SAN DIEGO DAILY TRANSCRIPT

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Downtown condominium market — Alive and very well

Guest Commentary
By Alan Nevin

It is fashionable to say that the condominium market downtown is glutted, but fashionable isn't necessarily true. Last year was the second most vibrant year in downtown history for the resale condominium market. In 2009, almost 600 condominiums were sold (and that does not include new condominiums). The only year to top 2009 was 2005 and that year was total insanity.

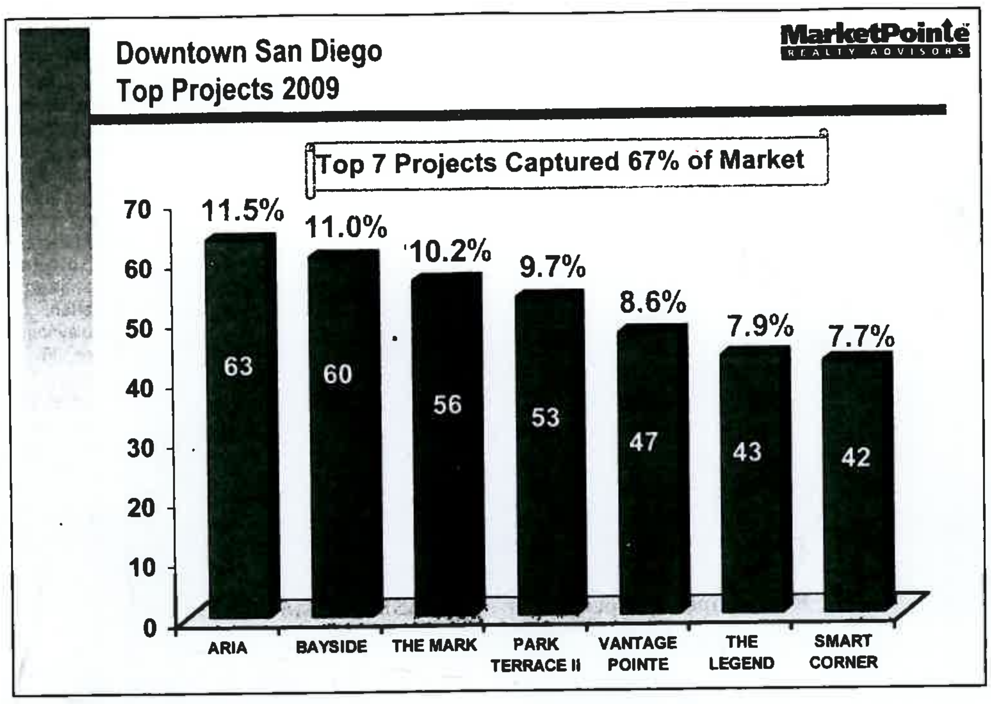
Better news yet, the corner turned on pricing. Since the second quarter of 2009, prices and prices per square foot have gradually edged upward. In the fourth quarter of 2009, the average resale sold for $420,000, almost $400 per square foot. I'll admit that doesn't compare to the $800,000 average in 2006, but it does represent a $50,000 average increase since the second quarter of 2009.

Better yet, from a supply and demand standpoint, at the beginning of this year, there were 650 units listed for sale downtown and today there are fewer than 450. I use the term "better yet," recognizing that a dearth of listings is not exactly a positive situation for either Realtors or buyers, only sellers.

Countywide, the number of listings has declined from 23,000 in 2006 to fewer than 7,200 units today. That is evidence of a near-term crisis, especially when the county is selling almost 3,000 units per month. Typically, the market equilibrium is a six-month inventory and we are down to less than a three-month inventory. Nobody seems to want to list their homes for sale, yet.

One of the resale statistics that we track closely downtown is how the top end of the market is doing. From that standpoint, 2008 and 2009 were almost mirror images of each other with the top 10 sales averaging $2,400,000 or almost $1,000 per square foot. Those units were typically 2,500 square feet and with remarkable and unimpedable water views.

More than 500 units were sold downtown in "new projects" that had units remaining for sale. The big four were Aria, Bosa's Bayside, The Mark and Park Terrace. Those four projects sold 230 units. The average unit in those four buildings sold for almost $700,000 in 2009 or $561 per square foot.



Based on the units remaining for sale in those four buildings, Aria, the Mark and Park Terrace will be sold out within a few months and the three Embarcadero projects (Intergulf's Breeza, Bosa's Bayside and Sapphire Tower) by mid-2011. And that's the end of the road for new high-quality condominiums downtown. It is highly likely that no developers of high-quality projects will break ground for another two or three years (well, maybe one project) with units being delivered in 2013-2015. I suspect that will put some upward pressure on the resales of high-end product as the economy recovers.

In moderate-priced product, there are two new projects remaining for sale, both a challenge from a marketing standpoint: Vantage Pointe with 677 units and Smart Corner with almost 300 units. Currently, a substantial percentage of the units in those two buildings are in the rental pool and will remain there until a significant number of condominiums are sold. Both are nice projects, but too big for the market to swallow in one gulp, even when mortgage interest rates are at 5.0 percent.

Speaking of mortgages, one of the problems facing several projects downtown is the ratio of investors to owner-occupants. Freddie, Fanny and FHA have a nasty bias against projects that have more than 50 percent investor-owners. That bias is creating a worsening situation in a few, major projects downtown.

The inability of buyers who want to live in those buildings to obtain financing is driving down the prices in the buildings because the only ones who are able to buy are folks buying all cash and that is typically an investor. Thus, the draconian (and not too clever) rule of the lenders is actually prohibiting potential owner-occupants from changing the owner-occupant/investor ratios in the buildings. Unfortunately, the folks back in D.C. don't have a bent for the reality of the marketplace.

Thus, the buildings downtown are rather segmented into two types: those with a dominance of owner-occupants and those with a dominance of investors. A strange and disturbing situation.

Overall, however, I am delighted to report that most of the downtown San Diego condominium market is alive and well and, with continuing low mortgage rates, will have a very bullish year in 2010. And you can't say that about too many downtowns in the United States.

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