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In Downtown, Foreclosure Tugs on Prices

By [KELLY BENNETT](#) Voice Staff Writer

Friday, Dec. 7, 2007 | In July 2005, a one-bedroom, one-bathroom condo in the Park Boulevard West building in downtown San Diego sold for \$417,500.

The unit, No. 1203, was repossessed when the owner failed to make mortgage payments. It sold again last month, this time for \$268,000 -- a 35 percent price drop.

No. 1203 exited the cocoon of foreclosure already, but its effects will be felt for months.

The game of real estate pricing is built on a foundation of comparable sales -- known as "comps." So when those comps slide, so do prices in general. And when there's not much, except height and sometimes a view, to distinguish one one-bedroom, one-bath unit from another in the same building, foreclosures are expected to affect prices especially hard in some buildings in downtown San Diego.

Would-be sellers are competing against lenders who are slashing prices to recoup as much as they can, as quickly as they can on their mounting inventories of repossessed properties. Of the 46 units that closed escrow between Nov. 1 and Dec. 4, nearly one-quarter were either bank-owned or short sales.

"They are the ultra-motivated seller," said Peter Dennehy, vice president with the Sullivan Group Realty Advisors. "As more and more foreclosures have started to come on the market -- when you have 10 units (in foreclosure) in a building instead of one, you're more than likely to cut your prices lower."

In the downtown market today, foreclosures have ceased to affect only the people struggling to make their mortgage payments. They're a problem for anyone trying to sell a home -- and trying just to break even in some cases. And though they're disproportionately concentrated in some projects, there aren't many towers untouched.

"There are very few buildings that have none," said Jim Abbott, a longtime downtown Realtor. "There's even one in Meridian, which is unheard of."

In the first 10 months of 2007, 449 different houses or condos in the downtown San Diego ZIP code, 92101, were in one of the three stages of foreclosure, according to RealtyTrac. The neighborhood's rate of foreclosure was one for every 23 homes.

Many of those have yet to show up on the market as resale units from the lender. But the ones that have are beginning to have a pronounced effect on the market. Of the 46 units in all of 92101 that closed escrow between Nov. 1 and Dec. 4, 11 were either bank-owned or short sales, where homeowners negotiate with the lender to sell their home for less than they owe on the mortgage.

That's nearly one-quarter of the sales in the month sold in such circumstances.

Downtown's Down Time

- **The Issue:** Foreclosures in downtown San Diego are setting new low marks on prices for similar units.
- **What It Means:** Individual sellers trying to reap the highest price have to compete with lenders attempting to unload piles of units from their mounting repossessed inventory.
- **The Bigger Picture:** As foreclosures continue to mount, the market has become more difficult than some industry veterans have ever seen.

"In certain neighborhoods, [foreclosures] are starting to become the most important comps," Dennehy said. "It's not going to raise the prices in the area. It's going to lower them."

In the Park Boulevard West building on 11th Ave. in the ballpark district, there are two units for sale that are listed as short sales. And one of the two other units that sold last month was also sold as a bank-owned property. In such cases, lenders hire local real estate agents to represent them in the transaction with a buyer.

Brenda Crann, a real estate agent with Century 21 Horizon who focuses on selling units for lenders, sold that bank-owned unit. It was about 75 square feet smaller, but on the same floor, as No. 1203. It sold 14 days after No. 1203 for \$250,000 -- \$18,000 less than No. 1203.

In interviews with real estate agents and analysts this week, many of the same project names popped up as the hardest sells, mostly due to foreclosures. Among them: Park Boulevard West; Acqua Vista, a condo conversion project in Little Italy; and El Cortez, the 117-unit restored historic building on Cortez Hill.

In El Cortez, for example, there are five bank-owned condos on the market. Another seller seeks a short sale. On one floor, No. 404 has reached the second stage of foreclosure -- notice of auction. No. 405 has been repossessed. And the lender has already repossessed and listed No. 406 for sale.

Those watching the downtown market said downtown's condo towers, oft-touted as shining symbols of a revitalized urban core, provide in some cases a microcosm of the Catch-22 of a down market. Prices start falling, more homes enter foreclosure as owners can't refinance, and those foreclosed units sending prices falling further.

Indeed, foreclosure isn't the most significant source of downward pressure on prices in downtown, Dennehy said.

"Prices have already been coming down," he said. "Now it's just another shoe dropping. Some buildings have had many whammies. Pretty much every building has something going on."

Sellers who aren't in foreclosure but who are looking to get out of the market incline their asking prices toward the high end of the most recent sales. But savvy buyers and their agents look at the low end, usually foreclosures, and make offers below the most recent sale. And even if there were a buyer willing to pay top dollar for a unit, lenders won't issue a loan for more than a unit's appraised value, which slips with every lowered price.

"It's where the market is going," Crann said. She said she and her co-workers expect to be "flooded with more bank-owned properties" in January as more homeowners face ballooning adjustable-rate mortgage payments and find themselves owing more than they could sell or refinance their homes for.

The most recent sale in Acqua Vista, a condo complex on West Beech Street in Little Italy, was a one-bedroom, one-bathroom unit on the third floor. Sold by the bank for \$235,000 on Oct. 19, the sale represented a 28 percent drop from the unit's original listing price of \$327,000.

And a top-floor unit in that building sold in September for \$650,000 after being originally listed for \$950,000.

Jim Klinge, a real estate broker in North County, usually focuses his efforts on North County coastal properties, but has lately taken a couple of interested second-home buyers on tours of units in downtown.

"There's nothing compelling them to buy," he said. "People don't care if they buy or not. They'll wait it out. I'm shocked there isn't more meltdown going on in downtown."

Abbott said for most consumers, condos are an optional purchase.

"We are in a discretionary market; they're fun things for people," he said. "A lot of these are second homes."

And so it's a trying market, even for veterans like Abbott.

"In my 23 years of doing this, I don't remember a market as difficult as the downtown one is right now," he said. "It's very, very hard."

And earlier in the decade, the excitement, the anticipation of a downtown revitalization allowed tower after tower to spring up. Buyers bought with little thought of space or location or a unit's feasibility as a long-term investment.

"We're burdened with a lot of inventory that, quite frankly, weren't that good to begin with," Abbott said. "Now we've got a whole lot of subpar product. ... These foreclosures do set a new floor on prices, often."

Homeowners who miss mortgage payments first receive a notice of default -- the first stage of foreclosure. When they continue to miss payments, the lender issues a notice of auction, repossesses the home and eventually lists it for sale.

Where in the third quarter of 2006, the vast majority of California homeowners in default -- 81 percent -- emerged from the foreclosure process by bringing their payments current, only 46 percent of such homeowners emerged in the same period this year, according to DataQuick Information Systems.

As foreclosures become the norm, constituting nearly a quarter of the sales in a month

like in downtown last month, prices will fall further in some places, Dennehy said.

"People don't look at the market. They look at the individual building," he said. "You're not going to pay more than you have to. The value of something is what somebody's willing to pay for it. That becomes the new price."

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