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Lack of Move-Up Buyers Holding Back San Diego House Prices

By Eric Wolff, North County Times, Escondido, Calif.

Aug. 21--Anyone want to buy a dream home?

Anyone?

With so many homeowners deep in debt, and so many more worried about the national economy, few people want bigger houses at current prices, and without that midlevel demand, there will be no steady increase in prices, said real estate agents and analysts interviewed last week.

In a traditional market, a segment of homeowners, with rising incomes and growing families, would sell their older places and use the profits as down payments on larger, more comfortable homes. But with local house prices well down from a 2007 peak, potential move-up buyers carry mortgages larger than what they could get selling their houses.

Also, local buyers may have a new outlook on housing: With so much uncertainty in the economy, they may decide their current houses are big enough.

Louis Galuppo, residential real estate director of the Burnham-Moores Center for Real Estate at the University of San Diego, was incredulous when asked about this kind of purchaser.

"What move-up buyer?" he asked. "The people that would normally be moving up today, they're trapped. They can't move."

During the housing boom between 1997 and 2007, move-up buyers powered the market to unheard-of heights: Lifelong renters got cheap loans to buy their first houses, providing profits for those homeowners to make down payments on larger homes, pushing house prices to all-time highs.

But in 2007, payments for some of those new homeowners ballooned when low teaser rates on exotic loans ended. Many buyers couldn't make the new payments and went into default.

A foreclosure crisis blossomed, and the median house price plummeted, falling 58 percent to \$190,000 in 2009 in Southwest Riverside County, and 45 percent to \$350,000 in North San Diego County.

The sudden drop in prices left homeowners unable to sell their homes for a profit, and many of them owe more than their houses are worth: As of June, 28 percent of San Diego County homeowners and 47 percent of Riverside County homeowners were underwater, according to data firm CoreLogic.

These homeowners can try to sell for less than they owe, which is called a short sale, but they won't have any money to make a move-up purchase.

Even among homeowners with some equity in their houses, they must have enough profit to make that next purchase: A homeowner looking to sell a smaller house for \$300,000 would have to sell for \$130,000 more than is owed on the property to make a down payment on a larger, \$500,000 home, Galuppo said.

Gwen Leever, a real estate agent in Temecula, said she had no move-up clients when contacted last week, nor did several other agents in Southwest County reached for this article.

"To sell their property and move up, they would have to have equity in their property," Leever said. "Very few recent buyers are able to move up."

The absence of these buyers is particularly stark in Southwest Riverside County: According to a North County Times analysis of county records, 14 percent of buyers bought houses priced between \$250,000 and \$500,000, considered to have move-up potential by local real estate agents.

Between 2000 and 2007, 32 percent of houses sold in that price range.

Some homeowners have decided they don't want to move up. Potential homebuyers worry that the national economy is about to get worse and fear losing their jobs.

Others have decided they like their house enough to stay put.

"The whole society has taken a really conservative turn," said Jim Klinge, a Carlsbad real estate agent who blogs about the industry. "I think there's a lot of people who, a few years ago, thought they were a candidate to move up, and now they find their house is adequate and they don't need to move up. Even if they have a four-bedroom and three kids, you might think they were bulging at the seams. They're finding they can make do."

Klinge made another point: The move-up market is shrunken, but not absent. In his view, the segment will rebound when sellers lower prices.

"Any market that is 'soft' is where sellers are overly optimistic on their list prices," he wrote in an email.

Rancho Santa Fe real estate agent Polly Rogers said she has clients upgrading their houses, but without selling their old properties.

"I've seen a number of buyers who don't have to sell their house right now; they're in a position where they can rent it out for their (mortgage) payments," she said.

These buyers see low prices and low interest rates, and they want to snag a deal.

Ben Allen, who worked with Rancho Bernardo real estate agent Scott Voak, spent a year making low, all-cash offers on houses before he found one in 4S Ranch, a half-mile from his old house.

"When nobody wants to buy is the best time to buy," Allen said. "The house I purchased is an upgrade -- more space for my family."

Until buyers such as Allen come back in force, house prices will probably bounce along a bottom, as they have for much of the last year, USD's Galuppo said.

"The borrower that has been waiting for the market to borrow additional money, or to be able to sell their house -- to get out -- is not going to be able to do that," he said. "Not for a very long time."

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