



# Home price fall nears bottom, report says



## Anderson Forecast sees recovery for S.D. County

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Although 2009 will be a “throwaway year” for San Diego County, with double-digit unemployment, growing office vacancies and declining retail sales, local housing prices will hit bottom this fall, heralding an eventual recovery, UCLA's Anderson Forecast predicted in a report to be released today.

The Anderson Forecast, one of the state's most followed teams of economic analysts, predicted that housing prices will start rising steadily by the second quarter of the year, starting with a rebound in the price of existing single-family homes.

“When it is generally perceived that selling values have reached a bottom, sideline buyers will enter the market and conventional home sales will dominate the real estate recovery,” UCLA economist Mark Schniepp said. “Reported selling values for homes will reverse, slowly at first, and then rise more convincingly.”

The median price, which is projected to average \$325,374 this year, will rebound to \$490,966 by 2013, according to the forecast. That would return the median price to its levels of early last year, but would be well below the inflation-adjusted 2005 peak average of \$602,327.

Some local real estate analysts say the predictions jibe with a recent uptick in home sales, although most of those sales have involved foreclosed properties.

“It's beginning to seem like we're flat-lining at the bottom of a 'U' and that things could be getting better by the end of the year,” said Gary London, president of San Diego's London Group Realty Advisors. In a U-shaped move in the marketplace, prices drop sharply and then bounce around the bottom for a while before heading up sharply.

But others are skeptical.

“I'd like them to point out the last time the real estate market improved while unemployment was escalating upwards,” said Bruce Norris, founder of The Norris Group, a company in Riverside that specializes in real estate investments. “They're making a prediction that something will happen that's never occurred before.”

Bob Schwartz, who has been a real estate broker in San Diego for the past 20 years, said he thinks it is more likely that real estate will hit bottom next year.

“March through August is usually the high season for real estate sales, so unless things pick up very quickly, it's

hard to think a bottom would occur this year,” Schwartz said.

Schniepp acknowledged that rising unemployment has led to a surge in defaults. He based his upbeat prognosis partly on the idea that federal stimulus efforts – notably the Housing Affordability and Stability Plan – could help distressed homeowners modify their mortgages to avert foreclosure.

“It may actually prevent a sizable portion of defaults from evolving into foreclosure,” Schniepp said.

But Norris said the government's programs probably will not be enough to encourage laid-off homeowners to stay in their homes. “I just don't see people sticking it out,” he said.

Among the forecast's other predictions:

- **Employment.** Last year, 10,000 jobs in San Diego County were lost. The Anderson Forecast predicted that an additional 47,000 will be lost this year. “Nearly all labor market sectors are contracting, with the exception of health care and federal government jobs,” Schniepp wrote.

The forecast predicted that the county's unemployment rate will average 10.3 percent this year – the highest yearly average since the Great Depression – before sliding to 9.5 percent next year and 6.9 percent by 2013. That compares with a yearly average of 4.6 percent in 2007, the year the recession began.

- **Incomes.** With unemployment rising and large numbers of workers taking salary cuts, the median household income in San Diego County declined 1.2 percent last year after adjusting for inflation and will drop an additional 1.6 percent by the end of 2010, according to the forecast. But the economists predicted that incomes will rebound in 2011, thanks partly to rising stock prices.

- **Retail sales.** With declining incomes, San Diegans are pulling back their retail purchases. After adjustment for inflation, retail sales declined 4.5 percent in 2008 – largely driven by declines in furniture, major appliances, home furnishings and auto sales – and the Anderson Forecast predicted that they will drop by more than 3 percent this year before rebounding in 2010.

“As jobs and income are created in 2010, consumers will reload with purchases of goods and services that have been delayed since mid-2008,” Schniepp said.

- **Home building.** Only 5,200 new housing units were authorized in San Diego County last year, the lowest number since record keeping began in 1968. The forecast predicted that the number will be even lower this year: 2,300.

But the economists predicted a rebound starting with a sharp recovery in 2010, driven by increasing demand from a growing population. The forecast predicted that by 2013, housing construction will hit 17,000 a year – close to the average of the peak years between 1999 and 2005.

- **Commercial real estate.** With corporate bankruptcies on the rise, demand for commercial real estate has fallen off sharply in San Diego County and elsewhere in the nation. The “Class A” office vacancy rate is already running at 16.5 percent downtown and an average of 20 percent in the county as a whole.

The forecast predicted that office space probably will not reach a bottom until early 2011 and will not see any meaningful price growth until 2012.

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