this is a bit of a false dawn."

The Case-Shiller index only counts houses that sell, and the homes that are selling are the ones priced appealingly to buyers -- often the

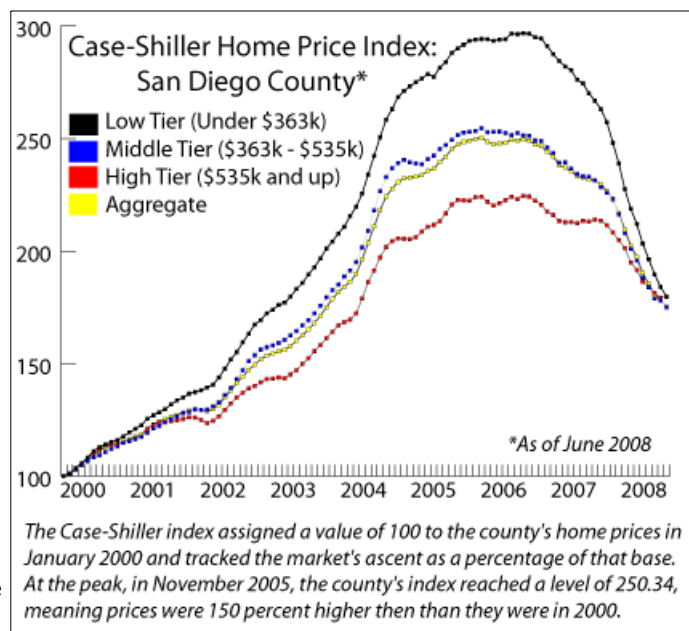
bank-owned ones. It doesn't count new construction or condos.

Prices in the lowest tier have now fallen 39.5 percent from that tier's peak in June 2006. The middle tier's prices have fallen 31 percent since November 2005, that tier's peak. And the top tier declined 19.9 percent from the peak in June 2006.

Some market observers once considered that top tier -- especially its highest echelons -- to be above the fray, impervious to the trouble in the rest of the market.

However, even luxury homes are now showing weakness. In another report released Monday, First Republic Bank calculated that San Diego luxury homes have fallen in price by the most they have in a decade. The index measures price changes in houses priced at more than \$1 million, usually measuring 3,000 to 6,000 square feet and having between three and six bedrooms and bathrooms.

That "prestige homes" index found that in the second quarter this year, values on many such houses in San Diego dropped 2 percent from the first quarter and 7.8 percent from second quarter 2007. The average price among those homes has fallen to \$2.02 million, from a peak of \$2.19 million in the second quarter 2007.



Real estate agent Kevin Hall said so far he's seen price drops in higher-end houses coming more from a general market malaise than from foreclosure. Hall works with Gary Kent Team, a real estate agency focused on bank-owned listings.

"They're still rather spotty in the higher end," Hall said. "Not to say that there aren't some shoes that are going to drop there, but ... the rate of change is a lot different."

The spate of foreclosures that have dominated sales in some neighborhoods began when prices in the region started falling. Homeowners who'd financed the entire cost of their homes found themselves owing more than the price for which they could sell their house. Even more importantly in many cases, they owed more than the amount for which they could refinance.

Loans abounded with glittering intro periods of low fixed payments, but those loans carried jarring spikes in interest rates and payments after a

couple of years. Homeowners counted on continued market appreciation that would allow them to refinance before the payments spiked. Eventually, the music of [housing market](#) appreciation stopped.

"People are saying the reason prices are falling are because of all of the foreclosures, but the foreclosures are happening because the prices are falling," Thornberg said. "They've got it backwards. The prices are falling because they're too freakin' high."

Foreclosure-related properties constitute the vast majority of houses coming on the market, said Ramsey Su, a local retired real estate broker and investor who sold bank-owned properties in the 1980s and 1990s. Su included a brief analysis in a local market newsletter he sent out Tuesday: Of the 337 new home listings entered on Aug. 21 and 22, 135 of them were bank repossessions relisted for sale, and another 82 were short sales. As such, 64.4 percent of the listings entered were bank-owned or short sales.

"There seems to be no understanding of the toxic nature of this inventory," Su wrote. "An inventory dominated by lender sellers, a very motivated group of sellers, means prices will be driven down hard. Private sellers with insufficient equity who have to sell in this environment will have no option but to apply for a short sale or be foreclosed upon."

In the Case-Shiller index, each tier showed a bit of a slowdown in the monthly rate of decline. While the biggest month-to-month drop for the combined index was 3.6 percent in February, the June drop was just 1.5 percent. And the high tier showed a slight 0.3 percent increase from May, a small bright spot in the index.

Thornberg has forecasted that the region is halfway through its market downturn, a prediction he stuck to Tuesday.

"The fact that these numbers are coming in at the numbers they are, that's exactly what I'm saying," he said. "There has to be some deceleration before you hit bottom."

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