

Anderson forecasters see foreclosures tapering off; housing market returning

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DOWNTOWN SAN DIEGO — Although the median resold home price in San Diego County has dropped by nearly \$100,000 from the end of 2006 to the end of 2007, at least one homebuilder in the room is bullish about the future. And new office space will fill but not flood the market.

These conclusions were reached during a UCLA Anderson Forecast presentation at the San Diego Marriott Hotel & Marina Thursday.

Ryan Ratcliff, a UCLA Anderson Forecast economist, said despite the precipitous resale price drop (21.75 percent to \$455,000 from March to March) and a still uncertain economy, the wave of foreclosures should begin to taper off by early 2009.

"While the foreclosures may slow, the market will still be volatile through 2009," Ratcliff said.

Paul Barnes, president of **Shea Homes of San Diego**, said that while his industry has taken a big hit, he is actually a lot more comfortable about the future than he was six months ago.

"Prices are down, the industry isn't building as many homes and foreclosures have been less of a problem," he said.

Barnes added that even if fixed-rate mortgages climb a bit, "a 7 percent interest rate is still a very good mortgage."

Barnes, who conceded he is releasing only about five homes per phase versus 12 to 15 per phase five years ago, may be upbeat, but Louis Galuppo, residential real estate director for the Burnham-Moores Center for Real Estate at the University of San Diego, said homebuilders have a difficult slog ahead of them.

"It's going to be a long and a hard-fought battle on the new homes side. There isn't a lot of light at the end of the tunnel that I can see" he said.

Galuppo, who said it will likely be a year or more before the resale market will turn around completely, suggested the turn-around timetable for the homebuilding side may be longer still.

"I like 2012," he said jokingly. "The fundamentals are there and there is a tremendous pent-up demand. It just has to happen," Galuppo said.

Now with a federal conforming loan limit of up to \$697,000 here, and a significant drop in prices, Mitch Redden of **Wells Fargo Home Mortgage** said a lot more people can qualify whether they are opting for new or resold homes or condos.

Redden said while vehicles such as the zero down, interest-only loans have disappeared, the intermediate adjustable-rate mortgages that had been a mainstay are still very much a part of the lending picture.

While Redden seemed to agree with Ratcliff that foreclosures will lessen over the course of the next year, he is seeing at least one other disturbing trend.

"For the first time that I can remember, people are walking away when they can afford to make the payments," Redden said suggesting that just

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because a person is upside down on their mortgage, doesn't make them destitute.

Those on the lower rungs of the housing ladder who plan to stay awhile may choose to rent or buy and if the property has gone through a condo conversion, it may be both.

In fact, there have been numerous cases where an apartment project was converted into a condo, and has since been converted back to an apartment.

Whether they are apartments or condos, very few multi-family units are currently being built in the county. William Ballard, **Grubb & Ellis|BRE Commercial** director of advisory services, said there were fewer multi-family units pulled in 2007 than at any time during the past 10 years.

A total of 3,928 multi-family permits were pulled in the county in 2007, according to a Construction Industry Research Board report.

Galuppo said building of all kind may be restricted if the state cuts off water from the delta in Northern California. At least two kinds of endangered smelt are threatening that supply.

"If we lose the Delta, and we have to pay to install reclamation infrastructure, that's going to be a huge impact," Galuppo said.

Economist Jerry Nickelsburg said that while the office sector will likely be weak until 2010, overbuilding won't be at such a high level that it will depress the market.

"There is a lot of space going up, but that doesn't mean there aren't opportunities," he said.

Ballard, who said the San

Diego County office market should absorb an average of 1 million square feet (net) of space per year for the foreseeable future, said with more than 2.4 million square feet under construction and some 3.2 million square feet proposed, there won't be shortage of office space.

That may sound like a lot, but Ballard said much of it won't get built unless it can be justified to a lender.

"A lot of these deals won't get financed," he added.

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