

Signs of real estate turnaround in San Diego?

Flippers see prime opportunity in foreclosures priced above \$300K



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About two years ago, San Diego real estate investor Ronnie Morgan was looking at his home market, which was seriously beat up by the collapse of the housing bubble and corresponding recession, and decided there was opportunity in the air. He got together with a group of partners to form Alegria Real Estate Funds, a company that would buy foreclosed and underwater properties, then flip them relatively quickly back into the market.

Alegria has raised close to \$20 million in three funds and earlier this year acquired its 115th house, all in the San Diego area.

San Diego single-family residential is really two markets. San Diego proper and the wealthier string of communities that hug the Pacific coast to the north. This is a dense housing area, with little room for new development, and the home prices can be as stunning as the ocean vistas.

During the boom years of the housing market, the real growth in the region was to the emptier lands to the south and east, particularly around the city of Chula Vista. When the San Diego housing market started to deteriorate around 2005 and 2006, much earlier than the rest of nation, most of the price damage was in these new markets. And, it's here where Alegria started to buy first.

"Ninety percent of our purchases are in the master-planned communities of the South Bay, which is the Chula Vista area," Morgan said. "In the last 10 to 15 years, there were tens of thousands of homes built in these communities. That's the stock we look at, although recently we have branched out into some of the North County communities. In Chula Vista, we pay in the \$300,000 range; in the North County, \$500,000 to \$600,000."

You might be thinking, "\$300,000 for a low-end foreclosure -- wow!" You would be right to think that, but, for Morgan, this is his playing field.

"Back in 2006, only 19 percent of the San Diego population could afford to buy a house in the metro. That number has moved up to 69 percent," he said. "The house that sold for \$750,000 in 2006 and now sells for \$350,000 is now affordable to someone who has a good job and qualifies for a mortgage. Houses are moving. Our first two funds were buy-and-sell, and all the homes turned. Our objective was a four- to five-month turnaround on the houses."

Back in July 2006, the San Diego market peaked with the average home selling for \$539,000, said Donna Sanfilippo, president of the San Diego Association of Realtors (SDAR) and a principal with Weichert Realtors Elite in San Diego. "Our average sale price today is \$325,000."

In regard to foreclosures, Sanfilippo suggests Morgan is on the right track. "In the early 2000s, the suburbs in the east and south like Chula Vista had considerable growth and now are the communities impacted by foreclosures and short-sellers," she said.

How bad did things get?

Pretty ugly. In the height of recession, around 2009, more than 60 percent of the San Diego market consisted of distressed real estate, Sanfilippo said. "The market breakdown began to look like 33 percent short sale, 33 percent REO and 33 percent traditional sales. That's changed. Now, foreclosures are well under 20 percent."

If there was one city that looked recession-resistant, it was San Diego, with its diversified economy of high-technology, defense industries, military and tourism, but none of that proved enough.

To find out what happened to San Diego, I called Marney Cox, chief economist for the San Diego Association of Governments.

"We have a diversified economy so there was some buffer," he said. "But, this was a severe recession. During the last recession, back in the early 1990s, San Diego lost about 20,000 jobs. This one was much worse: The city lost 103,000 jobs overall."

San Diego has struggled to find its footing ever since. "Our employment data is from 2011, and then San Diego had added about 8,400 jobs," he said. "The San Diego metro-area population is about 1 percent of the nation. We should be generating about 18,000 jobs to be consistent with what is going on nationally. The economy is starting to grow but not coming out of the recession as fast as the national economy."

Unemployment in San Diego has continued to trend higher than the national average, and some of that can be attributed to the decline in the construction industries. "Back in 2004, housing permits peaked at about 18,000," Cox said. "In 2008, the numbers declined to 3,500. In 2011, we were back up, at about 5,800 permits."

Some of the permits have translated into new construction, which, in part, is due to the decline in inventory and better pricing for existing structures. According to SDAR, the median sales price in June 2011 for a detached residence was \$377,500; a year later it rose to \$390,000.

Interestingly, the upper end of the market that buffered the overall San Diego market during the heart of the recession has now become the drag on the data.

"Right now, we have just 1.6 months of inventory in our \$700,000-and-under prices in San Diego County," Sanfilippo said. "It is a seller's market, with multiple offers. On the flip side, for homes costing above \$700,000, there's 7.9 months of inventory."

Again, Morgan seems to be on the right side of the market.

"In the space that we play, starter homes, we feel like the recovery is happening and people are buying homes," he said. "As long as we can continue to do what we do, we are at the forefront of the recovery. Once you take a house and put it into the hands of someone who can afford it, the yards get mowed, property values stabilize and things move forward."

Hopefully, anyway.

Morgan and Sanfilippo are optimists, but Cox is keeping a wary eye on the local economy. "San Diego has a highly concentrated area of defense contractors and military personnel," he said. "To the extent that there are cutbacks in the Department of Defense, San Diego will probably be hit worse than other areas."

*Steve Bergsman is a freelance writer in Arizona and author of several books. His latest book, "**Growing Up Levittown: In a Time of Conformity, Controversy and Cultural Crisis**," is now available for sale on Amazon.com.*

