San Diego California 2011 Real Estate Outlook

Year of the Short Sale

By Bob Schwartz CRS, GRI San Diego Real Estate Broker

We meet again at the start of a new year and a refreshed outlook on the San Diego real estate market. I am not certain that the phrases I see attributed to the upcoming year in San Diego real estate are all that fresh, though. Don't these sound familiar:

- With interest rates near all-time lows, buying now is a no-brainer,
- Get in now, before the huge pent-up demand for homes hits,
- Solid signs of a firming market,
- Act fast now, or you may be paying thousands more in a few months,
- What a great time to buy with low interest rates and a good supply of homes for sale.

The phrases are far from new or fresh; we heard them in 2005. The major difference was that in 2005 and 2006 many of the Gurus were adding phrases:

- It's only a normal pull-back,
- It's known as a 'pause to refresh',
- This is a once in a lifetime buying opportunity before the market resumes it's double digit yearly appreciation.

Amazingly in San Diego, California, is the local media talking-heads still go back to the same industry spokespeople to get their 60 second optimistic new year outlook for the 6:00PM news.

Naturally, I'd like to join this optimistic, self-promoting crowd, but sorry, I have to tell it like I see it.

The title of this article says it all. After the $8,000, Federal and California home buyer credits expired, the local San Diego real estate market entered into a double-dip continued erosion of home values.

After the homebuyer credits concluded, San Diego home values saw modest price appreciation. Now even this modest appreciation has disappeared. Even more troubling is that the resale home sales volume has been dropping at double digit rates for the last few months. Just from April to May the western states sales dropped a reported 20.9%. Huge double-digit declines in home sales are a major red flag that cannot be ignored.

When will the government learn that you cannot artificially create lasting demand? (Statistics show the vast majority of government housing programs, costing billions, are outright failures and have only prolonged our malaise.) I believe the best thing the government can do is to stay out of the housing market and let the open market clean up the mess.

Think about this: Bernanke initially spent almost $2 trillion to drive long-term interest rates down.

The $600 billion QE2 has no effect to date. Actually, interest rates have moved up substantially. There are a few months left, but I am sure Bernanke will use the "it would have been much worse" argument and declare success. The reality is that there will be no QE3, not with Ron Paul now as the watchdog of the Fed.

Our aging population, combined with a decreased standard of living can't equate to housing starts comparable to prior generations. I think our government's relentless destruction of the middle class is making this different from prior real estate cycles.

Foreclosure moratoriums are beginning to expire. I believe the banks will push to clean up their portfolios through increased foreclosures.

Except for cash buyers, home pricing is derived from the affordability of the monthly payment. Should interest rates and taxes go up (a good bet), the purchase price will have to come down to establish a market. Construction labor is already about as cheap as you can get it and inflation for materials is already present. This spells very bad news for homebuilders.

As far as pent-up buyer demand goes, the gurus again have it backwards. It's not buyer pent-up demand, but seller pent-up demand to unload their homes.

The depth and longevity of this San Diego housing value depression has been imbedded into the consciousness of the usual first wave of home buyers in their late 20's and early 30's. The high cost of living in San Diego has been further stressed with continued multiple raises in utilities, increased state taxes/fees, higher education costs and $3.00+ per gallon gas prices. This all equates to over-priced homes in the current world of qualifying for a home mortgage.

I just believe there are major problems with our economy at play that we have never seen before and that will have a deciding call on what happens with housing. I see demand based on finance rather than population at this point.

During the mid 2000's, almost the entire mortgage universe had been refinanced. This included many baby boomers that were in the last half of the 30-year mortgage they took out when they purchased their home. Some of this was hopefully to pay down other expenses and not to maintain their fantasy of the luxury lifestyle. The refinancing bubble that resulted from the irresponsible actions of Greenspan reset the 30-year mortgage clock. All borrowers looked at, was how the refinance lowered their house payment by $X per month, without giving a second thought to the fact that they have also extended the term to a new 30-year loan.

Another round of refinancing occurred when Bernanke pushed rates down to the 4% range. The only borrowers left who have not refinanced are those with no equity and/or are facing foreclosure.

In either case, now many Boomers who are reaching the traditional retirement age, find themselves strapped with 20+ years left on their refinanced mortgages. Instead of preparing for the mortgage burning party that their parents had when that generation retired, they are wondering how they can make house payments on a lower income during retirement.

Since this is the first year of the boomers reaching 65, it is going to be a negative drag on housing for years to come.

For the San Diego and California real estate market we have to contend with our own Cap & Tax laws going into effect in 2011 that will increase utility costs by 20% over the next five and speeding up the loss of manufacturing jobs. We also have a new, old governor who was against proposition 13 which sets a maximum cap on property taxes and will likely propose new massive state taxes to deal with a $25.4 billion budget deficit.

I will end my prediction with a challenge. I have 30+ years in residential real estate, I accurately foretold the 2005 bubble burst, and despite wanting to be wrong with previous "low" opinions I usually haven't been. Do you want to bet against me?

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