

# SAN DIEGO BUSINESS JOURNAL

## San Diegans Unfazed By Housing Costs

### Residents Using Built-Up Equity in Homes to Buy Newly Constructed Houses

■ BY MANDY JACKSON

As housing costs continue to escalate, a common refrain heard in local boardrooms and bars, gyms and supermarkets is, "Where are all these people coming from who can afford these high prices?"

As area home builders can attest, families putting down hundreds of thousands of dollars on their dream house, or even their first home, are from right here in San Diego County.

Thousands of local residents are cashing in the equity they've built up in their homes and they're upgrading to newly built abodes. Combined with inexpensive financing due to low interest rates, many buyers are able to afford the high price of new construction.

According to San Diego-based **MarketPointe Realty Advisors**, the average price of a new home in the county reached \$562,000 during the second quarter of this year — \$473,000 for a condominium and \$713,000 for a house.

The data is "frightening," said Alan Nevin, director of economic research for MarketPointe, which compiles statewide housing data for the California Building Industry Association.

"The appetite of the market has not been sated," Nevin said. "There is no slowing."

Bill Ostrem, the president and chief executive officer of the **Eastlake Co.**, master developer for the 3,200-acre community of Eastlake in Chula Vista, said, "Sales have gone extremely well and even stronger in our high-end market."

#### Million-Dollar Homes Selling

Houses are selling out in The Woods, an upscale neighborhood in Eastlake, where starting prices range from \$750,000 to \$1.2 million. All but four of the 64 custom home lots in The Woods have been sold, according to Ostrem.

For a market with 650,000 homeowners, Nevin said the county's supply of \$1 million houses is small. That's why new homes in that price range sell out quickly.

"We still have a full range of product," Ostrem said of Eastlake. "They're all still selling out, typically if not during the weekend then it's during the following week."

Eastlake has about 1,000 homes under construction or planned during the next two to two and a half years. In addition to estate homes,

smaller houses, triplex units, town homes and other models are also in the works.

Steve Doyle, the president of **Brookfield Homes** in Del Mar, said there are more options for home buyers in Chula Vista because many North County cities are nearing build-out.

Brookfield is building houses and condos in Chula Vista, Carlsbad, and Scripps Ranch, with a project in San Marcos expected to begin in August.

"We are blessed in that we have a rather large land supply," Doyle said.

Brookfield bought a lot of land in 1996 and now has enough sites to stay busy for at least the next four or five years, he said. The builder is developing master-planned communities in Carlsbad and Scripps Ranch with National City-based **McMillin Homes**, and in Chula Vista with Walnut-based Shea Homes.

Riverside County continues to benefit from rising prices as more people push north from San Diego. Doyle noted that prices in Riverside start in the high \$300,000s or low \$400,000s, which builders considered a good price in San Diego just two years ago. Now, new houses here start in the \$600,000s.

Newport Beach-based Fieldstone Communities Inc. is selling houses priced from the \$500,000s up to the \$700,000s in Oceanside, and in the mid-\$700,000s in Rancho Bernardo. The builder specializes in dwellings for people moving up to their second or third home.

Andrew Murphy, the president of Fieldstone's San Diego division, said prices for homes planned for this year in San Marcos would probably start in the high \$500,000s. Murphy noted that those qualify as moderately priced homes in a market where the average price for a new house is more than \$700,000.

On average, he said Fieldstone's prices have increased 18 percent to 28 percent since the first of the year, depending on the community.

"We're expecting that the market's going to hold up for a while," Murphy said. "Our challenge as an industry is that we could overshoot the market in terms of pricing."

He said the local economy is so strong, with an unemployment rate among the lowest in California, that it is hard to foresee weakening in the housing market anytime soon, even though the frenzied pace of the spring months has died down.

Fieldstone still has two or three times the buyers it needs every time it releases a phase of 10 homes for sale. Earlier in the year, 60



Mandy Jackson

New homes, such as **Cornerstone Communities' Villaggio** condominium development in Chula Vista's Otay Ranch community, are selling at a rapid pace.

buyers turned out to place orders for each 10-home phase.

"I'm hard-pressed to say that's softening," Murphy said.

#### Typical Summer Slowdown

It could just be the typical summer slowdown. In the resale housing market, more people buy homes during the summer than at other times of the year in order to get children into a new school before the school year begins. In the new-home market, buyers have to purchase houses during the spring to allow for construction to wrap up in time for school, Murphy explained.

Since people who purchased new homes during the second quarter did so at slightly higher interest rates than those who bought during the first few weeks of July, Nevin of MarketPointe predicted that more people will take advantage of low-cost financing this year before rates increase again.

He said it would take something pretty drastic in the economy to halt or reverse price increases in the new-home market. However, Nevin and other economists have said continued interest rate hikes in 2004 and 2005, although expected to be minimal, should slow demand slightly.

Interest rates approaching 8 percent could cause a big change in the local market, but that's almost two full percentage points away.

"For every half-percent rise in interest rates, demand will decline by 5 percent," Nevin said.

In a market where builders are seeing twice as many buyers as they have homes for, even a 2 percent hike — causing a 20 percent drop in demand — would hardly make a dent.