



Inventory needs to drop in San Diego for housing market to return to stability

By **ERIK PISOR**, The Daily Transcript
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As new and existing home sales remain at historic lows in many San Diego County markets, home values continue to decline and homebuilders continue to cut back on production, all of which indicate home buying and home building have yet to bounce back to stability.

The topic of market stability and signs within the market that indicate a return to more consistent conditions was the focus of a presentation by Peter Dennehy, senior vice president of **Sullivan Group Real Estate Advisors**, who spoke at a recent seminar in Del Mar.

According to Dennehy, a significant decline in the amount of current and planned inventory would be a major indicator pointing towards a return to a stable market. One aspect that bodes well for the region, in terms of reducing inventory, is the fact that the county currently has less new detached and attached projects ongoing in comparison with last year.

"Most markets in the western United States actually have more projects underway than they did a year ago...one exception is San Diego," Dennehy said.

In the detached sector, the number of projects is much lower than last year, as there are 130 single-family projects underway. About half of the units within those projects are sold.

While San Diego still has one of the largest attached markets in terms of ongoing projects, the amount of attached projects underway in downtown San Diego has dipped.

Despite this, there are still around 2,500 unsold units in the area, according to Dennehy, adding average market time for a unit downtown is just more than three months.

Of the units currently under construction, more than 50 percent are already sold, he added.

The rest of the attached inventory consists of town home and conversion units outside of downtown.

In the townhome sector there are currently 42 projects underway, with 51 percent of their units sold. Dennehy added there remain 5,000 units in the planning stages throughout the county.

The amount of infill development throughout the county is likely to increase in the future, as land available for new residential development shrinks.

In the conversion sector, there are currently 95 projects on the books.

With fewer new detached and attached projects ongoing and a significant amount of those homes already sold, a percentage of inventory is being absorbed.

However it will take some time to burn through the rest of the existing and future inventory, as detached projects are averaging two sales per month and the average market time for an attached home stands at three months.

Additionally San Diego, so far this year, has had fewer detached sales than at any point in the last two decades.

Conversely the attached sector, which in the past has only represented 20 percent to 30 percent of total home sales, has picked up in terms of total sales volume.

Two aspects that could positively affect home sales are stabilization in home prices and job growth.

According to Dennehy, **Hanley Wood** cites a 3 percent rise in the median price of a single-family home in San Diego, a statistic he disagreed with.

"This isn't the case in San Diego. This (three percent rise) is really just a function of the mix in sales," Dennehy said, adding the majority of sales are either high- or low-end priced homes. "There are declines in prices across the board in Southern California."

In the past, job growth has been strong in San Diego. However, currently it is slightly stagnant which does not bode well for the home sales market, he said, adding the region has added 9,000 jobs in 2007.

The employment sectors that are experiencing an increase in workforce are the leisure, hospitality and government defense industries.

So far this year, the construction industry has lost 3,000 to 4,000 jobs resulting from the decline in residential construction.

If Dennehy's year-end forecasts are any indication, San Diego home building and home buying are at least another year away from stabilization.

By the end of the year he predicted a total of 8,000 to 8,500 new homes sales in the county, which would represent the lowest total since 1995.

Total home sales will fall somewhere in the 38,000 range, which would equate to the lowest total since 1996 and 1997.

According to latest figures from the San Diego Association of Realtors, there were 19,783 existing home sales in the county during the first nine months of 2007.

Residential permit activity will recede to figures experienced in the late '90s, as a total of around 8,500 permits will be pulled by year's end.

Through the first eight months of this year 2,783 multi-family permits and 2,772 single-family permits were pulled for a total of 5,555 permits, according to the latest report from the Construction Industry Research Board. This total excludes permits pulled for residential alterations.

Also during the seminar Adam McAbee, vice president of Sullivan Group, spoke briefly about two of San Diego's neighboring markets: Imperial County and Baja, California.

To the east the number of active projects have increased this year in Imperial County, however new home sales activity is down, as the majority of home sales are to first time homebuyers.

According to McAbee, of the actively selling projects in Baja 60 percent are in Rosarito and 23 percent in Ensenada.

While all housing product types exist in the region attached product represents 63 percent of the either for sale or soon to be developed units.

There are 5,000 units currently for sale or awaiting development in Baja and the average selling time for new product is 2.5 months.