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## Housing prices sink

### Sales surge, but real estate market is still in decline

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Propelled by low-cost foreclosure sales and accelerating price drops, more San Diego County homes were sold last month than at any time in more than a year, MDA DataQuick reported yesterday.

There were 3,431 sales in July, up 11.5 percent from June and 10.5 percent higher than a year earlier – the first time in 49 months that the year-over-year sales count has increased.

The overall median price was \$364,000, down \$6,000 from June and off \$125,000 from July 2007. The 25.6 percent year-over-year decline was the highest for any month in the 20 years of DataQuick record-keeping.

But the upsurge in sales did not signal a bottoming of the market, experts said. They pointed to the record 40.8 percent of the sales involving homes foreclosed in the previous 12 months and the fact that new foreclosures are outnumbering the sales of foreclosed properties. July's 1,259 foreclosure sales compared to June's 1,838 foreclosures.

“It's really difficult to get a solid read on the market when so much activity centers around distress,” DataQuick analyst Andrew LePage said.

Peter Dennehy, senior vice president of Sullivan Group Real Estate Advisors of San Diego, said more sales is welcome news. But, he said, “The percentage of foreclosures and the mix of housing needs to be quite a bit smaller,” closer to the traditional level of 1 percent to 3 percent of sales.

Prices will stop falling, he said, when foreclosures stop increasing, existing home sales are strong and the unsold inventory gets far below its current level of 19,058.

While agents report overbidding on some foreclosure properties, Christopher Thornberg, a principal at Beacon Economics in Los Angeles, said that interest is coming from "vulture funds" with millions of dollars to spend on distress sales.

"That process is not in any way, shape or form an indication of a return to stability, a healthier housing market," he said.

He predicted that San Diego prices would drop another \$75,000 from their present median level, which would reduce them to their December 2001 level of \$287,000. Currently, the median price is off nearly 30 percent from its all-time peak of \$517,500, set in November 2005.

Throughout Southern California, the story was much the same. Sales in the six-county region were up 13.8 percent to 20,329 transactions, the highest since March 2007. Riverside County, where 64.4 percent of resales were foreclosures, saw a 48.6 percent sales boost, while sales in Los Angeles County declined 3.2 percent.

Prices were down by 31.1 percent to a median \$348,000, with San Bernardino off the most by 35.2 percent and San Diego down the least – a sign that San Diego may be further along in the downward cycle than other counties, LePage said.

James Hamilton, an economist at the University of California San Diego, said the current market represents uncharted territory because of the lengthy run-up in prices, followed by the current downturn, coupled with the credit crunch and economic uncertainties ahead.

"If we go into a serious national recession, which is still a real possibility, then prices could go down quite a bit further. It's really hard to know," he said.

Since the real estate bubble popped in late

2005, price declines have been particularly steep in lower-priced and newly built neighborhoods, where many owners used low-cost, subprime mortgages to buy.

But DataQuick's July report showed sharp declines spreading to high-priced North County coastal neighborhoods, where the single-family resale median price plummeted 31.1 percent to \$480,000, the biggest drop of any of the five subregions in the county. Such declines occurred in high-priced Cardiff, Del Mar and Encinitas, as well as in lower-priced Oceanside neighborhoods. Solana Beach was an exception, up 6.4 percent to \$1.2 million.

"We could be looking at more and more people who have got to sell for whatever reason, life-event reasons – death, job transfer, divorce," LePage said.

Buyers in the high-end market often signed up for jumbo loans, exceeding \$417,000, during the boom but now have trouble qualifying because of tighter lending standards.

That's the holdup facing agent Gregg G. Whitney's clients who are selling their \$800,000 house in Clairemont for about 10 percent below its previous value because they believe they can get a \$1.8 million home in La Jolla at 15 percent below its previous level.

But the loan they are seeking carries a interest rate of 8.75 percent on a 15-year-term, about three percentage points higher than they expected.

"A lot want to buy, but the problem is (desirable) loans have become scarce," Whitney said.

In contrast to the resale house market, which makes up about half of overall sales activity, DataQuick said resale condo sales and new housing, including new condo conversions, were down from year-ago levels.

That may explain the record low July in building permit activity reported by Burbank-based Construction Industry Research Board. There were only 299 homes authorized by the 18 cities and the county government last month, compared with 785 in July 2007.

For the first seven months of the year, building permits were issued for 3,451 homes, compared with 5,109 for the same period last year and 7,804 in 2006.

Dennehy said most of his builder clients have written off the rest of 2008 and 2009 and are now focusing on projects they plan to build in 2010.

“A lot of money is waiting on the sidelines for a workout of the real estate problems of the last couple of years,” Dennehy said.

At the grass-roots level, the turbulent real estate market makes for interesting challenges for agents and their clients.

For Jason Albright, a probate sale in Serra Mesa carries an attractive price of \$375,000 for a 1,800-square-foot home with two garages. But the owner left behind all manner of electronic equipment associated with his ham radio hobby, not to mention unrenovated bathrooms and kitchen. Still, four offers have been received and an auction of the contents is planned in October.

SaM Devine's owners in University City had to put their \$749,000 home of one year on the market because of a job transfer. It is in pristine, move-in condition. Though no offers have come through yet, there were 27 visitors at weekend open houses.

“It was the probably the best quality weekend of the four I've done so far,” she said.

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JOHN GIBBINS / Union-Tribune  
This house in Serra Mesa, a probate sale with an asking

price of \$375,000, is 1,800 square feet and has two garages. This view is of the family room.

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