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Region out of housing cellar

San Diego's affordability improvement may be temporary, local experts say

**By Roger Showley
and Dean Calbreath**
UNION-TRIBUNE STAFF WRITERS

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There's a silver lining in San Diego's slumping housing market: improved affordability.

The National Association of Home Builders yesterday ranked San Diego County as the nation's 20th least affordable metro area, a major improvement from four years ago, when the region was ranked the most unaffordable market in the nation.

It was the best ranking San Diego has received in the 17-year history of the NAHB/Wells Fargo Housing Opportunity Index.

"This is very positive news for people that have been unable to afford housing," said Kelly Cunningham, economist at the San Diego Institute for Policy Research. "It's certainly hard for the people who got in over their heads over the past couple years, but the fact is that these prices had to come back to reality so that people could afford them based on their incomes and not on risky financing."

Some local experts say the rise in affordability may be temporary because it's being driven by low-priced foreclosure sales.



K.C. ALFRED / Union-Tribune
San Diego's housing market, including a Chula Vista neighborhood photographed in 2005, is seeing a rise in affordability.

"This is never going to be a truly affordable place to live," said Sylvia Starbird, co-owner of Century 21 Carole Realty in Mission Valley, noting that San Diego's affordability level is still far below the national average. "Here we are, in the midst of one of the worst price drop-offs I've known, and it is still not an affordable place to live."

The index, which ranks 222 metro areas nationwide, is based on the percentage of single-family resale homes that are affordable to households earning the median family income. For San Diego, the median price in the second quarter of the year was \$342,000 and the median income \$72,100.

Using a formula that factors a weighted average 6.12 percent interest rate for fixed and adjustable mortgages, the proportion of income devoted to housing and other elements, the builders' economists estimated 31.1 percent of the homes sold in San Diego were affordable to households earning the median income.

In comparison, San Diego had an affordability rate of less than 4 percent in late 2005, at the peak of the real estate bubble. Since then,

the median home price has declined nearly 30 percent while incomes have continued to rise.

Alan Gin, economist with the Burnham-Moores Real Estate Institute of the University of San Diego, said that even though the median home price has come down sharply, prices in many neighborhoods are “still probably double what they were before the bubble began.”

Gin said the drop in the median sales price may not be an accurate reflection of the value of most local homes.

“One problem is that this data is based on reported sales, and many of the sales today are foreclosures or distressed properties,” he said. “So if the median is being dragged down by sales at the bottom end, it may disguise the fact that prices are still high at the top end.”

Gary London, a San Diego real estate consultant, said as many as 90 percent of the homes on the market are in distress.

“Why would someone sell their house today if they didn't have to?” London asked.

Nationally, the average affordability level most recently was 55 percent for a median home price of \$215,000 and household income of \$61,500. The most affordable market was Canton, Ohio, where the median home price was \$51,000. Households earning the median wage of \$54,600 could afford 96.7 percent of the homes.

The least affordable market – for the first time not in California – was the New York City metropolitan area, where the median price was \$481,000. Households earning the median \$63,000 could afford only 11.4 percent of homes sold.

Some San Diego real estate agents say that San Diego's relatively good number for affordability makes this a good time to buy a home.

Richie Morris, an agent with Century 21 1st Choice, said he has first-time buyers able to purchase in Encanto because of lower prices and relatively low interest rates.

“I think San Diego probably will not be as affordable in the (near) future as it is now,” he said. “Everybody I talk to says once we hit 2010, '11 and '12, we're going to wish we were back here.”

On the other hand, after the San Diego real estate crash of the early 1990s, the county hit an affordability rate of 42 percent in the spring of 1993 – and remained at that level for six years.

Peter Dennehy of Sullivan Group Real Estate Advisors called the current affordability picture a “reprieve” from San Diego's historically high housing prices.

“People's willingness to participate in improving affordability will be constrained by the general ugliness in the housing market direction,” he said, “and, more practically, by the inability of people to get financing in this environment, which I think is a big problem.”

HOUSING OPPORTUNITY INDEX

Top 20 least affordable metro areas

% of homes affordable for median-income families

| Metro area | % of homes affordable for median-income families |
|-------------------------|--|
| 1. New York | 11.4% |
| 2. San Francisco | 13.8% |
| 3. San Luis Obispo | 14.7% |
| 4. Los Angeles | 14.8% |
| 5. Miami | 17.7% |
| 6. Ocean City, N.J. | 19.6% |
| 7. Napa | 19.9% |
| 8. Santa Cruz | 20.2% |
| 9. Nassau, N.Y. | 22.1% |
| 10. Santa Ana | 23.0% |
| 11. Salinas | 25.8% |
| 12. Newark, N.J. | 26.5% |
| 13. San Jose | 26.8% |
| 14. Bend, Ore. | 27.6% |
| 15. Oxnard | 30.2% |
| 16. Seattle | 30.7% |
| 17. Medford, Ore. | 30.8% |
| 18. Atlantic City, N.J. | 30.8% |
| 19. Santa Rosa | 30.9% |
| 20. San Diego | 31.1% |

Assumes 10 percent down payment and 28 percent of gross household income spent on housing.

SOURCE: National Assoc. of Home Builders

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■ Roger M. Showley: (619) 293-1286; roger.showley@uniontrib.com

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