

Despite Market's Stability, Homebuyers Are Still Facing Hurdles

PROPERTY: Lending Constraints, Prices Keep Many on Sideline
By **MIKE ALLEN**

Friday, January 2, 2015

It was another year of housing stability in San Diego in 2014, as economic fundamentals took hold, price appreciation slowed, and mortgage rates remained at historic lows.

And yet, inventory levels countywide and nationally were well below what constitutes any normal market, as many buyers stayed on the fence, and distressed sellers made up a much smaller share of the market, said some local housing sources.

“The inventory stayed pretty stable throughout the year, ranging from three to three-and-a-half months’ supply, but there was a drop-off in transactions,” said Leslie Kilpatrick, president of the Greater San Diego Association of Realtors.

Home sales fell nearly 10 percent in the six-county Southern California region from January to November, compared with the same 11-month period in 2013, according to the latest CoreLogic Dataquick housing report. In San Diego County, November sales totaled 2,675, down 11 percent from November 2013.

Higher prices combined with lending constraints continue to limit the number of buyers, said Andrew LePage, data analyst with Dataquick.

“Among would-be buyers, affordability and mortgage availability remain as hurdles, as do concerns about job security and the direction of the housing market,” LePage said.

The direction in San Diego’s market last year continued an upward trend, with the median price in November at \$430,000. That was up 3.6 percent from the prior year’s November, but down 2 percent from October, according to Dataquick.

Although the economy is definitely growing, most housing experts say the double-digit price appreciation seen in 2012-2013 isn’t returning this year.

“Prices are still going up, but the increases are at a stable and sustainable rate,” said Mark Goldman, a mortgage broker and lecturer at San Diego State University.

One thing that could hurt or improve the market is an inevitable rise in short-term borrowing rates.

Interest Rate Increase?

While the Federal Reserve Bank signaled it would keep rates at near zero at least through the first quarter of 2015, at some point this year, the rate is expected to go up, probably between a quarter-percent to a half-percent, most local sources said.

That increase in rates could very well motivate more renters to consider buying, said Jay Berger, a local agent with SoCal Real Estate Consultants.

Berger expects inventory levels to improve, but they won't return to normal (about a six-month supply) this year.

One troubling aspect of the housing recovery was the diminished participation of first-time homebuyers, who were crowded out during the recession by cash buyers and, more recently, by an inability to make hefty down payments for purchases.

According to the National Association of Realtors, the share of first-time homebuyers this year slid to the lowest level in more than 20 years.

That could change with the introduction this year of new federal loan programs that permit buyers to put down only 3 percent of the purchase price. The loans would require credit scores of at least 620, and complete documentation of the borrower's income, assets and job status.

Still, a large number of older millennials, people born between 1982 and 2004, have eschewed home ownership, preferring to keep their options open, and avoid adding to their debt burden, incurred from attending college.

Many younger folks have held off on buying because they expect to have to move in order to win promotions, Goldman said. At some point, probably when they start having children, they'll be more inclined to buy, he said.

There's also some uncertainty about those many former owners who saw their homes foreclosed on or were forced into short sales.

"Some of these people have been renting a long time, and the question is whether they'll ever want to buy again, or are they too scared," said Rick Ungar, a broker with Casa Bella Realty in Carlsbad.

The Cost of San Diego Living

Though some aspects of the housing market have clearly improved, the San Diego area remains one of the least affordable cities in the nation to own property. According to a recent survey from Interest.com, the region ranked second as the least affordable market among the country's 25 largest cities.

The least affordable city was San Francisco, with a median house price of \$769,600. San Diego was right behind with a median of \$504,200, exceeding the median prices of such high-cost burbs as Los Angeles, Washington, D.C., and New York.

"San Diego is up against an affordability wall," Goldman said. "We pay a lot more for housing here."

Regarding the higher median price, Kilpatrick, a Coronado broker, said, "That's the middle price so that means half of the houses are below that price."

