

## **Builder Confidence Returning, Slowly**

By Donna Morafcik, BIA San Diego County

“Business has improved in the last few months,’ according to approximately 40% of the West Coast builders who attended the recent premier building trade show on the West Coast. This statistic is one of several positive findings to come from an online survey sponsored by the Pacific Coast Builders Conference. And, local market statistics support the cautious sentiment.

According to the MarketPointe Realty Advisors’ Residential Trends report for the 1<sup>st</sup> quarter of 2010, the San Diego County new-home market continues to “show delicate improvement.”

### ***A Breakthrough***

Since the 1<sup>st</sup> quarter of 2009, net new home sales have hovered just around the 600-unit net sales mark. However, before that, San Diego builders experienced the worst three-quarter span in over 14 years, (3Q 2008 through 1Q 2009) when not a single quarter surpassed 600 sales.

Fortunately, this current quarter noted an eight percent (8%) increase over last quarter to 645 net sales. This spike is attributed to the detached sector which gained 72% over last quarter (394 net sales.) And while it may not be noticeable to the family moving into their new dream home, the fact is that these homes are nominally smaller than those sold just last quarter by about seven percent (7%), at 2,815 square feet. Accordingly, they also cost less at a weighted average price of \$641,058. After a spike was seen in the weighted average detached price last quarter, this quarter decreased 10%, a level more in line with the trend of the last two years.

But when it comes to condos and town homes, the construction type known as the attached sector, the story isn’t as positive. This segment of the housing market provides some concern with a third consecutive volume drop. This quarter’s 32% decline pushed the total below the 300-unit level for the first time since 1<sup>st</sup>Q 2009.

### ***Fewer Entry-level, Affordable Condos Offered***

From a year-over-year perspective, 1<sup>st</sup>Q 2010 has seen a significant decline in attached sales under \$400,000, dropping from well over 60 percent in each of the three previous first quarters to just more than 40 percent this year. A significant jump was noted in attached homes priced above \$600,000.



## *The Housing Supply*

Who says 13 is an unlucky number? That's exactly how many new projects entered the market in the first quarter of this year. Overall, there are 3,898 new homes ready for purchase in San Diego County. To some, this may seem to be a significant number. But San Diego is a dynamic region with people on the move and at current sales rates, the number of attached homes would be exhausted in less than six months, and detached would be gone in a mere 10 weeks. If all of the unreleased future phase inventory were suddenly released, the timeline would jump to 15 months of attached supply with over 16 months of detached.

“Housing construction is a key part of San Diego’s economy and we need to get it back on track. In the past, on average, our activity would generate \$3.2 billion in local revenue each year. We employed more than 100,000 people locally and served as the ONLY business whose fees and taxes generated more to local government coffers than what was returned to San Diego from sales tax,” said Winckel.

So far this year, according to the Construction Industry Research Bureau, the housing permit activity for San Diego County is valued at \$450 million. “Even if this doubles, and that is doubtful, that represents less than a third of our economic potential,” commented Winckel. “We need to do better.”

## *How We Compare to the Nation Cost-wise*

In the first quarter of 2010, the San Diego area ranked **12th** in the nation as the **least affordable** metro area on the NAHB/Wells Fargo Housing Opportunity Index. The Index cites less than half of our homes are affordable to the median income family making \$75,000 yearly. This was based on a median sales price (not weighted average) for the first quarter of 2010 which was \$310,000. Below are 10 other regions with more affordable homes than San Diego.

1. San Francisco-San Mateo-Redwood City, CA
2. San Luis Obispo-Paso Robles, CA
3. Ocean City, NJ
4. Santa Cruz-Watsonville, CA
5. Honolulu, HI
6. Santa Ana-Anaheim-Irvine, CA
7. Los Angeles-Long Beach-Glendale, CA
8. San Jose-Sunnyvale-Santa Clara, CA
9. Napa, CA
10. Flagstaff, AZ
- 11. San Diego-Carlsbad-San Marcos, CA**

