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Biggest hurdle to housing in San Diego is the availability of land

By **ERIK PISOR**, The Daily Transcript
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With sales activity dropping, prices declining and the amount of raw land available for new homes shrinking, San Diego County's homebuilding market remains a difficult one for both private and public builders to do business, according to founder Jeff Meyers and Ada Kaiser, principal, of **Meyers Builder Advisors**.

Both the attached and detached housing markets continue to perform slowly this year in terms of average monthly sales.

In the detached sector, this slow sales performance is occurring while the building sector is at historic lows in terms of number of ongoing projects, Kaiser said, adding this sector is also running out of speculative inventory.

As the amount of detached sales has continued to remain low throughout 2007, Kaiser has observed that builders, who at the beginning of the year offered incentives, are now adjusting selling price as well as including incentives.

"Through the end of the year these should be some of the biggest incentives (in the detached market) you'll see in San Diego County," Meyers said.

Because this market is running out of inventory, Kaiser predicted that increased demand for detached housing will occur fairly quickly.

However, with few lots available, meeting that demand may be impossible.

"The only place in the next ten years where there will be a good chunk of lots coming online is South Bay," Kaiser said, adding other small pockets of developable land exist in Santee, Del Sur, Carlsbad, Escondido and more rural locations such as Alpine, Lakeside and Valley Center.

While builders can acquire this land, developing it may not make sense from a business standpoint as "most of the sites that are left have big topography, so they're very expensive to develop," Meyers said.

This being the case, builders are likely to acquire land that allows for the development of attached housing despite this market also experiencing slow sales activity.

Unlike the detached sector, the attached market's decline in sales activity has occurred despite a large amount of standing and under construction inventory.

Meyers forecasts that areas with a large supply of attached housing, such as downtown San Diego, will take off in terms of sales in the next several years, in part because of an influx of second home/vacation buyers.

In terms of selling prices in both markets, Kaiser projects an upcoming slight drop, but nowhere near as significant as what has already occurred.

Meyers and Kaiser both attributed the declines in prices to public homebuilders attempting to get out of the San Diego market by slashing their inventory.

"It's hard to find land, so for a public builder this becomes a difficult place to maintain volume," Meyers said.

This attempt at eliminating inventory by reducing selling prices can have a large overall affect on the median new-home price, as at one point the public builders controlled 50 to 60 percent of the new-home supply.

With public companies fleeing the market, private and regional builders are remaining active in the market, in terms of looking for future building opportunities.

However the type of housing they build will depend largely on what price they pay for raw developable land, as some sellers of land recently have become more reasonable in terms of the price and options they're offering, according to Kaiser.

Meyers forecasts that infill housing outside of downtown San Diego will be the development option of choice moving forward, however a large amount of this housing type will not be constructed for at least several years, because of the current market and the lengthy two- to three-year entitlement process.

In smaller cities such as Poway and Encinitas, which have new town center master plans, the entitlement process is much lengthier than in downtown San Diego, where the Centre City Development Corporation has sped up the process.

Meyers suggested that private builders, who want to remain successful in the San Diego market, should now meet with cities in an attempt to get them focused on entitling land for infill development, so those cities are able to approve the sale of lots to private builders in 2010 when public builders have no land.

"If you're not going to play in the attached game you're probably not going to build much in San Diego," he said.